A. COSS-Based Rates vs. Across-the-Board Rate Changes

1. AIU's Position

Pursuant to Section 285.5110 of Part 285, AIU included with its rate filing a COSS for gas and electric service. AIU, however, did not follow the results of the class cost of service at equalized class rates of return in determining class revenue requirements. Rather, AIU proposes to equally apply the overall base rate percentage change on an across-the-board basis. For its gas business, AIU agrees with Staff that the across-the-board increase target should exclude Other Revenues and Special Contract Revenues.

In explaining its position, AIU first states that one must understand that rate structures often consist of a combination of both cost of service and other non-cost considerations. AIU indicates that there are numerous non-cost factors that can and do influence rate design such as rate stability and continuity, competition, customer bill impacts, and the current political environment. AIU asserts that these factors may produce rates that vary from class cost of service.

AIU states further that in Docket No. 07-0165, the Commission recognized that AIU electric customers experienced significant bill impacts in 2007 due to the major transition from frozen and reduced, bundled 1997 electric rates to post-2006 rates that included market value prices for power and energy. AIU notes this transition received much attention and resulted in new legislation to mitigate bill impacts to the DS-1 and DS-2 classes. AIU adds that approximately 80% of its gas customers are also electric customers. AIU states that the major impact of the transition in electric rates mentioned above along with the large percentage of combination accounts were major drivers in the decision to distribute the revenue changes in this case on an across-the-board basis. AIU asserts that the Commission's Order in Docket No. 07-0165 redesigned electric rates in an effort to mitigate bill impacts, and reflected a movement to a more equitable sharing of the post-2006 rate increase between the residential and the small general service rate classes. According to AIU, the Order effectively required a departure from strict cost-based rates to "more just and more reasonable rates." Furthermore, because these electric rates have been in effect for such a short period of time (since January 1, 2008), AIU does not believe that it would be prudent to significantly alter them in this proceeding. AIU states that the circumstances are similar with the demand based rates for the DS-3 and DS-4 classes, which were adjusted by a relatively small amount in October 2007 to reflect implementation of a rate limiter, and its gas rates, which experienced price changes in December 2007.

Additionally, AIU notes that all of its customers (i.e., residential, commercial, and industrial) have seen unprecedented increases in energy bills, gasoline prices, and healthcare costs over the last several years. While rates should track costs, given due consideration to all the factors mentioned above, AIU believes that it is just and reasonable to effectuate across-the-board revenue changes by class in this case. AIU, however, reserves the option to utilize class COSS in future rate proceedings for the allocation of class revenue responsibility.

As suggested above, AIU generally seeks to maintain the existing pricing structure approved in the last delivery service proceeding, as modified by the rate redesign docket. One exception concerns the DS-1 customer, meter, and distribution delivery charges. AIU determined that for the purposes of this proceeding to no longer seek uniformity and instead agreed to adjust those charges by a level equal to the average change in residential delivery service revenue for each of the three utilities. AIU understands that Staff and the AG agree with its changes on this issue. AIU, however, generally favors the standardized approach since from an incremental cost perspective, there is very little difference in customer or meter costs among the three.

For the DS-2, DS-3, and DS-4 classes, AIU proposes to maintain uniform meter and customer charges across the three utilities. AIU also proposes to maintain uniform transformation (for both DS-3 and DS-4) and reactive demand (DS-4 only) charges. AIU states that the distribution delivery charge is proposed to "float" to recover the remaining revenue requirement targeted for each class. To the extent there are seasonal (DS-1 and DS-2) or voltage differentiated (DS-3 and DS-4) distribution delivery charges, such charges will be adjusted by a uniform percentage by utility and by class to arrive at the targeted revenue requirement. For the DS-5 class, all fixture and delivery charges are proposed to be adjusted on an equal percentage basis to recover the targeted revenue requirement.

Although Staff expresses some concern with using uniform non-residential customer, meter, transformation, and reactive demand charges among the three utilities, AIU contends that there are numerous benefits to uniform charges. Such benefits include the reduction in oversight by customers and Alternative Retail Electric Suppliers ("ARES") operating in multiple jurisdictions; price consistency which enables consistent decisions by customers concerning transformer, substation, or capacitor bank ownership; and uniform charges reflecting the associated incremental costs. AIU also explains that by using such uniform non-residential charges, it is able to avoid a revenue deficiency that would result under Staff's proposed across-the-board increase to all rate elements. (See AIU Initial Brief at 311-312)

While IIEC does not oppose uniform customer, meter, transformation, and reactive demand charges, AIU notes that it does take issue with increasing those existing charges because it doubts that the underlying replacement cost forming the basis for the charges have increased by a similar amount. AIU explains, however, that the overall revenue recovered from customer and meter charges was tied to the overall customer and meter embedded component cost of service in the previous delivery services rate case, not a replacement cost as suggested by IIEC witness Stephens. AIU states that incremental costs were used to develop voltage differentiated meter and customer charges, and justify uniform charges, but were not used to determine how much revenue to recover from those charges. In this case, AIU says that it was assumed that if the revenue requirement was increasing by 28% for the DS-3 and DS-4 classes, the customer and meter revenue contribution should increase by a similar amount. Moreover, AIU adds, assigning no increase to the customer, meter, transformation, or reactive demand charges would require all of the increase to be assigned to the distribution delivery charge. AIU contends that it is not reasonable to assume that all of the increase in the revenue requirement assigned to a class occurred in the demand-based distribution delivery charge, while the demand-based transformation and reactive demand charges receive no increase. Regarding the transformation and reactive demand charges, AIU state that those services were priced using an incremental cost analysis in the previous delivery services rate case. AIU relates that proposed prices for both of those services are still within the cost ranges provided in the previous delivery services rate case.

With respect to the principles of cost of service rate design, AIU does not disagree with IIEC witness Chalfant's assertions that adhering to cost of service principles promotes equity, engineering efficiency, stability, and conservation. But as indicated above, AIU also recognizes that factors other than cost of service are relevant to determining class revenue requirements. AIU states that it will continue to maintain a long-term commitment to consider rates that reflect cost causation and equitable cost recovery principles as well as other methods for determining class revenue requirements and associated rate design that AIU feels appropriate at the time to present to the Commission.

Ameren Ex. 27.1 presents a comparison of AIU's and IIEC's proposed rates. AIU submits that in all cases the residential class will receive a greater allocation of revenue responsibility under the IIEC proposal. AIU also observes that the large volume delivery service class will receive a lesser allocation of revenue responsibility under the IIEC proposal than the AIU proposal. Additionally, AIU states that one should consider that the delivery component of a residential customer's bill represents approximately 25% to 33% of the bill, while natural gas supply represents the other 67% to 75%. AIU notes that the delivery service component of a large volume non-residential customer typically represents less than 25% of the total bill with the remaining natural gas supply portion representing more than 75%. As a result, AIU states that any proposed distribution service revenue allocation has, on a total bill basis, a greater impact on residential customers and less of an impact on large volume customers. AIU concludes that IIEC's proposal for allocating greater revenue responsibility to the residential class exacerbates this condition. In response to Mr. Chalfant's claim that the future elimination of subsidies will only be more painful if additional subsidies are added in this case, AIU contends that he has not provided any evidence that supports this statement and thus it should be afforded little weight.

With regard to IIEC's recommendation concerning the use of the minimum distribution system ("MDS") concept in allocating costs, AIU agrees that it has theoretical potential, but believes that the issue of implementing MDS is not ripe at the present moment. According to IIEC witness Stowe, MDS recognizes there are delivery service costs directly attributable to electrical industry mandated safety and reliability requirements for distribution facilities, and that do not vary with customer demand. Mr.

Stowe contends that those costs should not be allocated on the same basis as demand related distribution system costs. AIU finds Mr. Stowe's analysis flawed because he uses improper data to derive his recommendations. AIU contends further that his analysis unduly relies on safety and reliability concerns as the premise for immediate use of MDS calculations.

AIU asserts that proper development of an MDS-based recommendation requires the use of AIU's specific COSS data, however, Mr. Stowe elects to rely on COSS data from other electric utilities instead. In fact, AIU observes, of the five data sets used by Mr. Stowe, four are from one single conglomerate utility: the Aquila Networks. AIU argues that this choice of data sets and the assumptions made by Mr. Stowe combine to create unusable recommendations. First, AIU maintains that it is fundamentally unsound to use one utility's COSS data to set rates for another utility because each utility has its own distinct set of characteristics that determine what fixed and demand-unrelated costs it faces. AIU points out that the NARUC Electric Utility Allocation Manual ("Manual") relied upon by Mr. Stowe makes this point clear, noting:

> Each utility is a unique entity whose design has been dictated by the customer density, the age of the system, the customer mix, the terrain, the climate, the design preferences of management, the planning for the future and the individual power companies that have merged to form the utility. (NARUC Manual at 19)

As Mr. Stowe's data shows, even within a single network, cost allocations for one account may be more than twice as high for one utility than it is for another. AIU compares the 18% demand-related share of FERC Account 366 for Aquila WPK with the 37% share of the FERC account for Aquila L&P. Across utilities from different networks, AIU asserts that variances may be absurdly incomparable – comparing the 82% demand-unrelated share of FERC Account 366 for Aquila WPK with the 6% demand-unrelated share for AmerenUE. AIU states further that the use of averages does not remedy discrepancies when such large variances are involved. At best, AIU contends that use of another, unrelated utility's COSS data might provide a generalization that helps indicate the basic contours of AIU's own cost structure. At worst, however, use of such data to pinpoint the exact division between demand-related and demand-unrelated costs for AIU results in absurdly inaccurate recommendations.

AIU's second complaint is that Mr. Stowe's assumptions are unsupported. According to AIU, Mr. Stowe assumes that his selected data sources – the four Aquila utilities and AmerenUE – represent operations similar to those within the AIU territories. The extreme variations in the data, AIU argues, belie this claim of representative consistency. As Mr. Stowe explains in rebuttal, he also assumes that safety and reliability requirements are necessarily customer-related. Specifically, he states: "This treatment [by AIU, of FERC Accounts 364-367] assumes that the standardized safety and reliability requirements have no effect whatsoever on these costs." (IIEC Ex. 9.0 at 2) AIU asserts that this statement is unsupported and should be disregarded. AIU acknowledges that safety and reliability requirements have an effect on costs, but it does not agree that safety and reliability requirements are necessarily customer related. Mr. Stowe continues: “[F]urthermore, [AIU] incurs these costs for every additional customer it serves, and the costs are independent of customer demand and energy. Ameren recognizes this to be the case and has stated in past cases, as well as in the present case, that the MDS concept has merit.” (IIEC Ex. 9.0 at 3) Recognizing that the MDS concept has merit, AIU counters, is not the same as recognizing that costs for minimum safety and reliability standards are independent of customer demand and energy.

Third, AIU argues that the average percentages used by Mr. Stowe to classify distribution plant into customer and demand related categories are thoroughly suspect because the data sets he uses are poor proxies for AIU's cost structure. For instance, AIU states that the Colorado Aquila study took into consideration FERC Accounts 364-368; however, the study Mr. Stowe presents only includes FERC Accounts 364-367. AIU notes further that the data sets used for the Aquila studies are several years old. Finally, AIU observes that Mr. Stowe was unaware of whether the Aquila labor rates reflected in the FERC accounts were the same or different from AIU.

2. Staff's Position

Staff supports increasing existing rates on an equal percentage, across-the-board basis. Staff believes that this approach provides the most consistency with the rates developed in Docket No. 07-0165 to address bill impacts. Moreover, Staff continues, at this juncture there is no evidence to indicate that one group of AIU customers can more easily absorb a greater bill increase than another group of customers. Staff contends that the across-the-board approach appropriately recognizes that bill impacts are the overriding concern for AIU ratepayers in the current period. Furthermore, Staff asserts that it would not make sense to revise the design of AIU's electric rates since less than a year would have passed since the rate design was modified in Docket No. 07-0165. The Commission engaged in that redesign effort to mitigate the unexpected burden on customers and ensuing outrage. Staff does not believe that the concerns of AIU's customers about bill impacts have disappeared and contends that an equal percentage increase would signal to AIU's customers that the impact of higher rates will be equally distributed.

Staff expresses concern, however, that AIU diverges from the across-the-board approach by advocating uniform transformation and reactive demand charges across utilities. Staff is not persuaded by AIU's arguments that uniform charges would reduce the requisite oversight by customers and ARES operating in multiple jurisdictions or promote price consistency that would produce consistent decisions by AIU customers in Illinois concerning owning transformers, substations, and capacitor banks. Because the focus of rate design in this proceeding has been bill impacts, Staff maintains that the means to address those impacts is across-the-board increases of existing rates. Staff does not believe that it would not make sense from a consistency standpoint to adopt this across-the-board approach for the large majority of charges while making exceptions for this small set of charges. Additionally, it is difficult for Staff to conceive how the specific exceptions proposed by AIU will benefit the ratemaking process.

One ratemaking proposal that Staff finds acceptable is AIU's recommendation to change the way billing demand is recorded. Currently, charges are based on maximum monthly demands for customers, regardless of when they occur. The new proposal would base maximum demands on the higher of: 1) maximum on peak demands, or 2) 50% of maximum off-peak demands. Staff finds this change reasonable because it will send price signals that encourage usage patterns that save money for AIU and all ratepayers. Staff states that the larger role played by peak demands in determining billing demands will encourage DS-3 and DS-4 customers to shift demands to the off-peak period. According to Staff, any shift in demand will relieve price pressure in the generation market during the peak period when prices should be the highest and also reduce peak period capacity constraints for the delivery system.

Because it advocates an across-the-board approach to revising AIU's rates, Staff does not discuss any concerns with the COSS submitted by AIU. Staff does, however, address the MDS proposed by IIEC. Staff understands Mr. Stowe to argue that there is a minimum cost incurred by any utility when it extends its primary and secondary distribution system, replaces a component on those systems, or connects an additional customer to them. Staff further understands Mr. Stowe to say that the MDS approach classifies and allocates a portion of the distribution system on a customer basis. Staff notes that Mr. Stowe acknowledges that the Commission has consistently rejected the MDS in the past. Contrary to his contention that the Commission's prior experiences with MDS were heavily policy-oriented and theoretical, Staff submits that the Commission has taken a practical approach to MDS by recognizing that the MDS theoretical method of identifying the costs of connecting customers to the distribution system presents problems.

Staff also disagrees with Mr. Stowe's suggestion that the Commission has not previously considered utilities' obligation to comply with safety and reliability criteria when designing distribution systems. According to Mr. Stowe, utilities face significant costs to meet minimum safety and reliability standards for new distribution installations and these costs are clearly customer-related. In particular, Mr. Stowe cites minimum height requirements for distribution wires as well as size requirements for the wires that allow the wire to service more capacity than the customer for whom the system is being extended. Staff notes that he goes on to suggest that the cost incurred to comply with safety and reliability standards begins to outweigh the cost of meeting electrical demand. Staff considers IIEC's position unreasonable and contends that it would be presumptuous to argue that safety and reliability are new concerns for the regulatory process. Staff avers that these issues have existed since the electric industry began. Staff states further that utilities have incurred a variety of costs in the past to meet safety and reliability standards and presumably they will make significant future expenditures in these areas. Staff is not clear why Mr. Stowe considers expenditures on safety and reliability to be information that the Commission has not previously received or considered.

In addition, Staff states that it is difficult to conceive how safety and reliability are related to the number of customers on the system. The premise of the MDS system is that there are costs that pertain to connecting customers to the system, independent of the amount of demand. If the purpose of the distribution system were simply to connect customers, Staff submits that safety and reliability issues would then be a small fraction of their current levels. What creates significant safety and reliability concerns, Staff asserts, is the electricity that courses through the system.

IIEC's position is also flawed, according to Staff, because it identifies a perceived customer component for a distribution system that is clearly related to customer demands. Staff contends that IIEC's logic is comparable to arguing that costs associated with traditional customer-related components of the system, costs such as services and even meters, should be considered demand-related because a large 10 MW industrial customer would require a more costly service line and meter than a smaller customer. Nevertheless, Staff states that the costs of that service line and meter are considered customer-related because their primary purpose is to serve the individual customer. Similarly, Staff adds that the distribution system has the primary purpose of meeting ratepayer demands and is appropriately considered demand-related.

3. AG's Position

The AG agrees with AIU that given the recent attention that the Commission has placed on rate design and cost of service issues for AIU's electric operations, it makes sense to have across-the-board increases in this case. Across-the-board increases, the AG continues, would avoid disparate bill impacts for different types of customers. AG witness Rubin states that a valid COSS is one piece of information the Commission should use in deciding each class's responsibility for any rate increase. But there is other important information that he believes the Commission also should rely on, including customer impact, the overall fairness of the result, rate continuity, gradualism, and other factors. Mr. Rubin contends that AIU's rate design and transition to fully unbundled rates has been exhaustively examined by the Commission over the past two years, and that transition process is still in progress. He maintains that it is reasonable, therefore, for the Commission to decide in this case that any rate increase or decrease should be borne by each customer class in equal proportion to the magnitude of the rate change itself.

The AG opposes IIEC's suggestion that rates be set based on a COSS that incorporates the MDS concept, either in this proceeding or any future proceeding. The AG points out that MDS affects the allocation of a significant amount of plant investment. In this case, the AG reports that IIEC's proposal will shift $54 million in rate base from the commercial and industrial classes to the residential class. For AmerenCILCO, the shift would move more than $16 million in rate base adjustments onto residential customers. This represents 5% of AmerenCILCO's total rate base. For

AmerenCIPS, the shift would be $13 million (almost 3% of total rate base), and for AmerenIP the shift would be $25 million (almost 2% of total rate base).

The AG urges the Commission to reject the MDS proposal for various reasons. First, the AG states that IIEC witness Stowe makes several assumptions that are not supported by the evidence, including the submission of an alternative cost analysis that is based on hypothetical information that bears no relation to AIU's service territory. Second, the AG asserts that Mr. Stowe incorrectly assumes that the Commission's treatment of these issues has not been well informed. The AG argues that both of these assumptions are wrong. The AG relates that the Commission has consistently found that there is no customer-related component in these distribution system accounts. According to the AG, Illinois decisions rejecting MDS go back nearly 30 years, and include cases where the utility produced an MDS study that the Commission rejected. Moreover, the AG avers that the Commission's rejection of MDS has not been theoretical or based only on policy, as Mr. Stowe argues, but rather has been based on repeated findings that MDS analyses do not accurately reflect the cost of providing service to customers. (The AG references Docket Nos. 91-0335, 00-0802, and 05-0597 at page 49 of its Reply Brief.)

In response to IIEC's offer of evidence that the MDS exists, the AG states that IIEC simply relies on standards in the NESC that describe minimum standards for the construction of distribution systems. The AG also notes that Mr. Stowe did not actually conduct any analysis comparing the NESC minimum standards to AIU, but instead relied on "estimated customer and demand percentages" that he alleges are reasonable, based on studies performed for utilities in Missouri, Kansas, and Colorado. The AG asserts that the IIEC analysis is flawed in that it assumes the costs of meeting NESC minimum standards are (i) the same for utilities in different states and (ii) solely related to the number of customers served. In reality, the AG contends that the costs are based on factors completely unrelated to the number of customers served. These factors, the AG states further, are based on the assumption that customers will actually use electricity, causing the consideration of items such as the expected electricity consumption of customers; topography; population density; building type; the proximity of electrical facilities to railways, water and other natural or man-made features, etc. to be important factors.

AG witness Rubin points out that the NESC safety rules for the installation and maintenance of overhead supply lines consist of more than 120 pages and vary based on building height, use of land or water underneath the wires, etc. The AG asserts that IIEC's reliance on these standards is misguided. First, the AG argues that the different systems in Missouri, Kansas, and Colorado that IIEC relies on are not comparable to AIU's system. As an example, the AG states that in Colorado, the NESC standards require additional clearance at higher voltages because these systems are on a higher elevation than AIU's system. Second, the AG reports that there are highly disproportionate ranges for the customer related costs of each utility in the same FERC account; for instance, Account 366 ranges from 18%-94% and Account 367 ranges from 9%-79%. The AG maintains that Mr. Stowe's own data thus absolutely rebuts his testimony that it is reasonable to assume that an MDS study from one utility can be used as a proxy for another utility. Third, the AG alleges that IIEC does not establish that costs associated with satisfying NESC standards are related solely to the number of customers and not to the numerous other factors that affect the construction of distribution facilities. Fourth, the AG contends that IIEC does not establish why any minimum distribution system would be built in the absence of any electrical demand.

4. IIEC's Position

In support of its position that the COSS be used to set rates, IIEC points out that the Commission has recognized the importance of adhering to basic cost of service principles. According to IIEC, the primary reasons for using cost of service as the principal factor in revenue allocation/rate design are equity, cost-causation, appropriate price signals, conservation, and revenue stability. Cost-based rates, IIEC adds, are also essential to the development of competition.

IIEC states that the AIU electric COSS generally follow accepted cost of service principles. IIEC finds the studies to be generally sound and include many of the characteristics of a valid COSS. The studies, IIEC continues, recognize and separately account for the multiple voltage levels at which AIU customers take service. IIEC witness Stowe, however, recommends one significant change to the AIU COSS--incorporation of the MDS concept.

With regard to the AIU gas COSS, IIEC witness Chalfant reviewed those studies and, while he disagrees with the use of the peak and average demand allocator, he does not propose any adjustment to the AIU studies, respecting use of that allocator. He concludes that the COSS demonstrate that industrial customers are subsidizing other AIU customer classes but that the use of the studies for revenue allocation and rate design purposes in these cases is sufficient to move rates toward cost. IIEC contends that the various rationales offered by AIU and Staff in support of an across-the-board approach for gas rates are not sufficient to justify abandonment of cost of service principles. IIEC asserts that AIU's reasons are basically non-cost arguments and many of them are totally unrelated to the provision of natural gas service. Those reasons include: (a) rate stability and continuity; (b) competition; (c) customer bill impact; (d) political environment; (e) AIU's electric rate increase; (f) gasoline prices; and (g) health care costs.

In response to these arguments, IIEC states that AIU has conveniently ignored the fact that rate stability and continuity and competition are enhanced by cost-based rates. Furthermore, IIEC insists that setting rates, as AIU proposes here, on the basis of what is politically correct is neither good public policy nor consistent with the other public policies and legislative priorities, such as the promotion of energy efficiency and demand response. Determining revenue allocations and setting rates on the basis of the increased cost of unrelated products and services, such as gasoline and health care is also not good public policy, according to IIEC. For example, customers who manage their electricity and gas costs through energy efficiency or demand response, possibly achieving savings as a result, may be confused to find their savings diminished by rates changed as a function of the cost of health care or some other product or service unrelated to electricity and natural gas service.

IIEC also suggests that perhaps too much emphasis is placed on rate impacts on DS-1 and DS-2 electric customers and that AIU and Staff have overlooked the fact that these customers have already been the beneficiaries of substantial rate mitigation. IIEC notes that assistance to small electric customers has come in the form of Docket No. 07-0165, Public Act 95-0481, and the Illinois Power Agency's efforts to purchase cheaper power for small customers. Large industrial customers, IIEC points out, are excluded from the benefits of the Illinois Power Agency's efforts.

While utilities normally have no financial stake in the revenue allocation method, IIEC suggests that in this proceeding AIU does; which may be influencing its endorsement of an across-the-board allocation method for electric rates. IIEC notes that AIU is proposing as a rate impact mitigation measure to cap DS-1 rates at an 8.5% increase in overall bundled rates for the first year. Recovery of any remaining allowed increase will begin in the thirteenth month following an order in this proceeding. Using AIU's proposed revenue requirement and across-the-board revenue allocation, IIEC witness Stephens calculates that the voluntary rate cap would cost AmerenIP $31 million. Under AIU's proposed revenue requirement and rates based on a COSS, Mr. Stephens calculates that the voluntary rate cap would cost AmerenIP $67 million. He therefore concludes that use of the across-the-board allocation method allows AIU to recover an additional $36 million under the voluntary rate cap.

IIEC notes that no party to this proceeding elected to present a comprehensive COSS in response to AIU's COSS. Moreover, no party, other than IIEC, offers any critique of AIU's gas or electric COSS. Other than its proposal to modify the AIU electric COSS to include the MDS concept, IIEC contends that there should be no dispute over the appropriateness of the AIU cost studies in this case for allocation of gas and electric revenue requirements and rate design.

With respect to its suggestion to incorporate MDS into the electric COSS, IIEC has provided modified versions of the COSS to reflect the central idea behind the MDS concept. That idea, according to IIEC, is that there are delivery system costs that do not vary with customer demand, but rather are customer related and attributable to electric industry mandated safety and reliability requirements. By definition, the MDS system comprises every distribution component necessary to provide service, i.e., meters, services, secondary and primary wires, poles, substations, etc. The cost of the MDS, however, is only that portion of the total distribution cost the utility must incur to provide service to customers, it does not include costs specifically incurred to meet the peak demand of the customers. Mr. Stowe states that the latter costs are properly allocated on the basis of demand. But unless AIU's COSS are modified to reflect the MDS concept, IIEC maintains that AIU's COSS in this case tend to overstate the cost responsibility of relatively few large customers and understate the cost responsibility of the numerous small customers.

IIEC proposes that its modified versions of the AIU COSS be used for revenue allocation in this case. If, however, the Commission elects not to incorporate the MDS into the AIU electric studies in this proceeding, IIEC recommends that the Commission: (a) use the unmodified versions of the AIU studies for rate design and cost allocation purposes in this case, and (b) direct AIU to incorporate the MDS concept in its next electric delivery service rate case COSS.

In further support of the MDS, Mr. Stowe asserts that to serve customers--even small residential customers -- a utility can not install wires smaller than a certain mandated minimum size or hang wires on poles below a certain height. The applicable minimum size and height requirements are independent of the customer's maximum peak demand or energy usage. Minimum wire size and wire height are mandated by safety and reliability standards which are contained in the NESC. Under these standards, even if existing customer demand increases or decreases, Mr. Stowe testifies that the cost of meeting these NESC standards remains fixed. As an example, Mr. Stowe states that the cost of meeting code requirements for a customer with a peak demand of 3 kW is exactly the same as the cost for meeting the code requirements for a 150 kW or even a 1 MW customer. The components of the system that only just conform to these safety and reliability standards comprise the MDS. The costs of these components represent the MDS costs. At the same time, he continues, if the system is expanded to meet additional peak demands, any costs above those associated with the minimum NESC requirements would be properly allocated on the basis of demand.

The NESC, Mr. Stowe argues, enables simple identification or MDS costs. He points out that the Commission has adopted the NESC standards (See 83 Ill. Adm. Code 305.20(b)), and Illinois utilities must comply with its mandates. The NESC specifies the minimum facilities and construction standards necessary for the safety of the public and utility employees in the installation, operation, or maintenance of electric supply and communication lines or their associated equipment. IIEC asserts that the cost of meeting these standards does not vary with the electrical demands or electrical usage of customers, but will vary based on the number of customers to be served by the electric utility.

In order to modify AIU's COSS to reflect the MDS concept in the absence of AIU specific data, Mr. Stowe used information from MDS studies of four companies which he either personally performed or reviewed during his employment with a public utility. Since the NESC standards apply equally to nearly every electric utility in the nation, Mr. Stowe concluded that it was reasonable to assume that the NESC standards are the same across utility service territories. Based upon this assumption and coupled with his experience in performing MDS studies for public utilities in other jurisdictions, he estimated applicable customer and demand percentages within the range of percentages determined by other utilities with urban operations, suburban operations, and rural operations similar to those of AIU. He also concluded that the total investment in rate base for these utilities was within the range of the total investment for AIU in this case, and that the average mix of primary and secondary distribution, as a percentage of total distribution plant, for his similar utilities was comparable to that of AIU in this case. With the use of these other four utilities' data, he determined the following demand and customer percentages: 84% demand and 16% customer for FERC Account 364 (Poles); 85% demand and 15% customer for FERC Account 365 (Overhead Wires); 39% demand and 61% customer for FERC Account 366 (Conduit); and 26% demand and 74% customer for FERC Account 367 (Underground Conductor). IIEC maintains that using Mr. Stowe's estimates of demand and customer percentages is better than making the de facto assumption that 100% of the subject costs are demand related and 0% are customer related. If the Commission concludes, however, that an Ameren-specific study is required, then IIEC suggests that AIU be directed to perform the necessary studies and present them in the next round of electric delivery service cases.

If the Commission adopts rates based on COSS, yet still has concerns about the impact on customers, IIEC proposes mitigation measures. For electric operations, IIEC offers two alternatives. Under the first alternative, rates for each class would move one-half of the way to cost of service. This approach reduces, but does not fully eliminate, rate subsidies provided or received by each class of customer. The second and final step to cost-based rates could be made in the next AIU electric delivery service rate case or a specified period of time -- e.g., two years after rates take effect. The revenue allocations associated with such an approach for AmerenCILCO, AmerenCIPS, and AmerenIP under the original AIU COSS and IIEC's modified version of the AIU COSS are shown in IIEC Ex. 1.2. Under IIEC's second alternative for electric operations, the Commission could limit the increase to any class' distribution delivery service charges to not more than 25% above the respective utility's overall increase. For example, if AmerenIP were to be granted a 10% overall revenue increase in this case, no customer class would receive an increase greater than 35% (10% + 25%) in its distribution delivery service charges.

In the gas cases, IIEC recommends a revenue allocation that moves rates toward cost of service, but not completely to cost of service. IIEC states that revenue allocation in the gas cases was complicated by the proposed change in class structures for the gas operations of the three utilities. Because of the complications associated with changes in class structures, IIEC proposes a more moderate revenue allocation than suggested by the AIU gas operations COSS. This ensures that customers are not unreasonably impacted by the change in class definition. For AmerenCILCO, IIEC recommends a revenue allocation that still produces a decrease for GDS-1 - Residential (-4.5%), which is approximately the same as the system average decrease (-4.67%), a smaller than average decrease for Rate GDS-5 - Seasonal Delivery Service (-2%), and slightly larger than system average decreases for all of the remaining customer rate classes: GDS-4 (-11%), GDS-3 (-5.90%) and GDS-6 (-11%). For AmerenCIPS Gas, IIEC recommends a larger than average increase for GDS-1 -Residential (26.35%) and GDS-5 - Seasonal Delivery Service (26%) and a smaller than average increase for GDS-2 - Small General Service (17.15%) , GDS-3 -Intermediate General Services and GDS-4 - Large General Service (17.15%). For AmerenIP, IIEC recommends a larger than average percentage increase for GDS-1 - Residential (48%), GDS-3 - Intermediate

General Service (48%), and GDS-5 - Seasonal Delivery Services (55%) and smaller than average percentage increases for GDS-2 - Small General Service (37.07%) and GDS-4 - Large General Service (37.24%).

With regard to AIU's proposal to maintain uniformity in certain charges among the three electric utilities, IIEC does not oppose uniform charges per se. IIEC observes that these charges were set on a uniform basis in AIU's last delivery service cases using a combination of embedded costs and replacement or incremental costs. IIEC reports that AIU did not supplant those charges with new cost-based charges. IIEC contends that AIU increases its costs by an escalation factor that is both illogical and unsupported in the record. The proposed charges were escalated on a ratio of the overall increase in delivery service revenues for all three AIU operating companies. According to IIEC, the overall increase ratio of 27% is a function of AIU's proposed revenue allocations and is based on increases to some cost items that have nothing to do with the customer charges, such as electric poles. The escalation factor for the customer charge results in a 27% increase. IIEC argues that there is no basis on which to conclude that the real underlying cost components of the customer charges, as determined in the last AIU delivery service rate cases, have increased by 27% in the two years between the 2004 test year in the last case, and the 2006 test year used in this case. IIEC states that a similar concept holds true for transformation charges and reactive demand charges. In the absence of a valid cost basis for a change in the present customer, meter, transformation, and reactive demand charges, IIEC urges the Commission to retain the current charges.

