STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company d/b/a AmerenCILCO **Proposed general increase in electric delivery service rates.**	:	**07-0585**
Central Illinois Public Service Company d/b/a AmerenCIPS **Proposed general increase in electric delivery service rates.**	:	**07-0586**
Illinois Power Company d/b/a AmerenIP **Proposed general increase in electric delivery service rates.**	:	**07-0587**
Central Illinois Light Company d/b/a AmerenCILCO **Proposed general increase in gas delivery service rates.**	:	**07-0588**
Central Illinois Public Service Company d/b/a AmerenCIPS **Proposed general increase in gas delivery service rates.**	:	**07-0589**
Illinois Power Company d/b/a AmerenIP **Proposed general increase in gas delivery service rates.**	:	**07-0590** **(Cons.)**

<u>ORDER</u>

DATED: September 24, 2008

conservation are taken away from natural gas consumers. AIU discusses how Rider VBA would reduce its "disincentive" to support energy efficiency efforts, but according to AARP it did not discuss what impact the Rider VBA would have on customer behavior. Mr. Brosch concludes that Rider VBA will likely diminish the incentive for consumers to lower their thermostats, invest in energy efficient appliances and weatherization, or to participate in the very programs that AIU claims it wants to provide. AARP believes that many of its members will likely feel discouraged from engaging in conservation, knowing that any overall gains in conservation would be quickly diminished by the operation of this rider.

7. Commission Conclusion

Rider VBA as proposed only applies to GDS-1 and GDS-2 customers of each gas utility. The Commission therefore understands that AIU is most concerned about declining gas usage by these two customer classes. Of the fixed delivery service costs recovered through customer charges, volumetric delivery charges, and demand charges, AIU indicates that approximately 43% of its fixed delivery service cost is recovered based on the volume of gas used by customers. The vast majority of the remaining fixed delivery service costs are recovered through the monthly customer charge. Whenever gas usage by these two classes falls below the test year usage level, AIU's ability to recover that portion of its fixed costs collected through the volumetric charge is impaired.

Why AIU would want to recover as much of its authorized revenue requirement as possible is clear. AIU has proposed Rider VBA as a means of recovering its fixed costs through the continued use of volumetric charges. In Docket Nos. 07-0241 and 07-0242 (Cons.), the Commission recently approved the use of a similar rider for Peoples and North Shore as a four year pilot program. From this decision, it is evident that the Commission is willing to consider alternatives to the traditional method of recovering a portion of fixed costs through the volume based portion of the bill.

The Commission is fully aware that its decision in Docket Nos. 07-0241 and 07-0242 (Cons.) was controversial. Many of the same parties involved in that proceeding have participated in this proceeding and made many of the same arguments regarding AIU's proposed Rider VBA. The Commission acknowledges those concerns and reevaluated them in this proceeding.

What carries the most weight is the argument that the Peoples/North Shore Rider VBA was approved as a pilot program, and it would make little sense to expand the pilot program to AIU without having any of the results from Peoples' and North Shore's experience. AIU's proposed Rider VBA is very similar, if not substantively identical, to the Rider VBA approved in Docket Nos. 07-0241 and 07-0242 (Cons.). If there are unknown flaws in the approved rider, it is likely that the same flaws exist in AIU's proposed rider. Allowing Peoples and North Shore to implement this controversial rider under the pilot program, and hopefully identify any problems with the rider, before expanding it to a significant number of additional customers seems more prudent than expanding the rider now without the benefit of any significant experience with the rider. Furthermore, using an alternative to Rider VBA that would still provide AIU a better opportunity to recover its fixed costs will supply the Commission more information with which to evaluate ways to recover a utility's fixed costs.

An alternative to Rider VBA that would still promote fixed cost recovery by the utility is recovery of a greater portion of fixed delivery costs through the fixed monthly charge to all affected customers. AIU makes this suggestion and notes that under this method, utilities could not over- or under-recover their Commission-approved base rate revenue requirement with changes in sales. AIU adds that this alternative would also send proper price signals to customers. The Commission concurs with these statements and notes further that this alternative arguably decreases any disincentive AIU may perceive to implementing gas efficiency programs. Specifically, AIU has pending before the Commission in Docket No. 08-0104 a gas energy efficiency plan which it indicates is contingent upon approval of Rider VBA. The Commission anticipates that in light of the end result under the conclusion on this issue, AIU will not shy away from efforts to decrease gas consumption by its customers.

