

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

REPLY BRIEF ON EXCEPTIONS OF THE AMEREN ILLINOIS UTILITIES

AUGUST 27, 2008

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INTRODUCTION – SUMMARY OF POSITION

As noted in our Brief on Exceptions, the Ameren Illinois Utilities appreciate the diligence and thorough effort of Administrative Law Judges (“ALJs”) in preparing the Proposed Order, in a case involving an extensive record and many issues. As can be expected, the parties have submitted extensive exceptions to the Proposed Order. Many of those exceptions dedicate much argument to a desire to correct the Proposed Order’s discussion of a party’s position. While it would be nice to tweak the Proposed Order in this regard, for every party, this does not strike us as an efficient use of time and resources. Moreover, in large part – and due to the obvious amount of work and deliberation that went into drafting the Proposed Order – the ALJs have gotten it right.

Pursuant to the letter and spirit of Section 200.830 of the Commission’s Rules, the Ameren Illinois Utilities have kept their replies and exceptions to the Proposed Order limited and concise. Regrettably, some parties have used the exceptions process as an opportunity to raise new arguments and propose intricate mutations of resolutions to issues, requiring response on our part of unanticipated length. Some parties have made statements and proposals that go far beyond, and are glaringly inconsistent with, the evidence submitted by the parties in this case. We submit also that such exceptions are not well taken.

For all the reasons we discuss herein, most of the exceptions submitted by other parties that we address herein are unsupported and unreasonable, and should be rejected. Those exceptions that we do not address, we do not believe are significant enough to merit comment.

IV. RATE BASE

C. Contested Issues

1. Plant Additions Since Last Rate Case

The Proposed Order properly declined to apply Staff’s percentage disallowance to projects with costs less than \$500,000. (Proposed Order, pp. 41-42.) Staff’s BOE argues various reasons against this conclusion, which the ALJs considered and correctly rejected, and which should be rejected again here.

a. Staff’s Proposed Technical Correction

Preliminarily, Staff seeks to correct the Proposed Order to show that Staff conducted a “review” of random project invoices in this case, and not an official “audit.” (Staff BOE, p. 3.) This request appears to protest subjecting Staff’s “review” to the same scrutiny as one would an “audit,” while at the same time arguing that the results of Staff’s review should be given greater weight than the plant addition amounts on the Ameren Illinois Utilities’ audited books. Staff cannot have it both ways. For the following reasons, the Ameren Illinois Utilities agree the record shows that Staff’s “review” did not rise to the level of an official “audit,” and thus should not be characterized *or weighted* as such.

The Ameren Illinois Utilities’ first agree that Staff did not conduct a field audit in this case (Tr. 1275 (Stafford)), as it has commonly done in the past. *See, e.g.*, ICC Docket 00-0441, Staff Ex. 1, Sch. 1, p. 2. Section 285.150 of the Commission’s Rules provide for Staff review of workpapers from a utility’s independent auditors, internal audit information, the general ledger, invoices, and numerous other types of documentation supporting a utility’s rate increase filing “at the utility’s office” (83 Ill. Admin. Code 285.150), which Staff has in the past termed a “field audit.”

Although Staff chose not to review these documents, the record shows that the Ameren Illinois Utilities’ general ledger has been internally and independently audited, is subject to regulation (*see* 220 ILCS §§ 5/5-107; 5/5-109; 5/5-105), and thus provides strong evidence of the Ameren Illinois Utilities’ plant additions costs. Mr. Craig Nelson testified to the significance of

the Ameren Illinois Utilities' audited general ledger, the systemic controls that are in place, and the existence of the currently used and useful plant additions themselves:

Let's remember that we're talking about plant additions that are already in service, that are used and useful. And there is no dispute on that. There is no evidence on the record to the contrary. **They're in service and used and useful.**

And keep in mind, please, that there are no systemic failures that anyone has pointed out. **The systems are in place.** And the systems I talked about at IP, the accounts payable, the general ledger, the contractor information system, they were working and they were working well, doing what they were intended to do. Keep in mind, please, that **the books and the general ledger are correct as evidenced by the fact that internal auditors and external auditors audited general ledger amounts and did not identify any exceptions to the generally accepted accounting principles.** There's no FERC violations.

In essence, Staff has thrown out 100 million of about 600 million plant additions, one-sixth of the plant additions. And **we never would have survived internal or external audits if we had that type of systemic failure in place,** because the adjustment goes way beyond reasonableness.

(Tr. 230-31 (Nelson) (emphasis added).)

Consistent with the fact that Staff did not review the Ameren Illinois Utilities' general ledger and audit-related materials, Staff has not presented testimony directly refuting any internal or independent audit of the general ledger. However, as shown above, the results of Staff's "review" of randomly sampled invoices in this case presents an indirect attack of these audits, by claiming dramatically different results. The Ameren Illinois Utilities agree that these inconsistent results, combined with the record expert testimony of Dr. Mary Batcher and Mr. John Taylor showing that Staff's "review" of randomly sampled invoices did not follow commonly accepted practice, support Staff's requested technical correction to page 41 of the Proposed Order. Further, as previously shown and discussed below, the results of Staff's review should not be given the same weight as evidence of internal and independent audits supporting

the Ameren Illinois Utilities' general ledger amounts, presented in their direct case. (AIU BOE, pp. 7-19; AIU Init. Br., pp. 13-49; AIU Reply Br., pp. 2-24.)

b. The Proposed Order's Conclusion, Based on Uncontested Sampling Methodology Testimony, Is Correct.

Staff next attacks the Proposed Order's decision not to apply Staff's proposed adjustment percentage to the population of projects with costs less than \$500,000, for three reasons. Staff first argues that, despite the fact that not a single project less than \$500,000 was reviewed, it was reasonable, based on "professional knowledge, judgment and experience," to assume that larger projects were documented the same or better than smaller ones. (Staff BOE, p. 3.) But the evidence in this proceeding demonstrates that Staff's sampling methodology was fundamentally flawed. As Ameren Illinois Utilities' witness Dr. Mary Batcher explained, the first steps in any sample analysis include learning about the population to be sampled, the types of estimates to be made from the sample, establishment of criteria for review of the selected invoices, and the precision needed to draw conclusions from the sample. (AIU Init. Br., pp. 29-30.) Where these steps are not observed – and Staff did not observe them here – there can be no assurance that the sample selected is in fact a representative sample. Compounding this error, Staff then applied the results of its unrepresentative sample to a population of invoices that were not even part of the sample. As AIU's Mr. Taylor explained, Staff effectively divided plant addition invoices into two populations; specific projects above \$500,000, and the other for all other plant additions including both specific projects less than \$500,000 and all blanket projects. Staff reviewed invoices from one population but not the other. There is no reason to believe that the percentage of invoices associated with specific projects that Staff reviewed is representative of the percentage of all plant additions that Staff did not review, for the reasons Mr. Taylor explained. (See AIU Init. Br., pp. 32-33.) Likewise, Dr. Batcher explained that she has observed instances

where larger projects or expenditures had higher error rates than smaller projects. (*Id.*, p. 34.)

There is nothing in the record to support Staff’s baseless assumption that the opposite is normally true.

Second, Staff argues that “AIU never provided any argument or evidence that, had Staff used Ameren’s preferred methodology, the review would have resulted in a different adjustment.” (Staff BOE, p. 3.) Staff is mistaken, and misses the point. The Ameren Illinois Utilities did not present a “preferred methodology,” but did present unrebutted evidence that Staff’s methods in this case (1) do not follow Staff and Commission precedent (Ameren Ex. 19.0 (Stafford) (2nd Rev.), pp. 23-33) and (2) do not follow commonly accepted, reasonable regulatory auditing practices (Ameren Exs. 40.0 and 64.0 (Batcher)) and statistical sampling methodology (Ameren Exs. 36.0 and 59.0 (Taylor)). To the extent Staff is suggesting that the Ameren Illinois Utilities “prefer” that Staff review and analyze cost support in accordance with Staff’s own precedent, Commission-accepted procedures, and commonly accepted regulatory practices and statistical sampling methods – well, yes we do. Moreover, the law requires it.

As the party proposing an adjustment, Staff bears the burden of proving that its adjustment is reasonable and supported. *Commonwealth Edison Co.*, Docket Nos. 83-0537; 84-0555 (Order, pp. 183-84); *City of Chicago v. Illinois Commerce Comm’n*, 478 N.E.2d 1369, 1375 (Ill Ct. App. 1985). Ameren Illinois Utilities’ witness Mr. Taylor fully explained how Staff’s flawed methodology resulted in an overstatement of the adjustment by approximately \$111 million. (AIU Reply Br., p. 13.) In contrast, Staff had no response to Mr. Taylor’s expert testimony, and provided no evidence to support its disallowance application outside the population of sampled invoices – save “professional judgment, knowledge and experience,” as Staff argues again here. The Proposed Order is thus correct in concluding that the preponderance

of evidence does not support application of Staff's adjustment percentage to projects with costs less than \$500,000, as the "assumption underlying this portion of the proposed adjustment is not adequately supported by the record." (Proposed Order, p. 42.)

Staff's third argument is related to the previous two. Staff argues that Ameren Illinois Utilities' arguments for not applying a percentage disallowance to projects less than \$500,000 "are inconsistent in that they condemn Staff's use of a sample based upon professional judgment in its plant additions adjustment for plant additions, but ignore AIU's use of a similar, judgmental sample from a sub-group of the population to determine the reasonableness of AMS' costs allocated to AIU." (Staff BOE, p. 3.) The easy answer to this is that the Ameren Illinois Utilities presented evidence that Mr. Adams' sample of AMS charges is representative of the total population of AMS charges. (*See* AIU Init. Br., pp. 129-133.) In contrast, Staff presented *no* evidence showing that Ms. Everson's sample is representative of the total population of plant additions costs. (Ameren Ex. 59.0 (Taylor Sur.), pp. 4-7.) So, to compare what Mr. Adams did to what Ms. Everson did is to compare an apple to an orange. The weight of the evidence supports the Proposed Order's results.

Finally, Staff also takes exception to the Proposed Order's rejection of Staff's recommendation for permanent disallowance of plant additions, based on an alleged "poor quality of records" and an alleged "pattern of failing" to support plant additions in prior rate cases. Staff's arguments should be rejected for at least four reasons. First, permanent disallowances are typically reserved for imprudent expenditures, and Staff does not claim that any expenditures were imprudently incurred. (AIU Init. Br., pp. 46-47.) Second, the record shows that 96% of the Ameren Illinois Utilities' plant additions costs were *additionally* supported by invoice at the rebuttal stage of this case, and that the Ameren Illinois Utilities'

difficulties in providing additional support from those costs mainly arose from the fact that two of the utilities had been under different ownership at the time such costs were incurred. (AIU Init. Br., pp. 48-49; AIU Reply Br., pp. 23-25.) The record evidence shows that the Ameren Illinois Utilities under Ameren ownership currently have a proper system for retaining documents in place. (Ameren Ex. 52.0 (Steinke Sur.), pp. 7-8.) There is also no basis for Staff's, third, "poor quality of records" claim (Staff BOE, p. 6). Staff did not review "records" at Ameren offices and has no basis to assess how the Ameren Illinois Utilities keep their records. Staff's opinion is based solely on a discovery production of approximately 8,700 pages of requested project invoices and listings, by Staff's count. (AIU Init. Br., p. 15.) The Ameren Illinois Utilities have not been subjected to this type or level of invoice-by-invoice review in prior rate cases (AIU Init. Br., pp. 40-41; AIU Reply Br., pp. 14-15), and thus could not have anticipated or prepared for it; nor could they have engaged in a "pattern of failure."¹ And finally, Staff's call for penalties fails to recognize that the Ameren Illinois Utilities are already being penalized, as these assets have been in service since 2006 or earlier will not earn a return until, at the earliest, October 2008. For all of these reasons, the record supports the Proposed Order correct conclusion that a permanent disallowance here would be "unfair" (Proposed Order, p. 43), as well as confiscatory.

3. Property Held For Future Use

The Proposed Order correctly states that the "issue here is whether AIU adequately demonstrated that its planned Substation will be built and in service on the parcel of land purchased within 10 years of the test year" (Proposed Order, p. 49), and the record shows that the Ameren Illinois Utilities have done so. (AIU Init. Br., pp. 54-63; AIU Reply Br., pp. 24-28.)

¹ Ameren Illinois Utilities did, however, assemble internal audit data for Staff's review, in anticipation of an expected "field audit" from Staff – which, as previously discussed, never occurred in this case.

The Proposed Order correctly agreed, and rejected Staff's proposed disallowance regarding this issue. Staff does not directly state an exception to the Proposed Order's findings and conclusions, but states exceptions to two minor alleged "misrepresentations" of its position in the Proposed Order. (Staff BOE, pp. 10-11.) However, the record supports the Proposed Order's summary of Staff's position on these two issues.

Specifically, first, the record shows that Staff witness Mr. Rockrohr *did* imply that a shorter standard time period for including plant held for future use in rate base could be warranted where rate cases are filed more frequently (Staff Ex. 22.0 (Rockrohr Reb.), p. 8), contrary to Staff's claim, while also taking the position that the Commission's ten-year standard is not related to the length of time between rate cases. (Ameren Ex. 43.0 (2nd Rev.) (Stafford Sur.), p. 28; Tr. 986.) Regardless, Staff's proposed alternative language does not appear to address adjustments related to this issue, and Staff's argument should be rejected.

Second, the Proposed Order appropriately states Staff's position that the Commission "should require CIPS to sell the +/- 90% of the parcel that would not be needed for the substation, and remove from rate base an amount equivalent to the proceeds received from that property sale." (Staff Init. Br., p. 64.) Moreover, the Proposed Order was correct in rejecting this position. (AIU Init. Br., pp. 59-61; AIU Reply Br., pp. 27-28.)

Finally, without argument, Staff proposes alternative language to the "Commission Conclusion" on this issue that is contrary to the record and would inappropriately adopt Staff's disallowance. (Staff BOE, pp. 12-13.) This language should be rejected. The Ameren Illinois Utilities demonstrated their need for and plan to build and put into service the North Alton Bulk Distribution Substation by 2014, *i.e.*, within ten years of the 2006 test year. (AIU Init. Br., pp. 54-63; AIU Reply Br., pp. 24-28.) The Proposed Order correctly stated that "AIU supplied the

Commission with evidence showing that current and anticipated load growth in the area is driving the need for a new bulk supply substation,” correctly found that AmerenCIPS’ “investment in the property is reasonable and the evidence supports a finding that the timing of the acquisition is appropriate” and correctly concluded that “AmerenCIPS’ investment for the planned Substation should be included in rate base.” (Proposed Order, p. 49.)

