Staff Exhibit 15.0
Revised 6/29/01

REBUTTAL TESTIMONY

of

PETER LAZARE
Senior Economic Analyst
Rates Department
Financial Analysis Division
Illinois Commerce Commission

Request for Approval of Revisions to Delivery Services Tariffs and for Approval of Delivery Services Implementation Plan for Residential Customers

Central Illinois Public Service Company, d/b/a AmerenCIPS
And
Union Electric Company, d/b/a AmerenUE

Docket No. 00-0802

June 20, 2001

Introduction

Q. Please state your name.

A. My name is Peter Lazare.

Q. Are you the same Peter Lazare who provided direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. I respond to rebuttal testimony by Ameren witnesses Mill and Difani concerning the Single Bill Option (SBO) credit.

Q. What proposals do they present in rebuttal?

A. Mr. Mill and Mr. Difani offer two options for the Commission concerning the SBO credit. The first would continue the SBO credits adopted in the first Ameren delivery services cases (Docket No. 99-0121) and extend the SBO credits calculated for DS-2 customers to DS-1 customers. As a second option, the Company presented an updated SBO credit calculation based on what it considers to be a “sound” embedded cost methodology that corrects perceived errors in my analysis of the issue.

Q. Turning to Ameren’s first proposal, how does Ameren justify maintaining the current SBO credits?

A. Mr. Mill defends the current credits as a reasonable approach based on embedded costs, despite my arguments to the contrary. He acknowledges my contention that the Company argued against using embedded costs to develop the SBO credit in Docket No. 99-0121 (Ameren Ex. 12.0, p. 2). However, he claims that the Company eventually embraced embedded costs in the final SBO credits Ameren developed for that case. According to Mr. Mill:

> Between the rebuttal phase of the case and the hearings, the Companies reached agreement with Staff witness William Vanderlaan as to the appropriate method of calculating and applying the credit. Despite Mr. Lazare's opinion in the current docket, I believe the Commission properly referenced the resulting SBO method as being an embedded cost method. [pp. 2-3.

Q. Do you find this argument compelling?

A. No, I do not. Ameren's claim of a change in costing philosophy is not accompanied by any meaningful change in results. In Docket No. 99-0121, Ameren originally proposed avoided cost SBO credits of 21 cents per bill for DS-2 customers and 3 cents per bill for DS-3 and DS-4 customers of both AmerenCIPS and AmerenUE. (Exhibit Ameren 29.2). The revised credits proposed by Ameren which were supposedly based on embedded costs were 22 and 20 cents per bill for AmerenCIPS and AmerenUE DS-2 customers, respectively; 3 cents per bill for AmerenCIPS Rate DS-3, and 1 cent per bill for AmerenUE Rates DS-3 and DS-4 (Order, Docket No. 99-0121, p. 116). The close similarity between the two sets of credits clearly undermine Mr. Mill's claim that they reflect different costing methodologies.

Q. What do you conclude about Mr. Mill's proposal to base SBO credits on the credits currently in place?

A. That proposal should be rejected because its avoided cost foundation conflicts with the Commission's goal of unbundling delivery services on an embedded cost basis.

Q. What second option does Ameren offer for the SBO credit?

A. As an alternative, Ameren has developed a new set of SBO credits based on an embedded cost analysis that seeks to identify: (1) the cost savings associated with the SBO credit and (2) the cost offsets that reduce the size of the credit.

Q. How do the revised SBO credits compare to Ameren's current credits?

A. They are significantly smaller. Ameren's revised SBO credits range from a high of 5 cents per bill for AmerenCIPS DS-1 and DS-2 down to zero for AmerenUE DS-3 and DS-4 customers. (Ameren Ex. 12.1). This compares with the current range of credits from 22 cents per bill for AmerenCIPS Rate DS-2 customers down to 1 cent per bill for AmerenUE DS-3 and DS-4 customers. (Docket No. 99-0121, Order p. 116)

Q. What is the starting point for Ameren's calculation?

A. Company witnesses Mill and Difani begin with the SBO cost studies I sponsored in direct testimony. They identify perceived problems in the studies, which are "corrected" in the alternative studies presented by Mr. Difani. His studies, in turn, provide the cost foundation for the revised set of SBO credits sponsored by Mr. Mill.

