

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company)	
d/b/a Ameren Illinois)	
)	Docket No. 16-0038
)	
Verified Petition for Certificate of Public)	
Convenience and Necessity to Provide)	
Natural Gas Service to the City of Creal)	
Springs in Williamson County, Illinois.)	

**STAFF OF THE ILLINOIS COMMERCE COMMISSION'S
INITIAL BRIEF**

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Staff of the Illinois Commerce Commission (“Staff”), by and through its counsel, pursuant to Section 200.800 of the Illinois Commerce Commission’s (“Commission” or “ICC”) Rules of Practice (83 Ill. Admin. Code § 200.800), respectfully submits its Initial Brief in the above-captioned matter.

I. Introduction

On January 22, 2016, Ameren Illinois Company d/b/a Ameren Illinois (“Ameren Illinois”, “AIC” or the “Company”) filed a Verified Petition pursuant to Section 8-406 of the Public Utilities Act (“Act”) requesting a certificate of public convenience and necessity (“Certificate”) authorizing AIC to construct, operate and maintain a natural gas supply and distribution system and provide natural gas service (“System”) in and to the City of Creal Springs, Illinois (“City”) and the surrounding area (“Creal Springs Area”). The Company

also requested approval of applicable rates for the Creal Springs Area, accounting treatment proposed by the Company related to the acquisition by the Company of natural gas supply and distribution facilities and related assets from the City of Creal Springs (“Proposed Acquisition”), a one-year grace period from any financial penalty associated with any enforcement action by the Illinois Commerce Commission’s Natural Gas Pipeline Safety Division related to any Federal and/or State safety rules and regulations pertaining to the design, construction, operation and maintenance of those facilities in the Creal Springs Area that were being acquired by AIC, and all other necessary and useful authority under the Act to construct, own, operate and maintain a natural gas supply and distribution system and provide natural gas service in the Creal Springs Area, and engage in the Proposed Acquisition. (Verified Petition, 1-2.)

Staff of the Commission participated in the proceeding. No petitions to intervene were filed.

Company witnesses Bradley C. Kloepfel and Ronald D. Stafford filed direct, rebuttal and surrebuttal testimony in this proceeding. Staff witnesses Brett Seagle, Rochelle M. Phipps, Burma C. Jones, and Cheri Harden filed direct testimony on April 27, 2016 and Mr. Seagle and Ms. Jones filed rebuttal testimony on August 9, 2016 in this proceeding. An evidentiary hearing was held in this matter on September 20, 2016. The record was marked “Heard and Taken” on September 21, 2016.

II. Statutory Authority

Section 8-406(b) of the Act states:

No public utility shall begin the construction of any new plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facility or any

extension or alteration thereof or in addition thereto, unless and until it shall have obtained from the Commission a certificate that public convenience and necessity require such construction. Whenever after a hearing the Commission determines that any new construction or the transaction of any business by a public utility will promote the public convenience and is necessary thereto, it shall have the power to issue certificates of public convenience and necessity. The Commission shall determine that proposed construction will promote the public convenience and necessity only if the utility demonstrates: (1) that the proposed construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers ...; (2) that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and (3) that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

220 ILCS 5/8-406(b).

III. Section 8-406(b)

A. Section 8-406(b)(1)

1. Adequate, Reliable and Efficient Service and Least-cost means of satisfying service needs

Mr. Seagle presented his analysis and review of AIC's request for Commission authority to construct, own, operate, and maintain the System and transact public utility business in the Creal Springs Area pursuant to the requirements of Section 8-406(b)(1) of the Act, which requires that, before issuing a requested certificate of public convenience and necessity, the Commission find, among other things, that the proposal "is necessary for it to provide adequate, reliable, and efficient service to [the utility's]

customers and is the least-cost means to satisfy the service needs of its customers.” 220 ILCS 5/8-406(b)(1); see also ICC Staff Ex. 1.0, 3.

