ILLINOIS COMMERCE COMMISSION

Docket Nos. 08-0619, 08-0620, 08-621 (cons.)

DIRECT TESTIMONY

OF

Lynn D. Pearson

ON BEHALF OF

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

THE AMEREN ILLINOIS UTILITIES

St. Louis, Missouri

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Lynn Pearson. My business address is 1901 Chouteau Avenue, St. Louis, Missouri.

Q. By whom are you employed and in what capacity?

A. I am employed with Ameren Services Company ("Ameren Services") as a Regulatory Consultant.

Q. On whose behalf are you filing testimony?

A. I am filing testimony on behalf of the Central Illinois Light Company d/b/a AmerenCILCO ("AmerenCILCO"), Central Illinois Public Service Company d/b/a AmerenCIPS ("AmerenCIPS") and Illinois Power Company d/b/a AmerenIP ("AmerenIP"), also referred herein as the "Ameren Illinois Utilities" or "AIU".

Q. What is your education and work background?

A. A description of my education and work background is described in Appendix A to my testimony.

Q. What is the purpose of your direct testimony?

A. My testimony has three distinct purposes. The first is to introduce the other witnesses and their subject matter testimonies. The second is to provide the context and regulatory policy underpinnings under which this filing is made. Finally, I will describe the proposed tariffs filed in this proceeding and provide support and rationale for those tariffs.

Q. Please identify the other witnesses who are sponsoring testimony on behalf of the Ameren Illinois Utilities in this proceeding.

A. There are two other witnesses sponsoring direct testimony on behalf of AIU in this proceeding. The other AIU witnesses are Darrell E. Hughes who will be sponsoring testimony regarding the Fixed Cost Recovery (“FCR”) mechanism and Joseph M. Solari who will be sponsoring testimony regarding the changes to AIU’s billing system and business processes and other Information Technology (“IT”) changes necessary to implement the Utility Consolidated Billing and Purchase of Receivables Program (“UCB/POR” or “Program”). The UCB/POR Program being proposed in this proceeding would provide Retail Electric Suppliers (“RES”) with the option to have AIU issue a consolidated monthly bill to each RES served customer that includes the charges for electric power and energy service from the RES, as well as charges for delivery services of AIU. A RES that elects the UCB/POR Program for its customers will be required to sell its accounts receivables for such customers to AIU.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Ameren Exhibits 1.1 and 1.2.

BACKGROUND

Q. Please provide the context within which this filing is being made.

A. As the Illinois Commerce Commission (the “ICC” or “Commission”) is aware, residential and small commercial customers have been eligible to choose an alternative retail electric supplier ("RES”) since 2002. However, few RES have offered service to residential customers in AIU’s service territory. In November 2007, the General Assembly passed, and the Governor signed, Senate Bill 1299 ("SB 1299") into law as Public Act 95-0700, which states "It is in the best interest of Illinois energy consumers to promote fair and open competition in the provision of electric power and energy and to prevent anticompetitive practices in the provision of electric power and energy."

Q. Please further describe Public Act 95-0700.

A. First, I would like to clarify that I am not a lawyer and am not providing a legal opinion or analysis of Public Act 95-0700, SB 1299 or any other legislation. It is my understanding as a rate practitioner tasked with implementing certain provisions of SB 1299, that the purpose of Public Act 95-0700 is to encourage a competitive retail electric market by reducing barriers to market entry for RES service to residential and small commercial consumers. Public Act 95-0700 resulted in an amendment to Section 16-118 of the Public Utilities Act (the "Act") which delineates certain services to be provided by electric utilities to RES. Mandated actions under the Act were designed to promote fair and open competition in retail electric markets and to remove barriers to competition for residential and small commercial customers. Certain components of Public Act 95-0700 provide RES with the ability to leverage the existing infrastructure of the incumbent utility, including billing, credit and collection practices. Those components are the subject of the tariff filing in this proceeding.

Q. Did other legislation play a role in the development of the instant tariff filing?

A. Yes. As a result of House Bill 4977, the Act was amended to add Article 20 which is cited as the Retail Electric Competition Act of 2006 (220 ILCS

5/20-102). The Retail Electric Competition Act of 2006 states that the ICC should promote the development of an effectively competitive retail electricity market that operates efficiently and benefits all Illinois consumers. The Office of Retail Market Development ("ORMD") was established within the ICC and dedicated to the task of actively seeking out ways to promote retail competition in Illinois. The ORMD was directed to "monitor existing competitive conditions in Illinois, identify barriers to retail competition for all customer classes and actively explore and propose to the Commission and to the General Assembly solutions to overcome identified barriers." A workshop process was initiated by the ORMD early in 2008 to discuss the requirements of Public Act 95-0700 with the purpose of exploring alternatives to encourage retail electric competition for residential and small commercial customers. All interested parties were invited to participate in the workshops, which generally meet on a monthly basis.

Q. What was the initial focus of the workshop meetings with respect to the instant filing?

A. The initial focus of the workshop process was on the technical implications of UCB/POR, primarily due to the fact that modifications to billing and business processes and systems, including electronic data interchange ("EDI") take a substantial amount of lead time. UCB/POR require day-to-day electronic communication between the utility and the RES in order to create a positive experience for customers who switch electric suppliers. A considerable effort over several months was made by AIU and workshop participants to develop the UCB/POR Program filed in this proceeding. Draft outlines of the tariff proposal were presented during the workshop process and comments were solicited from all workshop participants in the development of the tariff. AIU appreciates the feedback from Staff and other parties in the process of the UCB/POR tariff development. [1] The AIU's understanding resulting from participating in the workshop process was that the initial service to be offered under the Public Act 95-0700 mandate would be a combined UCB/POR Program.[2] The decision to limit the initial service offering to a combined UCB/POR Program resulted from a number of concerns - first, was the concept of speed to market; second was the goal of cost minimization; third was the goal of bringing competition to the greatest number of Illinois consumers; and finally, UCB/POR was the service that many of the RES workshop participants seemed interested in obtaining as quickly as possible.

