STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company	**:**	
d/b/a Ameren Illinois	**:**	
	:	**25-0084**
Proposed general increase in rates	**:**	
and revisions to other terms and	**:**	
conditions of service.	**:**	
(Tariffs filed January 8, 2025)	**:**	

ORDER

Dated: November 19, 2025

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ORDER

By the Commission:

I. INTRODUCTION

A. Procedural History

On January 8, 2025, Ameren Illinois Company d/b/a Ameren Illinois ("Ameren Illinois," "Ameren," "AIC," or "the Company") filed with the Illinois Commerce Commission ("Commission") proposed amended tariffs establishing revised rates and other terms and conditions for gas delivery service, specifically Ill. C.C. No. 2, 3rd Revised Sheet No. 4.009; 4th Revised Sheet No. 4.010; 3rd Revised Sheet No. 4.011; 4th Revised Sheet No. 4.012; 2nd Revised Sheet Nos. 4.013 – 4.016; 5th Revised Sheet No. 4.017; 4th Revised Sheet No. 4.018; 2nd Revised Sheet No. 5.007; 5th Revised Sheet No. 5.008; 3rd Revised Sheet No. 5.009; 14th Revised Sheet Nos. 11.001 & 11.002; 15th Revised Sheet No. 12; 14th Revised Sheet Nos. 12.001 & 12.002; 15th Revised Sheet No. 13; 14th Revised Sheet Nos. 13.001 & 13.002; 15th Revised Sheet No. 14.001; 16th Revised Sheet No. 14.002; 17th Revised Sheet No. 14.003; 14th Revised Sheet No. 14.004; 6th Revised Sheet No. 14.005; 13th Revised Sheet No. 14.006; 18th Revised Sheet No. 15; 15th Revised Sheet No. 15.001; 5th Revised Sheet Nos. 15.002 & 15.003; 11th Revised Sheet No. 15.004; 7th Revised Sheet Nos. 16 & 17; 6th Revised Sheet No. 17.003; 1st Revised Sheet No. 18; Original Sheet Nos. 18.001 – 18.003; 11th Revised Sheet No. 24; 14th Revised Sheet No. 24.001; 12th Revised Sheet No. 26; 14th Revised Sheet No. 26.001; 5th Revised Sheet No. 34.001.

This rate filing proposed a general increase in rates for natural gas service, as well as other changes in terms and conditions. As required by law, notice of the filing of the proposed rate increases was posted in each of Ameren Illinois' business offices and was published twice in newspapers of general circulation within each of AIC's service areas, in accordance with the requirements of Section 9-201(a) of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 *et seq*., and the provisions of 83 Ill. Adm. Code 255.

On January 23, 2025, the Commission suspended the filing and entered into a hearing on the propriety of the Company's proposed tariffs, initiating the instant

proceeding. On April 24, 2025, the Commission resuspended the tariffs to and including December 6, 2025.

Pursuant to due notice, prehearing conferences were held on February 27, 2025, and July 29, 2025, before duly authorized Administrative Law Judges ("ALJs") of the Commission. During the course of the proceeding, the following parties were granted leave to intervene and participate: Citizens Utility Board ("CUB"); Illinois Competitive Energy Association ("ICEA"); Retail Energy Supply Association ("RESA"); Illinois Industrial Energy Consumers ("IIEC"); Community Organizing and Family Issues ("COFI"); Federal Executive Agencies ("FEA"); Environmental Law & Policy Center ("ELPC"); Illinois State Public Interest Research Group, Inc. ("PIRG") and Environmental Defense Fund ("EDF") (collectively the Public Interest Organizations ("PIO")); Illinois Manufacturers' Association ("IMA"); and the Chemical Industry Council of Illinois ("CICI"). The Illinois Attorney General ("AG") filed an appearance and participated as a party of right. Staff of the Commission ("Staff") also participated in the proceeding.

On July 31 and August 6, 2025, an evidentiary hearing was held. At the evidentiary hearing, testimony and exhibits filed by the parties were admitted into evidence and are identified on the Commission's e-Docket. On August 8, 2025, the evidentiary record was marked "Heard and Taken."

On August 26, 2025, AIC, Staff, AG, PIO, IIEC/FEA/CUB, IIEC/FEA, ICEA/RESA and COFI, filed Initial briefs ("IBs"). On September 16, 2025, AIC, Staff, AG, PIO, IIEC/FEA/CUB, IIEC/FEA, ICEA/RESA and COFI, filed Reply Briefs ("RBs"). On September 18, 2025, AIC, Staff, AG, PIO, IIEC/FEA/CUB, IIEC/FEA, ICEA/RESA and COFI, filed position statements or draft orders.

On October 6, 2025, the ALJs, on their own motion, reopened the record pursuant to Section 200.870 of the Rules of Practice (83 Ill. Adm. Code 200.870). The ALJs further granted Ameren Illinois' Motion for Leave to Submit Supplemental Authority or, in the Alternative, for Administrative Notice is granted. Accordingly, the ALJs took Administrative Notice that on September 24, 2025, the Supreme Court of Illinois denied the Commission's Petition for Leave to Appeal No. 131627, relating to the appeal of *Ameren Ill. Co. v. Ill. Com. Comm'n*, 2025 IL App (5th) 240014, 263 N.E.3d 657. A copy of the Court's notice was admitted into the record as Administrative Notice Ex. 1. The matter was again marked "Heard and Taken" by the ALJs on October 6, 2025.

A Proposed Order was served on October 10, 2025. On October 21, 2025, AIC, Staff, AG, PIO, IIEC/FEA/CUB, IIEC/FEA, ICEA/RESA, and COFI filed Briefs on Exceptions ("BOE"). PIO and the AG requested Oral Argument in their BOEs. On October 28, 2025, AIC, Staff, AG, and COFI filed Reply Briefs on Exceptions ("RBOE"). On October 29, 2025, the Commission voted to grant Oral Argument. On November 6, 2025, Oral Argument was held.

B. AIC's Operations

Ameren Illinois is a combination gas and electric public utility, pursuant to Section 3-105 of Act. 220 ILCS 5/3-105. Ameren's service area is located in central and southern Illinois. The Company provides electric delivery service to approximately 1.2 million customers and gas delivery service to more than 800,000 natural gas customers. AIC's

service territory covers more than 1,200 communities and 43,700 square miles. The Company's complex delivery system includes approximately 18,700 miles of natural gas transmission and distribution mains and includes 12 underground natural gas storage fields with a total capacity of approximately 24 billion cubic feet.

Since the 2010 merger of the AIC legacy companies, Ameren Illinois has had three rate zones, each tied to an individual legacy company: Rate Zone I (Central Illinois Public Service Company), Rate Zone II (Central Illinois Light Company), and Rate Zone III (Illinois Power Company). In Docket No. 17-0293, Ameren Illinois requested, and the Commission granted, a waiver of the Part 285 (83 Ill. Adm. Code 285) rate zone related filing requirements to allow the Company to file the following in this rate case: (a) a single set of A, B, C, and G schedules, as listed in Part 285 Sections 285.1000 – 285.1025, Sections 285.2000 – 285.2200, Sections 285.3000 – 285.3600, and Sections 285.7000 – 285.7075, respectively (Accounting Schedules); (b) a single set of E-6 schedules, as listed in Section 285.5110 (ECOSS Schedules); and (c) a single set of E-4, E-5, E-8, and E-9 schedules, as listed in Sections 285.5025, 285.5105, 285.5130, and 285.5135 (Bill Schedules).

C. Test Year

Ameren Illinois' proposed tariffs are based on a future test year ending December 31, 2026 (the “Test Year”), which no party contested and which the Commission finds reasonable and hereby approves.

II. LEGAL STANDARD

A. AIC’s Position

The Company notes that Section 9-201(c) of the Act states the following:

> If the Commission enters upon a hearing concerning the propriety of any proposed rate or other charge, classification, contract, practice, rule or regulation, the Commission shall establish the rates or other charges, classifications, contracts, practices, rules or regulations proposed, in whole or in part, or others in lieu thereof, which it shall find to be just and reasonable. In such hearing, the burden of proof to establish the justness and reasonableness of the proposed rates or other charges, classifications, contracts, practices, rules or regulations, in whole and in part, shall be upon the utility.

220 ILCS 5/9-201(c). The Commission, in setting rates, is to “determine that the rates accurately reflect the cost of service delivery and must allow the utility to recover costs prudently and reasonably incurred.” *Citizens Util. Bd. v. Ill. Com. Comm’n*, 166 Ill. 2d 111, 121 (1995). The Commission cannot authorize a revenue requirement that is less than the utility’s prudent and reasonable cost of service for the test year at issue. *See id*. at 121; *Ill. Bell Tel. Co. v. Ill. Com. Comm’n*, 414 Ill. 275, 286 (1953). The Act provides that rates and charges established by the Commission must be “just and reasonable,” and “the burden of proof to establish the justness and reasonableness of the proposed rates or other charges . . . shall be upon the utility.” 220 ILCS 5/9-201(c).

Ameren states that in *Apple Canyon*, the court ruled that "[o]nce a utility makes a showing of the costs necessary to provide service under its proposed charges, it has established a prima facie case, and '[t]he burden then shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith.'" *Apple Canyon Lake Prop. Owners' Ass'n. v. Ill. Com. Comm'n*, 2013 IL App (3d) 100832, ¶ 54 (quoting *Ill. Bell Tel. Co. v. Ill. Com. Comm'n*, 327 Ill. App. 3d 768, 776 (2002)). Thus, while Ameren Illinois bears the general burden of supporting its proposed rates, this does not translate into a burden to negate or disprove every recommendation or issue raised by other parties, no matter how amorphous. *Apple Canyon*, 2013 IL App (3d) 100832, ¶ 55 (holding that intervenors had failed to carry the burden of proof when evidence presented by the utility was "largely unrebutted" and the intervenors "did not impeach the Utilities' evidence, challenge the Utilities' business case . . . or provide testimony or other evidence suggesting the existence of a less expensive or more efficient alternative").

As the Commission very recently concluded, the utility does not have "a burden to negate or disprove every recommendation or issue raised by Staff or another party." *Ameren Trans. Co. of Ill.*, Docket No. 24-0088, Final Order at 19 (July 2, 2025); *see also Ill. Com. Comm'n on Its Own Mtn. v. Ill. Consol. Tel. Co*., Docket No. 94-0042, 1995 Ill. PUC LEXIS 828, at *103 (Dec. 6, 1995) ("[I]n an investigation initiated by the Commission to address the reasonableness of rates wherein parties proffer conflicting proposals, each party proposing a result should bear the burden of adducing evidence in support of that proposal.").

According to Ameren, these cases reflect the practical reality that disproving certain propositions or proving negatives can be extremely impractical and expensive—or outright impossible. *See, e.g., Antioch Milling Co. v. Pub. Serv. Co*., 4 Ill. 2d 200, 209 (1954) ("Certainly as a practical matter a utility should not . . . be required to embark upon a full dress justification of its rate structure every time an individual customer files a complaint."); *City of Chicago v. People of Cook Cnty*., 133 Ill. App. 3d 435, 442 (1985) (holding that a utility does not have the burden of "going forward on any and all issues which are conceivably relevant," because to do so "would place an impossible burden on the utility of anticipating the basis of every intervenor's objection").

The Act also provides that Ameren Illinois is entitled to recover through rate base the value of investments that are "both prudently incurred and used and useful in providing service to public utility customers." 220 ILCS 5/9-211. Decades of Commission decisions and appellate court jurisprudence confirm that "[p]rudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made." *Ill. Power Co. v. Ill. Com. Comm'n*, 339 Ill. App. 3d 425, 428 (2003); *Ill. Com. Comm'n v. Commonwealth Edison Co*., Docket No. 84-0395, 1987 WL 1377200 (Oct. 7, 1987). In determining "whether a judgment was prudently made, only those facts available at the time judgment was exercised can be considered." *Id*. "Hindsight review is impermissible" in the analysis of prudence, and "imprudence cannot be sustained by substituting one's judgment for that of another." *Id.; Ill. Power Co. v. Ill. Com. Comm'n*, 382 Ill. App. 3d 195, 204 (2008).

Ameren states that the legal framework for rate design also is clear. The Commission has the discretion to allocate costs, provided that the allocation is supported by the evidence before it. *Citizens Util. Bd*., 166 Ill. 2d at 138; *City of Chicago v. Ill. Com.*

Comm'n, 13 Ill. 2d 607, 610-11 (1958) ("*City of Chicago I*"). Additionally, the Commission must favor allocating costs based upon the concept of cost causation. *Citizens Util. Bd.*, 166 Ill. 2d at 138; *City of Chicago I*, 13 Ill. 2d at 610-11; 220 ILCS 5/1-102(a)(iv).

B. Staff's Position

Staff points the Commission to Section 9-201 of the Act. Staff notes, however, that both the AG and PIO argue that the Act requires rates to reflect "least-cost public utility services." However, the Appellate Court has held that Section 1-102 of the Act has "no substantive or positive legal force[.]" *Monarch Gas Co. v. Ill. Com. Comm'n*, 261 Ill. App. 3d 94, 99 (5th Dist. 1994). The Appellate Court's finding is consistent with the general principle of construction that legislative findings are considered prefatory language, which in turn, "generally is not regarded as being an operative part of statutory enactments." *Governor's Off. of Consumer Servs. v. Ill. Com. Comm'n*, 220 Ill. App. 3d 68, 74 (3rd Dist. 1991) (citing *Ill. Indep. Tel. Ass'n. v. Ill. Com. Comm'n*, 183 Ill. App. 3d 220 (4th Dist. 1998). Furthermore, the Commission has held that there is no requirement in the Act for a least-cost analysis in rate cases, and the Commission has not previously required such an analysis in general rate cases. *See, e.g., Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 23-0067, Final Order at 5 (Nov. 16, 2023) ("*Ameren 2023 GRC*").

Staff notes that the Company cites to *City of Chicago v. Ill. Com. Comm'n*., 133 Ill. App. 3d 435, 442 (1st Dist. 1985) ("*City of Chicago II*"), regarding the issue of burden of proof. Staff points out that the Commission has stated the following regarding *City of Chicago II*:

> The Company cites language from *City of Chicago [II]* to argue that when a utility "has established a prima facie case, . . .the burden then shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith." *City of Chicago v. Ill. Commerce Comm'n*, 133 Ill. App. 3d 435, 442 (1st Dist. 1985). However, the language from that decision addresses only the burden of production. The *City of Chicago [II]* decision specifically "reject[ed] the People's contention that the Commission illegally shifted the burden of going forward with evidence to the intervenors." *Id*., at 443. The decision is clear that the burden that shifted to intervenors is the burden of production (to present opposing evidence), not a reversal of the statutory burden of proof. In this case, numerous elements of AIC's *prima facie* case have been sufficiently met with opposing evidence. At all times, the utility in a rate case has the statutory burden of proof and bears the risk of non-persuasion. *See Business & Prof'l People v. Ill. Com. Comm'n*, 146 Ill. 2d 175, 196 (1991) ("Throughout the rate proceedings, the utility has the burden of proving that its investments meet [the legal standard]."); *see also* Ill. Rules of Evid. 301.

Ameren 2023 GRC, Final Order at 5 (Nov. 16, 2023) (footnote omitted).

C. AG's Position

The AG asserts that it is a well-settled principle in utility ratemaking that costs are only recoverable when the utility demonstrates they are reasonable and prudent. 220 ILCS 5/9-101; *Bus. & Prof'l People for the Pub. Int. v. Ill. Com. Comm'n*, 146 Ill. 2d 175, 247 (1991) ("*BPI II*"). In this proceeding, Ameren is required to prove that its costs are reasonable and prudent by a preponderance of the evidence. 5 ILCS 100/10-15. In other words, according to the AG, Ameren must provide sufficient evidence for the Commission to find that the Company's spending and management decisions were more likely than not to be reasonable and prudent.

Prudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions were made. *Ill. Power Co. v. Ill. Com. Comm'n*, 245 Ill. App. 3d 367, 371 (1993). Costs that are unnecessary to the provision of service, or that the utility has not justified in amount are not reasonable or prudent, and whether a decision is prudent is a fact-specific determination. *Id*. The AG notes that cases that have disallowed utility costs have focused on management planning and decision-making during project implementation. *Bus. & Prof'l People for the Pub. Int. v. Ill. Com. Comm'n*, 279 Ill. App. 3d 824 at 832 (1996) (citing *United Cities Gas Co. v. Ill. Com. Comm'n*, 163 Ill. 2d 1, 31 (1994)). The facts here establish that Ameren fell short of this required showing.

The AG iterates that Illinois case law makes clear that "[t]he rate making process … involves a balancing of the investor and the consumer interests." *Ill. Bell Tel. Co. v. Ill. Com. Comm'n*, 414 Ill. 275, 287 (1953) (citing *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944) ("*Hope*"). The AG notes Ameren provides essential monopoly natural gas service, and customers lack the ability to decline the Company's service if the prices become burdensome and unaffordable. The AG asserts that it is for these reasons that the Illinois Supreme Court has held that "a just and reasonable rate can never exceed—perhaps can rarely equal—the value of the service to the consumer … ." *State Pub. Util. Comm'n ex rel. City of Springfield v. Springfield Gas & Elec. Co*., 291 Ill. 209, 216 (1919). "[I]f the rightful expectations of the investor are not compatible with those of the consuming public, it is the latter which must prevail." *Camelot Util., Inc. v. Ill. Com. Comm'n*, 51 Ill. App. 3d 5, 10 (3d Dist. 1977), *see also People ex rel. Madigan v. Ill. Com. Comm'n*, 2011 IL App (1st) 100654, ¶54 (1st Dist. 2011) (When expenses are incurred "to achieve goals that primarily benefit shareholders, then it is reasonable to require that shareholders bear the cost of that [expense].").

The AG argues that this is consistent with the State's strong public interest in protecting residents' access to affordable water and wastewater services. The Act demands that rates reflect "least-cost public utility services at prices which accurately reflect the long-term cost of such services and which are equitable to all citizens." 220 ILCS 5/1-102, *see also N. Shore Gas Co. and The Peoples Gas Light & Coke Co*., Docket Nos. 23-0068/23-0069 (Consol.), Final Order at 10 (Nov. 16, 2023) (least-cost guides "the Commission's determinations of whether costs and rates are just and reasonable or an investment is prudent and used and useful.").

The Company claims that it has met its burden of proof and that "[t]he burden then shifts to others to show that the costs incurred by the utility are unreasonable because of

inefficiency or bad faith." AIC IB at 8 (citing *Apple Canyon*, 2013 IL App (3d) 100832, ¶ 54 (internal citation omitted)). The AG argues that this misstates the law. The AG states that the Illinois Supreme Court has made clear that "[t]hroughout the rate proceedings, the utility has the burden of proving that its investments meet these requirements." *BPI II*, 146 Ill. 2d at 196. The AG states that, accordingly, the Commission has expressly rejected the claim that a utility's burden of proof shifts to others. In Docket Nos. 23-0068/23-0069 (Consol.), the AG points out that the gas utilities asserted the same position that AIC does here, and that the Commission was unpersuaded. In rejecting the utilities' position, the Commission held that "the burden … shifted to intervenors is the burden of production (to present opposing evidence), not a reversal of the statutory burden of proof" and that "[a]t all times, the utility in a rate case has the statutory burden of proof and bears the risk of non-persuasion." Docket Nos. 23-0068/23-0069, Final Order at 9-10; *see also Aqua Ill., Inc.,* Docket No. 24-0044, Final Order at 7 (Nov. 21, 2024) (The Commission found the utility's "arguments regarding burden shifting unconvincing," "inconsistent with prior decisions", and to "lack[ ] any basis in law."); *Ameren 2023 GRC*, Final Order at 5 (Commission held that utility "[a]t all times" has the statutory burden of proof).

The AG further contends that the Company's other citations to Commission orders and case law for the proposition that "the utility does not have a burden to negate or disprove every recommendation or issue raised by Staff or another party" are similarly misguided, inapplicable, and/or irrelevant to the instant case. *See, e.g.,* Docket No. 24-0088, Final Order at 1-3 (The AG points out this was not a rate proceeding; it is for a request for a Certificate of Public Convenience and Necessity); *Ill. Com. Comm'n on Its Own Mtn. v. Ill. Consol. Tel. Co*., Docket No. 94-0042, 1995 Ill. PUC LEXIS 828, at *11 (Dec. 6, 1995) (The AG points out this too was not a rate proceeding; this case was to determine whether the utilities should be allowed to continue federal pricing methodology); *Antioch Milling Co. v. Pub. Serv. Co*., 4 Ill. 2d 200, 209 (1954) (The AG asserts this is inapplicable in that the Commission here declined to suspend the utility's rate request so "the utility is not required to justify its rates, whether by a showing of value or otherwise"); *City of Chicago II*, 133 Ill. App. 3d at 443 (The AG states this case involved a different issue: the court sought to define at what point in the proceedings each party must go forward with its case; it "did not challenge the trial court's determination that the Commission's order was supported by substantial evidence). The AG thus insists the Company's positions are unsupported and have no basis in law.

D. PIO's Position

PIO argue that Section 1-102 of the Act establishes four overarching objectives for public utility regulation in Illinois: (a) efficiency, (b) environmental quality, (c) reliability, and (d) equity. 220 ILCS 5/1-102. PIO note that within those overarching objectives, the statute contains more than fifteen separate provisions that guide the Commission. Among them is the provision that the Commission consider and evaluate "all supply and demand options . . . to determine how utilities shall meet their customers' demands for public utility services at the least cost." 220 ILCS 5/1-102 (a)(ii). PIO maintain that this provision is relevant to the Commission's charge in this proceeding in which it considers Ameren's capital planning processes and analysis of alternatives to replacement when a transmission or distribution asset will reach the end of its useful life.

PIO assert that, fundamentally, in this rate case, the Commission must establish rates that are just and reasonable. 220 ILCS 5/9-201(c); 220 ILCS 5/9-101. PIO cite to Illinois courts that have held the Commission must analyze the impact of the utility's proposed tariffs on consumers to reach a just and reasonable determination. *See Abbott Laboratories v. Ill. Com. Comm'n*, 289 Ill. App. 3d 715-716 (1st Dist. 1997); *Citizens Util. Bd. v. Ill. Com. Comm'n*, 276 Ill. App. 3d 730, 737 (1st Dist. 1995) (citations omitted). Ultimately, PIO argue that the public must "pay no more than the reasonable value of the utility's services." *Citizens Util. Bd. v. Ill. Com. Comm'n*, 276 Ill. App. 3d 730, 737 (1st Dist. 1995). PIO direct the Commission to provisions in the Act that require that utility services must not only be "adequate, efficient, reliable, and environmentally safe," but also must represent the "least-cost means of meeting the utility's service obligations." 220 ILCS 5/8-401.

To establish rates, PIO observe that the Commission must determine Ameren's rate base, and that the Commission can approve for inclusion in rate base only those utility investments which "are both prudently incurred and used and useful in providing service to [the] public utility['s] customers." 220 ILCS 5/9-211. PIO argue that courts have held this standard "essentially requires the Commission to ensure that a utility's approved rate base does not exceed the investment value that the utility actually uses to provide service." *Ameren Ill. Co. v. Ill. Com. Comm'n*, 2012 IL App (4th) 100962, ¶ 89.

PIO also cite Section 9-211, which includes the prudence standard and the used and useful standard. PIO explain that the prudence standard essentially asks the Commission to determine if the utility's investments are reasonable based on what the utility knew when it made those investments. PIO cite to *Ill. Power Co. v. Ill. Com. Comm'n*, 245 Ill. App. 3d 367, 371 (3d Dist. 1993), to support the claim that "[p]rudence is the standard of care that a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time a decision was made." PIO also argue that the Commission's determination of prudence is case-specific and will consider the facts available to the utility at the time it exercised judgment. *Ill. Power Co*, 245 Ill. App. 3d at 371 (3d Dist. 1993). PIO claim that costs that are unnecessary to the provision of service, or that a utility has failed to justify, are not prudent. *Id*. at 371-372.

PIO note the second component of Section 9-211 is the used and useful standard. PIO characterize the "used and useful" standard as, in essence, a test for whether the utility has right-sized its investments. PIO claim that the Commission has considerable discretion in determining whether plant is used and useful in providing service. *Candlewick Lake Utils. Co. v. Ill. Com. Comm'n*, 122 Ill. App. 3d 219, 223 (2d Dist. 1983). Historically, in PIO's characterization, the Commission has considered a variety of factors in determining whether plant is used and useful, including need, economic reasonableness, capacity used to serve ratepayers, and ratepayers' foreseeable service requirements. *See BPI II*, 146 Ill. 2d at 226-227 (citations omitted); *see also S. Bell. Tel. & Tel. Co. v. Pub. Serv. Comm'n*, 270 S.C. 590, 601-602 (1978). PIO argue that, while Section 9-211 does not limit the Commission's discretion in determining whether plant is used and useful, Section 9-212 - which relates to the inclusion of new electric utility generating plant or gas production facility - is instructive for the Commission. PIO direct the Commission to that section, which provides that plant is "used and useful only if, and

only to the extent that, it is necessary to meet customer demand or economically beneficial in meeting such demand." 220 ILCS 5/9-212.

Moreover, in determining both whether the utility's investments were prudently incurred and used and useful, PIO ask the Commission to look to how the utility weighed alternatives to a rate base investment. PIO direct the Commission to its statements in its last round of rate case decisions: "the Commission's determinations of whether costs and rates are just and reasonable or an investment is prudent and used and useful, necessarily consider the relative costs of alternatives." *See Ameren 2023 GRC,* Final Order at 5.

PIO further maintain that, as the party seeking a rate increase, Ameren bears the burden of proof in this proceeding to establish the appropriateness "in whole, and in part," of its investment, costs, and resulting rates. 220 ILCS 5/9-201(c); 5 ILCS 100/10-15. PIO argue that Ameren bears the burden of persuading the Commission that its investments are prudent, used and useful, and just and reasonable, and that resulting rates are "just and reasonable" based on the evidence in the record. *Ameren 2023 GRC,* Final Order at 5; 220 ILCS 5/9-201(c); 220 ILCS 5/9-211; 220 ILCS 5/9-212. PIO claim that Ameren's burden does not shift to any other party over the course of the proceeding, it remains with Ameren. *Ambrose v. Thornton Twp. School Trustees*, 274 Ill. App. 3d 676, 690 (1st Dist. 1995), app. den., 164 Ill. 2d 557 (1995); *BPI II*, 146 Ill. 2d at 196 ("Throughout the rate proceedings, the utility has the burden of proving that its investments meet [the legal standard]"); *Ameren 2023 GRC,* Final Order at 5 ("At all times, the utility in a rate case has the statutory burden of proof and bears the risk of non-persuasion.").

PIO observe that Ameren must establish that its proposed rates are just and reasonable and its investments are prudent based on a preponderance of the evidence in the record. 5 ILCS 100/10-15. PIO claim that, unless the Commission finds Ameren has satisfied its burden based on its review of the record, the Commission must reject the Company's proposals or modify them in a manner which ensures that Ameren's rates are just and reasonable and that only prudently incurred investments are included in rate base. 220 ILCS 5/9-201(c).

PIO also respond to the Company's burden shifting argument, which PIO point out the Commission has addressed in prior rate cases. Specifically, PIO oppose Ameren's argument that once it has made its initial case, the burden then shifts to the parties proposing adjustments to establish that Ameren's business decisions are unreasonable or imprudent. PIO claim that Ameren confuses the burden of production with the ultimate burden of proof. While PIO agree that the burden of production can and does shift, PIO claim that this Commission made clear in its last rate case that Ameren is wrong, and that it maintains the burden of proof throughout the proceeding. PIO further explain how the Commission addressed this issue in the last round of gas rate cases and established that utilities retain the burden of persuasion throughout a case. PIO point to Ameren's last general rate case, and claim that in that case, the Commission Final Order clearly laid out the difference between the burden of production and the burden of proof. *Ameren 2023 GRC,* Final Order at 5. PIO cite Section 201 of the Act, which states: "[T]he burden of proof to establish the justness and reasonableness of the proposed rates or other charges, classifications, contracts, practices, rules or regulations, in whole or in part, shall be upon the utility." 220 ILCS 5/9-201(c).

PIO then argue that, as in this case, in *Ameren 2023 GRC,* Ameren misread precedent to try to gloss over the Act's clear language. PIO note that the Commission's *Ameren 2023 GRC* Final Order reviewed Ameren's briefing in that case, in which Ameren cited to *City of Chicago II* "to argue that when a utility 'has established a *prima facie* case . . . the burden then shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith.'" *Ameren 2023 GRC,* Final Order at 5. PIO argue that the Commission's decision clarified then - and as remains the case now - that the *City of Chicago II* case actually confirmed that, while the burden of production may shift, the burden of proof does not. *Id*. PIO argue that once a *prima facie* case is made, the burden "to present opposing evidence"—the burden of production—falls to intervenors. But PIO clarify that this is "not a reversal of the statutory burden of proof." *Id*.

Therefore, PIO conclude, intervenors must only present evidence sufficient for the Commission to find in its favor, while the utility bears the burden of establishing the prudence, justness, and reasonableness of its rates and investments throughout a proceeding. Relevant to this proceeding, PIO explain, Ameren's burden of proof includes establishing the fairness, justness, and reasonableness of its proposed customer charges. PIO argue that this means that Ameren also has the burden of proof of demonstrating that it considered the relative cost of alternatives. PIO point out that, in The Peoples Gas Light and Coke Company's ("PGL") 2023 rate case, the Commission clarified that its "determinations of whether costs and rates are just and reasonable or an investment is prudent and used and useful, necessarily consider the relative costs of alternatives." Docket No. 23-0068/23-0069 (Consol.), Final Order at 10 (Nov. 16, 2023). PIO believe that, when read together with Ameren's burden of proof, these sections establish that a utility must evaluate and consider alternatives, and present evidence of that evaluation to the Commission, to receive cost recovery for its investments.

PIO state that the Act grants the Commission broad authority over all public utilities in Illinois, including Ameren. PIO cite to Section 4-101 of the Act, which provides the Commission broad authority to investigate and supervise the activities of public utilities in Illinois. 220 ILCS 4-101. PIO argue that, as a part of its supervisory responsibilities, the Commission must "inquire into the management" of Ameren's business and "keep itself informed as to the manner and method in which the business is conducted." *Id*. But beyond keeping itself informed, PIO state that the Commission has the power to order improvements and modifications in a utility's services and facilities. *Vill. of Apple River v. Ill. Com. Comm'n*, 18 Ill. 2d 518, 524 (1960); *see, e.g., Ill. Com. Comm'n*, Docket No. 000699, 2001 Ill. PUC LEXIS 603 at *15-16 (May 9, 2001) (concluding the Commission has authority to order corrective action where a utility is not meeting its obligations under the Act).

PIO argue that the Act also gives the Commission the authority to make changes to a utility's rates, charges, practices, rules and regulations. Specifically, PIO cite to 220 ILCS 5/9-201(c), which provides that "upon a hearing concerning the propriety of any proposed rate or other charge, classification, contract, practice, rule or regulation, the Commission shall establish the rates or other charges, classifications, contracts, practices, rules or regulations proposed, in whole or in part, or others in lieu thereof, which it shall find to be just and reasonable." PIO maintain that the Commission can use this

power to direct parties to modify tariffs, conduct analyses in compliance filings, and make showings in subsequent cases, among other powers. *See, e.g.,* Docket Nos. 23-0068/23-0069 (Consol.), Final Order at 10 ("The Commission may select, modify, or meld proposals, or craft from the record evidence, those rates or practices it finds just and reasonable"). Likewise, PIO assert that the Commission retains significant authority over rate design and imposition of customer charges, with the Illinois Appellate Court finding that "[q]uestions concerning rate design and cost allocation are uniquely a matter for the Commission's discretion." *Coal. to Request Equitable Allocation of Costs Together (REACT) v. Ill. Comm. Comm'n*, 2015 IL App (2d) 140202, ¶ 79. In sum, PIO believe the Act grants the Commission broad authority over Ameren and gives the Commission several options to ensure that Ameren's service, investments, and rates are consistent with the Act and with state policy.

E. COFI's Position

Under Illinois law, Ameren carries the burden of proving its rate proposals are just and reasonable and supported by record evidence. *See* 220 ILCS 5/9-201(c). "In a rate-setting process before the Commission, the regulated utility bears the burden of proving the justness and reasonableness of the proposed rates." *Pusateri v. Peoples Gas Light & Coke Co*., 21 N.E.3d. 437, 442 (2014) (internal quotations omitted).

Section 9-241(d) of the Act required the Commission to "conduct a comprehensive study to assess whether low-income discount rates for electric and natural gas residential customers are appropriate and the potential design and implementation of any such rates." 220 ILCS 5/9-241(d). This statutory provision also required that the Commission "include its findings, together with the appropriate recommendations, in a report to be provided to the General Assembly." *Id*. The Commission presented its Report to the General Assembly in December 2022. In that report and in its Open Meeting of December 15, 2022, the Commission directed large electric and gas utilities to file low-income discount rate tariffs as part of the utilities' next rate design filing and encouraged small electric and gas utilities to do the same. Upon completion of the study, the statute provides that "the Commission shall have the authority to permit or require electric and natural gas utilities to file a tariff establishing low-income discount rates." *Id*. In the *Ameren 2023 GRC*, the Commission approved a low-income discount rate for Ameren in its last rate case. That ruling, however, cannot remain static as Ameren continues to file rate increase requests.

Section 9-241 of the Act specifically recognizes the importance of ensuring that all Illinois utility customers have affordable rates in its delegation to the Commission of setting discount rates for a utility's financially struggling customers. 220 ILCS 5/9-241(d). The General Assembly also included in the Act the requirement that "the rates for utility services are affordable and therefore preserve the availability of such services to all citizens." 220 ILCS 5/1-102(d)(viii). Ensuring that Ameren's proposed low-income discount rate percentages truly achieve affordable rates for the Company's financially struggling customers - thousands of whom face disconnection most of the year outside of the winter shutoff moratorium period - is a critical issue in this proceeding, and contingent on the Commission adopting COFI's recommendations.

F. Commission Analysis and Conclusion

There is no dispute that as to rate base investments the Act requires:

> The Commission, in any determination of rates or charges, shall include in a utility's rate base only the value of such investment which is both prudently incurred and used and useful in providing service to public utility customers.

220 ILCS 5/9-211.

The Commission must also assure that the resulting rates are just and reasonable, the standard acknowledged by the parties and set forth in the Act:

> If the Commission enters upon a hearing concerning the propriety of any proposed rate or other charge, classification, contract, practice, rule or regulations proposed, in whole or in part, or others in lieu thereof, which it shall find to be just and reasonable. In such hearing, the burden of proof to establish the justness and reasonableness of the proposed rates or other charges, classifications, contracts, practices, or rules or regulations, in whole and in part, shall be upon the utility.

220 ILCS 5/9-201(c).

In a rate proceeding, the utility has the statutory burden of proof to establish the appropriateness, "in whole and in part," of its investments, costs, and the resulting rates. *Id*.; 5 ILCS 100/10-15; ***Business & Prof'l People v. Ill. Com. Comm'n***, 146 Ill. 2d 175, 196 (1991). The utility must establish that its proposed investments are "prudently incurred and used and useful," and "that the resulting rates and proposed practices are "just" and "reasonable"–based on the evidence in the record. *Ameren Ill. Co. d/b/a Ameren Ill.,* Docket No. 23-0067, Order at 5 (Nov. 16, 2023) ("Ameren 2023 GRC").

Parties have argued various interpretations of the evidentiary obligations applicable to both the Company and the other parties to this proceeding. Some of these are not relevant to this record, while others are inaccurate readings of cited cases and authority. Ameren cites *Apple Canyon* to argue that once a utility shows costs to support its provision of service under its proposed charges, it has established a *prima facie case* and the burden shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith. ***Apple Canyon Lake Property Owners' Ass'n v. Ill. Com. Comm'n***, 2013 IL App (3d) 100832, ¶ 54, (quoting ***Ill. Bell Tel. Co. v. Ill. Com. Comm'n***, 327 Ill. App. 3d 768, 776 (3rd Dist. 2002); ***City of Chicago v. Ill. Com. Comm'n,*** 133 Ill. App. 3d 435, 443 (1st Dist. 1985) ("*City of Chicago II*")). However, the Commission reminds parties when relying on *City of Chicago II* and its progeny that the decision concerned only the burden of production, and specifically "reject[ed] the People's contention that the Commission illegally shifted the burden of going forward with evidence to the intervenors." *City of Chicago II*, 133 Ill. App. 3d at 443. The decision is clear the burden that shifted to the intervenors is the burden of production (to present opposing evidence), not a reversal of the statutory burden of proof. At all times, Ameren bears the statutory burden of proof and must satisfy this obligation by providing additional evidence as needed. Ameren 2023 GRC at 5; *N. Shore Gas Co. & Peoples Gas Light & Coke Co*.,

Docket Nos. 23-0068/23-0069 (Consol.), Order at 10 (Nov. 16, 2023). More specific evidentiary issues are addressed in the relevant sections of this Order.

The Commission again finds there is no express requirement in the Act for a least-cost analysis in rate cases. The Commission has not previously required such an analysis in general rate cases and declines to do so now, but notes that the details and costs of alternatives are often relevant to regulatory determinations.

III. RATE BASE

A. Uncontested or Resolved Issues

1. Previously Disallowed Plant Additions Adjustment (Sch. B-2.1)

Schedule B-2.1 reflects an adjustment for plant additions disallowed in prior rate reviews, and previously disallowed capitalized incentive compensation and performance share unit program ("PSUP") costs. Ameren Ex. 4.0 at 20. The adjustment shown on Schedule B-2.1 includes all projects disallowed in past proceedings, with the exception of any projects that have since been retired and that are not included in utility plant in service. *Id*. at 20-21. Ameren Illinois' adjustment in Schedule B-2.1 for previously disallowed plant is uncontested.

The Commission finds Ameren Illinois' adjustment in Schedule B-2.1 for previously disallowed plant reasonable and it is hereby approved.

2. Incentive Compensation Adjustment (Sch. B-2.2)

It is the Commission's practice to allow recovery for reasonable and prudent performance-based compensation in utility rates as a part of total employee compensation costs. *Ameren Ill. Co*., Docket No. 15-0142, Final Order at 44 (Dec. 9, 2015). Ameren Illinois uses operational metrics related to budget controls, outage duration and frequency, safety, customer service, efficiency and productivity, and environmental compliance in determining incentive compensation amounts. Ameren Ex. 4.0 at 21. However, Ameren Illinois is not seeking recovery of short-term incentive compensation costs related to the Short-Term Incentive Plan for officers that are based on financial performance goals. *Id*. The calculations to remove these costs are shown on the Company's Schedule B-2.2. The portion of incentive compensation for which Ameren Illinois is seeking cost recovery is uncontested.

The Commission finds Ameren Illinois' adjustment in Schedule B-2.2 for Incentive Compensation reasonable, and it is hereby approved.

3. Performance Share Unit Program Adjustment (Sch. B-2.3)

Ameren Illinois is not seeking recovery of the cost of 60% of the 2026 Long-Term Incentive Plan ("LTIP") tied to financial-related metrics. Ameren Ex. 4.0 at 21. More particularly, Schedule B-2.3 shows the adjustment to remove the capitalized costs related to the PSUP, which is one aspect of the LTIP. *Id*. at 21-22. The Company's adjustment in Schedule B-2.3 is uncontested.

The Commission finds Ameren Illinois' adjustment in Schedule B-2.3 for Performance Share Unit Program reasonable, and it is hereby approved.

4. Fugitive Emissions Reduction Pilot Program Adjustment (Sch. B-2.4) (rate base adjustment only; see Section IX for program discussion)

Schedule B-2.4 reflects the adjustment to gas distribution plant to include projected 2026 costs related to the Fugitive Emissions Reduction pilot program. Ameren Ex. 4.0 at 22. As discussed in Section IX.A.3. below, this pilot and the associated ratemaking adjustment shown on Schedule B-2.4 are uncontested.

Because the Commission approves Ameren Illinois' proposal to undertake the Fugitive Emissions Reduction pilot program, as discussed further below, the Commission also approves the associated ratemaking adjustment shown on Schedule B-2.4.

5. Hillsboro Base Gas Adjustment (Sch. B-2.5)

The Commission determined in Docket No. 04-0476 and Docket Nos. 07-0585 through 07-0595 (Consol.) that the inventory values at the Hillsboro Storage Field can be recovered once the storage field is retired. This base gas adjustment shown in Schedule B-2.5 eliminates $10,368,000 base gas inventory from Docket No. 04-0476 and $2,841,000 base gas inventory from Docket Nos. 07-0585 through 07-0595 (Consol.). Ameren Ex. 4.0 at 23. The Hillsboro base gas adjustment is uncontested.

The Commission finds Ameren Illinois' adjustment in Schedule B-2.4 for Hillsboro Base Gas Adjustment reasonable, and it is hereby approved.

6. Derivative Adjustments – Depreciation Reserve and ADIT for Uncontested Adjustments (Sch. B-2.7 and Sch. B-2.8)

Schedule B-2.7 reflects derivative adjustments to depreciation reserve associated with adjustments for previously disallowed plant, incentive compensation, the PSUP, and the Fugitive Emissions Reductions pilot program, as well as certain adjustments identified by the Company in rebuttal and surrebuttal. *See* Ameren Ex. 4.0 at 22. Schedule B-2.8 reflects derivative adjustments to Accumulated Deferred Income Taxes ("ADIT") associated with adjustments for previously disallowed plant, incentive compensation, the PSUP, the Fugitive Emissions Reductions pilot program, and a Construction Work in Progress ("CWIP")-Related adjustment, as well as certain adjustments identified by the Company in rebuttal and surrebuttal. *See id.* Where the underlying adjustments are uncontested in this proceeding, the derivative adjustments also are uncontested.

Because the Commission approves the underlying uncontested adjustments, as discussed elsewhere in this Order, the Commission also approves the related derivative adjustments reflected on Schedules B-2.7 and B-2.8.

7. Materials and Supplies (Sch. B-2.9)

The Commission has historically recognized in rates the use of a thirteen-month average for Materials and Supplies, rather than a point in time balance or a simple average balance, due to the fact that the balances fluctuate from month to month. Ameren Ex. 4.0 at 29. Ameren Illinois has reflected a thirteen-month average balance for general Materials and Supplies allocable to gas operations and gas inventory. *Id*. at 28. The thirteen-month average balance is net of associated accounts payable in accordance with the methodology agreed to by the Company and Commission Staff in Docket No. 11-

0282. *Id*. The adjustment represents the restatement of December 2026 ending inventory to the thirteen-month average, net of associated inventory remaining in accounts payable. *Id*. Ameren Illinois' adjustment for Materials and Supplies is uncontested by the parties.

The Commission finds Ameren Illinois' Schedule B-2.9 adjustment for Materials and Supplies reasonable, and it is hereby approved.

8. Customer Deposits (Sch. B-2.10)

Customer deposits are reflected in the rate base using a thirteen-month average for the test year period ending December 31, 2026. Ameren Ex. 4.0 at 22. This amount represents a source of non-investor supplied funds that has been reflected as a reduction to rate base, as shown on Schedule B-1. *Id*. The adjustment reflected in Schedule B-2.10 is the difference of the thirteen-month average and the December 31, 2026, balance for customer deposits. *Id*. The Commission has historically recognized in rates use of a thirteen-month average for customer deposits, rather than a point in time balance or a simple average balance, due to the fact that the balances fluctuate from month to month. Ameren Ex. 4.0 at 23. The Company's calculation of customer deposits is uncontested.

The Commission finds Ameren Illinois' uncontested calculation for customer deposits to be reasonable, and it is hereby approved.

9. FERC Order 898 Adjustment (Sch. B-2.11)

On January 1, 2025, Federal Energy Regulatory Commission ("FERC") Order 898 became effective. FERC 898 Order directs utilities to move Information Technology ("IT") costs (primarily software maintenance agreements) from Account 921 to Account 935 and eliminates the Company's ability to capitalize a portion of those agreements starting January 1, 2025. Ameren Ex. 20.0 at 9. Ameren Illinois adopted accounting changes to comply with FERC Order 898, wherein the previously capitalized costs are allocated to all plant functions through the overhead rates. Therefore, Ameren Illinois' adjustment includes reduction to both common plant and all gas plant included in this proceeding. *Id*. Ameren Illinois presented a summary of the adjustments to reduce the gross plant balances, and associated amortization and depreciation expense, amortization and depreciation reserve, and ADIT that are included in this proceeding for 2025 and 2026 as Ameren Exhibit 20.3. This adjustment also increases expense in Account 922 for the portion that will no longer be capitalized and transfers the gross IT expenses from Account 921 to Account 935 for the 2026 Test Year. *Id*. No party contested this adjustment.

The Commission finds Ameren Illinois' adjustment to comply with FERC Order 898 reasonable, and it is hereby approved.

10. Actuarial Update Adjustment (Sch. B-2.11)

See discussion of this issue in Section IV.A.21.

11. iPad Lifecycle Adjustment (Sch. B-2.12)

Ameren Illinois uses iPads in its gas operations and recently concluded an evaluation of the feasibility and associated risk of moving from a three-year lifecycle to a five-year lifecycle for those iPads. Ameren Ex. 21.0 at 8-9; Staff Ex. 6.0 at 7, Attach. B. Ameren witness Kozak explained that, based on that evaluation, the Company

determined to move to a five-year lifecycle for iPads. Ameren Ex. 21.0 at 9. Mr. Kozak further explained that the Company already is depreciating these assets at 22.33%, which approximates five years as approved in the most recent depreciation study approved by the Commission in 2023. *Id*.

Staff recommended that Ameren Illinois align the amortization period and lifecycle replacement of its iPads. Staff Ex. 14.0 at 4. In subsequent discovery, Staff agreed that iPads are tangible assets and are therefore depreciated and not amortized. Ameren Ex. 34.7. Thus, Ameren Illinois and Staff agreed that the Company will align the lifecycle replacement of its iPads with the depreciation period, and they further agreed on the following language to address this issue in the Final Order:

> The Commission instructs the Company to align the lifecycle replacement of iPads to 5 years, which approximates the depreciation life currently approved by the Commission.

Ameren Ex. 34.0 at 3.

Staff explained that the financial impact of changing from a three-year lifecycle to a five-year lifecycle for iPads reduced the forecasted 2026 plant additions and should result in a removal of $400,990 from Schedule B-1. Staff Ex. 14.0 at 5, Attach. B; Staff Ex. 10.0, Sch. 10.03. Ameren Illinois accepted Staff's adjustment with minor modifications to the ADIT calculation. Ameren Ex. 34.0 at 3; Ameren Ex. 34.1-34.2. This adjustment as presented in Ameren Illinois' surrebuttal testimony is uncontested.

The Commission adopts the proposed language instructing the Company to align the lifecycle replacement of iPads to 5 years, which approximates the depreciation life currently approved by the Commission. In connection with this directive, the Commission also finds Ameren Illinois' adjustment to reflect the financial impact of this alignment, as presented by the Company in surrebuttal testimony, reasonable and it is hereby approved.

12. Asset Separation Process Plant Updates

In direct testimony, Ameren Illinois explained the manner in which it determined the appropriate amount of General & Intangible ("G&I") plant to include in rate base. Ameren Ex. 4.0 at 9. G&I plant that supports both AIC's electric and gas businesses are recorded in electric plant accounts on Ameren Illinois' books and records. *Id*. Many of the assets recorded in G&I plant accounts serve multiple functions supporting both Ameren Illinois' electric and gas operations and, therefore, cannot be directly assigned entirely to one type of service. *Id*. The Company performed an Asset Separation Process ("ASP") in Docket No. 24-0288, based on G&I plant assets recorded in the electric plant accounts on December 31, 2023. *Id*.

For this proceeding, which uses a 2026 Test Year, Ameren Illinois took into consideration that starting January 1, 2025, FERC Order 898 will be in effect. Ameren Ex. 4.0 at 9. To reflect this change in accounting, the Company started with the ASP from Docket No. 24-0288 and then updated the ASP to reflect the assignment of certain projects and removed projects with a zero 16 net value ("NBV"). Ameren Ex. 4.0 at 9. This updated ASP calculation is used to allocate G&I plant assets to gas delivery services operations for ratemaking purposes, and specifically for use in developing average test

year plant for the 2026 plant to include in rate base. *Id*. The results of the ASP assigned 22.09% of G&I plant assets to the gas business. *Id*. at 10.

In response to the direct testimony of AG witness Selvaggio, the Company agreed to further update the gas operations ASP to 21.91%. Ameren Ex. 19.0 (Rev.) at 6-7. Specifically, Ameren Illinois made the following changes to the ASP study as a result of Ms. Selvaggio's review and related discovery:

1. For assets 44392352, 44887713, and 43841328, the originally assigned Customer allocator was updated to be Electric Distribution.
2. For assets 39793980, 42469255, 43964299, 43964341, 44884612, 41848959, 42700789, and 43964277, the originally assigned OMTDG allocator was updated to be OMTD.
3. For asset 4577809, the originally assigned OMDG allocator was updated to be Electric Distribution.
4. For assets 43964373, 44064966, 41849092, 44062854, and 41848971, the originally assigned OMTDG allocator was updated to be Electric Distribution.

Id. at 7. Ameren Illinois provided the updated ASP study as a workpaper to the rebuttal testimony of Ms. Ballard. *Id*. The Company's update to the gas operations ASP is uncontested by the parties.

The Commission finds Ameren Illinois' updated results of the ASP reasonable, and the updates are hereby approved.

13. Updated Inputs – Rider VITA and Invested Capital Tax

Ameren Illinois recommended that the Commission make a finding in its Final Order that the Company's state and federal amortization of deferred tax excesses and deficiencies ("EDT") be approved for the purpose of amortization of EDT. Ameren Exs. 5.0 at 4-5; 5.2. No party contested this issue. Thus, Ameren Illinois proposed language related to the Company's baseline amount for amortization of EDT under Rider Variable Income Tax Adjustment ("VITA"):

> For purposes of calculating both base rates in this proceeding and calculating the amortization of deferred state and federal income taxes excesses and deficiencies baseline for Rider VITA, the Commission finds that the State income tax rate in effect is 9.50%, which is the sum of the Illinois personal property tax replacement income tax rate and the Illinois State income tax rate, and the federal income tax rate in effect is 21.00%. The Commission further finds that the amortization of deferred state income taxes excesses and deficiencies is $505,378 and the amortization of deferred federal income taxes excesses and deficiencies is $(3,744,715). These amounts are exclusive of amortization of deferred state and federal income taxes excesses and deficiencies for previously disallowed plant.

Ameren Ex. 20.0 at 2-3; Ameren Ex. 20.5. Staff agreed that the Commission should adopt the Company's proposed language. Staff Ex. 9.0 at 18. No other party contested this issue.

Ameren Illinois also recommended that the Commission make a finding in its Final Order that the Company's Invested Capital Tax Cost ("ICT") liability of $26.25 million be approved for purposes of calculation of 2026 base rates. Ameren Ex. 5.0 at 7-8. No party contested this issue. Further, Ameren Illinois and Staff agreed on language to propose to the Commission related to the Company's baseline amount for ICT. Ameren Ex. 20.0 at 3; Ameren Ex. 20.5; Staff Ex. 9.0 at 19. That language is as follows:

> For purposes of calculating the Invested Capital Tax Cost ("ICT") Adjustment, the Commission finds that the ICT Base Rate Allowance included in Test Year Revenue Requirement is $26,250,000.

The Commission finds Ameren Illinois' updated inputs related to Rider VITA and ICT reasonable, and they are hereby approved. The Commission adopts the associated agreed language in the Findings and Ordering Paragraphs at the end of this Final Order.

14. Original Cost Determination

Staff recommended that the Commission conclude and make a finding in the Final Order in this proceeding that the Company's December 31, 2023, plant balance of $4,478,082,000 be approved for purposes of an original cost determination, subject to any adjustments ordered by the Commission in this proceeding. Staff Ex. 10.0 at 14.

In addition, Staff presented language to be used in the Final Order. The Company has accepted Staff's recommendation and has agreed to the original cost determination language for the Final Order, as follows:

> It is further ordered that the $4,478,082,000 original cost of plant for Ameren Illinois Company at December 31, 2023, as presented in Ameren Ex. 5.1, is unconditionally approved as the original cost of plant.

Staff Ex. 10.0 at 14; Ameren Ex. 34.0 at 6.

The Commission finds reasonable and approves the Company's December 31, 2023 plant balance of $4,478,082,000 for purposes of an original cost determination, along with the agreed original cost determination language for the Final Order.

