STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
	)	Docket No. 11-0279
Proposed general increase in electric delivery service rates.	)	
	)	
	)	(Cons.)
	)	
AMEREN ILLINOIS COMPANY	)	
	)	Docket No. 11-0282
Proposed general increase in gas delivery service rates.	)	

BRIEF ON EXCEPTIONS OF THE PEOPLE OF THE STATE OF ILLINOIS THE CITIZENS UTILITY BOARD AND AARP

The People of the State of Illinois
by LISA MADIGAN, Attorney General

Janice Dale
Chief, Public Utilities Bureau
Michael R. Borovik
Assistant Attorney General
Cathy Yu
Assistant Attorney General
Public Utilities Bureau
Office of the Illinois Attorney General
100 West Randolph Street, 11th Floor
Chicago, Illinois 60601
Telephone: (312) 814-7203
Fax: (312) 814-3212
E-Mail:
jdale@atg.state.il.us
mborovik@atg.state.il.us
cyu@atg.state.il.us

THE CITIZENS UTILITY BOARD

Julie L. Soderna
Director of Litigation
Kristin Munsch
Attorney
309 W. Washington, Suite 800
Chicago, IL 60606
Telephone: 312-263-4282
Fax: 312-263-4329
jsoderna@citizensutilityboard.org
kmunsch@citizensutilityboard.org

AARP
John B. Coffman
John B. Coffman LLC
Attorney for AARP
871 Tuxedo Blvd.
St. Louis, MO 63119
Telephone: (573) 424-6779
Email: John@johncoffman.net

Dated: December 8, 2011

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
	)	Docket No. 11-0279
Proposed general increase in electric delivery service rates.	)	
	)	
	)	(Cons.)
	)	
AMEREN ILLINOIS COMPANY	)	
	)	Docket No. 11-0282
Proposed general increase in gas delivery service rates.	)	

BRIEF ON EXCEPTIONS OF THE PEOPLE OF THE STATE OF ILLINOIS THE CITIZENS UTILITY BOARD AND AARP

Pursuant to the Illinois Commerce Commission ("Commission" or "ICC") rules of practice, 83 Ill. Admin. Code Section 200.830 and the Administrative Law Judges (ALJs") Proposed Order of November 15, 2011 ("PO" or "Order") and Notice of Administrative Law Judges' Ruling of November 30, 2011, the People of the State of Illinois ("the People"), through Attorney General Lisa Madigan ("AG"), the Citizens Utility board ("CUB"), and AARP (collectively "AG/ CUB/AARP") submit their Brief on Exceptions in this proceeding. For the most part, AG/CUB/AARP believes the ALJs PO got it right. Therefore, AG/CUB/AARP takes limited exception to the PO regarding Ameren Illinois Company ("Ameren" "AIC" or "the "Company") merger costs, phase-in of Public Utilities Revenue Act Tax ("PURA tax") expense, DS-1 customer charge, and GDS-1 customer charge.

AG/CUB/AARP requests that the Commission adopt the modifications to the Order set forth below in its Final Order in this proceeding.

V. OPERATING REVENUES AND EXPENSES

B. Contested Issues

4. Merger Costs

EXCEPTION #1 *Ameren's merger costs should be disallowed as recovery should only commence when such costs are actually known and savings have been verified.*

The Order accepts Ameren's argument that, "[b]ecause AIC is utilizing a future test year, its costs are based on a projection or forecast of the future period. Thus, use of projected savings for merger costs and benefits is appropriate." Ameren Init. Br. at 53. However, by proposing deferral and amortization of the estimated merger costs to be incurred in 2011 and 2012, AIC is proposing to treat merger costs differently from other test year costs.

The Company should not be allowed to defer and amortize these costs before they are incurred and the amounts are actually known and before it is established that the merger has resulted in actual savings. AG/ CUB/ AARP Reply Brief at 7-8. AG/CUB/AARP never recommended that AIC be permanently denied recovery of the merger costs, only that recovery not commence until the costs are actually known and the expected savings have been verified. The proposed order errs in allowing AIC recovery of merger costs that do not satisfy the test year rules.