4. Security System Installations

The Proposed Order is correct in concluding that the Ameren Illinois Utilities’ “security system costs are a prudent investment, that the security systems benefit customers, and that these systems are used and useful in providing service to customers.” (Proposed Order, p. 13.) Staff’s arguments to the contrary – that securing the Ameren Illinois Utilities’ offices and maintenance yards is (1) unnecessary and (2) too costly – fails to recognize, as the Proposed Order correctly did, that “the need for maintaining the security of utility assets has increased dramatically and what may have been considered excessive or state of the art only a few years ago is now necessary and appropriate.” (*Id.*) The Ameren Illinois Utilities demonstrated 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 and that the costs at issue are reasonable.

Section 4-101 of the Public Utilities 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.” These provisions require that the Ameren Illinois Utilities 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 NERC. The security systems that the Ameren Illinois Utilities have installed are designed to meet these requirements. (Ameren Ex. 57.0 (Mullenschlader Sur.), p. 5.)

With regard to costs of the security systems, the Ameren Illinois Utilities have demonstrated that the costs are reasonable. Ameren Illinois Utilities' witness Mr. Mullenschlader explained that the present system is centralized, which will allow the security system to be operated by fewer personnel from fewer locations. (Ameren Ex. 57.0 (Mullenschlader Sur.), p. 9.) The security systems at issue are commonly used by at least ten other utility groups, as well as in other industries, such as trucking, delivery and service companies. (Ameren Ex. 57.0 (Mullenschlader Sur.), pp. 7-8.) Compared to the value of the 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 is quite small. (AIU Reply Br., pp. 31-32.)

The record evidence shows that the security system costs at issue are necessary, required by law, and reasonable. (AIU Init. Br., pp. 63-72; AIU Reply Br., pp. 28-32.) Staff's proposed alternative language is contrary to the record and should be rejected.

5. Cash Working Capital

Staff continues to argue that pass-through taxes be included in the CWC analyses reflecting zero revenue lag days. (Staff BOE, p. 15.) This position ignores the realities of the Ameren Illinois Utilities operations, as shown in briefing (AIU Init. Br., pp. 77-82; AIU Reply Br., pp. 34-35.) The flaw in Staff's argument is an incorrect assumption that the customer payments associated with the pass-through taxes are available instantly to the Ameren Illinois Utilities. The Commission can simply "follow the money" to see that this is not so: (1) amounts associated with pass-through taxes are included on the Ameren Illinois Utilities monthly bills; (2) the customer pays the bill in its entirety on or about the due date set forth on the bill; (3) the

payment is processed and deposited; and (4) then and only then are the funds available to the Companies. Staff's zero-lag assumption is wrong.

Staff's argument that pass-through taxes are not revenue is also incorrect. Pass-through taxes are included in both revenues and expenses in the test year, before pro forma adjustments.² The service the Ameren Illinois Utilities have provided to customers gives rise to the cost associated with pass-through taxes, and the need to collect such monies from customers. Without the provision of service, there are no pass-through taxes.

Next, Staff argues that the Proposed Order incorrectly rejected Staff's recommendation to include capitalized payroll in the CWC determination. The Proposed Order correctly stated: "While it is true that cash is required to meet the requirements for payroll costs that are capitalized, the same is true for every other expense that is capitalized and the Commission cannot understand the basis for singling out capitalized payroll costs." (Proposed Order, p. 60.) The Ameren Illinois Utilities' briefing (AIU Init. Br., pp. 82-90; AIU Reply Br., pp. 33-34) showed that Staff witness Mr. Kahle's proposal to include capitalized payroll in the Ameren Illinois Utilities' CWC requirements (since it requires cash) is illogical. The fact that expenditure requires the outlay of cash is irrelevant. All expenditures require cash outlays, but Mr. Kahle did not propose to include all expenditures in the CWC analyses. To the contrary, Mr. Kahle selected only one capitalized expenditure with a short lead time, which would reduce (*i.e.*, understate) the Ameren Illinois Utilities CWC requirements.

Staff argues that there is no potential for double counting if capitalized payroll is included in the CWC analysis (Staff BOE, pp. 15-16). As the Proposed Order correctly points out, the potential for double counting arises from the inclusion of the capitalized costs in CWC analysis

² See for example, AmerenIP Ex. 3.0E pp.19-20, lines 427-437 for discussion of adjustment to eliminate pass-through taxes from both revenues and expenses.

and the return earned on that asset once included in rate base. Operating expenses do not produce a similar result.

Accordingly, the Proposed Order appropriately rejected Staff's argument that capitalized payroll requires the outlay of cash.

Finally, Staff's proposed replacement language regarding Rider PER (Staff BOE, pp. 16-18) is unsubstantiated and conflicts with the Commission's rules designed to protect against preferential treatment between affiliated companies. (AIU Init. Br., pp. 91-93; AIU Reply Br., pp. 36-37.) The Commission has a long-standing history of promoting protections from such preferential treatment. Staff is proposing that such safeguards be ignored. (Ameren Ex. 45.0 (Adams Sur.), p. 38.) Staff's position is based on Mr. Kahle's claim that the Ameren Illinois Utilities should 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 utilities' current credit situation. (Staff Ex. 15.0, p. 11.) There is no support for this claim, and it was correctly rejected by the Proposed Order. The record does not show that affiliated suppliers would be willing to provide different payment terms for the Ameren Illinois Utilities. Mr. Kahle claims "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." (Staff Ex. 15.0, p. 11.) But logic dictates it is unreasonable to assume the affiliates would be more willing to waive the accelerated payments and assume additional risk without compensation. (Ameren Ex. 45.0 (Adams Sur.), p. 38.) In the end, there is no credible basis for Staff's adjustment or proposed replacement language.

Without citation to the record or the Proposed Order, Staff erroneously argues the Cash Working Capital Adjustment (“CWC” or “CWC Adjustment”) should be 0.5956% instead of 0.7986%, as the Proposed Order correctly concludes. (Staff BOE, pp. 104, 106.) The CWC associated with the power supply should continue to be based on the calculations shown on Ameren Exhibit 3.16E for each of the Ameren Illinois Electric Utilities and not some imagined, improbable means by which the Ameren Illinois utilities may do business with their affiliates.

6. Physical Losses and Performance Variations

The Ameren Illinois Utilities have not taken exception to the Proposed Order’s language on this issue and believe it adequately represents the positions of the parties. Staff takes exception to the Proposed Order’s language and recommends various wording changes, on which the Ameren Illinois Utilities take no position.

7. Working Capital Allowance for Gas in Storage

The Proposed Order’s conclusion that it is appropriate to rely upon the NYMEX futures price associated with gas in storage (pp. 75-76) is well-founded and should be adopted. Staff’s arguments to the contrary (Staff BOE, pp. 20-21) have been considered and appropriately rejected. As discussed in the Ameren Illinois Utilities’ brief (AIU Init. Br., pp. 94-100; AIU Reply Br., pp. 37-40), Staff’s arguments are internally inconsistent – arguing on the one hand that gas costs will be the same in 2008 as 2006, and on the other that such a determination is not possible because 2008 gas costs are not known and measurable. As the Commission found in Docket 02-0837, the cost of gas in storage in a historical year “does not reflect the current or future cost of gas, and therefore does not represent a known and measurable change to the test year.” Docket 02-0837, Order, p. 14. For this reason, Staff cannot rely on 2006 gas prices in conjunction with 2008 volumes. Likewise, Staff cannot rely on the argument that, because it finds 2006 and 2007 unit gas prices “consistent” (Staff Init. Br., p. 86), it is appropriate to use

2006 prices with 2008 volumes. As the Commission found in Docket 02-0837, prices in historical years (2006 and 2007) cannot be used to reflect the future price of gas.

To reflect the 2008 prices that would accompany Staff's adjusted 2008 volumes, the Ameren Illinois Utilities proposed a reasonable 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 (modified to reflect the utilities' hedged positions for the entire period of 2008, actual storage inventories and prices through April 2009, and the NYMEX forward strip as of April 24, 2008). (Ameren Exs. 30.0 (Glaeser Reb.), p. 37; 54.0 (Glaeser Sur., pp. 48-49.) Based on this gas price, the Ameren Illinois Utilities proposed working capital gas in storage values that reflect both the price and volume of gas in 2008. This proxy price is known and measurable to the same extent as the projected gas storage volumes Staff uses. The Proposed Order's acceptance of this proxy is thus reasonable and appropriate in light of its acceptance of Staff's adjusted 2008 volumes, and should be adopted.

10. Other – Injuries and Damages

The Ameren Illinois Utilities agree with the AG that the Proposed Order did not resolve this issue (AG BOE, pp. 3-4), likely because it was addressed as a contested rate base issue in the Ameren Illinois Utilities' brief (AIU Init. Br., pp. 118-19), and as a resolved rate base issue in the AG's brief (AG Init. Br., p. 6; AG Reply Br., p. 6.) As noted in briefing, the Ameren Illinois Utilities disagree with AG/CUB witness Mr. Effron's proposal to deduct the Injuries and Damages Reserve from rate base, because the proposal is unwarranted. The Injuries and Damages Reserve represents the difference between accrued expenses for Injuries and Damages and the cash outlay for claims paid. In direct testimony, the Ameren Illinois Utilities proposed to reflect the expense amounts in revenue requirement. (Ameren Ex. 19.0 (Stafford Reb.), p. 65.) As indicated in Mr. Stafford's rebuttal testimony, the Ameren Illinois Utilities have 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.). (*Id.*; Ameren Ex. 43.0 (2nd Rev.) (Stafford Sur.), p. 37.)

Use of a cash basis eliminates the existence of a reserve balance for ratemaking. (*Id.*) 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. (*Id.*, pp. 37-38.) Thus, a reserve balance, positive or negative, simply does not exist. (*Id.*) Mr. Effron points to the fact that, although the Ameren Illinois Utilities have 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 have not actually used a cash basis to record injuries and damages expense on their books of account and will not do so prospectively. (AG/CUB Ex. 4.0 (Effron Reb.), pp. 3-4.) But 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. (Ameren Ex. 43.0 (2nd Rev.) (Stafford Sur.), p. 37-38.) Mr. Effron fails to acknowledge that rates are being set on a cash basis, which eliminates the existence of the reserve for ratemaking. (*Id.*)

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. (*Id.*)

For the above reasons, the AG's proposed language for the "resolved" rate base issue section of the Proposed Order should be rejected. The following Commission Conclusion should

be adopted under a new “contested” rate base issue subsection (Section IV.C.10) of the Commission’s Order:

AG recommends that the Proposed Order be modified to deduct the injuries and damages reserve from rate base, arguing that these are ratepayer-supplied funds. The Ameren Illinois Utilities disagree with this proposal, noting their modification of injuries and damages expense treatment in this case 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 to how such costs were established in Docket Nos. 06-0070, 06-0071, and 06-0072 (cons.). The Ameren Illinois Utilities further state that the use of a cash basis eliminates the existence of a reserve balance for ratemaking, because 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. In other words, a reserve balance, positive or negative, simply does not exist. While a reserve balance still exists on the utilities balance sheet (as AG argues), it is only for reporting (not ratemaking) purposes. The Commission agrees that the AG’s proposed adjustment is not necessary for these reasons and rejects it. It is also therefore appropriate to eliminate ADIT related to Injuries and Damages.

V. OPERATING REVENUES AND EXPENSES

C. Contested Issues

1. AMS Charges

Staff argues vociferously that it gets short shrift in the Proposed Order on the AMS charges issue. Staff contends that Proposed Order improperly accepts the Ameren Illinois Utilities’ position. In particular, Staff complains that the Ameren Illinois Utilities never explained why they receive a “disproportionate” share of AMS charges, and that the ALJs incorrectly accepted a study that was both too narrow and rife with errors. Lastly, Staff suggests that because the Commission approved a \$50 million adjustment in the last case, it stands to reason that it should do so again.

We will begin with the last point. The Commission adjusted *A&G expenses* – which were largely driven by AMS charges - downward in the last case because it believed that the number *recommended by the Staff* and adopted by the ALJs in that case was not supported on the record. The Commission ordered the Ameren Illinois Utilities to perform a study of those charges and present it in this case. We did so, and the ALJs properly accepted it.

As we will explain, what Staff did in this case was not any meaningful review of AMS charges. Rather, Staff took a “short cut” that just so happens to back into the same adjustment as the Commission made in the last case. While this seems a politically safe position, it is irresponsible because it would starve the utilities of cash to hit a target adjustment. Staff’s short cut is seriously flawed – indeed, worthless – and the record in this case supports the findings in the Proposed Order.

The Staff’s analysis in this case began and ended with a single, naked assumption – *i.e.*, that all companies should take and be charged for AMS services in proportion to their relative size. There is no basis for this assumption: not logic, not empirical study, not practice in any other jurisdiction. Staff could not identify anywhere this assumption has been used – ever.

Without this assumption, the Staff’s analysis completely disappears. If the assumption is wrong, Staff’s adjustment is wrong. It is this assumption that caused Staff to question the level of AMS charges in the first place. When the AMS charges in the test year exceeded what Staff expected under its assumption, Staff challenged the Ameren Illinois Utilities to show that what Staff viewed as a deviation from normal, *i.e.*, from the assumed level under the Staff allocator, was reasonable.

When the Ameren Illinois Utilities were unable to satisfy Staff that the AMS charges were reasonable, Staff then ended its analysis by imposing its same unproven, untested

assumption on the level of AMS charges in the test year. Staff essentially discarded the results of the ICC-mandated pricing terms in the General Services Agreement (“GSA”) and substituted its newly minted allocator instead, excluding from the test year some \$48 million in test year expenses.

Staff is recommending that this Commission adopt a reckless and unfounded policy that is nothing more than a regulatory short-cut. It is clear from this record that Staff lacked the time and resources to perform a detailed review of the AMS charges. (Tr. 1157 (Lazare).) As a result, Staff witness Lazare developed a short-cut to assess the reasonableness of the AMS charges: a new allocator based on three size metrics.