Mr. Seagle testified that AIC demonstrated that it met the requirement of Section 8-406(b)(1) by providing an Asset Purchase Agreement between AIC and the City of Creal Springs. He also testified that AIC performed various analyses including a Net Present Value analysis and a Present Value Revenue Requirement (“PVRR”) that demonstrated AIC’s existing ratepayers were not subsidizing AIC’s purchase of the System. (Id. at 5.) The purpose of the PVRR is to demonstrate that AIC’s existing ratepayers are not subsidizing AIC’s purchase of the System and determine if the project is economically feasible without any customer deposits. (ICC Staff Ex. 6.0, 2.) Mr. Seagle’s review determined that there were no reasonable scenarios that would cause him to conclude that AIC’s proposed acquisition would result in AIC’s existing ratepayers subsidizing the acquisition and assured him that no cross-subsidization by AIC’s current customers would occur. (Id. at 3.)

Further, Mr. Seagle stated that AIC offered evidence of the City’s opinion that AIC would be better able to address the operations and maintenance of, and improvements to, the System than the City had been. (ICC Staff Ex. 1.0, 7.) He explained that the gas segment of the City had an operating loss of \$25,276. Additionally, he testified that in September 2015, the City violated federal rules that led to a stipulated financial penalty of \$6,200, paid by the City. (Id. at 6.) Therefore, Mr. Seagle found no reason to dispute AIC’s claim that due to AIC’s additional resources and expertise, the City took the view that AIC can meet the future service needs of its natural gas customers. (Id. at 7.)

Based on his analysis, Mr. Seagle concluded that Ameren Illinois is capable of providing adequate, reliable, and efficient service to its customers and is the least-cost means to satisfy the service needs of its customers, as required by Section 8-406(b)(1) of the Act. (Id. at 5.)

B. Section 8-406(b)(2)

Mr. Seagle presented his analysis and review of AIC's request pursuant to the requirements of Section 8-406(b)(2) of the Act, which requires that, before issuing a requested certificate of public convenience and necessity, the Commission find, among other things, "that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof." 220 ILCS 5/8-406(b)(2). (ICC Staff Ex. 1.0, 3.)

Mr. Seagle testified that AIC demonstrated its capabilities within the meaning of Section 8-406(b)(2) by stating that it intends to conduct a leak survey over the entire Creal Springs natural gas system within the first six months of ownership. Further, Mr. Seagle understood that AIC plans to immediately repair any Class 1 leaks detected. Additionally, Mr. Seagle stated that AIC intends to conduct a cathodic protection survey at all known test points within six months of ownership. Any deficient cathodic protection readings detected will be corrected within six months, unless it is determined that the deficient portion of the pipeline should be replaced and such replacement occurs within one year of discovery of the deficient reading. (Id. at 7.)

Mr. Seagle also testified that AIC intends to operate the Creal Springs distribution system in accordance with the Company's Operating & Maintenance ("O&M") Plan. Mr.

Seagle noted that a gas leak discovered during the leak survey will be classified according to AIC's Gas O&M Plan. (Id. at 7-8.) Finally, Mr. Seagle noted that AIC provides natural gas delivery service to approximately 813,000 customers in central and southern Illinois and this type of project is well within the normal activities of AIC. AIC's construction practices are required to meet the U.S. Department of Transportation minimum federal safety standards contained in 49 CFR 192. (Id.)

Based on his analysis, Mr. Seagle concluded that Ameren Illinois is capable of efficiently managing and supervising the construction process, as required by Section 8-406(b)(2) of the Act. (Id. at 7.)

C. Section 8-406(b)(3)

Staff witness Rochelle M. Phipps presented her evaluation of the ability of the Company to fund the proposed construction of the System pursuant to the requirements of Section 8-406(b)(3) of the Act, which requires that, before issuing a requested certificate of public convenience and necessity, the Commission find, among other things, "the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers." 220 ILCS 5/8-406(b)(3). (ICC Staff Ex. 2.0, 1-2.)

Ms. Phipps testified that the total estimated cost of the proposed construction is \$343,020, which equals a purchase price of \$237,000, plus \$10,000 of transaction costs (e.g., legal and accounting services) and \$96,020 for capital expenditures for the period of 2016-2020. Ms. Phipps testified that Ameren Illinois intends to finance the purchase price and related transaction costs with cash on hand or short-term borrowings and will

use a mix of debt and equity to fund the estimated capital expenditures for the period of 2016-2020. (Id. at 2-3.)