15. ADIT Correction – Adoption of IRS Rev. Proc. 2023-15

In the course of discovery in this case, Ameren Illinois confirmed that, in 2024, it adopted Internal Revenue Service ("IRS") Rev. Proc. 2023-15, which provides a safe harbor method for taxpayers with natural gas transmission and distribution property to determine whether costs are deductible as repairs or must be capitalized as improvements. AG Ex. 1.07. The Company also confirmed the impact of IRS Rev. Proc. 2023-15 on the balance of ADIT in this case and identified that a correction was needed to the ADIT amounts as shown in the Company's initial filing (WPB-9a and WPB-9b). AG Ex. 1.07.

Ameren Illinois witness Ballard explained that the gas repairs ADIT adjustment reflected in the forecast was incorrectly spread over twelve months of 2024 instead of being fully reflected in December 2024. Ameren Ex. 19.0 (Rev.) at 3. This adjustment increases the Company's ADIT balance by $74,113,000, which is a decrease to rate base. *Id.*; Ameren Ex. 19.2. In rebuttal, Ms. Ballard made an update to correct the gas repairs adjustment, as previously described in the Company's response to data request AG 1.07. Ameren Ex. 19.0 (Rev.) at 3. This adjustment is uncontested among the parties.

The Commission finds the Company's updated ADIT adjustment related to capitalized gas repairs reasonable and it is hereby approved.

B. Contested Issues

1. Plant Additions

a. Overview

(i) AIC's Position

Ameren Illinois proposes to include additions to its gas rate base related to Distribution Plant, Transmission Plant and Gas Storage Plant, G&I Plant, Cash Working Capital ("CWC"), and Material and Supplies (M&S). Ameren Ex. 9.0 at 19. Ameren Illinois explains that its rate base for this case includes only the portion of G&I plant costs assigned to the gas function. Ameren Ex. 4.0 at 9-10. Ameren Illinois avers that it presented substantial and compelling evidence demonstrating that its proposed rate base costs are prudently incurred and reasonable, and that its investments are, or will be, in-service during the test year.

The Company explains that it presented the testimony of Ameren witnesses Kozak, Kloeppel, and Paskett to address the reasonableness and prudence of the Company's capital investment in natural gas plant. In conformity with the Commission's Part 285 rules, Ameren Illinois' initial filing in this case included the required schedules, forms, and descriptions regarding its capital investment, including the direct testimony of Ameren witnesses Kozak, Kloeppel, and Paskett in which they described the plant investment that will support gas service and be used and useful by the end of the 2026 test year and discussed Blanket Projects and major Specific Projects to be included in rate base, as listed on the Company's Schedule F-4. *See generally* Ameren Exs. 7.0; 7.2; 7.3; 8.0-8.4; 16.0-16.4. These witnesses demonstrated that the forecasted gas plant additions in rate base are reasonable in amount and necessary to provide safe, adequate and reliable gas service, and will be prudently incurred and used and useful by year-end 2026. They also presented evidence on how the Company prudently plans and manages the construction of all projects, regardless of the size or capital expenditure.

Ameren Illinois explains that the only other parties to propose, and maintain, any adjustments to the Company's plant additions to rate base are the AG and PIO. These proposals are sponsored by the AG Technical Panel ("AG Panel" or "Panel"), which is composed of three members - AG witnesses McAleb, Napper, and Walker. PIO witness Cebulko also testified regarding plant additions.

Ameren Illinois states that before turning to the analyses or recommendations provided by the AG Panel and Mr. Cebulko, however, the Commission must consider something fundamental: the evidentiary weight to be afforded to the testimony of these

witnesses on matters relating to the Company's natural gas system and capital investments in that system.

Ameren Illinois notes that the Commission applies the Rules of Evidence in contested cases. 83 Ill. Adm. Code 200.610(b); Docket No. 24-0088, Final Order at 19. Regarding testimonial evidence, those rules require that a witness be "qualified…by knowledge, skill, experience, training, or education" to offer expert opinion testimony. Ill. R. Evid. Rule 702. Accordingly, Ameren Illinois notes, a person may testify as an expert witness only if "his experience and qualifications afford him knowledge that is not common to laypersons, and where his testimony will aid the trier of fact in reaching its conclusion." *Thompson v. Gordon*, 221 Ill. 2d 414, 428 (2006). The Company explains that the party offering a witness as an expert has the burden of establishing the witness's scientific, technical, or other specialized knowledge. Docket No. 24-0088, Final Order at 19 (citing *People v. Novak*, 163 Ill. 2d 93, 104 (1994)). Without that demonstration, the witness is unqualified to render the opinion. *Ill. Com. Comm'n v. N. Ill. Gas Co.*, Docket No. 02-0170, Final Order at 12 (Aug. 6, 2003).

Further, Ameren Illinois states, as the Commission has recently reminded, even if qualified, expert opinion must rest on a reliable, credible foundation. Docket No. 24-0088, Final Order at 19 (citing *Reed v. Jackson Park Hosp. Found.*, 325 Ill. App. 3d 835, 844 (2001)). That is, it must have a sound evidentiary basis; otherwise, it is improper. *Id.* at 19-20. Ameren Illinois states that noncredible testimony does not aid the Commission in carrying out the Act's purpose to promote adequate, efficient, reliable, safe, and least-cost public utility services for Illinois customers, or in rendering a decision that can withstand appellate scrutiny. *See*, *e.g.*, 220 ILCS 5/1-102, 10-201(e)(iv)(A), (C); 83 Ill. Adm. Code 200.25(a). As such, "testimony grounded in guess, surmise, or conjecture, not being regarded as proof of a fact, is irrelevant as it has no tendency to make the existence of a fact more or less probable.'" *Petraski v. Thedos*, 382 Ill. App. 3d 22, 27 (2008) (internal quotations omitted).

Ultimately, Ameren Illinois explains, as the trier of fact, the Commission must assess the credibility of purported expert opinion testimony. Docket No. 24-0088, Final Order at 20; *Ill. Com. Comm'n on Its Own Mtn.*, Docket No. 82-0269, 1985 WL 1094117 (Apr. 3, 1985). Ameren Illinois states that the weight the Commission will afford to such testimony depends on the testimony's thoroughness, rationality, and factual basis. Docket No. 24-0088, Final Order at 20; *People v. Godbout*, 42 Ill. App. 3d 1001, 1010 (1976) ("[T]he weight and value of the testimony of expert witnesses largely depend upon the foundations of fact and of reason upon which their opinions stand."). The Commission will also judge the testimony for inconsistency, bias, and illogical or unsupported conclusions. *Ill. Com. Comm'n, on Its Own Mtn.*, Docket No. 83-0034, 1987 WL 1378958 (Sept. 30, 1987); *Commonwealth Edison Co.,* Docket No. 10-0138, Final Order at 48-49 (Oct. 7, 2010) (finding testimony unpersuasive where it contained unsupported conclusions and overlooked additional relevant facts and realities). The witness's credentials are also relevant. Docket No. 10-0138, Order at 48. To the extent any of these factors call into question the credibility of purported expert opinion testimony, AIC argues that it is appropriate for the Commission to afford the testimony little or no weight. *Temesvary v. Houdek*, 301 Ill. App. 3d 560, 568 (1998); *see also* Docket No. 24-0088, Final Order at 20.

Ameren Illinois states that, at the evidentiary hearing on August 6, 2025, the AG Panel's testimony under cross examination confirmed that they lack relevant experience and failed to meaningfully engage with the evidence relating. For example, Ameren Illinois notes, none of the Panel's members are licensed professional engineers. Tr. at 191, 194-95. And two of the members, Mr. Walker and Mr. Napper, have never been an employee of a local distribution company ("LDC") in any capacity. *Id.* at 190-91, 194-95. Notwithstanding this, Ameren notes the AG Panel offered opinions about the Company's compliance with Maximum Allowable Operating Pressure ("MAOP") reconfirmation-related directives in the Commission's Final Order in the Company's last gas rate case (*see*, *e.g.*, AG Ex. 2.00 at 8; AG Ex. 4.00 at 41-42), none of the members of the Panel provided testimony in that case, and only one member of the Panel testified that he had even read that Final Order. Tr. at 219-21.

Ameren Illinois states that, in this case, PIO has supported its various positions with the purported expert opinion testimony of its witness Mr. Cebulko. Mr. Cebulko offered testimony on a wide swath of issues, including plant additions. He opined as to how Ameren Illinois should spend its capital, how the Company should plan its gas transmission and distribution plant, how it should budget for that plant, and how it should select its capital projects. *See generally*, PIO Ex. 1.0. Ameren Illinois points out that Mr. Cebulko also testified about certain specific capital investments. He opined regarding the propriety of certain distribution main and service plant additions. He also opined as to the propriety of Blanket Projects generally. And, Ameren Illinois further notes, he testified that particular MAOP reconfirmation projects could be supplanted with non-pipeline alternatives ("NPAs"), although, as explained below, his testimony in that regard represents an attempt to circumvent the pending Future of Gas ("FoG") proceeding and also fails to refute the Company's evidence regarding why such alternatives are not viable.

Yet, Ameren Illinois notes, Mr. Cebulko's broad surmising regarding plant additions does not pass muster under the Illinois law regarding expert opinion testimony explained above. The Company states that he lacks the knowledge, skill, experience, training, or education that could qualify him to offer expert opinion regarding, for example, how Ameren Illinois should budget for, plan for, and select projects for its gas transmission and distribution plant. Ameren Illinois points out that he is not an engineer, let alone a gas engineer specifically or even public utility engineer generally. Ameren Cross Ex. 1 at 15. Nor does he hold any engineering related degrees, certifications, or licenses. *Id.* He has also never worked for a public utility. *See generally* PIO Ex. 1.1. It appears he has never consulted for a public utility or testified on behalf of a public utility. Ameren Cross Ex. 1 at 16. Thus, Ameren states, unlike its witnesses in this case, Mr. Cebulko has never been responsible for planning a natural gas system on behalf of a natural gas LDC.

Ameren Illinois reiterates that the only evidence provided by the AG and PIO in support of their arguments is the testimony submitted by the AG Panel and PIO witness Cebulko. Ameren notes that the testimony of the AG Panel and Mr. Cebulko ignores reality, uncontroverted facts, and evidence of record and, as such, does nothing to aid the Commission in its duty under the Act to determine just and reasonable rates in this case. *See* 220 ILCS 5/9-201. Ameren Illinois opines, the consequence of any reliance on such noncredible testimony would in this instance be significant—it would result in a

Commission Final Order that is not in the best interest of customers. As explained below, accepting any of the various recommendations of the AG Panel or Mr. Cebulko relating to capital planning or investments would not only impose unnecessary and increased costs to customers, but also put at risk the very continuity of reliable natural gas service. Ameren Illinois further suggests that the Commission should disregard the AG Panel's and Mr. Cebulko's expansive yet unfounded commentary regarding plant additions.

Ameren Illinois states that the AG and PIO raise a host of arguments that attack the Company's proposed capital investments in this case, but those arguments can be distilled into a single issue—that these parties are not satisfied with the manner in which Ameren Illinois plans for and pursues capital investments in its natural gas system. Yet, Ameren Illinois explains that those parties' arguments about what may, or may not, satisfy them regarding appropriate planning and analysis ignore the well-established prudence standard the Commission must apply here in determining whether Ameren Illinois may recover the costs of those investments in rates.

Ameren Illinois avers that it is entitled to recover through rate base the value of investments that are "both prudently incurred and used and useful in providing service to public utility customers." 220 ILCS 5/9-211. Decades of Commission decisions and appellate court jurisprudence confirm that "[p]rudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made." *Ill. Power Co. v. Ill. Com. Comm'n,* 339 Ill. App. 3d 425, 428 (2003); *Ill. Com. Comm'n v. Commonwealth Edison Co.*, Docket No. 84-0395, 1987 WL 1377200 (Oct. 7, 1987). In determining "whether a judgment was prudently made, only those facts available at the time judgment was exercised can be considered." *Id.* "Hindsight review is impermissible" in the analysis of prudence, and "imprudence cannot be sustained by substituting one's judgment for that of another." *Id.*; *Ill. Power Co. v. Ill. Com. Comm'n*, 382 Ill. App. 3d 195, 204 (2008). The Appellate Court recently confirmed that the prudence standard articulated in *Ill. Power Co.*, 339 Ill. App. 3d 425, remains applicable to utility prudence reviews. *Ameren Ill. Co. v. Ill. Com. Comm'n*, 2025 IL App (5th) 240014, ¶ 65.

Ameren Illinois submits that its direct filing satisfied its initial burden to prove its costs of service, including plant additions that will support gas service and be used and useful through the end of the 2026 Test Year. The burden then shifted to the AG and PIO to support their recommendations, but the AG and PIO failed to meet that burden on any proposed disallowance relating to plant additions. And, again, Ameren Illinois states that it is not Ameren Illinois' burden to disprove the unsupported allegations of the AG and PIO. Rather, these parties bear the burden to support their adjustments—with particularity and with evidence.

(ii) Staff's Position

To include new capital additions in its rates, Staff explains that Ameren must meet the requirement of Section 9-211 of the Act. *See* 220 ILCS 5/9-211. The prudence standard is "that standard of care which a reasonable person would be expected to exercise under the circumstances encountered by utility management at the time decisions had to be made." *See*, *e.g., Ill. Com. Comm'n on its own Mtn. v. Peoples Gas Light & Coke Co*., Docket No. 00-0720, Final Order at 11 (Jan. 24, 2002). In determining

prudence, only those facts available at the time of judgment was exercised can be considered; hindsight review is impermissible. *Id*. Furthermore, the prudence standard recognizes that reasonable persons can have honest differences of opinion without one or the other necessarily being "imprudent." *Id*. Prudence is further explained in Section 9-212. *See* 220 ILCS 5/9-212.

Staff notes that, according to Ameren, the Company uses a "robust set of procedures and processes to ensure applicable specific projects greater than $500,000 are justified with alternatives considered, completed safely, on time, within the defined scope, and equal to approved budgets." Ameren Ex. 8.0 at 25. Capital projects greater than $500,000 require a project charter, which includes, among other things, estimated costs. *Id*. Project charters require approval by a director or vice president, depending on the total estimated costs. *Id*. Exact details of Ameren's review process differ based on estimated cost and Ameren witness Kloeppel explains those details in his direct testimony. *Id*. at 25-27.

Staff initially raised concerns about some of Ameren's proposed projects, however, after Ameren provided additional documentation and details concerning those projects, Staff did not recommend disallowances or adjustments for those projects or for Ameren's proposed Operations & Maintenance ("O&M") expenses. Staff Ex. 5.0 (Pub.) at 19; Staff Ex. 13.0 at 3. Staff recommends the Commission approve the Company's proposed capital expenditures in this proceeding.

(iii) AG's Position

The AG asks the Commission to disallow $223.3 million of Ameren's proposed $641 million combined distribution, transmission, and storage capital budgets, which represents what the AG asserts are the unsupported and unreasonable costs Ameren seeks to impermissibly recover from ratepayers. To enhance transparency of capital spending and to ensure that project planning and oversight controls consistent with industry-best practices and public policy are in place, the AG asks the Commission to direct Ameren to adopt the project planning and oversight requirements in Section III.B.1.e(i) below. The AG asserts that its proposals are data-driven, flexible, reasonable, and are specifically designed to close systemic record gaps that are fundamental to a prudence review. Eliminating these gaps, the AG contends, will equip the Commission and intervenors with the information needed to identify, mitigate, and prevent premature or inefficient capital investment.

Notwithstanding Ameren's substantial proposed capital investment, the AG explains that the evidence shows that the Company's gas system is a safe and safely functioning system. The AG Panel is comprised of two gas engineers with a combined sixty-years of industry experience designing, building, and maintaining gas infrastructure systems and integrity management programs, and one expert in gas industry data analysis, examined Ameren's gas system and the alleged threats the Company proposes to remove in the name of safety and reliability. They found that Ameren's historic Qualified Infrastructure Plant ("QIP") efforts successfully removed almost all leak-prone and high-risk inventories from its system and concluded that "AIC's distribution system is comprised almost entirely of modern material piping—namely plastic piping and steel piping that is both cathodically protected and coated to protect against corrosion." AG

Ex. 2.00 at 28. Despite record evidence of Ameren's significantly modernized system, the AG contends that the Company seeks to maintain—and in some instances ramp up––its elevated capital spend through an increase in base rates in 2026. The AG maintains that this is untenable and inconsistent with Ameren's own system performance data and well-established risk-mitigation industry standards.

The AG argues that specific portions of Ameren's proposed spending for distribution, transmission, and storage are misaligned with its own system data, unreasonably costly, ill-defined, unplanned, and/or materially unjustified. The AG also argues that Ameren's project planning and cost control functions are misaligned with industry-best practices and fail to provide enough project scope and expense detail to sufficiently analyze the reasonableness and prudence of its requested costs. The AG asserts that its recommendations will help the Commission and intervenors identify and mitigate costly inefficiencies by requiring the Company to provide information needed for the Commission to conduct its scrutiny and review. The AG maintains that Illinois ratepayers should be asked to pay only for those capital projects necessary and essential for the safe and reliable delivery of natural gas, and that their disallowances and process recommendations ensure this standard is met.

The AG addresses what it characterizes as Ameren's baseless attack on the credibility of the Panel. The AG notes that Ameren asserts that because "none of the Panel's members are "licensed" professional engineers and because "Mr. Walker and Mr. Napper have never been an employee of [an LDC] in any capacity," the Panel's testimony is "not credible" and should be rejected. Ameren IB at 23-24. To begin, the AG explains that licensure has nothing to do with the engineering competence or industry experience required to evaluate Ameren's capital program in this proceeding. Nothing in the Act, Commission rules, or ratemaking standards requires a Professional Engineer ("P.E.") license—or the affixing of a P.E. stamp—for testimony on the prudence, cost, or justification of capital projects. A state P.E. license is generally required only in narrow circumstances, for example when an engineer submits design drawings to a permitting authority for construction approval or serves as the "engineer of record" to assume legal liability for a facility's design. Those activities are not at issue in this case nor in the many states where the Panel submits testimony and reports. AG Ex. 2.00 at 3; AG Ex. 2.01. The AG asserts that the Panel was not retained to design new facilities or submit stamped drawings; it was retained to review project budgets, evaluate risk assessments, and examine Ameren's capital planning and project execution processes—tasks that do not require licensure and instead depend on decades of utility engineering, construction, and oversight experience. The AG emphasizes that Ameren knows this distinction but chooses to conflate the two to manufacture doubt where none exists.

The AG maintains that equally misplaced is Ameren's attempt to discredit the Panel on the grounds that two members have not worked as an employee for an LDC. The AG emphasizes that consulting entities—including for gas utilities and state Commissions—that focus on planning, integrity management, capital oversight, and prudence reviews plainly require broad knowledge and experience that surpasses the knowledge and experience gained from holding a position at a single utility. The AG contends that the Panel's collective experience of over 70 years in designing, constructing, and maintaining natural gas infrastructure, as well as natural gas data analytics and prudence due

diligence, renders them exceptionally qualified to assess the prudence of Ameren's capital proposals. *See* AG Ex. 2.01; Tr. at 191-194. The AG concludes that Ameren's wishful mischaracterizations cannot erase the fact that the Panel's analysis is comprehensive, credible, and unrebutted on the merits.

The AG contends that Ameren is misleading regarding the Panel's discussion of the Commission's Final Order in the Ameren 2023 GRC. The Company asserts that "only one member of the Panel testified that he read the [entire] order" and tries to spin this into a credibility attack. Ameren IB at 23. The AG points out that this misrepresents the record. Mr. Napper testified that he discussed the Commission's prior order with the Panel, and that while he had not read it cover to cover, did read the relevant portions and was familiar with the issues. Tr. at 232-233. Mr. Walker, in turn, testified that he had reviewed the Final Order and the compliance filings Ameren submitted, including the MAOP reconfirmation plan and its updates. Tr. at 233–239. The AG argues that Ameren's attempt to suggest that the Panel relied on secondhand information is not only inaccurate but deliberately misleading: what matters is that the Panel correctly identified the Commission's reasoning in the Ameren 2023 GRC and applied that same reasoning to Ameren's current proposals. The AG emphasizes that the purpose of the Panel is to combine their expertise and to efficiently address the numerous issues and volumes of corresponding documents, not to perform redundant review in triplicate. Whether every Panel member read every page of the order—which includes topics such as the cost of capital and rate design—the AG argues, is therefore irrelevant; the Panel's conclusions, which were offered as a Panel and not as individual members, are grounded in both the prior order and the present record.

(iv) PIO's Position

PIO argue that Ameren's proposed plant additions and capital planning are not prudent or reasonable and do not meet the "used and useful" standard, particularly given the uncertain, changing, and likely declining demand for natural gas. *See* PIO Ex. 1.0 at 14. While the Commission has ordered a separate, currently ongoing proceeding concerning broader questions related to the future of gas, PIO state that prudent natural gas system operators must still demonstrate that they have addressed such uncertainty when seeking the Commission's approval of their capital planning investments. Part of demonstrating that Ameren's investments as a system operator are just and reasonable, according to PIO, is showing that Ameren correctly evaluated alternatives to the actions taken and presenting the result and underlying analyses of that evaluation to its regulator for analysis and confirmation. PIO argue that, in this case, Ameren is instead asking this Commission to approve its spending increase without carrying its burden of analyzing whether and how much of its proposed expenditures are likely to be wasted imprudently, given these underlying market dynamics and uncertainties.

PIO request that the Commission reject Ameren's proposed spending increases because PIO do not believe the Company has demonstrated that its long-term investments align with a "no regrets" framework. PIO argue that Ameren has failed to conduct a transparent, robust alternatives analysis for its proposed pipeline projects, Blanket Projects, and MAOP reconfirmation projects.

PIO take issue with Ameren's accusation against PIO witness Cebulko of encouraging Ameren to act "irresponsibl[y]" by "only considering the best-case scenario" relating to disallowances to the Transmission Plant and its capital planning recommendations. Ameren IB at 73. PIO explain that they readily support the principle that negative outcomes must be considered when conducting cost-benefit analysis. PIO instead believe that the problem with Ameren's case is that it refuses to engage seriously with how likely various outcomes are and how expensive it would be to gather the information necessary to make those estimates more accurate. PIO conclude that Ameren's approach to capital planning fails to demonstrate prudence or reasonableness and ask the Commission to disallow the proposed expenditures until Ameren can provide a thorough evaluation of alternatives and a clear, transparent justification of its long-term investment decisions.

Mr. Cebulko is Co-Founder and Partner at Current Energy Group ("CEG"), which was founded in May 2024. CEG provides consumer advocates, public interest organizations, and public utility commissions with regulatory, technical, economic, and policy advisory services on gas and electric regulatory issues. At CEG, he works on a wide array of issues: gas and electric long-term planning, NPA analysis, building electrification, cost of service, rate design, demand-side management programs, low-income ratepayer issues, and regulatory business models. Prior to founding CEG, he was a Senior Manager at Strategen Consulting from 2021 to 2024. Before Strategen, he worked at the Washington Utilities and Transportation Commission ("UTC") for eight years. From 2013 to 2016, he was an analyst with the UTC Commission Staff focused on electric and natural gas integrated resource planning, electric and natural gas energy efficiency programs, and new program design and implementation. From 2015 to 2016, he was UTC staff lead for all energy efficiency filings. From 2016 to 2021, he was an advisor to the UTC commissioners. As an advisor, he led commission rulemakings and the commissioners review of adjudicated proceedings. He has a master's in public administration from the University of Washington Evans School of Public Policy and Governance, and a Bachelor of Arts in Political Science from Colorado State University. PIO Ex. 1.0 at 102; PIO Ex. 1.1.

(v) Commission Analysis and Conclusion

The Commission will discuss Distribution Plant, Transmission Plant, Storage Plant, and Capital Planning Process/Capital Project Governance separately below. *See* Section III.B.1.b.; Section III.B.1.c.; Section III.B.1.d.; and Section III.B.1.e.

In contested cases before the Commission, "the rules of evidence and privilege applied in civil cases in the circuit courts of State of Illinois shall be followed." 83 Ill. Adm. Code 200.610(b). The Illinois Rules of Evidence provide that "a witness qualified as an expert by knowledge, skill, or experience, training, or education, may testify thereto in the form of an opinion or otherwise." III. R. Evid. Rule 702.

Interpreting rule 702, the Illinois Supreme Court stated that "a person will be allowed to testify as an expert if his experience and qualifications afford him knowledge that is not common to laypersons, and where his testimony will aid the trier of fact in reaching its conclusion." *Thompson v. Gordon*, 221 Ill. 2d 414, 428 (2006). The party offering the expert testimony has the burden of establishing the expert's scientific,

technical, or other specialized knowledge. *People v. Novak*, 163 Ill. 2d 93, 104 (1994). Conclusions offered by an expert witness must rest on a reliable, credible foundation. *Reed v. Jackson Park Hosp. Found*., 325 Ill. App. 3d 835, 844 (1st Dist. 2001). In other words, an expert witness's conclusion must have an evidentiary basis to be proper. The weight afforded to such testimony will vary based on factors like its thoroughness, rationality, and perhaps most importantly, its factual basis. *See e.g., People v. Godbout*, 42 Ill. App. 3d 1001, 1010 (1st Dist. 1976).

The Commission, as the trier of fact, is responsible for assessing the veracity of the witness's testimony. In doing so, it should judge the testimony for inconsistency, bias, and illogical or unsupported conclusions. *Ill. Com. Comm'n*, Docket No. 83-0034, 1987 WL 1378958. The witness's credentials are also relevant. *Commonwealth Edison Co.,* Docket No. 10-0138, Final Order at 48 (Dec. 15, 2010). These factors influence the weight that the Commission accords a given piece of testimony. *See e.g., id*. at 48-49.

Ameren argues that the AG Panel is unqualified to offer expert testimony in this proceeding. Ameren contends that none of the AG Panel's members are licensed professional engineers and only one of the members has ever been an employee of an LDC. Ameren also notes that the AG Panel offered opinions about the Company's compliance with directives in the Ameren 2023 GRC, while only one member of the AG Panel had read the Final Order.

Similarly, Ameren argues that PIO witness Cebulko is unqualified to offer expert testimony. Ameren points to PIO witness Cebulko's testimony regarding plant additions, capital investments, and non-pipeline alternatives with regard to MAOP reconfirmation projects as problematic because he is not an engineer, nor does he hold any engineering related degrees, certifications, or licenses.

The Commission disagrees with Ameren that the AG Panel and PIO witness are unqualified to testify in this proceeding as experts. Turning first to PIO witness Cebulko, Mr. Cebulko provided unrebutted testimony regarding his experience as a consultant in the gas and electric regulatory space. The Commission notes that Mr. Cebulko has experience assessing rate case issues from several different perspectives, including as an analyst and advisor to the Washington Utilities and Transportation Commission and as an advocate for ratepayer issues. The Commission also notes that he has testified before the Commission in prior cases and before over a dozen other public utility commissions.

Regarding the AG Panel, the Commission notes that Ameren ultimately agreed to the AG's proposal to present its three-member panel as one witness. Much of the AG Panel's testimony is in the form of pre-filed testimony that does not attribute answers to specific members of the AG Panel, but to the AG Panel in general. In essence, the knowledge and experiences of one member of the AG Panel is imputed on the rest. The education and experience of the AG Panel qualify them as expert witnesses regarding the issues addressed in their testimony. The findings here are focused on the AG Panel's and Mr. Cebulko's qualifications to testify as experts in this proceeding and do not assess the substance of their testimony, which is addressed in the various discussions below.

The Commission notes when litigants repeatedly resort to subjective characterizations of witnesses, evidence, and arguments in lieu of clear, factual

presentations, the proper weight of legal arguments can be obscured. This practice risks complicating the Commission's determinations and can diminish the credibility of litigants' other contributions to the record.

b. Distribution Plant

(i) AIC's Position

The Company explains that the assets that make up its distribution plant are those assets that are used to deliver natural gas to the Company's customers from the transmission and storage facilities or the interstate pipeline companies to which they connect. Ameren Ex. 8.0 at 19. Ameren Illinois further explains that the distribution facilities include mains, service lines, valves, regulators, and meters. *Id*. In 2025 and 2026, which are the years of investment at issue here, Ameren Illinois proposes to make a broad array of distribution investments. The Company states that these investments relate to the basic operation and maintenance of the gas distribution system, such as addressing leaks and other necessary mitigation of vulnerabilities on the system (like farm taps or exposed main), timely responding to customer requests for new or modified natural gas service, ensuring that enough new gas meters are on hand and can be deployed as they are needed, responding government entities' requests to relocate main and accommodate improvement projects, and replacing assets that have been identified as threats to the system. Ameren Exs. 7.2; 7.3; 35.0 at 15.

Ameren Illinois notes that it provided evidence showing that each of these distribution investments is prudent and reasonable, as explained by the Company's witnesses and supported by voluminous record evidence regarding the nature of the projects, including each project's cost, scope, and justification. *See*, *e.g*., Ameren Exs. 7.0; 7.2; 7.3; 21.0-21.3; 21.5; 35.0; 35.2. Indeed, as discussed immediately below, there is no dispute in this case regarding Ameren Illinois' ability to recover the costs associated with investments for each of the approximately forty Specific Projects for the distribution system proposed in this rate case to address safety and reliability issues. *See generally* Ameren Ex. 7.2. Ameren Illinois points out that there are other investments in the distribution system that are self-explanatory, such as the Company's obligation to respond to customer requests for new or modified service given Ameren Illinois' obligation to serve. *See, e.g.*, Ameren Ex. 13.0 at 2; ILL. C.C. No. 2, 4th Revised Sheet No. 3.009 and 6th Revised Sheet No. 3.010.

Ameren Illinois notes that the AG Panel recommended various disallowances to Ameren Illinois' distribution spend, including a blanket "disallowance" identified as "pace of distribution spend" that is divorced from any specific project. AG Ex. 1.00 at 46-48. As explained below, the AG Panel's recommendations should be rejected as contrary to law and unsupported by the record evidence. Ameren Illinois concludes that the Commission should therefore approve Ameren Illinois' distribution spend as proposed in its filing and reject the disallowances raised by the AG Panel.

The Company explains that it proposed to add to rate base both Specific Projects and Blanket Projects related to its distribution system. Ameren Illinois says that Specific Projects are generally higher-cost investments, or serve a unique purpose, and are typically included in the five-year budget plan. Ameren Ex. 8.0 at 21. Ameren Illinois further explains that it uses an Asset Management process to prioritize and optimize the

selection of alternative projects for capital investment. *Id.* The initial steps include analysis by an Asset Performance Manager, which comprises: (1) asset investment planning work that involves scoping, scaling, ranking, and selecting projects and programs to be funded; and (2) data analysis on the health of assets to manage preventative maintenance as well as assigning risk values to assets—both the probability of failure as an asset ages/operates and the consequence of any such failure. *Id.*

The Company notes that it also uses a robust set of procedures and processes to ensure that Specific Projects greater than $500,000 are justified with alternatives considered and are completed safely, on time, within the defined scope, and are in line with approved budget targets. Ameren Ex. 8.0 at 25. Ameren Illinois states that it further addresses the Company's capital project governance, including for Specific Projects, under Section III.B.1.e.(i). Ameren Illinois states that it provided a list of all Specific Projects, on a project-by-project basis, for the distribution system included within the forecasted plant additions for 2025 and 2026, including detailed project descriptions and justifications. Ameren Exs. 7.0 at 3, 12; 7.2. The Company notes that there are approximately 40 Specific Projects for the distribution system proposed in this rate case, and they each address safety and reliability issues. *See generally* Ameren Ex. 7.2.

Ameren Illinois explains that the information it provided regarding these Specific Projects is above and beyond what is required by Part 285 of the Commission's rules relating to plant additions since the last rate case. 83 Ill. Adm. Code 285.6100. The Company states that it voluntarily provided these details to further assist with review of the Company's proposed investments.

The Company notes that while the AG Panel has recommended a general "distribution spend pace" disallowance, discussed more fully below, it has not identified any Specific Projects as imprudent or unreasonable. Ameren Illinois explains that the Company is required to present its proposed investments and "make[] a showing of the costs necessary to provide service under its proposed rates." *City of Chicago II*, 133 Ill. App. 3d at 442-43. It has done so here. Once it makes that showing, and establishes a *prima facie* case, "'[t]he burden then shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith.'" *Apple Canyon*, 2013 IL App (3d) 100832, ¶ 54 (quoting *Ill. Bell Tel*., 327 Ill. App. 3d at 776). The Company notes further that no party, including the AG, has even attempted to make that showing here with respect to the Company's Specific Projects. Ameren Illinois avers that it should be allowed to include in rate base all the proposed investments in Specific Projects.

Ameren Illinois explains that it also proposed to include in rate base the costs associated with several Blanket Projects for its distribution system. The Company states that it has provided substantial evidence that these investments in Blanket Projects are prudent and reasonable. While the AG Panel questioned the forecasted level of spend for five of these Blanket Projects, Ameren Illinois submits that its arguments should be rejected, and the Commission should approve the Blanket Project budgets as proposed by the Company.

Ameren Illinois explains that the term Blanket Project is used to describe many similar activities in which the Company is performing a high volume of individually minor or lower cost tasks repetitiously or continuously. As Ameren witness Kozak explained,

categorizing investments under Blanket Projects enables management to group together the costs of individual tasks that otherwise would be spread out across many departments, activities, projects, or functions. The Company states that grouping these tasks gives them higher management visibility, improves planning and budgeting, and allows Ameren Illinois to better analyze problems, opportunities, trends, and other attributes of the work, which are all important to ensuring good work management. Ameren Ex. 7.0 at 12. Ameren Illinois notes that the type of work represented by its Blanket Projects is the core work on the Company's gas system that is low-cost, high volume, routine-type work, and it is performed consistently throughout the year. *Id.* at 11-12.

Ameren Illinois states that the record evidence contains extensive information about these Blanket Projects. In Ameren Exhibit 7.3, the Company provided a breakdown of Blanket Projects for 2025 and 2026. Ameren Illinois notes that the exhibit includes a project description, estimated in-service date, amount of capital in service broken down by year, investment class, and category of investment for each distribution (and non-distribution) Blanket Project, of which there are nearly 100. Ameren Ex. 7.3. The Company further explains that Ameren Exhibit 8.1 provides even more detailed information regarding the distribution Blanket Projects with the largest forecasted budgets, including a description of the project, the date the project was started, the estimated completion date, the estimated completion cost, a description of the reason for the project, alternatives considered and the reasons for rejecting each alternative, and a list of reports relied upon by management when deciding to pursue the plant addition. Ameren Ex. 8.1.

Ameren Illinois explains that it responded to a number of discovery requests in which it provided detailed cost information regarding certain gas distribution Blanket Projects with relatively larger budgets. Ameren Cross Ex. 4. The Company notes that these discovery responses, which were admitted into evidence, broke the estimated costs down by category, for example, delineating the costs for internal labor, materials, and overhead costs. *Id.*

The Company explains that the largest gas distribution Blanket Project for 2025 and 2026 relates to new customer additions and existing customer expansions (Blanket C3231). Ameren Ex. 7.0 at 14-15. Ameren Illinois further notes that additional gas distribution Blanket Projects with costs at issue here include the Company's purchase of gas meters (Blanket C3161), replacement, repair, and reinforcement of gas lines (Blanket C3241), customer-requested work such as relocations, extensions, and removals of lines and meters (Blanket C3222), and relocation of gas lines requested by local governments (Blanket C3233). *Id*. at 15-19.

The Company concludes that the evidence establishes the gas distribution Blanket Projects that Ameren Illinois proposed in this case are prudent and reasonable. Ameren Illinois asserts that it has provided voluminous information regarding the investments themselves as well as the justifications for the investments, and the Commission should approve them as proposed. In contrast, Ameren notes that, based on nothing more than forecasted budgets, the AG Panel recommends disallowances associated with several distribution Blanket Projects.

The Company explains that there are six Blanket Projects for which the AG recommends disallowances, five of which relate to investments in Ameren's distribution system with the remaining project pertaining to the Company's storage facilities. Ameren Illinois states that it addresses this storage-related investment along with the other challenged Blanket Projects because the AG Panel grouped them together. The Company identifies these projects as follows: (1) C3231 – Distribution Services New Business Gas; (2) C3241 – Miscellaneous Distribution Services<100K – Gas; (3) C3161 – AIC Gas Metering Equipment; (4) C3222 – Customer Requested Distribution Services – T&D Gas; (5) Blanket C3164 – GSS – G70 – Construction; and (6) SWO J10QB – Replace Unprotected Steel. AG Ex. 2.00 at 82; AG Ex. 4.00 at 15. Ameren Illinois states that the AG Panel does not take issue with the need for Blanket Projects generally, nor do they take issue with the need to execute on these kinds of projects and perform the type of work covered by them. *See* AG Ex. 2.00 at 81. The Company further notes that the AG Panel has admitted that use of Blanket Projects is appropriate. Tr. at 199.

Ameren Illinois explains that the first project, Blanket C3231 – Distribution Services New Business Gas, covers the installation of new gas mains, services, and customer metering facilities associated with new customers' additions or existing customer expansions served from the gas distribution system. Ameren Ex. 7.0 at 15. The Company notes that Blanket C3231 represents the largest dollar amount of the Blanket Projects that the AG Panel identified for disallowance. Ameren Ex. 7.3 at 1. Ameren Illinois further explains that in addition to the information provided in Ameren Exhibit 7.3 and in testimony regarding this Blanket Project, it provided Ameren Exhibit 21.2, which is a spreadsheet showing a list of over 1,200 currently pending work requests initiated by customers for new mains, services, and meters. The Company states that Ameren witness Kozak also explained the approximate volume of requests received in a given year and provided example letters relating to customer requests as further substantiation for the work covered by this Blanket Project. Ameren Ex. 21.0 at 6; Ameren Ex. 21.3. Ameren Illinois notes that the project is also detailed on the Company's Schedule F-4, including starting and completion dates, completion cost, and alternatives considered. Ameren Ex. 8.1 at 1. As stated in Schedule F-4, the Company asserts that "there is no 'do nothing' alternative for customer requested work." *Id.*

Ameren Illinois explains that the second project, Blanket C3241 – Miscellaneous Distribution Services<100K – Gas, covers gas distribution system improvements, reinforcement, and repair projects on existing gas facilities, including replacement, reinforcement, and renewal of mains, services, and associated equipment resulting from issues such as main leakage, piping erosion, and low pressure support reinforcement to ensure continuity and reliability of gas service. Ameren Ex. 7.0 at 15. The Company states that it identifies these issues through multiple avenues, including leak, valve, and corrosion surveys; customer called-in leaks; gas sample and periodic meter exchange programs; corrosion inspections program; and customer-requested work related to meter and service relocations or meter and service upgrades. *Id.* Ameren Illinois asserts that these are critical improvements that assure the safety and reliability of its gas distribution system. The Company notes that this Blanket Project is also detailed on its Schedule F-4, which contains starting and completion dates, completion cost, and alternatives considered. Ameren Ex. 8.1 at 2.

Ameren Illinois explains that the third project, Blanket C3161 – AIC Gas Metering Equipment, is for the purchase of gas residential and commercial meters, including gas metering pressure and temperature correcting instruments. Ameren Ex. 7.0 at 15. The Company asserts that it is indisputable that Ameren Illinois must purchase such assets to have them available when responding to customer requests for new service or otherwise addressing the need for new meters on its system.

Ameren Illinois explains that the fourth project, Blanket C3164 – GSS – G70 – Construction, covers replacements of facilities and equipment at storage fields such as piping, valves, electronics, uninterruptable power supplies, odorizer equipment, gas and fire protection replacement, separator replacements, and chromatograph equipment when the total project cost will be under $100,000. Ameren Ex. 7.0 at 16. The Company further explains that compression-related activities include replacing jacket water coolers, gas after cooler replacements, lubricator replacement, and replacing obsolete protective instrumentation with analog instruments. Ameren Illinois notes that other activities include installing or replacing well fluid level recorders, pressure recorders, and flow measurement recorders. *Id.*

Ameren Illinois states that the fifth project, Blanket C3222 – Customer Requested Distribution Services – T&D Gas, is for customer requested work, including relocations, extensions, and removals of mains, services, and metering facilities. Ameren Ex. 7.0 at 16. Again, Ameren Illinois notes, it must timely respond when a customer requests work from the Company associated with their gas service.

And, Ameren Illinois notes, the sixth project, Blanket SWO J10QB – Replace Unprotected Steel, is for replacement of unprotected ("UP") steel distribution service lines (steel service lines without protection from corrosion), which present safety and reliability risks. Services marked for replacement are identified through the prior year's service test program. Ameren Illinois explains that any service that failed to meet the 49 C.F.R. §192 requirement for proving adequate cathodic protection and corrosion control is scheduled for replacement. Ameren Ex. 7.0 at 16. Further, as Ameren witness Paskett explained, it is very important that these coated, UP steel services should be replaced as soon as practicable because the UP steel services are coated, cathodically unprotected steel services. Ameren Ex. 28.0 at 8. Ameren Illinois explains that the fact that the approximately 456 UP service lines are coated and cathodically unprotected makes them highly susceptible to pitting and leakage at coating anomalies. *Id*.

Ameren Illinois opines that the information provided in support of these Blanket Projects, including the information contained in Ameren Exhibits 7.3 and 8.1, and witness testimony describing the reason for each project, easily establishes Ameren Illinois' prima facie case by "mak[ing] a showing of the costs necessary to provide service." *Apple Canyon*, 2013 IL App (3d) 100832, ¶ 54 (quoting *Ill. Bell Tel.*, 327 Ill. App. 3d at 776). The Company explains that once that burden has been met, the burden then shifts to any party challenging those costs "to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith." *Id.* Therefore, Ameren Illinois contends that the AG has not met its burden to show why any specific Blanket Project at issue in this case should be disallowed.

Ameren Illinois explains that the reason given by the AG Panel for their proposed disallowances on the first five Blanket Projects noted above is that the forecasted costs for those projects are higher than average historical spending. AG Ex. 2.00 at 13. Ameren Illinois explains that the AG Panel proposed disallowances that they claim are "consistent with the Company's historic Blanket Project cost averages" for each project. *Id.* at 13, 82-86. The AG Panel outlined the specific disallowances for each Blanket Project on Table 3 in their direct testimony. AG Ex. 2.00 at 13. The Company further explains that the disallowances total approximately $22 million for 2025 and approximately $22 million for 2026. *Id.* In basing their methodology strictly on historical averages, the AG Panel failed to take into account the record evidence regarding the development of the Company's Test Year forecast and the rationale underlying that forecast. Ameren Illinois notes that evidence included the testimony of Ameren witness Irizarry-Robles, who explained how Ameren Illinois developed and confirmed the reasonableness of its Test Year forecast, which is an accurate and reliable depiction of the forecasted capital costs, among other things. *See generally* Ameren Ex. 6.0.

Ameren Illinois states that while the AG Panel focused exclusively on Ameren Illinois' Schedule F-4 and other schedules provided in its initial filing, Ameren witness Kozak testified regarding other factors that influenced the calculation of the forecasted capital costs. This included reviews of costs undertaken in 2024, specifically an engineering study mandated by federal regulations (18 C.F.R. § 367.52) and a review of certain payroll accounting. Ameren Ex. 21.0 at 14. The Company notes that Mr. Kozak testified that the engineering study alone resulted in a 13% adjustment towards capital. *Id.* Ameren Illinois states that the AG Panel failed to meaningfully engage with this explanation, stating only that the study was "interesting," and broadly calling into question the sample size and scale of the study. AG Ex. 4.00 at 23-24. However, Ameren Illinois notes, the AG Panel admitted on cross-examination that their portrayal of the study was inaccurate and, in fact, involved a broader sample than they initially claimed. Tr. at 212, 214. Further Ameren Illinois notes that the AG Panel did not (and could not) specifically refute the effect of the federal regulation requiring that the study be undertaken or that the Company make the necessary changes to capitalized costs based on the results of the study. The Company points out that Mr. Kozak also testified that the AG Panel's forecast for Blanket C3161 is skewed because of higher meter inventory prior to 2022, which has decreased and thus necessitates additional spend. Ameren Ex. 21.0 at 15. The AG Panel did not engage with this justification either. *See, e.g.*, AG Ex. 4.00 at 20.

Ameren Illinois notes that the AG limited its discussion to two of the five Blanket Projects allegedly for the sake of brevity: C3231 – Distribution Services New Business Gas and C3222 – Customer Requested Distribution Services. AG IB at 29-30. Ameren Illinois points out that both projects involve customer-requested work, which the Company cannot refuse because it has a responsibility to its customers and prospective customers to execute on and respond to their requests. *See* Ameren Ex. 8.1 at 1. Additionally, the AG's argument that amounts for these projects should be disallowed solely based on how the Company's forecasts line up with the AG's analysis of historical averages is not persuasive. Ameren Illinois explains that disallowances based solely on historical averages fail to consider record evidence regarding the development of the Company's Test Year forecast and the rationale underlying that forecast, discussed by Ameren witness Irizarry-Robles. *See generally* Ameren Ex. 6.0. Such disallowances also fail to

take into account other factors that influence the Company's forecasts; for example, a federally mandated engineering study that resulted in a 13% adjustment toward capital, explained by Ameren witness Kozak. Ameren Ex. 21.0 at 14. Therefore, Ameren Illinois avers that the AG's claim that Ameren Illinois did not explain or identify the other factors that influenced its forecasts is contradicted by the record evidence.

Ameren Illinois notes that it is further contradicted by Ameren Illinois' response to data request AG 16.06, which the AG highlights as an example of Ameren Illinois' supposed lack of transparency. The AG claims that Ameren Illinois denied using expected units of work and unit costs in its forecasting analysis, instead relying on "other factors" without identifying what those factors are. AG IB at 28. Ameren witness Kozak did not state that Ameren Illinois does not use expected units of work and unit costs in its analysis. He simply stated that "other factors . . . are *also* taken into consideration." AG Cross Ex. 1 at 385 (emphasis added). Contrary to the AG's representation, Mr. Kozak identified numerous "other factors" the Company uses in its forecasting including "labor costs, emerging business trends, government initiatives or projects, specific programs, and inventory levels affected by supply chain, leak history, customer requests." AG Cross Ex. 1 at 385.

Ameren Illinois further explains that the AG Panel also proposed a disallowance for the sixth Blanket Project, Blanket SWO J10QB – Replace Unprotected Steel, of approximately $5 million over 2025 and 2026. AG Ex. 4.00 at 13. The Company states that this disallowance, according to the AG Panel, is based on two factors: (1) Ameren Illinois' forecasts do not align with its data; and (2) Ameren Illinois' data does not match the data it reported to the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). AG Ex. 2.00 at 49.

To the first point, Ameren Illinois explains, the AG Panel asserted that the Company reported $0 for Blanket Project SWO J10QB in 2022 and 2023, making its spend "not consistent[]" and the forecasted work for 2025 and 2026 unnecessary. AG Ex. 2.00 at 52. Mr. Kozak responded that in 2022 and 2023, a different Blanket Project number was used to address UP services. Ameren Ex. 21.0 at 13. Therefore, the Company further explains, a historical forecast that took into account $0 for UP services in 2022 and 2023 would not be accurate. Despite this clarification, the AG Panel refused to change its recommendation due to a higher forecasted spend in 2025 and 2026 than actual spend in 2024. AG Ex. 4.00 at 13. Ameren Illinois states that putting aside the fact that the AG Panel's recommended disallowances exceed the difference between actual spend in 2024 and the forecasts for 2025 and 2026, Mr. Kozak also explained that the Company is now taking a more proactive approach in replacing the entire service instead of portions of it, which is costlier, as a matter of dollars, in the short term, but avoids the need for subsequent inspections and associated costs, and so is cost-efficient considering the long term. Ameren Ex. 21.0 at 13; Ameren Ex. 35.0 at 11. Ameren Illinois points out that Mr. Kozak noted that the actual amount of distribution spend in 2024 and 2025 was a direct result of the Commission's decision in the Ameren 2023 GRC, in which certain plant disallowances were adopted, and is not reflective of the level of spend the Company believes is prudent and reasonable to address the safety and reliability of the gas system. Ameren Ex. 21.0 at 11-12.

Ameren Illinois states that the second of the AG Panel's criticisms, that Ameren Illinois' numbers do not match what it reported to PHMSA, also is unfounded. Mr. Kozak explained that the data the AG Panel relied upon is incomplete. Ameren Ex. 21.0 at 12. More particularly, the UP services identified on the PHMSA annual report are those Ameren Illinois discovered to no longer have adequate cathodic protection. *Id.* However, Ameren Illinois notes, the AG Panel assumed that services discovered with inadequate cathodic protection can only be remediated by replacement. *Id.* As a prudent operator, Ameren Illinois states that it replaces services with inadequate cathodic protection only when necessary. *Id.* Some services with inadequate cathodic protection can be mitigated in other ways, such as by installing an anode on the service, which boosts the cathodic protection to acceptable levels. *Id.* Thus, Ameren Illinois states that it has demonstrated why there is a difference in the numbers reported to PHMSA and the actual replacements conducted, which the AG has chosen to ignore.

Ameren Illinois states that it provided ample justification for these Blanket Projects in its initial filing and responded to the AG Panel's concerns and criticisms in testimony. Ameren Illinois further states that the AG has not carried its burden in showing that any of the forecasted costs for these Blanket Projects were unreasonable in general, let alone unreasonable due to inefficiency or bad faith.

Ameren Illinois explains that one type of distribution investment targeted by many of the AG Panel's criticisms is the replacement of mechanically coupled steel pipe. The AG Panel confirmed in testimony that they have "concerns with AIC's approach to pipeline replacement" on its distribution system. AG Ex. 1.00 at 45. However, the Company notes, as outlined above, Ameren Illinois has proposed a wide array of distribution projects in this case, the majority of which do not involve replacement of mechanically coupled steel pipe. In fact, this category of investment makes up only approximately 8% of the Company's projected distribution investments for 2026. Ameren Ex. 35.0 at 15. Still, Ameren Illinois maintains, as mechanically coupled steel pipe is a topic discussed at length by certain parties, the Company will address the robust record supporting replacement of this category of assets.

Ameren Illinois states that Mr. Paskett testified that PHMSA has addressed mechanically coupled steel distribution mains in its Advisory Bulletin, PHMSA ADB-08-02. The Company notes that according to that Advisory Bulletin, "[m]echanical couplings are fittings used for joining and pressure sealing two pipes together . . . . Most couplings rely on elastomers and compression as sealing mechanisms. Couplings appear in a variety of configurations: Straight or inline couplings, elbows (45 or 90 degree), tees, reducing couplings (for joining pipes of different diameters), and couplings integrated with risers." Ameren Ex. 7.0 at 7; Ameren Ex. 16.3 at 2.

Ameren Illinois explains that PHMSA's Advisory Bulletin ADB-08-02 reflects that there is "a history of significant incidents related to coupling failures." *Id*. The Company further explains that these failures can occur where the coupling does not have adequate restraint to hold the pipe securely and the pipe pulls out of the coupling or when the seal between the coupling and the pipe degrades over time and makes the pipe prone to leakage. Ameren Ex. 16.0 at 8-9. Ameren witness Paskett testified that when PHMSA issues an advisory bulletin regarding a specific issue, regulators expect that the operator will take appropriate action to prevent a pipeline safety incident. Ameren Illinois states

that regulatory audits will often follow up on how utilities are addressing various PHMSA Advisory Bulletins, which would include the one regarding mechanically coupled steel pipes. *Id.* at 9.

The Company states that Ameren witness Kozak also testified that the Company's Distribution Integrity Management Program ("DIMP") analysis, which is a tool used to evaluate the top threats to public safety and the integrity of Ameren Illinois' gas distribution system, has consistently identified mechanically coupled steel mains and service lines as a top risk to the integrity of the distribution system. Ameren Ex. 7.0 at 7. Ameren witness Kozak testified that to address the risk associated with mechanically coupled steel pipe, the Company has followed a methodical replacement strategy that accomplishes two things. First, it eliminates current and future leaks caused by mechanical joint failures. Second, it ensures each new service has an excess flow valve installed. An excess flow valve protects the public and employees from a gas release situation should excavation damage occur to the service in the future. Ameren Ex. 7.0 at 8.