The lack of foundation for the new allocator is fully set forth in our Initial Brief and our Reply Brief. There was no testing, no model, no precedent – in short, this was just made up. Staff made the assumption that size matters most, then picked three measures of size, which it weighted equally. Staff argues that equal weighting is appropriate because there is no evidence that one is more important or relevant than another, but this is just another way of saying that Staff did no analysis of its own allocator. Staff took a short cut.

Staff’s short cut completely overlooked the role of customers in an Ameren affiliate’s need for services from AMS. Much of what AMS does is customer-related, and the Ameren Illinois Utilities’ need for services is largely customer-driven. Conspicuously absent from Staff’s discussion is any meaningful analysis of the effect of the number of customers on a utility’s need for and consumption of services. Staff’s allocator cannot be expected to – and does not – produce a reasonable result if it completely ignores a significant driver of utility costs.

Further, Staff effectively ignored AMS’s upcoming transfer of employees to the Ameren Illinois Utilities. As we showed on the record, this transfer effectively wipes out Staff’s

adjustment, and demonstrates how infirm the Staff's allocator and the underlying assumption are. (Ameren Ex. 42.0 (Nelson Sur.), p. 15.) The transfer shows what we have said – that all other things being equal, a utility with more employees will take a lower level of service from AMS than a utility with fewer employees, because the utility with more employees does more for itself. The Staff's allocator, however, assumes that the utility with more employees is doing relatively less for itself than the utility with fewer employees.

Moving these employees to the Ameren Illinois Utilities would actually increase costs under Staff's approach. (Ameren Ex. 18.0 (Rev.) (Nelson Reb.), pp. 19-20.) 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 Staff 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.

Under Staff's approach, if you had 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 – you 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. (Ameren Ex. 42.0 (Nelson Sur.), p. 11.) The utility with far fewer employees would require far more shared services in order to serve its customer base. (Ameren Ex. 42.0 (Nelson Sur.), p. 11.) Applying Staff's allocator to this situation would grossly distort the allocations and place disproportionate costs on the entity not causing them.

Moreover, the record explains the "disproportion" Staff complains about. In his rebuttal and surrebuttal testimony, Mr. Nelson explains that 565 AMS employees work exclusively for

the Ameren Illinois Utilities, while only 164 AMS employees work exclusively for AmerenUE, a difference of 401 employees. (Ameren Ex. 42.0 (Nelson Sur.), pp. 12-13.) Using the average, fully-loaded cost per employee found in Mr. Nelson's Ameren Ex. 42.1, the cost of the additional 401 employees dedicated to the Ameren Illinois Utilities is approximately \$43 million (401 additional employees x \$78,167 total compensation per person x 1.3734 loadings factor = \$43 million). This one calculation explains \$43 million of the \$48 million of cost that Staff incorrectly believes to be a disproportionate allocation.

Staff simply refuses to acknowledge that its allocator makes no sense. Instead it places enormous weight on its cross-examination of Mr. Adams, which Staff argues shows that there are problems with the existing allocations. The cross-examination showed only that Ameren has been using a combined electric/gas allocator to allocate some electric costs amongst the three Ameren Illinois Utilities. As we explained below, this does not mean that costs have been improperly allocated to any company or that electric costs have in fact been booked to gas accounts. In fact, the use of the combined allocator instead of an electric-only allocator produces no material difference in the allocations amongst the three Illinois utilities. Indeed, had electric costs been erroneously booked to gas, Staff would have identified them. They did not, because no electric costs were booked to gas. Thus, there is no problem to be addressed.

Staff, on the other hand, uses these circumstances as a pretext to allocate costs to other affiliates not even taking the service for which an allocation is being performed. Thus, where there might be a modest difference in the specific allocations amongst the three companies, the only remedy that might reasonably be pursued is a modest adjustment amongst the three companies. Staff, however, proposes to address this situation by allocating 65% of the costs to other affiliates. Hence, taking the case of the Illinois post-2006 implementation costs, Staff

would “correct” the existing allocations by allocating almost two-thirds of the costs to AmerenUE and non-regulated entities. This is both absurd and irresponsible.

The Commission should not adopt Staff’s reckless proposal to arbitrarily understate the Ameren Illinois Utilities’ cost of service. Staff did not challenge a single allocation in its testimony, and has no basis for its proposed allocator. Its size test is completely untested, and was plainly adopted as a short-cut around a more detailed analysis. This short-cut threatens the Companies’ financial strength, because it implies that the Companies can obtain services at a price far below what they now pay, contrary to all evidence.

Staff’s confidence in its invention is so high that it is willing to bet \$48 million of the Ameren Illinois Utilities’ money on it – a substantial percentage of their actual net income during 2006 (the test year). If Staff is wrong (and Staff’s error is obvious), the Ameren Illinois Utilities will under-recover their costs by \$48 million and be faced with critical and potentially damaging choices regarding what cuts to make in service in order to maintain their financial condition.

Staff’s recommendation is particularly disturbing because the evidence shows that the Ameren Illinois Utilities’ A&G costs in general, and AMS charges in particular, are reasonable and consistent with industry norms. There is simply no problem to be addressed. To the extent that Staff might believe that a particular cost item or two or ten – out of hundreds – are being misallocated, Staff rushes in not with a scalpel, but a meat cleaver. And the utilities and their customers would be the victims.

Staff is correct that the Commission’s approval of the GSA, on its own, does not indicate an approval of the results of the allocation process. (Ameren Ex. 21.0 (Adams Reb.), p. 4.) 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. (*Id.*) While the Commission's approval of the GSA does not guarantee approval of the specific costs, it would seem logical that the Commission would expect 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. *Id.*³

Nonetheless, the Ameren Illinois Utilities do not have the latitude to deviate from the allocation factors contained in the GSA. (Ameren Ex. 21.0 (Adams Reb.), p. 3.) 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. (*Id.*) It would be 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. (*Id.*) 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. (Ameren Ex. 21.0 (Adams Reb.), pp. 3-4.)

In addition, the study the Ameren Illinois Utilities submitted was of the proper scope. 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

³ 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 Utilities' positions. (Ameren Ex. 45.0 (Adams Sur.), p. 10.) 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. (Ameren Ex. 45.0 (Adams Sur.), p. 10.) Based upon the review and approval by the Commission, the Ameren Illinois Utilities should have a reasonable expectation that the Commission expects the Companies to adhere to the terms of the GSA. (Ameren Ex. 45.0 (Adams Sur.), p. 10.)

AMS provides to them. (Ameren Ex. 21.0 (Adams Reb.), p. 5.) 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. (Ameren Ex. 21.0 (Adams Reb.), p. 5.) 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. (Ameren Exhibit 5.0, p. 37.)

The results of a benchmarking study were provided for both the gas and electric businesses, which clearly show that the Ameren Illinois Utilities, both collectively and individually, compare well to other gas, electric and combination utilities. (Ameren Ex. 5.0 (Adams Direct), pp. 13-25.) 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 benchmarking results are complete and provide sound comparisons for similarly sized and situated companies.

Mr. Adams also presented the results of the benchmarking of the Ameren Illinois Utilities' total O&M expenses. Again, the benchmarking results showed that the Ameren Illinois Utilities compared well, both collectively and individually, to other utilities. (Ameren Exs. 21.02 and 21.03.)

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. 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. (Ameren Ex. 5.0 (Adams Direct), pp. 51-75.)

Moreover, an expanded study would not produce materially different results than the review of the A&G expenses. (Ameren Ex. 21.0 (Adams Reb.), p. 35.) 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. (*Id.*) 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. (*Id.*, p. 36.)

Staff complains that we did not look at all service requests. The records shows 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. (Ameren Ex. 21.0 (Adams Reb.), p. 39.) 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.

We expect this to be the last major battle over AMS costs. The employee transfer should minimize questions regarding AMS costs in the future. (Ameren Ex. 42.0 (Nelson Sur.), p. 14.) 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. (*Id.*)

2. Incentive Compensation Costs

Staff and AG take exception to the Proposed Order’s recommendation that the Ameren Illinois Utilities recover 50% of test year incentive compensation expense. (Staff BOE, pp. 36-43; AG BOE, pp. 4-7.) Staff asserts that because the impact of the changes to the 2008 incentive compensation plan will not be realized until 2009, this expense is not recoverable because the payouts will occur “beyond the 12 months after the filing of tariffs in these proceedings.” (Staff BOE, p. 36.) AG similarly argues that, by “including 50% of the incentive compensation expense in the revenue requirement, the Commission would, in effect, require ratepayers to pay for potential benefits that are not reflected in the test year.” (AG BOE, p. 4.) As previously shown (AIU Init. Br., pp. 154-63; AIU Reply Br., pp. 51-56), these arguments are incorrect and should be rejected.

First, the Ameren Illinois Utilities have demonstrated that payouts under the revised incentive compensation plan are directly tied to performance metrics that benefit ratepayers. (AIU Init. Br., pp. 155-57.) Neither Staff nor AG contests this conclusion.

Second, although the current incentive compensation plans have terms and conditions different than the plans in effect during the historic 2006 test year, the Ameren Illinois Utilities are seeking recovery of test year incentive compensation expense, not expense that will be incurred in 2009 under the 2008 plans. No adjustment to incentive compensation expense is being proposed outside the pro forma period. The terms of the 2008 modified plans are relevant only insofar as the modified plans specify the conditions under which incentive compensation payments will be made during the period in which rates established in this proceeding will be in effect. It is therefore appropriate to consider the terms of the modified plans, just as the Commission did in *Illinois-American Water Co.*, Docket 02-0690 (Final Order, pp. 17-19). (See AIU Init. Br., pp. 158-59; AIU Reply Br., pp. 53-56.) And, if the situation here were reversed –

that is, if the 2006 plans did *not* condition payouts on corporate earnings, but the Ameren Illinois Utilities proposed changes in 2008 to add a corporate earnings requirement to payouts that would be made in the rate effective period – it is doubtful that Staff or AG would take the position that the Commission should only consider the terms of the former plan and disregard the latter.

Third, Staff and AG fail to consider that the evidence in this proceeding actually supports a higher percentage recovery of incentive compensation expense than the 50% recommended in the Proposed Order. Ameren Exhibit 20.4, line 1 and line 7 both support a finding that the 84% of test-year incentive compensation charged to expense is performance-based. In addition, Ameren Exhibit 20.4, line 4 and line 10 both support a finding that 88% of test-year incentive compensation charged to capital is performance-based. The Commission would therefore be well within its authority to authorize recovery of at least 84% of incentive compensation expense and 88% of test-year incentive compensation charged to capital. The Proposed Order’s decision to allow recovery of 50% is more than supported and reasonable.

3. Rate Case Expense

a. Legal Fees

There is not one shred of evidence to support the claims in Staff’s proposed replacement language on this issue. Section 200.830 of the Commission’s Rules require that facts stated in briefs on exception “should be supported by citation to the record.” 83 Ill. Admin. Code 200.830(e). Staff does not, and cannot, offer one cite to the record in support of its proposed language. The proposed replacement language should be rejected for this reason alone.

Many of the (misleading and inaccurate) claims raised in Staff’s replacement language appeared for the first time in Staff’s Initial Brief – not in testimony, and not on the record – and were fully dispatched in the Ameren Illinois Utilities’ Reply Brief. (AIU Reply Br., pp. 57-61.) In short, the record shows that Staff has created an issue where there is none. The evidence in

this case shows that estimated and actual rate case expenses in this case are proving to be reasonable in comparison with actual and estimated costs in the previous rate case (which determined rates for only three test years, not six, as in this case). In fact, legal expenses for this rate case are running well over estimates, even though the Ameren Illinois Utilities have not requested any upward adjustment to the requested level of rate case expense. (Ameren Ex. 44.0 (Wichmann Sur.), pp. 12-13.)

In response to the Commission's directive in ICC Docket No. 06-0070-72 (cons.) (Final Order, pp. 50-51) the Ameren Illinois Utilities produced detailed rate case estimates in this case. Staff took no issue with these estimates in their direct case, presumably accepting those estimates as reasonable. (AIU Reply Br., pp. 60-61.) Staff waited until the filing of their rebuttal testimony to raise a claim of missing invoices, instead of properly raising the issue in discovery. (Ameren Ex. 44.0 (Wichmann Sur.), pp. 12-13.) The Ameren Illinois Utilities' responded by providing these invoices in redacted form – which has been acceptable to Staff in every prior Ameren Illinois Utilities' rate case – well in advance of hearing, contrary to Staff's misleading claims. (AIU Reply Br., p. 60.)

To attempt to resolve further discovery disputes with Staff, the Ameren Illinois Utilities further agreed to provide unredacted invoices to Staff, for this case only, and there is no record evidence suggesting that Staff did not have time to review them – in either redacted or unredacted form – to determine the reasonableness of an estimate. On the stand, Ms. Ebrey made no claim of an inability to review invoices, any specific problem with the invoices provided (other than vague “concerns”) or the reasonableness or prudence of estimate amounts. (Tr. 791-92 (Ebrey).) Ms. Ebrey made no claim that the record evidence showing invoiced legal fees of approximately \$670,000 through April 30, 2008 (Ameren Ex. 44.0 (Wichmann Sur.), pp.

12-13) was anything but accurate. (Tr. 791-92 (Ebrey).) Moreover, after an opportunity to consult with Ms. Ebrey prior to redirect, Staff Counsel declined the opportunity to ask any clarifying or additional questions. (Tr. 806 (Ebrey).)