Q. Please enumerate Ameren's criticisms of the Staff studies.

A. The Company claims the following errors in my studies:

1) The allocation of AmerenCIPS General Plant to the SBO was double-counted because all billing assets are owned by AmerenUE and charged to AmerenCIPS through FERC Account 931.

2) Overheads for SBO labor were double-counted.

3) General Plant was allocated in an inconsistent manner with the cost studies presented by Staff witness Luth.

4) Lock box expenses were included from Docket No. 99-0121. However, the Company no longer incurs these costs according to Mr. Mill.

5) The use of the Company's Account 903 allocator to allocate SBO

expenses within that account does not properly reflect cost causation principles.

Q. Please address Mr. Mill's first criticism that you double-counted General Plant for AmerenCIPS.

A. Mr. Mill is incorrect. While I did place billing-related assets in the wrong FERC account, these costs were not double-counted. The problem arose because AmerenCIPS does not own billing assets, but rather rents these assets from AmerenUE and registers the expense in FERC Account 931. Thus, the allocation of Account 931 to the SBO should be increased accordingly to properly account for these billing-related assets. However, I did not make such an adjustment and, thereby, avoided the double-counting problem identified by Mr. Mill.

Q. Does Mr. Difani properly account for these billing assets in his AmerenCIPS cost study?

A. No, he has under-allocated these assets to the SBO. Mr. Difani has adopted an incorrect methodology that conflicts with his approach for AmerenUE.

For AmerenUE, Mr. Difani allocated all General Plant and A&G expenses to the SBO on the basis of labor. However, he took a different approach for AmerenCIPS, allocating only A&G to the SBO by labor. He excluded

General Plant from the allocation because of the unique way that AmerenCIPS accounts for billing-related assets. Instead of owning these assets directly, Ameren leases them from AmerenUE through A&G Account 931. Thus, Mr. Difani allocates these Account 931 expenses along with other A&G expenses to the SBO according to labor. However, he does not allocate any of the remaining General Plant costs to labor because in his estimation they are not billing-related.

The net effect of Mr. Difani's approach for AmerenCIPS is to reduce the allocation of general costs to the SBO. In contrast to his approach for AmerenUE of allocating all General Plant and A&G expenses to the SBO based on labor, Mr. Difani has applied the labor allocator to a smaller set of costs for AmerenCIPS from which General Plant is excluded.

Q. Can the Company's approach for AmerenCIPS be justified on a cost basis?

A. No. Regardless of how AmerenCIPS accounts for billing assets, whether through direct ownership or leasing from AmerenUE, AmerenCIPS customers cause these costs to be incurred in the same way. Whoever the owner, the same equipment and facilities are necessary to send out and receive bills for AmerenCIPS customers. Thus, the SBO credit for AmerenCIPS customers should not depend on the method of accounting for these costs. Mr. Difani's proposal to adopt two different costing methods for AmerenCIPS and AmerenUE conflicts with this principle.

Q. How should this problem for AmerenCIPS be addressed?

A. Mr. Difani's allocation of A&G expenses to the SBO should be revised to recognize the role of Account 931 as a proxy for costs that are normally categorized as General Plant. One approach would be to identify the Account 931 expenses associated with billing-related equipment for direct assignment to the SBO. However, Ameren is unable to identify the Account 931 costs that pertain to the SBO (Ameren Response to Staff DR PL-15(b)).

Q. Given this lack of specific Account 931 information, how should these expenses be allocated to ensure fairness and consistency with AmerenUE's approach?

A. I propose that the allocation of A&G expenses be increased to produce an overall allocation of AmerenCIPS A&G expenses and General Plant to the SBO that is consistent with AmerenUE's allocation of these accounts.

As previously noted, all AmerenUE General Plant and A&G expenses are allocated to the SBO on the basis of labor. However, for AmerenCIPS, the labor allocator is applied to A&G but not General Plant. The failure to extend this allocator to remaining General Plant represents a shortfall for AmerenCIPS.