The Proposed Order bases its conclusion on the assumption that AIC has accurately reflected merger costs *and* savings. AG/CUB witness David Effron demonstrated that savings were *not* accurately reflected. The Company claims four million dollars of savings related to the merger were included in test year operation and maintenance expense, supposedly reflected in Account 903, Customer Record and Collection Expenses. AG/ CUB Ex. 1.0 at 24. Mr. Effron demonstrated the unlikelihood of that, given that the Company forecasts an increase in Customer Record and Collection Expenses of 5.9% in 2012 over the actual expense charged in

2010. *Id.* at 24. That increase is of significant magnitude even if there were no merger savings; therefore Mr. Effron found that it was not clear that the Company's 2012 forecast for that account actually incorporated the savings claimed by the Company. AG/ CUB at 12-15. Since the Commission cannot determine that savings were in fact accurately reflected, it is inappropriate to reflect the amortization of the merger costs in the revenue requirement until they, along with the savings are actually known. *Id.* at 23. The actual amount of that cost remains unknown, and the corresponding merger savings are not yet being realized. AG/ CUB Ex. 4.0 at 6.

The Proposed Order also relies on the fact that this is a future test year case in reaching its conclusion to include projected merger costs. PO at 42. This is similar to Ameren's argument, "Because AIC is utilizing a future test year, its costs are based on a projection or forecast of the future period. Thus, use of projected savings for merger costs and benefits is appropriate." Ameren Init. Br. at 53. However, by proposing deferral and amortization of the estimated merger costs to be incurred in 2011 and 2012, AIC is proposing to treat merger costs differently from other test year costs. The Company should not be allowed to defer and amortize these costs before they are incurred and the amounts are actually known and before it is established that the merger has resulted in actual savings. It should again be noted that AG/ CUB/ AARP are not recommending that AIC be permanently denied recovery of the merger costs, only that recovery not commence until the costs are actually known and the expected savings have been verified.

For all of the reasons noted above, the Proposed Order's conclusion on this issue should be rejected. The People, CUB, and AARP propose that Section V.B.4. at page 42 be modified as shown below.

c. Commission Conclusion

~~Given its use of a future test year and the record on this issue,~~ ~~t~~The Commission is not satisfied that AIC has ~~accurately~~ properly reflected its merger costs and savings in its test year operating expenses. Instead, GCI's arguments ~~do not~~ persuade the Commission to conclude otherwise. Accordingly, the Commission adopts ~~AIC's~~ GCI's position on this issue.

VI. Cost of Capital/Rate of Return

G. Cost of Common Equity

EXCEPTION #2: *The Commission should include in its final ROE calculation the results of AG/CUB/AARP's CAPM analysis.*

AG/ CUB/ AARP agree with and support much of the Proposed Order's conclusions regarding the appropriate return on equity for Ameren. The Proposed Order correctly rejects the Discounted Cash Flow ("DCF") and risk premium analyses performed by Ameren witness Hevert. P.O. at 140, 143. In doing so, the Proposed Order correctly notes that while it will not be possible to satisfy all parties, the Commission must balance past practices that have proved useful with the acknowledgement there might be new evidence or research that has been developed which might alter those practices. P.O. at 138. For example, the Commission's past reliance on multi-stage DCF analyses is continued, though there is an acknowledgement that concerns exist over the sustainability of analyst growth rates. P.O. at 139. With respect to the additional adjustments to the Company's ROE proposed by Staff and the Company, the Proposed Order correctly describes the record evidence, and provides support for two Commission conclusions. First, that Ameren's ROE should be adjusted downwards to compensate for the reduced variation in Company revenues provided by its uncollectibles rider. P.O. at 143. Second, that Ameren's upward adjustment for its flotation costs should be rejected. P.O. at 144.

However, AG/ CUB/AARP take exception with the Proposed Order's discussion of the testimony of AG/ CUB witness Thomas, and request that the Proposed Order's ROE be modified to include an average of Mr. Thomas' CAPM analysis with that of Ms. Freetly's CAPM analysis. AG/ CUB/AARP also propose one technical correction to the Proposed Order to properly reflect the results of Mr. Thomas' DCF analysis, which would result in a change to the overall ROE recommendation.

Mr. Thomas' CAPM Analysis

The Proposed Order states that Mr. Thomas does make clear which, if any, of his sources for beta coefficients used in his CAPM analysis incorporate adjusted or unadjusted betas. PO at 142. Since the Commission has a preference for adjusted betas, something Mr. Thomas had in the past opposed, Mr. Thomas specifically stated that his analysis included adjusted beta coefficients from Value Line. Id.

