

DIRECT TESTIMONY

of

Gene Beyer

Public Utilities Bureau

Illinois Commerce Commission

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

Petition for Approval of Uncollectibles Riders

Docket No. 09-0399

November 6, 2009

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1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Gene Beyer. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

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

6 A. I am currently employed as the Bureau Chief of the Public utilities
7 Bureau of the Illinois Commerce Commission (“ICC” or “Commission”).

8 **Q. Please describe your professional background and affiliations.**

9 A. I earned a B.S. in Accountancy and an MBA from the University of Illinois
10 in 1977 and 1991, respectively. I was awarded the Certified Public
11 Accountant certificate in 1980. Prior to joining the Commission in May
12 1984, I worked for Laclede Gas Company in St. Louis, Missouri, for
13 seven years. While at the Commission, I have held various positions in
14 the Accounting Department, the Public Utilities Division, the
15 Telecommunications Division, and the Public Utilities Bureau.

16 **Purpose of Testimony**

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. The purpose of my testimony is to address the Ameren Illinois Utilities’
19 (“AIU” or “the Companies”) position expressed in Response to ICC Staff
20 Data Request TEE 1.07.

21 **Q. What request was made in Staff Data Request TEE 1.07?**

22 A. Staff Data Request TEE 1.07 reads as follows:

23 The Factor BDU – Base Delivery Services Uncollectible amounts for
24 both Rider EUA and Rider GUA are based on “the annual bad debt
25 expense amount approved and included in the revenue requirements
26 used to establish Company’s base rates by the Commission”. The
27 Factor SRU – Supply Related Uncollectible amounts for Rider GUA is
28 similarly defined. Explain how the bad debt expense amount included
29 in the revenue requirement approved by the Commission represents
30 “amounts collected” for recovery of uncollectibles costs as discussed
31 in part 16-111.8(c) and 19-145(c) of the Public Utilities Act.
32

33 **Q. What was the Companies’ response?**

34 A. Company Witness Robert J. Mill responded as follows:

35 The BDU factor in Rider EUA and Rider GUA is appropriately based
36 on Sections 16-111.8(a) and 19-145(a) of the Public Utilities Act,
37 where the basic construct of an automatic adjustment clause for
38 uncollectibles is set forth as follows: “(a) An electric utility shall be
39 permitted, at its election, to recover through an automatic adjustment
40 clause tariff the incremental difference between its actual
41 uncollectible amount as set forth in Account 904 in the utility’s most
42 recent annual FERC Form 1 and the uncollectible amount included in
43 the utility’s rates for the period reported in such annual FERC Form 1”
44 (emphasis added). The above reference to FERC Form 1 changes to
45 a reference to Form 21 ILCC in section 19-145(a) of the Act.
46

47 The reference in the question above to part 16-111.8(c) and 19-
48 145(c) of the Public Utilities Act is mis-directed. That subsection is the
49 source of the reconciliation process required by the law and is not the
50 basis of the “automatic adjustment clause tariff” nor does it define the
51 “incremental difference” which can be recovered via the tariff.
52

53 The Rider EUA and Rider GUA formulas (specifically the BDU factor)
54 and their references to the “amount approved and included in
55 revenue requirements used to establish Company’s base rates by the
56 Commission” correctly reflect the intent of the law as understood by
57 the AIUs’ representative Craig Nelson, a member of the SB1918
58 negotiating team, an understanding shared by other Illinois utility
59 participants involved in the direct negotiations of these provisions
60 within SB1918. This understanding of the intent of the law is further
61 memorialized by the Q&A prepared by the SB 1918 drafting team to

62 be used with legislators to explain the uncollectible rider provisions in
63 the legislation, attached hereto as TEE 1.07 Attach. For example, the
64 Q&A states in part:

65
66 “When rates are set in a rate case, the amount of bad debt expense
67 the utility collects basically stays the same until the next rate case –
68 regardless of whether the real amount of bad debt goes up or down.”

69
70 This sentence can only be interpreted to mean the following – the
71 amount approved and included in the revenue requirement by the
72 Commission is what “stays the same” and it is the actual bad debt
73 expense, as recorded in account 904, that “goes up or down”.