5. Commercial Group's Position

The Commercial Group endorses the use of AIU's COSS, with the electric COSS modified to reflect the MDS concept. Using AIU's electric COSS, the Commercial Group determined the degree to which certain classes are currently subsidizing other classes. The following table depicts the relative rate of return for each electric class of customers for each utility. The Commercial Group submits that a relative rate of return greater than 1.0 indicates that a customer class is providing subsidies to other classes, while a relative rate of return less than 1.0 indicates that a customer class is receiving subsidies from other classes.

	AmerenCILCO	AmerenCIPS	AmerenIP
DS-1	0.82	0.62	0.26
DS-2	1.39	1.93	2.91
DS-3a	1.76	2.10	1.24
DS-3b	1.86	1.87	2.18
DS-4	0.77	0.59	1.62

DS-5	0.84	1.20	2.38

The Commercial Group argues that all AIU DS-2 and DS-3 customers are currently paying more than their respective cost of service. The Commercial Group also notes that the DS-3 class includes elementary schools while the DS-4 class includes high schools and colleges. The Commercial Group maintains that it is not fair for commercial and industrial customers, schools, and colleges to subsidize other customers.

In addition, the Commercial Group asserts that AIU has an incentive to propose an across-the-board electric rate increase in light of its voluntary rate cap proposal. Mr. Stephens, the Commercial Group states, correctly points out that AIU has a $36 million incentive to propose an across-the-board increase. In effect, AIU's other customers are being asked to help pay for AIU's voluntary rate cap.

The Commercial Group is also under the impression that the Commission, in AIU's last rate case, directed AIU to file rates based on cost in its next rate case:

> [C]ircumstances in this case lead us to believe that no customer class here should subsidize the delivery services rates of another. The Commission directs the Ameren companies, in compliance filings, to file tariffs based on cost of service using the NCP allocation method. (Docket Nos. 06-0070/06-0071/06-0072 (Cons.), Order at 175)

The Commercial Group states that AIU filed COSS' in this case, although it did not file tariffs based on the COSS'. Mr. Baudino for the Commercial Group reviewed these studies and found them generally reliable for setting class rates.

In response to AIU's comment in its Initial Brief that it worked with the parties in an effort to address their concerns with its across-the-board proposal, the Commercial Group states that it is not sure what AIU means by this remark. The Commercial Group indicates that AIU did not approach it to discuss its concern of having to pay bills that are higher than cost. Nor does the Commercial Group understand AIU's reference in its Initial Brief to higher gasoline prices, higher energy bills, and higher health care costs as reasons for across-the-board rate increases. The Commercial Group asserts that these may be good reasons for keeping AIU's revenue increase as low as possible but not for increasing the subsidization of some classes by others.

The Commercial Group also objects to Staff's proposal for setting rates based on which customer groups can more easily absorb a greater bill increase. It is unclear to the Commercial Group how a class' relative ability to absorb rate increases could be measured in a fair, meaningful, and transparent manner. Regardless of the manner, the Commercial Group maintains that the ability to absorb rate increases (or willingness and ability to organize and advocate) is not a fair, objective way to set rates; cost is the fairest basis for setting rates.

6. Commission Conclusion

In determining whether to adopt an across-the-board rate increase or one based on AIU's COSS, the Commission notes that AIU, Staff, the AG, IIEC, and the Commercial Group have made extensive arguments both for and against the two proposals. Generally, the Commission prefers to set rates as close to the cost of service as is reasonably possible and/or appropriate. To do so, the Commission must first have an accurate idea of what the cost of serving each customer class is in each service area. AIU included with its initial rate filing COSS for its gas and electric operations. Although AIU supports an across-the-board rate increase, its COSS have been entered into the record via the granting of a June 6, 2008 IIEC motion. No party questions the validity of AIU's COSS, although IIEC and the Commercial Group would like the electric COSS to be modified to reflect the MDS concept.

IIEC and the Commercial Group express frustration with the subsidization of smaller customers by larger customers under current electric rates. While they understand the Commission's conclusions in Docket No. 07-0165 that led to the current rate structure, they do not believe that it is fair for larger customers, who are experiencing the same economic uncertainties as smaller customers, to be required to help support smaller customers. The Commission understands this frustration, but in light of the customer impacts that led to the rate redesign in Docket No. 07-0165, finds itself in a difficult situation. Given that the rate design resulting from Docket No. 07-0165 has only been in effect since January 1, 2008, the Commission is reluctant to return to full cost based rates after less than one year. The rate shock that would result from returning to full cost based rates would likely lead to another redesign docket. In order to mitigate the impact of the rate increase approved in this proceeding and avoid renewed rate shock, the Commission believes that it is more appropriate at this time to, generally, increase rates on an across-the-board basis. The Commission certainly does not mean to suggest by this decision that cost based rates have fallen out of favor. Cost based rates, all else being equal, continue to be the Commission's preferred rate design methodology. Under the circumstances of this continuing transition from the end of the rate freeze, the Commission simply believes that an across-the-board increase is the more prudent course of action at this time.

Since the Commission is not adopting rates based on AIU's COSS, it need not address the proposal that the COSS be revised to reflect the MDS concept. Nevertheless, the Commission feels compelled to mention that using cost data from other utilities and applying that data to AIU, as IIEC does, is of little value to the Commission. As noted by AIU and other parties, significant differences exist between AIU and certain of the utilities that IIEC chose to use data from and apply to AIU. As for requiring AIU to submit COSS incorporating MDS in its next rate cases, the Commission notes AIU's objection that it not be required to do so unless the Commission intends to adopt the MDS concept in setting rates. While IIEC's discussion of the MDS concept presented some interesting ideas to consider, the Commission is not prepared to conclude here that it will implement MDS in AIU's next rate cases. Therefore, the Commission will not require ratepayers to pay the cost of preparing a COSS incorporating the MDS concept for AIU's next rate cases. This does not mean to suggest, however, that other parties should not feel free to propose COSS reflecting the MDS concept.

As noted above, AIU determined that for the purposes of this proceeding to no longer seek uniformity and instead agreed to adjust the DS-1 customer, meter, and distribution delivery charges by a level equal to the average change in residential delivery service revenue for each of the three utilities. The Commission understands that Staff and the AG agree with the changes on this issue. The Commission finds AIU's proposal regarding DS-1 reasonable and approves it. In the future, however, the Commission will be interested in returning to uniform customer, meter, and distribution delivery charges among the customers of the three utilities to the extent that doing so is prudent.

For the DS-2, DS-3, and DS-4 classes, AIU also proposes to maintain uniform meter and customer charges across the three utilities. AIU also proposes to maintain uniform transformation (for both DS-3 and DS-4) and reactive demand (DS-4 only) charges. AIU states that the distribution delivery charge is proposed to "float" to recover the remaining revenue requirement targeted for each class. AIU believes that this proposal will facilitate service to customers, or potential customers, taking electric service from more than one of the utilities. The Commission recognizes that there are objections to at least portions of this AIU proposal, but nevertheless finds it reasonable and agrees that it will likely facilitate service to larger customers. The Commission therefore approves this AIU proposal.

With regard to the Commercial Group's citation to page 175 of the Order in Docket Nos. 06-0070/06-0071/06-0072 (Cons.) and its discussion of cost based rates, it appears that the Commercial Group misunderstands what is meant by a compliance filing. The compliance filing in that context referred to AIU's tariffs implementing the conclusions in that Order and filed within days of the entry of that Order. The language cited by the Commercial Group was not referring to AIU's next rate cases.

B. COSS in Next Rate Cases

Staff recommends that AIU propose gas and electric rates in the next rate cases based on cost of service. AIU does not object to doing so but indicates that it may also propose rates using an across-the-board approach or some other hybrid method. AIU explains that it wishes to preserve its options in case it does not believe, under the circumstances in the next cases, that strict adherence to cost of service is appropriate. Staff agrees that there is no way of predicting the future and what conditions may exist, and understands AIU's caveat to leave its options open to an alternative rate design dependent on future conditions. IIEC and the Commercial Group support the filing of COSS in AIU's next rate cases, but add that the electric COSS should incorporate the MDS concept. LGI recommends that AIU's next rate filings include a detailed COSS showing a lighting cost of service analysis for AIU identifying lighting fixture costs as well as a detailed street light rate design study to determine cost-based lighting fixture charges. If AIU is to file new COSS in its next rate cases, GFA would like the studies to evaluate and address the characteristics of seasonal users in general and, in particular, grain dryers. AIU objects to conducting studies incorporating GFA's proposal.

AIU is already required to provide a COSS for each utility pursuant to Part 285. The Commission anticipates that AIU will comply with this requirement and provide COSS in its next rate case filings. Whether AIU proposes rates based on the results of the COSS or some other approach is up to AIU for the reasons discussed above. As noted earlier, the Commission will not be requiring AIU to incorporate the MDS concept in its next electric COSS. The Commission will, however, require AIU to analyze the cost of lighting service in each of the utility's electric service areas and develop cost-based rate for lighting fixture charges, as proposed by LGI. AIU shall also analyze the cost of serving seasonal gas users as proposed by GFA. The arguments of LGI and GFA both give the Commission reason to further consider their respective positions. AIU's rate filings, however, need not reflect adoption of the lighting and seasonal user analyses. These analyses simply need to be available for the parties and Commission to consider.

IX. RATE DESIGN/TARIFFS TERMS AND CONDITIONS

The above discussion on how to allocate costs among the classes of electric and gas customers is but one component of rate design. Rate design, in the parlance of the Commission, also encompasses the terms and conditions of service in a utility's tariffs. Over the course of this proceeding, parties raised several issues and presented arguments concerning the terms and conditions of service. Some of these issues have been resolved, while others remain contested.

A. Resolved Gas and Electric Issues

1. Budget Billing Plan Tariffs

Staff witness Harden recommended that AIU provide more specific language concerning the methodology used in its budget billing plan regarding over or under recovery of customer revenue. In response, AIU witness Jones proposed revised language that (a) reinstates the “annual settle-up” (i.e., lump-sum settlement) language in existing tariffs and (b) provides flexibility for AIU to offer a second choice to customers to smooth any annual settlement amount over the next 12 months. Ms. Harden agrees with AIU's revised language for both the gas and electric tariffs. The Commission finds the revised language appropriate and directs that it be used.

2. Refundable Deposits for Line Extensions

Staff witness Lounsberry raised a concern regarding AIU's proposed tariff language concerning refundable deposits under AIU's Standards and Qualifications for Gas Service. He believed that the language could be interpreted in a manner inconsistent with 83 Ill. Adm. Code 500, "Standards of Service for Gas Utilities." In response to Staff data request ENG 2.202, AIU witness Warwick provided alternative language alleviating Mr. Lounsberry's concerns. The Commission finds the alternative language reasonable and directs that it be used.

Similarly, Staff witness Rockrohr raised a concern regarding AIU's proposed tariff language concerning refundable deposits under AIU's Standards and Qualifications for Electric Service. He believed that the language could be interpreted to mean that AIU would have sole discretion to determine the period of time over which an applicant who makes a refundable deposit would qualify for a refund, which is contrary to Section 410.410 of Part 410. In response, AIU witness Jones provided alternative language clarifying that customers will always have a cash deposit option available. This language is acceptable to Mr. Rockrohr. The Commission concurs and directs that the alternative language be used in AIU's compliance filing.

B. Resolved Gas Issues

1. Uniform Gas Tariff Language

AIU submitted an entirely new tariff book for each of the three gas utilities. Many of the terms and condition are the same as those in the existing tariffs, but have been written/presented differently in order to make the three companies' tariffs more uniform. AIU describes the proposed changes in its Initial Brief at pages 324 through 327. Staff agrees that creating more uniform gas tariffs is desirable and recommends that the Commission approve the revisions. The Commission concurs and directs AIU to reflect the changes in its compliance filings in this proceeding.

2. Renaming of Certain Gas Customer Classes

AIU proposes to rename its gas customer classes as follows in order to conform to its electric customer classes:

AmerenCILCO

Present Rate Classification	Proposed
Rate 510 – Residential Gas Service	GDS-1
Rate 550 – Small General Gas Service	GDS-2
Rate 600 – General Gas Service	GDS-3
Rate 600 – Minimal Winter Use Gas Service	GDS-5
Rate 650 – Intermediate General Gas Service	GDS-4
Rate 700 – Large General Gas Service	GDS-6
Rate 800 – Contract Service	GDS-7

<u>AmerenCIPS and AmerenCIPS Metro-East</u>

Present Rate Classification	Proposed
Rate 1 – Residential Service	GDS-1
Rate 2 – General Delivery Service (small meter < 700 cubic feet per hour ("cfh"))	GDS-2
Rate 2 – General Delivery Service (large meter > 700 cfh)	GDS-3
Rate 3 – Large Use Firm Delivery Service	GDS-4
Rate 3 – Minimal Winter Use Delivery Service	GDS-5
Rate 4 – Large Use Inadequate Capacity Delivery Service	GDS-4
Rate 4 – Minimal Winter Use Delivery Service	GDS-5
Rate 5 – Special Contract Service	GDS-7

<u>AmerenIP</u>

Present Rate Classification	Proposed
Rate 51 – Residential Gas Service	GDS-1
Rate 63 – Small Volume Firm Gas Service	GDS-2
Rate 64 – Intermediate Volume Firm Gas Service	GDS-3
Rate 65 – Large Volume Firm Gas Service	GDS-4
Rate 66 – Seasonal Gas Service	GDS-5
Rate 76 – Transportation of Customer Owned Gas Service	GDS-1-5
Rate 90 – Contract Service	GDS-7

Staff accepts the proposed renaming of the gas customer classes as long as it does not result in unequal bill impacts on individual gas customers. The Commission finds the proposal to rename the customer classes reasonable and is aware of no unequal bill impact on any customers; therefore the renaming of the classes should be reflected in the compliance filings.

3. Customer Charges and Metering Differentials

AIU initially proposed to change all customer charges by an across-the-board percentage except the differential between the customer charges for sales customers and the customer charges for transportation customers that accounts for the added costs of daily metering. AIU's proposal also included the requirement of daily metering service and the imposition of such a differential for the first time for AmerenCILCO's Rider T customers. Staff witnesses Sackett and Harden objected to the exceptions to the across-the-board change. Mr. Sackett testified that the disproportionate changes would be a barrier to transportation customers. Ms. Harden objected because the proposal deviates from the across-the-board change and would cause a higher level of bill impacts for transportation customers. AIU witness Warwick accepted this, removed the AmerenCILCO differential, and changed the customer charges for each Local

Distribution Company ("LDC") by the across-the-board percentage. Staff finds these changes acceptable. The resolution of this issue between AIU and Staff should be reflected in AIU's compliance filing to the extent not otherwise affected by the conclusions below.

4. Use of PGA in Cashout Mechanisms

Initially, AIU proposed to cashout daily imbalances between nominations and usage for gas transportation customers at the higher of the Chicago City gate price or the PGA and monthly imbalances at the higher of the Average Chicago City gate price or the PGA. Staff witness Sackett objected to this because the Chicago City gate price reflects the market and no other major LDCs in Illinois have the PGA in their cashout mechanism. AIU witness Glaeser removed the proposal. The current proposal is for the Chicago City gate to be the only daily cashout price. AIU has also removed its proposal for a monthly cashout. Staff agrees with this proposal. CNE-Gas supports these changes as well. The Commission finds the cashout mechanism acceptable and directs that it reflected in the compliance filing.

5. Curtailment Language

Staff identified a drafting error regarding the proposed Curtailment Plan – wherein transportation customers were to be completely curtailed before any system supply customer. AIU addressed this error and indicates that it is not its intent to confiscate gas supply from a transportation customer and supply it to a PGA customer of the same type in the event of a system curtailment. AIU states that curtailments will take place on a customer service level and not by the type of service (Rider T or Rider S) the customer is utilizing.

Staff also recommended that AIU adopt a blend of the current AmerenCILCO and AmerenIP curtailment plans. AIU contends that doing so is not feasible. AIU witness Glaeser explained that the Curtailment Plan would only be initiated in the most severe circumstances when it is imperative that customers reduce load to enable AIU to serve the residential customers and human need providers. AIU stated that Staff's recommendation is a complicated scheme that would not be workable in an expeditious manner during a system emergency. Staff later accepted AIU's explanation.

In response to CNE-Gas' comment that AIU should only curtail deliveries within a particular customer class, without regard to whether a customer is a firm transportation or firm sales customer, AIU states that this is exactly how the Curtailment Plan is written and intended to operate. Mr. Glaeser explains that the first category of Curtailment is "Category 1: Customers taking service under Rates GBS-4, 5, 6, and 7 except those Customers identified under Category 3" and that the curtailment language is defined by rate category and, again, not whether the customer is taking service under Rider T or Rider S.

Staff witness Sackett objected further to AIU's proposed curtailment language because although AIU provided a rationale for four of the reasons that a Critical Day may be declared, it also added a fifth “catch-all” reason. Initially, AIU had proposed to add language under Rider T to allow the declaration of a Critical Day for any “other market condition which may warrant such action by [AIU].” Later, Mr. Glaeser offered to revise the language under the Critical Day definition to reflect the purpose of declaring a Critical Day. The Critical Day definition was revised by removing “market” prior to “conditions” and qualifying that action may only be taken due to conditions which “jeopardize the system integrity and/or system reliability.” Staff finds this change acceptable.

The Commission finds the resolution of the curtailment language issues reasonable and directs that AIU's compliance filing reflect the resolution.

6. Small Volumetric Distribution Charge

AIU recommended eliminating the Small Volumetric Distribution Charges for AmerenCILCO GDS-4 and GDS-6, and AmerenIP GDS-4. Staff witness Harden did not agree with this due to the unequal bill impacts for individual gas customers that could result from this change. AIU has agreed to maintain the Small Volumetric Distribution Charge for these rate classes. The Commission concurs that doing so is appropriate.

7. Standard Information Provided with Customer Usage History

In response to an issue raised by CNE-Gas, AIU agrees to provide with usage history requests (a) the customer's service classification and rider(s), (b) the customer's maximum daily contract quantity ("MDCQ"), (c) if applicable, the customer's bank volume, and (d) if applicable, the customer's gas main maximum allowable operating pressure. The Commission finds that doing so is reasonable and directs provisioning of this information be reflected in AIU's compliance filings.

8. Reconnect Charge

AIU witness Warwick proposes to set the gas Reconnect Charge at $15.00 during regular working hours and at $50.00 outside of regular working hours for each of the three utilities. The Reconnect Charge is currently $55.00 during regular working hours and $100 outside of regular working hours at AmerenCIPS, $25 or actual cost at AmerenCILCO, and $15.00 during regular working hours and $25 outside of regular working hours for AmerenIP. Staff recommends approval of the uniform Reconnect Charge changes as a reasonable change. The Commission concurs and approves the change.

9. Dishonored Check Charge

AIU witness Warwick proposes to set the Dishonored Check Charge at $15.00 for each of the three utilities on any negotiable instrument returned by a bank, savings institution, or other institution. The Dishonored Check Charge is currently $15.00 at AmerenCIPS and $10.00 at AmerenCILCO and AmerenIP. Staff recommends approval of the uniform Dishonored Check Charge change, noting that it is below the charge at many other Illinois utilities. The Commission finds the $15.00 Dishonored Check Charge reasonable and approves of the change.

10. Footage Allowance for Service Connections

AIU witness Warwick proposes to conform all of AIU's gas tariff language regarding allowances for service connections to the language contained in the Joint Agreement of the Parties, attached as the Appendix to the Commission’s Order in Docket No. 03-0767. In that proceeding, all parties reached an agreement that the free footage allowance for service connections in Illinois should be 60 feet of gas pipe. Staff witness Harden finds AIU's proposal~~ed change in the free footage allowance from 200 feet to 60 feet~~ acceptable. Consistent with its findings in Docket No. 03-0767, the Commission approves of this change.

11. Group Balancing Service for AmerenCILCO

AIU witness Glaeser explains that a key provision in the proposed services allows for Group Balancing under Rider G, which is a new service for transportation customers on the AmerenCILCO system. Group Balancing is already available to AmerenIP and AmerenCIPS transportation customers. The service provides the customer and/or its marketer with an opportunity to request that its accounts be combined with two or more accounts on the same interstate pipeline for nominating and balancing purposes. Customers located in a city which is served by multiple interstate pipelines, as identified on the AIU web page under Unbundled Services Management System ("USMS"), will be allowed to balance nominations across those specific multiple pipelines. Additionally, this service allows the Group Manager to manage a group of customer accounts as a single load rather than by individual accounts, and provides a netting mechanism for mitigating imbalances, wherein the daily over-deliveries for one customer can offset the under-deliveries for another customer. This offsetting arrangement aids the Group Manager in keeping daily imbalances to a minimum. The larger the marketer’s customer group becomes under Group Balancing, the greater the netting effect which improves daily imbalance performance. The Commission considers the provisioning of Group Balancing for AmerenCILCO transportation customers appropriate and approves of its implementation.

~~12. AmerenCIPS and AmerenCIPS Metro-East Rate Area~~

~~Currently, AmerenCIPS has two rate areas, AmerenCIPS and AmerenCIPS Metro-East. In its direct filing, AIU witness Warwick proposed to establish one set of gas tariffs for the entire AmerenCIPS footprint instead of the two current rate areas. Staff witness Harden objects to consolidating these service areas due to the unequal bill impacts for individual gas customers that could result from this change. Mr. Warwick later stated a willingness to accept the Staff position. He notes, however, that the rate~~

~~conformance would bring about a rate reduction for certain customers. While AmerenCIPS agrees to forego rate consolidation at this time, AIU plans to raise the issue again in AmerenCIPS' next gas rate case consistent with Ms. Harden's comments. The Commission finds this compromise acceptable in the case at hand but is interested in discussing the consolidation of these rate areas in the future.~~

~~13~~12. Consolidation of PGA Rates

AIU witness Glaeser proposes that the AmerenCIPS PGA and the AmerenCIPS Metro-East PGA be consolidated into a single PGA rate. According to Mr. Glaeser, natural gas prices have been more volatile since the winter of 2000-2001. If consolidated, he states that the AmerenCIPS Metro-East customers would be part of a larger service area and a more stable PGA rate could be provided because of expanded hedging opportunities. Mr. Glaeser explains that the AmerenCIPS strategy is to have approximately 60-75% of a normal winter's demand hedged through a combination of price hedge protection and storage withdrawals. He asserts that this strategy works well in a large system that has a large number of baseload transactions that can be efficiently price hedged. This same strategy, however, becomes constrained in a small system with limited baseload transactions where one or two hedging transactions determine the PGA for the entire winter heating season. Mr. Glaeser further testifies that if the Commission grants this proposal, AIU would be willing work with Staff to develop a mechanism to ensure that the AmerenCIPS and AmerenCIPS Metro-East customers would be charged or credited with respect to the balance of any over- or under-recovered costs existing at the implementation date.

Based on these potential benefits to AmerenCIPS Metro-East customers, and given Mr. Glaeser's agreement to work with Staff while converting to a single PGA rate, Staff does not oppose the consolidation of the AmerenCIPS and AmerenCIPS Metro-East PGA rates into a single PGA rate. If the Commission approves AIU's proposal to consolidate the PGAs, Staff recommends that the Commission order AmerenCIPS to submit a monthly report to the Commission's Bureau of Public Utilities, for one year following the date of the order in this proceeding, estimating the PGA rates applicable to AmerenCIPS and the AmerenCIPS Metro-East territory as if no consolidation had been approved. AIU does not object to submission of monthly report as described by Staff. The Commission finds the proposals reasonable and directs that they be reflected in AmerenCIPS' compliance filing.

~~14~~13. Ameren CIPS Rate 2

For AmerenCIPS and AmerenCIPS Metro-East, AIU witness Warwick proposes splitting existing Rate 2 -General Delivery Service into two new rate classes: GDS-2, for small meters (Meter A) and usage less than 700 cfh, and GDS-3, for large meters (Meter B) and usage greater than 700 cfh. Staff witness Harden does not oppose this proposal since it would not result in unequal bill impacts for individual gas customers. The Commission finds the proposal reasonable and approves it.

~~15~~14. AmerenCIPS Rate 4

AIU inadvertently omitted certain tariff language it had intended to retain from the current AmerenCIPS Rate 4 – Inadequate Capacity System Gas Service. The language is currently in the existing AmerenCIPS tariff and it is appropriate to maintain the same language in the proposed tariffs related to this case. Staff supports the revision of the tariff to include the language in question. The Commission concurs with the revised language and directs that it be used.

~~16~~15. AmerenIP Service Activation Fee

AIU witness Warwick proposes to eliminate the gas Service Activation Fee for AmerenIP, as neither AmerenCIPS nor AmerenCILCO have a similar provision. AmerenIP's Service Activation Fee is $10.00 when a customer requests service under Service Classifications 51, 63, or 64. If the service activation requires lighting, relighting, or inspection of appliances, the charge is $25.00. Since AmerenIP has not shown a need for the charge and since AIU is focusing on uniformity in the instant proceeding, Staff witness Harden agrees with AIU that elimination of the Service Activation Fee from AmerenIP's tariffs is appropriate. The Commission concurs and directs that this change be reflected in AmerenIP's compliance filing.

~~17~~16. AmerenIP Rates 4 and 5

AIU witness Warwick proposed to eliminate the AmerenIP Facilities Charge presently in Rates 65 and 66. Staff witness Harden initially opposed this change and proposed that an across-the-board increase be applied to each rate without eliminating any individual rate elements, because unequal bill impacts may occur. In response, Mr. Warwick stated that this proposed revision would not result in unequal customer bill impacts. To further the argument, he presented an example calculation in which he increased the Facilities Charges by the overall percentage increase, with some rounding, and then merged the resulting charge into the proposed Customer Charges. In the example, the resulting value is the same whether the Facilities Charge is a separate charge or rolled up with the Customer Charge. Therefore, there is not an unequal bill impact. AIU contends that the resulting charge becomes more straightforward to the customer by eliminating unnecessary line item charges. AIU states further that this is another area where it can move towards tariff conformance with no adverse customer impact. Staff agrees to merge the AmerenIP Facilities Charges for GDS-4, GDS-5, and Rider T into the applicable Customer Charges. The Commission approves of this proposal.

~~18~~17. Elimination of AmerenIP's Rider H

AmerenIP proposes to eliminate its Rider H – Adjustment for Pipeline Transition Surcharge since it has not been used in several years. Staff witness Harden agrees that Rider H should be eliminated from the AmerenIP tariffs. The Commission finds this proposal reasonable and approves it.

C. Resolved Electric Issues

1. Customer and Meter Charge

AIU has a three-part residential electric rate consisting of a customer charge, a meter charge, and a distribution charge. The current customer charge and meter charge are the same among the three utilities. AIU had initially proposed to increase the customer and meter charges by 27% for all three, which is AIU's proposed system-wide approximate average increase. Because of the impact on residential bills, the AG and Staff object to AIU's proposal and recommend that AIU at least temporarily abandon the notion of uniform customer and meter charges. AIU now agrees and favors an approach similar to that of the AG and Staff. Pursuant to this approach, AIU will increase customer and meter charges by a level equal to the average change in residential delivery service revenue for each of the three electric utilities The Commission finds that the AG and Staff approach is reasonable for purposes of this proceeding and approves it, however, the Commission directs AIU and Staff to review the issue of uniform customer and meter charges among the three utilities in their next electric rate cases.

2. Supply Cost Adjustments

The components that make up AIU's Supply Cost Adjustment ("SCA") are as follows: the Supply Procurement Adjustment, an Uncollectibles Adjustment, and a CWC Adjustment. The Commission has directed AIU to update these costs and/or factors in delivery services rate case proceedings.

a. Supply Procurement Adjustment Amortization Period

AIU states that the Supply Procurement Adjustment is intended to compensate each utility for all direct and indirect costs of procuring and administering power and energy supply for all customers, other than amounts recovered in other charges to customers receiving power and energy service from AIU. According to AIU, these costs consist of expenses such as professional fees, costs of engineering, supervision, insurance, payments for injury and damage awards, taxes, licenses, and any other A&G expense not already included in the cost of power and energy service.

AIU ~~has calculated $2,004,727 in Supply Procurement Adjustment costs. Dividing that cost by the approximate load expected to be served through AIU procured power in the 12 months from June 2008, or 18,519,152 MWh, is 0.011¢/kWh~~ and Staff agree that the correct ongoing costs to be recovered through the Supply Procurement Adjustment is $1,057,003 and the amount to be amortized over the life of these rates is $1,415,011. AIU states that it and Staff agree on the amount of the adjustment, and agree that the amortization period for the amortized portion of the costs should be consistent with the amortization period approved by the Commission in this case for electric rate case expense. AIU says the parties only disagree with whether such amortization should be based on two years or three years.

The Commission has determined the amortization period for rate case expense elsewhere in this Order. It appears that there is no other decision that the Commission must make with regard to this issue.

b. Uncollectible Adjustment

AIU witness Jones presented a chart in direct testimony showing proposed Uncollectibles Adjustment factors by rate class, which are a subset of the SCA contained within Rider PER, AIU's tariff governing prices and cost recovery for fixed price power supply service. Staff witness Ebrey objects to a portion of the calculation proposed by AIU pertaining to write-offs for combination (both gas and electric) customers, and recommends that write-offs be allocated based on the relative gas versus electric revenues for combination customers. AIU adjusted its methodology for development of the class specific uncollectibles factors based on Ms. Ebrey's recommendation in her rebuttal testimony, and thus the issue is no longer contested. AIU states that now, only the total level of uncollectible account expense is at issue. The updated uncollectibles adjustment factors, taking into account the adjustment proposed by Ms. Ebrey and the total level of uncollectible account expense proposed by Mr. Stafford, are presented in AIU's Initial Brief. AIU says that if the Commission approves overall uncollectibles rates different from those provided in Mr. Stafford's rebuttal, the class level uncollectibles factors should be updated to match the approved overall uncollectibles rate.

The Commission has determined the uncollectibles issue elsewhere in this Order. AIU is directed to update the uncollectibles factors consistent with the Commission's conclusions when it makes its compliance filing at the conclusion of this proceeding. Based upon the Commission's decision to adopt AIU's three-year average for uncollectibles, the approved uncollectibles factor for AmerenCILCO is 0.582%, for AmerenCIPS is 0.569%, and for AmerenIP is 0.541% as shown on Ameren Ex. 19.4.

c. CWC Adjustment

According to AIU, the purpose of the CWC Adjustment is the equitable recovery of the time value of expenses incurred to purchase power and energy for customers in a manner that recognizes the time lag between the incurrence of these expenses and the revenue stream or receipts from customers who pay for said power and energy. AIU's proposed CWC Adjustment is 0.7986%, which has increased from 0.308%.

AIU claims the CWC associated with the power supply should be based on the calculations shown on Ameren Ex. 3.16E for each of utilities. As discussed above in this Order, Staff witness Kahle recommends that AIU receive preferential treatment on the timing of payments from affiliated companies, in order to offset the shorter lead time in which AIU has to pay suppliers for electricity purchases, due to AIU's current credit situation. AIU argues that Mr. Kahle's position should be rejected because it conflicts with the Commission's rules designed to protect against preferential treatment between affiliated companies.

The Commission has made its decision regarding CWC elsewhere in this Order. When it makes its compliance filing at the conclusion of this proceeding, AIU is directed to make any changes to its SCA to reflect the Commission's decision regarding CWC. The Commission approves a CWC Adjustment factor of 0.7986% for use in Rider PER.