The beta coefficient ("B") represents the degree to which the price of a stock moves with the overall market, or the volatility of an individual stock compared to the volatility of the market. AG/ CUB Ex. 3.0 at 22. The Commission has traditionally accepted beta coefficients that are adjusted for mean reversion, or a supposed tendency to revert to the market mean (1.0), as valid CAPM inputs. Id. Mr. Thomas testified that this means that adjusted betas, such as those used by Value Line – and Mr. Hevert – are upwardly biased in comparison to a broader sample of the published estimates of that critical input. AG/ CUB Ex. 24. To compensate for that bias, Mr. Thomas argued the Commission should rely upon a range of betas reported by the various reputable financial data reporting sites so the Commission can avoid unintended bias in various estimates used in a cost of equity determination. AG/ CUB Ex. 3.0 at 24. Mr. Thomas performed such an analysis, which includes both adjusted and unadjusted betas, and results in a combined average beta coefficient of .635 for the electric proxy group and .477 for the gas group. AG/CUB Ex. 3.0 at 23.

The Proposed Order also states that it is not clear whether Mr. Thomas' Equity Market Risk Premium ("EMRP") would allow for change over time, something the Commission believes is necessary for any approach or method adopted. P.O. at 142. The EMRP represents the premium, above the risk-free rate, that investors expect when they take on the risk of an investment in the market portfolio, or the universe of potential investment opportunities available to investors. AG/ CUB Ex. 3.0 at 24. Mr. Thomas urged the Commission to consider an EMRP analysis that relies on a reasonable range of EMRPs, which the academic research indicates is within the range of 3.0 to 5.0%, with some research indicating that the actual EMRP is much lower. AG/CUB Ex. 3.0 at 27. He included in his CAPM analyses a spectrum of EMRP estimates. At one end of the spectrum is the historic EMRP of 6.70%, as reported in Mr. Hevert's work papers but not used in his testimony, and at the other end is the 9.36% estimate calculated by Mr. Hevert, which is clearly outside the estimates found in the academic research. AG/ CUB Ex. 3.0 at 28. Both of these estimates will change over time, as the academic research, historic record and prospective estimates change over time, AG/ CUB Ex. 3.0 at 26, which would address the Commission's concerns.

Because Mr. Thomas' CAPM analysis does correct for upward bias based upon analyst expectations, and incorporates change over time, the Commission should modify the Proposed Order to incorporate his CAMP analysis within the final determination of Ameren's ROE. AG/CUB/AARP request the Proposed Order at pages 142-143, and at page 145, be modified as follows.

b. CAPM

There are three inputs to the CAPM: beta, the risk-free rate, and the EMRP. The other parties take issue with the beta estimates used by Mr. Hevert, particularly the beta estimates he calculated using a 12-month measurement period. The Commission has traditionally relied upon betas calculated with five years of data. While Mr. Hevert explained his rationale, the Commission is not convinced that betas calculated with twelve months of data are reliable or appropriate for use in establishing the cost of common equity.

Mr. Thomas relied upon a variety of published betas in his CAPM analysis. In the past, Mr. Thomas has endorsed the use of unadjusted betas, which the Commission does not rely upon. In his direct testimony, Mr. Thomas specifically states that he included Value Line betas, which are adjusted. ~~It is not entirely clear to the Commission, which if any of his other sources calculate adjusted betas. In contrast, the betas relied upon by Ms. Freetly (Value Line, Zacks, and calculated regression betas) as well as Mr. Gorman (Value Line betas) are clearly the types of betas the Commission has traditionally relied upon in implementing the CAPM.~~ The Commission understands that adjusted betas have an upward bias, best corrected for by the use of multiple sources for beta coefficients in a CAPM analysis, just as Mr. Thomas did in his analysis.

For the risk-free rate, Mr. Hevert relied upon the current 30-day yield on 30-year Treasury bonds and the near-term projected 30-year Treasury yield. Mr. Gorman used the Blue Chip projected 30-year Treasury bond yield as a proxy for the risk-free rate. Ms. Freetly relied upon yields on 30-year Treasury bonds as a proxy for the risk free rate. It appears that Mr. Thomas used Mr. Hevert's proxy for the risk free rate. While measured in slightly different ways, there does not appear to be much disagreement over estimating the risk free rate.