Q. Did AIU review UCB/POR programs in other jurisdictions?

A. Yes. SB 1299 clearly takes its lead from other states with retail choice. Thus, in preparing my testimony and the tariffs, AIU examined other states with UCB/POR programs. RES workshop participants active in UCB/POR programs in other states also provided information about their experience. This information was very helpful in assessing the requirements of a UCB/POR program with respect to AIU's billing system and business procedures. While the experiences and facts in each state are different, there are important

[1] AIU is not suggesting that any party has endorsed the tariffs as filed.
[2] The Ameren Illinois Utilities and other parties participated in the workshops pursuant to a preamble whereby it was understood that all parties could speak freely without the risk of candid remarks being presented in litigation. Therefore, AIU does not ascribe any comments or positions to any party other than itself. Many divergent views were expressed and the AIU's took those views into account in developing the tariffs presented in this docket.

considerations to be learned from examining other programs. One unique characteristic in Illinois however is that the UCB/POR service is offered pursuant to a fairly prescriptive statutory mandate, and therefore, the tariffs developed were structured with those established limitations in mind.

Utilities in the tate of New York have had UCB/POR programs in place for a number of years (The New York Public Service Commission ["NYPSC"]issued a Policy Statement that supports purchase of receivables as one of a number of steps necessary to encourage the development of retail competition in 2004 and most New York utilities implemented UCB/POR type programs during the 2005 – 2006 time frame). In a recent Order on retail access, the NYPSC emphasized the importance to competitive markets of utility consolidated billing and purchase of receivables programs.

> Other programs are similarly essential to maintaining a competitive market structure. Particularly important in serving this function are the utility consolidated billing and the purchase of accounts receivable (POR) programs. These programs are needed to enable ESCOs to bill and/or receive payments from customers on an equal footing with the utility service providers. Customers also benefit from POR programs and consolidated billing because these programs facilitate implementation of the Home Energy Fair Practices Act (HEFPA) which, among other things, protects customers upon disconnection of service for non-payment (8) while consolidated billing provides a service that customers prefer because it enables the customer to receive a single bill for distribution and commodity service, thus minimizing customer confusion. Furthermore, all of the larger distribution utilities have implemented consolidated billing programs and, with the exception of KeySpan, have implemented POR programs. KeySpan's proposed POR program is under consideration (9). No party opposed the continuation of these programs and their continuation will not require ratepayer subsidization. The programming changes to utility billing systems that are necessary for consolidated

> billing have already been implemented and their associated costs recovered. Generally, on-going costs associated with POR programs are funded by the ESCOs through either a discount rate applied by the utility to the ESCO's receivables or a lower merchant function charge (MFC)." (Order Determining Future of Retail Access Programs, State of New York Public Service Commission, Case 07-M-0458, October 27, 2008, page 8)

The AIU proposed UCB/POR Program shares many of the features of similar programs in other jurisdictions, such as a single discount rate applied to the purchase of RES receivables, recovery of incremental implementation and start-up cost and ongoing incremental cost to administer the Program, and the ability to disconnect non-paying customers of participating RES. One of the goals of AIU was to produce a discount rate that was reasonable when compared to discount rates used in other jurisdictions. Ameren Exhibit 1.1 is a summary of the information readily available on discount rates for UCB/POR programs in other jurisdictions. The discount rate that AIU will propose in this proceeding will be well within the range of reasonableness when compared to discount rates in other jurisdictions.

Q. Please describe the purpose of the tariffs being filed in this proceeding.

A. The tariffs filed by AIU in this proceeding are designed to implement a combined UCB/POR service offering. Under UCB, the electric utility would produce and provide a single bill to the retail customers for the electric power and energy services provided by the RES, along with its own delivery service charges. Under POR, a RES would sell its accounts receivables ("AR") for electric power and energy service provided to residential and small commercial retail customers, to the utility at a discount. Under the combined UCB/POR Program, if a RES chooses to enroll a customer under UCB/POR, the RES then must also sell the corresponding receivables for electric power and energy service for that customer to the utility at a discount. Stand alone UCB, also sometimes referred to as “pay as paid” UCB and stand alone POR, also sometimes referred to as “factoring,” are not being offered by AIU at this time.

Q. How will the UCB/POR Program facilitate choice of electric suppliers for residential and small commercial customers?

A. The UCB/POR Program is intended to facilitate choice of electric suppliers for residential and small commercial customers by removing barriers to entry into the market related to billing and credit and collections activities. UCB enables the RES to utilize the established billing infrastructure of the utility and forgo the need to duplicate those activities. POR enables the RES to utilize the established collection process of the utility and thus avoid incurring the cost of upfront credit analysis of potential customers and the costs of collection activities. This encourages the RES to offer their service to every customer rather than attempt to serve only those above certain credit thresholds. It is anticipated that this service offering will eliminate certain barriers to entry that have prevented RES from entering the residential retail market to date, thereby providing those customers with the opportunity to shop for alternative energy suppliers.

UCB/POR eliminates or minimizes the duplication of the billing, credit and collection functions and associated costs at both the utility and at each RES that participates in the Program. In addition, the Program eliminates the uncertainty for the RES surrounding the level of uncollectible accounts. Customers could also experience a simplification in security requirements and costs as UCB/POR could potentially eliminate the requirement for customers to provide two separate security deposits. Customers could also experience the receipt of one bill rather than two as less burdensome.