Ameren Illinois states that it plans for investment to replace mechanically coupled steel mains and service lines and executes on that plan but does so in an intentional and thoughtful way. In determining which projects to propose and which pipes to prioritize for replacement, Ameren Illinois notes that it considers a host of important factors, including, but not limited to, the risk presented by the facilities at issue, the location of such facilities and the potential for disruption to those communities due to construction, and the total costs of investment in any given year, and the significant potential for costs to increase in the future. *Id.*

The Company explains that with respect to 2025 and 2026, Ameren Illinois is proposing to replace certain segments of those remaining mechanically coupled steel mains and associated service lines. Ameren Illinois explains that the details of those specific projects, including lengths of mains to be replaced and exact locations within the cities of Decatur, Springfield, and Peoria, among many others, are identified as Specific Projects on Ameren Exhibit 7.2 and discussed further below.

Ameren Illinois notes the AG's argument that the Company is not being transparent and "recharacterizing" its data to hide the amount of investment it is proposing for replacement of mechanically coupled steel distribution mains and associated service lines. Ameren Illinois further notes that the AG appears to believe that because the Company stated in its last rate case that replacing mechanically coupled steel facilities was a focus of its distribution investments at that time, that it must be obscuring data to make it appear that it is investing less in that category here. AG IB at 18-19. Ameren Illinois asserts that it is not hiding any information regarding its proposed investments, whether to replace mechanically coupled steel facilities or to undertake any of the other distribution projects included in the Company's capital budgets for 2025 and 2026.

Specific to mechanically coupled steel facilities, Ameren Illinois states that the Company was very transparent in providing evidence that it continues to invest in the replacement of such facilities since it estimates having between 300-400 miles of main remaining with mechanically coupled fittings. Ameren Ex. 7.0 at 6-8. Ameren Illinois also submitted evidence showing that its test year budget for "Mechanically Coupled Replacements" is $11,359,072. Ameren Ex. 35.0 at 15. Further, Ameren Exhibit 7.2

provides substantial detail regarding the Company's proposed projects to replace mechanically coupled steel facilities. *See* Ameren Ex. 7.2. Ameren Illinois asserts these project details provided by Ameren Illinois regarding investments on the distribution system address the factors identified by the Commission in Ameren 2023 GRC, including the types of facilities to be replaced, the impact on safety and reliability, the pace of the proposed work, and the cost. *See Ameren 2023 GRC*, Final Order at 90. Thus, Ameren Illinois asserts that the AG's claims that the Company has failed to disclose "what work it actually intends to perform and at what cost" or that Ameren Illinois "disregarded" any Commission directives from the Ameren 2023 GRC Final Order are untrue.

Ameren Illinois asserts that the AG's other arguments regarding Table 2 found in Ameren witness Kozak's surrebuttal testimony are not supported by the evidence. Ameren notes that the AG first argues that the information presented in Mr. Kozak's Table 2 was introduced "in the eleventh hour of this proceeding[.]" AG IB at 19. In response, Ameren explains that Table 2 presents the Company's proposed distribution investments by investment class and provides the 2025 and 2026 forecasts for each investment class. The Company originally presented the information found in Table 2 in Ameren Exhibit 7.3, which was attached to Mr. Kozak's direct testimony. Mr. Kozak explained in his direct testimony that Ameren Exhibit 7.3 shows "all gas plant projects included within the forecasted plant additions for 2025 and 2026." Ameren Ex. 7.0 at 3. In his surrebuttal testimony, he further explained that Ameren Exhibit 7.3 shows the Company's distribution spend "on an array of different Investment Classes and Categories." Ameren Ex. 35.0 at 14. Table 2 simply collected information from Ameren Exhibit 7.3 and consolidated the distribution investments according to investment class or category. *Id*. at 14-15. Thus, the AG has had all the information found in Table 2 since the commencement of this case.

Ameren Illinois states that the AG next claims that there are supposed "errors" in Table 2 because the "Percentage Increase" column (on the far right of the table) is incorrectly calculated in various respects. AG IB at 20. However, Ameren Illinois explains that the AG misunderstands the information represented in that final column. It does not show the percentage increase between 2025 and 2026, but rather, the percentage increase relative to the total $16,535,697 distribution spend increase from 2025 to 2026, which is found in the last row of the table. For example, using "basic arithmetic" as urged by the AG reveals that "DIMP Based Specific Projects" in the first row of the table are responsible for 9% of the approximately $16 million increase between 2025 and 2026. The Company asserts that any suggestion by the AG that the last column of the table somehow is indicative of broader lack of rigor is simply unfounded because there are no errors in that column.

Ameren Illinois notes that the AG additionally contends that other categories listed on Table 2 must be hiding investment in mechanically coupled steel replacements. AG IB at 20-21. The Company again notes that as Mr. Kozak explained in his surrebuttal testimony, Table 2 simply collects certain information that the Company previously provided in Ameren Exhibit 7.3. Ameren Ex. 35.0 at 14-15. Review of Ameren Exhibit 7.3 shows that the Company's proposed projects are plainly labeled according to the different categories of work contemplated, such as "Mechanically Coupled Replacements", "Difficult to Locate", "Elimination of Small Reg. Stations/Farm Taps", and "Exposed Main", along with others. And, Ameren Illinois provided evidence in Ameren

Exhibit 7.2 regarding each specific project contemplated to address mechanically coupled steel replacements. Thus, Ameren Illinois asserts that the AG is demonstrably wrong in asserting that the Company has provided "no meaningful clarity about the actual scope of the 2026 spend." AG IB at 20-21.

Finally, Ameren Illinois acknowledges that the AG questions the removal of Blanket Project J0WNH from the total on Table 2. AG IB at 21. Ameren Illinois explains that Ameren witness Kloeppel testified that these funds originally proposed for distribution work were reallocated to transmission work. Ameren Ex. 22.0 at 33-34. The AG appears to take issue with the fact that Ameren Illinois did not update its schedules to reflect this reallocation, but Ameren Illinois explains that the reallocation did not change the total amount of rate base that Ameren Illinois proposes to place in service by the end of 2026.

The Company notes that in addition to the disallowances recommended related to certain Blanket Projects, the AG Panel also proposed a general distribution disallowance of approximately $16 million. AG Ex. 4.00 at 15. Ameren Illinois explains that this disallowance is not aimed at any particular project; rather, the AG Panel based it on what they call the pace of distribution spending. In essence, the AG Panel appears to believe that Ameren Illinois is spending too much on its distribution system in 2026 because the forecasted budget in that year is higher than either the actual spend in 2024 or the forecasted budget for 2025. AG Ex. 2.00 at 48. Ameren Illinois states that in justifying this "pace" disallowance, the AG Panel focused strictly on pipeline replacement, claiming that the Company is replacing pipeline more quickly than warranted in light of the characteristics of Ameren Illinois' distribution system. *Id.* at 47-48.

Ameren Illinois asserts that the AG's proposal is contrary to law because it is a generalized disallowance to Ameren Illinois' distribution budget and is not based on any specific project. Ameren Illinois states that the AG Panel's proposed disallowance is inconsistent with the prudence standard and burden framework established by Illinois law for rate cases. The Company asserts that the AG's burden to support its adjustments is well-established: the Commission can disallow costs only if the record evidence establishes *unreasonableness* or *imprudence* in the Company's business decisions. *See, e.g.*, *Bus. & Prof'l People for Pub. Interest v. Ill. Com. Comm'n*, 279 Ill. App. 3d 824, 829-30 (1996); *City of Chicago II*, 133 Ill. App. 3d at 442-43 (dismissing "the erroneous assumption that a utility has the burden of going forward on any and all issues which are conceivably relevant to the reasonableness of its proposed rates"). "Once a utility makes a showing of the costs necessary to provide service under its proposed rates, it has established a *prima facie* case, and the burden then shifts to others to show that the costs incurred by the utility are unreasonable because of inefficiency or bad faith." *City of Chicago II*, 133 Ill. App. 3d at 442-43.

In failing to identify any specific investment, the AG Panel has not even attempted to satisfy its burden to show that the costs associated with the distribution budget are imprudent or unreasonable. *See Bell v. School Dist.*, 407 Ill. 406, 416 (1950) ("[w]here a party asks a court to believe a proposition and to base a finding thereon in his favor, the law casts the burden on him of furnishing the evidence upon which such finding can legally rest."). The Company explains that asking that a disallowance be based on the level of spend in a prior year, which the AG Panel does, is arbitrary in that it would hold Ameren Illinois to the same level of spend for every year, regardless of whether

circumstances necessitated a different approach. That is especially so where prior spend was based on a prior Commission order, not the Company's judgment as to what would be reasonable.

Ameren Illinois states that it established its prima facie case through its initial filing in which it provided schedules, testimony, and exhibits supporting its distribution investments, discussed in more detail above. The Company explains that the AG has the burden, then, to establish that a disallowance is warranted. Ameren Illinois further explains that the AG Panel failed to identify any specific project as unreasonable or imprudent in connection with their "distribution spend pace" disallowance. The Panel simply stated that because the forecasted 2026 spend is more than the 2024 spend and the 2025 spend, it should be adjusted. AG Ex. 2.00 at 46-47. Ameren Illinois contends that this simply because the Company spent an amount for one year does not mean it should be held to that same amount for every year. Ameren Illinois states that such an approach would be unreasonable and imprudent insofar as it would not allow for any deviation or variation in costs over time in response to changing circumstances and system needs. Further, the Company notes, as Ameren witness Kozak testified, there is a concrete reason for the levels of spend for 2024 and 2025: they were based on the Commission's *ordered* level of spend in Ameren 2023 GRC, which is not a reasonable level for future years. Ameren Ex. 21.0 at 11-12.

The Company states that the AG Panel also challenged Ameren Illinois' pipeline replacement approach, broadly claiming that Ameren Illinois' system is in good shape and, therefore, the Company "is capable of maintaining a consistent pace of pipeline replacement in 2026." AG Ex. 2.00 at 47. In response, the Company posits an obvious explanation for that trend: the Company's investments have improved the distribution system over time, resulting in fewer leaks. Ameren Illinois notes that the AG Panel wants the Commission to infer that because the Company spent less on this category of investment for two years and leaks have not immediately increased, the investment is not needed. Ameren Ex. 21.0 at 12. Ameren Illinois maintains that this perspective is not supported by the record and certainly does not satisfy the AG's burden to support its broad disallowance.

Ameren Illinois states that the only category of investment that the AG Panel identified as justifying its distribution spend pace disallowance is distribution pipeline replacement. According to the Panel, Ameren Illinois' pace of replacement is too accelerated for the state of the current system. However, Ameren Illinois states, the disallowance the AG Panel proposes does not apply only to pipeline replacement; it would apply to all the categories of distribution investment. Ameren Illinois explains that there is a wide array of distribution investments that Ameren Illinois is proposing to undertake in 2026. These include, adding new customers to the gas system or expanding existing customers' services, installing new gas meters, and responding to various other customer requests. Ameren Illinois further explains that while these activities may incidentally involve pipeline replacement, that is not the primary driver. But the justification the AG Panel provided for this disallowance, outside of their generalized criticism of the level of distribution spend, which is also insufficient to justify the disallowance, is only focused on pipeline replacement. Ameren Illinois asserts that to suggest a disallowance to all distribution spend is not supported by the record because the AG Panel only identified

pipeline replacement as a potential issue justifying an adjustment. Ameren Illinois states that the Commission should reject the AG Panel's distribution spend pace disallowance for this reason as well.

Ameren Illinois explains that it does not dispute, and has not disputed in this proceeding, that hazardous leaks have declined in recent years. But that does not have the significance the AG affords it. The Company asserts that to suggest that the Company stop making necessary investments in its distribution system because there have been some identifiable positive results is to suggest that Ameren Illinois should abandon an approach that is working. Such an outcome is illogical and irresponsible. Ameren Illinois notes that the AG Panel itself even recognizes that additional investments in Ameren Illinois' gas system improve overall safety and reliability. AG Ex. 2.00 at 28. And yet, it recommends a substantial disallowance that, logically, would decrease that system's safety and reliability. Ameren Illinois asserts that the AG simply has not met its burden to support its disallowance based on recent leak trends where all those leak trends show is that the Company's approach has made a difference and would continue to make a difference if implemented as proposed.

Ameren Illinois notes that if the Commission were to decide to adopt a distribution spend pace disallowance, which it should not for the reasons explained above, it should not adopt the disallowance of approximately $16 million proposed by the AG Panel because that amount is incorrectly calculated. Ameren Illinois explains that the AG Panel initially proposed a total distribution spend disallowance, or "pace" disallowance, of $25.4 million. AG Ex. 2.00 at 48. This amount represents the difference between Ameren Illinois' 2026 distribution spend and its distribution spend in 2024 and 2025. *Id.* Ameren Illinois points out that the AG Panel recognized that they had also proposed disallowances for certain distribution Blanket Projects, which are contained within the overall distribution budget. Therefore, the Company explains, applying a disallowance to the overall distribution budget in addition to disallowances for distribution Blanket Project budgets could result in double-counting or double disallowances. *Id.* Ameren Illinois notes that the AG Panel did not remedy this issue correctly, however.

Ameren Illinois explains that to address the double-counting issue, the AG Panel took their initial disallowance amount of $25.4 million and subtracted only the disallowance amount for Blanket C3231, resulting in an updated distribution disallowance recommendation of approximately $16.4 million. AG Ex. 4.00 at 16. The Company further explains that the AG Panel did not subtract the amounts for any of the other distribution Blanket Projects they took issue with. The Panel's approach is illogical. Five of the six Blanket Projects identified by the AG Panel are distribution projects and therefore should be subtracted from the $25.4 million amount. Ameren witness Kozak included a table in his surrebuttal testimony that presented the corrected calculation with these disallowance amounts subtracted from the total distribution disallowance amount, which would result in a disallowance of $3,301,597. Ameren Ex. 35.0 at 14. Ameren Illinois explains that, to the extent any general distribution disallowance is appropriate, which it is not, this would be the correct number, not the $16.4 million the AG Panel miscalculated.

(ii) Staff's Position

Staff no longer proposes any disallowances to the Company's Distribution Plant but responds to the AG and PIO to state that, despite the AG and PIO's claims, Ameren provided substantial record evidence to support its proposed budget for Project C3231 – New Business. Ameren IB at 35; Ameren Ex. 7.3; Ameren Ex. 21.2. Specifically, Ameren provided a spreadsheet showing over 1,200 currently pending work requests initialed by customers for new mains, services, and meters. Ameren IB at 35. Ameren provided explanations and examples of the approximate volume of new business requests in a given year. Ameren IB at 35-36; Ameren Ex. 21.0 at 6; Ameren Ex. 21.3.

Staff disagrees with the AG and PIO's rationale for a disallowance for the Company's new business costs, specifically associated with Project C3231. Ameren is obligated by law to furnish service to all persons who apply without discrimination and without delay. 220 ILCS 5/8-101. In Ameren's experience, customers seeking new meters, mains, or services generally expect a relatively expeditious turnaround on their request, with most such requests being addressed by Ameren within fewer than 60 days. Ameren Ex. 21.0 at 6. Thus, there is a difference between typical distribution projects, which Ameren may plan for years in advance, and new business, which is not confirmed until requested by customers, and where Ameren's customers do not notify the Company of their need for additional service years in advance.

While Ameren is legally required to provide reliable service (220 ILCS 5/8-401), its typical proposed projects may be one option of many to obtain reliable service. In contrast, Ameren is legally obligated to serve those who request service for which fewer options may exist, especially to avoid undue delay. The AG and PIO's arguments fail to recognize this vital difference between Project C3231 – New Business and the Company's other capital expenditures.

Furthermore, the AG mistakenly focuses on increased projected costs rather than projected new business requests. AG IB (Pub.) at 29. However, as explained by Ameren, the Company has processed approximately 3,200 new business requests each year for the past four years, and its projected budget is based on receiving a similar amount of new business requests in the Test Year. Ameren Ex. 21.0 at 6. Focusing on increased costs rather than the number of projected new business requests ignores factors, such as the results of an engineering study and a review of certain payroll accounting, that contribute to the increased budget for the same number of new business requests.

Finally, the AG's own "Forecasts to Actuals Comparison" shows that, over the past three years, Ameren has typically spent just over what it has budgeted for Project C3231. AG IB (Pub.) at 30. In other words, Ameren's budget for Project C3231 does not "function as fungible placeholders that drive up investment costs while allowing Ameren to shift capital at will." *Id*. at 11. The Company's historic performance, when paired with the additional evidence it has provided in this docket to justify its projected spending on new business, led Staff to recommend no disallowance for this project.

For these reasons, Staff recommends the Commission reject the AG's disallowance for Project C3231 – New Business and instead approve the Company's projected capital expenditures.

(iii) AG's Position

The AG asks the Commission to disallow $16.5 million, $4.7 million, and $43.7 million (for a total of $64.9 million) from Ameren's proposed $250.4 million 2025/2026 distribution budget. AG Ex. 2.00 at 14-15; AG Ex. 4.00 at 16. These reductions remedy what the AG contends are three fundamental deficiencies in Ameren's distribution capital plan: (i) the accelerated pace of unspecified and unsupported distribution pipeline projects; (ii) UP service replacement forecasts which exceed existing inventories and removals, overstating required investments; and (iii) overbroad and poorly defined and supported Blanket Project budgets which overstate costs, far exceed recent spending, and in some cases function as mere placeholders.

The AG asserts that Ameren has not demonstrated that the scale of investment in these categories is necessary or proportionate to the alleged risk on its distribution system. Approval of such unsubstantiated costs, they maintain, would improperly burden ratepayers by inflating rate base without showing that the underlying projects are necessary to provide adequate, safe, and reliable service, or that they will produce tangible safety and reliability benefits, as required by law. 220 ILCS 5/9-10; *BPI II*, 146 Ill. 2d at 196, 247; *see also People ex rel. Madigan v. Ill. Com. Comm'n*, 2011 IL App (1st) 100654, ¶54.

The AG asserts that in this docket Ameren again seeks large, undefined allocations for unspecified and unsubstantiated projects. The AG maintains that Ameren's failure to demonstrate why these expenditures are necessary or prudent shows disregard for the Commission's prior directives, the public's interest in fairness and affordability, and confirms that its proposed distribution budgets should again be reduced.

The AG notes that Ameren portrays its entire capital program, including its 2026 future Test Year investment, as well-supported, risk-driven, and largely uncontested, arguing that Staff's non-objection and the Company's internal forecasting processes suffice to demonstrate prudence. *See, e.g.*, Ameren IB at 1–6, 8–10, 20, 29–33, 38–40. The AG asserts it has demonstrated that Ameren's proposed capital additions suffer from systemic deficiencies across distribution, transmission, storage, and capital process, warranting several internal process changes and a total disallowance of $223,277,791.

The AG further contends that Ameren's capital program does not exist in a vacuum and emphasizes that it is part of a series of serial rate cases in which the Company persistently seeks ever-higher revenues through large and often opaque capital additions. These incremental increases compound year after year, ratcheting rate base higher while providing little assurance of commensurate safety or reliability benefits. The AG explains that these are not abstract dollars—they represent real, recurring burdens on households and businesses across Ameren's service territory. The AG argues that the Commission is the only meaningful check on this growth, and the Commission's vigilance is essential to ensure that the Illinois economy and Illinois ratepayers are not saddled with costs that Ameren has not substantiated with transparent evidence of need.

The AG contends that the Commission should disallow $16,447,156 in Ameren's 2026 distribution work, which is driven in large part by mechanically coupled steel replacements. AG Ex. 2.0 at 47. According to the AG, this disallowance reflects Ameren's unsubstantiated escalation above its approved 2024 test year distribution budget of

$118,823,954 and its 2025 distribution budget of $110,820,034, which the Company itself set at an approximately similar level to its 2024 actual spend. *Id*. The AG explains that Ameren has not shown why a sudden and additional $16.4 million in 2026 distribution spend is necessary, prudent, or tied to specific safety needs. To the contrary, the AG argues that the record shows that Ameren's distribution system is performing safely and reliably, without the emergent risk conditions that would warrant extraordinary escalation. At the same time, they explain that Ameren's vague and shifting project descriptions provide no reliable basis for assessing prudence, as the Company does not identify what work will be performed, at what cost, or to address what risks.

The Panel examined key characteristics of Ameren's distribution system to place the Company's proposed investments in context, explaining that understanding the system's condition, composition, and recent history is essential to evaluating whether the scale and focus of Ameren's replacement programs are justified. The Panel stated that, "as AIC continues to make additional investments into its system, one would naturally expect a comparable proportional increase to safety and reliability of the system." AG Ex. 2.00 at 28. Their review of these characteristics highlights the actual impact of Ameren's aggressive replacement history and provides a factual basis for assessing whether the proposed level of future investment is warranted.

The Panel's summary on pages 28 and 29 of their direct testimony shows that Ameren now operates a largely modern system composed almost entirely of "plastic piping and steel piping that is both cathodically protected and coated to protect against corrosion," containing only "about 6 miles of bare steel main and no more than a few miles of unprotected steel since at least 10 years ago." *Id*. Ameren's system also includes a small subset (approximately 400 miles) of cathodically protected and coated steel pipe segments joined with mechanical couplings, i.e., mechanically-coupled steel (or "MCS"). Ameren Ex. 21.0 at 9.

While Ameren claims MCS poses an elevated risk to its system, the Panel clarified that, "while technically true" that MCS poses a risk, this point is "entirely irrelevant." AG Ex. 4.00 at 5–6. They explained that all gas piping carries some risk of leaking at some point and under some set of conditions, and that debating when a leak may occur distracts from the core question of whether AIC's distribution system actually has a quantity of high-risk infrastructure that justifies ongoing, aggressive capital replacement of mains at the Company's proposed pace. *Id*. In other words, it is a question of proportionality. The AG contends that Ameren produced no evidence suggesting MCS failure rates have increased—only conclusory assertions that MCS itself poses a "significant threat." Ameren Ex. 28.0 at 5–6.

The Panel further explained that Ameren's system contains virtually no "leak-prone" pipe as that term is commonly used by PHMSA, the American Gas Association ("AGA"), LDCs, and other regulators to describe legacy materials such as cast iron and bare steel. *Id*. at 6-7. PHMSA makes clear that cast iron, ductile iron, and bare steel pipelines represent elevated risks that warrant accelerated replacement, but Ameren has only six miles of bare steel and no cast iron or ductile iron. *Id*. Instead, Ameren's system is comprised almost entirely of plastic piping and coated, cathodically protected steel, with a small subset of mechanically coupled steel segments.

That distinction is critical because the Company's aggressive replacement proposal hinges on characterizing MCS as "leak-prone," when the relevant federal and industry authorities reserve that label for very different, higher-risk materials—cast/ductile iron and bare steel. Thus, unlike utilities with significant inventories of these legacy materials, the AG maintains that Ameren operates a fundamentally modern system with minimal high-risk infrastructure—facts that directly undercut its request for an additional $16.45 million to accelerate pipeline replacement spend (including for MCS) in 2026.

The Panel analyzed Ameren's leak data including total leaks, leaks per mile, leaks by material, leaks by grade, and leak causes over a ten-year period to "see if investment is proportional to risk and is proportionally allocated to those parts and types of the system that are experiencing leaks and failures." AG Ex. 2.00 at 30. Notably, after normalizing the data using the industry-standard method, their analysis showed that most hazardous leaks have continued to decline year over year from the beginning of the review period (December 31, 2015) to the end of it (December 31, 2024). *Id*. at 34. The Panel also discovered from this analysis that leaks on services account for more than 14 times more leaks (normalized by mileage) than leaks on main. *See* AG Ex. 2.00 at 34. Put differently, Ameren experiences approximately 1 leak per every 2 miles of services (or about 120 services) and 1 leak for every 28 miles of main, on average. *Id*. at 34.

The Panel testified that the volume of Grade 2 and Grade 3 leaks reported by Ameren were significant enough to merit further investigation and thus conducted a root-cause analysis with the goal of identifying the size and scope of contributing factors for these leaks over time. This analysis was possible because the Commission adopted the AG's recommendation in the Company's last rate case that Ameren provide more granular leak data annually. AG Ex. 2.00 at 36–37. Specifically, Ameren provided the leak data by Grade, cause, facility type, and material. *Id*. This data allowed the Panel to identify hot spots or specific areas of concentrated leaks on Ameren's system. *See* AG Ex. 2.00 at 36–37. In sum, the Panel's analysis shows that Ameren's leak profile is dominated by non-hazardous leaks on services, while leaks on mains are comparatively rare and continue to decline. With nearly fourteen times more leaks occurring on services than on mains—and with the vast majority of those caused by minor equipment failures rather than material degradation—the AG maintains that the evidence demonstrates that channeling additional millions into main replacements is disproportionate to actual system risk and therefore not a reasonable or prudent use of ratepayer funds.

The AG observes that Ameren has rebranded its distribution spend from case to case by carefully selecting project descriptors, undermining its transparency and credibility, and in the process mischaracterized the Panel's basis for their recommended pace disallowance. Ameren Ex. 35.0 at 14. In its last rate case, Ameren was explicit that its distribution investments "have been and will continue to be appropriately focused on replacing an estimated 600–800 miles of mechanically coupled steel pipeline." *Ameren 2023 GRC*, Final Order at 89. That position, the AG argues, made clear the driver of its distribution spend in that case—which the Commission rightly reduced—and future cases.

In this case, the AG contends that Ameren sought to obscure that focus by characterizing the same or similar spending as general "distribution" work and in the eleventh hour of this proceeding, introduced selective and poorly defined project

categories in the form of a table to assert that the increase in 2026 is not primarily driven by MCS replacements but a host of other project categories. Ameren Ex. 35.0 at 15 (Table 2 of Ameren witness Kozak's surrebuttal testimony). Far from substantiating its claim, and the fact that the Panel did not base its pace disallowance solely on MCS pipe replacements, the AG argue that the Table not only shows unsubstantiated increase in categories other than MCS (Eliminate FT-Small Reg Statins, Gas Exposed Main Mitigation, Gas Regulatory State Replacements or elimination, Gas Misc. System Improvements), but further highlights Ameren's failure to disclose with any transparency what work it actually intends to perform and at what cost.

First, according to the AG, Table 2 is riddled with errors. The "Percent Increase from 2025 to 2026" column does not reflect actual increases. Take for example "DIMP Based Specific Projects." The correct percent increase is 25.8%, not 9%. Row 2, "Mechanically Coupled Replacements" is a 35.2% increase, not 18%. Row 6, "Gas – Gas Exposed Main Mitigation is a 563.5% increase, not 28% as alleged. The problem persists through the entire Table 2. The AG emphasizes that this is basic arithmetic, and its misapplication here demonstrates a lack of rigor on the part of Mr. Kozak. Errors of this magnitude in a table offered to rebut the Panel's analysis, they contend, highlight the deficiencies in Ameren's scrutiny of its forecasts—and the little weight the Commission should place on them.

Second, the AG highlights that even a cursory glance at the project descriptions, *e.g.*, "DIMP Based Specific Projects ($7.3 million)," "Gas–Gas Misc. System Improvements/Replacements ($28.9 million)," "Gas–Gas Distribution Main/Service Replacements ($3.37 million)," shows that none of these categories—except for likely "New Customer" - exclude MCS pipe replacement. Ameren invites the Commission to infer that, because the term "MCS" does not appear in the "Investment Class" column, that the work is not included. The AG asserts that that inference is baseless, misleading, and inconsistent with its own assertion in its last rate case that it would continue to focus on MCS pipe. *Ameren 2023 GRC*, Final Order at 89. The AG contends that these broad, catch-all headings are equally capable of encompassing MCS replacements—and likely do—as any other pipe type, meaning Ameren's recharacterization provides no meaningful clarity about the actual scope of the 2026 spend and further undermines its credibility. The AG maintains that nevertheless, Table 2, corrected for error, shows substantial and still-unexplained increases in distribution spend.

Third, the AG points out that Ameren's Table 2 inexplicably adds and then removes $12.3 million from the increase in distribution spend. Table 2 reflects a $12.3 million distribution blanket labeled "Gas–Gas Misc System Improvements/Replacements (J0WNH)" (row 13 in red), which is backed out entirely in the very next line with a "Remove J0WNH" entry (row 14 in white). The Panel discovered that Ameren shifted this $12.3 million from distribution investment to cover cost overruns on two unrelated transmission MAOP reconfirmation projects running roughly $15 million—or 80%—over budget in the aggregate. AG Ex. 4.00 at 23. Except for the project number, this line item bears the same name ("Gas–Gas Misc System Improvements/Replacements") as the $28.9 million category in row 3 (shown in purple). Thus, a large $12.3 million distribution "System Improvements/Replacements" budget was reallocated entirely to cover transmission contingencies. Yet, the AG states that Ameren never updated its schedules to reflect this

reallocation, leaving the record to suggest that J0WNH remained part of the distribution portfolio—money allegedly required for distribution system improvements.

The AG argues that this sequence demonstrates not only that Ameren's distribution budgets are fungible placeholders rather than defined investments, but also that the Company is willing to reassign budget amounts to unrelated transmission overruns within the same exhibit—without any updated schedules. The AG contends that this deprives the Commission of evidence showing the baseline from which to judge prudence, and results in ratepayers facing the risk of paying for projects never properly identified or justified. The AG further asserts that a utility that withholds or obscures accurate project-level data and shuffles millions of dollars mid-case without explanation has not carried its burden under the Act. The AG concludes that such budget-shifting sleight of hand is not planning—it is obfuscation—and it leaves the Commission with nothing on which to base a prudence finding.

The Company accuses the Panel of overstating its recommended distribution disallowances by failing to account for overlap between the Panel's $16.45 million pipeline pace disallowance and the $43.7 million disallowance reducing five specific Blanket Project budgets related to service, meter, and storage work. Ameren Ex. 35.0 at 11–14; *see* AG Ex. 2.00 at 82–84; AG Ex. 4.00 at 20–22, 84–86. The AG asserts that this claim again mischaracterizes the Panel's testimony and ignores that the Panel reviewed the overlap between the general distribution investment categories and the Blanket Projects and removed $8,961,486, which is the cost of Blanket C3231, which the Panel recognized it had also included in its Blanket Projects disallowance. AG Ex. 4.0 at 16. The AG argue that Ameren failed to adequately identify any other Blanket Project overlap, and that the Commission should adopt the $16.45 million distribution disallowance recommended by the Panel to bring distribution investment in line with the level of spending the Commission approved in Ameren's last rate case in November 2023.

For these reasons, the AG asks the Commission to disallow $16,447,157 of Ameren's distribution spend, which they argue represents the unsubstantiated escalation above its 2024 test year and 2025 distribution budgets.

The AG's next proposal is for UP services, which the AG explains are short lengths of unprotected steel pipe connecting the main to the customer meter, which lack cathodic protection and are therefore more vulnerable to corrosion. AG Ex. 2.00 at 49. Each year, Ameren remediates a number of known UP services and discovers new UP services during annual inspections. *See* Ameren Ex. 7.0 at 16. Ameren proposed 2025 and 2026 budgets of $3,375,631 and $3,366,094, respectively, for this work under SWO-J10QB–REPLACE UNPROTECTED STE. Ameren Ex. 7.3 at 2. The AG explains that these services are indeed a priority for replacement, but Ameren's own data show that its forecast bears no reasonable relationship to the actual size of the problem.

The AG asserts that the Panel identified two fundamental flaws in Ameren's case. First, Ameren's reported UP service inventories are inconsistent and irreconcilable because, based on Ameren's discovery responses, its 2024 year-end inventory should have been approximately 265 UP services, yet Ameren reported 456 to PHMSA. AG Ex. 2.00 at 49–50; AG Ex. 4.00 at 10–12. The AG emphasizes that Ameren offered no credible explanation for this discrepancy other than that the report to PHMSA represents

a “snapshot in time.” Ameren Ex. 35.0 at 11. Ameren witness Kozak also suggested that some services may have been remediated with anodes or other cathodic protection instead of full replacement, but if that were true, the AG argues, the inventory should have decreased further—not increased. Ameren Ex. 21.0 at 12–13; Ameren Ex. 35.0 at 11. Further, Ameren admits it does not track how many services receive anodes versus full replacements. AG Ex. 4.01 at 8. In short, the AG maintains that without reliable and consistent records, the Company cannot show either how many UP services needing remediation remain or how its budgets correspond to actual system needs.

Second, the AG emphasizes that Ameren’s spending history shows that its request for 2025 and 2026 UP service replacement is inflated and without support. This point is demonstrated in the Panels direct and rebuttal testimony. *See* AG Ex. 4.00 at 13. Ameren’s workpapers show $0 charged to the UP Services Blanket (J10QB) in 2022 and 2023, even though the Company claimed to have replaced UP services in those years. AG Ex. 2.00 at 51–52. This discrepancy led the Panel to conclude J10QB was not needed. In rebuttal, Ameren admitted that the replacements were in fact charged to a separate standing work order (J04Z9) under Rider QIP. Ameren Ex. 21.0 at 13. But the AG asserts that this only proves the Panel’s point: Ameren has already replaced UP services and its budgeting is opaque and duplicative, with multiple standing work orders (“SWO”) used for the same work and no clear picture of what funds are still required. Yet, the AG contends, Ameren now seeks to increase its 2024 spending by nearly 50% in J10QB funding for 2025 and 2026 each—an amount so inflated it could replace its entire remaining inventory several times over—without demonstrating what changed from 2024 regarding UP services. *See* AG Ex. 2.00 at 51.

The AG asserts that the Commission should not approve such inflated and duplicative requests. The AG contends that the Panel appropriately adjusted Ameren’s forecast to align with the Company’s own inventory data and stated retirement targets, and that these adjustments ensure that ratepayers fund only the work needed to address Ameren’s remaining UP services and a reasonable allowance for newly discovered ones, not a budget large enough to replace phantom inventories.

For these reasons, the AG asks the Commission to disallow $2,749,258 for 2025 and $1,984,168 for 2026 UP service replacement work, for a total of $4,733,425.

The AG next contends that the Commission should disallow $43.7 million from Ameren’s proposed $164.5 million combined 2025/2026 distribution Blanket Budgets associated with the following five Blanket Projects: C3231, C3241, C3161, C3164, and C3222. Ameren Ex. 7.3. The Panel identified and further investigated these five Blanket Projects from their testimony, because they exceeded historic run rates and the spending forecasts, the AG argues, were insufficiently substantiated. AG Ex. 2.0 at 82.

Ameren defines a “Blanket Project” as a category used to capture numerous similar activities consisting of high-volume, low-cost, routine work performed repetitively or continuously on the Company’s gas system. Ameren Ex. 7.0 at 12. According to Ameren, most of this core work involves individual tasks that each cost less than $100,000. *Id*. Rather than recording these jobs separately across many departments or functions, the Company groups them together under blanket categories. Ameren asserts that this approach provides management with greater visibility into recurring work,

improves planning and budgeting, and allows analysis of problems, opportunities, and trends. *Id*. Ameren further explained that Blanket Projects are funded at an annual anticipated spending level, informed by a historical "look back" at prior expenditures. Ameren Ex. 8.0 at 11. It asserts that these categories are reviewed during the annual budget cycle and monitored monthly by local and senior leadership to align actual spending with budgeted levels and adjust for "emergent needs." *Id*.

The AG asserts that in practice, however, Ameren's blanket budgets bear none of the attributes the Company describes. The AG explains that despite multiple requests, Ameren did not provide unit counts, cost drivers, or workpapers that would allow its forecasts to be traced to historical experience or adjusted for known conditions. AG Ex. 2.00 at 81-82. They emphasize that the Company admitted that its blanket forecasts are "not forecast at the unit level," leaving them non-replicable and exceptionally difficult to audit. AG Ex. 4.00 at 24:393–25:398. When asked directly whether its blanket budgets are based on expected units of work and unit costs, Ameren answered "No," asserting instead that "other factors are also considered;" however, the AG highlights that it produced no data identifying those "other factors," how they were applied, or how they justified the forecasts. AG Cross Ex. 1 (Pub.) at 385. The lack of rigor, the AG contends, is further underscored by Ameren's mid-case reallocation of an entire $12.3 million distribution Blanket Project (J0WNH) to cover transmission MAOP overruns—without updating schedules—demonstrating that blanket dollars are fungible placeholders that can be redirected at management's discretion. AG Ex. 4.00 at 23.

The AG explains that Ameren produced six pages of Blanket Projects in Ameren Ex. 7.3; those projects are placed in five broad categories (gas distribution, gas storage, gas transmission, gas intangible, gas general); and each project is identified by a limited description, an investment class, and category. The projects range in cost from a low of $5,739 to a high of $44,952,502 and totaling $311.3 million for 2025 and $329.9 million for 2026 for a combined total of $641.2 million. Ameren Ex. 7.3 at 4, 6.

The Panel selected five Blanket Projects that ranged from a two-year budget of $8.5 million to $66 million. When the Panel investigated these five Blanket Projects it found each budget was inflated when compared to historical spend and unsupported. For brevity, the AG highlight two examples—C3231 and C3222—that illustrate how Ameren's forecasts diverge sharply from historical experience and lack credible justification. *See* AG Ex. 2.0 at 82-86.

The AG contends that Blanket C3231—Distribution Services New Business Gas—demonstrates the disconnect between Ameren's stated methodology and its actual forecasts. Although Ameren's 2022–2024 actual costs in this category were only about 6.6% higher than expected, the Company increased its 2025 and 2026 forecast by nearly 50% above the three-year historical average. AG Ex. 2.00 at 82-83. The AG states that even measured against the higher actuals, Ameren's forecast still represents an unexplained 41% increase. *Id*. The AG asserts that if Ameren were aware of specific growth projects driving such a jump, these drivers should have been identified as discrete line items, not buried in a blanket budget insulated from scrutiny.

The AG argues that the same flaws appear in Blanket C3222—Customer Requested Distribution Services (T&D Gas). Ameren's forecasts for 2023 and 2024

proved inflated, with actual spending coming in 43% and 27% lower, respectively, despite an earlier 52% overspend in 2022. Over the three-year period, the net result was a 16.5% underspend. AG Ex. 2.00 at 84–86. Rather than normalizing this volatility through a longer-term historical average, the AG contends, Ameren instead projected a 61% increase over the three-year actuals for 2025 and 2026. *Id*. Ameren attempted to defend this increase by claiming that 2024 spending was artificially reduced by the Commission's prior order, but the Panel's review showed that 2024 spending was in fact higher than the average of 2022 and 2023, and still 43% below the 2025 forecast. *Id*. (*citing* AG Ex. 2.40); *see also* AG Ex. 2.00 at 85.

In defending its blanket forecasts, Ameren argues that the Panel ignored or "failed to engage with" Mr. Kozak's explanation of Blanket Project C3161 (Metering). Ameren IB at 39. According to Mr. Kozak, the Panel's forecast is understated because its calculations include 2022 data and prior, when meter inventories were unusually high following the advanced metering infrastructure ("AMI") rollout. Ameren Ex. 21.0 at 14-15. He testified that including those years "skews the rolling three-year average" and that higher spending in 2025/2026 is needed as that surplus declines. *Id*. Mr. Kozak further cited "planned lifecycle replacements, annual sampling" results, and the "addition of 29 employees" as further reasons for the increase. *Id*.

The AG argues that contrary to Ameren's claim, the Panel did not "fail to engage" with these assertions but directly addressed them in their rebuttal testimony. The Panel testified that if Ameren's forecasts were truly grounded in inventory adjustments, lifecycle replacements, sampling results, and staffing changes, "the simplest response would be to supply a workpaper with calculations and specific data on that particular Blanket Project." AG Ex. 4.00 at 20. The AG assert that Mr. Kozak did not do so. Instead, he pointed to unit costs and meter forecasts and the AG argues that Ameren's own testimony undercuts its justification, leaving the Commission with rhetoric in place of the hard data needed to support millions in new capital. *See* AG Ex. 2.20 (Conf.).

The AG emphasizes that the result is a familiar one—Ameren supplies narrative rationales for higher blanket forecasts but never the verifiable data that would show how those rationales translate into the requested capital dollars. Without such calculations the AG explains, the Commission cannot meaningfully assess prudence. Mr. Kozak's testimony about meter inventory may explain why procurement needs fluctuate from year to year, but it does not substantiate Ameren's 2025/2026 budget request for C3161 as the Panel rightly concluded. As with the other blanket categories, the AG asserts that the absence of transparency leaves the forecasts inflated, opaque, and appropriately subject to disallowance.

While Ameren continues to accuse the Panel of making determinations "based on an incomplete representation of the facts," the AG asserts that the Company has failed to provide additional "facts" to complete the picture it claims is relevant. Ameren Ex. 21.0 at 14. The Panel testified that it has reviewed billions of dollars of capital blanket forecasts across the country using a variety of bases such as "a five-year average, 3-year average, most recent year average, linear average, and a project-specific bottom up methodology, to name a few. These have included historic forecasts that are then modified using known factors about the future year." AG Ex. 4.00 at 19. The AG explains that Ameren, by contrast, supplied none of these recognized methods, leaving its forecasts untethered to

either historic performance or identified future needs. In the absence of verifiable data or a transparent methodology, the AG contends that the Commission cannot reasonably conclude that Ameren's blanket budget increases—as presented—represent prudent or necessary investment.

The AG explains that the Commission is setting rates based on Ameren's 2025 and 2026 blanket expenditures and must rely on what Ameren claims it will do. This makes it critical, they continue, for Ameren to provide explicit and thorough explanations of how it developed its blanket budgets that forecasted about $640 million in expenditures and why those forecasts are accurate. AG Ex. 2.00 at 41; Ameren Ex 7.3 at 6. In addition to investigating five selected projects in detail, the Panel attempted to determine the standard Ameren uses to select and price its Blanket Projects but ultimately was left with the simple but uninformative conclusion that Ameren relies on unspecified "changing operational needs" to justify spending that grossly exceeds historical trends and costs. AG Ex. 4.0 at 19. The AG explains that Ameren essentially relied on generalities and opaque "other factors" when asked to explain anomalous projected spending increases associated with the five projects.

The AG concludes that the Commission should therefore find that Ameren has not substantiated its requested increases for any of the five Blanket Projects identified by the Panel and therefore failed to meet its burden of proof. For these reasons, the AG argues that the Commission should disallow $43.7 million from Ameren's proposed $164.5 million combined 2025/2026 distribution Blanket Budgets associated with Blanket Projects C3231, C3241, C3161, C3164, and C3222.

The AG argues that Ameren's discussion of Specific Projects conflates a small, purportedly transparent but uncontested slice of its budget with the entire $250.4 million 2025/2026 distribution request. The "approximately forty Specific Projects" are set out in Ameren Ex. 7.2 Confidential, which in fact lists 38 projects totaling only $38.1 million. By contrast, Ameren Ex. 7.3—which contains all proposed 2025/2026 plant additions—shows that more than 80% of the distribution request comes from dozens of Blanket Projects lacking verifiable project-level data. The Commission is not being asked to approve only $38 million in distribution costs found on Ameren Ex. 7.2 Confidential; it is being asked to approve $250.4 million in distribution costs. The AG asserts that the fact that a small fraction of projects is uncontested does not cure Ameren's failure to substantiate the vast majority of its program, nor do these projects provide "context" for the deficiencies identified by the Panel elsewhere. If anything, they contend, Ameren's reliance on them underscores that the Company can produce detail when it wants but has chosen to leave the majority of its budget in opaque categories, frustrating review.

The AG emphasizes that the Commission has already warned Ameren regarding its approach to supporting plant additions. In the Ameren 2023 GRC, the Commission disallowed $45.5 million in distribution plant because Ameren failed to identify "what types of pipes are to be replaced, to what degree safety and reliability are affected, at what pace, and at what cost." *Ameren 2023 GRC*, Final Order at 90. Yet, the AG explains, Ameren again seeks approval for hundreds of millions in undefined spending, supported by little more than generalized references to risk, asserted need, and a sliver of uncontested plant. According to the AG, this disconnect is especially stark with MCS, which Ameren repeatedly casts as a "significant threat" while its own data show no rising

failure rates and while federal and industry authorities do not classify MCS as "leak-prone." AG Ex. 4.00 at 5-6. MCS projects, the AG notes, nevertheless remain embedded throughout Ameren's vague blanket projects.

In short, the AG argues that Ameren's reliance on a handful of uncontested Specific Projects cannot insulate its broader distribution request from scrutiny. The Panel's disallowances were carefully targeted to the deficiencies revealed by the record: the unjustified escalation in the pace of 2026 investment, the inflated and irreconcilable UP service forecasts, and the inflated, opaque blanket budgets. Far from "generic," they assert, these adjustments address specific deficiencies and ensure that Ameren recovers only the costs it can substantiate with evidence, not placeholders or rebranded categories. The AG concludes that that is precisely what the Act requires and precisely what the Commission already told Ameren in its last rate case. The AG argues that the Company's attempt to repackage old arguments under a new label does not change that outcome.

Ameren next claims that the Panel "failed to take into account the record evidence regarding the development of the Company's [T]est [Y]ear forecast and the rationale underlying that forecast." Ameren IB at 38. The Company points to Ameren Ex. 6.0, the direct testimony of Mr. Irizarry-Robles, as if the Panel's silence regarding it proves neglect. The AG explains that the reality is quite simple: Ameren Exhibit 6.0 is mere narrative, not evidentiary. What the testimony does not contain, the AG argues, are the hallmarks of a prudence review: verifiable project-level data, risk metrics, cost-benefit analyses, or explanations of attempts or plans to mitigate rising costs. The AG explains that absence is precisely why the Panel did not rely on it. The AG concludes that choosing not to cite conclusory narrative is not a failure to consider evidence—it is recognition that the testimony offers no substantive support for Ameren's distribution blanket requests.

In defending its inflated blanket budgets, Ameren dismisses the Panel's reliance on the Company's own Schedule F-4s and workpapers as "exclusive," and accuses the Panel of ignoring "other factors that influenced the calculation of the forecasted capital costs," including an "engineering study" cited by Mr. Kozak. Ameren IB at 39; *see also* Ameren Ex. 21.0 at 14. The AG argues that this assertion is false and misleading.

Moreover, the AG emphasizes that Ameren repeatedly invokes other factors that supposedly justify its forecasts but does not identify or describe them and never produced them in their entirety in discovery or testimony, despite multiple requests to do so. AG Ex. 2.00 at 81-82; AG Ex. 4.00 at 24-25; Ameren Ex. 21.5. Nevertheless, the one factor cited here is a "time study of engineering labor," conducted under 18 C.F.R. § 367.522, which Ameren claims contributed to a "13% budgetary adjustment toward capital." Ameren IB at 39; Ameren Ex. 21.0 at 14. The Panel acknowledged that the study was cited in support of cost increases to Blanket Projects C3231, C3233, and C3241, and confirmed their understanding by explaining that "this study tracked a single engineer in a single truck over a 2-week period and recommended that AIC shift 13% of its work from O&M to capital." AG Ex. 2.00 at 23–24

During cross examination, Ameren seized on whether the study tracked one engineer or seven to imply that the Panel misunderstood it. Tr. at 213–214. But as AG witness Walker testified, "[o]ur testimony is not particularly focused on the number of

engineers. It is the relevance of this study to the [B]lanket [P]rojects." *Id*. The Panel acknowledged the 13% O&M-to-capital shift but correctly concluded that "the size and relative scale of the 'study' do little to explain some of the very material deviations from historical values, or why certain expenses were capitalized." AG Ex. 2.00 at 23–24. The AG notes that conclusion is further reinforced by the data: the three Blanket Projects the Panel provided as examples in direct testimony averaged increases in capital expenditures of 47% over historical spend—a magnitude that dwarfs the 13% O&M reallocation. *See* AG Ex. 2.00 at 82–86.

In short, the AG asserts that Ameren's invocation of an "engineering study" is a red herring. Even if accepted at face value, the AG explain that the study cannot bridge the wide gap between Ameren's blanket forecasts that include 47% increases to some capital budgets rather than the 13% reallocation suggested in the engineering study. And the AG contends that the Company's repeated references to unspecified "other factors" that it never disclosed only underscore the Panel's point: Ameren's blanket budgets remain opaque, inflated, and unsupported. This is precisely why the Panel's process recommendations—requiring transparency, unit-level data, and rigorous justification—they explain, are essential to prevent Ameren from masking cost escalations behind vague assurances in future cases.

For these reasons, the AG asks the Commission to disallow a total of $64.9 million from Ameren's proposed $250.4 million 2025/2026 distribution budget for: (1) Ameren's unexplained escalation of the pace of its 2026 distribution investment; (2) inflated and inconsistent forecasts for UP service replacements; and (3) inflated and opaque Blanket Project budgets untethered from unit-level and risk data. The AG asserts that ratepayers should not underwrite inflated or opaque costs that Ameren has chosen not to substantiate. The Panel's review was detailed and evidence-driven, identifying clear deficiencies after wading through incomplete disclosures and shifting project labels. Ameren's approach by contrast, the AG contends, rests on rhetoric, selective examples, and placeholders. The AG's targeted disallowances protect customers from unjustified charges and ensure they pay only for prudent, verifiable investments - the balance the Act requires, and the public interest demands.

(iv) PIO's Position

PIO addresses this issue in Section III.B.1.e.iii.

(v) Commission Analysis and Conclusion

In Ameren's 2023 GRC, the Commission approved a distribution project budget of $118.3 million from Ameren's requested $152.1 million. AG Ex. 2.00 at 46. The record shows the Company spent approximately $9 million less than the approved forecasted distribution budget in 2024. *Id*.; *see also* AG Ex. 2.17 (AIC's Resp. to AG-5.42). Now, almost two years later, the Company requests an additional $250.4 million of investment in distribution for 2025 and 2026. The Commission agrees with the AG that Ameren's investments proposed in rate cases cannot be viewed in a vacuum and represent real costs borne by Illinois ratepayers. For approval, Ameren must present evidence demonstrating its proposed costs are prudently incurred and the resulting rates will be just and reasonable. 220 ILCS 5/9-211; 220 ILCS 5/9-201(c).

The AG recommends the Commission disallow $64.9 million of Ameren's proposed investment in distribution main and services spending for 2025 and 2026. According to the AG, Ameren's distribution spending should be reduced by $16.5 million related to distribution project pace, including mechanically coupled steel ("MCS"), $4.7 million for replacement of UP steel services, and $43.7 million related to Blanket Projects.

The Commission agrees with the AG that the Company has not proven its accelerated pace of distribution investment is reasonable or necessary given the system's general good condition and safety. The AG Panel analyzed Ameren's system characteristics, leak history, and performance data to demonstrate that the system is "highly modernized and safe." AG Ex. 2.00 at 28-29, 47. According to the AG, Ameren has little to no "leak-prone" materials remaining in its system. AG Ex. 4.00 at 5-6 (AIC only has 6 miles of bare steel and no cast iron or ductile iron left in its system). In fact, Ameren's system is composed almost entirely of plastic piping and coated, cathodically protected steel. *Id.* Hazardous leaks within Ameren's system have consistently decreased year after year. AG Ex. 2.00 at 33-34. The Company agrees its system is safe and contends the AG's findings show that the Company's "proactive" program is "working." Ameren Ex. 21.0 at 11; Oral Argument Trans. at 17:19-18:3. The Commission finds that if an already proactive program is "working" it is unnecessary to accelerate its pace. The record shows that Ameren's system is safe, modern, and optimized. The level of investment from previous years has allowed the Company to maintain, repair, and proactively update its system well within its obligations under the Act.

When considering program proposals, the Commission must balance the potential risks and benefits of the proposal with the immediate need and cost to ratepayers. "The Commission cannot fulfill its statutory duty to balance the competing interests of stockholders and ratepayers without . . . considering the impact of proposed rates on ratepayers." *Citizens Util. Bd. v. Ill. Com. Comm'n,* 276 Ill. App. 3d 730, 737 (1st Dist. 1995); *see also Abbott Lab. v. Ill. Com. Comm'n,* 289 Ill. App. 3d 705, 716 (1st Dist. 1997); *Apple Canyon Lake Prop. Owners' Ass'n.,* 2013 IL App (3d) 100832, ¶60. Appropriate pace and proper prioritization are part of this analysis. The Commission agrees that prudent costs are proportionate with the needs of the system. AG Ex. 4.00 at 6; *see also* AG Ex. 2.00 at 28-29, 47 (reliance on main replacement is disproportionate with the needs of the system since leaks occur 14 times more often on service lines). The level of acceleration and type of distribution projects proposed by Ameren are not proportional to the needs of the system or the affordability for its ratepayers. The record does not support a finding that Ameren's proposal prudently balances the interests of the Company and ratepayers.