~~With regard to the EMRP, Mr. Thomas relied upon what he describes as estimates provided by academic research. The Commission has rejected Mr. Thomas' similar proposal for estimating the market risk premium in previous cases. (See, e.g., Docket Nos. 07-0585 et al. (Cons.) Order at 213) Among other things, the Commission continues to believe that Mr. Thomas' suggestion does not seem to allow for the EMRP to change over time, which the Commission believes is necessary for any approach or method adopted.~~

Mr. Thomas relied upon a range of EMRP estimates, from a historic EMRP of 6.70%, as reported in Mr. Hevert's work papers but not used in his testimony, to a 9.36% estimate calculated by Mr. Hevert, which is clearly outside the estimates found in the academic research. AG/CUB Ex. 3.0 at 28. Ms. Freetly developed an estimate of the EMRP by performing a DCF analysis on dividend paying firms that comprise the S&P 500. From that, she subtracted her estimate of the risk free rate. Mr.

Gorman expressed concern that Ms. Freetly's DCF analysis overstates the return on the market because he believes her growth rates are excessive.

Mr. Hevert developed two estimates of the EMRP; the first was calculated in a manner similar to Ms. Freetly, except that he included non-dividend paying companies in the S&P 500. Ms. Freetly asserts that by doing this, Mr. Hevert overstates the expected market return. Mr. Hevert's second estimate depended upon an assumption of a constant Sharp ratio. Ms. Freetly expressed concern that, among other things, this second analysis relied too heavily on historical data to estimate a forward looking, expected market return.

Mr. Gorman derived a forward-looking EMRP and a long-term historical average estimate of the EMRP. For one EMRP estimate, Mr. Gorman estimated the long-term historical arithmetic average real return on the market, to which he added an expected inflation rate. It is not clear to the Commission; however, that using a long-term historical average real return constitutes a forward-looking real return. The Commission believes this approach relies too heavily on historical data. For his other estimate of the expected market return, Mr. Gorman performed a multi-stage growth DCF analysis on the S&P 500, which he averaged with Mr. Hevert's constant growth estimate of the return on the market. While it is not entirely clear from his testimony, it appears this is the very estimate which Ms. Freetly complained overstates the market return.

~~The Commission has serious concerns with the betas used by Mr. Hevert and Mr. Thomas.~~ Similarly, the Commission has serious concerns with the EMRP estimates relied upon by Mr. Hevert ~~and Mr. Thomas~~. Finally, the Commission has concerns with at least one, if not both, of the EMRP estimates used by Mr. Gorman. All things considered, the Commission finds that the only CAPM ~~analysis~~ analyses that ~~is~~ <u>are</u> clearly free of significant problems and which can be relied upon in this case ~~is the one~~ <u>were</u> performed by Ms. Freetly <u>and Mr. Thomas</u>. <u>For the purposes of calculating an ROE, Mr. Thomas' CAPM, shown as the lower boundary on his ROE range, will be used.</u>

f. Approved ROE

In estimating the ROE that should be authorized in this proceeding, the Commission will incorporate the conclusions previously made. Specifically, the Commission will give equal weight to the multi-stage DCF analyses of Staff, IIEC, and the AG/CUB. Additionally, the Commission will consider the CAPM analysis of Staff. Finally, the Commission will make a downward adjustment to the cost of common equity to reflect the reduced risk resulting from the existence of the uncollectibles riders. The Commission concludes that AIC's electric operations should be authorized a ROE of 9.80% and that its gas operations should be authorized a ROE of 9.01%. The table below illustrates how the ROE were derived.

