STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company d/b/a AmerenCILCO	:	**09-0306, 09-0309**
Central Illinois Public Service Company d/b/a AmerenCIPS	:	**09-0307, 09-0310**
Illinois Power company d/b/a AmerenIP	:	**00-0308, 09-0311**
Proposed general increase in delivery service rates.	:	**(Consolidated)**

BRIEF ON EXCEPTIONS ON BEHALF OF THE CITIES OF CHAMPAIGN, URBANA, DECATUR, AND BLOOMINGTON AND THE TOWN OF NORMAL

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The Cities of Champaign, Urbana, Decatur, and Bloomington and the Town of Normal (Cities, Local Governmental Intervenors or LGI) file this Brief on Exceptions (BOE) to the Proposed Order (PO) with proposed substitute language attached as an appendix.

The LGI addressed several areas in this Docket and they will be discussed in this BOE.

First, the LGI raised general concerns about AmerenIP's system maintenance. The Cities found that the dollar level of maintenance for the AmerenIP system is declining and asked for increased monitoring of repairs. LGI also are concerned about the timetable for completing the remediation of violations of the National Electric Safety Code (NESC) and expediting the completion of items identified by the Liberty Report. As to these recommendations, the PO agrees that the timeframe for the NESC remediation could be improved, finds several open issues with AmerenIP's maintenance, but declines to order further monitoring as requested by LGI. The LGI are also concerned about AmerenIP's attention to its aging infrastructure. The

Cities found that approximately 12 percent of the AmerenIP system is older than its expected life. Yet, AmerenIP has no program in place to identify or address such assets. The PO is not responsive to LGI's recommendations that AmerenIP should implement a program to identify, prioritize and address the need to replace aged assets on a case-by-case basis.

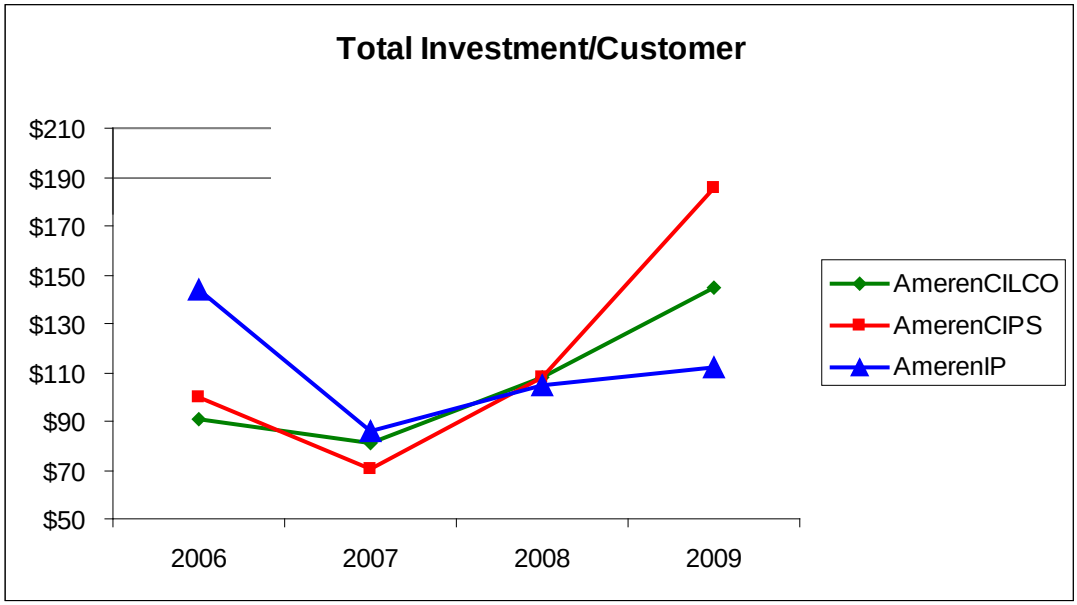
Second, the Cities continue their pursuit of a uniform fixture charge for the DS-5 Lighting Service rates across the three Ameren electric utilities. These fixtures are the arms and lamps of street lights installed and maintained by Ameren. The PO approves Ameren's continuing movement toward a uniform fixture charge but appears to back away from the Commission's earlier declaration that Ameren-wide uniform charges should be the ultimate goal.

