STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company d/b/a AmerenCILCO Proposed general increase in electric delivery service rates.	:	07-0585
Central Illinois Public Service Company d/b/a AmerenCIPS Proposed general increase in electric delivery service rates.	:	07-0586
Illinois Power Company d/b/a AmerenIP Proposed general increase in electric delivery service rates.	:	07-0587
Central Illinois Light Company d/b/a AmerenCILCO Proposed general decrease in gas delivery service rates.	:	07-0588
Central Illinois Public Service Company d/b/a AmerenCIPS Proposed general increase in gas delivery service rates.	:	07-0589
Illinois Power Company d/b/a AmerenIP Proposed general increase in gas delivery service rates.	:	07-0590 (Consolidated)

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I. INTRODUCTION: PROCEDURAL HISTORY; NATURE OF OPERATIONS; TEST YEAR

In these consolidated proceedings, Central Illinois Light Company d/b/a AmerenCILCO ("AmerenCILCO"), Central Illinois Power Company d/b/a AmerenCIPS ("AmerenCIPS"), and Illinois Power Company d/b/a AmerenIP ("AmerenIP") (collectively, the "Ameren Illinois Utilities" or "Companies") seek modifications to their electric and gas distribution rates. Specifically, each of utilities that comprise the Ameren Illinois Utilities are seeking increases in their electric delivery services rates; AmerenCIPS and AmerenIP are seeking increases in gas delivery rates; and AmerenCILCO is proposing a decrease in gas delivery rates. These rate proposals are based on a historical test year ending December 31, 2006.

In the Ameren Illinois Utilities' initial filing, in comparison to current residential bundled rates, AmerenCILCO proposed an overall increase of 2.9 percent in electric rates and an overall decrease of 1.4 percent in gas rates; AmerenCIPS proposed an overall increase of 4.4 percent in electric rates and an overall increase of 6.5 percent in gas rates; and AmerenIP proposed an overall increase of 13.6 percent in electric rates and an overall increase of 11.2 percent in gas rates.

Appendix A to the Ameren Illinois Utilities' Initial Brief sets forth the final operating income and rate base for each of the Ameren Illinois Utilities. Appendix A, Schedule 1 shows the Companies' Statement of Operating Income. Appendix A, Schedule 2 shows the final rate base for each Company.

A. Procedural History

The procedural history in these proceedings is reflected in the Commission's E-Docket and will not be repeated at length here. Briefly stated, on November 2, 2007, the Ameren Illinois Utilities filed tariffs reflecting proposed rate modifications to both their electric and gas delivery services rates. The Commission assigned the six dockets the following numbers: AmerenCILCO electric (07-0585), AmerenCILCO gas (07-0588); AmerenCIPS electric (07-0586), AmerenCIPS gas (07-0589); AmerenIP electric (07-0587), AmerenIP gas (07-0590). On December 5, 2007, the Commission issued its suspension order (which was subsequently extended to continue until September 30, 2008) and these rate proceedings advanced on the same schedule after the Commission granted the Ameren Illinois Utilities' request to consolidate the dockets.

In February of 2008, the Commission held six public forums around the Ameren Illinois Utilities' service areas to elicit public comment on the proposed increases; the Ameren Illinois Utilities and Staff participated. The Commission conducted an evidentiary hearing conducted from June 9 through June 13. On June 25, the Commission ordered the Ameren Illinois Utilities to produce further evidence regarding plant additions, which the Commission accepted on July 1.

Throughout the course of these proceedings, the following parties successfully petitioned the Commission to intervene: the People of the State of Illinois, Constellation

Energy Commodities Group, Inc. and Constellation NewEnergy, Inc., the Commercial Group, the Grain and Feed Association of Illinois ("GFAI"), the Kroger Co. ("Kroger"), System Council U-05, International Brotherhood of Electrical Workers ("IBEW"), the Citizens Utility Board ("CUB"), the American Association of Retired People ("AARP"), the Coalition of Energy Suppliers, Vanguard Energy Services, L.L.C., the Illinois Industrial Energy Consumers ("IIEC"), the Cities of Urbana, Decatur and Bloomington and Town of Normal, and the City of Monticello. All testimony and evidence submitted by these parties is reflected in E-Docket.

Briefs were filed on behalf of: the Ameren Illinois Utilities, Staff, CUB, the People of the State of Illinois, AARP, GFAI, IIEC, Kroger, the Commercial Group, and the Cities of Urbana, Decatur and Bloomington and Town of Normal, and the City of Monticello.

Throughout this proceeding, the Companies submitted the following witnesses and supporting exhibits in support of their respective requests.

1. AmerenCILCO Gas Direct Exhibits Filed in Docket No. 07-0588

Direct Testimony of Scott Cisel, AmerenCILCO Ex. 1.0G (filed 11/02/2007); Direct Testimony of Craig D. Nelson, AmerenCILCO Ex. 2.0G (filed 11/02/2007; Direct Testimony of Andrew Wichmann, AmerenCILCO Ex. 3.0G (filed 11/02/2007); Direct Testimony of John Wiedmayer, AmerenCILCO Ex. 4.0G – with exhibits (filed 11/02/2007); Direct Testimony of Michael J. Adams, AmerenCILCO Ex. 5.0G – with exhibits (filed 11/02/2007); Direct Testimony of Martin J. Lyons, Jr., AmerenCILCO Ex. 6.0G – with exhibits (filed 11/02/2007); Direct Testimony of Kathleen McShane, AmerenCILCO Ex. 7.0G (filed 11/02/2007); Direct Testimony of Michael G. O'Brien, AmerenCILCO Ex. 8.0G – with exhibits (filed 11/02/2007); Direct Testimony of Wilbon Cooper, AmerenCILCO 9.0G – with exhibits (filed 11/02/2007) and Revised Direct Testimony of Wilbon Cooper, AmerenCILCO 9.0G (Rev.) – with exhibits (filed 06/08/2007); Direct Testimony of Laurie Karman, AmerenCILCO Ex. 10.0G (filed 11/02/2007); Ameren Ex. 11 (filed 1/02/2007); Direct Testimony of William Warwick, AmerenCILCO 12.0G - with exhibits (filed on 11/02/2007); Direct Testimony of Robert J. Mill and Robert E. Millen, AmerenCILCO Ex. 13.0G – with exhibits (filed on 11/02/2007); Direct Testimony of Charles Laderoute, AmerenCILCO Ex. 14.0G (filed on 11/02/2007); Direct Testimony of Scott Glaeser, AmerenCILCO 16.0G – with exhibits (filed 11/02/2007); Direct Testimony of Philip Hanser, AmerenCILCO Ex. 17.0G – with exhibits (filed on 11/02/2007).

2. AmerenCILCO Electric Direct Exhibits Filed in Docket No. 07-0585

Direct Testimony of Scott A. Cisel, AmerenCILCO Ex. 1.0E (filed 11/02/2007); Direct Testimony of Craig D. Nelson, AmerenCILCO Ex. 2.0E (filed 11/02/2007); Direct Testimony of Ronald Stafford, AmerenCILCO Ex. 3.0E – with exhibits (filed 11/02/2007); Direct Testimony of John Wiedmayer, AmerenCILCO Exhibit 4.0E – with exhibits (filed 11/02/2007); Direct Testimony of Michael J. Adam, AmerenCILCO Ex. 5.0E – with exhibits (filed 11/02/2007); Direct Testimony of Martin J. Lyons, Jr.,

AmerenCILCO Ex. 6.0E – with exhibit (filed 11/02/2007); Direct Testimony of Kathleen McShane, AmerenCILCO Ex. 7.0E (filed 11/02/2007); Direct Testimony of Michael G. O'Bryan, AmerenCILCO Ex. 8.0E – with exhibits (filed 11/02/2007); Direct Testimony of Wilbon Cooper, AmerenCILCO Ex. 9.0E – with exhibits (filed 11/02/2007); Direct Testimony of Laurie H. Karman, AmerenCILCO Ex. 10.0E (filed 11/02/2007); Ameren Ex. 11 (filed 11/02/2007); Direct Testimony of Leonard Jones, AmerenCILCO Ex. 12.0E – with exhibits (filed 11/02/2007).

3. AmerenCIPS Gas Direct Exhibits Filed in Docket No. 07-0589

Direct Testimony of Scott A. Cisel, AmerenCIPS Ex. 1.0G, (filed 11/02/07); Direct Testimony of Craig D. Nelson, AmerenCIPS Ex. 2.0G, (filed 11/02/07); Direct Testimony of Andrew W. Wichmann, AmerenCIPS Ex. 3.0G – with exhibits (filed 11/02/07); Direct Testimony of John F. Wiedmayer, AmerenCIPS Ex. 4.0G – with exhibits, (filed 11/02/07); Direct Testimony of Michael J. Adams, AmerenCIPS Ex. 5.0G – with exhibits (filed 11/02/07); Direct Testimony of Martin J. Lyons, Jr., AmerenCIPS Ex. 6.0G – with exhibit (filed 11/02/07); Direct Testimony of Kathleen C. McShane, AmerenCIPS Ex. 7.0G - with revised exhibit (testimony filed 11/02/07; revised exhibit filed 02/01/08); Direct Testimony of Michael G. O'Bryan, AmerenCIPS Ex. 8.0G – with exhibits (filed 11/02/07); Direct Testimony of Wilbon L. Cooper, AmerenCIPS Ex. 9.0G (filed 11/02/07) and Revised Direct Testimony of Wilbon L. Cooper, AmerenCIPS Ex. 9.0G (Rev.) (filed 06/08/08); Direct Testimony of Laurie H. Karman, AmerenCIPS Ex. 10.0G (filed 11/02/07); Ameren Ex. 11 (filed 11/02/07); Direct Testimony of William M. Warwick, AmerenCIPS Ex. 12.0G – with exhibits (filed 11/02/07); Direct Testimony of Robert J. Mill and Robert E. Willen, AmerenCIPS Ex. 13.0G – with exhibits (filed 11/02/07); Direct Testimony of Charles D. Laderoute, AmerenCIPS Ex. 14.0G – with exhibits, (filed 11/02/07); Direct Testimony of Stephen D. Underwood, AmerenCIPS Ex. 15.0G (filed 11/02/07); Direct Testimony of Scott A. Glaeser, AmerenCIPS Ex. 16.0G – with exhibits (filed 11/02/07); Direct Testimony of Philip Q. Hanser, AmerenCIPS Ex. 17.0G – with exhibits (filed 11/02/07)

4. AmerenCIPS Electric Direct Exhibits Filed in Docket No. 07-0586

Direct Testimony of Scott A. Cisel, AmerenCIPS Ex. 1.0E (filed 11/02/07); Direct Testimony of Craig D. Nelson, AmerenCIPS Ex. 2.0E (filed 11/02/07); Direct Testimony of Ronald D. Stafford, AmerenCIPS Ex. 3.0E – with exhibits (filed 11/02/07); Direct Testimony of John F. Wiedmayer, AmerenCIPS Ex. 4.0E – with exhibits (filed 11/02/07); Direct Testimony of Michael J. Adams, AmerenCIPS Ex. 5.0E – with exhibits (filed 11/02/07); Direct Testimony of Martin J. Lyons, Jr., AmerenCIPS Ex. 6.0E – with exhibits (filed 11/02/07); Direct Testimony of Kathleen C. McShane AmerenCIPS Ex. 7.0E (filed 11/02/07); Direct Testimony of Michael G. O'Bryan, AmerenCIPS Ex. 8.0E – with exhibits (filed 11/02/07); Direct Testimony of Wilbon L. Cooper, AmerenCIPS Exhibit 9.0E – with exhibits (filed 11/02/07); Direct Testimony of Laurie H. Karman, AmerenCIPS Ex. 10.0E (filed 11/02/07); Direct Testimony of Leonard M. Jones, AmerenCIPS Ex. 12.0E – with exhibits (filed 11/02/07).

5. AmerenIP Gas Direct Exhibits Filed in Docket No. 07-0590

Direct Testimony of Scott A. Cisel, AmerenIP Ex. 1.0G (filed 11/02/07); Direct Testimony of Craig D. Nelson, AmerenIP Ex. 2.0G (filed 11/02/07); Direct Testimony of Andrew R. Wichmann, AmerenIP Ex. 3.0G – with exhibits (filed 11/02/07); Direct Testimony of John F. Wiedmayer, AmerenIP Ex. 4.0G – with exhibits (filed 11/02/07); Direct Testimony of Michael J. Adams, AmerenIP Ex. 5.0G – with exhibits (filed 11/02/07); Direct Testimony of Martin J. Lyons, Jr., AmerenIP Ex. 6.0G – with exhibits (filed 11/02/07); Direct Testimony of Kathleen McShane, AmerenIP Ex. 7.0G (filed 11/02/2007); Direct Testimony of Michael G. O'Bryan, AmerenIP Ex. 8.0G – with exhibits (filed 11/02/2007); Direct Testimony of Wilbon L. Cooper, AmerenIP Ex. 9.0G – with exhibits (filed 11/02/2007); Revised Direct Testimony of Wilbon L. Cooper, AmerenIP Ex. 9.0G (Rev.) (filed 06/08/2007) – with exhibits (filed 11/02/2007); Direct Testimony of Laurie H. Karman, Ameren Ex. 10.0G IP (filed 11/02/2007); Direct Testimony of Robert Porter, AmerenIP Ex. 11.0G – with exhibits (filed 11/02/2007); Direct Testimony of William Warwick, AmerenIP 12.0G – with exhibits (filed 11/02/2007); Direct Testimony of Robert J. Mill and Robert E. Millen, AmerenIP Ex. 13.0G – with exhibits (filed 11/02/2007); Direct Testimony of Charles Laderoute, AmerenIP Ex. 14.0G – with exhibits (filed 11/02/2007); Direct Testimony of Stephen D. Underwood, AmerenIP Ex. 15.0G (filed 11/02/2007); Direct Testimony of Scott Glaeser, AmerenIP Ex. 16.0G – with exhibits (filed 11/02/2007); Direct Testimony of Philip Hanser, AmerenIP Ex. 17.0G – with exhibits (filed 11/02/2007).

6. AmerenIP Electric Direct Exhibits Filed in Docket No. 07-0587

Direct Testimony of Scott A. Cisel, AmerenIP Ex 1.0E (filed 11/02/2007); Direct Testimony of Craig D. Nelson, Ameren IP Ex. 2.0E (filed 11/02/2007); Direct Testimony of Ronald Stafford, AmerenIP Ex. 3.0E – with exhibits (filed 11/02/2007); Direct Testimony of John Wiedmayer, Ameren IP Ex. 4.0E – with exhibits (filed 11/02/2007); Direct Testimony of Michael J. Adams, Ameren IP Ex. 5.0E – with exhibits (filed 11/02/2007); Direct Testimony of Martin J. Lyons, Jr. , Ameren IP Ex. 6.0E (filed 11/02/2007); Direct Testimony of Kathleen McShane, AmerenIP Ex. 7.0E (filed 11/02/2007); Direct Testimony of Michael O' Bryan, AmerenIP Ex. 8.0E – with exhibits (filed 11/02/2007); Direct Testimony of Wilbon Cooper, AmerenIP Ex 9.0E – with exhibits (filed 11/02/2007); Direct Testimony of Laurie Karman, Ameren IP Ex 10.0E (filed 11/02/2007); Direct Testimony of Robert Porter, Ameren IP Ex. 11.0E – with exhibits (filed 11/02/2007); Direct Testimony of Leonard Jones, AmerenIP Ex. 12.0E – with exhibits (filed 11/02/2007).

7. Ameren Illinois Utilities' Rebuttal Exhibits Filed in All Dockets

Rebuttal Testimony of Craig D. Nelson, Ameren Exhibit 18.0 (filed 04/14/08); Revised Rebuttal Testimony of Craig D. Nelson, Ameren Ex. 18.0 (Rev.) (filed 04/18/2008); 2nd Revised Rebuttal Testimony of Craig D. Nelson, Ameren Ex. 18.0 (2nd Rev.) (filed 06/08/2008); Rebuttal Testimony of Ronald D. Stafford, Ameren Exhibit 19.0 – with exhibits (filed 04/14/08); Revised Rebuttal Testimony of Ronald D. Stafford, Ameren Ex. 19.0 (Rev.) (filed 04/17/2008); Rebuttal Testimony of Andrew R. Wichmann,

Ameren Exhibit 20.0 – with exhibits (filed 04/14/08) and revised exhibits (filed 4/17/08); Revised Rebuttal Testimony of Andrew R. Wichmann, Ameren Exhibit 20.0 (Rev) (filed 06/08/08); Rebuttal Testimony of Michael J. Adams, Ameren Exhibit 21.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of Kathleen C. McShane, Ameren Exhibit 22.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of Michael G. O'Bryan, Ameren Exhibit 23.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of John Wiedmayer, Ameren Exhibit 24.0 – with exhibits (filed 04/14/08); Revised Rebuttal Testimony of John Wiedmayer, Ameren Ex. 24.0 (Rev.) (filed 04/18/2008); Rebuttal Testimony of Wilbon L. Cooper, Ameren Exhibit 25.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of Leonard M. Jones, Ameren Exhibit 26.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of William M. Warwick, Ameren Exhibit 27.0 – with exhibits (filed 04/14/08); Revised Rebuttal Testimony of William M. Warwick, Ameren Ex. 27.0 (Rev.) (filed 04/18/2008); Rebuttal Testimony of Charles David Laderoute, Ameren Exhibit 28.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of Stephen D. Underwood – Proprietary Version, Ameren Exhibit 29.0 – with exhibit (filed 04/14/08); Revised Rebuttal Testimony of Stephen Underwood – Proprietary Version, Ameren Ex. 29.0 (Rev.) (filed 04/18/2008); Rebuttal Testimony of Stephen D. Underwood – Public Version, Ameren Exhibit 29.0P ((filed 04/14/08); Rebuttal Testimony of Scott A. Glaeser, Ameren Exhibit 30.0 – with exhibits (filed 04/14/08) and revised exhibits (filed 04/18/08); Rebuttal Testimony of Krista Bauer, Ameren Exhibit 31.0 – with exhibit (filed 04/14/08); Rebuttal Testimony of Keith A. Martin, Ameren Exhibit 32.0 – with exhibits (filed 04/14/08); Revised Rebuttal Testimony of Keith A. Martin, Ameren Exhibit 32.0 (Rev.) (filed 06/08/08); Rebuttal Testimony of Joseph E. Mullenschlader, Ameren Exhibit 33.0 (filed 04/14/08); Rebuttal Testimony of Michael J. Getz, Ameren Exhibit 34.0 – with exhibit (filed 04/14/08); Rebuttal Testimony of David Strawhun, Ameren Exhibit 35.0 – with exhibit (filed 04/14/08); Rebuttal Testimony of John D. Taylor, Ameren Exhibit 36.0 – with exhibit (filed 04/14/08); Rebuttal Testimony of Mark R. Livasy, Ameren Exhibit 37.0 (filed 04/14/08); Rebuttal Testimony of Ronald D. Pate, Ameren Exhibit 38.0 – with exhibit (filed 04/14/08); Rebuttal Testimony of Timothy I. Moloney, Ameren Exhibit 39.0 (filed 04/14/08); Rebuttal Testimony of Dr. Mary Batcher, Ameren Exhibit 40.0 – with exhibits (filed 04/14/08); Rebuttal Testimony of Stephen R. Colyer, Ameren Exhibit 41.0 (filed 04/14/08).

8. Ameren Illinois Utilities' Surrebuttal Exhibits Filed in All Dockets

Surrebuttal Testimony of Craig D. Nelson, Ameren Exhibit 42.0 – with exhibits (filed 05/27/08); Revised Surrebuttal Testimony of Craig D. Nelson, Ameren Exhibit 42.0 (Rev.) (filed 06/08/08); Surrebuttal Testimony of Ronald D. Stafford, Ameren Exhibit 43.0 – with exhibits (filed 05/27/08); Revised Surrebuttal Testimony of Ronald D. Stafford, Ameren Ex. 43.0 (Rev.) – with exhibits (filed 06/03/2008); 2nd Revised Surrebuttal Testimony of Ronald D. Stafford, Ameren Ex. 43.0 (2nd Rev.) (filed 06/08/2008); Surrebuttal Testimony of Andrew R. Wichmann, Ameren Exhibit 44.0 – with exhibits (filed 05/27/08); Revised Surrebuttal Testimony of Andrew R. Wichmann, Ameren Ex. 44.0 (Rev.) – with exhibits (filed 06/03/2008); Surrebuttal Testimony of Michael J. Adams, Ameren Exhibit 45.0 – with exhibits (filed 05/27/08); Surrebuttal Testimony of Kathleen C. McShane, Ameren Exhibit 46.0 (filed 05/27/08); Surrebuttal

Testimony of Michael G. O'Bryan, Ameren Exhibit 47.0 (filed 05/27/08); Surrebuttal Testimony of Michael G. O'Bryan, Ameren Exhibit 47.0 (filed 06/03/2008); Surrebuttal Testimony of John Wiedmayer, Ameren Exhibit 48.0 – with exhibit (filed 05/27/08); Surrebuttal Testimony of Wilbon L. Cooper, Ameren Exhibit 49.0 (filed 05/27/08); Surrebuttal Testimony of Leonard M. Jones, Ameren Exhibit 50.0 (filed 05/27/08); Surrebuttal Testimony of William M. Warwick, Ameren Exhibit 51.0 – with exhibit (filed 05/27/08); Surrebuttal Testimony of William M. Warwick, Ameren Exhibit 51.0 (Rev.) (filed 06/03/2008); Surrebuttal Testimony of Bruce A. Steinke, Ameren Exhibit 52.0 – with exhibits (filed 05/27/08); Surrebuttal Testimony of Stephen D. Underwood, Ameren Exhibit 53.0 – with exhibits (filed 05/27/08); Revised Surrebuttal Testimony of Stephen D. Underwood, Ameren Exhibit 53.0 (Rev.) (filed 06/08/08); Surrebuttal Testimony of Scott A. Glaeser, Ameren Exhibit 54.0 – with exhibits (filed 05/27/08) and revised exhibits (filed 06/04/2008); Surrebuttal Testimony of Krista Bauer Ameren Exhibit 55.0 (filed 05/27/08); Surrebuttal Testimony of Keith A. Martin, Ameren Exhibit 56.0 (filed 05/27/08); Surrebuttal Testimony of Joseph E. Mullenschlader, Ameren Exhibit 57.0 – with exhibits (filed 05/27/08); Surrebuttal Testimony of Michael J. Getz, Ameren Exhibit 58.0 (filed 05/27/08); Surrebuttal Testimony of John D. Taylor, Ameren Exhibit 59.0 – with exhibits (filed 05/27/08); Surrebuttal Testimony of David Strawhun, Ameren Exhibit 60.0 (filed 05/27/08); Surrebuttal Testimony of Mark R. Livasy, Ameren Exhibit 61.0 – with exhibit (filed 05/27/08); Surrebuttal Testimony of Ronald D. Pate, Ameren Exhibit 62.0 (filed 05/27/08); Revised Surrebuttal Testimony of Ronald D. Pate, Ameren Exhibit 62.0 (Rev.) (filed 06/08/08); Surrebuttal Testimony of Timothy I. Moloney, Ameren Exhibit 63.0 (filed 05/27/08); Surrebuttal Testimony of Timothy I. Moloney, Ameren Exhibit 63.0 (Rev.) (filed 06/03/2008); Surrebuttal Testimony of Mary Batcher, Ameren Exhibit 64.0 – with exhibit (filed 05/27/08); Surrebuttal Testimony of Stephen R. Colyer, Ameren Exhibit 65.0 (filed 05/27/08); Surrebuttal Testimony of Gary S. Weiss, Ameren Exhibit 66.0 (filed 05/27/08).

B. Nature of Operations

AmerenCILCO, AmerenCIPS, and AmerenIP comprise the Ameren Illinois Utilities. Each of the Ameren Illinois Utilities is a subsidiary of Ameren Corporation. The Ameren Illinois Utilities provide natural gas and electric delivery service to approximately 2.1 million customers throughout central and southern Illinois. A brief description of each company follows.

AmerenCILCO serves 210,000 electric customers over 3,700 square miles and 213,000 natural gas customers over 4,500 square miles in central and east central Illinois. AmerenCILCO's service territory includes, among others, Peoria, East Peoria, Pekin, Washington, Lincoln, Morton, Tuscola and Springfield (natural gas only).

AmerenCIPS serves 400,000 electric customers in 576 communities in Illinois and 190,000 natural gas customers. The company's service territory includes, among others, Quincy, Mattoon, Carbondale, and Marion.

AmerenIP serves 626,000 electric and 427,000 natural gas customers across 15,000 square miles of central, east central and southern Illinois. As the largest of the

Ameren Illinois Utilities, AmerenIP is responsible for 8,400 distribution miles of gas main and 40,000 circuit miles of electrical line and serves major communities such as Decatur, Belleville, Bloomington-Normal (electric only), Champaign-Urbana, Centralia, East St. Louis (gas only), Galesburg, Granite City, Hillsboro, Jacksonville, LaSalle, Maryville and Mt. Vernon.

C. Test Year

Each of the Ameren Illinois Utilities propose an historic test year of the 12 months ended on December 31, 2006. No party has contested the use of this test year and thus the Commission adopts it for purposes of these proceedings.

II. RATE BASE

A. Introduction

The Ameren Illinois Utilities proposed a rate base for each utility. The proposed rate bases for the AmerenCILCO, AmerenCIPS and AmerenIP electric utilities were shown on Schedule 2 of Appendix A, C and E, respectively, of the Companies' Initial Brief. The proposed rate bases for the AmerenCILCO, AmerenCIPS and AmerenIP gas utilities were shown on Schedule 2 of Appendix B, D and F, respectively, of the Companies' Initial Brief.

B. Resolved Issues

1. Accrued OPEB Adjustment

The Ameren Illinois Utilities agreed with AG/CUB witness Mr. Effron's adjustment to reflect Accrued OPEB.

2. Written Procedures for Treatment of Source and Types of Losses from Underground Storage Fields

As recommended by Staff, the Ameren Illinois Utilities agreed to develop written procedures for the treatment of the source and types of losses from underground storage fields. The Companies committed to work with Staff to draft clear rules regarding the accounting treatment of gas losses.

3. Material and Supplies Inventory

a. Electric

See discussion *infra* regarding materials and supplies inventory, subpart II.A.3.b.

b. Gas

Staff witness Mary Everson proposed to reduce rate base by the amount of accounts payable associated with materials and supplies inventory and gas in storage

inventory. The Ameren Illinois Utilities' witness Mr. Wichmann disagreed with the value of the gas in storage used in this calculation, as discussed in the rebuttal testimony of the Ameren Illinois Utilities' witness Mr. Scott Glaeser. Ameren's Exhibit 20.8 presented Mr. Wichmann's calculation of this proposed adjustment based upon the new gas in storage value. Exhibit 20.8 also presented the Ameren Illinois Utilities' rebuttal adjustment to materials and supplies, based on Mr. Glaeser's testimony. Mr. Wichmann accepted Staff witness Everson's calculation methodology.

4. Additional Cash Working Capital

On rebuttal, the Ameren Illinois Electric Utilities withdrew their proposed adjustment to reflect increased CWC from rate base due to an increase in accounts receivable. Both Staff witness Mr. Kahle and AG/CUB witness Mr. Effron opposed this adjustment in full. The Ameren Illinois Electric Utilities, however, stated that they still disagreed with Mr. Kahle's premise that there is no cash impact from increased accounts receivable. The Ameren Illinois Utilities asserted that it is undeniable that, to the extent dollars are tied up in accounts receivable (i.e., not yet received), those same dollars are not available to the utility to use for other purposes (precisely because they have not yet been received). Nevertheless, the Ameren Illinois Electric Utilities accepted this adjustment in their calculation of Rebuttal Rate. The Ameren Illinois Electric Utilities stated that they reserved the right to raise this issue again in the future, pending further experience addressing whether the increase is in fact permanent in nature.

5. Storm Recovery Costs

AG/CUB witness Mr. Effron's proposal to reflect an adjustment for accumulated deferred taxes and other reserves ("ADIT") for unamortized storm costs is moot. In response to Data Request AG 2.02, the Ameren Illinois Electric Utilities agreed to reflect an adjustment in its rebuttal filing to reduce their rate base adjustment for unamortized storm costs by an adjustment for ADIT. However, after review of Staff's position on the storm cost issue, the Companies adopted a normalization approach to storm costs, rather than continue with an amortization approach. Under the normalization approach, the rate base adjustment for unamortized storm costs was removed. The Companies, Mr. Effron, and Ms. Everson agreed that no ADIT adjustment was required.

6. ADIT and Other Reserves

The Ameren Illinois Utilities agreed with Mr. Effron's adjustments for ADIT related to Pensions and Deferred Compensation.

7. Allocation for Common Plant for Substations – Electric

The Ameren Illinois Utilities allocated common facilities by primary function, in accordance with "The Illinois White Paper," adopted by the Commission in Docket 98-0894. Staff witness Everson initially expressed concern that allocation by primary function was inappropriate, but upon further consideration withdrew her

recommendation for allocation by proportion of use. Ms. Everson and the Ameren Illinois Utilities agreed that the Companies' allocation did not need to be modified.

C. Contested Issues

1. Plant Additions Since Last Rate Case

Ameren's Position

The Ameren Illinois Utilities explained that Staff asked for (and received) from each Company various documentation concerning plant additions, including continuing property records and plant retirement records. Additionally, as required by 83 Ill. Admin. Code Part 285.2030, the Companies provided four years of plant gross additions, retirements and transfers. Although the ALJs issued a deficiency letter on December 4, 2007, none of the deficiencies pertained to Section 285.2030. Also, as required by 83 Ill. Admin. Code Part 285.6100, the Companies submitted a Schedule F-4 listing major plant additions for each Company since their last rate cases. Only one deficiency was cited with regard to an incorrect description for one AmerenIP gas project, which was resolved in response to the notice of deficiency. None of the other deficiencies pertained to Schedule F-4 or the documentation required pursuant to 83 Ill. Admin. Code Part 285.6100 . The listing on Schedule F-4 included electric projects in excess of $1 million for AmerenCILCO and AmerenCIPS, and electric projects in excess of $2 million for AmerenIP. Staff witness Rockrohr reviewed these projects. For AmerenCILCO, he determined that the investments in each project were reasonable and prudent and made no recommendation for disallowance. He recommended two disallowances for AmerenCIPS totaling $1,258,000. No disallowances were recommended for AmerenIP.

Ameren Illinois Utilities witness Stafford explained that Staff witness Everson requested and received computer files with all continuing property record activity since the prior rate case for each utility. Mr. Stafford stated that these files were mailed to Ms. Everson on December 14, 2007 and January 7, 2008. In addition, in response to data requests MHE 6.01, 6.02, and 6.03, Mr. Stafford noted that Ms. Everson requested and received a current copy of each property/retirement unit catalog, and supporting documentation and explanation for any and all changes in the catalogs since the prior rate cases for each utility.

Mr. Taylor explained that Staff also requested a list of all projects whose total costs were above $500,000, a total of 64 projects. He said that Staff then requested invoices associated with 37 of these projects, of which Staff included 35 in its sample. The list of these projects for each of the Ameren Illinois Utilities was presented in Ameren Exhibit 36.1. According to the Ameren Illinois Utilities, they collected, by various queries on the Companies' General Ledger systems, details of the projects within Ms. Everson's request. They then used this information to compile a list of invoices, where each invoice was associated with a unique voucher number. Mr. Taylor explained that the Ameren Illinois Utilities then used these voucher numbers to locate

the hard copies of each invoice, which were then scanned and provided to Ms. Everson for review.

In Data Requests MHE 3.01-3.06, Ms. Everson requested copies of invoices related to certain Ameren Illinois Utilities projects. For all such projects, Ms. Everson also requested "a revised listing that includes by project, separate identification of the type and amount of all loading factors, which when added to the invoice total, equal the amounts per project."

The Ameren Illinois Utilities explained that they objected to Data Request's MHE 3.01-3.06 because calculating the total purchasing rate loadings for thousands of individual invoices would have been unduly burdensome and unreasonably time consuming. The Ameren Illinois Utilities pointed out that, in their response, they stated, "[t]o calculate the total purchasing rate loadings would require an examination of each invoice, of which there are over a thousand, and compare the amount charged by the vendor to the amount recorded in the general ledger." Subject to these objections, the Ameren Illinois Utilities provided Ms. Everson with breakouts of the costs associated with each project Ms. Everson identified. The Ameren Illinois Utilities noted that Ms. Everson did not send any additional Data Requests seeking information in addition to or different from the information the Ameren Illinois Utilities provided in response to Data Requests MHE 3.01-3.06. Thus, the Companies asserted that they reasonably believed that they had provided Ms. Everson the information she needed to complete her review.

Ms. Everson conducted a review of invoices to determine what percentage of these invoices, for each of the Ameren Illinois Utilities, was, in her opinion, not supported by proper documentation. Ms. Everson testified that she, "test sampled supporting documentation for third party vendors for capital additions." Ms. Everson cited seven "issues or deficiencies" with the cost substantiation provided by the Companies: (1) duplicate invoices; (2) billings to the wrong company; (3) invoices not found that correspond to the listing of invoices provided; (4) amounts on invoices that did not correspond to the listing; (5) project not determinable from the invoice or the invoice is not related to the project; (6) illegible invoices; and (7) certain Ameren IP project amounts that were paid via electronic transfer without a supporting invoice. Ms. Everson testified at hearing that she may have disallowed certain invoices for other reasons not listed in her testimony. She used her total of unsupported documentation to calculate the percentage of total project costs of each utility that is not supported. She then applied the percentage of additions, "for which the Companies did not provide supporting documentation" to the total of plant additions to calculate her adjustment to plant additions, reducing rate base by this amount.

The Ameren Illinois Utilities highlighted that fact that at no point in this proceeding did Ms. Everson identify specific invoices for which she recommended disallowance or the reason for disallowance.

The Ameren Illinois Utilities explained that, on March 17, 2008, they served Data Requests for Ms. Everson's workpapers and a list of the invoices Ms. Everson

disallowed and the reasons for disallowance. They stated that Staff responded to the request on March 20. The Ameren Illinois Utilities also stated that they contacted Staff on March 21, 2008 to inform Staff the served workpapers were incomplete. According to the Ameren Illinois Utilities, they told Staff that the workpapers did not contain any specific or detailed information identifying which invoices had been disallowed and for what reason, and that, without such information, the Ameren Illinois Utilities could not begin to evaluate the adjustment.

The Companies served their Fifth Set of Data Requests ("DR 5") on Staff on March 19, 2008. On March 27, 2008, Ms. Everson supplemented Staff's workpapers. According to the Ameren Illinois Utilities, Staff's response consisted of a note indicating some errata, and five separate data files containing a series of allowed invoice amounts, with no indication as to which invoice each such amount came from. The Ameren Illinois Utilities noted that Staff's response did not contain a list of any invoices disallowed, any calculation of Ms. Everson's disallowance of costs associated with specific projects in her sample, or any indication of why particular invoices were disallowed.

The Ameren Illinois Utilities stated that Staff responded to DR 5 on March 28, 2008, after the response deadline had passed, but without adequately addressing requests 5.06-5.08 listed above. Specifically, the Ameren Illinois Utilities noted that Staff did not identify any disallowed invoices or any corresponding rationale for disallowance.

On April 2, 2008, Staff provided a Supplemental Staff Response to DR 1 and DR 5. According to the Ameren Illinois Utilities, the supplemental responses contained a list of invoice amounts allowed by Ms. Everson, which, though not responsive, did allow the Ameren Illinois Utilities to at least identify (by a burdensome process of elimination) which invoices had been disallowed. However, the Ameren Illinois Utilities pointed out that nothing in any of the supplemental responses provided the information expressly requested in DR 5: an identification of the reasons that specific invoices were disallowed.

As Ms. Everson did not tell the Ameren Illinois Utilities what invoices she had disallowed and why, the Companies explained that they had to use the information Ms. Everson provided regarding the invoices she allowed and engage in a process of elimination to determine what invoices Ms. Everson disallowed. The Ameren Illinois Utilities averred that they literally had to guess as to the reason or reasons why Ms. Everson disallowed each particular invoice. Mr. Stafford testified that this process took a massive amount of time and effort.

In rebuttal, the Ameren Illinois Utilities compiled Ameren Exhibit 19.12, which detailed information relating to approximately 1,300 invoices. According to the Ameren Illinois Utilities, with respect to Ms. Everson's first six criteria for disallowing invoices, Ameren Exhibit 19.12, Schedules 1 through 6, lists each invoice disallowed, based on a process of elimination, and a "best guess' as to the reason for the disallowance. In addition, the Ameren Illinois Utilities asserted that Ameren Exhibit 19.12, Schedules 1

through 6, explained why the disallowance is not appropriate to the extent the explanation is unique or specific to that particular invoice. The Ameren Illinois Utilities stated that for some invoices, none of the reasons seemed to apply. In those cases, the Ameren Illinois Utilities said that they indicated "No Reason" because the invoice was tied to the listing and none of the six criteria could be applied as a rationale for a disallowance. The Ameren Illinois Utilities conceded that there were some instances where they either could not locate an invoice or amounts did not match with the list relied on by Ms. Everson. Although the Ameren Illinois Utilities argued that there are other ways to substantiate these costs, the Ameren Illinois Utilities stated that they accepted, for purposes of this rate proceeding, an adjustment to rate base and depreciation expenses for such entries.

In surrebuttal, the Ameren Illinois Utilities compiled Ameren Exhibit 43.6. The Ameren Illinois Utilities asserted that Exhibit 43.6 revised Ameren Ex. 19.12 and provided additional invoices and detail supporting the Ameren Illinois Utilities' plant additions. They claimed that Exhibit 43.6 was created in direct response to Ms. Everson's continued claim of a lack of sufficient documentation for plant additions. The Ameren Illinois Utilities averred that these exhibits demonstrated that the amount of plant additions the Ameren Illinois Utilities seek is adequately supported.

The Ameren Illinois Utilities argued that the most glaring error undermining Ms. Everson's analysis is her failure to identify which invoices she disallowed and why. They alleged that this is a critical shortcoming, greatly limiting the Companies' ability to confirm or refute Ms. Everson's analysis. The Ameren Illinois Utilities also pointed out that, although, Ameren's Data Requests 5.06, 5.07 and 5.08 requested specific information identifying each invoice disallowed and the reasons for each disallowance, Staff refused or could not provide this information. The Ameren Illinois Utilities asserted that, by failing to provide the specific reason for each denied invoice, Ms. Everson forced the Ameren Illinois Utilities to guess at the denial reason in their attempts to explain or refute her findings.

The Ameren Illinois Utilities argued that Staff should not be able to complain of a lack of documentation on the Companies' part and also propose adjustments that lack any documentation whatsoever. They highlighted the fact that Ms. Everson's direct testimony concerning plant additions consisted of less than two pages. According to the Ameren Illinois Utilities, all that can be gleaned from her direct testimony is that she found "various issues" with "some" of the cost substantiation that "include" the seven reasons listed in her testimony.

The Ameren Illinois Utilities recognized that they bear the initial burden of proving the reasonableness and prudence of expenditures. The Ameren Illinois Utilities averred that they have more than satisfied their burden of proving their plant additions. They also argued that Staff failed to meet its burden of proving its adjustment.

The burden of proof encompasses two concepts - the burden of persuasion and the burden of production. Consolidated Communications Consultant Services, Inc. v. Illinois Bell Telephone Company, (Docket No. 99-0429) 2001 ILL. PUC LEXIS 568, *12-

14 (Jun. 14, 2001). Although the burden of persuasion – the ultimate burden of persuading the tribunal that the necessary elements of a claim have been proven – is assigned at the beginning of a dispute and does not shift during the course of the proceeding, the burden of producing evidence shifts between the parties as the case proceeds, depending on the nature of specific evidence and the issue it addresses. Id. In rate cases, "[o]nce a utility makes a showing of the costs necessary to provide service under its proposed rates, it has established a prima facie case, and the burden then shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith." City of Chicago v. ICC, 478 N.E.2d 1369, 1375 (Ill. Ct. App. 1985). Thus, the Ameren Illinois Utilities argued that where Staff proposes an adjustment, Staff bears the burden of producing evidence to support the reasonableness of the adjustment. They further argued that that burden is not met by pointing the finger back to the utility and arguing that the utility has not met its burden of proof. Commonwealth Edison Co., Docket 83-0537; 84-0555 (Order, pp. 183-84) ("Where evidence is presented that indicates that plant costs are reasonable, parties opposing that position must show by a preponderance of the evidence that those costs are unreasonable.")

The Ameren Illinois Utilities argued that the Commission and courts recognize that the proponent of a position has the burden of supporting its position with credible, admissible evidence. They maintained that the Companies put forth voluminous evidence supporting their plant additions. *First*, they explained that the Companies provided all of the standard information required by the Commission to support their rate case filing. See 83 Ill. Admin. Code Part 285.130(a) ("The standard information requirements provide minimum information normally required to support a utility's filing."); Part 285.2030 (requiring submission of four years of utility plant gross additions, retirements and transfers); Part 285.6100 (requiring submissions of schedules and workpapers pertaining to plant additions since last rate case). *Second*, the they explained that the Companies, over valid objections, responded to Ms. Everson's Data Requests MHE 3.01-3.06. Specifically, the Ameren Illinois Utilities stated that they provided Ms. Everson with breakouts of the costs associated with each project Ms. Everson identified. *Third*, they explained that, even though Ms. Everson refused or could not identify the invoices she disallowed and why, the Ameren Illinois Utilities, in rebuttal, compiled Ameren Ex. 19.12, which detailed every invoice the Companies believed Ms. Everson disallowed and explained discrepancies between invoice amounts and the amounts included on a separate list of invoices. According to the Ameren Illinois Utilities, where they could not provide an explanation, they agreed with Ms. Everson's adjustment. *Fourth*, the Ameren Illinois Utilities explained that, in surrebuttal, they submitted Ameren Exhibit 43.6, which they claimed revised Ameren Exhibit 19.12 and provided additional invoices and even more detail supporting the Ameren Illinois Utilities' plant additions.

The Ameren Illinois Utilities further argued that, in stark contrast to the evidence produced by the Companies, Staff failed to meet its burden with respect to its proposed adjustment. They pointed to the following facts: (1) the Commission's December 4, 2007 deficiency letter made no mention of documentation concerning plant additions; (2) Staff never conducted an investigation of the Ameren Illinois Utilities' records at their

offices; (3) Ms. Everson never sent any additional Data Requests seeking information in addition to or different from the information the Ameren Illinois Utilities provided in response to Data Requests MHE 3.01-3.06; and (4) Ms. Everson never provided a list of the invoices she disallowed and the reason why she disallowed each such invoice.

The Ameren Illinois Utilities averred that the substantial evidence they submitted shifted the burden to Staff to support its adjustment, and that Staff made no attempt to do so. They noted that, apart from correcting a few errors, Ms. Everson's adjustment did not change from her direct testimony, despite what the Companies believed to be a massive amount of information produced by the Companies in response to her concerns.

The Ameren Illinois Utilities also pointed out that Ms. Everson did not rebut Dr. Batcher's comments regarding Ms. Everson's lack of documentation. Dr. Batcher testified that Ms. Everson did not provide any explanation of why she did not maintain detailed records of the review of sampled costs. Dr. Batcher also explained that the sampled costs should be available to all parties to review and either agree or contest by arguments to the regulations, sound practice, or providing additional supporting or refuting evidence. According to the Ameren Illinois Utilities, it is unfair to affected parties to deny them the ability to confirm or refute determinations made about individual sampled costs.

Three Ameren Illinois Utilities witnesses testified about significant flaws in Ms. Everson's analysis. Mr. Taylor and Dr. Batcher testified that Ms. Everson failed to do the requisite sample planning, created a non-representative sample, and applied that sample improperly to the entire population of the Ameren Illinois Utilities' plant additions. In addition, Ameren witness Mr. Stafford testified regarding what he characterized as other significant shortcomings of Ms. Everson's sample and analysis.

Ameren witness Mr. John Taylor explained that sampling is the application of probability theory and statistics to gain knowledge about a population of concern, by the selection and review of individual observations within this population, i.e., the sample. He further explained that audit sampling is the application of sampling techniques to the goals of an audit. According to Mr. Taylor, an "audit" is defined as an analysis used to ascertain the validity or reliability of information. Mr. Taylor cited Statement of Auditing Standards (SAS) No. 39 (AU 350.01), which states, "Audit sampling is the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristics of the balance or class."

Mr. Taylor explained that the basic requirements of a practitioner utilizing audit sampling are as follows: (1) Planning - The auditor should spend time planning the procedures to be utilized, particularly considering the relationship between the characteristic of the sample being reviewed and the objective of the audit; (2) Selection - The sample needs to be selected to ensure that it is representative of the population, and needs to be reviewed to evaluate the appropriateness of the sample selections; and (3) Evaluation - The auditor then projects the results of the sampling to the population

from which the sample is derived, particularly paying attention to sampling risk. Mr. Taylor further explained that it is necessary to properly document the processes of planning, selection, and evaluation, particularly sample selection criteria, sample review criteria, and evaluation methodology.

Dr. Batcher testified that planning an audit sample is key. She explained that the first steps are to learn about the population to be sampled, the type of estimates to be made from the sample, and the precision needed. According to Dr. Batcher, whether a statistical or judgment sample is used, the auditor approaches the testing of account balances with the recognition that some inconsistency in the sample details is to be expected, even though the account balances are fundamentally correct because of factors such as minor clerical errors, discounts and irretrievable documentation. As a result, Dr. Batcher stated a materiality threshold is established as part of the sample planning process in recognition of these minor inconsistencies. Dr. Batcher noted that, for example, a materiality threshold of 1% might be established for invoices that cannot be located on current systems. She also pointed out that, if testing is of older systems that are no longer used or invoices have been archived, the threshold might be increased to something larger, like 5%, which, in the auditor's judgment, makes allowance for the retrieval difficulties which do not, in and of themselves, indicate a problem with the invoice. Dr. Batcher also stated that other planning steps include consideration of the sample selection methodology, establishment of criteria for the review of selected invoices, determination of the format for documenting the individual decisions made for the selected invoices and the specific failure reason applied to each failed invoice, and the estimation, reporting, and documentation to be kept.

Dr. Batcher further explained that, given the importance of having a representative sample, regulators often impose documentation standards. For example, Dr. Batcher testified that the IRS, the Office of the Inspector General from the Department of Health and Human Services ("HHS OIG"), and various state taxing authorities, have clear and explicit expectations that there will be a very detailed written sampling plan that describes the purpose of the sample, the sampling population and how it was generated, the sample size, sample design, sample selection procedures, and decision rules about the review of sampled items. She explained that these organizations have policies that require, among other things, the preparation of a written sampling plan, individual tracking of the results of the review, and other documentation of the sampling process. Copies of such policies were attached to her testimony.

Dr. Batcher concluded that Staff failed to provide the details of the careful planning typical of an audit sample acceptable for regulatory decisions. She stated that Staff's sampling procedures were described as being based on judgment, knowledge of Commission rules, and experience, but the specific planning steps and documentation of the rationale for sample design decision were not provided. She pointed out that there is no rationale given for the choice of a judgment rather than a statistical sample, no description of steps taken to assess the representative nature of the judgment sample, no description of decision rules used in the evaluation of sampled costs, or of any of the other aspects of sample planning Dr. Batcher cited in her testimony.

Indeed, Dr. Batcher observed that Ms. Everson's documentation fails in almost all aspects to conform to the sample documentation standards commonly required by regulators as exemplified by the IRS and HHS OIG standards and in the accounting standards in SAS 39. In Dr. Batcher's opinion, nothing in Ms. Everson's work papers indicates that she did the requisite planning to ensure a representative sample. The Ameren Illinois Utilities also noted that Ms. Everson admitted that she developed no written sampling plan.

Mr. Taylor explained that the fundamental requirement of selecting an audit sample is articulated by SAS No. 39 (AU 350.24), "sample items should be selected in such a way that the sample can be expected to be representative of the population." At hearing, Ms. Everson agreed that, in her professional judgment, a sample should be representative of the population from which the sample is taken. Mr. Taylor pointed out, however, that by only reviewing invoices associated with specific projects above $500,000 in total costs, Staff effectively divided the population into two populations, specific projects above $500,000 and all other plant additions, and selected a sample from only one of these populations. Mr. Taylor explained that this is no longer sampling the population which Staff adjusts, total plant additions, but sampling a population Staff defined, i.e., specific projects with total costs above $500,000. He stated that the remainder of costs associated with total plant additions (those costs outside of this population) was not sampled and is a distinct population. According to Mr. Taylor, Staff reviewed a sample of a narrowly defined population rather than sampling from the entire population for which Staff applies its adjustment.

Mr. Taylor explained why Staff erred by applying the characteristics of the sample it reviewed to a population that Staff did not review. He explained that there are two main types of plant additions: (1) Specific Projects – those projects whose total costs are above $100,000 and are related to a specific work order; and (2) Blanket Projects – reoccurring purchases or those projects whose total costs are below $100,000. He pointed out that Staff did not review any invoices for specific projects whose total are less than $500,000 or any invoices for blanket projects. According to Mr. Taylor, there is no reason to believe that the percentage of invoices associated with specific projects that Staff reviewed is representative of the percentage of invoices in all plant additions. He explained that this so because these different types of plant additions have different characteristics. For instance, he noted that blanket projects include reoccurring purchases and installation costs of certain equipment, such as transformers, and this population of costs may not include invoices, but rather receipts or other forms of recording an exchange, whereas specific projects are more often partially comprised of invoices. He also stated that work completed within blanket projects is placed in service almost immediately, instead of when the entire project is completed as is the case for specific projects. In Mr. Taylor's opinion, the fact that Staff is only reviewing invoices associated with specific projects but using this review to adjust costs associated with all types of plant additions is improper.

Mr. Taylor noted that in a discussion of sampling errors, a leading textbook on audit sampling discusses a method strikingly similar to Staff's methodology:

> For example, selecting all items above a certain dollar amount (say, all plant and equipment asset additions over $5000) does not meet the requirements for representative selection. This audit approach is *not* sampling. When the auditor takes this approach, he or she is in effect dividing additions to plant and equipment assets into two populations and selecting 100 percent of one of those populations. (Emphasis in original)

(Guy, Dan, Douglas Carmichael, and Ray Whittington. Audit Sampling. John Wiley & Sons, 2002.)

Dr. Taylor also identified and explained the same flaws in Ms Everson's analysis. In combination, Mr. Taylor and Dr. Batcher testified that Ms. Everson did not substantiate her reasons for applying her sample's characteristics to a population from which the sample was not derived, did not substantiate her sample evaluation, and did not explain why her failure to do these things, which was pointed out by Dr. Batcher and Mr. Taylor, was justifiable. Based on Mr. Taylor's and Dr. Batcher's testimony, the Ameren Illinois Utilities argued that Staff incorrectly evaluated its sample and cannot justify why its methodology should be supported.

Dr. Batcher also explained that Staff's rebuttal testimony did not provide any evidence that the alleged substantiation error rate found in projects larger than $500,000 would be the same as the error rate in the smaller projects. Dr. Batcher stated that Staff provided only the unsupported statement that larger projects would be expected to have better documentation than smaller projects so, by inference, the alleged error rate would be a conservative estimate for the smaller projects. Dr. Batcher explained that, in her considerable experience with carefully designed unbiased statistical samples, she has seen instances where larger projects or expenditures had higher error rates. Thus, the Ameren Illinois Utilities argued that there is no basis for Staff's assertion that larger projects would be expected to have better documentation.

Mr. Taylor explained that a proper sampling methodology would have been to sample from the entire population of plant additions. He stated that there are various methods of sampling this population. In his experience, it is common to sub-divide the entire population into various smaller populations and then select randomly from each of these sub-categories. He noted that statisticians will often use methods of selection, which gives units with larger recorded amounts proportionately more opportunity to be randomly selected than units with smaller amounts. According to Mr. Taylor, these methods would be proper if the concern is with larger dollar items rather than smaller items, but they still sample randomly from the entire population. He also explained that it would be necessary to extend one's review to blanket projects and other non-project related plant additions, such as damage claims. In his opinion, without review of these other cost categories, the application of the characteristics of Staff's sample to total plant additions are erroneous. The Ameren Illinois Utilities argued that Staff's analysis fails to meet a basic requirement of sampling and evaluation (i.e., properly projecting

the results of the sampling to the population from which the sample is derived), and, as a result, any conclusions about a population not reviewed is erroneous.

Mr. Taylor further explained that Staff's inclusion of electronic transactions as a portion of unsupported invoices was also improper. He stated that Staff's review was limited to invoices and did not include a review of supporting documentation related to electronic transactions. He opined that it is unreasonable to determine a category of costs is fully unsupported simply because Staff failed to review support for that category of costs. Mr. Taylor asserted that this is synonymous to an auditor failing to review current inventory and concluding that such an inventory does not and has never existed. In his opinion, the inclusion of electronic transactions as a portion of unsupported invoices resulted in a flawed analysis.

The Ameren Illinois Utilities disputed Ms. Everson's statement that they have offered no other sample. They argued that Mr. Taylor's rebuttal testimony and that of Dr. Batcher provides explanations of the proper population for which the sample's characteristics should be applied. They pointed to Mr. Stafford's rebuttal testimony's exhibits, Ameren Exhibit 19.12, which they claim is a review of Staff's adjustment with the inclusion of all general ledger line items that Staff challenged. The Ameren Illinois Utilities stated that, within these exhibits, they applied the review of these challenges to the proper population and they calculated the amount still unsupported after their review and applied this percentage to the population from which the sample was derived. According to the Ameren Illinois Utilities, this analysis is based on Staff's chosen sample but provides a more complete and rigorous analysis of the sample and applies the sample's characteristics to the proper population.

The Ameren Illinois Utilities further argued that Mr. Taylor quantified the effect of Staff's improper application of its sample to total plant additions. They noted that Staff sampled $35,446,676 out of $64,367,442, the population of projects with total costs over $500,000. They also noted that the population that Staff did not sample from, those projects with total costs under $500,000 and blanket projects, totaled $547,845,558. The Ameren Illinois Utilities then asserted that incorrectly applying the sample's characteristics to the total plant additions resulted in a proposed disallowance of $124,622,861. According to the Ameren Illinois Utilities, correctly applying the sample's characteristics to the population from which the sample was derived results in a proposed disallowance of $13,614,957. Ultimately, the Ameren Illinois Utilities averred that Staff's incorrect evaluation of the sample, resulted in an overstatement of the proposed disallowance totaling $111,007,904.

In addition to Mr. Taylor and Dr. Batcher, Ameren witness Mr. Stafford testified regarding what he characterized as other significant shortcomings in Ms. Everson's sample and analysis.

Mr. Stafford asserted that, although Ms. Everson did employ other audit methods that she could have used to validate and support capital additions as a whole, she erred by relying exclusively on her sample without also taking into consideration the results of her other audit reviews. The Ameren Illinois Utilities noted that, at hearing, Ms. Everson

admitted that Staff requested and the Ameren Illinois Utilities provided continuing property records and property unit retirement records. Mr. Stafford explained that Ms. Everson could have used these records to review the Ameren Illinois Utilities' plant additions.

Mr. Stafford also explained that Ms. Everson's analysis is at odds with work done by other Staff witnesses in this case. As Mr. Stafford pointed out, Mr. Rockrohr sampled the ten largest projects for each utility, and found issues with only 2 of those projects. One project related to plant held for future use, the other to a security system at an AmerenCIPS facility. Mr. Stafford noted that the reasons for recommended disallowance of these projects related to whether the investments were prudently incurred, not whether the project costs were sufficiently documented. Mr. Stafford highlighted the fact that Mr. Rockrohr's recommendation of only 2 disallowances is in stark contrast to Ms. Everson's conclusions in her direct testimony. Additionally, Mr. Stafford pointed out that, since Ms. Everson's approach again is in error in its application to the entire universe of additions, she in effect disallowed a second time some of the same capital additions dollars Mr. Rockrohr proposed to disallow.

Mr. Stafford testified that the fact that there is no indication Ms. Everson made any effort to distinguish her sample and application of her sample to changes in accounting systems and acquisitions, or timing of transactions she reviewed is troubling. Mr. Stafford and Mr. Livasy explained that Ameren Corporation recently acquired both AmerenCILCO and AmerenIP. They stated that the underlying transactional data reviewed by Ms. Everson is maintained in two or more different accounting and invoice storage systems. They noted that the method used to maintain supporting documentation varied not only by utility, but also by when the utility was acquired by Ameren.

Mr. Stafford alleged that Ms. Everson's failure to take acquisitions, timing, and changes in accounting systems into account led to misleading and unfair results. He explained that, for example, for AmerenCILCO's electric operations, 100% of the transactions reviewed occurred prior to 2005, and, thus, prior to Ameren's acquisition of CILCO. Mr. Stafford explained, however, that these Projects were not transferred from Construction Work in Progress to Utility Plant In Service until after 2004, and therefore were included in Ms. Everson's sample. He then explained that Ms. Everson's sample results, however, were applied to 100% of all 2005 and 2006 capital additions placed in Utility Plant in Service. According to Mr. Stafford, since Ms. Everson evidently did not consider how timing of transactions impact her weighted disallowance calculations, her application is flawed. In Mr. Stafford's opinion, a more correct approach would attempt to differentiate the timing of transactions that give rise to 2005 to 2006 capital additions in a case such as this, where different accounting and invoice storage systems were employed with different owners, and the resulting application was applied to capital additions that for the most part, would have occurred after the transition periods identified above.

Mr. Stafford also explained why be believed disallowing electronic transactions skewed the percentage calculation of unsupported additions. He stated that all

electronic transactions at issue occurred prior to October 2004 (acquisition of IP by Ameren) and yet the results were included in Ms. Everson's unsupported percentage for all additions. He explained that Ms. Everson's disallowance included 100% of all electronic transactions included within her sampled electric and gas projects. He noted that for gas projects specifically, those transactions totaled $2,286,148.32[1]. Ms. Everson's unsupported percentage, with electronic transactions, was 51.74%. Mr. Stafford explained that, when this percent is applied to $118,215,000.00 of 2003-2006 capital additions, the resulting disallowance is $61,167,000.00 of capital additions, as shown on ICC Staff Ex. 2.0 Schedule 2.03 IP G, Page 2 of 3. Conversely, he asserted that, if Ms. Everson had adopted the same approach used by Staff in the prior IP electric rate case and excluded electronic transactions from her sample, the unsupported percentage would have changed to 9.62% from 51.74% and resulted in a disallowance of $11,372,000.00 of AmerenIP gas additions. Mr. Stafford testified that, in this one example, Ms. Everson's inclusion of $2.286 million of electronic transactions in the denominator of her unsupported calculation resulted in a proposed disallowance of $50 million in capital additions.[2] Moreover, Mr. Stafford explained that application of Ms. Everson's unsupported percentage to any Commission authorized 2004 AmerenIP gas capital additions approved in Docket No. 04-0476 is a form of retroactive ratemaking, because the Commission already approved inclusion of such additions in rates.[3]

Mr. Stafford explained that Ms. Everson's exclusion of electronic transactions supporting AmerenIP expenditures is unfounded for other reasons as well. According to Mr. Stafford, Ameren Ex. 19.13 provided the detailed electronic transactions disallowed by Staff in its calculation of the disallowance for AmerenIP electric and gas plant additions since the last rate case. (Ameren Ex. 19.0 (Stafford Reb.), p. 12.) Mr. Livasy explained, IP's electronic records are reliable and accurate representations of its costs. He explained in detail the process for creating and approving the invoices and how the invoices tie into the accounts payable system. And, the Ameren Illinois Utilities noted that, in the Companies' prior rate case, Staff did not propose to disallow any electronic transaction data.

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[1] Mr. Stafford testified that the actual amount of gas and electric electronic transactions included within projects reviewed by Ms. Everson were incorrectly reported to Staff. He stated that the Ameren Illinois Utilities provided the correct amounts on Ameren Ex. 19.13 and intended to issue Revised Attachments to Data Request responses where applicable.

[2] In response to Ameren data requests 9.05 and 9.06, Ms. Everson agreed to limit the application of her unsupported percentage to only 2004-2006 capital additions for AmerenIP Gas and only 2005-2006 capital additions for the Ameren Illinois Electric Utilities (with minor adjustments for 2004).

[3] In the prior IP gas rate case, the Order allowed three categories of 2004 Plant Additions, as discussed at pages 7 and 8 of the Order. They are $31,190,819 (Docket No. 04-0475, IP Ex. 12.1) of 2004 Capital Additions, $16,982,000 of Completed CWIP Not Transferred to Plant in Service at December 31, 2003 (id., IP Ex. 2.5), and $633,000 of Small CWIP Projects (id., IP Ex. 2.6). Such amounts exceed the amount included in Ms. Everson's application of an unsupported percentage to 2004 Plant Additions. (Id.) Therefore, the Ameren Illinois Utilities argued that Ms. Everson's calculation erred by including any adjustment for 2004.

Mr. Livasy discussed the fact that Ameren Exhibit 61.1 contains the Ameren Illinois Utilities' response and supplemental response to Staff DR 14.03, in which Staff requested the vendor invoices to support the amounts shown on Ameren Exhibit 19.13 for plant additions. In Ameren Exhibit 61.1, Mr. Livasy explained that, with respect to IP, vendor payment support for Ameren Exhibit 19.13 is available in electronic format due to the electronic Contractor Invoicing system used by IP. He further explained that, although information summarizing the electronic invoice records is already provided in Ameren Exhibit 19.13, additional electronic information associated with vendor payments is available if desired. In response to Ms. Everson's concern in rebuttal that no actual invoices have been provided to support IP's plant additions, the Ameren Illinois Utilities provided Ameren Exhibit 61.1, which contained paper printouts of contractor invoice records that were electronically created and stored in IP's Contractor Invoicing system. The Ameren Illinois Utilities averred that each electronic invoice contained in Ameren Exhibit 61.1 shows all of the information necessary to substantiate project costs for specific plant additions for IP.

The Ameren Illinois Utilities also argued that the methodology employed by Ms. Everson in this case is not consistent with Staff's approach in prior cases. They stated that, while the Companies are not suggesting that Staff is required to audit plant additions the same way in every case, the fact that the audit was performed differently in this case than in other cases demonstrates that other audit techniques were available to supplement Staff's review of plant additions in this case.

Mr. Stafford cited Docket No. 07-0566, involving Commonwealth Edison Company ("ComEd"), as one example. Mr. Stafford explained that, in that case, Staff witness Griffin raised a number of issues with regard to ComEd capitalization policies and capital additions, and discussed changes to the ComEd Property Unit Catalog. Yet, Mr. Stafford sated that Mr. Griffin did not propose a calculation of an unsupported percentage similar to that presented by Ms. Everson. According to Mr. Stafford, there is no evidence of a similar review undertaken or discussed by Mr. Griffin or any other Staff witness in that rate case. Therefore, Mr. Stafford concluded that that Staff undertook no such sampling approach, and that Staff based its proposed capital additions adjustments entirely on other audit methods.

The Ameren Illinois Utilities cited other cases in which they argued that Staff's approach was markedly different than Ms. Everson's approach in this case. See Docket No. 07-0241 and 07-0242 (Cons.) (Peoples/North Shore Gas); Docket No. 04-0779 (Northern Illinois Gas Company); Docket No. 05-0597 (ComEd); Docket No. 06-0285 (Aqua Illinois, Inc.); Docket No. 07-0357 (Mt. Carmel Public Utility Co.). Mr. Stafford also explained that, in Illinois-American Water Company rate cases in Docket Nos. 90-0100, 92-0116, 95-0076, 97-0112, 00-0340, and 02-0690, Staff conducted an audit of capital additions, and one of the primary methods Staff relied on in those proceedings was a review of continuing property records, similar to that conducted by Ms. Everson in these proceedings. Based on these cases, the Ameren Illinois Utilities argued that Staff's approach in this case is not only severely flawed, it is an unwarranted departure from prior rate cases.

The Ameren Illinois Utilities explained that Staff requested supporting documentation for the following: 35 Projects; 2,746 Invoices; $23,498,303 of Invoices; 942 Electronic Transactions; $1,446,639 of Electronic Transactions. They further explained that, in rebuttal, Staff considered the following to be supported: 1,433 Invoices fully supported; 236 Invoices partially supported; $16,374,466 of Invoice dollars supported. Thus, according to the Ameren Illinois Utilities, Staff considers the remaining $7,123,837 of invoices and all electronic transactions unsupported.

The Ameren Illinois Utilities noted that Ms. Everson admitted that there may be valid reasons why certain invoice amounts do not match amounts on the list of projects that were provided. They argued that Ameren Exhibits 19.12 and 43.6 demonstrated there are valid explanations for many of the perceived discrepancies between the invoices and the listing, which casts even further doubt on Ms. Everson's proposed adjustment. They cited the example of certain invoices that differed by 1% from the amount presented in the project listing provided to Staff due to a discount extended by the vendor.[4] Mr. Stafford explained that the evidence the Ameren Illinois Utilities submitted in Rebuttal supported the underlying cost directly in response to Ms. Everson's preferred audit approach of reviewing invoices. He explained that, in the examples where invoices could not be located or another reason was identified but could not be explained within the Rebuttal filing deadline, such costs are supported through other audit approaches, including support provided by the underlying general ledger queries, other project requirements and continuing property records. Mr. Stafford noted that Staff did not dispute that any of the underlying costs proposed for disallowance on Ms. Everson's Schedule 2.03 were either not incurred or should otherwise be eligible for recovery, if the specific reason cited by Staff could be adequately addressed. As a result, the Ameren Illinois Utilities argued that any adjustments beyond those the Ameren Illinois Utilities conceded in rebuttal or in surrebuttal are inappropriate.

The Ameren Illinois Utilities argued that Ms. Everson's rebuttal testimony did not respond to a large portion of Mr. Stafford's rebuttal testimony, and that the vast majority of the invoice detail explanations Mr. Stafford provided in rebuttal, with the exception of a few specific examples, directly support underlying costs at issue. Specifically, the Ameren Illinois Utilities pointed to the fact that Ms. Everson did not address at all the reasons why she continued to disallow costs <u>where the exact amount of the cost was highlighted on the invoice</u>. The Ameren Illinois Utilities noted Voucher number 765781 as one example of an invoice where the exact amount of $2,280 appeared as the invoice total on the physical invoice and on the summary listing. According to the Ameren Illinois Utilities, there were at least 265 invoices totaling about $1.7 million, with no explanation as to why these costs remained unsupported.

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[4] In an example discussed by Mr. Stafford, the invoice amount was $391.08 while the amount presented in the list of invoices was $387.17. Mr. Stafford stated that due to the difference of 1%, Ms. Everson disallowed the invoice it its entirety. Mr. Stafford also stated that Ms. Everson applied this methodology consistently; that is, where there was any difference between an invoice amount and the project listing, she excluded the invoice in its entirety.

The Ameren Illinois Utilities averred that Staff's failure to review information provided to support plant additions casts serious doubt on the validity of Ms. Everson's adjustment. They noted that, before Ms. Everson filed her rebuttal testimony, the Ameren Illinois Utilities supplemented their responses to Ms. Everson's Data Requests MHE 3.03 and 3.06, and their supplemental responses modified the amount attributable to electronic transactions. They pointed out that Ms. Everson refused to incorporate this supplemental information into her analysis. At hearing, Ms. Everson acknowledged that incorporating the Companies' supplemental response to MHE 3.03 into her analysis reduced her proposed disallowance for AmerenIP's gas operations from approximately $50 million to approximately $26 million.

The Ameren Illinois Utilities also contested Ms. Everson's recommendation that the Companies' alleged failure to fully document plant additions warrants a number of further punitive measures, including fines (in some unspecified amount) and a requirement that the Ameren Illinois Utilities be required to permanently write off all disallowance amounts granted in this case and be prohibited from seeking recovery of these amounts in any future rate proceeding.

Mr. Bruce Steinke, Vice President and Controller of the Ameren Illinois Utilities, explained that the Ameren Illinois Utilities have been and are in compliance with the Commission's document retention requirements. He testified that the Ameren Illinois Utilities have appropriate document systems and controls in place, and have made significant enhancements to their systems and controls. He attached a detailed description of the Ameren Illinois Utilities' project file maintenance procedures to his testimony. Mr. Steinke commented that these procedures indicate that the Ameren Illinois Utilities have a proper system for retaining documents in place.

The Ameren Illinois Utilities also argued that, even if the Commission were to find that the Companies are or were not in compliance with Commission rules (taking into consideration, again, that the data and records at issue are largely pre-acquisition), this finding would not justify permanent disallowance. They alleged that permanent disallowance is the rate case equivalent of the death penalty. Where rate base items are permanently disallowed, the utility may never earn a return on or of those items. The Ameren Illinois Utilities argued that permanent disallowance is therefore reserved for imprudent expenditures. They also pointed to the fact that no party to this proceeding has alleged that any amounts included in Ms. Everson's adjustment represent imprudent expenditures and the fact that, at hearing, Ms. Everson confirmed that her concerns relate to documentation of the expenditures. According to the Ameren Illinois Utilities, Staff has offered absolutely no support for its assertion that a permanent disallowance can be ordered based on documentation concerns.

The Ameren Illinois Utilities also argued that to permanently disallow any plant additions would be inappropriate. They emphasized that the Companies would be forever precluded from earning a return on or of property used and useful in providing service. In the Companies' view, if any plant additions are disallowed in this case, those additions should (and under the law, must) be included in rate base in the next case, provided they are adequately supported at that time. See, e.g., Illinois Power Co.,

Docket No. 89-0276 1990 Ill. PUC LEXIS 313, Order p. 315 ("[D]issallowances here reflect a load growth incremental of useful plant as it becomes needed over time. It is clear . . . that the Commission is tracking the load growth of the Illinois Power territory and that when supportable by the evidence, Clinton will be found fully used and useful.")

The Ameren Illinois Utilities also asserted that Staff's recommendation for a fine should also be rejected. They explained that Staff ignored evidence provided by the Companies that responds to many of Staff's concerns regarding plant records. Both Mr. Stafford and Mr. Steinke explained that most of the difficulties in locating records arose from the fact that two of the Ameren Illinois Utilities were previously under different ownership. They then pointed to the fact that Ameren had absolutely nothing to do with these companies' recordkeeping practices until it acquired the companies. Ameren Corporation acquired AmerenCILCO in early 2003 and AmerenIP at the end of 2004. The Ameren Illinois Utilities noted that, while this proceeding deals with projects that went into service by the end of a 2006 test year, many of those projects included costs, and related invoices, that predated Ameren Corporation's acquisitions.

Although the Ameren Illinois Utilities argued that Commission should reject Staff's recommendations for fines and permanent disallowance, the Ameren Illinois Utilities indicated that they have no objection to a requirement that they subject their document processing and retention for plant additions and retirements to an internal audit. According to the Ameren Illinois Utilities, Ameren Corporation's internal audit department already reviews these matters annually, and works with its outside auditors to review document processing and retention. In addition, the Ameren Illinois Utilities stated that they have already asked internal audit to review the issues surrounding the CILCO pre-acquisition document loss and make any appropriate recommendations.