	DCF Results Electric	Gas
Staff	9.55%	8.63%
IIEC	9.73%	9.60%
AG/CUB	~~9.56~~ 9.65%	~~8.90~~ 9.02%
Average	**~~9.61~~ 9.64%**	**~~9.04~~ 9.08%**
CAPM~~APM~~		
Staff	10.32%	9.31%
AG/CUB	8.47%	7.41%
Average	**9.40%**	**8.36%**
Estimated ROE	~~9.97%~~ 9.52	8.72 ~~9.18%~~
Risk Adjustment	0.16%	0.16%
Approved ROE	**~~9.80%~~ 9.36%**	**~~9.01%~~ 8.56%**

IX. RATE DESIGN

B. Contested Electric Issues

1. Treatment of PURA Tax Expense

EXCEPTION #3 *In the event the Commission finds the PURA subsidy should continue (and AG/CUB/AARP believe it should not continue), then the AG/CUB/AARP three year proposal is preferable to AIC's proposal as a fair and proper allocation to all Rate Zones.*

AG/CUB/AARP stands by its stated position that the PURA tax subsidy has gone on long enough and should now be eliminated. As such, AG/CUB/AARP stands by their briefs and the AG/CUB testimony of Scott Rubin on this issue. In the event, however, that the Commission prefers a phase-in approach, AG/CUB/AARP propose their phase-in alternative that provides a proper and fair allocation to all rate zones. Order at 196-197. For all of the reasons noted above, the Proposed Order's conclusion on this issue should be rejected. The People, CUB, and AARP propose that Section IX.B.1.a. at pages 199-200 be modified as shown below.

> The Commission first notes that all parties appear to agree that there is present in the current DS-4 PURA tax a subsidy to some customers which should be eliminated; however, the parties disagree as to when this should happen. AIC has proposed a three-year phase-out of the subsidy, while Staff and GCI suggest the subsidy should be eliminated all at once. IIEC suggests that AIC's proposal engenders a greater need for rate moderation, which is ignored by the parties. The Commission notes that out of concern for bill impacts from the change in how this tax was allocated to customer classes, in AIC's last case, the Commission rejected AIC's argument that PURA tax charges should be excluded from any rate moderation to transition to full cost recovery in rates. The Commission does not believe sufficient time has passed that all customer classes should pay the same cents per kWh PURA tax rate at the conclusion of this proceeding, and believe a gradual transition to full cost recovery still seems appropriate.
>
> The Commission believes ~~AIC's~~ GCIs phase-in plan provides the proper balance between movement to full cost recovery and mitigation of bill impacts, while giving consideration to rate gradualism, and a fair and proper allocation to all Rate Zones (I,II, and III). The Commission does not believe that customers will be confused by the annual adjustment for this particular expense and notes that it has approved annual adjustments in AIC's BGS pricing to eliminate current subsidies. The Commission approves ~~AIC's~~ GCIs electric rate mitigation and phase-in plan.

IX. RATE DESIGN

B. Contested Electric Issues

2. DS-1 Customer Charge

EXCEPTION #4 *The AIC Customer charge should remain unchanged as existing rates already exceed Ameren's proposed customer related cost of service.*

There should be no increase in AIC's existing customer charge of $12.28 per month, which already exceeds by a substantial amount the customer-related cost under AIC's proposed revenue requirement. In fact any increase allocable to the DS-1 class should be recovered solely through increases in the per kWh distribution charges, following the basic approach outlined by AIC.

AIC's proposed DS-1 customer charge of $15.55 per month is not based on the customer-related cost of providing service. Order at 204. According to AIC's COSS, its total customer-related cost is $230,514,000. *Id.* Of that amount, $72,878,000 is the revenue requirement associated with metering which is recovered through the separate meter charge; which leaves $157,636,000 in customer-related cost to be recovered through the customer charge. AIC's COSS shows that it has an average of 1,231,674 customers, and dividing the customer-related cost by the number of customers, leads to average customer-related cost of only $10.67 per customer per month. *Id.*

Even $10.67 per month is too much to collect through a customer charge, as this amount includes 100% of AIC's uncollectibles expense, $9,296,000, which should be recovered in proportion to a customer's total bill, not in an equal amount per customer. AG/CUB/AARP Reply Brief at 29. If uncollectibles were removed, the proper, cost-based customer charge would be approximately $10.05 per month, an amount which would be at most increase by approximately 10 cents to recover a portion of uncollectibles expense. *Id* at 29-30. Furthermore, AIC's proposal to dramatically raise its minimum charges would also move its rate design further out of line with the $8.00 minimum customer charge that its neighboring Missouri affiliate is allowed to charge residential electric customers. (Report and Order, issued by the Missouri Public Service Commission on July 13, 2011, Re: Union Electric Company, d/ b/ a Ameren Missouri, at 120-121.) *Id.*

Additionally the proposed order in the most recent North Shore Gas Company / the Peoples Gas Light and Coke case refused to increase the customer charge and held:

4. Commission Analysis and Conclusion

> As discussed in the Rate Design discussion above, the Commission finds that the bill impacts generated from Utilities proposed rate design are unfair and in conflict with cost causation principles of good ratemaking. The Utilities proposed increase in their customer charges is discriminatory toward non-heating customers. We direct the Companies to maintain the customer charges at the present level consistent with our findings…

11-0280/11/0281 (cons.) Proposed Order at 187.