EXCEPTION NO. 1

THE COMMISISON SHOULD INCREASE ITS MONITORING OF AMERENIP TO ENSURE THAT MAINTENANCE IS PERFORMED ON A TIMELY BASIS, THAT NESC VIOLATIONS ARE CORRECTED, AND THE LIBERTY REPORT'S RECOMMENDATIONS ARE IMPLEMENTED. IN ADDITION, THE COMMISSION SHOULD REQUIRE AMERENIP TO TRACK THE AGE OF ITS ASSETS.

In its testimony, the Cities did not propose any dollar adjustments to AmerenIP's operations and maintenance expenses but has request that the Commission require AmerenIP to address maintenance problems. Steven F. Brodsky testified that over the past four years, AmerenIP has reduced the amount it spends on maintenance of it electric system. Between 2006 and 2009, "AmerenIP has decreased its total annual Maintenance Investments from $70,646,100 to $24,910,400, an overall reduction of approximately 65 percent. On a per customer basis, AmerenIP decreased its Maintenance Investments from $114 per customer to $40 per customer, an overall reduction of approximately 65 percent." Brodsky Direct, Cities Ex. 1.0 at 9/127-131. Conversely, maintenance investments for AmerenCILCO and AmerenCIPS increased in both the total dollars and per customer. "Between 2006 and 2009, AmerenCILCO's total investment per

customer increased by 60 percent and AmerenCIPS' total investment per customer increased by 96 percent. In contrast, AmerenIP's total investment per customer decreased by 22 percent over the same period." Brodsky Rebuttal, Cities Ex. 3.0 at 8/91-94. This is shown in the following chart from Mr. Brodsky's rebuttal testimony at 7:



In light of this trend, Mr. Brodsky asked that the ICC "investigate why AmerenIP has been reducing its Maintenance Investments." Brodsky Direct, Cities 1.0R at 10/141-142.

During 2007, the ICC Staff found 34,262 violations to the NESC on the AmerenIP system. During 2008 and 2009, AmerenIP corrected 30,564 of these violations, leaving 3,698 unresolved, of which 523 are within the LGI municipalities' boundaries. LGI's Mr. Brodsky testified that it was his "opinion that AmerenIP's failure to resolve all of its NESC violations is unnecessarily exposing its customers to potential harm." Brodsky Direct, Cities 1.0R 16/261-262. The failure to comply with NESC "could result in failures in AmerenIP's electric system, thereby reducing its electric reliability." *Id.* at 16/263-264.

The PO observes that the ICC Staff was critical of Ameren's "lengthening timelines" to correct NESC violations. PO at 91. This is similar to the concern raised by LGI's Mr. Brodsky, who stated, "it is my opinion that one overarching objective of the NESC is to promote public safety. Failure to adhere to the NESC compromises public safety." Brodsky Direct, Cities 1.0R 16/258-259.

The PO at 134 urges "AIU to correct its NESC violations as quickly as it can by using a systematic and thorough inspection process." In addition to urging AIU to correct the violations, however, the LGI requested that the Commission simultaneously increase its monitoring of AmerenIP's performance in this area.

Additionally, in 2008, the Commission received the Liberty Report, which contains the results of an independent investigation making 221 recommendations as to how Ameren could improve its system. As of September 2009, only 99 recommendations were completely implemented, 111 were incomplete, and Ameren had not identified any action plan for 11 other recommendations. The PO did not specifically address this issue.

The PO at 134 further recognizes the importance of monitoring AmerenIP's investment in operations and maintenance, noting that the "Commission, to some extent, shares LGI's concerns. The Commission concludes, however, that the specific recommendations of LGI regarding monitory and reporting are unnecessary at this time and those recommendations are hereby rejected."