Specifically, the record does not support the proposed accelerated replacement of MCS. While MCS replacement is not the only driver of the increase to Ameren's distribution budget increase, it is a large component. Ameren Ex. 35.0 at 14-15, Table 2. According to the AG, Ameren has replaced 488.5 miles of MCS main in the last ten years, focusing on the most leak-prone distribution pipes. AG Ex. 2.00 at 45. The Company's own 2024 analysis indicated that main leaks caused by joint failures, like MCS, account for approximately 1.3% of all leaks. AG Ex. 4.01 at 9 (AIC's 23-0067 Gas Leak Report Compliance Filing). Ameren proposes $19.76 million for continued MCS replacement projects in 2025 and 2026. Ameren Ex. 7.0; Ameren Ex. 7.2. The Commission's review

of the Company's confidential evidence shows that only seven of the proposed projects identified as MCS experienced over 5 leaks, while twelve projects had a history of 0-2 leaks. Ameren Ex. 7.2 CONF. The Commission appreciates that the Company provided risk analyses for each project but observes the identified MCS projects range in average weighted rank from 2 to 4,912, with fifteen MCS projects ranked above 160. *Id.* The Commission finds sufficient funding for necessary MCS projects will still be available after the distribution pace adjustment of $16,447,156.

Ameren's reliance on a 2008 PHMSA advisory notice to explain its need to replace all MCS is not persuasive. The PHMSA advisory notice does not require replacement, as implied by the Company. Ameren Ex. 16.3 at 2-3. Instead, PHMSA lists several methods to address MCS, including reporting and increased security checks, before stating operators could "consider whether to adopt a full replacement program if there are too many unknowns related to couplings in service." *Id.* The Commission further notes PHMSA's advisory notice was published in 2008, but Ameren does not explain the need for acceleration of MCS replacement in this case. Ameren requests an increase of 18% in its MCS budget between 2025 and 2026 without explanation of "unknowns" warranting replacement. *Id*.; Ameren Ex. 35.0 at 15, Table 2.

The Commission disagrees with Ameren that the AG's proposed disallowance is inappropriate because it is not tied to a specific project. The disallowance is premised on the pace of the overall distribution investment category in relation to the demonstrated need. It is not a benchmarking disallowance but rather a general category adjustment to maintain the level of investment already proven to be "working" according to both the Company and the AG. The Commission notes the Company argues against "blanket" disallowances while providing an entire budget subcategory in distribution plant of "blanket projects." Ameren Ex. 7.0 at 12. Accordingly, the AG's recommended adjustment of $16,447,156 million to better align the Test Year with the Company's successful 2023 and 2024 distribution project budget and to avoid unsupported burden on ratepayers is adopted.

The Commission approves the Company's proposed Blanket Projects. Ameren provided credible and unrebutted testimony which explained what each Blanket Project covered and how its budget was developed. *See* Ameren Exs. 7.0, 15.0, 21.0. To illustrate, the AG recommended a $8,861,486 disallowance from Blanket Project C3231, which covers new business, based on the budget's increase. The Commission notes that the record evidence shows Ameren had over 1,200 pending work requests initiated by customers for new mains, services, and meters. *See* Ameren Ex. 7.3; Ameren Ex. 21.2. Ameren provided evidence of the approximate volume of new business requests in a given year. Ameren Ex. 21.0 at 6; Ameren Ex. 21.3. Ameren also provided credible, unrebutted testimony that it has historically experienced approximately 3,200 new business requests for each year over the past four years. Ameren Ex. 21.0 at 6.

The Commission finds that the AG's $43.7 million disallowance for the Company's blanket projects is unsupported by the record evidence in this case.

The AG acknowledges that UP steel services are a priority for replacement but argues the $4.7 million disallowance is required because Ameren's budget is excessive and unsupported by the data. Specifically, the AG states that the Company's UP steel

inventories are inconsistent and irreconcilable. In support of its conclusion, the AG argues that the data provided by the Company in this docket does not match the data in PHMSA reporting and that the Company does not consistently use funds allocated to replacement of UP steel services—noting that $0 was spent under Blanket Project J10QB in 2022 and 2023. The record evidence does not support the AG's proposed UP steel services disallowance.

The Commission finds credible Ameren's explanation that under 49 C.F.R. § 192, the Company is only required to inspect and report on at least 10%, or 13,356, of its total 138,346 active Isolated Services in the system. Ameren Ex. 35.0 at 11. The Company further notes that upon inspection, any of these services may be determined to be unprotected. *Id*. Similarly, Ameren provides a credible explanation to the AG's claim that it does not consistently use funds allocated to replacement of UP steel services. Ameren notes that in 2022 and 2023, the Company used a separate QIP SWO identified as Project J04ZP9 to address UP steel services under the Company's Rider QIP. Ameren Ex. 21.0 at 13. The Commission notes that this created confusion when comparing the Company's historical spend to its forecast but finds its explanation credible. In future cases, significant classifications of projects and expenditures should be accompanied by documentation and appendices that enables the Commission and parties to complete meaningful comparisons and analyses across proceedings.

c. Transmission Plant

(i) AIC's Position

The Company explains that the assets that make up transmission plant are those that connect primarily to Ameren's underground gas storage facilities, or the interstate pipeline companies that deliver gas to Ameren Illinois. Ameren Ex. 8.0 at 19. These transmission facilities typically operate at high pressure and traverse long distances to the customer load centers, where they connect with the lower pressure distribution facilities. *Id*. Ameren Illinois explains that these facilities include mains, valves, regulators, filtering and conditioning equipment, and meters. *Id*. Ameren Illinois explains that the Company's proposed Test Year transmission capital investments should all be approved as they are prudent, reasonable, and necessary to provide safe, adequate, and reliable gas service consistent with the Company's regulatory obligations.

Ameren Illinois explains that a significant portion of the transmission system investments at issue in this case (listed in Ameren Exhibit 7.3) has not been challenged by Staff or intervenors. The Company notes that these uncontested investments provide context for the investments that are challenged, which are discussed below. Ameren Illinois concludes that the Commission should approve all the uncontested transmission investments proposed in this case.

Ameren Illinois notes that the transmission system investments that have been challenged by the AG and PIO—all relating to MAOP reconfirmation projects—should also all be approved. The Company states that the AG's and PIO's related analyses and recommendations are flawed in numerous respects, including misrepresentations or omissions of facts and regulations. The AG's and PIO's positions regarding the MAOP reconfirmation projects, and their related disallowances totaling tens of millions of dollars, should all be rejected for the reasons explained below.

Again, Ameren Illinois notes, PHMSA promulgates pipeline safety regulations that prescribe the minimum safety standards for pipeline facilities and the transportation of gas. The Company explains that the natural gas pipeline safety regulations are codified in Title 49 C.F.R. § 192 and have been adopted by the Commission in 83 Ill. Adm. Code 590.10. Ameren Ex. 8.0 at 3, 6.

The Company explains that it designs, constructs, operates and maintains its pipeline facilities to comply with pipeline safety regulations and undertakes a wide variety of activities to maintain the safety, integrity, and reliability of the gas transmission and distribution systems and gas storage field facilities. Ameren Illinois explains that this includes leak surveys of transmission and distribution systems, gas leak surveillance, monitoring and repairs, pipeline patrols, corrosion control inspections, pressure control and valve inspections, odorization inspections, damage prevention, and public awareness efforts, among other activities. Ameren Ex. 8.0 at 6. Ameren Illinois points out that it also periodically discusses activities and actions being taken or planned by the Company towards improving the safety and integrity of the gas system, and strengthening pipeline safety generally, with the Commission's Pipeline Safety Staff. *Id.*

Ameren Illinois explains that pursuant to PHMSA regulations, Ameren Illinois has a Transmission Integrity Management Program ("TIMP"), which, along with the Company's DIMP, are designed to assess the threats to Ameren Illinois' gas systems and the integrity risk those threats represent. Ameren Ex. 8.0 at 3. The Company notes that its TIMP was originally developed and implemented in accordance with PHMSA's Pipeline Safety: Pipeline Integrity Management in High Consequence Areas (Gas Transmission Pipelines); Final Rule, which became effective in 2004. *Id.* The regulation required natural gas transmission pipeline operators to develop a TIMP with the objectives to identify, prioritize, assess, evaluate, repair, and validate the integrity of their respective natural transmission pipelines that could, in the event of a leak or failure, affect high consequence areas ("HCAs") along transmission pipelines. *Id.* at 3-4. Ameren Illinois states that TIMP plans were to be written and implemented by December 2004 with initial integrity assessments of all HCAs complete by the end of 2012. Ameren Illinois explains that ongoing integrity assessments of the HCAs are conducted on intervals, not to exceed seven calendar years, dependent on the associated risks and threats specified by pipeline safety regulations. *Id.* at 4.

Ameren Illinois points out that there have been a number of recent major changes in Federal and State pipeline safety regulations that have had a significant impact on the Company's operations. The Company notes that these changes are detailed in the direct testimony of Ameren witnesses Kloeppel (Ameren Ex. 8.0 at 6-9) and Paskett (Ameren Ex. 16.0 at 11-18). Particularly relevant to the Company's transmission operations are the changes relating to MAOP, which is the maximum pressure at which a pipeline may be operated from a safety and regulatory perspective. Ameren Illinois explains that the MAOP is established to ensure that a pipeline can be used to safely transport natural gas to end use customers. Ameren Ex. 8.0 at 8.

Ameren Illinois states that PHMSA issued a significant MAOP-related pipeline safety Final Rule on October 1, 2019, for natural gas transmission pipelines titled "Safety of Gas Pipelines: MAOP Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments" (the "MAOP Rule" or "RIN-1 Rule"). Ameren Ex. 8.0 at 7.

See Federal Register / Vol. 84, No. 190 / Tuesday, October 1, 2019 / Rules and Regulations. The Company explains that the MAOP Rule was developed in response to the San Bruno, California incident on September 9, 2010, in which a 30" natural gas transmission pipeline ruptured resulting in fatalities, injuries, and the destruction of many homes. The MAOP Rule became effective on July 1, 2020. *Id.* In promulgating the MAOP Rule, PHMSA was very clear in stating that the purpose of this Final Rule was to increase the level of safety associated with the transportation of natural gas and address the causes of several recent incidents by clarifying and enhancing existing regulatory requirements. *Id.* at 10-11.

Ameren Illinois states that on August 24, 2022, PHMSA issued an additional new Final Rule revising the Federal Pipeline Safety Regulations to improve the safety of onshore gas transmission pipelines titled "Safety of Gas Transmission Pipelines: Repair Criteria, Integrity Management Improvements, Cathodic Protection, Management of Change, and Other Related Amendments." Ameren Ex. 8.0 at 8; *see* Federal Register / Vol. 87, No. 163 / Wednesday, August 24, 2022 / Rules and Regulations. The Company notes that this Final Rule, also known as the RIN-2 Rule, is the companion to the MAOP Rule, and addresses several issues and recommendations from the National Transportation Safety Board's investigation of the incident that occurred in San Bruno, California, and responds to public input received as part of the rulemaking process. *Id.* The RIN-2 Rule contains amendments to 49 C.F.R. § 192 that clarify certain integrity management provisions, codify a management of change process, update and bolster gas transmission pipeline corrosion control requirements, require operators to inspect pipelines following extreme weather events, strengthen integrity management assessment requirements, revise and strengthen the repair criteria for transmission pipelines in HCAs, create new repair criteria for transmission pipelines located outside of high consequence areas, and revise or create specific definitions related to the above amendments. Ameren Ex. 8.0 at 8. The original effective date of this Rule was May 24, 2023, but PHMSA later extended the effective date to February 24, 2024. *Id.*

Ameren Illinois explains that the MAOP Rule contains provisions that address MAOP reconfirmation for certain specified natural gas transmission pipelines, expansion of integrity assessment requirements to include transmission pipelines outside of HCAs, additional risk analysis and integrity assessment requirements for transmission pipelines in HCAs, prescription of material verification ("MV") program requirements for transmission pipelines subject to MV, and other related amendments and changes. Ameren Ex. 8.0 at 8.

As reflected by the summary description of the MAOP Rule above, it includes extensive additional regulatory requirements that have required Ameren Illinois to implement significant changes to its operational processes, procedures, and technology systems. *Id.* at 9.

Ameren Illinois explains that the MAOP Rule essentially eliminates original provisions related to the establishment of a transmission pipeline's MAOP if it was based on prior operating pressure history. Ameren Ex. 8.0 at 9-10. This methodology was allowed in the original federal pipeline safety regulations promulgated in 1970. The Company further explains that the new MAOP Rule effectively requires gas transmission pipelines, regardless of installation year, to meet these new regulatory requirements and

standards *as soon as practicable*. The MAOP Rule includes an intermittent deadline for reconfirmation of 50% of identified pipeline mileage by July 3, 2028, and a 100% completion deadline of all identified pipeline mileage by July 2, 2035. *Id.* at 10.

Ameren Illinois explains that, regarding methods of MAOP reconfirmation, the MAOP Rule lists the following six methods to reconfirm the MAOP of a gas transmission pipeline that is in scope for MAOP reconfirmation: (1) Pressure Testing in conjunction with verification of material properties in accordance with § 192.607 *Verification of Pipeline Materials and Attributes*; (2) Pressure Reduction; (3) Engineering Critical Assessment ("ECA"); (4) Pipe Replacement; (5) Pressure Reduction for Pipeline Segments with Small Potential Impact Radius; and (6) Alternative Technology. Ameren Ex. 8.0 at 10; *see also* Federal Register / Vol. 84, No. 190 / Tuesday, October 1, 2019 / Rules and Regulations at p. 52248.

Ameren Illinois states that the October 2019 and August 2022 pipeline safety regulations detailed above have had a significant impact on Ameren Illinois' MAOP reconfirmation work. Ameren Ex. 8.0 at 4. The Company notes that these new MAOP requirements added complexity as pipeline operators maintain compliance in a cost-efficient manner within the seven-year assessment cycle. The assessment process evaluates the integrity of the pipe, through both direct and indirect methods, for any indication of weakness or potential safety concern (*e.g.*, possible corrosion or identification of pipe wall loss). *Id.* In some locations, Ameren Illinois notes that it can perform in-line inspection by inserting an inspection tool (commonly referred to as a "smart pig") into the pipeline that is either pushed through the pipeline by the flowing natural gas or self-propelled. The inspection devices can measure several integrity related parameters from inside the pipeline, including restrictions and deformations of the pipe, as well as pipe wall metal loss. *Id.* At a location where there is an indication or anomaly that presents a potential threat to the integrity of the pipeline, Ameren Illinois excavates and evaluates the pipe and develops a mitigating action plan as needed. Ameren Illinois explains that mitigating actions can vary from minor coating repair or installation of a repair sleeve on the affected areas, to entire replacement of a pipeline section. *Id.* at 4-5.

In the Company's last rate case, the Commission directed as follows:

> AIC shall file a MAOP and Records Compliance Plan ("Compliance Plan") to demonstrate compliance with the MAOP Rule on reconfirmation and records verification before proceeding with further replacement work for MAOP reconfirmation or material verification. The Compliance Plan shall identify specific ways in which the Company will consider, prioritize, and utilize the six methods for reconfirmation across the two compliance periods of present-2028 and 2028-2035. The Compliance Plan will ensure the Company's reconfirmation efforts maximize cost efficiency using existing and lower-cost activities to reconfirm MAOP where lacking.

> The Compliance Plan shall demonstrate how the Company has followed the PHMSA directive to verifying materials and reconfirming MAOP, with a discussion of the rationale for proposed spending on each method. To the extent that AIC believes that replacement is the only option or the most cost-effective option for certain segments, it shall include a thorough analysis for each such alternative method for compliance, minimally including cost, rate impact, and operational feasibility considerations. Each request for capital recovery for compliance work under the PHMSA rules shall be accompanied by a demonstration of consistency with the Compliance Plan on a per-project basis and include an alternatives analysis when pipe replacement is proposed.

Ameren 2023 GRC, Final Order at 98. As directed by the Commission, Ameren Illinois notes that it made a compliance filing on February 20, 2024, entitled "2024-2035 Plan for Compliance with 49 C.F.R. § 192.624" (the "MAOP Compliance Plan"). A copy of the Company's initial MAOP Compliance Plan was attached to the direct testimony of Ameren witness Kloeppel in this case as Ameren Exhibit 8.2.

Ameren Illinois states that the MAOP Compliance Plan outlines the Company's approach to achieving full compliance with 49 C.F.R. § 192.624, "Maximum Allowable Operating Pressure Reconfirmation: Onshore Steel Transmission Pipelines," by the federally mandated deadline of 2035. The MAOP Compliance Plan was developed in accordance with the regulations issued by PHMSA and the express directives set forth in the Commission's Ameren 2023 GRC Final Order. Ameren Illinois explains that at a high level the MAOP Compliance Plan includes:

- A detailed schedule and methodology for reconfirming MAOP across Ameren Illinois' transmission pipeline system.
- A detailed evaluation of the six MAOP reconfirmation methods prescribed in 49 C.F.R. § 192.624.
- A comprehensive assessment of cost, rate impact, pipeline risks, safety implications, constructability, technical feasibility, and execution certainty for projects to be executed by Ameren Illinois in the next five years.

Ameren Ex. 36.0 at 8-9.

Ameren Illinois states that on October 29, 2024, Staff of the Commission's Safety and Reliability Division filed a report in Ameren 2023 GRC addressing the Company's MAOP Compliance Plan (the "Staff Report"). A copy of the Staff Report was attached to Mr. Kloeppel's direct testimony as Ameren Exhibit 8.3. The Staff Report notes, among other things, as follows: "Staff does not object to AIC's 2024-2035 Compliance Plan for reconfirming its MAOP as filed. After analyzing the [MAOP Compliance Plan], it is Staff's position that the Company's Compliance Plan reasonably addresses the objectives outlined in the Commission's Final Order in [Ameren 2023 GRC]." Ameren Ex. 8.3 at 10.

Ameren Illinois notes that Staff also requested that Ameren Illinois update the MAOP Compliance Plan annually. The Company further notes that it agreed to submit,

as a compliance filing in Ameren 2023 GRC, an updated MAOP Compliance Plan annually on or before March 31 beginning in 2025 through 2034. Ameren Ex. 8.0 at 12. The Company states that it complied with that agreement and filed the first update to its MAOP Compliance Plan on March 31, 2025. Ameren Ex. 22.0 at 22. A copy of the Company's March 2025 MAOP Compliance Plan was attached to Mr. Kloeppel's rebuttal testimony as Ameren Exhibit 22.5.

Ameren Illinois explains that to comply with the regulations detailed above, and to carry out its MAOP Compliance Plan, the Company proposed to place in service certain transmission capital investments in 2025 and 2026 and move those assets into rate base in this case. All of the Company's proposed transmission projects are listed comprehensively in Ameren Exhibit 7.3 attached to the testimony of Ameren witness Kozak. Ameren Ex. 7.3 at 2-5. The largest of the Company's MAOP reconfirmation projects—eleven in total—are detailed on Schedule F-4, which is attached to the testimony of Ameren witness Kloeppel as Ameren Exhibit 8.1. Ameren Ex. 8.0 at 12. Those eleven MAOP reconfirmation projects are as follows: (1) J0J1M – GTSE TR8 – Fairmont Dr. Station; (2) AIC11098 – GTSE TR18 Phase 2 – Pocahontas to Highland Replacement; (3) AIC10364 – GTSE TR18 Phase 1 – Greenville Replacement; (4) J0NC9 – TR2 – Eden Storage to Tilden CS; (5) J0Z9D – GTSE TR03 MAOP Reconfirmation – Replacement; (6) J10FX – TR10 – 2025 HCA Assessment Work; (7) AIC11118 – GTSE TR95 – MAOP Recon – Hydrotest; (8) J10FN – TR96 – 2024 HCA Assessment Work; (9) AIC 11112 – GTSE TR 130 – Chillicothe MAOP Recon – Hydrotest; (10) AIC11116 – GTSE TR65 MAOP Recon – Replacement; and (11) J10FP – GTSE PEO TR97 – MAOP Recon – 12. Ameren Ex. 8.0 at 32-33; *see also* Ameren Ex. 8.1.

Ameren Illinois states that additional detail regarding these MAOP reconfirmation projects is provided in the MAOP Compliance Plans submitted in evidence in this case as Ameren Exhibits 8.2 and 22.5. Nine of these MAOP reconfirmation projects are proposed to be placed in service in 2025 and 2026. In addition, the Company notes, there are two MAOP reconfirmation projects that Ameren Illinois placed in service in 2024 for which the Company experienced higher actual costs than had been forecasted in the last rate case. Ameren Ex. 8.0 at 12-13.

The Company states that, as explained by Ameren witness Kloeppel, Ameren Illinois has provided evidence demonstrating that all the gas plant additions at issue in this case, including the Company's transmission system investments, are reasonable in amount and necessary to provide safe, adequate, and reliable gas service. Ameren Ex. 22.0 at 3. Ameren Illinois notes that in addition to the evidence provided with the Company's direct filing, including Ameren Exhibits 7.3 and 8.1 (Schedule F-4), this evidence includes certain additional information regarding particular capital projects that was requested by Staff and intervenor witnesses and that was submitted with the Company's rebuttal and surrebuttal testimony. *See*, *e.g.*, Ameren Ex. 22.0 at 3; Ameren Ex. 22.2; Ameren Ex. 36.1.

The Company notes that a significant portion of the transmission system investments at issue in this case (listed comprehensively in Ameren Exhibit 7.3) have not been challenged by Staff or intervenors in this proceeding. In particular, Staff witness Seagle reviewed the Company's transmission investments detailed in Ameren Exhibit 7.3, the Company's Schedule F-4, and the Company's initial and updated MAOP Compliance

Plan. Staff Ex. 5.0. Based on this review, Mr. Seagle did not recommend any disallowance of the Company's transmission system capital investments. *See*, *e.g.*, Staff Ex. 13.0; *see also* Staff Ex. 9.0; Staff Ex. 10.0.

In testimony, Ameren Illinois notes, the AG and PIO recommended adjustments to the Company's transmission investments, and in particular those related to MAOP reconfirmation. For the reasons detailed below, Ameren Illinois states, the Commission should reject these recommendations and instead approve the related transmission capital investments at the levels proposed by the Company.

Ameren Illinois explains that the AG Panel broadly challenged the Company's approach to MAOP reconfirmation, ultimately recommending that the Commission disallow 75% of all 2025 and 2026 capital allocated to that critically important work, resulting in a disallowance of $75,675,000 for 2025 and $78,375,000 for 2026. Notably, Ameren Illinois points out, the AG Panel's recommended disallowance is not linked to any specific project or projects, nor is it based on any justification or analysis. Rather, they merely repeat the same approach the AG advocated in the Company's last rate case. Ameren Ex. 22.0 at 26. And, Ameren Illinois explains, to justify their recommended adjustment, the AG Panel claimed: (1) that the Company supposedly "ignored the Commission's concerns in its last rate case and continues to make the same proposals to escalate MAOP work"; and (2) that the Company's choices of reconfirmation methods are supposedly "made without sufficient analysis or examination, are estimated using poor and incomplete practices, do not consider specific methods available, do not follow typical engineering practices, and therefore it is more likely than not that the Company's choices result in avoidable costs, thus making them imprudent." AG Ex. 2.00 at 55-56.

Ameren Illinois maintains that the AG Panel is wrong, and their recommendations related to MAOP reconfirmation work should be entirely rejected. As an initial matter, the Appellate Court reversed the Commission's adoption of the AG Panel's proposed disallowance for MAOP reconfirmation work in the Company's last gas rate case:

> As such, we find that the Commission's order reducing the AIC 2024 budget by 75% with the intent to stop all MAOP reconfirmation based on replacement is arbitrary, as it includes MAOP reconfirmation work that was not based on main replacement as well as projects that did not involve MAOP reconfirmation. Accordingly, as to this issue, the Commission's order was not supported by substantial evidence but was instead controverted by substantial evidence as detailed information was provided by AIC in its Schedule F-4 filings and testimony by its witnesses regarding the MAOP reconfirmation projects. … Accordingly, we vacate those portions of the Commission order that removed $47.51 million from AIC's 2024 MAOP budget.

Ameren Ill. Co., 2025 IL App (5th) 240014, ¶ 87.

Further, Ameren Illinois states, as addressed above, the AG Panel is not credible, and their recommendations either ignore or are contradicted by the record evidence in this proceeding, and mischaracterize the Company's regulatory obligations, the

Commission's directive to the Company regarding MAOP reconfirmation in Ameren 2023 GRC, and the Company's MAOP Compliance Plans. The Company further states that in addition to the issues with the AG Panel's credibility generally—which alone would justify the Commission's wholesale rejection of its recommendations—the Panel's assertions and related recommendations should be entirely rejected on their individual merits.

First, Ameren Illinois states, the AG Panel criticized the Company's MAOP Compliance Plan and the information provided by the Company in this proceeding, asserting that the Company supposedly "ignored the Commission's concerns in its last rate case and continues to make the same proposals to escalate MAOP work," "has not changed its approach to [MAOP reconfirmation] since the Commission's Final Order in AIC's 2023 Rate Case," and "has not provided enough information to evaluate the prudence of the projects it wishes to recover costs for." AG Ex. 2.00 at 55; AG Ex. 4.00 at 41. However, the Company contends, these claims are contradicted by the record evidence (including the MAOP Compliance Plan itself) that establishes the Company in fact complied with the Commission's directives in that case and provided the information necessary to evaluate the Company's MAOP reconfirmation plans, as confirmed by both Staff and PIO.

Relatedly, Ameren Illinois notes, contrary to the AG Panel's assertion that Ameren Illinois only provided cost estimates relating to the pressure testing and replacement methods and provided "no detailed analysis of the relative cost of the other methods" (AG Ex. 2.00 at 55), PIO witness Cebulko observed that Company's "documentation for its MAOP investments in its 2025 rate case improves on its 2023 rate case, in that its Compliance Plan and Schedule F-4 workpapers *analyze and provide cost estimates for all six potential reconfirmation methods.*" PIO Ex. 1.0 at 34-35 (emphasis added).

Ameren Illinois also emphasizes that the AG Panel did not identify *what* information is supposedly missing that would have allowed them to review these projects for prudency but claimed to have presented "two examples of AIC's justification deficiencies in its . . . MAOP Compliance Plan." AG Ex. 4.00 at 44-45. One of these examples was the Company's MAOP reconfirmation transmission project J0J1M – GTSE TR8 – Fairmont Dr. Station. Ameren Illinois notes that in direct testimony, the AG Panel claimed the materials and project justification was "confusing" and the AG Panel's prudence review was "less feasible" because the total installation miles for that project varied slightly from 4.85 miles to 4.95 miles. AG Ex. 2.00 at 40. The Company states that the AG Panel's confusion is not evidence, and it is certainly not a rebuttal of the Company's evidence. Further, Ameren Illinois points out, the AG Panel appeared to ignore the actual evidence provided by the Company regarding this project. In his rebuttal testimony, Ameren witness Kloeppel explained that:

> The route for Project J0J1M has changed multiple times and the different mileages represent different points in time during the course of the planning and engineering of the project. Early in the design, the route for Project J0J1M was 4.95 miles, but due to efficient route planning AIC was able to reduce the installation mileage to 4.85 miles of transmission pipeline to reconfirm the MAOP of TR 08.

Ameren Ex. 22.0 at 32.

Ameren Illinois states that the AG Panel did not acknowledge this testimony but instead continued to insist that they "offered AIC a roadmap of the most basic information that would be necessary for review." AG Ex. 4.00 at 45. The roadmap the AG Panel points to is described as "a simple diagram or tabular summary that shows or describes the linear extents of the project and the segment(s) that comprise those linear extents along with the lengths of each." AG Ex. 2.00 at 40. A quick review of just one of the project scope documents in the Company's MAOP Compliance Plan, however, shows that the MAOP Compliance Plan provides several maps and project descriptions with *significantly more detail* than the example presented by the AG Panel. Ameren Ex. 36.0 at 10; Ameren Ex. 8.2 at 126-37. The Company notes that it also provided in discovery additional narratives and images of the linear extents for this project, which the AG Panel appeared to ignore. Ameren Ex. 36.0 at 10. The Company's discovery responses addressing further specifics for Project J0J1M are found in Ameren Exhibit 36.1. A prudence determination for this project should not turn on whether Ameren Illinois has provided schematics or images that satisfy the Panel's roadmap. Here again, as elsewhere, the AG Panel's handling of this project suggests that they did not conduct a thorough and objective review of the prudency of the Company's projects, and that contrary to their assertions, the information provided in the Company's MAOP Compliance Plan was sufficient to inform that review. Ameren Ex. 36.0 at 10.

In short, Ameren Illinois states, as compared to the opinions of Staff and PIO, as well as the Company's evidence, the AG Panel's opinions regarding Ameren Illinois' compliance with the Ameren 2023 GRC Final Order and the information the Company has presented in this proceeding to support its capital investments—opinions that as discussed above do not appear to be based on a thorough review of either the Final Order itself, or the Company's MAOP Compliance Plan—are not credible and should be rejected.

Ameren Illinois maintains that the Panel's assertions and recommendations regarding the Company's MAOP reconfirmation methods and the prudence of related investments fare no better. For example, Ameren Illinois explains, the AG Panel claimed that the Company's approach to "rush" capital outlay is likely to result in numerous imprudent and unreasonable outcomes (supposedly justifying their recommended disallowance of 75% of the Company's proposed MAOP reconfirmation budget). AG Ex. 4.00 at 41. However, their claim failed to consider key factors and mischaracterized the basis for the Company's proposed timeline to achieve full compliance with the MAOP reconfirmation regulation. Ameren Ex. 36.0 at 10-11. Ameren Illinois further explains that the pace for completing MAOP reconfirmation work is not random, nor was it driven solely by the Company's preference. Instead, the evidence presented in this proceeding demonstrates that the Company's proposed pace represents a methodical approach to meet the 2035 deadline set by PHMSA, will address the safety of the pipelines "as soon as practicable" as required by PHMSA, and further will optimize with the TIMP assessment schedule. *Id.* at 11.

Ameren Illinois states that this approach to align MAOP reconfirmation work with the TIMP assessment schedules mandated under 49 C.F.R. § 192, Subpart O, is to ensure that MAOP reconfirmation work is addressed in tandem with required TIMP

assessments to meet regulatory compliance in a cost-efficient manner. Ameren Ex. 36.0 at 11. To comply efficiently, the Company states that it is leveraging the MAOP reconfirmation methods, which satisfy both 49 C.F.R. § 192.624 and § 192.917 requirements. Ameren Illinois explains that this integrated approach not only ensures regulatory compliance but also reduces the cost of compliance by avoiding the need to assess a pipeline segment and then return later to perform MAOP reconfirmation—an approach that would result in duplicative efforts and unnecessary additional costs. Ameren Ex. 36.0 at 11.

Ameren Illinois states, to illustrate this, if the Company would have deferred the identified project to reconfirm the MAOP of TR 08 (J0J1M), as shown in Ameren Exhibit 22.5 on page 51, a transmission integrity assessment would have been required in the interim at an estimated cost of $2.5 million and the replacement project would still be required at a later time to achieve compliance. Ameren Ex. 36.0 at 11. Ameren Illinois contends that this unnecessary additional cost, which the AG Panel recommended the Company incur, would certainly be an "unreasonable outcome" and increase rates to customers. *Id.*

And here again, Ameren Illinois notes, the AG Panel's position appears to reflect a lack of engagement with the Company's MAOP Compliance Plan and related evidence, given that the rationale discussed above has been documented in multiple sections of the Company's MAOP Compliance Plan. Ameren Ex. 36.0 at 12. The Company further notes that, as outlined in the MAOP Compliance Plan, "[p]ipeline segments located in [HCAs] subject to 49 C.F.R. § 192.624 are also impacted by the change in regulation, 49 C.F.R. § 192.917(e)(3)," which activates the Manufacturing and Construction ("M&C") threat. *See* Ameren Ex. 8.2 at 9; Ameren Ex. 22.5 at 10. Under 49 C.F.R. § 192.939, the maximum assessment cycle is seven calendar years. Given that the PHMSA Final Rule titled "Safety of Gas Transmission Pipelines: MAOP Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments" became effective on July 1, 2020, these regulations together require that transmission pipelines in HCAs be assessed for the M&C threat no later than the end of 2027, with some assessments due sooner. Ameren Ex. 36.0 at 12. Ameren Illinois explains that the plan also includes scoping documents with justification sections that clearly specify the compliance schedule requirements for each project and an avoided cost that would otherwise be required under 49 C.F.R. § 192.917(e)(3) for the completion of a transmission integrity assessment. Ameren Ex. 36.0 at 12. In short, the Company states, the Panel's claim that Ameren Illinois has adopted an "accelerated pace" ignores the fact that the Company's MAOP reconfirmation schedule is driven by federal regulatory requirements and the commitment to achieve compliance and maintain the safety and reliability of the system in the most cost-efficient manner possible. *Id.* at 13.

Ameren Illinois explains that, as another example of the fundamental flaws in the AG Panel's analysis, the Panel asserted that the Company uses "worst-case assumptions" when comparing MAOP reconfirmation methods. AG Ex. 4.00 at 49. However, the Company states, it has an obligation to serve its customers and must consider all scenarios when planning how to operate its system and execute projects. Ameren Illinois further explains that this includes the selection of MAOP reconfirmation methods. Ameren Ex. 36.0 at 14. The Company notes that it must be prepared to

maintain service to its customers in the event it experiences an irrecoverable hydrotest failure. The Company states that it discussed concerns at length related to ensuring continuous supply to its customers in the detailed project selection sections of its MAOP Compliance Plan. Ameren Illinois contends that the operation of the transmission system as designed is vital to meet the energy needs of customers on the coldest hour of the coldest day, and the risk of a failed or irrecoverable pressure tests should be taken seriously by all parties. *Id.* at 14-15.

Similarly, Ameren Illinois notes, the AG Panel criticized Ameren Illinois for not using the Engineering Critical Assessment ("ECA") method of reconfirming MAOP, asserting that the Company has not given "honest, thorough consideration" to use of ECAs for MAOP reconfirmation. AG Ex. 4.00 at 63-67. But, the Company states, as explained by Ameren witness Paskett—who, unlike the members of the AG Panel, has been a registered professional engineer since 1987 and worked in engineering-related roles for an LDC for more than 30 years—the Panel apparently misunderstands the regulatory and engineering complexities of achieving MAOP reconfirmation using ECA, which is orders of magnitude more complex than the material sampling done at least once per mile as incorrectly suggested by the Panel. Ameren Ex. 42.0 at 8-9.

Ameren Illinois notes that, as Mr. Paskett explained, 49 C.F.R. § 192.632 (which governs the methodology of performing an ECA) provides that a reconfirmation method would have to:

- analyze any cracks or crack-like defects remaining in the pipe, or that could remain in the pipe, to determine the predicted failure pressure of each defect in accordance with 49 C.F.R. §192.712;
- analyze any metal loss defects not associated with a dent;
- analyze the interaction of defects to conservatively determine the most limiting predictive failure pressure; and
- establish the lowest predicted failure pressure for any known or postulated defect, or interacting defects, remaining in the pipe divided by the greater of 1.25 or the applicable factor listed in 49 C.F.R. §192.619(a)(2)(ii).

Ameren Ex. 28.0 at 14.

Ameren Illinois state that, as should be clear from the language of the regulation above and as further explained by Mr. Paskett, the ECA method of MAOP reconfirmation allowed under 49 C.F.R. §192.624 (and further detailed in 49 C.F.R. §192.632) requires an operator to gather copious quantities of pipe attribute, anomaly, and defect data at literally every inch, and 360 degree circumferentially, along the entire length of the pipeline. Ameren Ex. 28.0 at 15. Ameren Illinois explains that the ECA method requires operators to perform a rigorous engineering fracture mechanics analysis of every anomaly and defect in the pipeline to determine the reconfirmed MAOP. *Id.* Ameren Illinois explains that while 49 C.F.R. §192.632(c) would allow an operator to gather the voluminous amounts of pipe material data using a series of in-line inspection ("ILI") tools (smart pigs), the Company's transmission pipelines subject to MAOP reconfirmation are not able to accommodate the passage of ILI tools. Ameren Illinois further explains, that is the result of a large number of known, and unknown, tees, short radius fittings, bottom-

out fittings, reduced-port valves and other obstructions that would prevent passage of either a mechanical pig necessary to prepare the pipeline for an ILI tool or passage of a smart pig tool. Ameren Ex. 28.0 at 14-15.

Additionally, Ameren Illinois notes, the AG Panel failed to grapple with a critical point regarding the use of the ECA methodology. After dedication of millions of dollars to make a pipeline piggable to accommodate the passage of an ILI tool to gather the extensive data required by the ECA, there is no assurance of a favorable outcome. Ameren Exs. 28.0 at 15; 42.0 at 9. It is possible that the newly reconfirmed MAOP, as determined by ECA, may be lower than the existing MAOP, thereby reducing existing pipeline system capacity. The Company explains that this reduction in system capacity may require pipeline replacement, system reinforcements or other enhancements to restore existing MAOP and/or system capacity. *Id.*

Finally, Ameren Illinois explains that all of the AG's arguments on this and other issues related to methods of MAOP reconfirmation are based on a misreading of the related PHMSA regulation. The plain text of the MAOP reconfirmation rule, 49 C.F.R. § 192.624, does not intend that operators select any particular option as preferrable to others, nor does it even require consideration of all options. Instead, it identifies options that are allowed. This is not to suggest that the Company has not considered all options (which it has, as reflected in the MAOP Compliance Plan itself), but rather to emphasize that the AG's framing is incorrect and should not be adopted.

Placed appropriately in this context, Ameren Illinois states that the Panel's suggestion that the use of opportunistic material verification sampling, as prescribed by 49 C.F.R. §192.607, will provide significant quantities of data necessary to satisfy data requirements for MAOP reconfirmation by pressure testing or ECA is incorrect and overstated, and reflects the Panel's lack of understanding of the engineering and practical considerations the Company's engineers must address. Ameren Ex. 42.0 at 9.

Finally, Ameren Illinois states, the AG panel's recommended blanket disallowance of 75% of the Company's MAOP reconfirmation budget should be rejected on grounds that it is speculative and not based on actual analysis. Ameren Illinois points out that instead of identifying any specific projects or specific issues regarding the projects being proposed in this rate proceeding and developing a position as to why such capital should not be included in the Company's cost recovery, the AG Panel merely recommends the same arbitrary disallowance of 75% as the AG advanced in Ameren 2023 GRC. Ameren Ex. 36.0 at 18. Not only does this recommendation lack substance, but it would severely diminish the Company's ability to maintain a schedule to be compliant with the 2035 deadline specified in 49 C.F.R. § 192.624 and ensure the safety and integrity of the Company's transmission system. And, of course, the Commission is prohibited from disregarding costs shown by the evidence to be prudent and reasonable in favor of an arbitrarily lower amount. *Peoples Gas Light & Coke Co. v. Slattery*, 373 Ill. 31, 61-62 (1939).

For these reasons, Ameren Illinois states, the Commission should reject the AG Panel's disallowance. Ameren Ex. 36.0 at 18. Any other outcome would result in legal error as found by the Appellate Court. *See Ameren Ill. Co.*, 2025 IL App (5th) 240014, ¶ 87.

Ameren Illinois points out PIO witness Cebulko agreed that the Company's documentation for MAOP investments improved on the information provided in Ameren 2023 GRC. PIO Ex. 1.0 at 35. He nonetheless concluded that for certain MAOP reconfirmation projects where the Company has opted for pipeline replacement, the analysis provided does not support the decision made. *Id.* Specifically, Ameren Illinois notes, he recommended a total disallowance of approximately $62 million across four MAOP reconfirmation projects involving pipeline replacement for which he believes a pressure test (also known as a hydrotest) would be feasible at an allegedly lower cost: TR 02, TR 08, TR 10, and TR 97. PIO Ex. 2.0 at 24-25, 45.

Ameren Illinois states that Mr. Cebulko asserted the Company should use pressure tests and/or ECAs for the projects he identified instead of replacement to achieve MAOP reconfirmation compliance. Regarding these alternatives, he noted that the information required to assess the likelihood of a failed hydrotest requiring full replacement of the pipeline—which would cost more than simply replacing the pipeline since the cost of the failed hydrotest would be in addition to the cost of replacement—overlaps with the information required for an ECA. PIO Ex. 2.0 at 30. Ameren Illinois states that he then noted his disagreement with Ameren witness Paskett regarding the viability of pressure tests and ECA as reconfirmation methods. He claimed that operator data filed with PHMSA reflects that eleven operators elected to use ECA to confirm MAOP of transmission pipelines. *Id.* at 31. He further claimed that pressure testing is the most commonly used method of reconfirming MAOP, both in terms of miles reconfirmed and number of operators using the method in each year. *Id.*

However, the Company notes, as explained by Ameren witness Kloeppel, Mr. Cebulko disregarded that it is irresponsible for the Company to only consider the best-case scenario. Ameren Ex. 36.0 at 27. The Company states that it must thoroughly analyze the costs and implications of various outcomes, take into consideration the unknown factors, and make a prudent decision based on the facts available. *Id*. Ameren Illinois notes that is exactly what the Company did in selecting pipeline replacement as the MAOP reconfirmation method for the identified projects. *Id.* Ameren Illinois states that it cannot ignore relevant risk factors and rely solely on selecting a lower cost option for the best-case scenario. *Id.*

Additionally, the Company states, as noted by Ameren witness Paskett, Mr. Cebulko provided no specific details regarding the ECA projects he identified using PHMSA operator filings. Ameren Ex. 42.0 at 13. Ameren Illinois maintains that if Mr. Cebulko had performed a more robust analysis, he would have discovered that the ECA reconfirmation projects he referenced are not similar to the transmission pipelines that are in scope for MAOP reconfirmation at Ameren Illinois. *Id.* at 13-14. The vast majority of the ECA MAOP reconfirmation projects referenced by Mr. Cebulko were performed on interstate transmission pipelines (*e.g.*, long line pipelines owned by Enbridge, Williams Pipeline, etc.). Mr. Cebulko apparently is not aware that almost all interstate transmission pipelines, with few exceptions, are currently capable of accommodating an ILI (smart pig) tool. Ameren Ex. 42.0 at 14. Ameren Illinois explains that the acquisition of the copious quantities of data required for an ECA MAOP reconfirmation is more feasible for an interstate transmission pipeline operator than it is for Ameren Illinois and most other LDC transmission pipeline operators who operate unpiggable transmission pipelines. This is

particularly true for pre-1970s LDC transmission pipelines like those on Ameren Illinois' system. *Id.*

The Company notes that, in addition, as previously noted, even after dedication of millions or tens of millions of dollars to make the pipeline piggable and accommodate the passage of an ILI tool (smart pig) to gather the extensive data required by the ECA MAOP reconfirmation process, there is no assurance of a favorable outcome. Ameren Ex. 42.0 at 15. Ameren Illinois states that it is possible that the newly reconfirmed MAOP as determined by the ECA process may be lower than the existing MAOP, necessitating additional pipeline construction or reinforcements to restore lost pipeline capacity. *Id.*

Further, Ameren Illinois notes, in asserting that the estimated cost of $4.2 million to modify an example pipeline (TR 08) to accommodate ILI tools (smart pigs) is "far lower than the cost of replacement" of $45 million, Mr. Cebulko confused two separate and very important facts. The Company provided an estimated cost of $4.2 million to excavate and assess which fittings and valves would need to be removed to make TR 08 capable of being inspected by an instrumented ILI tool. Ameren Ex. 36.0 at 28. The Company notes that in its response to data request PIRG 4.01 (included in PIO Exhibit 2.1), where Ameren Illinois provided this cost estimate, the Company also made it clear that there are additional costs for removing the fittings and valves to allow the passage of an instrumented ILI tool: "if any of these fittings require replacement, the cost for labor and materials to isolate the [TR 08] pipeline, provide alternative gas supply, and replace these 71 fittings further increase the cost." Ameren Ex. 36.0 at 28.

In addition, Ameren Illinois states, Mr. Cebulko implied that making TR 08 capable of being inspected by an instrumented ILI would reconfirm the MAOP of the TR 08 pipeline just like replacing the pipeline would when he compared the costs of both. Ameren Ex. 36.0 at 28. But again, there are only six methods allowed for reconfirmation by 49 C.F.R. § 192.624.

In summary, the Company states that it could investigate making TR 08 pipeline piggable for $4.2 million, but it would also incur additional costs to replace fittings and valves. Ameren Illinois would then also need to complete the execution of the instrumented ILI of TR 08 and correct issues discovered by the instrumented ILI tool, which would come at even more cost. Finally, the Company states that it would still need to select a PHMSA approved method to reconfirm the MAOP of TR 08. Ameren Ex. 36.0 at 28.

Ameren Illinois points out that there are other sections of Mr. Cebulko's testimony that reflect his confusion about MAOP regulations. For example, Mr. Cebulko implied that Ameren Illinois can reconfirm the MAOP of a pipeline by completing just material sampling or modifying the pipeline to accommodate the passage of an instrumented ILI tool. Again, this is incorrect, and adopting this approach would be in violation of the PHMSA regulations. The Company explains that opportunistic material testing does not satisfy the regulatory and engineering requirement to identify all anomalies and defects (*e.g.*, cracks and crack-like defects, dents, corrosion, laminations, etc.) so they may be evaluated. Without this information, an ECA MAOP reconfirmation is impossible. Ameren Ex. 42.0 at 16.

To illustrate, Ameren Illinois that Mr. Cebulko compared the costs to complete material testing and sampling of TR 08 and TR 10, $52,500 and $31,500 respectively, with the cost of replacement. PIO Ex. 2.0 at 36. The Company further states that he acknowledged these values do not represent the entire cost of material testing and sampling for these pipelines, but he stated, "the amounts quoted are multiples of magnitude smaller than the cost of pipeline replacement." *Id.* at 36. Mr. Cebulko also compared an estimated cost to make all of the 2027-2029 projects capable of being inspected with an instrumented ILI tool with the cost of replacement. *Id.* at 43.

Ameren Illinois notes that Mr. Cebulko further commented about actions that he surmised may be taken by a pipeline operator. However, the Company notes, he blurred the line between actions that may be taken to comply with 49 C.F.R. § 192.917 and 49 C.F.R. § 192.624. As the Company has reiterated above, there are only six methods to reconfirm the MAOP of a pipeline as prescribed by 49 C.F.R. § 192.624. Ameren Illinois explains that prudent operator must determine, within these methods, how to satisfy the requirement with the most cost-efficient method that maintains the integrity of the system and provides execution certainty. Ameren Ex. 36.0 at 29-30.

Ameren Illinois states that like the AG Panel's three members, Mr. Cebulko is not a licensed professional engineer. Ameren Cross Ex. 1 at 15. Also, the Company further states, like certain members of the Panel, he has no experience working for an LDC, whether in operations or otherwise. PIO Ex. 1.1. So, perhaps not surprisingly, also like the AG Panel's members, Mr. Cebulko's analysis and recommendations fail to recognize and account for the practical and operational realities of the Company's service obligations. For example, Ameren Illinois points out, the decision not to pressure test TR 02 is not "circular reasoning" as Mr. Cebulko asserts. Ameren Illinois explains that it is based on an operationally risk-informed approach that aligns with the Company's responsibilities "under the Act, Commission regulations, and its tariff to provide service to customers within its service territory without discrimination and without delay." Ameren Ex. 1.0 at 12; Ameren Ex. 36.0 at 30.

Ameren Illinois explains that from an operational perspective, pressure testing TR 02 would require taking the pipeline out of service for an extended period. The TR 02 pipeline transports gas to and from the Eden Storage Field, which is a critical component of the Company's winter supply portfolio. Ameren Exs. 36.0 at 30-31; 8.1 at 9-10; 8.1 at Sch. F-4 WP06 – Gas (Part 1) at 1-2. The Company further explains that temporarily taking TR 02 out of service for a pressure test during injection season introduces a significant risk of service disruption, especially if the test fails and repairs are needed. Ameren Ex. 36.0 at 30. Again, Ameren Illinois maintains, this is not a theoretical concern but a real operational constraint. Ameren Ex. 22.0 at 45.

The Company states that it has a clear obligation to maintain reliable service, especially during peak demand periods such as winter. Ameren Illinois explains that this obligation requires a conservative approach to minimize the risk of service interruption. Ameren Ex. 36.0 at 31. Ameren Illinois explains that conducting a pressure test on TR 02 would require substantial resources, including multiple Compressed Natural Gas ("CNG") trailers and supply bottles, or alternatively, gas from the Eden Storage Field. Ameren Illinois further explains that both of these temporary supply options would reduce the gas available for winter use. *Id.*; Ameren Exs. 22.0 at 45-46; 8.1 at Sch. F-4 WP06 –

Gas (Part 1) at 7-11. Additionally, the Company notes, if repairs are needed following a failed pressure test, they could be difficult and expensive. Ameren Exs. 36.0 at 31; 22.0 at 46. Moreover, TR 02 serves approximately 2,500 customers and supports the broader Metro East area. *Id.* Ameren Illinois states that the Eden Storage Field is essential for maintaining affordable and reliable gas supply, particularly in winter. Without this resource, the Company would be forced to rely more heavily on higher-cost interstate pipelines. *Id.*

Finally, Ameren Illinois states, Mr. Cebulko's recommended disallowance is based on an arbitrary and unsupported formula that disallows MAOP project costs equal to the estimated cost of replacement minus the average estimated cost of a successful and recoverable unsuccessful test. Ameren Ex. 36.0 at 32; PIO Ex. 2.0 at 45. Critically, Mr. Cebulko's formula creates an unbalanced recovery framework. Ameren Illinois explains that it would allow the Company to over-recover costs in the event of a successful hydrotest, and in the event of a recoverable unsuccessful hydrotest or an irrecoverable hydrotest, the Company under-recovers its costs. The Company contends that if Ameren Illinois were to choose to implement Mr. Cebulko's formulaic method, it remains uncertain whether this would result in an under-recovery or over-recovery of costs. Ameren Ex. 36.0 at 32.

The AG claims that the Company's approach to MAOP reconfirmation is unreasonably accelerated such that the Company will supposedly complete "nearly all remaining work by 2026, nearly a decade before the 2035 deadline" and relies on "worst-case assumptions and a blanket preference for full replacement, while dismissing less-costly alternatives without meaningful or verifiable analysis." AG IB at 32. Ameren Illinois avers that these claims are contrary to the evidence in the record. Ameren IB at 66-71.

Ameren Illinois states that, regarding the pace of MAOP reconfirmation work, the AG asserts that the Company was "expressly told to slow its pace" in the Commission's Ameren 2023 GRC Final Order, arguing that the Company has "clearly ignored" the Commission's directive and should be punished for its "defiance" and "rejection of Commission precedent." AG IB at 34, 38. Ameren Illinois states that no such directive can be found in that Final Order. Ameren Illinois explains that, if the Commission had wanted the Company to slow its pace, it would have accepted the AG's invitation in that docket and expressly said so. Instead, the Commission directed the Company to develop an MAOP compliance plan that "(1) thoroughly analyzes the six reconfirmation methods prescribed by federal rules and explains the rationale for using the selected method for affected pipelines, and (2) builds a measured, reasonable budget that recognizes the significant time remaining to reach full compliance by 2035." Ameren 2023 GRC, Final Order at 91. That is precisely what the Company did, as confirmed by Staff's determination that the Company's MAOP Compliance Plan "reasonably addresses the objectives outlined in the Commission's Final Order in Docket No. 23-0067" and "represents a reasonable and effective approach to reconfirming MAOP and ensuring ongoing compliance with federal and state regulations while considering the impact on ratepayers," contrary to the AG's baseless claim that the Company has ignored the Final Order's directives both real and invented. Ameren Ex. 8.3 at 10.

In addition to being factually incorrect, Ameren Illinois states that this claim by the AG also is wrong on the law. *Commonwealth Edison Co. v. Ill. Com. Comm'n*, 2016 IL

118129, ¶ 24 (The Illinois Supreme Court "has long recognized that the Commission is not a judicial body" and "as a regulatory body, has the power to deal freely with each situation as it comes before it, regardless of how it may have dealt with a similar or even the same situation in a previous proceeding") (internal quotations omitted).