For all of the reasons noted above, the Proposed Order's conclusion on this issue should be rejected. The People, CUB, and AARP propose that Section IX.B.2. at page 205 should be modified as shown below.

> ~~The Commission notes that in accordance with the Commission's directive in its 2007 rate case, AIC has been recovering 80% of the class revenue requirement for the GDS-1 and GDS-2 customer classes through the customer charge. The Commission finds that AIC has proposed to continue setting its customer charges using the same approach, and that Staff has indicated it does not object to AIC's proposal. The Commission recognizes that GCI takes exception to AIC's proposed recovery of 80% of the class revenue requirement for GDS-1 and GDS-2, arguing that AIC is overstating what constitutes fixed costs.~~ GCI recommends that there be no increase in AIC's existing customer charge, asserting it already exceeds customer-related fixed costs. <u>The Commission agrees. Furthermore, the Commission finds that the bill impacts generated from AIC's proposed rate design are unfair and conflict with cost causation principles of good ratemaking. Therefore, we direct AIC to maintain the customer charges at their present level.</u>
>
> ~~The Commission, however, is satisfied that AIC has properly characterized its fixed costs, and its proposal is in conformity with the Commission's established policy to allow recovery of a greater portion of fixed costs through the costumer charge. The Commission finds that AIC's proposed method for determining the customer charge is just and reasonable in this case, as the Commission stated in AIC's past two rate cases.~~

IX. RATE DESIGN

C. Contested Electric Issues

1. GDS-1 Customer Charge

<u>EXCEPTION #5 *The AIC customer charge improperly reflects fixed charges as it relates to the cost of serving residential customers.*</u>

AIC is proposing to recover its proposed increase in revenue requirement from residential customers by continuing to recover approximately 80% of its residential cost of service through its customer charge. AIC's existing residential rates consist of a monthly customer charge and a per-therm distribution charge for each of the three Rate Zones AIC established for this proceeding. Under AIC's proposal, Rate Zone 1 would go from a customer charge of $19.31 to $22.39 and the per-therm distribution charge would go from $0.07724 to $0.08971. The Rate Zone 2 customer charge would increase to $18.41 from $15.60, while the per-therm charge would go from $0.05649 to $0.07035 Lastly, Rate Zone 3 has a customer charge of $19.57 which would increase to $22.01, and has a per-therm charge of $0.07589, which would increase to $0.08982. Order at 13.

AIC has had a steady, non-cost-justified increase in the customer charge portion of the monthly bill based on AIC's definition of "fixed" costs and the supposition that its delivery service costs are not affected by gas consumption. AIC's own COSS, however, shows that there are substantial demand-related costs that are incurred because of the amount of gas consumed by customers. *Id.*

In this case, AIC is proposing per-therm distribution rates that are significantly less than the per-therm demand costs incurred to serve residential customers, noting that the demand cost is approximately 19 cents per therm, while AIC is proposing distribution charges of between 7 and 9 cents per therm. In effect, AIC proposes to recover most of its demand-related costs on a per-customer basis, which is inconsistent with the setting of cost-based rates for utility service. AIC has tremendous diversity within its residential classes, ranging from customers who do not use natural gas for space heating to those who use many hundreds of therms per month during the winter for space heating. That diversity means that these customers in fact place different demands and impose different costs on AIC's natural gas distribution system. Order at 213.