D. Contested Gas Issues

1. Gas Bank Sizing and Daily Balancing Tolerances

a. AIU's Position

In an effort to bring standardization and uniformity to gas transportation services across the three utilities, AIU has requested approval to unite all transportation services into one new rider, Rider T--Gas Transportation Service, applicable to each utility. In the process of reforming the transportation services to bring about standardization, AIU has also updated the tariffs to meet modern system goals and requirements. Central to the Rider T proposal are the policies presented with regard to banking services and imbalance tolerances designed by AIU to meet the necessities of modern operating and market conditions.

i. Policy Considerations

In order to understand the relevance of its banking services proposal, AIU believes that it is important to appreciate the policy drivers behind the banking services and imbalance tolerance provisions, and the overall context of banking services within the Rider T framework. AIU asserts that the need for modified banking services and tolerance levels is driven by:

- Gas price volatility, which exacerbates the potential gaming opportunities and unduly exposes sales customers to cost transfers;
- Pipeline tariff restrictions, which limit the gas utilities' flexibility; and
- Pipeline capacity constraints, which means there is not the means by which to access additional gas supply.

AIU asserts that extreme price volatility in the North American natural gas markets since the winter of 2000/2001 and growing interstate pipeline capacity constraints have fundamentally changed the nature of the natural gas industry. AIU contends that the flexible transportation services it currently offers were developed years ago during a period of stable gas prices and excess and unconstrained interstate pipeline capacity in the Midwest, conditions that no longer exist today. Certain of AIU's existing transportation services include monthly balancing. AIU asserts that monthly balancing was acceptable when gas prices were stable at $2 per MMBtu for years on end, but becomes very problematic when gas prices swing up to $1 per MMBtu from day to day and can reach $14 per MMBtu during peak periods.

Monthly balancing, AIU continues, creates opportunities for gas suppliers to exploit short-term price swings. AIU explains that monthly balancing in volatile gas markets gives transporters and marketers an incentive to "short" (under-deliver gas supply compared to customer demand) the LDC system on days when gas prices spike to high levels and "go long" (over deliver gas supply compared to customer demand) on days when gas prices drop to low levels, while staying roughly in balance by the end of the month. AIU witness Glaeser testifies that this manner of market arbitrage raises AIU's costs. Since the transportation customer's demand still exists while its marketer is "shorting" the system, he explains that the LDC must still meet the overall demand of the system by delivering additional gas supplies from its suppliers and withdrawing additional gas from leased and on-system storage resources. In other words, the LDC must purchase additional gas supplies at potentially higher market prices to make up for marketers "shorting" the system. This in turn, Mr. Glaeser reports, may directly impact the sales customers since the cost of the incremental supplies and storage withdrawals are included in the PGA rates which are paid for by the sales customers and not the transportation customers or their marketers. The inverse situation is also problematic where daily gas prices drop to low levels and a marketer will "go-long" or over-deliver compared to its customer's demand which, in turn, makes less room for the LDC to acquire gas supply during low priced periods which would lower the PGA rate. This type of operational behavior is permissible under the current tariffs for AmerenCILCO and AmerenIP, which AIU contends is the fundamental reason for the proposed changes.

With regard to capacity constraints, AIU indicates that most of the interstate pipelines that it operates on are now constrained in that all or most available firm capacity is under contract with shippers and the utilization of that firm capacity has increased, especially during the summer period for gas-fired power generation. Since 1999, AIU reports that approximately 200,000 MW of gas-fired generation has been built in the U.S. which has a potential demand of 17 Bcf/day compared to the production of natural gas in the lower 48 states of 51 Bcf/day. AIU asserts that this new demand has created significant stress on interstate pipeline operations and has given greater exposure of the natural gas markets to the price volatility of the power markets. Mr. Glaeser also testifies that even in the last 18-24 months there has been a substantial increase in pipelines issuing operational flow orders ("OFO") and system protection warnings.

AIU asserts that one of the contributing factors to the current system integrity issues is the increased reliance on natural gas used for electricity production. Ameren Exhibit 30.1 graphically demonstrates the significant amount of natural gas being consumed by power generation. AIU states that gas-fired generation has the potential of creating near instantaneous peak day demands on the pipeline systems during the summer season, which directly competes for gas supply and capacity for storage injections. AIU contends that this is causing interstate pipelines to operate with tighter tolerances, which are reflected in their tariffs for services such as daily balancing, imbalance cashouts, and penalties, in addition to operational constraints such as interruptible transportation curtailments and pipelines not allowing secondary-out-of-path nominations. AIU states that the demand for natural gas by the power generation sector has become a major source of demand for the gas industry and has created significant competition for natural gas during the summer when gas supply and pipeline capacity for storage injections are critical. In other words, the gas industry has been transformed from a winter peaking industry to a winter and summer peaking industry which has contributed to increased price volatility and constrained pipeline capacity. AIU reports that its own experience with gas generation supports this contention. Ameren Ex. 30.3 is a graph of AmerenUE's gas generation demand since 2004 which has shown sharply increasing gas demand each year, which even outstripped the utility's internal budget forecasts. In 2004, AmerenUE's gas generation demand was 758,000 MMBtu which by 2007 had risen to 10,494,000 MMBtu or by 1,400%.

AIU submits its transportation tariffs have not changed or adapted to the new operating environment. To eliminate or at least reduce the possibility of marketers exploiting existing balancing services, AIU's proposed transportation tariffs have been designed to maintain tighter system operations in order to protect system integrity and mitigate the impact of gas price volatility on the sales customers. Of AIU's 817,000 total customers, all but 518 are system sales customers. The 518 transportation customers, however, represent a significant level of system throughput. In addition, this is the first real opportunity for AIU to update transportation services to meet the challenges of today's natural gas markets and to develop common transportation services since the acquisition of CILCO in 2003 and IP in late 2004.

To manage such tight interstate pipeline tolerances, AIU contracts for and maintains a portfolio of resources on the interstate pipelines in order to manage its gas supplies to such a level. These resources include services offered by the interstate pipelines such as no-notice storage service, park and loan service, line pack service and park/unpark service, point operator agreements, and operational balancing agreements. These services effectively provide AIU with additional balancing flexibility and banking ability to operate within very tight tolerances. AIU points out that sales customers pay for these services.

Staff witness Sackett disputes AIU's position that interstate pipelines are operating with tighter tolerances since 1999 (when a significant amount of gas-fired generation was built in the U.S.); he further states that AIU has not provided any evidence of tightening pipeline tolerances. In response, AIU states that its actual position is that the operations of interstate pipelines have tightened and become more constrained, not necessarily that their stated tariff tolerance percentages have been reduced over time. AIU relates that many of the interstate pipelines that it utilizes to transport gas are operating at higher capacity levels on a year-round basis, not only due to gas-fired generation demand but also due to regional gas price differentials. AIU reports that mid-continent supplied interstate pipelines like Panhandle and Natural Gas Pipeline Company of America's Amarillo mainline system are sold out of firm capacity since they are connected to some of the least expensive gas production basins in the U.S.

AIU also relays that interstate pipelines are invoking operational restraints more frequently. According to Ameren Exhibit 30.4, there has been an increase in the frequency of interstate pipeline notices calling for specific actions to be taken by shippers on the pipeline systems due to operating constraints. This exhibit reflects a summary of interstate pipeline notifications/alerts since during 2007 for critical and non-critical days, force majeure events, line segments being at capacity with Interruptible Transportation/Authorized Over-Run restricted, secondary out-of-path firm at scheduling risk, and line segments being out of service for maintenance.

These notifications/alerts have affected AIU's gas flows on interstate pipelines. Ameren Exhibit 30.5 contains a list of each date during 2007 that a supplier's gas failed to be delivered to the AIU city gate and the reasons why the deliveries were not made. One of the biggest supply interruption events during 2007 was the Panhandle mainline #400 rupture that occurred on November 21. As a result of the rupture, AIU reports that it experienced pro rata force majeure cuts to virtually all of the firm gas supplies being delivered by Panhandle. These cuts in gas supply ranged between 15%-20% of nominated volumes on Panhandle beginning on November 27, 2007 and lasting through January 8, 2008. During this time, AIU states that it was able to maintain the integrity of the system by utilizing its leased no-notice storage and on-system storage resources.

AIU reports that the Panhandle mainline rupture did not cause widespread cuts to the gas supply of transportation customers. In response to Data Request Ameren-CNE-2.06, AIU relates that CNE-Gas states that "between 11/26/07 and 1/8/08, CNE-Gas nominations to an Ameren LDC city gate supplied from Panhandle Eastern Pipe Line were cut due to a supplier force majeure." CNE-Gas notes, however, that "[d]uring this period, CNE-Gas made no special requests to customers to reduce usage" and that "[d]uring this period, there was no specific impact" to its customers. Similarly, in its response to Ameren's Data Request Question No. 1.04, AIU states that IIEC indicates that three of its member companies received service from Panhandle and only one had gas supplies cut off or scheduled off by the pipeline and none of the three had their supply deliveries affected at their facilities. AIU contends that these transportation customers were able to maintain normal usage levels despite the Panhandle rupture because AIU back-stopped the shortage in gas supplies for the transportation customers, similar to the six examples previously discussed (and detailed in Ameren Ex. 30.6), by utilizing system supply resources which, again, are paid for by system sales customers.

AIU states that neither Staff nor CNE-Gas has a sufficient response to its evidence of additional operational restrictions, notifications, and alerts on the interstate pipelines. AIU contends that Mr. Sackett gives no consideration to the factual evidence provided in this proceeding. Subsequently, in response to Staff data request POL 13.11, AIU provided four years of historical data for three of its largest interstate pipelines, which clearly demonstrate an increasing trend of pipeline critical notices numbering over a thousand. While Mr. Sackett acknowledges AIU's response to POL 13.11, AIU states that he then devotes only two sentences to this evidence by saying "Ameren responded to Staff DR Pol-13.11, in which it presented additional summary information that does show that some operational notices increased from 2004 through 2007. However, [Ameren witness Glaeser] offers in his DR that no more than half of these affected Ameren customers." (Staff Ex. 23.0 at 16) AIU observes that Staff fails to mention that all of these notices were critical in nature and exceeded 1,000 in number. AIU contends that this is yet another example of how Staff ignores factual evidence provided by AIU and provides absolutely no evidence of its own. Similarly, CNE-Gas states that AIU has provided "no valid evidence as to whether upstream interstate pipelines are issuing OFOs and other restrictions with increasing frequency" when questioning whether the new balancing tolerances and transportation service changes are required to protect system integrity and operations. (CNE-Gas Ex. 2.0 at 14) As with Staff, AIU asserts that CNE-Gas simply disregards the evidence provided, while at the same time providing no evidence of its own.

Staff's view that AIU has provided very limited anecdotal evidence of any gaming behavior and no quantification of any harm to sales customers is also mistaken, according to AIU. In its responses to the IIEC Data Requests 2.34, 2.35, and 2.36, which were also provided to Staff, AIU states that it provided detailed examples and in-depth discussion of six individual operating days of transportation imbalances on the system. The information encompassed three examples of transporters net shorting the system and three examples of transporters net longing the system. In each of these examples, AIU states that factual information was provided that would enable a reasonable reader to quantify the cost impact of the imbalance on the system sales customers. AIU calculates that the cost of the three long days totals $51,361 and the cost of the three short days totals $47,822, for a total impact of $99,183 for the six days. AIU contends that Staff chose to ignore the physical evidence by ignoring the value of system gas which was used to manage these imbalances. Even without doing the math, AIU states that the examples clearly show that system resources were used to handle the transporter's imbalance swing and that these system resources were being paid by AIU sales customers. AIU states further that none of the parties in this case dispute the fact that transportation imbalances (longs and shorts) occur at some level every single day on each of the systems. AIU argues that accepting Staff's recommendation means it's a certainty that system resources will be used more and more by transporters at the expense of residential and small commercial sales customers.

With regard to gaming behavior, AIU provided Staff in response to Data Request POL 6.05(g) with concrete examples of two marketers that repeatedly game the systems time and time again for economic gain, including one marketer that games between utilities from weekday to weekends. AIU maintains that some marketers are basically shifting their scheduled gas deliveries on the weekends between customer accounts that are balanced daily and those that are balanced monthly, to avoid having to decrease their gas supplies flowing to the system when the customers' usage decreases substantially on Saturday and Sunday. The marketers move the gas to the monthly balanced customers rather than decreasing the deliveries because gas supplies are typically purchased on a ratable basis over Saturday-Sunday-Monday periods. If the marketer bought the gas only for one of the three days, it would have to pay a premium for the gas or acquire balancing services on the interstate pipeline. AIU observes that one marketer is doing this on the AmerenIP system by shifting gas between Rate 76 daily balanced customer accounts and Rider OT monthly balanced customer accounts. The other marketer, AIU states, actually does this shifting maneuver from daily balanced AmerenCIPS customer accounts to AmerenCILCO monthly balanced accounts.

In response to Mr. Sackett's suggestion that by eliminating the difference between the daily price and the cashout price, any arbitrage opportunity is eliminated, AIU understands the bottom line summary of Staff's arbitrage example to be that the utility's sales customers foot the bill for the arbitrage gain achieved by the transportation customers who may be intentionally either over-delivering or under-delivering gas to the LDC system. AIU agrees that arbitrage opportunities are minimized by Mr. Sackett's suggestion of having daily cashout pricing based upon daily market prices.

ii. AIU's Banking and Balancing Proposal

AmerenCIPS and AmerenCILCO currently offer banking services in the amount of 10 times the average daily peak month ("ADPM")[11] and AmerenIP offers 12 times MDCQ, but only for the 87 customers served under AmerenIP Rider OT. All other AmerenIP transportation customers served under Rate 76 currently have no bank service. In its original filing, AIU proposed to eliminate the banking services currently in place for AmerenCILCO and AmerenCIPS as well as the limited banking services available to AmerenIP customers under Rider OT (by eliminating Rider OT as discussed below). Upon further consideration, however, AIU now proposes banking services for all three Illinois gas utilities in the amount of 8 times the ADPM in the prior rolling 12-month period. AIU proposes to revise the banking services for two purposes: (1) bring consistency to the terms and conditions of service among all three companies through Rider T, and (2) to facilitate the continued provision of efficient service in light of emerging economic and industry challenges and trends.

The first reason for revision is self-explanatory: it is plainly beneficial for AIU and its customer to have uniform terms and conditions for transportation service common among all three utilities. As for the second reason for revision, concerning emerging economic and industry challenges and trends, AIU relates that in order to provide service to both transportation and sales customers efficiently, it is important that it anticipate operation needs across its system. Operations of transporting customers typically do not allow them to predict with exact certainty when and how much their future maximum gas demand will be. AIU states that a "bank" is a reserve that transportation customers can tap into to avoid the undesirable financial effects of failing to keep their gas usage within defined tolerance limits. As AIU witness Glaeser

[11] ADPM is the average daily peak from the peak month in the past 12 months.

explains, banks essentially allow the transportation customer to borrow gas from AIU on days that such a customer may under-schedule and end-up short on gas delivered by suppliers. Banks are used in conjunction with tolerance limits in this manner to give flexibility to transportation customers.

The reforms of its balancing tolerances is another aspect of AIU's overall effort to bring continuity to transportation service across all three companies and to update the terms and conditions of said services as modern economic and industry trends necessitate. AmerenCIPS and AmerenIP currently offer +/- 20% daily balancing with daily cashouts as well as monthly cashouts for any imbalances at the end of the month, while AmerenCILCO has only monthly cashouts. AIU views the daily balancing tolerance provision as an important tariff provision because it helps to ensure that AIU can continue to meet the needs of both transportation and sales customers under terms and prices that are reasonable to both. Daily balancing is similar to monthly balancing, the difference being that the time unit upon which a cashout is based is a day rather than a month. AIU states that the actual percentage of daily tolerance allowed by AIU is important because the greater flexibility in balancing tolerances, the greater the isolation that transportation customers have from the economic effects of mismatching the gas they have scheduled for transportation and their actual usage.

AIU proposes to eliminate monthly balancing and cashouts and utilize daily balancing and cashouts alone for each gas utility. AIU believes that daily cashouts will negate the incentive for transportation customers to under- or over-deliver gas supply compared to customer demand. AIU proposes to change the daily imbalance tolerance range to +/- 15% of nomination for each gas utility (it had originally proposed +/- 10%). AIU states that this would effectively provide an operating window of 30% for transportation customers and an intra-month banking level of 4.5 days ((MDQ x 15% daily tolerance x 30 days)/MDQ), where MDQ represents maximum daily quantity. AIU also contends that this will more closely align with the tolerance ranges of the LDC’s upstream interstate pipelines. While CNE-Gas is correct that upstream pipeline companies do not have daily cashout, AIU asserts that they do operate with daily tolerance limits ranging from 5% - 10%, and exceeding those limits can result in penalties and other charges.

Specifically, AIU explains that the cash-out proposal is such that whenever the bank limit is maximized, any excess volumes delivered each day are cashed out at 90% of the daily Chicago City Gate price. Imbalance volumes outside of the 15% tolerance band are cashed out with over-deliveries cashed out at 90% of the daily Chicago City Gate price and under-deliveries cashed out at 110% of the daily Chicago City Gate price. Mr. Glaeser adds that in the event an OFO order is declared, the daily balance tolerance and bank limits operate in the same manner, with the exception that under-deliveries between 15% and 50% of the daily confirmed nomination ("DCN") are cashed out at 150% of the Chicago City Gate price, and under-deliveries in excess of 50% are cashed out at 200% of the Chicago City Gate price. Over-deliveries in excess of 15% continue to be cashed out at 90% of the Chicago City Gate price. He testifies that the purpose behind these provisions is to ensure an asymmetrical cash-out structure during

OFO periods, in order to discourage under-deliveries during periods of constrained system operations. In the event of a Critical Day or curtailment, Mr. Glaeser states that the daily balance tolerances are reduced to zero and all imbalance volumes that deviate from the DCN are cashed out. All over-deliveries are cashed out at 90% of the Chicago City Gate price, while under-deliveries from 0% to 50% are cashed out at 150% of the Chicago City Gate price, and under-deliveries in excess of 50% are cashed out at 200% of the Chicago City Gate price. Again, he states that the purpose for this particular structure was to strongly discourage under-deliveries during Critical Days to preserve system integrity.

AIU notes that Mr. Sackett supports a bank limit of 10 times the MDCQ, while CNE-Gas favors banking service with a limit 14-16 times the MDCQ. CNE-Gas' proposal, however, depends on the availability and flexibility of other features of Rider T. Specifically, CNE-Gas proposes to increase the banking limits to 10-12 times a transportation customers' MDQ if the daily tolerance stays at 20%. If the daily tolerance band is lowered to 15%, CNE-Gas proposes to increase the banking limits to 11.5-13.5 times a transportation customers' MDQ. If Staff's proposal for daily cashout and banking is adopted, CNE-Gas supports a banking limit of 14-16 times a transportation customers' MDCQ.

AIU notes that these proposals dramatically increase the allowable bank limits over the levels that are currently in effect for AIU. All of the bank limit proposals advanced by CNE-Gas and Staff are based on a specific number, e.g. 10, 12, 14, or 16 times a transportation customers' MDQ or MDCQ. These terms refer to the maximum daily contract quantities defined in a transportation customer's contract and are in many cases substantially higher than a customers' actual usage.

Despite the arguments of Staff and interveners, AIU proposes to allow customers a bank limit equal to 8 times the ADPM in the prior rolling 12-month period. This bank limit will allow the customer to under- or over-schedule gas and avoid cashout when operating outside of the proposed tolerance limit of +/- 15% until the limit is either exceeded or the balance is depleted. Additionally, AIU is agreeable to allowing transportation customers that are served by the same interstate pipeline to transfer bank limit balances provided confirmation of the exchange is established. This important addition to banking services will assist in giving greater flexibility to transportation customers and mitigate the loss of flexibility associated with the necessary lower banking limits. AIU is willing to modify the cashout mechanism as well to eliminate the utilization of the PGA rate and to base cashouts, both positive and negative, on the Platt's Gas Daily "Midpoint for Chicago Citygates," which represents a market based price.

b. Staff's Position

i. Comparison of Proposals

Staff identifies five differences between Mr. Sackett's banking proposal and AIU's proposal: (1) the size of the banks, (2) the balancing tolerance, (3) the application of cashout premiums, (4) the resulting injection and withdrawal limits, and (5) access to banks on critical days. With regard to the size of the banks, Mr. Sackett proposes that the bank size should be 10 times MDCQ while AIU proposes 8 times ADPM. MDCQ reflects a larger measure of the demand put on the system than ADPM and will be used by AIU in its demand charges. IIEC recommends 10 times ADPM and CNE-Gas proposes 14-16 times MDCQ, if a straight daily cashout is approved. Mr. Sackett observes that the Commission ordered Nicor to use a 28 times MDCQ limit for its banking service in Docket No. 04-0779, so he believes that including the MDCQ metric is consistent with other Commission Orders. He explains his basis for the 10 times MDCQ level as being a compromise between the 12 times MDCQ currently available to AmerenIP Rider OT customers and the 10 times ADPM currently available for Rider T banks at AmerenCILCO and AmerenCIPS.

With respect to the balancing tolerance, Mr. Sackett maintains that the 20% band currently in place does not need to be reduced to the 15% that AIU has proposed. He argues that AIU's evidence was purely anecdotal and its calculations of detriment were grossly over-stated. Under his proposal, with the straight daily cashout, the spread between market price and the cashout value is eliminated, which he believes will remove any incentive for transporters to game the system to exploit favorable economic conditions.

Mr. Sackett asserts further that AIU characterizes its proposal to reduce its daily balancing tolerance as a necessary consequence of decreasing tolerances on the pipelines from which it receives service. He notes, however, that a historical review of the tariffs for the interstate pipelines that AIU pointed to in support of an alleged trend toward the tightening of tolerances revealed that the current tariff sheets are nearly identical to tariff sheets in place in 1995-1997. Mr. Sackett avers that there have been no significant tariff revisions with regard to imbalance penalties and cashouts in the last five years that would require any changes in AIU's tariffs. In fact, he adds, some overrun charges have even declined on NGPL since 1995.

Staff states that AIU did not respond directly to Mr. Sackett’s criticisms regarding the pipeline tolerances; instead, it sidestepped that issue and attempted to make it appear that what it really meant was that there were increasing operational issues. AIU supported the operational issues argument by alleging a trend of increased OFOs caused by operating constraints. Staff responds that the increase in OFOs demonstrated by AIU do not justify decreasing the daily balancing tolerances as proposed by AIU. Mr. Sackett asserts that no other major Illinois gas utilities – Nicor, Peoples, and North Shore – have eliminated storage services for transportation customers.

Concerning cashouts, Mr. Sackett's proposal would apply the cashout mechanism to the post-bank imbalance. Thus, under his proposal, withdrawals from the bank will not be treated as the use of system gas nor will injections into the bank be treated as "dumping" gas on the system. Mr. Sackett contends that AIU's proposal, which applies the cashout bandwidth to the initial imbalance before any use of the customers' bank, does treat withdrawals from the bank as the use of system gas and injections into the bank as "dumping" gas on the system. In addition, he notes that AIU would treat all gas left on the system in excess of the bank limit differently than the imbalances at the other end of the bank. Under AIU's proposal, Mr. Sackett understands that excess gas is automatically cashed out at 90% regardless of the percentage of the initial imbalance. If the bank balance is insufficient to cover the initial imbalance, it would be cashed out at 110% of the market only if it was in excess of the 15% band. Under his proposal, all normal imbalances are treated symmetrically.

Mr. Sackett explains further that the tolerance band should not be applied to the customer's initial imbalance, but rather the net customer usage of system resources after the injection or withdrawal is complete. Customer usage of system gas in excess of 20% of what is available from that customer's bank should be cashed out at 110% of the market price for that day. He believes that his approach removes the incentive to arbitrage price since transportation customers would have no incentive to over- or under-deliver. Mr. Sackett asserts that the addition of gas to the bank and the withdrawal of the gas from the bank do not constitute using system gas, but gas that already belongs to the transportation customer. Injecting gas is not "dumping" gas; it is using the resources approved by the tariff, according to Mr. Sackett.

Mr. Sackett testifies further that a 20% withdrawal and 20% injection limit should be in place. He asserts that this permits transportation customers to use their banks for balancing and limited physical hedging. He adds that this gives transportation customers more of the benefits that sales customers receive from storage. In general, Mr. Sackett believes that a customer should be allowed discretion in using its bank; some of the benefits from the bank are from balancing and some from storage.

If the Commission determines that standardizing the tariffs to provide for a daily cashout is appropriate, Staff argues that it should approve tariff provisions that modify the AmerenCIPS tariff design to eliminate the proposal for monthly balancing. Staff states that the current AmerenCIPS tariff has daily balancing along with a bank and offers the option of a stand-by reserve ("SBR"). This design allows for the most options for transportation customers while closing up some of the "flaws" AIU alleges are in the existing tariff.

Staff also reports that when AIU proposed its bank limit service, it included no access to the bank on a Critical Day despite the fact that all of its current banks allow for limited access. Mr. Sackett believes that the tariff should allow limited access to the bank on a Critical Day with wording similar to AmerenCIPS' existing method, if the Commission approves the retention or expansion of the SBR (total use of system gas and bank withdrawal equal to the designated SBR amount). If the Commission does not approve the retention or expansion of the SBR, Mr. Sackett believes that the Commission should order AIU to adopt AmerenCILCO's method for allowing access to banks (50% of MDCQ).

ii. Access to Storage Assets

A central difference in the case has been Mr. Sackett’s objection to the reduced access to storage assets. AIU maintains that those resources are solely required to meet the needs of its sales customers. Mr. Sackett disagrees with this for six reasons. He asserts that this is an important point despite AIU's decision not to eliminate the banks, because AIU continues to use this argument to bolster its proposal to reduce the bank size.

First, Mr. Sackett objects to AIU not providing equal access to storage resources for transportation customers by linking use of its monopoly storage resources to the purchase of a commodity. He explains that because system customers receive the benefit of the on-system storage through lower costs, if AIU eliminates or reduces the bank for transportation customers, when a customer switches from sales to transportation service, the switch results in the customer being denied the use of utility storage assets.

Second, Mr. Sackett notes that the Commission has consistently taken the position that system assets are for the benefit of all customers. When a customer shifts from system supply to transportation service, Mr. Sackett contends that access to system assets should be retained. He asserts that transportation customers, through their fees, compensate the utility for the appropriate use of utility resources that exist to serve all customers. Mr. Sackett rejects the premise that these assets should be used to meet the needs of sales customers first and foremost.

Third, CNE-Gas argues that while “Ameren claims it does not have the resources necessary to provide storage service to transportation customers, [t]he real question of equity is not whether there is enough storage available, but how to fairly allocate the storage that is available . . . . It is inappropriate to simply conclude that because a utility has fewer total volumetric amounts of storage resources than another utility that it should not have to equitably allocate the resources it does have.” (CNE-Gas Ex. 1.0 at 16-17) Both CNE-Gas and Staff point out that the ratio of owned storage assets to throughput shows that AIU has sufficient assets to share them with both customer groups. AIU objects to only looking at owned storage but Mr. Sackett notes that AIU itself made a distinction between the two when it claimed that it needed all of its owned storage assets to meet peak day demand for its sales customers and most transportation customers pay for the use of on-system storage.

Fourth, AIU also makes the argument that transportation customers can purchase these same basic services on the interstate pipelines. Mr. Sackett contends, however, that the services offered by the interstate pipelines are not a reasonable substitute for the services provided by the LDC. He argues that these services are not close substitutes to LDC services for several reasons, including the restrictive nature of AIU's tariffs. Mr. Sackett states that interstate pipeline balancing service addresses only the problem of an imbalance with the pipeline; it would not address imbalances with the LDC. Differences between deliveries from the pipeline to the LDC and the customer's usage must be addressed by a balancing service provided by the LDC itself, according to Staff.

Fifth, AIU argues that it requires all of its owned storage resources to meet peak day demand for its sales customers and that the Commission has approved this allocation in PGA proceedings. Staff asserts that Commission findings of prudence in a PGA proceeding do not demonstrate an understanding and acknowledgement that the resource allocation of AIU's peak design day excludes transportation customers. The PGA proceedings deal with cost recovery and do not include a thorough review of the allocation of storage assets between sales and transportation assets. Mr. Sackett adds that it is not clear from the demand studies that AIU has provided whether or not AIU includes transportation customers in its peak design day. AIU's witness testifies that he believed that banks' withdrawals and imbalances were a part of the "historical look" provided by this demand study. AIU's witness also agrees that customers have a right to withdraw gas from their banks on a Critical Day until undergoing curtailment. However, since curtailment does not affect all transportation customers or transportation customers exclusively, Staff contends that AIU must be meeting some of this demand even during a curtailment. Staff asserts that Mr. Glaeser's artificial (and confusing) distinctions about exactly where this gas comes from should carry no weight with the Commission because there is no difference between the gas that flows from the storage fields and that which is flowing from line pack or other system resources.

Sixth, AIU claims it is not providing "storage" for transportation customers, although it admits it is providing banking services for transportation customers under both AmerenCILCO's and AmerenCIPS' current Rider T and AmerenIP's Rider OT. Staff states that this is a distinction without a difference. Staff explains that banking is a service whereby a transportation customer delivers more gas than it consumes. This gas, under specified circumstances, is taken by the utility and the transportation customer has specified rights to have that amount of gas returned to the transporter when its usage exceeds its deliveries from the pipeline to the utility system. Staff contends that storage fields provide flexibility to address differences between deliveries into the utility system and usage by its customers (sales and transportation). While the companies may account for transportation customers' banks as a general obligation to provide a similar amount of gas back to them, storage fields certainly facilitate this practice. Indeed, to support a reduction in transportation customers' access to storage services, Staff relates that AIU misleadingly argues that it lacks the excess storage capacity that other utilities have. According to Staff, AIU offers no proof that it can not provide Staff's recommended storage services.

iii. Gaming

Staff observes that AIU has also listed potential gaming as a major factor for many of its tariff changes. Mr. Sackett points out three reasons why AIU's argument has no merit: (1) reliance on anecdotal evidence, (2) flawed calculations of detriment to sales customers, and finally, (3) the presence of other, more focused options to address gaming if it did exist. First, Staff asserts that the anecdotal examples AIU provided fail to demonstrate gaming. Similarly, Mr. Sackett testifies that AIU failed to consider net effects of imbalances in the opposite direction. Before tariff revisions should be made to address gaming, Staff states that AIU must demonstrate that gaming exists. Staff contends that AIU has proposed dramatic changes to address a problem that it has failed to demonstrate exists.

Second, Mr. Sackett pointed out flaws in AIU's analysis of the detriment and cost to other customers. When calculating the negative impact on sales customers, he observes that AIU neglected to account for its cashout rules. Mr. Sackett contends that this omission causes a gross overestimate of the cost that the imbalances impose on sales customers. Staff submits the cashout rules protect sales customers, and as a result of the cashout rules, Mr. Sackett indicates that these imbalances might end up benefitting sales customers.

Specifically, in its analysis of over-deliveries, Staff maintains that AIU miscalculates the detriment to sales customer by using the avoided cost of the transportation customers. Staff contends that AIU fails to acknowledge that transportation customers have suffered a loss in the value of the gas that they bought at the First of the Month price regardless of whether they sell the gas at a loss that day or store the gas on AIU's system. Staff asserts that AIU incorrectly suggests that the customers avoid this loss by putting gas onto AIU's system and uses this spread multiplied by the net positive imbalance to calculate the cost to sales customers. Staff argues that it is unreasonable to calculate the dollar amount of cost to the system sales customers and to include the value of the supposed benefit to transportation customers as a cost to sales customers.