Q. What are the parameters of the UCB/POR tariff being offered?

A. UCB/POR service is only being offered on a combined basis at this time. A RES that elects the UCB/POR Program for its customers shall be required to sell its accounts receivables for such customers to AIU. Such AR shall be purchased at a discount off of face value and without recourse. In my understanding and in this context, "without recourse" means that the risk associated with non-payment for purchased receivables under the UCB/POR Program is assumed by AIU, i.e. the RES has no liability for receivables that AIU is unable to collect. The AR purchased from a RES will be limited to the receivables for undisputed charges for RES' electric power and energy services for retail customers participating in the UCB/POR Program. The Program is only available to customers with a non-coincident peak demand of less than 400 kW, due to provisions in Section 16-118(c) limiting POR to customers with demand less than 400 kW. The service is not available to customers with an unpaid bill greater than sixty days past due. Other terms and conditions of the proposed UCB/POR service are described in greater detail below.

REGULATORY POLICY CONSIDERATIONS

Q. In terms of overall regulatory policy, what are the implications of the UCB/POR tariff filings?

A. The tariffs filed in this docket concern services to both RES providers in Illinois as well delivery service customers. SB 1299 and the resulting UCB/POR service constitute an attempt to redress policy problems experienced in Illinois with regard to electric restructuring. As the Commission is aware, during Illinois' transition from vertically integrated service to customer choice for electricity, unanticipated issues arose with regard to mass market customers. As choice emerged and developed for large and medium-sized commercial and industrial customers, meaningful choice in supplier options has not developed for residential customers. Hence, within this context, SB 1299 and the mandated UCB/POR service required pursuant thereto, serves to revise the role of electric distribution utilities, also called Integrated Distribution Companies or "IDCs" pursuant to Part 452 (Subpart B) of the Commission's Administrative Code Title 83: Public Utilities by making the billing of mass market customers for third-party supply a required IDC function. This is expected to put third-party suppliers on a more even playing field by requiring IDCs to allow RES to utilize their billing systems. Without this access to IDC systems, a significant barrier remains whereby suppliers are faced with high barriers to entry to the market, namely the costs associated with establishing the sophisticated billing and collection functionality necessary to operate in a mass market. Additionally, without UCB/POR, suppliers have a disadvantage in that they cannot disconnect for non-payment, while IDCs do have such an ability associated with their power supply and delivery service charges and will have the same provision for RES served customers under UCB/POR.

Q. What issues do you believe are important for consideration in this docket and the future SB 1299 dockets?

A. The important issues to be considered in an SB 1299 docket are similar to the issues considered in most dockets relating to utility tariff filings. Those issues include the costs and tariffed rates and the terms and conditions of services being offered. The costs associated with UCB/POR, who pays those costs, and how they are collected are certainly important considerations. These issues relate to the policies that form the basis of SB 1299's mandated programs, including UCB/POR.

UCB/POR COSTS

Q. Please described the costs associated with the UCB/POR Program.

A. The UCB/POR Program costs include the anticipated uncollectibles (i.e. bad debt, net write-offs) associated with the purchase of RES accounts receivables and the AIU incurred billing system implementation costs and POR start-up[3] costs associated with the UCB/POR Program as well as ongoing cost to administer the Program. The uncollectibles costs will be described in greater

[3] The differentiation in this testimony between "implementation" costs and "start-up" costs is dictated by the language in SB 1299 Section 16-118(c), where the term "start-up" costs appears in the description of the discount rate components. Section 16-118(d) which refers to the provision of utility consolidated billing does not specifically utilize the term "start-up" costs. Clearly, however, there are costs associated with implementing UCB which could also be referred to as start-up costs. In order to clarify the use of those terms in this testimony, the term "start-up" costs will be used to refer to costs that are primarily POR related. To minimize confusion, the term "implementation" costs will be used when referring to costs that are primarily UCB or billing system related. The term "implementation and POR start-up" costs will be used when referring to costs of the UCB/POR Program as a whole.

detail later in my testimony. In his direct testimony, AIU witness Mr. Joseph M. Solari will provide details associated with the AIU incurred billing system implementation costs and POR start-up costs. An important point with respect to the costs included in the instant tariff filing is that they are incremental costs. The costs included in this tariff filing are not currently being recovered in base rates. Another important point is that the charges associated with the UCB implementation and POR start-up costs will be terminated once such costs are fully recovered.

Q. How will the costs incurred in order to provide UCB/POR service be recovered?

A. The cost recovery mechanism was driven by the language in SB 1299 with respect to cost recovery for this type of service and by the desire to recover the cost in a balanced and reasonable manner. SB 1299 mandates that cost recovery provisions be provided pursuant to a tariff filing. The proposed tariff was designed to provide for cost recovery from both the RES who participate in the UCB/POR Program and from delivery service customers who are eligible to participate in the UCB/POR service offering. The law references two methods that together provide the opportunity for reasonable cost recovery to AIU. The first is a discount rate, whereby the utility purchases a receivable below its face value. Second, the law also provides for recovery of costs from all delivery service customers. Thus, the law provides for an opportunity to recover costs from the RES through a discount rate with any remaining uncollectible amount recoverable from delivery service customers. The law also provides for an opportunity to recover prudently incurred costs associated with the provision of this service.

Q. Specifically, how is cost recovery addressed in SB 1299?

A. Section 16-118(c) of the Act states receivables for power and energy service of alternative retail electric suppliers “shall be purchased by the electric utility at a just and reasonable discount rate to be reviewed and approved by the Commission after notice and hearing. The discount rate shall be based on the electric utility’s historical bad debt and any reasonable start-up costs and administrative costs associated with the electric utility’s purchase of receivables.” Also under the provisions of SB 1299, the tariff filing “…shall permit the electric utility to recover from retail customers any uncollected receivables that may arise as a result of the purchase of receivables under this subsection (c), may also include other just and reasonable terms and conditions, and shall provide for the prudently incurred costs associated with the provision of this service pursuant to this subsection (c).” SB 1299 also states that double recovery of bad debt expenses from customers shall not be permitted. AIU’s instant tariff filing was designed to prevent double recovery for bad debt as well as other costs.