Staff's Position

Staff recommended adjustments to reduce the rate base of each of the Companies by the percentage of plant additions that occurred since the Companies' last rate case for which Staff contended the Companies did not provide supporting documentation. Staff witness Ms. Everson argued that the Ameren Illinois Utilities had not adequately supported their claim for recovery of plant additions. Although Ms. Everson made some limited corrections to her Direct Testimony schedules for some unsupported amounts, eliminated some duplication, and also reduced the number of years of plant additions that her sample disallowance should be applied to for some of the utilities, Ms. Everson did not accept any of the additional documentation the Ameren Illinois Utilities provided as support for their plant additions, and she did not change her calculation of unsupported amounts.

Ms. Everson also argued that the Ameren Illinois Utilities document retention practices warranted permanent disallowance, fines, and a requirement that Ameren Illinois Utilities be subjected to internal audits.

Commission Conclusion

Commission Conclusion

The Commission finds that the amount of plant additions set forth in the Ameren Illinois Utilities' surrebuttal testimony should be approved. The Commission finds that Ms. Everson's sampling methodology was flawed and cannot be relied upon. The Commission finds that the Ameren Illinois Utilities satisfied their burden of proving their plant additions costs. Staff, however, failed to meet its burden of supporting its proposed adjustment to plant additions. The Commission also finds that permanent disallowance of the Ameren Illinois Utilities' plant additions is not warranted, nor are fines. The Commission, however, does agree with Staff and the Companies that the Ameren Illinois Utilities should engage in an internal audit of plant additions.

2. Plant Additions Disallowed in the Last Rate Case

Ameren's Position

The Ameren Illinois Utilities opposed Ms. Everson's adjustments regarding plant additions disallowed in the last rate case. The Ameren Illinois Utilities argued that they supported these costs in these proceedings. The Ameren Illinois Utilities highlighted the fact that Ms. Everson did not identify which specific invoices are at issue. They explained that, even though the Ameren Electric Utilities requested an explanation for which of the two reasons Ms. Everson cited applied to each invoice, Staff did not provide sufficient information to respond to Staff's proposed disallowance. Mr. Stafford explained that, after receiving Ms. Everson's workpapers in response to Ameren's First Data Request to Staff, it was necessary to issue a follow-up data request to ascertain which invoices were not accepted and which reason applied. The Companies issued Ameren Data Request 11.01 to determine specifically which invoice was not accepted and which reason applied. Mr. Stafford said that, in response to that data request, Staff directed the Ameren Illinois Electric Utilities back to the previously submitted workpapers and other data request responses. Ameren Ex. 19.6, Schedule 3 is a copy of the response to Ameren Data Request 11.01. Mr. Stafford testified that neither the list of specific invoices, nor specific reasons why the additional supporting documentation was not accepted, were identified by Staff, despite a very specific data request asking for this information.

Mr. Stafford explained that, due to Staff's failure to provide the requested information, the Ameren Illinois Electric Utilities were forced to try to determine which invoices were truly at issue. According to Mr. Stafford, the Ameren Illinois Utilities had to engage in a tedious and difficult process using Schedule 2.07 and the other limited information provided by Staff to try to figure out which invoice were at issue.
Mr. Stafford explained that, in the end, the Ameren Illinois Utilities had to conduct an analysis of the three projects for both Ameren CILCO and AmerenIP where Staff did not fully accept all additional supporting documentation. He stated that , for each of the six projects in question, Staff provided a supported amount on Schedule 2.07 that was rounded to the nearest penny. Mr. Stafford explained that the Ameren Illinois Utilities, therefore, listed all invoices provided in an attempt to find a combination that would match exactly Staff's supported amount, leaving the remainder as the Ameren Illinois

Utilities' "best guess" with regard to Staff's unsupported amount. According to Mr. Stafford, for five of the six projects, some combination of invoices provided a dollar amount that tied out to the penny, and therefore provided a reasonable starting point for rebutting why such allegedly unsupported invoices should have been accepted by Staff. However, for one project, number 25927 (appears this project is actually 25297 from review of prior Staff workpapers), AmerenIP was unable to tie out to the exact supported amount shown on Schedule 2.07 IP E, line 3. Therefore, the Ameren Illinois Utilities based their Rebuttal response on a supported amount of $21,617.91, which is within $9.74 of Staff's supported amount of $21,627.65. The Ameren Illinois Utilities noted that Staff fully accepted the submitted amounts for AmerenCIPS, so there is no issue for that utility.

Mr. Stafford explained that it appeared the primary reasons Staff deemed an amount to be unsupported for AmerenCILCO was that taxes were paid for an invoice amount. The Ameren Illinois Utilities argued that this is not a valid reason to exclude an amount as unsupported because AmerenCILCO has to pay tax where applicable. Mr. Stafford testified that a review of two of the amounts in question indicated the amount deemed to be unsupported is exactly equal to 6.25% of the accepted amount for the invoice in question, which corresponds to the tax rate in effect at the time of said purchase.

Mr. Stafford also explained that it appeared that the primary reasons Staff deemed an amount to be unsupported for AmerenIP was that two or more invoices were split between projects, or that project and/or work order numbers didn't directly correspond to the project in question. He testified that the fact that two or more invoices are split between projects is not a valid reason to exclude an amount as unsupported. According to Mr. Stafford, if work is performed by a supplier for more than one project, then it is only appropriate that such amounts should be accounted for separately. Mr. Stafford stated that, in each of these examples, the supervisory personnel that approved the invoice or invoices determined that such costs should be split, with only a portion assigned to the project in question. In Mr. Stafford's opinion, to handle this situation any differently would be incorrect, and certainly is no reason to disallow a cost for recovery. Mr. Stafford explained that Schedules 10 through 12 further detailed, where applicable, the amounts on each invoice that comprised the portion assigned to a project.

The Ameren Illinois Utilities pointed out that Ms. Everson's rebuttal testimony did not challenge or respond to the positions or arguments Mr. Stafford made in his rebuttal testimony. They argued that her proposed adjustments have no meaningful support because she did not consider additional supporting documentation provided by the Ameren Illinois Electric Utilities in rebuttal.

Mr. Stafford explained, for the 20 projects identified as unsupported in ICC Staff Ex. 14.0, Schedule 14.07, the Ameren Illinois Utilities provided additional evidence in rebuttal supporting a portion of the proposed disallowed dollars for 6 of the 20 projects. For the remaining projects and dollars, he explained that the Companies reflected an adjustment to reduce plant additions included in rate base in Mr. Stafford's rebuttal

testimony. Mr. Stafford provided the Commission with a chart (shown below) showing that 18 invoices support dollars at issue in six projects. According to Mr. Stafford this additional documentation should have confirmed for Staff that neither of Staff's previously stated reasons for disallowance was valid for the majority of the costs.

Prior Additions Disallowed	Number of Invoices	Invoice Issue	Amounts Issue	Neither Reason	Total
CIL WO # 03174	2	$0.00	$710.58	$0.00	$710.58
CIL WO # 03632	6	0.00	1,535.87	35,043.51	36,579.38
CIL WO # 147278	1	0.00	0.00	5,382.00	5,382.00
IP WO # 25297	3	0.00	2,938.54	13,587.50	16,526.04
IP WO # 25438	4	0.00	21,090.72	0.00	21,090.72
IP WO # 25760 (1)	2	0.00	0.00	939,464.58	939,464.58
Supported	18	$0.00	$26,275.71	$993,477.59	$1,019,753.30

(1) Shown incorrectly as 25780 on Staff Schedule 14.07 IP E, Page 3

The Ameren Illinois Electric Utilities averred that they provided additional support for over $1 million of plant additions disallowed in the prior rate case, and where they did not provide additional support, they appropriately reduced their plant addition costs included in rate base. Thus, the Ameren Illinois Utilities argued, the Commission should reflect an adjustment to rate base consistent with the calculations presented in Mr. Stafford's rebuttal testimony.

Staff's Position

Ms. Everson proposed adjustments to reduce rate base by the percentage of previously disallowed additions for which she alleged no additional support was provided. She cited two reasons for disallowing costs for plant additions that were disallowed in the Ameren Illinois Electric Utilities last rate case as not supported: (1) invoices did not correspond with the listing of invoices provided by the Ameren Illinois Utilities; and (2) the amounts on the invoices did not correspond to the amounts on the listing provided by the Ameren Illinois Utilities.

Commission Conclusion

The Commission finds that the amount of plant additions set forth in the Ameren Illinois Utilities' surrebuttal testimony should be approved. The Commission finds that the Ameren Illinois Utilities satisfied there burden of proving their plant additions costs. Staff, however, failed to meet its burden of supporting its proposed adjustment to plant additions.

3. Plant Additions Associated with Electric Operations

a. Property Held for Future Use

Ameren's Position

The Ameren Illinois Utilities argued that AmerenCIPS' investment of $375,935 for land purchased for future use as a substation site should be included in AmerenCIPS' rate base. Mr. Stafford explained that plant held for future use is a traditional component of rate base, which allows a utility to implement prudent long-term planning strategies. In general, the plant held for future use cost component allows a utility to include property acquired for future utility service in rate base, if there is a plan for its use within a certain period of time in the future. Chicago v. Illinois Commerce Comm'n, 133 Ill. App. 3d 435,441 (1st Dist. 1985). Mr. Stafford pointed to the Commission's longstanding policy of including the cost of land held for future use in rate base if the planned project is expected to be put into service within ten years of the test year. He cited ICC Dockets 84-0055, 87-0695, and 88-0256 (consol.), and 92-0116 as examples of cases where the Commission has upheld this policy. He noted that the Commission has also allowed plant held for future use to be included in rate base even beyond this ten-year period where the investment is shown to be "reasonable and the property should be retained; that a significant lead time was required between acquisition of a plant site and plant completion; and that long-range planning was necessary." Chicago v. Illinois Commerce Comm'n., 133 Ill. App. 3d 435 (upholding the Commission's decision to extend its policy on plant held for future use beyond a ten-year period).

The Ameren Illinois Utilities alleged that AmerenCIPS demonstrated that the planned project on the land at issue is expected to be put into service within ten years of the test year, and that including the cost of the land for the substation in AmerenCIPS rate base as plant held for future use is consistent with the Commission's past practice. Ameren Illinois Utilities' witness David Strawhun testified that AmerenCIPS closed (on April 3, 2006, for $375,935) on the purchase of 31.28 acres in the southeast quadrant of the intersection of Seminary Road and Bockstruck Lane, for the purpose of constructing a new bulk distribution substation ("North Alton Bulk Distribution Substation"), in preparation for ongoing and expected load growth in the area. As explained by Mr. Strawhun, the North Alton Bulk Distribution Substation is proposed to be built within ten years (proposed in-service date is 2014), to serve existing and future load in the northern and northwestern portions of Madison County.

Mr. Strawhun explained that the existing Mississippi Bulk Substation currently provides the subtransmission supplies to the distribution substations in the growth area. He stated that the current load on the Mississippi Bulk Substation is approaching its substation rating and the 34kV supply circuits to the north and northwestern distribution subs are long, resulting in potential for voltage regulation problems and reduced reliability due to the long circuit lengths. He also said that, for several reasons, load growth is expected to exceed the capacity of the Mississippi Bulk Substation by 2008 and add approximately 100 MVA within the next 20 years. He provided a chart (shown below) showing the projected load growth as of June 2007:

Year	2006	2007	2008	2009	2010	2015	2020	2025	2030

MVA	157	159	169	170	171	185	210	235	260

Mr. Strawhun testified that current and anticipated load growth in the area is driving the need for a new bulk supply substation. For example, he pointed to a new ethanol plant that is planned to be built at the old Jefferson Smurfit site in Alton, which represents the 10 MVA load increase shown in the above chart in 2008. He also said that several other new customer loads are currently expected to be added within the next two years. He also noted that certain area hospitals have indicated plans for expansions that are expected to increase loads by 2 MVA. According to Mr. Strawhun, these expected projects add to the planned need for the North Alton Bulk Distribution Substation. He testified that, even without the proposed ethanol plant, the rating of the Mississippi Bulk Substation is projected to be exceeded as early as 2009. He also explained that the extension of the new I-255 that is underway is expected to spur new growth and development along the highway corridor in the area, further increasing load growth.

Mr. Strawhun testified that, due to the long lead-times required for routing and obtaining a certificate of convenience and necessity from the Commission for the 138kV transmission supply to the new bulk substation, lead times for engineering, design, material acquisition, and substation construction, AmerenCIPS is planning to issue a Job Description before the end of 2008, in order to meet a mid-2014 in-service date. He stated that issuing the Job Description will initiate the sequence of activities required to meet the target mid-2014 in-service date for the new substation. He opined that this schedule will provide the lead time required to expand the transmission and distribution system as the growth occurs in the area and timely completion of the project will allow AmerenCIPS to continue reliably supplying the area distribution load. The only uncertainty or risk Mr. Strawhun identified was that construction of the substation may take longer than anticipated to complete due to transmission line right-of-way acquisition and construction schedules.

The Ameren Illinois Utilities opposed Staff Witness Rockrohr's proposal to disallow the investment. The Ameren Illinois Utilities pointed to the fact that Mr. Rockrohr does not claim that the purchase of the property at issue was not prudent. Specifically, the Ameren Illinois Utilities highlighted his statement: "I have no reason to dispute AmerenCIPS' assertion that its purchase of the substation site was prudent because there were a very limited number of viable substation sites in the geographic area . . . ." The Ameren Illinois Utilities averred that Mr. Rockrohr's position in his direct testimony did not state the appropriate standard to apply when evaluating plant held for future use. In the Ameren Illinois Utilities view, that standard would be the same thing as disallowing plant held for future use altogether.

The Ameren Illinois Utilities cited Mr. Rockrohr hearing testimony in which he stated that he was not aware of the Commission's policy regarding plant held for future use in developing the position he took in his direct testimony and did not initially rely on it. They also pointed to a data request response in which Mr. Rockrohr stated he "does not know whether there are circumstances when the Commission might appropriately allow utility investments in plant held for future use in rate base." According to the Ameren Illinois Utilities, even though Mr. Rockrohr became aware of the Commission's

policy, he continued to recommend the disallowance because, he argued, there is no guarantee that the substation will be built in the manner or timeframe that AmerenCIPS projects. The Ameren Illinois Utilities pointed to Mr. Rockrohr's testimony in which Mr. Rockrohr testified that his recommendation represents his own personal opinion, and not that of the Commission's Staff.

The Ameren Illinois Utilities argued that Mr. Rockrohr's complaint is not with the uncertainty of AmerenCIPS plan at issue here, but with the uncertainty of the future itself. In their view, Mr. Rockrohr claims that the North Alton Bulk Distribution Substation might never be built due to difficulty obtaining property rights, permitting and certification, and that the in-service date is "uncertain," but he also admits that any utility plan for placing a substation into service "is contingent upon factors such as availability of property, need for various regulatory approvals, or the need to obtain property rights or easements." The Ameren Illinois Utilities argued that the very concept of allowing plant held for future use in rate base acknowledges the lead time and regulatory uncertainty inherent in bringing a facility into service, while at the same time recognizing the value of long-term planning to customers. They pointed to Docket 82-0026 as an example. In that case, the Commission acknowledged that long-range plans "cannot be accepted as a certainty," but also recognized the benefits to customers in long-range planning, in allowing plant held for future use in rate base reasonably falling within its ten-year standard.

The Ameren Illinois Utilities argued that their evidence showed that there is a plan certain for the North Alton Bulk Distribution Substation. They asserted that the North Alton Bulk Distribution Substation is needed and planned to be constructed on the parcel of land at issue and put into service by 2014. They further argued that anticipating the rate of future load growth is an essential part of ensuring reliability for the future. While the Ameren Illinois Utilities conceded that they cannot predict future load growth with 100% accuracy, they argued that it is their duty to anticipate growth to the best of their abilities to ensure future reliability and quality service for their customers. Mr. Strawhun stated in his rebuttal testimony that the existing load on the Mississippi Bulk Substation "is approaching its substation rating and the 34kV supply circuits to the north and northwestern distribution subs are long, resulting in potential for voltage regulation problems and reduced reliability due to the long circuit lengths." The Ameren Illinois Utilities noted that Mr. Rockrohr did not dispute this statement. Mr. Strawhun provided a chart depicting the projected load growth – the accuracy of which Mr. Rockrohr also did not dispute. The Ameren Illinois Utilities noted that Mr. Rockrohr also did not request additional information or explanation regarding the chart in discovery. Further, Mr. Strawhun stated several reasons in his rebuttal testimony why AmerenCIPS expects load growth to exceed the capacity of the Mississippi Bulk Substation by 2008 and add approximately 100 MVA within the next 20 years – not just one ("development along the I-255 corridor"), as Mr. Rockrohr claimed in rebuttal. Mr. Rockrohr agreed at hearing that there were several reasons why growth will occur in the area.

The Ameren Illinois Utilities argued that the additional alternatives Mr. Rockrohr points to in rebuttal for supplying load growth are not sustainable. They stated that

Mr. Rockrohr used the alternative identified in Ameren Exhibit 35.1 (an internal memo regarding the New Alton Bulk Substation) of adding a third 138-34kV unit at the existing Mississippi Bulk Substation to make his claim. However, the Ameren Illinois Utilities pointed out that the same two paragraphs cited by Mr. Rockrohr state that "…the [Mississippi Bulk] substation is in the wrong location to effectively serve new load in the growth area." According to the Ameren Illinois Utilities, substantial 34kV line reconductoring and new circuit routes would be required through downtown Alton and the surrounding urban areas to reach the growth areas identified in northern and northwest Madison County. They asserted that the voltage regulation problems and reduced reliability due to excessive circuit lengths would remain problems. The Ameren Illinois Utilities stated that the disadvantages of expanding the Mississippi Bulk Substation, in part, were some of the reasons for the 2006 purchase of the site in question for North Alton Bulk Substation.

The Ameren Illinois Utilities also disputed Staff witness Mr. Rockrohr's rebuttal claim that the North Alton Bulk Distribution Substation is not expected to occupy the entire parcel of land. In their response to Staff's Data Request GER 4.16, the Ameren Illinois Utilities informed Staff that the purchased parcel of land may be larger than ultimately necessary to complete the project, because the property owners of the tract of land at issue wanted to sell the entire tract and not split the property. Mr. Strawhun testified that this is often a reality of purchasing real estate for utility development. He noted that Staff made no claim that this fact rendered the purchase of the entire property parcel imprudent. He opined that, because AmerenCIPS would not have been able to purchase only a section of the parcel of land at issue, it was necessary, prudent, and useful to ratepayers to purchase the entire parcel for purposes of building the substation.

The Ameren Illinois Utilities argued that the regulatory accounting literature acknowledges that utilities must often purchase additional land in advance to ensure proper planning for the future, and to minimize the possibility that no site will be available due to a failure to obtain the necessary regulatory approval. As a result, the Ameren Illinois Utilities explained that commissions may allow additional alternative land purchases in rate base as prudent under the circumstances, particularly where, there are a limited number of viable substation sites in the geographic area. The Ameren Illinois Utilities cited one treatise, stating:

> Overall economic conditions or specific conditions in the area where a utility operates may make it prudent to invest in land in order to secure future plant sites. *This may well be the case where land is extremely scarce* . . . . Under these situations, some commissions deem these land purchases as good management decisions for the benefit of ratepayers and thus allow rate base treatment.

Accounting for Public Utilities, §4.04[6], 4-37(2) (Matthew Bender) (emphasis added). The Ameren Illinois Utilities argued that there is no need for requesting special or unusual treatment of the purchases at issue, because the property and plan at issue fall

reasonably within the Commission's long-standing policy standard for including plant held for future use in rate base.

Further, the Ameren Illinois Utilities argued that there is no evidence supporting Mr. Rockrohr's recommendation that "the Commission require AmerenCIPS to sell the unused portions of the parcel after completing substation construction, and remove from ratebase an amount equivalent to the proceeds received from that property sale." The Ameren Illinois Utilities alleged that this would be an arbitrary constraint on the property's use. They noted that the record is devoid of evidence showing that any remaining property would be saleable or that such a future sale would be prudent or the most beneficial use of the land to customers. Mr. Strawhun testified that AmerenCIPS is planning to retain the entire tract of ground to evaluate options for routing the transmission lines into the new substation and provide for multiple distribution line routes out of the substation location. The Ameren Illinois Utilities argued that, if AmerenCIPS decides to sell any unusable land, in which case the sale would be approved by the Commission, the sale should be accounted for in a manner consistent with prior Commission orders.

The Ameren Illinois Utilities argued that Mr. Rockrohr's claim that inclusion in rate base "would be much more appropriate" in a future rate proceeding is also baseless, and appears only to take issue with the Commission's policy on plant held for future use itself. They argued that there is no evidence supporting Mr. Rockrohr's implicit claim that a shorter standard time period for including plant held for future use in rate base is warranted where rate cases are filed more frequently. They also noted Mr. Rockrohr does not take the position that the Commission's ten-year standard is in any way related to the length of time between rate cases, and that Mr. Rockrohr did not recommend that the Commission adopt a new or different standard in this case.

Finally, the Ameren Illinois Utilities argued that Mr. Rockrohr's "legal opinion" that he is "unable to reconcile AmerenCIPS' proposed inclusion of this property in rate base with Section 9-211 of the Public Utilities Act" should be rejected because it conflicts with prior Commission policy. Section 9-211 of the Public Utilities Act states: "The Commission, in any determination of rates or charges, shall include in a utility's rate base only the value of such investment which is both prudently incurred and used and useful in providing service to public utility customers." 220 ILCS 5/9-211. The Ameren Illinois Utilities also asserted that prior Commission orders indicate the Commission previously rejected claims that plant held for future use is not "used and useful" to customers, in applying its ten-year standard. See, e.g., Final Order in ICC Dockets 84-0055 (cons.), 87-0695 (cons.), and 88-0256. Mr. Stafford testified that the regulatory accounting literature indicates that including plant held for future use in rate base is accepted by the majority of jurisdictions, as consistent with the "used and useful" legal standard. According to the Ameren Illinois Utilities, whether a particular jurisdiction accepts plant held for future use in rate base hinges on whether that jurisdiction agrees that such prudent long-term planning provides benefits to customers.

The Ameren Illinois Utilities pointed out that the fact that Mr. Rockrohr's testified at hearing that a utility must prudently plan for its future electric load growth is contrary

to his own argument. The Companies noted that Mr. Rockrohr agreed that property held for future use can assist a utility in implementing its long-term plans, and admitted that a utility's prudent planning for future load growth benefits customers. The Companies also noted that Mr. Rockrohr does not question the prudence of AmerenCIPS's purchase of the property at issue.

The Ameren Illinois Utilities argued that, in light of this overwhelming evidence, AmerenCIPS's investment of $375,935 for the future substation property should be included in its rate base.

Commission Conclusion

The Commission finds that AmerenCIPS's investment of $375,935 for the future substation property should be included in its rate base. The Commission finds that including this investment in AmerenCIPS' rate base is in accordance with the Commission's policy regarding plant held for future use.

b. Security System Installations

Staff's Position

Staff witness Rockrohr proposed to disallow the all of the costs associated with the security systems at AmerenCIPS' facilities in Marion, Mattoon, and Beardstown, in the amount of $608,779. On rebuttal, Staff witness Rockrohr continued to support his proposed disallowance for AmerenCIPS. He also proposed further disallowances for security systems at all of the Ameren Illinois Utilities, including disallowance of additional $272,907 in security system costs for AmerenCIPS (for a total of $881,686), and a disallowance of $178,173.12 for AmerenCILCO and $417,527.65 for AmerenIP for the security system installations included in each of these utility's proposed rate bases.

Ameren's Position

The Ameren Illinois Utilities explained that they are required, both as a matter of law and as a matter of prudent, safe and reliable operation, to have effective security systems for their facilities. Section 4-101 of the Act, 220 ILCS 5/4-101, states that "The Commission shall require all public utilities to establish a security policy that includes on-site safeguards to restrict physical or electronic access to critical infrastructure and computerized control and data systems." With respect to electric utilities, Section 4-101 requires, "that the entity follows, at a minimum, the most current security standards set forth by the North American Electric Reliability Council." According to the Ameren Illinois Utilities, these provisions require that they have on-site safeguards to restrict physical access to critical infrastructure, and, for the electric Ameren Illinois Utilities, that the utility follow the most current security standards set forth by the NERC.
Mr. Mullenschlader testified that the security systems that the Ameren Illinois Utilities have installed are designed to meet these requirements. The Ameren Illinois Utilities argued that, because the security systems represent prudent investment in needed protection of the Ameren Illinois Utilities' facilities, the Ameren Illinois Utilities are

entitled have that investment included in rate base and to earn a return on and of the investment. Business & Prof. People for the Public Interest v. Illinois Commerce Comm'n, 146 Ill. 2d 175, 195-96 (1991).

The Ameren Illinois Utilities also explained that electric transmission lines, substations, gas pipelines, storage fields and other facilities are considered critical energy infrastructure. They argued that securing such critical infrastructure is necessary not just to ensure that customers have adequate and reliable service, but also that interconnected facilities of other utilities throughout the region and the country are protected. They stated that, for example, the destruction of a transmission line or substation in a terrorist attack could result in power disruptions throughout Illinois and the region. The Ameren Illinois Utilities argued that it is for this reason that Federal and state authorities, and the Commission, have made clear that the protection of such critical infrastructure from terrorist attack or criminal activity is very important. They stated that, for example, the Critical Infrastructures Protection Act of 2001 states that "any physical or virtual disruption of the operation of the critical infrastructures of the United States [should] be rare, brief, geographically limited in effect, manageable, and minimally detrimental to the economy, human and government services, and national security of the United States." 42 U.S.C. § 5195c(c)(1).

The Ameren Illinois Utilities argued that the Commission has also affirmed the importance of protecting critical infrastructure. They cited to Docket 04-0439, where the Commission stated, "the Commission agrees with Petitioners that the reliable transmission and distribution of electricity in Illinois is important to both the public convenience and public safety. The Commission also recognizes that criminals and terrorists could target and damage the electric transmission and distribution system in Illinois in order to advance their goals. Accordingly, the Commission concurs that appropriate steps should be taken to secure the electric system." They also cited Docket 02-0690, where the Commission noted, "In the wake of September 11th the Commission is keenly aware of the increased security costs incurred by regulated entities. Many of these costs are mandated by Homeland Security mandates in conjunction with security needs as determined by state and local governmental entities as well a company's own management initiatives." The Ameren Illinois Utilities argued that their security systems must be designed with the concerns of the Commission and other authorities in mind.

The Ameren Illinois Utilities contested Mr. Rockrohr's proposal to disallow such expenses. They argued that he did not compare the Ameren Illinois Utilities' security systems, or their costs, to those of non-Ameren utilities, and he did not conduct any outside research into, or review publications related to, security systems. They noted, however, that Mr. Rockrohr agreed that protection of Ameren Illinois Utilities' critical infrastructure from terrorist attack and criminal activity was necessary, and that he also agreed that the Ameren Illinois Utilities' customers benefit from measures to protect the Ameren Illinois Utilities' facilities from terrorist attack and criminal activity. The Ameren Illinois Utilities alleged that their evidence shows that its security systems are reasonable and necessary to protect the Ameren Illinois Utilities' critical infrastructure and other facilities and personnel.

The Ameren Illinois Utilities' witness Mr. Mullenschlader explained that the security systems installed by the Ameren Illinois Utilities are necessary to provide optimal protection for the Ameren Illinois Utilities' personnel, equipment and facilities, and are used and useful for that purpose. He explained that, in a post-9/11 world, these security systems are also a necessary component of the protection of critical energy infrastructure, such as electric transmission lines or gas pipelines. He stated that, for the electric Ameren Illinois Utilities, some of the components of the new security systems are required to meet the standards of the North American Electric Reliability Council ("NERC"). According to Mr. Mullenschlader, with the potentially catastrophic effects of a security breach at one of the Ameren Illinois Utilities, not just on Ameren Illinois Utilities' customers but on regional energy resources, there is nothing more prudent than ensuring there are effective security systems in place.

Mr. Mullenschlader explained why existing systems needed to be upgraded and the new systems were necessary. The Ameren Illinois Utilities asserted that these particular systems were installed for several reasons. Principally, they asserted that the systems provide optimal protection for personnel and the site itself, the equipment that is on-site, the supplies necessary to run the business, and lastly the global efficiencies gained by easily monitoring multiple sites remotely, from one or multiple locations. As the Ameren Illinois Utilities are required to respond 24 hours a day, 365 days a year, the Ameren Illinois Utilities stated that it is imperative that all of the components of the emergency response function are ready at a moment's notice. According to the Ameren Illinois Utilities, with the systems that are in place, immediate and appropriate action can be taken no matter what the situation is at the site. The Ameren Illinois Utilities noted that the "enterprise-wide" security system at issue at the three AmerenCIPS sites operates on a 24 hour a day, 365 day schedule.

Mr. Mullenschlader explained that, in installing the systems, the Ameren Illinois Utilities reviewed available resources at each location, that is, personnel headquartered at the location, vehicles housed on site along with stock on hand, and inventory supply items in order for the security system to be operational. He further explained that, once AmerenCILCO and AmerenIP became part of the same corporate structure including AmerenCIPS, all of security systems that were in place within their respective operations were reviewed. At each utility, different systems were used, and in some cases one system was deployed at several locations while others were independently operated. According to Mr. Mullenschlader, some of the largest systems were outdated. The Ameren Illinois Utilities argued that the security system costs that Staff witness Rockrohr seeks to disallow, and future system costs, represent the Ameren Illinois Utilities' ongoing program to upgrade and centralize the security systems.

Mr. Mullenschlader testified that upgrades were needed to meet the requirements of Illinois law, discussed above, with respect to securing public utility facilities. He stated that the security systems that the Ameren Illinois Utilities installed are designed to meet the requirements of Section 4-101.

The Ameren Illinois Utilities argued that the electric Ameren Illinois Utilities also must follow the NERC security standards in the NERC "Security Guidelines for the

Electricity Sector," and in particular the "Security Guidelines for the Electricity Sector: Physical Security." The Ameren Illinois Utilities pointed out that Staff witness Rockrohr did not review or consider these guidelines in making his recommended disallowance, however.

Mr. Mullenschlader also explained that there are also guidelines for security measures that are relevant to the gas Ameren Illinois Utilities. He stated that Gas transmission and distribution systems are also considered critical infrastructure requiring up-to-date security measures. The Security Practices Guidelines, Natural Gas Industry Transmission and Distribution, prepared by the Interstate Natural Gas Association of America and American Gas Association in 2002, has recommendations for gas facility security, like secured gates, secured buildings or controlled access. Mr. Mullenschlader explained that Ameren uses guidelines like these as a "best practices" guide to gas facility security measures, and is working towards implementing these practices at all gas facilities. He stated that the security systems that have been installed are consistent with these guidelines, and are necessary to provide the required level of protection to gas facilities.

The Ameren Illinois Utilities disputed Staff witness Rockrohr's claim that the costs for the security systems should be disallowed because the capabilities of security systems seem "extraordinary" and "impressive" and constitute "expensive state-of-the-art systems." While the systems are up-to-date, Mr. Mullenschlader explained that they are by no means "extraordinary." He testified that the security systems are basic systems whose capabilities meet with the utilities' security needs and their need to safeguard employees, facilities, equipment and critical infrastructure. He asserted that this entire operation, while more sophisticated than a lock and key process, is not an "expensive state-of-the-art" system. According to Mr. Mullenschlader more state-of-the-art systems could employ biometric, dielectric, finger-print identification, hand-geometry, optical, or radio-frequency type readers and access controls. He also noted that the Ameren Illinois Utilities could also have chosen to install bomb-detection capabilities or bullet-proof glass. Mr. Mullenschlader opined that Ameren's system is a prudent level of security investment consistent with its security requirements.

The Ameren Illinois Utilities argued that the security systems in use at the Ameren Illinois Utilities are also commonly used by other utilities. Mr. Mullenschlader explained that many utilities use enterprise-wide card-access systems, as well as a CCTV remote-monitoring systems, that are similar to what is in place for the Ameren Illinois Utilities. He stated that other industries, such as trucking, delivery and service companies, employ badge/card access technologies and utilize CCTV. In Mr. Mullenschlader's opinion, these utilities and other industries are not employing unnecessarily extraordinary security measures.

The Ameren Illinois Utilities explained that the cost of the Ameren Illinois Utilities' security systems is reasonable. Mr. Mullenschlader testified that the present system is centralized, which will allow the security system to be operated by fewer personnel from fewer locations. It is cost-effective to centralize and standardize all the equipment, software and field installations. The cost of security systems should also be considered

in comparison to the dollar amount of the equipment, supplies, on-board inventories, computers and critical operating information that exists at each of these sites. For instance, one "line truck" may be valued in the neighborhood of $100,000 to $150,000, plus approximately $50,000 – $75,000 worth of material on it (not to mention associated computers or supplies in warehouses or elsewhere at a facility). He stated that the Ameren Illinois Utilities are currently monitoring 48 different locations with a minimum vehicular inventory of 3,381, which would be valued at roughly $153,000,000. Thus, according to Mr. Mullenschlader, compared to the value of assets protected (not to mention the possible cost from terrorism or criminal activity, or the cost to shift assets from another facility if the assets in one location are damaged) the total cost of the security installations seems quite small.

The Ameren Illinois Utilities argued that their security system costs are a prudent investment in necessary and, in some cases, required security systems. They pointed out that Staff acknowledged that the security systems benefit customers. According to the Ameren Illinois Utilities, these systems are used and useful in providing service to customers, and the systems installed are consistent with established guidelines (such as the NERC guidelines) and were designed to precisely meet the Ameren Illinois Utilities' security needs. Because the security systems represent prudent investment in needed protection, the Ameren Illinois Utilities argued that Staff witness Rockrohr's proposal to disallow the Ameren Illinois Utilities' entire investment in security systems should be rejected and the Ameren Illinois Utilities should be allowed to include the investment in security systems in rate base.

Commission Conclusion

The Commission finds that the Ameren Illinois Utilities' costs associated with security systems are just and reasonable. The Commission finds that the security systems serve the interest of customers by protecting the Companies' assets and preventing security risks. The Commission further finds that the security measures and the costs of those measures are not excessive.

4. Cash Working Capital

a. In Base Rates

Ameren's Position

In their direct case, the Ameren Illinois Utilities presented a lead lag study to quantify the cash working capital requirements of each of the gas and electric businesses of the Ameren Illinois Utilities. Cash working capital (CWC) reflects the amount of funds required to finance the day-to-day operations of the Ameren Illinois Utilities. A CWC requirement represents the amount of cash the Companies need to keep on hand to meet their cash operating expenses.

Mr. Adams testified that the two most commonly used methodologies by which to determine a company's CWC requirements are referred to as the "Net Lag" and "Gross Lag" methodologies. He testified that the CWC requirements for each of the Ameren

Illinois Utilities were calculated employing the Net Lag methodology. Ameren Exhibit 3.5 showed the calculation of the Ameren Illinois Utilities' CWC requirements under the Net Lag methodology. He explained that, if prepared properly, the two methodologies should produce identical results. Ameren Exhibits 5.7, 5.8 and 5.9 set forth the calculation of the Ameren Illinois Utilities CWC requirements under the Gross Lag methodology. According to the Ameren Illinois Utilities, these exhibits demonstrate that the CWC requirements under both methodologies yield the same results.

Staff witness Mr. Kahle suggested six modifications to the CWC requirements proposed by the Ameren Illinois Utilities: (1) use of the Gross Lag methodology rather than the Net Lag methodology; (2) inclusion of pass-through taxes in the calculation of the revenue lag with zero lag days; (3) inclusion of capitalized payroll in the level of payroll expenses used to determine the Ameren Illinois Utilities' CWC requirements; (4) correction of the expense lead associated with Employee Benefits; (5) reflecting the impact of TFTN interest expense; and (6) reflecting Staff's proposed levels of operating expenses in the CWC analysis.

The Ameren Illinois Utilities agreed with Mr. Kahle's correction of the expense lead associated with Employee Benefits. Mr. Adams explained that the expense lead originally filed by the Ameren Illinois Utilities contained a cell reference error that needed be updated to reflect the corrected expense lead days. He agreed that Mr. Kahle accurately reflected the expense lead as 24.746 days. Adjusting the expense lead for Employee Benefits reduced the Ameren Illinois Utilities' CWC requirements by approximately $9,000.

The Ameren Illinois Utilities also accepted Mr. Kahle's treatment of interest expense on TFTN in the CWC analysis.

Gross Lag Methodology

The Ameren Illinois Utilities stated that they did not take exception to Mr. Kahle's use of the Gross Lag methodology, if applied correctly. While the Ameren Illinois Utilities initially presented their CWC requirements employing the Net Lag methodology, they said that they were not opposed to the use of the Gross Lag methodology. In fact, if calculated correctly, they assert that the Net Lag and Gross Lag methodologies produce the same results. According to Mr. Adams, the differences generated by Mr. Kahle under the Gross Lag methodology are the result of the incorrect application of the modifications Staff proposed. Therefore, in order to focus on the inaccuracies of Mr. Kahle's analyses, the Ameren Illinois Utilities also employed the Gross Lag methodology to determine the Ameren Illinois Utilities' CWC requirements.

Although the Ameren Illinois Utilities accepted the use of the Gross Lag methodology, they argued that one error in Mr. Kahle's comments regarding the Gross Lag methodology must be pointed out. Mr. Kahle stated that "The Net Lag methodology does not consider the amount of cash provided by ratepayers through base rates." Mr. Adams explained that such a statement is not true. Mr. Adams stated in both his direct and rebuttal testimony, "the Net Lag methodology presumes that the operating

expenses considered in the analysis are the same as the revenues available to pay such operating expenses. Therefore, the Net Lag methodology inherently includes the consideration of revenues, but it does not reflect revenues on the exhibit." The Ameren Illinois Utilities argued that both methodologies reflect revenues, but only the Gross Lag methodology actually shows the revenues on the exhibit.

Mr. Adams explained that ICC Staff Exhibit 3.0, Schedule 3.01 CILCO-E, page 3 of 4, column (C), line 1, showed that the total operating revenues used by Mr. Kahle are $111,537. (Id.) This figure ties to ICC Staff Exhibit 1.0, Schedule 1.01 CILCO-E, column (I), line 1. (Id., p. 68.) Mr. Adams stated that the revenues used by Mr. Kahle reflect the revenue requirement which Staff believes to be necessary to earn a fair return on the Ameren Illinois Utilities' assets and to pay their operating expenses. Mr. Adams explained that, from this amount, under the Gross Lag methodology, the return on equity and all non-cash operating expenses are removed from the operating revenues. He further explained that the residual revenues included in the CWC analyses under the Gross Lag methodology are the amount required to pay cash operating expenses.

Mr. Adams stated that the objective of the CWC analyses is to evaluate the timing differences between the receipt of revenues and payment of expenses. He stated that, to accurately determine the CWC requirements, the revenues considered in the analyses must correspond to the expenses and vice versa. According to Mr. Adams, the inclusion of expenses for which there is no corresponding revenue stream will produce results which do not reflect the true CWC requirements of the Ameren Illinois Utilities. He explained that, when employing the Gross Lag methodology, it is important to maintain a balance between the level of revenues and operating expenses considered in the analyses. The level of revenues considered in the analyses should reflect only those funds which are available to pay actual cash operating expenses. Thus, he explained that a number of reductions are made from actual revenues to arrive at the amount which is truly available to pay actual operating expenses. Similarly, Mr. Adams asserted that the operating expenses considered in the CWC analyses should only include those operating expenses for which there is a corresponding revenue stream.

Mr. Adams testified that Ameren Exhibit 5.7E, column (C), lines 8 and 24, showed that the Ameren Illinois Utilities' application of the Gross Lag methodology maintained the balance between revenues and operating expenses because the revenues and operating expenses considered in the CWC analyses were equal. He argued that the analyses set forth by Mr. Kahle, however, did not maintain the balance between revenues and operating expenses. He alleged that Mr. Kahle inappropriately made changes to the level of operating expenses (e.g., capitalized items) without a corresponding change to the revenue side of the equation. According to Mr. Adams, under Mr. Kahle's approach, the operating expenses were artificially inflated thereby erroneously reducing the Ameren Illinois Utilities' CWC requirements.

The Ameren Illinois Utilities argued that Ameren Exhibits 21.04 through 21.09 show the appropriate level of CWC requirements for each of the Ameren Illinois Utilities'

gas and electric utilities employing the Net Lag methodology, and Ameren Exhibits 21.10 through 21.15 reflect the appropriate level of CWC requirements for each of the Ameren Illinois Utilities' gas and electric utilities employing the Gross Lag methodology. They noted that the exhibits show that CWC requirements under the Gross Lag methodology are the same as those under the Net Lag methodology.

The Ameren Illinois Utilities argued that Mr. Kahle's proposed inclusion of capitalized expenditures in the CWC requirements determined under the Gross Lag methodology inappropriately skew the results of the analyses. They further argued that the use of the Gross Lag methodology is no longer an issue, but the Commission should reject Mr. Kahle's misapplication of that methodology.

Pass Through Taxes

The Ameren Illinois Utilities took exception to Mr. Kahle's proposed treatment of pass-through taxes in calculating their CWC requirements. Mr. Kahle proposed to include pass-through taxes in the CWC analyses, but to reflect a revenue lag associated with these taxes of zero days. Mr. Kahle assigned an expense lead of 42.790 days for the pass-through taxes. The Ameren Illinois Utilities provided a table that set forth the reduction of the Ameren Illinois Utilities' CWC requirements based upon Mr. Kahle's proposed adjustment to pass-through taxes. The table showed that the total reduction is approximately $7 million.

The Ameren Illinois Utilities argued that Mr. Kahle's proposed treatment of pass-through taxes should be rejected because it has no foundation in reality. Mr. Adams testified that the revenue lag consists of five components: (1) a service lag; (2) a billing lag; (3) a collections lag; (4) a payment processing lag; and (5) a bank float lag. He explained that these components add up to the 40.95 days of revenue lag utilized by both Staff and the Ameren Illinois Utilities for purposes of determining the CWC requirements for the Ameren Illinois Utilities.

He further testified that the expense lead consists of three components: (1) a service lead; (2) a payment lead; and (3) a bank float lead. The expense lead used by both Staff and the Ameren Illinois Utilities was determined to be 42.79 days.

Mr. Adams explained that it is appropriate to include pass-through taxes in the CWC analyses because there is a slight timing difference between the Ameren Illinois Utilities' receipt of payment from their customers and the remittance of the taxes to the proper taxing authority. According to Mr. Adams, by including the pass-through taxes in the CWC analyses, the Ameren Illinois Utilities are reflecting the benefit of having access to the funds from the time of receipt to the time of remittance.

The Ameren Illinois Utilities stated that Mr. Kahle's position is based on the incorrect premise, that the Ameren Illinois Utilities have access to the funds associated with the pass-through taxes for 42.79 days. Mr. Adams explained that that is simply not the case. He stated that the Ameren Illinois Utilities collect the funds associated with

the pass-through taxes when the customers pay their bills, and there is no separate source of funds provided by the customers associated with the pass-through taxes.

The Ameren Illinois Utilities further argued that Mr. Kahle appears to suggest that there is no service lag associated with the pass-through taxes. While the Ameren Illinois Utilities recognized that this may be a reasonable position, they argued that there cannot be a service lead on the expense side of the CWC calculation if there is no service lag on the revenue side of the equation. They noted that Mr. Kahle's rebuttal position acknowledged this fact. Despite this modification, the Ameren Illinois Utilities argued that Mr. Kahle's position continued to be irrevocably flawed because it failed to reflect the true timing of cash receipts versus cash outlays.

Mr. Adams explained that there is clearly a lag from the point of billing to the receipt of the funds. He testified that, including the service lag, the Ameren Illinois Utilities average 40.95 days from the provisioning of service to the receipt of funds (including those funds associated with pass-through taxes). Excluding the service lag, he testified that the lag between billing and receipt of cash would be approximately 25.74 days. He asserted that the Ameren Illinois Utilities do not have access to the funds attributable to the pass-through taxes during those days, and noted that Mr. Kahle provided no evidence to the contrary.

Mr. Adams explained that funds are remitted to the proper taxing authorities approximately 42.79 days from the midpoint of the month in which service was provided to the customers. Therefore, according to Mr. Adams, the Ameren Illinois Utilities would have access to the funds for less than two days (i.e., 42.79 minus 40.95).

The Ameren Illinois Utilities argued that, if the Commission were to determine that there was no service lag/lead associated with the pass-through taxes, a revenue lag of 25.74 days should be applied to the appropriate level of revenues attributable to pass-through taxes and an expense lead of 27.58 days (i.e., 42.79 minus 15.21 days) should be applied to the expense levels associated with pass-through taxes. They argued that this change would result in no change to the Ameren Illinois Utilities' CWC requirements.

The Ameren Illinois Utilities pointed out that the Commission previously declined to adopt the position proposed by Mr. Kahle. In Docket Nos. 07-0241/07-0242 (Cons.), Staff proposed the same treatment of pass-through taxes in its Reply Brief on Exceptions at page 8. In its final Order, the Commission stated:

> "Regarding Staff's first argument – that there is no revenue lag for pass-through taxes – Staff's apparent concern is that pass-through taxes provide no service to the customer and involve no product or service costs (other than tax collection costs, which are presumably recovered as O&M expenses). Moreover, several of the taxes are paid quarterly or annually, which raises the question of how, in common sense, they can have a revenue lag. That said, however, the Utilities still

> must obtain revenue to remit to the taxing bodies, and the only revenue collection mechanism in the record, with its attendant revenue lag, is the monthly bill. Consequently, while the Commission would welcome additional analysis, as Staff suggests, addressing the movement of pass-through taxes in and out of the Utilities' accounts for CWC purposes, we do not have that analysis here. For now, we will include pass-through taxes in the revenue portion of the gross lag study approved in these documents."

(Commission's Order in Docket Nos. 07-0241/07-0242 (Cons), p. 22.)

The Ameren Illinois Utilities argued that Staff did not present any further analysis regarding the movement of pass-through taxes, did not present information regarding a revenue source other than the monthly bills which would purportedly recover the pass-through taxes, and did not present any information regarding a distinct revenue source other than the monthly bills by which the pass-through taxes would be collected simply because no such alternative source of funds exists. As explained by the Ameren Illinois Utilities, the pass-through taxes are, in fact, recovered through the customers' payment of their monthly bill.

The Ameren Illinois Utilities further argued that, although Mr. Kahle acknowledged one flaw in his analysis, he failed to fully address the concerns identified in the Ameren Illinois Utilities' rebuttal testimony. Mr. Adams explained that Mr. Kahle acknowledged one portion of the flaw in his proposed adjustment by eliminating the service lead from the expense lead associated with the pass through taxes. As a result, Mr. Kahle reduced the expense lead by 15.21 days. Mr. Adams pointed out that, beyond this concession, Mr. Kahle clung to his flawed analysis. Specifically, Mr. Adams stated that Mr. Kahle implied in his rebuttal testimony that the disagreement between Staff and the Ameren Illinois Utilities on this issue is over whether the pass through taxes are funded by ratepayers. Mr. Adams testified that that is not an issue in this case. According to Mr. Adams, the sole issue is the number of days which the Ameren Illinois Utilities have access to the funds (i.e., revenues) prior to remitting those funds to the appropriate taxing authorities.

Mr. Adams cited a prior Commission order directing Staff to provide additional analysis regarding the movement of pass through taxes. Mr. Kahle failed to address the Commission's concerns. The Ameren Illinois Utilities asserted that Mr. Kahle performed no additional analysis since Docket Nos. 07-0241/0242 (Cons.). They argued that he has merely repackaged his arguments in a different manner. They further argued that Mr. Kahle's proposed adjustment does not, however, reflect the true timing differences between the receipt of revenues and the remittance of the taxes.

The Ameren Illinois Utilities argued that Mr. Kahle effectively presumed that the portion of a customer's bill associated with pass through taxes reflects cash that is available to the Ameren Illinois Utilities immediately. They argued that by including the revenues attributable to pass through taxes in the CWC analysis at zero days,

Mr. Kahle's analysis ignored the actual elapsed time associated with meter reading, billing, collections and payment processing. As explained by Mr. Adams, clearly these funds are not available to the Ameren Illinois Utilities immediately, so it is unclear how Mr. Kahle presumes that the Companies magically have access to these funds without the benefit of the meter reading, billing, collections and payment processing. Mr. Adams explained that customers remit the payment of their bills, in its entirety, on or near the payment due date. Separate payments are not made for pass through taxes immediately and the remainder of the bill at a later time. Mr. Adams pointed out that Mr. Kahle failed to address this error in his rebuttal testimony.

In sum, the Ameren Illinois Utilities argued that the Commission should not accept Mr. Kahle's arguments related to pass through taxes because they are fatally flawed. They argued that Mr. Kahle failed to proffer any further analysis previously requested by the Commission presumably because no reasonable and factually accurate scenario can be constructed which collaborates his espoused belief that the Ameren Illinois Utilities have immediate access to the funds associated with pass through taxes.

Capitalized Payroll

The Ameren Illinois Utilities took exception to Mr. Kahle's proposed inclusion of capitalized payroll expenditures in the operating expenses used to calculate the Ameren Illinois Utilities' CWC requirements. Mr. Kahle proposed to include capitalized payroll in the CWC analyses by adding the amount of capitalized payroll to the operating expenses without a corresponding revenue stream.

The Companies provided a table demonstrating that the impact of Mr. Kahle's proposed inclusion of capitalized payroll in the CWC analyses is to reduce the Ameren Illinois Utilities' CWC requirements by approximately $3 million:

Mr. Kahle tried to justify the use of this limited number of capitalized items in the calculation of the CWC requirements of the Ameren Illinois Utilities on the grounds that the Commission accepted a similar position in the rate proceedings of the Ameren Companies (Dockets 06-0070-0071-0072 (Cons.) (Order November 21, 2006, p. 36)). The Ameren Illinois Utilities argued that Mr. Kahle provided no independent justification or rationale for the inclusion of the capitalized items in the CWC analyses, and, in fact, they should not be included at all.

Mr. Adams explained that the objective of the CWC analyses is to measure the timing differences between the receipt of revenues and the payment of expenses. He explained that, to accurately determine the CWC requirements of the Ameren Illinois Utilities, it is necessary to maintain the balance between the revenue and expense levels reflected in the CWC analyses. He asserted that Mr. Kahle artificially created an imbalance by including in his analyses expenses for which there is no corresponding revenues, thereby resulting in a lower CWC requirement which is not indicative of the Ameren Illinois Utilities' true CWC needs.

The Ameren Illinois Utilities argued that Mr. Kahle's inclusion of these capitalized costs was also inappropriate because his analyses represent only a partial view of capitalized expenditures. The Ameren Illinois Utilities incur significant levels of expenditures on an annual basis associated with capital programs and initiatives. Mr. Adams explained that Mr. Kahle's proposed treatment of capital expenditures does not reflect all of the capital expenditures; he is selective in what items to include. Further, Mr. Adams testified that Mr. Kahle reflected an expenditure with significant dollars and relatively short expense lead time, thereby artificially deflating the CWC requirements of the Ameren Illinois Utilities. Therefore, in Mr. Adams's view, Staff's analyses reflect an incomplete view of capitalized expenditures and an artificially created imbalance between the revenues and operating expenses resulting in a flawed conclusion as to the Ameren Illinois Utilities' CWC requirements.

The Ameren Illinois Utilities did not include all of the capitalized expenditures in their CWC analyses. The Ameren Illinois Utilities' analyses reflected the actual cash operating expenses incurred during the test year. Mr. Adams explained that the capitalized amounts were appropriately included in rate base and thus earn a return on such investments. Therefore, he argued that it is inappropriate to include the capitalized expenditures in the CWC analyses. Regardless, Mr. Adams testified that it would be inappropriate to include only a portion of the capitalized expenditures and only on one side of the revenue and expense equation. Mr. Adams stated that the revenues which Mr. Kahle uses reflect the revenue requirement for the Ameren Illinois Utilities. From those revenues, Mr. Kahle appropriately subtracted non-cash expenses and return on equity. The residual revenues are those dollars which are available to pay cash operating expenses. There are no incremental dollars in the analyses to account for the capitalized expenditures which Mr. Kahle proposes to include in the analyses. Therefore, Mr. Adams argued that Mr. Kahle artificially created an imbalance between the levels of revenues and expenses considered in the analyses.

Mr. Adams testified that he is aware of only one solution that could remedy that imbalance — include in the CWC analyses a separate revenue stream relating to the amount of capitalized payroll. Mr. Adams, however, did not perform such a calculation because he did not agree with the inclusion of the capitalized expenditures in the CWC analyses. Therefore, the Ameren Illinois Utilities did not believe that an alternative to address Mr. Kahle's flawed recommendation was warranted.

Mr. Kahle also argued that it is appropriate to include the capitalized payroll in the CWC analyses because "the test year is a historical test year and no portion of payroll after the effective date of the new rates is included in the rate base." According to Mr. Adams, Mr. Kahle's concern is unfounded. Mr. Adams explained that the test year presented by the Ameren Illinois Utilities in these proceedings reflects a full twelve months of wages, reflected for known and measurable changes. He explained that there is no need to reflect some level of payroll after the effective date of the new rates. Mr. Adams noted that Staff did not adjust the expense level of wages to address this so-called concern of Mr. Kahle's. Therefore, the Ameren Illinois Utilities argued that there is no need to make such an adjustment for the CWC analyses.

During cross-examination, Mr. Adams was asked whether the Ameren Illinois Utilities' CWC analyses had included any part of the payroll to be paid in January 2009 in rate base. Mr. Adams confirmed that January 2009 payroll was outside the test year and thus was not included. The Ameren Illinois Utilities used an historical calendar year 2006 test year for these rate proceedings. The operating expenses included in the CWC analyses reflect a full twelve months of payroll expenses. The capitalized payroll incurred during the test year has been appropriately included in rate base. As Mr. Adams stated, there is no justification for including payroll expenses from beyond the twelve month test period in the CWC analyses.

The Ameren Illinois Utilities also explained that they are already allowed to recover the capitalized payroll costs. Mr. Adams explained that the capitalized payroll would be included in rate base, and thus the Ameren Illinois Utilities would be authorized to earn a return on and of those expenditures. The Ameren Illinois Utilities argued that the Commission recently addressed this same issue in other dockets. In Docket Nos. 07-0241/07-0242 (Cons.), Mr. Kahle proposed the same adjustment to the CWC analyses. In those dockets, the Commission concluded that "the precedential rationale for including a capitalized cost in an analysis concerning operational expenses is missing." (Final Order, Docket Nos. 07-0241/07-0242 (Cons.), p. 19.)

In rebuttal, Mr. Kahle argued that Mr. Adams was wrong in asserting that a balance between revenue and expense level is required because the Commission's order in the Ameren Illinois Utilities' prior rate proceedings included adjustments to CWC which were based on analyses in which expenses were greater than revenues. Mr. Kahle also argued that the inclusion of the capitalized portion of payroll expense in determining CWC requirements does not affect the Ameren Illinois Utilities' recovery of payroll costs. Finally, Mr. Kahle tried to distinguish this case from the Commission's order in Docket Nos. 07-0241/0242 (Cons.).

The Ameren Illinois Utilities argued that, even after rebuttal, Mr. Kahle's argument for his treatment of capitalized expenditures is based exclusively on the Commission's decision in the Ameren Illinois Utilities' last electric cases (Docket Nos. 06-0070 (Cons.). They argued that they did not believe that the mistake should be repeated merely based upon past mistakes, and that the appropriateness of the proposed adjustment should be evaluated based upon the merit of the arguments in the proceeding and not merely upon a prior Commission ruling. According to the Ameren Illinois Utilities, the evidence in this proceeding showed that Mr. Kahle's proposed adjustment is flawed, does not reflect the true CWC requirements of the Companies, and should be rejected.

The Ameren Illinois Utilities argued, however, that to the extent Commission precedent guides the Commission in this proceeding, the Commission should focus on Docket Nos. 07-02341/0242 (Cons.). In that more recent proceeding, the Commission reversed its decision on this issue. The Commission rejected Staff's position in Docket Nos. 07-0241/0242 (Cons.). Mr. Kahle dismissed that decision by claiming that the circumstances were different. The Ameren Illinois Utilities argued that the

circumstances in the two cases are not different. They argued that only the result was different and did not favor Staff's proposed adjustment.

Mr. Kahle contended that there is no basis for the argument that Mr. Adams made in his rebuttal testimony that including capitalized amounts in the CWC analysis creates an imbalance between revenue and expense levels. In response, Mr. Adams testified that the CWC requirement of a company is determined based upon the timing differences between the receipt of revenues and the remittance of payment for services. He noted that, for the most part, he and Mr. Kahle agreed on these timing differences. With regards to the capitalized payroll amounts, Mr. Kahle proposed to include a capitalized expenditure for which there is no corresponding revenue stream. Therefore, Mr. Adams argued that it is impossible to evaluate the timing difference between the receipt of revenues and remittance of payments associated with the capitalized payroll because Mr. Kahle only considered one side of the equation. According to Mr. Adams, such an adjustment creates an imbalance in the CWC analyses and artificially understates the Ameren Illinois Utilities' CWC requirements.

In his rebuttal testimony, Mr. Adams walked through a detailed explanation of the revenues and expenses that are included in the CWC analysis and provided proof that the revenues and expenses reflected in Staff's analysis are equal. He explained that, by including the capitalized expenditures on the expense side of the equation, there could be no disputing that an imbalance is created. He noted that Mr. Kahle did not identify the source of the revenues in the CWC analysis to compensate the Ameren Illinois Utilities for the added capitalized expenditures.

The Ameren Illinois Utilities asserted that they failed to see the point in Mr. Kahle's argument that the capitalized expenditures should be included in the CWC analysis since the outlays require cash. They argued that all capitalized expenditures require cash outlays, but Mr. Kahle did not propose to include all capitalized expenditures, only capitalized payroll.

Similarly, the Ameren Illinois Utilities argued that they failed to see the relevance of Mr. Kahle's statement that "Capitalized payroll included in rate base does not include any payroll costs going forward." Mr. Adams explained that, in accordance with a historical test year, rate base does not include most expenditures which have not yet been incurred. Mr. Kahle did not propose to include revenues or operating payroll from beyond the test year for inclusion in the CWC analyses. Mr. Kahle proposed to afford different treatment only to the capitalized payroll expenditures.

Based upon Mr. Kahle's statements that, since capitalized payroll requires cash and future capitalized payroll is not included in rate base, he concluded that the capitalized payroll should be included in the CWC analyses. The Ameren Illinois Utilities disputed this point because they argued that Mr. Kahle had concocted a timing difference where one does not exist. Mr. Kahle's CWC analyses considered capitalized expenditures which are beyond the end of the test year in these proceedings. Further, Mr. Kahle included in the CWC analyses an expenditure for which there is no

corresponding revenue stream. As a result, the Ameren Illinois Utilities argued that Mr. Kahle artificially understated the Ameren Illinois Utilities' CWC requirements.

The Ameren Illinois Utilities also argued that Mr. Kahle's concern regarding the payroll commitments of the Ameren Illinois Utilities was not legitimate. Mr. Adams explained that there are endless examples of "day-to-day operational obligations" in the form of capitalized expenditures which are not included in the Ameren Illinois Utilities' CWC analyses. He further explained that the CWC analyses are intended to reflect the timing differences between revenue streams and cash operating expenses only for the twelve month test year period. According to Mr. Adams, Mr. Kahle did not propose to include all such obligations but rather selectively focused on capitalized payroll.

Mr. Adams explained that Capitalized payroll will be recovered when the Ameren Illinois Utilities include in rate base the assets with which the capitalized payroll expenditures are associated. They averred that there is no reason to reach outside of the test year and selectively bring forward capitalized expenditures to include in the CWC analyses. They further stated that, if the Commission decided to include the capitalized expenditures, a revenue stream must also be included in the CWC analyses.

In addition, the Ameren Illinois Utilities argued that Mr. Kahle did not address Mr. Adams' observation that Mr. Kahle has identified no source of revenues from which the capitalized payroll would be paid. Mr. Adams testified that it appeared that Mr. Kahle wanted the Commission to presume that the funds to pay the capitalized payroll expenditures will miraculously appear when needed. Mr. Adams argued that such a position is nonsensical and must be rejected. He explained that Mr. Kahle's analyses failed to identify the source of the revenues in his analyses associated with capitalized payroll expenditures simply because the analyses contain no revenues associated with the capitalized payroll. According to Mr. Adams, the timing of the payments and the fact that the payments are outlays of cash are irrelevant. If the capitalized payroll expenditures are included in the CWC analyses, a source of revenues with an appropriate revenue lag needs to be included in the analyses. The Ameren Illinois Utilities argued that the failure to include such a revenue source creates an artificial imbalance which will seriously underestimate the Ameren Illinois Utilities' CWC requirements.

Expense Levels

The Ameren Illinois Utilities did not agree with the revenue and expense levels reflected in Mr. Kahle's determination of the Ameren Illinois Utilities' CWC requirement. Mr. Adams explained that the revenues and operating expenses reflected in Mr. Kahle's analyses reflect Staff's adjusted levels. According to Mr. Adams, the ultimate level of CWC requirements should reflect the level of operating expenses authorized by the Commission in these proceedings.

Commission Conclusion

The Commission finds that the Ameren Illinois Utilities' CWC requirements should be determined based on the application of the gross lag methodology. The Commission, however, rejects Staff witness Kahle's approach to applying the gross lag methodology. Mr. Kahle misapplied that methodology by making changes to the level of the Ameren Illinois Utilities' operating expenses without making corresponding changes to the revenue side of the equation. As a result, the Commission finds that Mr. Kahle's approach artificially inflated operating expenses, thereby erroneously reducing the Ameren Illinois Utilities' CWC requirements. The Commission finds that the Ameren Illinois Utilities' original treatment of pass through taxes is proper. The Commission finds that the Ameren Illinois Utilities' treatment of pass through taxes appropriately reflects the amount of time they have access to the funds. In Docket Nos. 07-0241/07-0242 (Cons.), the Commission invited Staff to provide additional analysis addressing the movement of pass-through taxes. Mr. Kahle provided no such evidence in this proceeding. With respect to capitalized payroll, the Commission rejects Mr. Kahle's proposed inclusion of capitalized payroll expenditures in the operating expenses used to calculate the Ameren Illinois Utilities' CWC requirements because Mr. Kahle's approach creates an artificial imbalance between the levels of revenues and expenses considered in the analyses. Finally, the Commission finds that the ultimate level of CWC requirements should reflect the level of operating expenses authorized by the Commission in this proceeding.

b. In Rider PER

Staff's Position

Mr. Kahle proposed an adjustment to the CWC component of Rider PER. Mr. Kahle's calculation used 23.94 expense lead days instead of the 18.15 days the Ameren Illinois Electric Utilities used. Mr. Kahle believed 23.94 days was appropriate because, since the electric Ameren Illinois Utilities and the Ameren Energy Marketing Company are affiliates, it is not reasonable to apply the shortened service period and advanced payment time to their transactions.

Ameren's Position

The Ameren Illinois Utilities contested Mr. Kahle's use of 23.94 expense lead days, instead of 18.15 days. The Ameren Illinois Utilities argued that Mr. Kahle's rationale is flawed and should not be followed. Mr. Adams explained that the Ameren Illinois Utilities' current credit ranking has shortened the service period for purchased power to a half-month with payments due on the first business day nine days following the end of the service period. He noted that Mr. Kahle did not contest the application of the shortened payment periods for non-affiliated companies, but disallowed the shortened payment period for affiliated companies. Mr. Kahle contended that the shortened payment period does not apply to the affiliated companies because "the funds for these purchases come from and end-up in the same pool of money."

The Ameren Illinois Utilities argued that Mr. Kahle's proposed adjustment is flawed in at least two respects. First, based upon Mr. Kahle's proposed adjustment, they argued that it would appear that he believes that the dealings with affiliates should be handled differently than those with non-affiliated companies. Mr. Adams explained that the Commission's rules pertaining to transactions with affiliated marketing companies strictly forbid such unique treatment. Section 450.20 of the Commission's Administrative Code states:

> Electric utilities shall not provide affiliated interests or customers of affiliated interests preferential treatment or advantages relative to unaffiliated entities or their customers in connection with services provided under tariffs on file with the Illinois Commerce Commission (Commission). This provision applies broadly to all aspects of service, including, but not limited to, responsiveness to requests for service, the availability of firm versus interruptible services, the imposition of special metering requirements, and all terms and conditions and charges specified in the tariff.

Mr. Adams explained that providing payment terms which are different than those encountered between the Ameren Illinois Utilities and non-affiliated marketing companies would appear to be contrary to the Commission's Code.

Second, the Ameren Illinois Utilities argued that they and Ameren's marketing affiliates do not commingle funds as suggested by Mr. Kahle. Mr. Adams explained that each business operates as a stand-alone company and is responsible for its own financial transactions. Further, he stated that the source of the funds has no relevance as to the timing of payment for transactions. According to Mr. Adams, the CWC component of Rider PER should reflect the actual timing of cash receipts and cash payments, not Mr. Kahle's assumed preferential treatment afforded to an affiliated marketing company.

In rebuttal, Mr. Kahle offered two responses to Mr. Adams' arguments. First, Mr. Kahle argued that using the shortened service period for the Ameren Illinois Utilities' purchases from their affiliates does not run afoul of 83 Ill. Adm. Code 450.20 because that provision only prohibits preferential treatment, and his proposal does not provide preferential treatment. Second, Mr. Kahle argued that although the Ameren Illinois Utilities and the Ameren Energy Marketing Company do not commingle funds, it is not logical that Ameren Energy Marketing Company would refuse to keep the Ameren Illinois Utilities as customers if their payments were not advanced as allowed under the Supplier Forward Contracts.

In response, the Ameren Illinois Utilities argued that the Commission has rules in place to protect against preferential treatment between affiliated companies. They argued that Mr. Kahle was essentially proposing to bypass such safeguards. Further,

Mr. Kahle made an unsubstantiated assumption that the affiliated suppliers would even be willing to provide different payment terms for the Ameren Illinois Utilities. He claims that "it is not logical that Ameren Energy Marketing Company would refuse to keep the Ameren Illinois Utilities as customers if their payments were not advanced as allowed under the Supplier Forward Contracts." Mr. Adams argued that it is unreasonable to assume that the affiliated providers would be more willing to waive the accelerated payments and assume additional risk without compensation.

Commission Conclusion

The Commission finds that using an expense lead of 18.15 days is appropriate. The Commission finds that it would be improper to treat affiliated and non-affiliated companies differently. The Commission also finds that, because the Ameren Illinois Utilities do no commingle funds, using a longer expense lead would be improper.

5. Underground Storage Field Physical Losses and Performance Variations

The Ameren Illinois Utilities discussed this issue in Section III.C.12. In that Section, the Ameren Illinois Utilities explained that there is no basis for Staff's proposal to shift gas losses from Account 823 to the rate base Account 352.3.

6. Working Capital Allowance for Gas in Storage for All AIU Gas Utilities

Ameren's Position

Staff proposed certain volume adjustments to the working capital allowance for gas in storage. In response, the Ameren Illinois Utilities proposed the necessary counterpart adjustments. On surrebuttal, the Ameren Illinois Utilities proposed an alternative whereby the Commission could approve the level of working gas inventory in the working capital adjustment that the Ameren Illinois Utilities filed in their direct cases. Mr. Glaeser explained that these levels of working gas inventory reflect the actual per-book inventory levels without any adjustments, either by Staff or by the Companies, to either the volume or the cost side of the equation. According to Mr. Glaeser, if the Commission chooses to accept Mr. Lounsberry's pro forma volume adjustments reflecting adjustments for normal weather and changes in leased storage contracts, the Commission must also adopt Ameren Illinois Utilities' pro forma price adjustments.

In direct testimony, Staff recommended adjustments to the Ameren Illinois Utilities' original proposal for working capital allowance for gas in storage. The Ameren Illinois Utilities agreed in part that Staff's adjustments were acceptable, since there are new leased storage contracts in place and pro forma adjustments can be made for known and measurable changes. The Ameren Illinois Utilities argued that Staff witness Lounsberry's analysis on this issue, however, contains only half of the necessary adjustments. Mr. Glaeser explained that, if pro forma adjustments are made to the volume side of the equation, then the price side of the equation requires adjustment as well. He stated that Staff's adjustment assumed that per unit costs of the test year

(2006) are valid in the year associated with his pro forma inventory levels (2008). Mr. Glaeser testified that this is not correct because inventory costs in 2008 will not be equal to past year's costs. Mr. Glaeser further testified that, if the Companies make pro forma adjustments on the volume side they also need to make adjustments to the cost side of the equation to reflect 2008 natural gas prices. To reflect 2008 prices, the Ameren Illinois Utilities proposed a proxy: the NYMEX natural gas futures price strip for the period April through October 2008, which is the traditional injection season for all of the on-system and leased storage inventory. According to Mr. Glaeser, on April 8, 2008 that price was $10.00 per MMBtu for the period.

Mr. Lounsberry opposed the Ameren Illinois Utilities' pro forma adjustment to gas storage working capital to account for the significantly higher prices of natural gas in the calculation of inventory costs for three reasons: (i) that the 2008 prices are now known and measurable or determinable; (ii) that the Ameren Illinois Utilities price hedge portions of their storage injection gas; and (iii) that the 2006 per unit costs are in line with 2007 costs. Mr. Lounsberry recommended in rebuttal testimony that the Commission revise each of the Ameren gas utilities' working capital allowance associated with the value of natural gas in storage by decreasing AmerenCILCO's request by approximately $20,535,000, decreasing AmerenCIPS' request by approximately $16,153,000, and decreasing AmerenIP's request by approximately $28,919,000.

With respect to Mr. Lounsberry's argument that 2008 prices are not known, measurable, or determinable, the Ameren Illinois Utilities argued that Mr. Lounsberry's own calculations are similarly predicated on projected (rather than known and measured) forecast volume data. They argued that Mr. Lounsberry is therefore implying that the volume adjustments he is basing his whole adjustment on are also not known and measurable. Mr. Lounsberry's premise for his proposed volume adjustments were two-fold: changes in the Ameren Illinois Utilities' leased storage levels and attempting to account for the warmer than normal weather realized during the 2006 test year. Mr. Lounsberry, in his data request to the Ameren Illinois Utilities, ENG 2.87, requested "expected" ending inventories "assuming" normal weather and utilized these forecast volumes instead of historical volumes that occurred during the test year. Mr. Glaeser explained that the Ameren Illinois Utilities' request to reflect the forecasted cost of gas injected into its storage fields is no different than Mr. Lounsberry's use of the forecasted ending storage volumes (which he received in the above referenced data request response). Mr. Glaeser testified that part of Mr. Lounsberry's volume adjustment argument also stems from his premise that 2006 was a warmer year than normal and that the Ameren Illinois Utilities, for the test year 2006, retained more gas in inventory than they would have in a year of normal weather, but Mr. Glaeser stated there are issues in addition to weather that are also important to the cycling of storage fields. According to Mr. Glaeser, an examination of the ending inventories in the Ameren Illinois Utilities' storage fields (leased and owned) at December 31, 2006, however, and the forecast inventories at December 31, 2008, based on the data request by Mr. Lounsberry, and after making known contractual changes, shows that there is virtually no difference in the ending inventory levels.