I have addressed this shortfall by applying the labor allocator to AmerenCIPS General Plant. The resulting allocation of $74,000 represents the amount by which AmerenCIPS' SBO allocation should be increased. Because all of Ameren's billing-related assets are expensed through Account 931, this additional $74,000 should be considered an A&G expense that is directly assigned to the SBO.

Q. Please summarize why you consider this a reasonable SBO allocation for AmerenCIPS A&G expenses.

A. The proposed allocation serves two purposes. First, it generates an allocation that is consistent with AmerenUE's overall allocation of General Plant and A&G to the SBO. Second, by limiting SBO cost recovery to A&G expenses, it recognizes that AmerenCIPS leases billing-related assets through FERC Account 931.

Q. Please address Mr. Mill's second concern that you double-counted overheads associated with billing labor.

A. To prevent double-counting on this issue, I have revised my study to remove the overhead costs from the billing labor included in FERC Account 903.

Q. What about Mr. Mill's criticism that you allocated General Plant differently than Staff witness Luth?

A. Mr. Luth has addressed this issue by revising his allocator for General Plant to conform the approach adopted by the Company and myself.

Q. Please address Mr. Mill's statement that "lock box" expenses should be removed from the study because they are no longer incurred by the Company.

A. If the Company does not incur these costs anymore, then they should clearly be excluded from the cost study. I have therefore removed "lock box" expenses from my SBO allocation.

Q. Why does Mr. Mill criticize your use of the Company's Account 903 allocator for SBO expenses within that account?

A. Mr. Mill claims that the Account 903 allocator does not accurately reflect the causation of SBO expenses within that account. Instead, he contends that Account 903 SBO-related costs should be allocated one way and non-SBO costs within that account should be allocated in a quite different manner. Why two sets of costs within the same FERC account should be treated so differently for allocation purposes is not clear. Nevertheless, I have accepted for the purposes of this case Ameren's proposed allocator for these SBO-related costs.

Q. Does Mr. Difani raise any additional issues in his rebuttal testimony?

A. Yes, he criticizes my proposed allocation of FERC Accounts 901 and 905 to the SBO, stating that my approach allocates considerably more costs to the SBO than the approach accepted in the Company's previous delivery services proceeding.

Q. What is your response to Mr. Difani's criticism?

A. I have accepted the Company's proposed allocation of these accounts.

Q. Have you updated your SBO costing approach based on the discussion in your rebuttal?

A. Yes, I have.

Q. What approach do you propose for AmerenCIPS?

A. My proposal, which is summarized in Schedule 2, uses as a foundation the cost study developed by Mr. Difani in rebuttal testimony. I have incorporated one revision to that study consistent with my rebuttal arguments on the allocation of General Plant. That was to increase the allocation of Account 931 expenses to the SBO to reflect the General Plant assets that were not allocated by Mr. Difani. According to Schedule 1, the allocation should be increased by $74,000. However, it should be remembered that Mr. Difani has already applied the SBO labor allocator to all A&G expenses, so the SBO labor allocation must be backed out from the $74,000 directly assigned to the SBO. According to Mr. Difani, SBO labor accounts for $222,000 (or 0.76%) of AmerenCIPS labor expenses (excluding A&G). Thus, I reduced the additional $74,000 direct assignment by 0.76% or $562 to $73,438. That is my proposed increase to Mr. Difani's SBO A&G allocation to reflect full recovery of General Plant assets.

This revision to Mr. Difani's cost study produces monthly SBO costs of 49 cents for all AmerenCIPS customers as shown in Schedule 2.

Q. What approach do you propose for AmerenUE?

A. I propose using Mr. Difani's rebuttal cost study as revised in response to Staff Data Request PI-16(c) of 53 cents per bill for all customers.

EDI Cost Offsets

Q. Please explain the role of EDI costs in the calculation of the SBO credit.

A. These are costs the utility incurs in exchanging with the SBO provider information about customer billing and payments. EDI costs are offsets that reduce the size of the SBO credit.