Accordingly, the Commission concludes that it will not adopt AIU's Rider VBA, but that it will direct AIU to increase its monthly customer charge for the GDS-1 and GDS-2 classes to recover more of its fixed delivery services costs. AIU proposes a monthly charge of $15.00 for all GDS-1 customers. AmerenCILCO's current monthly residential customer charge is $11.80. The current monthly charge for AmerenCIPS Metro-East residential customers is $15.00. For all other AmerenCIPS residential customers, the monthly charge is currently $10.50. The standard monthly charge for AmerenIP residential customers is currently $10.27, while the non-standard monthly charge is $32.46. The current and proposed monthly customer charges for small general service under GDS-2 vary depending on meter facilities and whether a customer is a sales or transportation customer. Ameren Ex. 12.2G identifies the current and proposed monthly charges. As mentioned earlier, AIU's proposed monthly customer charges for GDS-1 and GDS-2 customers would recover nearly 57% of AIU's proposed fixed delivery services costs. AIU should modify its monthly customer charges for these classes to recover 80% of the fixed delivery services costs approved in this proceeding. With regard to varying charges for the GDS-2 class, the increases should be proportionate to existing rates. The Commission anticipates that this method of recovering fixed delivery costs will be simpler and easier for customers to understand than Rider VBA.

The Commission does not at this time approve recovery of all fixed costs in the monthly charges for two reasons. First, it is expected that leaving a portion of fixed costs to be recovered through the volumetric rate will encourage AIU to seek ways to improve efficiency and otherwise cut costs. Second, as the number of AIU's customers grows, AIU should experience growing revenue. If all of its fixed costs were recovered through the monthly charge, AIU may arguably over-recover its fixed costs through the monthly charge.

In order to gain sufficient experience to evaluate this method of recovering fixed delivery costs, the Commission anticipates that the approved ratio of fixed costs recovered from the customer charge and the volumetric rate must remain in place until at least December 31, 2012. AIU may propose revisions to this ratio in its next rate case or rate design case thereafter. By this time the Commission should also have the benefit of Peoples' and North Shore's experience with Rider VBA.

In their respective Brief on Exceptions, Staff and the AG complain that increasing the monthly customer charge to recover a greater portion of fixed costs will be detrimental to GDS-1 and GDS-2 customers. While the Commission acknowledges that the monthly charges will increase and such increases may be more apparent on bills than changes to volumetric rates, the fact remains that the volumetric rates will decrease by a corresponding amount. Therefore, on average, there should be no overall adverse revenue impact on customers resulting from recovering a greater portion of fixed costs through the monthly customer charge than a volume based rate. So that customers realize this, however, the Commission directs AIU to include in at least one bill insert soon after entry of this Order a statement explaining that a greater portion of the fixed costs of delivering gas will be recovered through the monthly customer charge and that the amount of fixed costs recovered through the volumetric charge has been correspondingly reduced.

B. Rider QIP

1. AIU's Position

AIU states that it intends to improve infrastructure performance (i.e., system reliability) by increasing both O&M expenditures and capital expenditures. Specifically, AIU states that it plans to spend $909 million in electric capital expenditures for the 2007-2009 time period. Over two-thirds of these capital expenditures, AIU continues, will be dedicated to infrastructure improvement.

Certain factors, however, limit its ability to make infrastructure investments, according to AIU. Obviously, access to capital funds is necessary. AIU explains that some of those funds are provided by cash flow from operations, based on the revenue requirement and rate base from the most recent rate case. AIU claims, however, that cash flow from operations will be insufficient to make such improvements based on a static rate base and revenue requirement. AIU says that it will therefore have to go to the capital markets to secure funds for infrastructure investments. Without a ready source of rate recovery for capital investments, AIU states further that there is no way to pay interest to debt providers or to pay dividends and provide a return to equity investors. In other words, AIU is asserting that significant and continued investments in infrastructure can only be made, and sustained, when a fair return on and a return of investment are received on a timely basis. AIU adds that capital investments made between rate cases cause earnings and return on equity to fall, further impairing the ability to raise capital.