While the Ameren Illinois Utilities stated that they can agree with Mr. Lounsberry's position that, theoretically a utility should cycle its storage assets, the Ameren Illinois Utilities averred that they cannot agree with Mr. Lounsberry's volumetric adjustments associated with the difference between 2006 and 2008 weather. First of all, Mr. Glaeser explained that Mr. Lounsberry outlined a difference in degree days of approximately 10% between 2006 actual and 2008 normal. Mr. Glaeser argued that such a difference may have a large impact on annual throughput and earnings from the utility's perspective, but it would not necessarily make a large difference on how the storage fields are operated. Second, Mr. Glaeser argued that the specific characteristics of the storage reservoirs are another significant factor affecting the withdrawal plan. For example, Mr. Glaeser noted that there are penalties associated with not cycling certain leased storage services, so no matter what the weather conditions are for the Ameren Illinois Utilities, they attempt to meet the cycling requirements associated with the storage tariffs. Mr. Glaeser also noted that, to the greatest extent possible, the Ameren Illinois Utilities attempt to cycle their aquifer fields in order to ensure the integrity of the fields. He stated that the total storage assets that fall into this category (leased storage with cycling penalties and on-system aquifer reservoirs) comprise a major portion of the annual storage volumes for the Ameren Illinois Utilities. Specifically, for AmerenIP, this category of storage is approximately 80% of its annual working inventory. According to Mr. Glaeser, this helps explain the fact that December 31 inventories between 2006 and 2008 are very similar.

Commission Conclusion

The Commission approves the level of working gas inventory that the Ameren Illinois Utilities filed in their direct case. The Commission finds that working capital allowances for gas in storage of $ 53,023,000 for AmerenCILCO, $ 37,731,000 for AmerenCIPS, and $ 99,903,000 for AmerenIP are prudent, reasonable, and appropriate. The Commission rejects Mr. Lounsberry's arguments for his pro forma adjustments because they rely on projected data and so are not sufficiently known and measurable.

7. Hillsboro Base Gas Inventory Valuation (Old)

Ameren's Position

The Ameren Illinois Utilities sought to include in rate base $10,367,838 for a base gas inventory adjustment. They asserted that this amount represented an adjustment for Hillsboro that was disallowed in Docket 04-0476. The Ameren Illinois Utilities argued that the circumstances have changed since that Docket. In their view, the Commission should consider the fact that the Hillsboro storage field has now been restored to its full "used and useful" levels for peak deliverability to system sales customers, which they argue was not the case in the previous proceedings.

Mr. Underwood explained that Gas storage operations benefit the Ameren Illinois Utilities' gas customers. He testified that system storage provides flexibility and reliability for gas supply to customers that cannot be found elsewhere for the same value. He noted that this flexibility on the natural gas system allows for the efficient

balancing of supplies and usage. He opined that the storage fields provide reliability by being a source of gas supply close to the customers, therefore reducing risk related to facility failure or disruption to the supply of gas.

Mr. Underwood further explained that on-system storage also generates financial benefits for gas customers, by lowering the price of gas. He testified that, when combined, the peak day deliverability of AmerenIP, AmerenCIPS, and AmerenCILCO is 1,182,264 MMBTU, with a storage delivery of 578,759 MMBTU (48% of the peak day sendout of the combined utilities). According to Mr. Underwood, replacing the storage deliverability (even if possible in today's market) of the Ameren Illinois Utilities with interstate pipeline deliverability would increase the Ameren Illinois Utilities' PGA costs by almost $100 million a year (not including any seasonal differential associated with the commodity purchases). Mr. Underwood maintained that gas storage provides ratepayer benefits, and Ameren should be allowed to recover its reasonable and prudent expenses related to gas storage field operation, including the Hillsboro Storage Field ("Hillsboro") base gas[5] inventory adjustments discussed below and in Section II.C.8.

The Ameren Illinois Utilities explained that, in Docket No. 04-0476, the Commission addressed a situation in which the Company had withdrawn cushion gas from the Hillsboro field due to a metering error. They stated that, as a result of the over-withdrawals from the field, AmerenIP had to replace the withdrawn cushion gas with gas purchased at higher prices than the historical cost of the cushion gas reflected in rate base in the Company's 1993 rate case. The Ameren Illinois Utilities noted that the Commission agreed with the Staff, and concluded that the excess of the replacement cost over the historical cost of the cushion gas could not be recovered until the gas is withdrawn from the field at the end of the field's useful life, and that AmerenIP could not earn a return on the excess cost in the interim.

The Ameren Illinois Utilities argued that the effect of the decision imposes a penalty on the Ameren Illinois Utilities out of proportion to the effect on customers. They averred that AmerenIP's error provided lower cost gas to the customers than they otherwise would have received. They pointed out that the Ameren Illinois Utilities must bear the financing costs of a portion of its cushion gas for the remaining useful life of the field, which could be 30 years or more. Thus, the Companies alleged that customers receive the double benefit of both the lower priced gas withdrawn from the field and consumed and the historical cost of the cushion gas for the remaining life of the field. They argued that the utility will essentially lose its investment in the additional costs of the replacement gas. According to the Ameren Illinois Utilities, by the time AmerenIP obtains any recovery of the investment, it will have incurred financing costs far in excess of its investment.

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[5] Mr. Underwood testified that base gas, or cushion gas, is that volume of gas in the field which is intended to act as permanent inventory in a storage reservoir to maintain adequate pressure and deliverability rates throughout the withdrawal season.

The Ameren Illinois Utilities proposed at least two ways to address this situation. One was to reflect the full value of the cushion gas in rate base in this proceeding. Mr. Glaeser explained that Customers have benefited both from the lower cost gas through the PGA and avoided financing costs on the additional investment for three years. He asserted that the lost financing cost over those three years is an adequate revenue impact for AmerenIP, especially since the field has been returned to its full used and useful status.

Alternatively, the Ameren Illinois Utilities proposed that the Commission could allow the Company to recover the excess cost, which they argue is roughly the cost customers should have paid through the PGA, in this case. According to Mr. Glaeser, under this approach, customers avoid several years of financing costs, the inventory is priced going forward as though the metering error were never made, and at the end of the useful life of the field, customers will receive even lower priced gas.

The Ameren Illinois Utilities argued that the circumstances have changed since the Commission disallowed the $10,367,838 adjustment for Hillsboro in Docket 04-0476. Mr. Glaeser testified that the Hillsboro storage field has now been restored to its full "used and useful" levels for peak deliverability to system sales customers. He explained that the full amount of cushion gas inventory, including the subject $10,367,838 cushion gas amount, is being used to provide that full "used and useful" level of peak deliverability. As a result, the Ameren Illinois Utilities argued that they are not being allowed to earn a return on assets that are used and useful.

Moreover, the Ameren Illinois Utilities averred that the management concerns at Hillsboro raised in Docket 04-0476 have been addressed. As discussed by Ameren witness Stephen Underwood, Mr. Lounsberry acknowledged that most of the problems he identified related to the Hillsboro Storage Field existed prior to 2004, that he has not seen a reoccurrence of those problems, and that he is aware of improvements made in "management oversight" of gas storage at AmerenIP since December 2000.

The Ameren Illinois Utilities characterized Staff's discussion in its direct testimony of historical concerns at Hillsboro as an attempt to suggest that the problems raised in Docket 04-0476 persist. The Ameren Illinois Utilities argued that, as Staff now acknowledges, AmerenIP has made numerous improvements and investments at Hillsboro since 2004, and these improvements have benefited the rate payers.

Mr. Underwood explained that, since 2004, several significant organizational changes and improvements have been made to improve gas operations, which changes emphasized the importance of the gas storage operations at the Ameren Gas Utilities, and provided continued value to AmerenIP's customers. He testified that improvements have also been made to the operations of the gas storage fields. He noted that one effort of concentration has been the metering area. He stated that new installations of ultrasonic metering have been performed at Ashmore in 2005, Tilden and Hillsboro in 2006, and Shanghai in 2007, and there are plans to install new metering facilities at Hookdale and Freeburg in 2008. According to Mr. Underwood, these improvements

make higher levels of operation performance possible through the availability of better equipment.

Moreover, the Ameren Illinois Utilities alleged that several recently-completed capital projects have also contributed to improvements in AmerenIP's operations. Mr. Underwood testified that $3.1 million in capital expenditures were made in 2006, and over $7 million of capital expenditures were made in 2007, all related to improving performance at gas storage fields. He noted that some of the larger projects include the previously mentioned facility metering projects, water disposal system, H2S removal facilities, replacing motor control centers, adding gas chromatographs, and replacing a glycol regenerator. Mr. Underwood opined that these widespread improvements and changes have had a measurable impact on gas storage field performance since 2004. As proof, he pointed out that there has been no increase or decrease of peak day ratings for all AmerenIP gas storage fields, including Hillsboro (which was verified by periodic field tests). According to Mr. Underwood, the fields have been performing well overall and have provided value to the ratepayers, without the storage field customers having to pay more in PGA costs.

Mr. Lounsberry acknowledged that past problems do not persist at Hillsboro. He stated: "In general, I would agree with Mr. Underwood that most of the problems that I identified existed prior to 2004 and that I have not seen a reoccurrence of those problems." Mr. Lounsberry also acknowledged, in data responses, that concerns he expressed in direct testimony about "poor management oversight," reduced capital spending on storage operations, and past problems at Hillsboro do not represent present concerns with the operation of Hillsboro, and that he is aware of improvements made in "management oversight" of gas storage at AmerenIP since December 2000. Thus, the Ameren Illinois Utilities argued that the concerns at Hillsboro about operations management have been addressed, as Staff acknowledged. In the Ameren Illinois Utilities' view, since the Hillsboro field has been restored to its full "used and useful" levels for peak deliverability and the full amount of Cushion Gas Inventory (including the $10,367,838) is being used to support that full amount of deliverability, the $10,367,838 amount for base gas inventory should properly be included in rate base.

Commission Conclusion

The Commission finds that the Ameren Illinois Utilities should include in rate base $10,367,838 for a base gas inventory adjustment relating to the Hillsboro field. The Commission recognizes that that gas storage provides ratepayer benefits, and Ameren should be allowed to recover its reasonable and prudent expenses related to gas storage field operation. The Commission agrees that the Hillsboro field has been restored to its full "used and useful" levels for peak deliverability. The Commission further agrees that the circumstances have changed since Docket 04-0476 was decided. The Commission finds that the Ameren Illinois Utilities fully addressed the management concerns raised in Docket 04-0476.

8. Hillsboro Base Gas Inventory Valuation (New)

Ameren's Position

The Ameren Illinois Utilities proposed the addition of $2,841,000 to the Hillsboro base gas account, an increase in rate base. They argued that the addition is necessary to account for base gas lost through a valve leak. According to the Ameren Illinois Utilities, the added volume represents gas which is now used and useful in providing service to customers, and the cost of the added gas is a cost that has been prudently incurred. Therefore, the Ameren Illinois Utilities argued that they are entitled to recover that cost.

Mr. Underwood testified that tests on newly-installed ultrasonic gas meters at Hillsboro in January 2007 revealed that that base gas volumes at Hillsboro must be adjusted. He explained that, after the installation was completed, comparisons were made between the flow through the existing metering and the new metering. After analyzing the data, the Ameren Illinois Utilities determined that 1,109,964 MCF of additional gas was actually withdrawn but not reflected as withdrawals from the field from 2001 - 2007. Mr. Underwood stated that the Ameren Illinois Utilities replaced this 1,109,986 MCF of gas by the end of the 2007 injection season, resulting in an adjustment of an additional $2,841,000 to the Hillsboro base gas account.

Mr. Underwood testified that AmerenIP determined that there was a valve leak in the old metering equipment. He explained that the leaking valve allowed gas to pass undetected and unmeasured through the secondary meeting run, over the period 2000 – 2007. According to Mr. Underwood, this resulted in a portion of base gas being withdrawn during the years 2001 – 2004, which was delivered to AmerenIP's sales customers. Mr. Underwood stated that this base gas was replaced during the next injection season after the gas was withdrawn. He asserted that the replacement was required in order to meet the supply requirements of AmerenIP's gas customers: for the proper operation of the storage field the base gas has to be present to provide pressure support for the field. He pointed out that to assure the field can cycle 7.6 bcf and peak at 125,000 mcf/d, the field must have the established level of base gas and working gas.[6] Thus, the Ameren Illinois Utilities argued that it is an investment that the Ameren Illinois Utilities have made to meet the needs and requirements of their customers.

Staff witness Anderson agreed that the Ameren Illinois Utilities must make additional gas injections (such as those at Hillsboro) if analysis reveals that gas must be added to maintain the storage field's functional purpose. If the Company's evaluation demonstrates that gas must be added to maintain the storage field's design/rated peak day and annual volume capability, then the Company makes additional gas injections. As Mr. Underwood explained, this is precisely what AmerenIP did at Hillsboro, by identifying metering differences between the pre-existing turbine meters and the recently-installed ultrasonic meters, as well as by identifying the leaking valve on the

[6] Mr. Underwood testified that working gas is the total gas storage capacity minus the cushion gas volumes and is typically the volume of gas that can be cycled (injected in the summer and withdrawn in the winter) given sufficient weather and exposure to load.

pre-existing meter run. Thus, the Ameren Illinois Utilities argued that AmerenIP has conformed to Staff expectations regarding field management. They asserted that, by using reasonable and industry-accepted engineering methodology, as detailed above, AmerenIP was able to quantify the inventory short-fall directly attributable to the metering differences and the leaking valve. Consequently, the Ameren Illinois Utilities alleged that the gas loss at Hillsboro was justifiably reinjected into the reservoir.

Additionally, Mr. Underwood explained that it is in the best interest of the ratepayer and the Company to make regular adjustment for gas losses. He explained that deferring an annual adjustment until ironclad support of a shortfall in inventory is in hand could potentially cause a storage field to fall short of its delivery target, due to the cumulative effect of not making annual adjustments. According to Mr. Underwood, a shortfall in storage field gas could cause the Company to have to buy spot-market gas or overrun a pipeline contract to make up the shortfall, which would be an additional expense to the ratepayer. Also, if the Companies do not make timely additions to inventory, Mr. Underwood asserted that it is possible that at some time in the future the Companies would need to add a relatively large amount of gas to make up for the cumulative shortfall. Mr. Underwood opined that this gas, in all likelihood, would be more costly than an annual addition of smaller amounts of gas would be.

Staff witness Lounsberry recommended disallowance of the $2,841,000 addition to the Hillsboro base gas account. Mr. Lounsberry originally set forth four reasons for disallowing this request to increase its recoverable base gas costs. Mr. Lounsberry argued that: 1) he does not consider AmerenIP's logic in determining the timing of the metering error at Hillsboro during the years 2001 – 2004 as valid; 2) AmerenIP has inadequate support for the assigned value; 3) he questions the validity of certain assumptions that AmerenIP made as part of the calculation; and 4) he states that, given the purported history of problems at Hillsboro, he would have expected AmerenIP to have conducted a review of the integrity of the valve at a much sooner date. Regardless of Mr. Lounsberry's concerns, the Ameren Illinois Utilities argued that AmerenIP adequately supported the current Hillsboro base gas adjustment.

Mr. Lounsberry's first reason was that AmerenIP's logic in terms of when the metering error occurred is faulty, and the date selected "pure speculation." Mr. Lounsberry argued that it was not reasonable to assume that the valve leak in question began in 2000. The Ameren Illinois Utilities argued that, while the start date of the valve leak is uncertain, AmerenIP's selection of 2000 was a reasonable estimate for the start date because that was the half-way point between when the valve was rebuilt (1993) and when the leak was discovered. They alleged that use of the halfway point was also reasonable because the 5.8 BCF correction that the 2004 Hillsboro Study recommended would have accounted for all metering errors, including withdraw metering errors, up to 2000 only. They asserted that, after 2000, as a result of AmerenIP's 1999 Meter Study (Peterson), the method of operating the storage field changed so that injection meter error was eliminated. According to the Ameren Illinois Utilities, only data from the 1994 to 1999 time period was modified in the reservoir simulator's data deck to determine that the inventory shortfall was 5.8 BCF. The Ameren Illinois Utilities accepted injection data from 2000 to 2003 at face value. Thus,

the Ameren Illinois Utilities argued that the impact of the valve leak metering error had already been corrected for the period up to 2000, and need only be accounted for thereafter.

Mr. Lounsberry's second reason was that AmerenIP had not sufficiently supported the $2,481,000 assigned value of the base gas cost. Mr. Lounsberry cited two bases for his position: AmerenIP's inconsistent operation of the Hillsboro makes it unreasonable to rely on reservoir data, and AmerenIP's current proposal conflicts with data reviewed in a prior rate case. The Ameren Illinois Utilities argued that neither basis is justified.

The Ameren Illinois Utilities pointed out that no party challenged the two forms of input data in the data plot that AmerenIP used to support the measurement error correction. Mr. Underwood explained that the first data input is gas volume data, which are from the new ultrasonic metering, not the old plant metering, and therefore are considered to be accurate. He further explained that the second data input is pressure data, which are measurements of the wellhead pressure from the Truitt #1 pressure observation well. Mr. Underwood noted that, at no time did Mr. Lounsberry question the validity of this wellhead pressure measurement. While Mr. Lounsberry asserted that AmerenIP may have employed other "superior" methodologies in past rate cases, the Ameren Illinois Utilities argued that the fact remains that AmerenIP used valid reservoir engineering techniques to determine gas loss. The Ameren Illinois Utilities argued that they are not required to use any one particular type of study to demonstrate prudence. Illinois Power Co. v. Illinois Commerce Comm'n., 339 Ill. App. 3d 425, 439 (5th Dist. 2003) ("Section 9-220(a) of the Act does not set forth any specific type of analysis that a utility must perform to show that its costs are prudent.").

AmerenIP agreed that the reservoir model would be an appropriate method to determine gas losses; however, Mr. Underwood explained that the reservoir simulator was not used to evaluate Hillsboro because the model data deck had not been updated to include the withdraw metering corrections. He testified that other techniques such as hysteresis curves and reservoir simulation techniques are not viable at Hillsboro at this point in time due to the present state of the data (in the case of the simulator), and the variation in gas volumes cycled (in the case of hysteresis curve analysis). Mr. Underwood stated that AmerenIP therefore used the best data available in its calculations. He opined that the data available are sufficient to allow the base gas adjustment to be calculated based on sound engineering judgment. Mr. Underwood explained that, as gas is injected and withdrawn from a reservoir, wellhead pressure will vary. This change in pressure can be, and is, utilized by AmerenIP to monitor reservoir performance via multiple techniques such as reservoir simulation, hysteresis curve analysis, the Tek Methodology procedure, and many other techniques. According to Mr. Underwood, AmerenIP utilizes this information at all of its fields in one form or another as part of its ongoing inventory verification process. Hence, Mr. Underwood argued that there is no basis to believe that the result of these two sources of data is in any way unreliable.

The Ameren Illinois Utilities alleged that Staff's concern that they have no reliable support for adding any gas to the Hillsboro because the field's reservoir information has changed too frequently is based on an incomplete analysis. The Ameren Illinois Utilities averred that Mr. Lounsberry ignored the results of the 2007 Hillsboro Inventory Adjustment. Mr. Underwood testified that, in 2006, when the 2006 Gas Loss Adjustment Report was written, the Company believed that the hysteresis curve analysis, modeling and neutron log evaluation for Hillsboro were, in fact, affected by the injection of additional gas into the field, but the Company also recognized that gas losses are occurring on an ongoing basis in gas storage fields. Mr. Underwood explained that, in light of this fact, it was decided to inject 200,000 MCF in order to begin addressing the known shortfall. Mr. Underwood stated that 200,000 MCF is 2.5% of the working gas volume in Hillsboro, which is within the typical range for gas losses by Illinois gas utilities. Further, Mr. Underwood asserted that AmerenIP was able to confirm in 2007 that 200,000 MCF was a conservative and reasonable estimate to use to address gas losses in the reservoir.

The Ameren Illinois Utilities also contested Staff's view that AmerenIP's current proposal conflicts with data reviewed in a prior rate case. Staff believed that the 5.8 BCF adjustment contained in the 2004 Hillsboro Report overlaps with the 1.1 BCF adjustment under instant review. However, according to Mr. Underwood, the metering errors described in the 2004 gas rate case were corrected in the Fall of 1999. He testified that the inventory correction volume of 5.8 BCF quantified the effects of the accumulated metering errors from 1993 – 1999 and was reinjected into Hillsboro in 2004 and 2005. After 2000, as a result of Peterson's 1999 Metering Study, Mr. Underwood explained that the method of operating the storage field changed so that injection meter error was eliminated. Therefore, Mr. Underwood explained that for modeling purposes and to allocate the 5.8 BCF correction back in time, only data from the 1994 to 1999 injection seasons were modified in the database. The analysis of the metering error that AmerenIP performed in 2007 after comparing the newly installed ultrasonic meters to the existing metering led AmerenIP to conclude that the leaking valve induced error began during 2000. Mr. Underwood testified that the 1.1 BCF correction was only applied beginning with the 2000 – 2001 withdraw season and ending with the 2006 – 2007 withdraw season. He alleged that there is no overlap of the requested adjustments, as this case requests inventory corrections for the period 2000 – 2003.

The Ameren Illinois Utilities argue that AmerenIP can reliably use the Hillsboro data. Mr. Underwood testified that, at Hillsboro, it is recognized by both Staff and AmerenIP that an adequate stable inject and withdraw history dataset has not been established that would allow a detailed analysis utilizing hysterisis techniques. However, Mr. Underwood opined that other information is available to support the proposed inventory adjustment. He alleged that certain reservoir engineering parameters were utilized to perform reservoir engineering calculations that supported the findings of the metering analysis, and that this shows that adequate information is available for Hillsboro to support the adjustment.

The Ameren Illinois Utilities argued that Mr. Lounsberry's third reason, that certain assumptions within AmerenIP's calculations are not robust, is also unfounded. Mr. Lounsberry laid out 5 specific concerns with the gas-volume calculation:

1. Valve leakage could have worsened over time.
2. Other errors could have caused the differences.
3. The 2.75 % error was used even when valve was fully opened.
4. Concerned about only using the January 24 to February 25 time period and then extrapolating over 7 years.
5. All meters in series will show a percent difference.

The Ameren Illinois Utilities argued that the first concern itself makes a faulty implicit assumption: that the valve leak had worsened over time, and that the calculation thus overstated initial volumes that were not measured. AmerenIP alleged that it had no indication that the leak did worsen over time. Therefore, it argued that the 2000 start point for the full leak is an appropriate assumption. In addition, Mr. Underwood explained that it would be difficult to identify when such worsening of the leak would occur or at what rate the worsening would occur, as Mr. Lounsberry himself agreed, noting that it would be "virtually impossible" to make such a determination.

The Ameren Illinois Utilities alleged that the second concern, that there are other potential causes for the observed measurement error/gas-volume discrepancy, is unsubstantiated. Staff suggested that AmerenIP assumed that all of the errors it found were either caused by the leaking valve or the incorrectly installed orifice plate. Although AmerenIP cannot determine that "all" of the errors observed were either caused by the leaking valve or due to the orifice plates, Mr. Underwood explained that AmerenIP reasonably believes that the leaking valve or the orifice plates were the dominant sources for the observed errors. He noted that Staff suggested that the metering review was incomplete but offered no specifics as to what should have been reviewed.

The Ameren Illinois Utilities argued that Mr. Lounsberry's position that the reference to volumetric variance resulting from pressure and temperature variance "confirms" the possibility of "significant" variances in measured values is unjustified. Mr. Underwood explained that the differences described for the temperature and pressure transmitters were from the period that comparison testing was conducted using the new ultrasonic meters and in-place South Pipeline ("SPL") orifice metering on February 21-22, 2007. He stated that the only data that exists on a daily basis from which any volumetric error can be calculated is the daily South Pipeline withdrawal numbers. He noted that the correction volume was calculated based on information available to make the correction. According to Mr. Underwood, the referenced transmitters are calibrated each fall prior to withdrawal season and adjusted as needed so any variances in measured values are minor.

The Ameren Illinois Utilities alleged that Mr. Lounsberry's third concern, that the 2.75% error rate for a fully-open valve is unexpectedly high, is also unwarranted. Mr. Underwood testified that the error-rate calculation was based on an analysis of actual data by AmerenIP. He stated that AmerenIP determined the 2.75% error by comparing

actual daily flows from both the SPL and North Pipeline ("NPL") orifice runs, adjusted for the correction to the NPL flows the for orifice installation problem and then correcting the SPL flow so that the daily sum of the adjusted NPL and corrected SPL flows matched the ultrasonic meter daily volume. Mr. Underwood explained that the correction method made use of the best information available. He testified that the historical daily 2000 – 2007 volumetric data was available for the NPL and the SPL, but not by primary or primary and secondary run volumes. He explained that it would therefore be impractical to try to apply separate primary and secondary run corrections. According to Mr. Underwood, based on the hourly test at 1600 MCF/hr, with both primary and secondary open, the accumulated volume error percentage was 2.246%, and not negligible. So, as explained by Mr. Underwood, the "flow exceeding 35,000 MCF/day" SPL correction of 2.75%, derived from the correcting the daily NPL and SPL volumes to ultrasonic meter volumes, is comparable to the test measured error over one hour of 2.246%.

Mr. Underwood testified that AmerenIP attempted to identify all causes for the differences between the SPL orifice volumes and the ultrasonic meter volume. He explained that the testing performed was thorough and resulted in the leaking valve being identified as the most significant problem that resulted in the differences in measured volumes. He stated that real time testing requires the field to cease normal withdrawal operations and requires operators to modify flow rates, open and close valves, and verify readings at several points along the data communications path. He noted that when testing the SPL meters, withdrawals to the NPL are stopped, and the flow rates are adjusted for testing which impacts the gas dispatch function. According to Mr. Underwood, AmerenIP concluded that it had identified the cause of the measurement error and it would be unreasonable to further disrupt the dispatch function and tie up operators for long periods of time to determine the source of errors beyond what was performed. The Ameren Illinois Utilities therefore argued that Mr. Lounsberry's theoretical concerns ignore Ameren's reasoned and reasonable approach to the leak investigation and calculations.

The Ameren Illinois Utilities argued that Mr. Lounsberry's fourth concern, that the leak measurements were extrapolated from data gathered during a one-month review, overlooks the fact that the review period could not have begun sooner, nor been fair and representative of the leak after February 20th. Mr. Underwood testified that the ultrasonic meters at Hillsboro were placed into service on January 23, 2007, so a comparative analysis could not have been started sooner than that date. He stated that, on February 20th, the NPL plates were installed correctly and the SPL secondary run problem was discovered and isolated. According to Mr. Underwood, any information collected after corrective action was completed would not be useful for determining prior period corrections. As a result, Mr. Underwood alleged that the review period selected represents the best available information regarding the measurement error. Since the information from the review period was the best information available, the Ameren Illinois Utilities argued that it was appropriate to use that information as a basis for estimating the measurement error for 2000-2007.

The Ameren Illinois Utilities also argued that Mr. Lounsberry's attendant position, that conditions during the one-month review period may not have mirrored conditions during the rest of the seven-year adjustment period, also does not support a conclusion that the estimate of the leak was unreasonable. Mr. Underwood testified that there were no physical changes made to the piping on the SPL meter runs from 1999 – 2007. He stated that the orifice plates in both runs have not been changed, nor has the computation method for volumes changed so the measurement system for the SPL orifice meter runs over the prior seven years is identical to the system used during the month for the correction. He noted that the test included flow rates over the entire flow range simulating flowing conditions. The actual flows were matched daily back to the tested flows to come up with the error amounts. Mr. Underwood alleged that there is no reason to believe that circumstances did not remain reasonably similar throughout the seven year time period. The Ameren Illinois Utilities therefore averred that, given that there were no significant changes, it was appropriate to make the extrapolation AmerenIP made.

The Ameren Illinois Utilities explained that Mr. Lounsberry's fifth concern, that meters connected in series will typically exhibit some variance, is *de minimis*. AmerenIP acknowledged that there will be variances between meters. AmerenIP believed, however, that the impact of any such variances on the measurement error calculation will be minimal. Mr. Underwood explained that the measurement error calculation is an estimate. He testified that the ultrasonic meter measurement uncertainty is much less than volumes determined by the orifice meter system. The Ameren Illinois Utilities asserted that AmerenIP has high confidence in the computed volumes from the ultrasonic meters. Thus, AmerenIP believed that the variances, and their impact on measurement error calculation, would not be significant.

The Ameren Illinois Utilities argued that Mr. Lounsberry's fourth reason for rejecting the current base gas adjustment, that AmerenIP should have identified the valve failure more swiftly, is an unfair criticism of AmerenIP's active approach to identifying and correcting system issues. Mr. Underwood stated that Mr. Lounsberry's criticisms of the operation of Hillsboro relate to events that took place prior to 2004. As the Ameren Illinois Utilities argued in Section II.C.7 above, since 2004, AmerenIP undertook a number of steps to address these events. As also argued above, Staff acknowledged that there has been no recurrence of the past problems at Hillsboro, and management there has improved. The Ameren Illinois Utilities stated that this does not mean AmerenIP could have acted more expeditiously with respect to the investigation associated with the failed valve. AmerenIP only discovered the leaking valve after the ultrasonic meter was installed, and AmerenIP compared its measurements with the existing master metering total withdrawal volumes. As Mr. Underwood explained, the leak was too small to be detected on the orifice recording chart or register on the station control system and noise through the leaking valve was not observed because of noise generated by the flow control valve down stream of the leaking valve masked any noise from the run change valve. Mr. Underwood testified that the annual maintenance performed on the valve indicated that the pneumatic operator rotated full open and back to full closed position each fall prior to withdrawal season. The Companies argued that AmerenIP therefore had no reason to suspect that gas was by-passing the closed run

changer valve until it compared the volume through the ultrasonic meter placed into service in January 2007.

Mr. Lounsberry asserted, however, that the past problems at Hillsboro are still relevant to this proceeding because he believed they relate to the issue of the discovery of the leaking valve problem in 2000. Mr. Lounsberry believed that AmerenIP should have discovered the leak before 2007, given the focus on issues at Hillsboro in 2004, and that AmerenIP's failure to review or discover that problem at that time is a reflection on how AmerenIP operated its storage fields during that time period.

The Ameren Illinois Utilities maintained that this concern is mistaken. Mr. Underwood testified that AmerenIP, in accordance with its ongoing practice, did make annual checks on the valve in question, but the purpose of these checks was to verify that the valve opened and closed at the appropriate differential pressure signals across the primary orifice run. He noted that, given the nature of the leak (and the fact that it was only discovered after the installation of the ultrasonic meters), it is unlikely the leak could have been discovered sooner, even during the investigations of issues at Hillsboro in 2004. He stated that there were no observations made by AmerenIP personnel that gas was leaking from the valve when it was in the closed position until after the ultrasonic meter was installed and a difference was observed in the calculated volumes. Thus, Mr. Underwood argued that the failure to find the leak was not related to problems at Hillsboro, and the fact that there were past investigations does not mean that the leak would have been found sooner than it was. Moreover, Mr. Underwood pointed to the fact that AmerenIP would have had to discover the leak before April of 2004 to have made any difference in the adjustment sought in this proceeding. The estimated errors using the Company's method did not affect the base gas values after April of 2004. Therefore, the Ameren Illinois Utilities argued that Mr. Lounsberry's concerns about the timing of the discovery of the leak are unwarranted.

The Ameren Illinois Utilities asserted that Mr. Lounsberry's suggestion that Ameren Illinois Utilities could have identified the valve leak through a "block and bleed" test is unfounded. Mr. Underwood testified that the valve manufacturer's manual makes no mention of performing the procedure in order to verify the valve seats are seating properly; the manual does not mention this is a procedure that should be performed as ongoing maintenance of the valve; and the procedure is not a common practice to perform. In Mr. Underwood's view, to state that AmerenIP should have performed this procedure reflects the benefit of hindsight, but in fact AmerenIP had no reason to discover the leak prior to the installation of the USM. Moreover, Mr. Underwood noted that the consultant (Peterson) who performed the comprehensive 1999 metering study at Hillsboro did not suggest conducting such a test, which further demonstrates this is not a common practice.

The Ameren Illinois Utilities argued that Mr. Lounsberry, at bottom, did not dispute that there was a valve leak resulting in a measurement error at Hillsboro. Rather, he contested the calculation of the measurement error. However, AmerenIP alleged that it made a reasonable engineering estimate calculation of the leak amount,

and this calculation is sufficient to support the requested base gas adjustment of $2,841,000.

Commission Conclusion

The Commission finds that the requested rate base adjustment of $2,841,000 is appropriate. The Commission finds that AmerenIP sufficiently supported the $2,481,000 assigned value of the base gas cost because they used valid reservoir engineering techniques to determine gas loss. For the reasons explained by Mr. Underwood, the Commission finds that the adjustment at issue in this case does not overlap with AmerenIP's prior adjustment. The Commission further finds that Mr. Lounsberry's other criticisms are unfounded.

9. Other Injuries and Damages

Ameren's Position

The Ameren Illinois Utilities disagreed with AG/CUB witness Mr. Effron's proposal to deduct the Injuries and Damages Reserve from rate base, because they argued that the proposal was unwarranted. Mr. Stafford testified that the Injuries and Damages Reserve represents the difference between accrued expenses for Injuries and Damages and the cash outlay for claims paid. In their direct testimony, the Ameren Illinois Utilities proposed to reflect the expense amounts in revenue requirement. As indicated in Mr. Stafford's rebuttal testimony, the Ameren Illinois Utilities modified their proposal for injuries and damages expense from an accrual basis to a cash basis for ratemaking, based on a five-year average of cash claims paid, similar to the recommendation of Staff in these proceedings, and which is also similar in approach to how such costs were established in Docket Nos. 06-0070, 06-0071, and 06-0072 (cons.).

The Ameren Illinois Utilities argued that use of a cash basis eliminates the existence of a reserve balance for ratemaking. According to the Ameren Illinois Utilities, under a cash basis, there is no debit to expense and credit to a reserve account, or an advance payment to be recorded as an asset or as a negative reserve balance. Thus, they argued that a reserve balance, positive or negative, simply does not exist. Mr. Effron pointed to the fact that, although the Ameren Illinois Utilities agreed to use the actual historic cash disbursements as a basis to determine the prospective accrual for injuries and damages to include in their revenue requirements in the present case, the Ameren Illinois Utilities did not actually use a cash basis to record injuries and damages expense on their books of account and will not do so prospectively. The Ameren Illinois Utilities argued that, while a reserve balance still exists on the utilities balance sheet for reporting purposes, that is because the utilities continue to accrue expense for reporting purposes. They averred that Mr. Effron failed to acknowledge that rates are being set on a cash basis, which eliminates the existence of the reserve for ratemaking.

The Ameren Illinois Utilities also made an adjustment to eliminate ADIT related to Injuries and Damages, which is appropriate if the Ameren Illinois Utilities' position on this issue is approved.

Commission Conclusion

The Commission finds that the Injuries and Damages reserve should not be deducted from rate base. The Commission agrees with that Ameren Illinois Utilities' assertion that rates are being set on a cash basis, which eliminates the existence of the reserve for ratemaking. Accordingly, Mr. Effron's proposed adjustment is unwarranted.

D. Recommended Rate Base

1. Electric

The Ameren Illinois Utilities proposed a rate base for each utility. As a result of the adjustments discussed below, the proposed rate bases for the AmerenCILCO, AmerenCIPS and AmerenIP electric utilities are shown on Schedule 2 of Appendix A, C and E, respectively.

2. Gas

The proposed rate bases for the AmerenCILCO, AmerenCIPS and AmerenIP gas utilities are shown on Schedule 2 of Appendix B, D and F, respectively.

III. OPERATING REVENUES AND EXPENSES

A. Introduction

The Ameren Illinois Utilities presented schedules showing, for each of the gas and electric Ameren Illinois Utilities, the operating revenues, expenses, and income at present and proposed rates for the test year. Staff and other parties proposed adjustments to the Company's proposed operating statements are discussed below. The proposed operating income statement for the AmerenCILCO, AmerenCIPS and AmerenIP electric utilities are shown on Schedule 1 of Appendix A, C and E, respectively. The proposed operating income statement for the AmerenCILCO, AmerenCIPS and AmerenIP gas utilities are shown on Schedule 1 of Appendix B, D and F, respectively.

B. Resolved Issues

1. Annualized Labor and Pro Forma Wage Increases

Staff witness Ms. Ebrey recommended adjusting annualized labor expense to reflect a 3% wage increase effective July 1, 2007, based on her assessment of actual wage increases approved in December 2007. The Ameren Illinois Utilities agreed with this adjustment.

Staff witness Ebrey recommended disallowing wage increases for management employees projected for April 1, 2008. The Ameren Illinois Utilities responded that the wages already increased to slightly beyond the estimated levels as of the time of the filing of rebuttal testimony, thus the increases are known and measurable. The increases were reasonably likely to occur within 12 months, and Staff was provided with work papers for direct testimony showing estimated wage increases. In rebuttal, Staff accepted the Ameren Illinois Utilities proposed rebuttal labor adjustment for all six rate cases.

2. Injuries and Damages Expense

Ameren Illinois Utilities' witness Andrew Wichmann agreed with Staff witness Ms. Ebrey's approach of normalizing costs over a five-year period for all companies except AmerenIP electric.

3. Employee Benefits Expense

The Ameren Illinois Utilities accepted Staff's adjustment to Employee Benefits Expense.

4. Reliability Audit

Staff witness Ms. Ebrey proposed to only allow the maximum estimated price of Liberty, $2,897,880, and the actual rental of office space for 12 months per the lease agreement of $29,290, allocated to each electric utility consistent with the Companies' proposal. The Ameren Illinois Utilities accepted Staff witness Ebrey's adjustment to Reliability Audit.

5. Storm Costs

ICC Staff witness Ms. Everson recommended use of a separate subaccount to track costs associated with storm restoration. The Ameren Illinois Utilities presented evidence showing that, following Ameren's acquisition of the three utilities, all three utilities now maintain costs by storm and such data can be identified and reviewed separately from other costs recorded in account 583 and 593 (or other accounts for that matter). Accordingly, Staff witness Ms. Everson withdrew her recommendation in rebuttal testimony.

6. Interest on Customer Deposits

The Ameren Illinois Utilities accepted Staff witness Everson's proposed adjustment to customer deposit interest to a rate of 3.5%. Staff agreed in rebuttal that the adjustment should be reflected as an adjustment to Customer Accounts Expense, as seen in the Ameren Illinois Utilities' rebuttal revenue requirement schedules, for both the electric and the gas utilities.

7. Accounts 856, 863, 874, and 887

Staff witness Mr. Eric Lounsberry raised two concerns regarding Accounts 856, 863, 874 and 887. He expressed concern over the shifting or changing nature of the costs included in these accounts and that the Department of Transportation ("DOT") compliance costs may be overstated. Mr. Steve Colyer, on behalf of the Ameren Illinois Utilities, was able to satisfy Staff's questions by explaining the nature or circumstances surrounding the cost incurrence (in particular, that costs shift between the Ameren Illinois Utilities' transportation and distribution O&M accounts from year to year) and the plan for DOT compliance. Mr. Lounsberry found the explanation justified the level of costs in these accounts.

8. Advertising Expense

The Ameren Illinois Electric Utilities accepted Staff's adjustment in the calculation of Advertising Expenses.

9. Industry Association Dues Expense

The Ameren Illinois Electric Utilities accepted Staff's adjustment in the calculation of Industry Association Dues.

10. Vegetation Management/Tree Trimming

In response to AG/CUB witness Mr. Effron's direct testimony, AmerenIP agreed that its tree trimming expenses should be reduced by $1,932,000. Although Mr. Effron originally proposed an adjustment to AmerenCIPS's pro forma tree trimming expenses, after Mr. Stafford's rebuttal testimony explaining why no such adjustment was necessary, Mr. Effron withdrew his proposed adjustment.

11. MISO Expenses

AmerenIP agreed to eliminate from its delivery service revenue requirement $1,037,000 of payments to the Midwest Independent System Operator (MISO) that AmerenIP charged to Account 928 – Regulatory Commission Expenses in 2006. Both AmerenIP electric's rebuttal and surrebuttal revenue requirement reflected the elimination of this expense, and Staff's rebuttal filing also reflected this elimination.

12. Retired Production Worker Pension and Medical

In his direct testimony, Staff witness Lazare expressed concern about whether pension and health care costs for Ameren retirees who worked at production facilities that have since been divested from the Ameren Illinois Utilities should be included in test year A&G expenses. The Ameren Illinois Utilities accepted Staff witness Lazare's adjustments.

13. Test Year NESC Violation Correction Costs

In response to Staff's concerns regarding correction of NESC issues during the test year, Ameren Illinois Utilities agreed to track the costs of repair or replacement of

identified down guy, overhead guy and double-cross arms at affected railroad or interstate highways. The Ameren Illinois Utilities agreed to replace those railroad or interstate highway crossings that have only a single cross-arm, but under new NESC standards should now have a double-cross arm. Ameren Illinois Utilities agreed to bear all 2006 test year costs associated with the remediation of NESC violations.

14. Effect of Ameren Ownership on Illinois Power Expenses

Ameren and AmerenIP met the requirements for the recovery of the $67 million in integration, severance, relocation and debt redemption premium costs associated with acquisition, as approved in ICC Order 04-0294. No party contested this evidence.

C. Contested Issues

1. AMS Charges

Ameren's Position

The Company explained that Ameren Services Company ("AMS") is an Ameren Corporation subsidiary that has provided its parent and fellow subsidiaries (including the Ameren Illinois Utilities) with a variety of services for over a decade. The services provided by AMS to the Ameren subsidiaries are governed by the General Services Agreement ("GSA"), which has been approved by this Commission and the Securities and Exchange Commission ("SEC"). Without dispute, these services are required by regulated utilities. Further, it is common to find such services centralized within a shared services organization if the company owns and operates multiple businesses.

The GSA addresses issues such as (1) the agreement to furnish services; (2) the services to be performed by AMS on behalf of the Ameren subsidiaries; (3) the compensation of AMS for the provisioning of the services; (4) the Service Request process; and (5) payment for the services AMS provides to the Ameren subsidiaries. Schedule 1 of the GSA describes in detail the services to be provided by AMS to the Ameren subsidiaries and the expected allocation factors to be used to allocate the costs associated with each service.

The Ameren Illinois Utilities understand that the Commission's approval of the GSA, on its own, does not indicate an approval of the results of the allocation process. The Commission's consent to an affiliate interest agreement under Section 7-101(3) of the Act does not constitute approval of payments thereunder for the purpose of computing expense of operations in any rate proceeding. While the Commission's approval of the GSA does not guarantee approval of the specific costs, it is logical that the Commission expects the scope of services provided by AMS and allocation of the costs associated with such services to be consistent with the terms of the GSA.[7]

[7] When the GSA is amended, the Commission's Accounting Staff reviews and responds to the requested changes and provides recommendations as to potential modifications to the Ameren Illinois

Nonetheless, the Ameren Illinois Utilities argued that they do not have the latitude to deviate from the allocation factors contained in the GSA. Through the GSA, the Commission and the SEC have required the Ameren Illinois Utilities and the other parties to the GSA to charge and pay for services according to certain formulas, and the parties to the GSA – including the Ameren Illinois Utilities do that. Moreover, it is fundamentally unfair to mandate that the Ameren Illinois Utilities pay AMS one price pursuant to a formula in the GSA, and then abandon the formula completely in a rate case in favor of an untried, unknown, invented allocation methodology that assigns part of the cost of the service to entities not even taking into consideration the nature of the service provided. The Company urged that the Commission never intended by its ratemaking qualification that the carefully crafted and tailored allocation formulas in the GSA would be either gutted or discarded in ratemaking proceedings.

In the last rate proceeding, with respect to A&G costs, the Commission directed the Ameren Illinois Utilities to provide in these proceedings a study regarding the services and related costs which AMS provides to the Ameren Illinois Utilities. The final Order in that case contained the following directive for the Ameren Illinois Utilities:

> …the Commission directs the Ameren companies to conduct a study to show the costs of services obtained from AMS and compare those costs with market costs. Also as part of the study, the Ameren companies shall provide an analysis of the services provided by AMS to all Ameren companies and provide details on how those costs are allocated among the companies. The Ameren companies shall include the result of the study in the next rate filing.

Order, Docket Nos. 06-0070, pp. 66-67.

In compliance with the Commission's directive, the Ameren Illinois Utilities directed Concentric to prepare a study of the services and related costs that AMS provides to the Ameren Illinois Utilities. The report summarizing the study has been marked as Ameren Exhibit 5.14 and was provided with Mr. Adams' direct testimony in these proceedings. Concentric examined the nature of the services provided and how the costs associated with the A&G services were captured and allocated to each of the Ameren subsidiaries. The reasonableness of the allocation methodologies employed to assign costs to the various companies was assessed. The Ameren Illinois Utilities' role in identifying required services and the monitoring of AMS' costs allocated to each of the companies was also reviewed. Finally, the Ameren Illinois Utilities' A&G expenses both in total and for numerous processes were benchmarked against those of other companies, both utilities and non-utilities.

Utilities' positions. As with a rate case, the Commission weighs the evidence in the proceeding and renders an opinion as to the reasonableness of the modifications to the GSA. Based upon the review and approval by the Commission, the Ameren Illinois Utilities have a reasonable expectation that the Commission expects the Companies to adhere to the terms of the GSA.

The results of a benchmarking study were provided for both the gas and electric businesses, which show that the Ameren Illinois Utilities, both collectively and individually, compare well to other gas, electric and combination utilities. The benchmarking compared the Ameren Illinois Utilities to (1) all utilities within the United States; (2) regional utilities in the Midwest; and (3) similarly sized utilities. For the electric businesses of the Ameren Illinois Utilities, the A&G expenses were compared against other electric distribution only companies. The Company maintained that benchmarking results are complete and provide sound comparisons for similarly sized and situated companies. Mr. Adams presented the results of the benchmarking of the Ameren Illinois Utilities' total O&M expenses.

The Ameren Illinois Utilities also provided the results of the benchmarking of the costs of specific services provided by AMS to the Ameren Illinois Utilities. These services include Finance, Information Technology, Human Resources, Procurement, Legal, Government Affairs and Corporate Communications. According to the Company, these services accounted for approximately 60 percent of total AMS A&G expenses charged to the Ameren Illinois Utilities. For each of the services provided by AMS, for which there was comparable data, the total cost of providing the service was compared to both other utilities and to non-utility companies. In general, AMS' costs compared favorably to the peer companies.

During the review of AMS' costs which were allocated to the Ameren Illinois Utilities, in addition to the review of compliance with the terms of the GSA, Concentric employed a cost causation standard to assess the reasonableness of the allocated costs. Under cost causation principles, the standard of reasonableness was whether the costs allocated to each of the Ameren Illinois Utilities were representative of the benefits realized by each company.

According to the Ameren Illinois Utilities, the fundamental and underlying philosophy applicable to all cost studies pertains to the concept of cost causation for purposes of allocating costs to individual lines of business. Cost causation addresses the question of which line of business (and which customers served) causes particular types of costs to be incurred. To answer this question, it is necessary to establish a link between the costs incurred to provide a given service and the companies which benefit from the provisioning of such service.

As stated in Section 791.30 of the Illinois Administrative Code, the cost causation principle is defined as follows:

> Costs shall be attributed to individual services or groups of services based on the following cost causation principle. Costs are recognized as being caused by a service or group of services if: a) The costs are brought into existence as a direct result of providing the service or group of services; or b) The costs are avoided if the service or group of services is not provided.

Under cost causation principles, a portion of every expense incurred by AMS would not be allocated to each of the Ameren subsidiaries. A portion of the costs related to each service should not be allocated to each of the Ameren subsidiaries unless each company benefits in some manner from a particular service.

Concentric's findings from its review of AMS were as follows:

- The services provided by AMS were deemed to be reasonable and consistent with the needs of the Ameren Illinois Utilities;

- The processes employed to accumulate and allocate AMS' costs associated with the provisioning of these services were well defined and documented;

- AMS' costs were deemed to be reasonable based upon comparable data from other utilities and companies outside of the utility sector;

- The costs allocated to the Ameren Illinois Utilities were reasonable and based upon sound cost causation principles and the GSA which governs the relationship between AMS and the Ameren Illinois Utilities; and The services provided to the Ameren Illinois Utilities were necessary and beneficial to the Ameren Illinois Utilities' customers.

The Ameren Illinois Utilities stated that AMS' costs are recorded in various Service Requests (SRs). Each SR relates to a specific scope of work by an organizational unit within AMS. When created, the SR must consist of a Project Name, a description of the work to be performed, and the allocation factor to be used to distribute the costs assigned to each SR. The appropriate allocation factor is determined from the list of available allocators set forth in the GSA. The SR is signed off on by representatives of each Ameren subsidiary which will benefit from the work performed and a representative of AMS.

Staff's Position

Staff took issue with Concentric's analysis of A&G costs and AMS charges. Staff witness Lazare identified five broad "concerns":

- The Ameren Illinois Utilities provided no explanation of why the Companies received a disproportionate allocation of AMS' costs relative to their size;

- The Concentric study should have addressed all of AMS' services and costs not just A&G;

- The Concentric review focused on a small percentage of the Service Requests used to accumulate and allocate AMS' costs;

- The Concentric study did not meet the terms of the "market study" requested by the Commission; and The benchmarking performed by Concentric did not encompass the "entire market."

Ameren's Response

The Ameren Illinois Utilities argued that there was no "disproportionate allocation." Staff criticized the Ameren Illinois Utilities by concluding that "The Companies' discussion focused on the process, rather than the results." The Company argued that, actually, the process is the important point. Cost causation principles do not focus on the end result, but rather on the fairness of the allocation of costs associated with services provided to the various companies.

In contrast, the Ameren Illinois Utilities argued that Staff focused solely on the results, rejecting the Ameren Illinois Utilities' evidence and proposing an adjustment based on Staff's own allocator, newly minted solely for the purpose of this proceeding. In place of the GSA, Mr. Lazare employed a blend of three general allocators; total assets, employees, and non-fuel O&M expenses, to arrive at a simple weighted general allocation factor which he uses to re-allocate all of AMS' costs to the various Ameren subsidiaries.

The Ameren Illinois Utilities noted that Mr. Lazare was not aware of any regulatory jurisdiction that has adopted a similar allocator for this purpose. According to the Company, his allocator was instead based solely on an "assumption" that each affiliate will use services in proportion to its size.

Moreover, the Company stated that, while Mr. Lazare used the allocator he invented to test the reasonableness of the AMS charges, he never tested his own assumption. According to the Ameren Illinois Utilities, not only is Staff's proposed allocator without provenance, it is also without empirical validation.

The Ameren Illinois Utilities stated that it is not reasonable to allocate AMS costs to the Ameren Illinois Utilities based on their "relative size," as compared to other Ameren affiliates. Under Mr. Lazare's proposal, for example, the unregulated generation companies would receive a sizeable portion of the allocations because of their asset base. Many of the services provided by AMS are geared to the operating companies and provide no benefit to the unregulated generation companies. Where data regarding specific cost drivers is available, as in the case of AMS' costs, such data cannot be ignored in favor of a general allocator. Further, the election of the different allocators can produce materially different results.

The Company argued that the primary basis of Mr. Lazare's proposed adjustment is that the level of AMS' costs charged to the Ameren Illinois Utilities are excessive based upon the relative size of the Ameren Illinois Utilities in comparison to the other Ameren subsidiaries. The Ameren Illinois Utilities stated that this is incorrect for one, because the premise that the "relative size" of a company is even an appropriate basis upon which to evaluate the reasonableness of the costs allocated by AMS to the

Ameren Illinois Utilities is wrong. Such a premise erroneously assumes that each of the companies to which costs are being allocated require the same types and levels of services.

According to the Ameren Illinois Utilities, Staff's recommendation fails to consider what specific AMS personnel are doing. Some 565 AMS personnel perform functions solely for the Ameren Illinois Utilities and not for any other Ameren affiliate. As Mr. Nelson explained, because Staff's allocator does not distinguish between different types of services provided, and does not apply an allocator developed specifically for a particular service (unlike the General Services Agreement that has been approved by the Commission), Staff allocated the costs associated with these 565 salaries in the same manner as every other cost, meaning that, under Staff's approach, 65.1% of these costs would be allocated to entities who receive no services from them. (Mr. Lazare's Exhibit 18.02 allocated only 34.9% of AMS costs to the Ameren Illinois Utilities resulting in 65.1% of each and every cost being allocated to other entities). The impact of this erroneous allocation is staggering, since total compensation for these 565 employees is $60.655 million. Therefore, Mr. Lazare's allocation approach disallowed $39.5 million ($60.655 million x 65.1% = $39.5 million) of cost for 565 people who work exclusively for the Ameren Illinois Utilities. It is also true that this approach would allocate to the Ameren Illinois Utilities some portion of the costs of services performed 100% for non-Illinois utility affiliates.

According to the Company, employment by AMS of these personnel allows for an easier and more efficient sharing of resources among the Ameren Illinois Utilities. If these people did not work for AMS, they would work for one of the Ameren Illinois Utilities, and provide services to all three. This would require intercompany billings among the Ameren Illinois Utilities, or the creation of an Illinois-only service company. While this could feasibly be accomplished, it would not have any effect on the Ameren Illinois Utilities' cost structure (at least under the Ameren Illinois Utilities' system, as opposed to Staff's). The Ameren Illinois Utilities state that they would be incurring the same level of cost that they do today with these employees being housed at AMS.

According to the Company, moving these employees to the Ameren Illinois Utilities would actually increase costs under Mr. Lazare's approach. The Ameren Illinois Utilities would see an increase in labor costs equal to the corresponding charges they receive from AMS today, but would receive an increased share of the remaining AMS charges because their increased employee count would increase their share of AMS charges under the Lazare allocator. This increase in cost for the very same level of support due solely to a manipulation of the inputs shows the inherent flaw in Staff's proposal.

The Ameren Utilities argued that Mr. Lazare's proposed treatment of AMS costs does not result in an equitable treatment of such costs. Mr. Lazare's proposed adjustment to AMS costs merely redistributes the actual costs proportionately to each Ameren subsidiary employing his three metrics, without regard to cost causation (i.e., whether the entity being assigned the cost of a service actually used the service).

Furthermore, the Company argued that Mr. Lazare's recommendation grossly understated the Ameren Illinois Utilities' cost of service. If his recommendation is adopted, clearly the Ameren Illinois Utilities will be required to deeply cut costs to obtain a fair and reasonable return. Also, Mr. Lazare's recommendation does not capture cost causation in assignment of costs. In particular, he does not take into account the specific allocators approved by the Commission in the GSA. His reliance on number of employees and non-fuel O&M to allocate the costs of services are not reasonable and can lead to an inappropriate result.

The Ameren Illinois Utilities urged that using the number of employees as a general allocator can lead to an inappropriate result because the number of employees has little to do with the nature of most of the services being allocated. Number of employees is an important component to reflect for specific services that are employment-related, such as human resources costs. But number of employees has nothing to do with most other services, and, indeed, there may be an inverse relationship between number of employees and the need for services.

The Ameren Illinois Utilities argued that, under Mr. Lazare's approach, if there are two utilities with a similar customer base, but a different number of employees – say one had 5,000 employees and the other had only 500, one would expect the utility with 5,000 employees to require significantly greater levels of shared services than the utility with 500 employees, when in fact the opposite would be true. The utility with far fewer employees would require far more shared services in order to serve its customer base. According to the Company, applying Mr. Lazare's allocator to this situation would grossly distort the allocations and place disproportionate costs on the entity not causing them.

The Company stated that Mr. Lazare is concerned that a disproportionate share of AMS costs have been allocated to the Ameren Illinois Utilities. In fact, the Ameren Illinois Utilities received a disproportionate amount of services from AMS. AMS has many more employees exclusively dedicated to the Ameren Illinois Utilities than to AmerenUE, for example, and has appropriately charged the Ameren Illinois Utilities for the additional level of service rendered.

The Company noted that this is not the first time that the Staff has questioned the level of AMS charges. Naturally, any regulator would be concerned about the possibility of cross-subsidization that arises in affiliate transactions, even those conducted, as here, at cost. The Ameren Illinois Utilities believe that the sheer size of the charges assessed by AMS to the Ameren Illinois Utilities, however, is one factor in the Staff's concern. The Ameren Illinois Utilities are in turn concerned that the view may be distorted by their placement of many employees in AMS for convenience and ease of allocation, when these employees serve only the Ameren Illinois Utilities and not any other Ameren affiliate. There is no possibility of cross-subsidization with those employees, but the numbers inflate the total AMS charges to the Ameren Illinois Utilities and may help feed an impression that the Ameren Illinois Utilities are being overcharged.

The Ameren Illinois Utilities explained that they intend to take certain steps to minimize this effect. The Company has committed that no later than January 1, 2009, the 565 employees who presently work for AMS and who provide services exclusively to the Ameren Illinois Utilities will be transferred from AMS to AmerenCILCO. (There may be certain employees who work exclusively for either AmerenCIPS or AmerenIP, and if so, they would be transferred directly to the appropriate company.) From AmerenCILCO, these transferred employees will provide services to the three Ameren Illinois Utilities, who will allocate the costs of those services among them based on the allocators set forth in the Ameren GSA. To the extent necessary and appropriate, the Ameren Illinois Utilities will file a separate service agreement with the Commission, and will discuss the allocators to be included in that agreement with the Staff ahead of time. Furthermore, there are no impediments to the transfer of these employees. No approvals need be acquired under any law, rule or collective bargaining agreement. Management is committed to the transfer and it will occur at the end of this year.

The Ameren Illinois Utilities argued that Mr. Lazare's endorsement of a general allocator should be rejected or at least modified. In the event that it is not rejected or modified, the employee transfer will essentially wipe out Staff's adjustment. Presently, Staff recommends reducing AMS charges to the Ameren Illinois Utilities by some $48 million. As shown on Ameren Exhibit 42.1, moving the employees would reduce Mr. Lazare's adjustment to about $2 million. Additionally, that exhibit shows moving 565 employees from AMS to AmerenCILCO, at an AMS average compensation and benefits amount. This reduces the total AMS charges and the AMS charges to the Ameren Illinois Utilities, as well as increasing both the total non-AMS employee count and the Ameren Illinois Utilities' employee count (and thus their relative share of AMS charges under Mr. Lazare's approach). Hence, the transfer would reduce the AMS charges to the Ameren Illinois Utilities, while increasing their percentage share of the remaining AMS charges.

The Ameren Illinois Utilities believe that this transfer shows that Staff's general allocator is not reliable and that there can be unintended consequences. Moving the employees from AMS to the Ameren Illinois Utilities does not change the Ameren Illinois Utilities' cost structure. Since the Ameren Illinois Utilities will pay the transferred employees exactly the same amount as they pay AMS for the use of these employees today, there will be no change in the utilities' cost of service. Staff's allocator, however, produces a far different result after the transfer than before, meaning that it produces a significant change in the cost of service where in reality there is none at all.

The Ameren Illinois Utilities also pointed to the calculation errors in Mr. Lazare's adjustment. Mr. Lazare calculated his proposed adjustment of AMS' costs by starting with a figure from Ameren's FERC Form 60. The Form 60 shows total AMS costs, without regard for whether the costs were ultimately capitalized or expensed. Unfortunately, the figure which Mr. Lazare used as a starting point reflects all dollars incurred by AMS on behalf of the Ameren subsidiaries, regardless of whether the dollars were capitalized or expensed. Approximately $55 million of capitalized expenditures are erroneously treated by Mr. Lazare as expensed dollars.

Furthermore, according to the Company, Mr. Lazare has ignored the allocation factors contained in the GSA, and which were approved by the Commission. In his direct testimony, Mr. Lazare does not acknowledge the existence of the GSA. As discussed previously, the GSA provides a detailed description of services to be provided by AMS on behalf of the Ameren subsidiaries and the allocation factors to be used associated with each service. The GSA is based on cost causation principles and suggests allocation factors that link the costs of a service to the benefactor of that service. For example, the GSA logically points out that many of the Human Resources ("HR")-related services should be allocated based upon the number of employees. This makes sense – since HR services generally relate to employees, employee counts should heavily influence the allocation of HR costs. The GSA has been reviewed by Staff and approved by the Commission.

Certain AMS costs are directly billed to the Ameren Illinois Utilities. Of the 411 Service Requests with A&G expenses that were allocated to the Ameren Illinois Utilities, 126 of the Service Requests were directly allocated to one or more of the Ameren Illinois Utilities. These Service Requests accounted for approximately 30 percent of the AMS dollars charged to the Ameren Illinois Utilities.

The Ameren Illinois Utilities asserted that the direct allocation of costs is appropriate. In those instances where AMS performed work exclusively for one or more of the Ameren Illinois Utilities, the Company maintained that the costs of such work should be allocated directly to those companies which benefited from the work (i.e., the Ameren Illinois Utilities). Mr. Lazare's proposed adjustment does not reflect the direct assignment of costs where appropriate. Mr. Lazare applies the general allocators to all AMS dollars regardless of nature of the service or the benefactor of such services.

The Company pointed out that in past proceedings, the Commission has expressed a preference for direct assignment over the use of general allocators. The Commission's Order in Illinois Commerce Comm'n v. Central Illinois Light Co., et al., Docket 99-0013 at 44 (Order, October 4, 2000), stated: "As a general proposition, the Commission believes that direct assignment of costs is superior to the application of general allocators if the costs are suited to direct assignment and sufficient cost data is available to make direct assignments." The Commission's Order in Docket 01-0423 at 79, when discussing A&G expenses, expressly reaffirmed and quoted that language from the Order in Docket 99-0013.

Absent direct allocation, the Commission found that "because it is unlikely that any allocation methodology will be perfect, the goal is to select an allocation methodology that is likely to reflect cost causation and produce fair and reasonable results." Such allocators are set forth in the GSA and are employed to allocate AMS' costs.

The Ameren Illinois Utilities also argued the scope of the study was appropriate. The Commission's specific directive to which the Ameren Illinois Utilities have responded can be found in the section of the Commission's Order in Docket No. 06-0070 (Cons.) discussing the Ameren Illinois Utilities' A&G Expenses. The Order states

"The Commission is concerned about the magnitude of the increase in A&G expenses and the lack of substantiation for these increases." As a result of the Commission's stated concern, rehearing was granted by the Commission in that proceeding solely on the topic of A&G expenses. The Ameren Illinois Utilities and other parties to the proceeding presented extensive testimony on the topic of the reasonableness of AMS-incurred A&G costs which were allocated to each of the Ameren Illinois Utilities.

At no point during the proceedings did the Commission or any party express concerns regarding non-A&G expenses incurred by AMS on behalf of the Ameren Illinois Utilities. The Ameren Illinois Utilities appropriately presented the results of a study in these proceedings per the Commission's directive which focused on the A&G expenses incurred by AMS on behalf of the Ameren Illinois Utilities. The Company maintained that it would be inappropriate to expand the scope of the Commission-directed review in the midst of these proceedings.

Moreover, the Ameren Illinois Utilities asserted that an expanded study would not produce materially different results than the review of the A&G expenses. The current study examined most of the approved allocation factors as well as the processes employed to originate a Service Request, accumulate costs, and allocate costs to the appropriate company which benefits from the provided service. The existing processes have been tested. The expanded scope would require a review of the specific Service Requests which contain the non-A&G expenses to ensure that the costs incurred and allocation methodology employed were reasonable and consistent with the GSA. Since non-A&G expenses are subject to the same process of allocations and given that the Concentric study concludes that the existing processes of originating Service Requests and allocating costs were appropriate, it is unlikely that subjecting non-A&G expenses to a similar review would produce different results.

The Ameren Illinois Utilities further argued that concentric reviewed all relevant service requests. Staff complained that Concentric's analysis of AMS' services is "incomplete." Mr. Lazare alleged that Concentric reviewed only 411 Service Requests out of a total of 1,835 Service Requests thereby leaving 1,424 Service Requests unreviewed.

The Company pointed out that, of the 1,835 Service Requests Staff referenced, only 411 contained A&G expenses which were allocated to the Ameren Illinois Utilities. Given that the focus of the review, as directed by the Commission, was to review the A&G expenses, Concentric focused only on the 411 Service Requests. Therefore, Concentric reviewed 100 percent of the Service Requests in question.

Furthermore, the Company asserted that Concentric did not focus on those Service Requests which had no allocated costs assigned to the Ameren Illinois Utilities because there would have been no benefit to the Ameren Illinois Utilities' customers. Given that there were no costs assigned to the Ameren Illinois Utilities and that the Commission would have no jurisdiction regarding the allocation of costs to entities that it does not regulate, a review of such costs would be fruitless.

Of the 411 Service Requests, 126 Service Requests directly billed to one or more of the Ameren Illinois Utilities, which represents approximately 30 percent of the AMS costs which were allocated to the Ameren Illinois Utilities.

Staff further alleged that "while the mathematical calculations associated with the Service Requests were tested, the appropriateness of how charges were made to the Service Requests does not appear to have been tested." The Company asserted that Mr. Lazare's allegation is incorrect. The Ameren Illinois Utilities suggested that the primary purpose of the study was to assess the reasonableness of the allocated costs. As stated on page 2 of Ameren Exhibit 15.4, Concentric "reviewed the nature of the service performed, the Target Companies which were charged for the service, and the method of allocating costs to the Target Companies."

Concentric employed a seven step process to assess the reasonableness of the AMS-incurred A&G expenses which were allocated to the Ameren Illinois Utilities. The ultimate determination as to the reasonableness of the allocation factor was based upon Concentric's understanding of the service provided, a review of the Service Request detailing the service and allocation basis, discussions with AMS and Ameren Illinois Utilities' personnel, and Concentric's experience with other clients.

Staff questioned the allocators used for a few SRs during the cross-examination of Mr. Adams. For the majority of the SRs about which Mr. Adams was questioned, the allocator used by AMS resulted in an allocation between the electric and gas businesses. There is no dispute that the charges were correctly incurred on behalf of the Ameren Illinois Utilities. Based upon the description of the SR, it appeared that an allocation to the electric business only may be an alternative allocator.[8] As Mr. Adams testified, the percentages allocated to each of the Ameren Illinois Utilities are not materially different whether it is allocated to just the electric business or to the electric and gas businesses. In fact, a review of the specific SRs and the potential use of the suggested allocation methodology yields an over-allocation to the Ameren Illinois Utilities of a total of a mere $1,200 for all three of the Ameren Illinois Utilities. The calculation of the potential impact of Staff's suggested allocation factors is set forth on Schedule A. When this figure is divided by the total number of gas and electric customers of the Ameren Illinois Utilities, the resulting variance would be a fraction of a penny difference per customer.

The Ameren Illinois Utilities point out that Staff did not have any specific concerns with the study. Mr. Lazare did not have any specific concerns regarding the benchmarking data employed in the analysis. Mr. Lazare stated that he had no reason to believe that the unitized costs for the companies in the peer group were inaccurate.

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[8] Allocator 002O, # of electric distribution customers (IL), was not an approved allocator in the GSA at the time that the SRs about which Mr. Adams was questioned were initiated. The electric only allocator was approved in the GSA effective February 23, 2007. The SRs about which Mr. Adams was cross-examined were initiated during the period January 1998 and February 2005.

Mr. Lazare did not identify any companies which he believed were inappropriately included or excluded from the benchmarking study.

The Ameren Illinois Utilities argued that the Concentric study is a "market study" encompassing the "entire market". The Commission directed the Ameren Illinois Utilities to perform a "market study." As previously stated, the Commission directed the Ameren Illinois Utilities "to conduct a study to show the costs of services obtained from AMS and compare those costs with market costs."

The Ameren Illinois Utilities explained that the Commission did not define what it meant by "market costs." Mr. Lazare has defined market costs to mean "A market study would examine the cost of receiving services from outside suppliers other than AMS." According to the Ameren Illinois Utilities, a study cannot be performed which meets Mr. Lazare's definition. As explained in Mr. Adams' direct testimony, comparative data is not available from outsourcing firms absent soliciting bids from such firms.

Mr. Adams believes that the market consists of other companies which are in the same industry or companies which perform similar services. Clearly, both utilities and non-utilities provide the same scope of services which are provided by AMS. Therefore, Mr. Adams believes the "market" consists of a much broader universe of companies than does Mr. Lazare. Whether or not a company chooses to internally or externally outsource all or a portion of its shared services should be irrelevant to the analysis.

Concentric benchmarked the Ameren Illinois Utilities' A&G expenses against those of other companies. Concentric benchmarked the Ameren Illinois Utilities' total A&G expenses on a per customer basis against other gas and electric utilities. In addition to the total A&G benchmarking which Concentric performed, the Ameren Illinois Utilities' costs of various services or processes were benchmarked. The costs for the Human Resources process, Information Technology; Finance and Procurement were benchmarked against two peer groups. The first peer group consisted of other utilities while the second peer group consisted of all non-utility companies which participated in a nationally-recognized benchmarking firm's database.

The costs associated with Legal, Government Affairs and Corporate Communications were benchmarked against the non-utility companies participating in the consulting firm's benchmarking program.

The peer group of companies against which Concentric compared the Ameren Illinois Utilities shared services costs include companies which have outsourced all or some of its shared services. Within the benchmarking of Ameren Illinois Utilities total A&G costs, there are utilities which have outsourced all or some of its shared services. The Company alleges that it is highly probable that some of the non-utilities have likewise outsourced portions of their shared services. Despite the outsourcing by other companies, the Ameren Illinois Utilities compare favorably against the market costs.

Mr. Lazare asserted that the AMS study which Mr. Adams sponsors was not set up to be representative of the entire market in that it compares the Ameren Illinois

Utilities to a peer group limited to organizations participating in the Hackett benchmarking program. In response to Ameren Illinois Utilities' Data Request 10.03, Mr. Lazare states "The entire market for comparable utility companies would be all utility companies with similar characteristics to the Ameren Illinois Utilities. The entire market for comparable non-utility companies would include all non-utility companies with similar characteristics to the Ameren Illinois Utilities." According to Mr. Lazare, the similar characteristics would include size, geographic area and structure.