In analyzing under-deliveries to the system, Mr. Sackett testifies that AIU fails to account for the different methods by which the negative imbalances are cashed out. Some negative imbalances are cashed out at the market price plus 10%, some get ‘repaid’ by positive imbalances during the remainder of the month, and the rest get cashed out at the end of the month. Mr. Sackett argues that AIU's calculation, which multiplies each imbalance by the full spread between the daily price and the end of month price, overstates the size of the detriment to sales customers because it ignores those other cashouts.

Third, Mr. Sackett asserts that his recommended tariff modifications are more focused and thus would better resolve the problem. He suggests that AUI's daily imbalances could be cashed out at the daily spot price. He believes that this proposal addresses the possibility of an arbitrage occurring because of a difference between the cashout price (the average of the daily prices for the month) and the market price for a particular day. Mr. Sackett states that the incentive for arbitrage could arise if the daily price were high relative to the expected average monthly price; a customer might have an incentive to arbitrage the two prices by under-delivering gas on that day. Alternatively, if the daily price is low compared to the expected average monthly price, a customer might have an incentive to arbitrage the two prices by over-delivering gas on that day. Mr. Sackett contends that his recommendation would eliminate the difference between the daily price and the cashout price, thus eliminating the arbitrage opportunity. He adds that premiums on the cashout price for imbalances greater than 20% bands would be employed to encourage accurate nominations. Customers using system gas in excess of that 20% would be cashed out at 110% of the market price for that day. Over-deliveries would roll into a bank to the extent there it is not full up to 20 percent of the excess delivery; any additional gas would be cashed out at 90% of the daily price. Finally, the order of deliveries would follow the Commission-approved tariff in AmerenCIPS' Rider T.

Staff opposes the "extra" penalties for over-deliveries during OFOs and Critical Days. Staff recommends that over-deliveries on such days be cashed out exactly the same as other deliveries. Staff contends that over-deliveries by transportation customers will help the utility meet its supply shortcomings for sales customers on such occasions.

c. IIEC's Position

IIEC is opposed to the elimination of the current banking provisions for AmerenCILCO and AmerenCIPS and recommends the 10-day of MDQ banking allowance be applied to all three of the AIU utilities. The fact that AIU is agreeable to providing storage equal to 8 days of ADPM demonstrates, in IIEC's opinion, that AIU does not need all of its storage to serve its sales customers. IIEC contends that AIU should provide storage banks equal to 10 days of MDQ to all of its transportation customers as a matter of equity and to facilitate the broader use of its system.

IIEC notes that AIU proposed to restrict customers' ability to use even the 8-day bank. Under AIU's latest proposal, IIEC understands that customers would be required to cashout any imbalances in excess of AIU's proposed 15% tolerance limits even if the customer had sufficient gas in its bank to cover the full imbalance. Specifically, under AIU's proposal, if a customer under-delivers to the system, but has sufficient bank balances to cover that under-delivery, the customer will only be allowed to withdraw an amount of gas from his bank that is less than or equal to the 15% daily tolerance amount. If the customer has a shortfall in deliveries of 17%, the extra 2% must be cashed out. IIEC argues that AIU has not shown that imbalances cured by the use of the customer's own banked gas will have any adverse impact on the amount of costs AIU incurs to serve its sales customers. IIEC maintains that transportation customers should be allowed to cure any imbalances by adding to or withdrawing from gas in their banks whether within the tolerance limits or not. In other words, if the customer's gas supply is unavailable on a particular day, but the customer has sufficient gas in its storage bank to cover its usage, it should be able to use that banked gas to meet its needs without having to cash out usage in excess of the daily 15% tolerance.

With regard to the specific tolerance limit proposed by AIU (15%), IIEC maintains that AIU has not shown any need to tighten the tolerances currently in place for AmerenCIPS and AmerenIP. IIEC recommends maintaining the present 20% tolerance limit and the application thereof to all three companies. IIEC contends that the only evidence of any problems provided by AIU relate to its examples using six "hand picked" days when there were large imbalances on the system. In its calculations, which purport to calculate the harm to sales customers as a result of transportation customers' actions on these days, IIEC states that AIU apparently did not reflect offsetting imbalance charge payments from transportation customers in its analysis. Thus, IIEC concludes, AIU's analysis is incomplete and fails to consider that sales customers may have benefitted from the events described.

In addition, IIEC reports that AIU has incurred only minimal imbalance penalties under the current 20% tolerances for AmerenCIPS and AmerenIP, thus it is not clear what problem AIU is addressing in reducing the tolerances from 20% to 15%. IIEC contends that AIU has not provided sufficient evidence of harm to sales customers as a result of the actions of transportation customers under its existing tariffs, so as to justify a reduction in the daily imbalance tolerances. IIEC states further that AIU (1) has not provided specific studies or investigations, (2) has not provided sufficient proof or evidence that the gaming behavior alleged in its testimony has actually occurred, and (3) has not demonstrated that the behavior of transportation customers has systematically or consistently raised costs to sales customers. Absent a clear demonstration that there is a problem with the current 20% tolerances, IIEC asserts that they should be maintained, and applied to all the companies, but only as long as a bank equal to 10 times the customer's MDQ is made available.

d. CNE-Gas' Position

CNE-Gas understands AIU to be proposing a bank limit for each gas utility based upon 8 times the ADPM. CNE-Gas also understands that the ADPM is the same methodology that is currently employed by AmerenCILCO and AmerenCIPS in determining bank size except that the number of days used is currently 10 versus the 8 proposed. CNE-Gas observes that not only is 8 days less than the current 10-day banking service, but also the use of ADPM results in less bank capacity than if based upon an MDQ or MDCQ as is used by AmerenIP and other Illinois gas utilities. CNE-Gas states that there is no quantifiable data to support 8 days per se; it is simply offered as a compromise. While some banking is better than none, CNE-Gas continues to have concerns with: (1) the size of the bank, (2) the ability to inject and withdraw gas from that bank, (3) the parameters for bank limit transfers, or imbalance trades, and (4) the 15% daily tolerance limit.

i. Access to Storage

CNE-Gas asserts that it and AIU have markedly different views regarding AIU's storage assets. CNE-Gas understands AIU's position to be that company-owned storage assets are exclusively for the benefit of sales customers and that its resources are insufficient to provide equivalent storage service to transportation customers. According to CNE-Gas, AIU posits that transportation customers should at best benefit from its storage assets only to the extent storage is needed to provide a minimum level of balancing. AIU seeks in these proceedings to reduce the balancing flexibility afforded to transportation customers. CNE-Gas, however, contends that AIU has offered no studies or formal analysis to warrant this reduction.

When AIU's storage fields were developed, virtually all of its customers were bundled sales customers. Today, CNE-Gas notes that AIU's customers have a choice of gas supplier, and the Commission has taken steps in the recent Nicor and Peoples rate case orders to ensure that customers electing to purchase gas on an unbundled basis from suppliers other than the LDC are able to obtain transportation services that include equivalent use of the utility's resources, including storage. CNE-Gas reports that the Commission previously determined that Nicor's current allocation process for firm storage that is based upon MDCQ is fair to all customers. CNE-Gas relates that Nicor determines allocations by dividing the total amount of storage by the peak day sendout, with the result constituting the firm storage or SBR entitlement, authorized at 28 times MDCQ, for each customer including sales customers, customer select customers, and transportation customers. CNE-Gas argues that AIU can not reserve storage for sales customers alone, as AIU's storage assets are utility customer assets rather than sales or transportation customer assets. CNE-Gas states that a full share of AIU's storage assets must be made available to each firm customer class under equivalent terms and conditions of service.

CNE-Gas states further that other Illinois gas utilities provide storage not only for balancing purposes, but also storage that allows transportation customers to purchase less expensive summer gas for consumption during the winter when prices are generally higher. CNE-Gas contends that AIU faces the same environment of price volatility and constrained energy infrastructure that other Illinois gas utilities face, yet other utilities have not found it necessary to reduce transportation customer storage banks to the minimal levels proposed by AIU. Moreover, CNE-Gas continues, AIU's proposed denial of comparable storage is not only unduly discriminatory, but also would result in an unfair competitive advantage for bundled utility sales service over third party suppliers. CNE-Gas asserts that AIU's undue discrimination is illustrated by the outcome that if an AIU transportation customer elects to return to sales service, that customer would again have access to AIU storage through bundled sales. The storage assets are available to support all customers. CNE-Gas states that AIU simply elects to deny storage rights to customers that deign to purchase gas from its competitors. Ultimately, CNE-Gas fears that permitting AIU to preserve such a competitive advantage for its bundled sales service will stifle competition and reduce customer alternatives.

ii. Sufficiency of Storage Resources

In evaluating AIU's argument that it has insufficient resources to provide larger storage banks to transportation customers, CNE-Gas suggests that the Commission should not ask whether there is enough storage available, but how to fairly allocate the storage that is available. Whether a utility has relatively more or less storage available, the issue remains as to how to fairly allocate the capacity and deliverability that it does have. Even though storage resources may be limited, CNE-Gas contends that it is only equitable that all utility customers share equally in those assets that do exist. CNE-Gas and Staff offered evidence comparing AIU's storage assets with those of other major Illinois utilities. Although AIU argues it has inadequate storage resources to offer more than 8-day bank limit service, CNE-Gas argues that comparisons with other Illinois utilities dispute such a claim. While certainly differences exist between utility assets that warrant differences in the services offered by each utility, CNE-Gas maintains that the small differences in storage assets do not warrant the substantial differences between service offerings that AIU proposes compared to Peoples, North Shore, and Nicor.

On page 16 of its Initial Brief, CNE-Gas provides a table summarizing the storage assets of six Illinois gas utilities, including the three AIU LDCs. Based on total storage as a percentage of annual customer use, CNE-Gas observes that AIU has somewhat less storage available than either Peoples or Nicor. This slightly lower capacity, however, does not justify transportation storage banks that are less than one-third of the capacity of the storage banks offered by the other utilities, according to CNE-Gas.

CNE-Gas reports that AmerenIP, the largest of the three AIU gas utilities, in 2006 had annual transportation throughput of 33.5%. CNE-Gas states that in contrast, Nicor, in its last rate case, reported transportation gas throughput of 47.1%, and, in its recent rate case, Peoples reported a volume of just over 40%. CNE-Gas contends that AIU's successful transition to unbundled competitive alternatives for its customers will not match the success of Nicor or Peoples if the Commission permits it to skew the benefits of storage access towards its bundled sales customers.

CNE-Gas urges the Commission to authorize transportation storage banks of 12 times MDCQ if daily balancing tolerance remains at 20%. If the daily balancing tolerance is reduced to 15%, CNE-Gas states that a storage bank of 13.5 times MDCQ is more reasonable. In either case, CNE-Gas notes that the AIU storage bank would still remain comparatively lower than those of other Illinois utilities.

CNE-Gas claims further that it is unnecessary to establish extreme safeguards for sales customers that are designed to remedy purely hypothetical ills, especially when they result in the allocation of excessive costs to transportation customers. CNE-Gas does not believe that AIU provided adequate evidence that a reduction in the size of transportation customer storage banks is warranted. In support of its position, CNE-Gas asserts that (1) AIU's anecdotal examples of gaming of the system or subsidization of transportation customers were discredited, (2) AIU did not establish that reduction in the size of storage banks is essential to project system integrity, (3) AIU's storage banks for transportation customers are already relatively smaller than those of other Illinois utilities, (4) storage assets are utility assets that should be equitably allocated between both sales and transportation customers, and (5) imbalances are normal operating conditions for which storage banks are a reasonable and proven means to address.

Regardless of its decision regarding storage allocation in this proceeding, CNE-Gas recommends that the Commission require AIU to investigate the storage allocation methodologies of both Peoples and Nicor and conduct an analysis that shows the results of these storage allocation methodologies when applied to AIU storage assets. The Commission, CNI-Gas continues, should order AIU to work with Staff and interested stakeholders to study the impact of utilizing these other storage allocation methodologies in order to more equitably allocate storage assets between sales and transportation customers in the future.

iii. Injection and Withdrawal Requirements

In managing a storage bank, CNE-Gas states that the function of that bank depends not only upon the total volume of the bank, but also the ability to inject gas into the bank and withdraw gas from that bank. Unfortunately, CNE-Gas finds that AIU's proposed bank limit service makes it extremely difficult either to inject or withdraw gas from storage on a planned basis when the supplier is concerned that the amount in the bank is too low or high. The design of the service allows storage injections or withdrawals only to extent there is any quantity of gas that is within 15% of the DCN remaining after any imbalance between actual usage and deliveries is accounted for. As an example, CNE-Gas states that if a supplier anticipates a customer will use 850 therms/day, but also wants to inject gas into its storage banks, if the customer has sufficient capacity in its bank, the supplier may make a nomination of 1,000 therms hoping that 150 therms will be injected into its bank. Since an imbalance invariably occurs, however, if the customer has a 6% imbalance and actually uses 800 therms for the day, with the DCN of 1,000 therms, 150 therms would be injected into the storage bank, and the remainder would be purchased by AIU at a discount of 90% of the market price. To avoid this penalty, CNE-Gas states that the supplier's only recourse is to lower the DNC, thereby reducing the risk of selling gas to AIU at the discount, but also lowering the quantity of gas injected into storage.

If the 6% imbalance occurred in the opposite direction, and the customer instead uses 900 therms rather than the 850 anticipated, with the DCN of 1,000 therms, only 100 therms are now available for injection. Since usage projections are not precise, and any unanticipated imbalances must first be accounted for, CNE-Gas contends that storage injections are haphazard at best under AIU's proposal. Over weekends and holidays, when the ability to forecast usage is even more challenging, CNE-Gas fears that actual imbalances may deviate more than even the 15% daily balancing tolerance, resulting in a storage withdrawal when an injection was planned or vice versa.

In the above examples, the customer either made a storage injection of 9% of the DCN or, when making a storage injection of 15%, also was forced to sell any excess gas at a discount. At best, the customer could make an injection of up to 15% of DCN without a penalty. The latter scenario, CNE-Gas states, assumes perfect knowledge of customer usage, which is unrealistic and would seldom, if ever, occur.

In comparison, CNE-Gas points out that Nicor permits storage injections of 200% of the MDCQ compared to AIU's proposed 15% of DCN (by definition MDCQ/MDQ is larger than DCN). Even in Peoples' recent rate case, in which additional storage injection limits were implemented, CNE-Gas reports that injections of 100% MDQ during the winter months are allowed, with somewhat tighter limits during April through October. Yet, even the more restrictive injection season limits, CNE-Gas asserts, are significantly more liberal than those of AIU. CNE-Gas states that during the injection season Peoples permits injections that equate to average daily use in the parallel month of the prior year plus 0.67% of the customers' bank.

CNE-Gas urges the Commission to reject AIU's overly restrictive injection and withdrawal limits. CNE-Gas notes that the Commission has previously stated that "[t]o the extent possible, the Commission would prefer to increase rather than reduce the flexibility of customers, whether Transportation customers or [other] customers." (Docket No. 04-0779, Order at 131) Because AIU's proposal is based on DCN, CNE-Gas asserts that it is more limited than Peoples' or Nicor's bank system. CNE-Gas adds that AIU would further limit transportation customer flexibility by permitting storage injections and withdrawals of only 15% of the DCN before a discounted cashout sale to AIU or premium cashout purchase by AIU.

CNE-Gas recommends that the Commission require AIU to adopt injection and withdrawal limits of one times MDQ. CNE-Gas acknowledges that even this limit is more restrictive than those of Nicor and Peoples. In the alternative, if the Commission determines limits of one times MDQ are not reasonable in this case, when storage banks have sufficient capacity, CNE-Gas believes that AIU should permit storage injections up to 100% of the DCN and, once the bank is full, excess gas would be purchased by the utility at 90% of the market index price. Since according to AIU its storage bank capacity is limited to no more than a handful of days, CNE-Gas states that customers would be prevented from making large, ongoing injections as their storage bank capacity would max out rather quickly, thereby limiting customer deliveries to storage to less than 15% or 20% (depending upon the daily tolerance level approved) on most days. Storage withdrawals, CNE-Gas adds, would be limited to actual daily usage; however, once the storage account has a zero balance, any purchase of gas from AIU for balancing purposes would be made at 110% of the market index price.

iv. Imbalance Tolerance

While CNE-Gas prefers AIU's current 15% daily tolerance proposal over its original 10% proposal, CNE-Gas asserts that there are several reasons that it is more appropriate for AIU to use a 20% daily cashout imbalance parameter. First, CNE-Gas states that a daily cashout already introduces a significantly new concept for AmerenCILCO customers, which currently only use a monthly cashout. Second, because AIU proposes to continue to use a monthly cashout in conjunction with a daily cashout, CNE-Gas contends that even at a 20% daily tolerance, AIU continues to capture monthly imbalance deviations through its graduated tier of premiums and discounts.

Third, CNE-Gas questions AIU's argument that it needs to reduce its daily tolerance to 15% in order to more closely align with the tolerance ranges of the LDC's upstream interstate pipelines. CNE-Gas points out that none of the pipeline tariffs under which AIU currently secures firm service has any daily cashout provision whatsoever. Under existing pipeline agreements, CNE-Gas states, AIU does not even currently adhere to daily cashout of imbalances that are greater than 20%, let alone the lower tolerance level proposed. Thus, CNE-Gas concludes, there is nothing that makes AIU's proposed 15% daily cashout tolerance inherently comparable with the existing pipeline tariffs to which AIU is subject.

Fourth, CNE-Gas asserts that AIU offers no credible evidence that the current 20% daily cashout tolerance level is not adequate. AIU instead identifies existing pipeline tariff restrictions of 5% or 10% as justification for the reduction in its daily tolerance; however, CNE-Gas demonstrates that these restrictions are not directly comparable to a daily cashout tolerance as suggested by AIU. Thus, CNE-Gas argues that there is no record evidence that the current daily cashout tolerances do not offer sufficient incentive to keep transportation imbalances at reasonable levels. The situation is exacerbated, CNE-Gas continues, by AIU's proposal to retain a monthly cashout with tighter month-end tolerance levels. In response to AIU's claims of transportation customer gaming, CNE-Gas responds that AIU's anecdotal evidence does not establish that any gaming behavior has occurred.

CNE-Gas maintains that keeping imbalances within 20% on a daily basis, and less than 10% at a monthly level, before penalties are applied, is reasonable. CNE-Gas states that AIU offers no evidence that shows that the existing 20% daily cashout tolerance must be reduced to 15% in order to (1) more closely align with upstream pipelines, (2) provide additional incentive to transportation customers to reduce imbalances than what already exist, (3) address more frequent OFOs, or (4) prevent transportation customer gaming. CNE-Gas believes that the addition of a 20% daily cashout tolerance to AmerenCILCO tariffs, in addition to the retention of a 20% daily cashout in AmerenIP and AmerenCIPS tariffs, adequately resolves certain of the problems identified by AIU. CNE-Gas asserts that it is unnecessary to also add further restrictions by lowering the percentage.

CNE-Gas is also uncertain whether AIU intends to require both daily and monthly cashouts for transportation customers. CNE-Gas supports the use of a monthly cashout in addition to a daily cashout. CNE-Gas observes that under Staff's proposed 10-day storage bank, a daily cashout alone offers less storage capacity than a dual daily and monthly cashout mechanism. CNE-Gas explains that this is due to the loss of monthly cashout and the flexibility it provides to transportation customers which allows them to accumulate volumes during the course of a month. This functionality is described by AIU witness Glaeser as the intra-month bank. To remain on par with current service levels (which Staff argues should occur under an across-the-board rate increase), CNE-Gas states that under the daily cashout proposal, the size of the storage banks must be greater than the proposed 10 times the MDCQ if service levels are to remain roughly equal. While it prefers the current monthly and daily cashout mechanism in conjunction with a storage bank, CNE-Gas adds that daily cashout alone would be an acceptable alternative if less restrictive injection and withdrawal limits are implemented and the size of the storage bank is increased to account for the elimination of monthly cashout balances.

AIU further describes what happens with daily cashout and bank limits during an OFO and Critical Day. CNE-Gas states that in both instances AIU proposes extreme measures, but since these measures first appeared in surrebuttal testimony and no detailed tariff sheets were offered in support, CNE-Gas laments that interveners had little opportunity to respond. CNE-Gas contends that AIU has provided no evidence to justify why zero Critical Day tolerance is acceptable, nor why it is reasonable to discount excess gas supply under such conditions while doubling the cashout price of purchases. On a Critical Day, CNE-Gas asserts that a primary concern is having sufficient supplies delivered on AIU's system, yet if a marketer over delivers gas, AIU wants to penalize the over deliveries as well by cashing them out at 90% of market. In order to avoid the substantial penalties associated with under deliveries on Critical Days, CNE-Gas states that a prudent marketer may attempt to over deliver to some degree in order to avoid the under delivery penalties, yet AIU proposes to also penalize marketers for over delivery, even though on a Critical Day adequate gas supply is critical for system integrity. CNE-Gas argues that penalties for over delivery during an OFO or Critical Day simply fail any logic.

CNE-Gas reports further that AIU proposes to also implement a $ 6.00/therm charge for unauthorized gas usage during Critical Days. CNE-Gas states that this is in addition to the premiums just discussed that are applied to cashout. CNE-Gas does not object to implementation of the unauthorized gas charge penalty per se, but does object to the cumulative unfavorable treatment of transportation customers during OFOs and on Critical Days.

e. Commission Conclusion

As noted above, AmerenCILCO and AmerenCIPS transportation customers may currently avail themselves of a 10-day ADPM bank and AmerenIP Rider OT customers may avail themselves of a 12-day MDCQ bank. AIU proposes to apply an 8-day ADPM bank to all transportation customers of all three utilities. Staff proposes a bank size based on 10 days of MDCQ, while IIEC proposes a bank size based on 10 days of MDQ. CNE-Gas proposes varying bank sizes depending on other factors such as imbalance tolerances.

The Commission agrees that banking service is appropriate for transportation customers. The Commission also recognizes that a reasonable size for a bank is related to other issues affecting utilities and transportation customers. Therefore, the Commission will take such issues into account when establishing a bank size for the three AIU gas operations.

One factor to consider is the ease with which banking service can be implemented. Obviously, a uniform bank size among all three utilities facilitates implementation. What also facilitates implementation and use is measuring a bank size in units already in use. As discussed above, Nicor currently calculates bank size using MDCQ, as does AmerenIP under Rider OT.[12] The fact that a customer's MDCQ will generally be known well in advance facilitates banking as well. Overall, the Commission finds that measuring a bank size through a customer's MDCQ to be reasonable and consistent with prior decisions. The ADPM unit, however, has not been applied as broadly in Illinois. Moreover, under AIU's proposal of a rolling 12-month period, the ADPM would seem to change from month to month, which the Commission believes may unnecessarily hamper and/or complicate banking.

With regard to the size of the bank, the proposals vary. AIU primarily argues that resources are simply not available to offer "large" banks. AIU also expresses concerns about gaming by transportation customers. While gaming probably occurs to some extent, the Commission is not convinced by AIU's evidence that gaming is as widespread of a problem as AIU suggests, and therefore the potential for gaming need not be considered in setting bank size and related issues. The Commission accepts, however, that AIU has less capacity for banking than Nicor, Peoples, and North Shore. In light of the conclusions below, the Commission finds that a 10-day MDCQ bank is an appropriate size. The Commission also wishes to clarify that banks do not represent gas "borrowed" from a utility, as AIU suggests. Gas in a figurative bank represents gas owned by a transportation customer.

As for access to bank gas, if the Commission does not approve the retention or expansion of the SBR service, Staff witness Sackett believes that the Commission should order AIU to adopt AmerenCILCO's method for allowing access to banks. AmerenCILCO's current Rider T addresses access to banks and provides in part that a transportation customer on Rate 550 or 600 may access up to 50% of its MDQ while a customer on Rate 650 or 700 may access up to 50% of its MDCQ on a Critical Day. The Commission finds AmerenCILCO's current access terms acceptable with the modification that ~~*any*~~ a transportation customer otherwise eligible for service under GDS-2 or GDS-3 may access up to 50% of its MDCQ on a Critical Day and one times MDCQ on normal days. ~~The Commission also concludes that bank injection and withdrawal limits be set at one times the customer's MDCQ.~~For all other transportation customers, the limits for both Critical Days and normal days shall be 20% of DCN.

[12] Peoples and North Shore's tariffs indicate that they calculate bank size using MDQ, which is more similar to MDCQ than ADPM.

The appropriate daily balancing tolerance is the next issue to be resolved. AmerenCIPS and AmerenIP currently offer +/- 20% daily balancing. AIU has proposed a 15% tolerance, while Staff, IIEC, and CNE-Gas propose 20%. As noted above, the Commission recognizes AIU's resource concerns, but is not convinced that adoption of AIU's position is warranted. In consideration of the 10-day MDCQ bank size, the Commission believes that it is reasonable to adopt ~~AIU's proposed 15%~~a 20% tolerance band. After gaining some experience with this tolerance band in conjunction with the other conclusions regarding transportation service, the Commission may revisit this issue and further revise the tolerance band (either up or down) in AIU's next gas rate cases.

With respect to cashouts following imbalances outside of the tolerance band, AmerenCIPS and AmerenIP currently employ daily cashouts as well as monthly cashouts for any imbalances at the end of the month, while AmerenCILCO has only monthly cashouts. ~~AIU~~CNE-Gas appears to want to retain both daily and monthly cashouts~~, as does CNE-Gas~~. AIU, Staff, and IIEC, on the other hand, recommend only daily cashouts for transportation customers. In light of concerns over whether daily telemetry is warranted for smaller transportation customers, as discussed below, the Commission is not inclined to approve daily cashouts for transportation customers that would otherwise be GDS-2 or GDS-3 sales customers. Monthly cashouts only shall be used for such smaller transportation customers. For the remaining~~,~~ transportation customers, daily ~~and monthly~~ cashouts are reasonable and approved.

In implementing the cashout mechanism, it should only be applied to the post-bank imbalance. In other words, when calculating an imbalance, withdrawals from the bank will not be treated as the use of system gas nor will injections into the bank be treated as "dumping" gas on the system. Additionally, over-deliveries on Critical Days shall also be cashed out the same as over-deliveries on any other day. Over-deliveries by transportation customers will help the utility meet its supply shortcomings for sales customers on Critical Days. The Commission also notes that AIU is agreeable to allowing transportation customers that are served by the same interstate pipeline to transfer bank limit balances provided confirmation of the exchange is established. The Commission finds AIU's proposal reasonable and adopts it. AIU's proposal to implement a $ 6.00/therm charge for unauthorized gas usage during Critical Days is also hereby approved. If a customer's gas usage is not measured by the LDC on a daily basis, for purposes of applying any penalties connected to unauthorized use on a Critical Day, the customer's daily usage should be determined by prorating the total usage during the billing period over the number of days in the billing period.

2. AmerenIP Rate 76 as a Stand-Alone Tariff

a. AIU's Position

AIU witness Warwick proposes to eliminate the existing Rate 76--Transportation of Customer-Owned Gas from AmerenIP's rate schedules as part of its effort to create a new, consistent Rider T that will implement uniform terms and conditions for transportation service across all three gas distribution company service territories. The conversion would be accomplished by increasing each of the Rate 76 components by the overall base rate percentage increase and then re-segmenting the components into the non-residential GDS rates to conform to the uniform structure common to the AmerenCILCO and AmerenCIPS tariffs. AIU believes that eliminating Rate 76 in favor of Rider T will result in a tariff layout that is easier to understand and more logically consistent, which is particularly important for those entities that have multiple facilities and/or customers in the various AIU service territories.

AIU's proposal to remove AmerenIP's Rate 76 as a stand alone tariff does not affect the proposed base service rates (i.e. Customer Charge, Demand Charge, Overrun Demand Charge) of the customers affected by this change due to the across-the-board increase proposal of AIU. AIU contends that the resulting rate values are the same whether Rate 76 is a stand alone tariff or as stated under the proposed Rider T. AIU also notes that, under its proposal, changes to Rider T's service terms and conditions are applicable to current AmerenIP Rate 76 customers under either the stand alone or merged basis.

Staff witness Sackett criticizes generally the effort to consolidate transportation rate structures into Rider T and therefore opposes the elimination of the individual company transportation riders. Staff witness Harden objects to eliminating Rate 76 out of concern that doing so may result in unequal bill impacts on customers. AIU asserts that Staff supports consistency, but only if it does not create any cost impacts for transportation customers. With the across-the-board increase to each delivery service rate component, AIU states that it is not clear or apparent what, if any, unequal bill impacts may result. AIU asserts that there is no apparent record evidence to justify Staff's position.

b. Staff's Position

Because she fears that the elimination of Rate 76 could result in unequal bill impacts, Ms. Harden opposes this change and proposes that an across-the-board increase should be applied to each rate for each customer class without making any tariff eliminations that may cause unequal bill impacts. Staff also does not believe it will be clear to customers that the resulting rate values will be the same whether Rate 76 is on a stand-alone or merged basis. In addition, Staff does not agree with AIU's contention that "in conforming tariff structures that differ across three service territories, certain provisions enjoyed by certain customers will be eliminated." (AIU Initial Brief at 330) Staff contends that AIU's choice to eliminate services and offer fewer choices to transportation customers is a deliberate one, not forced by any changing energy market requirements.

c. Commission Conclusion

The Commission does not share Staff's concerns about eliminating AmerenIP's Rate 76 as a stand alone tariff in light of the manner in which AIU proposes to do so.

Specifically, after reviewing Rate 76 and AIU's proposal, it is not clear to the Commission how unequal bill impacts to AmerenIP transportation customers will occur. The Commission also recognizes that AIU is not proposing to incorporate Rate 76 into Rider T as a result of changing energy markets, but rather is doing so based on its own preference. Such a motivation, however, does not alone warrant rejecting AIU's proposal. In any event, the Commission finds that its other conclusions regarding rate design will sufficiently protect transportation customers. Those who believe that additional provisions regarding transportation customers are warranted are free to raise them in AIU's next gas rate case. The fact that transportation customers and marketers that have intervened in this case have not objected to AIU's proposal is also noteworthy.

3. Elimination of AmerenIP's Rider OT

a. AIU 's Position

AIU proposes to eliminate Rider OT--Optional Transportation of Customer-Owned Gas from AmerenIP’s tariff books. AIU indicates that this rider allows customers essentially to switch back and forth between system sales gas and transportation service. AIU states that such an option invites economic gaming by participating customers in a manner that burdens the operation of an efficient system. In response to criticism from Staff witness Sackett and GFA witness Adkisson related to rate impacts from eliminating Rider OT, AIU has proposed to grandfather existing Rider OT customers within existing GDS rate classifications. The grandfathering proposal applies to the monthly rate values only; all other terms and conditions will be pursuant to the proposed Rider T provisions. AIU explains that the benefit of grandfathering is the ability to satisfy existing customers on the rate while not allowing additional customers to be added to the rate. The limitation grants existing Rider OT customers AIU's recommended across-the-board percentage change and, at the same time, provides a transition mechanism consistent with Mr. Glaeser’s testimony to eliminate Rider OT. AIU states that the retained Rider OT rate structures will be located within each non-residential GDS classification, GDS-2 through GDS-6. If a grandfathered customer on Rider OT elects Rider S, AmerenIP will purchase any remaining banked gas at the average market price for the year. If a grandfathered customer chooses Rider T, AIU states that the customer will have to deliver an appropriate amount of gas on a daily basis to the AmerenIP system to cover its usage.