Q. Has the Company updated its EDI cost estimates in its rebuttal testimony?

A. Yes, Ameren has updated the cost estimates that were originally presented in Docket No. 99-0121.

Q. How do these updated estimates compare with the previous figures?

A. Ameren's EDI cost estimates have risen for DS-1 and DS-2 customers from 30 to 42 cents per bill and declined for DS-3 and DS-4 customers from 48 to 43 cents per bill.

Q. Do you have any concerns about these revised numbers?

A. Yes, I have two concerns.

Q. What is you first concern?

A. I am concerned by the variance in the cost estimates. The Company's estimates of these EDI costs have increased significantly since Docket No. 99-0121 even though no customers have taken advantage of the SBO. The significant changes in these estimates in the absence of actual experience raises questions about the Company's estimation methodology and the soundness of the numbers calculated.

Q. What is your second concern about the Company's calculation of the EDI offset?

A. The Company's calculation does not appear to be based on the least cost method of conducting EDI exchanges. Ameren's calculations employ the costs associated with the Value Added Network (VAN) method of conducting EDI transactions, which requires Ameren to pay for each bit of information exchanged over the network. This per-unit charge inflates EDI costs to a level comparable with the cost of processing customer bills through the postal system, which is contrary to the notion that electronic commerce increases efficiency and lowers costs.

Q. Can EDI exchanges be conducted through an alternative medium?

A. Yes, this information can be exchanged over the utility's Internet website.

Q. Does this alternative approach offer any advantages?

A. Yes, It appears to offer advantages of both cost and convenience.

Q. What are the costs associated with Internet-based EDI exchanges?

A. The primary costs are associated with the software used to facilitate Internet-based exchanges. Because the exchanges are conducted through the utility's website, rather than an outside network, the Internet-based approach enables the utility to avoid the per-character and per-message costs associated with the VAN.

Q. Does the Company acknowledge the existence of the Internet as an alternative medium for conducting EDI exchanges?

A. Yes. Mr. Mill discusses the Internet alternative in his rebuttal.

Q. How does he characterize this alternative?

A. Mr. Mill suggests that the Internet is an unknown quantity that may or may not serve as a future platform for EDI. He notes that the Communications Protocol Working Group (CPWG) has been studying alternatives to the VAN technology and that “some members of the group are recommending movement to an internet-based technology in the future to replace the current EDI standards based on the VAN technology”. (Ameren Ex. 12.0, p. 11).

Q. Does Mr. Mill present an accurate assessment of the Internet alternative for EDI exchanges?

A. No, he does not. The Internet is a considerably more viable alternative than Mr. Mill suggests. For example, Mr. Mill’s claim that some members of the group are recommending movement to the Internet “in the future” significantly understates the commitment by Illinois utilities to Internet-based EDI transactions. MidAmerican and CILCO are already using the Internet and ComEd is ready to start using it with its trading partners. ComEd’s decision is notable considering that it is the largest utility in the state with the most restructuring activity by far.

Q. What does this discussion indicate concerning the platform for EDI transactions?

A. It indicates that the Internet is clearly gaining acceptance as a medium for EDI transactions.

Q. What is the next issue concerning EDI cost offsets?

A. The issue concerns how the cost of EDI exchanges through the Internet should be calculated.

Q. Does Mr. Mill have anything to say about the costs of Internet-based EDI?

A. Yes. Mr. Mill claims that these costs would be difficult to estimate, stating:

> To estimate the possible cost per transaction when various choices of software, implementation schedules and business practices have not yet been finalized, one would have to make many assumptions. Staff has taken positions in the original delivery services cases and again in the meter unbundling cases that such system development costs should only be included in rates when they are known and measurable and the budgets and approved work orders do not meet that standard. We are assuming the same standard would be applied in this case on this matter. Therefore, the only known and measurable costs for EDI transactions are those based on current methods, not on future methods that will evolve some day. (Ameren Ex. 12.0, p. 12)

Q. Do you find Mr. Mill's argument ironic in any respect?

A. Yes. The irony is that Mr. Mill's argument, in large measure, applies to the

Company's calculations based on the VAN technology. It would be difficult to argue that SBO-related VAN costs are known and measurable when no Ameren customers are even on the SBO. Furthermore, the significant revisions to Ameren's cost estimates from Docket No. 99-0121 to this case indicate that the VAN methodology is neither straightforward nor obvious.

