STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS LIGHT COMPANY	**)**
d/b/a AmerenCILCO	**)**
	) Docket No. 08-0619
CENTRAL ILLINOIS PUBLIC SERVICE	**)**
COMPANY d/b/a AmerenCIPS	**)**
	) Docket No. 08-0620
ILLINOIS POWER COMPANY d/b/a	**)**
AmerenIP	**)**
	) Docket No. 08-0621
Proposal to implement a combined Utility	**)**
Consolidated Billing (UCB) and Purchase of	**)**
Receivables (POR) service	**)**

REBUTTAL TESTIMONY OF CHRISTOPHER C. THOMAS ON BEHALF OF THE CITIZENS UTILITY BOARD

CUB EXHIBIT 4.0

March 24, 2009

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christopher C. Thomas. My business address is 309 W. Washington, Suite 800, Chicago, IL 60606.

Q. ARE YOU THE SAME CHRISTOPHER C. THOMAS THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. My testimony responds to the Rebuttal Testimony filed by the Ameren Illinois Utilities ("AIU" or "Ameren") and to portions of the Direct Testimony filed by Staff of the Illinois Commerce Commission ("Staff") and Intervenors. Specifically, AIU witness Pearson argues that my proposed Fair Cost Allocation Adjustment ("FCAA") would allow Ameren to over recover 75% of UCB implementation costs. I respond to this assertion and propose two alternatives to correct this perceived deficiency:

(1) The Illinois Commerce Commission ("Commission") could shorten the initial rate period, or

(2) The Commission could combine the FCAA with the "Balance Factor" proposed by Staff witness Torsten Clausen.

Both of these approaches address Ms. Pearson's concern and ensure that the FCAA is a mechanism that allows retail electric suppliers ("RES") access to utility billing and collection systems, these approaches send an accurate price signal for these services, allow AIU to recover its costs in a timely manner, and do not impose unjust costs on consumers.

II. POTENTIAL OVER-RECOVERY UNDER THE FCAA

Q. AMEREN WITNESS, MS. PEARSON, ARGUES THAT UNDER YOUR PROPOSED FCAA, AIU WOULD BE RECOVERING 75% OF UCB IMPLEMENTATION COSTS FROM BOTH ELIGIBLE RETAIL CUSTOMERS AND RES DURING THE INITIAL RATE PERIOD. AMEREN EX. 4.0 AT 16, LL. 374-377. DO YOU AGREE WITH THIS ASSERTION?

A. Not completely. AIU's recovery of costs from the RES community is dependent upon supplier usage of the UCB and POR service. Because we do not yet know how many RES will participate, both the usage of the service and therefore the cost recovery is uncertain. Thus, if suppliers do not use the UCB/POR service as the company has projected, then AIU will only be recovering 75% of UCB implementation costs from eligible retail customers. It is possible that if suppliers are using the UCB/POR service, then the Companies will be collecting some portion of UCB Start-Up Costs twice. However, it is important to note that AIU is not technically over-recovering these costs, it is simply collecting this money and holding it for customers. The FCAA includes a mechanism to ensure that after the initial rate period ends in May 2012, the monies collected from suppliers for UCB Start-Up Costs are refunded to customers. The FCAA mechanism only proposes that Ameren hold the monies it receives for UCB Start-Up Costs from suppliers and refund them with interest to eligible customers after the initial rate period. This mechanism was designed to ensure that Ameren recovers its costs to provide the UCB service, while also ensuring that customers are not subsidizing supplier entry into the market.

Q. IF THE ILLINOIS COMMERCE COMMISSION IS CONCERNED ABOUT POTENTIAL OVER-RECOVERY, HOW CAN THE FCAA BE MODIFIED?

A. There are two possible solutions. First, the Commission could simply shorten the initial rate period and minimize the lag between AIU's collection of UCB implementation costs from suppliers and the refund provided to customers through the FCAA. This mechanism would be the simplest, but it will result in a discount rate that changes more frequently. Many parties in this case have argued that the discount rate must be stable to encourage supplier entry.

Second, if the Commission is interested in maintaining a stable discount rate, then the alternative solution is to combine the FCAA mechanism with the "Balance Factor" proposed by Staff witness Torsten Clausen.

Q. PLEASE BRIEFLY DESCRIBE STAFF WITNESS CLAUSEN'S PROPOSED "BALANCE FACTOR".

A. Mr. Clausen has testified that stability in the discount rate is a desirable characteristic. In order to maintain this stability, he has proposed a "Balance Factor" which provides some "cushion" to provide stability in the discount rate in the event that AIU's uncollectibles expense increases in its next rate case. Staff Ex. 3.0 at 11-12, LL. 219-238.