The Ameren Illinois Utilities have benchmarked their total A&G expenses to the "entire market" of electric and gas utilities. Figure III-5 of Ameren Exhibit 5.14 shows the results of the benchmarking of the Ameren Illinois Utilities' total gas A&G expenses against 159 gas companies in the United States. This represents every gas company which reported results that were accumulated by a publicly available database service.

In addition, figure III-8 of Ameren Exhibit 5.14 shows the results of the benchmarking of the Ameren Illinois Utilities' total electric A&G expenses against 123 electric companies in the United States. Once again, this represented *every* electric company which filed a Form 1 report with the Federal Energy Regulatory Commission and which had been accumulated by a public database service. These analyses reflect the size, geographic area and structure of the companies as desired by Mr. Lazare.

Commission Conclusion

Staff's position regarding AMS' costs is based upon an assumption that the Ameren Illinois Utilities have been allocated a disproportionate share of AMS' costs based upon their relative size compared to other Ameren subsidiaries using the three metrics that Mr. Lazare selected. The Commission concludes that there is no evidence to support Mr. Lazare's assumption that size predicts relative consumption of services, or that, even if it does, the three metrics he chose are appropriate measures of the level of services provided for each of the Ameren subsidiaries. Accordingly, Staff's adjustment is rejected.

2. Incentive Compensation Costs

Ameren's Position

As the Companies' witness Ms. Krista Bauer explained, incentive compensation is a common and necessary component of the total compensation package for employees in the electric and gas utility industry as well as other industries. Over the next decade, the Ameren Illinois Utilities and the electric and gas utility industry are expecting a substantial number of employee retirements, thus resulting in increased competition for talent. In order to attract and retain qualified employees and to motivate employees to perform to the best of their ability, the Ameren Illinois Utilities must ensure that their total compensation package is competitive. Ultimately, a competent, stable, focused and motivated workforce is critical to providing excellent service to the Ameren Illinois Utilities' customers.

Thus, as Ms. Bauer explained, the Ameren Illinois Utilities strive to maintain a total rewards package that will attract, retain and motivate a skilled workforce. To that end, the Ameren Illinois Utilities provide a total rewards package that includes both base pay and incentive pay programs, in order to attract talent and remain competitive with other employers. Leveraging both base and incentive pay enables the Ameren Illinois Utilities to limit their fixed costs (base pay), yet still reward outstanding employee performance (incentive pay). The Ameren Illinois Utilities leverage reliable, third-party market data to determine competitive base and incentive compensation levels for each position, thus ensuring that all costs are prudent and reasonable.

The Ameren Illinois Utilities stated that their incentive compensation plan costs are designed in a manner consistent with market practice. The Ameren Illinois Utilities focus on aligning both base and incentive compensation at the median of the market – and define the market as similarly sized companies within the utility industry. Additionally, the Ameren Illinois Utilities' incentive plans require operational performance to be achieved – further reinforcing that the plans are designed in a prudent and reasonable manner. No party has contested the prudency or reasonableness of the Ameren Illinois Utilities' overall level of total employee compensation.

The Ameren Illinois Utilities asserted that the incentive compensation plan costs benefit the utility's customers and should be recoverable in rates, consistent with recent Commission Orders. The Ameren Illinois Utilities provided evidence of operational and individual goals that can be considered and paid independently of financial goals under the plans. For the 2006 test year, the following key performance indicators were associated with incentive payouts under the plans:

- O&M Budget Compliance (weighted 20%)
- Capital Budget Compliance (weighted 20%)
- Safety (25%)
- Gas Operations & Maintenance (weighted 10%)
- Customer Service (weighted 10%); and Reliability (weighted 15%).

The Company maintained that each of these metrics benefits the Ameren Illinois Utilities' customers by enhancing service, increasing service reliability, and/or increasing the efficiency of operations. IIEC witness Mr. Gorman recommended a partial allowance of the annual incentive compensation expense consistent with the test-year metrics, based on his belief that 50% of the annual compensation expense is associated with programs that are designed to primarily benefit shareholders.

The Ameren Illinois Utilities also presented rebuttal evidence providing "financial-based" and "performance-based" percentage breakdown amounts for the (recently modified) 2008 incentive compensation plans, which are currently in effect and which will be in effect when the Commission-approved rates resulting from this case go into effect. The 2005 plans continue to focus employees on important operational metrics and provide an even greater link between pay and performance, as discussed further below.

Ms. Bauer provided the overall expected percentage breakdowns of payout allocations under the Ameren Illinois Utilities' current incentive compensation plan, which is shown in Ameren Exhibit 20.4. These breakdowns indicate that 65% of the test year plan were based on individual and operational goals. The 2006 Key Performance Indicators associated with incentive compensation payouts included O&M Budget Compliance, Capital Budget Compliance, Gas O&M and Standards Plan Implementation, Safety, Customer Satisfaction and System Reliability. According the Ameren Illinois Utilities, these changes were made to align with the organization's new structure, ensure line of sight, reinforce pay for performance and ensure market competitiveness, while also responding to feedback from the Commission regarding financial metrics.

Staff, AG/CUB and IIEC's Position

Staff witness Ms. Ebrey recommended disallowing 100% of the costs associated with incentive compensation because, she claimed: (1) the plans are dependent upon financial goals of the Company that primarily benefit shareholders; (2) ratepayers would provide funding even when no costs were incurred by the Company because plan goals were not met; (3) the plan is discretionary and may be discontinued at any time; and (4) prior Commission practice supports the disallowance of incentive compensation. AG/CUB witness Mr. Effron also recommended disallowing the costs associated with incentive compensation because he claimed that the test year incentive compensation expense is related to the attainment of financial goals.

Ameren's Response

First, The Ameren Illinois Utilities asserted that their incentive plans are not based on financial goals that primarily benefit shareholders. As Ms. Bauer explained, although the 2006 plans do have a financial component, most of the plans' awards are paid out based on operational and individual performance. Moreover, Ameren modified its compensation incentive plans in 2008, eliminating the earnings per share funding mechanism from certain of the plans, as discussed further below. The plans continue to focus employees on important operational metrics and provide an even greater link between pay and performance.

As Ms. Bauer indicated, after January 1, 2008, the Ameren Illinois Utilities' employees participate in one of four annual incentive compensation plans. The first is the Executive Incentive Plan ("EIP-O") for officers. This plan applies to all officers within the Ameren Illinois Utilities. The second is the Executive Incentive Plan ("EIP-M") for managers and directors which applies to all members of the Ameren Leadership Team with the exception of officers. The third is the Ameren Management Incentive Plan ("AMIP"). The Ameren Illinois Utilities' professionals and supervisors (excluding ALT and bargaining unit employees) are eligible for this plan. And the fourth plan is called the Ameren Incentive Plan ("AIP"). Employees who are represented by a bargaining unit are eligible for this plan. Each of the plans have similar elements – but focus the target audience on goals they can most impact. All Plans have been designed in a

prudent and reasonable manner with the goal of providing rewards based on performance.

The Company asserted that the EIP-O is designed to ensure that the Ameren Illinois Utilities' officers are focused, as a senior leadership team, on the overall success of the business. As such, a certain percentage[9] of the EIP-O is funded based on financial performance. The funded award ("core award") may be adjusted up or down based on personal performance and achievement of key operational metrics such as safety, reliability and/or customer satisfaction. The EIP-M differs in that only a certain percentage of the award is funded based on financial metrics. Specifically, each manager or director within the Ameren Illinois Utilities has a certain percentage of their incentive opportunity based on Illinois' contribution to Ameren's overall earnings per share results. The remaining percentage of the funding under the EIP-M is based on operational performance as measured by incentive KPIs. Incentive KPIs generally represent goals related to important operational issues such as safety, reliability, customer satisfaction, and operational excellence. Similar to the EIP-O, each plan participant may have their core award (which is determined formulaically) adjusted up or down based on demonstrated leadership and contributions to goal achievement.

According to the Ameren Illinois Utilities, a certain percentage of the AMIP is funded based on achievement of pre-defined incentive compensation KPIs. These KPIs focus plan participants on key operational metrics such as safety, reliability, availability, and customer satisfaction. The Company does this to help ensure that employees are rewarded for achieving goals that they are most able to influence or control. Similar to the EIP, awards funded based on operational performance may be adjusted up or down to reflect individual contributions to group KPIs or achievement of individual performance objectives.

A certain percentage of the AIP is funded and paid based on incentive KPI performance. The Ameren Illinois Utilities maintained that the incentive KPIs are designed to focus employees on important operational goals that they can influence or control.

Ms. Bauer explained that there are some similarities between the 2008 plans and the 2006 (e.g., operational KPIs and individual performance remain important components of most plans). The most significant difference between the 2008 and 2006 incentive plans is that most of the current plans (with the exception of the EIP-Officer Plan) are no longer funded by earnings per share. Instead, performance on incentive key performance indicators (e.g., operational goals) determines whether or not awards will be available under the plan.

The Ameren Illinois Utilities continued to base their revenue requirement on the test-year plan, and the costs of implementing the 2006 plan satisfy the Commission's

[9] Exact percentages for each of the plans are provided in the confidential version of Ameren Ex. 31.0.

standards of being prudent, reasonable, and of operating in a way to benefit customers. However, the fact remains that the 2008 plan in effect now will be in effect under rates approved by the Commission in this case and has significantly changed from the plan that was in effect in 2006. Specifically, earnings per share has been removed as a funding mechanism for the AIP, AMIP, and largely the EIP-M – thus addressing a concern expressed by the Commission in the Ameren Illinois Utilities last electric rate case, and by Ms. Ebrey and Mr. Effron in this case.

In her rebuttal testimony, Ms. Ebrey argued that the Ameren Illinois Utilities are relying on testimony similar to the testimony it provided in its last electric rate case and that no consideration should be given to the changes in the Ameren Illinois Utilities incentive compensation plans. Although Ms. Ebrey acknowledged that the Ameren Illinois Utilities have revised their incentive compensation plans to eliminate the earnings per share funding mechanism for certain components of the plan, she contended that "the costs included in the test year are not associated in any way with the January 1, 2008 revised plans."

Despite Staff's arguments to the contrary, the Company maintained that the Commission should consider the Ameren Illinois Utilities' modified compensation plans. The modified plans are the plans that will be used to determine incentive compensation expense during the period in which rates established in this proceeding will be in effect. Under similar circumstances, in Docket 02-0690, the Company pointed out that Staff accepted evidence in the rebuttal phase of modifications to Illinois-American Water Company's incentive compensation plans, and recommended partial recovery for the utility's costs of the plan. The Commission accepted Staff's rebuttal recommendation. The Company believes that similar consideration of the Ameren Illinois Utilities' rebuttal evidence should be given here.

The Ameren Illinois Utilities further alleged that, even if the Commission does not consider the modified plans, the incentive compensation plans in effect during 2006 are based on the achievement of operational goals that primarily benefit customers; therefore, incentive compensation expense would be properly recoverable regardless of whether the Commission considers the modified plans. In support of its conclusion in Docket No. 03-0403, a case cited by Ms. Ebrey, the Commission noted that CIWC paid incentive compensation expense since 1995 in order to motivate employees to achieve efficiencies, cost reductions, and service enhancements. In that case, although the payment of incentive compensation was based in part on financial performance, CIWC also based payments on service goals, such as maintaining or reducing operating costs below budgeted levels, not incurring regulatory violations, reducing water quality complaints and implementing security recommendations. Notably, Mr. Effron recognized that recovery of incentive compensation expense in rates is proper where such plans reduce expenses and create greater efficiencies in operations. Recently, in Docket Nos. 07-0241/07-0242 (cons.), the Commission stated that, in evaluating whether incentive plan costs are recoverable, "[t]he main and guiding criterion is that the expense be prudent, reasonable and operate in a way to benefit the utility's customers. It is in this light that we consider the particulars of the programs, the amounts paid out, to whom and why, and what this all means to the Utilities' customers."

Here, the Ameren Illinois Utilities have presented the same type of evidence as in 03-0403, the case cited by Ms. Ebrey. Ms. Bauer explained in detail the incentive compensation plans are based on goals such as increased reliability, increased customer satisfaction, increased safety and improved operational performance. Ms. Bauer also explained that although the plans have a financial component, awards are based on operational and individual performance. In short, the Ameren Illinois Utilities presented the same type of evidence that CIWC provided in the Docket No. 03-0403 proceeding, where the Commission approved recovery of incentive compensation expense.

The Company alleged, however, that Ms. Ebrey has not responded to this evidence and appears to suggest that this evidence is irrelevant. Ms. Ebrey took the position that no evidence can be provided to support recovery of incentive compensation expense "since the revised plans have not been in existence long enough to provide any actual data or detailed evidence to be considered." But the 2008 plan has been in existence a similar length of time as the plan at issue in Docket 02-0690, for which cost recovery was approved, based on rebuttal evidence – exactly the same as in this case. The Ameren Illinois Utilities represented that the plan is currently in effect and will remain so when the rates that will be set in this proceeding become effective.

In addition, the Company alleged that Ms. Ebrey's and Mr. Effron's assertions that the Ameren Illinois Utilities' incentive compensation plans should be disallowed because the Ameren Illinois Utilities' test-year (2006) Incentive Compensation Plan is similar to the 2004 plan miss the mark. The Ameren Illinois Utilities urged that the Commission's treatment of incentive compensation in the last rate case should not necessarily dictate the treatment of this item in this case. Each case should be judged on its own merits.

Second, the Ameren Illinois Utilities pointed out that Ms. Ebrey also claims that "[r]ate payers would provide funding even when no costs were incurred by the Company because plan goals were not met." But the Company also noted that Ms. Ebrey's claim fails to recognize how the Ameren Illinois Utilities administer their compensation plans and how they distribute compensation under those plans. As Ms. Bauer explained, Ameren has a long history of paying incentive awards and intends to continue this practice. If the company performs well, employees are rewarded for their contributions to that performance. There is an exception for employees who are not performing up to standards. In this situation, a supervisor may choose to withhold the employee's incentive award due to poor performance, a decision that serves to reinforce the company's pay for performance philosophy. In this scenario, the incentive dollars that are withheld from a low-performing employee are generally reallocated to a high-performing employee. As a result, even when goals for some employees are not met, the Ameren Illinois Utilities still incur the cost because those incentive dollars are generally reallocated to a high-performing employee.

Moreover, according to the Company, Ms. Ebrey's argument fails to recognize that a high percentage of the expected payouts under the 2008 plans (currently in effect)

are not tied to financial performance. The Ameren Illinois Utilities asserted that this fact should further reassure the Commission (consistent with its Order in 02-0690) that, under the Ameren Illinois Utilities' plans, customers will not fund incentive compensation plans that would never be paid out due to poor financial performance.

Third, the Company stated that Ms. Ebrey also argues for disallowance by asserting that the Ameren Illinois Utilities' incentive compensation plans could be discontinued. According to the Ameren Illinois Utilities, this is true in theory but not in reality. As Ms. Bauer explained, incentive compensation is a critical component of the Ameren Illinois Utilities' total compensation package. Most companies, including Ameren, reserve the right to change, modify, add or eliminate rewards programs as needed.

The Ameren Illinois Utilities alleged that Ms. Ebrey conceded at hearing that incentive compensation expense is not necessarily different in this regard than many other types of expenses. For example, Ms. Ebrey agreed that a utility could change its maintenance schedules to decrease maintenance expense or downsize its work force to reduce labor expense.

The Company asserted that the record shows that as recently as this year, the Ameren Illinois Utilities have re-designed and enhanced their incentive plans as part of their total compensation strategy and pay-for-performance philosophy. The Ameren Illinois Utilities are also working in a labor market where incentive compensation is a key component of any competitive compensation package. Given these circumstances, Ameren has indicated an intent to retain and maintain a competitive incentive compensation program. Thus, according to the Company, the suggestion that incentive compensation is "discretionary" is not a basis to disallow the expense.

Fourth, the Ameren Illinois Utilities pointed to Ms. Ebrey's claims that prior Commission practice supports the disallowance of incentive compensation. The Commission has approved recovery for incentive compensation programs that reward employees for providing benefits to customers in many cases, including: North Shore Gas Co. and Peoples Gas Light & Coke Co., Docket 07-0241, 07-0242 (cons.), Order at 66; Commonwealth Edison Co., Docket 01-0423, Order at 129 (March 28, 2003); Consumers Illinois Water Co., Docket 03-0403, Order at 14-15 (April 13, 2004); Illinois-American Water Co., Docket 02-0690, Order at 17 (August 12, 2003); Northern Illinois Gas Co., Docket 95-0219, Order at 27 (April 3, 1996). Further, as Mr. Effron noted, the Commission has recently only disallowed incentive compensation costs related to financial goals, such as increasing return on equity or earnings per share. As indicated above, the Company maintained that each case should be judged on its own merits.

Finally, the Company stated that IIEC witness Mr. Gorman correctly recognized that the Ameren Illinois Utilities' incentive compensation plans are based on operational metrics, but Mr. Gorman failed to recognize that all of the metrics in the Ameren Illinois Utilities plans benefit customers. Mr. Gorman recommended allowing 50% of the annual incentive compensation expense, based on his belief that 50% of the annual

compensation expense is associated with programs that are designed to primarily benefit shareholders, as follows:

- O&M Budget Compliance – 20%
- Capital Budget Compliance – 20%
- Gas O&M, Standards Plan Development & Implementation - 10%

Ms. Bauer agreed that metrics such as safety, customer satisfaction and reliability do, in fact, benefit the Ameren Illinois Utilities' customers. However, the Company pointed out that Mr. Gorman failed to recognize that O&M Budget Compliance, Capital Budget Compliance and Gas O&M, Standards Plan Development & Implementation are also metrics that benefit customers. Each of these metrics supports operational excellence and efficiency – which leads to lower rates over time when compared to less efficient operations. Customers expect the Ameren Illinois Utilities to operate their business prudently and efficiently. These metrics support that expectation by ensuring that employees are managing their resources appropriately.

Commission Conclusion

Based on the metrics used in either the 2006 or 2008 incentive plan, 100% of the Companies' incentive compensation expense should be recovered in rates because the incentive compensation plans are based on metrics that ultimately benefit ratepayers and are part and parcel of a prudent, reasonable and cost-effective total compensation program. The proposed adjustments fail to recognize this evidence and are, therefore, rejected.

3. Rate Case Expense

a. Legal Fees

The Ameren Illinois Utilities explained that Staff witness Theresa Ebrey improperly questioned the estimated level of legal expenses incurred to date in rate case expenses in rebuttal testimony, after apparently accepting rate case legal expense estimates in her direct testimony. She based this proposed disallowance in part on invoices she did not receive prior to the filing of her direct or rebuttal testimony – an issue she did not raise informally with the Ameren Illinois Utilities as a discovery matter, as the Company alleges she could have.

The Ameren Illinois Utilities maintained that the requested amounts for legal expenses in this case are reasonable. The estimated legal expenses for this proceeding were $1,162,000, of which $605,000 was estimated to be incurred by the time hearings began (i.e., including preparation of surrebuttal testimony). Through April 30, 2008, which did not include the preparation of surrebuttal testimony, the Ameren Illinois Utilities were invoiced for approximately $670,000. Accordingly, rate case expenses ran above budget, although the Ameren Illinois Utilities have not proposed any upward adjustment to the requested level of rate case expense. Further, estimated and actual rate case expenses in this case were reasonable in comparison with actual and estimated costs in the previous rate case (which determined rates for only 3 utilities,

not 6, as in this case). Moreover, as Ms. Ebrey acknowledged at hearing, Staff has now received all invoices, thus removing any stated basis for questioning estimated rate case legal fees. Accordingly, the Commission finds that the Ameren Illinois Utilities' requested rate case legal expenses are necessary and reasonable and are approved.

b. Gannett-Fleming

In the rebuttal testimony of Ms. Ebrey, Staff accepted the Ameren Illinois Utilities' rebuttal position for the costs of the depreciation study. However, as Mr. Wichmann testified, the Company believes that Ms. Ebrey failed to take into account invoice updates provided for March and April that include an additional $25,000 in post filing support. Ms. Ebrey only accounted for $20,000 of actual post filing support, for only two months of work – January and February 2008. That totals $45,000 of actual post filing support through April compared to Staff's $42,000 proposal meant to cover the entire post filing cost. Considering the electric depreciation study remains contested and that total post filing support costs through April were 41% of the total proposal ($45,000 / $111,000 = 41%), the Ameren Illinois Utilities continued to ask for post filing support of $25,000 per electric utility and $12,000 per gas utility. Ms. Ebrey only allowed $10,000 per utility for post filing support. Accordingly, the Commission finds that the Ameren Illinois Utilities' requested costs of the depreciation study were necessary and reasonable and are approved.

c. Energy Efficiency Rate Case Expense

Ms. Ebrey proposed to disallow the entire cost of the Ameren Illinois Utilities' energy efficiency expert witness in this case, Mr. Phil Hanser, based on her belief (expressed in Ameren/Staff DR 9.01) that the expert witness was hired to provide testimony that does not relate to this rate case. According to the Ameren Illinois Utilities' witness Mr. Craig Nelson, Staff is incorrect. The Company maintained that energy efficiency and Mr. Hanser's testimony do directly involve the Ameren Illinois Utilities' rate case and the setting of these rates. The Ameren Illinois Utilities asserted that Mr. Hanser's testimony was an essential component of explaining the Rider VBA proposal described in Mr. Nelson's direct testimony. Mr. Hanser testified regarding the programs implemented by other utilities in the Midwest, expenditures directed to such programs, appropriate spending levels, and more. Energy efficiency initiatives directly affect cost recovery, that is, the Ameren Illinois Utilities would only pursue such programs contingent upon approval of Rider VBA. Accordingly, the Company alleged that Mr. Hanser's testimony provided necessary information about the planned gas energy efficiency programs, placing the circumstances warranting Rider VBA in context. The Ameren Illinois Utilities' direct testimony filing would have been deficient without it. The Commission finds that the energy efficiency rate case testimony costs were thus prudently incurred, and are allowed.

d. Amortization Period

Ameren's Position

Due to the expectation that the Ameren Illinois Utilities will be filing rate cases on a 2-year schedule in the foreseeable future, the Company proposed an amortization period in this case of 2 years.

Staff's Position

Ms. Ebrey proposed a 5-year amortization period for gas rate cases and a 3-year amortization period for electric rate cases.

Ameren's Response

The Ameren Illinois Utilities alleged that the evidence showed that Staff's proposed amortization periods are too long, and unreasonable for the Ameren Illinois Utilities to recover the costs of gas and electric rate cases.

Mr. Wichmann testified that none of the Ameren Illinois Utilities is or has been on a 5-year rate case filing schedule. The Ameren Illinois Utilities filed their last electric delivery service rate cases in 2005, which were docketed in 2006. Further, facts and issues have changed for both gas and electric delivery systems since the last rate cases were filed. The Company maintained that costs and other rate inputs have become increasingly volatile. As Mr. Nelson explained in his direct testimony, there are several factors influencing the Ameren Illinois Utilities' authorized return as well as system improvements that will continue into the future. The Ameren Illinois Utilities have committed to increasing improvements to the electric distribution system infrastructure. The Company alleged that these issues alone will fuel the need to file rate cases on a more frequent basis.

The Company believes that Ms. Ebrey's argument that a utility would still recover its costs even if it files rate cases in a shorter time frame than the amortization period is misguided. Even if true, the Ameren Illinois Utilities stated that the utility would not be afforded the opportunity to recover such costs in a timely manner or in a time frame matching the current and explicitly described rate case cycle.

Furthermore, the Company maintained that Staff's rebuttal position that "proposing various riders that will mitigate the need to file rate cases due to infrastructure improvements" is also misguided. Rider QIP has changed since it was originally filed to include only projects that are pre-approved by the Commission, as discussed in Mr. Nelson's rebuttal testimony. And, as explained by Mr. Wil Cooper, Rider VBA simply locks the variable delivery revenue into a dollar per customer amount based on test year assumptions. It provides a mechanism that helps ensure revenue is stable at the level determined in the rate case.

Commission Conclusion

The Commission, having reviewed the record, finds that the Ameren Illinois Utilities' proposed 2-year amortization period for both gas and electric rate case expenses is reasonable under current and expected circumstances and is approved.

e. Unamortized Rate Case Expense

The Ameren Illinois Utilities agreed with Ms. Ebrey's adjustment to reflect amortization through October 2008, the approximate date the rates from the current proceedings will go into effect. But AG/CUB witness Mr. Effron's proposal to disallow unamortized rate case expense essentially asks the Commission to reverse its prior order approving the amortization of costs incurred in association with prior rate cases, Docket Nos. 06-0070, 06-0071, and 06-0072 (cons.). The Company believes this is inappropriate because such an adjustment would deny the Ameren Illinois Utilities the opportunity to recover their Commission-approved, prudently incurred costs. As Staff witness Ms. Ebrey stated: "The reason for including the unamortized balances in these cases is that the Commission approved amortization period for such costs has not expired. It would be contrary to the plain language of the prior orders to disallow such costs." The Commission agrees.

f. Navigant, Concentric Costs

Staff's Position

Ms. Ebrey raised several arguments regarding the Ameren Illinois Utilities' rate case expense costs from Navigant and Concentric Energy Advisors ("CEA"). While Staff witness Ms. Ebrey accepted all expenses invoiced by Navigant, she questioned the level of the Navigant and CEA costs leading up to the Ameren Illinois Utilities' rate case filing, and according to the Company, generally disregarded the rebuttal evidence supporting the fact that costs associated with the Navigant invoices she questioned were actually incurred, prudent and reasonable. The Ameren Illinois Utilities noted that Ms. Ebrey made no claim that any cost item listed on the invoice was not prudently incurred, or actually paid.

Ameren's Response

As Mr. Wichmann explained, the Ameren Illinois Utilities believe there is no basis for Ms. Ebrey's reduction of rate case expense because, as she claims, "certain costs were contracted with CEA that would not have been incurred had Ameren not switched consulting firms in the middle of case preparation." The Company opined that in no way did the Ameren Illinois Utilities incur additional costs by continuing to work with their expert witness, Mr. Adams, after he began work for a different consulting firm on July 1, 2007. Estimated costs of post-filing services increased in October 2007, several months after Mr. Adams switched to CEA, and for entirely different reasons than Staff witness Ebrey suggests. At that time, the Ameren Illinois Utilities reexamined the scope of work requested from Mr. Adams, and determined that the Ameren Illinois Utilities would need significantly more post-filing assistance from Mr. Adams than previously

anticipated. The Ameren Illinois Utilities asked Mr. Adams to prepare a revised estimate reflecting the decision to increase the scope of Mr. Adams' work on these rate cases. Additionally, the Company noted out that Staff witness Ebrey conceded an increased level of complexity in these rate case filings. Given these circumstances, as Mr. Wichmann explained, the Ameren Illinois Utilities believe that it is incorrect to assume that there was a resulting increase of costs from Mr. Adams' decision to work for another firm.

Even if there had been transition costs resulting from this type of circumstance, the Company explained that such costs would not have been imprudent. The Ameren Illinois Utilities allege that Staff's hypothesis failed to take into account the fact that if the Ameren Illinois Utilities had continued to use Navigant after Mr. Adams had switched firms, they would have been forced to switch their chosen expert witness, who has been retained for his experience and knowledge, has been retained by the Ameren Illinois Utilities on many occasions and is intimately familiar with their operations and business. The Company also asserts that Staff's theory falsely assumes that no transition costs would have been incurred by choosing a far more difficult transition – choosing another expert witness at Navigant who would have needed to be brought up to speed. Such costs of remaining with Navigant would have been exacerbated by the fact that another lead consultant also switched from Navigant to CEA at the same time as Mr. Adams. The Company noted that Staff witness Ebrey made no claim that the Ameren Illinois Utilities' choice of expert was imprudent.

Staff also raised concerns regarding a paid Navigant invoice marked "Do Not Bill," and per the Ameren Illinois Utilities, generally disregarded the rebuttal evidence explaining that the notation "NB Do Not Bill To" was an error on the part of Navigant Consulting. The Ameren Illinois Utilities asserted that they should not be penalized for a mistake on a vendor's invoice. As Manager of Regulatory Accounting Gary Weiss explained, in testimony and at hearing, he reviewed the invoice and determined that the total hours billed and the summary hours listed by the consultant was reasonable. His further investigation of this issue reconfirmed his initial conclusion that the billings were appropriate, that is, Mr. Weiss was satisfied the hours worked were appropriate for the work being performed.

As of the date of Mr. Wichmann's rebuttal filing, the Ameren Illinois Utilities provided Staff the CEA invoices supporting the lead lag study totaling $100,000, compared with the original budgeted amount of $130,000. The Company maintained that this shows that actual costs were in line with estimates. As of his rebuttal filing date, the Ameren Illinois Utilities provided invoices supporting the AMS market study totaling $653,000 compared to the original budgeted amount of $750,000, the difference between which the Ameren Illinois Utilities have accepted and applied to the updated rate case expense schedule (Ameren Exhibit 20.6).

Furthermore, the Ameren Illinois Utilities stated that while Ms. Ebrey conceded the increased level of complexity in these rate filings, she did not fully appreciate that with increased complexity come increased costs. Mr. Wichmann testified that the discovery process in these rate cases has been far more exhaustive than in the most

recent delivery service rate cases, explaining that the post-filing support estimate was increased with the expectation that CEA would need to budget for a significant increase in time and expense due to the higher level of complexity in the rate filing and testimony provided with the filing, which has borne out through substantial additional support for unanticipated issues, including the plant addition disallowances.

Commission Conclusion

The Commission, having reviewed the record, rejects Staff's proposal to disallow any costs related to Navigant and CEA. These costs are both prudent and reasonable and are, therefore, recoverable by the Ameren Illinois Utilities.

4. Uncollectibles Expense

Ameren's Position

The Ameren Illinois Utilities requested that the Commission determine the uncollectible percentage for each utility using a three-year average of 2005-2007 net write-offs divided by revenues as set forth in Ameren Ex. 19.4. AG/CUB witness Mr. Effron concurs in this approach.

Staff's Position

Staff witness Ms. Ebrey recommended two adjustments to the Ameren Illinois Utilities' calculation of uncollectible percentage. First, she contended that it is appropriate to use 2003 data to calculate the uncollectible percentage based on a five-year average. Second, she proposed to modify 2007 electric revenues for credits and refunds made to customers as a result of the Rate Relief Act.

Ameren's Response

The Ameren Illinois Utilities believe that Staff witness Ebrey's proposed adjustments are flawed and should be rejected for several reasons. To begin, the Company asserted that the Commission should exclude historical data from 2003. Mr. Stafford testified that use of that data would understate the uncollectible percentage and unfairly distort the uncollectible expense levels. The data showed an upward trend in net write-offs since 2003. For each of the Electric Utilities, net write-offs are highest in 2007. For two of the three Electric utilities, net write-offs are lowest in 2003. For two of the three Gas Utilities, the highest net write-offs are highest in 2006 and the lowest in 2003. According to the Ameren Illinois Utilities, this upward trend demonstrates that the most weight should be placed on the most recent data. The Company averred that Ms. Ebrey failed to respond to Mr. Stafford's testimony that use of 2003 data is not indicative of recent or expected levels of net write-offs for the Ameren Illinois Utilities. Moreover, in the most recent Commonwealth Edison rate proceeding, Staff allegedly accepted the use of 2006 information to calculate the uncollectible percentage. Thus, the Company maintained that there is no record evidence or rationale to support the use of 2003 data to calculate the uncollectible percentage for the Ameren Illinois Utilities.

The Ameren Illinois Utilities stated that the Commission should also reject Ms. Ebrey's proposal to modify the 2007 electric revenues for credits and refunds made to customers as a result of the Rate Relief Act. As Mr. Stafford testified, the Company believes this proposal is flawed for at least four reasons.

First, according to the Ameren Illinois Utilities, Ms. Ebrey did not provide any analysis to justify modification of data from 2007 and not any other year. Allegedly without any explanation, she proposed to base the uncollectible percentage on three sets of 2007 adjusted data and 57 sets of unadjusted data from prior years. The Company asserted that the record is devoid of testimony or other evidence to support such an adjustment for one year, particularly when data for multiple years is aggregated. Moreover, while Ms. Ebrey included gas and electric revenues in development of her uncollectible percentage, the Company alleged she failed to present any analysis to show that her proposed approach accounts for large swings in gas revenues due to increased gas prices and variations in electric revenues based on demand or other factors.

Second, the Company pointed out that Ms. Ebrey erroneously included amounts from the Ameren Illinois Utilities' Data Request TEE 5.01 that included credits for the street lighting conversion program. These amounts are recorded to a below-the-line Account 426 and were never recorded as a credit to revenues, as implied by Ms. Ebrey's calculation (which adds back a non-existent amount).

Third, the Ameren Illinois Utilities alleged that Ms. Ebrey has artificially inflated 2007 electric revenues to eliminate the impact of refunds to customers and reductions to customers' outstanding balances without establishing whether an offsetting adjustment should be made, or otherwise supporting the implication that 2007 net write-offs are unaffected by such refunds. The Company asserted that this approach is illogical because if a customer's outstanding balance is reduced, any portion of that balance written off as uncollectible is reduced on a dollar-for-dollar basis.

Fourth, the Company asserted that Ms. Ebrey failed to consider that the vast majority of refunds to customers and reductions to customers' outstanding balances were reimbursed to the Ameren Illinois Electric Utilities by others, as outlined in the Rate Relief Plan. The Ameren Illinois Utilities pointed out that Ms. Ebrey failed to take into consideration that these reimbursements were recorded as an increase to revenues. Ameren Ex. 43.4 shows that about 86 per cent of the 2007 revenue credits were offset with revenue reimbursements. More specifically, of the $221 million of revenue credits provided and recorded as a reduction to revenues, over $189 million of those credits were reimbursed to the Ameren Illinois Electric Utilities and recorded as an increase in revenues in 2007.

Commission Conclusion

The Commission finds that Staff has not supported its proposed adjustments to the Ameren Illinois Utilities' calculation of uncollectibles expense. The Ameren Illinois Utilities have demonstrated that it is reasonable to calculate the uncollectible

percentage for each utility using a three-year average of 2005-2007 net write-offs divided by revenues. Accordingly, the Commission rejects Staff's approach and will determine the uncollectible percentage based on the approach set forth in the Ameren Illinois Utilities' Exhibit 19.4.

5. Injuries and Damages Expense – IP

Ameren's Position

The Ameren Illinois Utilities agreed to Staff witness Ms. Ebrey's gas adjustments to AmerenIP, AmerenCILCO and AmerenCIPS and to the electric adjustments to AmerenCILCO and AmerenCIPS. The Ameren Illinois Utilities have also agreed with Staff witness Ms. Ebrey's proposal to normalize injuries and damages expenses over a five-year period for AmerenIP, but rejected her subjective "hybrid" normalization approach. The Ameren Illinois Utilities maintain that witness Andrew Wichmann's normalization calculation appropriately included all of the AmerenIP electric 2005 actual payments in the injuries and damages expense calculation. The Company asserted that this result is fair, consistent with methodology previously approved by the Commission, and results in a true "normal" expense level. The Ameren Illinois Utilities state that this calculation is consistent with the Ameren Illinois Utilities' original proposed amount, and is reflected in Ameren Exhibit 20.7.

Staff's Position

Ms. Ebrey used the same methodology to normalize injuries and damages expense that was approved by the Commission in Docket Nos. 06-0700/06-0071/06-0072 (Cons.). In that case, the Commission approved a five-year average of the Ameren Illinois Utilities' injuries and damages expenses. Ms. Ebrey appeared to combine this normalization methodology with the one approved by the Commission in Docket Nos. 07-0241/07-0242 (Cons.), where the Commission approved the utilities' actual test-year expenses, adjusted for a highly unusual credit recorded in a prior year. Staff combined these two entirely different methodologies in this case to an unfair result, by both normalizing and removing costs she has deemed to be "outliers."

Ameren's Response

Mr. Wichman explained the Company's allegation that Staff's approach is not reasonable. According to Ameren, the entire point of normalizing is to flatten out the peaks and valleys of a volatile cost component, by averaging actual costs over a reasonable time period. In this case, the Company pointed out that Staff chose to remove certain costs from this average, which did not result in an accurate "normal" calculation. The Ameren Illinois Utilities' proposed cost level averaged actual costs over a 5-year period, which is a reasonable period of time over which to account for the highs and the lows. The Company noted that Staff witness Ms. Ebrey did not claim that the Ameren Illinois Utilities' proposed injuries and damages expense level is unreasonable or did not reflect a "normal" amount.

In rebuttal, Staff witness Ms. Ebrey continued to recommend her proposed direct adjustment removing outlier costs and also normalizing the injuries and damages expense. As stated in Mr. Wichmann's rebuttal testimony, however, the Ameren Illinois Utilities alleged this method resulted in an incorrect normal, by overcorrecting for outlier expenses. Subjectively choosing to remove certain costs before averaging does not result in an accurate "normal" calculation, according to the Company.

Ms. Ebrey claimed that the issue hinged on whether the costs she subjectively chose to remove from the 2005 payouts were "extreme and unusual." The Company believes this argument misses the point. The Ameren Illinois Utilities considered all injuries and damages to be unusual. There are no "normal and expected" accidents, which is why injuries and damages are a volatile cost component. Normalizing flattens out the highs and lows of "extreme and unusual" costs, by averaging actual costs over a reasonable time period. The Ameren Illinois Utilities' proposed cost level averaged actual costs over a five-year period, which is a reasonable period of time over which to account for the highs and the lows.

Commission Conclusion

The Commission, having reviewed the record, rejects Staff's proposed adjustment related to injuries and damages expense and finds that these expenses are both prudent and reasonable.

6. Energy Toolkit

Staff's Position

Staff witness Theresa Ebrey proposed to disallow the costs associated with the Energy Toolkit in her direct testimony. Staff's claim was that the Energy Toolkit is a duplication of information already available from other sources and could be construed as double-dipping if the Ameren Illinois Utility are allowed to recover the same types of costs in both the current proposal and through Rider EDR.

Ameren's Response

The Ameren Illinois Utilities maintained that the Energy Toolkit is a unique program that stands on its own. However, if the Commission concluded the Energy Toolkit is duplicative of other programs in play, or disallows the cost for other reasons, the Ameren Illinois Utilities allege they would have no alternative but to discontinue the program.

According to the Ameren Illinois Utilities, Staff witness Ms. Ebrey contended that the information provided in the Toolkit is already available through other sources such as the customer's monthly bill, Energy Star website, other energy internet sites, and recent Energy Efficiency Plans. The Ameren Illinois Utilities agreed that there are sources of information that may assist some customers in better understanding and managing their energy costs. However, the Company maintained that no other site has the capability of automatically loading, storing and analyzing individual customer usage.

No other site allows the customer to complete an individualized energy analysis audit based on the Ameren Illinois Utilities rates, metered usage, area weather, billing cycle data, changes to owned appliances and individual lifestyle. No other site integrates these diverse sources of customer-specific information in a meaningful format that allows a typical Ameren Illinois Utility residential customer to better understand and manage their energy expenses.

Additionally, the Ameren Illinois Utilities asserted that the Energy Toolkit provides benefits to customers that do not have access to the internet. As explained by Mr. Martin, the Energy Toolkit contains functionality that acts as an enhancement to Ameren Illinois Utilities' customer information system. This functionality allows call center agents to provide much of the same information and analysis to residential customers contacting an Ameren Illinois Utility via phone. The call center agent interface to the Energy Toolkit allows the agent to assist with an energy audit, explain monthly, seasonal or annual changes to price and usage experienced by a customer. According to Ameren, the Energy Toolkit will also allow the agent to generate and mail a customized report to the caller. In summary, the agent interface to the Energy Toolkit allows customers that prefer to contact an Ameren Illinois Utility via phone to receive much of the same energy analysis information.

The Company further opined that the Energy Toolkit is not solely a tool for improving energy efficiency. While it provides education and information about energy efficiency, it is also a tool that may be used by Ameren Illinois Utility customers or call center agents to understand many aspects of their utility bill including effects of price, metered usage, weather, and billing cycle. The Energy Toolkit is a single site that will be deployed specifically for Ameren Illinois Utility gas and electric customers that gathers data and information from a variety of sources, synthesizes the data into a meaningful format, and presents this customer-specific data in a manner that simplifies the process of understanding, comparing, and managing their energy expenses. Further, the Company maintains that the Energy Toolkit costs will not be recovered through Rider EDR.

The Ameren Illinois Utilities alleged that Staff's proposed disallowance of costs related to the Ameren Illinois Utilities' Energy Toolkit is based on a misunderstanding of the unique and valuable functionality of the program. The Company believes that Staff witness Ebrey fails to acknowledge or appreciate the various reasons why the Energy Toolkit is valuable and provides benefits to customers that cannot be found elsewhere. The Energy Toolkit is inherently valuable as an informational and educational tool and has the potential to provide significant dollar and energy savings for the Ameren Illinois Utilities' individual customers.

According to the Company, Staff witness Ebrey also offered a new claim in her rebuttal testimony: that costs of the Ameren Illinois Utilities' Energy Toolkit should be disallowed because AmerenUE has not measured reductions in energy usage associated with its Energy Toolkit program. The Ameren Illinois Utilities urged that Staff witness Ebrey's new argument (which attempts to compare the Missouri market served by AmerenUE to the Illinois market served by Ameren Illinois Utilities) be disregarded

for at least two reasons: First, the Ameren Illinois Utilities' Energy Toolkit is different and offers a greater scope of customer benefits than that employed by AmerenUE. Specifically, the Energy Toolkit in the Ameren Illinois Utilities' service territory (but not the AmerenUE service territory) is available via telephone as well as internet, thus offering service to a wider customer range. In addition, AmerenUE has offered the Energy Toolkit during a period when electric prices in Missouri were relatively low and stable when compared to the current Illinois market. The Company also noted that AmerenUE has a much smaller number of natural gas customers resulting in fewer opportunities to lower the customer's entire gas and electric energy bill. Second, the individualized and selective nature of benefits experienced by Energy Toolkit users renders program benefits difficult to measure in the way Staff witness Ebrey suggests.

The Ameren Illinois Utilities urged the Commission to consider that any difficulty of measuring individual or aggregate customer savings related to the Energy Toolkit does not mean that the program has no value to customers. The Ameren Illinois Utilities obviously believe that the Energy Toolkit provides value to their customers. Accordingly, the Company asserted that there is value inherent in simply making the tool available to customers as a unique informational and educational resource and allowing customers the ability to make informed decisions regarding their energy usage. For a customer to try to similarly self-educate would be extremely difficult, and would require a significant amount of research, time, effort, and analysis – all of which are also valuable resources.

Commission Conclusion

The Commission finds that the information gained via the Energy Toolkit has the potential to save customers significant amounts off of their energy bills over time, depending on the customer and on individual choices. In short, the Energy Took Kit program provides meaningful ratepayer benefits, thereby justifying recovery of the costs of this program in rates. The Commission approves the recovery of costs associated with the Energy Toolkit.

7. Collateral and Prepayments

Ameren's Position

The Ameren Illinois Utilities maintained that they should be allowed to recover their necessary costs associated with prepayment and collateral posting for gas purchases. The Company averred that such additional costs are necessary and will remain necessary unless and until the Ameren Illinois Utilities carry investment-grade ratings.

For the Ameren Illinois Utilities' gas operations, a cost of providing service is the requirement that utilities either prepay for certain services or post collateral. Such requirement is due to limited access to unsecured credit, primarily driven by the Ameren Illinois Utilities' below-investment grade credit ratings.

The Company explained that cash collateral and prepayments increase the costs of providing gas. For cash collateral postings, the cost is estimated by finding the monthly negative carry and multiplying by the monthly amount of the collateral postings. The negative carry is estimated as the difference between the actual short-term borrowing rates in effect for the Ameren Illinois Utilities each month and the actual Federal Funds Target Rate in effect each month (the rate of interest often received for cash balances posted to counterparties). For prepayments, the Ameren Illinois Utilities do not receive interest, as prepayments are considered early payment for pending deliveries rather than as cash deposits that are being held over time. Therefore, the cost of prepaying is estimated by multiplying the actual short-term borrowing rates in effect each month for the Ameren Illinois Utilities by the monthly amount of prepayments.

The Ameren Illinois Utilities further explained that prepayment requirements and collateral postings to assure performance most often arise under North American Energy Standards Board ("NAESB") agreements or International Swap Dealers Association ("ISDA") agreements with various counterparties. Because the Ameren Illinois Utilities' ratings are below investment grade, many of their respective NAESB and ISDA counterparties have availed themselves of a clear contractual right to require the posting of performance assurances. This contractual right is partially described within the Ameren Illinois Utilities' response to Attorney General Data Request 4.16 and can be seen within the contracts provided in response to Staff Data Request TEE 17.04, identified as TEE 17.04 Attach 1 through Attach 58. It is reasonable to expect that many counterparties to these agreements will likely continue to seek to be fully secured with respect to any positive exposure they have to the utilities until ratings return to investment grade levels.

The Company alleged that if they were to fail to provide prepayment as contractually required, they could be cited for default and could be at risk in their efforts to secure and maintain stable, long-term gas supplies for their ratepayers.

As the Company explained, depending on the circumstances, upon receipt of a request for prepayment, the Ameren Illinois Utilities could need to provide prepayment on the same day or on the next business day. Within many of the agreements to which the Ameren Illinois Utilities are principals, calculations of credit exposure take place daily. In instances where a counterparty calculates exposure to the Ameren Illinois Utilities that exceeds any unsecured credit to which the Ameren Illinois Utility is entitled (such calculation to take place in accordance with contract provisions in place within the applicable agreement), the counterparty would have a contractual right to require a margin posting. Such calculations and margin calls can (and often do) take place each business day. In most cases under ISDA contracts, counterparties have one business day to post margin as requested. As is a standard practice within the energy industry, the Ameren Illinois Utilities perform the same calculations as their counterparties: (1) in order to determine the appropriateness of any margin call received by the Ameren Illinois Utilities; (2) to determine whether margin posted by the Ameren Illinois Utilities should be returned; and (3) to determine whether the Ameren Illinois Utilities should request margin from any of their respective counterparties. Upon receipt of an appropriately submitted margin call, if the Ameren Illinois Utilities fail to respond as

required within their contracts, they could be cited for default and could be at risk in their efforts to secure and maintain stable, long-term gas supplies for their ratepayers.

The Ameren Illinois Utilities alleged that the amounts of cash collateral and prepayment can change monthly or more frequently and are susceptible to change as often as daily. Prepayment amounts may change monthly or more frequently, depending upon the nature of the agreement and whether the transaction is baseload or swing. Under a monthly baseload contract, the prepayment amounts can vary due to varying estimated monthly volumes and varying prices applicable to the volumes. Under swing packages, the Ameren Illinois Utilities may exercise a right to call on variable amounts of gas depending upon the need that exists at that time, and prepayment would vary according to gas volumes and pricing. With respect to cash collateral, the amounts may change daily, depending on the nature of each agreement and the transactions executed under each agreement. The Company provided the example of a fixed-for-floating swap, which is revalued each business day based upon changes in market pricing in relation to the fixed pricing indicated in the executed transaction; as a result, margining could conceivably take place as often as each business day.

If the Ameren Illinois Utilities carried investment grade ratings, they allege they would in most instances be able to pay for gas supplies during the month following the receipt of gas deliveries, which would substantially reduce and possibly eliminate prepayment-related costs currently borne by the Ameren Illinois Utilities.

AG/CUB's Position

AG/CUB witness Mr. Effron reviewed the collateral and prepayment costs as estimated by the Ameren Illinois Utilities in response to Attorney General Data Request 4.13, including the attachment thereto identified as AG 4.13-REV Attach. He proposed modifications to the prepayment cost amounts estimated by the Ameren Illinois Utilities, indicating: (1) the Ameren Illinois Utilities excluded the prepayment balances in the first available month in which data was available; and (2) he recommended "… the latest known applicable interest rate be used rather than the month-by-month interest rates." In addition, Mr. Effron's Schedule DJE-4, page 4 indicated he is averaging the individual monthly amounts of prepayment postings to obtain an average monthly prepayment posting to which he then applies the most current annual rate of interest. In surrebuttal, Mr. Moloney concluded that the methodology used by AG/CUB witness Effron to calculate his proposed "Annual Interest" amounts was acceptable. The "Annual Interest" reflected in AG/CUB Exhibit 4.1, Schedule DJE-4, Page 4 is as follows: AmerenCILCO ($353,000); AmerenCIPS ($76,000); AmerenIP ($672,000).

Staff's Position

Staff witness Ebrey recommended a disallowance of the Ameren Illinois Utilities' pro forma adjustments to include as purchased gas expense an interest component related to cash collateral and prepayments. She based the adjustment on her claim that the Ameren Illinois Utilities did not show that these collateral postings and prepayments

are solely for purchased gas. Ms Ebrey also claimed that, if the collateral posting and prepayments were solely for purchased gas costs, they would be "considered for recovery through the rates determined under the Purchased Gas Adjustment Clause ("PGA"), rather than recovery through base rates."

Ameren's Response

Contrary to Staff's position, the Ameren Illinois Utilities believe they have, as the foregoing discussion illustrates, demonstrated that the collateral postings and prepayments are for purchased gas. Accordingly, the Company asserted that the costs are properly recoverable from gas customers. The Ameren Illinois Utilities' position is that if the Commission determines that recovery should be through the PGA, it should make a definitive statement to that effect.

Commission Conclusion

The Commission, having reviewed the record, finds that the costs associated with collateral and prepayment are recoverable.

8. Reliability Initiatives

Ameren's Position

The Ameren Illinois Utilities seek recovery of costs for reliability initiatives that consist of, among other things, projects for tap fusing, device inspection, lightning arresters, circuit inspection, multiple device interruption, worst performing circuits, underground cable replacements, and distribution service replacements. The Company took the position that all of these projects are benefiting or will benefit the companies' customers.

Staff's Position

Staff witness Ms. Ebrey and AG witness Mr. Effron proposed to disallow the Ameren Illinois Utilities' costs related to reliability initiatives. Ms. Ebrey claimed that the Commission "does not accept simply budgeted amounts for evidence supporting approved rate case expense" and that such costs are not "known and measurable." Similarly, Mr. Effron argued that "there is little evidence that the actual reliability expenditures are increasing at anything like the rate being forecasted by the companies."

Ameren's Response

According to the Ameren Illinois Utilities, none of the reasons proffered by Ms. Ebrey and Mr. Effron provide a basis to disallow the utilities' costs for reliability initiatives. To begin, the Company alleged that Ms. Ebrey is wrong that the "Commission does not accept simply budgeted amounts for evidence supporting approved rate case expense." She contended that Mr. Getz's examples of past instances where the Commission has approved budgeted or estimated expenses "fall short" without attempting to explain how

his testimony is deficient. In fact, the Company pointed out that she completely failed to address the examples provided by Mr. Getz. Mr. Getz testified that in the most recent Ameren Illinois Utility rate cases, rate case expense for all three of the Ameren Illinois Utilities' (or their predecessors') gas rate cases were based on estimates. He further testified that, in the prior cases (Docket Nos. 06-0070/06-0071/06-0072, Cons.), at least five adjustments were proposed based on budgets or estimates. These were: weather normalization adjustments; wage and salary adjustments to labor expense; pensions and benefits; tree trimming; rate case expense; and AmerenIP acquisition cost savings. All five adjustments were contested by at least one party in the proceedings, and three of the five ultimately were set based on budgets or estimates. For labor expense, incentive compensation was excluded while wage and salary expenses included 2006 budgeted percent increases. Pension and benefits were based on 2007 actual expense. The Commission approved the 2006 budget amount for AmerenIP tree trimming costs. The Commission approved a combination of actual and estimated amounts for rate case expense. Finally, AmerenIP acquisition savings as budgeted through 2006 were included in the final determination of revenue requirement.

The Ameren Illinois Utilities state that Ms. Ebrey is mistaken in her belief that, because projects are currently "being identified and will be engineered and scheduled," that the costs cannot be known and measurable. To the contrary, Mr. Getz testified that the broad scope of work to be performed has been identified and included in the pro forma adjustment. Calculations were made based on the type of work, the labor rates, materials and equipment involved for the costs in the aggregate. The Company asserted that the fact that some engineering and scheduling on these projects is ongoing does not mean that the projects are not expected to be completed. Ameren noted that engineering often continues even after a project has started.

The Ameren Illinois Utilities also took issue with Mr. Effron's failure to support his claim that "there is little evidence that the actual reliability expenditures are increasing at anything like the rate being forecasted by the Companies." Mr. Getz testified that increases in reliability expenditures are reasonably certain to occur, and, in fact, are occurring. Moreover, the Company believes that the increases are determinable. Ameren explained that reliability costs have grown from $816,000 in the 2006 test year to $2.2 million in 2007. The 2007 expenditures constitute a 265% increase from the test year expenses. Through March 31, 2008, the Ameren Illinois Utilities have already spent approximately $1.5 million related to reliability projects. These expenditure are on track with budgeted amounts.

The Company explained that Mr. Effron's claim that "There is little or nothing in the Companies' actual experience to support the level of reliability spending forecasted by the Companies for 2008" is equally unavailing. As the Ameren Illinois Utilities explained, 2008 expenditures are known, measurable, and on track with budgeted amounts. Under the circumstances, past experience is not indicative of current and future levels of reliability expenditures; the Commission has placed increasing emphasis on reliability and the Ameren Illinois Utilities have raised the level of reliability spending in response. Moreover, unique coding has been implemented in the past few years to

enhance tracking of specific reliability initiatives. The Ameren Illinois Utilities asserted that they will continue to track costs that are being incurred.

Commission Conclusion

The Commission, having reviewed the record, finds that the costs of the reliability initiatives are necessary, prudent, known, measurable and ongoing expenditures for which recovery is proper.

9. Public Utility Fund Base Maintenance Contribution

Ameren's Position

The Ameren Illinois Utilities explained that Section 2-203 of the Public Utilities Act, 220 ILCS 5/2-203, requires certain electric utilities in Illinois to "contribute" their pro rata share of $5.5 million to the Public Utility Fund. AmerenIP, AmerenCIPS and AmerenCILCO therefore included expenses for the Public Utility Fund base maintenance contribution ("PUF BMC") in test year revenue requirements. The total test year revenue requirement for this item for the three utilities is about $1.6 million.

Section 2-203 expires by its terms as of January 1, 2009. Notably however, a bill (SB 1926, as amended by Senate Amendment 1) is presently pending in the General Assembly that would retain PUF BMC contributions until January 1, 2014.

Staff's Position

Despite the fact that PUF BMC contributions may be extended, Staff witness Ms. Ebrey proposed an adjustment to exclude expenses related to the PUF BMC from test year revenue requirements. She conceded that if SB 1926 becomes law before the Commission issues a final order in this proceeding, her adjustment is unnecessary.

Ameren's Response

According to the Company, Ms. Ebrey's adjustment to exclude PUF BMC expense is improper for at least two reasons. First, the Company asserted that the adjustment violates the Commission's test year and pro forma adjustment rules. Section 83, Part 287 of the Administrative Code provides for pro forma adjustments to historical test year data that are reasonably certain to occur within 12 months after the filing date of tariffs. 83 Ill. Admin. Code § 287.40. Tariffs in this proceeding were filed on November 2, 2007. Pro forma adjustments may extend to November 2, 2008. Staff's proposed adjustment relates to an expense item that will not be affected (if ever) until January 1, 2009. The Ameren Illinois Utilities concluded that the adjustment is outside the pro forma adjustment period and improper for that reason alone.

Second, as Mr. Stafford explained, Ameren believes Staff's adjustment is prohibited single issue ratemaking. The Company pointed out that there are many different costs that could increase or decrease beyond the test year. That is the point of limiting the period for pro forma adjustments; to ascertain known and measurable

adjustments to test year income and expense. Ms. Ebrey acknowledged that she did not undertake a review to determine whether there was any pending legislation that would potentially *increase* the Ameren Illinois Utilities' costs after January 1, 2009.

The Ameren Illinois Utilities recognized the possibility that they may not incur PUF BMC expenses after January 1, 2009. They alleged, however, that Staff's adjustment failed to recognize that it is just as likely – if not more likely – that PUF BMC charges will not only be extended, but may be increased above the amounts required by current law, for the reasons explained by Mr. Stafford. Therefore, in contrast to the one-sided nature of Ms. Ebrey's treatment of PUF BMC charges (that is, exclusion of the expense unless the legislature acts before the final order is issued in this proceeding), Mr. Stafford proposed a resolution that is allegedly fair to both the companies and ratepayers. Specifically, the Ameren Illinois Utilities proposed that rates be set initially based on the level of PUF BMC expense included in Ameren Ex. 43.5. The Commission could authorize an across-the-board change to tariff rates effective January 1, 2009, to reflect PUF BMC funding requirements. If no contributions are required after January 1, 2009, the cost to ratepayers will be $0. If contributions are required, those costs can be properly recovered in rates, dollar for dollar, based on whatever funding level is approved by the legislature. The Ameren Illinois Utilities would recover their actual PUF BMC contribution expense, no more and no less.

Commission Conclusion

After having reviewed the record, the Commission concludes that the Ameren Illinois Utilities' proposal regarding the PUF BMC is adopted.

10. Depreciation

a. Depreciable Life for Electric Distribution Equipment

Ameren's Position

The Ameren Illinois Utilities explained that the service life of utility property can be defined as the period of time from its installation until it is retired from service. The currently approved service life estimates were determined in conjunction with utility-specific service life studies that were performed by three depreciation experts at different firms for each electric utility. And the estimates proposed by Mr. Wiedmayer were based on informed engineering judgment itself based on thorough analyses of available historical service-life data related to the property, a review of management's current plans and policies, a review of the prior approved service-life estimates, and a review of service lives estimated by other electric companies. Both the approved lives and proposed lives were reached using industry-standard methodologies. Although these studies revealed a wide range of estimated service lives, the Company maintained that there is nothing unusual about this—for a single plant account (such as meters) to contain a range of different service lives is indeed quite typical.

Staff's Position

Staff's recommendation in this case is to determine the service life of an asset by determining its classification.

Ameren's Response

The Ameren Illinois Utilities explained that Mr. Rockrohr proposed no specific adjustment, but suggested that the depreciable lives for certain distribution plant accounts (such as meters) should be the same for all three utilities. He premised his recommendation on the observation that the Ameren Illinois Utilities are now operating under common management. Equipment is henceforth to be constructed and maintained to the same or nearly the same standards among all three utilities. According to Staff, the same equipment would remain in service the same number of years for all three Ameren Illinois Electric Utilities, and should be assigned the same service life.

The Company believes that this recommendation ignores the fact that these accounts do *not* contain plant of the same vintage, type, or condition. Although the Ameren Illinois Utilities became affiliated in 2005, most of the plant subject to Mr. Rockrohr's adjustment was on the system *before* 2005. Thus, Ameren maintained that the rationale for identical service lives (that is, common management) has no application to most of the equipment on the Ameren Illinois Utilities' system. The Company provided the example of meters installed since 2005 and which represent less than 12 percent of the depreciable plant balance for meters as of December 31, 2006.[10])

The Ameren Illinois Utilities stated that Mr. Rockrohr appears to recognize that absent common management, different depreciable lives were appropriate. He agreed that it was reasonable for the Ameren Illinois Electric Utilities to have different depreciable lives for distribution plant when the utilities were not affiliated. But although there has been little turnover on the system since 2004, Mr. Rockrohr reasoned that the mere fact of common management justifies use a single depreciable life for distribution plant. This elevation (indeed, isolation) of a single factor in the estimation of service lives is not warranted, according to the Ameren Illinois Utilities.

The Company urged that management practice is just one factor to be used in determining depreciable lives, not the only or dispositive one. As Mr. Wiedmayer's particularized study showed, the other factors justified a wider range of estimated service life. The Ameren Illinois Utilities concluded that his study determined that over 500 different models (or variations) of meters are in service on the system, many of which were manufactured by a number of different companies, installed at different times, and subject to different conditions of service. Mr. Rockrohr's recommendation,

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[10] Ameren Ex. 24.3 presents for each electric utility the meter investment as of December 31, 2006, related to vintages 2004 and prior and expressing that amount as a percentage of the total December 31, 2006 plant balance.

on the other hand, is not based on a particularized study, or any real evidence, in the Company's opinion. It is instead based on the bare fact that consolidation has taken place. Consolidation, however, did not homogenize the assets on the Ameren Illinois Utilities' system, and according to Ameren, he has given the Commission no good reason to ignore the results of Mr. Wiedmayer's study.

The Company stated that while Staff's proposal may someday be appropriate for the Ameren Illinois Utilities (when the system contains plant predominantly installed under common management), the proposal does not reflect the current reality of the system. Ameren noted that his line of reasoning, however, does make some sense going forward.

The Ameren Illinois Utilities agreed that, all things equal, equipment installed since 2005 will experience similar service lives on average. But the service lives proposed by Mr. Wiedmayer were based on recognized and accepted techniques for estimating utility plant lives. While Mr. Wiedmayer testified that he would expect the depreciable lives in the future for certain plant accounts to be more similar for the reason stated by Mr. Rockrohr, he does not believe that a single depreciable life is warranted at this time. The utilities have only been affiliated since 2005, too short a period to have a material effect on the service lives of utility plant. Mr. Rockrohr's recommendation may have some merit in the future, but it should not be adopted in this proceeding, according to the Ameren Illinois Utilities.

Commission Conclusion

The Commission, having reviewed the record, rejects Staff's recommendation to determine the service life of an asset by its classification.

b. Net Salvage Method for Depreciation Expense

Ameren's Position

The other objection raised to the Ameren Illinois Utilities' depreciation proposal concerned the appropriate treatment of net salvage. As explained by the Ameren Illinois Utilities, the general aim of depreciation accounting is to distribute the cost of fixed capital assets, less net salvage, over the estimated useful life of the assets in a systematic and rational manner. "Net salvage" means the salvage value of property retired less the cost of removal. It is a positive value if the salvage value exceeds the cost of removal, and negative (i.e., a net cost) if the cost of removal exceeds salvage value.

In this case, Mr. Wiedmayer proposed using the traditional, accrual method for accounting for net salvage, that is, allocating the cost to each year of the assets' service life rather than when the actual salvage-related costs are incurred. The Company pointed out that this is the approach used by this Commission for many years and by the majority of commissions in other jurisdictions. The Ameren Illinois Utilities maintained that it is also supported by the USOA, prescribed by preeminent scholarly texts on depreciation, and is consonant with the ratemaking principle of equity.

IIEC's Position

IIEC, however, proposed to depart from the traditional, accrual method of accounting for net salvage. Rather than allocating the net salvage costs over the life of the associated assets, IIEC witness Mr. Selecky recommended recognizing each company's most recent five-year net-salvage experience.[11]

Ameren's Response

The Ameren Illinois Utilities asserted that Mr. Selecky's approach is inconsistent with the practice of this Commission. Ameren explained that the Commission treats net salvage for ratemaking and book purposes in a manner similar to the vast majority of state commissions. It allows for the prospective recovery of future net salvage over the life of plant through the use of current depreciation rates. Past cases involving the Ameren Illinois Utilities—CILCO (Electric) - Docket No. 93-0433; CIPS (Electric) – Docket No. 91-0193; IP (Electric) – Docket No. 91-0147—exemplify this approach. And in recent cases as well, the Commission has provided for the same treatment of net salvage. Also, as Mr. Wiedmayer testified, the vast majority of other state public utility commissions also use the traditional approach proposed here.

The Ameren Illinois Utilities provided one example that they believe is particularly instructive: a 2006 AmerenUE case before the Missouri Public Service Commission ("MPSC"). In that case (Case No. ER-2007-0002), the MPSC rejected a very similar position advocated by Mr. Selecky. Both Mr. Selecky and Ameren witness Mr. Wiedmayer presented testimony, on behalf of the Missouri Industrial Electric Consumers and AmerenUE, respectively. Ratemaking treatment of net salvage was at issue. As in this case, Mr. Selecky supported effectively expensing experienced net salvage costs and Mr. Wiedmayer supported the traditional method of prospectively accruing for future net salvage over the life of utility plant.

According to the Company, Mr. Selecky's proposal in the AmerenUE case included an alternative fallback proposal in which he removed past levels of inflation for the historic net salvage analyses. As here, he deemed past inflation rates as being excessive and unlikely to recur and substituted his projection of future inflation into the historic net salvage analyses.[12]

Ultimately, the MPSC rejected the position advanced by Mr. Selecky, stating:

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[11] Mr. Selecky has in fact offered two proposals in this case regarding the treatment of net salvage. The differences between the two proposals are formal, however, not substantive. Neither provides for the recovery of future net salvage over the life of an asset; each would allow the recovery only of the most recent five-year average for net salvage for each company.

[12] In this case, although Mr. Selecky discussed this inflation issue at length in his testimony, he never substituted his projection of future inflation (2% per annum) for past inflation in his calculations.

> The fundamental goal of depreciation accounting is to allocate the full cost of an asset, including its net salvage cost, over its economic or service life so that utility customers will be charged for the cost of the asset in proportion to the benefit they receive from its consumption.

Additionally, the MPSC rejected Mr. Selecky's proposal regarding net salvage, stating:

> MIEC's proposal to abandon the accrual method of calculating depreciation would abandon what the Commission found to be a fundamental goal by once again divorcing recovery of net salvage from the customers who will benefit from the use of the asset during its lifetime. It would instead push those costs onto future ratepayers who would be saddled with the full cost of net salvage at the time the asset is retired.

The Ameren Illinois Utilities believe it is noteworthy that the MPSC's rejection of Mr. Selecky's position and robust statements in support of the traditional position followed an initial experiment with Mr. Selecky's proposal. As explained in detail in Mr. Wiedmayer's testimony, the MPSC was reversed by the courts of Missouri.

According to the Ameren Illinois Utilities, Mr. Selecky's proposal is a departure from Commission precedent, and is inconsistent with the approach used by the vast majority of state commissions.

In addition, as discussed in great detail in Mr. Wiedmayer's rebuttal testimony, the Ameren Illinois Utilities believe that IIEC's approach does not square with the Uniform System of Accounts ("USOA"). The USOA requires utilities keep their accounts on the accrual basis. "Utilities *must* use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property *over the service life of the property*." The Company's position is that to only recognize salvage-related costs at the time any salvage-related dollars change hands would be to follow the "cash" basis of accounting, contrary to the instructions of the Uniform System of Accounts.

The Company also explained that the traditional net salvage treatment is also prescribed by preeminent scholarly texts on depreciation. As Mr. Wiedmayer's testimony explained, both *Public Utility Depreciation Practices* and *Depreciation Systems* directly address the issue of whether net salvage should be accrued during the life of the related plant. And according to both, the answer is yes.

Public Utility Depreciation Practices, published in 1996 by the National Association of Regulatory Utility Commissioners (NARUC), states at page 157 that "the estimated cost of removal of plant" should be "recovered over its life":

> Closely associated with this reasoning are the accounting principle that revenues be matched with costs and the regulatory principle that utility customers who benefit from the consumption of plant pay for the cost of that plant, no more, no less. *The application of the latter principle also* requires *that the estimated cost of removal of plant be recovered over its life.*

(Emphasis added.)

Likewise, the 2004 edition of *Depreciation Systems* states at page 7 that "[e]stimated future costs must be accrued and allocated as part of the current expenses":

> The matching principle specifies that all costs incurred to produce a service should be matched against the revenue produced. Estimated future costs of retiring of an asset currently in service *must* be accrued and allocated as part of the current expenses.

(Emphasis added.) Both texts use mandatory language and prescribe the traditional approach of accruing "retirement" or "removal" costs over the life of the plant.

The Company explained that Mr. Selecky pointed to some language from *Public Utility Depreciation Practices* to support his position, but he took the language out of context and mischaracterized it. The quotation contained in his testimony merely *describes* how some commissions have moved to current period accounting for gross salvage and/or cost of removal. In contrast, as discussed above, this text *prescribes* Mr. Wiedmayer's approach.

The Ameren Illinois Utilities maintained that these authorities show that accruing net salvage costs over the life of the related asset has the virtue of being not only the majority approach, but the considered approach as well.

The Ameren Illinois Utilities argued that in addition to violating precedent, the USOA, and the recommended approach by depreciation scholars, Mr. Selecky's approach also violates the ratemaking principle of customer equity. The principle of equity demands that the customers who enjoy a given benefit should pay their portion of the related costs, no more, no less. The Company urged that the approach proposed by the Ameren Illinois Utilities would allocate net salvage costs associated with given assets to the customers being served by those assets. The Company is concerned, however, that IIEC's approach would mismatch those who benefit from the net salvage costs with those who pay such costs.

The Ameren Illinois Utilities stated that IIEC's proposal would require the current generation of customers to bear the cost of assets that are no longer serving them. Thus, Mr. Selecky's proposal would recover the entire element of an asset's cost of service from customers that either received no benefit from the asset or only a portion of

the asset's service value. The Company urged that this is a straightforward violation of the principle of equity, and no different than requiring one generation of customers to pay the entire original cost of an asset that served many generations.

The Ameren Illinois Utilities opined that when IIEC invokes equity, what it really seems to be concerned about it is the fact that, at present, the net salvage accrual exceeds recent net salvage experience. Ameren argued that this is true, but it is no cause for concern and certainly no violation of the matching principle. System growth is the explanation. As Mr. Wiedmayer explained, "it is to be expected (and altogether reasonable) for the net salvage accrual to exceed recent net salvage experience for a utility that is continually expanding as the Ameren Illinois Utilities have been over the past fifty years or so. . . . The size of the system has doubled in the past 50 years as has the number of customers . . . ." This system growth is quantified in Ameren Exhibit 24.1.

According to the Company, more customers require more plant, and more plant requires more retirement costs. It is only natural that the costs associated with the retirement of current plant (i.e., the net salvage accrual) exceed those associated with past plant (i.e., recent net salvage experience). And to Ameren, this means it is no reason to depart from the traditional method of accounting for net salvage.

At page 14 of his testimony, Mr. Selecky stated that "th[e] process of including estimates of future inflation in the net salvage component of the depreciation rates produces intergenerational inequities." The Ameren Illinois Utilities stated that this is untrue. The Company opined that Mr. Selecky's criticism of the inclusion of future inflation ignores the inherent requirement in setting depreciation rates that one must estimate future values, that is, both the service life of an asset and the related net salvage values. According to Ameren, the cost to remove the plant currently serving ratepayers *will* reflect inflation; therefore, it is appropriate to recover those costs as part of the net salvage accrual.

As to Mr. Selecky's averment that he is "not aware of any other ratemaking operating expense" that includes an inflation component, the Ameren Illinois Utilities argued that this statement only shows an apparent lack of familiarity with other ratemaking operating expenses. Testimony showed that a number of other expenses that include an inflation component, such as pensions, rate of return, capitalized interest, long term bonds and lease payments. The Company asserted that this confirms that there is nothing unseemly about accruals for future expenses including a reasonable estimate of inflation.