As a final matter, the Cities recommended that AmerenIP keep track of the age of its assets, not just of general depreciation. As the assets age, "the likelihood of failures generally increases, thereby causing a reduction in electric reliability." Brodsky Direct, Cities Ex. 1.0 at 142-143. AmerenIP reports book deprecation to the Commission but not the actual physical age

of the equipment. There is no indication that AmerenIP attempts to study the age of its equipment. Brodsky Rebuttal, Cities Ex. 3.0 at 10/126-127. Since Mr. Brodsky believes that "AmerenIP should increase spending on the replacement of aged assets in order to provide reliable electric service to its customers," Brodsky Direct, Cities 1.0 at 13/210-211, it is critical that AmerenIP be able to identify such assets. As a result, the PO should direct AmerenIP "to implement a program to identify, prioritize and address the need to replace aged assets on a case-by-case basis." Brodsky Rebuttal, Cities 3.0 at 10/130-132. This recommendation is not contained in the PO.

The PO should be amended to incorporate the LGI's recommendations regarding O&M expenses, NESC violation remediation, and implementing the Liberty Report. Proposed substitute language is included as an appendix to this BOE.

EXCEPTION NO. 2

THE COMMISSION SHOULD NOT ABANDON ITS EARLIER ARTICULATED GOAL THAT LIGHTING FIXTURE COSTS SHOULD BE UNIFORM THROUGHOUT THE AMEREN SYSTEM.

The PO recommends accepting AIU's proposal in this Docket that continues the movement towards uniform fixture charges, which means reducing AmerenIP fixture charges and increasing AmerenCIPS fixture charges. While LGI agree with this movement, the LGI are concerned about the PO's language at 304:

> At the outset, the Commission needs to clarify that it does not necessarily expect Fixture Charges to someday be identical across the three electric utilities. The directive that the Commission gave AIU in its last rate proceeding for its next (this) rate proceeding is to "address the possibility of moving the light fixture charges toward a more similar charge among AmerenCILCO, AmerenCIPS and AmerenIP." (Docket Nos. 07-0585 et al (Cons.), Order at 359) The Commission does not want to give AIU the impression that it expects AIU to "force" identical

Fixture Charges into the DS-5 tariffs even if legitimate cost of service reasons warrant different treatment.

The PO misinterprets the conclusion in Docket Nos. 07-0585. In the previous docket, the finding was based upon the fact that AIU had earlier declared its intent to standardize some charges over the entire AIU footprint. Standardizing fixture charges is a logical and proper extension of this policy. Furthermore, there is no reason why the cost of installing and maintaining fixtures should be different for the three electric utilities. They are the same fixtures, installed in a similar fashion for each of the utilities. As the PO observes, fixtures can be purchased and installed by third parties, so there is an incentive to have the charges be a uniform, reasonable price. The issue raised by AIU in its testimony regarding a uniform fixture charge is at best hypothetical based on the record in this case. It is an issue that need not, and should not, be determined now. The LGI are willing to accept the findings in this case concerning the amount of movement toward a uniform, standard fixture charge and leave to a later case, with additional evidence, to determine if there are factors that would prohibit the eventual standardization of the fixture charge.

Attached to this BOE in the appendix is proposed substitute language.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Richard C. Balough, do hereby certify that a copy of the foregoing Brief on Exceptions was sent to the parties on the edocket service list via electronic mail on this 11h day of March, 2010.

_____/rcb/_____
Richard C. Balough

APPENDIX

PROPOSED SUBSTITUTE LANGUAGE

EXCEPTION NO. 1

Beginning at Page 95:

e. Commission Conclusion

AIU proposes to include in operating expenses certain costs associated with installing NESC required facilities that it considers to be new work. Staff objects to recovery of four specific types of costs (1) replacing missing guy guards, (2) correcting down guys where no insulator exists in the guy wire, (3) correcting overhead guys where no insulator exists in the guy wire, and (4) installing grounds on ungrounded metal underground risers. Staff argues that the incremental labor costs to install these facilities would have been negligible if the work had been done correctly at the time of initial construction. AIU claims the incremental labor is the same regardless of when the facilities are installed.

In discussing alternatives to its primary position, AIU asserts that 90% of the missing guy guards installed during the test year were replacements after the original guy guard had been installed. In contrast, Staff argues that no more than 10% of the missing guy guards installed during the test year were replacements after the original guy guard had been installed. AIU also recommends, if the Commission decides to allow AIU to recover only material costs, test year costs rather than average material costs should be utilized. In contrast, while Staff does not believe material costs should be recovered from ratepayers, Staff recommends the use of average material costs rather than test year costs, should the Commission decide to allow recovery.