74
75 The statute and the Q&A are quite consistent and both make it very
76 clear that it is the difference between this “stays the same” amount
77 and the “goes up or down” amount that is recovered through the rider.
78

79 The data request and response are attached hereto as Attachment A.

80

81 **Q. Are you addressing the Companies’ complete response to Staff**
82 **data request TEE 1.07?**

83 A. No, I will address only the third through sixth paragraphs of the
84 response.

85

86 **Q. The Companies’ response to Staff data request TEE 1.07 states in**
87 **the third paragraph:**

88 **The Rider EUA and Rider GUA formulas (specifically the BDU**
89 **factor) and their references to the “amount approved and**
90 **included in revenue requirements used to establish Company’s**
91 **base rates by the Commission” correctly reflect the intent of the**
92 **law as understood by the AIUs’ representative Craig Nelson, a**
93 **member of the SB1918 negotiating team, an understanding**
94 **shared by other Illinois utility participants involved in the direct**
95 **negotiations of these provisions within SB1918.**

96

97 **Does your understanding of the BDU factor and references to the**
98 **“amount approved and included in revenue requirements used to**
99 **establish Company’s base rates by the Commission” correspond**
100 **with the understanding of Mr. Nelson and the other Illinois utility**
101 **participants as indicated by Company Witness Robert J. Mill?**

102 A. No. I do not share that understanding nor do I believe that the tariff
103 language reference to the “amount approved and included in revenue
104 requirements used to establish Company’s base rates by the
105 Commission” is the correct implementation of the language in Sections
106 16-111.8(a) and 19-145(a) of the Public Utilities Act (“PUA”) which refers
107 to “the uncollectible amount included in the utility’s rates.” Staff Witness
108 Ebrey fully explains Staff’s position on implementation of this language.

109 **Q. The Companies’ response to TEE 1.07 also included an attachment**
110 **identified as “TEE 1.07 Attach” that you have included with this**
111 **testimony as Attachment B. The third and fourth paragraphs of the**
112 **Companies’ response to TEE 1.07 refer to that attachment as noted**
113 **here:**

114 **This understanding of the intent of the law is further**
115 **memorialized by the Q&A prepared by the SB 1918 drafting team**
116 **to be used with legislators to explain the uncollectible rider**
117 **provisions in the legislation, attached hereto as TEE 1.07 Attach.**
118 **For example, the Q&A states in part:**

119
120 **“When rates are set in a rate case, the amount of bad debt**
121 **expense the utility collects basically stays the same until the**
122 **next rate case – regardless of whether the real amount of bad**
123 **debt goes up or down.”**
124

125 **Please comment on that portion of the “Q&A prepared by the SB**
126 **1918 drafting team.”**

127 A. The questions and answers prepared by the “SB 1918 drafting team”
128 were provided to me for my review. The original language in the
129 referenced question and answer read:

130 **What would change if the legislation is passed?**

131 When rates are set it [sic] a rate case, the amount the utility is
132 allowed to collect stays the same until the next rate case – regardless
133 of whether the real amount of bad debt goes up or down. This
134 legislation requires that the amount a utility recovers for bad debt be
135 adjusted so that customers pay no more and no less than [sic] what
136 the bad debt actually is.

137
138 I edited that question and answer into its final form except for one
139 subsequent edit to eliminate duplicate words.

140

141 **Q. Please identify and explain the substantive changes you made to**
142 **the aforementioned question and answer.**

143 A. I made the following changes:

144 • Changed “the amount the utility is allowed to collect” to “the
145 amount of bad debt expense the utility collects.” The purpose of
146 this change was to distinguish between (a) an amount the
147 Commission allows, or orders, to be factored into the utility’s rates
148 established at the conclusion of a rate case and (b) an amount the
149 utility actually “collects” from customers. This change is
150 consistent with Staff’s position that Factors DUR and SUR should

151 be based on amounts actually charged to customers and not the
152 amount used to determine rates.

153 • Included the word “basically” to signify that the amount collected
154 from customers is not a fixed amount. Thus, “the amount of bad
155 debt expense the utility collects basically stays the same” means
156 the while the total amount charged to from customers will vary
157 with changes in sales and the number of customers, it probably
158 will not swing wildly, so it will basically, but not exactly, stay the
159 same.