Staff's proposed replacement language is thus not supported by the record and should be rejected.

b. Gannett Fleming Costs

Staff's proposed replacement language for this issue is also incorrect and has no record basis. Again, Staff offers no citation to the record to support its proposed language. As more fully discussed in briefing (AIU Init. Br., p. 165; AIU Reply Br., pp. 61-62), Staff's position on this issue ignored the Ameren Illinois Utilities' undisputed evidence of actual account invoice updates provided to Staff for March and April that include an additional \$25,000 in post filing support, as shown in the surrebuttal testimony of Mr. Wichmann. (Ameren Ex. 44.0 (Wichmann Sur.), pp. 10-11.) This is contrary to the Commission's directive in 06-0070-72 (cons.), for Staff to make "reasonable accommodations" in adjusting rate case estimates, taking into account the "changing nature" of a case of this size. Docket No. 06-0070 (cons.) Final Order, p. 51. Staff's proposed disallowance for post-filing support was originally based on Ms. Ebrey's speculation that the electric depreciation study may not be contested (Staff Ex. 1.0 (Ebrey Dir.), p. 16), which obviously did not turn out to be the case. Inexplicably, Staff's proposed replacement language claims that electric depreciation is *not* a contested issue in this case (Staff BOE p. 42), contrary to its own briefing on the issue (*see* Staff BOE, pp. 55-57). Staff offers no explanation regarding any of these discrepancies. Uncontested testimony shows that evidence of actual costs are tracking estimates, but Staff is simply choosing to ignore that evidence. (Ameren Ex. 44.0 (Wichmann Sur.), pp. 10-11.) Staff has made no claim that these costs are imprudent or unreasonable. The record supports the Proposed Order's findings and conclusion on this issue.

c. Energy Efficiency Witness

Staff offers no reason to alter the Proposed Order’s findings and conclusion allowing costs for the Ameren Illinois Utilities’ energy efficiency expert, Mr. Philip Hanser. (Staff BOE, pp. 42-43.) The Proposed Order’s statements on this issue (p. 108) are sound. As discussed in briefing (AIU Init. Br., pp. 165-66; AIU Reply Br., p. 62), Mr. Hanser’s testimony provided necessary information about the planned gas energy efficiency programs, placing the circumstances warranting the proposed Rider VBA in context. The Ameren Illinois Utilities’ direct testimony filing would have been deficient without it. Staff’s proposed replacement language is baseless and should be rejected.

4. Uncollectibles Expense

The Proposed Order adopted the proposal, supported by the Ameren Illinois Utilities, the AG, and CUB, to 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. (Proposed Order, p. 115; proposal discussed at AIU Init. Br., pp. 171-74; AIU Reply Br., pp. 65-66; Ameren Ex. 19.0 (Stafford Reb.), pp. 47-53; Ameren Ex. 43.0 (2nd Rev.) (Stafford Sur.), pp. 29, 33-34.) AG seeks to correct the Proposed Order’s statement on its position and clarification on the Commission’s Conclusion. Staff’s BOE also claims the Proposed Order has mistated its position and requests clarifying language and proposes a changed Commission Conclusion.

a. AG Issue

The Ameren Illinois Utilities do not disagree with idea behind the AG’s request for replacement language modifying its stated position and agree that the Proposed Order’s language requires clarification. However, the AG’s proposed replacement language still confuses the “Gross Revenue Conversion Factor” issue, by implying it is still contested. The issue was resolved in rebuttal testimony, as shown below. The Ameren Illinois Utilities support deletion of

the Proposed Order's page 115, paragraph 3, and rejection of the AG's proposed replacement language.

The position adopted by the Proposed Order reflected a compromise proposal by the Ameren Illinois Utilities in rebuttal testimony. (Ameren Ex. 19.0 (Stafford Reb.), pp. 47-53.) Ameren Ex. 19.4 reflects the Ameren Illinois Utilities' rebuttal proposal of a three-year average of 2005 through 2007 net write-offs divided by revenues, that was ultimately supported by AG and CUB. Ameren Ex. 19.4 reflects the appropriate numbers that the Ameren Illinois Utilities believe the Proposed Order has adopted, and which should be adopted by the Commission in these proceedings.

In rebuttal, Ameren Illinois Utilities' witness Mr. Stafford summarized the direct testimony positions of Staff and AG/CUB on this issue, as described below:

Ms. Ebrey recommends a four-year average of 2003-2006 net write-offs divided by total electric and gas revenues to determine the write-off percentage. The resulting net write-off percentage was then multiplied by total electric delivery service revenues and by total gas revenues to calculate uncollectible expense at present rates for the Ameren Illinois Electric Utilities and Ameren Illinois Gas Utilities, respectively.

Mr. Effron recommends using a three-year average of 2005-2007 net write-offs divided by revenues to determine the write-off percentage. Mr. Effron's calculation of revenues is net of add-on taxes revenues and other operating revenues. The resulting net write-off percentage was then multiplied by electric delivery service revenues and by gas revenues net of add-on taxes revenues and other operating revenues to calculate uncollectible expense at present rates for the Ameren Illinois Electric Utilities and Ameren Illinois Gas Utilities, respectively.

These net write-off percentages are also used to derive the uncollectibles gross up factor in the calculation of additional uncollectibles at proposed rates.

(Ameren Ex. 19.0 (Stafford Reb.), pp. 47-48.)

Mr. Stafford went on to state that there were merits to both proposals, and offered a compromise approach incorporating features of both positions, including AG/CUB's proposed "Gross Revenue Conversion Factor" adjustment, as described below:

Both proposals have some merit. Therefore, I have adopted some features of both, with my recommendation more closely aligning with that of the AG based upon a three-year average of 2005-2007 net write-offs to revenues for both the Ameren Illinois Gas Utilities and Ameren Illinois Electric Utilities.

AG/CUB's adjustment is reflected in Ameren Ex. 19.4, with corrections (which were not disputed) to Mr. Effron's calculations (as described in Ameren Ex. 19.0 (Stafford Reb.), p. 53).

Thus, the Proposed Order incorrectly identified the Gross Revenue Conversion Factor as a contested issue, and we agree that this error should be corrected. However, AG's proposed replacement language (AG BOE, p. 9) is also misleading, in that it also does not recognize the resolution of this issue. Further, the expense rates noted by the AG in briefing (AG BOE, p. 8 (citing AG/CUB Ex. 1.1, Sch. DJE-2)) are not correct, as they have been corrected and replaced by the rates shown in Ameren Ex. 19.4. AG/CUB witness Mr. Effron agreed with Mr. Stafford's corrections (reflected in Ameren Ex. 19.4) and compromise proposal in rebuttal testimony. (AG/CUB Ex. 4.0 (Effron Reb.), p. 7.)

For all of the above reasons, the Ameren Illinois Utilities propose deletion of Paragraph 3 on Page 115 of the Proposed Order, and disagree with adoption of the AG's proposed replacement language.

b. Staff Issue #1

Staff first takes issue with the Proposed Order's alleged inaccurate reflection of Staff's position, and its rejection of Staff's proposal to modify the 2007 electric revenues for credits and refunds made to customers as a result of the Rate Relief Act (Staff BOE, pp. 43-46.)

As fully discussed in briefing (AIU Reply Br., p. 66), Staff does not, and cannot, dispute Mr. Stafford's testimony that the proposed Rate Relief Act adjustment is fatally flawed. (AIU Init. Br., pp. 172-174; Ameren Ex. 43.0 (2nd Rev.) (Stafford Sur.), pp. 30-34.) Specifically, 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. 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. (*Id.*)

In briefing, Staff did not respond to any of the above facts, but inexplicably cited as the basis for its modification to 2007 revenues language from an order in a backbilling complaint case against Peoples' Gas. (Staff Init. Br., p. 168.⁴) Therein, the Commission expressed concern that actions taken in that specific complaint case might shift the recovery of charges from the particular customer involved in that case to customers in general in Peoples' next rate proceeding. Staff continues to cite to this Order in its BOE (p. 44), and still completely fails to explain how that order is relevant to the instant rate proceedings or provide any basis why the Commission should adopt Staff's adjustment to 2007 revenues. As the Ameren Illinois Utilities noted in briefing, no such explanation is possible. Accordingly, the Commission should continue to reject Staff's proposed adjustment and replacement language.

c. Staff Issue #2

⁴ Staff's reply argument made unrelated claims, but was similarly difficult to understand. (Staff Reply Br., p. 77.)

Staff also takes exception to the Proposed Order's rejection of the Ameren Illinois Utilities' proposal to determine the uncollectible percentage for each utility using a three-year average of 2005-2007 net write-offs divided by revenues. Staff now agrees that there is an upward trend in uncollectibles in recent years – contrary to its briefing argument that uncollectibles have fluctuated (Staff Init. Br., p. 167) – but now claims that the evidence does not show that the trend will continue into the future. (Staff BOE, p. 45.) Staff is wrong. The data presented by Mr. Stafford conclusively demonstrates that the level of write-offs has been continuing on an upward trend since 2003. (AIU Br., pp. 171-172; AIU Reply, p. 65.) For each of the Ameren Electric Utilities, net write-offs were highest in 2007. (*Id.*; Ameren Ex. 43.0 (2nd Rev.) (Stafford Sur.), pp. 28-34.) 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 in 2006 and the lowest in 2003, thus, the most weight should be placed on the most recent data. There is no evidence that 2003 data is indicative of recent or expected levels of net write-offs, or that 2003 data should otherwise be included in the calculation of uncollectible percentage. Accordingly, the Commission should 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, consistent with the Proposed Order.

d. Staff Issue #3

Finally, Staff notes an error in the Appendices to the Proposed Order with regard to the appropriate calculate of uncollectibles expense. The Ameren Illinois Utilities agree with Staff, and noted this same error at Section VI, subpart D, on page 37 of the Ameren Illinois Utilities' Brief on Exceptions. In addition to this error, Section VI (pp. 34-40 of AIU Initial BOE) notes a number of other calculation errors and clarifications that need to be made to the Proposed Order.

5. Injuries and Damages Expense – IP

Staff’s BOE continues to support its flawed, subjective, “hybrid normalization” approach, which the Proposed Order correctly rejected (page 117). With no citation to record, Staff newly submits an unsupported argument that 2005 costs should not be eliminated from the Proposed Order’s average because “other [not unusually high] costs that were incurred in 2005 were of a *more normal* nature.” (Staff BOE, p. 46 (emphasis added).) Whatever Staff means by this, it has no basis in fact.

Moreover, Staff continues to cite no Commission precedent or plausible rationale to support adoption of its flawed approach. As more fully discussed in briefing (AIU Init. Br., pp. 174-76; AIU Reply Br., pp. 66-67), Staff’s unprecedented approach overcorrects for “outlier” expenses, by both subjectively removing certain costs deemed “unusual” *and* averaging over time. This defeats the point of an average and does not result in an accurate “normal” calculation. Throughout this case, Staff has failed to provide a response to this obvious flaw. The Proposed Order presents a sound, well-reasoned normalization approach and its language on this issue should be adopted.

6. Energy Toolkit

The Proposed Order’s decision to allow the Ameren Illinois Utilities to recover their reasonable and prudently incurred (as well as “relatively modest”) costs related to the Energy Toolkit (p. 119) is based on the record evidence, not on “public relations spin,” as Staff claims (Staff BOE, pp. 47-48). Staff repeats its unsupported claim that the Energy Toolkit duplicates other tools that are already available to customers. This claim has been conclusively refuted, as explained again and again, in testimony, briefing (AIU Init. Br., pp. 176-80; AIU Reply Br., pp. 67-68) and at hearing. (Tr. 944-54 (Martin).) Staff’s arguments fail to acknowledge the overwhelming evidence supporting the unique and valuable functionality of the Energy Toolkit

program. The Proposed Order’s opinion on this issue is well-reasoned and correct, and should be adopted.

7. Collateral and Prepayments

Staff proposes that the language in the Proposed Order which finds that Staff’s arguments are “somewhat confusing and contradictory” be replaced with language finding that Staff’s arguments are “compelling.” The problem is that Staff again contradicts itself. It opposes the recovery of prepayments and collateral postings in base rates, then argues that prepayments are already reflected in base rates because they are in rate base. On the whole, Staff seems to be saying that prepayments should be recovered through base rates, but only as a part of the cost of gas in rate base. Staff states that it is a “fact” that those costs are in base rates (Staff BOE, p. 51), but does not cite to any record evidence showing to what extent that might be true. The cost of gas in rate base does not include recovery of the Ameren Illinois Utilities requirement to prepay such costs. As such, it is appropriate for the Ameren Illinois Utilities to recover such costs in base rates consistent with the conclusion found in the Proposed Order.

Staff also argues that the cost of gas collateral postings be recovered through the PGA. The reason for Staff’s shift is, apparently, its view that if the cost of these items is reduced between rate cases, that change will not be reflected in rates. That, of course, is equally true of every other base rate item, whether it be expense, capital or cost of capital. If those items go up or down, rates do not change. For that, we have only the pro forma adjustment rule to reflect changes that are reasonably certain to occur within a specified time. No change to these items is reasonably certain to occur within that time period, and there is no reason to believe, based on record evidence or otherwise, that some significant over-recovery is going to occur. Accordingly as fully addressed in briefing (AIU Init. Br., pp. 180-85; AIU Reply Br., pp. 68-69), Staff’s position should be rejected.

8. Reliability Initiatives

Staff does not take exception to the Proposed Order’s findings and conclusion regarding reliability initiatives, but proposes additional language that would have the Commission conclude that (1) budgets are sufficient evidence of pro forma changes to test-year costs, (2) but only if “the budgeted amount has withstood analysis by the parties.” (Staff BOE, p. 53.) This argument has no basis in logic and common sense, much less the law. The Commission, not the parties, has the final say on whether a budgeted amount withstands analysis. Staff cites no legal authority or precedent for the idea that evidence is not “adequate” unless a party can convince opposing parties it is adequate – and it is safe to say that such authority does not exist. Staff’s proposed language is baseless and should be rejected.

9. Public Utility Fund Base Maintenance Contribution

Staff takes exception to the Proposed Order’s conclusion that the Ameren Illinois Utilities should recover PUF BMC expense. Staff’s resistance to allowing recovery of this expense in rates is difficult to fathom. Staff is correct that the legislation requiring the Ameren Illinois Utilities to make the annual PUF BMC is scheduled to expire at the end of 2008. It is also the case that legislation is currently pending the General Assembly that would extend Section 2-203 beyond 2008. The issue basically hinges on the likelihood of passage of legislation that would extend the period in which PUC BMF contributions are payable. Although not stated expressly in the Proposed Order, by allowing this expense, the Proposed Order presumes that it is more likely than not that Section 2-203 will be extended. This is a reasonable conclusion.

Staff asserts that to allow recovery of PUF BMC contributions would encourage utilities to “propose the Commission act contrary to the existing law because of a bill which may or may not be passed by the Illinois Legislature.” (Staff BOE, p. 54.) This argument is a red herring. The AIU are not asking the Commission to “act contrary to the existing law.” Existing law

provides that the AIU should recover their prudent and necessary operating expenses. 220 ILCS 5/1-102(a)(iv); 220 ILCS 5/16- 108(c); *Citizens Utility Bd. v. Illinois Commerce Comm’n*, 166 Ill. 2d 111, 121 (1995) (“In setting rates, the Commission must determine that the rates accurately reflect the cost of service delivery and must allow the utility to recover costs prudently and reasonably incurred.”). By allowing recovery, the Proposed Order finds that PUF BMC is a prudent and necessary expense. The Commission would not act outside the authority of existing law by authorizing recovery of this expense.