The Commission's review of the record suggests that AIU has overstated the cost of installing the facilities in question. For example, the Commission can not believe that the average incremental cost of installing a $2.19 guy guard, at the time the guy is installed is over $120. This calls into question all of AIU's estimates of installation cost. The Commission believes that Staff witness Rockrohr's position that the cost of installing the four facilities at issue here would have been negligible is much closer to the truth. Similarly, the Commission is convinced that Mr. Rockrohr's estimate of the percentage of guy guards that were replacements after an original guy guard had been installed is superior to AIU's estimate.

The Commission believes that it is reasonable for AIU to be allowed to recover from its customers the average cost of materials associated with the four facilities at issue here. The Commission also believes that AIU's suggestion that test year material costs should be used would overstate what ratepayers would have been charged if the projects had been completed correctly at the time of the original construction. As a result, the Commission finds Staff's material costs to be superior to AIU's. The Commission concludes that for NESC work, AmerenCILCO should be allowed to reflect in revenue requirement an amount of $13,097, AmerenCIPS should be allowed to include in revenue requirement an amount of $28,791, and

AmerenIP should be allowed to include in revenue requirement an amount of $57,730. The values are shown on Staff Ex. 24.0R, Attachment E.

The Commission also recognizes the LGI's concerns about the reliability of AmerenIP's system. In particular, since 2007, Staff and AIU have identified 34,262 NESC violations on the AmerenIP system, and as of August, 2009, 11 percent of the violations remain unresolved. The LGI has recommended that AmerenIP expedite completion of outstanding violations since unresolved NESC violations unnecessarily expose the public to potential harm and could lead to failures in the electric system. In addition to concerns about NESC violations, the LGI has also expressed concerns about the status of AmerenIP's adoption of recommendations found in the Liberty Report, the age of AmerenIP's system and AmerenIP's investments in operation and maintenance expense.

Finally, the Commission is ~~somewhat~~ concerned about AIU's commitment to providing safe, reliable electric service. According to Staff, in its NESC Corrective Action Plan, AIU agreed to identify and correct all existing NESC violations on the utilities' distribution circuits by the end of 2011. Thereafter, AIU notified Staff that it was extending the time to correct its existing NESC violations until the end of 2013. Staff reports that in its surrebuttal testimony, AIU indicates that it might extend its NESC violation correction timelines still further. It appears to the Commission that AIU is not adequately concerned with correcting existing NESC violations in a timely manner. Combined with AIU's comment that it might reduce tree trimming activities in the event its proposed expenditures are not approved, the Commission fears that AIU may not be as serious about providing safe, reliable service as it purports to be. The record indicates that AIU is expending resources on activities such as economic development and the promotion of renewable electric generation. While the Commission does not necessarily want to discourage such activities, it appears that AIU needs to reevaluate its priorities. The Commission suggests that AIU make the activities that are essential to the provision of safe reliable utility service a higher priority than some of the activities that are indirectly related to such service.

The Commission is in agreement with ~~As for~~ Staff's recommendation that the Commission order AIU to complete its corrective actions for existing NESC violations by no later than the end of 2013,~~the Ciommission is hesitant to do so at this time. Not having had the benefit of reviewing t~~. The Commission further requires the AIU's to provide the Commission with a revised copy of its NESC Corrective Action Plan ~~the Commission is not prepared to require AIU to complete its work by the end of 2013. Rather,~~no later than 60 days from the date of Order. The Commission urges AIU to correct its NESC violations as quickly as it can by using a systematic and thorough inspection process. Any extension beyond 2013 should not be taken lightly by AIU.

The Commission further agrees with LGI's recommendations that the AIU's prepare and present a plan to implement all remaining recommendations that are found in the Liberty Report and that Staff should investigate and report to the Commission whether the AIU's are reducing its investment in operating and maintenance expense in AmerenIP. Lastly, the Commission strongly urges the AIU's to establish a program that identifies assets that exceed their expected life and proactively investigate whether each such aged asset requires replacement or other remediation.