Q. How do you assess Mr. Mill's arguments that uncertainty makes it difficult to estimate Internet-based EDI costs?

A. Mr. Mill overstates the level of uncertainty associated with the Internet-based approach. As previously noted, three utilities, MidAmerican, CILCO and ComEd, are already conducting such transactions with each other. Furthermore, they all use the same software package, "ExpressDX", for their EDI exchanges. Clearly, the Internet-based approach has advanced beyond the conceptual stage to become an increasingly viable platform for EDI exchanges.

Q. How do you estimate the costs for Internet-based EDI exchanges?

A. The costs can be estimated by examining the costs of implementing the Internet-based approach using the ExpressDX software that ComEd, MidAmerican and CILCO are all using. The costs of this software are simple and straightforward, a fee of $1,000 per month for the right to use ExpressDX. Secondly, there will be labor costs associated with implementing and operating the Internet-based system. However, the utility can avoid the variable costs associated with the VAN because transactions are conducted on the utility's website rather than through a third party. Thus, the key costs associated with the Internet-based approach are $1,000 per month to lease the Express DX software and the cost of EDI staff to operate the system which Ameren estimates to be $8,131 per month (Ameren Response to PL-12, Attachment 1), or a total of $9,131 per month. Dividing this total by Ameren's estimate of 390,000 monthly transactions (Ameren Response to PL-12, Attachment 1) produces a total cost of two cents per transaction. That is the amount by which SBO costs should be offset to reflect the costs of EDI exchange.

Q. Isn't it true, nevertheless, that Ameren currently bases its EDI transactions on the VAN, rather than the Internet?

A. Yes.

Q. Should the SBO cost calculation be based on the information technology that Ameren currently employs?

A. No, it should not when a less costly alternative is available. If Ameren chooses to use a more expensive medium such as the VAN that is its prerogative. However, the Company should only be permitted to base SBO ratemaking on the least cost approach. Otherwise, Ameren would be penalizing ratepayers for its decision to pay more.

Q. What SBO credits do you propose for AmerenCIPS and AmerenUE based on the EDI offsets you calculated

A. I propose SBO credits of 47 cents per customer for AmerenCIPS and 51 cents per customer for AmerenUE. These figures were derived by subtracting the EDI offset of 2 cents per customer from the SBO costs of 49 and 53 cents calculated for AmerenCIPS and AmerenUE, respectively.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

AMERENCIPS

DELIVERY SERVICES COST OF SERVICE ALLOCATION STUDY

YEAR: 12 MONTHS ENDED DECEMBER 31, 1999

Docket No. 00-0802
Staff Ex. 15.0 Revised
Schedule 1
Revised 6/29/01

=======		ALLOCATION	CIPS	SBO	Other DS
TITLE: SUMMARY		BASIS	TOTAL		
1	BASE REVENUE		$181,490	$74	$181,416
2	OTHER REVENUE		$0	$0	$0
3	OTHER RENTS-IL. ONLY		$0	$0	$0
4	OTHER RENTS - IL. ONLY		$0	$0	$0
5					
6	TOTAL OPERATING REVENUE		$181,490	$74	$181,416
7					
8					
9	TOTAL DISTRIBUTION, CUSTOMER, AND A&G EXPENSES		$80,987	$0	$80,987
10	TOTAL DEPRECIATION AND AMMORTIZATION EXPENSES		$35,566	$44	$35,522
11	REAL ESTATE AND PROPERTY TAXES		$12,012	$5	$12,008
12	INCOME TAXES		$18,595	$9	$18,585
13	PAYROLL TAXES		$2,171	$0	$2,171
14					
15	TOTAL OPERATING EXPENSES		$149,330	$58	$149,272
16					
17	NET OPERATING INCOME		$32,160	$16.21	$32,143.79
18					
19					
20	GROSS PLANT IN SERVICE		$864,167	$332	$863,835
21	RESERVES FOR DEPRECIATION		$380,686	$133	$380,553
22					
23	NET PLANT IN SERVICE		483,480	199	483,282
24					
25					
26	MATERIALS & SUPPLIES - FUEL		$0	$0	$0
27	MATERIALS & SUPPLIES -LOCAL		$7,635	$0	$7,635
28	CASH WORKING CAPITAL		$4,846	$0	$4,846
29	CUSTOMER ADVANCES & DEPOSITS		($3,326)	$0	($3,326)
30	ACCUMULATED DEFERRED INCOME TAXES		($98,728)	$0	($98,728)
31					
32	TOTAL NET ORIGINAL COST RATE BASE		$393,908	$199	$393,709
33					
34	RATE OF RETURN		8.16%	8.16%	8.16%