Furthermore, the Company alleged that Mr. Selecky did not provide any good reason to alter the rate of inflation assumed in Mr. Wiedmayer's calculations. The 4.4% rate is based on forty years of historical data; Mr. Selecky's is speculative. A 40-year moving average of the change in price levels as measured by the Handy - Whitman Utility Cost Index or the Consumer Price Index has held relatively stable. The Ameren

Illinois Utilities concluded that it is speculative, at best, to expect the rate of inflation to drop from 4% to 2%, as Mr. Selecky suggests it will.[13]

Mr. Selecky stated that SFAS No. 143 provides insight regarding how "the accounting profession views future retirement obligations." According to Mr. Selecky, this standard supports his net salvage proposal.

The Ameren Illinois Utilities explained that Mr. Selecky ignored the fact that accounting serves different purposes in different contexts. Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* ("SFAS No. 143") is a recently adopted accounting standard used for *financial reporting* purposes to the SEC. It was not designed for *ratemaking* purposes. The Ameren Illinois Utilities asserted that there are considerable differences between the requirements of financial reporting under GAAP and USOA. Financial reporting deals with the preparation of GAAP-based financial statements as prescribed by the SEC for public companies. Regulatory accounting is reflective of the applicable regulatory rules and reporting requirements of the various state and federal agencies engaged in regulating public utility rates. Thus, according to the Company's analysis, SFAS 143 is irrelevant here.

However, the Company maintained that even if SFAS No. 143 applied to ratemaking, it would not apply in this situation. That standard deals with *legal* obligations to retire certain property (such as a nuclear power plant), whereas the Ameren Illinois Utilities' removal costs are by and large related to *non-legal* asset retirement obligations, such as poles and overhead wire. SFAS No. 143 is therefore inapplicable, under Ameren's analysis.

Mr. Selecky acknowledged as much. He states that "FAS 143 does not apply specifically to Ameren's Transmission, Distribution and General (TDG) assets. In fact, one of the reasons it does not apply is that Ameren does not have an obligation to remove the assets." The Ameren Illinois Utilities concluded that Mr. Selecky's own testimony confirms that SFAS 143, in this case, is a red herring.

Commission Conclusion

After reviewing the record, the Commission concludes that the traditional accrual method for accounting for net salvage is appropriate.

11. NESC Violation Correction Costs After the Test Year

[13] These problems were recognized in the 2006 AmerenUE Missouri rate case discussed above. There, the MPSC recognized that the "proposal to substitute projections of future inflation for historic rates of inflation is flawed by an overstatement of the average age of historical retirements used in the formulas for substituting projected future inflation for historic rates of inflation." That commission noted that "[e]xpert predictions of future inflation can be little more than guesswork" and found "past history to be a better predictor of future inflation for ratemaking purposes."

Ameren's Position

In his testimony, Staff witness Rockrohr recommended that the Ameren Illinois Utilities track costs associated with correcting all National Electrical Safety Code ("NESC") violations and separately account for costs for correcting NESC violations that are the consequence of improper initial construction. Further, he recommended that the Commission disallow recovery of prospective costs associated with correcting NESC violations that exist due to improper initial construction – i.e., including violations resulting from actions that occurred prior to Ameren's acquisition of the utilities. The Ameren Illinois Utilities have agreed to track costs associated with correcting NESC violations, but oppose disallowance of those costs.

As part of a 1997 merger between the Union Electric Company and Central Illinois Public Service Company, a public utility holding company, Ameren Corporation, was created. In 2003, in Docket No. 02-0428, the Commission approved Ameren's acquisition of CILCORP, which included its operating utility subsidiary, Central Illinois Light Company. In 2004, in Docket No. 04-0294, the Commission approved Ameren's acquisition of Illinois Power Company and in 2005, the Commission approved the transfer of the AmerenUE service territory in Illinois to AmerenCIPS.

As Mr. Pate explained, at the time Ameren acquired these utilities, it was apparent they were in dire need of capital infusion and reliability improvements. As a result of its acquisition of Central Illinois Light Company and Illinois Power Company, Ameren made significant investments of capital. In the Commission's Conditions of Approval from Docket No. 04-0294, a number of capital investments were required, including Ameren causing AmerenIP to incur between $275 million and $325 million of capital expenditures during the first two years of ownership. AmerenIP also committed to and completed transmission projects or upgrades, as well as a number of gas and electric program upgrades and reliability improvements.

Similarly, with respect to AmerenCILCO (Docket No. 02-0428), Ameren committed to construct and install mitigation projects to facilitate transmission into the AmerenCILCO control area. Among other conditions relating to reliability initiatives, AmerenCILCO committed to a four-year trim cycle. The Ameren Illinois Utilities met their obligations.

According to the Ameren Illinois Utilities, the Commission and its Staff identified a number of programs, initiatives, and other requirements of Ameren or the acquired utilities in the acquisition Dockets, and assuming responsibility for unknown past violations were not made part of the conditions of approval. Ameren believes it has fulfilled all of its responsibilities required in the Commission's acquisition Dockets, and that it would be unfair and inequitable to now impose additional conditions of acquisition by holding Ameren responsible for costs due to "improper initial construction" occurring prior to Ameren ownership.

Mr. Pate explained that the Ameren Illinois Utilities have made steady and marked improvements in terms of ensuring a safe and reliable distribution system since

Ameren ownership. Among other things, repairs and upgrades have been made to numerous circuits, animal mitigation measures have been installed, and cables have been repaired or replaced. Notably, the Staff in its 2005 annual assessment and reliability report to the Commission stated the overall reliability of the Ameren Illinois Utilities had improved as compared to the two prior years (the first years of Ameren ownership of AmerenCILCO and AmerenIP). Furthermore, the Ameren Illinois Utilities are exercising diligence in correcting problems with the distribution system that existed prior to Ameren ownership. It was apparent at the time of Ameren's acquisition that these utilities were in dire need of capital infusion and reliability improvements, as the Commission and its Staff were fully aware. The Ameren Illinois Utilities have vigorously pursued enhancement of the distribution systems and claim they will continue to do so. No party to this proceeding has suggested that the Ameren Illinois Utilities should do otherwise.

In Staff's 2007 annual assessment and reliability report, Staff reported finding down guy and overheads that were not bonded, or not properly insulated, or where the strain insulator was not properly placed, all at the time of installation. Ameren Illinois Utilities believe a significant portion of the violations due to improper initial construction occurred prior to Ameren ownership. A substantial amount of these construction projects occurred when Central Illinois Light Company was owned by AES and when Illinois Power Company was owned by Dynegy, Inc, or when Illinois Power Company and Central Illinois Light Company were stand alone, separate entities.

Staff's Position

The Company explained that it is Staff's position that NESC violations due to initial improper construction, regardless of when or who was responsible for the initial construction, are the responsibility of the Ameren Illinois Utilities and, therefore, the costs associated with those repairs should be only borne by shareholders. Though the issue of cost recovery remains pending, the Ameren Illinois Utilities agreed to resolve the repair and replacement of identified substandard overhead guy and down guy by the end of 2008.

Ameren's Response

Ameren Illinois Utilities have made certain commitments in response to the NESC issues, including: (1) an agreement to track all costs associated with NESC compliance, (2) an agreement to forego current recovery of test year expenses that it has incurred for NESC compliance, (3) an agreement to forego future recovery related to the replacement of otherwise grandfathered single cross-arms at railroad or interstate highway crossings, and (4) an agreement to forego future recovery for the replacement of down guys or overhead guys that were improperly constructed after Ameren ownership.

The Ameren Illinois Utilities believe they have put forth a fair and responsible proposal under which the shareholders will properly bear the costs associated with violations occurring after Ameren ownership.

The Company took the position that disallowing all costs associated with correcting NESC violations due to improper initial construction by a previous owner should be rejected for three reasons. First, disallowance fails to find Ameren's prospective investments are imprudent. Second, disallowance is at odds with the Public Utilities Act goals and objectives. Finally, Mr. Rockrohr's recommendation runs afoul of the Commission's long held policy of encouraging the acquisition of financially troubled utilities.

According to the Ameren Illinois Utilities, Mr. Rockrohr's recommendation to disallow recovery for necessary NESC corrections ignores the statutorily mandated evaluation of whether the proposed expenditures are prudent. An examination of whether an investment is both prudently incurred and used and useful is required when determining whether a public utility's investment should be included in its rate base. The Company urged that while Mr. Rockrohr undertook a prudency, and used and useful examination for some expenditures, he failed to apply a prudency or used and useful analysis when assessing Ameren Illinois Utilities prospective replacement of substandard NESC construction.

The Company pointed out that Mr. Rockrohr applied both a prudency review and used and useful review to plant additions for investments that exceeded the threshold set forth in the Commission's rules. He reviewed and learned why the additions were needed, reviewed other alternatives contemplated by the utility, and considered the costs associated with the other alternatives. In some cases, Mr. Rockrohr even took the additional step of reviewing management reports, but not for NESC corrections.

According to Ameren, Mr. Rockrohr acknowledged his uneven treatment:

> The prudency test that I used was for plant additions. It wasn't for modifying exiting facilities for NESC corrections. It's not a consistent application.

Rather than employ a prudency analysis to prospective NESC investments, Mr. Rockrohr instead looked to the past, and recommended investment to remedy past conduct shall forever be barred from recovery. He focused not on the circumstances encountered by Ameren Illinois Utilities management at the time they learned of the NESC issues in 2007, or their subsequent plan to make all the identified repairs and replacements by the end of 2008, but rather, he focused on what he thought management should have known at the time of initial construction. The Ameren Illinois Utilities maintain that this is incorrect.

In determining whether future replacement costs should be recovered, the Company urged that the Commission's attention must focus on the decision of Ameren Illinois Utilities management to make the prospective replacements - not on past construction efforts, and most certainly not on the conduct of previous owners. Doing so allegedly runs counter to the policy against hindsight review discussed in the Commission's Order in Docket No 84-0395. In its relevant part, the Commission stated: "In determining whether or not a judgment was prudently made, only those facts

available at the time the judgment was exercised can be considered. Hindsight review is impermissible." Though Mr. Rockrohr relied on this same Commission order in his analysis of other capital additions, according to the Ameren Illinois Utilities, he neglected to consider prudency in his analysis of prospective NESC required replacements. Mr. Rockrohr focused not on whether it would be prudent to undertake the replacements, but rather on improvident actions taken in the past. The Company asserted that Mr. Rockrohr's analysis is wholly inconsistent with the Commission's prohibition against hindsight review.

Moreover, Ameren Illinois Utilities do not seek recovery for NESC compliance measures in this proceeding. They have agreed to withdraw its request for recovery for those replacements proposed as test year costs. Therefore, the Company maintained that it is premature to conduct a prudency examination of Ameren Illinois Utilities' post-test year NESC compliance effort and Mr. Rockrohr's disallowance must be rejected as it is unripe.

The Ameren Illinois Utilities further explained that Section 5/1-102 of the Public Utilities Act declares that the goals and objectives of utility regulation include ensuring reliability and equity in the provision of utility service. The Company feels this explicit statement of legislative goals can provide guidance in instances such as this ratemaking proceeding, where the machinations of the regulatory mechanism may threaten to overpower what is the original intent of the regulatory scheme.

According to Ameren, the General Assembly intended regulation wherein appropriate consideration would be given to costs to maintain reliability and the prospective disallowance suggested by Staff is plainly inconsistent with the General Assembly's goal to ensure reliability. The disallowance Staff seeks in this proceeding is not a large sum – $7,500 for capital and $35,500 for O&M. However, Mr. Rockrohr acknowledged that if the Commission were to adopt his recommendations and deny recovery of any prospective investment in NESC compliance, the Companies would be barred from recovering "tens of millions" of dollars, dollars which no one has contested are in fact a needed expenditure. Prohibiting a utility from recovering an investment of such magnitude, an investment Staff acknowledged is necessary for safety and reliability, and one caused in part by previous owners, is inconsistent with the General Assembly's objective of ensuring reliability, in Ameren's opinion. Furthermore, the Company alleged that Staff's recommendation that this needed expenditure be disallowed is clearly punitive in nature.

Ameren Illinois Utilities have committed to replace all identified substandard down guys and overhead guys, regardless of who constructed them. Staff witness Rockrohr acknowledged that the work needs to be done. It is consistent with the General Assembly's objective to ensure that the public health, safety and welfare is protected. The Company concluded that denying recovery for necessary investment to protect the public's safety runs counter to the General Assembly's objective of treating both consumers and investors fairly.

The Ameren Illinois Utilities also explained that Mr. Rockrohr's recommended prospective disallowance contradicts the Commission's well-established policy of reducing disincentives for those who seek to acquire troubled utilities. The Company described Mr. Rockrohr's position as embracing the principle of *caveat emptor*, let the buyer beware. Adoption of Mr. Rockrohr's recommendations would unfairly punish Ameren shareholders for investing in utilities that were in dire need of capital infusion and reliability improvements prior to their acquisition. Moreover, the Company believes that approval of Mr. Rockrohr's recommendation will discourage future acquisitions of troubled utilities, chill future investment in Illinois utilities, and reshape policy in a way that is not in the public interest.

The Ameren Illinois Utilities asserted that their proposed resolution of this issue is based on sound regulatory policy. Utility systems — gas, electric, and water — are acquired from time to time. There are instances where utility systems are not adequately maintained. If the acquiring entity believes it is the Commission's policy to bar cost recovery for subsequent repairs and much needed maintenance, the incentive to make the acquisition is reduced considerably.

The Commission has long recognized that the public interest favors the increased financial stability and capital investment that often accompany the takeover of poorly performing utilities. In the rate setting portion of the Rollins Sewer proceedings, the Company was unable to provide complete original cost documentation for the acquired utility. Additionally, Rollins Sewer had acquired the troubled utility at a below book price. The Commission was faced with the question of whether rates were to be set based on estimates of original costs or the depressed purchase price. The Commission elected to forego application of what would have been an unduly harsh alternative imposed on the acquirer, and instead permitted costs to be set at the higher of the two alternatives. The Commission recognized that some individual or entity must own, operate and rehabilitate troubled utilities and concluded that, where reasonable alternatives exist, the Commission, acting in the public interest, would be reluctant to raise disincentives or impediments.

Similarly, in a recent water reorganization proceeding "Illinois-American notes that in past proceedings, the Commission has taken the position that it should approve ratemaking approaches which encourage, not discourage, the acquisition of water utility systems where service improvements or other customer benefits would result from the acquisition."

The Company pointed out that most recently, the Staff itself advocated against penalizing utilities who acquire troubled utilities. In Docket 08-0268, Staff witness Ostrander recommended the Commission not disallow Aqua Illinois, Inc.'s ("Aqua Illinois") cost of water that exceeds a Maximum Percentage of Unaccounted-for Water limit. Aqua Illinois, Inc., Annual Reconciliation of Purchased Water Surcharge, Docket 08-0268. There, Staff recognized Aqua Illinois, Inc. acquired a troubled water system known as Oakview, and that despite its investment in improving the troubled system, Aqua Illinois continued to face legacy infrastructure problems resulting in additional costs. Mr. Ostrander recommended the Commission allow recovery of the additional

costs even though ratepayers themselves had done nothing to cause the additional costs.

The Ameren Illinois Utilities acquired utilities that faced financial difficulties. The Commission is faced with alternatives, one of which would result in the Companies being completely prohibited from recovering needed investments in facilities improperly installed by weakened, predecessor utilities. However, Ameren Illinois Utilities have submitted a proposal that they believe is far more consistent with the Commission's long held policy and far less punitive in nature. Like Illinois-American, the Company urged the Commission to continue the policy that encourages acquisitions of troubled utilities, not one that discourages them.

The Ameren Illinois Utilities took the position that adherence to Mr. Rockrohr's recommendation requires the Commission to second guess or re-litigate the due diligence conducted by Ameren in its Illinois acquisitions. Mr. Rockrohr speculates that "[c]ertainly, Ameren Corporation could have made itself aware of preexisting NESC violations simply by inspecting some of the existing distribution circuits." In this remark, Staff suggests Ameren should have known any and all conditions on the service system simply by inspecting "some" distribution circuits. In the Company's opinion, what it suggests is essentially a retroactive prudency review of Ameren's due diligence. However, according to Ameren, Mr. Rockrohr's speculation is an inadequate response to testimony that Ameren exercised due diligence when it contemplated purchasing its Illinois utilities.

As the Company pointed out, the Commission has expressly stated that hindsight review of management decisions is impermissible. The Commission approved the Ameren acquisitions of the utilities now before the Commission, and these approvals included Commission ordered corrective measures as conditions to approval. To now order additional costs to be borne by the Ameren Illinois Utilities is tantamount to a collateral attack on the reorganization and merger dockets, in Ameren's opinion. The Company urged that if one were to indulge in a hindsight review of Ameren's due diligence efforts, that exercise must be limited to a review of those facts that were available at the time the judgment was exercised.

The Company reported that, as part of its due diligence, Ameren reviewed Commission Orders and other filings at the Commission. Ameren interviewed CILCO and Illinois Power Company personnel. Numerous Commission and utility documents and reports, including annual assessment and reliability reports, also were reviewed. During its investigatory process, no information was discovered to even suggest that any down guy and overhead guy had not been properly insulated upon installation.

According to the Ameren Illinois Utilities, Staff witness Rockrohr speculated that Ameren could have made itself aware of pre-existing NESC violations simply by inspecting "some" of the distribution circuits. In the Company's view, his speculation, when compared to facts contained in the record, belies reality. The Ameren Illinois Utilities service system includes over 45,000 miles of distribution circuits. Its service territory covers 40,000 square miles. Additionally, there are over 1,000,000 distribution

poles within the service territory. It is pure conjecture on Mr. Rockrohr's part that spot checks would have uncovered the NESC violations at issue here.

Furthermore, the Ameren Illinois Utilities maintained that sending a field crew out to inspect some of the existing distribution circuits, as suggested by Staff, would not have provided a thorough examination of the entire system. The Company urged the Commission to consider the suggested spot checks in light of Staff's actual experience. Staff conducts 3 to 40 annual assessment and reliability report site visits per utility, per year. From 2000 to 2007, Staff compiled eight annual assessment and reliability reports for each utility, or a combined total of 24 for Illinois Power, CILCO and CIPS. In the aggregate, and based on Staff estimates, there have been anywhere from 72 to 960 site visits of Illinois Power, CILCO and CIPS from the years 2000 to 2007. Even more site visits are made by Staff in response to customer complaints and customer reliability concerns. The fact that Staff inspections over the course of several years did not uncover NESC violations until 2007 provides ample evidence that these violations were not readily discoverable through a random inspection process. The Company asserted that Mr. Rockrohr's suggestion that NESC deficiencies could be found "simply by inspecting some of the existing distribution circuits" rings hollow considering Staff inspected the system anywhere from 72 to nearly 1000 times before NESC deficiencies were detected.

The Ameren Illinois Utilities stated that Mr. Rockrohr concluded that in the event a utility system is not compliant with the NESC, corrective action must be taken pursuant to Commission Rule, Part 305 Construction of Electric Power and Communication Lines. In concert with his proposed disallowance, Mr. Rockrohr would disallow recovery for all improperly constructed facilities, regardless of who constructed them or when they were constructed. The Company pointed out that Part 305 of the Commission's Rules is not as inflexible as Mr. Rockrohr suggested. Instead, as Mr. Rockrohr later conceded, Section 305.130 provides for exemptions from NESC standards. Additionally, the Company urges that the Commission can provide waivers of NESC standards or even modify standards if it so chooses. In fact, according to Ameren, nothing within Part 305 requires the disallowance of any cost necessary to replace improper initially constructed facilities caused by previous utility owners.

Furthermore, the Ameren Illinois Utilities explained that the harshness of Staff's suggested automatic disallowance is inconsistent with the flexibility afforded the Commission in Part 305. Similarly, to automatically impose financial responsibility on Ameren Illinois Utilities because of a previous owner's improper construction is inconsistent with the Commission long standing policy of encouraging the acquisition of troubled utilities, not discouraging them.

Commission Conclusion

The Commission, having reviewed the record, rejects Staff's position that the NESC violations due to improper construction be disallowed. Denying recovery in this situation would be inconsistent with policy that encourages the acquisition of utilities in need of improvements. Accordingly, the proposed disallowance is rejected.

12. Underground Storage Field Physical Losses and Performance Variations

Staff's Position

Staff's proposed that gas losses that are not attributable to a specific cause or incident should be characterized as storage field "performance variations." All performance variation gas, according to Staff, is not expected to be recovered, and should be classified as "non-recoverable base gas" and recorded in Account 352.3 (Nonrecoverable natural gas), instead of in Account 823 (gas losses), as recorded by the Ameren Illinois Utilities.

Ameren's Position

The Ameren Illinois Utilities stated that Staff witness Anderson defined performance variations as "changes in the storage field inventory, resulting in the need to add or subtract from the inventory at a storage field, which cannot be attributable to a specific physical incident." He stated that some of the causes of underground storage field performance variations are: (i) errors introduced over long periods of time through engineering calculations, (ii) numerous gas losses that occur that are not estimated because they are unknown or of small magnitude, and (iii) accumulated clerical and accounting errors, metering inaccuracies, and other operational/maintenance losses. Another cause of performance variations, according to Mr. Anderson, is the migration of gas in a storage field to non-recoverable base gas.

Gas losses are recorded in Account 823, which states as follows:

> This Account shall include the amounts of inventory adjustments representing the cost of gas lost or unaccounted for in underground storage operations due to cumulative inaccuracies of gas measurements or other causes. (See Paragraph G of Account 117, Gas stored underground – Noncurrent.) If, however, any adjustment is substantial, the utility may, with approval of the Commission, amortize the amount of the adjustment to this Account over future operating periods.

According to the Company, the language of Account 823 is broad, encompassing gas that is either lost or is otherwise unaccounted for due to cumulative inaccuracies of gas measurements <u>or other causes</u>. Thus, an inventory adjustment for gas that is unaccounted for any cause is properly included in Account 823. As Staff conceded, there is no requirement in the language of Account 823 requiring that lost gas recorded in that account be related to gas lost in specific incident, or even that lost gas recorded in Account 823 be a "physical" loss of gas.

The types of "performance variations" that Mr. Anderson refers to above, such as errors introduced over long periods, losses that occur that are unknown or of small magnitude, and accumulated clerical errors, metering inaccuracies, and other

operational/maintenance losses, are the exact "cumulative inaccuracies of gas measurements" that must be recorded in Account 823. In fact, the Company maintained that even what Mr. Anderson would call migration to non-recoverable base gas can be recorded in Account 823, as it represents gas "unaccounted for in underground storage operations due to…other causes." As a result, Ameren believes the language of Account 823 makes clear there is no basis to shift performance variations to Account 352.3.

By way of contrast, the definition of Account 352.3, Nonrecoverable natural gas (the account to which Staff wants to assign the Ameren Illinois Utilities' gas losses) states in pertinent part:

> A. This account shall include the cost of gas in underground reservoirs, including depleted gas or oil fields and other underground caverns or reservoirs used for the storage of gas which will not be recoverable.

According to the Ameren Illinois Utilities, Account 352.3 thus does not refer to the calculation or recording of gas losses. Account 352.3 refers to gas <u>in</u> the reservoir, so it is not an appropriate account to record lost gas. The gas described by Mr. Anderson as a "performance variation" is not in the field reservoir and so is lost. The Company pointed out that it is incorrect to account for virtually all of the "lost" gas in Account 352.3, and Mr. Anderson's testimony did not support the wholesale transition of amounts in Account 823 to Account 352.3. Mr. Anderson's performance variations are lost gas, and as such should be recorded in Account 823. Although there may be an appropriate distinction between physical losses that can be estimated with engineering calculations and losses that cannot be estimated, the Company maintained that there is no basis for a different accounting treatment of measurable physical losses and other gas losses (performance variations or otherwise) from a storage field.

The Ameren Illinois Utilities pointed out that Staff conceded that some performance variations are physical losses of gas, and that not all performance variations represent migration to non-recoverable base gas. Staff further acknowledged that such physical losses could be recorded in Account 823. According to the Company, the fact that, even in Staff's view, performance variations include physical losses and do not entirely consist of migration to base gas completely undercuts the rationale for Staff's proposed shift to Account 352.3.

On rebuttal, Staff stated that because "the migration of working inventory gas to non-recoverable base gas that results from the normal operation of storage fields is the *likely major factor* in performance variations," it is "more appropriate to classify losses due to performance variations to Account 352.3 (Non-recoverable natural gas) than Account 823." The Company summarized that Staff's position therefore is that <u>some</u>, but not all, of the performance field variations described by Mr. Anderson represent gas that has migrated to base gas and should be recorded as non-recoverable base gas. Staff also admitted that so-called performance variations can include physical losses of gas as well as gas migrating to non recoverable base gas. If "performance variations"

can include physical losses, then Ameren asserted that under Staff's logic, some "performance variations" are properly included in Account 823. However, Ameren also pointed out that Staff has not changed its recommendations regarding shifting gas losses to Account 352.3 – Staff continued to recommend that all of the so-called performance variations be placed in Account 352.3. If, as Mr. Anderson admits, however, "[i]t is possible that performance variation could include actual physical losses," then those "performance variations" should remain in Account 823.

The Ameren Illinois Utilities also stated that Staff did not quantify what part of performance variations are physical losses and what is migration to non-recoverable base gas, and Staff agreed that such quantification is not feasible. Thus, Staff established no basis for shifting the costs to Account 352.3, when accounting for such losses in Account 823 is reasonable and appropriate (and, as discussed below, consistent with Commission practice in other cases). Moreover, referring to the language of Account 823, according to Ameren, Staff has not explained why, if performance variations include physical losses, such losses would not be gas lost through "other causes."

The Ameren Illinois Utilities stated that, theoretically, some of the "performance variation" gas could migrate to base gas; however, as Staff recognized, there is no known technique by which to separate "performance variations" into lost gas or non-recoverable base gas. These migration losses, in any event, would be very small in scale. Therefore, Ameren's position is that it is appropriate to include this gas loss as part of the annual gas loss adjustment in Account 823.

The Company also pointed out that this proceeding is the first time the Ameren Illinois Utilities have been confronted with the concept of "performance variations." In fact, Mr. Anderson acknowledged that the term "underground storage field performance variation" is not a term commonly used in the gas industry and that he did not rely on any engineering textbook, treatise, study or technical document in developing the term. Because the concept of performance variations is a new one, the Ameren Illinois Utilities stated that they have not had the opportunity to fully analyze it. The Ameren Illinois Utilities have not been able to identify a method whereby one could quantify the difference between various physical losses and losses of working inventory to non-recoverable base gas as a result of normal operations. In short, AmerenIP asserted that it is not aware of any methodology (and none has been proposed by Staff) to quantify what components of performance variations are lost gas and what might migrate to nonrecoverable base.

The Company pointed out that Mr. Anderson argued that "engineering estimates of physical gas losses should be reasonably accurate, unknown physical losses should be small, and metering errors should be determined and corrected as part of routine maintenance. In addition, clerical/accounting errors should be found and corrected if adequate controls are in place." While the Ameren Illinois Utilities allegedly strive to minimize unknown physical losses and metering errors, they do, however, occur, as do metering inaccuracies. Such losses represent gas lost and should be accounted in Account 823. Further, the Company maintained that it is not the Ameren Illinois Utilities'

responsibility to demonstrate that the losses are not still in the storage field as non-recoverable base gas, as the concept of migration to non-recoverable base was proposed by Staff. It is the Company's responsibility to show that the lost gas is properly accounted for in Account 823, as it proposed, and the Company argued that AmerenIP has shown just that.

The Ameren Illinois Utilities also believe their approach is consistent with past Commission Orders. In Docket 04-0779, the Commission found that a withdrawal factor (representing gas losses) used by Nicor was appropriately included in Account 823 as an operating expense. Docket 04-0779, Final Order, pp. 39-40. In that case, a Staff witness testified that expenses related to the operation of a storage field, including adjustments for inventory losses due to cumulative inaccuracies of gas measurements or other causes, should be recorded in Account 823. Specifically, Staff stated in that case that the losses represent "a 2% withdrawal factor to reflect un-metered gas used in the storage processes of injecting, withdrawing, and operating storage reservoirs (estimated to be about 1.2%) and to reflect replenishment of gas volumes that have become non-effective in contributing to the performance of the storage reservoir (estimated to be about 0.8%)." Even though a portion of the gas was for the replenishment of gas volumes that have become non-effective in contributing to the performance of the storage reservoir, the entire amount was charged to Account 823. The Commission ruling in the docket ultimately approved this treatment of the lost gas. Thus, the Company concluded that the Commission has approved recording gas storage losses of the type Mr. Anderson calls performance variations in Account 823.

The Ameren Illinois Utilities further explained that Staff witness Everson's claim that these accounting adjustments would not require other changes to the rate base or the Ameren Illinois Utilities' accounting books is flawed. The Utilities first note, however, that the ratemaking treatment of prior gas losses would only be an issue if Staff's recommendation on this issue is followed.

The Company maintained that Staff's recommendation does not treat gas consistently from year to year. Staff suggested capitalizing certain gas losses for 2006, thus reducing the Ameren Illinois Utilities' test year expense and increasing rate base. But if Staff's recommendation is followed, then like gas losses should be evaluated and capitalized as well, and become a part of rate base. Taking what Mr. Anderson described as "performance variations" and reclassifying them as non-recoverable base gas would, at present, result in the increases to rate base summarized in Mr. Underwood's testimony.

Ameren noted that Ms. Everson disagreed that adjustments to past year rate bases are needed. With respect to AmerenCILCO, Ms. Everson stated that AmerenCILCO was recovering these costs through its PGA. At the time of the last rate case, however, these costs were not included in the base rates and therefore have not been collected. It is true that, from the 2004 PGA reconciliation and before, the gas losses were collected ultimately through the PGA mechanism. The 2005-2007 reconciliations are still pending a final Commission order. As long as the gas loss costs continue to be collected through the PGA, the Ameren Illinois Utilities would agree that

these costs should not be included in Account 352.3 for prior years. But if these costs are not included in the PGA, then the total sum of those losses from prior years 2005-2007 should be included in Account 352.3 (under Staff's proposal).

With respect to AmerenCIPS and AmerenIP, AmerenCIPS (Docket 02-0798) and AmerenIP (Docket 04-0476) submitted certain gas loss expenses, related to estimated physical losses for discrete events, in Account 823 in their last rate case. However, they did not submit any expenses related to "performance variations" as that term has now been introduced by Mr. Anderson. Therefore, the Company believes that there would not be any recovery from the rate payers for those gas loss expenses and they would not be included in base rates. After the last rate cases, AmerenIP and AmerenCIPS began recording gas losses resulting from accumulated clerical and accounting errors, metering inaccuracies, and other operational or maintenance losses (in addition to estimated physical losses related to discrete events) in Account 823. Thus, the base rates for AmerenIP and AmerenCIPS reflect smaller amounts of gas loss expense than AmerenIP and AmerenCIPS are currently recording. Staff is now proposing that such gas losses should be recorded to rate base going forward. However, such costs (under Staff's position) should have been recorded to rate base in past years as well, according to Ameren. To the extent such past year gas loss costs are not now in base rates, they should be transferred to rate base. Otherwise, the Company suggested that there would be a situation where the higher gas loss costs recorded to Account 823 since the last rate cases for AmerenIP and AmerenCIPS would not be recovered, since they are not presently in base rates and would not be placed in rate base under Staff's proposal in this case. The volumes shown in Mr. Underwood's rebuttal testimony for AmerenIP and AmerenCIPS, represent volumes that in the Company's opinion should be reclassified as non-recoverable base gas if the Commission adopts Staff's proposal, resulting in the associated increases to rate base.

Commission Conclusion

Gas storage reservoirs are a complex set of structures, and Staff has not identified a method to quantify migration gas to non-recoverable base. Staff has argued for a change in the Ameren Illinois Utilities' gas accounting practices, but admitted that the amount of gas that should be transferred under its analysis cannot be quantified, and some might even properly remain in Account 823. Thus, Staff established no basis for changing the Ameren Illinois Utilities gas loss accounting practice. Recovery of lost gas, however, is accepted utility practice. The Commission concludes that Account 823 is the appropriate place to record the gas losses Mr. Anderson is concerned about.

13. Account 880 – IP

Staff's Position

Staff proposed to adjust the test year expense for AmerenIP's Account 880 because Staff believes the expense is high when compared to other time periods. Staff proposed that a three-year average (2005-2007) be used instead, reducing AmerenIP's Account 880 expense levels by $1,026,000. Staff did not challenge the prudency of the

expenditures shown in AmerenIP's Account 880. Instead, Staff only argued that the expense appears to be somehow "excessive."

Ameren's Response

The Company maintained that Staff's adjustment should be rejected for two reasons. First, Staff proposed an adjustment for an account that appeared "high" but ignored countervailing adjustments for accounts that may have been lower in the test year than other years. Second, the Ameren Illinois Utilities showed that is not reasonable to evaluate this account on an individual basis. Account 880 is only one of a number of related transmission and distribution ("T&D") operation and maintenance ("O&M") accounts where costs can shift and vary year to year based on the level of activity and required work.

As Mr. Colyer explained, the majority of O&M activities performed on the Ameren Illinois Utilities' T&D facilities are very similar, and are managed, supervised, and performed by essentially the same resources, which include Ameren Illinois Utilities' employees and third-party contractors. The shift or change in costs between these accounts occurs based on the specific level of O&M activities needed and performed for the T&D main facilities in a given year. For example, exposed pipe remediation, leak surveys, leak repairs, right-of-way clearing, main relocations, corrosion control, and painting are types of O&M work performed on T&D mains that may vary based on inspection cycle, facility condition, problem severity and magnitude, or highway department needs. Based on the classification of main, either transmission or distribution, and the type of work, operations or maintenance, the Ameren Illinois Utilities suggested that the appropriate account is charged. Thus it would be expected that, depending on the specific O&M needs, costs would not remain static among accounts.

The Company explained that Mr. Lounsberry addressed a specific O&M accounts (Account 880) in his testimony. However, Account 880 is only a sub-set of the larger grouping of T&D O&M accounts. O&M costs shift between T&D accounts based upon the activities performed as discussed above. Therefore, to obtain a more accurate representation, the Ameren Illinois Utilities represented that Staff should review the O&M costs for the T&D system in aggregate. Allegedly, this approach provides a more accurate assessment of the reasonableness of the O&M costs versus evaluating individual accounts. As Mr. Colyer explained, during the period of 2005-2007, which includes the test year, the aggregate costs for the 800 series accounts costs have been reasonably consistent, with a slight upward trend. The average over this period for all T&D O&M costs is approximately $59.93 million, and no year deviates from this average by more than 6%. Because it is reasonable to expect overall O&M costs to increase each year, the Company concluded that the overall level of T&D O&M costs show that, when viewed in the aggregate, there is no basis for a concern that T&D O&M costs are excessive.

In addition, Ameren urged that Staff's logic could also be applied to individual accounts where 2006 represented the lowest level of expense for 2005-2007. However,

the Company also pointed out that Staff did not recommend increasing the amounts requested to any account that had the lowest expenditure in 2006 and higher expenses in 2005 and 2007. For example, Accounts 878 and 879 both have significantly less costs in 2006 than in either 2005 or 2007 and thus are below average for the three years. Using Mr. Lounsberry's analogy, since both of these accounts are lower than the three year average for 2006, using averages rather than actual costs would require an increase rather than a decrease.

In addressing Mr. Lounsberry's concerns regarding cost levels in other T&D accounts, Accounts 856, 863, 874, and 887, the Ameren Illinois Utilities also explained that costs shift between the accounts, so that the appropriate way to determine if the O&M costs are just and reasonable is to evaluate and understand the trend for the overall cost of operating and maintaining the T&D system. In rebuttal testimony, Mr. Lounsberry stated that, "I no longer have any concerns regarding Ameren's Accounts 856, 863, 874, and 887 requested O&M levels," and, therefore, there is no longer an issue with respect to Accounts 856, 863, 874, and 887. Thus, the Company maintained that Staff has accepted that individual T&D accounts may vary from year to year, but that this does not mean the expense in any one account is unreasonable.

The Ameren Illinois Utilities explained that Account 880 is one of the accounts from 850 though 894 that capture O&M costs for the overall T&D system. Account 880, like all of the T&D accounts as discussed above, can vary from year to year resulting in cost fluctuations in individual accounts and should be considered as part of the aggregate. The Company urged that since the charges to each account will vary in any given year, as explained previously, an average cost for a single account does not recognize or reflect the fact that costs charged to this account can increase and decrease in any given year. These T&D O&M costs, including costs of Account 880, must be considered at the aggregate level, as opposed to the individual account level, to accurately evaluate the O&M costs for the T&D system. Moreover, all costs are the actual costs incurred in 2006.

Ameren alleged that an adjustment based upon an average for Account 880 by itself is not reasonable and urged that Account 880 should be considered as a variable part of the aggregate 800 series of O&M accounts for the T&D system. The Company asserted that Mr. Lounsberry also did not indicate what, if anything made the test year expense for Account 880 unreasonable other than the fact that it was higher than other years. There is no dispute that the costs in Account 880 represent expenses prudently incurred, and Ameren Illinois Utilities have shown that the Account 880 expense can be explained as part of the reasonable shifting of costs between T&D O&M costs.

Commission Conclusion

Having reviewed the record, the Commission rejects Staff's proposal to adjust the test year expense for AmerenIP's Account 880 to a three-year average.

14. Account 830 – CILCO

Staff's Position

With regard to Accounts 830 and 834[14] (gas storage related accounts) for AmerenCILCO, Staff proposed to adjust the expense levels in these accounts to reflect an average of the expenses over a five year period from 2003 – 2007.

Ameren's Response

The Company believes that Staff's proposal should be rejected. According to the Ameren Illinois Utilities, no party has suggested that the expenses in these accounts were not prudently incurred. Rather, Ameren asserted that Staff only suggested (as with Account 880) that the test year levels of these expenses were somehow "excessive." As with Account 880, discussed in Section III.C.13 above, however, the reason for the variation of costs from year to year in Accounts 830 and 834 is that internal labor costs can shift between accounts from year to year as a result of the cyclical nature of maintenance activities, capital projects, and the type of activity being performed. Thus, the Company maintained that it is not appropriate to consider increases in costs recorded to Accounts 830 and 834 in isolation. Rather, Accounts 830 and 834 must be considered in the context of the combined gas storage accounts.

The Ameren Illinois Utilities asserted that Staff witness Lounsberry's logic could also be applied to AmerenCILCO gas storage accounts where 2006 represented the lowest level of expense in the 2005-2007 periods. According to Ameren, however, Mr. Lounsberry did not recommend increasing the amounts requested for any accounts that had the lowest expense in 2006 and higher expenses in 2005 and 2007, such as Account 816 (well expenses) where the expenses were $211,724, $141,028, and $179,197 respectively for 2005 – 2007. Mr. Lounsberry also did not explain why the variations in Accounts 830 and 834 were unusual or what, if anything, made the test year expense unreasonably high.

To properly capture these variations, the Company suggested that Mr. Lounsberry would need to average costs for all related accounts, not just the ones that were higher.

The Ameren Utilities maintained that these amounts are relatively stable over time. (The low expense level in 2007 was due to an unusual capital expenditure amount for 2007 that shifted resources from O&M to capital expenditures.) This shows that the variance over the years to accounts like Accounts 830 and 834 represents shifts of expenditures between accounts, but not an overall increase in O&M expense.

On rebuttal, the Company pointed out that the 2005 – 2007 data for the combined gas storage accounts is more current, and therefore more representative of expected ongoing costs going forward, because it reflects cost increases and the impact

[14] The issues relating to Accounts 830 and 834 are substantially the same and, therefore, both accounts are addressed together in this section.

of the mergers of the Ameren Illinois Utilities. Thus, the Company concluded that the use of the 2005-2007 time periods to compare aggregate gas storage account costs is reasonable, and the overall expense for O&M for Gas Storage for AmerenCILCO is relatively stable over time. According to the Ameren Illinois Utilities, this shows that the variance over the years to accounts like Accounts 830 and 834 represents shifts of expenditures between accounts, but not an overall increase in O&M expense. Moreover, as also discussed with respect to AmerenIP Account 880, using Mr. Lounsberry's analysis, Ameren suggested that one could pick an individual account in the test year with a lower than average balance and determine that an increase is actually required rather than a decrease. As a result, it would not be appropriate to focus on increases or decreases to single accounts like Accounts 830 and 834 outside of the context of the AmerenCILCO gas storage accounts as an aggregate whole.

Commission Conclusion

The Commission, having reviewed the record, concludes that Staff's proposal to adjust the expense levels in Account 830-CILCO must be rejected.

15. Account 834 – CILCO

Commission Conclusion

For the reasons discussed in Section III.C.14 above, Staff's proposed adjustment to AmerenCILCO Account 834 is rejected.

16. Account 823 – IP – Hillsboro

Ameren's Position

The Ameren Illinois Utilities proposed an annual inventory adjustment to Account 823 of $1,439,230 for the Hillsboro Storage Field ("Hillsboro"). The adjustment represents AmerenIP's determination to inject a reasonable volume of gas at Hillsboro. The Company believes that the proposed adjustment is conservative and based on the best data available to the Ameren Illinois Utilities.

In 2006, AmerenIP developed an engineering estimate of the magnitude of gas losses at Hillsboro. The results of the estimate indicated that a 200,000 million cubic feet ("MCF") injection of gas was appropriate in 2006 to maintain Hillsboro's performance. Subsequent to developing the estimate, in 2007 AmerenIP conducted an additional analysis, using information obtained during the next inject/withdraw cycle, verifying that the estimate it used in 2006 was supportable and prudent. The engineering principles utilized for the 2007 analysis included the gas loss calculation methodology presented in Appendix I of M. R. Tek's textbook, "Underground Storage of Natural Gas – Complete Design and Operational Procedures" ("Tek Methodology"), an analysis of the hysterisis plot for the field, and a review of field withdrawal performance. The Ameren Illinois Utilities suggested that these are all commonly accepted gas storage reservoir engineering practices.

An additional analysis of reservoir performance was performed in the spring of 2008 to investigate what impact the injection of additional gas has had on the delivery performance of the field. (Ameren Ex. 29.0 (Underwood Reb.), p. 3.) For this analysis, the gas loss was re-estimated using the Tek Methodology. The decrease in estimated gas loss from the 2001 – 2005 analysis and the 2001 – 2008 analysis indicates that the 200,000 MCF gas loss adjustments that were made in 2006 and 2007 have had a positive impact on maintaining reservoir deliverability. Ameren concluded that these analyses showed that AmerenIP's 200,000 MCF estimate of the gas loss is reasonable and prudent.

The Company asserted that there is no dispute that the lost gas should be replaced, and Staff does not suggest otherwise. According to the Ameren Illinois Utilities, the analysis of the data supports the amount of gas loss and the need for replacement, based on the Tek Methodology as discussed previously and actual field performance. Additionally, the Company alleged that reinjection of gas to replace lost gas before completion of a thorough engineering analysis of the reservoir response is consistent with Staff's position in past cases. In fact, Ameren maintained that without the reinjection of the lost gas, field performance at Hillsboro would be at risk, and the field might not be able to cycle the gas required to best meet customer needs. AmerenIP expects that Hillsboro deliverability would decline by approximately 200,000 MCF per year without reinjection, impacting daily deliverability at the year end. Furthermore, Ameren stated that not reinjecting could also cause increased water production and possibly increased H2S production, further decreasing the reliability of the field. Allegedly, all of these issues would ultimately be reflected as a higher cost for the ratepayer.

Staff's Position

Staff opposed the annual inventory adjustment based primarily on concerns about the reliability of the data supporting the adjustment. Staff believes that the Ameren Illinois Utilities do not have sufficiently reliable information about Hillsboro, and so cannot perform the necessary engineering studies to quantify the gas loss. Staff therefore recommended doing nothing at this time to address the gas loss issue.

Ameren's Response

The Company asserted that inaction would not be appropriate. It believes that AmerenIP should take steps to address the performance of underground fields (such as injecting replacement gas) to maintain reliable service from its storage fields; AmerenIP has, based on sound engineering judgment, calculated annual inventory losses supporting the inventory adjustment at Hillsboro. The Ameren Illinois Utilities asserted that it is therefore appropriate that AmerenIP be allowed to recover the expense of necessary inventory adjustments. Furthermore, the Company maintained that AmerenIP is properly seeking a correction for reservoir deterioration. If, as Staff appears to agree, Hillboro's performance will deteriorate, the Company believes AmerenIP should take steps to maintain reservoir performance by injecting additional gas and be allowed to recover the accompanying expense.

According to the Ameren Illinois Utilities, Staff witness Anderson bolsters the Ameren Illinois Utilities' position in this context. As Mr. Anderson concluded, "Underground storage field performance variations may result in a deterioration of a field's ability to meet its design or rated peak day and annual inventory requirements. This deterioration results in the need to add additional gas volumes to the field to restore its ability to operate as designed and meet its rated capacities." Mr. Anderson also pointed out that, "If utilities do not take action to address the deterioration of performance of underground storage fields, then the fields may not be able to produce design or operational peak day and annual volumes." Thus, it appears that both AmerenIP and Staff agree that a gas storage field's performance can deteriorate over time.

Staff and AmerenIP thus agree that AmerenIP should take steps to address the performance of underground fields. However, at Hillsboro, both Staff and AmerenIP acknowledge that an adequate stable inject and withdraw history dataset has not been established that would allow a detailed analysis utilizing hysterisis techniques. Therefore, any correction must be based on an engineering estimate, or rely on other sound engineering principles and practices other than hysterisis techniques. As discussed previously, AmerenIP has utilized sound engineering techniques to determine the appropriate gas loss adjustment for Hillsboro. The Ameren Illinois Utilities do not believe they are required to support their adjustment on a specific type of analysis just because Staff would prefer it. Rather, the Ameren Illinois Utilities alleged they properly rely on the available data, which reasonably supports the adjustment.

The Ameren Illinois Utilities urged that Staff's position on the deterioration of storage field performance is inconsistent with a disallowance of an annual inventory adjustment for Hillsboro, because on the one hand Staff supports injecting additional gas to maintain reservoir performance, but is on the other hand disallowing the cost of the actions taken by AmerenIP to maintain that performance. It is AmerenIP's opinion that it has utilized the best data that is available to make a sound engineering judgment regarding the Hillsboro lost gas adjustment and AmerenIP has taken proactive steps to maintain the field's deliverability.

The Company pointed out that Staff has recommended in previous proceedings that a gas utility take action to correct an inventory shortfall even when data is not complete. In Docket Nos. 03-0699, 04-0677, and 05-0743, Mr. Lounsberry argued that Illinois Power Company did not act fast enough to replace the gas at Hillsboro that was no longer in the field. In those cases, Mr. Lounsberry's position was that the utility should have been replacing inventory while continuing to pursue its investigation as to the cause of the inventory shortfall. In this case, Mr. Lounsberry stated that AmerenIP should not use available data to proceed to make an adjustment, even though, as discussed above, AmerenIP has calculated its inventory adjustment based on the best available data and is continuing to gather data to improve the estimate. Mr. Lounsberry's position now is that AmerenIP does not have sufficiently reliable data to justify an adjustment for gas loss, even though in past proceedings he has argued that AmerenIP should have begun reinjections even before AmerenIP had finalized its data.

The Ameren Illinois Utilities believe that this position is inconsistent with his position in prior cases.

With regard to Staff's specific concerns, these have been addressed by the Ameren Illinois Utilities. In response to Staff's concern that comparing 2001 data to 2008 was not appropriate, the Ameren Illinois Utilities stated that they undertook an analysis using data from 2006 through 2008 instead of comparing to 2001. According to Ameren, the results of this analysis were consistent with the analyses comparing 2001 to 2006 and 2008, and showed that there is an annual gas loss occurring at Hillsboro of slightly less than 0.5 BCF per year. The original calculations utilizing a 2001 data comparison indicate that from the time period from 2001 – 2006, the gas loss was 468,000 MCF per year and from 2001 – 2008, the gas loss was 337,000 MCF. Therefore, the Ameren Illinois Utilities have asserted that they are justified in making a conservative adjustment of 200,000 MCF per year. Until other methods of calculating gas losses such as the hysteresis curve and the reservoir model can be used to verify the gas loss, the Ameren Illinois Utilities state that it is correct to maintain this conservative approach.

In addition, Hillsboro cycled 6.7 billion cubic feet ("BCF") of gas in 2005 – 2006 and 6.6 BCF in 2007 – 2008. (Ameren Ex. 29.0 (Underwood Reb.), pp. 3-4.) If AmerenIP had not injected an additional 200,000 MCF during the 2006 and 2007 injection seasons, it is reasonable to assume AmerenIP would not have been able to withdraw roughly equal amounts of gas during the two seasons that are compared.

The Company pointed out that Mr. Lounsberry also opposed the annual inventory adjustment at Hillsboro based on the concern that annual adjustments were not made before the 2006 test year, raising concern that there is not a history of similar expenses for Hillsboro. The Ameren Illinois Utilities concluded that Mr. Lounsberry is correct that 2006 is the first occasion that an inventory correction was made to Hillsboro in recent history. However, AmerenIP has made corrections to storage field inventories on an as-needed basis for many years. Ameren asserted that this clearly demonstrates that AmerenIP has performed inventory corrections on an ongoing basis. Ameren stated that the fact that the first correction at Hillsboro occurred in 2006 does not mean the adjustment is not just and reasonable.

The Ameren Illinois Utilities noted that Mr. Lounsberry also asserted that a reservoir simulation method could have been used to determine gas losses. The Company stated that Mr. Lounsberry is correct that the reservoir model would be an appropriate method to determine gas losses. The reservoir simulator was not available to evaluate Hillsboro, however, because the model data deck had not been updated to include the withdraw metering corrections from 2000 - 2007. In 2005, the determination was made not to further pursue modeling until a complete metering data set had been established for the reservoir simulator. In the late summer of 2007, AmerenIP began to rebuild the database in preparation for resumption of modeling of the reservoir. That project is still in progress. Because the model was not available, other sound engineering techniques were used to determine the gas loss, as described above. After the revised data deck is built, AmerenIP will model the reservoir and present the results

to Commission Staff as previously agreed upon. AmerenIP recognized that it is proceeding with modeling utilizing adjusted data, rather than actual field data, but believes that the adjusted data is sufficient to support the annual inventory adjustment.

Commission Conclusion

After reviewing the record, the Commission finds that the Ameren Illinois Utilities have utilized the best available data to support the proposed annual inventory adjustment at Hillsboro, and with that data have shown that the adjustment is prudent and reasonable. The fact that Staff would prefer some other type of data or study to support the adjustment is not a basis for rejecting the adjustment. Thus, the Ameren Illinois Utilities' proposed adjustment is approved.

17. Other A&G

AG/CUB's Position

AG/CUB witness David Effron proposed an adjustment to AmerenIP's test year A&G expenses that were charged to Accounts 920 through 923. This adjustment is based solely on the premise that the Company's requested level of A&G expenses is nearly 2.4 times the amount approved in AmerenIP's last rate case and that, in Mr. Effron's opinion, the Company has not explained or justified the increase.

Ameren's Response

The Ameren Illinois Utilities' witness Michael Adams explained that, in calculating his adjustment, Mr. Effron used as a starting point the level of A&G expenses charged to Accounts 920 through 923 approved by the Commission in Docket No. 06-0072, which used a 2004 test year. Mr. Effron calculated this amount by taking the total of A&G costs related to Accounts 920 through 923 times the percentage of costs that were disallowed. He then escalated this last approved level of A&G expenses charged to Accounts 920 through 923 by 3 percent per year to reflect inflation. The end result of AG/CUB witness Effron's proposed adjustment was the proposed disallowance of $19,794,000 of A&G expenses for AmerenIP. This is the difference between the amount approved in the last rate case, escalated by inflation, and the expenses included by AmerenIP in this case, for Accounts 920 through 923.

The Ameren Illinois Utilities alleged that this methodology is fatally flawed. The Company pointed out that the Commission has rejected the notion that inflation between rate cases is a better indication of test year expenses than the actual costs themselves. Moreover, the Commission's rule on pro forma adjustments, Section 287.40, states in part that: "Attrition or inflation factors shall not be substituted for a specific study of individual capital, revenue and expense components."

Following Mr. Adams' rebuttal testimony explaining the modification of accounting practices implemented after the acquisition of IP by Ameren, AG/CUB witness Mr. Effron has reduced his adjustment by $7.7 million. Mr. Effron did not dispute Mr. Adams' rebuttal testimony supporting the increases in other increases in AmerenIP's

A&G expenses recorded in Accounts 920-923. The Ameren Illinois Utilities believe that through the testimony of Mr. Adams, the Ameren Illinois Utilities have fully responded to Mr. Effron's concerns regarding the increases in AmerenIP's A&G expenses. Accordingly, they asserted that the level of AmerenIP's A&G expenses have been fully-justified between the AMS study which Mr. Adams has sponsored and the direct, rebuttal and this surrebuttal testimony which he is sponsoring on the topic of A&G expenses.

The Ameren Illinois Utilities explained that they have justified the increased level of A&G expenses from 2004 to 2006, provided support for these increases, and have responded to a number of data requests on that precise topic. AmerenIP's response to Staff Data Request TEE-1.33 provides a detailed narrative explanation of year-over-year variances from 2004 to 2006. Mr. Adams explained that the comparison of the level of expenses between 2004 and 2006 for AmerenIP produces specious results because of the fact that during the transition of ownership, the Company received no allocated costs from either its former owner or from AMS. Therefore, according to Ameren, the true cost of services provided is not reflected in the 2004 expense levels. Furthermore, the level of A&G expenses which AG/CUB witness Effron uses as the basis for his proposed adjustment reflects the disallowance of over $50 million of A&G expenses incurred by AMS on behalf of the Ameren Illinois Utilities. The Ameren Illinois Utilities have submitted a detailed study which allegedly supports the A&G expenses, including those incurred by AMS on behalf of the Ameren Illinois Utilities.

Commission Conclusion

The Commission, after reviewing the record, finds that AG/CUB witness Mr. Effron's proposed adjustment is rejected.

18. Other Recommended Operating Income/Revenue Requirement Electric

The Ameren Illinois Utilities presented schedules showing, for each of the gas and electric Ameren Illinois Utilities, the operating revenues, expenses, and income at present and proposed rates for the test year. Staff and other parties proposed adjustments to the Company's proposed operating statements as discussed below. The proposed operating income statement for the AmerenCILCO, AmerenCIPS and AmerenIP electric utilities are shown on Schedule 1 of Appendix A, C and E, respectively.

19. Gas

The proposed operating income statement for the AmerenCILCO, AmerenCIPS and AmerenIP gas utilities are shown on Schedule 1 of Appendix B, D and F, respectively.

IV. COST OF CAPITAL/RATE OF RETURN

A. Introduction

As noted in the last rate cases filed by the Ameren Illinois Utilities:

> A company utilizes various types of investor-supplied capital to purchase assets and operate a business. Utilities typically rely upon long-term debt and common equity, and in some instances preferred stock and short-term debt, to purchase assets and fund operations. The costs of different types of investor-supplied capital vary depending upon a multitude of factors, including the risk associated with the investment. As a result, the proportion of the different types of capital, also known as the capital structure, when combined with the costs of each different type structure affects the overall or weighted average cost of capital, which is the rate of return a utility is authorized to earn on its net original cost rate base.

(Dockets 06-0070, 06-0071, 06-0072 (Cons.), Order, p. 87.) The Commission again uses the cost of capital standard to determine the fair rate of return. This cost, which can be determined from the overall rate of return or weighted average cost of capital, must produce sufficient earnings/cash flow when applied to the respective Company's rate base at book value to enable the Company to maintain the financial integrity of its existing invested capital, maintain its creditworthiness, attract sufficient capital on competitive terms to continue to provide a source of funds for continued investment, and enable the Company to continue to meet the needs of its customers.

These standards are effectively mandated by the landmark U.S. Supreme Court decisions Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 391 (1944). Meeting these requirements is necessary in order for a company to effectively meet the utility services requirements of its customers and provide an adequate and reasonable return to its investors, debt holder and equity holder alike. The assets owned by the Ameren Illinois Utilities are employed in meeting their customers' utility services requirements. These assets exist and are available for this purpose only because investors have entrusted their funds with the respective Ameren Illinois Utility and deemed an investment in the securities issued by that Company to be sound and capable of providing a competitive return. A utility must maintain its creditworthiness in order to continue to attract capital on a competitive basis. This is important to assure future opportunities for the Ameren Illinois Utilities to replace capital and various securities which must be refinanced in the future at reasonable cost. Also, the ability of the Ameren Illinois Utilities to attract new capital on competitive terms is critical in order for the Companies to continue to replace and upgrade facilities used to meet the utility services needs of its customers. It is under this framework that the Commission determines the appropriate capital structures, cost of debt and cost of equity, and overall rate of return.

B. Capital Structure

1. Resolved Issues

a. Common Equity Balances

The Ameren Illinois Utilities have accepted Staff witness Ms. Rochelle Phipps' miscellaneous adjustments to the Ameren Illinois Utilities' common equity balances, including the removal of the unappropriated undistributed subsidiary earnings balance from each Ameren Illinois Utilities' common equity balance, the removal of Ameren Energy Resources Generating's Accumulated Other Comprehensive Income ("OCI") from AmerenCILCO's common equity balance as well as the removal of the preferred stock premiums from AmerenIP's common equity balance. The Ameren Illinois Utilities have updated their rate proposals accordingly.

The Commission finds that the Ameren Illinois Utilities updated rate proposals incorporating the referenced adjustments, are reasonable and thus adopted for purposes of this proceeding.

2. Contested Issues

a. Short-Term Debt Balances

Ameren's Position

The Ameren Illinois Utilities assert that the principal flaw with this approach is that, by failing to net cash against short-term debt, Staff treats cash as a utility asset – serving utility purposes - but then does not include the cash in rate base. According to the Ameren Illinois Utilities, Ms. Phipps' approach produces a mismatch between the cost of funds supporting assets and the returns those assets earn.

The Ameren Illinois Utilities explained that the proper analysis involves determining whether the capital structure accurately reflects the mix of debt supporting utility assets. The Ameren Illinois Utilities are holding relatively high cash balances due to their credit standing in the aftermath of the legislative crisis involving the 2007 retail electric rate changes. The Ameren Illinois Utilities have shown that they require these cash balances for operating purposes. The cash balances sit in money market accounts, earning standard money market returns, to assure immediate access to the funds. If the Companies' credit positions were better, they would not hold cash balances at these levels; the economic reality (as supported by the record) remains that the utilities must hold the extraordinary amounts of cash to satisfy their public utility service obligations.

Specifically, the Ameren Illinois Utilities' drop in credit ratings means they have lost same day access to funds and must instead rely on bank facility borrowings which requires a 3 business day lead time and generally involves a minimum loan tenor of 30 days. While Staff witness Phipps questions this premise, she has not rebutted the underlying data comparing the median cash balances over the fourteen months before and after the March 2007 downgrade when the Ameren Illinois Utilities' credit ratings were downgraded to junk (i.e. below investment grade) due to the Illinois Senate approving rate freeze legislation.

The Ameren Illinois Utilities explained that there are two generally accepted ways to treat these cash balances being held for utility purposes. One is to maintain them entirely outside of the ratemaking process by deducting them from the short-term debt balances, as the Ameren Illinois Utilities did. This produces a return on the cash (the money market interest rate) reasonably comparable to (although still less than) its cost (the short-term debt rate). Alternatively, the cash could be included in rate base, and the short-term debt would be fully reflected in the capital structure. This approach could produce an excess return, however, because the cash would be earning both the overall cost of capital in rates, plus the money market return. The Ameren Illinois Utilities wisely did not pursue this approach, because of this mismatch of cost and return

Staff's Position

Staff argues that cash should not be netted against short-term debt to obtain the proper net short-term debt balance. Specifically, Ms. Phipps argues that netting cash against short-term debt as part of the calculation of the proper amount of short-term debt "is improper because cash is not a part of short-term indebtedness." Staff urges a third method, which includes the full amount of short term debt (other than money pool lendings and CWIP) in the utility capital structure, while simultaneously treating the cash as a non-utility asset. This means the Staff assumes that the cash is supported by a mix of capital equal to that supporting assets in rate base. This means, in turn, that Staff believes the Ameren Illinois Utilities would raise cash at a cost of roughly 8% and invest it in money market accounts earning roughly 3%. This produces a significant and unreasonable mismatch between the cost of funds and the return those funds can earn when invested, in this case, in money market funds.

Commission Conclusion

Having examined the evidence of record, and giving due consideration to the arguments of each of the parties, the Commission finds that the Ameren Illinois Utilities have supported their positions on this issue. The Commission declines to adopt Staff's approach. Specifically, the Commission rejects Staff witness Phipps' calculation of the twelve-month average of short-term debt, which improperly aligns the midpoint of the twelve months with the measurement date of the long-term capital structure components. As argued by the Ameren Illinois Utilities, short-term debt balances are the result of costs during the test year/measurement period. The use of measurement balances beyond this period results in a measurement mismatch between short-term debt and the other capital structure balances. These balances tend to be inversely related in such cases as issuances, accumulation, repurchases, redemptions or maturities of equity or debt—a relationship which is lost with this measurement mismatch. The Commission agrees with Ameren witness O'Bryan's calculation of the twelve-month average of short-term debt, which incorporates data that does not go beyond the date of measurement of the capital structure components, and thus adopts it for purposes of these proceedings.

C. Cost of Debt

1. Resolved Issues

a. Short-Term Debt

The Ameren Illinois Utilities' cost of short-term debt conforms with Staff, as well as the weighting methodology used to calculate the cost of short-term debt for the respective Ameren Illinois Utilities. This weighting methodology determined a spread over the LIBOR index to calculate the Ameren Illinois Utilities' cost of short-term debt and the Commission finds that such is reasonable.

The Commission concludes that the weighting methodology put forth by the Ameren Illinois Utilities and Staff is reasonable and thus adopts it for purposes of these proceedings.

b. Variable Rate Long-Term Debt – CILCO and CIPS

Determining the cost of AmerenCILCO's and AmerenCIPS' variable rate long-term debt also requires minimal Commission attention. The Ameren Illinois Utilities have accepted Ms. Phipps' interest rates for AmerenCILCO and AmerenCIPS Series 2004 auction rate pollution control bonds. Ms. Phipps used interest rates from the last auctions prior to the December 2007 rating agency actions that affected the bond insurers that insured these pollution control bonds ("PCBs"). This, in turn, had a negative effect on the interest rates of the PCBs. The Ameren Illinois Utilities note that although this is a reasonable approach to treat the cost of these bonds, this approach should not be used with respect to the AmerenIP auction rate PCBs.

The Commission finds that the Ameren Illinois Utilities approach is reasonable and declines to use Ms. Phipps' approach for the AmerenIP action rate PCBs, which will be addressed below.

2. Contested Issues

a. Cost of TFTNs – IP

The main issue regarding the embedded cost of the AmerenIP Transitional Funding Trust Notes ("TFTN") is whether to employ an internal rate of return method, as argued by the Ameren Illinois Utilities or Staff Witness Phipps' alternative approach.

Ameren's Position

The Ameren Illinois Utilities urge the Commission to adopt Mr. O'Bryan's approach, which employed an internal rate of return ("IRR") method to determine the embedded cost of the AmerenIP TFTNs. The IRR method is appropriate for determining the cost of this debt since AmerenIP does not have economic use of the entire amount of net proceeds of the TFTN between the issuance date (December 1998) and the final maturity date (December 2008). The use of the IRR method to determine the cost of TFTN was approved by the Commission in the 1999 and 2001 DST cases as well as the 2004 gas case.

Staff's Position

Staff responds through the testimony of Ms. Phipps, who suggests that the TFTN coupon rate should not be calculated using an internal rate of return ("IRR") monthly compounded methodology. Ms. Phipps' argues to annualize the monthly discount rate by multiplying the rate by twelve assumes that the IFC (Instrument Funding Charges) collections are remitted by AmerenIP to the indenture trustee on a monthly basis.

Commission Conclusion

The Commission finds that based on the record evidence, the Ameren Illinois Utilities have supported their position on this issue. AmerenIP remits funds to the trustee on a daily basis, and those funds are unavailable to the company once remitted. Although the trustee makes interest and principal payments to bondholders quarterly, this is irrelevant to AmerenIP's cost of debt. Thus, Ms. Phipps' means of calculating the TFTN cost understates the true cost to the Company and is rejected. The Commission notes that the use of the IRR method to determine the cost of TFTNs was approved by the Commission in AmerenIP's 1999 DST case and 2001 DST case.

b. Embedded Cost of Long-Term Debt – IP

Ameren's Position

As reflected above in Section IV.C.1.b, the Ameren Illinois Utilities updated AmerenIP's long-term debt schedule to reflect the recent refinancing of the entirety of the auction rate PCBs. The Ameren Illinois Utilities argue this is appropriate given that the refinancing was both anticipated and has now occurred. on April 8, 2008, AmerenIP issued $337 million of senior secured notes for the purpose of redeeming AmerenIP's outstanding PCBs that were in auction rate mode. The Ameren Illinois Utilities pointed out that Ms. Phipps testified that negative credit rating actions against the bond insurers starting in December 2007 caused rates to spike in the auction rate market. Rates on these securities, which averaged in the range of 1.54% - 3.93% over the period 2004-2007, saw rates climb to as high as 18%. Due to the extremely high rates on these securities as of late, Ms. Phipps measured these rates using the interest rates from the last rates from the last auctions prior to the December 2007 rating actions by Moody's and S&P on the companies that insure the Ameren utilities auction rate PCBs. Ms. Phipps also reasoned that a possible outcome was the refinancing of these securities due to the recent Commission authority granted to do so.

While Staff argues doing so would constitute "selective updating," Ameren Illinois Utilities explained that this is not so in this special case. First, even Staff contemplated such an update taking place, as indicated in the direct testimony of Ms. Phipps, which also cited the Company's approval to do so from the Commission. Second, at the same time Staff predicted the refinancing scenario, Ms. Phipps used a proxy for the current interest rates which these bonds were bearing. But the rates that she used, which were as of late 2007, were a proxy for the true rate on the bonds and should be considered a short-term substitute to be used until a more permanent rate can be used which would

reflect the truer cost of the capital. That rate is now available, and given this special situation, using the actual rate is appropriate rather than Ms. Phipps' proxy rate. This is not a selective update in the traditional sense; rather, it is the appropriate response to a uniformly anticipated event

Staff's Position

Staff argues that the Ameren Illinois Utilities' position constitutes "selective updating," which has previously been disfavored by the Commission. Primarily Staff urges the Commission to use proxy rates rather than AmerenIP's true amount and cost of long-term debt.

Commission Conclusion

The Commission agrees with Ms. Phipps' reasoning, except for her use of proxy rates rather than AmerenIP's true amount and cost of long-term debt for the foreseeable future. Using proxy rates in lieu of the actual rates does not make sense, and thus the Commission accepts the updates proposed by AmerenIP.

c. Embedded Cost of Long-Term Debt – CIPS

The issue requiring resolution is AmerenCIPS properly included in its embedded cost of long-term debt the incremental cost resulting from to its decision to refinance a 4.70% intercompany note with 6.7% bonds.

Ameren's Position

The Company argues it was justified in refinancing the 4.70% note for the following reasons. First, the refinancing extended the date of final maturity from 2010 to 2036. Because of annual amortization requirements, the 4.70% note had an average remaining life of just over three years. This extension greatly reduced CIPS' refinancing risk. This 26.7-year extension of the remaining life naturally comes at a cost by virtue of an upward sloping yield curve and credit curve. Second, the more permanent capital achieved by extending the tenor corresponded with the permanent transmission and distribution assets which it financed. Finally, the new structure relieved AmerenCIPS from having to fund annual amortization payments. The principal payments that remained at the time the note was refinanced were $5.6 million in May 2007, $5.9 million in May 2008, and $6.2 million in May 2009, and would have been made in addition to quarterly interest payments. The 6.70% bond, on the other hand, was a non-amortizing bullet structure (i.e., full principal paid at maturity) that paid interest semi-annually. Therefore, the Company argues, the structure of the "new" bonds afforded AmerenCIPS valuable flexibility through the extension of maturity and freedom from the burden of annual amortization payments.

Staff's Position

Staff disagrees that the Company should recover for these embedded costs primarily because of the intercompany nature of the original note between AmerenUE

and AmerenCIPS. Staff argues that in an arms length transaction, a borrower would not have to pay full principal amount to prepay a loan carrying a below market interest rate unless the original loan agreement required the borrower to do so.

Commission Conclusion

The Commission finds Staff's position unsupported. The intercompany nature of the original loan is irrelevant in this case, as the early redemption terms are set at the note's inception and are typically not negotiated during the life of the loan, with the notable exception being a distress/bankruptcy situation. The CIPS intercompany note is no exception as it states:

> …AmerenCIPS (the "Maker"), promises to pay to the order of Union Electric Company d/b/a AmerenUE (the "Payee")…the principal amount of $66,695,406…Upon receiving the prior written consent of the Payee, the Maker shall have the right to prepay the principal amount of this Note, in whole or in part, without premium or penalty. All partial prepayments shall be applied first to accrued interest under this Note and then to principal installments…

The Commission notes that the excerpt from the note stated clearly the principal amount to be paid, and if prepaid only that it is without premium or penalty. There was no mention of a discount nor anything that can be construed as an ongoing negotiation between the parties regarding the amount ultimately owed. As no party adequately refutes the accuracy or application of the note's language, the Commission finds the embedded cost properly included in the Company's long-term debt schedule.

D. Cost of Preferred Stock – Resolved

E. Cost of Common Equity

1. Resolved Issues

2. Contested Issues

a. Appropriate Return on Equity

The Commission notes that the Ameren Illinois Utilities have decided to accept, for the limited purposes of these proceedings, Staff's recommended cost of common equity. Accordingly, the Ameren Illinois Utilities have updated their recommended weighted cost of capital to reflect the acceptance of the Staff's determination of the cost of common equity.

The evidence and argument contained in the record support adopting the Companies' updated cost of common equity, and thus adopts it for the purposes of these proceedings.

b. Staff's Downward Adjustment

c. Growth Rates

The parties disagree with respect to the appropriate methodology to be used to calculate the appropriate growth rates.

Ameren's Position

The Ameren Illinois Utilities argue the five tests relied on by Ameren witness McShane to estimate a fair return for each of the Companies are appropriate because determining growth rates is a difficult task. They argue a multiple-test approach is most appropriate because Ameren witness McShane's ultimate conclusions considers both the strengths and weaknesses of the various growth models.

IIEC's Position

IIEC sponsors Mr. Gorman's two-stage DCF model, which relies on two separate measures of investor growth expectations, the consensus of analysts' forecasts of earning growth for five years, followed by the consensus forecast by economists of long-term nominal growth in the economy as a proxy for the growth rate that utility investors expect into perpetuity.