In response to Staff's claim that Rider OT should not be eliminated because it provides a valuable service, allows for monthly balancing, contains no daily metering requirement, and provides system back-up service, AIU notes that only 87 customers are taking this service. While Staff acknowledges this is a small percentage of the total customer base, it claims that this may be an indictment of the current service offerings. AIU contends that this argument makes no sense since AmerenIP’s current service offerings provide for bank services and extreme tolerance levels--both of which Staff claims are sorely needed by transportation customers. AIU also observes that Staff’s proposed bank services and tolerance levels are not much different than what is currently being offered. So to accept Staff's position on Rider OT, AIU continues, it must follow that Staff's own proposal falls short.

b. Staff's Position

Staff witness Sackett recommends that the Commission reject AIU's proposal to eliminate AmerenIP's Rider OT. He contends that Rider OT should be retained because it provides a valuable service to transportation customers by giving customers an option between a service designed for large customers (Rider T) and one that allows for monthly balancing, no daily metering requirement, and system back up, all of which are ideal for smaller customers (Rider OT). In its previous gas rate case, Docket No. 04-0476, he notes that the Commission accepted AmerenIP's proposal to eliminate the banks for Rate 76 in part based upon AmerenIP's argument that those services were available under Rider OT. He believes that that policy goal of maintaining a banking storage service option for transportation customers is as important now as it was when the Commission entered its Order in Docket No. 04-0476. Indeed, Mr. Sackett continues, it may be more important now; without Rider OT, all customers, regardless of size, are forced onto the proposed Rider T.

Contrary to AIU's assertion, Mr. Sackett argues further that the services under Rider OT are valuable to transportation customers. He maintains that the fact that 87 AmerenIP customers currently pay for the services demonstrates that Rider OT is valuable. While 87 customers represents a small percentage of the total customer base for which the service is available, Mr. Sackett contends that this may be more of an indictment of AIU's current service offerings than an indication that a particular service has no value. He fears that AIU's current transportation service will become even less attractive if AIU's proposed reductions in services are approved. Mr. Sackett recommends that the Commission focus on the level of service that transportation customers receive and how much it costs. If the Commission adopts his proposals, he asserts that AIU's transportation service will become a better value, and it is likely that more customers will switch to transportation service.

Staff also notes that AIU's primary objection to Rider OT is that it "allows customers essentially to switch back and forth between system sales gas and transportation service . . . ." (Ameren Ex. 16.0 at 40) Staff notes further that AIU opines that such an option invites economic gaming by participating customers in a manner that burdens the operation of an efficient system. Staff states that AIU made both an economic argument about gaming and this operational argument, but failed to prove either of them.

With regard to AIU's "grandfather proposal" for Rider OT, Mr. Sackett does not consider it to be an adequate response to his concerns. He notes that under the grandfather proposal the services would still change to Rider T services, eliminating many of the advantages of Rider OT to customers and, thus, be detrimental to Rider OT customers. Mr. Sackett recommends retaining Rider OT services entirely and increasing its rates across-the-board. In light of the value of Rider OT to AmerenIP customers, he goes on to argue that if the Commission approves tariff standardization at this time, a similar service provision that appeals to smaller customers should be offered in all three service territories.

c. GFA's Position

GFA opposes eliminating AmerenIP's Rider OT. GFA contends that AIU's proposal to do so is just one example of its willingness to make tariff structure changes to favor its own natural gas supply. Despite claiming to grandfather Rider OT, GFA states that AIU's plan only retains monthly rate values increased by the proposed across-the-board percentage increase. All other terms and conditions, GFA notes, will be pursuant to Rider T provisions. GFA asserts that AIU's Initial Brief is misleading where it states that the benefit of grandfathering is the ability to satisfy existing customers on the rate while not allowing additional customers to be added to the rate. According to GFA, the benefits of Rider OT are actually stripped by AIU's proposal to make all Rider OT terms and conditions to be pursuant to Rider T. GFA states that AIU recognizes that tariff conformity across three service territories will eliminate certain provisions enjoyed by certain customers, but AIU again is only willing to conform tariffs when it is favorable to its own natural gas supply.

d. Commission Conclusion

AmerenIP's Rider OT does appear to have some benefits for smaller transportation customers, as Staff argues. In light of the Commission's earlier conclusion on storage banks and subsequent conclusions on daily telemetry and a small volume transportation tariff, however, the Commission does not believe that Rider OT remains a necessary vehicle for delivering those benefits to small transportation customers. Storage banks will also continue to exist for larger transportation customers and thus will not be needed under Rider OT. Grandfathering Rider OT for AmerenIP customers currently taking service under it appears to be of little benefit as proposed by AIU and thus is not adopted. Elimination of AmerenIP's Rider OT in conjunction with the other rate design conclusions in this Order promotes uniformity in the tariffs of the three gas utilities without unduly sacrificing service to transportation customers. Accordingly, AIU's proposal to eliminate AmerenIP's Rider OT is approved.

4. Elimination of AmerenCIPS' Stand-by Reserve

a. AIU's Position

Of the three AIU gas utilities, only AmerenCIPS currently offers SBR service. AmerenCIPS provides SBR through its existing Rider T. SBR is a service that provides for full or partial system back-up during periods of curtailment. Customers desiring SBR service elect what portion of their gas load that they would like available during periods of curtailment. AIU proposes to eliminate AmerenCIPS' SBR service, claiming that few customers want this service and eliminating it will achieve consistency among the three gas utilities.

AIU acknowledges Staff's claim that 50% of eligible AmerenCIPS customers (74 customers) have or want SBR service and that therefore it should continue to be offered. In response, AIU assets that Staff's analysis is in error. AIU states that Mr. Sackett combined the number of Rider T and Rider S customers to determine the number of customers wanting SBR service. AIU notes, however, that he only used the number of Rider T customers to derive the percentage currently utilizing a designation amount greater than zero. Of those eligible for a partial designation, AIU contends that 0.4% actually utilize a designation greater than zero, rather than 20% as erroneously claimed by Staff. Ameren Exhibit 30.7 shows the SBR option statistics for customers with Rider T, Rider S, and a combination of Rider T and S.

AIU note further that prior to its 2002 rate case, Docket No. 02-0837, AmerenCILCO offered a SBR option called daily limited firm backup ("DLFB"). AIU reports that in that rate case, the service was eliminated due to limited participation by transportation customers. Additionally, AIU states that the elimination of DLFB was uncontested by all parties, including Staff.

Furthermore, AIU contends that there are not enough pipeline capacity resources in the Midwest to even offer SBR service, which has its origins in the 1980's when transportation services were new and untested. AIU explains that SBR was originally designed during the initial unbundling of transportation services to give a back-stop to the new and untested transportation services then being offered. Because it targets a reserve margin (available firm deliverability resources over a design peak day) of 3% for load growth between capacity agreement terms, statistical errors in modeling the peak design day, and minor customer switching, AIU asserts that it simply does not have any extra firm resources on a peak day to offer a SBR option. As evidence of the lack of capacity, AIU relates that the newest interstate pipeline under construction in the U.S., the Rockies Express Pipeline, is fully subscribed before going into service.

If it is forced to offer a SBR service for all transportation customers, AIU states that an additional 490,000 MMBtu of firm transportation capacity potentially would be required, at a cost of over $74 million. AIU does not believe that it could secure this much firm capacity even if it wanted to, which makes Staff's request for this service a moot point. AIU adds that when a customer chooses to take transportation service, it is accepting the responsibility to secure its own gas supply and upstream transportation capacity resources, especially for a peak day. AIU insists that it should not be obligated to contract for supply services to serve as a back stop for transportation customers.

b. Staff's Position

Staff argues that AIU's proposal to eliminate AmerenCIPS' SBR service is another example of AIU's efforts to "standardize" the service offerings among the AIU LDCs, but which reduce services for transportation customers. Mr. Sackett recommends against allowing the elimination of this service. According to Staff, SBR service recognizes the need for operational flexibility and is a valuable service to transportation customers which should be retained as a cost-based service option. Staff adds that SBR service will become even more valuable if curtailments become more common due to the increasing pipeline constraints that AIU predicts. In that eventuality, Staff states that SBR would serve as a functional mechanism to ensure gas supply to customers when needed. Moreover, rather than eliminating the AmerenCIPS SBR option, Mr. Sackett recommends standardizing AIU's tariffs by offering SBR in all three service territories.

Mr. Sackett contends that AIU has provided no compelling reason to eliminate SBR. In attempting to justify eliminating the AmerenCIPS SBR option, Staff states that AIU makes two mutually exclusive arguments. First, Staff notes that AIU questions the popularity of SBR service among eligible customers. Then, Staff continues, AIU argues that it would not be feasible to provide SBR service if all customers that would be eligible took full backup under it.

Staff asserts that AIU's argument about SBR's lack of popularity is off the mark because its calculation includes the total number of commercial and industrial sales and transportation customers served by AmerenCIPS. Staff calculates that 74 AmerenCIPS sales and transportation customers are paying for a partial designation of greater than 0%. Staff contends that it is evident from their willingness to pay for SBR that they find it beneficial. Staff adds that there is no indication that the costs of SBR are not being recovered from the customers electing this service. Furthermore, Staff argues that the popularity of SBR can be most appropriately determined by considering the percent of Rider T customers taking SBR. These are transportation customers and therefore are the customers that Staff proposes should have access to the service from all three utilities. Staff asserts that according to AIU's own numbers, 20% of AmerenCIPS' transportation customers are designating a SBR amount greater than zero. Staff notes that transportation customers tend to fall in higher usage classes and may be subject to curtailment before the sales customers that are primarily in the lower usage classes. Mr. Sackett concludes that it is inconsistent for AIU to on the one hand argue that the vast majority of AmerenCIPS' Rider T customers have elected a stand-by level of zero and on the other hand state that AIU could not find capacity to provide this service if all customers wanted this service at a full back-up level.

c. Commission Conclusion

Whether or not to eliminate AmerenCIPS' SBR service is not an easy decision. Clearly some customers find it useful enough to pay extra for it, as Staff asserts. At the same time, however, the Commission recognizes that pipeline capacity resources in the Midwest have become more constrained since the initiation of SBR service, as AIU argues. Upon weighing all of the arguments, the Commission finds itself persuaded by AIU. As noted above, AmerenIP has no SBR option and AmerenCILCO's equivalent to the SBR service was eliminated in its 2002 rate case without dispute. In light of this historically declining interest in SBR service, the Commission does not believe that retaining AmerenCIPS' SBR service is warranted, let alone expanding it to all three gas utilities. Although it is unlikely that all customers taking SBR service would designate all of their load for the service, the Commission is also concerned about AIU's ability to secure capacity throughout its systems. Accordingly, AIU's proposal to eliminate AmerenCIPS' SBR service is approved.

5. Intra-Day Nominations

Generally, a nomination in the context of the gas industry is a request for a quantity of gas under a specific contract or agreement with a gas supplier. An intra-day nomination is a request for gas received during the same day on which the customer wants to take delivery of the gas. An intra-day nomination may also be a request for gas received after the normal nomination deadline for the following day. One or more intra-day nominations, while not mandated for all LDCs, are the industry standard.

The NAESB, and its predecessor the Gas Industry Standards Board, have developed various standards for the purpose of ensuring smooth and efficient operations between producers, pipelines, local distribution utilities, marketers, and others. NAESB is the industry forum for the development and promotion of standards which will lead to a seamless marketplace, and its process for development and implementation of standards is consensus-driven. Among the promulgations of NAESB is a recommendation that LDCs implement one or more of 4 intra-day nominations, specifically the Timely Cycle (before 11:30 AM on the day before flow), Evening Cycle (before 6:00 PM on the day before flow), Intraday 1 Cycle (before 10:00 AM on the day of flow), and Intraday 2 Cycle (before 5:00 PM on the day of flow). Intra-day nomination cycles provide transportation customers the ability to change nominations when necessary after the earlier deadlines have passed. The need to adjust nominations can arise for numerous unexpected reasons, including weather conditions, changes in a customer's production schedules, or pipeline or utility system disruptions. Many LDCs have either voluntarily or by mandate implemented certain of the NAESB intraday standards.

a. AIU's Position

AIU currently utilizes the Timely nomination cycle. AIU proposes the addition of one new intra-day nomination cycle for all three gas utilities to give transportation customers an additional option to adjust gas supply deliveries to minimize imbalances. Specifically, AIU proposes to add a new intra-day nomination cycle at 4:00 PM on the preceding day and use its best efforts to accommodate other intra-day nomination changes. AIU is only willing to provide this additional nomination on normal business days.

In response to the suggestion that it provide all 4 NAESB nomination cycles, AIU urges the Commission to refrain from ordering it to do so. AIU argues that doing so is not necessary because other Illinois gas utilities do not offer all 4 NAESB nomination cycles, which suggests to AIU that there is no need for the additional cycles, that it presents an undue cost to ratepayers, and that there has been no credible demand for this service. AIU states that it will provide the 4:00 PM evening nomination and any other off-cycle nominations it is able to using its current staff and resources.

AIU reports that the majority of transportation customers and their marketers efficiently manage their nominations and have not requested intraday nomination deadlines. AIU states that it has worked with the transporters to support their occasional need to make late nomination changes. AIU adds that there is no credible proof that additional intra-day nominations will meaningfully assist utilities in managing imbalances on interstate pipelines. Furthermore, AIU will continue to provide nomination flexibility when possible, but indicates that it can not uphold a firm tariff obligation to provide intra-day nominations throughout all evening and weekends and holidays without providing additional staffing during the off business hours.

The need for added personnel, AIU continues, is not limited to handling the additional intra-day nominations. AIU relates that it must coordinate nomination changes with Gas Supply and Gas Control personnel in order to effectuate the changes. Offering intra-day nominations would require additional staffing during the off business hours for these groups as well. AIU operates a 24-hour Gas Control Center; however, it is staffed during off-business hours strictly for meeting the requirements of gas control and monitoring for the transmission system, on-system storage fields, distribution level operating pressures, and maintaining the integrity and safety of the systems.

With regard to CNE-Gas' contention that other utilities offer all 4 intra-day nomination cycles, AIU notes that CNE-Gas excuses Peoples, North Shore, and Nicor for not being among them because these utilities allegedly offer more flexible storage access. AIU responds that its proposed banking services and tolerance levels are comparable to what these other utilities have in place. Furthermore, AIU asserts that its storage assets are considerably more limited than what Peoples, North Shore, and Nicor have in place, as discussed by AIU witness Glaeser. According to Mr. Glaeser, Peoples and North Shore have considerably more “leased” storage than does AIU. Furthermore, AIU avers that Peoples and Nicor do not offer firm intra-day nomination cycle rights. AIU states that Nicor has a strict nomination deadline of 11:30 AM the day prior to flow, with no flexibility for late nomination changes. In the recent Peoples/North Shore rate order, AIU reports that the Commission rejected the same arguments made by CNE-Gas. Moreover, AIU indicates that the utilities which CNE-Gas utilizes for comparisons, such as Pacific Gas and Electric Company and Southern California Gas Company, offer little resemblance to AIU in terms of the size of the their distribution systems, customer base, and employee numbers and, in fact, are the largest gas distribution systems in the U.S.

b. Staff's Position

Staff recommends that AIU be required to implement all 4 NAESB intra-day nominations. Doing so, Staff argues, will assist each LDC in maintaining its balances on the interstate pipelines. Staff states further that the additional costs to provide this service could be passed through to transportation customers in rates in subsequent rate cases. Staff points out that AIU can change its pipeline nominations twice during the gas day, but is not willing to pass this flexibility on to its transportation customers.

In support of its position that there is no demonstrated need for these additional nomination cycles, Staff notes that AIU argues that most of its transportation customers have not requested intraday nominations and most of them manage their nominations efficiently. Since AIU did not consult with its transportation customers about its proposed offerings, however, Staff believes that AIU's first argument has no validity. If AIU had sought input from its customers prior to filing its service revision, Staff submits that it may have discovered that they do want this service. Additionally, the fact that AIU spent three rounds of testimony arguing that its transportation customers do not efficiently manage their nominations as a basis for its recommended changes weakens AIU's second argument on this issue, according to Staff.

Staff also notes AIU's dislike of CNE-Gas' comparison of AIU to other LDCs that offer these nominations as firm rights. Although AIU dismisses two of the other utilities on the grounds that they are significantly larger, Staff observes that this leaves seven other utilities for comparison, many from the Midwest. Staff also believes that AIU's comparison to Nicor, Peoples, and North Shore on this issue is not valid because all of these utilities offer enough flexibility that intra-day nominations would be less critical for them.

c. CNE-Gas' Position

CNE-Gas states that transportation customers, like utilities, may benefit from the use of intraday nominations to avoid imbalances or for other operational reasons. To aid in doing so, CNE-Gas provides suggested tariff language incorporating all 4 NAESB intra-day nominations. CNE-Gas asserts that such intra-day nominations would be similar to what AIU's own internal gas supply personnel do, by using this capability to help maintain supply stability. CNE-Gas suggests that AIU should discontinue its unduly discriminatory treatment of transportation customers and instead provide them the same options for the same reasons AIU desires intraday nominations – to help manage its load requirements when unanticipated changes occur.

In response to AIU's observation that neither Nicor nor Peoples offers the 4 firm intra-day nomination cycles, CNE-Gas acknowledges that this is true and counters that both Nicor and Peoples provide transportation customers with greater, more flexible storage access. As CNE-Gas witnesses explained, many of these issues are interrelated. CNE-Gas contends that AIU's approach seeks to provide transportation customers with little flexibility on all the interrelated items, including both intra-day nominations and storage banks. In comparison, CNE-Gas states that Nicor offers no flexibility on intraday nominations, but substantially greater flexibility on the storage banks provided to transportation customers. In the recent Peoples case, CNE-Gas relates that the Commission authorized several tariff provisions granting greater flexibility to transportation customers such as intraday allocations, greater flexibility during delivery restrictions, expanded imbalance trading, and April through October daily storage injection rights of up to the average daily use in the parallel month of the previous year plus 0.67% of the customers Allowable Bank, with the ability to inject up to a customer's MDQ during the remaining months. With the added flexibility for transportation customers, CNE-Gas states that the Commission elected not to require Peoples to also offer the greater flexibility of intraday nominations.

d. Commission Conclusion

The Commission appreciates the benefits that more intra-day nomination cycles could bring to AIU's gas distribution systems and the customers thereof. In light of uncertainties regarding the cost of implementing all 4 cycles, however, the Commission is not prepared to require AIU to provide all 4 at this time. To order AIU to provide new services in this rate case but defer cost recovery until AIU's next rate case is not appropriate. When preparing its next gas rate cases, AIU should determine the cost of providing all 4 nomination cycles and provide that information with its rate filing. The Commission would also hope that those favoring the addition of nomination cycles would offer evidence of specific/concrete benefits associated with additional nomination cycles. The Commission hopes to use such information to weigh the cost and benefits of implementing the 4 NAESB nomination cycles in AIU's next gas rate cases. In the meantime, the Commission approves of AIU's proposed 4:00 PM evening nomination cycle, in conjunction with its current Timely nomination cycle. The Commission also expects AIU to use its best efforts to try to accommodate any other off-cycle nominations it is able to using its current staff and resources, as it committed to doing.

6. Daily Telemetry

a. AIU's Position

AIU proposes to require customers taking service under GDS-4, GDS-5, GDS-6 (AmerenCILCO only) and Rider T to provide daily telemetry. AIU witness Glaeser explains that daily telemetry is needed so that AIU can be assured of timely communication of transportation customer usage. He states further that daily telemetry allows AIU to provide transportation customers and marketers with more current data since the meter can be interrogated on a daily basis after 9:00 AM, which is the end of the gas day in the natural gas industry. AIU indicates that transportation customers and marketers would now have access to usage data from the previous day rather than usage from two days prior to the current gas day. Mr. Glaeser testifies that the daily telemetry requirements can be met with a dedicated telephone line, which can be an extension of an existing line. The line, however, could not be used for fax or any other purpose.

In response to GFA witness Adkisson's argument that the expense is not needed for small to intermediate and off-season transportation customers, Mr. Glaeser testifies that notwithstanding each customer's individual size, in the aggregate their usage can have a meaningful impact on the operations of the distribution systems. He adds that this concern of undue impacts can be exacerbated with regard to the smaller captive distribution systems within AIU's overall distribution systems. AIU offers the Crawford County area, as well as the Franklin, Hamilton and Perry County areas as examples of captive distribution systems. AIU states that daily information on transporters' usage can serve to prevent negative system impacts for these particular areas. Mr. Glaeser also notes that the requirement that these sized customers be subject to the daily telemetry requirements is not novel--AmerenIP already requires daily telemetry for transportation customers served under Rate 76.

Mr. Glaeser testifies further that there is a real benefit to transportation customers and their marketers by having this information in that they can better avoid higher cash-out prices. Moreover, he opines that in this day and age when state and federal policies abound with regard to the need for energy efficiency and responsible energy usage, that these customers should bear some obligation to take measures by which to ensure responsible energy management. He went on to explain that, as a matter of fact, many transportation customers and marketers are desirous of this daily usage information. He testified that when such information is not posted on the management system in a timely basis, numerous inquiries are received from these customers/marketers. Even marketers who manage customers with relatively small loads that include the GDS-2 and GDS-3 customers are desirous of access to daily usage information in order to manage the aggregated imbalances associated with their customers. AIU does not respond to GFA's suggestion that if daily telemetry is required, that its installation be delayed until after November 2008.

With regard to GFA's concern about the additional expense of telemetry, AIU describes how GFA misunderstands AIU's proposal with a discussion of AmerenIP and a GDS-2 grain dryer customer. GFA asserts that a sales customer will see the incremental cost for telemetry increase to $660 annually, whereas, if it is taking delivery service, as would a transportation customer, the overall annual increase is $1,345. AIU explains that for an AmerenIP GDS-2 customer taking service under Rider T, the incremental cost for daily telemetry does increase, by the overall across-the-board increase, to $660 annually, but the $1,345 amount includes the annual daily telemetry charges ($660), as well as the increase to all other rate components within the rate. Thus, according to AIU, a current grain dryer customer taking service under GDS-2, who would also be taking transportation service under grandfathered Rider OT rate structure, will see the same across-the-board increase in GDS rates as a customer receiving sales service. AIU asserts that the current grain dryer customer taking transportation service under AmerenIP's Rate 76 (proposed Rider T) will realize the same across-the-board increase in GDS rates as customers receiving sales service.

In response to Mr. Sackett's concern that a $55 per month charge for telemetry presents an economic barrier for smaller customers and may force some transportation customers to move back to system supply, AIU asserts that such claims are simply wrong. First, AIU states that nothing is unique or novel about this particular charge. AmerenCIPS currently charges $55 per month for the same equipment, and the AmerenIP Rate 76 Facilities Charge and Advance Metering and Telecommunications Charge total $37.75 per month. Second, AIU asserts that the evidence is that small transportation customers at both AmerenCIPS and AmerenIP are not being deterred by paying these monthly charges. AIU states that there are many customers taking transportation service and are paying these charges. AIU witness Warwick testifies that AmerenCIPS has 125 small transportation customers while AmerenIP has 182 accounts under its Rate 76.

AIU acknowledges 4 objections made by Mr. Sackett in response to Mr. Warwick's testimony: 1) the number of small customers taking transportation service are a small percentage of eligible customers, 2) the conclusions drawn stem from current metering differentials and not the proposed charges, 3) while the metering charge may not be a barrier for some smaller transportation customers, it could still be a factor for others, and, 4) while it may be economical for current customers, it may keep other marginal customers from benefiting from transportation services. AIU contends that it is readily apparent that the majority, if not all, of Staff's objections are speculative and not grounded in any credible evidence. Mr. Warwick testifies that less than 1% of the small transportation customers eligible take such service from AmerenCILCO, which does not require a telemetry charge, suggesting Staff's claim that more customers would be interested fails. Mr. Warwick also emphasizes that the magnitude of the telemetry charges is driven by the across- the- board revenue allocation such that each rate value, including the telemetry charges, are being changed equally by the across-the- board percentage change. Taken to its logical extreme, any increase in any of the AIU rates may cause major behavioral changes on the part of all of its customers but, of course, such a result is not realistic. The fact, AIU asserts, is that there are cost increases and the affected businesses become more efficient, reduce their own costs, or pass them along to their customers. AIU states that it is difficult to conclude that a charge of less than $2 a day would prevent a customer from utilizing transportation service.

b. Staff's Position

To the extent that daily balancing is not necessary, Staff sees no reason for daily telemetry. Staff is also concerned that the expense of daily telemetry may discourage some customers from becoming transportation customers. Staff also suggests that AIU apparently does not understand that some customers may not have an extra $660 or $660.00 per year for telemetry fees lying around. According to Staff, the additional fee puts marketers at a disadvantage because they not only have to beat the PGA cost, they also have to beat it by this additional amount as well. Staff adds that AIU witness Warwick testifies that other factors would affect a customer's decision to remain on sales service and that the move to daily balancing, the loss of a bank, the requirement for a dedicated phone line, and a reduction in a daily balancing could all be factors.

In response to AIU's claim that because some small customers are taking service with daily balancing and telemetry there must be no barrier for anyone, Staff argues that there may be many other even smaller customers that are not taking transportation service because they can not get gas priced competitively enough to beat not only the PGA but also the costs associated with the daily balancing and cashout and the telemetry and metering charges. With regard to AIU's observation that AmerenCILCO does not have daily balancing and metering requirements but only a few transportation customers, Staff submits that it is really AIU's unfavorable policies that keep customers, especially the small ones, from finding transportation service to be desirable. Staff fears that the number of transportation customers is likely to grow smaller if AIU’s restrictive proposals are approved.

c. GFA's Position

GFA understands that daily telemetry is a useful and necessary tool for large users to manage the system’s daily operation, but contends that daily telemetry is not necessary, nor an industry standard, for predictable small to intermediate users. For example, GFA states that telemetry requires the additional cost to obtain and maintain metering equipment. In addition, the user will pay one-time installation costs as well as the monthly cost of a dedicated phone line. On top of those costs, the user will incur additional administrative costs to manage the daily use data. GFA argues that all of these costs are justified for large users who need to manage the daily operation of the system, but are simply too large and disproportionate to the use of small and intermediate users. Indeed, GFA continues, the large cost results in an economic incentive for transportation users to switch to AIU supply. For example, under AIU's proposal, GFA reports that a small AmerenIP GDS-2 grain dryer customer under sales service will see its incremental cost for telemetry grow to $600 or $660.00 annually. If it is taking delivery service, its overall increment, compared to sales service, will increase to $1,345.00.

GFA disagrees with AIU's assertion that daily telemetry information helps transportation customers avoid higher cashout prices. The fallacy of that statement for a small grain dryer is obvious, according to GFA. GFA explains that the additional cost of AIU's filed tariffs has a bias in favor of its sales service supply by $2.24 per dekatherm relative to transportation service, which far exceeds what a small customer could expect to make up by avoiding higher cash-outs. In response to AIU's claim that some GDS-2 and GDS-3 customers or marketers would like to have daily usage information, GFA states that daily telemetry should be an option for those willing to pay for it.

GFA states that AIU's purported justification is that it would be nice to have daily telemetry to be able to monitor actual usages and manage imbalances in the system. AIU also suggests that it is good “overall energy policy” to require daily telemetry. All of that, GFA asserts, ignores the significant, and hugely disproportionate, cost to the small to intermediate users. Instead of being good overall energy policy, GFA views this proposal as a thinly veiled attempt by AIU to force transportation customers to take AIU supply.

To see the lack of necessity for daily telemetry, one need look no further than other suppliers within Illinois, as well as the rules applicable to Missouri and Iowa utilities, according to GFA. Nicor, Peoples, North Shore, Mid American Energy

Company, and AmerenCILCO currently offer small volume transportation service without telemetry. The State of Missouri, GFA states further, prohibits telemetry charges for small volume transportation for Missouri schools, which is applicable to AmerenUE, Laclede Gas Company, Missouri Gas Energy Company, Atmos Energy, Aquila, and any other utility regulated by the Missouri Public Service Commission. (See 393 Mo.Rev.Stat. §393.10) Furthermore, GFA reports that the Iowa Utilities Board recently ordered all Iowa investor-owned utilities to offer small volume transportation service without telemetry to all non-residential customers. These other utilities and state statutes and rules demonstrate that daily telemetry for the small to intermediate users is simply not necessary.

d. Commission Conclusion

The Commission understands AIU to propose that all Rider T transportation customers and all sales customers taking service under GDS-4, GDS-5, and GDS-6 (AmerenCILCO only)[13] to provide daily telemetry. Transportation customers otherwise eligible for service under GDS-2 and GDS-3 would provide daily telemetry under Rider T. Sales customers under GDS-2 and GDS-3 would not be required to provide daily telemetry.

The Commission agrees with AIU that daily telemetry can provide useful information, but does not understand the sales vs. transportation distinction that AIU draws between customers eligible for GDS-2 and GDS-3 service. The record lacks any explanation for why daily telemetry is not necessary for small sales customers but is for small transportation customers. In light of the cost of daily telemetry, the Commission views the proposed requirement on small transportation customers as a deterrent to taking transportation service. Accordingly, AIU may not require all transportation customers otherwise eligible for service under GDS-2 and GDS-3 to provide daily telemetry. Nor may AIU require small seasonal gas transportation customers otherwise eligible for service under GDS-2 or GDS-3 to provide daily telemetry. AIU shall, however, offer a daily telemetry option to such transportation customers in the same manner that other, larger transportation customers provide daily telemetry or on more favorable tariffed terms to the customer if costs prove to be less for smaller customers. AIU's proposal to require remaining Rider T customers and GDS-4, GDS-5, and GDS-6 customers to provide daily telemetry appears reasonable and is approved.

7. Small Volume Transportation Tariff

Staff witness Sackett recommends implementing a small volume transportation tariff for all three utilities if the Commission determines that tariff standardization is appropriate at this time. He suggests a transportation service that balances monthly and does not require daily metering for smaller customers. He asserts that daily metering and balancing are unnecessary for smaller customers because they do not place the same constraints on the system as large customers. Mr. Sackett states further that no metering charge should be assessed beyond what these smaller

[13] AmerenCIPS and AmerenIP do not have a GDS-6 rate class.

customers would need for system supply service. With regard to telemetry, if the customer would not need telemetry as a sales customer, he does not believe that the customer should be required to have telemetry as a transportation customer.

Mr. Sackett notes that AIU already offers daily balancing and no telemetry in AmerenIP's territory under Rider OT and under existing Rider T in AmerenCILCO's territory. Therefore, he suggests that it should not be unduly difficult to add this to AmerenCIPS' tariff, as well. Mr. Sackett contends that AIU did not respond in either its rebuttal or surrebuttal testimony to his proposal to add a small volume transportation tariff for all three utilities. Since no party objected to this recommendation in their testimony, he asserts that the Commission should adopt it (if the Commission adopts tariff standardization).

AIU objects to the implementation of a small volume transportation tariff and opposes monthly cash-outs for any sized customer. In addition, AIU finds Staff's position regarding proposed monthly cash-outs for small volume transportation customers to be at odds with Staff's own take on the benefits of daily cash-out. Specifically, AIU notes that ~~Staff witness~~ Mr. Sackett agrees that daily cash-outs would help to eliminate gaming as part of his argument that bank services should remain. AIU adds that Mr. Sackett's position is consistent with Staff's position in AmerenIP's last gas rate case, Docket No. 04-0476. According to the Order in Docket No. 04-0476, Staff agreed with AmerenIP that daily balancing would prevent a certain amount of gaming in the monthly balancing and cash out procedures. (Order at 90)

GFA expresses discontent with AIU's transportation tariffs. GFA states that it sponsors a natural gas purchasing and transportation pool for its members. These members are predominantly small and intermediate size grain dryers. GFA witness Adkisson testifies that its members are seriously considering switching to sales service with AIU supply because the proposed AIU transportation tariffs are so onerous.