Staff also claims that the prohibition against single-issue ratemaking does not apply in rate cases. (Staff BOE, pp. 54-55.) Staff has it backwards. The Commission has recognized the Illinois Supreme Court’s mandate that “single-issue ratemaking is to be considered in the context of a traditional rate case.” ICC Docket 99-0013, Oct. 4, 2000 Order, p. 25 (citing *Citizens Utility Board v. ICC*, 166 Ill. 2d 111, 138 (1995) (explaining previously stated principles regarding single-issue ratemaking “do not apply except in the context of a complete base rate proceeding”). Staff is proposing an adjustment based on factors outside both the test year and the pro forma adjustment period. The adjustment relates to a single expense item. The adjustment does not consider other factors that may cause operating income to increase or decrease after 2008. That is the very definition of single issue ratemaking. (*Id.*)

10. Depreciation Life for Electric Distribution Equipment

Staff takes exception with the Proposed Order’s determination that it is not appropriate to adopt uniform service lives at this time. (Staff BOE, pp. 55–57 (citing Proposed Order, p. 132).) According to Staff, “the service life of equipment at each utility will depend more upon the

inspection and maintenance practices now in place than on the existing age of the equipment in the field.” (*Id.*, pp. 55–56.)⁵

Staff offers no good reason to reconsider the treatment of this issue contained in the Proposed Order. To begin with, at no point has Staff put forth a specific proposal regarding what service lives should be assigned to what accounts and why. This lack of specificity, clarity, and record support is reason enough to reject the recommendation.

And in any event, Staff has not justified such a proposal. It recognizes that “predicting” service lives “with total accuracy” is no simple task, and it appears also to agree that reliance on “just one piece of information” is therefore problematic. (*Id.*, p. 56.) Nevertheless, Staff insists that “[s]ince installation, inspection, and maintenance practices are also equivalent [as is the weather], there is no reason” for different service lives. (*Id.*)

On the contrary, and as fully addressed in the utilities’ briefs, there are compelling reasons for different service lives. Staff’s recommendation, with virtually no record support of its own, does not account for the evidence that *is* in the record: Mr. Wiedmayer, who performed the service-life studies, testified that the distribution accounts in question do not contain plant of the same vintage, type, or condition. (Ameren Ex. 24.0 (Wiedmayer Reb.), p. 4.) Indeed, the evidence showed that with respect to one plant account (meters) less than 12 percent of the depreciable plant balance for meters was installed since 2005. (*Id.*; *see generally* Ameren Ex. 24.311.)

Mr. Rockrohr’s own direct testimony confirms the point. There, he recognized that his position made sense only “[i]f, looking forward, the same equipment is . . . installed and maintained in an identical manner at each of the Ameren Illinois Utilities.” (Staff Ex. 10.0,

⁵ The only evidentiary support for this statement is that it is Mr. Rockrohr’s “opinion.” (*See* Staff Br., p. 180.) His opinion is simply that, and is unsupported by any studies or other information.

Rockrohr Dir., p. 15 (emphasis added).) At present, as the evidence shows, the “same equipment” is *not* “installed in an identical manner” at each utility, which confirms that Staff’s recommendation is inappropriate at this time.

As stated before, while Staff’s underlying point is not without merit and will be considered going forward, the present diversity on the utilities’ systems does not justify the homogenization proposed by Staff. Staff’s proposed amendments to the Order should not be accepted.

a. Net Salvage Method for Depreciation

IIEC takes exception with the Proposed Order’s rejection of IIEC’s recommendation to depart from the traditional, accrual method of accounting for net salvage and recognize only each company’s most recent five-year net-salvage experience. (IIEC BOE, pp. 2–4.) IIEC’s brief on exceptions does not address substantive issues and only briefly restates its position, a position the utilities have already fully rebutted in their prior briefing and need not repeat here. (*See* AIU Init. Br., pp. 193–202; AIU Reply, pp. 72–78.) Instead of raising substantive questions, IIEC fires a salvo of procedural attacks. None hits the mark.

b. The Proposed Order Did Not Fail to Make Any Necessary Factual Finding.

First, IIEC asserts that the Proposed Order “does not articulate any substantive factual basis for its recommendation.” (IIEC BOE, p. 3 (emphasis in original).)

IIEC does not specify what “factual” findings the Order should have made, likely because there are no factual disputes between the parties. This reflects the fundamental problem with IIEC’s argument on this score: The appropriate regulatory treatment of net salvage is not a

question of fact, it is a question of regulatory policy for the Commission.⁶ This is highlighted by IIEC’s own direct case, which exclusively relies on expert testimony and continuously appealed to ratemaking principles, decisions from other Commissions, accounting standards, and depreciation treatises. The Ameren Illinois Utilities are not suggesting there is anything inappropriate about relying on expert testimony or appealing to such authorities—the utilities, of course, relied on such sources as well, albeit to a different end. The salient point is that IIEC’s approach to this case demonstrates that the issues at stake are regulatory issues, not factual ones. This argument is a red herring.

c. The Ameren Illinois Utilities Offered Abundant Evidence and Arguments to Rebut IIEC’s Proposal.

Second, IIEC claims the utilities have not “offered sufficient evidence and argument to rebut the basis for [IIEC’s proposed] adjustments.” (*Id.* (internal quotation marks omitted).)

This sufficiency-of-the-evidence argument is based on outright fantasy. Citing two pages of the Companies’ Initial Brief, IIEC claims the utilities’ “principal rebuttal” is “simply an observation that Mr. Selecky’s proposed modification of the net salvage cost determination is different from the Company’s current net salvage cost determination.” (*Id.*) This statement calls into question whether IIEC has examined the briefs or record in this case. The utilities introduced three rounds of testimony by their depreciation expert John Wiedmayer, including rebuttal and surrebuttal testimony, and presented numerous arguments, both affirmative and to rebut, in multiple rounds of briefing. (*See* Ameren Ex. 4.0E, 4.1E (Wiedmayer Dir.); Ameren Ex. 24.0 (Wiedmayer Reb.); Ameren Ex. 48.0 (Wiedmayer Sur.); AIU Init. Br., pp. 193-202; AIU Reply, pp. 72-78.) Suffice it to note these documents did more than observe Mr. Selecky’s proposal “is different from the Company’s.” IIEC need not agree with the substantive arguments

⁶ This is not to say that there can never be a factual question relevant to the treatment of net salvage, just that no such questions have been raised here.

advanced by the Ameren Illinois Utilities, but it should at least acknowledge the arguments were made.

d. The Proposed Order Thoroughly and Expressly Considered the Arguments Raised by the Parties.

Third, IIEC attacks the sufficiency of the Proposed Order’s consideration of its position. According to IIEC, the Proposed Order did not “consider[] or analy[ze]” IIEC’s position that the “incorporation of past levels of inflation in [the utilities’] depreciation rates is in error.” (IIEC BOE, p. 4.) But the Proposed Order expressly considered this position at page 134: “IIEC contends that there is no dispute that inflation, which is at the core of IIEC’s challenge to AIU’s calculated depreciation rates, is a component of the net salvage estimates AIU has built into its proposed depreciation rates.” Likewise, IIEC complains the Proposed Order did not consider “that AIU’s use of uniform nominal dollar amounts . . . requires future customers to pay less in real dollar terms than current customers.” (IIEC BOE, p. 4.) Again, the Proposed Order *did* consider this argument, again at page 134: “IIEC insists that because the calculation uses nominal dollar amounts, net salvage cost is expressed in current dollars . . . [which] means that customers today will pay the same number of dollars as customers 30 to 40 years in the future, notwithstanding the difference in real purchasing values of those nominal dollars.” These arguments were clearly considered.

e. The Proposed Order Sufficiently Explained the Decision on this Issue.

Finally, IIEC attacks the sufficiency of the Proposed Order’s explanation, stating that the Proposed Order rejected IIEC’s arguments “*merely* because [the utilities’] method ‘has been accepted, deemed appropriate for years.’” (IIEC BOE, p. 4 (citing Proposed Order, p. 135) (emphasis added).) Again, IIEC’s resorts to a straw man.

The Proposed Order does not “merely” and unthinkingly march lockstep with prior precedent. On the contrary, the Order set forth and summarized the numerous arguments raised on the issue by each party and then homed in on the fundamental reason to adopt the utilities’ position and reject IIEC’s: the matching principle. As the Order stated, the method used in the past by the Commission and adopted here “allocat[es] the [salvage-related] cost to each year of the assets’ service life rather than when the actual salvage-related costs are incurred.” (Proposed Order, p. 135.) Thus, the customer that uses a particular asset pays his portion of the costs related to that asset. The Order identified the critical point, identified the evidence supporting that point, and that is sufficient for the Order to stand.

For these reasons, IIEC’s exceptions are without merit, and its proposed modifications should be rejected.

16. Gas Accounts 920-923

AG’s proposed replacement language and arguments on this issue are misleading and arrive at the wrong conclusion. (AG BOE, pp. 10-11.) AG continues to support its unfounded adjustment to AmerenIP’s test-year A&G expenses that were charged to Accounts 920 through 923. (AG/CUB Ex. 1.0 (Effron Dir.), p. 22.) As noted in the Ameren Illinois Utilities’ Initial Brief (pp. 238-40), this adjustment is based solely on AG/CUB witness David Effron’s incorrect premise that AmerenIP’s requested level of A&G expenses has “increased” 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. As shown in briefing (AIU Init. Br., pp. 238-40; AIU Reply Br., pp. 98-100) and in the testimony of Michael Adams, this adjustment methodology is fatally flawed because it

- Bases the level of A&G expenses on the disallowance of over \$50 million of A&G expenses in 06-0070-72 (cons.), which used a 2004 test year. Test-year

2006 A&G expenses have been fully supported by a detailed AMS cost study in this case, as the Proposed Order recognizes.

- Compares Mr. Effron’s conclusions with inflation rates. The Commission has rejected the notion that inflation between rate cases is a better indication of test year expenses than the actual costs themselves. *See, e.g.*, ICC Docket No. 05-0597; see also 83 Ill. Admin. Code 287.40.
- Does not fully take into account the effect of the merger when comparing test-year expense calculations. Mr. Adams testified that the comparison of the level of expenses between 2004 and 2006 for AmerenIP produces specious results because, in 2004, AmerenIP received no allocated A&G costs from either its former owner or from AMS. (Ameren Ex. 21.0 (Adams Reb.), p. 86.) Therefore, the true cost of services provided is not reflected in the 2004 expense levels. Mr. Effron’s adjustment fails to reflect the decrease in Account 926 which more than offsets the increase in Account 920 which Mr. Effron inappropriately attempts to eliminate. (*Id.*, p. 90.)

The Proposed Order thus correctly concluded that the AG’s proposed adjustment should be rejected (Proposed Order, p. 152.) The AG’s proposed replacement language is not supported and should be rejected as well.

VI. COST OF CAPITAL/RATE OF RETURN

B. Capital Structure

4. Short-Term Debt Balances

The Proposed Order properly deducts cash balances at the utilities from short-term debt balances in determining the capital structure. The Ameren Illinois Utilities explained, and the Proposed Order correctly concluded, that the Ameren Illinois Utilities were carrying abnormally

large short term debt balances due to their weakened financial condition. Deducting cash from short term debt removes the effect of the cash balances from the ratemaking process, so as not to over- or under-compensate the utility for its cash holdings.

Staff argued against this adjustment throughout the case, contending that cash could not be tied to short term debt. As we showed, the effect of the Staff's position was to assume that the cost of the funds, which were earning money market rates, was the Company's overall cost of capital: more than three times what the funds were earning. Deduction of cash from the short term debt balance would assign a cost to the funds closer to what the funds were earning.

Apparently recognizing the weakness of its earlier arguments, Staff now largely abandons them in favor of arguments that it began developing for the first time in its reply brief, filed some eight months after the AIU proposed their adjustment. The first is that we are now seeking "double recovery" of collateral; the second is that the need for cash was due to our own affiliates' actions. Neither of these new arguments – never raised at the testimony stage and thus never explored or supported in evidence – is remotely valid.

The Companies' request for recovery of collateral costs does not seek any double recovery. The cash balances here are funds we need to keep on hand because we lack access to credit markets – we cannot get commercial paper. Thus, we need ready funds, and we keep them in liquid money market funds. These are different from collateral postings. Cash collateral is posted by wiring funds directly into counterparties' bank accounts and thus is not available cash to the AIUs and is not reflected in the AIUs' cash balances. Had the Staff raised this argument during the evidentiary phase below, we would have been happy to explain it in our evidence.

Second, the Staff's contention that we need to keep funds on hand because our affiliates cut us off is completely disingenuous, for two reasons. Our affiliates do not have some special

obligation to loan us money when no one else will. There is no “throw good money after bad” obligation in the Public Utilities Act for affiliates. Like any other lenders, they can decide that enough is enough when the utilities’ financial condition is weak. Also, when our affiliates stopped lending, they were merely doing what the rest of the market was doing – cutting us off. Our affiliates cannot be the problem. If they unreasonably cut us off, then we could have gone to the market for funds – except that no one would lend to us. Hence, the problem was exactly what we said it was: a weakened financial condition due to downgrades.

Staff does recycle its arguments that there was no excess in cash balances, and that we use the wrong measurement period. This is just not so, as we showed in detail in our Initial Brief and Reply Brief.

Accordingly, there is no basis for Staff’s complaints and they should be rejected.

E. Cost of Common Equity

IIEC and CUB challenge the Proposed Order’s conclusions on cost of equity. The Ameren Illinois Utilities have fully addressed these arguments in their Initial and Reply Briefs, and no additional comment is required here.

Staff also challenges the cost of equity calculation. Since we accepted Staff’s calculation below, we have no response.

VII. PROPOSED RIDERS

A. Rider VBA

In light of the opposition expressed by Staff and the AG to the ALJPO’s provisions directing the establishment of a rate design with assignment of 80% fixed costs to the Customer Charges for rate classifications GDS-1 and GDS-2, a brief overview of the respective positions and alternatives presented to the Commission is articulated below. The overview is provided in

order to give context to the response of the Ameren Illinois Utilities to the specific arguments asserted by Staff and the AG.