CUB's Position

CUB witness Mr. Thomas recommends a return on equity of 8.955% for the Ameren utilities' gas distribution operations and 9.046% for the electric delivery operations based on the results of a DCF test. While he performs a CAPM test for comparative purposes, he does not factor the results into his recommendations. Mr. Thomas recommends that growth be estimated in performing the DCF test by solely relying on historic internal growth (retention rate X ROE or "br") in the application of the DCF test.

Ameren's Response to IIEC and CUB

With respect to Mr. Gorman's two-stage DCF model, the Ameren Illinois Utilities note that this represents a departure from his past practices before this Commission. In proceedings before this Commission and before other regulatory commissions prior to 2008, Mr. Gorman relied solely on a single-stage constant growth DCF model. In Docket No. 07-0566 (Commonwealth Edison Company), February 2008, just over a month prior to filing his direct testimony in this proceeding, Mr. Gorman relied on both a constant growth and a two-stage DCF model in arriving at his return recommendation.

In this proceeding, he has abandoned the constant growth model, on the grounds that the results are too high, because the analysts' forecasts of growth are too high to be sustainable. In response, the Ameren Illinois Utilities argue that it is not reasonable to simply discard the results of the constant growth test, which is based on the more objective measure of investors' growth expectations than the two-stage model.

Moreover, the Ameren Illinois Utilities argue that Mr. Thomas' approach is not reasonable. First, the use of historical internal growth rates measured over a specific period is a purely subjective choice on Mr. Thomas' part, with no objective link to the investor expectations for the future that are embedded in current stock prices. Second, Mr. Thomas' reliance on historic internal growth rates is logically inconsistent. The average achieved returns on equity over the historic period 2002-2006 that Mr. Thomas relied on were 12% for his gas sample and 11% for his electric sample. According to the *Value Line* forecasts that Mr. Thomas provided, the samples are forecast to earn 11.9% and 11.7%, for gas and electric respectively, during 2010-2012 Yet Mr. Thomas would have the Commission believe that investors are expecting the utilities to earn only the 9.0% ROE he recommends. Third, Mr. Thomas failed to acknowledge that the dividend payout ratios have declined for both his samples during the 2002-2006 period, and are expected to decline further. The dividend payout ratio for Mr. Thomas' electric sample was 70% in 2002, but had declined to 61% by 2006, and forecast to decline further to 57% in 2010-2012. Failure to properly take account of the decline in payout ratio (increase in retention rate) results in an understatement in the "br" growth rate. In the case of Mr. Thomas' electric utility sample, the average retention rate over the period 2002-2006 was 35%. The forecast 2010-2012 retention rate is 43%. Even assuming the 2002-2006 average achieved ROE of 11.0% is expected to prevail, rather than the forecast 11.7%, the failure to recognize the higher retention rate would understate expected growth by close to 1.0% ((0.43-0.35) X 11.0%). Fourth, by focusing on internal growth only, Mr. Thomas failed to consider any sustainable growth from external financing (the "SV" component of sustainable growth). Failure to include the SV component can seriously understate the expected sustainable growth rate. This is particularly true during periods when utilities need to raise substantial amounts of capital to invest in infrastructure. For all these reasons, the Ameren Illinois Utilities urge, the Commission should reject Mr. Thomas' DCF method, and thus his recommended ROE.

Commission Conclusion

Based on the record, the Commission finds that the Ameren Illinois Utilities have supported their positions. While it appears reasonable that, the growth rates analysts are forecasting are not sustainable in the long-term, in estimating the cost of equity, it is impossible to accurate determine at what point investors would expect the analysts' forecast growth rates to decline to levels that more closely track the growth in the economy. Underestimating the period over which the analysts' forecast growth rates are expected to prevail understates the cost of equity when the forecast growth rates exceed the expected long-term equilibrium growth rate and overstate the cost of equity when the converse is the case. As a result, the reasonable approach would be to give

equal weight to the results of the constant growth and two-stage models, which the Commission shall do for these proceedings.

After consideration of the arguments and evidence found in the record, the Commission finds that the Ameren Illinois Utilities' approach, as supported by Ms. McShane, reflects the most accurate method of calculating growth rates for purposes of ROE. Neither IIEC's nor CUB's suggested approaches address the notable deficiencies in just relying on one model; the Commission adopts the Ameren Illinois Utilities' growth rates for these proceedings.

d. Beta

e. Market Risk Premium

Ameren's Position

The Ameren Illinois Utilities sponsored the testimony of Ms. McShane to establish the appropriate market risk premium, which is reflected in the updated schedules. Ms. McShane explained that Providing a regulated utility with "the opportunity to earn a return on investment commensurate with that of comparable risk enterprises" is at the heart of the "opportunity cost principle." It means that the fair return must be determined by estimating the return investors would receive if they committed their funds to alternative investment opportunities with comparable risks to AmerenCIPS' electric utility operations. It means that any estimate of the cost of equity capital must look to comparable risk enterprises and the returns available thereon. The need to look to comparable risk companies does NOT mean that each utility in a sample of proxies must exhibit identical risk characteristics to those of the comparable Ameren Illinois Utility. Rather, each utility will have risk characteristics that are unique. However, on balance, the level of total risks (business plus financial) should be reasonably comparable. (AmerenCILCO Exs. 7.0E (McShane Dir.), at p. 7.) Ms. McShane selected comparable risk enterprises for this purpose and conducted a market risk analysis for each of the Ameren Illinois Utilities.

IIEC's Position

IIEC sponsors the testimony of Mr. Gorman, who proposes two approaches to determining the market risk premium. In the first approach, the differentials between the regulatory commission authorized rates of return on equity and the yields on long-term U.S. Treasury bonds for the period 1986-June 2007 are determined. Using the 5.2% mid-point of a range of differences of 4.4% to 5.9% (in which 18 of his 22 observations fall), he adds his forecast 30-year Treasury bond yield of 4.6% to arrive at a return on equity of 9.8%. Mr. Gorman's second risk premium approach adds a utility risk premium over utility bonds of 3.7% (mid-point of a range of 3.0% to 4.4%) to the 13-week average yield on Baa rated utility bonds for the period ending February 22, 2008 of 6.5%, producing a cost of equity of 10.2%. The two models are given equal weight, for a return on equity of 10.0%.

Mr. Gorman also estimates the market risk premium two ways. For his first approach, he adds the average historic real return on equities to the long-term forecast of inflation to arrive at an estimate of the future market return of 11.6%. From that estimated market return, he subtracts the forecast risk-free rate of 4.6% to arrive at an estimated market risk premium of 7.0%. His second approach takes the nominal historic return on equities from which he subtracts the historic achieved total return on government bonds (5.8%), arriving at a market risk premium of 6.5%.

Ameren's Response

The Ameren Illinois Utilities argue that Mr. Gorman has incorrectly estimated the risk premium. First, they assert that using regulatory commission authorized returns as the point of departure does not constitute an independent test of the required return on equity. Second, even assuming that the allowed returns equate to the cost of equity, it is inappropriate to simply average the results for the entire period 1986-June 2007. Mr. Gorman's use of an average risk premium fails to recognize that there is an inverse relationship between interest rates and equity risk premiums. Using the simple average of the risk premiums over the period 1986-2007 (when the average long-term Treasury bond yield of 6.6% exceeded Mr. Gorman's forecast of 4.6% by 200 basis points) fails to recognize that relationship. The average risk premium, the Ameren Illinois Utilities assert, thus understates the required risk premiums in the current and forecast interest rate environment.

The Ameren Illinois Utilities state that, according to IIEC, the required risk premium at Mr. Gorman's forecast long-term Treasury bond yield of 4.6% was estimated from Mr. Gorman's data through a simple regression analysis using the indicated historic bond yields as the independent variable and the corresponding risk premiums (allowed return on equity minus the bond yield) as the dependent variable. The results indicate that the equity risk premium implicit in the regulatory authorized returns on equity increases (decreases) by 39 basis points for every one percentage point decrease (increase) in the long-term Treasury bond yield. Based on the aforementioned, the equity risk premium and the indicated return on equity at Mr. Gorman's forecast long-term Treasury bond yield of 4.6% is as follows: the indicated risk premium is 5.8% and the indicated return on equity is 10.4%, compared to Mr. Gorman's result of 9.8% calculated using simple average risk premiums.

Moreover, it appears from the record that Mr. Gorman's risk premium over utility bond yields bears the same problem. At Mr. Gorman's 6.5% utility bond yield, the indicated risk premium is 4.2%, rather than the 3.7% he relied on, for a return on equity of 10.7%, an increase of 0.5% from his reported result of 10.2%.

Mr. Gorman's risk premium test estimate is the simple average of the results of the risk premium over Treasury bond yields and the risk premium over utility bond yields models. The average of the two appropriately revised versions of the models is 10.6% (compared to Mr. Gorman's 10.0%)

With respect to the Mr. Gorman's Capital Asset Pricing Model (CAPM), the Ameren Illinois Utilities argue he takes an improper approach to estimating the market risk premium. Both methods used by Mr. Gorman, the Ameren Illinois Utilities argue, contain flaws that warrant rejection of the models. Adding the real return achieved on the market to expected inflation would be appropriate if there were any evidence that the expected return on the market moves in tandem with the rate of inflation. However, there is no evidence based on the historic market results that it does and this Commission is limited to making conclusions based on evidence. Moreover, there has been no correlation between inflation and market returns historically. In the absence of any observable relationship between inflation and real returns, or any indication that there is any secular upward or downward trend in the nominal market returns (which there is not), the nominal achieved market return is the better estimate of the forward looking market return. The nominal market return, as utilized in Mr. Gorman's second approach, is 12.3%, leading to a market risk premium over his 4.6% forecast risk-free rate of 7.7%.

Mr. Gorman's second approach to estimating the market risk premium entails subtracting the historic total return on government bonds (income return, capital appreciation return and investment return) from the total return on the equity market composite. Under scrutiny, this second approach fairs no better than the first.

The undisputed Capital Asset Pricing Model formulation is as follows:

$$R_E = R_F + b_e (R_M - R_F)$$

where,

R_E = Required return on individual equity security
R_F = Risk-free rate
R_M = Required return on the market as a whole
b_e = Beta on individual equity security.

The Ameren Illinois Utilities explained that the estimation of the market risk premium, RM-RF, requires the use of a proxy for the risk-free rate. However, Mr. Gorman improperly uses the total return achieved on government bonds as the proxy for the risk-free rate. While Mr. Gorman contends that using total returns on stocks while using income returns on bonds is a mismatch, this is not so. It is appropriate to use income returns on bonds as the estimate of the *ex ante* expected **risk-free** rate while simultaneously using total returns on equities to estimate the expected return on the market, R_M. There are no observable secular trends in the equity market returns that suggest the equity market returns were not, and are not, a reasonable reflection, on average, of investor expectations. Thus, there is no reason that the total returns on the equity market would not be used by investors to estimate the market risk premium relative to the risk-free rate.

The Ameren Illinois Utilities conclude that the use of the income return of 5.2% instead of the total return on long-term Treasury bonds of 5.8% results in an equity risk premium of 7.1% (12.3%-5.2%). The average of the two revised market risk premiums

is approximately 7.4%, as contrasted with Mr. Gorman's estimate of 6.75%. The resulting CAPM return on equity is 10.9% (4.6% + 0.85 X 7.4%), rather than 10.4%.

Commission Conclusion

The Commission finds that the Ameren Illinois Utilities position should be approved, and that IIEC's arguments should be rejected. Based on the record, the required risk premium at Mr. Gorman's forecast long-term Treasury bond yield of 4.6% was estimated from Mr. Gorman's data through a simple regression analysis using the indicated historic bond yields as the independent variable and the corresponding risk premiums (allowed return on equity minus the bond yield) as the dependent variable. The results indicate that the equity risk premium implicit in the regulatory authorized returns on equity increases (decreases) by 39 basis points for every one percentage point decrease (increase) in the long-term Treasury bond yield. Based on the aforementioned, the equity risk premium and the indicated return on equity at Mr. Gorman's forecast long-term Treasury bond yield of 4.6% is as follows: the indicated risk premium is 5.8% and the indicated return on equity is 10.4%, compared to Mr. Gorman's result of 9.8% calculated using simple average risk premiums.

Moreover, as the Ameren Illinois Utilities explain, it appears from the record that Mr. Gorman's risk premium over utility bond yields bears the same problem. At Mr. Gorman's 6.5% utility bond yield, the indicated risk premium is 4.2%, rather than the 3.7% he relied on, for a return on equity of 10.7%, an increase of 0.5% from his reported result of 10.2%.

Mr. Gorman's risk premium test estimate is the simple average of the results of the risk premium over Treasury bond yields and the risk premium over utility bond yields models. The average of the two appropriately revised versions of the models is 10.6% (compared to Mr. Gorman's 10.0%).

The Commission equally agrees with the Ameren Illinois Utilities with respect to Mr. Gorman's CAPM model. Adding the real return achieved on the market to expected inflation would be appropriate if there were any evidence that the expected return on the market moves in tandem with the rate of inflation. However, there is no evidence based on the historic market results that it does and this Commission is limited to making conclusions based on evidence. Moreover, there has been no correlation between inflation and market returns historically. In the absence of any observable relationship between inflation and real returns, or any indication that there is any secular upward or downward trend in the nominal market returns (which there is not), the nominal achieved market return is the better estimate of the forward looking market return. The nominal market return, as utilized in Mr. Gorman's second approach, is 12.3%, leading to a market risk premium over his 4.6% forecast risk-free rate of 7.7%.

Mr. Gorman's second approach to estimating the market risk premium entails subtracting the historic total return on government bonds (income return, capital appreciation return and investment return) from the total return on the equity market composite. Under scrutiny, this second approach is also problematic.

The undisputed Capital Asset Pricing Model formulation is as follows:

$$R_E = R_F + b_e (R_M - R_F)$$

where,

R_E = Required return on individual equity security
R_F = Risk-free rate
R_M = Required return on the market as a whole
b_e = Beta on individual equity security.

The estimation of the market risk premium, RM-RF, requires the use of a proxy for the risk-free rate. However, Mr. Gorman improperly uses the total return achieved on government bonds as the proxy for the risk-free rate. While Mr. Gorman contends that using total returns on stocks while using income returns on bonds is a mismatch, this is not so. It is appropriate to use income returns on bonds as the estimate of the *ex ante* expected **risk-free** rate while simultaneously using total returns on equities to estimate the expected return on the market, R_M. There are no observable secular trends in the equity market returns that suggest the equity market returns were not, and are not, a reasonable reflection, on average, of investor expectations. Thus, there is no reason that the total returns on the equity market would not be used by investors to estimate the market risk premium relative to the risk-free rate.

As established by the evidence, the use of the income return of 5.2% instead of the total return on long-term Treasury bonds of 5.8% results in an equity risk premium of 7.1% (12.3%-5.2%). The average of the two revised market risk premiums is approximately 7.4%, as contrasted with Mr. Gorman's estimate of 6.75%. The resulting CAPM return on equity is 10.9% (4.6% + 0.85 X 7.4%), rather than 10.4%.

For these reasons, the Commission does not accept Mr. Gorman's recommendations. The Ameren Illinois Utilities have supported their market risk premiums as appropriate and thus the Commission adopts them without change.

f. Other

The remaining issues may be addressed briefly. IIEC witness Gorman recommends a downward adjustment to his recommended ROE of at least 0.50% if the riders proposed by the Ameren utilities are adopted by the Commission. This recommendation is purely speculative and relies on no analysis. Mr. Gorman has provided no indication of whether other utilities in his sample might already have access to similar riders. The Commission finds that the proposed QIP rider is to the benefit of customers, not only because it will result in required infrastructure, but because it will reduce the regulatory costs and burden of serial rate proceedings that might otherwise be required. Mr. Gorman's downward adjustment is rejected.

The Commission also rejects Mr. Thomas' recommendation to reduce the ROE by 67.5 basis points if the VBA rider is approved for the gas distribution operations. First, in principle, the CAPM, to which the Commission has traditionally given significant

weight, does not provide investors ROE compensation for weather risk. The CAPM provides compensation for non-diversifiable risk only. Weather is a diversifiable (company-specific) risk. Second, as Ms. McShane noted in her testimony, seven of the eight gas distribution utilities in my sample have partial or full weather protection. Thus, any risk-reducing impact of the weather protection on the required ROE has already been reflected in the DCF cost of equity estimates.

Moreover, the Commission rejects Mr. Thomas attempt to place a value on the Ameren gas distribution operations' proposed Rider VBA by "backcasting" the increase in ROE that the utilities would have experienced between 2002/2003 (prior test years) and 2006 had the Rider VBA been operational. Mr. Thomas estimates that with the VBA, the actual ROEs would have been on average 221 basis points higher than they were. The estimated 221 basis points increase in average ROE was based on the 2002/2003 test year residential and commercial average customer usage, which was based on 30-year normal weather. Mr. Thomas, however, recognizes that the Ameren utilities are proposing rates in this proceeding based on 10-year normal weather. Thus, he attempts to adjust the 221 basis points for the proposed change in normalization methodology. He assumes that the Ameren utilities' estimated reduction in the variance of heating degree days from normal (35.85%) that is expected to result from switching from 30-year to 10-year normal weather will translate into a similar reduction in the impact that the proposed Rider VBA would have on ROE. In other words, had the Ameren utilities been using 10-year normal weather to set rates during the 2002/2003 test years, the impact of having the Rider VBA on the ROE would have been 35.85% less than it was using 30-year normal weather. To account for this, Mr. Thomas reduces the 221 basis point impact to 142 basis points (221 basis points X (1-35.85%)). To account for other factors (the proposed change in rate design), Mr. Thomas recommends that the allowed ROE be reduced by 67.5 basis points, somewhat less than half of the 142 basis points.

None of Mr. Thomas' analysis of the impact on the ROE from moving from 30-year to 10-year normal weather translates into an identical percent reduction in the impact of the Rider VBA on ROE. Mr. Thomas assumes that, if the Ameren Illinois Utilities had been using 10-year normal weather to set rates in the 2002/2003 test years, the impact of having the Rider VBA would have increased the ROE by 142 basis points, rather than the 221 basis points he calculated using rates that were set using 30-year normal weather. As argued by the Ameren Illinois Utilities, Mr. Thomas' analysis fails to recognize the reduction in the average customer usage that moving to 10-year normal weather would have produced (which, in turn, would have changed the delivery rates required to recover the revenue requirements established for the 2002/2003 test years). And as the record establishes, had the Rider VBA been in place for the residential class, the Ameren utilities would have refunded money to customers, rather than recovering money from customers, as Mr. Thomas' analysis indicates. The Commission finds that while there would have been some decline in average customer usage from conservation since 2002/2003, the true impact of the Rider VBA would have been negligible. In summary, Mr. Thomas' conclusions are incorrect and cannot be adopted by the Commission.

The Commission notes that even if the quantitative analysis had been correct, Mr. Thomas' conclusions regarding the impact on the cost of equity are not only speculative but illogical. First, he makes the implicit assumption that the reduction in the differential between the allowed and actual ROE due to the operation of Rider VBA translates into a similar reduction in required ROE. This assumption has no theoretical or empirical basis. Second, the alternative analysis that Ameren witness McShane performed suggests that the Ameren utilities would have owed customers money if Rider VBA had been in place. Following Mr. Thomas' logic, the cost of equity should increase, a conclusion which is non-sensical; for any of the above reasons, the Commission does not adopt Mr. Gorman's recommendations.

F. Overall Rate of Return

In consideration of the record evidence and argument, as well as the statutory obligations that this Commission must fulfill, the Commission finds the Ameren Illinois Utilities' respective capital structure and cost of capital are summarized in the Tables below:

1. CILCO Electric

AMERENCILCO
Weighted Average Cost of Capital

as of 6/30/2007

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$141,064,013	34.336%	6.668%	2.290%
Short-Term Debt	$15,865,875	3.862%	4.040%	0.156%
Preferred Stock	$36,450,067	8.872%	5.335%	0.473%
Common Equity	$217,459,214	52.930%	10.680%	5.653%
TOTAL	**$410,839,169**	**100.000%**		**8.571%**

2. CIPS Electric

AMERENCIPS
Weighted Average Cost of Capital

as of 6/30/2007

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$445,904,162	43.998%	6.538%	2.876%
Short-Term Debt	$11,902,241	1.174%	4.010%	0.047%
Preferred Stock	$48,974,984	4.832%	5.129%	0.248%

Common Equity	$506,691,386	49.996%	10.680%	5.340%
TOTAL	**$1,013,472,773**	**100.000%**		**8.512%**

3. IP Electric

AMERENIP
Weighted Average Cost of Capital

as of 12/31/2006

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$704,808,159	34.459%	7.975%	2.748%
TFTN	$171,533,494	8.386%	6.027%	0.505%
Short-Term Debt	$47,106,782	2.303%	3.930%	0.091%
Preferred Stock	$45,786,945	2.239%	5.010%	0.112%
Common Equity	$1,076,124,965	52.613%	10.680%	5.619%
TOTAL	**$2,045,360,345**	**100.000%**		**9.075%**

4. CILCO Gas

AMERENCILCO
Weighted Average Cost of Capital

as of 6/30/2007

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$141,064,013	34.336%	6.668%	2.290%
Short-Term Debt	$15,865,875	3.862%	4.040%	0.156%
Preferred Stock	$36,450,067	8.872%	5.335%	0.473%
Common Equity	$217,459,214	52.930%	10.720%	5.674%
TOTAL	**$410,839,169**	**100.000%**		**8.592%**

5. CIPS Gas

AMERENCIPS
Weighted Average Cost of Capital

as of 6/30/2007

		PERCENT		WEIGHTED

CAPITAL COMPONENT	AMOUNT	OF TOTAL	COST	COST
Long-Term Debt	$445,904,162	43.998%	6.538%	2.876%
Short-Term Debt	$11,902,241	1.174%	4.010%	0.047%
Preferred Stock	$48,974,984	4.832%	5.129%	0.248%
Common Equity	$506,691,386	49.996%	10.720%	5.360%
TOTAL	**$1,013,472,773**	**100.000%**		**8.532%**

6. IP Gas

AMERENIP
Weighted Average Cost of Capital

as of 12/31/2006

CAPITAL COMPONENT	AMOUNT	PERCENT OF TOTAL	COST	WEIGHTED COST
Long-Term Debt	$704,808,159	34.459%	7.975%	2.748%
TFTN	$171,533,494	8.386%	6.027%	0.505%
Short-Term Debt	$47,106,782	2.303%	3.930%	0.091%
Preferred Stock	$45,786,945	2.239%	5.010%	0.112%
Common Equity	$1,076,124,965	52.613%	10.720%	5.640%
TOTAL	**$2,045,360,345**	**100.000%**		**9.096%**

V. PROPOSED RIDERS

A. Introduction

One of the general issues addressed in the context of the Ameren Illinois Utilities' proposals for new riders was the issue of smart grid technology. The Ameren Illinois Utilities endorse Dr. Lynne Kiesling's recommendation, on behalf of the Citizens Utility Board, that a strategy for long-term smart grid investments be created. Dr. Kiesling defines a 'smart grid' and the services it provides, explains why a smart grid must be planned using accepted interoperability standards, and elaborates on the benefits of a smart grid, including increased reliability, improved energy efficiency, lowered cost of service, and support for environmental benefits. The Ameren Illinois Utilities do not object to the establishment of such a process. While not offering an opinion on whether Dr. Kiesling's statement of the "interoperability principles" at the heart of her recommendation is correct or appropriate, because it is unnecessary for the Commission to reach findings on those principles in this rate proceeding, he Ameren Illinois Utilities do endorse her recommendation for the establishment of a process to develop a coherent, functional strategy.

The Ameren Illinois Utilities state that they have already taken steps to create a long-term smart-grid strategy. The strategic planning process began in March, 2008. An internal team was formed at that time specifically to study the smart grid technology

and its related benefits, as well as smart grid development and implementation. According to the Ameren Illinois Utilities, this team fully intends to involve consultants and stakeholders as it studies such matters.

The Ameren Illinois Utilities intend to study smart grid development and implementation, and would do so in the context of established process, should one be established. The Ameren Illinois Utilities intend to participate fully and actively in any such process, and to work in a cooperative manner, with a view toward implementing the most reasonable system feasible. To that end, it commits to hiring appropriate personnel to analyze smart grid technology and to work in any collaborative process that is established.

The Ameren Illinois Utilities explained that smart metering, in addition to measuring electricity usage and voltage on a real-time basis, allows for two-way communication and provides the utility with new capabilities for operating and managing the delivery system. Smart metering coupled with communication functionality could enable utility customers to see and understand how they consume energy. That is, a smart meter will be capable of communicating to the customer how and when they consume electricity. This in turn will provide consumers the ability to manage their consumption of energy and take advantage of innovative time-based rates − shifting usage of energy from peak periods or high-cost periods, taking steps to conserve electricity, and reducing their energy costs.

While smart meters will satisfy traditional metering needs for the utility − the measuring of the consumption of energy for system design and billing purposes - they could also serve as portals into the consumers' homes or businesses. Smart meters will add additional value for both the consumer and the utility when the information they provide and the communication capabilities are used to enable distribution automation, demand response, load management, and real time pricing. As the electric delivery system or grid continues to evolve, smart meters could become an integral part of an array of intelligent electronic devices that will make up what is conceptually referred to now as the "smart grid."

The Ameren Illinois Utilities explained that they have already invested in advanced meter reading technologies. They began a 4-year deployment of automated meter reading technology in May, 2006. The Ameren Illinois Utilities' commitment to the deployment of advanced meter reading technologies has required, and will continue to require, a significant investment in new and retrofitted meters, data gathering equipment, and telecommunications and information processing systems. Benefits anticipated from advanced meter reading technologies include, but are not limited to, reduced meter reading costs, improved reliability, and enhanced restoration efforts through remote detection of customer outages.

In accord with the Ameren Illinois Utilities' commitment to advanced meter reading technologies, they have taken certain steps towards and/or commitments to smart metering and smart grid technologies. Specifically, the Ameren Illinois Utilities intend to begin studying the costs, benefits, and steps that would be necessary to

implement these types of solutions for their residential and small commercial customers. During 2008, they will begin assessing and comparing the current state of the energy infrastructure in the region to future scenarios involving smart grid technologies. They will also begin to identify additional programs and potential tariff offerings that would allow customers to begin to take advantage of some of the benefits of smart metering. An infrastructure rider would facilitate investments in smart metering and a smart grid.

The Commission generally agrees with the Ameren Illinois Utilities' position regarding "smart" technology and encourages the appropriate development of such technology.

B. Resolved Issues

1. Rider UBA, UBBA and UBPA

In its initial filing, the Ameren Illinois Utilities proposed three new Riders – Uncollectibles Balancing Adjustment (UBA), Uncollectible Balancing Base-rate Adjustment (UBBA) and Uncollectible Balancing Purchased-power Adjustment (UBPA) – to help reconcile actual uncollectibles with the level of uncollectibles approved by the Commission. In rebuttal testimony, the Ameren Illinois Utilities withdrew their request for the approval of Riders UBA, UBBA and UBPA. The Ameren Illinois Utilities noted, however, that this decision to withdraw the request for approval of these riders does not indicate agreement with, or concession of the correctness of, the arguments or positions of Staff and Interveners pertaining to these particular riders.

C. Contested Issues

1. Rider VBA (Volume Balancing Adjustment)

Ameren's Position

The Ameren Illinois Utilities seek to decouple recovery of gas-delivery fixed costs from the throughput of electricity or gas sold. Such decoupling is a recognized industry practice, as explained by NARUC: "In the electricity and gas sectors, "decoupling" (or "revenue decoupling") is a generic term for a rate adjustment mechanism that separates (decouples) an electric or gas utility's fixed cost recovery from the amount of electricity or gas it sells." Allowing the Ameren Illinois Utilities to decouple will avoid negative consequences from energy efficiency initiatives, while eliminating persistent under-recovery of cost-of-service revenue. As NARUC also states: "On a periodic basis revenues are 'trued-up' to the predetermined revenue requirement using an automatic rate adjustment. . . . The result is that *the actual utility revenues should more closely track its projected revenue requirements, and should not increase or decrease with changes in sales*."

As a general matter, the Ameren Illinois Utilities' gas business must recover their gas cost of service. There are two components of this service: gas supply and gas delivery. While the cost of the natural gas supply itself is recovered through the Purchased Gas Adjustment rider, about 97% of gas delivery cost is recovered through

tariff base rates. These tariff base rates primarily consist of volumetric delivery charges, customer charges, and, for certain larger customer groups, demand charges. The remaining portion (about 3%) of gas delivery service cost is recovered through "other" tariff charges (e.g., late pay charges, insufficient fund charges, disconnect/reconnect fees, etc.).

The Ameren Illinois Utilities explained that they recover 43% of its gas delivery service revenue requirement – representing a substantial portion of the gas delivery service revenue requirements for residential and small general-service rate classes – through their volumetric delivery rates, which means that the Ameren Illinois Utilities are recovering a significant portion of their fixed costs through a volatile component that is apt to fluctuate. Theoretically, fluctuations in usage could result in significant over- and under-recovery of cost of service from year to year. Thus, since the revenue recovered from year to year may fluctuate, but fixed costs do not, the Ameren Illinois Utilities stand to over- or under-collect their revenue requirement.

In practice, the Ameren Illinois Utilities explained further the fluctuations have been decidedly one-sided, leading to lower-than-expected rates of return. From the very first year after a rate order, sales levels experienced have been consistently lower than the levels assumed in the test year. Post-test-year per-customer usage has been significantly below the weather-normalized test-year established levels. As anticipated above, sub-forecast sales caused a persistent under-recovery of revenue requirements. Such persistent revenue under-recovery has, naturally, caused the Ameren Illinois Utilities to not earn their authorized rate of return.

The Ameren Illinois Utilities stated that Three principal factors cause such sub-forecast gas usage: weather, a general decline in gas usage, and targeted gas energy-efficiency measures. Both weather and usage decline have had a significant impact on the Ameren Illinois Utilities' cost-of-service recovery, although the final factor – energy-efficiency measures – has not. Regarding weather, the use of volumetric delivery rates causes customers to pay more for the fixed costs of delivery of natural gas in periods of colder-than-normal weather, and less in periods with warmer-than-normal weather. Hence, the Ameren Illinois Utilities under-collect revenue in the latter case, while over-collecting in the former. Declining usage, in the meanwhile, has created an industry-wide issue: use of a volumetric delivery charge as the means of cost recovery causes a utility to under-recover its Commission-approved revenue requirement, thereby causing a shortfall in earnings. Simply put, gas appliances are becoming more efficient and there are no significant new domestic uses for gas. Finally, energy-efficiency initiatives create a perverse incentive. As NARUC explains: "[T]raditional regulation may lead to unintended disincentives for the utility promotion of end-use efficiency because revenues are directly tied to the throughput of electricity and gas sold."

The Ameren Illinois Utilities believe that the alternatives to decoupling are inferior. One, the recovery of all fixed delivery costs through the application of a fixed monthly charge to all affected customers, as proposed by the Missouri PUC Staff for use in the Ameren Illinois Utilities' Missouri gas service territory, would rigidly go a step beyond

decoupling. Another, adjusting the test year billing determinants for a downward trend in sales due to efficiency gains, is less preferable because it involves guesswork.

Staff's Position

Staff witness Ebrey recommends that if the Commission approves a rider similar to Rider VBA, then the Ameren Illinois Utilities should take into account the proposed changes offered by the Commission in the Peoples Gas, and North Shore rate cases. Ms. Ebrey recommends that the VBA provide for a pilot program with a sunset provision with criteria for continuation; annual reporting of the earned rate of return and the impact of Rider VBA on that return; and that the Rider VBA recover only those fixed costs that are reflected in the revenue requirement recovered via the volumetric delivery charge.

Ms. Ebrey states that the Ameren Illinois Utilities' decoupling proposal should be characterized as partial decoupling, which, as differentiated from full decoupling, is asymmetrical. She describes full decoupling as a situation where all changes to a utility are decoupled from revenue, and the utility is guaranteed a level of revenue regardless of any changes in volumes, with customers. Ms. Ebrey asserts that Rider VBA should be modified to achieve full decoupling. Concerned by the possibility that inter-order customer growth may result in excess recovery of revenues, she calls for the Ameren Illinois Utilities to include expected customer growth variables in the VBA equation, an approach similar to that proposed by AG/CUB. She proposes moving from a per-customer Effective Component calculation to a total fixed cost Effective Component calculation.

AG/CUB's Position

AG/CUB witness Brosch takes issue with Rider VBA generally, and specifically argues that the Ameren Illinois Utilities' recommended annual rate-of-return report is an admission that the Rider is piecemeal and can be expected to increase earnings unreasonably, unless it is rigorously monitored. He states the label "pilot" does not cure defects he identified.

Mr. Brosch takes aim at the rider as being "asymmetrical," contending that if the Ameren Illinois Utilities' proposal is to make the Rider VBA symmetrical, then it would not need decoupling. He further argues that choosing decoupling for gas customers, but not electric customers, indicates policy "cherry picking."

Ameren's Response

To the AG/CUB position that unreasonable earnings may result from the proposed Rider VBA, the Ameren Illinois Utilities respond by noting that the Rider VBA formula is designed to recover only the utility's fixed costs that are reflected in the revenue requirement recovered via the volumetric delivery charge, and that the Ameren Illinois Utilities have agreed to provide the Commission with an annual report of their rates of return and the effect of that return of Rider VBA, thus making Commission oversight of returns feasible. Based on the above, there is little likelihood that the Commission will allow unreasonable earnings when it evaluates rider recovery of costs

on an annual basis. The "pilot" nature of Rider VBA also provides protections to customers since Rider VBA will terminate on December 31, 2012. Assuming a renewal of the rider is desired, changes can be made based upon what stakeholders have learned from the pilot program.

The Ameren Illinois Utilities point out that Rider VBA is plainly symmetrical: if a colder than normal winter were to occur customers would receive credits for the higher than anticipated consumption and vice versa. Indeed, as explained by the Ameren Illinois Utilities witness Cooper, had Rider VBA been in place this past winter, customers would have received credits in three of the four winter months. Rider VBA will simply track the volumetric cost collection per customer and true-up to prevent either the under or over-recovery of Commission-approved fixed costs for test year customer levels.

The Ameren Illinois Utilities explain that, Rider VBA is truly "symmetrical." While it is certainly true that the Ameren Illinois Utilities have primarily experienced under-recovery in the past, the future remains uncertain. Rider VBA is a forward-looking mechanism which will function symmetrically in this regard. The pivotal matter is that given today's contemporary fossil fuel issues, rates exist that give utilities an incentive for selling more natural gas – a policy that no longer makes sense.

Regarding the electric-gas parity issues raised by AG/CUB, the Ameren Illinois Utilities also explained that decoupling for electric customers at this time would not be advisable given the current challenges already posed on the electric side related to rate stability in the shadow of the 2007 full implementation of electric restructuring.

Similarly, the Ameren Illinois Utilities explained that Ms. Ebrey's description of full decoupling is mistaken. The record does not support the position that NARUC has advocated implementing decoupling through the creation of ratemaking mechanisms that seek to guarantee utilities revenue from all changes (including customer count growth or contraction). Nor is it there reason to believe that NARUC endorses such a mechanism.

The Ameren Illinois Utilities contend that they are not seeking to expand decoupling to isolate its revenue from all changes that may occur in the course of the operation of its gas utility businesses. Rather, the Ameren Illinois Utilities are seeking to decouple Commission-approved rate recovery for test-year customer levels from changes in volumetric consumption, specifically due to declining usage trends and weather patterns. The primary purpose is to move away from the throughput incentive characteristic of volumetric rate regimes, and to allow the Ameren Illinois Utilities to offer energy efficiency programs without harming its financial interests in doing so.

The Ameren Illinois Utilities stated that were actual (i.e., post test year) customer count data incorporated, the Rider VBA would no longer remain a rate design vehicle designed to recover Commission-approved revenue requirements for test-year customer levels. Rather, it would become a broader formulaic rate that would essentially function to alter the revenue requirement equation established by the Commission in this docket, *on an annual basis*. Additionally, it would do so

asymmetrically absent a Staff recommendation that articulates any mechanism by which the Ameren Illinois Utilities would be permitted to include costs associated with changes in the number of customers, or by which the Ameren Illinois Utilities would be permitted to prove up the value of the plant assets necessary to meet customer growth.

The Ameren Illinois Utilities declared that the lack of symmetry designed to capture revenues associated with customer growth and credit customers would be so prejudicial to its interests that such a ratemaking mechanism would be confiscatory in nature. Essentially, Ms. Ebrey's proposal would function to reduce the Ameren Illinois Utilities' rates annually, by spreading the revenue requirement across a broadening customer base as new customers are added, while simultaneously ignoring costs associated with such load growth completely. Thus, it is inevitable that a changing or increasing cost of service due to plant and expenses associated with new customers with unchanging revenue would not afford the Ameren Illinois Utilities a reasonable opportunity to earn the rate of return approved by the Commission in the docket.

The Ameren Illinois Utilities further explained that a rider that annually resets rates by dividing a historically established cost of service by an annually increasing variable functions as an automatic rate reduction mechanism. When rates are set automatically in this manner, they are set without regard to the value and costs associated with the required additional plant. Such rates are confiscatory, unreasonable and unjust, and should not be approved by the Commission. *See Bluefield Waterworks v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 690 (1923) (defining, generally, the prohibition on confiscatory ratemaking).

Conversely, notes the Ameren Illinois Utilities, Staff and AG/CUB do not explain how customers would be affected by the potential of an automatic rate increase if customer numbers were to *contract* in a given year. It is not clarified by Staff how such a rate fits within the constructs of the PUA. While it is uncommon for customer count reductions to occur, it is not beyond the realm of possibility either. Demographic shifts such as population decline in certain areas, or sudden and dramatic increases in natural gas can result in customer count reductions. More importantly, the record in this proceeding does not contain any such analysis. Without record consideration of such issues, the Commission should – and will – decline to add customer count variables to the VBA equation.

Finally, the Ameren Illinois Utilities indicate that when it comes to implementing sound decoupling policy, while there is specific direction in terms of establishing a functioning rider similar to that approved in Docket Nos. 07-0241 and 07-0242, Staff has not provided in the evidentiary record any mathematical formula changes that they propose to use to incorporate customer count associated variables. Without such a record, the Commission should decline to approve Ms. Ebrey's customer count modifications to the VBA equation.

Commission Conclusion

The Commission finds it no longer makes sense for natural gas utilities to continue to seek recovery of costs through a rate structure that rewards the utility for achieving higher levels of consumption and penalizes a utility for assisting its customers in conservation. The Ameren Illinois Utilities filed its proposed energy efficiency measures with the Commission. This energy efficiency filing is not part of these rate cases, but is in a separate filing. The energy efficiency filing includes the definitive programs, the associated cost of the programs and a proposed rider for recovery of the costs. The Ameren Illinois Utilities initiated a docket seeking Commission approval for its natural gas energy efficiency plan on February 11, 2008, and that proceeding is currently on-going.

There is an absolute link between energy efficiency and decoupling – the two need to go hand in hand. Decoupling removes the throughput disincentive and aligns utilities' financial interests with energy efficiency objectives. Importantly, energy efficiency provides societal and economic benefits, which ultimately benefit customers. A decoupling rider allows utilities to earn a fair return, even while decreasing throughput. In addition, in periods of colder-than-normal weather a decoupling rider would dampen the impact on customers – customers would, of course, pay more for the cost of consuming increased quantities of gas itself, but the rider would reduce the gas delivery revenue per customer down to the allowed revenue requirement.

National consensus on the value of decoupling is growing. According to research conducted by NARUC, ten other states have approved decoupling and three states and the District of Columbia are investigating decoupling. Thirteen of the fourteen states mentioned above also have energy efficiency programs.

Moreover, the rider's true-up or reconciliation provisions would provide for a precise recovery of Commission approved cost of service for test year customer levels that would address all of the concerns identified above: weather, a general decline (or increase) in gas usage and gas energy efficiency measures.

Mr. Brosch's testimony clearly indicates that his clients, the AG and CUB, do not support any form of decoupling, including the Rider VBA. Therefore, we conclude that Mr. Brosch's comments are intended as illustrative criticism and not the basis for implementing changes to Rider VBA.

The Ameren Illinois Utilities' proposal is not intended to operate differently from what was granted in Commission Dockets 07-0241 and 07-0242. Further Rider VBA is "full decoupling" -- the volumetric component of its rates are to be trued-up on a margin per customer basis to insure each customer pays his/her share of fixed costs. The Rider is designed to provide a "fully symmetrical adjustment to rates to produce a full and precise recovery of test year margin revenue requirements based on test year customer class levels."

Regarding the concern over unreasonable revenue recovery, if the agreed-upon report is not sufficient, the Commission will request further data from the Ameren Illinois Utilities, which has a duty to respond to the Commission pursuant to the PUA. 220 ILCS 5/5-101. The Commission expects the Ameren Illinois Utilities to provide useful and meaningful information to the Commission.

For the reasons elaborated, the Commission approves proposed Rider VBA, which decouples the Ameren Illinois Utilities' natural gas delivery service rates from per-customer usage. However, the Commission agrees with Staff that the rider be implemented in the context of a pilot program, and that the Ameren Illinois Utilities provide annual reports on rates of return and their impact on the rider, and that the Rider VBA formula be designed to recover only those fixed costs that are reflected in the revenue requirement recovered via the volumetric delivery charge. These modifications to the proposed rider bring it into conformity with the North Shore Gas Company / Peoples Gas, Light and Coke Company decoupling rider approved by the Commission as a four-year pilot in Dockets Nos. 02-0241 and 02-0242. Accepting the modified Rider VBA will serve the interests of public policy by eliminating the throughput incentive that exists under the current rate structure and allow the Ameren Illinois Utilities to become increasing involved in energy efficiency for the benefit of their customers.

2. Rider QIP

Ameren's Position

The Ameren Illinois Utilities intend to improve system reliability by investing in infrastructure through increased Operations and Maintenance ("O&M") expenditures and capital expenditures. As an example, the Ameren Illinois Utilities plan to spend over $1.1 billion in capital expenditures for the 2007-2009 time period ($909 million electric and $227 million gas). Over two-thirds of these capital expenditures will be dedicated to infrastructure improvement.

To invest in infrastructure, the Ameren Illinois Utilities must secure funds from capital markets, and must therefore recover what will be paid out as a fair return on these borrowed funds. Without a ready source of rate recovery for capital investments, there is no way to pay interest to debt providers or to pay dividends and provide a return to equity investors. Some of these funds, of course, will be provided by cash flow from operations, based on the revenue requirement and rate base from the most recent rate case; however, cash flow from operations will be insufficient to make such improvements based on a static rate base and revenue requirement. In other words, significant and continued investments in infrastructure can only be made, and sustained, when a fair return on and a return of investment are received on a timely basis.

The Ameren Illinois Utilities state that they intend to address regulatory lag – the drop in earnings and return on equity caused by inter-rate case capital investments, which impairs the utility's ability to raise capital – by creating a rate mechanism (Rider QIP) that reflects such incremental projects in rates on an on-going basis (subject to

ICC review and reconciliation). The approach would add capital costs of projects to rate as these projects are completed and the improvements placed into service. Thus, the Ameren Illinois Utilities are proposing an electric infrastructure rider that provides timely recovery of capital costs for certain distribution plant investments, thereby allowing continued investment in infrastructure. The rider would recover costs associated with a defined set of plant additions that will occur after December 31, 2007. The Ameren Illinois Utilities prefer this approach to the alternative: delaying infrastructure improvement projects so the timing of these projects coincides with future rate cases.

In keeping with their goal of system-wide "hardening," and to prevent over-recovery, the Ameren Illinois Utilities propose that capitalized expenditure relating only to *existing* distribution plant infrastructure would qualify for Rider QIP. Plant additions associated with new customers would not qualify for the rider, because those projects would produce additional revenue. This approach is consistent with the Companies' goal to harden its system because capital expenditures on existing distribution plant are made to either enhance the system or replace existing plant. Expenditures which are designed to "harden" the system – that is, make it stronger and more durable – or to replace defective, worn out or deteriorated facilities serve to increase system reliability.

The Ameren Illinois Utilities explained that improved system reliability benefits customers by reducing the length and frequency of outages. Some of this investment will likely be spurred by the results of the Commission-mandated delivery-system and storm-preparedness audit, and will naturally generate customer benefits in those contexts. Finally, some of this investment may be in "smart metering" and "smart grid" technologies (which are being studied by the Ameren Illinois Utilities), and will thereby generate future benefits for customers.

Staff's Position

Staff witness Stoller recommends that Rider QIP be scrutinized in a broader proceeding outside of a rate case. Mr. Stoller further recommends that the Commission not approve Rider QIP because the various electric utility distribution system improvement projects have not been appropriately reviewed and approved by the Commission.

Staff witness Lazare contends that Rider QIP is unnecessary because such anticipated future costs can be recovered by filing a rate case based on a future test year. Mr. Lazare suggests that this case could be designed to recover future investments, such as those anticipated by the Ameren Illinois Utilities here, that may not be appropriately captured in a historical test year. His other concern is that Rider QIP will result in customers paying more than they should – he states that customers should not have to pay extra for improved system reliability and system improvements beyond the minimum required level of service.

CUB/AG/IIEC's Position

Among the intervenors, CUB witness Cohen wonders what sort of investments would qualify for recovery through Rider QIP. AG witness Brosch asserts that costs are predictable and controllable. IIEC witness Stephens raises a similar claim challenging rider recovery, and speaks of the opportunity for the utility to enhance cost recovery in-between rate cases, as does AARP witness Mr. Smith.

Both Mr. Brosch and Mr. Stephens assert that Rider QIP is inappropriate because the costs to be recovered are not large or volatile cost changes. Mr. Smith makes the same claims. Mr. Brosch further asserts that Rider QIP does not take into consideration updates to the depreciation reserve, deferred taxes and O&M expense. He also states that Rider QIP does not consider potential savings related to new plant investment.

Mr. Stephens characterizes Rider QIP as inappropriately shifting operating risk from the utility to the customers. He also contends that the rider will distort the incentive for the utility to behave in a prudent manner. Mr. Smith argues, similarly, that the rider inappropriately shifts responsibility and risk of capital investment to customers. Mr. Brosch argues that regulatory lag creates desirable debt-collections incentives, while noting that the lack of a prudence review is against established practice.

Ameren's Response

The Ameren Illinois Utilities proposed modifications to Rider QIP to alleviate the concerns expressed by Staff and intervenors. The Ameren Illinois Utilities proposed changing the definition of Rider QIP-eligible projects to limit the rider to system-modernization and service-reliability enhancement projects. To eliminate concerns regarding the selection of appropriate projects, the Ameren Illinois Utilities proposed that before recovering costs under the rider, it will file a cost-benefit analysis, in a manner similar to that which the Commission described in its Order in the recent Peoples Gas, Light & Coke Company and North Shore Gas Company rate cases (Docket Nos. 07-0241/07-0242 (cons.)). The Ameren Illinois Utilities have committed to make any such filing on or before April 1st of each applicable calendar year, allowing adequate time for Commission review and approval prior to the subsequent January 1 effective date for approved QIP charges. To mitigate the impact on the Commission's resources, the Ameren Illinois Utilities will pay a combined fee of $100,000 for their annual filing. (Id.) The Ameren Illinois Utilities have also committed to filing an annual rate of return report with each Rider QIP filing, to the extent that the subject costs are being recovered through the rider. The Ameren Illinois Utilities have agreed that Rider QIP can stand as a pilot program through and including December 31, 2012. Thereafter, the Ameren Illinois Utilities would need to re-file Rider QIP (or some variation thereof) if they seek to continue to recover costs in such a manner. Finally, all costs recovered through the rider would be subject to a subsequent prudence review.

The Ameren Illinois Utilities do not oppose Staff witness Stoller's recommendation that the Commission take up this type of rider in a broader proceeding.

The Ameren Illinois Utilities agree that the Commission should give serious consideration to initiating a proceeding to examine evolving service quality standards. To facilitate such review, the Ameren Illinois Utilities are willing to make Rider QIP a pilot program now, with a definite expiration date.

The Ameren Illinois Utilities also addressed Mr. Stoller's concern about the need for Commission approval, and responded with appropriate modifications. Under the modified Rider QIP, no recovery of costs for system modernization or reliability improvement will flow through the Rider until (1) the utility had filed a cost-benefit analysis for a specific project or initiative, and (2) the Commission had approved that specific project or initiative.

The Ameren Illinois Utilities explained that this pre-approval modification addresses concerns raised by the other parties, including Mr. Cohen's concern regarding the specific investments that would qualify for recovery through Rider QIP. Given this modification, parties could intervene in a Commission proceeding initiated after the filing of a cost/benefit analysis and express their views on which projects or initiatives, if any, should qualify for rider recovery. The Commission would then decide which projects or initiatives qualify. Whether this creates a justifiable administrative burden is subject to debate; regardless, the cost-benefit analysis to be filed should prove to be an incentive for the utility to substantiate justification for the project. With time there should be little or no angst as the utility would have demonstrated its ability to justify such projects.

With respect to witnesses Brosch and Stephens' concerns regarding the predictability of costs, the Ameren Illinois Utilities note that the intervenors must recognize that changing times are changing public policy in this regard. The State is turning increasingly to riders as new technologies and programs develop. In the Rate Relief Bill passed last summer, there was recognition that the State of Illinois, through electric utilities, would pursue energy efficiency and demand response programs and technologies. As part of that policy, the General Assembly authorized the use of an automatic adjustment clause tariff (rider) to be approved by the Commission to recover the subject costs. The dollars associated with energy efficiency and demand response programs pale in comparison to the plant investment dollars. Similarly, the General Assembly in late 2006 passed legislation mandating residential real time pricing. A rider was authorized that would allow the utility to recover its costs; once more, the dollars associated with this program are small relative to the hundreds of millions of dollars for plant investment.

The Ameren Illinois Utilities explained that Mr. Stephens and Mr. Smith are mistaken in assuming that the historical opportunity for cost recovery enhancement between rate cases persists in the modern energy industry. A utility may have been more opportunistic in between rate cases when it owned generation, because increased load growth, off-system sales or hot summers would have increased revenue. Today however, the Ameren Illinois Utilities explained a utility without generation does not experience the same benefits as a generation-owning utility that would allow it to absorb the lag associated with significant delivery investment without adversely affecting

earnings. The Ameren Illinois Utilities state that it is not that load growth or hot summers do not occur; rather, because delivery revenue represents less than a third of bundled revenue, the historical example that Mr. Stephens cites is simply not applicable to these circumstances. Similarly, Mr. Smith's assertion of increased revenues between rate cases as reason to disregard the Rider fails as costs continue to escalate.

Contrary to the intervenors' common assertion that the costs sought to be recovered are not large or volatile, the Ameren Illinois Utilities state that the dollar amounts can be significant and, moreover, are subject to the Commission making its pre-approval determinations. The Ameren Illinois Utilities expect to invest about $500 million in their delivery systems in a three year period; the regulatory lag associated with such a large level of investment could be significant.

The Ameren Illinois Utilities explained that Mr. Brosch's concerns regarding depreciation reserve, deferred taxes and O&M expense, as well as his concern that Rider QIP does not consider potential savings related to new plant investment, are all unfounded. The Ameren Illinois Utilities will be filing an annual rate of return report along with each Rider QIP filing, containing updated depreciation reserves, deferred taxes and O&M expenses, which the Commission may consider when evaluating whether or not to allow Rider QIP recovery. If the Commission determines that the Ameren Illinois Utilities are exceeding their allowed return, or if it believes potential savings, if any, from a project or initiative will cause the Ameren Illinois Utilities to exceed their allowed return, the Commission obviously can choose not to allow Rider QIP recovery.

The Ameren Illinois Utilities also note that the intervenors are mischaracterizing Rider QIP by claiming that it inappropriately shifts operating risk from the utility to the customers and distorts the incentive for the Ameren Illinois Utilities to behave in a prudent manner. These claims should be disregarded because, under the modified proposal, the Ameren Illinois Utilities will make a filing with the Commission demonstrating the proposed projects meet a cost/benefit test. Recovery will be had only if the project is approved. Status quo is thus maintained, especially in times of escalating costs. Further, the utility is still bound thereafter to justify the prudence of the expenditures actually made, and so has every reason to behave in manner that ensures the Commission will not disallow costs. Finally, rider recovery does not shift operational risk. Instead, it neutralizes operating risk.

The Ameren Illinois Utilities also explained that Mr. Lazare's recommendation of a future-year rate case does not adequately address concerns regarding regulatory uncertainty. A future test year introduces a new set of variables into ratemaking, which carry their own uncertainty. A future test year is difficult to prepare and both costly and burdensome. Moreover, there are very few utilities have used future test years, and it has almost disappeared from Illinois utility regulation. Were future test years a highly effective remedy for regulatory lag, one would see it used more often.

Mr. Lazare's other critique – that customers should not pay more for system enhancements – is also an unfair characterization of the Rider QIP. The Ameren Illinois

Utilities note that customers are not paying more than they should by virtue of the rider. What customers should pay is the reasonable cost of providing reliable service, and that is all the Ameren Illinois Utilities seeks to recover. Implicit in Staff's position is that the same level of reliability can be achieved for lower costs, but there is no evidence of such gains; no party has offered any proof that we could achieve any particular level of reliability for less than we expect to spend.

Commission Conclusion

The Ameren Illinois Utilities' proposal to implement Rider QIP as a pilot program accommodates Mr. Stoller's concerns regarding Commission oversight. The proposal allows the Commission to consider a permanent program or rule in a broader proceeding, outside of a rate case. This is no different that the Commission's recently approved pilot programs for Peoples Gas, Light &Coke Company and North Shore Gas Company. The Commission approves of this approach. The Commission also approves of the Ameren Illinois Utilities' plan to justify expenses via a cost-benefit study. The Ameren Illinois Utilities are thus asking the Commission to approve a mechanism for recovery that will allow recovery only of the costs of projects pre-approved by the Commission.

The Commission also recognizes that various legislatively mandated riders have been created. Staff refers to customers' expectations, but the Commission does not set rates based on customer expectations. It sets rates based on the reasonable and necessary costs of providing reliable service. Therefore, the Commission approves Rider QIP as proposed by the Ameren Illinois Utilities.

VI. COST OF SERVICE/REVENUE ALLOCATION

A. Introduction

The Ameren Illinois Utilities explained that, relying on the Commission's guidance in Docket No. 07-0165, they have focused their revenue allocation on mitigating the impact of the proposed rate increases on their customers. As explained by the Ameren Illinois Utilities witnesses Warwick and Jones, the Ameren Illinois Utilities remain committed to developing rates that reflect cost causation and equitable cost recovery principles. However, the current economic and regulatory reality requires consideration beyond traditional allocations and traditional methodologies. Indeed, the use of the cost-of-service method would result in unacceptable rate increases for those customers who, as the Commission is well aware through the public forums, are concerned about rising costs.

In response to these rate shock concerns, the Ameren Illinois Utilities proposed a reasonable across-the-board increase that would result in each customer class receiving the same overall percentage increase target. This proposal is both simple and fair. Moreover, the Ameren Illinois Utilities have worked with the various parties in an effort to address whatever concerns each party has with the across-the-board approach.

B. Cost of Service

1. Resolved Issues

2. Contested Issues

a. Appropriateness of Cost Study (Gas and Electric)

(1) Gas

Ameren's Position

Instead of allocating the cost of service in direct proportion to the class-cost-of-service study results, the Ameren Illinois Utilities witness Warwick proposed an across-the-board approach: adjusting each rate class by the overall base-rate percentage change. Typically, a class-cost-of-service study provides a starting point for allocating the total jurisdictional cost of providing service (*i.e.*, revenue requirements) to the various customer classes in a manner that reflects cost causation. In other words, costs are allocated to cost causers (*i.e.*, respective customer classes) based on their proportional responsibility for these costs. The results of a class-cost-of-service study with equalized class rates of return are referred to as "class revenue requirements at equalized rates of return." Pursuant to 83 Ill. Adm. Code § 285.5110, Subpart H, these studies were performed and included in the standard information requirements. However, the Ameren Illinois Utilities did *not* follow the results in determining class revenue requirements. Rather, they propose to apply the overall base rate percentage change on an across-the-board basis. Under this method, each present rate class receives the same percentage change, consistent with the overall percentage change in base rate revenue being requested for each of the utilities.

The Ameren Illinois Utilities, however, reserve the right to utilize class-cost-of-service studies in future rate proceedings for the allocation of class revenue responsibility.

IIEC's Position

IIEC witness Chalfant asserts that adhering to cost of service principles promotes equity, engineering efficiency, stability, and conservation. Mr. Chalfant claims that departure from cost-of-service corrections for subsidies in future cases will only be more painful for customers, because it will require not only correcting existing subsidies but also the "additional subsidies" created under the Ameren Illinois Utilities' proposal in this case.

Ameren's Response

The Ameren Illinois Utilities agree that adhering to cost of service principles promotes equity, engineering efficiency, stability, and conservation. However, the Ameren Illinois Utilities also recognize that factors other than cost of service are relevant to determining class revenue requirements. These factors include, but are not limited to, revenue stability, rate impacts, public acceptance, and value of service.

The Ameren Illinois Utilities explained that the reason for divergence in this case is also the key flaw in Mr. Chalfant's approach: a disproportionate burdening of Residential-class customers. According to Ameren Illinois Utilities Exhibit 27.1, under the IIEC proposal, the Residential class will receive a greater allocation of revenue responsibility than under the Ameren Illinois Utilities' proposal. Similarly, under the Chalfant approach, the Large Volume Delivery Service class will, in all cases, receive a lesser allocation of revenue responsibility than under the Ameren Illinois Utilities' proposal.

The Ameren Illinois Utilities note an additional exacerbating condition necessitating this divergence: delivery costs constitute a higher proportion of a Residential-class bill than of a Large Volume bill. The delivery component of a residential customer's bill represents approximately 25% to 33% of the bill, while natural gas supply represents the other 67% to 75%. On the other hand, the delivery service component of a large volume non-residential customer typically represents less than 25% of the total bill with the remaining natural gas supply portion representing more than 75%. As a result, any proposed distribution service revenue allocation has, on a total bill basis, a greater impact on residential customers and a lesser impact on large-volume customers. The IIEC proposal exacerbates this condition.

Mr. Chalfant's claim of future pain for customers suffers from a lack of proof. The Ameren Illinois Utilities explained that Mr. Chalfant has not provided any evidence that supports the idea that a departure from cost-of-service corrections for subsidies in future cases will be more painful for customers because it will require correcting of existing and additional subsidies, so his statement may be afforded little weight. Mr. Chalfant assumes that future class-cost-of-service studies of all intervening parties will bear similar results as those provided by the Ameren Illinois Utilities in Schedule E-6. (Id.) Future class studies provided by other parties may, and probably will, have differing results, and the Commission may ultimately agree with the results of another parties' cost study.

Commission Conclusion

Mr. Warwick's proposal recognizes that non-cost factors cause rates to vary from computed class-cost-of-service values, and adheres to the Commission's intent to promote equity by departing from strict cost-based rates. Rate structures often consist of a combination of both cost of service and other non-cost considerations. Hence, there are numerous non-cost factors that can and do influence rate design, such as rate stability and continuity, competition, customer bill impacts, and the current environment. These factors may produce rates that vary from class-cost-of-service.

In addition, as the Commission recognized in Docket 07-0165, electric customers of the Ameren Illinois Utilities experienced significant bill impacts in 2007, due to the major transition from frozen and reduced bundled 1997 electric rates to post-2006 rates that included market value prices for power and energy. This transition received much local, state, and even national coverage and resulted in new legislation to mitigate bill impacts to certain customer groups. The Commission notes that the Ameren Illinois

Utilities' customers, whether residential, commercial, or industrial, have seen unprecedented increases in energy bills, gasoline prices, and healthcare costs over the last several years. Approximately 80% of the Ameren Illinois Utilities' gas customers are "combination" customers who receive both electric and gas service from the Ameren Illinois Utilities. The major impact of the transition in electric rates mentioned above, along with the large percentage of combination accounts, drive the decision to distribute the revenue changes in this case on an across-the-board basis. The Commission's Final Order in Docket No. 07-0165 redesigned electric rates in an effort to mitigate bill impacts, and reflected a movement to a more equitable sharing of the post-2006 rate increase between the residential and the small general service rate classes. The Order effectively required a departure from strict cost-based rates to "more just and more reasonable rates," a departure that the Ameren Illinois Utilities' revenue allocation proposal effectively achieves.

In light of the foregoing, the Commission adopts Mr. Warwick's revenue allocation proposal without modification.

(2) Electric

Commission Conclusion

Much of Mr. Warwick's testimony regarding the general inappropriateness of relying on the information contained in the cost of service study for the gas delivery service applies equally to the electric context as well. As explained by the testimony of the Ameren Illinois Utilities' witness Mr. Leonard Jones, the Ameren Illinois Utilities also propose an across-the-board increase to each class of electric customers as well, for many of the reasons articulated by Mr. Warwick. The Commission approves of this across-the-board approach, which will result in the each class receiving the same overall percentage increase target, thus mitigating rate shock concerns. The Commission adopts Mr. Warwick's revenue allocation proposal without modification.

b. Minimum Distribution System (Electric)

While the Ameren Illinois Utilities agree that use of the Minimum Distribution System ("MDS") – a technique to allocate certain fixed, demand-unrelated service costs separately from service costs that are demand-related – has theoretical potential, it notes that the issue of implementing MDS is not ripe at the present moment. The Ameren Illinois Utilities find that IIEC witness David Stowe's analysis on this issue is flawed because he uses improper data to derive his recommendations. Staff concurs that Mr. Stowe's proposal "presents problems," and therefore rejects as unreasonable Mr. Stowe's analysis, which unduly relies on safety and reliability concerns as the premise for immediate use of MDS calculations.

Proper development of an MDS-based recommendation requires the use of Ameren Illinois Utilities-specific Cost of Service Study ("COSS") data, but Mr. Stowe elects to rely on COSS data from other electric utilities instead. In fact, of the five data sets used by Mr. Stowe, four are from one single conglomerate utility: the Aquila

Networks. This choice of data sets, as well as the assumptions made by Mr. Stowe, combine to create unusable recommendations.

The Ameren Illinois Utilities explained that it is fundamentally unsound to use one utility's COSS data to set rates for another utility because each utility has its own distinct set of characteristics that determine what fixed and demand-unrelated costs it faces. The industry manual relied upon by Mr. Stowe itself makes this point clear, noting:

> Each utility is a unique entity whose design has been dictated by the customer density, the age of the system, the customer mix, the terrain, the climate, the design preferences of management, the planning for the future and the individual power companies that have merged to form the utility.

(NARUC Manual, p. 19.) The Ameren Illinois Utilities point out that, as Mr. Stowe's data shows, even within a single network, cost allocations for one account may be more than twice as high for one utility than it is for another. Across utilities from different networks, variances may be incomparably high. The use of averages does not remedy discrepancies when such large variances are involved. Thus, while use of another, unrelated utility's COSS data might provide a generalization that helps indicate the basic contours of the Ameren Illinois Utilities' own cost structure, use of such data to pinpoint the exact division between demand-related and demand-unrelated costs for the Ameren Illinois Utilities results in inaccurate recommendations.

The Ameren Illinois Utilities contend that Mr. Stowe's assumptions are unsupported. He assumes that his selected data sources – the four Aquila utilities and the AmerenUE – represent "operations similar to those within the Ameren Illinois Utilities Territories." However, the variations in the data, mentioned above and obvious in Mr. Stowe's data chart, belie this claim of representative consistency. As Mr. Stowe explained in rebuttal, he also assumes that safety and reliability requirements are necessarily customer-related, an unsupported assumption that we disregard. As the Ameren Illinois Utilities acknowledge, safety and reliability requirements have an effect on costs, but safety and reliability requirements are necessarily customer-related. Recognizing that the MDS concept has merit is not the same as recognizing that costs for minimum safety and reliability standards are independent of customer demand and energy.

The Ameren Illinois Utilities explained that the average percentages used by Mr. Stowe to classify distribution plant into customer and demand related categories are suspect because the data sets he uses are poor proxies for the Ameren Illinois Utilities' cost structure. The poor approximation achieved by these data is evident in Mr. Stowe's testimony. Consider that Ameren UE's FERC account 366 customer percentage is 6% whereas the Aquila utilities are in the range of 82%-61%. Similarly, Ameren UE's FERC account 367 has a customer component of 21% and the Aquila utilities range from 91% to 74%. As noted by the Ameren Illinois Utilities' witness Mr. Jones, these variations

make it inappropriate to accept these estimates and apply them to the Ameren Illinois Utilities.

Commission Conclusion

For the reasons given by the Ameren Illinois Utilities, the Commission rejects the IIEC's proposal that an MDS-based calculation be applied at this time.

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

(1) Gas

Staff witness Harden recommends that, in the next gas rate cases, the Ameren Illinois Utilities propose rates based on the cost of service. The Ameren Illinois Utilities accept that recommendation, and do not object to providing an alternative rate design based on strict cost of service. However, the Ameren Illinois Utilities do object to Staff's requesting that the Ameren Illinois Utilities agree to propose, recommend, and defend a rate design in future rate proceedings that may contain currently-unknown customer impacts.

The Ameren Illinois Utilities note that they intend to show both rates based on cost of service and, if different, their recommended customer class revenue allocation and associated rates, whether it be across-the-board or some hybrid approach. The Commission recognizes the value of such information when setting rates.

The Commission agrees that for the purposes of this case, it will not merge the AmerenCIPS and AmerenCIPS-Metro East rates, even though AmerenCIPS-Metro East no longer exists, AmerenCIPS is one legal entity, plant and expenses are no longer kept separately by AmerenCIPS and Metro East, and the cost of service (revenue requirement) can no longer be spilt between AmerenCIPS and the former AmerenCIPS-Metro East service territory.

The Commission adopts Staff’s proposal to show both rates, and to not propose cost-of-service rates for the Metro East service territory.

(2) Electric

Cities witness Hughes recommended the Ameren Illinois Utilities be required to file a detailed cost-of-service study in its next rate case showing the allocation of costs between the Delivery Service customer classes, including a company-wide lighting cost-of-service analysis to identify lighting fixture costs, and to file a detailed streetlight rate design study to determine cost-based lighting fixture charges. Ameren Illinois Utilities' witness Jones noted that class-cost-of-service studies have been provided within the standard filing requirements of 83 Ill. Adm. Code Part 285, Schedule E-6. While the focus of the Ameren Illinois Utilities' proposed electric rate classes remains to mitigate bill impacts and avoid rate shock, the Ameren Illinois Utilities will continue to adhere to the filing requirements when requesting a rate increase, including filing the required detailed cost-of-service study.

The Commission approves this decision.

d. Other Revenue Allocation Issues Cost-Based (Gas and Electric)

As noted in the preceding discussion, the Commission approves the Ameren Illinois Utilities' witness Mr. Warwick's revenue allocation proposal without modification.

3. Across-the-Board (Gas and Electric)

a. Calculation of Increase

(1) Gas

The Commission agrees with the Ameren Illinois Utilities that the across-the-board percentage increase value used to develop final Gas Delivery Service rates should be derived, using the method demonstrated in the Ameren Illinois Utilities Exhibit 12.1G, i.e. the development of the proposed ATB increase target should exclude Other Revenues (as adjusted for changes to miscellaneous charges) and Special Contract Revenues. The Commission notes that without these exclusions, the resulting GDS rates will fall short of producing the proposed revenue requirement authorized in the cases.

Since the entire increase in revenue requirement is being recovered via the Gas Delivery Service rate classes, the derivation of the across-the-board percentage multiplier must be based on Service Revenue (before Other Revenue and Special Contracts). Otherwise, the Ameren Illinois Utilities will not have an opportunity to recover their Commission-authorized revenue requirement.

(2) Electric

Ameren's Position

For electric rates, the Ameren Illinois Utilities proposes applying an across-the-board increase to each class. Under this approach, each class will receive a pro-rata share of the overall increase based on their current revenue contribution to total the Ameren Illinois Utilities revenue for all classes. This method will result in each class receiving the same overall percentage increase target.

The Ameren Illinois Utilities' allocation methodology starts with the total proposed dollar increase; then, the proportion of each class' revenue under existing prices is determined. Finally, the increase for each class is allocated based on the proportion of each class' revenue under existing prices. As Ameren Illinois Utilities witness Jones explained, this methodology will result in each class receiving the same percentage increase.

Staff/AG's Position

Staff witness Mr. Lazare and AG witness Mr. Rubin support an across-the-board revenue allocation, based in part on agreement with the Ameren Illinois Utilities' concerns that insufficient time has elapsed since the rate redesign case was settled.

Other Intervenors' Position

IIEC witnesses Mr. Stephens and Mr. Stowe, Commercial Group witness Mr. Baudino, and Kroger witness Mr. Higgins all support use of the ECOS study to allocate the revenue requirement for each of the Ameren Illinois Utilities. (Cities' witness Ms. Hughes opposes an ATB revenue allocation, although her recommendation pertains to the DS-5 Lighting class, and in particular, AmerenIP's DS-5 Lighting class. This issue is addressed in a subsequent section.)

Commission Conclusion

An across-the-board increase is appropriate for electric rates because the Ameren Illinois Utilities' rates have undergone a significant transition from the 2006 bundled rates to the tariffs in effect today. Customers have been served under current rates less than one year and are likely still adjusting to the new structure and resultant prices. A large shift in revenue responsibility from one class to another may exacerbate bill impact concerns that customers have been managing since January 2, 2007. Moreover, the Commission has recently established a cost-based revenue allocation for each of the Ameren Illinois Utilities' existing Delivery Service rates. Applying an across-the-board allocation scales the revenue requirement up based on the prior DS case results, while helping to minimize the potential for disproportionate bill impacts to customers. The Commission notes that Staff and the AG support an across-the-board increase.

Intervenors' positions are rejected. Current delivery rates were last adjusted in Docket No. 07-0165. Prices for DS-1 and DS-2 were adjusted on January 1, 2008 to include a seasonally differentiated Distribution Delivery Charge. These price changes, in conjunction with BGS price changes implemented in December 2007, will have been in place for less than one year. Demand-based delivery prices for DS-3 and DS-4 were adjusted in October 2007 by a relatively small amount to reflect implementation of a rate limiter. As a result, the Ameren Illinois Utilities properly chose to rely on the results of those previous cost-of-service studies and employ an across-the-board increase. In the interest of rate stability, the Ameren Illinois Utilities' across-the-board proposal for electric rates should be adopted.

b. Increase Rate Elements by Equal Percentage

(1) Gas

The Commission generally adopts Staff witness Harden's recommendation, endorsed by the Ameren Illinois Utilities, that each individual rate element be charged on an equal-percentage, across-the-board basis. The Commission agrees that now is

not the appropriate time to conform AmerenCIPS and AmerenCIPS-Metro East rates, even though AmerenCIPS-Metro East no longer exists as a legal entity; plant and expenses are no longer kept separately; cost of service (revenue requirement) can no longer be split; separate class cost of service studies can no longer be developed; and rate structures are virtually identical. We encourage the Ameren Illinois Utilities to review this proposal in the next rate case.