The Commission has considered the arguments for and against a small volume transportation tariff and concludes that the proposal has merit. Staff has persuaded the Commission that a simple straight forward transportation tariff for customers eligible for service under each utility's GDS-2 and GDS-3 rate classes is reasonable, including small seasonal customers taking service under GDS-5 who are otherwise eligible for service under GDS-2 and GDS-3. The tariff, which may be either part of Rider T or a separate tariff, shall provide for monthly balancing and not require daily metering. The Commission does not perceive a need at this time for anything more than monthly balancing for smaller customers. No metering charge should be assessed beyond what these smaller customers would need for system supply service. As discussed above, smaller transportation customers will have an option of utilizing daily telemetry. The Commission anticipates that this determination will make transportation service more available to small customers. The Commission would welcome an evaluation of the small volume transportation tariff from AIU, Staff, or any interveners in AIU's next gas rate cases.

8. 12-Month Notification for Seasonal Customers

a. AIU's Position

Both AIU’s existing tariffs and its proposed Rider T require customers to notify AIU by July 1 of each year if they wish to change to or from transportation service effective the following November 1. Because the order in this proceeding will come after July 1, 2008, AIU proposes a later date for the year 2008 by which a notice of service change must be given. Specifically, eligible customers must provide notice of their choice by the later of October 17, 2008 or 14 days after compliance tariffs become effective.

As a compromise, AIU proposes, due to the unique nature of grain dryers, to change seasonal rate class GDS-5 to require notification to AIU by April 1 to be effective August 1 of the same year. The general tariff requirement to remain on this rate for 12 months would not change. AIU believes that the proposed offer to change the notification date to April 1, with the sales service to be effective August 1 of the same year, would resolve the timing issue identified by GFA. AIU clarifies that it will continue~~s~~ to offer other transportation customers the one-time right to change the election for sales service before October 17, 2008, and will notify customers of this option through e-mail and AIU's internet-based USMS, which is an on-line management software system used to maintain daily usage, nominations, and billing information.

In making the proposed compromise to require notification by April 1, AIU does not fully accept Staff’s position or any of GFA’s various proposals. Rather, AIU contends that its proposal represents a reasonable accommodation to certain seasonal users, such as grain dryers and some asphalt plants, with production in later summer and fall. Expanding the notice compromise to all customers with low winter usage, as Staff and GFA propose, or to all customers who qualify for GDS-5 (as opposed to those who take service under the tariff) is not appropriate, according to AIU. As ~~Mr.~~AIU witness Glaeser explains, off-seasonal use transport customers can create detrimental system impacts if not managed properly. Some of the firm transportation capacity contract levels for AIU ratchet down during the shoulder months, including September and October, when grain dryers typically have heavy usage, in order to follow the load shape of the system sales customers. Additionally, AIU states, this transportation capacity is used at high load factors during the shoulder months and summer to transport gas supply for storage injections into off-system and company owned storage facilities. AIU asserts that capacity for its systems can and does become constrained throughout the year, not just during the peak winter season. AIU contends that this is evident by the pro-rata reductions in primary firm transportation capacity on Panhandle Eastern in May 2008. As a result, AIU claims that allowing all customers with low winter usage to provide 4 months notice, as proposed by Staff (or 30 days as proposed by GFA) would be detrimental to AIU's planning for winter season usage. An April 1 notification date, for service on August 1, would address the GFA’s concerns about the impact on grain dryers during the drying~~s~~ season. Therefore, AIU concludes that its compromise to change the seasonal rate class GDS-5 to require notification to AIU by April 1 to be effective August 1 of the same year is reasonable and should be adopted.

b. Staff's Position

While AIU's July 1st notice proposal makes sense for those customers needing to use most of their gas during the winter months, Staff states that it makes little sense for customers who will have little impact during those same months. Therefore, Staff witness Sackett recommends that all customers with less than 5% of annual usage occurring during December through March be required to provide a four-month advance notice before moving between system and transportation service regardless of the GDS that they take service under. Mr. Sackett's four-month notice proposal preserves the four-month notice period currently in effect and in proposed Rider T. Staff asserts that this proposal allows for notice to be provided at the beginning of the injection season for grain dryers.

Staff understands AIU to have accepted at least part of Staff's recommendation. Staff notes, however, that there are two important distinctions between AIU's proposal and Mr. Sackett's recommendation. AIU's proposal only addresses those customers on GDS-5 and it will be for April 1st instead of four months. Mr. Sackett's proposal would apply to all customers with less than 5% of annual usage occurring during December through March and would be a four-month notice. Thus, AIU's proposal would only benefit grain dryers with the four months and not work for other seasonal users whose usage does not pattern the grain dryers. AIU witness Glaeser admitted that his proposal does not address all of Mr. Sackett's concerns. Since AIU acknowledges that its position does not address all of Staff's concerns, Staff argues that AIU's proposal should be rejected and Staff's should be adopted.

c. GFA's Position

GFA finds the October 17, 2008 special one-time notice offer under proposed Rider T a problem for grain dryers for the 2008 harvest, which will already be in progress, if not nearly over. Even more importantly, for off-season users, the proposed on-going July 1 notification is a major problem beyond 2008, according to GFA. GFA is concerned because AIU's proposal requires grain dryers to give notice two harvests in advance. For example, the September-October, 2010 harvest is within the 12-month period beginning November 1, 2009, and ending October 31, 2010. As proposed by AIU, GFA states that GDS-2 and GDS-3 customers would be required to give AIU notice regarding the 2010 harvest by July 1, 2009. That notification date, July 1, 2009, occurs before the 2009 harvest. AIU's proposed notice requirement results in small and intermediate grain dryers having to give notice two harvests in advance. GFA complains that this proposal will require grain dryers to decide by July 1, 2009 their gas usage that will not begin until some 14 months later, in September of 2010. GFA avers that attempting to make that determination so far in advance will be difficult and risky. Rather than take that risk, GFA states that many grain dryers will likely just change to

AIU supply. GFA maintains that the notification requirement is yet another method by which AIU is attempting to influence transportation customers to switch to AIU supply.

GFA states further that AIU will not offer to GDS-3 and GDS-4 customers the reasonable notification requirements available to GDS-5 customers. GFA observes that for seasonal GDS-5 customers, AIU has offered to change the notification requirement to April 1 to be effective August 1 of the same year. GFA asserts that does not solve the issue for smaller to intermediate seasonal use grain dryers. Unless and until AIU's GDS-5 tariff is designed for small and intermediate, as well as large users, GFA states that most dryers with seasonal use that qualify for GDS-5 can not economically take GDS-5 and therefore take service under GDS-2 or GDS-3 tariffs. Those GDS-2 and GDS-3 customers are not being offered the April 1 notification to be effective August 1, despite having the same seasonal use pattern as GDS-5 customers.

GFA proposes that the GDS-5 notification provision (April 1 notice to be effective August 1) be applicable not only to GDS-5 seasonal customers, but to all seasonal customers that qualify for GDS-5, whether or not they choose to take service under GDS-5 (such as grain dryers who choose to remain on GDS-2 or GDS-3). GFA suggests that this proposal would eliminate the discrimination against small and intermediate seasonal users. Alternatively, GFA proposes that seasonal use customers, with less than 5% of annual use in the months of December through March, should not be required to stay on transportation service for 12 consecutive months. Instead, such users could stay on transportation service through March if transportation service commences after December 1 and before April 1. GFA states that both of these solutions would alleviate the harshness imposed with the two harvest notice requirements proposed by AIU.

d. Commission Conclusion

At a minimum, grain dryers under GDS-5 should be allowed to provide notice by April 1 of each year whether they intend to be a transportation customer or sales customer beginning August 1 of that same year, which AIU, Staff, and GFA all appear to agree on. Whether other seasonal users of gas eligible for service under GDS-5, regardless of whether they actually take service under GDS-5, should be able to operate under the same notice provisions is less clear. AIU appears to have legitimate capacity concerns in conjunction with allowing all small and intermediate seasonal users to provide April 1 notice of a switch between sales and transportation service. Although the Commission does not adopt such a broad application of the April 1 notice provision in this proceeding, the Commission is interested in considering this idea further and invites discussion of it in AIU's next gas rate cases. In the meantime, however, given the nature of grain dryers' seasonal use, the Commission finds that grain dryers under GDS-2 and GDS-3 should also be allowed to provide such notice by April 1 of each year, for the period beginning the following August 1. With regard to waiving or modifying the general tariff requirement that grain dryers remain on the rate for 12 months, the Commission is not prepared to do so at this time in absence of assurances that gaming would not occur.

9. Minimal Winter Use Delivery Service Provisions

a. AIU's Position

With respect to AmerenCIPS, AIU proposes removing the Minimal Winter Use delivery service provisions from the present Rate 3 and Rate 4. With respect to AmerenCILCO, AIU proposes removing the Minimal Winter Use delivery service provisions from the present Rate 600. In both instances, AIU proposes to include such language in its proposed new GDS-5 -- Seasonal Gas Delivery Service.

AIU also asserts that upon reviewing Staff's Initial Brief, it learned of several new and significant changes in gas rate design related to “seasonal load” being recommended by Staff (discussed below). AIU states that Staff's recommendations lack supporting citations to the record as to their scope, applicability, or impacts on all affected customers. AIU goes on to state that the novel changes recommended by Staff are extremely problematic as well as markedly vague. All of the recommendations related to changes to accommodate “seasonal load.” AIU contends, however, that Staff fails to provide a definition of “seasonal load” in its Initial Brief. Because natural gas is used for heating, AIU observes that a large number of all customers use natural gas seasonally. AIU maintains that it is unclear from Staff’s recommendation what the parameters of “seasonal” use would be.

Additionally, AIU avers that converting demand charges to volumetric charges involves a major change in rate design elements. AIU also notes that a major theme in Staff’s rate design testimony is its assertion that all rates for customers should increase equally across-the-board to the extent feasible. AIU argues that converting a demand charge to a volumetric charge is inconsistent with that theme because doing so will result in unequal customer impacts. Finally, AIU insists that Staff's assertion that AIU has not provided credible support for why customers should require demand charges is incorrect. AIU contends that it provided ample expert testimony on the subjects of telemetry and the inappropriateness of eliminating demand rates.

b. Staff's Position

In response to AIU's proposal to include the Minimal Winter Use delivery service provisions in GDS-5, Staff witness Harden agrees that doing so is an appropriate means of conforming AIU's gas rate classes with its electric rate classes since it would not result in unequal bill impacts for individual gas customers. In its Initial Brief, Staff also voiced support for various GFA proposals concerning seasonal usage. GFA argues that seasonal customers do not place constraints on the system and therefore should not be assessed a demand charge. GFA also wants a volumetric charge for any customer with a seasonal load profile. GFA proposes that it should not be required to have daily balancing and telemetry as well. AIU witness Glaeser presents a counter-argument concerning an isolated incident where on one captive system, a single seasonal customer, has more than half of the load on that system.

Staff contends that AIU is attempting to use anecdotal evidence to prove that it must take a certain course of action. In this situation, however, Staff argues that AIU's example is not even close to being representative of the typical grain dryer. The one customer that it used, Staff notes, was not even a grain dryer. Another reason that Staff believes that AIU's response should be dismissed is because the issue is not directly related to these customers being transportation customers. Staff contends that the situation of the customer Mr. Glaeser used in his example would be the same if it were a sales customer, because its load is still unpredictable and the size of its usage relative to the captive system load would not change. Some exceptions may require daily metering, but AIU has provided no reason to conclude that most seasonal customers place such a load on the system that they need either daily balancing or telemetry, according to Staff. Staff therefore recommends that the Commission adopt GFA's proposal that customers with a seasonal load should not be required to balance daily and have daily telemetry regardless of which GDS they would otherwise be on. Also, because AIU has failed to provide a credible rationale for why seasonal customers should have demand charges, Staff recommends that the customers who would not be required to have a demand charge under the non-seasonal GDS classes, should not face a demand charge under GDS-5.

c. GFA's Position

GFA recommends that the demand charges in GDS-2 and GDS-3 be converted to volumetric charges, a recommendation which AIU opposes. GFA argues that non-winter seasonal use customers do not place constraints on the AIU distribution system, and therefore should not be charged a demand charge. GFA states further that AIU has not provided evidence that a demand charge, particularly a year-round demand charge, is appropriate for customers with minimal winter use (less than 5% of annual usage occurring during December through March). GFA observes that Mr. Glaeser uses a single anecdotal example of a seasonal customer on a captive part of the AIU distribution system (one pipeline supply). Because AIU's distribution system capacity is obviously underutilized during non-winter periods, GFA asserts that there is no justification for AIU to require demand charges for small and intermediate use customers with minimal winter use. GFA finds Staff's reasoning sound when it recommends that customers who would not be required to have a demand charge under the non-seasonal GDS rate schedules should not face a demand charge under the GDS-5 seasonal rate.

d. Commission Conclusion

AIU's proposal to include the Minimal Winter Use delivery service provisions from AmerenCILCO's Rate 600 and AmerenCIPS' Rates 3 and 4 in the new proposed GDS-5 does not appear to be opposed by any party. This proposal is reasonable in the Commission's opinion and is adopted. Other issues under this heading are less clear.

The elimination of the demand charge for non-winter gas customers as well as minimal winter use customers is an intriguing idea, but without more information, the Commission is not prepared to adopt these proposals at this time. One concern that causes the Commission to hesitate in adopting this proposal is the uncertainty surrounding the degree to which non-winter gas users affect the apparently increasing non-winter demand for gas. The ease/difficulty of converting demand charges to volumetric charges is another area of concern for the Commission. Without knowing more about how this would be accomplished, the Commission is reluctant to direct that it be done. The Commission invites further discussion on these issues in AIU's next gas rate cases.

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.

10. Uniform Terms Among Tariffs

GFA witness Adkisson is troubled by the fact that GDS-2, GDS-3, GDS-4, and GDS-5 have differing maximum use qualifications among the three utilities. He suggests implementing uniform use qualifications among corresponding GDS rates for all three utilities. GFA notes that AIU cites the need for rate continuity and stability, as well as the need to make changes gradually. Although AIU proposes continuity and stability here, GFA asserts that AIU abandons those principals when it wants to make tariff changes. GFA contends that AIU's inconsistencies point to its attempts to influence customers toward AIU supply.

AIU does not find GFA's concerns on this issue valid. AIU states that its rate design objective was to conform rates to the maximum extent possible while still maintaining rate continuity and stability. According to AIU, Mr. Adkisson’s recommendation to conform the GDS rate qualification provisions among the three utilities might compromise the AIU rate continuity and stability goal.

AIU points out that Mr. Adkisson provides no analysis of the effects (i.e., customer rate migration, revenue instability, customer bill impacts, or cost analysis) of his proposed recommendation. Without thorough analysis, AIU fears that constructing a different rate design would inappropriately expose it to possible revenue erosion and run counter to the way rate classifications are set today. AIU maintains that GFA's recommendations will require a complete analysis of the affected service classifications to determine realignment of class billing determinants, and also require estimates and assumptions made for expected customer migration.

If the Commission agrees with Mr. Adkisson's rate design recommendation, AIU states that the final rates would need to be developed only after a detailed analysis of the recommendation, so as to determine the respective billing units for each affected service classification. The determination of billing units would also need to take into consideration the effects of rate migration, if any. AIU argues that this process would be necessary to ensure that, at the end of the day, the compliance rates filed in the case provide AIU with a reasonable opportunity to earn the rate of return granted in this case. AIU adds that the Commission would have to allow adjustments to other rates in order for the utilities to make-up any revenue shortfall created by his proposal.

The Commission understands what GFA is concerned about. While some consistency exists among the maximum use qualifications for the GDS-2, GDS-3, GDS-4, and GDS-5 rate classes among the three utilities, obvious inconsistencies also exist. The Commission would also prefer that these tariffs be much more similar. Because this is the first "incarnation" of the GDS rate classes and because no analysis of the effects of more uniform GDS rate classes has been done, however, the Commission is not prepared to direct that AIU implement uniform maximum use qualifications for the GDS-2, GDS-3, GDS-4, and GDS-5 rate classes among the three utilities in this proceeding. Instead the Commission directs AIU to study the impact of GFA's proposal prior to its next gas rate case. If AIU finds that greater uniformity is warranted, its rate filing should reflect the results of that study. If AIU finds that greater uniformity is not warranted, it should be prepared to explain why and provide the results of the study if asked during the discovery process.

11. Weather Normalization

AIU calculated billing determinants in this case based on 10-year weather normalized averages. AIU witness Laderoute presents testimony showing that 10-year normals are a better predictor and more representative of “normal” weather than 30-year normals in this case. He conducted a number of detailed statistical tests that are used by meteorologists and climatologists in studying weather and normals to test the validity of this conclusion, using historic National Oceanic & Atmospheric Administration weather data for Champaign-Urbana. AIU states that no party challenged the validity of Mr. Laderoute’s testing, data, or conclusions.

In his direct testimony, Staff witness Sackett concluded that AIU's proposal to use a shorter weather period was acceptable, but recommended that AIU provide a weather study similar to that used in the Peoples/North Shore gas rates cases, Docket Nos. 07-0241 and 07-0242 (Cons.). He indicated that the weather study should provide additional weather normalization data sets between 8 and 12 years in length, and compare such sets with a 30-year data set to determine the predictive quality of each set. Mr. Sackett requested the information because he understood the Order in Docket

Nos. 07-0241/07-0242 (Cons.) to require him to do so. Mr. Laderoute provided the requested data and analysis in his rebuttal testimony, and concluded that the 8-, 11-, and 12-year normalized data sets are comparable to the 10-year normals in this case, and are therefore more predictive than the 30-year normal results presented in his direct testimony. Mr. Sackett agrees that AIU's approach is reasonable and not inappropriate.

The only issue to address is whether the Order in Docket Nos. 07-0241 and 07-0242 (Cons.) requires all utilities in the future to provide additional data sets and compare such sets with a 30-year data set to determine the predictive quality of each set. AIU does not believe that the Commission has required utilities in all future rate cases to provide a range of data to support their chosen weather normalization period, to determine which is the most predictive. AIU contends that this interpretation would be cumbersome and unnecessary. AIU acknowledges that the Commission adopted a more predictive approach to weather normalization in Docket Nos. 07-0241 and 07-0242 (Cons.), to further the Commission's goal of setting "rates with the greatest likelihood of generating the Utilities' allowed annual revenues." (Docket Nos. 07-0241 and 07-0242 (Cons.), Order at 123) Mr. Laderoute's recommendations, AIU adds, are consistent with this goal.

Understanding the background associated with this issue may facilitate discussion. In the Peoples/North Shore rate case, the Commission noted that it would have expected a 30-year data set to be more predictive, based on the general statistical principle that more data regarding varying conditions is better than less. But after having considered the 8-, 11-, and 12-year normals, as well as the evidence presented in Nicor's most recent rate case (Docket No. 04-0779), the Commission concluded that there was no stable long-term trend in weather that would justify adhering to a 30-year normal. Furthermore, in adopting a 10-year normal in the Peoples/North Shore case, the Commission did not adopt the most predictive weather data set. In that case, the Commission made a decision between the most predictive data sets presented in light of all of the evidence.

In this case, AIU has shown that 11-year normals appear to be the most predictive set, but that adoption of 10-year normals presents a similarly predictive result and is reasonable in this case. Although Mr. Sackett agrees with Mr. Laderoute, Staff asserts that AIU provided no reason why a 10-year normal is as good as or better than the 11-year normal. AIU merely concludes that because the 10-year falls between the 11-year and 8-year normal in length that it was, "on balance," appropriate. AIU also notes that all of its billing determinants and resulting rate design data in this case are based on 10-year weather normalized data. Parties have not had the opportunity to review and respond to rate design evidence developed using alternative heating degree days, from alternative weather norm data sets.

While Staff recognizes that the Commission is not bound by its prior decisions, it still maintains that all utilities must provide the additional weather data discussed in Docket Nos. 07-0241 and 07-0242 (Cons.). Staff points out that the Commission required that all subsequent rate cases follow the procedures it adopted in that case, stating that, "In subsequent rate cases, we will expect utilities to employ the principles and methods approved here or bear the burden of proving that additional measures will materially enhance the alignment of allowed and actual revenues." (Order at 125-126)

The Commission concludes that AIU's use of 10-year weather normals is acceptable and hereby approves of it. The Commission also appreciates Staff's observance of the conclusion on weather normalization in Docket Nos. 07-0241 and 07-0242 (Cons.). While it is correct that the decisions of the Commission are not res judicata, nothing prevents Staff or the Commission from recognizing the value of an earlier decision and applying the same principles to another proceeding. In this instance Staff sought additional information consistent with the weather normalization conclusion in the Peoples/North Shore Order in order to ensure that use of 10-year normals is appropriate. AIU provided the information and the primary question was resolved. To facilitate the resolution of this issue in future AIU rate cases, the Commission directs AIU to provide comparable data sets as it did in this proceeding with its initial filing. Staff is not barred from seeking other data sets for comparison purposes.

12. Imbalance Trading

a. AIU's Position

Prior to its decision in this proceeding to offer banking, AIU offered to provide an imbalance trading mechanism to transportation customers. AIU witness Glaeser explained that a transportation customer or marketer could monitor its imbalance position during the month through the USMS. Mr. Glaeser further explained that transportation customers could choose to contact another transportation customer or marketer served from the same interstate pipeline and trade off-setting imbalances. The parties involved in the trade would be required to provide confirmation that the trade, in fact, had been agreed upon. Thereafter, AIU would change each customer's imbalance position within the USMS. Mr. Glaeser went on to testify that modifying the USMS system in order to accommodate imbalance trading would take time, as significant software changes are needed.

AIU now contends, however, that subsequent developments in this proceeding have eliminated the need for the imbalance trading service. The imbalance trading mechanism was intended to help transportation customers and marketers manage daily imbalances in order to minimize daily and monthly cash-out charges. As Mr. Glaeser explains in his surrebuttal testimony, AIU is now proposing to offer banking services which satisfies the same objective. AIU adds that with the offer of banking services, the imbalance trading service is no longer needed since the bank balance can be transferred between transportation customers and marketers. Mr. Glaeser also explains that bank limit balances between transportation customers served by the same interstate pipeline are transferable after confirmation from both counterparties. As AIU moves from the current bank services offered under the existing tariffs to those that it now proposes, AIU states that any balance in excess of the new bank limit maximums will be cashed out at the average of the Chicago City Gate first of the month price for the prior 12-month period after the customer avails itself of any bank balance trading with other customers. Consequently, because proposed banking service fulfills the same purpose as imbalance trading service, AIU withdraws its imbalance trading proposal and urges the adoption of its proposed banking service.

AIU notes CNE-Gas' concern that the bank services may not sufficiently make up for the absence of imbalance trading. In response, AIU states that the requisite functionality will be provided. AIU also asserts that CNE-Gas' effort to tie AIU to a Peoples tariff should be disregarded. According to AIU, there has been no factual demonstration to show that AIU's systems can accommodate the specifics associated with the Peoples tariff.

b. Staff's Position

Staff understands that AIU is withdrawing its proposal to provide for imbalance trading on the grounds that it is no longer necessary in light of AIU's newly proposed bank balance trading. Staff states that AIU's proposal to trade bank balances does not directly affect the daily imbalances that customers face. Staff witness Sackett, however, agrees that with any of the bank proposals, the need for imbalance trading is limited.

c. CNE-Gas' Position

CNE-Gas understands that AIU has withdrawn its imbalance trading service since AIU does not believe it is necessary with a banking service. CNE-Gas is concerned by this change but acknowledges that once actual tariff sheets setting forth the terms and conditions of the banking service are available for examination, the transfer of bank limit balances may provide some of the imbalance trading that transportation customers functionally require. Although the operation of imbalance trading may be different with and without a storage bank, CNE-Gas asserts that imbalance trading remains a valuable tool for transportation customers. CNE-Gas' concern is that even with storage banks, transportation customers need to have the ability to trade their bank imbalances with others. Whether this is called "Imbalance Trading" per se is not important to CNE-Gas; what is critical is that the functionality exists. CNE-Gas seeks functionality on par with that described in the Peoples/North Shore Order.

Although under the Peoples/North Shore Order imbalance trading is not allowed between customers of different utilities, for instance between customers of Peoples and North Shore, CNE-Gas indicates that there are no additional restrictions related to upstream pipelines. CNE-Gas states that this is one key distinction between imbalance trading, as discussed in the Peoples/North Shore Order, and the transfer of bank limits mentioned in Mr. Glaeser's surrebuttal testimony. Since imbalances offset one another under imbalance trading, CNE-Gas contends that AIU should be indifferent and there is no adverse impact on utility operations. CNE-Gas recommends that the Commission direct AIU to include imbalance trading, similar to the Peoples/North Shore Order described above, in its transportation tariffs.

d. Commission Conclusion

The Commission recognizes the value of imbalance trading to transportation customers. But given the adoption of gas banking services above, the Commission does not believe that imbalance trading is necessary under the circumstances. If circumstances change in future AIU rate cases, the Commission will again consider requiring imbalance trading.

13. Purchase/Confiscation of Customer-Owned Gas

a. AIU's Position

AIU' existing tariffs provide AIU the right to purchase gas owned by transportation customers in a situation where system integrity is threatened and the system emergency requires curtailment. AIU proposes similar language in its proposed Rider T. Under its proposal, AIU would first attempt to acquire the transportation customer gas through a voluntary purchase. If a voluntary purchase does not occur, proposed Rider T provides that AIU may confiscate the gas at price of 110% of the daily market price.

While CNE-Gas understands that AIU may need to acquire customer-owned gas in an emergency, it is still troubled by the idea of a forced sale of transportation gas even if a 10% premium is included. To address such concerns, AIU's current proposal contains three conditions that must be met before AIU has the right to purchase gas owned by transportation customers. First, system integrity is threatened. Second, the utility has declared a Critical Day. Third, the utility implements curtailment of natural gas service to customers pursuant to the Curtailment Plan. AIU contends that these conditions ensure that it will not arbitrarily acquire gas from its transportation customers without good reason and will exercise this right only under the most severe circumstances. AIU states further that the right to purchase gas owned by transportation customers would not be allowed only on a critical day since all three conditions must be met before purchasing customer gas. In addition, the proposed tariff states “the Company’s right to purchase gas owned by a Customer shall be exercised by the Company only after the Company has exhausted reasonable efforts to obtain the necessary gas supplies from other sources . . . .” (Ameren Ex. 30.0 at 30-31)

In response to CNE-Gas' assertion that involuntary confiscation of transportation gas supplies will not increase the volume of gas that is flowing during a curtailment, and therefore no relief will be provided, AIU asserts that CNE-Gas misunderstands how the process works. AIU witness Glaeser explains that volumes of gas delivered into the system during a curtailment will likely not be increased by confiscation; however, the needed relief is still provided. The gas purchases only occur during curtailment, during which customers will be required to reduce usage by customer class so that the demand on the system will be lower. The gas purchased from the transportation customers at the city gate delivery points will be then used to serve high priority residential and human needs customers, since the larger customers will have been curtailed.

If confiscation occurs, CNE-Gas argues that AIU should waive any balancing costs or penalties incurred due to any imbalance created when transportation customer gas is purchased during curtailment. AIU does not agree and argues that if a customer is complying with the curtailment, the imbalance will be minimized. AIU states that it would not buy any gas from transportation customers unless they have been curtailed, which means their usage has been reduced. If there is more than a minimal imbalance, AIU maintains that the customer has not complied with the curtailment and should incur all imbalance charges as well as penalties. If these costs and penalties are waived, AIU asserts that there is no incentive to a customer to reduce its usage, thereby defeating the purpose of the curtailment and thus threatening system integrity.

In response to any suggestion that confiscation of gas, even with a 10% premium, constitutes a conversion under 810 ILCS 5/7-404, AIU argues in its Reply Brief that this section of the Illinois statutes is inapplicable to that situation. Moreover, if such tariffs are approved by the Commission, AIU asserts that it would be difficult to claim that the tariffs are unfair since it is the Commission that determines what is fair in this proceeding. Taking the CNE-Gas position regarding conversion to its logical extreme, AIU contends that no gas utility could ever curtail or interrupt a transportation customer no matter what the circumstance. AIU also does not see the relevancy of CNE-Gas' FERC discussion.

b. Staff's Position

AIU initially sought the right to purchase customer gas at market price on a critical day. Staff witness Sackett objects to this because he believes that AIU should attempt to purchase gas from transportation customers in voluntary transactions before confiscating gas from customers. CNE-Gas proposes that, at a minimum, a 10% premium be applied to the market price for that purchase. Mr. Glaeser then proposed a voluntary purchase offer first, and then confiscation at a 10% premium over the market price. Mr. Sackett accepts this proposal.

c. CNE-Gas' Position

CNE-Gas objects to any forced sale of customer-owned gas, no matter the circumstances. Confiscation of customer-owned gas, CNE-Gas opines, would likely constitute conversion under Illinois law. CNE-Gas reports that Section 7-404 of the Uniform Commercial Code (adopted as 810 ILCS 5/7-404 (2008) in Illinois) states that a bailee is not liable for delivering goods to a person who did not have authority to receive the goods if the bailee acts in good faith. However, the commentary to the provision states that "[g]ood faith now means 'honesty in fact and the observance of reasonable commercial standards of fair dealing,'" UCC § 7-404 cmt. purposes (2007). CNE-Gas contends that AIU's confiscation of customer-owned gas would be unlikely to be considered good faith under this standard because AIU would have knowledge that the supplier did not wish to sell the gas to AIU. (See Bishop v. Allied Van Lines 3 Dist., Inc., 399 N.E.2d 698, 701 (Ill. Ct. App. 1980) (holding that a bailee did not act in good faith and did not observe commercially reasonable standards when the bailee delivered the goods with knowledge of adverse claims between the bailors))

Similarly, CNE-Gas states that FERC has required interstate pipeline tariff provisions that provide for the seizure of gas by the pipeline to be removed from tariffs if a customer fails to abide by a curtailment or interruption notice. (See, e.g., Guardian Pipeline, L.L.C., 91 FERC ¶ 61,285 at 61,987 (2000); TriState Pipeline, L.L.C., 88 FERC ¶ 61,328 at 62,006 (1999); Steuben Gas Storage Company, 72 FERC ¶ 61,102 at 61,543 (1995))

CNE-Gas also argues that because AIU does not propose to waive penalties for actions taken by transportation customers in support of a curtailment order, the confiscation of customer-owned gas supply leaves the transportation customer at risk of receiving a price of only 90% of index if it delivers excess supply, while nominated volumes are sold to the utility at 110% of index, even though both actions alleviate the curtailment. Even at the 110% index price, CNE-Gas states that transportation customers could be forced to sell gas to the utility at a financial loss, depending on the purchase price, which may not be index-based. As the daily market price is based upon the price that gas traded at the morning prior to flow, CNE-Gas contends that it is likely that by the time the Critical Day takes effect, as no advance notice must be provided, the daily market price from the previous day is no longer representative of the market price at that point in time when the gas is seized. The mechanics of this ultimately depend upon the exact storage, cashout, and balancing tariffs approved in this proceeding and since no draft tariffs exist for any of the current proposals offered, CNE-Gas simply requests that if the Commission approves the confiscation of the customer's gas supply, the customer should not be assessed any charges or penalties due to any positive imbalance that is created following a forced sale.