1. Overview

In these consolidated dockets the Ameren Illinois Utilities request approval for full decoupling of rates from usage for certain customer classifications having volumetric rate components for natural gas delivery service (customers in rate classifications GDS-1 and GDS-2). Decoupling is an important policy initiative intended to eliminate disincentives associated with rate designs inclusive of volumetric components and, in doing so, also pave the way for reductions in natural gas consumption through utility administered energy efficiency programs. By removing arbitrary throughput incentives from rates, utilities may participate, administer, and assist in financing energy efficiency programs without compromising their opportunity to fully recover the costs of providing utility service. (*See* AmerenCILCO Ex. 2.0G, AmerenCIPS Ex. 2.0G, AmerenIP Ex. 2.0G (Nelson Dir.) pp. 19-26.)

In the direct testimonies of Craig Nelson and Wilbon Cooper, the Ameren Illinois Utilities recommended a rate design vehicle to accomplish decoupling intended to function identically to the Rider VBA approved for use by Peoples' Gas, Light, and Coke Company and North Shore Gas Company (Peoples / North Shore) in Docket Nos. 07-0241 and 07-0242 (cons). (AmerenCILCO Ex. 2.0G, AmerenCIPS Ex. 2.0G, AmerenIP Ex. 2.0G (Nelson Dir.), pp. 23-26; AmerenCILCO Ex. 9.0G, AmerenCIPS Ex. 9.0G, AmerenIP Ex. 9.0G (Cooper Dir.), pp. 2-6.)

As an alternative to Rider VBA, testimony was presented supporting the implementation of a fixed charge rate design to effectuate decoupling of rates from usage. (AmerenCILCO Ex. 2.0G, AmerenCIPS Ex. 2.0G, AmerenIP Ex. 2.0G (Nelson Dir.), pp. 25-26.) Staff provided additional testimony on the subject. (Staff Ex. 7.0 (Harden Dir.), p. 13.)

In response to Staff's argument in brief that duplication of the Peoples / North Shore Rider VBA pilot was not desirable, the Ameren Illinois Utilities disagreed and stated that if the Commission were interested in evaluating a different model of decoupling, it should consider implementing decoupling using a fixed charge approach. (Staff Br., p. 251; AIU Reply Br., p. 111.)

The ALJPO accepts Staff's argument that duplication of the Peoples / North Shore Rider VBA would be undesirable, and in turn adopts a rate design based on the Ameren Illinois Utilities alternative approach. However, the Proposed Order established a percentage limitation on the amount of fixed costs to be recovered via the Customer Charge – 80% of allocable fixed costs.

The Ameren Illinois Utilities reiterate their acceptance of this compromise position. While the ALJPO does not completely decouple rates as originally sought, it provides for sufficient fixed cost recovery for the Ameren Illinois Utilities to continue to pursue natural gas energy efficiency programs. Fixed cost recovery through the Customer Charge below the 80% level will likely fail to mitigate disincentives to sufficiently decouple rates from usage.

Additionally, we have identified an unintended consequence associated with the ALJs compromise and other provisions of the Proposed Order. Due to the Staff's recommendation that we retain separate Customer Charge values for AmerenCIPS and AmerenCIPS-ME rate areas, we accepted the continued divergence of Customer Charges in these service territories despite the fact that both service territories are now operated jointly under common AmerenCIPS ownership. (Ameren Ex. 51.0 (Warwick Sur.), pp. 4-5.) For AmerenCIPS-ME residential customers under the ALJs' compromise, the Customer Charge would be \$22.01, which is about \$4 higher than customers would pay in the AmerenCIPS rate area.

If the Commission finds this differential undesirable, it can be mitigated by merging Customer Charges for AmerenCIPS and AmerenCIPS-ME. The result would reduce AmerenCIPS-ME Customer Charges for residential customers from \$22.01 to \$18.43. Likewise, volumetric charges would be merged as well. Testimony entered into the record also supports this resolution if the Commission is so inclined. (*See AmerenCILCO Ex. 12.0G, AmerenCIPS Ex. 12.0G, AmerenIP Ex. 12.0G (Warwick Dir.), p. 7; Ameren Ex. 51.0 (Warwick Sur.), pp. 4-5.*)

Without this combination, we believe the preferred approach to decoupling would be the adoption of the Rider VBA, because its implementation would allow retention of traditional rate design components on the bill at present ratios, with a uniform increase to the Customer Charge and volumetric rates. Additionally, it maintains greater seasonal variation of delivery service rates, something that residential and small commercial customers have grown accustomed to.

Furthermore, we continue to believe that the Commission would be benefited by implementing the Rider VBA in service territories outside of the Chicago area and give the Commission a diversity of data to analyze for different utilities and different utility service territories in its evaluation of Rider VBA.

We additionally want to make clear that if the Rider VBA is ultimately approved, the previous modifications proposed by Staff to incorporate non-test year customer count variables into the equation should not be adopted. By requiring the Ameren Illinois Utilities to incorporate non-test year customer count data, the Commission would not only expand decoupling into broader formulaic ratemaking, it would undoubtedly lead to single issue and confiscatory ratemaking as the Ameren Illinois Utilities would be required to reduce rates as new customers are added to the gas delivery system without the reciprocal opportunity to recover the costs

associated with load growth.⁷ (*See* AIU Init. Br., pp. 281-285, Reply Br., pp. 108-10.) Finally, the VBA tariffs approved in Docket Nos. 07-0241 and 07-0242 did not incorporate the non-test year customer count adjustments previously proposed by Staff for the Ameren Illinois Utilities.

2. Response to Staff

In testimony, Staff recommended modifications and points of analysis to Rider VBA mechanics that it believed were needed to assist the Commission with evaluation of the rider. (Staff Ex. 1.0 (Ebrey Dir.) pp. 35-48.) In its brief, Staff supported Rider VBA approval only with certain modifications and stated that it had made no policy recommendations regarding the approval of Rider VBA. (Staff Br., p. 249.) The Ameren Illinois Utilities accepted those modifications with the exception of legally problematic modifications that essentially would work to ratchet rates up or down for customers as load growth or reductions occurred. (AIU Init. Br., pp. 281-84.) In reply, Staff changed its position to outright opposition of Rider VBA approval in these consolidated dockets and continues to advance this position in its brief on exceptions. (Staff Reply Br., p. 120; Staff BOE, pp. 103-104.)

In its brief on exceptions, Staff characterizes the ALJPO's recommended alternative to adoption of Rider VBA as "ill-considered," and asserts three main arguments supporting its position:

1. Although the evidentiary record contains discussion of a fixed charge rate design, Staff argues such discussion did not constitute sufficient evidence.
2. The ALJPO's increase in Customer Charges is at odds with Staff's concept of what an "across the board" rate design should accomplish.

⁷ There also exists the potential converse problem of an increase in rates if customer counts decrease without regard to cost savings associated with load contraction.

3. Staff argues it is bad public policy to eliminate the punitive effects that a relatively higher volumetric charge has on customers who fail to take conservation measures.

(Staff BOE, pp. 98-104.)

a. The Record Contains Sufficient Evidentiary Support to Sustain the Proposed Order’s Proposal

The evidentiary record contains sufficient evidentiary basis to sustain the ALJPO’s ruling regarding increased Customer Charges. Staff’s claims to the contrary are puzzling given that several witnesses including Staff witness Cheri Harden provided testimony and data on the subject. (Staff Br., p. 101; Staff Ex. 7.0 (Harden Dir.), p. 13, attachment “PL 3.01.”) The Ameren Illinois Utilities did provide testimony of a fixed charge rate design as an alternative to Rider VBA in its direct. (AmerenCILCO Ex. 2.0G, AmerenCIPS Ex. 2.0G, AmerenIP Ex. 2.0G (Nelson Dir.), pp. 25-26.) Moreover, there was discussion of a fixed charge rate design during cross examination at hearing. Ameren Illinois Utilities witness Cooper discussed the fixed charge approach in response to questioning by the counsel for the AG, and Mr. Cooper explained how this approach has been advanced. (Tr. 502-3.) The record also contains support for establishing the level of allocable fixed costs by utility. (Ameren Ex. 25.0 (Cooper Reb.), p. 3; Ameren Ex. 25.1.)

Moreover, both the Rider VBA and fixed charge approach are both rate design mechanisms designed to achieve the same end - decoupling. The aggregate effect on the customers and the utility pursuant to either approach would be substantially the same. However, Rider VBA would require more active administration each month. Most customers would probably be indifferent to either approach, with smaller users maybe preferring Rider VBA while larger users preferring the higher fixed (*i.e.*, customer) charge approach. No party would argue

there has not been ample debate regarding decoupling in this docket. Witnesses for the AG (Brosch), and the Ameren Illinois Utilities (Nelson) provided testimony applicable to the merits of decoupling. (*See* AG Ex. 2.0 (Brosch Dir.), pp. 31-50; AmerenCILCO Ex. 2.0G, AmerenCIPS Ex. 2.0G, AmerenIP Ex. 2.0G (Nelson Dir.), pp. 19-26.) Furthermore, the Commission and parties are no doubt familiar with the ongoing policy debate on this issue. It simply cannot be said the decoupling issue has not been thoroughly vetted in this docket, other dockets, and public policy forums generally.

The Ameren Illinois Utilities disagree with Staff's characterization of the increase in Customer Charges provided for in the ALJPO as "radical." The assignment of costs for the affected classes are not altered as a result of the ALJPO's shift of fixed cost recovery to the Customer Charge. The increase in the Customer Charge will be offset by a decrease to the volumetric charges for effected customer classes. For the typical usage customer, assuming minimal deviation from normalized weather, the effect of the ALJPO will simply be to move dollars from one line item to the other.

Even examining the increased Customer Charges in isolation indicates such increases are not as dramatic as Staff suggests.

Residential Customer Charges – Present and Various Proposals

	AmerenIP	AmerenCILCO	AmerenCIPS	AmerenCIPS-ME
Filed Position (with Rider VBA)	\$15.00	\$15.00	\$15.00	\$15.00
Fixed charge rate design**	\$27.61*	\$22.14*	\$25.41*	\$25.41*
Rider VBA + Across the Board all rate elements	\$13.33	\$10.49	\$11.75	\$16.78
ALJPO	\$19.70	\$16.54	\$18.03	\$22.01
ALJPO + CIPS/CIPS-ME rate merger	\$19.70	\$16.54	\$18.43	\$18.43

*Fixed charge based on assumption of 100% recovery of originally filed position

**See Staff Exhibit 7.0 (Harden Dir.), p. 13, attachment “PL 3.01”

As demonstrated in the chart above, if the ALJPO position is adopted, the Customer Charge for residential customers at all three Ameren Illinois Utilities will remain below \$20 assuming the AmerenCIPS and AmerenCIPS-ME rates are merged.

Though the increase in Customer Charges pursuant to the ALJPO may be noticeable, the characterization of the changes as “radical” is unsupported, especially considering volumetric charges will move lower.

b. An Increased Customer Charge is Not at Odds with an Across the Board Rate Design

The main thrust of the of the “Across the Board” rate design is a uniform increase across all rate classes, (*i.e.*, residential, general service, large volume customers, etc.). The principle purpose is to avoid interclass assignment of costs that could magnify an overall increase in rates for one particular customer class. (AmerenCILCO Ex. 12.0G, AmerenCIPS Ex. 12.0G, AmerenIP Ex. 12.0G (Warwick Dir.), pp. 5-6.)

In this case Staff sought to expand the across the board approach beyond the overall costs assignment in the approved rate design, but also to uniformly increase all rate components by the

same percentage. (Staff Ex. 7.0 (Hardin Dir.), pp. 7-8.) The Ameren Illinois Utilities have largely accepted this approach where it does not conflict with other important policy considerations. In regard to this issue, we do not believe it would be justified to abandon the important policy initiative of decoupling in order to retain all historic rate elements and weight the increases to those elements at exactly the same percentage. Simply stated, the Commission can approve both an across the board rate design and alter customer charge / volumetric charge ratios for GDS-1 and GDS-2 without inconsistency.

c. Retention of Relatively Higher Volumetric Charges to Promote Conservation is Unnecessary In Light of Contemporary Natural Gas Price Trends

Staff argues that high volumetric charges are necessary to promote natural gas conservation. This argument is the principal argument advanced in opposition to decoupling generally and it is also asserted by the AG. (AG BOE, p. 27.) The Ameren Illinois Utilities discussed this argument thoroughly in response to the AG’s arguments in their reply brief and will not recite all of those arguments here. (AIU Reply Br., pp. 123-24.)

Essentially, the argument fails because it is based on assumptions that are not supported by record evidence, or for that matter, pragmatic considerations. Indicative of Staff’s assumptions regarding volumetric charges and conservation, Staff asserts the following argument: “...[W]hen a customer curtails gas use, the resulting bill would be a noticeably reduced bill. As such, the customer would see he is able to directly control his gas bill by controlling his gas usage.” (Staff BOE, p. 100.) Staff fails to address several key problems with the assumptions that retention of relatively higher volumetric rates allows consumers to “control” their gas bill. First, it gets cold in the winter in Illinois, and therefore curtailment of usage has health limitations. Second, while it would be ideal for every customer to have the financial ability to purchase super high efficiency home improvements when needed, not all ratepayers

have economic resources that would enable them to do so. Third, on an annual basis the vast majority of the bill relates to the commodity price of natural gas, and regardless of a volumetric rate which the customer cannot control. (*See* Tr. 670 (Glaeser).)

In fact, the commodity price of natural gas is now approaching three-quarters of the overall bill. (*Id.*) High natural gas prices are incentive enough for customers to closely monitor consumption. Retention of high volumetric rates only serves to “pile on” to customer bills as added punishment for customers with inefficient homes and appliances.

2. Response to the AG

The AG adamantly opposes decoupling as a matter of policy and advances the same policy arguments by Staff noted immediately above in support of its request that the Commission both retain relatively high volumetric rates and decline to approve the Rider VBA. As noted above, the Ameren Illinois Utilities also addressed the same arguments in their Reply Brief. (AIU Reply Br., pp. 123-24.) There is no need to reiterate these arguments.