(2) Electric

For the DS-1 class, the Commission approves the recommendation, agreed to by the Ameren Illinois Utilities, Staff and the Attorney General's office, that rate components increase at an amount equal to the overall increase allocated to the class for each separate Ameren Illinois Utility. For the DS-2 – DS-4 classes, the Commission approves the Ameren Illinois Utilities' proposal that Customer, Meter, Transformation, and Reactive Demand Charges should all be adjusted uniformly among the three Ameren Illinois Utilities.

Ameren's Position

In general, the Ameren Illinois Utilities seek to maintain the existing pricing structure approved in the last DS case, as modified by the rate redesign docket. For electric residential Customer and Meter charges, the Ameren Illinois Utilities are not seeking uniform residential (DS-1) Customer, Meter and Distribution Delivery charges. Instead, the Ameren Illinois Utilities agree to adjust those charges by a level equal to the average change in residential delivery service revenue for each of the Ameren Illinois Utilities. Staff and the AG concur with Ameren's position on this issue.

For DS-2 – DS-4, however, the Ameren Illinois Utilities propose to maintain uniform Meter and Customer Charges across each of the Ameren Illinois Utilities. As Ameren Illinois Utilities witness Jones explained, the Ameren Illinois Utilities propose to also maintain uniform Transformation (for both DS-3 and DS-4) and Reactive Demand (DS-4 only) Charges. The Distribution Delivery Charge is proposed to "float" to recover the remaining revenue requirement targeted for each class. To the extent there are seasonal (DS-I and DS-2) or voltage differentiated (DS-3 and DS-4) Distribution Delivery Charges, such charges will be adjusted by a uniform percentage by utility and by class to arrive at the targeted revenue requirement. For DS-5 (Lighting Service), all fixture and delivery charges are proposed to be adjusted on an equal percentage basis to recover the targeted revenue requirement.

Staff and Intervenors' Position

Staff witness Lazare expresses concern with using uniform non-residential customer and meter, transformation, and reactive demand charges among each of the three Ameren Illinois Utilities. IIEC witness Stephens does not oppose uniform Customer, Meter, Transformation, and Reactive Demand Charges, and Commercial Group witness Mr. Baudino agrees with the basic approach for designing DS-3 and DS-4 rates. Mr. Stephens does take issue with escalating existing Customer, Meter,

Transformation, and Reactive Demand Charges, though, because he doubts that the underlying replacement costs forming the basis for the charges have increased by a similar amount.

Ameren's Response

The Ameren Illinois Utilities find Mr. Lazare's concerns unwarranted. Several non-residential customers take service from more than one of the Ameren Illinois Utilities. Similarly, several ARES operate in more than one Ameren Illinois Utility's service area. Keeping differences between the Ameren Illinois Utilities to a minimum reduces the administrative oversight by customers and ARES operating in multiple jurisdictions, as compared to an environment where all prices are different. The Commission, the Ameren Illinois Utilities note, has long promoted uniformity of delivery service rates and practices.

The Ameren Illinois Utilities explained that the Transformation and Reactive Demand Charges are designed to provide customers competitive benchmarks for transformer or substation ownership (in lieu of paying the Transformation Capacity Charge), and installation of capacitor banks to minimize reactive demands on the distribution system (in lieu of paying a Reactive Demand Charge). Price consistency across the Ameren Illinois Utilities, will lead to consistent economic choices for customers. Both the Transformation and Reactive Demand charges were set uniformly in the previous delivery services rate cases based on incremental cost of service analyses. The results of the cost analysis performed for the previous rate cases still validate the proposed charges for Transformation Capacity and Reactive Demand. If the cost studies were updated today, the costs would be higher still than those calculated for the previous delivery services rate cases.

The Ameren Illinois Utilities explained that a further problem with Mr. Lazare's proposed across-the-board increase to all rate elements is that it requires modification to ensure full recovery of the revenue requirement. The present DS-3 and DS-4 Distribution Delivery Charges are based on highest demand occurring in the billing month regardless of when it occurs. The proposed Distribution Delivery Charges are based on the higher of (a) the maximum on-peak demand in the month, and (b) 50% of the highest off-peak demand in the month. For Ameren IP, AmerenCIPS, and AmerenCILCO, proposed billing demands are 97.8%, 96.3%, and 94.2%, respectively, of present billing demands for DS-3. For DS-4, proposed billing demands are 98.2%, 96.7%, and 98.4%, of present billing demands for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively. This implies that some customers today experience lower on-peak demands. Thus, following proper rate design, billing demands were adjusted downward to reflect lower expected total billing demands under the Ameren Illinois Utilities' proposed on-peak demand billing structure. However, if the proposed change in the basis for the billing demand is accepted, an ATB increase to the Distribution Delivery Charge will result in a revenue deficiency unless the ATB multiplier is divided by the overall billing demand adjustment above. For example, a 14% increase to the Ameren Illinois UtilitiesCIPS DS-3 would require an 18.4% increase to the Distribution Delivery Charge [((1 + 14%) / 96.3%) = 1.184]. Other charges would still be increased

by the 14%. Thus, implementing the proposed on-peak billing demand methodology will result in non-ATB rate changes to certain customers.

To Mr. Stephens's point, the Ameren Illinois Utilities respond that the overall revenue recovered from Customer and Meter Charges was tied to the overall customer and meter embedded component cost of service in the previous delivery services rate case, not a replacement cost as suggested by Mr. Stephens. Incremental costs were used to develop voltage differentiated Meter and Customer Charges, and justify uniform charges, but were not used to determine how much revenue to recover from those charges. In this case, it was assumed that if revenue requirement was increasing by 28% for DS-3 and DS-4, the customer and meter revenue contribution should increase by a similar amount. Were the Commission to approve less than the Ameren Illinois Utilities' requested revenue requirement, the increase in Customer and Meter Charges would also decrease. Moreover, assigning no increase to the Customer, Meter, Transformation, or Reactive Demand Charges would require all of the increase to be assigned to the Distribution Delivery Charge. It is not reasonable to assume that the entire increase in the revenue requirement assigned to a class occurred in the demand-based Distribution Delivery Charge, while the demand-based Transformation and Reactive Demand Charges receive no increase.

The Ameren Illinois Utilities state that in the previous delivery services rate case, the Transformation and Reactive Demand Charges services were priced using an incremental cost analysis. Proposed prices for both of those services are still within the cost ranges provided in the previous delivery services rate case. As with the Customer and Meter Charges, if the Commission were to approve less than the Ameren Illinois Utilities' full requested revenue requirement, the increase in Transformation and Reactive Demand Charges will also decrease.

Commission Conclusion

The Meter Charge is intended to recover the cost of the meter, associated recurring meter expenses, and meter reading. The Customer Charge is intended to recover administrative costs of servicing the account service lines, and meter transformers. Over the coming years, meters, meter transformers, and service lines will become standardized across the Ameren Illinois Utilities. Substantial standardization has already occurred for new customer installations and at existing locations where equipment replacement was required. Additionally, a common billing system is utilized. From an incremental cost perspective, there is very little difference in customer or meter costs between each of the Ameren Illinois Utilities. Since the incremental cost of service for a customer and meter components is similar, it follows that the charges should be similar as well. Significantly, this concept was not contested in the previous delivery services rate cases, where the Commission approved uniform Meter and Customer Charges for the Ameren Illinois Utilities.

There are numerous benefits to uniform charges: they reduce the oversight by customers and ARES operating in multiple jurisdictions; price consistency produces consistent decisions by customers concerning transformer, substation, or capacitor

bank ownership; and uniform charges reflect the associated incremental costs. These are all clear benefits to the ratemaking process.

For the reasons discussed above, the Commission finds the Ameren Illinois Utilities' proposed electric rate to be reasonable, and hence adopts this proposal.

4. Other Mitigation Proposals (Gas and Electric)

This issue is addressed in a subsequent section entitled "Street Lighting." In addition the Commission rejects the IIEC's alternate rate mitigation proposals.

VII. RATE DESIGN; TARIFF TERMS AND CONDITIONS

A. Resolved Issues

1. Gas and Electric

a. Budget Billing Plan Tariffs

In her direct testimony, Staff witness Harden recommended that the Ameren Illinois Utilities provide more specific language concerning the methodology used in its budget billing plan regarding over or under recovery of customer revenue. In response, the Ameren Illinois Utilities proposed revised language that 1) reinstates the "annual settle-up" (*i.e.*, lump-sum settlement) language in existing tariffs, and 2) provides flexibility for the Ameren Illinois Utilities to offer a second choice to customers to smooth any annual settlement amount over the next 12 months. In rebuttal, Ms. Harden agreed with the Ameren Illinois Utilities' revised language for both the gas and electric tariffs.

b. Refundable Deposits for Line Extensions

Mr. Lounsberry recommends that the Commission require the Ameren Illinois Utilities to use the alternative language that the Ameren Illinois Utilities provided in response to Staff data request ENG 2.202 concerning deposits for gas main extensions. The Ameren Illinois Utilities agree to the language provided in response to ENG 2.202 and will reflect such changes in their compliance tariffs.

In addition, Mr. Rockrohr raised a concern regarding the Ameren Illinois Utilities' proposed tariff language concerning refundable deposits under the Ameren Illinois Utilities' Standards and Qualifications for Electric Service. In response to Staff data request GER 1.04, the Ameren Illinois Utilities provided alternative language clarifying that Customers will always have a cash deposit option available. This language was acceptable to Mr. Rockrohr. The Ameren Illinois Utilities also find this modified language acceptable.

2. Gas

a. Customer Charges and Metering Differentials

The Ameren Illinois Utilities believe that this issue is resolved because Staff generally accepted the Ameren Illinois Utilities' across-the-board approach. The Ameren Illinois Utilities stand by their position of rolling certain charges into their Customer Charges. Due to the confusing nature of Ms. Harden's rebuttal testimony, it is unclear whether Staff agrees with the Ameren Illinois Utilities' position. Here, the Ameren Illinois Utilities believe that rolling the charges at issue into Customer Charges, and then applying the across-the board percentage allocation, is the most consistent and logical approach.

b. Use of PGA in Cashout Mechanisms

This is discussed in Section VII.C.2.f.

c. Curtailment Language

Staff identified a drafting error regarding the proposed Curtailment Plan – wherein transportation customers were to be completely curtailed before any system supply customer. The Ameren Illinois Utilities addressed this error in the response to data request GFA 1.13, attached as Ameren Exhibit 30.9. As indicated in the response, "It is not the Ameren utilities' intent to confiscate gas supply from a transportation customer and supply it to a PGA customer of the same type in the event of a system curtailment…." Curtailments will take place on a customer service level and not by the type of service, Rider T or Rider S, the customer is utilizing.

Staff recommends that the Ameren Illinois Utilities adopt a blend of the current AmerenCILCO and AmerenIP curtailment plans. This is not feasible. As Mr. Glaeser explained, the Curtailment Plan would only be initiated in the most severe circumstances when it is imperative that customers reduce load to enable the Ameren Illinois Utilities to serve the residential customers and human need providers. Staff's recommendation is a complicated scheme that would not be workable in an expeditious manner during a system emergency.

CNEG offered that the Ameren Illinois Utilities should only curtail deliveries within a particular customer class, without regard to whether a customer is a firm transportation or firm sales customer. This is exactly how the Curtailment Plan is written and intended to operate. Mr. Glaeser explained the first category of Curtailment is "Category 1: Customers taking service under Rates GBS-4, 5, 6 and 7 except those Customers identified under Category 3" and that the Curtailment language is defined by rate category and, again, not whether the customer is taking service under Rider T or Rider S.

d. Small Volumetric Distribution Charge

Ms. Harden detected an omission by the Ameren Illinois Utilities – in the response to Data Request CLH 1.01, the Inadequate Capacity Gas System Service code and description of changes were missing. The Utilities subsequently provided a revised tariff page correcting the inadvertent omission. Ms. Harden agrees with the revised tariff language, which can also be found in Ms. Harden's rebuttal testimony.

e. Rate 4 – CIPS

Ms. Harden detected an omission by the Ameren Illinois Utilities – in the response to Data Request CLH 1.01, the Inadequate Capacity Gas System Service code and description of changes were missing. The Utilities subsequently provided a revised tariff page correcting the inadvertent omission. Ms. Harden agrees with the revised tariff language, which can also be found in Ms. Harden's rebuttal testimony.

f. Renaming of Certain Gas Customer Classes

The Ameren Illinois Utilities proposed renaming their rate classifications as follows:

AmerenCIPS and AmerenCIPS Metro East

Present Rate Classification	Proposed
Rate 1 – Residential Service	GDS-1
Rate 2 – General Delivery Service (small meter < 700 cfh)	GDS-2
Rate 2 – General Delivery Service (large meter > 700 cfh)	GDS-3
Rate 3 – Large Use Firm Delivery Service	GDS-4
Rate 3 – Minimal Winter Use Delivery Service	GDS-5
Rate 4 – Large Use Inadequate Capacity Delivery Service	GDS-4
Rate 4 – Minimal Winter Use Delivery Service	GDS-5
Rate 5 – Special Contract Service	GDS-7

AmerenCILCO

Present Rate Classification	Proposed
Rate 510 – Residential Gas Service	GDS-1
Rate 550 – Small General Gas Service	GDS-2
Rate 600 – General Gas Service	GDS-3
Rate 600 – Minimal Winter Use Gas Service	GDS-5
Rate 650 – Intermediate General Gas Service	GDS-4
Rate 700 – Large General Gas Service	GDS-6
Rate 800 – Contract Service	GDS-7

AmerenIP

Present Rate Classification	Proposed
Rate 51 – Residential Gas Service	GDS-1
Rate 63 – Small Volume Firm Gas Service	GDS-2
Rate 64 – Intermediate Volume Firm Gas Service	GDS-3
Rate 65 – Large Volume Firm Gas Service	GDS-4
Rate 66 – Seasonal Gas Service	GDS-5
Rate 76 – Transportation of Customer Owned Gas Service	GDS-1-5
Rate 90 – Contract Service	GDS-7

Staff agreed with the Ameren Illinois Utilities' proposals that rename the rate classes in order to conform with the Ameren Illinois Utilities' electric rate classes. Ms. Harden,

however, opposes the elimination of Rate 76, which is included within the Ameren Illinois Utilities' renaming changes.

g. Rate 2 – CIPS

For AmerenCIPS and AmerenCIPS Metro East, the Ameren Illinois Utilities proposed splitting existing Rate 2 (General Delivery Service) into two new rate classes: GDS-2, for small meters (Meter A) and usage less than 700 cfh, and GDS-3, for large meters (Meter B) and usage greater than 700 cfh. Staff approved of this proposed split.

h. CIPS/ME Rate Area

Currently, AmerenCIPS has two rate zones, AmerenCIPS and AmerenCIPS/Metro East (ME). In its direct filing, the Ameren Illinois Utilities' proposed one set of tariffs for the entire AmerenCIPS footprint. Staff witness Harden objects to consolidating these service areas because she wants to remain consistent with her proposal of an across-the- board increase to all of the Ameren Illinois Utilities' gas customers. Ms. Harden did agree that the issue could be re-examined as early as the next gas rate case.

In his surrebuttal testimony, Mr. Warwick stated a willingness to accept the Staff position acknowledging, however, that the rate conformance would bring about a rate reduction for certain customers. Nonetheless, AmerenCIPS agrees to forego rate consolidation at this time.

i. CIPS/ME Consolidation of PGA Rates

Ameren witness Glaeser testified in support of consolidating the AmerenCIPS PGA rates. Mr. Glaeser offered the following reasons in support of the single PGA rate mechanism:

- Consolidation provides AmerenCIPS sales customers with the benefit of a more stable PGA rate regardless of the customer's location or the size of the distribution system, by uniformly dampening the effects of natural gas price volatility and spikes driven by supply/demand imbalances.
- Additional protection to the AmerenCIPS/Metro East(ME) system due to it being a relatively small distribution system serving 18,000 customers. The AmerenCIPS system is significantly larger and is served by six interstate pipelines as compared to only one serving the AmerenCIPS/ME system. This serves to create a larger or more stable PGA rate.

Mr. Glaeser went on to explain the volatility in natural gas commodity prices since the winter of 2000-2001, and the resultant increased price volatility that drives the need for a combined PGA. He also testified of the inherent need to better balance price risks through AmerenCIPS' gas hedging strategy and AmerenCIPS' risk management policies, as a additional support for the combined PGA.

Mr. Glaeser agreed that AmerenCIPS would work out a mechanism with Staff to ensure that any current over-recoveries are refunded, should the Commission agree with the PGA consolidation.

In the end, combining the PGA rates for the AmerenCIPS and AmerenCIPS/ME sales customers represents the proverbial "win-win" as all customers benefit from the advantage of a larger system.

j. Group Balancing Service for CILCO

Ameren Illinois Utilities' witness Glaeser explained that a key provision in the proposed transportation services allow for Group Balancing under Rider G which is a new service for the AmerenCILCO system. This provision would allow for aggregation of two or more accounts for nomination and balancing purposes as long as the accounts are served by the same marketer and on the same interstate pipeline. Customers located in a city which is served by multiple interstate pipelines, as identified on the Ameren web page under Unbundled Services Management System ("USMS"), will be allowed to balance nominations across those specific multiple pipelines.

As discussed by Mr. Glaeser, the Ameren Illinois Utilities are proposing the Group Balancing service under Rider G to assist transportation customers and their marketers in managing daily imbalances. Group Balancing is already available to AmerenIP and AmerenCIPS customers. The service provides the customer and/or its marketer with an opportunity to request that its accounts be combined with two or more accounts on the same interstate pipeline for nominating and balancing purposes. Additionally, this service allows the Group Manager to manage a group of customer accounts as a single load rather than by individual accounts, and provides a netting mechanism for mitigating imbalances. The daily over-deliveries for one customer can offset the under-deliveries for another customer. This offsetting arrangement aids the Group Manager's in keeping daily imbalances to a minimum. The larger the marketer's customer group becomes under Group Balancing, the greater the netting effect which improves daily imbalance performance.

Ameren Exhibit 16.4G, "Comparison of Individual and Group Balancing," is an example of actual operating data showing a group of three transportation customers with daily imbalances calculated on a stand-alone basis and then calculated as a single group under the Rider G Group Balancing provision. As demonstrated in the exhibit, the Group Balancing service significantly reduces daily imbalances for each transportation customer from 14,596 Dth to 2,822 Dth, or by 80% for the same customers balanced as a single load. Thus, as discussed elsewhere, Rider G will facilitate customers' compliance to the modified bank services and daily tolerance levels.

k. Elimination of Banks for CIPS and CILCO

In its original filing, the Ameren Illinois Utilities' proposed to eliminate the banking services currently in place for AmerenCIPS and AmerenCILCO. However, as explained

in VII.C.2.b, the Ameren Illinois Utilities have proposed substantial bank services for all three Illinois gas utilities.

l. Standard Information Provided with Customer Usage History

m. Other

(1) Eliminate AmerenIP's Rider H

AmerenIP proposed eliminating its Rider H – Adjustment for Pipeline Transition Surcharge. Staff agreed that Rider H should be eliminated from the AmerenIP tariffs.

(2) Miscellaneous Charges

The Ameren Illinois Utilities proposed conforming their Reconnect Charges at $15.00 during regular working hours and at $50.00 outside of regular working hours. Staff recommended approval of the Ameren Illinois Utilities' proposed modifications to their Reconnect Charge.

AmerenIP proposed eliminating its Service Activation Fee, as neither AmerenCIPS nor AmerenCILCO has a similar provision. Staff recommended approval of the Ameren Illinois Utilities' proposal to eliminate AmerenIP's Service Activation Fee.

The Ameren Illinois Utilities also proposed conforming their Dishonored Check Charges at $15.00. In rebuttal, Ms. Harden incorrectly states that "Ameren proposes to set the Dishonored Check Charge at $10.00." Ms. Harden then recommends approval of a uniform Dishonored Check Charge. It is unclear whether Ms. Harden agrees with the Ameren Illinois Utilities' proposed Dishonored Check Charge of $15.00, but merely cited the wrong number, or whether Ms. Harden believes that Dishonored check charge should be $10.00. Regardless, the Ameren Illinois Utilities believe that the Commission should approve a $15.00 Dishonored Check Charge because it is reasonable.

(3) All Other Tariff Provisions for Uniformity

With regard to tariff terms and conditions that address general provisions of providing natural gas service, service options, definitions, application for and commencement of services, rates and charges, metering, billing and payment, technical and operational requirements, customer information, disconnection and reconnection, dispute resolution, miscellaneous general provisions, and bill forms, the Ameren Illinois Utilities are proposing tariff uniformity, excepting Gas Distribution Delivery Charges, across their entire footprint. This proposal is expected to have minimal impact on existing customers of the Ameren Illinois Utilities, as certain major provisions contained in the existing terms and conditions tariffs of the separate Ameren Illinois Utilities tariffs are consistent with various sections of Title 83 to the Illinois Administrative Code and are also common between the Ameren Illinois Utilities. Having a uniform set of terms and conditions among the Ameren Illinois Utilities (rather than separate and varied

tariffs for each Utility) promotes uniformity, clarity and ease of administration of these provisions by the Ameren Illinois Utilities' personnel.

The Ameren Illinois Utilities' basic philosophy was to develop "best practices" for these areas and to propose uniform application or adaptation of these practices through terms and conditions in the tariffs that would be applicable among the Ameren Illinois Utilities. This philosophy promotes efficiency and, also, the earlier stated goal of ease of administration by the Ameren Illinois Utilities' personnel.

The Ameren Illinois Utilities explained that they have, throughout the mergers and acquisitions over past years, engaged in continuous and concerted efforts to control costs, improve efficiencies and effectiveness, and increase customer satisfaction. These efforts have included a concentrated review of the Ameren Illinois Utilities' Gas Delivery operations, existing tariff terms and conditions and related policies, customer satisfaction surveys, and reviews of terms and conditions tariffs of other utilities. There have been numerous internal meetings with Energy Delivery (*e.g.*, field operations, customer call center) personnel to discuss the review and, also, to develop and finalize drafts of the Terms and Conditions tariffs for the Ameren Illinois Utilities. The proposed Terms and Conditions tariffs reflect the collective results of these activities and are considered to represent "best practices" among the Ameren Illinois Utilities.

With regard to Standards and Qualifications that address technical and operational requirements, expansion and modification of the natural gas system, metering, disconnection and reconnection of service, as with Terms and Conditions, the Ameren Illinois Utilities are proposing tariff uniformity. Additionally, as with Terms and Conditions, this proposal is expected to have minimal impact on existing customers, because certain major provisions contained in the existing Standards and Qualifications tariffs of each of the Ameren Illinois Utilities are consistent with the Commission's Rules. Having a uniform set of Standards and Qualifications for the Ameren Illinois Utilities reduces programming and administrative costs necessary to effectuate these Standards and Qualifications.

The Ameren Illinois Utilities also made proposals regarding Supplier Terms and Conditions. The Supplier Terms and Conditions govern the interaction between the Ameren Illinois Utilities and third-party suppliers for natural gas. Specifically, the tariff addresses: application and commencement of services; rates and charges; metering; billing, payment and remittance; electronic data interchange; load profiling; technical and operational requirements; switching and termination; dispute resolution; and miscellaneous general provisions.

The Ameren Illinois Utilities stated that their PGA Riders recover dollar for dollar (with the exception of uncollectible amounts) the cost of the gas commodity purchased by the Ameren Illinois Utilities for Rider S, system gas customers, from those customers. The Ameren Illinois Utilities are proposing consistent PGA terminology. This proposal will have no impact on existing customers, because the mechanics and provisions contained in the existing PGA tariffs of the separate Ameren Illinois Utilities tariffs are

consistent with various sections of the 83 ILL Administrative Code and, also, common across the Ameren Illinois Utilities.

Two of the Ameren Illinois Utilities, AmerenIP and AmerenCIPS, are proposing to conform the look and terminology of their gas environmental riders to the electric Rider EEA – Electric Environmental Adjustment, adopted in the most recent electric delivery services rate cases. This proposal will have no impact on existing customers, because the mechanics and provisions contained in the existing gas environmental riders are consistent with applicable sections of the Commission's Rules. For AmerenCILCO, the provisions of the existing Rider TAR are being retained at this time due to AmerenCILCO presently not allocating any portion of their manufactured gas site remediation costs to their electric business.

3. Electric

a. Supply Cost Adjustments

This issue is addressed in Section VII.C.3.a.

B. Contested Issues

1. Gas and Electric

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

In the Ameren Illinois Electric Utilities' last rate cases, the Ameren Illinois Electric Utilities standardized their tariffs across the three utilities. Here, the Ameren Illinois Utilities proposed to further standardize their tariffs. Staff witness Harden was generally supportive of the standardized or uniform rate changes identified by Mr. Warwick. Uncontroversial changes to the Ameren Illinois Utilities' tariffs were addressed in the prior section discussing resolved issues. Changes to the Ameren Illinois Utilities' tariffs relating to Rider T are discussed below in VII, C, 2, a "IP Rate 76 as a Stand-Alone Tariff."

b. Other

2. Gas

a. IP Rate 76 as a Stand-Alone Tariff

<u>Ameren's Position</u>

The Ameren Illinois Utilities are seeking to eliminate Rate 76 from AmerenIP's rate schedules as part of their effort to create a consistent "Rider T" that will implement uniform terms and conditions of transportation service across all three distribution company service territories. The conversion will be accomplished by increasing each of the Rate 76 components by the overall base rate percentage increase and then re-

segmenting the components into the non-residential GDS (Gas Delivery Service) rates to conform to the uniform structure common to the AmerenCIPS and AmerenCILCO tariffs. The Ameren Illinois Utilities believe eliminating Rate 76 in favor of Rider T results in a tariff layout that is easier to understand and more logically consistent.

The Ameren Illinois Utilities also believe that Rider OT should be eliminated from AmerenIP's tariff books as well. This Rider allows customers essentially to switch back and forth between system sales gas and transportation service. Such an option invites economic gaming by participating customers in a manner that burdens the operation of an efficient system. As explained by Mr. Glaeser, transportation customers taking service under Rider OT will have the option of taking service under Rider S (system service) or Rider T (transportation service). If a transportation customer chooses Rider T, it will have to deliver an appropriate amount of gas on a daily basis to the AmerenIP system to cover its usage. AmerenIP will allow the customer time to work down any banked gas and then buy any remaining gas at the average market price for the year. If the customer elects Rider S, AmerenIP will purchase any remaining banked gas at the average market price for the year.

Staff's Position

Staff criticizes generally the effort to consolidate transportation rate structures into one Rider T and therefore opposes the elimination of the individual company transportation riders. Staff does support consistency, but not to the extent it creates any cost impacts for transportation customers.

Staff witness Ms. Harden opposes eliminating AmerenIP's Rate 76 – Transportation Service as a stand alone rate.

Ameren's Response

The Ameren Illinois Utilities disagree with Staff. They explained that Ms. Harden gives no apparent support or rational for this position, but merely states she opposes it, and that it should be renamed as GDS-6. The Ameren Illinois Utilities' proposal to remove AmerenIP's Rate 76 as a stand alone tariff does not affect the proposed base service rates, *i.e.* Customer Charge, Demand Charge, Overrun Demand Charge, of the customers affected by this change due to the across-the-board increase proposal of the Ameren Illinois Utilities. The Ameren Illinois Utilities stated that the AmerenIP proposal, in general, increases each Rate 76 base rate charge by the overall percentage increase and then, rather than keeping as a separate tariff, basically merged the resulting charges into the appropriate GDS classification as Rider T charges for these customers. Reorganizing the Rate 76 charges into the GDS and Rider T tariff structure brings AmerenIP into conformance with AmerenCILCO and AmerenCIPS tariffs. This tariff layout is easier to understand and more logically consistent. It is important to consider that the resulting rate values are the same whether Rate 76 is a stand alone tariff or as stated under the proposed Rider T approach by the Ameren Illinois Utilities. Therefore, the Rider T approach promotes the Ameren Illinois Utilities' goal of rate conformity without adverse customer impact. It should be noted that, under the Ameren Illinois

Utilities' proposal, changes to the transportation service terms and conditions (Rider T) are applicable to current AmerenIP Rate 76 customers under either the stand alone or merged basis.

The Ameren Illinois Utilities continue to support the elimination of AmerenIP Rate 76 and Rider OT in order to promote continuity and clarity of rate terms and conditions for gas transportation service across all three service territories. However, in response to concerns of Staff witness Sackett and GFA witness Adkisson related to rate impacts associated with the elimination of Rider OT, the Ameren Illinois Utilities have proposed to grandfather existing Rider OT rate structures for participating members within existing GDS rate classifications. This applies to the monthly rate values only, all other terms and conditions will be pursuant to the proposed Rider T provisions. This rate structure will also be limited to those customers on Rider OT immediately prior to its cancellation. The benefit of grandfathering is the ability to satisfy existing customers on the rate while not allowing additional customers to be added to the rate. The limitation grants existing OT customers the Ameren Illinois Utilities' recommended ATB percentage change and, at the same time, provides a transition mechanism consistent with Mr. Glaeser's testimony to eliminate Rider OT. The retained OT rate structures will be located within each non-residential GDS classification, GDS-2 through GDS-6.

The Ameren Illinois Utilities indicated that they recognized that, in conforming tariff structures that differ across three service territories, certain provisions enjoyed by certain customers will be eliminated. Overall, however, the Ameren Illinois Utilities seek to conform their transportation across the utilities for the sake of conformity and clarity, as well as to serve the purpose of reforming the transportation tariffs generally to promote efficient delivery under clear and uniform terms and conditions. Rider 76 and Rider OT should be eliminated in favor of one unifying rider. While it is true that the current tariffs benefit current customers, it is important that the tariffs be revised today for use by existing and future customers. Archaic tariffs should not remain merely because of immediate issues posed to discrete groups of customers are inevitably created, but rather should be abandoned in favor of unified forward looking policy. Otherwise, change would never occur.

Commission Conclusion

The Commission concludes, based on the record, that Ameren's proposal to eliminate Rider 76 and Rider OT should be approved, subject to Ameren's grandfathering proposal for Rider OT. Thus, the Commission agrees to grandfather existing Rider OT rate structures for participating members within existing GDS rate classifications. This applies to the monthly rate values only, all other terms and conditions will be pursuant to the proposed Rider T provisions. This rate structure will also be limited to those customers on Rider OT immediately prior to its cancellation.

b. Size of Storage Banks/Method by which to Determine

Ameren's Position

A major component of the Ameren Illinois Utilities case presented with regard to gas operations is the effort to bring standardization and uniformity to transportation services across the three utilities. The Ameren Illinois Utilities have requested approval to unite all transportation services into one rider, "Rider T," that will govern service across all three service territories in a consistent manner.

In the process of reforming the transportation services to bring about standardization, the Ameren Illinois Utilities have also updated those tariffs to meet modern system goals and requirements. Simply attempting to reconcile three sets of out-dated transportation service tariffs would not have been a productive effort. Central to the "Rider T" proposal are the policies presented with regard to banking services and imbalance tolerances designed by the Ameren Illinois Utilities to meet the necessities of modern operating and market conditions.

The Ameren Illinois Utilities offer the table below to assist the Commission with identifying the differences among the parties with regard to these policies:

Party	**Proposed Balancing/Cashout Tolerances and Banking Limits**
Ameren Illinois Utilities	Daily +/- 15, Monthly none Under 15% bank activity Over 15% cashout @ certain levels of Market Price Bank Limit of 8 x ave daily peak month
CNEG	Daily +/- 20%, Monthly none Bank Limit of 14-16 x MDQ
IIEC	Daily +/- 20%, Monthly none Supports banks but no specific proposal
GFA	Silent
ICC Staff	Daily +/- 20%, Monthly none Bank Limit of 10 x MDCQ

As illustrated by the difference between the Ameren Illinois Utilities and other parties, the issues of banking and balancing tolerances is not without controversy. In order to understand the relevance of the Ameren Illinois Utilities banking services proposal it is important to appreciate the policy drivers behind the banking services and imbalance tolerance provisions, and the overall context of banking services within the Rider T framework. Banking and natural gas storage are two separate issues. Banking services do not have any direct relationship to natural gas storage.

(1) Policy drivers behind banking and imbalance tolerance provisions

In light of key industry drivers, the Ameren Illinois Utilities indicated they recognized the need to address both banking services and tolerance levels in this proceeding. The need for modified banking services and tolerance levels is driven by:

- Gas price volatility, which exacerbates the potential gaming opportunities and unduly exposes sales customers to cost transfers.

- Pipeline tariff restrictions, which limit the Ameren Illinois Utilities' (LDCs) flexibility.

- Pipeline capacity constraints, which means there is not the means by which to access additional gas supply.

The Ameren Illinois Utilities explained that the extreme price volatility in the North American natural gas markets since the winter of 2000/2001 and growing interstate pipeline capacity constraints have fundamentally changed the nature of the natural gas industry. The flexible transportation services currently offered by the Ameren Illinois Utilities were developed years ago during a period of stable gas prices and excess and unconstrained interstate pipeline capacity in the Midwest, conditions that no longer exist today.

Certain of the Ameren Illinois Utilities' existing transportation services include monthly balancing, which while acceptable when gas prices were stable at $2 per MMBtu for years on end, becomes very problematic when gas prices swing up to $1 per MMBtu from day to day and can reach $14 per MMBtu during peak periods. The exceptional price volatility of today's gas markets coupled with increasingly constrained interstate pipeline capacity compels the Ameren Illinois Utilities to revise their transportation services in order that they be better able to manage the systems and to ensure against any undue gaming by transporters and markers.

The Ameren Illinois Utilities further explained that monthly balancing creates opportunities for gas suppliers to exploit short-term price swings. Monthly balancing in volatile gas markets gives transporters and marketers an incentive to "short" (under-deliver gas supply compared to customer demand) the LDC system on days when gas prices spike to high levels and "go long" (over deliver gas supply compared to customer demand) on days when gas prices drop to low levels, while staying roughly in balance by the end of the month.

Mr. Glaeser explained this manner of market arbitrage raises the Ameren Illinois Utilities' costs. Since the transporting customer's demand still exists while their marketers are "shorting" the system, the LDC must still meet the overall demand of the system by delivering additional gas supplies from its suppliers and withdrawing additional gas from leased and on-system storage resources. In other words, the LDC must purchase additional gas supplies at potentially higher market prices to make up for marketers "shorting" the system. This in turn may directly impact the sales customers since the cost of the incremental supplies and storage withdrawals are included in the PGA rates which are paid for by the sales customers and not the transportation customers or their marketers. The inverse situation is also problematic where daily gas prices drop to low levels and marketers will "go-long" or over-deliver compared to their customer's demand which, in turn, makes less room for the LDC to acquire gas supply during low priced periods which would lower the PGA rate. This type of operational

behavior is permissible in the current tariffs for the AmerenCILCO and AmerenIP systems, which is the fundamental reason for the proposed changes.

Growing capacity constraints on interstate pipelines are having a negative impact on the Ameren Illinois Utilities' operations as well. Most of the interstate pipelines the Ameren Illinois Utilities operate on are now constrained in that all or most available firm capacity is under contract with shippers and the utilization of that firm capacity has increased, especially during the summer period for gas-fired power generation. Since 1999, approximately 200,000 MW of gas-fired generation has been built in the U.S. which has a potential demand of 17 Bcf/day compared to the production of natural gas in the lower 48 states of 51 Bcf/day. Id. This new demand has created significant stress on interstate pipeline operations and has given greater exposure of the natural gas markets to the price volatility of the power markets. Mr. Glaeser further testified even in the last 18-24 months there has been a substantial increase in pipelines issuing overflows [OFO's] and system protection warnings.

The Ameren Illinois Utilities stated that the natural gas industry in the U.S. has changed dramatically since the first price spikes during the winter of 2000/2001. In today's current environment, the global energy infrastructure is under stress driven by rising demand and constrained energy supplies which are creating record prices and volatility for crude oil, natural gas, heating oil, gasoline, and even coal. The transportation infrastructure for energy in the U.S. is also constrained in areas such as interstate pipeline capacity, rail capacity from coal producing regions, and the power transmission grid. Throughout the U.S., interstate gas pipelines are becoming more capacity constrained while the demand for natural gas keeps growing, driven primarily by gas-fired generation. Ameren Exhibit 30.1 and Ameren Exhibit 30.2 are graphs from the American Gas Association/Bentek Energy LLC describing the demand for natural gas in the U.S. by sector for 2007.

One of the contributing factors to the current system integrity issues is the increased reliance on natural gas used for electricity production. Ameren Exhibit 30.1 graphically demonstrates the significant amount of natural gas being consumes by power generation. Gas-fired generation has the potential of creating near instantaneous peak day demands on the pipeline systems during the summer season, which directly competes for gas supply and capacity for storage injections. This is causing interstate pipelines to operate with tighter tolerances, which are reflected in their tariffs for services such as daily balancing, imbalance cash-outs, and penalties, in addition to operational constraints such as interruptible transportation curtailments and pipelines not allowing secondary-out-of-path nominations.

The Ameren Illinois Utilities explained that the demand for natural gas by the power generation sector has become a major source of demand for the gas industry and has created significant competition for natural gas during the summer when gas supply and pipeline capacity for storage injections are critical. In other words, the gas industry has been recently transformed from a winter peaking industry to a winter *and* summer peaking industry which has contributed to increased price volatility and

constrained pipeline capacity. The Ameren Illinois Utilities own experience with gas generation supports this critical issue.

The Ameren Illinois Utilities' transportation tariffs have not changed or adapted to the new operating environment. This gives incentives for marketers delivering gas to transportation customers to potentially exploit the existing balancing services which, as indicated earlier, are to the detriment of the sales customers.

The Ameren Illinois Utilities' proposed transportation tariffs have been designed to maintain tighter system operations in order to protect system integrity and mitigate the impact of gas price volatility on the sales customers in this volatile and unprecedented energy environment. The system sales customers comprise the vast majority of customers for the Ameren Illinois Utilities which have 817,000 total customers of which 518 customers have selected transportation services; however, the transportation customers represent a significant level of system throughput. In addition, this is the first real opportunity for the Ameren Illinois Utilities to update transportation services to meet the challenges of today's natural gas markets and to develop common transportation services since the acquisition of Central Illinois Light Company in 2003 and the acquisition of Illinois Power Company in late 2004.

The Ameren Illinois Utilities explained that to manage such tight interstate pipeline tolerances, the Ameren Illinois Utilities contract for and maintain a portfolio of resources on the interstate pipelines in order to manage our gas supplies to such a level. These resources include services offered by the interstate pipelines such as no-notice storage service, park and loan service, line pack service and park/unpark service, point operator agreements, and operational balancing agreements. These services effectively provide the Ameren Illinois Utilities with additional balancing flexibility and banking ability to operate within very tight tolerances. Notably, the Ameren Illinois Utilities' sales customers pay for these services.

Staff witness Sackett disputes the Ameren Illinois Utilities' position that interstate pipelines are operating with tighter tolerances since 1999 (when a significant amount of gas-fired generation was built in the U.S.); he further states that the Utilities have not provided any evidence of tightening pipeline tolerances. However, the Utilities' actual position is that the operations of interstate pipelines have tightened and become more constrained, not necessarily that their stated tariff tolerance percentages have been reduced over time. Many of the interstate pipelines that the Ameren Illinois Utilities utilize to transport gas are operating at higher capacity levels on a year-round basis, not only due to gas-fired generation demand but also due to regional gas price differentials. Mid-continent supplied interstate pipelines like Panhandle Eastern Pipe Line Company (Panhandle) and Natural Gas Pipeline Company of America's (NGPL) Amarillo mainline system are sold out of firm capacity since they are connected to some of the least expensive gas production basins in the U.S.

Interstate pipelines are invoking operational restraints more frequently. As evidenced by Ameren Exhibit 30.4 there has been a tremendous increase in the frequency of interstate pipeline notices calling for specific actions to be taken by

shippers on the pipeline systems due to operating constraints. These notifications/alerts have affected the Ameren Illinois Utilities' gas flows on interstate pipelines. Ameren Exhibit 30.5 contains a listing of each date during 2007 that a supplier's gas failed to be delivered to the Ameren citygate and the reasons why the deliveries were not made. One of the biggest supply interruption events during 2007 was the Panhandle mainline #400 rupture that occurred on November 21. As a result of the rupture, the Ameren Illinois Utilities experienced prorata force majeure cuts to virtually all of the firm gas supplies being delivered by Panhandle. These cuts in gas supply ranged between 15%-20% of nominated volumes on Panhandle beginning on November 27, 2007 and lasting through January 8, 2008. During this time the Ameren Illinois Utilities were able to maintain the integrity of the system by utilizing their leased no-notice storage and on-system storage resources.

The Ameren Illinois Utilities explained that the Panhandle mainline rupture did not cause widespread cuts to the gas supply of transportation customers. In response to Data Request Ameren-CNE-2.06, CNE-Gas stated that "between 11/26/07 and 1/8/08, CNE-Gas nominations to an Ameren LDC citygate supplied from Panhandle Eastern Pipe Line were cut due to a supplier force majeure." CNE-Gas noted, however, that "[d]uring this period, CNE-Gas made no special requests to customers to reduce usage" and that "[d]uring this period, there was no specific impact" to its customers. Similarly, in their response to Ameren's Data Request Question No. 1.04, the IIEC indicated that three of their member companies received service from Panhandle and only one had gas supplies cut off or scheduled off by the pipeline and none of the three had their supply deliveries affected at their facilities.

The Ameren Illinois Utilities further explained that these transportation customers were able to maintain normal usage levels despite the Panhandle rupture because the Ameren Illinois Utilities back-stopped the shortage in gas supplies for the transportation customers similar to the six examples previously discussed by utilizing system supply resources which, again, are paid for by system sales customers.

The Ameren Illinois Utilities contend that neither Staff nor CNEG have a substantial response to the Ameren Illinois Utilities' evidence of additional operational restrictions, notifications, and alerts on the interstate pipelines. Staff witness Mr. Sackett gives no consideration to the factual evidence provided in this proceeding. Ameren Exhibit 30.4 included a summary listing of the notifications and alerts issued during 2007 by six of the interstate pipeline companies that provide service to the Ameren Illinois Utilities. The purpose of the exhibit was to show the sheer volume of notifications and alerts issued by the interstate pipelines and the various types of events that the notices were addressing. Subsequently, in response to Staff data request POL 13.11, the Utilities provided four years of historical data for three of its largest interstate pipelines, which clearly demonstrated an increasing trend of pipeline critical notices numbering over a thousand. The Ameren Illinois Utilities point out that all of these notices were *critical* in nature and exceeded 1,000 in number – and that even one-half of these notices impacting the Ameren Illinois Utilities number approximately 500. The summary provided in Ameren Illinois Utilities' response to Staff data request POL 13.11 clearly proves the increasing frequency of pipeline operating restrictions.

The Ameren Illinois Utilities also agree that Staff's view that the Ameren Illinois Utilities have provided "very limited anecdotal evidence of any gaming behavior [,] and no quantification of any harm to sales customers" is mistaken. In its responses to the IIEC Data Requests 2.34, 2.35 and 2.36, which were also provided to Staff, the Utilities provided detailed examples and in-depth discussion of six individual operating days of transportation imbalances on the system. The information encompassed three examples of transporters net shorting the system (delivering less gas into the system than actual usage) and three examples of transporters net longing the system (delivering more gas into the system than actual usage). The Utilities do ***not*** believe the Commission would embrace transportation service flexibility to the point that it allows such service to be subsidized by the system sales customers (which are primarily residential and small commercial customers). To accept Staff's recommendation means it's a certainty that system resources will be used more and more by transporters at the expense of residential and small commercial sales customers.

The Ameren Illinois Utilities chose this six-example method, essentially performing a detailed study of the imbalances and their impacts on each single operating day, for the sake of feasibility. To perform a study on every single day of the test year would require an immense amount of time and expense. One fact that Staff, CNE-Gas and the Ameren Illinois Utilities do agree on is that these imbalances occur every single day to some degree; either long or short. What the Ameren Illinois Utilities' are attempting to do in this case is to provide incentives for transporters to keep their daily imbalances to a reasonable level and prevent transporters from leaning on system supply resources which are paid for by sales customers.

The Ameren Illinois Utilities have also provided examples of such "gaming" behavior. In response to Data Request POL 6.05(g), the Ameren Illinois Utilities provided Staff with concrete examples of two marketers that repeatedly "game" the systems time and time again for economic gain, including one marketer that "games" between the Ameren Illinois Utilities from weekday to weekends.

The Ameren Illinois Utilities point out that Staff witness Sackett offers that "An arbitrage possibility occurs because of a potential difference between the cashout price (the average of the daily prices for the month) and the market price for a particular day. If the daily price is high compared to the expected average monthly price, a customer might arbitrage the two prices [*by*] under-delivering gas on that day. Conversely, if the daily price is low compared to the expected average monthly price, a customer might arbitrage the two prices by over-delivering gas on that day. By eliminating the difference between the daily price and the cashout price, the arbitrage opportunity is eliminated." The bottom line summary of the Staff's arbitrage example is that the utility's sales customers foot the bill for the arbitrage gain achieved by the transportation customers who may be intentionally either over-delivering or under-delivering gas to the LDC system. We agree that arbitrage opportunities are minimized by Mr. Sackett's suggestion of having daily cashout pricing based upon daily market prices.

The Ameren Illinois Utilities do agree that transportation customers should not be unduly burdened with unnecessary restrictions. However, it is important that the

realities of contemporary energy industry dynamics be recognized when creating forward looking policies. However, as elaborated upon above, the record reflects the current challenges facing the Ameren Illinois Utilities and the weight of the evidence in this proceeding favors Commission approval of a standardized Rider T inclusive of its important banking and imbalance tolerance provisions. Given the challenges into today's natural gas industry, the Ameren Illinois Utilities believe that the provisions of Rider T are on balance, and the revised rules related to banking and balancing tolerances as more thoroughly described below are narrowly tailored and appropriate.

In response to the original proposal advanced by the Ameren Illinois Utilities, the intervenors have expressed concerns with the reduction in the daily balancing tolerance to 10% along with other proposed changes in the tariffs including utilizing PGA gas costs for the cash-out mechanism, gas sales to the utility during curtailments, elimination of balancing banks, and a notice period for Operational Flow Orders (OFO) and Critical Days.

To address these concerns, the Ameren Illinois Utilities will revise the proposed tariffs by increasing the daily balancing tolerance to 15% (from 20% currently in the AmerenIP and AmerenCIPS tariffs and from ***no daily tolerance*** in the AmerenCILCO tariffs) which gives a transportation customer or pool group manager an effective operating window of 30% each day (plus or minus 15% from nominated gas supply). The Utilities are willing to modify the cash-out mechanism to eliminate the utilization of the PGA rate and to base cash-outs, both positive and negative, on the *Platt's* Gas Daily "Midpoint for Chicago Citygates" which represents a market based price. The Utilities will revise the tariffs to allow for the voluntary sale of gas to the utility during a curtailment before resorting to involuntary gas sales, and are willing to purchase this gas at the market price plus a 10% premium. The Utilities are also willing to provide a two hour prior notice before implementing an OFO against any customer or group of customers. This amount of time should be sufficient to allow the customer to make any necessary arrangements. Finally, the Utilities will agree to allow for intraday nominations for the second and third intraday nomination cycles ***only on a best efforts basis***. At this point in time, however, the Ameren Illinois Utilities cannot provide a firm right to all intraday nomination cycles.

The Ameren Illinois Utilities' proposal related to banking fits within the context of the overall approach to imbalance tolerances and is described below.

(2) The Ameren Illinois Utilities banking services proposal

The Ameren Illinois Utilities have also proposed a standardized banking service for all three utilities to work in conjunction with the tolerances described above. More information about the specific levels of the balancing tolerances is described in section.

In its original filing, the Ameren Illinois Utilities' proposed to eliminate the banking services currently in place for AmerenCIPS and AmerenCILCO. Banking service does not exist for AmerenIP transportation customers currently. However, as explained

above, the Ameren Illinois Utilities have proposed in surrebuttal substantial banking services for all three Illinois gas utilities. The Ameren Illinois Utilities proposal falls in line with the initiative to bring all transportation service related terms and conditions under one rider, "Rider T", and to effectuate necessary reforms necessary to meet emerging economic and industry trends.

The Ameren Illinois Utilities have proposed to revise the banking services for two purposes: (1) bring consistency to the terms and conditions of service among all three companies, and (2) to facilitate the continued provision of efficient service in light of emerging economic and industry challenges and trends.

The Ameren Illinois Utilities believe the first revision is self-explanatory: it is plainly beneficial for the Ameren Illinois Utilities and their customer to have uniform terms and conditions for transportation service common among all three utilities. To understand why it is necessary to make banking changes due to economic and industry trends, it is first necessary to explain the concept of "banking."

The Ameren Illinois Utilities explained that in order to provide service to both transportation and sales customers efficiently, it is important the Ameren Illinois Utilities anticipate operation needs across its system. Operations of transporting customers typically do not allow them to predict with exact certainty when and how much their future maximum gas demanded will be. A "bank" is a reserve that transportation customers can tap into to avoid the undesirable financial effects of failing to keep their gas usage within defined tolerance limits. As Ameren Illinois Utilities' witness Glaeser explained, banks essentially allow the transportation customer to borrow gas from Ameren Illinois Utilities on days that such a customer may under-schedule and end-up short on gas delivered by suppliers. Banks are used in conjunction with tolerance limits in this manner to give flexibility to transportation customers.

The challenges go beyond administrative burdens and can result in costs to the utility. Because the Ameren Illinois Utilities use their respective delivery services to serve both sales and transportation customers, overly flexible transportation service offerings, including those related to banking, can ultimately accrue to the burden of sales customers. In his direct testimony, Mr. Glaeser explains that increasing natural gas price volatility and interstate pipeline constraints have complicated the Ameren Illinois Utilities operations in recent years and thus necessitate the changes to banking and other transportation services.

Banking is clearly favored by Staff, as explained by witness Sackett as well as intervenor CNEG. Mr. Sackett supports a bank limit of 10 times the MDCQ. CNEG favors banking service with a limit 14-16 times the MDCQ. Specifically, CNEG's proposal regarding banking depends on the availability and flexibility of other features of Rider T. CNEG proposes to increase the banking limits to 10-12 times a transportation customers' MDQ if the daily tolerance stays at 20%. Then CNEG proposes to increase the banking limits to 11.5-13.5 times a transportation customers' MDQ if the daily tolerance band is lowered to 15%. Again, CNE-Gas supports a banking limit of 14-16 times a transportation customers' MDCQ if Staff's proposal for daily cashout and

banking is adopted. The Ameren Illinois Utilities agree with Staff that the daily cash-out provision will help to eliminate gaming but nonetheless, higher tolerances are needed.

The Ameren Illinois Utilities contend that these proposals dramatically increase the allowable bank limits over the levels that are currently in effect for the Ameren Illinois Utilities. All of the bank limit proposals advanced by CNE-Gas and Staff are based on a specific number, *e.g.* 10, 12, 14 or 16 times a transportation customers' MDQ or MDCQ. These terms refer to the maximum daily contract quantities defined in a transportation customer's contract and are in many cases substantially higher than a customers' actual usage. The current tariff provisions for bank limits on the AmerenCILCO and AmerenCIPS systems are 10 times a customer's average peak day, with the average peak day calculated by the peak usage month in the prior 12 months divided by the number of days in the month. The AmerenIP system, which is by far the largest of the three Ameren LDCs, currently has no banking provisions for its Rate Schedule 76 transportation customers (which also represent the largest group of transporters on the AmerenIP system). Banks are provided to AmerenIP transportation customers served under Rider OT at the level of 12 times a customer's MDQ, but the Rider OT customer group is fairly small (87 customers).

The Ameren Illinois Utilities explain that, by comparison, their proposal is that the bank size be eight times the average daily peak month, which is the average daily from the peak month in the past 12 months. The Ameren Illinois Utility proposal is closer to the current bank services being offered than what is being proposed by Staff. To the extent consistency matters to the Commission, the Ameren Illinois Utilities believe it should stay with the Ameren Illinois Utility proposal. In addition, the Ameren Illinois Utilities explain, the manner by which the bank size is determined is important for at least two reasons. First, Staff readily admits its proposal reflects a larger measure of a demand put on the system. The utilities' distribution systems, however cannot sustain undue demands. Permitting transportation customers more bank than they currently have will only exacerbate the problem. Second, the measure by which the bank service is determined should be based on a historical assessment as we propose. It is far more accurate to review the past 12 months of actual usage for a customer to set the bank level than some projection of a future usage level.

The Ameren Illinois Utilities argue that part of what drives the Staff and CNEG's position is their failed or limited understanding regarding storage assets. For example, Staff would have the Commission pretend that the Commission findings in the PGA proceedings are irrelevant. Staff argues the PGA proceedings deal with cost recovery and do not include a thorough review of the allocation of storage assets between sales and transportation assets. Ameren Exhibit 54.2 exhibit shows the expected peak-day sales load for each of the Ameren Illinois Utilities' system and all upstream gas supply resources available to meet the firm sales demand, including the maximum deliverability from each on-system storage field. The Ameren Illinois Utilities believe this exhibit tells the Staff and the Commission what sources of supply are available and required to meet the peak day demand of sales customers. In particular, what it shows is that the storage assets are required to be used almost entirely by sales customers, and not by transportation customers.

The Ameren Illinois Utilities explain that for Staff to suggest that the PGA reconciliation is only about dollars is simply not true. A review of a recent AmerenIP Final Order from the Commission regarding its PGA reconciliation proves otherwise:

> "The proprietary information sought to be protected consists of the details of specific contract negotiations; gas supply, transportation and storage transactions; and price hedging and forecasting information…"
>
> ***
>
> Mr. Dothage testified regarding the recent negotiation of virtually all of AFS' pipeline and storage capacity on four of its largest upstream interstate pipeline suppliers."
>
> ***
>
> "Mr. Zeltmann testified regarding AmerenIP's general purchasing policy for acquiring gas supply services, transportation and storage capacity. (See AmerenIP Ex. 2.0R) Mr. Zeltmann also testified regarding the changes made to AmerenIP's pipeline capacity and storage service contracts, including outlining what steps AmerenIP took during the Reconciliation Period to minimize its pipeline capacity cost. Mr. Zeltmann explained how AmerenIP determines the proper amount of leased storage for its supply portfolio and discussed why leased storage is important to providing high reliability. Mr. Zeltmann described how AmerenIP's on-system storage fields are used to supply gas to its distribution system, and explained what efforts AmerenIP pursues to ensure optimal use of its own storage facility."
>
> ***
>
> "Mr. Lounsberry reported that he also conducted an on-site review of AmerenIP's gas supply and transportation contracts and the process AmerenIP used to select those contracts."

Illinois Power Company, ICC Docket No. 06-0746, Final Order, 5/21/2008. The Ameren Illinois Utilities explained that the PGA reconciliation dockets are more than just proving the prudence of the costs expended during the reconciliation period. A great deal of testimony and evidence is devoted to explaining what gas supply resources are being utilized for the benefit of sales customers who pay the PGA rate. In each PGA docket, the Staff and the Commission are provided information that demonstrates the amount of storage available to sales customers. Ameren Exhibit 54.2 amply demonstrates the limitation of storage assets.

The Ameren Illinois Utilities also point out that Mr. Glaeser, on behalf of the Ameren Illinois Utilities, testified that, "Since the inception of transportation services, this class of customer has not paid for, nor had access to storage services on the Ameren system." The Ameren Illinois Utilities argue that none of this testimony has been credibly refuted, nor was Mr. Glaeser's explanation as to the differences between what

are storage services and banking services. Banking services are designed for daily balancing on an after-the-fact basis and for short durations, whereas storage service is the physical ability to inject and withdraw gas and load gas in storage inventory. . Contrary to Staff's belief, while storage fields provide flexibility to address differences with regard to system demands, they are not physical assets over which transportation customers have ownership rights.

Staff also takes issue with the Ameren Illinois Utilities' position that transportation customers can purchase these basic services on the interstate pipelines, stating they are not a reasonable substitute for the services provided by the utility. The Ameren Illinois Utilities explain, however, that does not explain why park and loan service, parks/unpark service, no-notice storage and line pack service offered by the pipelines fail as a reasonable substitute.

The Ameren Illinois Utilities point out that CNEG frames many of its arguments based on what other utilities provide. However, CNEG is mistaken that the Ameren Illinois Utilities have comparable storage assets to Peoples Gas/North Shore and Nicor when in fact there are material differences in storage capacity due to lower levels of leased storage on our systems. Requiring the Ameren Illinois Utilities to provide the same services that others offer without carefully analyzing the differences in available resources can lead to service oriented difficulties and severe cost consequences, to say the least.

IIEC asserts that there should be no limitation on a customer's withdrawal from its bank - if there is enough gas in the bank, that they should have no obligation to deliver gas on the system under any circumstance. The Ameren Illinois Utilities explain that this recommendation should be rejected. Consider the possibility of many or all transportation customers behaving the same way on a given day. The resultant one-way swing in gas deliveries would have to be covered in its entirety by the utility, and ultimately at the cost of the sales customers. A bank should be used for variations in gas supply being used by the customer and not as the ultimate source of supply. The recommended 30% tolerance window provides both flexibility to the customers and provides some amount of protection to the system. Further, this recommendation speaks directly to the Ameren Illinois Utilities' over arching concerns as to how transportation customers and marketers will try and game the system if the opportunity exists

When considered in total, the Ameren Illinois Utilities explain, the Staff and CNE-Gas banking proposals reflect dramatic increases to the banking levels currently offered and allowed by the Ameren Illinois Utilities – with no commensurate increase in costs for such flexibility. These dramatic increases in banks proposed by CNE-Gas and Staff would need to be mainly supported by each of the LDC's on-system storage resources, which, as previously discussed, are relied upon by the LDC's system sales customers to serve their peak day requirements.

Ameren Illinois Utilities witness Glaeser, however, presents a compromise position. Mr. Glaeser proposed a unified system bank across all three companies. Mr.

Glaeser's proposal would allow customers a bank limit equal to 8 times the average daily peak month in the prior rolling 12-month period. This bank limit will allow the customer to under or over schedule gas and avoid cashout when operating outside of the proposed tolerance limit of +/- 15% until the limit is either exceeded or the balance is depleted.

Additionally, the Ameren Illinois Utilities will agree to allow transportation customers that are served by the same interstate pipeline to transfer bank limit balances provided confirmation of the exchange is established. This important addition to banking services will assist in giving greater flexibility to transportation customers and mitigate the loss of flexibility associated with the necessary lower banking limits.

Commission Conclusion

The surrebuttal position of the Ameren Illinois Utilities is reasonable and should be approved by the Commission. It accomplishes one unified policy across the three respective utilities and is an important component to standardized transportation service across the three Ameren Illinois Utility service territories. Additionally, the policy advances Ameren Illinois Utilities role in providing efficient delivery services to all of its customers at reasonable and non-discriminatory rates. The Ameren Illinois Utilities banking proposal will give flexibility to transportation customers and also help to ensure efficient management of LDC delivery operations in a manner that does not leave its sales customers on the hook for system costs created by transportation customers. The recommended 30% tolerance window provides both flexibility to the customers and provides some amount of protection to the system

c. Elimination of IP's Rider OT Along with its Bank

The Ameren Illinois Utilities addressed this issue above in VII, C, 2, a "IP Rate 76 as a Stand-Alone Tariff." The Ameren Illinois Utilities standardized banking proposal is discussed above in VII, C, 2, b "Size of Storage Banks/Method by Which to Determine."

d. Elimination of CIPS' Stand-by Reserve

Ameren's Position

The Ameren Illinois Utilities propose to eliminate AmerenCIPS' stand-by reserve service. Few customers want this service, and eliminating it will achieve consistency among the Ameren Illinois Utilities. Staff contends this service should continue to be offered, claiming that 50% of the customers, or 74 customers, have or want this service. Staff's analysis is in error.

The Ameren Illinois Utilities described how Staff combined the number of Rider T and Rider S customers to determine the number of customers wanting stand-by reserve service. However, Staff witness Sackett only used the number of Rider T customers to derive the percentage currently utilizing a designation amount greater than zero. Of those eligible for a partial designation, four tenths of a percent (0.4%) actually utilize a designation greater than zero, rather than twenty percent (20%) as erroneously claimed

by Staff. Ameren Exhibit 30.7 shows the stand-by reserve option statistics for customers with Rider T, Rider S and a combination of Rider T and S.

Prior to its 2002 rate case, Docket No. 02-0837, AmerenCILCO offered a stand-by reserve option called Daily Limited Firm Backup (DLFB) In that rate case, the service was eliminated due to limited participation by transportation customers. Further, the elimination of DLFB stand-by reserve services was uncontested by all parties. In Docket No. 02-0837 hearing, Staff witness Harden testified at page 16, lines 308-309, "the changes are acceptable." Thus, Staff itself has agreed to eliminate the stand-by reserve service as recently as 2002.

Furthermore, as discussed by Ameren Illinois Utilities' witness Glaeser, there is not enough pipeline capacity resources in the Midwest to even offer this outdated service, which has its origins in the 1980's when transportation services were new and untested. The stand-by reserve services were originally designed during the initial unbundling of transportation services to give a back-stop to the new and untested transportation services then being offered. Because the Ameren Illinois Utilities target a reserve margin (available firm deliverability resources over a design peak day) of 3% for load growth between capacity agreement terms, statistical errors in modeling the peak design day, and minor customer switching, the utilities simply do not have any extra firm resources on a peak day to offer a stand-by reserve option.

Mr. Glaeser explained that the natural gas industry is facing capacity constraints with most interstate pipelines delivering to the Ameren Illinois Utilities' systems being sold out of firm transportation capacity. If the pipelines are constrained, so are the utilities. As evidence of the lack of capacity the newest interstate pipeline under construction in the U.S., the Rockies Express Pipeline, is fully subscribed before going into service.

If the Ameren Illinois Utilities are forced to offer a stand-by reserve service for all transportation customers, an additional 490,000 MMBtu of firm transportation capacity potentially would be required, at a cost over $74 million. The Ameren Illinois Utilities could not secure this much firm capacity if they wanted to, which makes Staff's request for this service a moot point.

When a customer chooses to take transportation service, it is accepting the responsibility to secure its own gas supply and upstream transportation capacity resources, especially for a peak day. The utilities should not be obligated to contract for supply services to serve as a back stop for transportation customers.

Commission Conclusion

The Commission finds, based on the reasons offered by the Ameren Illinois Utilities, that the Ameren Illinois Utilities' proposal to eliminate stand-by reserve service at AmerenCIPS is reasonable and should be approved.

e. Appropriate Daily Balancing Tolerances from 20% to 15%

Ameren's Position

The Ameren Illinois Utilities' explained that their current transportation services suffer from a lack of consistent and standardized balancing provisions. The balancing provisions range from allowing monthly balancing with a banking service to daily balancing with monthly cash out of imbalances within a plus or minus 20% tolerance range. The Ameren Illinois Utilities propose a uniform daily balancing provision for all three utilities that would encourage customers to conform their usage to a plus or minus 15% tolerance range before any cashout of daily imbalances would occur. The proposal is offered in conjunction with the imbalance banking proposal discussed in VII.C.2.b "Size of Storage Banks/Method by which to Determine."

The reforms to the Ameren Illinois Utilities' balancing tolerances is another aspect of the companies overall effort to bring continuity to transportation service across all three companies and to update the terms and conditions of said services as modern economic and industry trends necessitate. The underlying policy drivers behind the Ameren Illinois Utilities' proposed daily balancing tolerances and the context of the proposed tolerances generally are discussed above in VII.C.2.b "Size of Storage Banks/Method by which to Determine."

The Ameren Illinois Utilities explained that the standardization and changes to transportation services proposed by the Ameren Illinois Utilities are designed to provide equity among sales and transportation customers. The daily balancing tolerance provision is an important tariff provision because it helps to ensure that the Ameren Illinois Utilities can continue to meet the needs of both transportation and sales customers under terms and prices that are reasonable to both.

The actual percentage of daily tolerance allowed by the Ameren Illinois Utilities is important because the greater flexibility in balancing tolerances, the greater the isolation that Ameren Illinois Utilities transportation customers have from the economic effects of mismatching the gas they have scheduled for transportation and their actual usage. That isolation can result in externalities that Ameren Illinois Utilities must address, and the actions necessary to balance the system can result in increased costs to Ameren Illinois Utilities PGA customers.

The Ameren Illinois Utilities also explained that it is also necessary to keep in perspective that the Ameren Illinois Utilities have also proposed daily balancing. The change from monthly to daily balancing with cash out of imbalances provides equity between system sales and transportation customers by adding the appropriate pricing signals that will encourage transportation customers and their marketers to manage their daily deliveries to more closely match their usage. In the immediately following portion of the brief, VII.C.2.f, the issue of monthly vs. daily balancing is discussed more thoroughly.

To promote further consistency, the Ameren Illinois Utilities have elected to change the daily imbalance tolerance range to +/ 15% of nomination. This will more closely align with the tolerance ranges of the LDC's upstream interstate pipelines. Each

LDC is required to balance its systems on the interstate pipelines which all have imbalance tolerance ranges that are less than 15%. Transportation customers should be required to adhere to a tolerance range more in line with the LDC's requirements on the interstate pipelines.

IIEC and CNEG's Positions

IIEC and CNEG oppose the tolerance change from 20% to 10%, the Utilities are offering the proposed tolerance level of ± 15%, in the spirit of compromise with the interveners in this proceeding. This provides an operating window of 30% for transportation customers and an intra-month banking level of 4.5 days ((MDQ x 15% daily tolerance x 30 days)/MDQ).

The IIEC rejected the compromise imbalance tolerance of +/- 15% in rebuttal testimony indicating that it was not reasonable without a banking services being offered. Similarly, CNEG rejected the Ameren Illinois Utilities proposed +/- 15% imbalance tolerance arguing that with daily cashout applicable, a +/- 20% imbalance tolerance is more favorable in light of the lack of cashout requirements of upstream pipelines.

Ameren's Response

The Ameren Illinois Utilities continue to advocate a +/- 15% as they believe it is reasonable and additionally agree to provide banking services to provide transportation customers with greater flexibility. While CNEG is correct that upstream pipeline companies do not have daily cashout, they do operate with daily tolerance limits ranging from 5% - 10%, and exceeding those limits can result in penalties and other charges. As discussed in VII.C.2.b supra, current economic and industry trends are creating the necessity for the Ameren Illinois Utilities to narrow its imbalance tolerances. In its basic terms, the Ameren Illinois Utilities are simply requiring that transportation customers deliver into the system the gas they intend to burn within a reasonable tolerance band of + or – 15% in light of modern energy industry realities. With existing tolerances at +/- 20%, a movement to +/- standard of 15% is a gradual move in the right direction, and in light of the Ameren Illinois Utilities' standardized banking proposal, represents a fair term of service for transportation customers.

Commission Conclusion

The Commission finds that instituting a daily +/- 15% imbalance tolerance provision is reasonable and should be approved as part of its overall standardized transportation services proposal.

f. Monthly/Daily Cashouts

Ameren's Position

The Ameren Illinois Utilities explained that daily imbalances occur when a transportation customer's confirmed nominations of gas supply delivered to the utility's citygate is more than or less than the customer's actual gas usage. If a transportation

customer's confirmed nomination is more than the customer's actual usage, there is a positive imbalance. If a transportation customer's confirmed nomination is less than the customer's actual usage there is a negative imbalance. In direct testimony, the Ameren Illinois Utilities proposed that transportation customers could carry a positive or negative daily imbalance of 10% of the nominations before the cash-out of any imbalances. Positive imbalances greater than 10% of the nomination would be cashed out at 90% of the lower of the PGA rate or Chicago City Gate price. Negative imbalances greater than 10% of the nomination would be cashed out at 110% of the higher of the PGA rate or the Chicago City Gate price. At the end of the month, the daily imbalances that fall within +/-10% tolerance range would be netted and cashed out at two-tiers. The first tier of negative imbalance up to 10% would be cashed out at 100% of the higher of the PGA rate or the Chicago City Gate price and for positive imbalances 100% of the lower of the PGA rate or the Chicago City Gate price. The second tier for negative imbalances over 10% would be cashed out at 110% of the higher of the PGA or the Chicago City Gate price and for positive imbalances over 10% at 90% of the lower of the PGA rate or the Chicago City Gate price.

As further explained by Ameren witness Glaeser, daily balancing and cash-outs are not new concepts. AmerenIP currently has both daily balancing and cash-out tariff provisions, and AmerenCIPS has in place a daily balancing tariff. Mr. Glaeser explained that the utilities' were moving from a monthly to a daily cash-out in order to negate the incentive for transportation customers to "short" (under-deliver gas supply compared to customer demand) or "go-long" (over-deliver gas supply compared to customer demand) the system for economic benefit.

Staff's Position

In response to the Ameren Illinois Utilities' proposal, Staff witness Sackett recommended that the PGA settlement value be dropped from the cash-out mechanism and that the Chicago City Gate price only be used as to reflect current market conditions. Mr. Sackett has no objection to the removal of the monthly cash-out provisions understanding there is the potential for an arbitrage opportunity. He explained there could be a potential difference between the cash-out price and the market price for a particular day compared to, for example, the expected average monthly price.

Ameren's Response

In response to Staff's recommendation, the Ameren Illinois Utilities agreed not to incorporate the PGA rate but maintain the daily Chicago City Gate price, which is comparable to a daily spot price delivered to an Ameren Illinois Utility citygate. In addition, the Ameren Illinois Utilities agreed to modify the daily imbalance tolerance from its' original proposal of +/- 10% to +/-15% along with the acceptance of a banking level of eight times the average daily peak month as addressed elsewhere.

Specifically, the cash-out proposal is such that whenever the bank limit is maximized, any excess volumes delivered each day are cashed out at 90% of the daily

Chicago City Gate price. Imbalance volumes outside of the 15% tolerance band are cashed out with over-deliveries cashed out at 90% of the daily Chicago City Gate price and under-deliveries cashed out at 110% of the daily Chicago City Gate price.

Mr. Glaeser went on to explain that in the event an OFO order is declared, the daily balance tolerance and bank limits operate in the same manner, with the exception that under-deliveries between 15% and 50% of the daily confirmed nomination are cashed out at 150% of the Chicago City Gate price, and under-deliveries in excess of 50% are cashed out at 200% of the Chicago City Gate price. Over-deliveries in excess of 15% continue to be cashed out at 90% of the Chicago City Gate price. The purpose behind these provisions are to ensure an asymmetrical cash-out structure during OFO periods, in order to discourage under-deliveries during periods of constrained system operations.