While demand-related costs account for approximately 45% of AIC's total cost of serving residential customers ($107 million out of $235 million), AIC has proposed rates that do not recover these residential demand costs from the customers who cause them to be incurred (those customers who use more gas). AG/ CUB/ AARP Initial Brief at 48. Instead, AIC has proposed rates that would require low-use residential customers to provide substantial subsidies to high-use residential customers – charging higher-use customers less than one-half the demand cost that they impose on the system. *Id.*

Utility rates rest on a fundamental notion that rates should be "just and reasonable" and that rates should not improperly discriminate among customers that people should not be asked to pay different rates for the same service. Over the past few Ameren rate cases, however, the Company has had a steady, non-cost justified increase in the customer charge portion of the monthly bill based on Ameren's skewed definition of "fixed" costs and the supposition that its delivery service costs are not affected by gas consumption. AG/ CUB/ AARP Initial Brief at 31. Under Ameren's proposal, both charges in the three zones would change:

- Rate Zone I has a customer charge of $19.31 per month and a per-therm distribution charge of $0.07724, which would change to $22.39 per month and a per-therm charge of $0.08971.

- Rate Zone II has a customer charge of $15.60 and a distribution charge of $0.05649 per therm, which could change to a customer charge of $18.41 and a charge of $0.07035 per therm.

- Rate Zone III has a customer charge of $19.57 and a per-therm charge of $0.07589, which would change to a customer charge of $22.01 and a per-therm distribution charge of $0.08982.

AG/CUB/AARP Initial Brief at 31.

Similarly, in the most recent North Shore Gas Company / the Peoples Gas Light and Coke case, the Proposed Order, referring to fairness and good cost causation principles, refused to increase the customer charge and held:

> 4. Commission Analysis and Conclusion
>
> As discussed in the Rate Design discussion above, the Commission finds that the bill impacts generated from Utilities proposed rate design are unfair and in conflict with cost causation principles of good ratemaking. The Utilities proposed increase in their customer charges is discriminatory toward non-heating customers. We direct the Companies to maintain the customer charges at the present level consistent with our findings…

11-0280/11/0281 (cons.) Proposed Order at 187.

For all of the reasons noted above, the proposed Order's conclusion on this issue should be rejected. The People, CUB, and AARP propose that Section V.B.4. at pages 215-216 as shown below.

> In accordance with the Commission's directive in its 2007 rate case, the Commission notes that AIC has been recovering 80% of the class revenue requirement for the GDS-1 and GDS-2 customer classes through the customer charge. The Commission notes also that AIC has proposed to continue setting its customer charges using the same approach, and that Staff has accepted AIC's proposal on this issue. GCI, however, suggests that AIC has overstated its fixed costs, and suggests that AIC's COSS supports their argument.
>
> The Commission agrees with GCI and finds that it is no longer proper for AIC~~'s proposal~~ to recover 80% of the fixed cost of serving GDS-1 and GDS-2 customers going forward ~~is in conformity with established Commission policy. The Commission also finds that AIC has properly accounted for its fixed versus variable costs in serving GDS-1 and GDS-2 customers, and has properly taken them into account in calculating its proposed customer charge.~~ Instead, t~~T~~he Commission believes that GCI's ~~opposition is contrary to the Commission's established policy to allow recovery of a greater portion of fixed costs through the costumer charge. The Commission, therefore, finds that AIC's proposed~~ method for determining the customer charge is just and reasonable in this case.

CONCLUSION

For the reasons discussed herein, the People, CUB, and AARP respectfully request that the Commission modify the Proposed Order in accordance with the arguments and exceptions language provided herein.

Respectfully submitted,

THE PEOPLE OF THE STATE OF ILLINOIS
by LISA MADIGAN, Attorney General

Michael R. Borovik

Michael R. Borovik
Office of the Illinois Attorney General
100 West Randolph Street, 11th Floor
Chicago, Illinois 60601
Telephone: (312) 814-7203
Fax: (312) 814-3212
E-Mail: mborovik@atg.state.il.us

THE CITIZENS UTILITY BOARD

Julie L. Soderna

Julie L. Soderna
Director of Litigation
Kristin Munsch
Attorney
309 W. Washington, Suite 800
Chicago, IL 60606
Telephone: 312-263-4282
Fax: 312-263-4329
jsoderna@citizensutilityboard.org
kmunsch@citizensutilityboard.org

AARP

John B. Coffman
John B. Coffman LLC
Attorney for AARP
871 Tuxedo Blvd.
St. Louis, MO 63119
Telephone: (573) 424-6779
Email: John@johncoffman.net

Dated: December 8, 2011