It is noteworthy, however, that the AG’s brief on exceptions raises unsupported assumptions concerning customer conservation incentives to an entirely new level, and does so again without any supporting evidence to substantiate such assumptions. The AG assumes low income customers are low usage customers without any citation to supportive empirical evidence. (AG BOE, p. 27.) This may be the case for some low income customers, but not necessarily all. It is very likely that many fixed income and low income customers in central and southern Illinois live in older single-family homes that have older, less efficient natural gas appliances and lack adequate insulation and tight fitting windows and doors. If a cold snap during winter months requires a customer in such a circumstance to use higher than the established class average volumetric consumption of gas, a high volumetric charge rate design would be arbitrarily punitive and regressive.

The AG also restates its litany of arguments that the Rider VBA violates every major ratemaking principle recognized in Illinois. As thoroughly discussed in the Ameren Illinois Utilities Post-Hearing reply brief, these arguments are clearly flawed for many reasons that do not need to be restated here. (AIU Reply Br., pp. 112-23.)

Additionally, the Ameren Illinois Utilities would note in response to the AG that while we would agree that increased Customer Charges should take into account customer perception of their bill, we disagree with the characterization of the issue as a “rate shock” problem. Neither the higher Customer Charge nor the Rider VBA approach to decoupling will have an aggregate impact on customers in terms of additional costs. A “rate shock” situation typically occurs when costs are moved between customer classifications, for example the situation that resulted when the electric home heating subsidy was eliminated all at once as a result of the full implementation of restructured rates. No costs are shifted between rate classes through any form of decoupling. However, each model will lead to changes to customer bills and bill formats. It should be noted that significant differentials in rates and charges between the individual Ameren Illinois Utilities are undesirable, which is precisely why the Ameren Illinois Utilities have requested that the AmerenCIPS and AmerenCIPS-ME Customer Charges be merged should the Proposed Order provision for placing 80% of fixed costs within the Customer Charges be adopted

To the extent that the Commission agrees with the AG and concludes that the increases in Customer Charges are undesirable from a customer perception standpoint, the proper resolution is adoption of the Rider VBA. The advantage of the Rider approach to decoupling is that it allows the retention of the historic customer charge / volumetric charge ratios and the associated seasonal variation in rate recovery.

B. Rider QIP

The AG's proposed language deletion (AG BOE, p. 36) is unnecessary and should be rejected.

IX. RATE DESIGN/TARIFFS TERMS AND CONDITIONS

C. Resolved Electric Issues

2. Supply Cost Adjustments

Staff recommends that specific schedules calculating uncollectibles and CWC factors be included in the Appendices for each electric utility. (Staff BOE, p. 104.) This is an unnecessary exercise, given that the Commission has ruled that the calculation of the uncollectibles should be based on the 2005-2007 average calculated by the AIU. As such, the Order can simply reference Ameren Exhibit 19.4 as the source for the uncollectible factors. Similarly, the Order can reference, as the source for the 0.7986% CWC factor, the calculations shown on Ameren Exhibit 3.16E for each of the Ameren Illinois Electric Utilities. While Staff did not also recommend an Appendix page that shows the calculation for the Supply Procurement Adjustment, ICC Staff Exhibit 1.0, Attachment C presents the calculation based on the Order's recommendation that the amortization period be set at 3 years.

D. Contested Gas Issues

1. Gas Bank Sizing and Daily Balancing Tolerances

Staff appears to clearly recognize the limitations of the Ameren Illinois Utilities' existing resources to manage large swings on their systems that would occur with the dramatic new flexibility provided to transportation customers and their marketers under the Proposed Order. (Staff BOE, p. 108.) Staff references the 1 times MDCQ for 10 days as being problematic and even concedes the expansion of the injection/withdrawal rights may adversely affect the utility's ability to manage its system. As stated by Staff, "The expansion of injection/withdrawal rights

for transportation customers that results from the combination of these two findings may also adversely limit each local distribution company's ("LDC") ability to manage its system." (Staff BOE, pp. 108-109.) Even more problematic is the allowance for bank withdrawals of 50% of the MDCQ during Critical Days when this deliverability is required to meet the peak demand of the sales customers. We concur and have made the 1 times MDCQ issue as one of the few exceptions in our brief on exceptions. (AIU BOE, pp. 28-33.) However, Staff's choice for "a third alternative" should be rejected. Staff's "third alternative" to apply the daily tolerance *after* bank injection or withdrawal activity is, in effect, "double-dipping" system resources to create a *new* tolerance of 35% which has not been discussed in this case.

Staff ignores the fact that the bank service is *providing* the daily tolerance and is not in addition to the daily tolerance. In other words, the bank service (and the resources supporting the bank service) is providing the ability for the Ameren Illinois Utilities to manage the daily imbalances between deliveries and consumption for transportation customers. There are not uncommitted additional resources to provide another imbalance tolerance beyond the bank service. To use Staff's example (Staff BOE, p. 109) for a transportation customer with a Daily Confirmed Nomination ("DCN") of 500 therms, their proposed "third alternative" would give the customer 20% of the DCN or 100 therms of bank withdrawal or injection rights and, on top of this daily tolerance, give an additional 15% daily tolerance of the DCN or 75 therms. This proposal creates a total of 175 therms allowed deviation between deliveries and consumption or, in effect, a total daily tolerance of 35% before cash-out activity. The primary argument regarding daily tolerances in this proceeding was determining if the appropriate daily tolerance is between 15% and 20% and now Staff is proposing a more radical expansion to 35%. There is no real opportunity to study this proposal, let alone knowing whether it will work.

For reason explained elsewhere in this brief, and in the initial and reply briefs, the 15% daily tolerance band should remain and recognizing that bank withdrawal and injection activity actually creates the daily tolerance. As the Proposed Order makes clear, time is required to better understand the interplay among the new services operating in today's constrained environment.

2. AmerenIP Rate 76 as a Stand-Alone Tariff

Staff believes that the Ameren Illinois Utilities across the board rate design should be expanded to not only assigning resulting rate increases across all customer classes equally, but also across all individual rate elements. Therefore, Staff argues, the old transportation service tariff provisions for AmerenIP (Rate 76) should be retained to preserve all rate elements in order to advance Staff's version of the across the board rate design. (Staff BOE, pp. 111-12.) The Ameren Illinois Utilities believe it is now time to bring the gas transportation tariffs of each operating company into uniformity under one "Rider T." In doing so it is necessary to eliminate the previous non-conforming rates, otherwise the tariff books will contain conflicting and non-uniform terms of service associated with transportation service. Thus, the Commission should decline to alter the Proposed Order as recommended by Staff.

3. Elimination of AmerenIP's Rider OT

4. Elimination of AmerenCIPS' Stand-by Reserve

Staff argues for the stand-by service to continue. (Staff BOE, p. 112.) The reality is, and the record so states, there is no interest in this service anymore. As Mr. Glaeser explained and, and which explanation went unchallenged, this was a service that was offered by in the years ago when transportation services were new and untested. The service was offered to provide a backstop to transportation services then being offered. Telling, this Commission agreed with AmerenCILCO in its last rate case to eliminate a similar service due to the very limited participation by transportation customers. Furthermore, with regard to the AmerenIP, less than

2/10 of 1% used a comparable service in the past 12 months offered under Rider OT. And, finally, AmerenCIPS never offered the service. (Ameren Ex. 30.0 (Glaeser Reb.), p. 18.) Staff's recommendation should be denied.

5. Intra-Day Nominations

Staff, without the benefit of any record support, argues that the additional personnel required to provide intra-day nominations, first argued for by CNE-G, results in "limited costs" or costs that would likely be "de minimus." (Staff BOE, p. 113.) In response, Mr. Glaeser testified that the full intra-day nomination rights would require "extended staff coverage for times outside the normal business hours and weekend/holidays" (Ameren Ex. 30.0 (Glaeser Reb.), p. 28.) Mr. Glaeser also testified the additional intra-day nominations would require additional gas supply and gas control personnel. (Ameren Ex. 54.0 (Glaeser Sur.), p. 23.) While the precise dollar amounts are not quantified, its clear from the record, additional personnel will be required, and some amount of costs will be incurred.

Staff's inferred allegation that transportation customers desire the proposed intra-day nomination cycle is unfounded. Mr. Glaeser testified the majority of transportation customers and marketers have managed their nominations and have not requested intra-day nomination deadlines. This lack of interest is additionally supported by the fact other gas utilities in Illinois do not provide the intra-day nomination cycles as proposed by CNE-G. (Ameren Ex. 30.0 (Glaeser Reb.), p. 28.)

In the end, the Commission should reject Staff's modifications to the Proposed Order. The Commission should follow the direction in the Proposed Order which requires the Ameren Illinois Utilities to provide the cost data to support the four nomination cycles in their next rate case filing.

6. Daily Telemetry

The GFA requests additional language as clarification to the intent of the rulings related to daily telemetry and balancing in the Proposed Order on p. 320-23, and 327. (GFA BOE, p. 305.) The Ameren Illinois Utilities disagree that clarification is needed.

The Proposed Order makes it clear that telemetry and daily balancing exemption afforded to GDS-2 and GDS-3 transportation customers should not be available to GDS-5 customers in pertinent part:

With regard to daily balancing and telemetry for customers on GDS-5, the Commission is not persuaded at this time that such are not appropriate for larger sales or transportation seasonal customers. Accordingly, the Commission rejects Staff's and GFA's proposal that larger seasonal customers be free of any requirement to use daily balancing and telemetry. As discussed above, however, in the general discussions of daily telemetry and a small volume transportation tariff, the Commission is of the opinion at this time that daily balancing and telemetry are not necessary for transportation customers who would otherwise be GDS-2 and GDS-3 sales customers. Similarly, the Commission does not believe at this time that GDS-2 and GDS-3 sales customers should be required to provide daily balancing and telemetry. In the absence of any persuasive arguments to the contrary, the Commission sees no need for daily balancing and telemetry for such smaller seasonal customers. (emphasis added, Proposed Order, p. 327.)

The emphasized sentence makes it clear that the Commission declines to make the daily telemetry and daily balancing exemptions for small transportation service available to large sales customers as well as transportation seasonal customers. Such exemptions are available only to customers under rate classifications GDS-2 and GDS-3.

7. Small Volume Transportation Tariff

8. 12-Month Notification for Seasonal Customers

The Ameren Illinois Utilities believe the Proposed Order properly addresses the notification for seasonal use customers and are opposed to the modifications to the Proposed Order requested by Staff and the GFA. (Staff BOE, p. 115; GFA BOE, pp. 1-3.) The rationale

for opposition to the positions asserted by Staff and the GFA have not changed since the time the Ameren Illinois Utilities filed their Reply Brief. Essentially, the liberalized notice provisions sought by Staff and the GFA would benefit a limited number of customers at the expense of important operational considerations as well as the interest of other ratepayers. There is no need to restate those lengthy arguments here, and instead we direct the Commission to the position stated in our Reply Brief with regard to this issue. (AIU Reply Br., pp. 152-155.)

13. Purchase/Confiscation of Customer-Owned Gas

It is correct that the Ameren Illinois Utilities agreed with GFA that a 10% premium would be applied to the price in the event gas is confiscated, as reflected in Ameren Exhibit 30.8. However, the Ameren Illinois Utilities disagree with Staff's position that there is an incentive on their part to declare a Critical Day. As expressed in Mr. Glaeser's rebuttal testimony, and cited in the Proposed Order (Proposed Order, p. 335) there are many safeguards to eliminate the unauthorized confiscation of transportation customers' gas. (Ameren Ex. 30.0 (Glaeser Reb.), p. 33.) Mr. Glaeser also stated, the circumstances by which the Ameren Illinois Utilities would purchase gas owned by transportation customers, do not lend themselves to the alleged and unproven incentive offered by Staff. First, system integrity has to be threatened. This requires a factual demonstration. Then, the utility must declare a Critical Day, and finally, the utility implements curtailment of natural gas service, pursuant to the curtailment plan. The right to purchase transportation customers' gas would not be allowed until all of these conditions were met. (Ameren Ex. 30.0 (Glaeser Reb.), pp. 30-31.) Therefore, aside from referencing the 10% premium, the remaining changes offered by Staff are contrary to the record and otherwise not necessary.

E. Contested Electric Issues

2. Street Lighting

The Ameren Illinois Utilities offered an across the board rate design in this case for the purpose of avoiding unnecessary rate impacts created by attempting to align rates with costs of service for the various classes of service, which would alter the rate redesign ordered in Docket No. 07-0165. (AmerenCILCO Ex. 12.0E, AmerenCIPS Ex. 12.0E, AmerenIP Ex. 12.0E (Jones Dir.), pp. 6-8; AIU Init. Br. 398-401; AIU Reply Br., pp. 165-66.) The Ameren Illinois Utilities do not believe the Cities have presented a justification for departing from an across the board increase to the rates established in Docket No. 07-0165, and therefore we believe the Commission should decline to accept the requested changes to Proposed Order sought by the Cities.

X. FINDINGS AND ORDERING PARAGRAPHS

At page 118 of its brief, Staff recommends the tariff sheets should reflect an effective date not less than five business days after the date of the Final Order. Staff expresses a need for time to review the tariff sheets as support or justification for its recommendation. Though well intentioned, Staff's recommendation should be rejected for the following reasons.

It is important that the Ameren Illinois Utilities' gas delivery service tariffs be in effect on October 1, 2008. The last day of rate suspension for all tariffs is September 30, 2008 and, as a matter of law, the Ameren Illinois Utilities have a right to implement the new tariffs as early as October 1, 2008. Assuming the Commission issues its Final Order in this proceeding on September 24, 2008, five business days before filing the new tariffs denies the Ameren Illinois Utilities the right to implement new rates on the first date following the closing of the suspension period. It should be noted the Final Order may not even be available for review prior to the close of business on September 24, 2008.

Notwithstanding whether Staff's recommendation is permissible as a matter of law, Staff's position creates significant administrative issues and burdens that will be problematic not only for the Ameren Illinois Utilities, but also for their gas customers and marketers. This is so because gas transportation accounts are managed and billed on a calendar month basis. An effective date other than October 1, 2008, will result in two meter reads, one of the first day of the month and a second read on the tariffs' effective dates. Further, the two meter reads will result in two bills for at least 1,100 customers. Further, the record demonstrates there are complex transportation issues that need to be resolved, such as cash outs, balancing and banking provisions. Additionally, many transportation customers are pooled into groups with the bills for these groups typically issued to marketers. If the Commission accepts Staff's position, there will be a need to split the month of October and generate two bills, as stated, for each of the 1,100 accounts.