160 • Edited various parts of the second sentence to (a) clarify that a
161 utility is permitted, not required, to establish a bad debt rider, (b)
162 modify but retain the intent of language that specifies the rider
163 calculation begins with amounts charged to customers, and not
164 with a fixed amount that was used to establish rates in a previous
165 rate case, and (c) modify, while retaining a key component of the
166 legislation, language that specifies customers are to pay no more
167 and no less than the actual bad debt expense. The Companies’
168 interpretation does not enforce this “no more and no less”
169 provision of the law.

170 The question and answer document showing my edits is attached as
171 Attachment C.

172 **Q. In lines 140 and 141, above, you refer to editing the question and**
173 **answer into its final form – except for one subsequent edit to**
174 **eliminate duplicate words. Please describe that subsequent edit.**

175 A. While revising the answer, as described earlier, I included the words
176 “allows the utility to adjust” and failed to delete similar words later in that
177 sentence which read “to be adjusted.” A subsequent drafter, after
178 accepting my suggested revisions, correctly noted the need to delete the
179 second reference to “adjusting” bad debts. I do not disagree with that
180 subsequent edit. The correction did not affect the significance or change
181 the meaning of my suggested wording.

182

183 **Conclusion**

184 **Q. Please summarize your position regarding the Companies’**
185 **response to TEE 1.07.**

186 A. I disagree with the Companies’ statement that their rider formulas and
187 tariff language “correctly reflect the intent of the law.” I also participated
188 in the SB 1918 discussions, and my purposeful edits to the question and
189 answer document clearly support Staff’s understanding that the rider
190 formula is to be based upon amounts included in rates charged to
191 customers rather than the test year fixed amount used to establish rates.

192

193 **Q. Does this question end your prepared direct testimony?**

194 A. Yes.

**The Ameren Illinois Utilities'
Response to ICC Staff Data Requests
Docket No. 09-0399
Petition for Approval of Uncollectibles Riders
Response Date: 9/21/2009**

TEE 1.07

The Factor BDU – Base Delivery Services Uncollectible amounts for both Rider EUA and Rider GUA are based on “the annual bad debt expense amount approved and included in the revenue requirements used to establish Company’s base rates by the Commission”. The Factor SRU – Supply Related Uncollectible amounts for Rider GUA is similarly defined. Explain how the bad debt expense amount included in the revenue requirement approved by the Commission represents “amounts collected” for recovery of uncollectibles costs as discussed in part 16-111.8(c) and 19-145(c) of the Public Utilities Act.

RESPONSE

Prepared By: Robert J. Mill
Title: Director, Regulatory Policy and Rates
Phone Number: 314-554-3734

The BDU factor in Rider EUA and Rider GUA is appropriately based on Sections 16-111.8(a) and 19-145(a) of the Public Utilities Act, where the basic construct of an automatic adjustment clause for uncollectibles is set forth as follows: “(a) An electric utility shall be permitted, at its election, to recover through an automatic adjustment clause tariff the incremental difference between its actual uncollectible amount as set forth in Account 904 in the utility's most recent annual FERC Form 1 and the uncollectible amount included in the utility's rates for the period reported in such annual FERC Form 1” (emphasis added). The above reference to FERC Form 1 changes to a reference to Form 21 ILCC in section 19-145(a) of the Act.

The reference in the question above to part 16-111.8(c) and 19-145(c) of the Public Utilities Act is mis-directed. That subsection is the source of the reconciliation process required by the law and is not the basis of the “automatic adjustment clause tariff” nor does it define the “incremental difference” which can be recovered via the tariff.

The Rider EUA and Rider GUA formulas (specifically the BDU factor) and their references to the “amount approved and included in revenue requirements used to establish Company’s base rates by the Commission” correctly reflect the intent of the law as understood by the AIUs’ representative Craig Nelson, a member of the SB1918 negotiating team, an understanding shared by other Illinois utility participants involved in the direct negotiations of these provisions within

SB1918. This understanding of the intent of the law is further memorialized by the Q&A prepared by the SB 1918 drafting team to be used with legislators to explain the uncollectible rider provisions in the legislation, attached hereto as TEE 1.07 Attach. For example, the Q&A states in part:

“When rates are set in a rate case, the amount of bad debt expense the utility collects basically stays the same until the next rate case – regardless of whether the real amount of bad debt goes up or down.”