Ms. Phipps explained that the total cost of the proposed construction represents 0.03% of the Company's net utility plant and 0.04% of the Company's total utility operating revenue for its gas operations. In Ms. Phipps' opinion, the total cost of the proposed construction is diminutive in comparison to the Company's net utility plant and operating revenue. (Id. at 3.)

Ms. Phipps also noted that Moody's Investors Service ("Moody's) assigns Ameren Illinois an issuer credit rating of A3, with a stable outlook, and a commercial paper rating of Prime-2 ("P-2"). She explained that the Company's current A3 credit rating from Moody's indicates that the Company's financial obligations are subject to low credit risk and the P-2 commercial paper rating indicates the Company has a strong ability to repay short-term debt obligations. (Id. at 3-4.) She also noted that Standard & Poor's ("S&P") assigns Ameren Illinois a corporate credit rating of BBB+, with a stable outlook, and a commercial paper rating of A-2. Similarly, Fitch Ratings assigns Ameren Illinois a long-term Issuer Default Rating ("IDR") of BBB+ and a short-term IDR of F-2. Ms. Phipps explained that BBB+ ratings from S&P and Fitch Ratings indicate the Company's capacity to meet financial commitments is adequate and short-term ratings of A-2 and F-2 from S&P and Fitch Ratings, respectively, indicate the Company's capacity to meet its short-term financial commitments is satisfactory. (Id. at 4.)

Based on her analysis, Ms. Phipps concluded that the cost of the proposed construction is diminutive relative to the assets and revenues of Ameren Illinois, and the Company's financial condition is sound, as evidenced by its credit ratings. Thus, in her

judgment, Ameren Illinois is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers, as required by Section 8-406(b)(3) of the Act. (Id. at 4-5.)

D. Requirements of Section 8-406(b) Met

Based on its analysis, Staff is of the opinion that the Company has met the requirements of Section 8-406(b) and recommends that the Commission issue the Company its requested Certificate authorizing it to construct, own, operate, and maintain gas supply and distribution facilities and to transact the business of furnishing gas service to the public in the Creal Springs Area.

IV. Other Issues

A. Original Cost Determination

AIC and Staff agreed upon the calculated net original cost of the System because there were no property records available. (See Ameren Ex. 2.0, 2; Staff Ex. 3.0, 3.) AIC reviewed the physical assets of the System and the financial reports to perform this calculation. For the assets for which original cost was not determinable, AIC estimated original cost using values from AIC's Rate Zone 1. (ICC Staff Ex. 3.0, 3.) AIC and Staff further agreed upon the accumulated depreciation associated with the acquired assets. Therefore, Staff recommends the Commission approve \$176,453 as the depreciated original cost of the System. (Id. at 10.)

B. Accounting Treatment of Acquisition Adjustment

AIC is paying more for the System than its net cost, which results in a positive, or debit acquisition adjustment (“AA”). (ICC Staff Ex. 3.0, 3.) The Uniform System Of Accounts for gas utilities operating in Illinois (“USOA”) requires AA to be recorded in Account 114 - Gas Plant Acquisition Adjustments (“Account 114”), the description of which follows:

Debit amounts recorded in this account related to plant and land acquisition may be amortized to account 425, Miscellaneous Amortization, over a period not longer than the estimated remaining life of the properties to which such amounts relate. Amounts related to the acquisition of land only may be amortized to account 425 over a period of not more than 15 years. **Should a utility wish to account for debit amounts in this account in any other manner, it shall petition the Commission for authority to do so.** Credit amounts recorded in this account shall be accounted for as directed by the Commission. **(Emphasis added)**

(Id.)

AIC is proposing an alternative treatment for amortization of the debit AA in this proceeding.¹ Specifically, AIC requests that the Commission allow amortization of the debit AA to Account 406 - Amortization of Gas Plant Acquisition Adjustments (“Account 406”) rather than Account 425, as instructed above. AIC further requests that the total AA be expensed during the month the acquisition is recorded on AIC’s books. (Ameren Ex. 2.0, 5.)

AIC’s request for the proposed alternative treatment of debit AA should be rejected for the following reasons:

¹ Initially, AIC requested the Commission set a limit of \$100,000 as the ceiling above which AA (positive or negative) would be amortized over sixty (60) months, and if AIC has a gas rate case during the amortization period, to include the test year unamortized balance in Account 114 in rate base and amortization expenses recorded in Account 406 in test year operating expenses. AA below \$100,000 would be fully amortized to Account 406 in the month the acquisition is recorded on AIC’s books. (Ameren Ex. 2.0, 5:97-111.) AIC withdrew this request in rebuttal testimony. (Ameren Ex. 4.0, 2:34-36.)