Ameren Illinois references the AG's argument that "Commission orders remain in effect pending appeals". AG IB at 36. Yet, the Appellate Court's opinion relating to Ameren 2023 GRC was final once entered. *Independent Voters of Ill. v. Ill. Com. Comm'n*, 117 Ill. 2d 90, 102 (1987). In *Independent Voters*, the Supreme Court was asked, *inter alia,* to "address the issue of the rates that are effective when a reviewing court reverses a Commission order and no stay has been obtained." *Id.* at 101-02. The Supreme Court held that, "[d]uring the interval between reversal and the time a new rate schedule is approved by the Commission and takes effect, [the utility] may continue to charge the challenged rates, subject to refunds for the portions that were held improper by this court[.]" *Id*. at 103. While there is no question in this case regarding the resetting of rates on remand, the Supreme Court's reasoning in *Independent Voters* is instructive here:

> The judgment of a reviewing court is final when entered. The judgment is final upon all questions decided, and if the cause is remanded, the circuit court can take only such action that conforms to the judgment of the reviewing court. As such, this court's decision holding that certain expenses and deductions allowed in the rate order were improper was final. That portion of the rate order was invalid from the time this court entered its judgment.

Id. at 102. The authority that the AG cites does not provide otherwise.

Ameren Illinois points out that the AG next argues that the Appellate Court's opinion "is subject to further review" due to a pending Petition for Leave to Appeal filed with the Supreme Court. AG IB at 36. The Appellate Court's opinion must be followed until the Supreme Court says otherwise. *People v. Carpenter*, 228 Ill. 2d 250, 259-260 (2008) (finding that the circuit court was obliged to follow the holding of the appellate court "whether or not it agreed with that holding"); *People v. Harris*, 123 Ill. 2d 113, 129 (1988) ("[T]he precedential effect of an appellate court opinion is not weakened by the fact that a petition for leave to appeal has been granted and is pending in that case, and trial courts are bound by that appellate court ruling until this court says otherwise.").

Ameren Illinois asserts that it is the *Appellate Court's opinion* reversing the Commission's adoption of the AG's recommended MAOP disallowance that is precedent at this time. That opinion expressly rejected the Commission's adoption of the AG's recommended disallowance of 75% of MAOP reconfirmation work (effectively the same disallowance the AG recommends here), finding that it was arbitrary and not supported by substantial evidence. *Ameren Ill. Co.*, 2025 IL App (5th) 240014, ¶ 87. The Commission should reach the same result here (without requiring the Appellate Court to once again direct that result), given that the AG's recommendation is equally speculative and not based on actual analysis of specific projects or specific issues regarding the projects being proposed, and the Company has submitted substantial evidence confirming the prudency of its MAOP reconfirmation projects.

However, Ameren Illinois notes that this entire discussion as framed by the AG is a *non sequitur*, since, as established above, even if the Commission's decision had not been vacated, the Commission did not say what the AG suggests it said about MAOP reconfirmation work, and the evidence establishes that the Company did comply with what the Commission actually said in the Ameren 2023 GRC Final Order.

Ameren Illinois states that it must respond to the AG's argument that the recent rate case filing of Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor") reflects that Nicor "opted to slow its pace relative to its previous rate case filing in Docket No. 23-0066" and "identified unique opportunities to achieve compliance with minimal cost such as reclassification to distribution, performed over 100 material verification digs, and carefully consider how barriers to pressure tests such as varying diameters, configurations, and/or risk profiles might be achieved through minimal to moderate segmentation." AG IB at 45.

Ameren Illinois submits that the Commission should reject this comparison. As the Company explains, "[a]s a down-state, rural utility, AIC cannot make decisions in the same way as a more urban utility territory such as Nicor. This is exemplified by the fact that Nicor has roughly three times the number of customers as AIC while AIC's territory is larger than the state of Indiana." Ameren Ex. 25.0 at 21. Moreover, endorsement of the AG's argument would mean that Ameren Illinois' capital investment would be evaluated based upon the actions of a different utility on its transmission system versus Ameren Illinois' actions on its own system. That approach ignores the underlying tenet of PHMSA's integrity management rules that a utility undertake actions based on evaluation of its own system and not against other utilities. *See, e.g*., 49 C.F.R. § 192.911; 49 C.F.R. § 192.945. And, even if comparison were an appropriate means of assessing the prudence of Ameren Illinois' investments, any comparison of the two utilities that fails to account for the substantial differences in service territories, customer composition, and nature and location of transmission systems is meaningless in any event.

In response to PIO, Ameren Illinois notes that the core of PIO's argument boils down to a claim similar to one advanced by the AG: that the Company should have performed probabilistic comparative analysis that allow for granular comparison of the relative risks of various events occurring to be considered together with granular quantitative cost analysis. PIO IB at 13. Ameren Illinois asserts that PIO's position (1) ignores or otherwise fails to engage with the Company's explanations about what is and is not possible or prudent given a host of considerations, including the Company's careful analysis of related costs; and (2) ignores the fact that MAOP reconfirmation work is, by definition, about filling gaps in available data. Ameren Illinois explains that, if the Company had comprehensive, verified data about the integrity and operational characteristics of every segment of every one of its transmission pipelines, there would be no need to reconfirm those characteristics in the first place.

Ameren Illinois also addresses PIO's various claims about the costs associated with gathering some of the information that, in PIO's view, would support their preferred quantitative, probabilistic assessment of the viability of ECA and pressure testing, asserting that the Company has failed to quantify those costs. For example, PIO points to TR 08 as an example of a transmission pipeline where the Company has not justified replacement given PIO's assertion that a pressure test would be a viable, lower-cost

alternative. Ameren Illinois explains that some background on the pipeline segment at issue illustrates why PIO's arguments are simplistic and incomplete. TR 08 was constructed in 1960 and 1961 prior to the implementation of modern pipeline standards and regulations. At the time, ingot casting practices often led to concentrated impurities within the steel, increasing the likelihood of pipe material deficiencies. Ameren Ex. 22.0 at 47. Additionally, the toughness of the pipe and the integrity of the seam cannot be verified, raising concerns about the brittleness and unknown seam weld quality. Ameren Illinois has no records detailing the manufacturer or manufacturing process used for the pipe in TR 08. Ameren Ex. 22.0 at 47. The Company also does not have records detailing the pipe wall thickness, seam type, yield strength, or any valid pressure test on this segment. Ameren Ex. 22.0 at 47. Further, construction and coating practices of this era allowed for conditions which can result in unknown coating defects or mechanical damage to the pipe that may compromise the structural integrity of the pipe body. This pipeline runs through heavy industrial areas in Granite City without fixed cover depths or weight restrictions. Ameren Ex. 22.0 at 47. Stresses imposed on the pipe throughout its service life from industrial activity are unknown. Ameren Illinois has virtually no records to prove or disprove any of these conditions or characteristic for TR 08. Therefore, the Company assumes these conditions in whole or in part may be present and acting as a prudent operator elected not to hydrostatically pressure test TR 08. Ameren Ex. 22.0 at 47.

Ameren Illinois states that, notwithstanding the characteristics of TR 08, both known and unknown, and the import those have for any analysis of the viability MAOP reconfirmation methods, PIO forge ahead and invent a cost of just $8.4 million to make the pipeline piggable to support a pressure test which they claim "compares favorably" with the potential likelihood of avoiding the relatively greater cost of replacement. PIO IB at 16. PIO arrive at this $8.4 figure by taking a cost estimate of $4.2 million provided by the Company in discovery and arbitrarily doubling it. But that $4.2 million was not the Company's estimate of the full cost to make the line piggable. Instead, that was the Company's estimate only to excavate and assess which fittings and valves would need to be removed. Ameren Ex. 36.0 at 28.

Ameren Illinois observes that PIO does address one "additional distinction" about TR 02, arguing that the Company's explanation that TR 02 is not appropriate for pressure testing because it would reduce gas available in the Eden Storage Field for winter use is not persuasive. PIO IB at 18. Ameren Illinois explains that this is another instance of PIO demanding quantitative, probabilistic analysis by spreadsheet where such analysis is not possible (or frankly needed), and another example of PIO ignoring the practical implications of their recommendations. As Ameren witness Kloeppel explained, he "assume[s] that Mr. Cebulko and the Commission would require AIC to have a high level of confidence in any probability it provided that the Eden Storage Field would not be at the required operational capacity for serving winter peak demand, as they should." Ameren Ex. 22.0 at 45. But in order to provide such an estimated probability, the Company would have to be able to accurately predict the probability of a hydrotest failure on TR 02 and predict the nature and extent of the failure to predict the required timeframe to repair. Ameren Ex. 22.0 at 45.

Ameren Illinois reiterates that the Company is missing records to support the MAOP due to the fact that this segment of 1960s steel gas transmission pipeline was

installed before such records were required. Calculating a probability of failure with any degree of confidence during a hydrotest would require much more information than the Company has at its disposal such as comprehensive pipeline records, or a large dataset of hydrotest results from pipelines with the same attributes as the pipeline to be tested. Ameren Ex. 22.0 at 45. It would be inappropriate for the Company to produce an unsupported probability figure for the risk of hydrotest failure, extent of a failure, and the risk that Eden Storage Field would not be available to serve peak winter demand. Ameren Ex. 22.0 at 45.

The Company explains that it does not have the luxury of making decisions based on hypotheticals, but rather must thoroughly analyze the costs and implications of various outcomes, take into consideration the unknown factors, and make a prudent decision based on the facts available. Ameren Ex. 22.0 at 45. Ameren Illinois states that this is what the Company did, and the supporting information is included with Mr. Kloeppel's direct testimony at Ameren Exhibit 8.1/Schedule F-4 WP 06. In order to maintain service to customers during a hydrotest of this pipeline, two regular Compressed Natural Gas (CNG) trailers, one large-volume CNG/LNG trailer, and 13 farm tap supply bottles would be required. Ameren Ex. 22.0 at 45. Alternatively, Eden Storage Field could be used to offset some of the required CNG. Either approach would impact the quantity of gas available in the field for winter withdrawal. Ameren Ex. 22.0 at 45-46. It would be impossible to accurately predict and quantify this impact without fully scoping a hydrotest project, which would consume Company resources and come at a cost. If a repair were required following a hydrotest, due to easement width and proximity to structures, there are locations on this pipeline segment where performing a repair could be difficult, lengthy, and expensive. Ameren Ex. 22.0 at 46. Another concern if a repair is required are those locations where structures have encroached on the existing easement reducing the ability to access the right-of-way and make a repair. Ameren Ex. 22.0 at 46.

Ameren Illinois further explains that the system supply flexibility provided by the Eden Storage Field is required to minimize dependency on interstate pipeline supply and serve customers with the most economical source of gas supply. Ameren Ex. 22.0 at 46. The current peak operation for Eden Storage Field is 8 million cubic feet per day. Ameren Illinois notes that, without the operation of the Eden Storage Field, it would be dependent on NGPL & MRTC interstate pipelines and the other storage fields that serve the region potentially exposing customers to more expensive sources of gas supply and reducing the reliability and operational flexibility of the gas system for the region. Ameren Ex. 22.0 at 46. Ameren Illinois asserts that all of these factors support its conclusion in the alternatives analysis for this project: that conducting a pressure test for TR 02 would be detrimental to the operation of Eden Storage Field and threaten the reliability and affordability of gas supply during winter demand. Ameren Ex. 22.0 at 46.

(ii) AG's Position

The AG asserts that the Commission should disallow $75,675,000 and $78,375,000 for 2025 and 2026, respectively—for a total of $154,050,000, or 75% of Ameren's requested MAOP reconfirmation budget. The AG contends that Ameren's program suffers from the same flaws the Commission identified in its last rate case: it is rushed, replacement-heavy, and disregards cost-effectiveness. The AG explains that although Ameren has already remediated more than 60% of the 116.9 miles identified for

MAOP reconfirmation—well ahead of federal requirements—the Company now proposes to complete nearly all remaining work by 2026, nearly a decade before the 2035 deadline. The AG argues it seeks to do so by relying on worst-case cost assumptions and a blanket preference for full replacement, while dismissing less-costly alternatives without meaningful or verifiable analysis. As shown below, the AG argues the record confirms that Ameren has not carried its burden of proof, and that the Commission should therefore impose the same 75% disallowance it applied in the last rate case, both to protect ratepayers and to enforce its prior directive.

PHMSA issued a Final Rule for gas transmission pipelines titled "Safety of Gas Pipelines: MAOP Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments." 49 C.F.R. § 192.624 *et seq*. This rule requires, among other things, that transmission pipeline operators like Ameren reconfirm the MAOP of all its transmission pipelines that do not have traceable, verifiable, and complete (or "TVC") records to support the assumed MAOP. AG Ex. 2.00 at 53. To accomplish reconfirmation, PHMSA established six methods: (1) Pressure Testing in conjunction with verification of material properties; (2) Pressure Reduction; (3) Engineering Critical Assessment ("ECA"); (4) Pipe Replacement; (5) Pressure Reduction for Pipeline Segments with Small Potential Impact Radius; and (6) Alternative Technology. *Id*. Operators are required to have 50% of their subject pipelines verified by July 3, 2028, and all pipelines verified by July 2, 2035. *Id*. at 54.

Ameren originally identified 116.9 miles of transmission pipelines subject to MAOP reconfirmation under 49 C.F.R. § 192.624, a figure it has not updated since July 2021. *Id*. By its own account, Ameren has remediated 72.2 miles, or roughly 62% of the total, largely by replacing existing pipe. AG Ex. 2.23. Put differently, the AG emphasizes that Ameren is already far ahead of the federal requirement to reconfirm 50% of mileage by 2028. Despite this progress, in this case, Ameren proposes nine projects to remediate another 37.25 miles or 83% of the remaining pipe, putting it at roughly 94% completion by the end of the 2026 test year and almost one full decade ahead of the 2035 deadline. AG Ex. 2.00 at 54.

By offering multiple methods and a long compliance horizon, the AG asserts that PHMSA intended operators to select the most cost-effective compliance path tailored to pipeline conditions and that Ameren's proposal ignores this intent.

In Ameren's last rate case, the Commission agreed with the AG's analyses and found the Company's MAOP reconfirmation program deficient in every material respect––unsupported by evidence, needlessly accelerated, biased toward costly replacement, and undertaken in disregard of cost-effectiveness—and therefore disallowed $47.51 million or 75% of Ameren's test year budget. *Ameren 2023 GRC*, Final Order at 91. The Commission further directed that, going forward, Ameren must demonstrate that it is fairly considering its compliance options and required the Company to file an MAOP and Records Compliance Plan that: (1) "thoroughly analyzes the six reconfirmation methods prescribed by federal rules and explains the rationale for using the selected method for affected pipelines[;]" and (2) "builds a measured, reasonable budget that recognizes the significant time remaining to reach full compliance by 2035." *Id*. at 91. The Commission emphasized that while Ameren bears the responsibility to operate a safe, reliable, and compliant system, it also "must consider the costs and timing of investments to meet

these responsibilities." *Id*. The AG argues that this necessarily means that PHMSA's "as soon as practicable" language—which the Company prefers to mean "now"—cannot be read in isolation but must be harmonized with the 2035 deadline and the Commission's directive to spread costs reasonably over that full compliance horizon. *Id*.; Ameren Ex. 8.0 at 10.

The AG maintains that Ameren has clearly ignored those directives, despite being expressly told to slow its pace and consider cost-effectiveness, Ameren proposes in this case to complete nearly all of its MAOP reconfirmation work by 2026—achieving roughly 94% completion almost a full decade before PHMSA's 2035 deadline. AG Ex. 2.00 at 54. The AG contends that this is essentially the same schedule Ameren advanced in its last rate case, when it claimed that 73.3 miles remained to be reconfirmed and that it intended to be nearly complete by 2024. *Id*. at 57. In this case, Ameren stated that only 44.7 miles remain—a reduction of 28.6 miles—but the AG highlights it continues to press for near-total completion by 2026. *Id*. The AG continues, the Company even requested an additional $4.6 million to cover transmission budget overages from 2024, despite the Commission's instruction to "build a measured, reasonable budget" consistent with the 2035 compliance horizon. AG Ex. 2.00 at 57-58.

The AG maintains that, notwithstanding this evidence, Ameren disagrees that it ignored the Commission's Ameren 2023 GRC Final Order, pointing to both its MAOP Compliance Plan and the recent appellate decision from the Fifth District regarding the Commission's 2023 MAOP disallowance. Ameren Ex. 22.0 at 20; s*ee Ameren Ill. Co. v. Ill. Com. Comm'n*, 2025 IL App (5th) 240014, ¶ 87. As to the MAOP Compliance Plan, the Panel testified that they "have reviewed the updated [MAOP Compliance Plan] and find it no less deficient than the sum of data provided in the initial filing plus this rate case." AG Ex. 4.00 at 44. The Panel further explained that "an updated regulatory filing does not simply erase AIC's quantifiable pace of compliance or its quantifiable capital outlay," concluding that Ameren "has not changed its approach to MAOP reconfirmation [from the last case] and continues to provide insufficient data in support of that unchanged approach." *Id*. at 44. The MAOP Compliance Plan's data deficiencies are covered in greater detail in the "Cost-effectiveness" section, below.

The AG asserts that the Company's reliance on the appeal is also misplaced. While all of Ameren's witnesses rightfully refrain from opining on the substance of the Commission's Final Order or its subsequent appeal, the AG makes several observations. First, they point out that Commission orders remain in effect pending appeals under Section 10-113 of the Act. As a result, the Company's obligations under the Commission order remain in effect until they are revised on remand. 220 ILCS 5/10-113(a); 220 ILCS 5/10-204(a) (stating that "[t]he pendency of an appeal shall not of itself stay or suspend the operation of the rule, regulation, order or decision of the Commission… ."); *see also Commonwealth Edison Co. v. Ill. Com. Comm'n*, 2013 IL App (2d) 120334, ¶¶ 44, 61.

Second, the AG notes that the Commission filed a Petition for Leave to Appeal under Illinois Supreme Court Rules 315 which is pending; thus, the decision is subject to further review. Petition for Leave to Appeal of the Illinois Commerce Commission, *Ameren Ill. Co. v. Ill. Com. Comm'n,* No. 131627 (filed June 3, 2025).

Third, the AG emphasize that the appellate court found that "the Commission's order reducing the AIC 2024 budget by 75% with the intent to stop all MAOP reconfirmation based on replacement is arbitrary, as it includes MAOP reconfirmation work that was not based on replacement as well as projects that did not involve MAOP reconfirmation." *Ameren Ill. Co*., 2025 IL App (5th) 240014, ¶ 87. The court then "reverse[d] the Commission's denial of AIC's transmission plant additions …" but "vacat[ed] the Commission's mandate for a long-term gas infrastructure plan …" and "remanded with directions." *Id*. at ¶ 135. In other words, the AG contends that the Commission's appeal notwithstanding, the matter will require further hearing on remand, and substantively, nothing in the court's holding conclusively overturns the Commission's directives regarding pace, cost-effectiveness, or burden of proof. They conclude that the court's decision shows only that it was concerned that the disallowance was potentially too broad.

Fourth, it is worth noting that the appellate order was filed under Rule 23 on January 16, 2025—one year and three months after the Commission's Ameren 2023 GRC Final Order. *See id*. at ¶ 1. Yet the Panel testified that Ameren's updated MAOP Plan filed in March 2025 largely mirrors the pace and methodology rejected in the 2023 rate case. AG Ex. 2.00 at 57–58. The AG argues that this strongly suggests Ameren neglected the Commission's directives while the appeal and remand were pending. *See* 220 ILCS 5/10-204(a) (stating that "[t]he pendency of an appeal shall not of itself stay or suspend the operation of the rule, regulation, order or decision of the Commission… ."). Thus, the AG concludes, the appeal cannot justify Ameren's choice to pursue near-total completion of MAOP by 2026; the Commission's directives regarding pace and cost-effectiveness remained fully operative at that time but it appears Ameren ignored them.

Accordingly, the AG maintains that Ameren's continued pursuit of near-total completion by 2026—nearly a decade before PHMSA's 2035 deadline and in direct contravention of the Commission's explicit directives—confirms that its approach is unreasonable, unsupported, and imprudent. The Panel testified that Ameren's accelerated pace will "more likely than not" result in:

- missed opportunities to use less costly "opportunistic sampling" methods recommended by PHMSA (e.g., sampling during anomaly repairs, cutouts, or tie-ins);
- unnecessarily early pipeline replacements and wasted service life;
- unnecessary future costs due to the missed opportunity for coordinated infrastructure work; and
- elimination of long-term planning integration wherein MAOP reconfirmation work can be incorporated into evolving system needs, updated records and methods, or potential new PHMSA guidance.

AG. Ex. 2.00 at 58.

By refusing to moderate its schedule, the AG observes that Ameren wastes ratepayer dollars through likely premature replacements and ignores the deliberate compliance framework established by federal rule. By ignoring PHMSA's 2035 compliance framework and the Commission's explicit instruction to "build a measured,

reasonable budget that recognizes the significant time remaining" (*Ameren 2023 GRC*, Final Order at 91), the AG contends that Ameren undermined its own case, and that this defiance should weigh heavily against the Company in the Commission's review of prudence. And as the next section demonstrates, the AG argues that Ameren's rejection of Commission precedent extends beyond pace to its wholesale dismissal of cost-effectiveness, further compounding the imprudence of its MAOP program.

The AG asserts that the Panel's testimony makes clear that PHMSA's MAOP rule is intentionally designed for flexibility and proportionality—it provides six reconfirmation methods, multiple pathways, and a deliberate compliance horizon through 2035 to encourage cost-effective solutions. AG Ex. 2.00 at 55–58, 71–72; *see* 49 C.F.R. § 192.624. Recognizing that framework, the Commission in Ameren's last rate case required it to "thoroughly analyze" all six methods and to "build a measured, reasonable budget that recognizes the significant time remaining to reach full compliance by 2035." *Ameren 2023 GRC*, Final Order at 91. The burden is Ameren's. Yet, the AG explains its MAOP Compliance Plan relies on one-sided assumptions and dismisses alternatives without verifiable analysis.

The Panel testified that when Ameren considers the relative cost of each of the six methods, it develops a cost estimate for two options: "The Pressure Test" and "Replacement." AG Ex. 2.00 at 60. The Panel explained that, using an unknown method, Ameren develops a three-tiered cost estimate. *See* AG Ex. 2.00 (Conf.) at 55–56. When Ameren ultimately selects replacement, however, it compares replacement costs only to the irrecoverable/catastrophic worst-case scenario—not to the far more likely baseline pressure test estimates. Conversely, when it chooses pressure testing as the reconfirmation remedy, Ameren relies on the baseline scenarios. *Id*. The AG reasons that this selective and unexplained use of worst-case assumptions effectively rigs the analysis in favor of replacement. Fatally, the AG emphasizes that Ameren provided no probabilistic analysis showing that catastrophic failure is likely, nor did it demonstrate that the subject pipelines are in such poor condition that failure should be assumed. *Id*. at 60–61. The result, they state, is an exaggerated comparison: across nine projects, Ameren's "catastrophic" cost estimates are, on average higher and inflated. *Id*. at 62. The AG maintains that this is not a balanced analysis of compliance options, but a pretext for a blanket replacement program.

The Panel testified that a proper comparative cost analysis would factually demonstrate why one method was chosen over another, and include at a minimum:

1. identification of specific procedures or modifications that would be required to perform a pressure test;
2. the costs and quantities of each procedure or modification;
3. specific integrity concerns and the risk analysis and cost to mitigate each concern for each pipeline; and
4. analyses demonstrating the feasibility and costs of segmentation of pipelines to allow the replacement of a portion of a longer segment and the pressure testing of another portion(s).

AG Ex. 2.00 at 63.

The Panel asserts that Ameren provided none of the comparative analysis the Panel identified as necessary. Instead, the AG notes, it relied on inflated "worst case" pressure test estimates when justifying replacement, while assuming only the "best case" scenario when justifying pressure testing. The AG highlights that at no point did the Company present a consistent, transparent framework that would allow the Commission to see how alternatives were fairly weighed. Rather, the AG continues, Ameren simply recited much of the information needed to conduct these missing analyses and concluded that any such analysis would "be totally unreliable," and further that PHMSA "does not require them." *See* Ameren Ex. 28.0 at 12–13. The AG argues that this selective use of assumptions makes it exceptionally difficult to determine whether Ameren ever conducted an objective cost-effectiveness analysis or whether, instead, it simply chose a preferred method first and tailored its assumptions afterward. That approach is contrary to PHMSA's flexible framework and approved compliance methods, certainly inconsistent with the Commission's directive to thoroughly analyze all methods, and insufficient to carry Ameren's burden of proof. The AG concludes that Ameren's treatment of pressure testing strongly suggests that, when evaluating compliance options, the Company supports decisions already made with cursory, one-sided reasoning.

The AG emphasizes that Ameren's treatment of pressure testing is not an isolated flaw but part of a broader pattern: rather than engaging in the rigorous analysis that federal rules and the Commission contemplate, the Company summarily dismisses other viable methods—most notably ECAs—with the same cursory, one-sided reasoning.

The AG explains that an ECA is one of the six methods available to establish MAOP and includes "the use of certain data collection and analysis methods to verify material conditions and characteristics of a transmission pipe." AG Ex. 2.00 at 63. The Panel explained that this process typically involves "non-destructive in-situ (in the original place) material testing of pipelines, destructive coupon sampling, portable radiographic, magnetic, or optical scanning devices, direct field measurements, or material sampling," and must occur "within each cumulative 1-mile segment of the pipeline with a similar population of material properties and attributes." *Id*. at 63–64. In other words, the AG highlights that this is precisely the work necessary to acquire the data Ameren admits it does not have but would need to perform a proper pressure test cost analysis, discussed above. The AG explains that Ameren rejects the ECA option based on three boilerplate excuses: (1) that "ECAs require [ILI] requiring modifications;" (2) that Ameren "does not have the comprehensive data set needed to execute an ECA;" and (3) that a "successful execution of an ECA may provide unfavorable results" requiring "another MAOP method." *Id*. at 65, fn. 19.

The AG notes that Ameren's treatment of ECAs underscores the same defect the Panel identified with pressure testing—a refusal to conduct serious, verifiable analysis of alternatives. With respect to Ameren's first excuse, the Panel testified that if an ILI were in fact required for each proposed project—a premise Ameren did not demonstrate—it could modify the pipeline to make it piggable, i.e., capable of accommodating ILI tools. AG Ex. 2.00 at 65–66. The Panel explained that typical modifications include "installing fittings, adding launcher/receivers, or segmenting pipelines of differing diameters." *Id*. Yet, they explain, Ameren performed no analysis of these options. Instead, they contend, it categorically disregarded ECA on the grounds of current ILI incompatibility, refused to

consider the possibility of modifications, and even admitted that it denied performing a cost analysis of modifications—claiming that its approach was "holistic" and based only on total project costs. *Id*. The AG maintains that this blanket dismissal of an available compliance method, without any factual demonstration or cost analysis, is inconsistent with PHMSA's framework and the Commission's directive to thoroughly evaluate all methods.

The AG explains that Ameren's second excuse—that it lacks the necessary records to perform an ECA—is equally unsubstantiated. The Panel testified that "none of the data Ameren identified is impossible to obtain; it simply requires time and cost." AG Ex. 2.00 at 66–67. The very analysis the Panel expected—identifying what data are missing for each segment and estimating the cost of acquiring them—would allow a fair comparison to the tens of millions of dollars Ameren proposes to spend on wholesale replacement. *Id*. Moreover, the Panel emphasized that much of this data could be gathered opportunistically through ongoing work, such as anomaly repairs, cutouts, tie-ins, or other inspections and third-party projects. *Id*. By refusing even to consider these opportunities, the AG argues, Ameren treated "missing data" as an absolute barrier rather than a solvable engineering question. The AG concludes that this dismissal is not only inconsistent with PHMSA's rule—which expressly contemplates ECAs as a valid method—but also misleading, because it implies impossibility without ever establishing that the data cannot be recovered or that recovery would be prohibitively costly.

Ameren's final rationale—that ECAs lack a sufficient "level of certainty" and may yield "unfavorable results"—the AG asserts is likewise unsupported. AG Ex. 2.00 at 66–67. The Panel noted that Ameren never quantified or even qualitatively explained what degree of certainty would be acceptable, offering only the bare assertion that an ECA might prove inconclusive and require a second method. *Id*. They explain that this reasoning amounts to dismissing ECAs as inherently unreliable, despite PHMSA's express recognition of the method as a valid compliance tool under federal law. *Id*. The AG contends that by assuming in advance that results will be unfavorable, Ameren rejected ECAs wholesale rather than analyzing feasibility on a project-specific basis. The AG explains that such circular reasoning insulates its replacement-heavy approach from scrutiny, ignores the regulatory framework requiring fair consideration of all six reconfirmation methods, demonstrates a lack of rigor, and is wholly unreasonable and imprudent. As discussed below, the AG asserts that this same lack of rigor carries into how Ameren segments its projects.

The Panel testified that segmentation—dividing a pipeline into distinguishable sections—is a necessary first step in MAOP reconfirmation because it defines the population of pipe subject to compliance. AG Ex. 2.00 at 67, 70. They further explained that prudent utility practice and engineering standards require subdividing pipelines into segments based on attributes such as diameter, wall thickness, grade, seam type, and vintage, and then evaluating remedial options—such as pressure testing, targeted replacement, or modifications—for each group separately or in combination. *Id*. This approach ensures that compliance decisions reflect the actual characteristics of each segment instead of treating an entire run of pipe as though it were uniform. *Id*. The Panel cautioned that when a utility bypasses segmentation, it risks building inaccurate assumptions into its plans and driving overly broad, needlessly expensive solutions. *Id*.

The AG observes that Ameren's Project J0J1M illustrates the consequences of ignoring these best practices. The Company proposes installing approximately 4.85 miles of new pipeline to reconfirm MAOP on just 1.75 miles of existing pipe. AG Ex. 2.00 at 67. When asked to explain this discrepancy, Ameren responded that the project was also designed to reduce O&M costs associated with integrity assessments, but the AG contend that it provided no clear basis for replacing nearly three times the length of pipe subject to MAOP reconfirmation. *Id*. at 67. The AG explains that the Company never explained why these distinct drivers were treated as though they justified replacing the entire 4.85 miles, or why additional mileage was added due to permitting and easement changes. *Id*. at 69–70. The Panel testified that this project exemplifies Ameren's failure to segment pipelines by material attributes and compliance drivers, and to instead apply a one-size-fits-all replacement solution—precisely the practice PHMSA's framework and the Commission's directives are meant to avoid. *Id*.

The AG explains that despite targeted discovery requests for segment-level information and mapping, Ameren did not provide the clarity the Panel identified as being essential to evaluating prudence but instead relied on generic project maps and broad narratives that obscured, rather than explained, how specific pipeline segments and compliance drivers factored into its replacement decision. *See* AG Ex. 2.00 (Conf.) at 69; Ameren Ex. 36.0 at 10. While the Company claimed such materials were sufficient, the Panel testified that they failed to provide the schematic or tabular summary that would show how and why the remediation for each segment was selected. AG Ex. 4.00 at 51. The AG argues that this omission deprived the Commission of the most fundamental information needed to determine whether Ameren had reasonably segmented its system and fairly weighed alternatives as previously requested by the Commission's last order, Ameren 2023 GRC.

The AG asserts that the record shows that at least one other Illinois utility subject to the same PHMSA MAOP rule adopted a more measured timeline and diversified methods of compliance that align with federal expectations and the Commission's directives. The Panel noted that in Nicor's recent rate case filing, that utility also included capital request for MAOP reconfirmation work. AG Ex. 2.00 at 71. The Panel explained that Nicor opted to slow its pace relative to its previous rate case filing in Docket No. 23-0066, identified unique opportunities to achieve compliance with minimal cost such as reclassification to distribution, performed over 100 material verification digs, and carefully consider how barriers to pressure tests such as varying diameters, configurations, and/or risk profiles might be achieved through minimal to moderate segmentation. *Id.*

The AG contends that Nicor's program demonstrates that PHMSA compliance does not require a one-size-fits-all, replacement-heavy approach. By slowing its pace, exploiting opportunities for reclassification, performing extensive material verification digs, and using segmentation to overcome barriers to pressure testing, Nicor has shown that a balanced, cost-effective strategy is both practical and consistent with PHMSA's 2035 deadline. In contrast, the AG argues, Ameren has ignored these same tools and persisted with an accelerated schedule built on worst-case assumptions and blanket replacement. The AG contends that that divergence is telling: where Nicor offers a model of prudence, Ameren's approach reflects defiance of federal flexibility and Commission

directives, and this should weigh heavily against the reasonableness of AIC's proposed MAOP expenditures.

The AG argues that stripped of rhetoric, Ameren's argument can be reduced to two claims. First, the Company conflates the Commission's requirement to file a MAOP Compliance Plan with demonstrating prudence and implies that Staff's acceptance of the MAOP Compliance Plan further demonstrates prudence. Ameren IB at 62–63. The AG asserts that framing ignores the Commission's express directive that the MAOP Compliance Plan must include project-level alternatives analyses, supported by sufficient data to test management's assumptions and decisions, and the MAOP Compliance Plan does not relieve Ameren of its statutory burden to prove prudence. 220 ILCS 5/9-201(c), 9-211; *Ameren 2023 GRC*, Final Order at 91.

Second, Ameren seeks to discredit the AG Panel and its recommendations by asserting both that the Panel "did not identify what information is supposedly missing" and that it substantively "ignored" record evidence. Ameren IB at 64–67. The AG asserts that framing is false and mischaracterizes the record. The AG explains that the Panel identified with specificity the data Ameren failed to provide, and it did not ignore evidence—it considered Ameren's justifications and found them speculative, inconsistent, or incomplete.

The AG contends that Ameren's primary defense is that it satisfied the Commission's directive simply by filing its MAOP Compliance Plan, and that Staff's non-objection to that Plan is sufficient to prove prudence. Ameren IB at 62–63. The AG asserts that the Company's framing of the issue misstates the Commission's directive. On page 91 of the Ameren 2023 GRC Final Order, the Commission found that "as the record stands" it could not determine whether Ameren was fairly considering its MAOP reconfirmation options. *Ameren 2023 GRC*, Final Order at 91. It thus directed the Company to develop a Compliance Plan that "thoroughly analyzes the six reconfirmation methods prescribed by federal rules and explains the rationale for using the selected method for affected pipelines" and "builds a measured, reasonable budget that recognizes the significant time remaining to reach full compliance by 2035." *Id*.

The Commission then made the requirement even more explicit at page 98: "To the extent that AIC believes that replacement is the only option or the most cost-effective option for certain segments, it shall include a thorough analysis for each such alternative method for compliance, minimally including cost, rate impact, and operational feasibility considerations." *Id*. at 98. The AG emphasizes that this language leaves no doubt that the MAOP Compliance Plan was intended to provide project-level, comparative alternatives analyses sufficient to test Ameren's management decisions—not to serve as a substitute for rate case review of MAOP investment for reasonableness and prudence. The AG contends that Staff's silence does not undermine this requirement nor shift the statutory burden. 220 ILCS 5/9-201(c), 9-211. Indeed, in AIC's last rate case, the Commission reached this very conclusion, siding with the AG's position over Ameren's despite Staff's lack of objection because the record demanded it. *Ameren 2023 GRC*, Final Order at 89–91.

The AG contends that Ameren failed to provide the required "thorough analysis" of its proposed MAOP investments. Instead, they explain, it relied on generalized narratives

and worst-case assumptions while omitting the project-level data and alternatives analyses the Commission required. AG IB at 32–46. Accordingly, the AG asserts, neither the filing of an MAOP Compliance Plan nor Staff's non-objection establishes prudence. The AG explains that determination turns on the project-specific, comparative information the Commission directed—information that, as the Panel made painstakingly clear, Ameren never supplied in this docket despite requesting to spend close to $200 million on MAOP investments.

Next, Ameren states: "It also bears emphasis that the AG Panel did not identify what information is supposedly missing that would have allowed them to review these projects for prudency… ." Ameren IB at 64 (emphasis in original). This assertion is perplexing. The AG emphasizes that the record shows that the Panel laid out in detail the specific information Ameren failed to provide to substantiate its MAOP budget, explained why the data was necessary, and showed how the absence of that data prevented a prudence review.

For these reasons, the AG asks the Commission to disallow $75,675,000 and $78,375,000 for 2025 and 2026, respectively, for a total of $154,050,000 or 75% of Ameren's total MAOP reconfirmation work requested in this case.

(iii) PIO's Position

PIO request the Commission reject Ameren's proposed expenditure on reconfirming the MAOP of its transmission system. Specifically, PIO ask the Commission to disallow $61.95 million, representing Ameren's failure to carry its burden for four separate pipe replacement projects. *See* PIO Ex. 2.0 at 45.

PIO reference the PHMSA, which details recordkeeping regulations for pipeline operators. More specifically, PIO note that pipeline operators must have traceable, verifiable, and complete records substantiating the safe MAOP for transmission pipelines. 49 C.F.R. § 192.607. PIO explain that, if they do not currently have those records, they can undertake one of six methods of reconfirming MAOP and then maintain those records.

PIO make note of Ameren's obligation to comply with PHMSA recordkeeping regulations. PIO then ask the Commission to ensure Ameren's rates are just and reasonable, including by confirming how Ameren uses its discretion to comply with these regulations, and that it prudently undertakes and manages any investments it chooses. In Ameren 2023 GRC, PIO note that intervenors challenged the Company's transmission pipeline MAOP reconfirmation analysis, arguing, in part, that the Company did not sufficiently examine reconfirmation methods other than replacement. In that Final Order, PIO explain that the Commission agreed with intervenors that Ameren did not provide a sufficient record to approve its MAOP budget. *Ameren 2023 GRC*, Final Order at 91. PIO cite the following language: "The information provided by [Ameren] for its additions to plant for MAOP reconfirmation do not enable the Commission, Staff, or stakeholders to recreate, verify, or assess the Company's analysis". *Id*. PIO claim that the Commission's decision expressed a concern with the "cost and pace of the Company's MAOP reconfirmation efforts." PIO cited decision language instructing Ameren to "develop a[n MAOP] Compliance Plan that, at a minimum, (1) thoroughly analyzes the six reconfirmation methods as prescribed by federal rules and explains the rationale for using

the selected method for affected pipelines, and (2) builds a measured, reasonable budget that recognizes the significant time remaining to reach full compliance by 2035." *Id*.

It is PIO's position that Ameren's current MAOP reconfirmation proposals reflect Ameren's continued failure to provide sufficient information for the Commission, Staff, or stakeholders to recreate, verify, or assess the Company's analysis. PIO first explain that Ameren proposes to undertake 11 MAOP reconfirmation projects in 2025 and 2026, and to use pipeline replacement for eight of those projects. PIO Ex. 1.0 at 32. For four of the eight projects for which Ameren selected pipeline replacement, PIO argue that Ameren has failed to carry its burden to justify the use of that method over other methods. Specifically, for all of the reasons explained in detail below, PIO believe that Ameren has not adequately explained its decision not to use ECA for TR 02, TR 08, and TR 10, and pressure testing for TR 02, TR 08, TR 10, and TR 97. PIO Ex. 2.0 at 25. Therefore, PIO ask the Commission to disallow part of Ameren's proposed additions to rate base for these four projects.

PIO acknowledge that Ameren has included more information in its Schedule F-4 filing relating to its MAOP projects than it did in its previous rate case, however PIO still believe that information is inadequate given the explicit instructions and the concern expressed by the Commission in the Ameren 2023 GRC. For example, when describing the risk or consequence of failure of a pressure test, PIO take note some concerns about Ameren's analysis included in Ameren's confidential filings. PIO also draw the Commission's attention to the fact that the latter sentence, however, also appears in the description of projects where the company ultimately chose the pressure test method. *See*, *e.g.*, *id*. at 8.

PIO sought additional information about the Company's claims and attempted to elicit information about the likelihoods of success and expected costs of preparing for and using an ECA and a Pressure Test for the projects. PIO explain that an ECA requires an engineering analysis of the pipe, the surrounding environment, and known defects, and results in a MAOP for the length of pipe. PIO acknowledge that an ECA may still require new construction, as the ECA may find defects that necessitate additional construction or reinforcement of all or part of the pipe. Ameren Ex. 42.0 15. PIO also state that ECA requires an investment to gather data and to make the pipeline ready to gather the information to conduct the ECA. However, PIO believe additional information, such as the likelihood and the size of the investment, are key factors to consider before determining whether attempting an ECA is prudent for a particular length of pipe.

PIO dispute Ameren's claims regarding missing information that Ameren claims is necessary to use an ECA. PIO summarize Ameren's argument that it is too expensive and too complex to make a pipeline ready to pass an ILI tool through to gather sufficient information to use that method. AG Ex. 2.00 at 65. PIO then note that ECA also requires other information about pipeline characteristics, which does not significantly add to the cost. PIO Ex. 2.0 at 34.

PIO also acknowledge Ameren's argument that a Pressure Test is comparatively less certain to successfully confirm a high MAOP. But while Ameren has made assertions that conducting this test is less expensive than a full replacement, PIO believe the Company has not provided the necessary information to consider the price difference and

certainty of the test—key characteristics to know before determining whether a Pressure Test is prudent for a particular length of pipe. Using that information, PIO believe that Ameren, the Commission, and intervenors could conduct an expected value analysis, and determine whether the chance of a successful test was worth the risk of failure.

Lastly, PIO dispute Ameren's claim that its current lack of information precludes it from providing any sort of good-faith estimate (even within an order of magnitude) of the likelihood of those different results for how much the pressure tests would cost in the event of a successful result, an unsuccessful result, or an unsuccessful irrecoverable result. *See* Ameren Ex. 22.0 at 51 ("Calculating a probability of failure during a pressure test requires much more information than the Company now has in its possession. Assuming [PIO witness] (and the Commission) would require AIC to have a high level of confidence in the probability value provided, Ameren Illinois would require substantially more information than it now has at its disposal."). PIO also challenge the Company's claims that it is too expensive to get more information to address these deficiencies. *See*, *e.g.*, Ameren Ex. 28.0 at 15.

PIO note that the Company has provided descriptions for two main methods available for getting more information that can help answer the questions important to conduct an ECA and a pressure test, and that can allow the Company to generate an estimate on the likelihood of various outcomes from a pressure test: material sampling and in-line inspections.

It is PIO's position that material sampling would provide some, but not all, of the information necessary for an ECA, and it would provide information that would make it easier to estimate the likelihood of a successful pressure test under a pressure test. PIO explain that material sampling can be conducted opportunistically when other work is performed, in order to reduce the cost. PIO Ex. 2.0 at 34. PIO cite to Ameren's estimate that such material sampling would cost $52,000 for TR 08 and $31,500 for TR 10. Ameren Ex. 36.0 at 29. PIO argue that Ameren has not addressed how much more accurate such information *alone* would make an estimate about the success rate of a pressure test. But PIO explain that Ameren has generally noted that in the event of some missing information it can still produce an estimate by using conservative assumptions. PIO Ex. 2.1 at 3, 4.

PIO then assert that conducting an ILI using a smart pig is another viable method to gather necessary information. PIO identify Ameren's claims that its pipeline at issue is currently not capable of passing an ILI, and that it would need to spend money to make its pipelines "piggable." *See*, *e.g.*, Ameren Ex. 28.0 at 14-15.

But PIO maintain that Ameren's testimony has not provided consistent, meaningful support for Ameren's resulting claims that it should not pursue that information. PIO point to Ameren witness Paskett, who estimated that it would cost "literally millions of dollars" to make a pipeline piggable. Ameren Ex. 28.0 at 15. PIO explain that, when asked by PIO for all analysis that supports this claim or that estimates the cost to make its pipeline piggable, the Company provided the estimate of $4.2 million to make TR 08 piggable. Ameren Ex. 36.0 at 29. However, it is PIO's position that Ameren did not fully produce the requested information, claiming that the estimate Ameren provided did not include fitting replacement, labor and materials to isolate TR 08, providing alternate gas supply,

and replacing fittings. Ameren Ex. 36.0 at 28. PIO argue that, despite faulting PIO's witness for using this $4.2 million figure provided in discovery in Mr. Cebulko's rebuttal testimony (and not accounting for the magnitude of the other costs), Ameren's surrebuttal testimony still did not provide any estimate of those additional costs. Ameren Ex. 36.0 at 29. PIO also argue that, separately, in surrebuttal testimony, and without any worksheets, analyses, or explanation, the Company increased how much it would cost to make a pipeline piggable from the previous "literally millions of dollars" to a new "millions or tens of millions of dollars, depending on the pipeline." Ameren Ex. 42.0 at 14-15.

PIO explain how they attempted other methods of establishing this information. PIO directly asked Ameren specifically how it could obtain certain pipe characteristics: "pipe toughness, seam integrity, pipe wall thickness, seam type, yield strength, coating, defects, and mechanical damage," and how much this would cost to obtain that information. PIO Ex. 2.1. In response, Ameren referred PIO to a prior discovery response that stated:

> AIC may collect some of the information identified in response to subpart (a) through records research, non-destructive testing, destructive testing, industry data and trends, and ILI. Some of the information identified would not be able to be acquired, or conservative assumptions must be made and will result in a lesser degree of confidence in the probability of a [pressure test] failure.

PIO Ex. 2.1. PIO identify where Ameren claimed that non-destructive testing would not cost very much per dig site, they cite to Ameren's cost estimate for destructive testing per dig site and note Ameren's claim that it would require sampling at least once per mile of pipe. For TR 08 this led to an estimated confidential cost estimate PIO identified. PIO Ex. 2.1.

PIO then argue that, despite asking for "all" costs, PIO did not receive any information as to how expensive it is to conduct records research, look up industry data or trends, or any additional information on how much it cost to conduct ILI. PIO also argue that Ameren failed to provide any estimate for "labor and material associated with excavation, backfill, pipeline isolation, alternative gas supply, [or] repairs" for pipeline testing. PIO Ex. 2.1. PIO state that, when testifying about the cost of fully scoping a pressure test for TR 02, Ameren only testified that such a scoping would come "at a cost." Ameren Ex. 22.0 at 46.

PIO note that Ameren has confirmed that, when information is missing, that is not the death knell of a pressure test reconfirmation under an ECA. PIO show that Ameren can and did move forward with pressure tests after making conservative estimates for missing information (*see* PIO Ex. 2.1 at 3, 4), or even by not calculating a probability of failure at all. *See* PIO Cross Ex. 1 at 7. Lastly, PIO cite to the record to explain that, when asked about the three pipelines that Ameren has selected an ECA for in this rate case, the Company confirmed that there are various categories of information it claims to need in order to conduct an ECA that it does not, in fact, have. *Compare* Ameren Ex. 22.0 at 47 (listing a series of unknowns that complicate pressure testing for TR 08) *and id.* at 47 (claiming that calculating a probability of failure for a pressure test would require

"comprehensive pipeline records or a large dataset of pressure test results from pipelines with the same attributes") *with* PIO Cross Ex. 1 at 8 (describing which of the unknowns referenced in that testimony that Ameren also does not have for the three pipes it chose to pressure test) *and id.* at 7 (explaining that Ameren selected three projects for pressure test *without calculating a probability of failure* and therefore not needing "comprehensive pipeline records" or "a large dataset of hydrotest results from pipelines with the same attributes").

PIO argue that PIO and the Commission are therefore left only with Ameren's $4.2 million estimate to make the pipeline in TR 08 piggable for ILI. But PIO then assume—for the sake of argument—that the other costs would end up doubling the cost to gather information from an ILI, which would leave $8.4 million to make the pipeline piggable. PIO argue that, assuming an $8.4 million price tag, which would presumably allow the Company to gather the information it says that it needs, that expense still compares favorably with the potential likelihood of saving a confidential estimate showing significant savings (the difference between a successful test and pipe replacement) by using an ECA on TR 08. *See* PIO Ex. 2.0 at 26. PIO encourage the Commission to take notice when considering this fact, that when Ameren has confirmed that it need not calculate the full likelihood of failure before selecting to use a pressure test. *See* PIO Cross Ex. 1 at 7.

PIO note that Ameren's witnesses do not argue that a pressure test is likely to fail. PIO claim that Ameren has argued repeatedly that it cannot predict such information at this time *even to within an order of magnitude*. However, PIO took the position that it was incumbent on Ameren to produce a reasonable estimate of these costs for each project and present them and its reasoning on this topic to the Commission.

PIO then argue that Ameren's expert witness claimed that running one or more smart pigs through a pipe that has been made piggable would also give the Company most if not all of the information necessary to conduct an ECA for a pressure test reconfirmation. Ameren Ex. 42 at 14. PIO argue that the witness's last word on the matter claimed running these smart pigs may cost "millions or tens of millions" of dollars depending on the pipeline. PIO claim that this aligns with the $8.4 million figure cited above. PIO argue that if that $8.4 million is an underestimate for what an ECA would cost, then Ameren failed to discharge its obligation to demonstrate that fact. On the other hand, PIO argue that if that $8.4 million is an overestimate (as PIO believe is the case)—or if it is a realistic estimate—for what gathering the vast majority of the information necessary to conduct an ECA costs, then Ameren has failed to demonstrate it acted prudently when selecting pipeline replacement for TR 08. PIO urge the conclusion that paying Ameren's confidential estimate for destructive pipeline testing at five locations, along with up to $8.4 million for an ILI, records research, research into industry data and trends, and any "labor and material associated with excavation, backfill, pipeline isolation, alternative gas supply, and repairs," PIO Ex. 2.1, compares favorably to the $45.1 million Ameren expects to spend when using Method 4. Ameren Ex. 8.1 at 3.

PIO then maintain that the above arguments hold for TR 02, TR 10, and TR 97 (except to note that PIO was assuming the ILI pass or passes for TR 97 and any material sampling would not be used to better estimate the likelihood of a successful pressure test, only for ECA purposes). PIO argue that, despite being asked for "all analysis [Ameren] has that estimates the cost to make its pipeline piggable to accommodate the passage of

an ILI tool," in PIRG 4.01, Ameren did not provide any estimates for TR 02, TR 10, or TR 97. PIO Ex. 2.1 at 1. PIO claim that, to the extent portions of these pipelines are near railroads, environmental areas, or near industrial zones that make the potential risk of a pressure test failure on those portions particularly costly, *see* Ameren Ex. 22.0 at 44, Ameren may choose to select to use ECA or replacement on that portion and reconfirm the rest using a pressure test. *See* PIO Ex. 1.0 at 56.

PIO was not persuaded by the Company's claims that TR 02 is not appropriate for pressure testing because conducting the test "would" reduce the gas available in Eden Storage Field for winter use. *See* Ameren Ex. 22.0 at 46. PIO agree that, when analyzing a pressure test, it is appropriate for Ameren to consider both potential reliability impacts and the expected value of the increase in costs Ameren customers might incur if Ameren must temporarily purchase higher-cost gas for its customers. But PIO believe Ameren has not demonstrated that a pressure test on TR 02 would negatively impact gas availability or shown how likely that negative impact would be. PIO point out that Ameren claims that it did not evaluate the impact of a pressure test on Eden Storage Field because it did not want to waste company resources "evaluating scoping projects that have been determined to not be feasible options," but then it admitted that it determined that the pressure test was not a feasible option "principally due to the risk [the pressure test] would impose on gas supply needed for winter withdrawal." *See* PIO Ex. 2.0 at 38-39. PIO argue that Ameren used circular reasoning by "rul[ing] out pressure testing TR 02 due to a risk to winter supply that it has not estimated, but . . . not estimat[ing] the risk to winter supply because it has ruled out pressure testing for TR 02." *Id*. at 39. Lastly, PIO argue that Ameren has noted that it could use "two regular [CNG] trailers, one large-volume CNG/[liquified natural gas] trailer, and 13 farm tap supply bottles" to maintain service during a pressure test, but did not adequately explain why using that option would still "impact the quantity of gas available in [Eden Storage Field] for winter withdrawal." Ameren Ex. 22.0 at 45-46.

PIO clarify that they do not claim Ameren *must* ultimately use a pressure test or an ECA for these projects. PIO argue that Ameren possesses information about its system and therefore has the obligation to provide the Commission with sufficiently clear analyses and responses to enable the Commission to determine that Ameren's proposed selections are reasonable and prudent. PIO acknowledge that gathering information necessary to better analyze whether a pressure test and an ECA are appropriate, and conducting an ECA, undoubtedly involves costs. But PIO maintain that Ameren has not provided the Commission evidence sufficient to show how large those costs are, and how much marginal certainty such information will provide about the relative likelihood of success of an ECA or a pressure test.

PIO conclude that Ameren has failed to justify its refusal to gather that information and failed to justify its selection of pipe replacement for TR 02, TR 08, TR 10, and TR 97. PIO therefore recommend the Commission disallow the difference between the proposed method and the average of the cost of a successful and an unsuccessful recoverable pressure test. PIO state that, given Ameren's refusal to provide any estimate as to how expensive an ECA is or how likely any of these pressure test results are, PIO have opted to choose a simple average between successful and unsuccessful recoverable pressure

tests. PIO Ex. 2.0 at 44-45. PIO therefore ask the Commission to disallow the requested $61.95 million. *Id*. at 44-45.