Beginning at Page 126:

LGI complains that AmerenIP's investments have declined significantly from 2006. AIU responds that AmerenIP's capital investments in maintenance and system improvements have in fact increased between 2007 and 2009. According to AIU, LGI ignores that AmerenIP's expenditures, both its capital investments and O&M expenses, spiked in 2006 because of severe summer and winter storms. AIU also claims that LGI ignores the fact that AmerenIP invested heavily in its distribution infrastructure in 2004 through 2006 after Ameren acquired IP. AIU asserts that LGI witness Brodsky was hired to develop and evaluate AIU's audit of the AmerenIP electrical distribution systems. According to AIU, Mr. Brodsky acknowledges that AIU spent millions of dollars on system improvements to correct and upgrade those systems. ~~including projects specifically requested by Champaign and Urbana that were identified and designed by Mr. Brodsky~~.

Beginning at Page 132:

c. LGI Position

According to LGI, Mr. Brodsky's testimony raises issues with AmerenIP's maintenance of its system. One of the areas that Mr. Brodsky examined was compliance with the NESC. Mr. Brodsky does not propose specific dollar amount adjustments for AmerenIP's efforts to resolve NESC violations, but he does express concern about the pace to remedy the violations. LGI, however, is still concerned with how the dollars are spent.

Mr. Brodsky found that since 2007 AIU has identified 34,262 NESC violations on the AmerenIP system and as of August, 2009, 11% of the violations remain unresolved. LGI states that while AIU is periodically reporting the status of resolving the violations to Staff, Mr. Brodsky believes that AmerenIP should expedite the completion of the remediation since the unresolved NESC violations unnecessarily exposes the public to potential harm and could lead to failures in the electric system. LGI adds that Mr. Brodsky is an engineer and is familiar with the AmerenIP system. LGI indicates that he assisted Champaign and Urbana in conducting an audit of the AmerenIP system as part of a settlement agreement pertaining to the acquisition of IP by Ameren. LGI also claims he had a role in the development of the audit's requirements and had a role in formulating additional projects to improve reliability of AmerenIP's electric system serving Champaign and Urbana.

With regard to how maintenance dollars are spent for AmerenIP customers, LGI contends that AmerenIP's total investment per customer declined significantly between 2006 and 2009, falling form $143.82 per customer to $112.01 per customer. LGI believes that reductions in maintenance could lead to reductions in the reliability of electric service and that AmerenIP should increase its maintenance investments. LGI claims that the per customer maintenance and system improvement data is a more appropriate measurement for considering future reliability than other measurements such as CAIDI, SAIDI and CAIFI since those indices pertain to a given year. LGI suggests that when considering maintenance investments, one should also contemplate investments in the future. LGI asserts that the reliability data that AIU

reports to the Commission indicates that data was generally volatile and that there was no clear pattern of improvement or degradation. When considering future reliability, LGI contends that quite often, it is likely to expect a lag period. LGI says that investments in the maintenance of a system today may cause improvement to reliability in the future, whereas looking at near term reliability indices only indicates what is happening or the consequences of investments that have happened in the near past.

LGI claims it is more useful to look at maintenance investments on a per customer basis since the size of each of the three AIU electric systems is different. Between 2006 and 2009, LGI asserts that AmerenIP decreased its total annual maintenance investments from $70,646,100 to $24,910,400, an overall reduction of approximately 65%. On a per customer basis, LGI asserts AmerenIP decreased its maintenance investments from $114 per customer to $40 per customer, an overall reduction of approximately 65%. LGI states that maintenance investments for AmerenCILCO and AmerenCIPS increased in both the total dollars and per customer. Between 2006 and 2009, LGI claims AmerenCILCO's total investment per customer increased by 60% and AmerenCIPS' total investment per customer increased by 96%. LGI states that AmerenIP's total investment per customer decreased by 22% over the same period. LGI is concerned about the trend. LGI recommends that the Commission monitor AmerenIP's annual maintenance investments and system improvement investments and investigate why AmerenIP's investments are lagging that of AmerenCILCO and AmerenCIPS.

d. Commission Conclusion

AIU has performed certain benchmarking studies that it claims demonstrate that its O&M expenses are reasonable. AG/CUB contends that AIU's studies are flawed. AG/CUB also presented an econometric study which it claims demonstrates that AIU's costs are higher than should be expected. AIU believes that AG/CUB's study is flawed. In addition, LGI expresses concern that AIU is not expending enough money in maintaining the AmerenIP distribution system. AIU disputes LGI's assertions and objects to the recommendations that additional monitoring and reporting is necessary with regard to the reliability of its distribution system.