TARIFF DESIGN

Q. Please describe the tariffs being filed in this proceeding.

A. The tariffs being filed in this proceeding are comprised of modifications to the existing Supplier Terms and Conditions and the existing Supplemental Customer Charges tariff. No new tariffs are being proposed in the instant filing. The mechanism to recover UCB/POR related costs from the RES is included in the modifications to the Supplier Terms and Conditions. The mechanism to recover UCB/POR related costs from eligible retail delivery service customers is included in the modifications to the Supplemental Customer Charges tariff.

Q. What were the AIU's main goals in the design of this tariff filing?

A. The main goals of this tariff filing were threefold: 1) to facilitate choice of alternative retail electric suppliers for residential and small commercial customers, 2) to minimize the costs associated with developing and implementing the UCB/POR service, and 3) to provide for complete cost recovery that is reasonable and balanced between RES who participate in the Program and retail delivery service customers who are eligible to participate in the Program. In general, AIU's tariff filing attempts to balance the interests of the RES, delivery service customers and AIU.

Q. Were there other considerations that played a role in the tariff design?

A. Yes. Substantial discussion and feedback during the many workshops hosted by ORMD provided additional direction to our tariff design.

Q. What actions did AIU take to minimize the costs associated with the UCB/POR Program?

A. First, the decision to limit the initial offering mandated by SB 1299 to a combined UCB/POR Program was driven, in part, by the idea of implementing the provisions of SB 1299 in steps or phases. SB 1299 envisions a broader range of programs than what is being offered in this filing. It is AIU's belief that an incremental approach could help hold down costs. This approach also helps bring retail electric competition to all customers in a more timely fashion in comparison to an approach where all of the provisions of SB 1299 are addressed at one time. Second, AIU prepared a thorough estimate of the costs that would be strictly incremental to the UCB/POR tariff offering and only those costs are included in the tariff design.

Q. Is there another reason for using an incremental approach to implement the provisions addressed by SB 1299?

A. Yes. There was concern that an all encompassing approach to implementing the provisions of SB 1299 could produce a discount rate that was so high that it would effectively prohibit the market from developing. It was important to keep the billing system implementation and POR start-up costs low in order to produce a reasonable discount rate for the RES that would enable them to compete with the utilities' fixed price power supply rates. As proposed, the UCB/POR Program provides AIU with the ability to recover its billing system implementation and POR start-up and ongoing costs to administer the Program and at the same time, offer a discount rate that suppliers should find reasonable.

Q. Please provide an overview of the proposed UCB/POR Program.

A. AIU will purchase the accounts receivable, without recourse, associated with RES sales of retail electric power and energy services to residential and small commercial customers within AIU's service territory. A small discount will be applied to the purchase price. The discount rate will be uniform for all the Ameren Illinois Utilities and be applicable to all eligible retail customers. Under the UCB/POR Program, AIU will reimburse RES for their customer billings for electric power and energy service (including transmission) regardless of whether the AIU's receive payment from the customer. AIU will seek to recover the purchased RES receivables from RES customers in a manner consistent with the AIU's existing collection procedures for recovery of billings and incur any uncollectible costs related to thereto.

TARIFF MECHANICS

Q. Please describe the modifications to the Supplier Terms and Conditions.

A. The major modifications to the Supplier Terms and Conditions include the introduction of the UCB/POR billing, payment and remittance procedures which include availability and eligibility criteria, definitions associated with the UCB/POR Program, determination of the UCB/POR discount rate, provisions related to informational filings, reconciliations, and annual audit reports and revised enrollments procedures.

Q. What are the UCB/POR Program availability and eligibility criteria?

A. The UCB/POR Program is only available to retail customers with a maximum non-coincident peak (NCP) demand of less than 400 kW. Eligible customers are those customers served on delivery service ("DS") rates DS-1 (residential customers), DS-2 (small general delivery service non-residential customers with a maximum monthly demand of less than 150 kW), DS-3a (general delivery service non-residential customers with a maximum monthly demand equal to or greater than 150 kW and less than 400 kW), and DS-5 (lighting service customers). Customers with combined service points that include DS-3b (general delivery service non-residential customers with a maximum monthly demand equal to or greater than 400 kW but less than 1,000 kW) or DS-4 (large general delivery service customers with a maximum monthly demand equal to or greater than 1,000 kW) in addition to DS-1, DS-2, DS-3a or DS-5 are not eligible to participate in the UCB/POR Program.

A RES must choose to either include all eligible customers within a customer subgroup or exclude all customers within a customer subgroup in the UCB/POR Program. There are two customer subgroups; Subgroup A includes customers served on DS-1, DS-2 and DS-5, Subgroup B includes customers served on DS-3a. An existing RES served retail customer with an unpaid balance for delivery service provided and billed by AIU greater that 60 days past due is not eligible for the UCB/POR Program until such past due balance is cleared.

Q. Please describe the UCB/POR discount rate.

A. There is one discount rate for all the Ameren Illinois Utilities and for all purchases of RES accounts receivables. The discount rate is expressed as a percent, rounded to the nearest hundredths of a percent. AIU will purchase the RES accounts receivables using the following formula:

RES accounts receivable multiplied by (100% – discount rate)

Q. What is the basis for the discount rate applied to the purchase of RES account receivables?

A. The discount rate is developed using a formula comprised of the sum of four components. The four components include:

1. the anticipated uncollectible expense (bad debt, net write-offs);
2. a reasonable portion of implementation costs related to UCB;
3. the start-up costs related to POR; and
4. the incremental cost to administer the UCB/POR Program

Q. Please describe the first component of the discount rate in more detail.

A. The portion of the discount rate associated with the uncollectible expense was developed based on the uncollectible expense approved by the ICC in the recent AIU delivery service rate cases (ICC Docket Nos. 07-0585 through 07-0590 cons.). The ICC-approved uncollectible expense was adjusted to reflect costs associated with only those customers eligible to participate in the UCB/POR Program, i.e. customers with maximum monthly demand less than 400 kW. This first component of the discount rate recognizes that AIU's delivery service rates do not recover any costs associated with RES uncollectibles.