PIO maintain that Ameren's reliance on TIMP considerations does not excuse its failure to fully evaluate and disclose analysis of all alternative MAOP reconfirmation methods. Ameren IB at 66-67. While PIO agree that the impact of a MAOP reconfirmation method on Ameren's other regulatory requirements, including TIMP, is relevant to the analysis of which method is best, PIO believe Ameren has not demonstrated that its TIMP analysis alters its obligation in this case. Specifically, PIO do think Ameren was still required to consider and provide sufficient analysis of pressure testing and ECA. Accordingly, PIO urge the Commission to reject any argument that TIMP concerns undermine PIO's position.

PIO note that Ameren testifies that transmission integrity assessments for manufacturing and construction threats must be conducted within the next seven years for the MAOP projects at issue. Ameren Ex. 22.5 (Pub.) at 10. PIO show that Ameren identifies three ways to complete such an assessment: hydrostatic pressure testing, inspection by an ILI tool, or inspection through execution of an in-situ direct assessment, with full pipeline replacement also serving as a potential means of compliance. *Id.* at 6, 9.

PIO contend that, even accepting Ameren's testimony at face value, their actual analysis of how TIMP interfaces with the MAOP analysis is insufficient, and the purported magnitude of the impacts does not excuse Ameren's failure to seriously evaluate MAOP reconfirmation Methods 1 or 3 for TR 02, TR 08, TR 10, and TR 97 (only Method 3 for TR 97).

PIO observe that Ameren's confidential workpapers for its MAOP projects TR 02, TR 08, TR 10, and TR 97 claim that replacement would save some confidentially-estimated values in TIMP-related costs, respectively. Ameren Ex. 22.5 (Conf.) at 21, 51, 63; Ameren Ex. 8.1, (Conf.) Sch. F-4 WP20 - Gas (Part 1) at 2. PIO explain their concerns about the confidential language Ameren used to explain these estimates, and claim Ameren does not explain how the company arrived at these estimates for avoided costs. *Id.* Specifically, PIO claim that Ameren's case does not clarify over what time period these estimates of avoided cost were meant to accrue—whether it is seven years, the expected lifetime of the old pipeline after MAOP reconfirmation, the expected lifetime of the new pipeline, or some other time period.

PIO emphasize that Ameren did not explain which method of MAOP reconfirmation it considered or which transmission integrity assessment it considered when generating its avoided cost estimates (*e.g.*, hydrostatic pressure, test, ILI inspection, or in-situ direct assessment). PIO reiterate that preparing for and conducting pressure testing is relevant to a pressure test. PIO also explain again how preparing for and passing ILI tools through the pipe is relevant to the question of whether to conduct a pressure test and is relevant to the execution of an ECA. Then PIO assert Ameren failed to clarify the avoided O&M estimates it provided represent the marginal cost or the total cost of conducting the required "hydrostatic pressure test satisfying the criteria of subpart J of C.F.R. §192," or of "inspect[ion] by an instrumented in-line inspection tool (ILI)." Ameren Ex. 22.5 (Pub.) at 6.

Lastly, PIO contend that, even if Ameren's estimates are correct and capture the relevant marginal costs, the magnitude of those estimates is generally swamped by the estimated savings that could accrue if Ameren selected an alternate MAOP confirmation method for the identified projects. For TR 02, for example, PIO argued that the $1.5 million TIMP-related O&M costs is a small percentage of the estimated cost of replacement ($20.9 million). PIO also provided similar estimates for TR 08 and TR 10. PIO agree that—when adequately explained and justified—such costs *are relevant* to the analysis of which method is best. But PIO maintain that they are not of a magnitude such that Ameren need not seriously consider and explain their reasoning around non-replacement reconfirmation methods. Therefore, PIO conclude that Ameren cannot rely on its insufficiently supported estimates of avoided TIMP-related O&M to justify its failure to conduct the appropriate analysis of alternate MAOP reconfirmation methods for TR 02, TR 08, TR 10, and TR 97.

PIO argue that Ameren mischaracterized PIO's understanding of ECA as a method of reconfirming MAOP. For example, PIO point to Ameren's accusation that PIO's witness Cebulko "impl[ied]" that "making TR 08 capable of being inspected by an instrumented ILI would reconfirm the MAOP of the TR 08 pipeline[.]" Ameren IB at 75. PIO clarify that they do not take that position. PIO believe Ameren clarified for the Commission that, if Ameren's pipelines were made piggable, passing one or more smart pigs through the pipes "would allow an operator" to gather the necessary pipeline material data to conduct an ECA. *Id.* at 70. And, PIO claim, while it may be "more" feasible for interstate pipeline operators to use ECA after passing smart pigs through their existing pipelines, PIO point out that Ameren has not claimed that the pipelines at issue cannot be made piggable. *Id*. at 73-74.

(iv) Commission Analysis and Conclusion

Ameren Illinois presented sufficient evidence showing that most of the transmission-related capital investments proposed in this proceeding are necessary for Ameren to comply with pipeline safety regulations, including 49 C.F.R. § 192.624. Ameren asserts that maximum allowable operating pressure ("MAOP") work must be completed as soon as practicably possible and that it is not generally acceptable to delay completing required actions. Parties of record noted additional information was provided by the Company compared to Ameren 2023 GRC; however, disputes remain regarding the pace, reliance on replacement, information gaps, and lack of analysis on the six stated PHMSA alternatives. PIO Ex. 2.0 at 8.

The AG recommends a disallowance of 75% of all 2025 and 2026 capital allocated to MAOP reconfirmation, resulting in a disallowance of $75,675,000 in 2025 and $78,375,000 for 2026. *See* AG Ex. 2.00 at 12; AG Ex. 4.00 at 51. While the Commission does agree with many of the AG's arguments, the Commission finds the specific disallowance recommended is not supported by this record.

Originally, PIO recommended the Commission disallow $61.95 million, arguing that Ameren failed to carry its burden for four separate pipe replacement projects. PIO Ex. 2.0 at 45. Specifically, PIO argued that in four of eight MAOP reconfirmation projects, Ameren failed to justify the use of Method 4 - pipeline replacement - over other methods.

See id. at 25. In its BOE, PIO takes exception and continues to recommend a disallowance of $55.7 million for projects TR 02, TR 08, and TR 10. PIO BOE at 7.

The Commission agrees with the AG and PIO that the pace of the Company's MAOP reconfirmation program is not consistent with the PHMSA requirements and the Commission's 2023 directive. To comply with PHMSA, the Company must complete 50% of MAOP reconfirmation work by 2028 and 100% by 2035. 49 CFR § 192.624(b)(1)-(2). In the Ameren 2023 GRC, the Commission reminded the Company that while it must maintain a safe, reliable, and compliant system, "it must also consider the costs and timing of investments to meet these responsibilities." Ameren 2023 GRC at 91. The Commission's directive in the Ameren 2023 GRC required the Company to "build a measured, reasonable budget that recognizes the significant time remaining to reach full compliance by 2035." *Id.* The Company has already reconfirmed 72.2 miles of the identified 116.9 miles. AG Ex. 2.23. According to the AG, under the Company's proposal, the Company will have completed 94% of all MAOP work by 2026. AG Ex. 2.00 at 54. The Company asserts its completion rate would be closer to 80% in 2026. Oral Argument Trans. at 133:21-25; Ameren Ex. 22. Either way, the record is clear that the Company will significantly surpass the PHMSA 50% completion rate by the 2028 deadline should this program be approved. Even if the Company's proposal is not approved here, the Company has already exceeded PHMSA's deadline for 50% completion by 2028 as approximately 61% of MAOP reconfirmation work has been completed. The Company forecasts continuing MAOP work through 2034 but notably plans to remediate less than 1 mile a year starting in 2030. Ameren Ex. 8.2 at 17 (0.54 miles in 2030, 0.31 miles in 2031, 0.19 miles in 2032, 0.15 miles in 2033, and 0.09 miles in 2034). The Commission continues to find the Company's proposal overly accelerated.

The Commission further agrees with PIO and the AG that the Company's proposal remains over reliant on replacement. PHMSA provided six methods to complete MAOP reconfirmation: (1) pressure test; (2) pressure reduction; (3) engineering critical assessment ("ECA"); (4) pipe replacement; (5) pressure reduction for pipeline segments; and (6) alternative technology. 59 CFR § 192.624(c). The Commission agrees the intention behind offering six alternative methods was to ensure each operator chose the best fit considering numerous variables, including pipeline characteristics. The Company has chosen replacement for 43.4 miles of the 72.2 miles of MAOP remediation completed to date. AG Ex. 2.23. That is, 60% of the reconfirmation work to date has been replacement. *Id.* Now, the Company seeks cost recovery for 11 additional MAOP projects, 8 of which are total replacements. Ameren Ex. 8.2 at 16. Of the 19.58 miles to be remediated in 2025 or 2026, 12.33 miles, or 62%, will be replacements. *Id*. Notably, the Company expects to replace an additional 17.23 miles from 2027-2029 which accounts for over half of the projects projected for those years. *Id*.

The Commission finds that both the Company's MAOP Compliance Plan and this record fail to demonstrate application of its planning process to each individual project. In Ameren 2023 GRC, the Commission found the Company's proposal replacement-focused and directed the Company to file a compliance plan "thoroughly analyz[ing] the six reconfirmation methods prescribed by federal rules and explain[ing] the rationale for using the selected method for affected pipelines." Ameren 2023 GRC at 91. While the Company's MAOP Compliance Plan does contain an overview for each of the six

methods and a flow chart the Company uses to determine which method is appropriate, the Company did not show application of its analysis to specific projects or explain why methods were chosen for each specific project. The Commission agrees with the Company that pipe characteristics, including age and width, dictate which method is appropriate. The Commission finds application of its planning process and explanation of specific pipe characteristics for each project is important information needed to conduct a prudency review. Such detail is even more important considering the utility's current position, which generally does not demand immediate investment.

The record does not support a prudency finding for MAOP projects TR 02, TR 08, and TR 10 because the Company did not sufficiently explain its reasoning for choosing replacement over other options, including an ECA or pressure testing. Failure to provide accurate and project specific cost estimates continues to hinder the Commission's, Staff's, and intervenors' ability "to recreate, verify, or assess the Company's analysis." Ameren 2023 GRC at 91. The Company's reliance on general estimates like "tens of millions" and "millions of dollars" depending on characteristics of the pipeline without applying it to specific projects does not provide the Commission with sufficient information to make a prudence finding. Ameren Ex. 42.0 at 14-15. For this, and all reasons discussed in this section, the Commission adopts PIO's $55.7 million disallowance for projects TR 02, TR 08, and TR 10.

While the Commission appreciates Staff's review of the MAOP Compliance Plan for its safety and reliability components, the Commission must balance the need of investment and risks of the system with the costs to ratepayers. *See Citizens Util. Bd,* 276 Ill. App. 3d at 737; *see also Peoples Gas Light and Coke, Co.,* Docket No. 24-0081, Final Order at 97 (Feb. 20, 2025) ("The Commission agrees with Staff that safety is of paramount importance, but because prudent costs . . . will be recovered through rates, the Commission must find an appropriate balance between safety and the cost to ratepayers"). Staff did not object to Ameren's MAOP Compliance Plan. *See* Ameren Ex. 8.3 at 10. At Oral Argument, Staff stated it was concerned with safety and reliability and left the balancing of those issues with cost to ratepayers and affordability to the Commission itself. Oral Argument Trans. at 125:22-126:5 (Staff witnesses review projects through a safety and reliability lens); 131:22-25 ("[T]here is a line that needs to be drawn, and Staff both respects the Commission's role . . . and trust[s] their discretion to do so"). The Commission agrees, from a safety and reliability standpoint, many of the projects discussed in the Company's MAOP Compliance Plan are appropriate. However, the Company's application of its MAOP Compliance Plan does not represent a balanced approach to reconfirmation with respect to the three distinct projects identified by PIO. Ameren has not proven that the pace, reliance on replacement, and decision not to use one of the other six MAOP methods were prudent given the risks and need of the system.

Moreover, throughout this proceeding, the Company has testified that, along with reliability and safety, affordability is a key factor in its decision making. The Commission emphasizes the continued importance of affordability and expects such considerations to be embedded within the Company's planning analyses, rather than applied only to final cost outcomes. Unjustifiable pace and over reliance on replacement diminishes the affordability of the Company's essential services.

d. Storage Plant

(i) AIC's Position

Ameren Illinois states that the assets that make up the Company's storage plant are those that are used to inject, store, process, and withdraw natural gas for delivery into the transmission or distribution system. Ameren Ex. 8.0 at 20. The Company explains that the storage facilities include mains, gas wells, compressors, regulators, meters, and purification equipment. *Id*. Ameren Illinois notes that it proposes various storage capital investments in this rate case, including the replacement of transmission pipelines within storage fields, dehydration systems, well measurement, well tubing, wells, control valves and equipment, compressor equipment, and metering. *Id.* at 14. The Company states that it also proposes to continue performing O&M activities that have the overall objectives of strengthening the safety, integrity, and reliability of gas storage operations. *Id*. Ameren Illinois states that it details and provides justification and support for these projects and O&M activities in the testimony of Ameren witness Kloeppel, in Ameren Exhibits 8.1 and 8.4 attached to his testimony, and in the schedules included in the Company's initial filing. *See* Ameren Exs. 8.0 at 14-17; 8.1; 8.4; 22.0 at 27-32; 36.0 at 18-21.

Ameren Illinois explains specific gas storage capital investments that the Company expects to place in service in 2025 and 2026 include, but are not limited to:

- Installation of facilities, including pig launchers and receivers, on storage field transmission pipelines that are used to inject gas into and withdraw gras out of the storage field. There are six projects currently planned for 2025 and 2026 focusing on storage transmission pipeline integrity.
- Drilling horizontal wells at Freeburg and Centralia storage fields and evaluating other fields to replace existing vertical wells. This allows Ameren Illinois to further mitigate risk and reduce ongoing maintenance costs by reducing the total number of wells at the fields. There are three projects planned for 2025 and 2026 to drill fifteen horizontal wells and plus and abandon seventy-two existing vertical wells.
- Installation of reboiler skid, dehydration tower, and oxidizer equipment to maintain acceptable moisture requirements and to ensure continued reliability and availability of the storage fields during withdrawals. There are three projects currently planned for 2025 and 2026 to replace either dehydration regenerator units or thermal oxidizers.
- Installation of well measurement equipment to monitor the deliverability performance of the storage field gas wells and overall storage field performance. Well measurement provides information that optimizes the implementation of gas well work to maintain well deliverability performance and provides information for effectively operating the reservoir and completion of reservoir modeling studies. There are thirteen projects currently planned for 2025 and 2026 that will install well measurement equipment.
- Installation of tubing and packers, internal casing patches, and other well casing remediation techniques, to isolate and protect the well casing in the injection/withdrawal wells to improve withdrawal production and enhance the

safety and integrity of the wells. There are six projects currently planned for 2025 and 2026 to install tubing and packers, casing patches, or other casing work.

- Replacement and upgrading of storage field control systems to current technology that is supported by the manufacturer and includes updated cyber security standards. There are three projects currently planned for 2025 and 2026 that will replace the existing control systems with new control systems.

Ameren Ex. 8.0 at 15-16.

Ameren Illinois states that the record evidence establishes that these gas storage investments are prudent and reasonable. While Staff and the AG questioned particular projects or certain aspects of the information Ameren Illinois provided in support, discussed below, there is only one outstanding recommendation for the Commission to consider relating to the Company's storage plant. Ameren Illinois notes that is a proposal from the AG Panel to disallow approximately $3 million of overhead costs relating to the indirect component of project costs associated with storage field projects.

Ameren Illinois notes that the AG Panel also proposes a disallowance associated with Blanket Project C3241, which covers replacements of facilities and equipment at storage fields, such as piping, valves, electronics, uninterruptable power supplies, odorizer equipment, gas and fire protection replacement, separator replacements, moisture analyzer and chromatograph equipment when the total project cost will be under $100,000. Ameren Ex. 8.1 at 16. It also covers compression related activities and other activities such as installing or replacing well fluid level recorders, pressure recorders, and flow measurement recorders. *Id*. Ameren Illinois explains that it has addressed the AG Panel's proposed disallowance to Blanket Project C3241 in Section III.B.1.b. along with the other proposed disallowances for Blanket Projects.

Ameren Illinois states that Ameren witness Kloeppel testified regarding the Freeburg Storage Field well drilling project, which will replace all 81 vintage injection / withdrawal wells in the Freeburg and Centralia Storage Fields with 18 new horizontal wells in four phases. Phase 1, completed in 2022, involved adding a single new horizontal well to verify a horizontal well could be successfully completed in a shallow reservoir. Phase 2, completed in 2024, consisted of 6 new wells and retiring 15 wells. Phase 3, currently in progress, consists of 5 new horizontal wells and retiring 26 wells. Finally, Phase 4, planned for 2026, consists of 6 new wells and retiring existing vertical wells. Ameren Illinois explains that along with the new wells, over 16 miles of vintage transmission lines will be replaced with only 2 miles of new transmission lines. Ameren Ex. 22.0 at 5.

The Company explains that Schedule F-4, admitted into evidence as Ameren Exhibit 8.1, provides additional information about various phases of the project, including Phase 4. Ameren Illinois further explains that document lays out the anticipated start and completion dates, projected cost, reason for the project, and alternatives considered and the reasons for rejecting each. At a high level, the Company notes, this project is needed because the existing wells were drilled from 1957 through 1970. As a result, certain age-related issues need to be addressed. The Company notes that a majority of the current wells do not have surface casing to protect the ground water. The wells have outdated

valve setups. And the wells are located near homes and in fields with no roads to the wells, which makes the wells difficult to access. Additionally, the existing wells were not constructed to meet the new PHMSA regulations contained in 49 C.F.R. § 192 in that most of them do not allow for annulus monitoring which is now required. Ameren Ex. 8.1 at 26.

Ameren Illinois states that Mr. Kloeppel explained the several reasons why Phase 4 not only is needed but is necessary for the Company's customers to realize the full benefits of Phases 1-3. The Company explains that by retiring the remaining vertical wells, which are sixty-five years old, and sixteen miles of equal vintage transmission pipelines, the Company will be able to increase the daily quantity of gas withdrawn on days of peak demand and reduce future operating costs. Ameren Illinois states that it has seen an increasing trend in the magnitude of total system peak load, which underscores the importance of increased peak deliverability capabilities provided by the final phase of this project. Ameren Illinois explains that the cost of integrity monitoring, pigging, and maintaining the old pipe would have to continue when otherwise, those costs could be avoided. Ameren Ex. 22.0 at 6-7.

Additionally, Ameren Illinois notes, since many of the old vertical wells would be needed to deliver peak day supply during the interim period, Ameren Illinois would be required to operate and maintain those assets for as long as they remained in service. The Company notes that this is especially impactful as Ameren Illinois reduced O&M spend on these wells starting in 2020 with the expectation that the wells would be retired by 2026. The Company explains that projected O&M savings for the completion of the project is $560,000 per year, a large portion of which would not be realized if Phase 4 of this project were to be postponed. Ameren Ex. 22.0 at 6.

Further, Ameren Illinois notes, Mr. Kloeppel explained that leaving the existing wells does not accomplish the risk reduction benefit that occurs by consolidating horizontal wells on a protected well pad. The Company explains that existing vertical wells are dispersed through farms and fields and are exposed to farm implements and vehicle contact risks. Ameren Ex. 22.0 at 7.

Ameren Illinois states that in response to Staff's suggestion that additional injection and withdrawal data would benefit the design of Phase 4, Mr. Kloeppel explained that it has already evaluated data from other horizontal wells it has constructed, including data specific to the Freeburg Storage Field. In general, the Company states that it has drilled and completed nineteen horizontal wells from 2019 to 2024. Ameren Illinois notes that it has evaluated injection and withdrawal rates on these wells, understands the geology, and has a high level of confidence in how the horizontal wells installed in Phase 4 will perform. The Company states that it has proven reservoir engineering and construction expertise in drilling horizontal wells. Moreover, the projects have proven to benefit customers. Ameren Ex. 22.0 at 6-7.

Ameren Illinois states that specific to the Freeburg Storage Field, Ameren Illinois completed a horizontal well in the summer of 2022 and has three years of data that demonstrate the efficacy of that well. The Company also states that it completed the drilling of six new horizontal wells at Freeburg in 2024 and retired fifteen wells and four miles of transmission lines. The Company operated these new wells in the winter of

2024/2025 and, therefore, has the data that reinforced the Company's design parameters. And finally, Ameren Illinois notes, it completed drilling five new horizontal wells in 2025 that will be placed into service in time to be used in the upcoming winter (2025/2026). Ameren Ex. 22.0 at 6-7.

Ameren witness Kloeppel explained in direct testimony that there are three projects planned for 2025 and 2026 to drill fifteen horizontal wells and plug and abandon seventy-two existing vertical wells at the Freeburg and Centralia Storage Fields. Ameren Ex. 8.0 at 15-16. The Company notes that AG Panel initially recommended that Ameren Illinois reduce the total number of new horizontal wells it proposed from fifteen to thirteen. The AG Panel asserted that it performed "an analysis combining well performance data from the first Company horizontal well at the Tilden Gas Storage facility with data on average existing vertical well performance." AG Ex. 2.00 at 75. The AG Panel claimed, without explanation, that only thirteen wells were required based on their analysis. *Id*. at 76. The Company notes that the AG Panel did not propose a disallowance associated with this recommendation. *Id*.

The Company states that it responded that the AG Panel's analysis was flawed because their analysis failed to consider particular reservoir characteristics specific to the Tilden, Freeburg, and Centralia Storage Fields. Ameren Ex. 22.0 at 29. Rather, the Panel's analysis was focused solely on data associated with the Tilden Storage Field. Ameren Illinois explains that reservoir characteristics, including but not limited to, reservoir depth, reservoir pressure, permeability, and porosity of the geologic structure, greatly affect performance of the wells and storage field in general. Ameren Illinois states that based on the Company's engineering analysis, the same performance of the Tilden horizontal wells is not feasible at Freeburg or Centralia due to lower permeability and porosity of the geologic structure. Therefore, Ameren Illinois states, to maximize the benefits to customers, fifteen additional horizontal wells at Freeburg and Centralia are required. *Id*. Ameren Illinois points out that the AG Panel did not respond to this additional information from the Company and did not continue to recommend in its rebuttal testimony that the Company decrease the number of wells proposed. *See* generally AG Ex. 4.00.

Ameren Illinois states that the AG also made several requests for additional data from Ameren Illinois regarding construction of these horizontal wells. The Company notes that it responded to those requests, and any contention by the AG that its responses are insufficient is both not supported by the record evidence and not tied to the prudence and reasonableness of those investments.

Ameren Illinois states that the AG first asked the Company to disaggregate O&M data "into cost components that can be assessed on a well-by-well basis." AG Ex. 2.00 at 74. The Company notes that, specifically, the AG wanted unit costs related to each well and an estimate of O&M cost savings from the proposed horizontal well drilling and subsequent vertical well retirement. Mr. Kloeppel explained that it would not be practicable or feasible to provide unit costs on a well-by-well basis because well depths, well attributes, and reservoir conditions require varied logging efforts at each well, and multiple types of logs can be run in a single well. Ameren Ex. 22.0 at 27. However, Mr. Kloeppel did provide unit costs for the various types of pieces and materials that may be utilized in the construction of a horizontal well depending on its characteristics. *Id*.

Ameren Illinois notes that regarding the requested O&M cost savings information, the Company estimated those savings at $560,000 per year for the Freeburg Storage Field and $200,000 per year for the Centralia Storage Field. *Id*. at 28-29. Mr. Kloeppel testified regarding the reasons underlying those savings, including a reduced well count, lower likelihood of annulus leaks, valve failures, corrosion wall loss and other maintenance needs, reduced crop damage payments due to the location of the new wells, and decreased cleaning costs. *Id*. at 28.

Ameren Illinois notes that while the AG Panel characterized Ameren Illinois' additional information and explanations as "unresponsive," that assertion is not supported by the record. *See* AG Ex. 4.00 at 55-56. The Company states that it directly responded to the AG Panel's request for O&M cost savings information by providing that information for each storage field with horizontal well drilling projects at issue in this case. Further, Mr. Kloeppel explained why the Company did not provide well-by-well information but endeavored to address the AG Panel's request by providing unit costs for various materials it uses in construction. That the AG Panel was not satisfied with this information does not mean that the information was not responsive, and it certainly does not mean that the Company failed to sufficiently support its investments as being prudent and reasonable. Ameren Illinois contends that the fact that the AG Panel did not suggest any disallowance or other action be taken by the Commission in response to these informational concerns shows the concerns are without merit.

In response to the AG, Ameren Illinois explains that there is only one outstanding recommendation for the Commission to consider relating to the Company's storage plant, and that is a proposal from the AG to disallow $3,143,747 in overhead costs for gas storage work. AG IB at 46-48. The Company explains that the proposed disallowance is premised on both the "Panel's experience" that overhead costs should be capped at 12-14% of project costs and the Panel's analysis of gas storage project costs listed on Ameren Exhibit 7.3. AG Ex. 2.00 at 76-77. Ameren Illinois asks the Commission to reject this proposal for various reasons.

Ameren Illinois points out the AG Panel did not tie its recommended disallowance to any particular project, instead calculating averages in an arbitrary analysis of Ameren Illinois' overhead costs. AG Ex. 2.00 at 77. The Company contends that this does not satisfy the AG's burden to demonstrate that the proposed costs are unreasonable. *See Apple Canyon*, 2013 IL App (3d) 100832, ¶ 54.

Next, Ameren Illinois explains, the AG Panel failed to offer any records, calculations, studies, or any other evidence that would confirm their assumption that 12-14% is typical or an otherwise reasonable percentage range. On the other hand, Ameren Illinois notes that it demonstrated that project timing impacts Indirect Overhead costs. More particularly, the Company states, Indirect Overhead costs are an allocation of all overhead construction costs, such as engineering, supervision, and general office salaries and expenses, that allows for the capitalization of costs other than direct charges that aid in the construction of assets. Ameren Ex. 22.0 at 30. As Ameren Illinois explains, dollars are charged to Indirect Overhead projects throughout each month. The amounts assigned to the Indirect Overhead projects are totaled for the month for disbursement to target construction projects. The Company further explains that charges are then allocated to capital projects based on a pro-rata share of direct capital spend within a

given month. Ameren Illinois states that it provided a simple example of how the monthly direct project costs influence the amount of allocated indirect costs.

Notably, Ameren Illinois states, the Commission rejected a similar recommendation from the AG in Ameren 2023 GRC, finding that "the AG's analysis does not examine the facts of any project, but rather relied on a standard for indirect costs that is unsupported by the record beyond the speculation of the AG's witnesses." *Ameren 2023 GRC*, Final Order at 92. Ameren Illinois avers the Commission should reach the same conclusion here.

Accordingly, the Company states, the Commission should permit Ameren Illinois to recover the full costs of its storage projects, including its indirect costs, like overhead, because the AG Panel's proposed adjustment to these costs failed to examine the facts of any specific project. Ameren Illinois explains that the AG Panel instead relied on an unsubstantiated "typical" standard and arbitrary statistical analysis that ignored timing nuances of applying indirect overheads against the direct construction costs of the gas storage projects.

(ii) Staff's Position

Staff recommends no adjustments or disallowances for the Company's proposed Storage Plant costs.

(iii) AG's Position

Ameren asks the Commission to authorize capital investments of $17,794,615 in 2025 and $34,647,035 in 2026 to address gas storage safety, integrity, and reliability. AG Ex. 2.00 at 75. The AG asserts that the record shows inflated storage project budgets with unreasonably high overhead costs vastly in excess of oil and gas industry norms. AG IB at 46. The AG therefore asks the Commission to reduce the overhead percentage in each storage project to approximately 14%, which is in line with reasonable industry standards. AG Ex. 2.00 at 13, 77. This results in a disallowance of $3,134,747. *Id*. at 13.

The AG Panel closely reviewed the budgets developed for the Freeburg well drilling projects and discovered Ameren applies an overhead charge which is higher than the typical 12–14% seen by the Panel in its professional experience. AG IB (Conf.) at 76, 77. According to the AG, Ameren repeatedly referred to an overhead rate in project cost breakdowns and tacks this percentage on to the total project cost. *See* AG Exs. 2.35, 2.36. Overhead refers to the indirect costs associated with running a project that are not directly tied to specific tasks or materials. According to Ameren, overhead costs include engineering, supervision, and general office salaries and expenses. Ameren Ex. 22.0 at 30. Yet, the Panel discovered Ameren applies overhead to each project despite the fact that each of the Freeburg well budget estimates already include such considerations. AG Ex. 2.00 (Conf.) at 76–77.

The AG insists that such high overhead is unreasonable and should be reduced on every gas storage project included within the Company's forecasted plant additions for 2025 and 2026. *Id*. at 76–77. To determine a reasonable overhead percentage, the Panel performed a comprehensive review of overhead percentages for the projects included in the Company's forecasted plant additions for 2025 and 2026 (listed in Ameren

Exhibit 7.3). AG Ex. 2.00 at 77. The Panel examined the percentage of overhead applied to all projects Ameren listed. The Panel then reduced the mean overhead percentage for a target overhead ceiling. *Id*. The Panel then applied that ceiling to every gas storage project on Ameren's list of projects which results in a reduction of $3,134,747 for the Company's unreasonably excessive overhead. *Id*.

According to the AG, the record shows Ameren failed to justify its high overhead charges for these projects and declined to respond to the Panel's analysis. *See* Ameren Ex. 22.0 at 30–31. The AG asserts that the Company instead continued to rely on insufficiently broad explanations and generalities that do not substantiate its request for what the Panel determined are unreasonably excessive overhead rates. The AG therefore urges the Commission to adopt the Panel's recommended $3,134,747 disallowance, which appropriately reduces the Company's unreasonably excessive overhead for storage projects. AG Ex. 2.00 at 77.

Ameren opposes the AG's adjustment, claiming it is not supported by references to specific projects and is based on an "unsupported standard" and "arbitrary statistical analysis." Ameren IB at 81, 88–89. The AG asserts that these arguments ignore the fact that the Panel based its disallowance on a comprehensive review of the Company's cost estimate data from hundreds of projects and then applied its reasonable overhead percentage to Ameren's individual gas storage projects, specifically. *See* AG IB at 48. According to the AG, Ameren's arguments also give the impression that it substantively engaged with the Panel's informed statistical analysis when it did not. *See* Ameren IB at 88–89; Ameren Ex. 22.0 at 30–31; Ameren Ex. 36.0 at 19–20; AG Ex. 4.00 at 57.

Instead, the AG argues that the Company responded to the Panel's recommended disallowance by providing a generalized overhead cost explanation that did not examine the facts of any of the Company's gas storage projects. *See* Ameren Ex. 22.0 at 30–31; Ameren IB at 88–89. According to the AG, Ameren claims the existence of this process alone justifies the Company's excessive overhead costs. *See Id*. In response, the AG points out that the Company's purported process of calculating overhead percentages is irrelevant and unresponsive to the issue raised by the Panel. *See* AG Ex. 4.00 at 57. Ameren claims it calculates overhead percentages by first totaling all overhead charges for the month and then allocating a certain amount to individual capital projects based on each project's pro-rata share of direct capital spend within that given month. Ameren IB at 88–89. The overhead percentages allegedly fluctuate based on the monthly direct project costs. *See Id*. The AG highlights that the Company, however, did not provide a month-by-month breakdown of overhead cost allocations for its 2025 and 2026 forecasted plant additions, which makes Ameren's explanation without evidentiary support and irrelevant in this rate case. AG RB at 30–31.

According to the AG, Ameren instead provided the Panel with a general category of estimated overhead spend for each forecasted plant addition listed on Ameren Ex. 7.3. *Id*. The Company did not provide a monthly accounting of costs or overhead costs, and according to the AG, there is no way to verify that in fact the total overhead amount for each month was reasonably allocated. AG RB at 31. The Panel testified that Ameren's reliance on generalized descriptions of its storage program objectives and vague narratives of project cost drivers fail to explain how these spending levels are derived. AG Ex. 4.00 at 57. Ameren chose to present its overhead costs for each planned project

in this manner, and the Panel analyzed this data as presented to ultimately determine the Company charges excessive overhead costs. *See* AG Ex. 2.00 at 77. The overhead percentages for these three gas storage projects amount to a percentage of the total (not monthly) project costs, respectively, which, according to the AG, is much higher than the typical 12–14% seen by the Panel in its experience. AG Ex. 2.37 at 3.

The AG also insists that the Company's alleged overhead cost allocation process is directly contradicted by the record. Ameren claims to follow a process by which a project's monthly direct project costs determine the project's monthly overhead percentage, but the AG asserts that record shows Ameren applies a standard overhead rate regardless of project costs. *See* Ameren IB at 88–89; AG Ex. 2.00 at 76-77.

To further discredit the Company's argument that the AG's recommended disallowance is unsubstantiated and arbitrary, the AG elaborate on the statistical analysis used to calculate the Panel's disallowance. *See* AG IB at 48; AG RB at 32–33. The Panel first determined the overhead percentages for all the projects listed on Ameren Exhibit 7.3 using the estimated cost breakdowns provided by the Company. *See* Ameren Ex. 7.3; AG Ex. 2.37. The Panel then calculated the mean and median overhead percentages and the standard deviation which measures the typical deviation of Ameren's data points from the mean. AG Ex. 2.00 (Conf.) at 77. The AG explains that the standard deviation accounts for random variations in the data set and, in terms of overhead costs, accounts for the fluctuations in the overhead rates Ameren applied to its forecasted projects. The Panel then used that data to create a target overhead percentage that anticipates normal dips below or rises above the mean. *See id.* In other words, the Panel created a reasonable baseline, consistent with industry standards, that is grounded in the range of overhead percentages reflected in the Company's project list. *See id.* Notably, the Panel chose not to reduce the mean by the full standard deviation to provide the Company with a generous target that rests slightly above the typical 12-14% overhead charge seen by the Panel in its professional experience. *See id.* The Panel then applied the ceiling to all gas storage projects on Ameren's list which resulted in a disallowance of $3,134,747. *See id.* Once again, the AG points out that all of these figures were computed directly from Ameren's own project data, and then the Panel applied the reasonable overhead percentage to the gas storage projects, specifically.

Finally, the AG argues that Ameren cites to irrelevant case law to once again suggest it has shifted its burden of proof to the AG. *Apple Canyon*, IL App (3d) 100832, ¶ 54. Again, the *Apple Canyon* case cited by Ameren provides that only after the utility establishes a prima facie case does the burden shift to others, but that burden is the burden of production (to present opposing evidence), not a reversal of Ameren's statutory burden of proof. In short, the AG insists that Ameren needs to prove its excessive overhead costs are reasonable. By relying on irrelevant explanations of its purported allocation process, ignoring the record, and simply dismissing the Panel's analysis as "meaningless," the AG maintains it fails to do so. *See* Ameren IB at 88–89; Ameren Ex. 22.0 at 30–31. The AG argues the burden never shifted to the AG because the Company did not meet its statutory burden. Moreover, the Panel provided sufficient evidence to refute the Company's unreasonable overhead costs and establish a reasonable rate to be used instead. For these reasons, and those provided in their initial brief, the AG ask the Commission to reduce the overhead percentage in each storage project to be in line

with reasonable industry standards which results in an adjustment of $3,134,747 to Ameren's storage budget.

(iv) Commission Analysis and Conclusion

The Commission must determine under a prudence standard whether Ameren's gas storage investment projects are reasonable. The projects are described in detail above. Staff initially questioned particular projects and certain aspects of the information Ameren provided in support. The Commission notes that after Ameren provided additional information in its rebuttal testimony, Staff withdrew its objection and initial recommended disallowance. *See* Staff Ex. 13.0 at 6-8.

The AG originally questioned the need for additional horizontal wells and raised concerns on the overhead costs related to the proposed gas storage projects. Ameren provided additional information to the AG in response to concerns over the number of horizontal wells. While the AG did not respond to the additional information provided by Ameren, the Commission notes that the AG does not recommend a disallowance for those assets.

The AG recommends the Commission disallow $3,134,747 in overhead costs for gas storage work. The AG based its recommendation on the testimony of its Panel, which conducted a comprehensive review of the Company's estimated cost breakdowns and determined the overhead percentages Ameren applied to each project. *See* Ameren Ex. 7.3; AG Ex. 2.37. The AG Panel concluded that Ameren's overhead costs were significantly higher than the oil and gas industry norm. AG Ex. 2.00 at 76-77. The AG demonstrated the budgets developed for Ameren's Freeburg well drilling projects contain an overhead charge of 20%, which is higher than the typical 12-14% seen by the AG Panel in its professional experience. *Id.* at 13, 77. To quantify the proposed adjustment, the AG Panel calculated the mean, median, and standard deviation of the overhead percentages Ameren applied to its projects. *See id.* at 77. Based on this analysis, the AG recommends reducing the overhead percentage applied to each gas storage project to approximately 14%, resulting in the proposed disallowance of $3,134,747.

The Commission finds that the AG based its recommended disallowance on figures calculated directly from Ameren's own specific project data. The Commission notes that the AG Panel presented compelling arguments and calculations to confirm the application of the approximately 14% ceiling to all gas storage projects' overhead costs. The Commission finds that Ameren Illinois did not present sufficient evidence of the prudence and reasonableness of the full costs of its gas storage projects, specifically the overhead costs associated with the projects. The Commission finds the AG's evidence persuasive in support of its proposed disallowance to the Company's overhead costs associated with the gas storage projects. Accordingly, the Commission adopts the AG's proposed disallowance of $3,134,747.

e. Capital Planning Process/Capital Project Governance

(i) AIC's Position

The Company states that it provided substantial evidence reflecting that its capital planning process and corporate governance is structed, fulsome, and appropriate. As an initial matter, Ameren witness Irizzarry-Robles, Ameren Illinois' Controller, addressed

how the Company developed the capital budget reflected in the initial filing. He explained that the foundation for the forecasted financial data for calendar year 2026 is Ameren Illinois' annual budget, which is composed of the operating budget and the capital budget. Ameren Ex. 6.0 at 3. Relevant here, the capital budget details all capital projects for each department or resource management center. *Id*. Ameren Illinois explains that the 2026 Test Year forecast reflects the 2026 annual budget and also reflects capital projects expected to be in service by year-end 2024, 2025 and 2026. *Id*. Mr. Irizarry-Robles noted that the Ameren Illinois Board of Directors reviewed and approved the 2025 and 2026 annual budgets before the Company's filing. *Id*.

Ameren Illinois states that with respect to the capital budget, Mr. Irizarry-Robles further explained that engineers, project managers, and other subject matter experts are involved in the process to provide forecast information on external contractor estimates, material needs, project start and end dates, and other budget inputs. Ameren Ex. 6.0 at 4. The Corporate Modeling group then loads the capital data into a corporate budgeting model to create forecasted financial statements that are reviewed and adjusted as needed. *Id*. The Company notes that this extensive process results in projections for a future year that form the basis for the annual budget for that year; in this case, the 2026 Test Year forecast. *Id.*

Ameren Illinois states that independent certified public accountants ("CPAs") reviewed the Company's forecasted financial data, which Ameren Illinois prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and the American Institute of Certified Public Accountants' *Guide for Prospective Financial Information*. Ameren Ex. 6.0 at 6. The CPAs also reviewed the principal assumptions that Ameren Illinois used to prepare the forecasted financial data. *Id*. Those assumptions, which are identified on the Company's Schedule G-2 in its initial filing, are based on Ameren Illinois' historical experience, expected events or transactions in the forecast period, and detailed forecast modeling. *Id*.

The Company notes that Mr. Irizarry-Robles also explained that Ameren Illinois developed the proposed plant in service balance for this filing by using actual data through August 2024 and forecasted plant additions and retirements for September 2024 through December 2026 from the Company's Adjusted Forecast snapshot of the Utilities International Planner system and the corporate model. Ameren Ex. 6.0 at 9. Ameren Illinois explains that the plant additions reflected in this case are the result of forecasted capital expenditures and expected in service dates. *Id*. The Company further explains that once Ameren Illinois has determined an operational need for plant investment, Ameren Illinois pursues a rigorous process to budget for that investment. *Id*. at 10.

Ameren Illinois state that the Chief Financial Officer and Executive Leadership Team of Ameren Corporation determine the strategic capital allocation and develop Ameren Illinois' overall capital budget targets. Ameren Ex. 6.0 at 10. The Company explains that targets are allocated in part to blanket work orders for recurring work such as service replacements, new business, and government relocations, which are developed based on historical trends and known changes. *Id*. Another portion of the budget is allocated to the projects that Ameren Illinois anticipates will be carried over from the prior budget year for multi-year projects or due to scheduling changes or other factors. *Id*. Ameren Illinois states that the remaining funds are available for specific projects

identified by engineering. *Id*. The Central Review Committee, which is made up of Asset Performance Managers and representatives from various operating areas, finalizes the specific project list that will ultimately be part of the total capital budget sent to the Ameren Illinois and Ameren Corporation Boards of Directors for approval. *Id*.

Further, as explained by Ameren witness Kloeppel, before any major plant investment is made, the Company uses a standard management process to identify the need for the project, considers possible alternatives, selects a reasonable option based on technical and economic criteria, and then plans the design and construction in accordance with state and federal requirements as well as industry standards. Ameren Ex. 8.0 at 20. Ameren witness Kloeppel explained that the Company uses a robust set of procedures and processes to ensure applicable specific projects greater than $500,000 are justified with alternatives considered, completed safely, on time, within the defined scope, and equal to approved budget targets. Ameren Illinois explains that the level of oversight and detail required is broken into six groups: projects under $500,000, projects greater than $500,000 and less than $10 million, projects greater than $10 million and less than $25 million, projects greater than $25 million and less than $50 million, projects greater than $50 million and less than $100 million, and projects greater than $100 million. Ameren Ex. 22.1 at 4-5.

Ameren Illinois explains that projects under $500,000 are generally managed at the department level and receive approval from the responsible Ameren Illinois local leadership with the requisite approval authority to authorize the project based on the Ameren Illinois Corporate Approval Limits. Ameren Illinois further explains that local leadership reviews project forecasts to ensure actual spending is aligned to the budget and that funds will be available throughout the remainder of the budgeted period. The Project Manager is the individual assigned to manage and coordinate the activities of a project from assignment through closeout. The Project Manager title is a functional title and may be assigned to any qualified person. The Project Manager is responsible for ensuring that established objectives are achieved within the approved scope, cost, and schedule and may leverage tools and techniques required of Mid-Tier projects if such tools and techniques support prudent implementation of the investment. Ameren Ex. 22.1 at 5.

The Company explains that projects greater than $500,000 and less than $10 million are governed by the Ameren Illinois Project Oversight Board. This board is composed of Ameren Illinois senior leaders. Ameren Illinois states that the board meets quarterly, or as needed, to review project status, discuss risks and mitigation strategies, adherence to schedules and budgets, and other pertinent issues. The Company points out that these projects require cost estimates and cost tracking, organization change management, risk management with identified risks and estimated risk exposure, detailed project schedule utilizing Primavera P6 software, procurement tracking of major material and purchase orders, adherence to Ameren and contractor safety plans, and quality management as described in the Ameren Illinois Quality Management Plan. Ameren Ex. 22.1 at 5.

Ameren Illinois explains that projects greater than $10 million and less than $25 million are governed by the Senior Leader Project Oversight Committee ("SLPOC"), which is composed of senior leaders from all Ameren business segments. Ameren Ex. 8.0 at

26; Ameren Ex. 22.1 at 4. The SLPOC projects follow a formal "gate" process. A gate is defined as a detailed assessment conducted at key points in the project lifecycle. The Company further explains that prior to meeting with SLPOC for any gate, the project must be recommended by the Gate Approval Board ("GAB"). The GAB is composed of Ameren subject matter experts, who are not part of the project team, from multiple areas including treasury, quality management, legal, strategic sourcing, safety, organization change management, and appropriate functional and technical areas. Ameren Illinois states that the duty of this board is to ensure that the project team has met all objectives and deliverables. Items reviewed during the SLPOC gate GAB meeting include the project plan, project justification, alternatives considered, project scope and design, project cost management, project schedule management, project resource management, project communication management, project risk management, project change management, project quality management, safety, and document control. Ameren Ex. 8.0 at 26; Ameren Ex. 22.1 at 4-5.

Next, Ameren Illinois states, projects greater than $25 million are governed by the Corporate Project Oversight Committee ("CPOC"), which is composed of executive leaders from all Ameren business segments, including the segment Presidents. Ameren Exs. 8.0 at 26; 22.1 at 4. Prior to meeting with CPOC for each of the gates explained above, the project team must receive a recommendation from the CPOC Gate Approval Board. The makeup and objectives of the CPOC GAB are similar to SLPOC. The Company notes that due to the higher cost and complexity of CPOC projects, however, more formal gates and approval are required to ensure the project matures through the various phases. Ameren Ex. 8.0 at 26.

Ameren Illinois states that in addition to oversight by the CPOC, the Finance Committee of the Ameren Board of Directors reviews and approves all capital projects with estimated capital expenditures of $50 million to $100 million, as well as monitors progress until completion. Ameren Exs. 8.0 at 27; Ex. 22.1 at 4. This includes projects in which the capital forecast increases to $50 million or greater later in the project lifecycle (*i.e.*, during execution). Finance Committee review and approval shall be requested when the project team requests to spend $15 million or greater for a project with total capital forecasted cost of $50 million or greater. Ameren Exs. 22.0 at 10; 22.1 at 4.

Finally, the Company states, in addition to oversight by the CPOC, the Finance Committee of the Ameren Board of Directors reviews and recommends for approval by the Ameren Board of Directors all capital projects with estimated capital expenditures of more than $100 million, as well as monitors progress until completion. Ameren Ex. 22.1 at 4.

Ameren Illinois explains that once funding is approved for blanket and specific projects, the Company follows a structured project management approach to implement projects. Ameren Ex. 8.0 at 22. Ameren Illinois then monitors and reviews actual project costs monthly with additional project management oversight for projects or programs that cost over $500,000. Ameren Illinois explains that changes are directed from field personnel to the project management team in a timely manner so that decisions and approvals can be made based on any foreseen field changes. *Id.* at 23. Ameren Illinois notes that its leadership also reviews forecasted specific and blanket projects monthly to ensure actual spending is aligned with the budget, and that funds will be available

throughout the budgeted period. *Id.* Then, at month end, senior leadership, asset management, and the financial review team review any changes recommended by local leadership for approval. *Id.* The Company states that it reviews the capital budget and forecast monthly, and the CRC meets to review the status of projects and investment spending on an ongoing basis to ensure alignment between available funds and projects.

The Company states that its processes are not only thorough, but also based on extensive operating history, industry best practices, and globally accepted project management standards. Ameren Ex. 22.0 at 11.

Ameren Illinois states that notwithstanding the evidence of the Company's robust capital planning process, the AG Panel and PIO witness Cebulko both recommended that the Commission adopt additional requirements that would apply to capital planning and investments in future rate cases. The Company states that the AG Panel included roughly two pages of additional information requirements that they argued should be applied to Ameren Illinois in future cases, including, for each major project (according to the definition of the AG Panel), scope of work requirements, breakdowns of forecasted costs, quantity estimates on a per-unit basis, all forecasting data, and a detailed summary of work upon completion. AG Ex. 4.00 at 32-33. Ameren Illinois notes that the AG Panel also recommended for major projects with any change to scope, cost, or schedule, a description of the "triggering event" and an internal or third-party justification document. *Id.*

For his part, Ameren Illinois states, PIO witness Cebulko recommended that for future Blanket Projects, the Commission should require Ameren Illinois to include "at least two alternative scenarios," for each Blanket Project, "such as a 5% or 10% lower-spend case, along with quantification of risk trade-offs." PIO Ex. 2.0 at 21. Mr. Cebulko also suggested that Ameren Illinois use a "no-regrets framework when planning and making decisions about its system." PIO Ex. 1.0 at 16. According to Mr. Cebulko, this framework would entail "practices and policies to examine all feasible alternatives to traditional pipeline investments." PIO Ex. 2.0 at 7.

Ameren Illinois contends that the proposed additional requirements are inconsistent with the law for three reasons. First, the information contained in them is not required by the long-standing law applicable to general rate case filings. Second, the Company explains, the recommendations are beyond the scope of this rate case. And third, Ameren Illinois further explains, adoption of additional filing requirements would require a rulemaking under the Illinois Administrative Procedure Act ("IAPA"). The Commission should follow the law set forth in *Ameren Ill. Co. v. Ill. Com. Comm'n*, 2025 IL App (5th) 240014 and reject these proposals.

Ameren Illinois explains that Part 285 of the Commission's rules establishes the filing requirements applicable to public utilities in rate cases. *See* 83 Ill. Adm. Code 285.110, *et seq.* More specifically, the Company notes, the Schedule F-4 filing requirement includes "information concerning plant additions included in rate base on Schedule B-1 that are not currently in the rate base ordered in the utility's most recent rate proceeding," and the information provided for "the top ten most costly additions" includes the following: (1) description of addition; (2) date project started; (3) completion date; (4) completion cost; (5) reason for the project; (6) alternatives considered and the

reasons for rejecting each alternative; and (7) list of reports relied upon by management when deciding to pursue the rate base addition. 83 Ill. Adm. Code 285.6100.

Ameren Illinois states that it submitted the required schedules, workpapers, and descriptions regarding its distribution capital investment. This included the direct testimony of Ameren witnesses Kozak and Kloeppel in which they described the plant investment that will support gas service to the Company's customers and be used and useful by the end of the test year. The Company notes that these witnesses also discussed Blanket Projects and major Specific Projects to be included in rate base. Through this testimony, the witnesses demonstrated that the forecasted plant additions in rate base are reasonable in amount and necessary to provide safe, adequate, and reliable gas service, and will be prudently incurred and used and useful by the end of the test year. *See generally* Ameren Exs. 7.0; 7.2; 7.3; 8.0; 8.1; 8.2; 8.4; 21.0; 22.0; 35.0; and 36.0. Ameren witnesses Kozak and Kloeppel also presented evidence on how the Company prudently plans and manages the construction of all projects, regardless of the size or capital expenditure. *See id*.

The Company notes that neither the AG Panel nor PIO witness Cebulko contended that Ameren Illinois failed to comply with Part 285 requirements. Nor could they. The information they are requesting is above and beyond what is contemplated by law, a reality that is implicit in their requests to require Ameren Illinois to provide it. Ameren Illinois notes that PIO witness Cebulko explicitly acknowledged that there is no requirement for Ameren Illinois to identify alternatives for projects other than those listed on Schedule F-4. PIO Ex. 1.0 at 19.

Ameren Illinois notes that it has already voluntarily provided significantly more information in its filing in this case than the law requires. The Company states that it did so to further assist review of its proposed investments. For example, Ameren Illinois states that it provided a list of all specific projects for its distribution system included within the forecasted plant additions for 2025 and 2026, including detailed project descriptions and justifications. Ameren Ex. 7.2. Ameren Illinois points out that it also provided a list of all gas plant projects included within the forecasted plant additions for 2025 and 2026. Ameren Ex. 7.3. Further, Ameren Exhibit 8.4 is a list of additional plant additions to include: (1) capital projects greater than $2 million that largely are not reflected in the other exhibits providing project justification in this case, such as Ameren Exhibit 7.2 (list of distribution projects) and Ameren Exhibit 8.1 (Schedule F-4 addressing major projects); and (2) all government relocation projects and projects to address customer requested work. Ameren Ex. 8.0 at 34. And, for each project listed on Ameren Exhibit 8.4, the Company provided detailed project descriptions and justifications. *Id*. Taken together, the capital projects shown on Ameren Exhibits 7.2, 8.1, and 8.4 represent nearly 90% of the Company's forecasted gas plant additions for 2025 and 2026. Ameren Ex. 8.0 at 34.

Ameren Illinois explains that in a rate case proceeding under Section 9-201, the Commission is to determine whether "the rates accurately reflect the cost of service delivery and must allow the utility to recover costs prudently and reasonably incurred." *Citizens Util. Bd.*, 166 Ill. 2d at 121; 220 ILCS 5/9-201(c). "A traditional rate case decision involves a one-time increase or decrease in the rates of the utility. The Commission decides, based on the evidence, whether the utility is entitled, at that time, to an increase in rates." *Bus. & Prof'l People for Pub. Int.*, 136 Ill. 2d at 208. Here, once the Commission

addresses Ameren Illinois' requested rate increase based on the record evidence before it in this case, no further action is necessary to determine whether Ameren Illinois is entitled to an increase in rates. *See Lowden v. Ill. Com. Comm'n*, 376 Ill. 225, 230 (1941). The Company maintains that s directive that Ameren Illinois must comply with additional filing requirements in future cases would be unnecessary to disposition of this case. An attempted declaration of future duties and obligations related to rate cases not yet undertaken, as this would be, is improper.