- i). The proposed treatment of the debit AA is contrary to the USOA Instructions for Account 114, absent Commission approval, because Account 406 is an “above-the-line” operating expense account rather than a “below-the-line” expense account, as is Account 425; and
- ii). The Company requests Commission approval to depart from the USOA in order to create a new Commission “policy”; however, the Act does not provide for the Commission to incentivize such acquisitions by recovering the overpayment for gas systems from utility ratepayers.

The proposed treatment of the debit AA is counter to the USOA Instructions for Account 114, absent Commission approval. Account 406 is an “above-the-line” operating expense account rather than a “below-the-line” expense account, as is the case with Account 425. Accordingly, the USOA-prescribed treatment for debit AA is amortization to account 425 *unless the Commission authorizes an alternative*. According to the USOA, Account 425 is recorded “below-the-line”, meaning that account is not includible in the revenue requirement for a rate case test year: i.e., these expenses are not generally recoverable from ratepayers.

Account 406 is recorded “above-the-line”, meaning that account is includible in the revenue requirement as an operating expense if the amortization period falls within a rate case test year: i.e., these expenses are generally recoverable from ratepayers. Using the Company’s proposal, if the acquisition of the System closes in 2016, the Company would record as an *operating expense to Account 406* the total debit AA (i.e., amount paid in excess of the net cost) for the Creal Springs System. Accordingly, if 2016 were used as the test year in a gas rate case filing, AIC’s proposal would allow the Company to seek full recovery of the debit AA in its rates. Moreover, the debit AA would be recovered every year that such rates remain in effect.

The Company contends there is small likelihood that 2016 would be selected as the test year for a gas rate case since 2016 was already used in Docket No. 15-0142. (ICC Staff Ex. 5.0, 3-4.) Regardless of whether this is true, there are larger implications to the Company's proposal, as AIC witness Bradley C. Kloeppel appears to recognize.

Mr. Kloeppel contends the Commission should permit AIC's proposed alternative treatment to record debit AA in Account 406 as a "policy decision". Mr. Kloeppel describes this "policy decision" as an opportunity for the Commission to incentivize utilities like AIC to acquire small, sometimes troubled gas systems like Creal Springs. (Ameren Ex. 5.0, 3-4.) Nothing in the Public Utilities Act, however, suggests that the Commission should incentivize gas companies to acquire other gas systems by recovering any overpayment for such systems from utility ratepayers. Moreover, Staff was able to find only one recent acquisition of a small municipal gas system (similar to Creal Springs) by a larger investor-owned gas utility. Liberty Utilities purchased the natural gas supply and distribution facilities of the Village of Pittsburg. See Order, Liberty Utilities, Docket No. 15-0155, (July 28, 2015). That transaction also resulted in a debit AA which Liberty Utilities, on its own initiative, amortized below-the-line. (ICC Staff Ex. 5.0, 6-7.) The remaining cases cited by the Company in its testimony are not analogous to the instant proceeding, nor would they support AIC's proposal to record above-the-line the positive AA that will result from its decision to pay more than the net book value for the System. (Id. at 4.)

Therefore, Staff recommends the Commission order AIC to write off the total amount of the AA in the month the acquisition is recorded on AIC's books to USOA Account 425 – Miscellaneous Amortization, a below-the-line account that would not be included in utility operating expenses. (ICC Staff Ex. 3.0, 10.)

C. Journal Entries to Record Acquisition of the System

Staff analyzed AIC's proposed journal entries to record the acquisition of the System, (Ameren Ex, 2.1), according to Gas Plant Accounting Instruction 5 of the USOA ("Instruction 5"). Staff concluded that the Company's proposed journal entries, as reflected on Ameren Ex. 2.1, comply with Instruction 5; however, Staff noted that Instruction 5 does not address write-off or amortization of the AA. Additionally, AIC described in its testimony the Company's proposed treatment of the AA, but AIC did not provide such a journal entry. (ICC Staff Ex. 3.0, 8.) Accordingly, Staff presented the journal entries proposed by AIC to record the acquisition of the System in accordance with Instruction 5, and the journal entry that reflects Staff's proposal to write off the AA to Account 425. (Id. at 9.)