The uncollectibles component of the discount rate is developed using the most recent rate case data and Commission Order for each of the AIU and by dividing the total uncollectible expense for UCB/POR eligible customers of the electric AIU by the total revenue of the electric AIU for UCB/POR eligible customers. The calculation of the uncollectible component of the discount rate is shown on Ameren Exhibit 1.2.

Q. Please describe the second and third components of the discount rate.

A. The second and third components of the discount rate were designed to reflect a reasonable portion of the incremental billing system implementation and POR start-up costs associated with the provision of the UCB/POR Program. Cost estimates associated with UCB/POR related changes to the billing system, EDI and other system and business processes were developed. The technical requirements associated with these costs are described in the testimony of AIU witness Mr. Joseph M. Solari. The cost estimate was divided between those costs that were primarily related to the purchase of the receivables from the RES, and those costs that were predominately modifications to the AIU billing system that will be necessary to provide one consolidated bill and enable collection of the receivables that are purchased, the “billing system costs”.

The start-up costs related primarily to POR costs are proposed to be included in the discount rate, i.e., 100% of those costs will be included in the UCB/POR discount rate applied to the receivables purchased from the RES. The portion of the implementation costs primarily related to billing system costs included in the discount rate is proposed to be 25%. The remainder of the billing system related implementation costs is proposed to be recovered through the Supplemental Customer Charge, which will be discussed in greater detail below.

Q. Why was the billing system implementation and POR start-up costs associated with the UCB/POR Program divided into two components?

A. The intent was to recover the start-up costs that are primarily POR related 100% from the RES, since they are the parties that will be using the system developed to transfer the receivables pursuant to the UCB/POR Program. The implementation costs that are primarily billing system related are divided between the RES discount rate and the Supplemental Customer Charge in an attempt to achieve a fair and balanced recovery of the costs and produce reasonable charges. Deference was given to perspectives offered during the workshop process seeking contribution from RES participants to cost recovery for the necessary billing system changes. However, deference was also given to the fact that the discount rate must be reasonable in order to afford the RES the ability to enter the market. A discount rate that is set too high would present a barrier to entry for the RES. AIU's approach in developing the rates, terms and conditions for UCB/POR service is to promote RES entry into the residential and small commercial market rather than discourage it. Both RES and retail customers have the opportunity to benefit from bringing retail competition to mass market customers so it is appropriate to share the costs between those two groups. It is also important to note that the customer billing system is necessary to provide utility service and investments therein are traditionally included in the AIU cost of service and base rates. In this case, the law mandates prudently incurred costs shall be provided for in the instant tariff filing. The costs incurred to provide UCB/POR service are incremental costs and will not be recovered in base rates. With these considerations in mind, the 25%/75% allocation was arrived at based on benefit of service justifications and reasonableness. Therefore, we believe it is a just and reasonable cost recovery ratio. Under the proposed tariff mechanism, the final allocation of actual cost recovery between RES and eligible customers could be something other than 25%/75%. Retail choice could develop more quickly than initially estimated, with more residential and small commercial customers switching to a RES and more customers on UCB/POR. In that scenario, through a reconciliation mechanism, retail customers would see their share of the implementation cost reduced. Of course, the reverse scenario is also a possibility.

Q. What is the split between primarily billing system related and primarily POR related costs?

A. According to initial and current cost estimates, the bulk of the UCB/POR Program implementation and POR start-up costs are related to billing system enhancements. The initial estimated split is 95% billing system costs and 5% POR costs. This is due to the fact that the vast majority of UCB/POR service costs are related to improvements to the AIU's billing system. The difference is reasonably straight forward. System enhancements necessary for AIU to collect the receivables purchased from the handful of RES are significantly less than the system enhancements required to add necessary functionality to bill residential and small commercial customers for the receivables purchased. The billing system and business process enhancements required to provide UCB/POR is described in the testimony of Ameren witness Joseph M. Solari. The actual split between billing system implementation and POR start-up costs could turn out to be slightly different than the 95%/5% estimate. The actual split will be used in the calculation of the final rates which will be provided in an information filing as described in the proposed tariff.

Q. How is 25% of billing related implementation costs included in the discount rate?

A. The 25% of billing-related implementation cost will be calculated as a percentage and added to the uncollectibles component of the discount rate. The percentage amount will be derived using an FCR mechanism. AIU witness Mr. Darrell E. Hughes will provide a discussion of the development of the fixed cost recovery mechanism. The analysis is also based on a number of assumptions, including projections of the development of the market which is comprised of the number of customers who switch to RES supply and the number of those customers on the UCB/POR Program. An assumption was required with respect to the RES price for power and energy supply. The calculation assumes that the implementation cost is recovered over a five year period.

Q. Please describe the fourth component of the discount rate.

A. The fourth component of the discount rate will recover incremental ongoing cost to administer the UCB/POR Program. The amount of this component is expected to be small and will recover the cost of ongoing EDI transactions necessitated by the UCB/POR Program and possibly additional dedicated staffing to manage the Program, assuming it develops as anticipated.