CNE-Gas states further that transportation customers and their suppliers may also have the option to secure additional gas supply. AIU's proposed tariff, CNE-Gas complains, does not accommodate such action. Instead such action could be met with additional costs and penalties from AIU, even though additional gas supplies on a Critical Day is precisely the outcome AIU desires. Consequently, if AIU's proposal is approved, CNE-Gas asserts that transportation customers should not be penalized or charged for delivering additional gas supplies under such circumstances. CNE-Gas urges the Commission to require waiver of such additional costs.

d. Commission Conclusion

At the outset, the Commission must state that it does not anticipate that AIU will often need to purchase or confiscate gas owned by transportation customers in order to preserve system integrity. In a well maintained and managed system, such circumstances should occur infrequently. Purchasing or confiscating customer-owned gas should (and appears to) be viewed by AIU as a last resort to stave off an emergency.

The less extreme of the two options for avoiding an emergency is obviously a voluntary purchase. The Commission agrees with and approves of the notion that AIU should first attempt to negotiate a price for customer-owned gas that it seeks to acquire. In the event that a voluntary purchase can not be negotiated, the Commission also agrees that AIU should be able to confiscate customer-owned gas under reasonable terms in order to prevent harm to the gas distribution system. The Commission has considered CNE-Gas' claim that confiscation of customer-owned gas violates Section 7-404 of the Uniform Commercial Code, but does not find this statute applicable.

If confiscation is permitted, CNE-Gas also argues that the transportation customer should not be penalized for any imbalances resulting from the associated curtailment. The Commission agrees to the extent that the imbalance is one where the transportation customer delivers more gas than is used into the system; for this is exactly what a struggling system needs. If a transportation customer uses more gas than it delivers into the system, then certainly the imbalance penalties should apply. As for the price of confiscated gas, the Commission is concerned that paying the transportation customer the market price of gas traded at the morning prior to flow may not be reasonable. If circumstances are such that curtailment and a Critical Day are occurring, the market price of gas may be quite higher than what it was the morning prior to flow. Therefore, the Commission concludes that the price to be paid for confiscated gas should be equal to the~~ market price at the time AIU provided notice of the Critical Day~~ 8:00 AM index price reported by Platt's *Gas Daily* Midpoint for Chicago Citygates on the Critical Day. A 10% premium shall be added, as agreed to by AIU. This result should ~~encourage AIU to provide advance notice of Critical Days when possible and~~ address transportation customers' concerns about receiving a fair price for confiscated gas.

14. Critical Day and OFO Notice Provisions

a. AIU's Position

AIU proposes to include both Critical Day and OFO language in gas tariffs. AIU witness Glaeser explains that an OFO is an order which the utility may declare or issue to a customer group or to specific customers in order to alleviate problematic operating conditions. He also indicates that the new Rider T includes the Critical Day declarations. Mr. Glaeser identifies a number of circumstances that could cause the declaration of a Critical Day. The “common driver” is that on-system or up-stream resources used to operate and maintain system integrity are under duress, threatening the integrity of the distribution system and the ability to deliver gas to all customers. AIU states that OFOs and Critical Day provisions are common place in the natural gas industry, including the interstate pipelines to which AIU is connected, and are necessary to ensure the integrity of the delivery system. AIU proposes that transportation customers be notified of an OFO or Critical Day through formal notification such as telephone, fax, or e-mail. The utility would also post such a declaration on its USMS website, which is utilized by transportation customers and their marketers for routine operations. Mr. Glaeser also identifies the various penalties and charges that would be issued in the event an OFO or Critical Day was violated. He explains that a series of tiered penalty charges tied to the severity of the event are being proposed and identified the three penalty charges as: OFO Balancing Charge, Unauthorized Gas Use Charge, and Critical Day Imbalance Charge. Mr. Glaeser also testifies as to the manner by which these charges would be assessed.

AIU notes that only CNE-Gas responds to AIU's OFO and Critical Day positions. Specifically, CNE-Gas is concerned with the lack of no advance notification requirements and argues that some parameters should be placed in the tariff to provide guidance for the type of advanced notice that the utilities will provide to the transportation customers and their suppliers. In response, Mr. Glaeser testifies that AIU is willing to provide a 2-hour prior notice before implementing an OFO against any customer or group of customers. He also testifies that as much notice as practical would be given to customers in the event of a Critical Day but that a defined time frame could not be provided due to the unexpected nature of the events that lead to a Critical Day declaration. As an example, Mr. Glaeser observes that a pipeline rupture foregoes any meaningful opportunity for an extended notice. He concludes nonetheless, that it is in AIU's best interest to give as much notice as practicable since the purpose is to notify transportation customers to modify their supply deliveries and/or gas consumption to help maintain system integrity.

AIU notes that CNE-Gas disagrees that 2 hours is sufficient and asserts that Nicor provides notification of a Critical Day at least 25 hours in advance and Peoples provides 23½ hours notice. CNE-Gas is perplexed as to why AIU can only provide 2 hours notice of an OFO and no commitment to advance notification for a Critical Day. To facilitate understanding of AIU's position, Mr. Glaeser proffers an example that demonstrates the concerns to committing to more than the 2-hour notice for an OFO and no prior notice period for a Critical Day. The AmerenCIPS Metro-East system distributes natural gas to Alton, Illinois and adjacent areas. This captive system serves approximately 18,000 customers and is connected to one interstate pipeline – Mississippi River Transmission Corporation – through the Federal Station and Chessen Lane Interconnections. The AmerenCIPS Metro-East system has no on-system storage. If the Federal Station interconnect facility experienced a pipeline rupture on a normal winter day, all 18,000 customers on the system would rapidly lose pressure within minutes. This would happen because Chessen Lane is a significantly smaller interconnect and can not supply the entire AmerenCIPS Metro-East system under normal winter load conditions. By issuing an immediate Critical Day and quickly implementing curtailment procedures, the system could be protected from a widespread outage by curtailing the largest customers before the entire system collapsed. The Chessen Lane station may be able to maintain system deliveries and pressure if the major industrial customers on the system shut down quickly. AIU argues that it is not practical to give any notice in this emergency situation to maintain system integrity –

much less 24–hours' notice. AIU insists that it is, therefore, essential that it has the ability to issue a Critical Day without advance notice.

Of course, as stated in the tariff, AIU indicates that it will provide advance notification if possible, but providing advance notice may not be practical or even possible in certain situations. AIU asserts that the tariffs should reflect operational realities--and the reality is that advance notification can not always be given when a system emergency occurs. AIU maintains that CNE-Gas inaccurately compare AIU's notification period to Nicor and Peoples. Although all utilities could have ruptures on their systems, AIU contends that there may be differences in the resources available to recover from pipeline ruptures. AIU states that some utilities may have hub services readily available, while others may have fully integrated systems – unlike AIU, which has many isolated, captive systems (See Ameren Ex. 54.7, Ameren Illinois Natural Gas Facilities map). AIU speculates that even Nicor’s or People’s more integrated distribution systems or hub service resources could experience major failures leading to a more immediate crisis than the their tariff language implies. AIU reasons that the different resources available to respond to a system emergency may make the notification period different.

b. CNE-Gas' Position

When declaring an OFO or Critical Day, CNE-Gas argues that the Commission should require AIU to provide reasonable notice. CNE-Gas does not agree that 2 hours notice for OFOs is sufficient and contends that no notice for Critical Days is unacceptable. Certainly if force majeure conditions occur, CNE-Gas acknowledges that the standard notice intervals may require suspension due to extreme circumstances. However, under other OFO and Critical Day circumstances, CNE-Gas argues that transportation customers and their suppliers should receive adequate notification before such a “non-force majeure” event is declared by an LDC. CNE-Gas contends that transportation customers deserve some degree of commitment from a utility that it will attempt to notify them in advance when these conditions occur so the transporter is able to take appropriate action to mitigate potential costs which may be incurred as a result of a Critical Day or OFO. CNE-Gas asserts that the rationale AIU offers for its inability to provide any Critical Day notice is no different than conditions that confront other utilities that offer notice. As discussed above, CNE-Gas observes that other Illinois utilities provide notice more than twenty hours in advance. CNE-Gas recommends that the Commission require AIU to provide OFO and Critical Day notice to customers that is comparable to the terms provided by other Illinois utilities.

c. Commission Conclusion

The Commission agrees with CNE-Gas that when comparing the notice provided by Nicor and Peoples and the notice that AIU proposes to provide, a great disparity seems to exist. A review of Ameren Ex. 54.7, however, appears to explain at least in part why AIU may not be able provide much notice in some isolated areas of its gas distribution systems. Clearly, there are multiple communities served by AIU which are connected to only one interstate gas pipeline. Under such circumstances, the unexpected loss of supply from the interstate pipeline could endanger system integrity so quickly that the amount of notice that CNE-Gas appears to be contemplating would not be feasible.

Other portions of AIU's distribution systems, however, may be well suited to the provisioning of additional notice by AIU before declaring an OFO or Critical Day. Such areas include where storage resources exist and/or there are multiple interconnections with interstate pipelines. While accepting AIU's OFO and Critical Day notice provisions for purposes of this proceeding, the Commission directs AIU to provide in its next gas rate case filing an analysis of its distribution systems identifying those areas that would not be immediately affected by a single event on the associated interstate pipeline(s). The analysis must also address with specifics whether AIU could provide notice in such areas comparable to the notice provided by Nicor and Peoples.

One other area of concern regards AIU's proposed Critical Day definition in Rider T. The fifth condition that may trigger a Critical Day under Rider T is "other market conditions which may warrant such action by the Company." Exactly what "market conditions" may warrant declaration of a Critical Day is unclear to the Commission. The tariffs of Nicor and Peoples do not appear to share this language. The Commission advises AIU to be cautious in the declaration of Critical Days for market reasons at least until it provides clarification in its next gas rate cases. In any event, the Commission expects AIU to only implement OFOs and Critical Days as last resorts in protecting system integrity.

15. AmerenCIPS and AmerenCIPS Metro-East Rate Areas

Currently, AmerenCIPS has two rate areas, AmerenCIPS and AmerenCIPS Metro-East. In its direct filing, AIU witness Warwick proposed to establish one set of gas tariffs for the entire AmerenCIPS footprint instead of the two current rate areas. Staff witness Harden objects to consolidating these service areas due to the unequal bill impacts for individual gas customers that could result from this change. Mr. Warwick later stated a willingness to accept the Staff position. He notes, however, that the rate conformance would bring about a rate reduction for certain customers under AIU's proposed rates and rate design. While AmerenCIPS agrees to forego rate consolidation at this time, AIU plans to raise the issue again in AmerenCIPS' next gas rate case consistent with Ms. Harden's comments.

The Commission acknowledges AIU's acceptance of Staff's position on this issue, but is nevertheless reluctant to adopt it in light of observations made by AIU in its Brief on Exceptions. AIU does not mean to suggest in its Brief on Exceptions that it is changing its position following its acquiescence to Ms. Harden's concerns, but simply wants to make the Commission aware of the impact on GDS-1 and GDS-2 customers in the AmerenCIPS and AmerenCIPS Metro-East rate areas if the customer charge is to reflect 80% of fixed costs. Using its August 22, 2008 supplemental response to the Administrative Law Judges' post-record data request, AIU explains that the monthly customer charge for GDS-1 AmerenCIPS customers would be $18.03, while the corresponding charge for AmerenCIPS Metro-East customers would be $22.01. If these rate areas are combined, AIU reports that the single GDS-1 monthly customer charge would be $18.43. AIU states further that the monthly customer charge for GDS-2 customers of AmerenCIPS would be $28.10 while that of AmerenCIPS Metro-East would be $56.71. Under a combined rate area, AIU states that the single GDS-2 monthly customer charge would be $29.97.

Even though these charges are somewhat different from those approved in this Order, the Commission is of the opinion that such disparities (particularly for GDS-2 customers) should be avoided when the means to do so is so readily available. Accordingly, for the purpose of the monthly gas customer charge, the AmerenCIPS and AmerenCIPS Metro-East rate areas should be combined for the GDS-1 and GDS-2 rate classes. The fact that these rate areas are to be eventually combined anyway further supports this conclusion.

E. Contested Electric Issues

1. Rate Limiter

a. AIU's Position

AIU recommends that the rate limiters implemented as part of the rate redesign case, Docket No. 07-0165, be modified or eliminated. AIU says that as a result of the rate redesign case, rate limiter provisions were added to DS-3 and DS-4. The total monthly charge for Distribution Delivery and Transformation Charges was limited to no more than 2 cents/kWh where 20% or less of the customer's annual usage occurs in the summer months of June through September. The Distribution Delivery Charges for DS-3 and DS-4 were also increased, to maintain revenue neutrality. AIU indicates that Staff and GFA want to maintain the DS-4 rate limiter. AIU complains that neither GFA nor Staff offers an analysis of how much longer these limiters should persist.

AIU proposes that the rate limiter provision for DS-3 be increased proportionate to the average rate-increase for that class, and that the provision for DS-4 be eliminated. AIU says that in Docket No. 07-0165, the Commission ordered that the rate limiter should be in place only as long as necessary. According to AIU, the Commission expected that the parties would, in the instant rate case, be evaluating the period of time the rate limiter needs to be in place to ensure just and reasonable rates.

AIU has proposed moving to an on-peak determinate for establishing demand rates and claims there is no opposition to this proposal. AIU asserts that the GFA essentially asks to retain rate design concessions that, when combined with the move to on-peak demand determinates, would establish benefits for GFA constituents above and beyond those awarded in Docket No. 07-0165. AIU believes eliminating the DS-4 rate limiter would inject fairness by moving rates closer to cost and avoiding the unnecessary subsidization inherent in such limiters. AIU contends that implementation of a rate limiter requires that Distribution Delivery Charges be increased for DS-3 and DS-4 customers. In other words, AIU says Distribution Delivery Charges are higher than they otherwise would be if there was no rate limiter. AIU claims that customers who do not benefit from the rate limiter subsidize customers who receive a benefit. AIU says eliminating the DS-4 rate limiter eliminates this inequity.

According to AIU, IIEC points out that there is no particular distinction for the customer group GFA singles out that warrants a long-standing subsidy. AIU indicates that the Commercial Group offers three reasons for eliminating the rate limiter. The Commercial Group claims that eliminating a rate provision that created intra-class subsidies does not result in unequal treatment; rather it puts all customers within that class on a more equal footing with respect to rates being based on the true cost to serve. The Commercial Group also asserts that in Docket No. 07-0165 the Commission made it clear that the rate limiter is a transitional mechanism for certain customers who were facing large rate increases and that it should only be in place as long as necessary. The Commercial Group also contends that use of on-peak demand provides an incentive for rate limiter customers to reduce on-peak demands and potentially reduce their bills.

In AIU's view, the move toward on-peak demand determinates should be considered in evaluating the continued need for a DS-4 limiter. AIU proposes to begin using a billing demand applicable to the Distribution Delivery Charge equal to the higher of (a) the maximum on-peak demand in the month and (b) 50% of the highest off-peak demand in the month. Presently, the Distribution Delivery Charge is assessed based on a customer’s monthly maximum demand (e.g., highest demand occurring in the billing month regardless of when it occurs). AIU says the aggregate impact of the proposed on-peak demand method is slight: proposed billing demands are slightly lower than present billing demands, where present demands are based on a customer’s maximum demand regardless of when it occurs during the billing month. AIU states that for AmerenIP, AmerenCIPS, and AmerenCILCO, proposed billing demands are 97.8%, 96.3%, and 94.2%, respectively, of present billing demands for DS-3. For DS-4, proposed billing demands are 98.2%, 96.7%, and 98.4% of present billing demands for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively. AIU claims that if only the on-peak demand is used, and the floor amount of 50% of the customer’s off-peak demand ignored, the impact would be very small. For AmerenIP, AmerenCIPS, and AmerenCILCO, AIU says the proposed billing demands would be 97.7%, 95.5%, and 92.6%, respectively, of present billing demands for DS-3. For DS-4, proposed billing demands would be 98.2%, 96.0%, and 98.2% of present billing demands for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively.

AIU argues that changing to an on-peak demand method empowers rate limiter customers to shift demands to the off-peak period and thus reduce the demand charge component of their bills. AIU believes that retaining the rate limiter mitigates the price signal for customers subject to the rate limit to shift to the off-peak period. AIU states that while Staff is correct that there are potential benefits to both customers and AIU by encouraging customers to shift use toward the off-peak period, the change to billing demand will be most effective without a rate limiter in place.

AIU says the change to an on-peak demand method was actually advocated by IIEC in the previous delivery services cases and the Commission adopted IIEC's recommendation requiring AIU to provide data to allow a rate impact comparison between the existing methods and the on-peak method in the next delivery services case. AIU says that while it acknowledges the support Mr. Lazare and Mr. Adkisson provide for this change to an on-peak method, AIU believes this support undermines their position regarding the DS-4 rate limiter. AIU says a common theme in Staff's and the GFA's position is the perceived disproportionate impact that a segment of customers would face.

AIU indicates that GFA further argues for seasonal rate differentiation. Mr. Adkisson states there is not sufficient evidence for the Commission to determine the appropriateness of and level of a seasonal differential in delivery rates based on examining the 12 grain drying customers; however AIU believes this is only partially accurate. AIU agrees with Mr. Adkisson that there is insufficient evidence to set the level of a seasonal differential in delivery rates; however, AIU claims there is sufficient evidence to suggest that a majority of the 12 DS-4 grain-drying customers should pay a premium for primary voltage facilities. AIU says all DS-4 rate limiter grain drying customers are served from a primary supply line voltage (less than 15 kilovolt).

AIU states that all DS-4 customers have peak demands over 1,000 kW. According to AIU, these customers' demands are often large enough relative to all other customers on the circuit to drive the coincident peak to the fall grain drying season. AIU asserts that seasonal rate would not provide a lower price for these customers. AIU says an examination of circuits serving smaller (DS-3) customers eligible for the rate limiter has not yet been conducted. Until such analysis has been conducted, AIU claims it is unknown if demands contributed by DS-3 grain drying customers cause the circuit to peak in the fall. As a result, AIU suggests increasing the DS-3 rate limiter by an amount equal to the class average rate increase. AIU believes, however, that there is sufficient evidence in the record that the rate limiter affording to certain DS-4 customers should be eliminated.

AIU states that the Distribution Delivery Charge is based on a monthly demand and if a customer does not establish a demand during the monthly billing period, it will not pay a Distribution Delivery Charge in the month. AIU adds most grain drying customers set relatively large demands in 2 or 3 fall billing periods, and small demands in the remaining 9 or 10 billing periods. Thus, AIU says these grain drying DS-4 customers pay relatively small amounts of revenue in 9 or 10 billing periods and larger amounts in 2 or 3 monthly billing periods. According to AIU, most other DS-4 customers have relatively consistent usage, and thus a consistent revenue pattern, throughout the year.

AIU states that of the 12 grain drying rate limiter customers considered in this proceeding, 8 are served from a circuit and/or substation transformer with a fall peak, 2 customers are served from circuits and/or substation transformers that show equivalent peaks in both the summer and the fall, and 2 customers are served from the same substation with a peak occurring in the summer. AIU contends that customers or groups of customers contributing to the peak placed on distribution facilities, such as many of these grain dryers, should pay more of the cost for the system.

According to AIU, a review of the circuits serving DS-4 grain drying customers eligible for the rate limiter shows that the peak for those circuits is driven predominantly by customer demands occurring in the fall. In AIU's view, the rate limiter provides a subsidy to these seasonal customers at the expense of other DS-4 customers. AIU states that, assuming a DS-4 limiter of 2.82¢/kWh, 2.31¢/kWh, and 2.17¢/kWh, for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively, grain drying customers would experience a benefit equivalent to just under 0.45¢/kWh. AIU adds that, assuming an average price per kWh paid of 9¢/kWh, the rate limiter would reduce the overall energy costs for a grain drying customer by about 5%.

AIU contends that DS-4 rate limiter customers drive the peak and costs on most distribution circuits, yet pay a relatively small amount toward those costs compared to non-grain drying customers. If the Commission finds the DS-4 limiter is still appropriate, but would like to begin the process of reducing reliance on the subsidy and set the rate at 3¢/kWh as AIU originally proposed for DS-3, AIU claims rate limitation reductions to class revenue would need to be reflected in AIU's proposed jurisdictional operating revenue. AIU says these values are provided in the third table on Ameren Ex. 26.1. AIU indicates that if the Commission instead chooses to simply increase the existing 2¢/kWh rate limiter by the average DS-4 rate increase for each AIU, the corresponding limited revenue amount are also shown within the third table of Ameren Ex. 26.1.

b. GFA's Position

GFA claims that its members suffered rate shock when the rates imposed in 2006 were implemented. Commission approval of the DS-3 and DS-4 rate limiters, however, helped to mitigate the impact of triple digit percentage rate increases for grain dryers and seasonal use customers. GFA says that customers that limit their total kWh usage during the four summer billing periods of June through September to 20% or less of their annual kWh consumption qualify and may be eligible for the rate limiter. The rate limiter is calculated each billing period for qualifying customers by adding the individual customer’s monthly Distribution Delivery Charge and Transformation Charge revenues and dividing the sum by the customer’s total kWh for that billing period. GFA states that if the combined charge is greater than 2¢kWh, a credit for the amount over 2¢kWh will be applied to the customer’s bill. GFA indicates that the rate limiter limits the average monthly cost of the Distribution Delivery Charge and the Transformation Charge to 2¢/kWh, which is several times higher than the previous and current class average ¢/kWh, but can be less than what an individual customer would have otherwise paid. GFA notes that the rate limiter is not applicable to Customer, Meter, Transmission, Reactive or Power and Energy charges.

GFA indicates that the DS-3 and DS-4 tariffs with the rate limiter became effective October 19, 2007 and less than three weeks later, on November 2, 2007, AIU filed these rate cases. GFA says that AIU proposes to totally eliminate the DS-4 rate limiter, which would allow an unlimited increase for DS-4 customers and initially proposed a 50% increase to the DS-3 rate limiter, from 2¢/kWh to 3¢/kWh. GFA states that in its rebuttal testimony, AIU agrees to support an increase to the DS-3 rate limiter equal to the class average increase. For the purpose of this rate case, GFA indicates it will no longer object to such an increase; however, GFA continues to oppose the proposal to eliminate the DS-4 rate limiter. In GFA's view, it is simply too soon to eliminate the rate limiter.

GFA states that AIU has recommended across-the-board increases on its rates, with the exception of the rate limiter. GFA contends that AIU’s proposal is unfair and would effectively undo the Commission’s Order in Docket No. 07-0165. According to GFA, if the Commission raises AIU’s rates across the board, then the rate limiter should receive that same treatment.

GFA says that if, in the next rate case, AIU bases its proposed rates on a class COSS, then the Commission will have the opportunity to review and reconsider all aspects of rate design, including the rate limiters. Additionally, GFA suggests that all parties will be able to voice their respective concerns and opinions regarding the rate limiters, seasonal rates, and other rate design features. GFA asserts that if the rate limiter is to be modified or eliminated, it should be done in conjunction with a COSS, where all factors can be considered.

In its Reply Brief, GFA says it has not ignored the Commission’s direction in Docket No. 07-0165, and says it has performed the evaluation requested by the Commission. GFA claims that for a number of reasons, it and Staff determined that the most reasonable course of action is for the Commission to apply to the rate limiter the same across-the-board increases that are being applied to other rate components. While the Commission stated its desire to have the parties reevaluate the rate limiter, GFA argues there is nothing in its Order indicating its knowledge that AIU would file a rate case less than three weeks after implementation of the rate limiter, seeking to eliminate the rate limiter. GFA also says nothing in the Order indicates that the Commission anticipated an across-the-board increase rather than a full review of a class COSS and cost-based rate design.

AIU argues that its proposal to move to an on-peak determinant for establishing demand rates obviates the need for the rate limiter. GFA states that even if DS-4 customers were able to shift on-peak load to off-peak period and totally capture the prospective benefits of the proposed change in billing demand determination, the resulting benefits pale in comparison to the triple digit increases grain dryers will experience without the DS-4 rate limiter.

GFA proposes seasonal delivery rates while AIU argues against seasonal rates. According to GFA, AIU ultimately, takes the position that a proposal to implement seasonal delivery rates is not appropriate at this time and requires further analysis. GFA agrees that further analysis should take place, therefore, it recommends that the Commission order AIU to begin collecting data necessary for determining seasonal delivery rates and to provide those data to the Commission and other parties prior to filing its next electric rate case.

c. Staff's Position

Staff says that while AIU generally accepts the across-the-board approach to increasing existing rates, AIU continues to recommend that the rate limiter for the DS-4 class be eliminated. AIU argues that the peak for these customers is driven by demands during the fall season which suggests that customers under the rate limiter are being subsidized by others within the class. AIU also suggests the limiter would not have a significant effect on grain drying customers, reducing their overall energy costs by about 5%. AIU also presents the option of setting the limiter for DS-4 customers at 3¢/kWh as it originally proposed for DS-3.

Staff says that since it and AIU agree that bill impacts are the preeminent concern, it does not make sense to base rates for the large majority of customers on bill impacts while setting rates for a small number of customers receiving the rate limiter according to costs. Staff asserts that those latter customers can rightly complain of being held to one standard for ratemaking when other customers are held to another standard. In Staff's view, the only reasonable approach in this difficult ratemaking environment is to apply a consistent across-the-board approach to all existing rate elements, including the existing rate limiters for the DS-3 and DS-4 classes.

d. IIEC's Position

IIEC takes no position on the extension of the rate limiter for DS-3 customers; however, it opposes the extension for DS-4 customers. IIEC states that grain dryers and seasonal use customers are not the only customer classes that experienced large increases in delivery service rates. According to IIEC, some DS-4 customers other than grain dryers or seasonal use customers experienced rate increases of over 200% in AIU's last delivery service case. IIEC says other customer classes also experienced significant rate increases in going from the 2006 rates to the 2007 rates. In IIEC's view, there is no basis for a continued distinction between these customers and the customer group represented by GFA, especially where it establishes a continuing subsidy. IIEC asserts that GFA has not demonstrated why these particular DS-4 customers should be entitled to the continuing benefits of the rate limiter while other DS-4 customers do not enjoy rate mitigation.

GFA argues that the rate limiter has not been in effect long enough and points out that AIU filed this rate case three weeks after the rate limiter took effect. According to IIEC, GFA ignores the fact that the rate limiter for DS-4 grain drying customers will have been in place for almost one year by the time the rates approved in this case take effect. IIEC believes that under such circumstances, there is no justification for continuation of the rate limiter for DS-4 grain drying customers. In response to GFA's suggestion that the rate limiter should only be eliminated in conjunction with a COSS, IIEC points out that a COSS is available in this proceeding.

IIEC notes that Staff has concluded that elimination of the rate limiter would result in grain drying customers, such as the DS-4 grain drying customers, being held to one standard for ratemaking when other customers are held to another standard. IIEC argues that Staff has it exactly backwards. According to IIEC, the rate limiter for DS-4 customers, who happen to be grain dryers, does result in one standard being applied to those customers while another standard is applied to other DS-4 customers who have also experienced rate shock, but who do not benefit from the rate limiter.

e. Commercial Group's Position

According to the Commercial Group, given that the rate limiter subsidies must be collected only from DS-3 and DS-4 customers, phasing out the rate limiter would relieve the stresses on the DS-3 and DS-4 customers who are required to provide both intra-class subsidies to the customers taking advantage of the rate limiter and interclass subsidies to other classes. The Commercial Group believes this is an unfair burden that should be eliminated.

The Commercial Group disagrees with Staff that elimination of the rate limiter is inconsistent ratemaking that singles out one group of customers for unequal treatment. The Commercial Group argues that eliminating a rate provision that created intra-class subsidies does not result in unequal treatment. In the Commercial Group's view, it puts all customers within that rate class on a more equal footing with respect to their rates being based on the true cost to serve. The Commercial Group insists that it is unequal for certain customers in a class to subsidize other customers in the class, particularly where the subsidized customers’ rates are already below cost before the rate limiter is applied. The Commercial Group believes the rate limiter has served its limited transitional purpose and should be eliminated. If it is not completely eliminated in this case, the Commercial Group submits that the rate limiter should be phased out and eliminated as AIU proposed in its direct testimony.

The Commercial Group agrees with AIU and IIEC that the DS-4 rate limiter should be eliminated. The Commercial Group also urges the Commission to eliminate the DS-3 rate limiter. According to the Commercial Group, there is even more reason to do so, because DS-3 rates for AIU are already significantly above cost. The Commercial Group submits that with the rates of grain customers being below cost even before the rate limiter is applied, the rest of the DS-3 class is subsidizing not only other rate classes, but other ratepayers within the class. The Commercial Group claims that this double subsidy stresses DS-3 customers who are concerned with the impact of increasing electric bills on operations at schools, retail facilities, and industrial facilities.

f. Commission Conclusion

AIU proposes that the rate limiter provision for DS-3 be increased proportionate to the average rate-increase for that class, and that the provision for DS-4 be eliminated. AIU says that in Docket No. 07-0165, the Commission ordered that the rate limiter should be in place only as long as necessary. AIU has also proposed moving to an on-peak determinate for establishing demand rates and claims there is no opposition to this proposal. AIU believes eliminating the DS-4 Rate Limiter would inject fairness by moving rates closer to cost and avoiding the unnecessary subsidization inherent in such limiters. AIU adds that customers who do not benefit from the rate limiter subsidize customers who receive a benefit.

For purposes of this proceeding, GFA does not oppose an increase to the DS-3 rate limiter equal to the class average increase. GFA continues to oppose the proposal to eliminate the DS-4 rate limiter because it believes it is too soon to eliminate that benefit. In Staff's view, the only reasonable approach is to apply a consistent across-the-board approach to all existing rate elements, including the existing rate limiters for the DS-3 and DS-4 classes. IIEC takes no position on the extension of the limiter in this case for DS-3 customers; however, IIEC opposes the extension of the rate limiter for DS-4 customers. The Commercial Group advocates eliminating the rate limiter for both DS-3 and DS-4 classes.

As the parties are well aware, the Commission generally favors rates that reflect the cost of service. The Commission, however, is keenly aware that its rate decisions can have adverse impacts on some customers if extreme care is not exercised. The Commission is especially intent on avoiding the type of situation that led to the recent AIU rate redesign proceeding, Docket No. 07-0165. Given the circumstances and facts present here, the Commission believes that the best outcome will result if Staff's proposal to apply an across-the-board increase to the existing rate limiters for both DS-3 and DS-4 classes is adopted. The Commission is committed to eliminating these rate limiters at the earliest opportunity; however, the Commission concludes that the time to do so has not yet arrived.

2. Street Lighting

a. AIU's Position

AIU states that it and LGI concur on certain municipal street-lighting issues. AIU says it provided a detailed COSS, contained in Schedule E-6, for the current rate cases and will provide a similar COSS in the next set of rate cases, along with the requested lighting rate design study aimed at determining cost-based lighting fixture charges. With regard to LGI's street light fixture rate proposal, AIU disagrees with LGI's proposed approach.

For the purpose of this case, LGI recommends capping AmerenIP street light fixture rates, and that the resulting reductions to AmerenIP's filed revenue requirement related to street lighting be passed along to all delivery service customer classes. AIU notes that LGI only represents municipalities within the AmerenIP service territory.