Therefore, Staff recommends:

- a) The Commission approve the journal entries for the acquisition of the System as presented on ICC Staff Ex. 3.0, Sch. 3.01 and attach the entries as an Appendix to the Final Order in this proceeding (Staff Ex. 3.0, 10.);
- b) The Commission order AIC to file the final journal entries for the acquisition on the Commission's e-Docket system, including the journal entry to write off the AA to Account 425 within sixty (60) days of closing the transaction. AIC should also provide a copy to the Commission's Accounting Department at AccountingMgr@icc.illinois.gov (Id.); and
- c) If the transaction has not been completed within six months of the Final Order in this proceeding, the Company shall file a status report at six-month intervals until the final journal entries are filed as ordered (Id.).

D. Rates

Staff witness Cheri Harden presented her evaluation of the Company's proposal to apply Rate Zone 1 tariff rates, rules and regulation to customers on the natural gas distribution system in the City of Creal Springs. Ms. Harden recommended that Ameren's Rate Zone I tariff rates, rules and regulations be approved for Creal Springs' gas customers if the Certificate is approved in this docket. (ICC Staff Ex. 4.0, 2.)

Currently, for the typical Creal Springs' customer, an annual average usage of 624 therms was used to calculate an average annual gas bill of \$925.15 or an average monthly bill of \$77.10. Using the Company's proposal to apply Rate Zone 1 tariff rates, the proposed rates are comprised of a monthly customer charge of \$21.82, which includes (1) the tariffed monthly customer charge of \$21.35, (2) Rider GUA, a gas uncollectible adjustment charge of \$(0.06), (3) renewable energy resources and coal technology development assistance charge of \$0.05, and (4) the energy assistance charge of \$0.48. There is also a \$0.1481 delivery charge per therm along with three (3) other applicable riders and a purchase gas adjustment charge that all change monthly or annually. The annual average usage of 624 therms was used to calculate an average annual gas bill of \$637.53 or an average monthly bill of \$53.13. Thus, the current customers of Creal Springs, on average, may see a 31% decrease in their bill or \$287.62 annually. (Id. at 3-4.)

In addition to lower rates for gas service under the proposed Rate Zone 1 tariff rates, Creal Springs currently receives electric service from AIC. These electric service customers are on Rate Zone I tariff rates. Creal Springs is already listed in the applicability section for AIC as customers that receive electric service under Rate Zone I.

Accordingly, there is no need to file revised tariffs. In addition, these customers are serviced out of the Marion operating center, which is located within the Rate Zone I service area. There are uniform prices among rate zones for gas delivery service. These customers will be subject to the newly approved Volume Balancing Adjustment Rider in the Ameren tariffs. (Id. at 4.)

Based on her analysis, Ms. Harden recommended that Ameren's Rate Zone I tariff rates, rules and regulations be approved for Creal Springs' gas customers if the Certificate is approved in this docket. (Id. at 2.)

E. Termination of Existing Transportation Agreements

Mr. Seagle testified that he reviewed AIC's natural gas purchasing practices and procedures and found no basis to object to AIC's decision to terminate the City's agreement with Texas Eastern Transmission Company ("TETCO"). He also found no basis to object to AIC's decision to terminate the City's Natural Gas Management Agreement with Interstate Municipal Gas Agency ("IMGA") for system supply and incorporate the transportation and supply of natural gas for the System into Ameren Illinois' current portfolio of customers being served from TETCO. (ICC Staff Ex. 1.0, 9.)

F. One Year Grace Period Approval

Mr. Seagle testified that he found no basis to object to AIC's request for Commission approval of a one year grace period from any financial penalty associated with any enforcement action if the safety violation originated with the actions of the City prior to the Company obtaining Commission approval to own and operate the system.

(ICC Staff Ex. 1.0, 10.) However, this grace period would not preclude AIC from being assessed a possible financial penalty if AIC is found in violation of any part of 49 CFR 191, 192 and 199 and AIC is found to be responsible for the violation. (Id. at 12.) The Company did not dispute this caveat.

V. Conclusion

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this docket.

Respectfully submitted,

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