Q. How will the percentages included in the second, third and fourth components of the discount rate be developed?

A. In order to develop the second, third and fourth components of the UCB/POR discount rate, an Estimate of Program Receivables ("EPR") will be projected for the period for which the rate will be in effect. The projection will be based upon the power supply planning forecast of RES-served customers that are eligible for the UCB/POR Program as submitted to the Illinois Power Agency. A UCB/POR Program participation rate will be estimated for each eligible DS rate class and a RES supply price estimate will be derived by applying a seven percent discount to the AIU's BGS prices. The choice of seven percent is simply an estimate necessary to determine a level of UCB/POR Program receivables. It is a proxy arrived at through informal discussions at the ORMD workshops regarding expectations of reasonable customer switching behavior. The EPR for the initial rate period will be based on a three-year simple average of estimated UCB/POR Program receivables.

Q. What is the discount rate for the initial rate period?

A. The discount rate for the initial rate period is not known at this time. The information with respect to the uncollectible component is currently available from the recently concluded delivery service rate case and is 0.82%. AIU has an estimate of the billing system implementation and POR start-up costs required to provide UCB/POR service, which is approximately $2.9 million. However, AIU is currently in the process of making the necessary billing system and business process changes in order to implement the UCB/POR Program. It is proposed that the amount of the UCB/POR discount rate be provided in an informational filing supplemental to the tariff and filed with the ICC not later than 30 days prior to the effective date of the rate. The information filing will also include work papers showing the development of the discount rate along with the actual UCB/POR implementation and POR start-up costs used in developing the discount rate.

Q. When will the UCB/POR tariff become effective?

A. The tariffs were filed on September 30, 2008 and suspended on November 13, 2008. According to the approved procedural schedule, a Final Order is expected no later than August 26, 2009. While AIU is committed to providing the UCB/POR service in a timely manner, it has seen in recent cases that it can be very challenging to implement tariff, pricing and billing changes within a limited time frame, particularly in light of the fact that the tariff structure and resulting charges remain unknown until the Final Order is available. It can be very challenging to accommodate unexpected provisions in a rate Order. The RES will also be reacting to the rates, terms and conditions of the Final Order while they are in the process of developing their marketing plans. Therefore, AIU is requesting a compliance period of 60 days subsequent to the date of the Final Order, during which it would finalize tariffs and pricing and accommodate for any other changes resulting from the outcome of this docket. AIU would implement the UCB/POR service within 60 days from the date of a final Commission order.

Q. What is the initial rate period for the UCB/POR discount rate?

A. According to the filed tariffs, the discount rate is applied on a program year of June through May. The initial rate period was proposed to be June 2009 through May 2012. The tariffs filed on September 30, 2008, make reference to an initial rate period of June 2009 through May 2012 and a first reconciliation period of June 2009 through December 2011. As a result of the procedural schedule and proposed compliance period, the start date for the initial rate period and first reconciliation period will need to be modified. There is not a date certain for the start date of the initial rate period and first reconciliation period at this time but it will be no later than 60 days subsequent to the date of the final order. The program year for the first year will still end in May 2010; it will just be a truncated year. The tariffs will be modified to reflect these changes at the time of the compliance filing. The initial rate period was set at three years in order to give the Program some time to develop and give the RES a period of pricing stability.

Q. How will the discount rate be reset in the future?

A. Subsequent to the initial rate period, the discount rate will be determined annually for each Program year of May through June of the following year. The component of the discount rate associated with uncollectible expense will only be modified as a result of future delivery service rate case orders.

Q. Please describe the proposed modifications to the Supplemental Customer Charges tariff.

A. The Supplemental Customer Charges tariff was modified to include a UCB/POR Program Charge which shall be applied to each eligible customer as a monthly charge. The UCB/POR Program Charge will be determined using a formula included in the proposed tariff. The UCB/POR Program Charge shall be equal for all AIU and rounded to the nearest whole cent. The amount of the UCB/POR Program Charge shall be shown on an informational filing supplemental to the tariff and filed with the ICC prior to the program year, which is June 1 through May 31

Q. What are the components included in the determination of the UCB/POR Program Charge.

A. The UCB/POR Program Charge is comprised of three components:

1. The UCB portion of the UCB/POR Program implementation costs assigned to eligible customers plus adjustments;
2. The Uncollected Receivables recovery variance, either positive or negative; and
3. The administrative cost recovery variance, either positive or negative.

Q. Please describe each component of the UCB/POR Program Charge in detail.

A. The first component of the UCB/POR Program Charge is the initial assignment of 75% of the billing system related implementation costs. These are delivery service billing system capital improvement costs that are proposed to be recovered from eligible customers over a five year period using an (FCR) recovery mechanism. The derivation of the FCR recovery mechanism will be addressed by AIU witness Mr. Darrell E. Hughes. Under the provisions of SB 1299, Section 16-118(d) the tariff filed provides for the recovery of prudently incurred costs associated with the provision of the service. The costs recovered via the UCB/POR Program Charge are incremental capital costs and are not currently included in base rates. There will be no double recovery of the costs associated with the UCB/POR Program.

The second component of the UCB/POR Program Charge is designed to capture the difference, either positive or negative, between the actual uncollected receivables experienced under the UCB/POR Program and the calculated amount for uncollectibles that is based on the UCB/POR discount rate uncollectible cost component. Under the provisions of SB 1299, Section 16-118(c) the tariff filed shall permit the electric utility to recover from retail customers any uncollected receivables that may arise as a result of the purchase of receivables. It is reasonable to assume that the uncollectibles associated with the purchase of RES receivables under the UCB/POR Program should be reasonably in line with AIU actual experience, given the AIU's ability to disconnect for non-payment of service for UCB/POR Program customers. This should serve to limit the variance between the actual and calculated amount for uncollectibles.

The third component of the UCB/POR Program Charge is designed to capture the variance, either positive or negative, between the amount of ongoing incremental cost to administer the UCB/POR Program actually incurred by AIU and the amount of ongoing incremental administrative costs recovered pursuant to the administrative cost component of the UCB/POR discount rate. The cost for the second and third components of the UCB/POR Program Charge will be zero for the initial rate period. The initial calculation and application of the second and third components will occur subsequent to the first reconciliation period, which will be discussed in greater detail below.