Q. COULD YOUR PROPOSED FCAA BE COMBINED WITH MR. CLAUSEN'S PROPOSED BALANCE FACTOR? IF YES, PLEASE EXPLAIN HOW THIS WOULD BE ACCOMPLISHED.

A. Yes. In fact, from my perspective, combining the FCAA with Mr. Clausen's proposed Balance Factor would improve his proposal by ensuring that all excess revenue collected from suppliers would ultimately be refunded to customers. To accomplish this, the Commission should add the FCAA to Ameren's tariffs, but should modify the language to incorporate Mr. Clausen's Balance Factor. This approach requires redefining the FCAA to include Mr. Clausen's Balance Factor, as shown below (the underlined language is my initial proposal, and the bold and underlined language incorporates Mr. Clausen's Balance Factor approach.)

Ill. C.C. No. 18
3rd Revised Sheet No. 5.023
Purpose of Change: Define the Terms of the FCAA Component

Fair Cost Allocation Adjustment (FCAA)

FCAA = FCA/EPR

FCA= the fair cost allocation factor is the total amount of UCB/POR Program Charge revenues, including interest, that have been charged to eligible customers, but have not been recovered from suppliers.

EPR is defined in the USD calculation

The initial rate period is June 2009 through May 2012. The FCA shall be based on the three year simple average of the expected UCB/POR Program Charge, including interest at the AIU weighted cost of capital. Subsequent to the initial rate period, the FCA will be determined annually for the UCB/POR Program year of June through May of the subsequent year**. During the initial rate period, in order to maintain stability in the discount rate, revenue collected through the FCA will first be applied towards any underrecovery of other four components of the discount rate in the following order: 1) the uncollectible component (UDC); 2) POR Start-Up Costs (PSD); 3) UCB Start-Up Costs (USD); and 4) ongoing administrative cost (OAdm): such that FCA = UDR - UDC – USD – PSD - Oadm. Subsequent to the initial rate period all remaining revenue will be returned to customers through the Automatic Reconciliation Adjustment (ARA) portion of the UCB/POR Program Start-Up Costs assigned to Eligible Retail Customers (USC).**

Q. IF THE COMMISSION ADOPTS THIS MECHANISM, HOW SHOULD THE INITIAL DISCOUNT RATE BE SET?

A. Mr. Clausen recommends that the initial level of the discount rate be set at 1.5%, which results in an initial balance factor of 0.41% under Staff's proposal. ICC Staff Ex. 3.0 at 11, LL.232-233. I believe that this discount rate will not send a clear price signal to RES. Instead, the Commission should set the discount rate as I have proposed through the FCAA. Ms. Pearson has calculated that this would result in a discount rate of 1.63%. Ameren Ex. 4.0 at 17, LL. 381-385. This would increase the cushion to 0.54%. Of course, if Staff witness Phipps' proposal, which I support, on the cost of capital for UCB/POR investments is adopted then this factor will decrease accordingly.

Q. HOW DOES THIS INITIAL DISCOUNT RATE AFFECT THE OVERALL PROGRAM?

A. This initial discount rate will ensure that the discount rate remains stable during the initial rate period, and will ensure that both Ameren and eligible retail customers are made whole for the costs they incur.

Q. ARE THERE ANY OTHER CONSIDERATIONS THAT MUST BE ANALYZED IF THE COMMISSION ADOPTS BOTH THE FCAA AND THE BALANCE FACTOR?

A. Yes. Mr. Clausen has proposed that if the Commission allocates a larger share of start-up costs to suppliers through the discount rate, then it should consider adopting a seven year cost recovery period or keeping a positive Balance Factor beyond the five year cost recovery period. (Staff Ex. 3.0 at 19, LL. 388-392). This is a reasonable proposal.

III. <u>RESPONSE TO AMEREN WITNESS PEARSON</u>

Q. MS. PEARSON STATES THAT YOU TESTIFIED THAT CUSTOMERS ARE BEING ASKED TO FOOT THE ENTIRE BILL FOR THE UCB/POR PROGRAM. (AMEREN EX. 4.0-REV AT 15, LL. 336-346). DO YOU ARGEE WITH THIS ASSERTION?