Ameren Illinois states that the Appellate Court recently rejected a similar requirement proposed by the AG in Ameren 2023 GRC, which would have mandated that the Company submit additional detailed reports to be used in future ratemaking proceedings. A*meren Ill. Co.*, 2025 IL App (5th) 240014. The Company further states that the Appellate Court in that case explained that the requirement would not be "applicable to the current case, and it provides a requirement solely for future cases." *Id.* at ¶ 92; *see also Harrisonville Tel. Co. v. Ill. Com. Comm'n*, 176 Ill. App. 3d 389, 393 (1988) (vacating a portion of the Commission's order entered in a contested case directing telephone company that initiated the case to comply with certain rules "in all future projects" that were "not as yet undertaken," because "[t]hat part of the Commission's order which addressed future projects unrelated to the project under consideration was gratuitous, unnecessary" and "in essence a declaratory ruling on the duties of a telephone company"). Here, Ameren Illinois explains, the additional filing requirements that the AG Panel and PIO witness Cebulko asked the Commission to approve would suffer from the same infirmities that the Appellate Court identified with respect to Ameren Illinois' last rate case. Ameren Illinois contends that an order to submit this information in future cases would constitute a declaratory ruling of future duties and obligations, which is impermissible under the framework set forth by the Act, specifically Article IX governing ratemaking.

Further, Ameren Illinois states, the proposals of the AG Panel and PIO witness Cebulko cannot be adopted outside of the rulemaking framework of the IAPA. "All rules of agencies must be adopted in accordance with article 5 of" the IAPA. *See R.L. Polk & Co. v. Ryan*, 296 Ill. App. 3d 132, 142 (1998). "Unless a rule is promulgated in conformity with the public notice and comment requirements of the Act and is filed with the Secretary, it is not valid or effective against any person or party and may not be invoked by an administrative agency for any purpose." *Id.*; *see also* 5 ILCS 100/5-35(b) ("No action by any agency to adopt, amend, or repeal a rule after this Act has become applicable to the agency shall be valid unless taken in compliance with this Section.").

The Company states that to direct these additional filing requirements would constitute a "rule" within the meaning of the IAPA. Subject to certain exceptions not relevant here, a "rule" includes "each agency statement of general applicability that implements, applies, interprets, or prescribes law or policy." 5 ILCS 100/1-70. Ameren Illinois explains that the imposition of these requirements would meet this definition. Not only are the proposed requirements generally applicable in that they would apply to all future rate cases, but also the AG has proposed the same requirements in the only other pending gas rate case involving a large Illinois public utility: Nicor. In that case, the same exact panel of witnesses testifying on behalf of the AG proposed that the same filing requirements apply to Nicor in future rate cases. *N. Ill. Gas Co.*, Docket No. 25-0055, AG

Ex. 4.00 at 30-32. The Company contends that these proposed requirements are therefore generally applicable under the IAPA in that they would apply to multiple utilities, and an administrative rule would be needed to impose such requirements.

The Company notes that the Appellate Court found as much in Ameren Illinois' last rate case. In that case, the Appellate Court vacated the adoption of the additional reporting requirements discussed previously, finding that they could not be imposed in a rate case and outside of the formal processes of the IAPA. Ameren Illinois explains that the Appellate Court emphasized that the reporting requirements were "clearly a practice and procedure to be followed in all future ratemaking cases" and were therefore suspect. A*meren Ill. Co.*, 2025 IL App (5th) 240014, ¶ 102 ("[T]he new long-term infrastructure plans are newly required filings related to ratemaking cases addressing additions to plant in service, for all large gas public utilities."). Ameren Illinois points out that the Appellate Court also emphasized that the requirement was "not limited to AIC" and instead would apply to several large gas utilities in Illinois. *Id.* Because of these factors, the Company notes, the Appellate Court concluded that "it is not possible for the Commission's mandate to escape the rule-making rubric established by the Administrative Procedure Act." *Id.* ¶ 100. Ameren Illinois contends that the Commission may not adopt the proposed filing requirements of the AG Panel and PIO witness Cebulko outside of the rulemaking process without taking action inconsistent with the Court's opinion on appeal of Ameren Illinois' last rate case.

Ameren Illinois explains that, in addition to being inconsistent with Illinois law, these proposals also are unnecessary. The Company notes that the AG Panel failed to establish a clear record regarding the information they are looking for, let alone that the information they claim is needed to satisfy their concerns. Ameren Illinois points out that PIO witness Cebulko recommended an analysis of NPAs, but this proposal already is being addressed in the FoG proceeding *at the request of PIO in the Company's last rate case*. *Ameren 2023 GRC*, Final Order at 78. PIO's apparent impatience with the FoG process is not sufficient reason to abandon that process prematurely. Further, Ameren Illinois states, the record establishes that the Company already evaluates alternatives to pipeline replacement, and that alternatives are sometimes eliminated easily based on specific factors, not always requiring the in-depth analysis that PIO witness Cebulko suggested is necessary.

In rebuttal testimony, the Company states, the AG Panel included a long list of information that they want Ameren Illinois to produce at the Commission's direction. AG Ex. 4.00 at 31-33. But, Ameren Illinois points out, the Company has reason to be skeptical that this information, even if ordered by the Commission, would satisfy the AG Panel's concerns, or would even be reviewed or recalled by the witnesses comprising the Panel. When asked during cross-examination about review of a single document cited in the AG Panel's testimony—the Commission's Ameren 2023 GRC Final Order—two of the Panel's three members could not recall whether they had ever read that document. Tr. at 220-21. Ameren Illinois undertook best efforts to provide the AG Panel with the additional information they requested throughout this proceeding, in addition to the Part 285 standard information requirements. But, Ameren Illinois states, the AG Panel simply found ways to criticize that information and ask for something *different*. *See* Ameren Ex. 35.0 at 19. To put a finer point on it, the AG Panel simultaneously claimed that information

provided by Ameren Illinois was both too "broad" and too "specific." AG Ex. 4.00 at 14, 22.

Moreover, Ameren Illinois states, the AG Panel did not even appear to know what they are requesting in some cases. For example, the Panel stated in testimony that they asked Ameren Illinois for "historical unit costs" and that the information the Company provided in response was "so specific that it was useless for forecasting," citing Ameren Illinois' response to data request AG 12.05. AG Ex. 4.0 at 22; AG Ex. 4.01 at 64. But review of the question that the AG Panel actually asked in AG 12.05 shows that they requested "unit volumes" and not "unit costs." AG Ex. 4.01 at 64. The Company explains that a unit cost would be the price per unit, while the unit volume would be the number of total units. That the AG Panel did not ask for what they were looking for is no fault of the Company's and calls into question more broadly the AG Panel's criticisms of the information provided by Ameren Illinois. Moreover, Ameren Illinois states, it begs the question of whether the AG Panel knows what they actually want or what information will resolve their purported concerns. Ameren Illinois contends that it should not be required to provide additional information for the sake of providing it when that information may not ultimately be helpful, and directing Ameren Illinois to fulfill the AG Panel's proposed new requirements would be doing just that.

Ameren Illinois notes that it is also worth highlighting that what it appears the AG Panel would like to achieve is to be able to completely "reproduce and validate" Ameren Illinois' forecasted investments. AG Ex. 4.0 at 22. This is not an approach that is practical, necessary, or supported by law. The Company explains that the prudence standard "recognize[s] that reasonable persons can have honest differences of opinion without one or the other necessarily being 'imprudent.'" *In re: Commonwealth Edison Co.*, Docket No. 84-0395, Order, 1987 WL 1377200 (Oct. 7, 1987). Ameren Illinois states that the AG Panel seeks to ignore this standard and substitute their own judgment for the Company's, which is not legally permissible.

Ameren Illinois further notes that the AG generally argues that the Company has not been transparent about how its capital planning process functions. The AG Panel testified that "it is unclear how these processes actually work together to adequately review, control, and manage the Company's projects." AG IB at 51 (*citing* AG Ex. 2.00 at 20–21). The AG argues that it cannot evaluate prudence based on the information Ameren Illinois provided, and this is why the additional filing requirements it requests is necessary.

Ameren Illinois explains that it has addressed its capital planning process at length in its testimony. *See generally* Ameren Exs. 6.0, 8.0, 22.0. Given the sheer volume of information provided, Ameren Illinois states it is puzzling that the AG still contends there is a lack of transparency or clarity on the Company's part. Further, the Company explains that Ameren witness Kloeppel responded in rebuttal to specific concerns raised by the AG and provided additional information about specific processes in a separate exhibit. Ameren Ex. 22.0 at 10-12; Ameren Ex. 22.1.

Ameren Illinois asserts that there is no merit to the AG's contention that the Commission "agreed with the AG's process and information concerns in the Company's 2023 Rate Case," and therefore, it should order the filing requirements requested in this

case. AG IB at 51. Ameren Illinois notes that the AG cites only to the Commission's directive to Ameren Illinois in Ameren 2023 GRC to submit annual leak reports to the Commission. AG IB at 51. In that case, the AG witness "proposed additional reporting associated with gas leaks, specifically 'leaks by Grade, cause, and facility type through either an annual report or with each rate recovery filing in order to provide transparency regarding the scope of leaks on the system.'" *Ameren 2023 GRC*, Final Order at 36. The Commission adopted the AG's proposal and directed Ameren Illinois "to report leaks by grade, cause, and facility type, *i.e.*, material type and type of infrastructure, on an annual basis beginning July 1, 2024." *Id.* at 97. Thus, Ameren Illinois maintains, these reports have nothing to do with the Company's process for approving projects and do not indicate that transparency surrounding that process is somehow lacking. Moreover, when the Commission ordered those leak reports, it did not tie them in any way to the Company's capital planning process.

Ameren Illinois also notes the AG's argument that Ameren Illinois should be "disaggregating the individual cost components" for each category of costs. AG IB at 52. Ameren Illinois maintains that the AG's argument should be rejected for several reasons. First, Ameren Illinois explains that the Company did provide cost data where requested, including in discovery. Ameren Illinois responded to a number of discovery requests in which it provided detailed cost information regarding certain gas distribution Blanket Projects with relatively larger budgets. Ameren Cross Ex. 4 (Staff data requests ENG 1.12, 1.17, 1.20, 1.25). These discovery responses, which were admitted into evidence, broke the estimated costs down by category – for example, delineating the costs for internal labor, materials, and overhead costs. *Id.*

Second, Ameren Illinois explains that the AG argues that there was some insufficiency in the MAOP Compliance Plan that Ameren Illinois submitted, and that somehow demonstrates that Ameren Illinois has not provided enough, or the right type of, cost information. AG IB at 53-54. But, there is no merit to the AG's contention that Ameren Illinois somehow failed to comply with the Commission's Ameren 2023 GRC Final Order regarding its MAOP Compliance Plan. Ameren Illinois notes that it submitted the required filing and included all the information that was requested of it, including substantial information related to the respective costs of the "six reconfirmation methods prescribed by federal rules" for achieving MAOP reconfirmation compliance. *See, e.g.*, *Ameren 2023 GRC*, Final Order at 91; Ameren Ex. 8.2. And while the AG states that its Panel of witnesses "expected to see" certain information included within the Company's analysis (AG IB at 53-54), Ameren Illinois avers that the Commission's Ameren 2023 GRC Final Order did not require Ameren Illinois to provide the specific information that the Panel now insists they expected to see.

Ameren Illinois notes the AG's contention that the Commission has "broad investigatory authority" and "plenary power" over utilities, and therefore, there should be no concerns regarding the legality of its proposal. AG IB at 54. Ameren Illinois explains that similar arguments were raised in Ameren Illinois' last rate case with respect to certain additional reporting requirements proposed there, specifically the requirement that Ameren Illinois file a Long-Term Gas Infrastructure Plan ("LTGIP"). The Commission relied on much of the same authority the AG cites here when it adopted the LTGIP requirement. *See, e.g.*, *Ameren 2023 GRC*, Final Order at 96. But the Appellate Court

overturned and vacated the LTGIP directive, finding that ordering these reporting requirements in a rate case exceeded the Commission's authority. *Ameren Ill. Co.*, 2025 IL App (5th) 240014, ¶ 103. Ameren Illinois maintains that the proposed requirements here raise the same concerns, and the AG's arguments are unavailing.

Ameren Illinois also notes that the AG argues that the Commission should inquire into whether Ameren Illinois enforces contracts for capital projects with third-party contractors and conducts a fault analysis where additional costs are incurred. AG IB at 59-63. Ameren Illinois states that the AG did not cite to any Commission orders applying the contractual principles it argues should apply here. Ameren Illinois avers that the cases the AG did cite are inapplicable as they involve breach of contract claims seeking payment for services rendered, and in no way relate to the Company's rate case proceeding. *Id.* at 61. The Company explains that the AG also failed to identify any specific projects that are being reviewed for cost recovery in this case where the Company should have enforced contractual terms but did not. Thus, Ameren Illinois maintains that the AG's argument is an exercise in speculation on what a contractor may, or may not, do in the course of a construction project, and the Company's hypothetical response to this speculative situation.

Further, the Commission is an agency "created by statute and has no general of common law powers." *Harrisonville Tel. Co. v. Ill. Com. Comm'n*, 176 Ill. App. 3d 389, 392 (1988). The Commission "derives its power and authority solely from the statute creating it," *Id*. (*citing Ill. Power Co. v. Illinois Com. Comm'n*, 111 Ill. 2d 505, 510-11 (1986)). The Act does not grant the Commission authority to take part in determining whether utilities enforce private contract agreements to which the Commission is not a party. Thus, the AG's arguments in reliance on contract enforcement must be rejected.

Ameren Illinois contends that PIO witness Cebulko's proposal is similarly impractical and inappropriate for approval in this case. First, the Company explains, the Commission already considered PIO's proposal for the Company to conduct an analysis of NPAs as alternatives to pipeline replacement in its last rate case. There, PIO recommended that Ameren Illinois adopt an assessment framework for NPAs for all major pipeline projects. *Ameren 2023 GRC*, Final Order at 86. The Company notes that the Commission evaluated that proposal and ultimately "decline[d] to adopt the PIO's NPA analysis proposal." *Id.* at 91. The Commission also directed that the matter be discussed further in the FoG proceedings. *Id.* The NPA proposal has not yet been addressed in the FoG proceedings, which PIO witness Cebulko acknowledged. PIO Ex. 1.0 at 20-21. Ameren Illinois contends that the Commission should reject his proposal to sidestep the process—a process PIO recommended in the first place—and that already is established to address this proposal. Ameren Illinois further states that the Commission should allow these discussions to play out as it originally directed in Ameren 2023 GRC and in initiating the FoG proceeding.

The Company notes that, regarding the substance of PIO witness Cebulko's proposal, Ameren witness Kozak provided extensive testimony explaining why providing an alternatives analysis for each Blanket Project would not be necessary or helpful and would not be in the best interest of ratepayers. He also explained that Ameren Illinois does evaluate alternatives where appropriate. For example, one of the NPAs highlighted by Mr. Cebulko is Cured-In-Place-Lining ("CIPL"), which allows for the relining of existing

pipes as an alternative to replacement. With respect to CIPL, Mr. Kozak explained that this technology is primarily used for large diameter (12-18 inch) low pressure pipelines in urban areas. On Ameren Illinois' system, 90% of the distribution pipe installed since 2014 is 4 inches or less, making CIPL an undesirable option for many pipes. Additionally, CIPL does not eliminate the need to replace every service and install an excess flow valve after a pipeline is relined which is why the technology is focused on urban areas where one service can serve thirty or more customers. The Company explains that when a pipeline is relined, each service must be dug up and the pipeline must be tapped; otherwise the gas service to the customer is shut off. Also, Ameren Illinois points out, if any fittings, such as elbows, linestoppers and valves were installed, the liner will not always work and many times its unknown if fittings are installed. Ameren Ex. 21.0 at 17.

Ameren Illinois explains that, to the extent that Mr. Cebulko also suggested the use of alternative investments in lieu of transmission pipeline replacement (PIO Ex. 1.0 at 25-26), Mr. Paskett explained that CIPL is used in certain specialty pipeline projects by some local distribution companies, or LDCs, as an alternative to replacement, but this technology is not widely used by AGA member companies. Ameren Ex. 28.0 at 18. The Company notes that Mr. Paskett further explained that CIPL has some significant limitations that make it unsuitable for any of the Company's transmission pipeline projects identified in Schedule F-4. This includes: (1) the specifications for the CIPL liners allow a maximum operating pressure of 350 psig, which is well below the MAOP of the vast majority of the Company's transmission pipelines; (2) the CIPL technology is only applicable for pipeline applications that move the natural gas (commodity) from a specific starting point on a pipe to a specific end point on the pipe (*e.g.*, "point A to point B") with no pipe tees, laterals, or service taps between; (3) the CIPL liner cannot be tapped under pressure to shut-off the flow of gas or establish a new lateral or gas service at a later date after the CIPL project is completed; and (4) to install a CIPL in an existing pipeline, the pipeline must be removed from service for an extended period of time, obstructions and restrictions (*e.g.*, reduced port valves, tees and fittings) must be cut out, and the interior of the pipe must be cleaned and prepared for installation of the CIPL. Ameren Ex. 28.0 at 18-19. Ameren Illinois notes that gas service for customers served by the pipeline must be interrupted for the duration of the project or alternative fuel supply sources such as CNG trailers or liquefied natural gas trailers must be acquired and on-going refueling services secured over the entire duration of the project. Ameren Illinois maintains that all of this make CIPLs impractical for any of the Company's Schedule F-4 projects. *Id.* at 19.

Ameren Illinois notes that another NPA identified by PIO witness Cebulko is zonal electrification, which involves transitioning an area to the exclusive use of electricity, thereby eliminating gas entirely. With regard to this alternative, Mr. Kozak explained that it is impractical to expect Ameren Illinois to perform an in-depth analysis on every capital investment project to determine whether an alternative may be electrifying an entire city block or residential neighborhood. To perform a true cost analysis, Ameren Illinois states that it would need to evaluate the cost to each individual to purchase appliances, upgrade their electrical system, possibly upgrade their Ameren Illinois electrical service, and possibly upgrade the Ameren Illinois electric grid. Even then, the Company maintains, it would only make sense if all customers served by the same portion of the Company's natural gas system decided to switch to NPAs. Ameren Ex. 21.0 at 18. The Company points out that it bears reiterating here that Ameren Illinois did propose a zonal

electrification tariff in this case, which uniformly was opposed by the parties. This demonstrates that the theory underlying PIO witness Cebulko's recommendation does not square with the practical reality of the regulatory environment in Illinois.

Finally, Ameren Illinois states, while the Company is not required by law to identify alternatives considered for projects not individually large enough to be listed on Schedule F-4, the Company demonstrated that it has practices and policies in place that already consider feasible alternatives to traditional pipeline investments. Ameren Illinois explains that before major plant investments are made, the Company uses its management process, which identifies the project's need and possible alternatives, selects a reasonable option based on technical and economic criteria, and plans to align with pipeline safety requirements and industry standards. Ameren Ex. 8.0 at 20. The Company points out that it further provided examples of alternatives to traditional pipeline investment that it has historically implemented, and proposed such solutions in the present rate case, including underground storage facilities, pipeline pressure reduction, pressure testing, and pipeline retirement. Ameren Ex. 36.0 at 22; Ameren Ex. 22.0 at 41-42. The Company states that it also demonstrated that it evaluates the universe of possible solutions to address its gas system's needs and focuses on solutions that are shown to be workable for the given application. PIO witness Cebulko, on the other hand, focused more narrowly on leak repair, relining, and electrification. The Company's process is broader, identifying feasible solutions that are cost efficient and reduce risk for customers.

Ultimately, Ameren Illinois states, the cost of the analyses recommended by PIO witness Cebulko needs to be balanced with its benefits. In many cases, it would simply create unnecessary and avoidable costs for customers in situations where the Company already knows a certain NPA, or other alternative, is not feasible or recommended. As stated, Ameren Illinois already evaluates alternatives to pipeline replacement in determining the best approach to addressing issues on its gas system. PIO witness Cebulko's recommendations add unnecessary and costly complication into that process and therefore should be rejected.

Ameren Illinois notes that PIO recommends that the Commission follow the lead of the Washington Utilities and Transportation Commission ("Washington Commission"), which directed Puget Sound Energy to conduct an analysis of pipeline alternatives. PIO IB at 25; PIO Ex. 2.0 at 10-11. Ameren Illinois explains that, in the case that PIO is referencing, the Washington Commission stated that utilities have a duty to acquire the "lowest-risk resources" under two Washington laws, which it identified as CCA and HB 1589. PIO Ex. 2.0 at 10-11 (citing *Washington Util. & Transp. Comm'n, Complainant*, No. 07, 2025 WL 243434, at *91 (Jan. 15, 2025)). Therefore, Ameren Illinois maintains that the analysis the Washington Commission ordered was in furtherance of those two Washington laws. Because the Washington Commission's order was made pursuant to specific duties under Washington laws, those duties are not transferable to Illinois. The Washington order certainly does not have any precedential value in Illinois, but it also has limited persuasive value as well.

Ameren Illinois further notes that PIO cites to several other states having implemented requirements to evaluate non-pipeline alternatives, including New York, Colorado, and Massachusetts. PIO IB at 24-25. Ameren Illinois points out that

Massachusetts implemented that requirement through its own Future of Gas proceeding, a process ongoing in Illinois where PIO's proposal is being considered but one that PIO is now attempting to sidestep. Ameren Illinois also notes that, whether other states have decided to require certain analyses of pipeline alternatives has no bearing on whether Illinois should adopt those requirements for Ameren Illinois, particularly since PIO's proposal would be inconsistent with the law applicable here in Illinois. Further, Ameren Illinois maintains that it is unnecessary because it already evaluates alternatives where they might be an appropriate solution.

Ameren Illinois states that PIO takes issue with Ameren Illinois' MAOP Compliance Plan insofar as the Plan somehow validates the need for a pipeline alternatives analysis. PIO IB at 26. Ameren Illinois points out that the federally prescribed alternatives that apply to MAOP reconfirmation work do not have any bearing on whether PIO has substantiated a need for the alternative analysis that PIO is requesting the Commission apply to all capital expenditures. Finally, Ameren Illinois points out that the Commission previously directed that PIO's alternatives analysis proposal be considered in the FoG proceeding. *Ameren 2023 GRC*, Final Order at 91. Ameren Illinois maintains that PIO has failed to provide a compelling practical reason to grant its request in this case and sidestep that proceeding. Ameren Illinois contends that this is insufficient to meet PIO's burden, and the Commission should allow discussions regarding PIO's recommended alternatives analysis to play out as originally directed in Ameren 2023 GRC and in initiating the FoG proceeding.

(ii) AG's Position

According to the AG, the Commission concluded that Ameren failed to meet its burden to demonstrate the prudence and reasonableness of major proposed investment in the Company's last rate case. The Commission agreed that "it is appropriate to review the utility's capital program management in the context of considering the prudence and reasonableness of the Company's capital investments". *Ameren 2023 GRC*, Final Order at 92. Consistent with that principle, it disallowed substantial Distribution and Transmission spending and required Ameren to submit additional reporting—such as enhanced leak reporting and a comprehensive MAOP plan—to remedy persistent information gaps. *Id*. at 97–98.

Despite these directives, and as demonstrated in the Distribution, Transmission, and Storage sections above, the AG maintains that substantially similar deficiencies continue in this case. The Panel's review of the Company's capital processes demonstrates shortcomings in three broad areas: (1) Capital Planning Practices, (2) Project Scoping, and (3) Project Management. The AG illustrates that Ameren continues to omit necessary information such as itemized project scopes of work with corresponding costs and documentation regarding contractor oversight. According to the AG, these deficiencies burden the parties and the Commission's review of Ameren's investments and costs.

The Panel testified that these deficiencies create an elevated probability of imprudent spending, cost overruns, and schedule delays, with little accountability or transparency, and mirror the issues the Commission identified in Ameren's prior case. Indeed, the Panel's findings in the Distribution, Transmission, and Storage sections

reinforce these concerns. Because the Company's current and test-year work are unlikely to be subjected to extensive review in another proceeding, the AG asserts it is critical that the Commission address these process failures now. *See* AG IB at 48–63; AG RB at 34–38. The Panel offers targeted recommendations to remedy these planning and management deficiencies, which are discussed below. *See* AG IB at 48–63.

The Panel explained that prudent utility capital planning rests on a clear and consistent framework for evaluating, ranking, and executing projects. As illustrated in Figure 1 of the Panel's testimony, a typical project control structure begins with detailed project scopes of work and cost estimates, supported by engineering review and alternatives analysis. AG Ex. 2.00 at 19–21. The AG argues this type of planning structure creates consistent oversight across all projects and investments and enhances visibility into the utility's capital spending. *Id.* at 19–20. The AG claims that Ameren, however, does not utilize this kind of framework. *Id.* at 16–21.

Instead, Ameren's capital planning process is fragmented and lacks the necessary cohesion to demonstrate that sufficient controls are in place and consistently applied across gas operations. *Id.* at 6; AG Ex. 4.00 at 34. The Panel explained that the Company divides its projects by estimated costs, and then four different committees/boards approve and monitor each category of projects. AG Ex. 2.00 at 17. For example, a board of Ameren's senior leaders, the Ameren Illinois Project Oversight Board, governs the "Mid-Tier" ($500,000 to $10 million) projects and meets at least quarterly to discuss project status. *Id.*; Ameren Ex. 22.1 at 5. "Mid-Tier" projects also require use of cost and schedule management software. *Id.* No other projects (those below $500,00 or greater than $10 million), however, require use of management software, although projects costing $10 million or greater are subject to review by various committees, including the SLPOC, CPOC, and the Finance Committee. *See* Ameren Ex. 22.1 at 4–6; Ameren Ex. 22.0 at 11.

The Panel testified that while Ameren's project prioritization and project control systems appear to be governed by an extensive system of processes, it is unclear how these processes actually work together to adequately review, control, and manage the Company's projects. AG Ex. 2.00 at 20–21. The Panel therefore requested Ameren provide a comprehensive discussion of its capital planning process in rebuttal testimony with a corresponding visual representation of its planning structure to enable an effective prudence review. *Id.* at 20–21.

According to the AG, the Company's response in rebuttal fell short and ultimately failed to address the AG's main concerns. *See* Ameren Ex. 22.0 at 11-12; Ameren Ex. 22.1. The AG maintains that the Commission generally agreed with the AG's process and information concerns in the Ameren 2023 GRC that further transparency is needed. *See, e.g.*, *Ameren 2023 GRC,* Final Order at 97 (Commission directed "the Company to report leaks by grade, cause, and facility type, i.e., material type and type of infrastructure, on an annual basis beginning July 1, 2024"). To further transparency and effective review, the AG therefore recommends that the Commission require the Company to include the following additional information with all future requests for capital recovery: (1) how projects are categorized for cost control processes; (2) the cost control processes applied to project categories; (3) the roles of committees and other oversight as applied to project categories and cost control processes; (4) how committees and oversight interact to

thoroughly control project scope and costs; and (5) provide a simple visual representation of project categories, the cost control processes that project categories fall within, the oversight that is applied to each control process, and how the oversight entities interact with one another. AG Ex. 4.00 at 28.

The AG asserts that Ameren's presentation of cost data in support of major projects also lacks the level of detail required to determine prudence. The Panel testified that the Company's Schedule F-4 and associated workpapers and responses to discovery present only broad categories of spending—such as "engineering," "materials," and "construction"—without disaggregating the individual cost components within those categories. *See* AG Ex. 2.00 at 37–44. As a result, even for the Company's largest projects, including "J0J1M – GTSE TR8 – Fairmont Dt. Station," the AG argues that the record contains only lump sum figures for major cost categories and fails to answer the basic question of why the Company needs $45 million to replace approximately 4.95 miles of pipeline. *Id*. at 40; *see* Ameren Ex. 8.1 at 3. Likewise, Ameren's $48.1 million "C3241 – Misc Dist Svcs < 100K – Gas" project is supported only by similar lump sum figures. *Id.* at 39,40; AG Ex. 2.14. Without expanded scope and cost detail, the AG contends that it is impossible for the Commission to determine whether the Company's assumptions are reasonable or whether the proposed expenditures reflect the least-cost solution.

The Panel explained that a typical industry-standard scope would include a sufficient breakdown of engineering, materials, and construction components so that the assumptions underlying the cost estimates can be reviewed. *Id*. at 41–43. According to the AG, this level of detail is necessary not only for upfront prudence review, but also to evaluate how Ameren has managed projects that exceed forecasts in previous rate cases. AG Ex. 2.00 at 44. These omissions, the AG argues, perpetuate ongoing information gaps and prevent meaningful prudence review. *See* AG IB at 52–55; AG RB at 34–38.

Relatedly, as discussed by the AG in the MAOP section, the Company failed to meet the Commission's directives in Ameren 2023 GRC, regarding filing a plan with, *inter alia*, spending rationale to ensure the Company's reconfirmation efforts maximize cost efficiencies. *See 2023 Ameren GRC,* Final Order at 98. The Panel testified that Ameren's approach to MAOP reconfirmation remains unchanged since the Commission's order in the last rate case, including its deficient cost estimating practices. *Id.* at 12, 59–63. The Panel expected to see the Company prepare some kind of comparative cost analysis that made clear why it was choosing replacement over pressure testing. AG Ex. 2.00 at 63. Instead, similar to the Company's Schedule-F-4 major projects, the AG claim that Ameren provided only high-level statements in its supporting justification documents. *Id.*

The AG declares that Ameren's disregard for cost-effectiveness of reconfirmation compliance is not thorough or consistent with the Commission's final order in the last rate case and further illustrates a pattern of the Company's failure to provide sufficient information to support the prudency of its investments. *See id.* at 8.

Notably, the AG claims Ameren fundamentally disagrees that this level of transparency and detail is necessary. *See* Ameren Ex. 21.0 at 3; *see also* Ameren Ex. 22.0 at 15–17. According to the AG, the Company argues that broad categories of cost and scope, as presented in its Schedule F-4, are sufficient to justify capital projects and

that it is not required to provide more granular assumptions or disaggregated costs. *See* Ameren Ex. 22.0 at 15–17. Further, Ameren witness Kloeppel offered his legal opinion that these recommendations are outside of the scope of this rate case and alludes to the legal argument that Commission must engage in a rulemaking each time it seeks to obtain information from a public utility. *Id.* at 15–16. But the AG states that these positions ignore the Commission's broad investigatory authority to "inquire into the [utility's] management" and "keep itself informed as to the manner and method in which the business is conducted," 220 ILCS 5/4-101, and the Commission's plenary power to determine rules or practices to be observed and to "fix the same by its order, decision, rule, or regulation[.]" 220 ILCS 5/8-501; s*ee also Abbott Lab. v. Ill. Com. Comm'n*., 289 Ill. App. 3d 705, 712 (1st Dist. 1997) ("It is a well-established rule that the express grant of authority to an administrative agency also includes the authority to do what is reasonably necessary to accomplish the legislature's objective."). Without transparent assumptions, itemized scopes, and explanations of how costs and cost overruns are managed, the AG insists that the Company's filings and discovery may not be sufficient to determine whether proposed investments are reasonable, least-cost, or effectively controlled.

Additionally, as the Commission made clear in *Ameren 2023 GRC*, it "is statutorily tasked with general supervision of all public utilities and to ensure public utilities are prioritizing reasonable investments and practices." *See e.g., Ameren 2023 GRC* at 96; 220 ILCS 5/9-201(c) (the Commission shall determine whether rates and other public utility charges are just and reasonable); 220 ILCS 5/9-211 (a utility's base rate shall include only prudently incurred investments). The Act expressly provides that "[e]very public utility shall furnish to the Commission all information required by it to carry into effect the provisions of this Act and shall make specific answers to all questions submitted by the Commission." 220 ILCS 5/5-101. Here, the AG argues Ameren expects to invest hundreds of millions of dollars in the future without producing all the information the Commission needs, and has a statutory right to, for a prudence review.

For these reasons, the AG asks the Commission to direct Ameren to implement the Panel's information recommendations which include expanded, itemized, and detailed presentation of its project and investment scopes of work and corresponding costs for all projects and investments that—at a minimum— are included in the Schedule F-4 and those above a $10 million threshold. *Id.* at 41. The presentation of this information should include project details that include (1) itemized and tabulated scopes of work that cover all labor, material, and overhead required to plan and complete all major projects and investments, and (2) corresponding costs for each itemized scope component that is broken down into categories that clearly show estimations and assumptions that Ameren utilizes when determining scope item quantities and costs. *Id.* at 41. An example of this level of detail is provided in the Panel's direct testimony at page 43, titled "Figure 7: Sample Scope and Cost Detail." *Id.* at 43. Further, for clarity and to avoid any confusion, the AG recommends the Commission direct Ameren to adopt and implement the following scope details from the Panel's rebuttal testimony on pages 31–32:

The AG notes that Ameren's project leads manage change requests from inception to completion. AG Ex. 2.00 at 22; AG Ex. 2.03. According to the AG, these project leads

apparently approve the invoicing and payment of all change requests, but Ameren also has another committee, the Ameren Illinois Central Review Committee, that reviews and approves project cost changes of plus-or-minus $100,000. Ameren Ex. 22.1. Similar to Ameren's fragmented capital planning processes, the Panel testified it could not make sense of Ameren's overlapping oversight for change management and therefore requested clarification from the Company in its rebuttal testimony. AG Ex. 2.00 at 22–23. In response, Ameren cited to Ameren Ex. 22.1 for a "full description how project leads are assigned and how project costs are controlled," but the AG point out that the exhibit does not once reference "project leads" or sufficiently respond to the Panel's concerns. *See* Ameren Ex. 22.0 at 12; Ameren Ex. 22.1.

According to the AG, the projects for which Ameren seeks capital recovery must include clear processes, thorough change documentation, including change orders, so that prudence can be determined. *See, e.g*. AG Ex. 4.00 at 57. The Panel's recommendations are not burdensome. Rather, the AG insist that they are necessary to ensure transparency and accountability, and to provide the Commission and intervenors with information required to assess whether the Company's spending requests are prudent.

For these reasons the AG ask the Commission to direct Ameren to include changes orders and change documentation for all projects as follows:

- Require supporting documentation for all changes. Any project experiencing changes to scope, baseline cost, or schedule should be accompanied by:
    - A description of the triggering event and responsible party (e.g. site conditions, contractor issues, redesign).
    - The resulting change in cost or scope (e.g., new contract total cost and scope or revised quantities.
    - An internal or third-party authorization or justification document (e.g., approved change order form, internal approval memo.

AG Ex. 4.00 at 32-35.

According to the AG, this information will clarify why project costs increased and help assess where responsibility for increased costs lies. *See* AG IB at 58-59.

Next, the AG notes that Ameren utilizes a Source Scorecard as the primary component of its bid awarding process for third-party contractors. AG Ex. 2.00 at 23. While the Scorecard contains typical criteria against which to evaluate contractors, the AG claim that record shows that the weightings of the evaluated criteria fluctuate without a clear indication as to how Ameren decides these weightings. *Id.* at 23. The Panel testified that the Company provided no explanation as to how it chooses the weighting from that range. AG Ex. 2.00 at 23. Nor did the Company provide the bids themselves when asked by the Panel. AG Ex. 2.04. According to the AG, the Company responded that the Sourcing Scorecards themselves include the bids received from all potential contractors, but what is missing for the AG and Commission's review is the key data from the contractors that supports their plans and bids. *See id.* Without documentation leading to job awards that provides an explanation of how bids are scored, the AG insist that neither the Commission, nor the public, can be sure that Ameren is making reasonable and cost-effective contractor awards. AG IB at 60.

The Panel asked the Company about contract enforcement by inquiring about costs recovered for damages, rework, or other third-party error, and also whether Ameren conducts a fault analysis when incurring extra costs on a project. AG Ex. 2.00 at 26. The Company responded that it was not aware of any recovered costs from contractors or material vendors and that its fault-analysis consists of the project lead conducting an internal discussion with the Ameren team. *Id. A*ccording to the AG, these responses indicate either Ameren's numerous contractors and vendors performed their work perfectly without a single error, or the Company did not enforce its contractual ability to recover direct and indirect costs related to error. AG Ex. 4.00 at 38. The Panel testified that in its experience, it is "rarely the case" that there is 100% perfect performance by the contractor. *Id.* at 39.

According to the AG, Ameren dismissed the Panel's concerns in rebuttal because the Panel did not identify any projects where the Company should have enforced certain contract terms and failed to do so. Ameren Ex. 22.0 at 14. In light of Ameren's use of a future test year, the AG explains that existing examples are of course impossible, but that does not mean that a forward-looking process to govern contractor change order requests is not needed. The AG contends that a Company policy to properly review and hold contractors responsible for cost variances is simply prudent project management that can be expected to minimize cost overruns and prevent improperly shifting contractor deficiencies to ratepayers.

Further, as previously argued by the AG, the Commission has broad investigative authority and "shall inquire into the management of the business thereof and shall keep itself informed as to the manner and method in which the business is conducted." 220 ILCS 5/4-101. The Commission holds plenary power to "determine the just, reasonable, safe, proper, adequate or sufficient rules, regulations, practices, equipment, appliances, facilities, service or methods to be observed, furnished, constructed, enforced, or employed and it shall fix the same by its order, decision, rule, or regulation." 220 ILCS 5/8-501. The AG asserts that inquiring into how Ameren manages its contractors and enforces its contracts falls squarely within the Commission's jurisdiction because these are critical aspects of Ameren's business practices that drive costs paid by the public. *See* 220 ILCS 5/4-101.

The AG maintains that the following recommendations are modest, industry-standard measures that would strengthen accountability and align Ameren's practices with regulatory expectations. Without these reforms, ratepayers remain exposed to unchecked contractor costs and performance risks. *See* AG IB at 59–63. For these reasons, the AG urge the Commission to direct Ameren to make the following changes:

- Track, identify, and report third-party (e.g., contractor, vendor, or supplier) errors and failures that resulted in increased costs for capital recovery;
- Demonstrate that its contractor selection is consistent from project to project; and
- Set enterprise-wide contractor grading scales.

AG Ex. 2.00 at 27.

The AG asserts that it demonstrated that Ameren continues to fall short of industry standards in capital planning and project management. *See* AG IB at 48–63; AG RB at

34–38. According to the AG, the record shows persistent gaps where Schedule F-4 filings, for example, provide only broad cost categories rather than disaggregated, reviewable assumptions. The AG argues that Ameren expects to invest hundreds of millions of dollars in the future without providing adequate information to substantiate these expenditures. These deficiencies mirror those that the Commission identified in Ameren's last rate case. The AG therefore recommends the Commission require the Company to include additional information with requests for capital recovery. The AG maintains that exercising that authority is not only lawful but necessary to protect ratepayers and ensure prudent, least-cost outcomes.

The AG responds to the Company' claims the additional information requested by the AG is not required by the law and should therefore be rejected and notes that, while Section 285.6100 of the Commission's rules describes what must be shown for plant additions, the AG states that other sections of the rule expressly state that the specified schedules are the minimum information required to support a utility's filing. *See* 83 Ill. Adm. Code 285.130, Minimum Requirements ("The standard information requirements provide minimum information normally required to support a utility's filing."); 83 Ill. Adm. Code 258.410, Workpapers ("The requirements of each schedule establish the minimum information to be provided as workpapers. If additional information supports the testimony, exhibits, or schedules, the requirements of this Part shall not limit the information submitted."). The AG asserts that Part 285 is thus a floor, not a ceiling.

The AG states that the Act also grants the Commission broad investigative authority to "inquire into the [utility's] management" and "keep itself informed as to the manner and method in which the business is conducted" (220 ILCS 5/4-101), and plenary power to determine rules or practices to be observed and to "fix the same by its order, decision, rule, or regulation" (220 ILCS 5/8-501). *See* AG IB at 54–55. Illinois courts have long recognized that this express grant of supervisory power "also includes the authority to do what is reasonably necessary" to discharge the Commission's statutory duties. *Abbott Labs., Inc. v. Ill. Com. Comm'n*, 289 Ill. App. 3d 705, 712 (1st Dist. 1997); *see also* 220 ILCS 5/9-201(c), 9-211.

The AG argues that Ameren ignores the Commission's authority to request the information necessary for a prudence review, and that Ameren also claims the AG's recommendations are outside the scope of this rate case. The AG disagrees. The AG points out that the Company's citation to *Citizens Util. Board* omits the crucial part of ratemaking upon which the AG base their request, and that is the prudence standard. *See Citizens Util. Bd. v. Ill. Com. Comm'n*, 166 Ill. 2d 111, 121 (1995) ("In setting rates, the Commission must determine that the rates accurately reflect the cost of service delivery and must allow the utility to recover costs prudently and reasonably incurred"). The AG agrees that the Commission decides based on the evidence whether Ameren is entitled to the increase in rates. The AG, however, maintains that the evidence in this case is deficient and limits the Commission's ability to determine whether Ameren's proposed investments are reasonable, least cost, or effectively controlled. The AG insists that directing the Company to remedy these deficiencies is not beyond the scope of the Commission's ratemaking jurisdiction and benefits Ameren as well as stakeholders by facilitating review of Ameren future test year investments. *See Abbott Labs., Inc.*, 289 Ill. App. 3d at 712; *see also* 220 ILCS 5/9-201(c), 9-211.

The AG states that the APA also does not bar the Commission from requiring additional, case-specific information. A "rule" under the APA is a statement of general applicability. 5 ILCS 100/1-70. When the Commission applies its statutory authority in an adjudication to require a particular utility to supply additional detail needed to evaluate the prudence of a utility's proposed investment, it is not promulgating a rule. *See Alternate Fuels, Inc. v. Dir. of Ill. EPA*, 215 Ill. 2d 219, 246–48 (2004) (application of a statute in a particular case under particular facts is not rulemaking); *Van Dyke v. White*, 2019 IL 121452, ¶ 91 (agency's interpretation "as it applies in a particular case" is not improper rulemaking). Contrary to the Company's assertion, the AG contends that the fact that they took a similar position in the current Nicor rate case, Docket No. 25-0055, does not require enactment of a rule codifying their position. *See Ogden Chrysler Plymouth, Inc. v. Bower*, 348 Ill. App. 3d 944, 958–59 (2d Dist. 2004) (finding repetition across cases does not convert adjudication into rulemaking). Nothing in the AG's position asks the Commission to adopt a blanket standard of general applicability; it asks the Commission to exercise its statutory authority in this record to obtain the information from Ameren a prudence review requires when Ameren seeks to increase rates to cover future investments. *See id.*

The AG argues that Ameren's reliance on *Ameren Illinois Co. v. Ill. Com. Comm'n*, 2025 IL App (5th) 240014, is likewise misplaced. The AG notes that the decision is subject to further review, as the Commission has filed a Petition for Leave to Appeal under Illinois Supreme Court Rule 315. *See* Petition for Leave to Appeal of the Illinois Commerce Commission, *Ameren Ill. Co. v. Ill. Com. Comm'n*, No. 131627 (filed June 3, 2025). In any event, the AG maintains that *Ameren Ill. Co.* does not disturb the settled principle that case-specific evidentiary requirements imposed in adjudication are not "rules" within the meaning of the APA, and it cannot limit the Commission's statutory duty to demand the information necessary to determine the prudence and justness of rates in a proceeding. AG RB at 36–37.

According to the AG, the *Harrisonville Tel. Co.* case cited by Ameren also does not stand for the proposition that the Commission lacks the authority to require additional information from the Company to determine the reasonableness of its proposed rates. In *Harrisonville Tel. Co.*, the court vacated a portion of the Commission's order which mandated compliance with Commission rules in future projects. *Harrisonville Tel. Co. v. Ill. Com. Comm'n,* 176 Ill. App. 3d 389, 393 (5th Dist. 1988). The court held that portion of the order was "in essence a declaratory ruling on the duties of a telephone company—a ruling which the Commission was not authorized to enter." *Id.* The AG asserts that its recommendation that the Commission require Ameren to include additional information with its requests for capital recovery is not the same as a declaratory ruling of the Company's future duties and obligations. In the instant docket, the AG points out that Ameren again seeks large, undefined allocations for unspecified and unsubstantiated projects, and the AG proposes disallowances based on Ameren's failure to show why these expenditures are necessary or prudent. The AG simply asks for adequate information to facilitate this prudence review—not for a rule on the Company's duties and obligations like in *Harrisonville Telephone Co. See id.* Further, *Harrisonville Telephone Co.* was issued prior to the Commission's adoption of Section 200.220 which provides that, when requested, the Commission may issue a declaratory ruling with respect to "the

applicability of any statutory provision enforced by the Commission or of any Commission rule to the person(s) requesting a declaratory ruling." 83 Ill. Adm. Code 200.20.

The AG asks the Commission to also reject the Company's argument that seeks to discredit the Panel and characterize the AG's requests as unnecessary by citing pieces of testimony without necessary context. Ameren IB at 102–103. According to the AG, Ameren claims it cannot be sure the Panel would review the additional documentation if provided because during cross-examination two of the three Panel members testified they could not recall whether they read one document in the voluminous record of this proceeding. Ameren IB at 102. The AG points out that Ameren cites only two of the almost twenty pages of transcript addressing this issue and omits the portions where the Panel was prepared to, and eventually did, answer substantive questions about that one particular document. *See* Tr. at 220–239. Despite Ameren's arguments to the contrary, the AG insists the Panel's proposals are evidence-based and aligned with past Commission practice and the Commission's statutory duty to ensure just and reasonable rates. For these reasons, the AG respectfully asks the Commission to adopt their process and reporting recommendations articulated therein on pages 51, 56–57, 59, and 63. *See* AG IB at 48–63; AG RB at 34–38.

(iii) PIO's Position

PIO ask the Commission to adopt their proposed "no regrets" framework for considering alternatives to pipeline replacement projects. PIO assert that the record shows that Ameren has not rigorously considered alternatives to pipeline replacement in its project selection processes. Given this failure, PIO urge the Commission to direct Ameren to perform a cost-benefit analysis for all pipeline replacement projects, with the exception of Grade 1 leaks or other emergency repairs, which compares the cost and benefits of replacement to alternatives including pipeline repair; relining; NPAs; reduced rate of replacement; no replacement; and retirement of main. It is PIO's position that the Commission should likewise condition Ameren's recovery of (and return on) additional investment for all pipeline capital expenditures on such analysis.

PIO observe that future natural gas demand in Illinois is uncertain but likely to decline. PIO point to Ameren 2023 GRC, saying that the natural gas system has an important role to play in achieving 100% decarbonization by 2050. PIO note that Ameren calls its preferred decarbonization pathway the "hybrid" pathway, meaning customers install electric heat pumps for most heating needs, but rely on the natural gas system to handle peak demand. Ameren Ex. 18.0 at 6-7. PIO argue that, regardless of whether this is the pathway Illinois takes, or if it chooses a pathway that reduces natural gas demand more rapidly, the Commission should be aware that natural gas demand from customers will be expected to decrease. PIO Ex. 2.0 at 111-113. PIO explain that, if fewer therms of natural gas are being purchased, then the cost-per-therm of maintaining a safe and reliable natural gas system goes up. *Id*. at 17. PIO claim that even a "modest decline" in customer demand, if paired with an increase in capital expenditures, will create "significant near-term rate increases" and "long-term risks of stranded assets." *Id*. at 6.

PIO remind the Commission that, during its last rate case, Ameren revealed that it had worked with a consultant called the Electric Power Research Institute to study how electrification would impact Ameren's service territory between 2015 and 2050. That

study found that Ameren's customers will use 19-40% less natural gas over the next 25 years. PIO Ex. 1.0 at 14.

Therefore, PIO request the Commission require Ameren to adopt a "no regrets" framework to, in PIO's opinion, ensure that Ameren considers all feasible alternative pathways to capital projects. PIO note that these investments often have expected service lives of 40-45 years, or even 60+ years. PIO Ex. 2.0 at 6. So, in addition to traditional pipeline investments (*e.g.*, replacement of distribution mains and service lines, pipeline expansions, and system reinforcements), PIO ask the Commission to require Ameren to create a process to ensure that it considers whether lower-cost or shorter-lived alternatives can delay or avoid such traditional pipeline investments. *Id*. at 149-154. PIO point to examples of such alternatives like "targeted repair, rehabilitation methods like pipeline relining, deferral strategies, or non-pipeline alternatives such as electrification." *Id*.

PIO identify where, in response to PIO's suggestion that Ameren adopt a "no regrets" framework, Ameren claimed that it did not have an obligation to consider alternatives to traditional pipeline investment like leak repair, relining, or NPAs. Ameren Ex. 21.0 at 17-18; Ameren Ex. 22.0 at 41. PIO also identify Ameren's position that this would add an "unnecessary" framework or process that would "compete for [Ameren's] limited resources." Ameren Ex. 18.0 at 8.

In response, PIO argue that developing a transparent and robust method for screening alternatives to capital-intensive processes is not discretionary, and that it is necessary to demonstrate that a proposed investment is reasonable and prudent. PIO argue that Ameren appears to believe that such a framework is not necessary because such alternatives will sometimes (or even often) not merit selection during such a process. For example, PIO point to Ameren providing testimony describing limitations it is concerned about regarding pipeline relining technology. Ameren Ex. 21.0 at 17; Ameren Ex. 25 at 5. PIO explain that CIPL is a process that involves threading a seamless and jointless woven fabric hose made of polyester yarns and plastic coating into a pipe and then bonding it with the existing pipe. PIO Ex. 1.0 at 25. PIO note that the lining can be inserted without needing to dig up the entire length of pipe, saving labor, time, and disruption. *Id*. at 25-26. PIO believe this is an important and useful technology, but acknowledge that, as with all technologies, there are limitations to it. PIO witness Cebulko testified that all alternatives to traditional pipeline replacement, including non-pipeline alternatives, repair, and relining are "not always feasible or appropriate." PIO Ex. 2.0 at 10. But PIO believe establishing a process that gives adequate consideration to all existing—and can incorporate forthcoming—technologies and strategies is nevertheless a basic principle of prudent planning.

PIO assert that Ameren did not consider relining technology, for example, for any specific identified project, and claimed that it dismissed the technology based on analysis that consisted of "general internet research on companies that provide the service and interactions with peer utilities and vendors via professional conferences." *See* PIO Ex. 2.1 at 5. In response, PIO witness Cebulko testified, Ameren provided no "documentation, screening criteria, or comparative cost analysis showing how or when relining is evaluated during project planning." PIO Ex. 2.0 at 15. And PIO claim this is not a technology that simply delays the inevitable for a few years—the estimated service

life of such a relined pipe can be 50 years. *Id*. at 16. PIO believe Ameren has therefore not demonstrated that it can simply indefinitely exclude the technology from consideration in the menu of alternative tools and solutions. PIO witness Cebulko notes that Ameren need not fully scope a potential pipeline replacement for every single capital project it is faced with. He believes a "no regrets" approach would, instead, "identify distribution mains with specific characteristics" beforehand, and then "evaluate whether alternatives like pipeline relining would be a more cost-effective than full replacement" when cases arose that fell into those categories. *Id*. at 13.

PIO then turn to NPAs, which are another example of the kind of alternatives PIO believe Ameren must consider alongside traditional investments. PIO identify supply-side and demand-side NPAs. For example, when considering whether to expand permanent infrastructure in order to meet peak demand, PIO claim that gas companies already should have experience considering supply-side technologies such as propane-air injection and compressed natural gas trucking. *Id*. at 11-12. As for demand-side PIO believe NPAs, zonal and targeted electrifications pose certain challenges but also important opportunities. For a hypothetical Ameren customer who has a leaky service line, PIO argues that Ameren could conduct an analysis using mostly deemed values (representing average costs and impacts) as inputs. PIO believe the result of that analysis would determine what kind of support Ameren could offer that customer to electrify in order to avoid creating a new investment with a long-expected service life. Again, PIO acknowledge the limitations, weaknesses, and strengths to all of these alternatives to traditional pipeline replacement, and that they will not be right for all situations. But PIO believe developing a replicable, flexible, and robust framework that accounts for all of these alternatives is a necessary part of acting prudently as a natural gas utility in 2025.