If these were just system sales accounts it would not be as large of a problem. However, the transportation accounts have more complex tariff provisions such as daily balancing, cash outs, banking and group balancing. The majority of the accounts are included in pool groups which means the system charges are billed to the Group Manager (marketers). In order to bill on two different tariffs in October, we would have to split the pool groups into individual accounts, disconnect each of the 1,100 accounts, set up 1,100 new accounts and then put the pool groups back together. This is a timely process. In the meantime, the End-User Transportation group will be tracking the daily activity (deliveries, usage, banks, cash outs, etc) on spreadsheets and customers and marketers will not be able to view their account's daily activity via the Unbundled Management Services System ("USMS") and the information they need to manage their accounts will not be readily available.

Customers and marketers will be directly impacted further if the effective date of the tariffs is a date other than the 1st of the month as the USMS Billing Detail screen will be inaccurate, they will not be able access USMS daily activity reports, and nominations in USMS cannot be immediately made. (*See Ameren Ex. 30.0 (Glaeser Reb.)*, p. 23; *Ameren Ex. 54.0, (Glaeser Sur.)* p. 32.)

Staff's position is also contrary to past orders from the Commission regarding implementation of gas tariffs. In the most recent Illinois Power Company gas rate case, ICC Docket No. 04-0476, the Commission ordered that the utility file tariff sheets containing an effective date not less than three days after the date of filing. Similarly, in Central Illinois Light Company's most recent gas rate case, ICC Docket No. 02-0287, the Commission ordered the filing of tariff sheets with an effective date not less than three days after the date of filing.

The Ameren Illinois Utilities are committed to work with Staff prior to the Commission's Final Order such that Staff will have the opportunity to review draft tariff sheets which will contain language, terms and conditions that are not contested. This should serve to facilitate Staff's time to review the tariff sections that may need more time for review by Staff after the Final Order is issued.

SUMMARY RESPONSES TO OTHER PARTIES' POSITIONS

The Commercial Group

The Commercial Group takes issue with the across-the-board class revenue allocation recommended in the Proposed Order, asserting that the Ameren Illinois Utilities class cost of service study should have been used for the basis of revenue allocation and failure to eliminate the subsidy being born by DS-3 and DS-4 customer classes. The Commercial Group also takes issue with applying the across-the-board increase to the rate limiters for the DS-3 and DS-4 classes instead of eliminating the rate limiters. (CG BOE, p. 2.) The arguments by the

Commercial Group are the same as presented by its witness, and are the same as presented in its briefs. Nothing new is offered that would persuade the Commission to detract the policy recommendations being made in the Proposed Order.

While the Ameren Illinois Utilities generally prefer that rates be based on costs, and certainly as indicated in the Proposed Order the Commission has indicated its preference to set rates as close to cost of service as is reasonably possible and/or appropriate, there is no mandate that rates be set at cost. As explained in the briefing stage, as a matter of equity, rates are based on public understandability and acceptance of the reasonableness of the rate structure and at levels that are affordable. 220 ILCS 5/1-102(d)(ii)(viii). Cost of service is not the only factor.

The Commercial Group also addresses the existence of subsidies by pointing to the relative rate of returns amongst the delivery service rate classes. What should be observed, however, is the fact the charges for delivery service are the minority portion of the customer's overall bill.

With respect to the rate limiter, the Commercial Group argues that it is unfair and should be eliminated from the DS-3 and DS-4 rates. (CG Ex. BOE, p. 6.) Oddly, it would seem the Commercial Group's position in all instances of revenue allocation is all or nothing. In the rebuttal phase of these proceedings, Ameren witness Leonard Jones offered that the Ameren Illinois Utilities would support an increase in the DS-3 rate limiter equal to the class average increase. Notwithstanding this step as a means to eliminate some portion of the subsidy, the Commercial Group rejected the proposal outright. (CG Ex. 2.0, p. 3.)

Kroger

The Kroger Company (Kroger) brief on exceptions should be disregarded in its entirety as it fails to provide substitute language in accord with 83 Ill. Ad. Code 200.830(b) and as required by the ALJs notice to the parties dated August 11, 2008.

In response, however, Kroger continues to advocate combining the DS-3 and DS-4 rates. The argument posed is that there is no significant cost of service difference between customers being served the same voltage level. Further, the evidence in the record suggests the Ameren Illinois Utilities are over-recovering costs from DS-3 customers relative to DS-4 customers. Kroger then takes issue with the Proposed Order's conclusion that there is not sufficient information to fully analyze the implications of re-structuring or combining the subject rates. (Kroger Br., p. 7.) Yet, Kroger offers not one word to challenge the Proposed Order's conclusion. It only goes on to take issue with the continuity of these rates where a subsidy exists. As required by Section 200.830, exceptions are to be made to statements or findings of fact, none of which appears in the Kroger brief.

Indeed, the record fully explains why now is not the right time to combine these rates. Ameren witness Jones testified, we do not know of the bill impacts associated with combining the rates, have no idea what the price signals would be in combining these rates, and are uncertain as to whether the Ameren Illinois Utilities would over or under recover revenues.” (Ameren Ex. 50.0 (Rev.), p. 22.) This is noted in the Proposed Order at page 354, and never challenged by Kroger.

Illinois Industrial Energy Consumers

IIEC continues to question the policy decision set forth in the Proposed Order to accept the across-the-board revenue allocation that is being supported by not only the Ameren Illinois Utilities, but also the Staff, the Attorney General, and the Citizens Utility Board. IIEC first asserts the Proposed Order's reliance on the Commission's decision in Docket No. 07-0165 is misplaced. (IIEC BOE, p. 13.) In all fairness, it appears that IIEC has misinterpreted the Proposed Order. The Proposed Order reads that in light of the “customer impacts” that led to the rate redesign in Docket No. 07-0165, the Commission is reluctant to return the full cost-based

rates after less than one year. (Proposed Order, p. 273.) The customer impacts that led to the rate redesign were, in fact, the dramatic change in rates that were felt on January 2, 2007. As the Commission well knows, electric rates had been the same and frozen for the past 15 to 25 years prior to 2007, and residential rates were even reduced anywhere from 5% to 20% at the levels that were in effect at the time of the 1997 Customer Choice Law. As a further consequence of the change in rates in 2007, significant subsidies in rates for space-heating customers were eliminated. In combination, the change in rates beginning in 2007 and the recognition that the complete elimination of the subsidies that had been in place for space-heating customers, are the “cost impacts” that remain at issue for which a sudden return to cost-based rates simply is not the right policy choice at this time.

IIEC also attempts to assert the rate relief legislation passed last year is also sufficient justification to move to cost-based rates. (IIEC BOE, p. 14.) It is true that residential customers and to a lesser extent, small commercial customers, were the beneficiaries of that legislation and at the end of the day, \$488 million will be credited to those customers’ electric bill. However, as the law requires, at the time these rates go into effect nearly 2/3rds of the rate relief will have been expended.

The IIEC also speaks to the “longevity of the Docket 07-0165 rates” as being irrelevant. (IIEC BOE, p. 15.) Nonetheless, as stated above, it is simply not the rate redesign that was ordered by the Commission in Docket No. 07-0165 that is pertinent. It is the fact that as of the time of the filing of this particular brief, the current rates, including the rate changes from January 2, 2007, have only been in place for 20 months. While there might be circumstances where an across-the-board revenue allocation might not be appropriate in the same span of time,

given the lack of a phase-in for the residential rate class, and given the significant increase in the total bill, the across-the-board revenue allocation continues to be appropriate.

IIEC argues that the Commission should incorporate the minimum distribution system (MDS) concept in conjunction with approving the use of the Ameren Illinois Utilities cost of service studies. Even if the Commission were not to require rates to be set at cost, IIEC argues that the Ameren Illinois Utilities should be directed to incorporate the MDS concept in the next delivery service rate cases. (IIEC BOE, pp. 17-18.) IIEC does not offer any new arguments or revelation that warrants a different conclusion than is reached in the Proposed Order. In fact, IIEC incorporates by reference its arguments set forth in its Initial and Reply Briefs.

IIEC attempts to side-step the Proposed Order conclusion, that there is not sufficient data by which to even consider the MDS concept by complaining that if sufficient data had been available, “a precise analysis of AIU’s electric distribution costs using IIEC’s approach would have been possible.” (IIEC BOE, p. 19.) Two responses are in order. First, IIEC does not explain why, through discovery, it could not have acquired the necessary data. Second, IIEC’s witness had previously prepared cost of service studies including his version of the MDS concept, and no bona fide reason is offered as to why he could not have done so in this case. Finally, we explained in our brief significant differences based on IIEC’s own data between the Ameren Illinois Utilities and the other utilities’ data relied upon by IIEC’s witness. (Ameren Init. Br., pp. 300-303.) The Proposed Order is correct in this finding.

IIEC also asserts that the Ameren Illinois Utilities should be ordered to incorporate the MDS concept in their cost of service studies filed in the next rate cases. IIEC’s arguments in support of this position are weak at best. First, there is no cost data in the record by which to estimate what it would cost the Ameren Illinois Utilities, and consequently their customers. But

we know there will be a cost. Further, the Commission has repeatedly rejected the use of the MDS concept. It would be reasonable to require a utility to perform such a study but only if the Commission showed an interest in changing direction.

IIEC's argument that the Proposed Order would require the utilities to perform new analysis of studies and, therefore, why shouldn't they be required to also perform the MDS study, actually supports our argument. The Proposed Order, if accepted by the Commission, means that the Commission is showing a preference or desire that the Ameren Illinois Utilities perform these analyses and studies. If the Commission rejects the MDS, it logically follows no cost study including the MDS is desired by the Commission.

AG

Perhaps inadvertently, the AG states that the Proposed Order correctly rejects the cost of certain studies submitted by the Ameren Illinois Utilities and adjusts rates in an across-the-board manner. (AG BOE, p. 36). To be clear, the Ameren Illinois Utilities, as required by the Part 285 filing requirements, prepared cost of service studies. The Ameren Illinois Utilities did not introduce these cost of service studies into the record; that was accomplished by the IIEC.

The AG also adds language to the Commission conclusion at Section VII.A.6 intending to ensure that the Commission will consider uniform customer, meter, and distribution delivery charges only when prudent. Though it does not detract from the Proposed Order's conclusion, the language is not necessary. Presumably, the Commission will not make a finding or conclusion that was imprudent. Second, the current language expresses only the Commission's *interest* in these charges being uniformed. No decision is being made in this proceeding about what the Commission may or may not do in the future.

With regard to the AG's proposed language at page 38 of its BOE, the Ameren Illinois Utilities have no objection to the proposed language.

Constellation New Energy – Gas Division

CNE-G, not content with the Proposed Order’s very generous ten day MDCQ Bank, makes claims that a storage bank of 12 or 13.5 times MDCQ is reasonable. They allege the “slightly lower capacity of Ameren’s storage facilities” does not justify the bank size levels as recommended in the Proposed Order. (CNE-G BOE, p. 3.) CNE-G’s rationale for increasing the bank fails for a number of reasons.

The comparison of the Ameren Illinois Utilities’ storage assets to other Illinois utilities is the proverbial apples to oranges comparison. Unrefuted was Mr. Glaeser’s testimony, that when comparing Peoples Gas, Light and Coke Company (Peoples) and North Shore Gas company (North Shore), their on-system storage resources total 38.3 Bcf as compared to the Ameren Illinois Utilities on-system storage services of 26.6 Bcf. However, Peoples and North Shore have an additional 42.5 Bcf of leased storage capacity compared to 18.6 Bcf of lease storage capacity for the Ameren Illinois Utilities. The simple math is that Peoples and North Shore have over 80 Bcf of storage capacity as compared to nearly 43 Bcf for the Ameren Illinois Utilities, almost twice as much. (Ameren Ex. 54.0, pp. 11-12.)

CNE-G’s own argument supports the Proposed Order’s ten day -MDCQ:

A 10 day-MDCQ, compared with bank of 20 to 30 days, would be appropriate if the underlying Ameren storage assets were only one-half to one-third the size of the other Illinois utilities.

(CNE-G BOE, p. 3.)

As the numbers above reveal, the Ameren Illinois Utilities’ actual storage capacity is approximately one-half as compared to Peoples and North Shore which, relying upon their argument, supports the ten day-MDCQ proposed in the ALJ Proposed Order.

CNE-G continues to support a 20% tolerance ban for daily cash-out. For reasons explained elsewhere in this brief, and in the initial and reply briefs, the 15% daily tolerance band

should remain and recognizing that bank withdrawal and injection activity actually creates the daily tolerance. As the Proposed Order makes clear, time is required to better understand the interplay among the new services operating in today's constrained environment.

CNE-G also alleges the market price to be paid when gas is being purchased is unclear. (CNE-G BOE, p. 9.) We do not believe that is accurate. And their's is a proposal not supported by the record. The Proposed Order reads that "the price to be paid for confiscated gas should be equal to the market price at the time the AIU provide notice of the Critical Day." (Proposed Order, p. 335.) Ameren Exhibit 30.8 provides "The price to be paid by the Company for gas purchased under this provision shall be equal to the current price of gas as reported in Platt's Gas Dailey as "Midpoint for Chicago Citygates" under the Citygates section of Platt's Gas Dailey plus 10%. This index is established based on reported prices paid for Chicago citygate gas to be delivered the next gas day. To our knowledge, this was not challenged by CNE-G. and, moreover, it is fundamentally unfair to not only the Ameren Illinois Utilities, but to the Commission to come up with some last minute, untested scheme by which to calculate the market price as CNE-G suggests.

CNE-G, again without the benefit of record support, now expects the Ameren Illinois Utilities to file a study analyzing their storage assets. (CNE-G BOE, p. 10.) The citations offered by CNE-G at page 4 of its brief on exceptions do not mention an obligation or request that the Ameren Illinois Utilities prepare such a study in their next rate cases. The Ameren Illinois Utilities have no meaningful opportunity to respond and as such, the CNE-G recommendation should be flatly rejected.

Dated: August 27, 2008

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CERTIFICATE OF SERVICE

I, Laura M. Earl, certify that on August 27, 2008, I served a copy of the foregoing Reply Brief on Exceptions of the Ameren Illinois Utilities by electronic mail to the individuals on the Commission's official Service List for Consolidated Dockets 07-0585, 07-0586, 07-0587, 07-0588, 07-0589, and 07-0590.

/s/ Laura M. Earl

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