There are essentially two experts that analyzed the same data, utilized different approaches, and reached opposite conclusions. The Commission finds that the studies presented by Mr. Amen, while not perfect, are straightforward and easy to understand. In the Commission's view, the study presented by Mr. Fenrick is obviously more complex and therefore more prone to error and improper interpretation. The Commission believes it is particularly important to take care when attempting to use an econometric model to either predict outcomes or draw conclusions about causes and effects. In this instance, the Commission is not convinced that the AG/CUB's study demonstrate what it contends that it does. Even if one were to assume that it did demonstrate that AIU is inefficient and that some of its costs are higher than they should be, AG/CUB has provided no real method whereby the results could be used. In other words, AG/CUB has not shown what costs, if any, should be reduced or eliminated from AIU's operating expenses. The Commission believes there would be no way to utilize the AG/CUB study for ratemaking purposes in this proceeding, even if the Commission were fully convinced of its validity.

The Commission and its Staff have been and continue to monitor AIU's activities to operate and maintain the distribution system of AmerenIP. The Commission ~~to some extent~~

shares LGI's concerns, as discussed elsewhere in this Order and ~~the Commission~~ urges AIU to correct its NESC violations as quickly as it can by using a systematic and thorough inspection process. The Commission also concludes that the specific recommendations of LGI regarding monitory and reporting are ~~un~~necessary ~~at this time and those recommendations are hereby rejected~~.

EXCEPTION NO. 2

4. DS-5 Fixture and Distribution Delivery Charges

Beginning at Page 304:

d. Commission Conclusion

The Commission recognizes that AIU is ~~in a difficult situation in which it is~~ working toward uniform lighting rates among the three electric utilities as required ~~encouraged~~ by the Commission while at the same time trying to keep in mind the cost of service. ~~At the outset, the Commission needs to clarify that it does not necessarily expect~~ At this point in time, the Commission continues to believe that Fixture Charges ~~to~~ someday should be identical across the three electric utilities. Thus, the directive that the Commission gave AIU in its last rate proceeding ~~for its next (this) rate proceeding is~~ "to address the possibility of moving the light fixture charges toward a more similar charge among AmerenCILCO, AmerenCIPS, and AmerenIP" (Docket Nos. 07-0585 et al (Cons.), Order at 359) remains in place for the next case after this docket. (Docket No. 09-0306 et al) ~~The Commission does not want to give AIU the impression that it expects AIU to "force" identical Fixture Charges into the DS-5 tariffs even if legitimate cost of service reasons warrant different treatment. The direction given to AIU in its last rate proceeding is consistent with this message.~~ In so doing, the Commission is not unmindful of the possibility that other factors may cause the Commission to modify this objective, but that is not an issue to address in this Docket. The Commission finds at present that the gap among the three utilities' fixture charges can continue to be narrowed and the Commission expects this process to continue in the next Ameren rate case. Since Ameren has shown adequate progress to narrow the gap in this Docket,~~That being said, it appears to the Commission that AIU earnestly attempted to comply with the Commission's directive in the last rate proceeding. By considering both the results of its incremental COSS and embedded COSS, AIU appears to be trying to move the Fixture Charges closer to together while bearing cost of service in mind. The Commission recognizes that the numbers are apt to change after AIU reruns the COSS, but nevertheless finds the methodology reasonable for the DS-5 class for purposes of this proceeding. In contrast, it is not clear to the Commission how Staff's approach is designed to move the Fixture Charges closer. Accordingly,~~ the Commission accepts AIU's position on this issue for purposes of this proceeding.