Q. What is the amount of the UCB/POR Program Charge?

A. The amount of the UCB/POR Program Charge is not known at this time. AIU is in the process of making the changes to the billing system and business processes necessary to implement the Program. The cost of those changes will be one of the components of the UCB/POR Program Charge. The current estimate of those costs is approximately $2.928 million, of which $2.086 million would be assigned to the UCB/POR Program Charge. At this time and based on current estimates, the UCB/POR Program Charge resulting from the implementation of these tariffs is estimated to be approximately between $0.04 and $0.06 per customer per month. Therefore, the creation of an entirely separate line item on the monthly bill is undesirable from a programming cost and bill readability standpoint.

Q. How will the UCB/POR Program Charge be reset in the future?

A. Subsequent to the initial rate period, the UCB/POR Program Charge will be determined annually for the program year of June 1 through May 31 of the following year. Subsequent to the initial rate period, the UCB/POR

Program Charge will include costs which result from the reconciliation mechanism described below.

Q. Please describe the reconciliation of costs recovered through the UCB/POR Discount Rate.

A. There will be a reconciliation mechanism for the uncollectible costs, the billing system implementation and POR start-up costs and the ongoing administrative costs. The first reconciliation period will cover the period starting with the effective date of the tariff through December 2011. The second reconciliation period will cover calendar years 2012 and 2013. Subsequent reconciliations will occur annually thereafter. The reconciliation mechanism will help ensure that AIU recovers the incremental costs associated with providing UCB/POR service.

According to SB 1299, the tariff filed pursuant to Section 16-118 (c) “shall permit the electric utility to recover from retail customers any uncollected receivables that may arise as a result of the purchase of receivables under this subsection (c)…” Accordingly, AIU proposes that the actual annual uncollected receivables related to the purchase of the RES UCB/POR Program receivables be tracked each year and compared to the calculated amount for uncollectibles based on the UCB/POR discount rate uncollectible cost component. Any variance, either positive or negative, between the actual uncollected receivables experienced from the UCB/POR Program and the calculated amount of uncollectible cost based on the uncollectible component of the UCB/POR discount rate will be recovered from or credited back to eligible retail customers via the Supplemental Customer Charge (Factor UR of the UCB/POR Program Charge).

SB 1299 also states that the tariff filed pursuant to subsection 16-118 (c) and 16-118(d) shall provide for the recovery of prudently incurred costs associated with the provision of the service. The recovery of the primarily billing system related implementation costs associated with the provision of UCB/POR is assigned 25% to be collected from RES through the discount rate and 75% to be collected from eligible delivery service customers through the Supplemental Customer Charge. The proposed tariff includes a reconciliation mechanism related to billing system related implementation cost. Any variance, either positive or negative, between the actual and projected recovery of such billing system implementation costs via the UCB/POR discount rate will be recovered from or credited to eligible delivery service customers through the Supplemental Customer Charge (through the ARA component of Factor USC of the UCB/POR Program Charge) after the first reconciliation period which extends through December 2011. At the end of the first reconciliation period, the estimate of customer participation in UCB/POR may be revised based on updated forecasts of customer switching. The result of this analysis could be used to update the billing system implementation costs included in the determination of the UCB/POR discount rate on a prospective basis. A second reconciliation period will include the calendar years 2012 through 2013. Under the provisions of the proposed tariff, the recovery of billing system related implementation costs from RES will not extend beyond a five-year period. Ultimately, any unrecovered billing system related implementation costs at the end of the five-year period will be recovered from eligible delivery service customers via the Supplemental Customer Charge. It is AIU’s expectation that this will not be necessary and that the billing system related implementation costs will in fact be fully recovered within the five-year period.

The primarily POR related start-up costs will be recovered through the RES discount rate. The portion of the total start-up costs primarily related to POR is estimated to be quite small, at this point around 5% or less of the total billing system implementation and POR start-up costs. There is a reconciliation mechanism proposed to manage variance between actual and calculated recovery of POR related start-up cost. In the event that actual recovery exceeds calculated recovery after the first reconciliation period, the excess amount will be used to reduce the unrecovered balance of POR start-up costs. If actual recovery is less than calculated, the under-recovery will be deferred until December 31, 2014, the end of the five-year period. At that time, any variance, either positive or negative, between the actual and calculated recovery of unrecovered POR start-up costs will be flowed through to eligible customers via the Supplemental Customer Charge (via the ARA component of factor USC included in the UCB/POR Program Charge). Once POR start-up costs are fully recovered this component will be removed from the UCB/POR discount rate and the Supplemental Customer Charge.

The final reconciliation mechanism is related to the Ongoing Administrative Cost incurred by AIU as a result of the provision of the UCB/POR service. Any variance, either positive or negative, between the amounts that the Company actually recovers and the calculated recovery of Ongoing Administrative Cost via the UCB/POR discount rate will be recovered from or credited to eligible customers via the Supplemental Customer Charge (via the OAR component of the UCB/POR Program Charge).

Q. When will payments be remitted to the RES for the purchase of UCB/POR receivables?

A. Remittance of the amount due to RES will be provided no later than one day following the customer's due date. Currently and for standard customers, this would be 22 days for residential customers and 15 days for non-residential customers from the date the AIU sends the bill to the customer. The AIU does have some customers on Preferred Payment Schedules and these customers have non-standard due dates. Some residential customers have due dates 30 days after the bill is sent. Some governmental customers have due dates 45-60 days after the bill is sent. Remittance to RES for customers with Preferred Payment Schedules will be no later than one day after those particular customers' due dates, which would be longer than the 22 and 15-day period for standard residential and non-residential customers, respectively.