This sentence can only be interpreted to mean the following – the amount approved and included in the revenue requirement by the Commission is what “stays the same” and it is the actual bad debt expense, as recorded in account 904, that “goes up or down”.

The statute and the Q&A are quite consistent and both make it very clear that it is the difference between this “stays the same” amount and the “goes up or down” amount that is recovered through the rider.

SB 1918 Questions and Answers --Utility Bad Debt Legislation

What is “bad debt”?

Bad debt expense, also referred to as “uncollectibles”, represents the amount of a bill for utility service that customers do not pay. All businesses have bad debt expense. It is an ordinary cost of doing business and the bad debt expense must be recovered through the price that businesses charge for their products and services.

Why do utilities have bad debt expense – can’t they just disconnect customers who do not pay?

At certain times of the year (essentially during warm weather for gas customers) utilities may disconnect customers who do not pay their bills. The utilities, like all other businesses, work to identify customers who are at risk for non-payment and take steps to minimize the amount of debt that piles up. But bad debt cannot be avoided – service is provided before payment is due, and by the time a customer is disconnected, at least several months’ of bills are usually past due. In the winter, when a utility is prohibited by law from disconnecting, the amount may be very high.

How do utilities recover bad debt expense now?

They recover it through the rates they charge for electric and gas service. It is one of the costs that is included when rates are determined by the Commerce Commission.

What would change if the legislation is passed?

When rates are set in a rate case, the amount of bad debt expense the utility collects basically stays the same until the next rate case – regardless of whether the real amount of bad debt goes up or down. (emphasis added for purposes of response to TEE 1.07) This legislation allows the utility to adjust the amount recovered for bad debt expense so that customers pay no more and no less than the actual bad debt expense.

How will this impact customers’ bills?

It will vary by company depending on the amount of bad debt expense currently included in rates compared to the company’s actual bad debt expense. For ComEd, Nicor Gas and Ameren Illinois, the customers will initially see an increase, and the amount will depend upon the timing of the companies’ last rate case, the effects of the downturn in the economy, and other factors. On the plus side, an improvement in the economy may cause bad debt expense to go down and customers will see a corresponding reduction in their bills.

For utilities that have recently had rate cases, like Peoples Gas and North Shore Gas, the impact may be minimal because their rates reflect the current level of bad debt.

How will we make sure that utilities continue to do everything they can to minimize the amount of bad debt expense?

The statute would require them to continue to work the same way they do today to minimize the bad debt. To ensure that they do, the ICC will conduct a prudence review every year for each utility to make sure each is doing what it should do to minimize bad debt. If they are not, they can be prohibited from recovering any portion of the expense deemed imprudent.

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When rates are set in a rate case, the amount of bad debt expense the utility is allowed to collect basically stays the same until the next rate case – regardless of whether the real amount of bad debt goes up or down. This legislation allows ~~requires that~~ the utility to adjust the amount a utility recovered for bad debt expense to be adjusted so that customers pay no more and no less than the actual ~~what the~~ bad debt expense ~~actually is~~.

How will this impact customers’ bills?

It will vary by company depending on the amount of bad debt expense currently included in rates compared to the company’s ~~on~~ actual bad debt expense. For ComEd and Ameren Illinois, the customers will initially see an increase, and the amount will depend upon the timing of the companies’ last rate case, the effects of the downturn in the economy, and other factors. ~~experience but, right now, because of the economy, bad debt is higher than it has been recently so for some utilities, like ComEd and Ameren, there will be an initial increase.~~ On the plus side, an improvement in the economy may cause ~~However, when the economy improves, bad debt expense should to go down and customers will see~~ have a corresponding reduction in their bills.

For utilities that have recently had rate cases, like Nicor Gas, Peoples’s Gas and North Shore Gas, the impact, if any, should be minimal because their rates reflect the current level of bad debt.

How will we make sure that utilities continue to do everything they can to minimize the amount to bad debt?

The statute would require them to continue to work the same way they do today to minimize the bad debt. To ensure that they do, the ICC will hold a prudence review every year for each utility to make sure each is doing what it should ~~be do~~ to minimize bad debt. If they are not, they can be prohibited from recovering any portion of the expense deemed imprudent.