In the event of a Critical Day or curtailment, the daily balance tolerances are reduced to zero and all imbalance volumes that deviate from the daily confirmed nomination are cashed out. All over-deliveries are cashed out at 90% of the Chicago City Gate price, while under-deliveries from 0% to 50% are cashed out at 150% of the Chicago City Gate price, and under-deliveries in excess of 50% are cashed out at 200% of the Chicago City Gate price. Again, the purpose for this particular structure was to strongly discourage under-deliveries during Critical Days to preserve system integrity.

Commission Conclusion

The Commission finds reasonable the Ameren Illinois Utilities proposal not to incorporate the PGA rate but maintain the daily Chicago City Gate price, which is comparable to a daily spot price delivered to an Ameren Illinois Utility citygate. In addition, the Ameren Illinois Utilities agreed to modify the daily imbalance tolerance from its' original proposal of +/- 10% to +/-15% along with the acceptance of a banking level of eight times the average daily peak month as addressed elsewhere. This modification is also reasonable. Thus, the Ameren Illinois Utilities proposal on this issue should be approved.

g. Intra-Day Nominations

Ameren's Position

The Ameren Illinois Utilities proposed the addition of one new intra-day nomination cycle to give transportation customers an additional option to adjust gas supply deliveries to minimize imbalances. Mr. Glaeser explained that the new intra-day nomination cycle would be at 4:00 pm of the preceding day, and best effort basis accommodation for other intra-day nomination changes.

CNEG's Position

CNEG agreed the additional evening nomination provided added flexibility. However, CNEG also proposes that the Ameren Illinois Utilities include all four NAESB

nomination cycles. In effect, this would give marketers/transporters two more opportunities to change their gas nominations. Staff concurs.

Ameren's Response

The Ameren Illinois Utilities argued that the Commission should reject this proposal for several reasons. Other Illinois gas utilities do not offer all the NAESB nomination cycles, suggesting there is no need for the additional cycles, it presents an undue cost to ratepayers, and frankly, there has been no credible demand for this service.

The Ameren Illinois Utilities pointed out that CNEG recommends that the Ameren Illinois Utilities include Intraday 1 (before 10 a.m. on the day of flow) and Intraday 2 (before 5 p.m. on the day of flow) nomination cycles. As stated by Mr. Glaeser, the Ameren Illinois Utilities will provide the proposed 4:00 pm evening nomination deadline support on normal business days with the current staff and resources. In addition, the Ameren Illinois Utilities can accommodate some intraday nomination changes during the gas day *only on a best efforts basis*. However, providing full intraday nomination rights would require extended staff coverage for times outside of the normal business hours and weekends/holidays.

Further, the Ameren Illinois Utilities explained, there is no demonstrated need for these additional nomination cycles. The majority of transportation customers and their marketers efficiently manage their nominations and have not requested intraday nomination deadlines. The Ameren Illinois Utilities have worked with the transporters to support their occasional need to make late nomination changes. The Ameren Illinois Utilities will continue to provide nomination flexibility when possible, but it cannot uphold a firm tariff obligation to provide intra-day nominations throughout all evening and weekends and holidays without providing additional staffing during the off business hours.

The Ameren Illinois Utilities also explained that need for added personnel is not limited to handling the additional intra-day nominations. The Ameren Illinois Utilities must coordinate nomination changes with Gas Supply and Gas Control personnel in order to effectuate the changes. Offering intra-day nominations would require additional staffing during the off business hours for these groups as well. The Ameren Illinois Utilities operate a 24-hour Gas Control Center; however, it is staffed during off-business hours strictly for meeting the requirements of gas control and monitoring for the transmission system, on-system storage fields, distribution level operating pressures and maintaining the integrity and safety of the systems.

The Ameren Illinois Utilities point out that CNEG contends that several other utilities offer all four intra-day nomination cycles. Notably, while the CNEG witnesses chose to compare the Ameren Illinois Utilities to Nicor and Peoples for certain services, such as balancing tolerances, they fail to compare the Ameren Illinois Utilities when it comes to intra-day nominations. Nicor and Peoples do not offer firm intra-day nomination cycle rights. Nicor has a strict nomination deadline of 11:30 a.m. the day

prior to flow, with no flexibility for late nomination changes. Further, the utilities which CNEG utilizes for comparisons, such as Pacific Gas and Electric Company and Southern California Gas Company, offer little resemblance to the Ameren Illinois Utilities in terms of the size of the their distribution systems, customer base, and employee numbers and, in fact, are the largest gas distribution systems in the U.S.

In the recent Peoples/North Shore Docket Nos. 07-024/07-0242, CNEG made the same argument. The Commission noted "The Utilities suggest caution about CNEG's comparisons with the tariffs of utilities that purportedly allow intraday nominations. They point out that the actual tariff of one of those utilities revealed that suppliers must exactly match deliveries and consumption on a daily basis, making intraday nominations more appropriate."

Further, the Ameren Illinois Utilities contend that the Commission recognized the harm that intra-day changes could have on the management of system supply. In the Peoples/North Shore Docket Nos. 07-0241/07-0242, the Commission concluded: "The Commission also finds that CNEG's proposal to permit intraday nominations by large volume gas transporters could make it substantially more difficult to balance the Utilities' system on a real time basis, to the potential harm of sales and other transportation customers." (Order, p. 284.) The Commission determined it would not compel Peoples/North Shore to accept intraday nominations from large volume gas transporters. The same result is warranted here.

Commission Conclusion

For the reasons given by the Ameren Illinois Utilities, the Ameren Illinois Utilities' proposal for the addition of one new intra-day nomination cycle at 4:00 pm of the preceding day, and best effort basis accommodation for other intra-day nomination changes, to give transportation customers an additional option to adjust gas supply deliveries to minimize imbalances is reasonable and should be approved.

h. Small Volume Transportation Tariff Across All Three Service Areas (Including Mandatory Telemetry)

Ameren's Position

Ameren Illinois Utilities' witness Scott Glaeser explained the need for daily telemetry for to customers taking service under GDS-4, GDS-5, GDS-6 (AmerenCILCO only) and Rider T. Daily telemetry is needed so the Ameren Illinois Utilities can be assured of timely communication of transportation customer usage. Further, daily telemetry allows the Ameren Illinois Utilities to provide transportation customers and marketers with more current data since the meter can be interrogated on a daily basis after 9:00 am which is the end of the gas day in the natural gas industry. The transportation customers and marketers would now have access to usage data from the previous day rather than usage from two days prior to the current gas day. Mr. Glaeser testified that the daily telemetry requirements can be met with a dedicated telephone

line, which can be an extension of an existing line. However, the line could not be used for fax or any other purpose.

GFA's Position

GFA witness Jeffrey Adkisson argued the expense is not needed for small to intermediate and off-season transportation customers. However, if daily telemetry was required, GFA maintained that that and installation be delayed until after November 2008.

Ameren's Response to GFA

In response, Mr. Glaeser testified that notwithstanding the size of these small and intermediate and off-season customers, in the aggregate their usage can have a meaningful impact on the operations of the distribution systems. This concern of undue impacts can be exacerbated with regard to the smaller captive distribution systems within the Ameren Illinois Utilities' overall distribution systems. The several captive distribution systems can be illustrated by reviewing Ameren Exhibit 54.7. For example, the Crawford County area, as well as the Franklin, Hamilton and Perry County areas, are captive distribution systems. Daily information of transporters usage can serve to prevent negative system impacts for these particular areas. Finally, the requirement that these sized customers are subject to the daily telemetry requirements is not novel. AmerenIP already requires daily telemetry for transportation customers served under SC 76.

The Ameren Illinois Utilities point out that Mr. Adkisson continues to argue against daily telemetry for customers taking service under GDS-2 and GDS-3, asserting their individual usage is small and predictable In reply, Mr. Glaeser reiterated a number of his earlier positions which had not been sufficiently challenged by GFA. It is imperative that the Ameren Illinois Utilities be able to monitor actual usage in order to manage and balance the distribution systems. Having access to this information allows the transportation customers and their marketers to make necessary changes so that they stay within the proposed tolerance levels. Notably, there is a real benefit to transportation customers and their marketers by having this information in that they can better avoid higher cash-out prices. Further, it would seem in this day and age when state and federal policies abound with regard to the need for energy efficiency and responsible energy usage, that these customers should bear some obligation to take measures by which to ensure responsible energy management.

Mr. Glaeser went on to explain that, as a matter of fact, many transportation customers and marketers are desirous of this daily usage information. He testified that when such information it is not posted on the management system in a timely basis, numerous inquiries are received from these customers/marketers. Even marketers who manage customers with relatively small loads that include the GDS-2 and GDS-3 customers, are desirous of access to daily usage information in order to manage the aggregated imbalances associated with their customers. Mr. Glaeser also pointed to CNEG witness testimony in the previous AmerenIP rate case as additional support that

marketers are desirous of electronic access to daily meter reads in order to comply with daily balancing requirements.

Staff's Position

Staff opposed the mandatory daily balancing and metering charges of $55 per month. Staff witness Sackett asserted that such a charge would present an economic barrier for smaller customers. He stated that some transportation customers may be forced to move back to system supply because of these and other provisions.

Mr. Sackett also offered four objections to Mr. Warwick's testimony: 1) he asserts the number of small customers taking transportation service are a small percentage of eligible customers; 2) the conclusions drawn stem from current metering differentials and not the proposed charges; 3) while the metering charge may not be a barrier for some smaller transportation customers, it could still be a factor for others; and, 4) while it may be economical for current customers, it may keep other marginal customers from benefiting from transportation services.

Ameren's Response to Staff

First, the Ameren Illinois Utilities explained that nothing is unique or novel about these particular charges. Today, AmerenCIPS charges $55 per month for the same equipment, and the AmerenIP Rate 76 Facilities Charge and Advance Metering and Telecommunications Charge total $37.75 per month. Second, the evidence is that small transportation customers at both AmerenCIPS and AmerenIP are not being deterred by paying these monthly charges. There are many customers taking transportation service and are paying these charges. Mr. Warwick testified that AmerenCIPS had 125 small transportation customers while AmerenIP had 182 accounts under its Rate 76.

Further, the Ameren Illinois Utilities explained that it is in error to argue that the subject charge is a "mandatory" charge in the manner suggested by Staff. As explained by Mr. Warwick, for AmerenCIPS and AmerenIP the present metering charges were increased by the overall percentage increase and the charges were merged into the proposed customer charge and then rounded. (AmerenCILCO does not currently have the separate advance metering charge and so the subject charge is new to that utility).

The Ameren Illinois Utilities contend that the Staff's rebuttal positions are speculative and not grounded in any credible evidence. Mr. Warwick testified that less than 1% of the small transportation customers eligible to take service from AmerenCILCO, which does not require a telemetry charge, suggesting Staff's claim that more customers would be interested fails. Mr. Warwick also emphasized that the magnitude of the telemetry charges is driven by the across- the- board revenue allocation such that each rate value, including the telemetry charges, are being changed equally by the across- the- board percentage change. Taken to its logical extreme, any increase in any of the Ameren Illinois Utilities' rates may cause major behavioral changes on the part of all of their customers but, of course, such a result is not realistic.

The fact is there are cost increases and the affected businesses become more efficient, reduce their own costs, or pass them along to their customers. It is difficult to even comprehend what approximate to less than $2 a day would prevent a customer from utilizing transportation service.

Commission Conclusion

For the reasons given by the Ameren Illinois the proposal for daily telemetry for to customers taking service under GDS-4, GDS-5, GDS-6 (AmerenCILCO only) and Rider T is approved. Daily telemetry is needed so the Ameren Illinois Utilities can be assured of timely communication of transportation customer usage. The Ameren Illinois Utilities' proposed mandatory daily balancing and metering charges of $55 per month are also approved.

i. 12 Month Notification for Seasonal Customers

Staff's Position

In its Initial Brief, Staff recommends that all customers with less than 5% of annual usage occurring during December through March be required to provide a four-month advance notice before moving between system and transportation service regardless of the GDS that they take service under.

GFA's Position

In its Initial Brief, the GFA proposes that the GDS-5 notification provision recommended by the Ameren Illinois Utilities (April 1 notice to be effective August 1) be applicable not only to GDS-5 seasonal customers, but to all seasonal customers that qualify for GDS-5, whether or not they choose to take service under GDS-5. Alternatively, GFA proposes that seasonal use customers, with less than 5% of annual use in the months of December through March, should not be required to stay on transportation service for 12 consecutive months. Instead, such users could stay on transportation service through March if transportation service commences after December 1 and before April 1. These proposals are somewhat different from those spelled out in GFA's testimony.

In his direct testimony, the witness for the GFA, Mr. Adkisson, asserted that, because most grain drying activity occurs in the fall, it is impractical for small grain dryers to notify the Ameren Illinois Utilities by July 1, 2008 for transportation services effective for the 12 months beginning November 1, 2008.

Ameren's Response

The Ameren Illinois Utilities point out that Staff and GFA propose a change from the Ameren Illinois Utilities existing tariff. Other than customers on AmerenIP's Rider OT, gas customers are required under existing tariffs to notify the Ameren Illinois Utilities on July 1, 2007 of any election to return to the sales rate effective November 1, 2007. The current gas tariffs do not allow transport customers to arbitrarily switch to

sales service. Ameren Illinois Utilities' witness Scott Glaeser explained that this tariff provision was put in place to provide the utility with time to adjust its gas supply resource portfolio to accommodate all of its customers' service election changes. Since the Order from the Commission on these dockets is not expected until late September 2008, these customers are required at present to operate under the terms and conditions of the current tariff. As discussed below, in response to concerns raised by the Grain and Feed Association ("GFA"), Ameren Illinois Utilities have proposed a reasonable compromise for the notification requirements for grain dryers. This compromise also addresses Staff's concerns.

With regard to the GFA's proposal on direct, to assist transportation customers during this transition period, the Ameren Illinois Utilities proposed to maintain the July 1 notification date, but allow all transportation customers a special one time right to change their election prior to the later of October 17, 2008 or 14 days after the compliance tariffs become effective.

The Ameren Illinois Utilities' proposal, however, was not sufficient for the GFA. Mr. Adkisson asserted on rebuttal that grain dryers are at a disadvantage because they must notify the Ameren Illinois Utilities by July 1, 2008 if they choose to remain as a transport customer for the period November 2008 through October 2009. He argued that grain dryers essentially must make a decision more than a year ahead of their actual usage period, which is August to November 2009, even though grain dryers typically do not impact peak winter loads. Mr. Adkisson therefore proposed that gas customers with low winter usage be required to give only 30 days' notice to switch to or from sales or transport service.

As a compromise, the Ameren Illinois Utilities propose, due to the unique nature of grain dryers, to change seasonal rate class GDS-5 to require notification to the Ameren Illinois Utilities by April 1 to be effective August 1 of the same year. The general tariff requirement to remain on this rate for 12 months is not changed. The proposed offer to change the notification date to April 1, with the sales service to be effective August 1 of the same year, would resolve the timing issue identified by GFA. (The Ameren Illinois Utilities will continue to offer other transportation customers the one-time right to change the election for sales service before October 17, 2008, and will notify customers of this option through the Ameren Illinois Utilities' Internet-based Unbundled Services Management System (USMS) and email.)

In making the proposed compromise to require notification by April 1, the Ameren Illinois Utilities do not fully accept Staff's position or any of GFA's various proposals. Rather, the Ameren Illinois Utilities' proposal represents a reasonable accommodation to certain seasonal users, such as grain dryers and some asphalt plants, with production in later summer and fall.

Expanding the notice compromise to all customers with low winter usage, as Staff and GFA propose, or to all customers who qualify for GDS-5 (as opposed to those who take service under the tariff) is not appropriate. As Mr. Glaeser explained, off-seasonal use transport customers can create detrimental system impacts if not

managed properly. Some of the firm transportation capacity contract levels for the Ameren Illinois Utilities ratchet down during the shoulder months, including September and October, when grain dryers typically have heavy usage, in order to follow the load shape of the system sales customers. Additionally, this transportation capacity is used at high load factors during the shoulder months and summer to transport gas supply for storage injections into off-system and company owned storage facilities. Capacity for the Ameren Illinois Utilities' systems can and does become constrained throughout the year, not just during the peak winter season. This is evident by the pro-rata reductions in primary firm transportation capacity on Panhandle Eastern in May 2008. As a result, allowing all customers with low winter usage to provide four months notice, as proposed by Staff (or to 30 days as proposed by GFA) would be detrimental to the Ameren Illinois Utilities' planning for winter season usage. An April 1 notification date, for service on August 1, would address the GFA's concerns about the impact on grain dryers during the dryings season. Therefore, the Ameren Illinois Utilities' compromise to change the seasonal rate class GDS-5 to require notification to the Ameren Illinois Utilities by April 1 to be effective August 1 of the same year is reasonable and should be adopted.

Commission Conclusion

The Commission approves the Ameren Illinois Utilities' proposal to change seasonal rate class GDS-5 to require notification to the Ameren Illinois Utilities by April 1 to be effective August 1 of the same year. The Commission also approved the Ameren Illinois Utilities' proposal to give transportation customers a special one time right to change their election prior to the later of October 17, 2008 or 14 days after the compliance tariffs become effective. In all other cases, gas customers should be continued to be required under existing tariffs to notify the Ameren Illinois Utilities on July 1, 2007 of any election to return to the sales rate effective November 1, 2007.

j. Minimal Winter Use Delivery Service Provisions

Ameren's Position

With respect to AmerenCIPS, the Ameren Illinois Utilities proposed removing the Minimal Winter Use delivery service provisions from the present Rate 3 and 4 and made a stand-alone Seasonal tariff GDS-5. With respect to AmerenCILCO, the Ameren Illinois Utilities proposed removing the Minimal Winter Use delivery service provisions from the present Rate 600 and made a stand-alone Seasonal tariff GDS-5.

GFA's Position

GFA witness Adkisson takes issue with the fact GDS-2, GDS-3, GDS-4 and GDS-5 have differing maximum use qualifications among the three Ameren Illinois Utilities, but this is not a valid concern. The Ameren Illinois Utilities rate design objective was to conform rates to the maximum extent possible while still maintaining rate continuity and stability. Mr. Adkisson recommends conforming the GDS rate qualification provisions among the three Ameren Illinois Utilities. Mr. Adkisson, however,

provides no analysis of the effects (*i.e.*, customer rate migration, revenue instability, customer bill impacts, cost analysis) of his proposed recommendation.

Ameren's Response

The Ameren Illinois Utilities maintain that, without thorough analysis, to construct a different rate design would inappropriately expose the Ameren Illinois Utilities to possible revenue erosion and run counter to the way rate classifications are set today. His recommendations will require a complete analysis of the affected service classifications to determine realignment of class billing determinants, and also require estimates and assumptions made for expected customer migration. He has not performed any analysis along these lines.

However, should the Commission ultimately agree with a GDS rate design recommendation of Mr. Adkisson, the final rates would need to be developed only *after* a detailed analysis of Mr. Adkisson's recommendation, so as to determine the respective billing units for each affected service classification. The determination of billing units would also need to take into consideration the affects of rate migration, if any. This process would be necessary to ensure, at the end of the day, the compliance rates filed in the case provide the Ameren Illinois Utilities with a reasonable opportunity to earn the rate of return granted in this case. What Mr. Adkisson is proposing will simply lower rates for GFAI customers without an offsetting increase to other rates to make up for the difference in revenue requirement. The Commission would have to allow adjustments to other rates in order for the Utilities to make-up any revenue shortfall created by his proposal.

Commission Conclusion

The Commission approves the Ameren Illinois Utilities proposal removing the Minimal Winter Use delivery service provisions from the present Rate 3 and 4 and made a stand-alone Seasonal tariff GDS-5. With respect to AmerenCILCO, the Ameren Illinois Utilities proposed removing the Minimal Winter Use delivery service provisions from the present Rate 600 and made a stand-alone Seasonal tariff GDS-5. This proposal is also approved.

k. Weather Normalization

Ameren's Position

The Ameren Illinois Utilities calculated billing determinants in this case based on 10-year weather normalized averages. Mr. Charles Laderoute presented testimony showing that 10-year normals are a better predictor and more representative of "normal" weather than 30-year normals in this case. Mr. Laderoute conducted a number of detailed statistical tests that are used by meteorologists and climatologists in studying weather and normals to test the validity of this conclusion, using historic National Oceanic & Atmospheric Administration ("NOAA") weather data for Champaign-Urbana. No party challenged the validity of Mr. Laderoute's testing, data, or conclusions.

Staff's Position

In direct testimony, Staff witness David Sackett concluded that the Ameren Illinois Utilities' proposal to use a shorter weather period was acceptable, but recommended that the Ameren Illinois Utilities should provide a weather study similar to that used in Commission Docket Nos. 07-0241 and 07-0242 (cons.), providing additional weather normalization data sets between eight and twelve years in length, and comparing such sets with a thirty-year data set to determine the predictive quality of each set. Mr. Sackett opined that the Commission's final order in 07-0241 and 07-0242 (cons.) (which was issued after the Ameren Illinois Utilities filed their direct case) requires utilities in all future rate cases to provide such data to support their chosen weather normalization period. Mr. Laderoute provided the requested data and analysis in his rebuttal testimony, and concluded that the 8-, 11-, and 12-year normalized data sets are comparable to the 10-year normals in this case, and therefore more predictive than the 30-year normal results presented in his direct testimony. In rebuttal testimony, Mr. Sackett agreed that the Ameren Illinois Utilities' approach was reasonable and not inappropriate.

Ameren's Response

The Ameren Illinois Utilities believed that this issue had been resolved through Mr. Sackett's testimony accepting the reasonableness of 10-year normals in this case, and thus did not present surrebuttal testimony to refute any of Mr. Sackett's additional discussion on this issue. However, the Ameren Illinois Utilities then were informed through counsel for Staff that Mr. Sackett believes this issue is still contested, to the extent that the Ameren Illinois Utilities' position is not consistent with the Peoples Order, as discussed in his testimony. The Ameren Illinois Utilities disagree with Staff's position on three counts.

First, the Ameren Illinois Utilities disagree with Staff's characterization of this issue as "contested." The issue here is whether the Ameren Illinois Utilities' use of 10-year weather normalization averages is reasonable. Staff agrees that it is. No party contests the reasonableness of the Ameren Illinois Utilities' use of 10-year normals in developing their billing determinants for this case, or the evidence supporting this position. Therefore, the issue is not contested.

Second, the Ameren Illinois Utilities disagree with Staff's implied premise that the Commission's decision in 07-0241 and 07-0242 must be identical in this case or future cases. It is well-settled that decisions of the Commission are not *res judicata*. City of Chicago v. ICC, 133 Ill. App. 3d 435, 441 (1st Dist. 1985). The Commission is free to change its standards provided that such change is not arbitrary and capricious. Id. (citing Mississippi River Fuel Corp. v. ICC1 Ill. 2d 509, 513 (1953) ("The concept of public regulation includes of necessity the philosophy that the commission shall have power to deal freely with each situation as it comes before it, regardless of how it may have dealt with a similar or the same situation in a previous proceeding."). Thus, even if the Ameren Illinois Utilities' position in this case were not "consistent" with the Commission's order in 07-0241 and 07-0242 (cons.) – and it is, as shown below – the

Commission should still adopt the Ameren Illinois Utilities' use of 10-year weather norms, based on the uncontroverted evidence that such use is reasonable and appropriate in this case.

Third, the Ameren Illinois Utilities' use of 10-year weather normalization averages in this case is reasonable (as Mr. Sackett agrees, and no party contests) and not inconsistent with the Commission's order in 07-0241 and 07-0242 (cons.). The Ameren Illinois Utilities do not believe that the Commission's Order in 07-0241 and 07-0242 (cons.) *requires* utilities in all future rate cases to provide a range of data to support their chosen weather normalization period, to determine which is the most predictive.[15] This interpretation would be cumbersome and unnecessary, as demonstrated by the record evidence in this case (discussed further below).

The Ameren Illinois Utilities acknowledge that it is true that the Commission adopted a more predictive approach to weather normalization in Docket Nos. 07-0241 and 07-0242 (cons.), to further the Commission's goal of setting "rates with the greatest likelihood of generating the Utilities' allowed annual revenues." 07-0241 and 07-0242 (cons.), Final Order, p. 123. The Ameren Illinois Utilities explain, however, that Mr. Laderoute's recommendations are consistent with this goal. The Commission noted that it would have expected a thirty-year data set to be more predictive (based on the general statistical principle that more data regarding varying conditions is better than less), but that the evidence in both Docket Nos. 07-0241 (cons.) and in Docket No. 04-0779 demonstrated no stable long-term trend in weather that would justify adhering to 30-year normals. Mr. Laderoute's recommendations are consistent with this finding. The Commission also noted that their adoption of Rider VBA – a decoupling rider – diminished the importance of this issue in that case. 07-0241 and 07-0242 (cons.) Order, p. 126. Both Mr. Laderoute and Mr. Sackett made similar observations with respect to the Ameren Illinois Utilities' Rider VBA in this case.

The Ameren Illinois Utilities further argue that while the Commission adopted a more predictive approach in 07-0241 and 07-0242 (cons.), it did not adopt the most predictive weather data set. In 07-0241 and 07-0242 (cons.), Commission made a decision between the most predictive data sets presented as evidence in that case, in light of all of the evidence. 07-0241 and 07-0242 (cons.) Final Order, p. 125. In this case, the Ameren Illinois Utilities have shown that 11-year normals appear to be the most predictive set, but that adoption of 10-year normals presents a similarly predictive result and is reasonable in this case. Mr. Sackett agreed. These two results are consistent.

In addition, all of the Ameren Illinois Utilities' billing determinants and resulting rate design data in this case – developed prior to the Commission's issuance of a final order in 07-0241 and 07-0242 (cons.) – are based on 10-year weather normalized data. Parties have not had the opportunity to review and respond to rate design evidence

[15] Presumably, such general requirement would affect the utilities' Part 285 standard filing requirements, which would need to be appropriately modified through general rulemaking procedures.

developed using alternative heating degree days, from alternative weather norm data sets.

Moreover, the Ameren Illinois Utilities have presented evidence (through the testimony of Mr. Laderoute) showing that the usefulness of providing alternative data and relitigating this issue in future rate cases is questionable, if not wholly without value:

> . . . I question the usefulness of litigating this issue in each future rate case. It is my experience that the stable use of a reasonable normalization time period is generally more desirable from all perspectives, certainly from an efficiency standpoint, and also to eliminate the possibility that utilities could propose varying data sets depending on which set would produce the most revenue-friendly result (a concern the Commission noted in the 07-0241 order). As I stated in my direct testimony, 10-year weather normalization is generally appropriate for use in determining gas rates. Although facts and circumstances could change in the future warranting a change in use of a normalization time period, **it is generally not necessary to determine to the exact year the most predictive time frame in each rate case, particularly if a decoupling rider is in effect.**

(Emphasis added). Mr. Laderoute's opinion is not contested. The evidence here thus shows it would be unnecessarily burdensome for utilities to provide and parties to review such alternative and possibly unnecessary evidence in all future cases. The Ameren Illinois Utilities disagree that such evidence is currently required, and the evidence in this case does not support or warrant adopting such a requirement.

Commission Conclusion

For all of the reasons given by the Ameren Illinois Utilities, the Ameren Illinois Utilities' use of 10-year weather normalized data should be approved.

I. Imbalance Trading

Ameren's Position

In partial response to Staff and certain intervenor concerns regarding the +/- 10% daily imbalance tolerance level initially proposed by the Ameren Illinois Utilities in direct testimony and prior to the offering of bank limits, the Ameren Illinois Utilities, offered to provide an imbalance trading mechanism to transportation customers. Mr. Glaeser explained that a transportation customer or marketer could monitor its imbalance position during the month through the Unbundled Services Management System ("USMS"), which is an on-line management software system used to maintain daily usage, nominations and billing information. Mr. Glaeser further explained that transportation customers could choose to contact another transportation customer or marketer served from the same interstate pipeline and trade off-setting imbalances.

The parties involved in the trade would be required to provide confirmation that the trade, in fact, had been agreed upon. Thereafter, the Ameren Illinois Utilities would change each customer's imbalance position within the USMS. Mr. Glaeser went on to testify that modifying the USMS system in order to accommodate imbalance trading would take time, as significant software changes are needed. Staff supports the imbalance trading service as well.

Subsequent developments in this proceeding have eliminated the need for the imbalance trading service. The imbalance trading mechanism was intended to help transportation customers and marketers manage daily imbalances in order to minimize daily and monthly cash-out charges. As Mr. Glaeser explained in surrebuttal, the Ameren Illinois Utilities are now proposing to offer banking services which satisfies the same objective. In addition, with the offer of banking services, the imbalance trading service is no longer needed since the bank balance can be transferred between transportation customers and marketers. Mr. Glaeser went on to explain that bank limit balances between transportation customers served by the same interstate pipeline are transferable after confirmation from both counterparties. As the Companies move from the current bank services offered under the existing tariffs to those that have been proposed by the Ameren Illinois Utilities, any balance in excess of the new bank limit maximums will be cashed out at the average of the Chicago City Gate first of the month price for the prior 12 month period after the customer avails itself of any bank balance trading with other customers.

Commission Conclusion

Because proposed banking service fulfills the same purpose as imbalance trading service, there is no need for both services. The Ameren Illinois Utilities' proposed modification of their banking service should be adopted.

m. Utility Right to Purchase (Confiscate) Customer-Owned Gas

Ameren's Position

The Ameren Illinois Utilities' existing tariffs provide the right to purchase gas owned by transportation customers in a situation where system integrity is threatened and the system emergency required curtailment. Under the current proposal, there are three conditions that must be met before the Ameren Illinois Utilities have the right to purchase gas owned by transportation customers. First, system integrity is threatened. Second, the utility has declared a Critical Day. And third, the utility implements curtailment of natural gas service to customers pursuant to the Curtailment Plan. These conditions ensure that the Ameren Illinois Utilities will not arbitrarily acquire gas from its' transportation customers without good reason and will exercise this right only under the most severe circumstances. The right to purchase gas owned by transportation customers would not be allowed *only* on a critical day since all three conditions must be met *before* purchasing customer gas. In addition, the proposed tariff states "the Company's right to purchase gas owned by a Customer shall be exercised by the

Company only after the Company has exhausted reasonable efforts to obtain the necessary gas supplies from other sources…."

Staff's Position

Staff's brief supports the position of the Ameren Illinois Utilities, that, in the event the tariff conditions were met (Rider T; Ameren Ex. 30.8), the utilities would first propose a voluntary purchase of customer-owned gas and, again, if tariff conditions were in play, purchase that gas at a 10% premium over the market price.

CNEG's Position

CNEG understands that the right to purchase customer gas is a necessary step during a system emergency. CNEG testified "First, the idea of selling transportation gas to the utility when system integrity is threatened is not without merit. Certainly this avenue of securing gas supply should be available to the utility." CNEG witnesses, however, remain concerned with Ameren Illinois Utilities' right to purchase gas from transportation customers, stating that they "object to any forced sale of transportation gas, in other words that the gas is confiscated at a pre-established price, even if that price includes a 10% premium."

CNEG, in its Brief, agrees the Ameren Illinois Utilities' modified proposal is an improvement over the original Rider T terms, but continues to maintain that under all circumstances the purchase of the gas must be voluntary. CNEG argues that the forced purchase of customer-owned gas may constitute a conversion under Illinois law, citing to 810 ILCS 5/7-404.

Ameren's Response

The Ameren Illinois Utilities explained that the right to purchase gas owned by transportation customers exists currently. This right is exercised or occurs only in a situation where system integrity is threatened and the system emergency requires curtailment. Under the proposed tariffs, the gas purchases can only occur after the declaration of a Critical Day and implementation of the Curtailment Plan. The tariffs only clarify existing rights and procedures. "Without this protection a supplier could negotiate prices in order to exploit a system emergency, without regard to impacts to residential and human needs customers for which the purchased gas is being acquired. This potential exploitation could have detrimental effects on the system and could prolong the system emergency."

The Ameren Illinois Utilities point out that CNEG asserts that "[i]nvoluntary confiscation of transportation gas supplies by the utility does not result in any increase in the volume of gas that is flowing during a curtailment, so it does not even provide added relief." CNEG misunderstands how the process works. As Mr. Glaeser explained, volumes of gas delivered into the system during a curtailment will likely not be increased; however, the needed relief is still provided. The gas purchases only occur during curtailment, during which customers will be required to reduce usage by customer class so that the demand on the system will be lower. The gas purchased

from the transportation customers at the citygate delivery points will be then used to serve high priority residential and human needs customers, since the larger customers will have been curtailed.

CNEG also argues the Ameren Illinois Utilities should waive any balancing costs or penalties incurred due to any imbalance created when transportation customers gas is purchased during curtailment. The Ameren Illinois Utilities do not agree and note that if a customer is complying with the curtailment, the imbalance will be minimized. The Ameren Illinois Utilities would not buy any gas from transportation customers unless they have been curtailed, which means their usage has been reduced. If there is more than a minimal imbalance, the customer has not complied with the curtailment and should incur all imbalance charges as well as penalties. If these costs and penalties are waived, there is no incentive to a customer to reduce its usage, thereby defeating the purpose of the curtailment and thus threatening system integrity.

The Ameren Illinois Utilities argue that CNEG's legal interpretation regarding conversion is also mistaken for several reasons. First, CNEG's reliance on 810 ILCS 5/7-404 as the authority for the Ameren Illinois Utilities' potential exposure to liability for conversion is entirely misplaced. Even ignoring the question of whether this Illinois-adopted version of the Uniform Commercial Code applies to the hypothetical situation raised by CNEG, 810 ILCS 5/7-404 does not stand for the proposition that the Ameren Illinois Utilities will be liable for conversion if they are permitted to confiscate customer-owned gas. At most, 810 ILCS 5/7-404 sets forth a defense against liability for the Ameren Illinois Utilities in the event they are considered bailiees, commercial carriers or warehousemen and are sued in that capacity for conversion. 810 ILCS 5/7-404 provides nothing more. It does not provide a cause of action for conversion.

Further, the Ameren Illinois Utilities argue that the explanation CNEG offers actually supports the Ameren Illinois Utilities' position. CNEG refers to the commentary to the statute that "good faith now means honesty in fact and the observance of reasonable commercial standards of fair dealing." Reasonable commercial standards of fair dealing are contained in the tariffs, which are eventually approved by the Commission, whose authority stems from the General Assembly. It is the Commission that ultimately decides what are the appropriate terms and conditions for transportation service. Indeed, one of the purposes of this regulatory regime is to determine the reasonable commercial standards of fair dealing.

According to the Ameren Illinois Utilities, taking the CNEG position to its logical extreme, no gas utility could ever curtail or interrupt a transportation customer no matter what the circumstance. CNEG's position means, in effect, that if there is a system emergency where gas supplies are dwindling, a gas utility could not interrupt a transportation customer for the benefit of high priority residential customers and health care providers, because to do so would constitute a conversion. The Ameren Illinois Utilities' existing tariffs currently provide the right to purchase gas owned by transportation customers in a situation where system integrity is threatened and the system emergency required curtailment, and for good reason.

CNEG acknowledges that the Federal Energy Regulatory Commission ("FERC") requires interstate pipeline tariff provisions that permit confiscation of gas when the customer fails to abide by a curtailment or an interruption notice. (It is not clear how this argument would support CNEG's position. The purchase of customer-owned gas at issue here would only occur during system emergencies, much like those that give rise to a curtailment or interruption notice. In fact, the tariff states: "In the event that system integrity is threatened and the Company has declared a Critical Day, the Company shall have the right to purchase the natural gas supplies. . . " Thus, the Ameren Illinois Utilities explain, what is clear is the real nexus between system integrity concerns and the need or ability to access customer-owned gas

Commission Conclusion

The Commission concludes the CNEG position should be rejected. Allowing the waiver requested by CNEG would permit transportation customers to avoid balancing costs or penalties rightfully imposed if the transportation customer does not comply with the curtailment order.

n. Critical Day and OFO Notice Provisions

Ameren's Position

Ameren Illinois Utilities proposed to include both Critical Day and Operational Flow Order ("OFO") language in their tariffs. Mr. Glaeser explained that an OFO is an order which the utility may declare or issue to a customer group or to specific customers in order to alleviate problematic operating conditions. Mr. Glaeser also explained the modifications to Rider T to include the Critical Day declarations. Mr. Glaeser identified a number of areas that could cause the declaration of a Critical Day. The "common driver" is that on-system or up-stream resources used to operate and maintain system integrity are under duress, threatening the integrity of the distribution system and the ability to deliver gas to all customers. OFOs and Critical Day provisions are common place in the natural gas industry, including the interstate pipelines to which the Ameren Illinois Utilities are connected, and are necessary to ensure the integrity of the delivery system.

In their original filing, the Ameren Illinois Utilities proposed that transportation customers would be notified of an OFO or Critical Day through formal notification such as telephone, fax, or e-mail. The utility would also post such a declaration on its USMS website, which is utilized by transportation customers and their marketers for routine operations.

Mr. Glaeser also identified the various penalties and charges that would be issued in the event an OFO or Critical Day was violated. He explained that a series of tiered penalty charges tied to the severity of the event are being proposed and identified the three penalty charges as: Operational Flow Order Balancing Charge, Unauthorized Gas Use Charge, and Critical Day Imbalance Charge. Mr. Glaeser also testified as to the manner by which these charges would be assessed.

CNEG's Position

Only CNEG responded to the Ameren Illinois Utilities' direct case with regard to OFO and Critical Day positions. Specifically, CNEG was concerned with the lack of no advance notification requirements and argued that some parameters should be placed in the tariff to provide guidance for the type of advanced notice that the utilities will provide to the transportation customers and their suppliers.

In its rebuttal filing, CNEG disagreed that two hours was sufficient and referenced Nicor Gas Company (Nicor) as providing notification of a Critical Day at least 25 hours in advance and Peoples Gas, Light and Coke Company (Peoples Gas) providing 23½ hours notice. CNEG witnesses "remain perplexed as to why Ameren utilities can only provide two hours notice for an OFO and no commitment to advance notification for a Critical Day."

Ameren's Response

In response, Mr. Glaeser testified that the Ameren Illinois Utilities were willing to provide a two hour prior notice before implementing an OFO against any customer or group of customers. He also testified that as much notice as practical would be given to customers in the event of a Critical Day but that a defined time frame could not be provided due to the unexpected nature of the events that lead to a Critical Day declaration. For example, a pipeline rupture foregoes any meaningful opportunity for an extended notice. Mr. Glaeser concluded nonetheless, that it was in the Ameren Illinois Utilities' best interest to give as much notice as practicable since the purpose is to notify transportation customers to modify their supply deliveries and/or gas consumption to help maintain system integrity.

Having provided an explanation in rebuttal testimony, Mr. Glaeser proffered an example that demonstrates the concerns to committing to more than the two-hour notice for an OFO and no prior notice period for a Critical Day. The AmerenCIPS Metro East system distributes natural gas to Alton, Illinois and adjacent areas. This captive system serves approximately 18,000 customers and is connected to one interstate pipeline – Mississippi River Transmission Corporation (MRT) – through the Federal Station and Chessen Lane Interconnections. The Metro East system has no on-system storage. If the Federal Station interconnect facility experienced a pipeline rupture on a normal winter day, all 18,000 customers on the system would rapidly lose pressure within minutes. This would happen because Chessen Lane is a significantly smaller interconnect and cannot supply the entire Metro East system under normal winter load conditions. By issuing an immediate Critical Day and quickly implementing curtailment procedures, the system could be protected from a widespread outage by curtailing the largest customers before the entire system collapsed. The Chessen Lane station may be able to maintain system deliveries and pressure if the major industrial customers on the system shut down quickly. It is not practical to give *any notice* in this emergency situation to maintain system integrity – much less 24–hours' notice. It is, therefore, essential that the Ameren Illinois Utilities have the ability to issue a Critical Day without advance notice.

Of course, as stated in the tariff, the Ameren Illinois Utilities will provide advance notification if possible, but providing advance notice may not be practical or even possible in certain situations. The tariffs should reflect operational realities. The reality is that advance notification cannot always be given when a system emergency occurs.

The Ameren Illinois Utilities argue that CNEG witnesses inaccurately compare the Ameren Illinois Utilities' notification period to Nicor and Peoples Gas. Although all utilities could have ruptures on their systems, there may be differences in the resources available to recover from pipeline ruptures. Some utilities may have hub services readily available. Others may have fully integrated systems – unlike the Ameren Illinois Utilities, which have many isolated, captive systems. However, even Nicor's or People's more integrated distribution systems or hub service resources could experience major failures leading to a more immediate crisis than the their tariff language implies. The different resources available to respond to a system emergency may make the notification period different.

Commission Conclusion

In light of the record evidence, the Commission rejects CNEG's proposed tariff revisions.

o. Other

(1) Convert AmerenCILCO and AmerenIP's GDS-4 Rider S and AmerenIP's GDS-2, GDS-3, and GDS-4 Rider T Demand Charges to a volumetric charges

GFA's Position

Mr. Adkisson recommends the AmerenIP GDS-2 and GDS-3 demand rate "be converted to a volumetric charge and combined with the proposed volumetric Delivery Charge."

Ameren's Position

Mr. Warwick testified that he interpreted that to mean converting the demand charge of the Rider T option of AmerenIP GDS-2 and GDS-3 since the Rider S option has no demand charge component. The Ameren Illinois Utilities believe that this recommendation is inconsistent with earlier discussions regarding rate continuity and should be rejected. Generally speaking, converting demand charges to volumetric charges is problematic, because it may adversely impact high load factor customers within the affected customer group. In addition, Mr. Warwick testified he is unclear on Mr. Adkisson's proposal to "combine with the proposed volumetric Delivery Charge". AmerenIP's GDS-2 and GDS-3 rates have two options associated with them, the Rider S option (system gas) or the Rider T option (Customer supplied gas). Each option has its own distinct rate structure. The rate structure of the Rider S option is composed of a Customer Charge and a Delivery Charge (volumetric). The rate structure of the Rider T

option is composed of a Customer Charge, a Demand Charge and an Overrun Demand Charge. If the Commission were to accept Mr. Adkisson's proposal to convert the Rider T Demand Charge to a volumetric Delivery Charge, it could not be combined with any other Delivery Charge. Mr. Adkisson's recommendation to convert the demand charges to volumetric charges has bearing on the rates of other customers.

The Ameren Illinois Utilities explained that elimination of the demand charge in favor of a volumetric charge would increase rates for customers that more efficiently (*i.e.*, high load factor customers) utilize the gas delivery system and decrease rates for customers that utilize the gas delivery system less efficiently. Additionally, the GFA proposal departs from the Ameren Illinois Utilities across-the-board rate increase proposal.

With respect to Mr. Adkisson's recommendations the Ameren Illinois Utilities state that he provides no analysis of the effects (*i.e.*, customer rate migration, revenue instability, customer bill impacts, cost analysis, class billing determinants) of his proposed recommendations. Without thorough analysis, to construct a different rate design would inappropriately expose the Ameren Illinois Utilities to possible revenue erosion and run counter to the way rate classifications are set today. His recommendations will require a complete analysis of the affected service classifications to determine realignment of class billing determinants, and also require estimates and assumptions made for expected customer migration. He has not performed any analysis along these lines.

However, should the Commission ultimately agree with a GDS rate design recommendation of Mr. Adkisson's, the final rates would need to be developed only *after* a detailed analysis of Mr. Adkisson's recommendation, so as to determine the respective billing units for each affected service classification. The determination of billing units would also need to take into consideration the affects of rate migration, if any. This process would be necessary to ensure, at the end of the day, the compliance rates filed in the case provide the Ameren Illinois Utilities with a reasonable opportunity to earn the rate of return granted in this case. What Mr. Adkisson is proposing will simply lower rates for GFAI customers without an offsetting increase to other rates to make up for the difference in revenue requirement. The Commission would have to allow adjustments to other rates in order for the Ameren Illinois Utilities to make-up any revenue shortfall created by his proposal.

Commission Conclusion

The Commission concludes, for the reason given by the Ameren Illinois Utilities, that the GFA's proposal be rejected.

(2) GDS-5 Seasonal Service Customer Charges and Distribution Delivery Charges should be specified to be equal to the transport and non-transport GDS rate schedule for which customer qualifies.

GFA's Position

Mr. Adkisson recommends that GDS-5 Seasonal Service Customer Charges and Distribution Delivery Charges be specified to equal the respective transport and non-transport GDS-2, GDS-3 or GDS-4 rate schedules for which the customer qualifies.

Ameren's Position

The Ameren Illinois Utilities argue that this proposal should be rejected by the Commission because Mr. Adkisson provides no analysis of the effects of his proposed recommendations. Mr. Adkisson provides no cost analysis, no customer migration analysis, no analysis of the revenue shortfall of his proposal, and the impact on other customers. The Ameren Illinois Utilities also explained that this proposal would also conflict with the ATB methodology being proposed in this proceeding. Further, GDS-5 provides the seasonal rate discount found to be just and reasonable by this Commission, based on cost of service, in the Ameren Illinois Utilities' prior rate cases, Docket Nos. 04-0476, 02-0837, 02-0798, 03-0008 and 03-0009.

However, should the Commission ultimately agree with a GDS rate design recommendation of Mr. Adkisson's, the Ameren Illinois Utilities point out that the final rates would need to be developed only *after* a detailed analysis of Mr. Adkisson's recommendation, so as to determine the respective billing units for each affected service classification. The determination of billing units would also need to take into consideration the affects of rate migration, if any. This process would be necessary to ensure, at the end of the day, the compliance rates filed in the case provide the Ameren Illinois Utilities with a reasonable opportunity to earn the rate of return granted in this case. What Mr. Adkisson is proposing will simply lower rates for GFAI customers without an offsetting increase to other rates to make up for the difference in revenue requirement. The Commission would have to allow adjustments to other rates in order for the Ameren Illinois Utilities to make-up any revenue shortfall created by his proposal.

Commission Conclusion

For the reasons given by the Ameren Illinois Utilities, the proposal of the GFA is rejected.

3. Electric

a. Supply Cost Adjustments

The components that make up the Ameren Illinois Utilities' Supply Cost Adjustment ("SCA") are as follows: the Supply Procurement Adjustment, an Uncollectibles Adjustment, and a Cash Working Capital Adjustment. The Commission has directed the Companies to update these costs and/or factors in delivery services rate case proceedings.

i. Supply Procurement Adjustment Amortization Period

The Ameren Illinois Utilities explain that the Supply Procurement Adjustment is intended to compensate each of the Companies for all direct and indirect costs of procuring and administering power and energy supply for all customers, other than amounts recovered in other charges to customers receiving power and energy service from the Companies. These costs consist of expenses such as professional fees, costs of engineering, supervision, insurance, payments for injury and damage awards, taxes, licenses, and any other administrative and general expense not already included in the cost of power and energy service.

The Ameren Illinois Utilities have calculated $2,004,727 in Supply Procurement Adjustment costs. Dividing that cost by the approximate load expected to be served through Company procured power in the 12 months from June 2008, or 18,519,152 MWh, is 0.011x¢/kWh.

Staff and the Ameren Illinois Utilities agree on the amount of the adjustment, and agree that the amortization period for the amortized portion of the costs should be consistent with the amortization period approved by the Commission in this case for electric rate case expense. The parties only disagree with whether such amortization should be based on two years or three years, for the reasons outlined in Mr. Wichmann's Rebuttal Testimony.

ii. Overall Uncollectible Factors to be Used

Ameren Illinois Utilities' witness Leonard Jones presented a chart in direct testimony showing proposed Uncollectibles Adjustment factors by rate class (which are a subset of the Supply Cost Adjustment contained within Rider PER – Purchased Electricity Recovery, the Ameren Illinois Utilities' tariff governing prices and cost recovery for fixed price power supply service). Staff witness Theresa Ebrey objected to a portion of the calculation proposed by the Ameren Illinois Utilities pertaining to write-offs for combination (both gas and electric) customers, and recommended that write-offs be allocated based on the relative gas versus electric revenues for combination customers. The Ameren Illinois Utilities adjusted their methodology for development of the class specific uncollectibles factors for use in the Supply Cost Adjustment within Rider PER - Purchased Electricity Recovery, based on Ms. Ebrey's recommendation in her rebuttal testimony, and thus the issue is no longer contested. Now, only the total level of uncollectible account expense is at issue.

The updated uncollectibles adjustment factors, taking into account the adjustment proposed by Ms. Ebrey and the total level of uncollectible account expense proposed by Mr. Stafford, are shown below.

Ameren Illinois Utilities
Proposed Uncollectibles Factors

	AmerenCILCO	AmerenCIPS	AmerenIP
DS/BGS-1	0.013649	0.013750	0.012875
DS/BGS-2	0.001948	0.000997	0.002020
DS/BGS-3	0.000000	0.000189	0.001935
DS/BGS-4	0.000000	0.000000	0.000000
DS/BGS-5	0.000000	0.000000	0.001851

If the Commission approves overall uncollectibles rates different from those provided in Mr. Stafford's rebuttal, the class level uncollectibles factors should be updated to match the approved overall uncollectibles rate.

iii. Cash Working Capital – Power Supply Expense Lead

Ameren's Position

The purpose of the Companies' Cash Working Capital Adjustment is the equitable recovery of the time value of expenses incurred to purchase power and energy for customers in a manner that recognizes the time lag between the incurrence of these expenses and the revenue stream or receipts from customers who pay for said power and energy. The proposed Cash Working Capital Adjustment is 0.7986%, which has increased from 0.308%.

Cash Working Capital associated with the power supply should be based on the calculations shown on Ameren Exhibit 3.16E for each of the Ameren Illinois Electric Utilities. The Ameren Illinois Utilities' witness Mr. Adams addressed the Rebuttal Testimony offered by Staff witness Mr. Kahle, in support of the calculation shown on Ameren Exhibit 3.16E.

Staff's Position

Staff witness Kahle recommends that the Ameren Illinois Utilities receive preferential treatment on the timing of payments from affiliated companies, in order to offset the shorter lead time in which the Ameren Illinois Utilities have to pay suppliers for electricity purchases, due to the Companies' current credit situation. Further, Staff witness Kahle claims that "it is not logical that Ameren Energy Marketing Company would refuse to keep the Ameren Illinois Utilities as customers if their payments were not advanced as allowed under the Supplier Forward Contracts."

Ameren's Response

The Ameren Illinois Utilities explain that Mr. Kahle's position should be rejected because it conflicts with the Commission's rules designed to protect against preferential treatment between affiliated companies. Staff witness Kahle is essentially proposing to bypass such safeguards. These are precisely the types of situations which the Commission's affiliate rules are intended to prevent.

Commission Conclusion

The Commission agrees that Mr. Kahle's proposal conflicts with the longstanding prohibitions against preferential treatment of affiliates. Numerous sections of the Act and the Commission's rules are designed to prevent preferential arrangements with affiliates. Therefore, Staff's position is rejected.

b. Rate Limiter

Ameren's Position

The Ameren Illinois Utilities recommend that, per prior Commission instruction, the temporary rate limiters implemented as part of the rate redesign case be modified or eliminated. As a result of the rate redesign case, rate limiter provisions were added to DS-3 and DS-4, effective October 19, 2007. The total monthly charge for Distribution Delivery and Transformation Charges was limited to no more than 2 cents/kWh where 20% or less of the customer's annual usage occurs in the summer months of June through September. The Distribution Delivery Charges for DS-3 and DS-4 were also increased, to maintain revenue neutrality. Staff and the Grain and Feed Association, however, are improperly trying to maintain the DS-4 rate limiter; while witnesses Lazare (Staff) and Adkisson (GFA) both apparently believe that it is not yet time to reduce this subsidy, neither offers analysis of how much longer these limiters should persist.

The Ameren Illinois Utilities propose that the rate limiter provision for DS-3 be increased proportionate to the average rate-increase for that class, while the provision for DS-4 be eliminated. Witnesses Lazare and Adkisson support the DS-3 increase. The Utilities' proposal is consistent with the Commission's prior directive. In Docket No. 07-0165, the Commission ordered that "the rate limiter should be in place only as long as necessary." (Order, p. 39.) To determine when to displace the rate limiters, the Commission "encourage[d] the parties to revisit the rate limiter in the next rate case." The Commission expected that the parties would, in the instant rate case, be "evaluating the period of time the rate limiter needs to be in place to ensure just and reasonable rates." The Commission expected that this evaluation would suggest that the rate limiters be removed: the Order instructed the parties that "if [the rate limiter] is to end, consider the manner by which it should do so." This precise and detailed instruction is precisely what the Ameren Illinois Utilities are adhering to; this instruction is also precisely what Staff and the Grain and Feed Association are studiously ignoring with regard to the DS-4 rate limiter.

GFA's Position

In the rate redesign case mentioned above, the GFA argued that the Distribution Delivery Charge assessed against a customer's maximum billing-period demand (which, as mentioned above, had to be increased when the limiters were emplaced) visited economic hardship upon its members by causing large percentage increases in their costs. The GFA then expressed an interest in a rate structure that rewarded customers who are able to shift demand from on-peak periods to off-peak periods, similar to some

of the rates in effect prior to 2007. However, in that proceeding, the GFA accepted and the Commission ultimately approved, a rate limiter mechanism in lieu of the above described rate structures. In the immediate proceeding, the Ameren Illinois Utilities have proposed moving to an on-peak determinate for establishing demand rates. There is no opposition to this proposal. Therefore, in the instant case, the GFA essentially asks to retain rate design concessions that in addition to the move to on-peak demand determinates would establish benefits for GFA constituents above and beyond those awarded in Docket No. 07-0165.

IIEC and Commercial Group's Positions

Intervenors IIEC and Commercial Group provide sound reasons to eliminate the DS-4 limiter. Mr. Stephens points out that "there is no particular distinction for the customer group GFA singles out that warrants a long-standing subsidy." Mr. Baudino offers three reasons. First, "eliminating a rate provision that created intra-class subsidies does not result in unequal treatment. Rather it puts all customers within that class on a more equal footing with respect to rates being based on the true cost to serve." Second, the Order in Docket No. 07-0165 states that "the Commission made it clear that the rate limiter is a transitional mechanism for certain customers who were facing large rate increases and that is should only be in place as long as necessary." Third, use of on-peak demand provides an incentive for rate limiter customers to reduce on-peak demands and potentially reduce their bills.

Ameren's Response

The Ameren Illinois Utilities also believe eliminating the DS-4 rate limiter would inject fairness by moving rates closer to cost and avoiding the unnecessary subsidization inherent in such limiters. This is because, as recognized by the IIEC in the rate redesign case, implementation of a rate limiter requires that Distribution Delivery Charges be increased for DS-3 and DS-4 customers. In other words, Distribution Delivery Charges are higher than they otherwise would be if there was no rate limiter. As a result, customers who do not benefit from the rate limiter subsidize customers who receive a benefit. Eliminating the DS-4 rate limiter eliminates this inequity.

The Ameren Illinois Utilities explained that the move toward on-peak demand determinates should be considered in evaluating the continued need for a DS-4 limiter. In response to the IIEC's position in Docket No. 06-0090 (cons) as well as that advanced by the GFA in Docket No. 07-0165, the Ameren Illinois Utilities propose to begin using a billing demand applicable to the Distribution Delivery Charge equal to the higher of (a) the maximum on-peak demand in the month and (b) 50% of the highest off-peak demand in the month. Presently, the Distribution Delivery Charge is assessed based on a customer's monthly maximum demand (*e.g.*, highest demand occurring in the billing month regardless of when it occurs).

The Ameren Illinois Utilities also explained that the aggregate impact of the proposed on-peak demand method is slight: proposed billing demands are slightly lower

than present billing demands (where present demands are based on a customer's maximum demand regardless of when it occurs during the billing month). For AmerenIP, AmerenCIPS, and AmerenCILCO, proposed billing demands are 97.8%, 96.3%, and 94.2%, respectively, of present billing demands for DS-3. For DS-4, proposed billing demands are 98.2%, 96.7%, and 98.4% of present billing demands for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively. Similarly, were only the on-peak demand used, and the floor amount of 50% of the customer's off-peak demand, ignored, the impact would be very small. For AmerenIP, AmerenCIPS, and AmerenCILCO, proposed billing demands would be 97.7%, 95.5%, and 92.6%, respectively, of present billing demands for DS-3. For DS-4, proposed billing demands would be 98.2%, 96.0%, and 98.2% of present billing demands for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively.

According to the Ameren Illinois Utilities, changing to an on-peak demand method empowers rate limiter customers to shift demands to the off-peak period and thus reduce the demand charge component of their bills. Retaining the rate limiter mitigates the price signal for customers subject to the rate limit to shift to the off-peak period. For example, assume a customer is expected to pay an average of 5 cents/kWh for delivery service under present rates. By changing production from the on-peak period to the off-peak, assume the customer can reduce its average delivery service cost to 3 cents/kWh. Finally, assume that the tariff serving the customer contains a 3 cents/kWh rate limiter. All other things constant, the customer is unlikely to change consumption behavior since it will pay 3 cents/kWh through use of the rate limiter without changing consumption behavior. Mr. Lazare is correct that there are potential benefits to both customers and the Ameren Illinois Utilities by encouraging customers to shift use toward the off-peak period, but the change to billing demand will be most effective (*i.e.*, send customers the intended price signals) without a rate limiter in place.

The Ameren Illinois Utilities further contend that this change to an on-peak demand method was actually advocated by the IIEC in the previous Delivery Services cases (Docket Nos. 06-0070 – 0072 (cons.)). In fact, the Commission adopted the IIEC's recommendation that the Ameren Illinois Utilities provide data to allow a rate impact comparison between the existing methods and the on-peak method in the next Delivery Services case. Thus, the Utilities' proposal to use the on-peak demand method provides customers with an added incentive to reduce on-peak demand (and shift use to off-peak periods), is consistent with previous positions of interested parties, and eliminates intra-class subsidies. While the Ameren Illinois Utilities acknowledge the support witnesses Lazare and Adkisson provide for this change to an on-peak method, it is worth noting that this support undermines their position regarding the DS-4 rate limiter. One common strain in their DS-4 position is the perceived disproportionate impact that a segment of the Utilities' customers would face. However, Messrs. Lazare and Adkisson endorse the on-peak method change, which will have various non-uniform impacts on customers. Thus, the Staff and GFA positions regarding rate limiters are inconsistent, and by that token must be scrutinized closely.

In addition to the GFA's request that the rate limiter be retained in conjunction with the on-peak demand provision, the GFA further argues for seasonal rate

differentiation. Mr. Adkisson states there is not sufficient evidence for the Commission to determine the appropriateness of and level of a seasonal differential in delivery rates based on examining the 12 grain drying customers, however this is only partially accurate. The Ameren Illinois Utilities agree with Mr. Adkisson that there is insufficient evidence to set the level of a seasonal differential in delivery rates; however, there is sufficient evidence to suggest that a majority of the twelve DS-4 grain-drying customers should pay a premium for primary voltage facilities (all DS-4 rate limiter grain drying customers are served from a primary supply line voltage (less than 15 kV)).

The Ameren Illinois Utilities explained that DS-4 customers all have peak demands over 1,000 kW. These customers' demands are often large enough relative to all other customers on the circuit to drive the coincident peak to the fall grain drying season. A seasonal rate would not provide a lower price for these customers. An examination of circuits serving smaller (DS-3) customers eligible for the rate limiter has not yet been conducted. Until such analysis has been conducted, it is unknown if demands contributed by DS-3 grain drying customers cause the circuit to peak in the fall. Thus, the Ameren Illinois Utilities are willing to increase the DS-3 rate limiter by an amount equal to the class average rate increase. However, there is sufficient evidence in the record that the rate limiter for certain DS-4 customers should be eliminated.

DS-4 rate limiter customers drive the peak and costs on most distribution circuits, yet pay a relatively small amount toward those costs compared to non-grain drying customers. For example, the Ameren Illinois Utilities pointed out assume two DS-4 customers take service from the primary supply line voltage, one a grain drying customer and one manufacturing customer. Assume both peak at 1,500 kW in September, establishing the annual circuit peak of 3,000 kW. Assume also that the annualized cost of the primary circuit is $15/kW, or a revenue requirement of $45,000 per year. Further assume the manufacturing customer sets a peak demand of 1,500 kW each month providing 18,000 kW in billing demand, and the grain dryer sets a 1,500 kW demand in two months and 150 kW demands in the remaining 10 months, providing annual billing demands of 4,500 kW. Total annual revenue requirement of $45,000 divided by billing demands of 22,500 kW (18,000 kW + 4,500 kW) derives an average rate of $2/kW. Applying the $2/kW to each customer's billing demands produces $36,000 in annual revenue from the manufacturing customer and $9,000 in annual revenue from the grain drying customer.

In the foregoing example, even though both customers contributed equally to the circuit peak and its associated costs, the manufacturing customer pays four times more than the grain drying customer for primary voltage facilities. In this case, if a seasonal rate is warranted, it would result in a sharp increase to the Distribution Delivery Charge for fall usage. Alternatively, placing the two customers into separate rate classes would result in annual flat Distribution Delivery Charges of $1.25/kW ($22,500 / 18,000 kW) for the manufacturing customer and $5/kW ($22,500 / 4,500 kW) for the grain drying customer. The Ameren Illinois Utilities contend that latter is clearly preferable.

However, if the Commission finds the DS-4 limiter is still appropriate, but would like to begin the process of reducing reliance on the subsidy and set the rate at 3

cents/kWh as originally proposed for DS-3, the Ameren Illinois Utilities point out that rate limitation reductions to class revenue would need to be reflected in the Ameren Illinois Utilities' proposed jurisdictional operating revenue. These values are provided in the third table on Ameren Exhibit 26.1. If the Commission instead chooses to simply increase the existing 2 cent/kWh rate limiter by the average DS-4 rate increase for each Ameren Illinois Utility, the corresponding limited revenue amount are also shown within the third table of Ameren Exhibit 26.1.

GFA witness Adkisson argues not only to maintain the DS-4 rate limiter, but also that delivery service costs in the summer season are higher than those in the non-summer season and thus the Ameren Illinois Utilities should offer seasonally differentiated DS-3 and DS-4 demand charges. Consequently, Mr. Adkisson argues prices should be higher in the summer season than in the non-summer season. The Ameren Illinois Utilities explain that these charges, however, are not appropriate at this time. A proposal of this magnitude requires further analysis to determine if delivery costs are indeed different by season. Such analysis would require again an assessment of seasonal use customers' contributions to circuit peaks, cost of service, and revenue contribution toward cost of service. Mr. Adkisson has not provided any empirical data to substantiate his position. Indeed, the Ameren Illinois Utilities examination of DS-4 circuits indicates that costs are higher to service most large grain drying customers in the fall and not lower.

The Ameren Illinois Utilities point out that not all circuits peak in the summer. For example, a circuit with no or few residential or small commercial customers, a few high load factor industrial customers, and a few grain drying customers, may peak in the fall during grain drying season. If this is the case, greater costs should be appropriately allocated to the fall season to coincide with the peak. Also, if costs are different by season, pricing structures need to be developed and customer impacts need to be evaluated, including the appropriateness of continuing a rate limiter.

Commission Conclusion

As directed by the Commission in Docket No. 07-0165, the Ameren Illinois Utilities evaluated the continued necessity of a rate limiter for DS-3 and DS-4 customers. The DS-3 rate limiter should be retained with an increase in that limiter equal to the across the board percentage increase associated with the Ameren Illinois Utilities' rate design proposal. In light of the proposal to move to an on peak demand determinate as well as rate equity considerations, it is appropriate that the DS-4 rate limiter should be eliminated. Additionally, the record does not support the seasonally differentiation of rates as proposed by the GFA.

c. Street Lighting

Ameren's Position

The Ameren Illinois Utilities and Cities witness Nancy Hughes concur on certain municipal street-lighting issues. The Utilities have provided a detailed COSS, contained

in Schedule E-6, for the current rate cases. The Utilities will provide a similar COSS in the next set of rate cases, along with the requested lighting rate design study aimed at determining cost-based lighting fixture charges. However, with regard to the Cities' street light fixture rate proposal, the Ameren Illinois Utilities disagree on the correct approach.

Cities' Position

For the purpose of the immediate case, the Cities recommend capping AmerenIP street light fixture rates, and that the resulting reductions to the Utilities' filed revenue requirement related to street lighting be passed along to all Delivery Service customer classes. It should also be noted that Cities only represent municipalities within the AmerenIP service territory. Specifically, Ms. Hughes proposes to cap the fixture rates in the AmerenIP service territory by no higher than 14.89%.

Ameren's Response

The following chart is demonstrative of the street lighting proposals advanced by the Ameren Illinois Utilities and the Cities:

	Average Cost per Month per Fixture				
		Ameren Proposed Rates		Cities Proposed	
Municipalities	Existing Rates	Monthly Price	Change	Incremental Rate Estimate	Change
Champaign	$8.66	$12.64	$3.98	$9.95	$1.29
Bloomington	$8.03	$11.72	$3.69	$9.23	$1.20
Normal	$8.07	$11.78	$3.71	$9.27	$1.20
Urbana	$8.50	$12.33	$3.83	$9.67	$1.17
Decatur	$7.81	$11.40	$3.59	$8.97	$1.16

Source: Derived from workpapers to Table 2 shown on page 12 of rebuttal Testimony of Nancy Heller Hughes

Finally, the annual per capita cost (lighting fixture costs divided by municipalities' population) is as follows:

	Per Capita Average Cost per Month				
		Ameren Proposed Rates		Cities Proposed	
Municipalities	Existing Rates	Monthly Price	Change	Incremental Rate Estimate	Change
Champaign	$0.17	$0.24	$0.08	$0.19	$0.02
Bloomington	$0.49	$0.71	$0.23	$0.56	$0.07

Normal	$0.36	$0.52	$0.16	$0.41	$0.05
Urbana	$0.00	$0.00	$0.00	$0.00	$0.00
Decatur	$0.86	$1.26	$0.40	$0.99	$0.13

Source: Derived from workpapers to Table 2 shown on page 12 of rebuttal Testimony of Nancy Heller Hughes

As Mr. Jones explained, the proposed DS-5 class provides customers with dusk-to-dawn photo cell-controlled lighting service. While the Utilities will typically own and maintain these lighting fixture, DS-5 will provide for customers who own their own lighting facilities as well.

The issue raised by the Cities pertains only to the charges for fixtures. The Fixture Charges in DS-5 do not cover power and energy charges, transmission charges or delivery-service charges. To achieve the targeted revenue requirement for each class, the Ameren Illinois Utilities proposed Fixture Charges as laid out in Ameren Ex. 12.7E. Those charges will be adjusted on an equal percentage basis unique to each Ameren utility. Transmission and energy charges are charged separately through Rider TS and Rider BGS, and distribution delivery charges are assessed through a separate component within DS-5.

From the Ameren Illinois Utilities' perspective, Ms. Hughes's final position on Lighting Service revenue allocation and rate design is unacceptable. Essentially, Ms. Hughes requests that AmerenIP Fixture Charges be caped based on the incremental costs of fixtures calculated several years ago for use in Docket Nos. 06-0070 – 0072 and recommends funding this cap by shifting costs to other rate classes.

Commission Conclusion

The Cities' case for an exception to the across the board increase is not persuasive. The Cities do not clarify why the Ameren DS-5 class – and that class alone – should be allowed use of a non-across-the-board revenue allocation method, while other classes are held to an across-the-board approach. Ms. Hughes's testimony also additionally fails to extend the concept of incremental-cost pricing to AmerenCIPS and AmerenCILCO. Moreover, the Cities have the option of choosing to purchase their own street lighting fixture and avoid AmerenIP's rates all together, while other DS customers have no service choice. It is simply unfair to shift an amount potentially in excess of $5 million dollars from charges that certain customers pay by choice to other customers, including residential customers. Therefore, the Cities' position is rejected and the Ameren Illinois Utilities' position is adopted.

VIII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

1. The Ameren Illinois Utilities are Illinois corporations engaged in the transmission, distribution, and sale of electricity to the public in Illinois and

as public utilities as defined in Section 3-105 of the Public Utilities Act; the Commission has jurisdiction over the parties and the subject matter herein;

2. the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record, and are hereby adopted as findings of fact and conclusions of law;

3. the test year for the determination of the rates herein found to be just and reasonable should be the 12 months ending December 31, 2006; such test year is appropriate for purposes of this proceeding;

4. for the test year ending December 31, 2006, and for the purposes of this proceeding, the rate bases for the Ameren Illinois Utilities are as shown on Appendices A to F attached hereto;

5. a just and reasonable return which each Ameren Illinois Utility should be allowed to earn on its net original cost rate base is: 8.571% for AmerenCILCO Electric, 8.592% for AmerenCILCO Gas, 8.512% for AmerenCIPS Electric, 8.532% for AmerenCIPS Gas, 9.075% for AmerenIP Electric, and 9.096% for AmerenIP Gas, consistent with the conclusions in the body of this Order regarding the capital structure and cost of each component;

6. the rates of return set forth in Finding (5) hereinabove result in operating revenues and net annual operating income as shown in Appendices A through F based on the test year herein approved;

7. the Ameren Illinois Utilities' rates which are presently in effect are insufficient to generate the operating income necessary to permit the Ameren Illinois Utilities the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently canceled and annulled;

8. the specific rates proposed by the Ameren Illinois Utilities in their initial filing do not include the various determinations made in this Order and should be canceled and annulled consistent with the findings herein;

9. the Ameren Illinois Utilities should be authorized to place into effect tariff sheets designed to produce annual operating revenues as contained in Appendices A through F, such tariff sheets to be applicable to service furnished on and after their effective date; the terms and conditions in these tariff sheets should be consistent with Finding (10) below; on the record in this proceeding, this return is just and reasonable;

10. the determinations regarding cost of service, rate design, and terms and conditions of service contained in the prefatory portion of this Order are reasonable for purposes of this proceeding; the tariffs filed by the Ameren

Companies should incorporate the rates, rate design, and terms and conditions set forth and referred to herein;

11. new tariff sheets authorized to be filed by this Order should reflect an effective date not less than five (5) days after the date of filing, with the tariff sheets to be reviewed by the Rates Department of the Commission, and corrected, if necessary, within that time period; and

12. the Ameren Companies shall file copies of FERC Form 60 with the ICC and provide copies to the Manager of Accounting on the day it is filed with the FERC; and

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets presently in effect rendered by the Ameren Illinois Utilities are hereby permanently canceled and annulled, effective at such time as the new tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general rate increase, filed by the Ameren Illinois Utilities on November 2, 2007, are permanently canceled and annulled.

IT IS FURTHER ORDERED that the Ameren Illinois Utilities are authorized to file new tariff sheets in accordance with Findings (9), (10), and (11) of this Order, applicable to service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that the Ameren Illinois Utilities shall comply with the Commission's findings and determinations made herein;

IT IS FURTHER ORDERED that any motions, petitions, objections, and other matters in this proceeding which remain outstanding are hereby denied.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

Dated: July 15, 2008

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO, CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS, ILLINOIS POWER COMPANY d/b/a AmerenIP

by: *__/s/ Laura M. Earl*_____

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