Q. How does the UCB/POR Program propose to handle RES customers who fail to pay their bills underlying the purchased receivables?

A. Under the proposed tariff, AIU will apply the same collection treatment to the customers billed under the UCB/POR Program as the AIU applies to its own charges. This is consistent with Section 16-118(c) of the Act which states, “The electric utility retains the right to impose the same terms on retail customers, with respect to credit and collection, including request for deposits, and retain the electric utility’s right to disconnect the retail customers, if it does not receive payment for its tariffed services or purchased receivables, in the same manner that it would be permitted to if the retail customers purchased power and energy from the electric utility.”

Q. Is the termination provision an important part of the UCB/POR Program?

A. Yes. The termination provision is an integral part of the UCB/POR Program. The level of the discount rate that AIU applies to the RES receivables was determined based upon the AIU’s own uncollectible experience as approved by the ICC in the recent delivery services rate cases. That uncollectible amount is based on the AIU’s ability to terminate customers who fail to pay. Using the same uncollectible experience as a basis for the RES discount rate is only appropriate if AIU has the ability to terminate RES customers that fail to pay their bills on the same non-discriminatory basis as its fixed price power supply service customers. If the termination provision did not exist, the level of the discount applied to the RES receivables would have to be considerably higher. This, of course, would make the UCB/POR Program a much less attractive option for RES, which would defeat the purpose of SB 1299. A UCB/POR Program that does not include the right to terminate service to RES customers for failure to pay is not acceptable to AIU.

Q. What other protections were built into the design of the proposed UCB/POR Program?

A. The Program as described in the Supplier Terms and Conditions contains provisions to protect AIU from potential RES behavior that would expose the it to substantial risk. Certain RES could adopt marketing strategies or other actions that would exploit the Program for the individual RES' financial gain. Specifically, RES who elect to participate in the Program will have to include all its customers within one of two customer subgroups in the Program. The two customer subgroups are:

- Group A = includes customers served on DS-1, DS-2 and DS-5
- Group B = includes customers served on DS-3a (less than 400 NCP demand)

For example, if a RES has customers served on DS-1 that it wants to include on the UCB/POR Program then all the DS-1 customers served by that RES must be included on the UCB/POR Program. However, if that RES has customers served on DS-3a, those customers may be billed using dual billing or the Single Billing Option ("SBO"). This provision offers AIU a measure of protection from the possibility that a RES would credit check the DS-1 and DS-2 customers, keep the good paying customers and put the bad paying customers on the UCB/POR Program. This could have a negative impact on AIU's average uncollectibles. This provision also materially reduces the administrative process of managing the Program.

In addition, RES will be required to provide sixty days notice of intent to participate in the UCB/POR Program. The initial contract term is twelve months; thereafter, a RES can terminate participation in the UCB/POR Program with sixty days written notice. (The termination notice is only required for the entire Program and not for individual customers.) Upon such termination, the RES will not be eligible to participate in the UCB/POR Program for twelve months. This provision is to prevent RES from participating in the Program during certain seasons when customers generally pay their bills in a timely fashion or when AIU has a cut moratorium and then dropping out of the Program when customers generally have a harder time paying their bills. This provision will also reduce the administration burden of the Program.

Finally, a RES will not be permitted to move an existing RES customer from dual billing or SBO to UCB/POR service if that customer has an unpaid balance for delivery service from AIU which is greater than sixty days past due. When the arrearage for that customer has cleared, the customer will then be placed on UCB/POR if it is served by a RES with other customers in the same Subgroup on the UCB/POR Program. This provision will protect AIU from taking on RES bad debt associated with a time frame when AIU was not providing commodity supply to that customer.

Q. How will AIU avoid double recovery of costs associated with the UCB/POR Program?

A. The actual uncollected receivables resulting from the purchase of RES receivables under the UCB/POR Program will be tracked. The actual uncollectibles experienced from the Program will be compared to the calculated uncollectibles cost included in the discount rate and any variance, either positive or negative, will be credited to or recovered from customers, as the case may be. The incremental billing system implementation and POR start-up cost incurred to make the billing system and business process changes necessary to implement the UCB/POR Program will be tracked. The actual recovery of billing system implementation and POR start-up costs, including those costs associated with the purchase of receivables and with improvements to the delivery service customer billing system, will be compared to the calculated recovery of billing system implementation and POR start-up costs at set reconciliation periods. Any variance, either positive or negative, between the actual and the calculated recovery of billing system implementation and POR start-up cost will be credited to or recovered from eligible customers as the case may be at the end of established reconciliation periods.

The billing system implementation costs and POR start-up costs are incremental costs. In order to ensure that the costs are incremental, AIU is only seeking to recover capital costs in this tariff. Operation and maintenance expenses are excluded from the cost recovery calculation due to the difficulty of segregating incremental costs from existing operation and maintenance expenses. For example, AIU has not sought to include costs associated with in-house regulatory professionals' time, such as myself, due to the fact that these expenses are already included in base rates. By limiting proposed recovery to capital costs, incremental capital investment incurred to provide UCB/POR service will be segregated to prevent inclusion in cost of service in future rate cases. Once the billing system implementation and POR start-up costs are fully recovered, those charges will be terminated.

NEXT STEPS

Q. Does AIU envision future tariff filings stemming from SB 1299?

A. Yes. The instant filing can be viewed as a building block toward the goals presented by SB 1299. Senate Bill 1299 mandates a number of provisions in addition to UCB/POR service. Some of those additional provisions are the subject of current workshop agendas and others have yet to be addressed at anything but a cursory level. The development of retail choice for all customers is an incremental process. AIU intends to continue to actively participate in the workshop process and fully cooperate in implementing the provisions deemed appropriate by the relevant parties to the process.

Q. Does this conclude your testimony?

A. Yes.