AMERENCIPS
SBO COST OF SERVICE ALLOCATION STUDY
YEAR: 12 MONTHS ENDED DECEMBER 31, 1999

Docket No. 00-0802
Staff Ex. 15.0 Revised
Schedule 2
Revised 6/29/01

	=======	ALLOCATIO	SBO	DS-1	DS-2(sec.)	DS-2(pri.)	DS-3(sec.)	DS-3(pri.)	DS-3(HV)	LTG.	SP. Contract
	TITLE: SUMMARY	BASIS									
1	BASE REVENUE		$1,885	$1,610	$239	$1	$31	$2	$0	$3	$0
2	OTHER REVENUE		$0	$0	$0	$0	$0	$0	$0	$0	$0
3	OTHER RENTS-IL. ONLY		$0	$0	$0	$0	$0	$0	$0	$0	$0
4	OTHER RENTS - IL. ONLY		$0	$0	$0	$0	$0	$0	$0	$0	$0
5											
6	TOTAL OPERATING REVENUE		$1,885	$1,610	$239	$1	$31	$2	$0	$3	$0
7											
8											
9	TOTAL DISTRIBUTION, CUSTOMER, AND A&		$1,868	$1,595	$237	$1	$31	$2	$0	$3	$0
10	TOTAL DEPRECIATION AND AMMORTIZATION		$0	$0	$0	$0	$0	$0	$0	$0	$0
11	REAL ESTATE AND PROPERTY TAXES		$0	$0	$0	$0	$0	$0	$0	$0	$0
12	INCOME TAXES		$0	$0	$0	$0	$0	$0	$0	$0	$0
13	PAYROLL TAXES		$17	$14	$2	$0	$0	$0	$0	$0	$0
14											
15	TOTAL OPERATING EXPENSES		$1,885	$1,610	$239	$1	$31	$2	$0	$3	$0
16											
17	NET OPERATING INCOME		$0	$0	$0	$0	$0	$0	$0	$0	$0
18											
19											
20	GROSS PLANT IN SERVICE		$0	$0	$0	$0	$0	$0	$0	$0	$0
21	RESERVES FOR DEPRECIATION		$0	$0	$0	$0	$0	$0	$0	$0	$0
22											
23	NET PLANT IN SERVICE		0	0	0	0	0	0	0	0	0
24											
25											
26	MATERIALS & SUPPLIES - FUEL		$0	$0	$0	$0	$0	$0	$0	$0	$0
27	MATERIALS & SUPPLIES -LOCAL		$0	$0	$0	$0	$0	$0	$0	$0	$0
28	CASH WORKING CAPITAL		$0	$0	$0	$0	$0	$0	$0	$0	$0
29	CUSTOMER ADVANCES & DEPOSITS		$0	$0	$0	$0	$0	$0	$0	$0	$0
30	ACCUMULATED DEFERRED INCOME TAXES		$0	$0	$0	$0	$0	$0	$0	$0	$0
31											
32	TOTAL NET ORIGINAL COST RATE BASE		$0	$0	$0	$0	$0	$0	$0	$0	$0
33											
34	RATE OF RETURN		8.16%	8.16%	8.16%	8.16%	8.16%	8.16%	8.16%	8.16%	8.16%
35	ACCUMU CUSTOMER CHARGE BILLING UNITS		3,884,580	3,317,340	492,420	1,176	64,032	3,684	216	5,700	12
36	SBO CREDIT PER BILL		0.49	0.49	0.49	0.49	0.49	0.49	0.49		0.49