AIU provides the following tables to demonstrate the street lighting proposals advanced by the AIU and LGI:

Average Cost per Month per Fixture

		AIU Proposal		LGI Proposal	
Municipality	Existing Rates	Monthly Price	Change	Incremental Change	Monthly Price
Champaign	$ 8.66	$ 12.64	$ 3.98	$ 1.29	$ 9.95
Bloomington	$ 8.03	$ 11.72	$ 3.69	$ 1.20	$ 9.23
Normal	$ 8.07	$ 11.78	$ 3.71	$ 1.20	$ 9.27
Urbana	$ 8.50	$ 12.33	$ 3.83	$ 1.17	$ 9.67
Decatur	$ 7.81	$ 11.40	$ 3.59	$ 1.16	$ 8.97

Per Capita Average Cost per Month

		AIU Proposal		LGI Proposal	
Municipality	Existing Rates	Monthly Price	Change	Incremental Change	Monthly Price
Champaign	$ 0.17	$ 0.24	$ 0.07	$ 0.02	$ .19
Bloomington	$ 0.49	$ 0.71	$ 0.22	$ 0.07	$0.56
Normal	$ 0.36	$ 0.52	$ 0.16	$ 0.05	$0.41
Urbana	$ -	$ -	$ -	$ -	$ -
Decatur	$ 0.86	$ 1.26	$ 0.40	$ 0.13	$0.99

According to AIU, LGI witness Hughes proposes to cap the fixture rates increase in the AmerenIP service territory by no higher than 14.89%. AIU states that the proposed DS-5 class provides customers with dusk-to-dawn photo cell-controlled lighting service. AIU adds that while it will typically own and maintain the lighting fixture, DS-5 will provide for customers who own their own lighting facilities as well.

AIU indicates that LGI only addresses the charges for fixtures. AIU indicates that the fixture charges in DS-5 do not cover power and energy charges, transmission charges, or delivery-service charges. To achieve the targeted revenue requirement for each class, AIU proposed fixture charges laid out in Ameren Ex. 12.7E. AIU proposes to adjust those charges on an equal percentage basis unique to each utility. AIU states that transmission and energy charges are charged separately through Rider TS and Rider BGS, and distribution delivery charges are assessed through a separate component within DS-5.

According to AIU, Ms. Hughes proposes that AmerenIP's fixture charges be capped based on the incremental costs of fixtures calculated several years ago for use in Docket Nos. 06-0070/06-0071/06-0072 (Cons.) and recommends funding this cap by shifting costs to other rate classes. In AIU's view, Ms. Hughes' case for carving out an exception to the across-the-board increase is not persuasive. AIU complains that Ms. Hughes does not clarify why AIU's DS-5 class, and that class alone, should be allowed use of a non-across-the-board revenue allocation method, while other classes are held to an across-the-board approach. AIU also says that Ms. Hughes fails to extend the concept of incremental-cost pricing to AmerenCIPS and AmerenCILCO. AIU argues that LGI customers have the option of choosing to purchase their own street lighting fixture and avoid AmerenIP's fixture rates all together, while other delivery service customers have no service choice. AIU insists that it is unfair to shift an amount potentially in excess of $5 million dollars from charges that certain customers pay by choice to other customers, including residential customers.

In its Reply Brief, AIU says it does not think it is appropriate to shift revenues between classes in a manner that would disturb the intended purpose of the rate redesign docket. In particular, AIU claims it would not be appropriate to shift revenue recovery between classes in a manner that creates impacts for residential and small business customers. AIU argues that the revenue impacts associated with a realignment of rates to more closely match class cost of service indicators would result in impacts to residential customers. AIU objects to such a realignment of rates at this time.

AIU acknowledges the disparity between street light fixture rates in each service territory; however, AIU says it is unclear what authority or legal basis the Commission would have to shift revenue responsibility between separate legal entities. AIU says that while the rate proceedings in this matter are consolidated, the operating utility entities that make up AIU are not. AIU argues that in future rate proceedings, the more appropriate approach to bring uniformity would likely be a rate design that moves rates toward class cost of service indicators, to the extent feasible.

b. LGI's Position

LGI claims that the street lighting fixture charge is unique in this docket because it is not a delivery service; rather it is a payment for a tangible piece of hardware and the labor involved in maintaining that hardware. LGI indicates that the delivery service charge for street lights is totally separate and apart from the street light fixture. LGI says in an over-simplified example, the fixture charge covers the cost of the arm and bulb and how many persons it takes to change the light bulb on the street light. According to LGI, because of its unique nature, there is no reason why the Commission can not separately set the rate for the street lighting fixture charge based on the cost of service as AIU did for the meter and customer charge, rather than on an across-the-board basis.

LGI states that the fixture charges vary greatly for the three electric utilities. Initially, LGI proposed that the Commission unify the fixture charges in this proceeding. LGI believes that the move to common lighting offerings across the footprint is a step toward easing customer understanding of AIU lighting offerings and streamlining operations. LGI says this standardization already occurred for Meter and Customer Charges, which are now all identical for the three utilities. LGI argues that the result of applying the across-the-board increase to street light fixtures would be to move the fixture charges further apart, making a standardized offering more difficult in the future.

LGI contends that it takes the same number of persons to change a light bulb for AmerenIP as it does for AmerenCILCO and AmerenCIPS; yet, using an across-the-board increase, the rates charged for street lighting fixtures will increase by 9.5% for AmerenCILCO, 19.2% for AmerenCIPS, and 46.0% for AmerenIP. LGI states that for AmerenCIPS the current street light fixture charge for a 100-Watt light fixture is $3.12 per month, for AmerenCILCO the charge is $7.13, and for AmerenIP, the charge is $7.59. LGI says under AIU's proposed across-the-board increase, these rates would increase to $3.72 for AmerenCIPS, $7.81 for AmerenCILCO, and $11.08 for AmerenIP. LGI suggests the cost of a light bulb and the cost to replace the light bulb is not nearly three times the amount for AmerenIP compared to AmerenCIPS.

LGI believes that eventually the street light fixture charge should be uniform throughout AIU's service areas; however, in its rebuttal testimony LGI focuses only on AmerenIP. Using AmerenIP's 2006 embedded COSS and the lighting specific incremental cost study performed in the last case, Ms. Hughes recommends that the increase to AmerenIP's lighting fixture rates be limited so that the fixture rates are set equal to the common incremental cost for each fixture type and size. LGI says using the incremental cost, the AmerenIP fixture charges still will be higher than the cost for AmerenCIPS and AmerenCILCO. For example, LGI indicates that the incremental cost for a 100 watt high pressure sodium vapor fixture for AmerenIP is $8.72, while the proposed rate for the same fixture for AmerenCIPS is $3.72 and for AmerenCILCO is $7.81. LGI states that under its current proposal, AmerenIP customers would still pay more for fixture charges than municipalities taking service from either AmerenCIPS or AmerenCILCO but the disparity would be lower than if the fixture charges were increased using AIU's proposed across the board increase. LGI proposes that the Class B pole charge also be set equal to the incremental cost for AmerenIP. Under LGI's proposal, the revenue reduction resulting from the decrease in fixture and pole charges from the proposal by AmerenIP would be allocated to the other DS customer classes using an equal percentage increase in the DS delivery charge.

LGI claims the result of its proposal is that the street lighting fixture charge for AmerenIP customers would increase by 14.89%. LGI says the effect on other customers would increase the across-the-board increase for the DS-1 through DS-4 delivery service charge from 41.14% to 42.58%. Under LGI's proposal, the DS-5 delivery service charge rate also would increase by the same percentage (42.58%). LGI states that taking into account both the recommended fixture charge and the increase to the DS-5 delivery charge, the overall increase to the DS-5 Lighting Class is 21.37%.

LGI argues that this total lower percentage increase for the DS-5 lighting class is supported by AIU's own embedded COSS. LGI claims this study indicates that the DS-5 Lighting Class contributes a higher return on rate base at existing rates than all other DS rate classes, except for the DS-2 class. LGI asserts that applying an equal across-the-board percentage increase to all rate classes maintains or amplifies the existing disparity that DS-5 lighting rates will continue contributing higher returns relative to other rate classes.

According to LGI, AIU's opposition appears to be rooted in the fact that since it is recommending an across-the-board increase for all other classes, it believes that there should be no exception for the fixture charge. In LGI's view, AIU misses the point that the fixture charge is not a traditional delivery service charge. LGI says the delivery service charge portion of the DS-5 rate remains subject to the across-the-board increase. LGI recommends that only the light bulb, fixtures, and light bulb changing be separated from the across-the-board increase as was done with the Meter and Customer Charges that are now uniform for AmerenCILCO, AmerenCIPS, and AmerenIP.

LGI says it made three additional recommendations, all of which were accepted by AIU. LGI recommends that AIU be required to file a detailed COSS in its next rate case showing the allocation of costs between the delivery service customer classes, including a company-wide lighting cost of service analysis for AIU to identify lighting fixture costs. LGI recommends that AIU be required to file a detailed streetlight rate design study to determine cost-based lighting fixture charges. LGI recommends that any reductions to AIU's filed revenue requirement resulting from the Commission's decision should be passed along to all DS customer classes, including the DS-5 Lighting Class, in the form of a lower across-the-board percentage rate increase. LGI suggests that these recommendations should be included in the final order in this proceeding.

According to LGI, AIU attempts to confuse the issue by showing the per capita average cost per month for the fixture charge. LGI claims this is a meaningless comparison because rates are not set on a per capita basis. LGI says AIU simply takes the monthly charge for municipal lighting fixtures by municipality divided by the population of the municipality. LGI complains that AIU does not explain why this is a meaningful exercise and, if it is so meaningful, why it does not determine all of its rates on a per capita basis. LGI asserts that AIU can not hide the fact that if an across-the-board increase is granted for AmerenIP's municipal lighting fixture charge, the charge will be $11.08 compared with only $3.72 for AmerenCIPS and $7.81 for Ameren CILCO.

In response to AIU's statement that LGI customers can avoid the charge by buying their own arms and bulbs if they do not like the rate, LGI claims AIU apparently wants to make the fixture charge so unreasonable that municipalities will install their own arms and bulbs rather than pay for AmerenIP's. LGI argues that while taking down AmerenIP's arms and bulbs and replacing them with municipality-owned arms and bulbs may be a long-term solution, changing out all arms and bulbs on street lights is neither an immediate nor a practical solution. Instead, LGI contends the reasonable and practical solution is for the Commission to set the municipal street lighting fixture charge based on the incremental cost.

c. Commission Conclusion

AIU proposes to increase street lighting rates, including its charges for fixtures, on an across-the-board basis. LGI objects to increasing fixture charges in AmerenIP's service area in the manner AIU proposes. LGI recommends that the Commission limit fixture charges to the incremental cost of those fixtures. AIU does not believe there is sufficient reason to deviate from its across-the-board rate increase proposal for light fixture charges. Also, AIU expresses concern about shifting revenue recovery between classes in a manner that creates impacts for residential and small business customers.

It appears to the Commission that LGI has raised a legitimate concern. In the Commission's view, ultimately, it will in all likelihood be difficult for AIU to justify light fixture charges that are as different as they currently are between AmerenCILCO, AmerenCIPS, and AmerenIP. But as previously discussed, the Commission is aware that its rate decisions can have adverse impact on some customers if extreme care is not exercised. The Commission wishes to avoiding the type of situation that led to the recent AIU rate redesign proceeding, Docket No. 07-0165. Given the circumstances and facts present here, the Commission believes that the best outcome will result if it adopts AIU's proposal to increase light fixture charges on an across-the-board basis. The Commission directs AIU, in its next electric rate case to address the possibility of moving the light fixture charges toward a more similar charge among AmerenCILCO, AmerenCIPS, and AmerenIP.

3. Allocation of Costs to Subclasses

As discussed elsewhere in this Order, the Commercial Group opposes using an across-the-board approach to increase electric rates, favoring the use of AIU's COSS as the basis for any increase. In the event the Commission accepts the Commercial Group's recommendation on this point, the Commercial Group is concerned about the application to subclasses.

The Commercial Group argues that with respect to the DS-3 and DS-4 subclasses, the COSS do not accurately match cost to revenues on the subclass level and therefore are not reliable for differentiating subclass revenue levels. The Commercial Group states that the AmerenCILCO cost study shows the DS-4 secondary subclass as requiring a 3,729% increase. The Commercial Group claims that AIU assigned 100% of line transformer cost ($15.1 million) for the DS-4 class to the DS-4 secondary subclass but, none of the corresponding $2.6 million in transformation revenues that AIU received from the class. The Commercial Groups says that instead, only $53,000 in revenue, consisting entirely of meter charge and customer charge revenue was allocated to DS-4 secondary. The Commercial Group contends that given that transformer cost but not the revenue produced from those transformers was allocated to DS-4 secondary, it is not surprising that the study would show that an enormous revenue increase would apparently be required for the DS-4 secondary. The Commercial Group concludes that AIU's COSS are generally reliable for class costs and revenues, but are not reliable at the subclass level.

While the Commission appreciates the Commercial Group's concern regarding the allocation of costs and revenue to DS-4 subclasses, as the Commission has chosen to not use AIU's COSS as the basis for setting rates in this proceeding, it does not appear that this issue need be addressed further in this Order.

4. Combining DS-3 and DS-4

a. Kroger's Position

Kroger states that the DS-3 rate class is comprised of nonresidential customers that have billing demands ranging from 150 kW up to 1,000 kW, while the DS-4 rate class is comprised of all nonresidential customers with billing demands of 1,000 kW or greater. Kroger adds that the Distribution Delivery Charge is a demand charge levied on a per-kW basis, with rates differentiated with respect to voltage level: primary, high voltage, and transmission voltage. Kroger says unlike other charges contained within the DS-3 and DS-4 rates, the Distribution Delivery Charge is not uniform between DS-3 and DS-4. According to Kroger, for each AIU utility, and at each voltage level, the proposed Distribution Delivery Charge is significantly higher for DS-3 than DS-4. Kroger proposes that the Distribution Delivery Charge for customers on the DS-3 and DS-4 rate schedules should be approximately equalized. Kroger argues that there is no significant cost of service difference between DS-3 and DS-4 customers at the same voltage level, yet AIU proposes that DS-3 customers pay a substantially higher Distribution Delivery Charge.

Kroger suggests that if providing a kW of service to customers at a given voltage level costs the same whether the customer requires 150 kW or 2,000 kW, then perhaps these customers should not be placed into different rate classes in the first instance. Kroger also claims it is not reasonable to charge the 150 kW customer a dramatically higher per-kW Distribution Delivery Charge than the 2,000 kW customer taking service at the same voltage. In Kroger's view, the lack of a uniform Distribution Delivery Charge for DS-3 and DS-4 will result in an anomalous rate transition that will cause a great inequity. Kroger asserts for example, if there are two AmerenCILCO primary voltage customers who are otherwise identical, but one places a 1,000 kW demand on the system (DS-4) and the other places a 600 kW demand on the system (DS-3), the 600 kW customer that places a significantly smaller strain on the system will pay a higher Distribution Delivery total bill than the 1,000 kW customer. Kroger suggests that AIU’s proposed Distribution Delivery Charges would send the signal to DS-4 customers to not reduce energy consumption. Kroger believes this anomaly is particularly inappropriate given the Commission's interest in promoting energy efficiency.

Kroger complains that AIU ignored the Commission's Order in the previous rate case, and failed to address the issue of whether there is sufficient justification for separate DS-3 and DS-4 classes in this proceeding. Instead, Kroger says AIU has proposed an equal percent across-the-board delivery rate increase, which retains the relative disparities between DS-3 and DS-4 established in the last proceeding, and makes the absolute differences between the rate schedules even greater. Kroger asserts that the Commission ordered AIU in its previous distribution rate case filing (Docket Nos. 06-0070, 06-0071, and 06-0072 (Cons.)) to "address [the appropriateness of maintaining separate DS-3 and DS-4 rates] in its next delivery services rate case filing." (Order at 175)

According to Kroger, AIU's COSS in this proceeding provide even more evidence that DS-3 and DS-4 rates should be converged. Using the information from AIU's Schedule E-6 filings, Kroger prepared the table below comparing the rates of return being provided by DS-3 and DS-4 customers.

AIU COSS Rates of Return

	Rates of Return			
Utility Distribution Company	Ill. Elec.	DS-3a	DS-3b	DS-4
AmerenIP	2.75%	3.40%	5.94%	4.44%
AmerenCIPS	4.72%	9.93%	8.83%	2.77%
Ameren CILCO	6.92%	12.22%	12.89%	5.31%

Kroger says AIU is generally over-recovering costs from DS-3 customers relative to DS-4. In Kroger's view, these results are not surprising in light of the disparity in the Distribution Delivery Charges between the two customer classes. Kroger asserts that the greater the disparity in the Distribution Delivery Charges, the greater the disparity in rates of return being produced by the two customer classes.

Kroger believes the artificial distinction between DS-3 and DS-4 customers should be eliminated in this proceeding and the DS-3 and DS-4 rates should be jointly determined. Kroger calculated uniform distribution delivery charges for DS-3 and DS-4, which it presented in Kroger Ex. 1.1 using AIU's requested revenue requirement. Kroger states that the only difference between the DS-3 and DS-4 Distribution Delivery Charges is the recognition of DS-4 reactive power revenues as a credit against the DS-4 Distribution Delivery Charge. If the Commission finds merit in this argument, but is reluctant to move to uniform DS-3 and DS-4 rates at this time, Kroger suggests that, in the alternative, the Commission initiate steps in this proceeding to move the DS-3 and DS-4 rate schedules closer together over time. Kroger suggests that this could be implemented by removing 50% of the differential between the rates at this time.

b. AIU's Position

Kroger argues that the DS-3 and DS-4 rate schedules should be approximately equalized, that is, there should be no cost of service difference between customers who are served at the same voltage level. According to AIU, Kroger claims that the issue of the relationship between the DS-3 and DS-4 rates was required to be addressed by AIU in this proceeding. AIU observes that no other party has made this claim. AIU says the Commission's Order states: "When Ameren files its next delivery services rate case (assuming that filing is in 2009 or later), it should provide sufficient information for the Commission to either retain the current DS-3 classification or adopt the DS-3 classification within the subclasses proposed by Wal-Mart." (Docket Nos. 06-0070/06-0071/06-0072 (Cons.), Order at 156) AIU claims Kroger knew or should have known upon review of the direct filing, that the DS-3 and DS-4 rate consolidation analysis had not been performed.

In AIU's view, the Commission's decision to wait until 2009 to review this issue makes sense. AIU notes that these delivery service rates first came into effect on January 2, 2007 and AIU believes waiting for some period of time is appropriate, so that any analysis offered post-2009 would have sufficient data and information. AIU alleges that combining rates without the required analysis is a recipe for disaster. AIU contends that undue bill impacts, questionable price signals and revenue recovery concerns all remain unknown and unpredictable. AIU says the Distribution Delivery Charge recovers the remainder of the revenue requirement, and is currently set to recover the revenue requirement from DS-3 and DS-4 classes. AIU asserts that combining these rates at this time leaves too many unknowns, and is inappropriate at this time. AIU submits that further analysis of the DS-3 and DS-4 classes could lead to more rate differentiation rather than less.

c. IIEC's Position

IIEC suggests that in lieu of adopting Kroger's proposal to equalize distribution delivery service charges for DS-3 and DS-4, the Commission adopt a cost-based approach to revenue requirement allocation, which would lead to lower distribution and delivery service charges for DS-3 customers as well as DS-4 customers. IIEC generally agrees with the AIU position that DS-3 and DS-4 should not be equalized in this case, because there has not been sufficient cost analysis provided to justify the combination. Such a combination would result in lower charges for DS-3 customers and higher charge for DS-4 customers, according to IIEC. IIEC notes that Kroger's proposal is based on statements from prior delivery service rate cases that, on a conceptual basis, suggest the cost per kW of serving a customer of the same voltage level at 900 kW is not much different than the cost per kW of serving a similar customer at 1,100 kW of demand. IIEC observes that AIU witnesses point out that the cost of serving these customers may be similar, but the revenue from the customers may or may not be sufficient to recover their individual costs. According to IIEC, this suggests that rate changes not discussed in this record may be needed to implement the Kroger approach. IIEC also argues that the Commission directed that this issue be considered in a rate case filing in 2009 or later citing to Docket Nos. 06-0070, 07-0071, and 06-0072 (Cons.) (Order at 156).

IIEC argues further that Kroger's alternative proposal to equalize delivery distribution charges for DS-3 and DS-4 by removing 50% of any difference between the rates as they exist today does not mitigate AIU's concerns in terms of potential impacts and consequences of equalizing these rates at this time. Adoption of the AIU proposal would not, according to IIEC, reduce by 50% the magnitude of the problems associated with the Kroger proposal. IIEC adds that the impacts of moving towards equalization remain unknown and unpredictable based on the record in this case. IIEC, therefore, recommends that the proposal to combine DS-3 and DS-4 be rejected in this case.

~~c~~d. Commission Conclusion

In AIU's last rate case, the Commission entertained not only arguments over the possibility of combing rates DS-3 and DS-4, but also the possibility of splitting rate DS-3 into subclasses. The Order in AIU's last rate case clearly contemplated reconsidering whether to split rate DS-3 into subclasses in 2009 or after. While the Order was not quite as clear with respect to when it would reconsider combining rates DS-3 and DS-4, the Commission does not believe combining rates DS-3 and DS-4 in this rate case and, possibly creating a new rate DS-3 in a subsequent rate case constitutes sound ratemaking policy. In fact, it seems to contradict the rate design principle commonly called rate continuity. Thus, while the Commission remains open to the possibility of restructuring rates DS-3 and DS-4 when sufficient information is available to fully analyze the implications of any restructuring, the Commission affirms its decision from Docket Nos. 06-0070/06-0071/06-0072 (Cons.) and directs AIU to address these two issues in its first electric rate cases filed in 2009 or thereafter.

X. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having given due consideration to the entire record herein and being fully advised in the premises, is of the opinion and finds that:

(1) AmerenCILCO, AmerenCIPS, and AmerenIP are Illinois corporations engaged in the distribution and sale of electricity and natural gas to the public in Illinois, and are public utilities as defined in Section 3-105 of the Act;

(2) the Commission has jurisdiction over the parties hereto and the subject matter herein;

(3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record, and are hereby adopted as findings of fact and conclusions of law; Appendix A attached hereto provides supporting calculations for those portions of this Order concerning AmerenCILCO's electric operations; Appendix B attached

hereto provides supporting calculations for those portions of this Order concerning AmerenCIPS' electric operations; Appendix C attached hereto provides supporting calculations for those portions of this Order concerning AmerenIP's electric operations; Appendix D attached hereto provides supporting calculations for those portions of this Order concerning AmerenCILCO's gas operations; Appendix E attached hereto provides supporting calculations for those portions of this Order concerning AmerenCIPS' gas operations; and Appendix F attached hereto provides supporting calculations for those portions of this Order concerning AmerenIP's gas operations;

(4) the test year for the determination of the rates herein found to be just and reasonable should be the 12 months ending December 31, 2006, as adjusted; such test year is appropriate for purposes of this proceeding;

(5) for purposes of this proceeding, the net original cost rate base for AmerenCILCO's electric delivery service operations for the test year ending December 31, 2006, as adjusted, is ~~$237,821,000~~$240,625,000;

(6) for purposes of this proceeding, the net original cost rate base for AmerenCIPS' electric delivery service operations for the test year ending December 31, 2006, as adjusted, is ~~$443,732,000~~$443,743,000;

(7) for purposes of this proceeding, the net original cost rate base for AmerenIP's electric delivery service operations for the test year ending December 31, 2006, as adjusted, is ~~$1,252,731,000~~$1,254,459,000;

(8) for purposes of this proceeding, the net original cost rate base for AmerenCILCO's gas delivery service operations for the test year ending December 31, 2006, as adjusted, is ~~$182,110,000~~$183,734,000;

(9) for purposes of this proceeding, the net original cost rate base for AmerenCIPS' gas delivery service operations for the test year ending December 31, 2006, as adjusted, is ~~$178,784,000~~$181,735,000;

(10) for purposes of this proceeding, the net original cost rate base for AmerenIP's gas delivery service operations for the test year ending December 31, 2006, as adjusted, is ~~$515,874,000~~$518,857,000;

(11) a just and reasonable return which AmerenCILCO should be allowed to earn on its net original cost electric delivery service rate base is ~~8.55%~~8.01%; this rate of return incorporates a return on common equity of 10.65%;

(12) a just and reasonable return which AmerenCIPS should be allowed to earn on its net original cost electric delivery service rate base is

~~8.38%~~8.20%; this rate of return incorporates a return on common equity of 10.65%;

(13) a just and reasonable return which AmerenIP should be allowed to earn on its net original cost electric delivery service rate base is ~~8.71%~~8.68%; this rate of return incorporates a return on common equity of 10.65%;

(14) a just and reasonable return which AmerenCILCO should be allowed to earn on its net original cost gas delivery service rate base is ~~8.56%~~8.03%; this rate of return incorporates a return on common equity of 10.68%;

(15) a just and reasonable return which AmerenCIPS should be allowed to earn on its net original cost gas delivery service rate base is ~~8.39%~~8.22%; this rate of return incorporates a return on common equity of 10.68%;

(16) a just and reasonable return which AmerenIP should be allowed to earn on its net original cost gas delivery service rate base is ~~8.73%~~8.70%; this rate of return incorporates a return on common equity of 10.68%;

(17) the rate of return for AmerenCILCO set forth in Finding (11) results in base rate electric delivery service operating revenues of ~~$118,226,000~~$115,827,000 and net annual operating income of ~~$20,334,000~~$19,273,000 based on the test year approved herein;

(18) the rate of return for AmerenCIPS set forth in Finding (12) results in base rate electric delivery service operating revenues of ~~$220,369,000~~$218,466,000 and net annual operating income of ~~$37,185,000~~$36,387,000 based on the test year approved herein;

(19) the rate of return for AmerenIP set forth in Finding (13) results in base rate electric delivery service operating revenues of ~~$443,590,000~~$442,556,000 and net annual operating income of ~~$109,113,000~~$108,887,000 based on the test year approved herein;

(20) the rate of return for AmerenCILCO set forth in Finding (14) results in base rate gas delivery service operating revenues of ~~$71,842,000~~$71,308,000 and net annual operating income of ~~$15,589,000~~$14,754,000 based on the test year approved herein;

(21) the rate of return for AmerenCIPS set forth in Finding (15) results in base rate gas delivery service operating revenues of ~~$70,125,000~~$70,450,000 and net annual operating income of ~~$15,001,000~~$14,938,000 based on the test year approved herein;

(22) the rate of return for AmerenIP set forth in Finding (16) results in base rate gas delivery service operating revenues of ~~$164,162,000~~$167,424,000

and net annual operating income of ~~$45,035,000~~$45,140,000 based on the test year approved herein;

(23) the electric delivery service rates as well as the gas delivery service rates of AmerenCIPS and AmerenIP which are presently in effect are insufficient to generate the operating income necessary to permit each company the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently canceled and annulled;

(24) the electric and gas delivery service rates of AmerenCILCO which are presently in effect are inappropriate and generate operating income in excess of the amount necessary to permit the company the opportunity to earn a fair and reasonable return on net original cost rate base: these rates should be permanently canceled and annulled;

(25) the specific rates proposed by AmerenCILCO, AmerenCIPS, and AmerenIP in its respective initial filings do not reflect various determinations made in this Order regarding revenue requirement, cost of service allocations, and rate design; the proposed rates of each company should be permanently canceled and annulled consistent with the findings herein;

(26) AmerenCILCO should be authorized to place into effect tariff sheets designed to produce annual base rate electric delivery service revenues of ~~$118,226,000~~$115,827,000, which represents a decrease of ~~$379,000~~$2,778,000 or (~~0.31%~~2.25%); such revenues, in addition to other tariffed revenues, will provide AmerenCILCO with an opportunity to earn the rate of return set forth in Finding (11) above; based on the record in this proceeding, this return is fair and reasonable for AmerenCILCO;

(27) AmerenCIPS should be authorized to place into effect tariff sheets designed to produce annual base rate electric delivery service revenues of ~~$220,369,000~~$218,466,000, which represents an increase of ~~$23,859,000~~$21,956,000 or ~~11.21%~~10.31%; such revenues, in addition to other tariffed revenues, will provide AmerenCIPS with an opportunity to earn the rate of return set forth in Finding (12) above; based on the record in this proceeding, this return is fair and reasonable for AmerenCIPS;

(28) AmerenIP should be authorized to place into effect tariff sheets designed to produce annual base rate electric delivery service revenues of ~~$443,590,000~~$442,556,000, which represents an increase of ~~$104,901,000~~$103,867,000 or ~~29.45%~~29.16%; such revenues, in addition to other tariffed revenues, will provide AmerenIP with an opportunity to earn the rate of return set forth in Finding (13) above; based on the record in this proceeding, this return is fair and reasonable for AmerenIP;

(29) AmerenCILCO should be authorized to place into effect tariff sheets designed to produce annual base rate gas delivery service revenues of ~~$71,842,000~~$71,308,000, which represents a decrease of ~~$8,700,000~~$9,234,000 or (~~10.54%~~11.19%); such revenues, in addition to other tariffed revenues, will provide AmerenCILCO with an opportunity to earn the rate of return set forth in Finding (14) above; based on the record in this proceeding, this return is fair and reasonable for AmerenCILCO;

(30) AmerenCIPS should be authorized to place into effect tariff sheets designed to produce annual base rate gas delivery service revenues of ~~$70,125,000~~$70,450,000, which represents an increase of ~~$7,334,000~~$7,659,000 or ~~11.25%~~11.74%; such revenues, in addition to other tariffed revenues, will provide AmerenCIPS with an opportunity to earn the rate of return set forth in Finding (15) above; based on the record in this proceeding, this return is fair and reasonable for AmerenCIPS;

(31) AmerenIP should be authorized to place into effect tariff sheets designed to produce annual base rate gas delivery service revenues of ~~$164,162,000~~$167,424,000, which represents an increase of ~~$36,530,000~~$39,792,000 or ~~27.33%~~30.01%; such revenues, in addition to other tariffed revenues, will provide AmerenIP with an opportunity to earn the rate of return set forth in Finding (16) above; based on the record in this proceeding, this return is fair and reasonable for AmerenIP;

(32) determinations regarding cost of service, interclass revenue allocations, rate design, and tariff terms and conditions, as are contained in the prefatory portion of this Order, are reasonable for purposes of this proceeding; the tariffs filed by AmerenCILCO, AmerenCIPS, and AmerenIP should incorporate the rates and rate design set forth and referred to herein;

(33) new tariff sheets authorized to be filed by this Order should reflect an effective date not less than three days after the date of filing, with the tariff sheets to be corrected, if necessary, within that time period; and

(34) all motions, petitions, objections, and other matters in this proceeding which remain unresolved should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets at issue in these dockets and presently in effect for electric delivery service rendered by Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP are hereby permanently canceled and annulled effective at such time as the new electric delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general increase in electric delivery service rates, filed by Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP on November 2, 2007 are permanently canceled and annulled.

IT IS FURTHER ORDERED that the tariff sheets at issue in these dockets and presently in effect for gas delivery service rendered by Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP are hereby permanently canceled and annulled effective at such time as the new gas delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general increase in gas delivery service rates, filed by Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP on November 2, 2007 are permanently canceled and annulled.

IT IS FURTHER ORDERED that Central Illinois Light Company d/b/a AmerenCILCO is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (26), (32), and (33) of this Order, applicable to electric delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Central Illinois Public Service Company d/b/a AmerenCIPS is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (27), (32), and (33) of this Order, applicable to electric delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Illinois Power Company d/b/a AmerenIP is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (28), (32), and (33) of this Order, applicable to electric delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Central Illinois Light Company d/b/a AmerenCILCO is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (29), (32), and (33) of this Order, applicable to gas delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Central Illinois Public Service Company d/b/a AmerenCIPS is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (30), (32), and (33) of this Order, applicable to gas delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Illinois Power Company d/b/a AmerenIP is authorized to file new tariff sheets with supporting workpapers in accordance with

Findings (31), (32), and (33) of this Order, applicable to gas delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that all motions, petitions, objections, and other matters in this proceeding which remain unresolved are disposed of consistent with the conclusions herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 10th day of September, 2008.

(SIGNED) CHARLES E. BOX

Chairman