A. No. As I informed Ms. Pearson in CUB Response to Ameren DR1-1 the language that Ms. Pearson is referring to is an error in my testimony. This error has been corrected in an Errata that was filed on March 20, 2009.

Q. MS. PEARSON ARGUES THAT THE DEBATE ON THE BENEFITS OF A UCB/POR SERVICE WAS RESOLVED BY THE GENERAL ASSSEMBLY WHEN IT PASSED SB 1299, AND THEREFORE IS NOT AN ISSUE IN THIS DOCKET. (AIU EX. 4.0 AT 15-16, LL. 347-365). DO YOU AGREE?

A. No. While the General Assembly ordered the utilities to provide UCB and POR Programs when it passed SB 1299, it did not require the utilities to recover start-up costs from eligible customers. To the extent that AIU and the RES community seek to subsidize entry by charging eligible retail customers for some portion of UCB Start-Up Costs, these parties must demonstrate that the benefits to all eligible retail customers exceed the costs imposed on them. This simply has not been done.

Q. MS. PEARSON ARGUES THAT ADDING THE FCAA WOULD RESULT IN A UCB/POR DISCOUNT RATE OF APPROXIMATLY 1.63%, WHICH IS NEARLY 50% HIGHER THAN AIU'S PROPOSAL. AMEREN EX. 4.0-REV AT 17, LL. 381-385. IS THIS UNREASONABLE?

A. No. A lower discount rate would not represent good public policy because it would result in eligible retail customers subsidizing RES entry. As I have previously testified, it is simply unreasonable to ask eligible customers to subsidize the entry of RES. The

UCB/POR service allows RES to take advantage of the scale and scope of AIU's billing and collection systems. It is fair to ask RES to pay the costs for this service. Of course, the RES may choose to pass the cost along to customers.

Q. MS. PEARSON ARGUES THAT A HIGHER UCB/POR DISCOUNT RATE COULD CONCIEVEABLY INCREASE THE RISK THAT SOME RES WILL CHOOSE NOT TO PARTICIPATE IN THE UCB/POR PROGRAM. AMEREN EX. 4.0 AT 17, LL. 394-397. IS THIS A VALID CONCERN?

A. No. RES and ultimately their customers should bear the full cost of the UCB/POR Program. As I have testified, subsidizing RES entry into the retail market is poor public policy. In any event, it is doubtful that the addition of an average $667,631 ($566,403 in UCB Start-Up Costs + average interest at 8.45% for 3 years) in cost to enter a potential $111 million market would cause a crippling effect on RES entry. (Ameren Ex. 4.4 page 5)

Ms. Pearson also mistakenly argues that the Commission should only consider a discount rate "fair," if it does not discourage RES entry into the residential and small commercial market. Ameren Ex. 4.0-REV at 17-18, LL.401-403. I do not believe that subsidizing supplier entry is fair to eligible retail customers, who are being asked to bear the costs. As I have shown above, the costs in question amount to an average 0.60% of estimated RES receivables ($667,631/$111 million).

IV. RESPONSE TO DOMINION WITNESS BARKAS

Q. DOMINION RETAIL, INC. WITNESS WILLIAM L. BARKAS ARGUES THAT THE COMMISSION SHOULD COLLECT ALL UCB START-UP COSTS FROM ELIGIBLE RETAIL CUSTOMERS, BECAUSE THESE COSTS WOULD ONLY

ADD A SMALL AMOUNT TO EACH CUSTOMER'S BILL. (DRI EX. 1.0 AT 5, LL. 99-105). IS THIS AN IMPORTANT CONSIDERATION?

A. No. Whether costs are small or big, the consideration at issue is fairness to customers. Asking all customers to subsidize market entry for RES, when the service has not been shown to be provide benefits to all customers, is not fair. Accordingly, suppliers and potentially their customers should be responsible for these costs in order to ensure that entry into the market is efficient.

V. RESPONSE TO STAFF WITNESS PHIPPS.

Q. STAFF WITNESS MS. ROCHELLE PHIPPS ARGUES THAT THE RISK INHERENT IN THE RECOVERY OF UCB/POR PROGRAM COSTS IS MUCH LOWER THAN THE RISK INHERENT IN THE RECOVERY OF OTHER DELIVERY SERVICE ASSETS. STAFF EX. 2.0 AT 2, LL. 29-36. DO YOU AGREE?

A. Yes. AIU's proposed cost recovery mechanism does provide more certain revenue recovery than the traditional rate setting process. I agree with Ms. Phipps that this should equate to a lower cost of capital on the UCB/POR investments.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.