Further, PIO offer repair as a third alternative that is a critical component of any prudent gas utility's alternatives portfolio that operates in a jurisdiction with climate and energy targets. *Id*. at 8. PIO believe repair can be part of a "triage and transition" strategy in the face of uncertain future demand which utilities can pursue for a relatively low cost. As Ameren prepares for and learns how to implement other NPAs like zonal electrification and targeted electrification, PIO argue that using repair to safely delay full traditional replacement can prevent Ameren from throwing good money after bad while other, more permanent solutions spin up.

PIO is aware that determining how to maximize the use of these non-traditional alternatives is a challenge. But PIO believe it is a challenge that utilities and utility regulators are actively working on around the country, and PIO believe that Illinois can join these efforts without necessarily being the state that has to break new ground. For example, PIO pointed to the Washington State Utilities and Transportation Commission requiring an electric and gas utility to "evaluate [NPAs] when considering capital additions to the natural gas system outside emergency and maintenance repairs." UTC Dockets UE-240004, UG 24-0005, and UE-230810, Final Order 09/07 at 105 (Jan. 15, 2025); PIO Ex. 2.0 at 10-11. PIO also identify that New York, Massachusetts, and Colorado issued similar requirements.

PIO ask the Commission to direct the Company to adopt this process in a rate case, rather than within the confines of the FoG proceeding, for three reasons. First, PIO

note to the Commission's mandate that Ameren improve its alternative analyses in a prior rate case. In Ameren 2023 GRC, PIO showed that intervenors challenged Ameren's transmission pipeline MAOP reconfirmation analysis, arguing, in part, that Ameren did not examine reconfirmation methods other than replacement. PIO remind the Commission that, in the Final Order, the Commission agreed with intervenors that Ameren did not establish the need for a budget increase and instructed Ameren to develop an MAOP Compliance Plan. *Ameren 2023 GRC,* Final Order at 91. PIO do not believe Ameren has complied with the spirit of this requirement. And yet, PIO claim that even the small amount of information Ameren has provided has enabled PIO and other intervenors to identify significant savings in this proceeding that Ameren has left on the table. Here, just like with the MAOP reconfirmation process, PIO ask the Commission to utilize its authority to direct Ameren to consider alternatives in its capital spending processes and produce sufficient information and analyses that enable either Ameren or intervenors to identify the potential savings associated with such a review process.

Second, PIO argue the record is sufficient for the Commission to direct the Company to consider these alternatives now and the relevant parties are participating in this rate case. PIO claim that the Commission created the FoG proceeding, in part, to further explore important issues not fully resolved in the utilities' 2023 rate cases. *Ameren 2023 GRC,* Final Order at 93-94. Here, PIO assert that this type of further analysis is not necessary. PIO note that it is undisputed that the Company did not conduct comparative analyses between pipeline replacement and lower-cost alternatives such as repair or relining for several of its spending programs. *See* PIO Ex. 2.0 at 14.

Third, PIO assert that approving the alternatives analysis starts the process of disciplining Ameren's capital spending sooner than waiting on the FoG proceeding to resolve. PIO claim that the FoG process will extend into February 2026, with the possibility of future extensions. *Illinois Commerce Commission On Its Own Motion* Docket No. 24-0158, Order on Reopening (Sep. 26, 2024) ("Docket No. 24-0518"). Rather than waiting for this extended process to resolve, PIO urge the Commission to begin reorienting Ameren's planning processes now such that by the time Ameren pursues another rate case it will have had the opportunity to perform rigorous alternatives analysis. In addition, PIO believe incorporating this alternative recommendation could produce near-term bill savings for customers.

In total, PIO conclude from the record evidence demonstrates that the Company is not rigorously considering alternatives to replacement and that a prudent utility operating in Illinois' regulatory environment should adopt such processes. PIO ask the Commission to direct Ameren to amend its capital planning processes such that in future rate case applications Ameren can show that it considered alternatives to traditional pipeline investments, including repairs, relining, and NPAs. PIO also ask the Commission to condition Ameren's recovery of (and return on) additional investment for all pipeline capital expenditures on this analysis. PIO argues that requiring a utility to demonstrate that it conducted an alternatives analysis is not a new concept—rather it is becoming a standard expectation and a hallmark of planning and decision making.

PIO is aware that Ameren operates a large system, and sometimes needs to undertake a large volume of similar projects that fall under a particular budget cap. In those circumstances, the Commission sometimes approves Ameren's use of a Blanket

Project to gather these projects together. PIO do not contend that the use of Blanket Projects is a problem. But after the Company creates a Blanket Project, PIO believe that how Ameren currently presents the Commission with information about its Blanket Projects prevents the Commission and intervenors from ensuring that Ameren is prudently conducting the operations contained in those Blanket Projects. PIO argue that Blanket Projects gain a kind of momentum that perpetuate themselves. PIO note that the Commission does not currently have a process for auditing or confirming the continuing reasonableness or prudence of that Blanket Project. PIO claim that this is a major issue, as Blanket Projects in Ameren's Schedule F-4 total $180.8 million in proposed spending for test year 2026. PIO Ex. 2.0 at 20, 22.

PIO argue that, as it stands, Ameren has not provided enough information to present the Commission with anything but a binary "up or down" approval for each of these Blanket Projects. PIO assert Ameren's filing gives the Commission a "single budget based largely on historical spending trends to forecast future expenditures," and does not "provide an analysis of alternative budget levels" or how Ameren "determined that the proposed level of spending is necessary[.]" *Id* at 22.

Instead of this status quo, PIO recommend that the Commission require the Company to include, in future rate case filings, alternative Blanket Project budgets, and explain why one budget was selected over the others. *Id*. at 20. There are and will be trade-offs that Ameren should reflect when presenting these alternatives. PIO acknowledge that some, but not all, Blanket Projects involve work that impacts system risk. Ameren Ex. 35.0 at 165-168. PIO recommend that Ameren's filing would then explain any marginal risks to system safety, reliability, equity, or decarbonization such reductions would introduce, and how Ameren arrived at those estimates of the marginal risks. As PIO witness Cebulko testified, "[w]ithout evaluating lower-cost scenarios and associated risk trade-offs, the Company cannot demonstrate that its proposed spending levels are reasonable or optimized." *Id*. at 21.

Currently, PIO argue that Ameren is putting these Blanket Project budgets on autopilot. PIO observe that the default is historical spending, despite there being real and serious questions about whether those levels remain cost-effective under current or future system conditions. PIO again reiterate that the Commission does not currently require a comprehensive or representative evaluation of completed projects against cost or productivity targets. *Id*. at 23. And PIO claim they are not aware of any Commission process by which Ameren trues up its forecasted Blanket spending with actual expenditures. *Id*. at 24. In short, PIO believe there is no check on the runaway Blanket Project train. PIO argue that their suggestion would simply be asking Ameren to explain why the future budget should be like the past budget, and the implications of potential alternative budgets, which would help ensure Ameren is conducting its operations and planning prudently. PIO argue that this is especially the case in light of the Commission's finding in Ameren's last rate case that if Illinois' decarbonization goals are to be met, "the gas distribution system as currently operated will need to change" and that "[t]he Commission will need to better define infrastructure spending by the State's natural gas utility companies[.]" *2023 Ameren GRC,* Final Order at 93.

PIO conclude therefore that Ameren has not provided sufficient information to support its reliance on certain Blanket Projects, despite its claim that such projects fund

actions the Company must undertake to fulfill its service obligations. For these projects, PIO argue that Ameren's filing fails to demonstrate that the assumptions underlying these projects and the demand trends on which they rely remain valid and stable. PIO note that the future of natural gas demand is uncertain and—even under Ameren's own assumptions—is expected to decline. Ameren Ex. 2.0 at 19. And PIO again note that the Commission currently lacks a true-up process to ensure that Blanket Project budgets reflect only prudently accrued costs for the designated activities. Therefore, PIO contend that requiring Ameren to critically evaluate its operations under multiple budget scenarios is both appropriate and necessary if Blanket Projects are to continue to be used as proposed in this case.

PIO dispute Ameren's interpretation of the Commission's Schedule F-4 filing requirement, under which Ameren claims it need not provide information regarding alternatives considered—or its reasoning for selecting among them—for other projects. PIO acknowledge that Schedule F-4 requires utilities to provide "alternatives considered and the reasons for rejecting each alternative" for the ten most costly new additions. Ameren IB at 96-97. But, PIO explain, Ameren's ultimate and inescapable burden is to prove to the Commission that its investments were prudently incurred. *See id*. at 97-99. PIO believe the Commission can, and should, reiterate to Ameren that it expects Ameren to be conducting robust alternatives analyses and presenting those analyses to the Commission when seeking recovery for its investments. PIO point the Commission to its recent language: "determinations of whether costs and rates are just and reasonable or an investment is prudent and used and useful, necessarily consider the relative costs of alternatives." Docket No. 23-0068 & 23-0069 (Consol.), Final Order at 10.

In this case, PIO seek a Commission order directing Ameren to change its planning practices and to clearly articulate that the Commission's review of the prudency of Ameren's investments in future cases will include a consideration of those planning practices. PIO believe these changes taken together would require Ameren to consider and demonstrate what the actual expected impact of different actions would be and would open those analyses up to the Commission for verification. PIO claim that only with this information can the Commission conduct a proper cost-benefit analysis (and ensure Ameren did so as well) to ensure that investments were prudently incurred.

PIO disagree with Ameren's argument and maintains that its recommendations are squarely within the scope of this rate case and do not require a rulemaking under the IAPA. PIO note Ameren's argument that the recent Appellate Court decision, *Ameren Illinois Co. v. Illinois Commerce Commission*, 2025 IL App (5th) 240014 (*Ameren*), prohibits the Commission from adopting PIO's recommendations in any non-rulemaking proceeding. PIO first note that the *Ameren Ill. Co.* decision is currently the subject of a pending Petition for Leave to Appeal to the Illinois Supreme Court. *See* AG IB at 36. But regardless of the disposition of that Petition, PIO believes the *Ameren Ill. Co.* decision is clearly distinguishable from what PIO are recommending in this case, which PIO believe falls squarely within a long line of Commission practice.

The *Ameren Ill. Co.* decision addresses the Commission's LTGIP created in Ameren's last general rate case. PIO draw attention to how the Order's LTGIP included extensive and prescriptive instructions detailing the kinds of showings required and issued similar directives to each utility. *2023 Ameren GRC,* Final Order at 96-97; *Ameren*

Ill. Co., 2025 IL App (5th) 240014 at ¶102. PIO argue that the *Ameren Ill. Co.* court determined that rulemaking was required when the Commission's directives establish a "practice and procedure to be followed in all future ratemaking cases" and when those directives are applicable to all utilities equally. *Id.* And PIO in turn argue that those conditions are not true here, as PIO claim it does not seek a directive that fails within either of those tests. PIO argue that it is asking the Commission to direct a change in planning, and to condition recovery on such analysis. PIO believe this clarification from the Commission would put Ameren—not all gas utilities in Illinois—on notice that the Commission expects Ameren to: (1) conduct a cost-benefit analysis for all pipeline replacement projects, and (2) prepare alternative budget scenarios for blanket projects. PIO argues that neither of these establishes a practice and procedure to be followed in all future ratemaking cases. PIO also argue that they do not purport to set a comprehensive, detailed filing requirement (as the LTGIP did). PIO point out that neither of these asks is applicable to all Illinois utilities. PIO agree with Ameren that they did seek the first change (the "no regrets" framework) in Nicor's ongoing rate case (Docket No. 25-0055), but PIO point out that they did not ask for the blanket project budget changes in that case. *See* Docket No. 25-0055, ELPC/PIO RB at 2, 13-14 (Sept. 9, 2025). PIO also generally disagree with the contention that the fact that the Commission might agree with the same argument in separate adjudications (in which it is considering the histories, filings, and arguments of individual utilities) somehow bootstraps those adjudications into a rulemaking.

PIO emphasize that Commission practice demonstrates the Commission's longstanding authority to issue directives of the type recommended here in rate cases. PIO cite 220 ILCS 5/9-201(c) to argue that the Act authorizes the Commission—after "a hearing concerning the propriety of any proposed rate or other charge, classification, contract, practice, rule or regulation"—to establish "the rates or other charges, classifications, contracts, practices, rules or regulations proposed, in whole or in part, or others in lieu thereof, which it shall find to be just and reasonable." Consistent with this authority, PIO draw the Commission's attention to times PIO believe it repeatedly directed utilities to conduct analyses in compliance filings and to make showings in subsequent cases. *See*, *e.g.*, Docket Nos. 02-0656; 02-0671 (Consol.), 2003 Ill. PUC LEXIS 1050, *259 (Mar. 20, 2023) (authorizing utilities to file tariffs "provided that such tariffs reflect the proposed modifications found appropriate in this Order."); *Commonwealth Edison Co*., Docket Nos. 22-0432/22-0442 (Consol.), Final Order at 198 (Mar. 23, 2023, amended May 8, 2023) (directing ComEd to include in future Beneficial Electrification ("BE") Plan filings an analysis detailing the impact of its BE Plan on customer rates, and to submit a time-of-use distribution rate in its next rate design investigation).

PIO express support for the AG's suggestion that the Commission should require Ameren to adopt a change management process and third-party review of contractors. AG IB at 59-60. However, PIO maintain that the Commission should still also require PIO's recommended changes to Ameren's capital planning process.

(iv) Commission Analysis and Conclusion

The Commission is required to determine whether Ameren's capital investments are prudent. *See* 202 ILCS 5/9-211. "Prudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances

encountered by utility management at the time decisions are made." *Ill. Power Co. v. Ill. Com. Comm'n*, 339 Ill. App. 3d 425, 428 (5th Dist. 2003).

The Commission agrees that it is appropriate to review a utility's capital planning process and governance in the context of considering the prudence and reasonableness of the Company's capital investments. The AG and PIO argue that Ameren's capital planning process is deficient and urge the Commission to order Ameren to implement their proposed changes.

Regarding the AG's proposal around management of contract changes, the AG asks the Commission to impose a filing requirement that would call for a level of detail that is beyond what is required by the Commission's rules. The Commission notes that while budget exceedances or multiple change orders alone do not make a project imprudent, it may indicate a need for additional scrutiny. *See generally N. Ill. Gas Co. d/b/a Nicor Gas Co.,* Docket No. 20-0330, Final Order (Jun. 15, 2023). However, such facts alone are not dispositive. The utility always bears the burden of proof to show that its investments were prudent. Similarly, the AG's recommendation regarding scoping would require an involvement in utility management that the Commission does not normally pursue.

Based on this record, the Commission does not adopt the AG's or PIO's planning process requirements. The Commission reserves the authority to require information, including specific elements of the AG's and PIO's framework, like contractor management and alternatives analysis, as part of prudence assessments in future cases. The Commission reiterates its broad authority to request any information pertinent to utility management practices or its prudence review. 220 ILCS 5/5-101 ("Every public utility shall furnish the Commission all information required by it to carry into effect the provisions of this Act"); Ameren 2023 GRC at 96. As discussed in Section II.F., Part 285 of the Commission's rules detail minimum filing requirements and anticipates that the Commission or any party may request supplementary information in contested cases.

PIO's recommendations are compelling, particularly its "no regrets" framework. Examinations of practical alternatives to traditional pipeline investments such as repair, pipeline relining, or NPAs, would be helpful to the Commission's prudence review. *See* PIO Ex. 1.0 at 25-31. PIO identified several specific investment alternatives using existing technology that utilities currently deploy to maintain the integrity of gas distribution systems. *Id.*; PIO Ex. 2.0 at 13-16. Ameren counters that before major plant investments are made, the Company uses its management process, which identifies the projects' need and possible alternatives, selects a reasonable option based on technical and economic criteria, and plans to align with pipeline safety requirements and industry standards. Ameren Ex. 8.0 at 20. The Company states it provided examples of alternatives to traditional pipeline investment that it has proposed, historically and in this case, including underground storage facilities, pipeline pressure reduction, pressure testing, and pipeline retirement. Ameren Ex. 36.0 at 22; Ameren Ex. 22.0 at 41-42.

The Commission appreciates the Company's engagement in testimony with PIO's "no regrets" framework but encourages Ameren to further incorporate analysis of alternatives to replacement, including repair, relining, and NPAs, in the future. As discussed in Section III.B.1.c., Ameren's discussion of its projects in this case is more

developed than in the past; however, the record lacks demonstration and application of the Company's outlined decision-making process and cost estimates for each individual project and its considered alternatives. Based on the record in this case, the Company is encouraged to incorporate PIO's alternatives framework into its future capital planning analysis. The Commission emphasizes that showing a detailed analysis and actual application of its decision-making process to each individual project will assist the Commission in making decisions, aid in ensuring just and reasonable rates for ratepayers, and provide the Company with more certainty of recovery. The Commission's rules of practice provide avenues for Staff and Intervenors to obtain information pertinent to their own analyses and the Commission's prudence review.

The Commission does not consider PIO's proposal akin to a rulemaking or a new filing requirement as Ameren has suggested. Rather, the Commission considers this to be a fundamental part of ensuring that approved rates are just and reasonable. *See* 220 ILCS 5/9-201(c). It is a utility's burden to support the investments for which they seek recovery in a rate case filing, and it would be imprudent for a utility to seek recovery of an investment that has not been made based on a fully informed decision-making process. To meet its burden of proof, a utility must provide analyses showing not only the need and pace for its investments but also how the costs improve system reliability and reduce risk. As the Commission noted in Section II.F., the Commission has not previously required a formal least-cost analysis in rates cases and declines to do so now.

The Commission does not agree with Ameren regarding its interpretation of *Ameren Ill. Co. v. ICC,* 2025 IL App (5th) 240014, ¶ 103. Ameren argues the Commission lacks the authority to impose additional reporting requirements in a rate case because doing so would constitute improper rulemaking. It is well established that the Commission can identify a need for further information from a utility. This does not trigger the rulemaking requirements under the APA.

As noted by the AG, Part 285 provides the minimum filing requirements. If the Commission notes a problem with the information provided by a utility, the Commission has the authority to find a deficiency in the utility's case, to require additional information in the proceeding, and to advance decision making by identifying information critical to Commission determinations in future proceedings. In fact, Staff frequently point out the need for additional information in Commission rate cases, either those currently under review or as needed for a better review in the future. Additionally, the Commission notes that deficiencies in the record resulting from a utility's failure to provide relevant information or documentation, whether in its initial filings, testimony, or through discovery, bears directly on the utility's burden of proof and on the credibility of any selectively provided evidence. Given the statutory deadlines governing rate proceedings, the Commission expects all parties to engage diligently and in good faith with attention to full, timely discovery and a complete record in accordance with the Commission's rules of practice. *See* 83 Ill. Adm. Code 200.335; 83 Ill. Adm. Code 200.340; *see generally* 83 Ill. Adm. Code 285.

2. QIP Adjustment

a. AIC's Position

AG witness Selvaggio proposed an adjustment based on the AG's proposed disallowances in the ongoing reconciliation proceeding under the Company's Rider QIP for calendar year 2020, which is pending before the Commission in Docket No. 21-0251. AG Ex. 1.01 at Sch. A-11. However, Ameren Illinois contends any adjustment in this case that is based on proposed disallowances in Docket No. 21-0251, none of which have yet been approved by the Commission, would be premature and speculative. Ameren Ex. 19.0 (Rev.) at 20. As of the time of briefing, the Commission has not yet issued a Final Order in Docket No. 21-0251.

Though the AG was the party to initially raise this issue, Ameren notes that the AG's briefs are silent on this issue. AG IB at 63; AG RB at 39.

Staff recommends that any plant disallowances adopted by the Commission in any of the Company's pending Rider QIP reconciliations be incorporated into the 2026 revenue requirement, but only if any orders adopting such disallowances "are entered prior to the issuance of [a Final] Order in this proceeding." Staff IB at 12-13; s*ee also* Staff Ex. 10.0 at 15. As a practical matter, the only pending Rider QIP reconciliation that is remotely close to concluding is Docket No. 21-0251, where the record was closed on March 5, 2025. *See Ameren Ill. Co. d/b/a Ameren Ill*., Docket No. 21-0251, Notice of ALJ's Ruling (Mar. 20, 2025). The record has not yet been developed in any of the other pending reconciliations. *See generally* Docket Nos. 22-0216, 23-0222, 24-0210.

Ameren Illinois does not necessarily agree that it would be appropriate in every instance to incorporate adjustments approved in pending QIP reconciliations into the revenue requirement in this proceeding. Ameren Ex. 19.0 (Rev.) at 21. However, if the Commission were to issue a Final Order in a Rider QIP reconciliation docket during the pendency of this proceeding, the Company would be willing to discuss the impact of that order on this proceeding, if any, at that time. Ameren Ex. 19.0 (Rev.) at 21; Ameren Ex. 33.0 at 14.

b. Staff's Position

Staff recommends the Commission reject the AG's proposed QIP Adjustment. In the event that a Final Order in any of the Company's pending QIP reconciliations are entered prior to the issuance of an Order in this proceeding that adopts any plant disallowances, Staff recommends the plant disallowances be incorporated into the 2026 revenue requirement. Staff Ex. 2.0 at 16-17.

Staff states that the Company does not necessarily agree that it would be appropriate in every instance to incorporate adjustments approved in pending QIP reconciliations into the revenue requirement in this proceeding. However, if a QIP order is issued during the pendency of this proceeding, the Company would be willing to discuss with Staff the impact of the order on this proceeding at that time. Ameren Ex. 19.0 (Rev.) at 21.

Staff agrees with the Company and recommends the Commission reject the AG's proposed disallowance. The Commission has routinely reserved determinations of whether a utility's investments made pursuant to a QIP rider are reasonable and prudent

to QIP reconciliations and has declined to disallow QIP investments in rate cases. *See, e.g*., *Ameren Ill. Co. d/b/a Ameren Ill*., Docket No. 20-0308, Order at 30 (Jan. 13, 2021) ("*Ameren 2020 GRC*"); *Ameren 2023 GRC,* Final Order at 273. Specifically, in Ameren 2023 GRC, the Commission held:

> The Commission disregards the AG's recommendation regarding the still-pending QIP reconciliation proceeding. The Commission finds that the AG's proposal is speculative and unripe for review because the Commission will not enter an Order in Docket No. 21-0251 prior to the conclusion of this proceeding.

Ameren 2023 GRC, Final Order at 6. Furthermore, the Commission ordered:

> (18) the QIP Costs related to the 2021, 2022, and 2023 QIP costs included in the revenue requirement are subject to review for prudence and reasonableness adjustments in the applicable annual QIP reconciliations and future base rate proceedings.

Id. at 273.

It is unlikely that a Final Order will be entered in Docket No. 21-0251 before the Final Order is entered in this docket. Thus, the AG's proposed disallowance is "speculative" and "unripe" for review until a Final Order in Docket No. 21-0251 is entered by the Commission. Further, Ameren has committed to "discuss[ing] the impact of [a Final Order in Docket No. 21-0251] on this proceeding at that time." Ameren IB at 108-09.

For these reasons, Staff recommends the Commission reject the AG's proposed disallowance and defer decisions on the prudency and reasonableness of the Company's QIP investments to the Company's QIP reconciliation dockets.

c. AG's Position

For the limited purpose of narrowing the issues and in this docket only, the AG does not contest this issue.

d. Commission Analysis and Conclusion

The Commission notes that though this issue was initially contested by the AG, the AG's briefs indicate that it no longer contests this issue. The Commission agrees that any adjustment in this case that is based on proposals in the Company's pending Rider QIP reconciliations would be premature and speculative. The Commission concludes that it need not incorporate any adjustments relating to those Rider QIP reconciliations since no Final Order has yet been issued in any of those cases.

3. OPEB Contra-Liability (*see* Section IV.B for OPEB Expense)

a. AIC's Position

The issue of the appropriate ratemaking treatment for Other Post-Employment Benefits ("OPEB") costs has been considered by the Commission across multiple recent Ameren Illinois ratemaking dockets, including most recently in the Commission's Order

on Refiling for Ameren Illinois' electric Multi-Year Rate Plan ("MYRP"), Docket Nos. 22-0487/23-0082/24-0238 (Consol.) (Dec. 19, 2024) ("the *Refiling Order*"). In that Refiling Order, the Commission excluded Ameren Illinois' OPEB contra-liability, or asset, balance from rate base, while reflecting negative OPEB expense in rates. The Company is currently challenging that conclusion on appeal and believes that the Commission's conclusion was both incorrect as a matter of law and fails to recognize several aspects of OPEB costs, including historical shareholder contributions to the OPEB plan and the impact of the cash flow shortfall to the utility that is created by inclusion of negative OPEB expense in rates. As such, the Company considers the treatment of OPEB costs both an open and important issue.

In this case, the Company's proposal attempts to balance the Company's understanding of the Commission's concerns with respect to OPEB costs and the adverse financial impacts to the utility of the Commission's current ordered approach in the consolidated MYRP dockets. Under Ameren Illinois' proposed approach here, for the 2026 Test Year, the Company has removed the 2026 incremental increase in the OPEB contra-liability balance from rate base and not included negative non-service OPEB expense in the revenue requirement. This balances the interests of customers by excluding the incremental contra-liability balance from rates, and the utility, which does not have to finance the cash flow shortfall created by the negative OPEB expense.

Staff recognizes that inclusion of the negative non-service cost in rates creates a cash flow shortfall for the utility and recommended that the negative OPEB non-service cost should not be included in the revenue requirement. Ameren Illinois contends that, given that Staff and the Company are aligned with respect to the Test Year treatment of negative non-service OPEB expense, the Company's proposed approach represents a fair solution to the ratemaking treatment of OPEB costs when the OPEB plan is overfunded and non-service costs are negative, both for the test year and future cases.

Ameren Illinois explains that OPEB refers to the Company's obligations to its retired coworkers, primarily for retiree medical benefits. Ameren Illinois maintains OPEB plans offering these benefits that are governed by GAAP. Ameren Ex. 30.0 at 4. The money to support the OPEB plans, which is determined by IRS regulations and an actuarial analysis, is paid into a restricted and protected fund, the OPEB Trust. That fund is then invested to earn income in support of the payments to meet the financial obligations owed to the retirees. *Id.* at 5. Once the dollars are committed to the fund, any withdrawal for purposes other than supporting retiree obligations is effectively barred under applicable tax rules. Effectively, the plan sponsor is prohibited from using the funds for general operating expenses. *Id.* at 6. This is not in dispute, as witnesses for Staff, IIEC/FEA/CUB, and the AG agree that the Company is restricted from utilizing the fund in the OPEB Trust for general operating expenses. Ameren Ex. 19.7.

Under the GAAP requirements promulgated by the Financial Accounting Standards Board ("FASB") and FERC, Accounting Standards Codification ("ASC") 715-60, plan sponsors are required to expense the cost to provide OPEB to their employees over the period in which those employees provide service to the company and its customers. Ameren Ex. 30.0 at 4. The accounting standard is designed so that a liability is fully recorded (at present value) at the end of an employee's career for the cost of benefits that will be provided to the employee during their retirement. The recognition of

this liability is independent from the cash funding of this liability into the trust fund. As cash contributions are made to the plan, those amounts are recognized as plan assets on the Company's balance sheet. Under ASC 715-60, Ameren Illinois must value the plan obligation (accumulated post-retirement benefit obligation, or "APBO") and the fair value of plan assets. The OPEB contra-liability balance on the Company's books represents the cumulative difference between the shareholder-funded cash contributions to the plan and the cumulative amounts reflected in net periodic postretirement benefit cost under the requirements of ASC 715-60. Ameren Ex. 30.0 at 4.

Thus, when considering the ratemaking treatment of OPEB costs, there are two main components: the balance sheet component, or contra-liability, and an expense component. The expense component has two main subparts, service cost and non-service cost. The service cost is the accrued cost of the benefit to the employee attributed to the periods in which service is rendered, and only the service cost component of net periodic benefit cost is includable in the determination of operating income under ASC 715-60. Ameren Ex. 30.0 at 23. The non-service cost components of OPEB cost include interest cost and expected return on plan assets, as well as amortization costs. Ameren Ex. 4.0 at 24; Ameren Ex. 30.0 at 4-6. Interest cost represents the increase in APBO due to the passage of time. Ameren Ex. 30.0 at 5. Expected return on assets is a calculated amount to reflect the estimated investment earnings on plan assets during the year. *Id.* These amounts represent the financing and investing elements of the OPEB plan accounting. The final non-service cost component of OPEB cost is the amortization of net actuarial losses (or gains) and prior service cost (or credit). *Id.* The amortization represents the recognition on the income statement of gains and losses and plan amendments that occurred in prior periods as required by FASB's ASC 715. Ameren Ex. 4.0 at 24.

Ameren states that the actuaries have determined that no cash contribution is required into the OPEB Trust Fund: Ameren Illinois will make no contributions to fund in 2025 or 2026. Ameren Ex. 19.0 (Rev.) at 25. In other words, the OPEB Trust is fully funded to meet the postretirement obligations for Ameren Illinois' retirees. Since no cash contribution for OPEB costs is required, the change in the 2026 OPEB balance included in the calculation of average Test Year rate base increases by the net change (negative non-service costs net of positive service costs) in OPEBs. This means there is a direct linkage between increases in the OPEB contra-liability balance and negative OPEB expense. Ameren Ex. 4.0 at 26-27. In fact, inclusion of a non-cash expense (or income) item in the cost of service must always be linked to the effect that cost has on the balance sheet. Ameren Ex. 44.0 at 5-6. It is a fundamental utility ratemaking principal that the income statement effect of utility operations must be considered while reconciling to the cash flow effect, by providing the opportunity for the recovery of a return on those timing differences. *Id.* at 6.

Ameren Illinois' states the OPEB plan is not just fully funded, it is overfunded. Ameren Ex. 19.0 (Rev.) at 37. Based on actuarial and accounting requirements, the OPEB plan's overfunded status results in a net negative amount of 2026 gas jurisdictional OPEB expense of $11.879 million on Ameren Illinois' books for accounting purposes. Ameren Ex. 19.4. If included in the revenue requirement, this negative expense reduces rates and is a credit to customers. Ameren Ex. 30.0 at 7. Negative OPEB expense has

been lowering gas rates since 2018. In total, the overfunded OPEB plan has led to over $75 million in reductions to gas revenue requirements from 2018-2025. Ameren Ex. 19.4.

Ameren Illinois states that one driver of this over-funding is a $100 million contribution to the OPEB fund that Ameren Illinois' shareholders made in 2011. At the time, Ameren Illinois had an under-funded OPEB Trust as a result of the 2008 financial crisis. Ameren Illinois' shareholders made the $100 million contribution to the OPEB Trust and thus restored the funded status of the OPEB Trust. This contribution, combined with market gains and prudent management, has resulted in returns on OPEB plan assets exceeding OPEB plan costs. *See Refiling Order* at 227. This has caused the OPEB Trust balance to grow substantially, resulting in a significantly over-funded position today, and projected through 2027. Staff Ex. 10 at 10. The OPEB contra-liability on Ameren Illinois' balance sheet created by the over-funded OPEB plan is significant: the forecasted gas jurisdictional amount of the contra-liability balance is $61,750,000 at December 2025 and $70,243,000 at December 2026 (this balance is net of ADIT). Ameren Ex. 30.0 at 9.

The Company recognizes that the Commission found in its MYRP Refiling Order that Ameren did not demonstrate that the $100 million contribution to the OPEB trust in 2011 was sourced from shareholder funds. *Refiling Order* at 248. It is the Company's position that the Commission did not correctly interpret the Final Order in Docket No. 11-0282 addressing the $100 million contribution when it issued its orders in the consolidated MYRP dockets, and the Company is appealing the Commission's decision on that point. However, even leaving aside the question of whether the $100 million was funded by shareholders, the OPEB contra-liability should still be considered sourced from shareholder funds because shareholders must finance the cash flow shortfall created by including negative OPEB expense in rates. The cash flow shortfall of $75.4 million through 2025 exceeds the year-end 2025 contra-liability balance of $61.8 million included in rate base. Ameren Ex. 33.0 at 21.

Ameren Illinois states that, under applicable accounting rules, there are three aspects of the overfunded OPEB plan that impact Ameren Illinois and its customers: (1) the negative OPEB expense reduces rates for customers, (2) but Ameren Illinois' *actual cash requirements* are not reduced because Ameren Illinois cannot take funds out of the OPEB Trust, and (3) so, Ameren Illinois must finance the cash flow shortfall in some other way. Ameren Ex. 30.0 at 7. Absent appropriate ratemaking treatment, Ameren Illinois' shareholders solely bear the burden of this cash shortfall, both to make up the difference between the cash required to operate the business and negative OPEB expense and the time value of money related to financing the shortfall.

According to Ameren Illinois, a negative OPEB expense is not a reduction in the cash expenditures that Ameren Illinois must incur to operate its business. *Id.* When a non-cash cost such as negative OPEB expense is reflected in customer rates, it creates an immediate mismatch between the cost recovery from or refund of costs to customers and the cash outlay incurred (or realized) by the Company. *Id.* In this case, the inclusion of negative OPEB expense in rates reduces the operating cash flow received by the Company for providing service to customers. The Company does not have a cash inflow that offsets this customer rate reduction. While the Company is theoretically earnings neutral (negative expense and negative revenue), the negative OPEB expense results in a continuingly increasing OPEB contra-liability on its balance sheet. Due to the lack of

cash flow to fund this asset, Company shareholders incur financing costs to support this asset (contra-liability) on its balance sheet. *Id.*; Staff Ex. 10.0 at 10.

Company witness Farrell provided testimony on this issue. Ameren Ex. 30.0 at 1. Mr. Farrell offered the following illustrative example: assume that the Company books $1,000 of negative OPEB expense and makes $0 of cash OPEB plan contributions in a given year. For purposes of this example, the effective tax rate is 25% and the Company's rate recovery is based on the OPEB expense booked in accordance with ASC 715. The Company will record the non-cash negative OPEB expense of $1,000 and credit customers' bills $1,000 based on its approved base rate cost of service. Assuming that the Company receives all amounts that it bills to customers, the Company has a negative cash flow from operations of $1,000. The negative non-cash expense and the reduction of cash from customers increases the OPEB contra-liability by $1,000. Finally, the Company will include the $1,000 customer rate refund as a reduction of taxable income on its Federal and State income tax returns. Based on the assumed effective tax rate of 25%, the Company will realize a $250 ($1,000 × 25%) benefit as a reduction in its income tax liability. The $250 benefit is reflected on the balance sheet as a reduction in current income taxes payable. That is offset by a deferred income tax liability on the balance sheet to reflect the debit to income tax expense that is booked related to the negative OPEB expense for accounting purposes. *Id.* at 8.

The economic consequence of this example is that the Company reduces rates by $1,000 and receives a $250 income tax deduction and that net $750 cash cost must be financed by shareholders. *Id.* at 9. As the example illustrates, Ameren Illinois states, the inclusion of negative OPEB expense in rates reduces Ameren Illinois' cash flow because the Company's cash expenditures for operations do not decrease. Shareholders finance this difference because Ameren Illinois cannot make withdrawals from the OPEB Trust to offset the reduction in revenues resulting from the negative OPEB expense. Ameren Illinois contends that any ratemaking treatment of OPEB costs should recognize this utility financing obligation.

Ameren Illinois' proposed Test Year ratemaking treatment of OPEB costs addresses the financing impact of the cash flow shortfall. The Company proposes an adjustment to remove the 2026 increase in the OPEB contra-liability balance from rate base to be consistent with the treatment of the Test Year non-service cost components of OPEB cost, which are not included in test year operating expense. Ameren Ex. 19.0 (Rev.) at 23. Excluding negative non-service costs from the calculation of revenue requirement avoids the ratemaking construct that allows customers the full benefit of a cash reduction in rates with no corresponding cash flow offset to the Company. This avoids the negative cash flow financing burden that would continue to occur if the negative non-service OPEB expense is included as a reduction in rates, creating an imbalance between customers, the Company, and shareholders.

Under Ameren Illinois' proposal, the OPEB contra-liability balance at December 31, 2025, remains in rate base because Ameren Illinois has financed this balance by financing the cash flow shortfall in prior years created by the negative OPEB expense in rates. *See* Ameren Ex. 4.0 at 26; Ameren Ex. 19.4. There is a direct link between increases in the OPEB contra-liability balance and negative OPEB expense. Ameren Ex. 4.0 at 26-27. Again, the Company's investment in the OPEB rate base balance increases

each year because Ameren Illinois cannot withdraw funds from the OPEB Trust to reimburse the Company for the non-cash negative OPEB expense, which is credited to customers as a reduction in the Company's revenue requirement. *Id.* at 27. OPEB expense has been negative each year since 2016 primarily because the OPEB Trust fund is increasing more rapidly than the plan obligations. Customers have received a direct benefit, through a reduction in revenue requirement from the non-cash negative OPEB expense, in rates since 2018. Ameren Ex. 19.4. In Ameren Illinois' 2024 test year in Ameren 2023 GRC, the gas jurisdictional portion of OPEB expense included in rates was negative $12.197 million; in other words, the revenue requirement recovered from customers was reduced by this amount. *Id.*

For financial reporting, the increase in net OPEB assets is captured with entries to accrue negative OPEB costs (accounting credit) and offsetting accruals to the OPEB contra-liability balance (accounting debit). Ameren Ex. 4.0 at 27. If the Company could withdraw funds from the Trust equivalent to accrued negative OPEB costs, the receipt of the cash reimbursement (accounting debit) would result in an offset to the OPEB contra-liability balance (accounting credit). *Id.* Because, as explained, Ameren Illinois cannot access the funds in the OPEB Trust for operational purposes, however, it has been financing the increase in the OPEB contra-liability balance for as long as negative OPEB expense has provided a credit in gas rates (for the period 2018-2025, an amount of $75 million). Ameren Ex. 19.4. The inclusion of the OPEB contra-liability balance as of 2025 in rate base therefore allows the Company to earn a return on the amount that it has financed.

Staff witness Au presented rebuttal testimony aligned with the Company's position that negative OPEB non-service costs should be excluded from the calculation of revenue requirement. Staff Ex. 10.0 at 5. As Mr. Au explained, the inclusion of negative OPEB expense in rates reduces the operating cash flow received by the Company for providing service to customers. The Company states that it does not have a cash inflow that offsets this customer rate reduction. *Id.* at 10. The Company agreed with Mr. Au that negative non-service OPEB expense reduces the Company's revenue requirement without a corresponding reduction in cash obligations and therefore should be excluded from the calculation of revenue requirement. Ameren Ex. 33.0 at 17. Ameren Illinois contends that Staff's approach is at least a symmetrical treatment of OPEB costs, in that while the OPEB contra-liability is not in rate base, the negative expense that results from the accounting for the contra-liability is not in rates either. Ameren Ex. 19.0 (Rev.) at 28.

Both AG witness Selvaggio and IIEC/FEA/CUB witness Leyko proposed to remove the full balance of the OPEB contra-liability from rate base *and*, at the same time, include the negative non-service expense in the revenue requirement. AG Ex. 1.00 at 10-12; IIEC/FEA/CUB Ex. 1.0 at 3, 10-14. Ameren Illinois asks the Commission to reject their recommendations because adopting their proposed ratemaking treatment would require the Company to bear the financing cost of the cash flow shortfall resulting from negative non-service costs.

In summary, Ameren Illinois contends that including only OPEB service cost and excluding the negative non-service cost, as agreed to by Staff, starting with 2026, is a reasonable balance for customers. At the very least, this ceases the dramatic negative cash flow consequences that would continue to occur if the full ASC 715-60 negative

expense is included as a reduction in rates without recognition of the OPEB contra-liability in rate base and the economic impact on the Company and its shareholders. Ameren Ex. 44.0 at 6-7.

Staff witness Au, AG witness Selvaggio, and IIEC/FEA/CUB witness Leyko all also proposed to remove the 2025 OPEB contra-liability balance from rate base. Their primary arguments were: (1) that the Commission found that Ameren Illinois did not demonstrate that the $100 million contribution to the OPEB Trust in 2011 was sourced from shareholder funds, and since shareholders did not provide the funding, the return on the plan investments created the OPEB contra-liability, and therefore the OPEB contra-liability should not be included in rate base; (2) prior Commission decisions have excluded the OPEB contra-liability from rate base; and (3) Ameren Illinois has not presented any new evidence on this issue. *See* Staff Ex. 10.0 at 5-9; AG Ex. 1.00 at 10-12; IIEC/FEA/CUB Ex. 1.0 at 3, 10-14.

Ameren Illinois maintains that the OPEB contra-liability balance is not just funded by a return on plan assets but also includes funding from the following three sources: the $100 million contribution, increases from accrual entries to record negative OPEB expense, and return on plan assets. Ameren Ex. 19.0 (Rev.) at 30. Mr. Au agreed that the OPEB contra-liability balance includes funding from those three sources: the $100 million contribution (although he contended the Commission found that this was not shareholder funded), increases from accrual entries to record negative OPEB expense, and return on plan assets. Staff Ex. 2.0 at 3-4. Mr. Au also agreed that the OPEB contra-liability balance has increased as a result of accrual entries to record negative OPEB expense and the corresponding OPEB Trust balance has increased due to the Company's inability to withdraw funds from the OPEB Trust. Ameren Ex. 19.0 (Rev.) at 30.

Company witness Ballard testified that because one source of the OPEB contra-liability balance is the increases resulting from accrual entries to record negative OPEB expense, this means shareholders are a source of the OPEB contra-liability balance. Ameren Ex. 19.0 (Rev.) at 31. Mr. Au also agreed that customers receive a benefit when including negative OPEB expense in rates. Therefore, Ameren Illinois contends, either customers should not receive the benefit of shareholder sourced amounts, as Ameren Illinois has proposed by not including the negative non-service costs in rates, or shareholders should be allowed to earn a return on the OPEB contra-liability for providing that benefit by including the OPEB contra-liability in rate base. *Id.*

Two key Commission orders support this outcome. The Commission determined that the OPEB contra-liability should be included in rate base in Docket No. 13-0301. While Docket No. 13-0301 Final Order was entered in a proceeding pursuant to the Energy Infrastructure Modernization Act ("EIMA"), the basis for the Docket No. 13-0301 conclusion includes agreement with Ameren Illinois' explanation that the OPEB contra-lability represents amounts funded into the OPEB Trust in excess of amounts recovered from customers as operating expenses in rates. *Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 13-0301, Final Order at 36-37 (Dec. 9, 2013). In Docket No. 11-0282, the Commission found that AIC's OPEB liability (OPEB was in a liability position on the balance sheet at that time) should be deducted from rate base; however, the adjustment was net of the $100 million contribution to the OPEB Trust. *Ameren Ill. Co. d/b/a Ameren*

Ill., Docket No. 11-0282, Final Order at 18-19 (Jan. 10, 2012). Furthermore, as explained in the Final Order in Docket No. 11-0282, "Staff witness Pearce notes that her adjustment reduces rate base for the projected average 2012 accrued OPEB liability that remains after the 2011 AIC contribution of $100 million, described by AIC witnesses and reflected in Ameren Illinois' response to AG-DJE 3.19 Attach, line 4, column (c). As Ms. Pearce explains, this response demonstrates that *even after the additional 2011 contribution* from AIC, AIC projects an OPEB liability will remain for the 2012 test year." Docket No. 11-0282, Order at 17 (emphasis added). Thus, the Docket No. 11-0282 Order makes clear that the $100 million was a shareholder contribution. If the $100 million contribution had been customer funded, the $100 million would have been included in the OPEB liability deducted from rate base, not subtracted from it.

Regarding the argument that Ameren Illinois has not presented new evidence, Ameren Illinois' proposal in this filing is different from those prior cases. Here, Ameren Illinois proposes to remove the 2026 incremental increase in the OPEB contra-liability from rate base to be consistent with the treatment of the Test Year non-service components of OPEB cost. Ameren Illinois points out that this represents new facts and circumstances in this case. The change in the 2026 OPEB contra-liability balance included in the calculation of average Test Year rate base increases by the net change (negative non-service costs net of positive service costs) in OPEB, and so Ameren Illinois has provided evidence of a direct link between increases in the OPEB contra-liability balance and negative OPEB expense.

Further, although the discussion has been focused on the $100 million contribution, the Company has also presented evidence that the OPEB contra-liability is shareholder funded because shareholders must make up the cash flow shortfall. Ameren Illinois also presented the expert testimony of Mr. Farrell, who explained that due to the lack of cash flow to support this contra-liability, Company shareholders incur financing costs to support this contra-liability on its balance sheet. Moreover, as IIEC/FEA/CUB witness Mr. Leyko recognized, the OPEB contra-liability increased for multiple reasons, including market returns on the OPEB Trust assets, and not simply due to the $100 million contribution. Ameren Ex. 19.7

Consideration of the financing impact of the cash flow shortfall requires adoption of a symmetrical approach, either Ameren Illinois' proposed adjustment to remove the 2026 increase in the OPEB contra-liability balance from rate base to be consistent with the treatment of the Test Year non-service cost components of OPEB cost, which are not included in test year operating expense, Ameren Ex. 19.0 (Rev.) at 23, or alternatively including the OPEB contra-liability in rate base if the negative non-service OPEB expense is in the revenue requirement. According to Ameren Illinois, at the very least, Staff's recommendation to remove the negative non-service cost from the revenue requirement should be approved. This avoids the negative cash flow financing burden that would continue to occur if the negative non-service OPEB expense is included as a reduction in rates, creating an imbalance between customers, the Company, and shareholders.

The AG and IIEC/FEA/CUB proposed asymmetrical treatment of OPEB costs that (1) include the negative non-service OPEB costs as a reduction in revenue requirement and so create a cash flow shortfall that the utility must finance, but (2) exclude the OPEB contra-liability from rate base so that the utility is not compensated for that cash flow

shortfall. AG IB at 63-66, 71-74; IIEC/FEA/CUB IB at 4, 7-8. In short, both parties propose a ratemaking treatment that ensures the maximum adverse impact to the utility. Their approaches thus fail to properly balance the interests of customers and the utility and violate a fundamental tenet of Commission practice and law—that the Commission establish rates that balance the interest of both investors and consumers. *See Ill. Bell Tel. Co. v. Ill. Com. Comm'n*, 414 Ill. 275, 287 (1953).

Ameren Illinois avers that the reasoning given by the AG and IIEC/FEA/CUB for an asymmetrical approach is not persuasive. The AG argues, for example, that the Company's alternative proposal to couple the OPEB negative non-service costs in operating expenses with the average 2026 OPEB contra-liability balance in rate base, net of deferred taxes, would improperly link the credit for non-service costs with allowing a return on the OPEB contra-liability balance. AG IB at 66. The record demonstrates that the OPEB contra-liability balance and the negative non-service expense are linked, because the negative non-service expense amount is the direct result of the over-funded OPEB contra-liability balance under applicable accounting rules. Ameren Ex. 19.0 (Rev.) at 25; Ameren Ex. 4.0 at 26-27; Ameren Ex. 44.0 at 5-6.

The AG also argues that FERC accounting guidance requires that the various components of pension and OPEB costs be reported on an aggregate basis and included in the Test Year operating expenses and recovered from ratepayers, and that the Commission has consistently recognized both the service costs and the non-service costs in the utility's operating expenses and has included those costs in aggregate in the revenue requirement. AG IB at 74.

However, Ameren Illinois' expert witness on the OPEB issue testified that the accounting guidance provided by FERC on December 28, 2017, was related to questions that arose after FASB issued ASU 2017-07 - Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Ameren Ex. 30.0 at 10-12. In ASU 2017-07, FASB instructed entities to disaggregate the service cost component of net periodic benefit cost from the non-service cost components. FASB stated that only the service cost component of net periodic benefit cost should be considered a component of compensation cost—and includable in the determination of operating income. All other components must be included in non-operating income. In its order, FERC confirmed that jurisdictional utilities should report all components of net periodic cost in Account 926 – Employee Pensions and Benefits. Ameren Illinois' accounting and financial reporting practice is exactly in compliance with FERC's accounting guidance. Ameren Ex. 30.0 at 11.

The FERC guidance does not dictate the ratemaking for pension and OPEB. Thus, the AG's position on this is misplaced—that guidance does not dictate the appropriate ratemaking treatment of Ameren Illinois' OPEB costs.

Moreover, according to Ameren Illinois, the question of income statement accounting for OPEB costs ignores the other element of OPEB costs: the balance sheet impact. The balance in expense account 926 related to the Company's OPEB plan recognizes the Company's net periodic postretirement benefit cost under the requirements of ASC 715-60. While this represents the income statement effect of the

Company's plan, it does not reflect the full economic cost of the plan. Ameren Ex. 30.0 at 12. Because the Company had to make cash contributions well in excess of the amounts recognized in expense—and collected from customers in rates—the Company had no choice but to finance those contributions. To recognize the full cost of the Company's plan, full ASC 715-60 cost with a carrying charge for the accrual accounting versus cash difference is needed allow the Company to fairly recover its costs. Ameren Ex. 30.0 at 12.

Although the parties' arguments focus on the $100 million contribution in 2011, the Company has also presented evidence, including the expert testimony of Mr. Farrell, that Company shareholders incur financing costs to support the OPEB contra-liability on its balance sheet.

Ameren Illinois' proposed Test Year ratemaking treatment of OPEB costs addresses the financing impact of the cash flow shortfall. Ameren Illinois proposed an adjustment to remove the 2026 increase in the OPEB contra-liability balance from rate base to be consistent with the treatment of the Test Year non-service cost components of OPEB cost, which are not included in Test Year operating expense. Ameren Ex. 19.0 (Rev.) at 23. Excluding negative non-service costs from the calculation of revenue requirement avoids the ratemaking construct that allows customers the full benefit of a cash reduction in rates with no corresponding cash flow offset to the Company. This avoids the negative cash flow financing burden that would continue to occur if the negative non-service OPEB expense is included as a reduction in rates, creating an imbalance between customers, the Company, and shareholders. This proposal also benefits customers by removing the 2026 increase in the contra-liability balance from rates.

Ameren Illinois' proposal also properly accounts for the prior financing of the cash flow shortfall by keeping the OPEB contra-liability balance as of December 31, 2025 in rate base. As discussed, there is a direct link between increases in the OPEB contra-liability balance and negative OPEB expense. Ameren Ex. 4.0 at 26-27. The Company's investment in the OPEB rate base balance increases each year because Ameren Illinois cannot withdraw funds from the OPEB Trust to reimburse the Company for the non-cash negative OPEB expense, which is credited to customers as a reduction in the Company's revenue requirement. *Id.* at 27. OPEB expense has been negative each year since 2016 primarily because the Trust fund is increasing more rapidly than the plan obligations. Customers have received a direct benefit, through a $75 million reduction in revenue requirement from the non-cash negative OPEB expense, in rates since 2018. Ameren Ex. 19.4. Because the Company cannot access the funds in the OPEB Trust for operational purposes, it has been financing the increase in the OPEB contra-liability balance for as long as a negative OPEB expense has provided this credit in gas rates. Ameren Ex. 19.4. The inclusion of the OPEB contra-liability balance as of 2025 in rate base therefore allows the Company to earn a return on the amount that it has financed.

In summary, the Company has proposed a path forward on this issue that attempts to balance the Company's understanding of the Commission's concerns with respect to OPEB costs and the adverse financial impacts to the utility of the Commission's current ordered approach in the consolidated MYRP dockets. Under the Company's proposed approach here, for the 2026 test year, the Company has removed the 2026 incremental increase in the OPEB contra-liability balance from rate base and not included negative

non-service OPEB expense in the revenue requirement. Ameren Illinois contends that this approach balances the interests of customers, by excluding the incremental contra-liability balance from rates, and the utility, which does not have to finance the cash flow shortfall created by the negative OPEB expense.

b. Staff's Position

Staff recommends the Commission approve Staff's adjustment to reverse AIC's OPEB contra-liability adjustment, as reflected on Staff Schedule 10.01. Specifically, Staff's adjustment should be approved because the increase in rate base does not represent shareholder investment warranting a return in base rates. IIEC/FEA/CUB and the AG provide identical adjustments based on similar rationale. IIEC/FEA/CUB Ex. 1.0 at 9-14; AG Ex. 1.00 at 4-13.

In its electric MYRP filing, Ameren similarly requested a OPEB Contra-liability be included in its rate base. *Ameren Ill. Co. d/b/a Ameren Ill.,* Docket Nos. 22-0487/23-0082/24-0238 (Consol.), Final Order at 226-41 (Dec. 14, 2023) *("Ameren 2023 MYRP First Order*".) The Commission rejected the Company's request for three primary reasons: (1) because Ameren failed to demonstrate "the $100 million to the OPEB fund was sourced from shareholder funds" as required by *City of Alton v. Ill. Com. Comm'n*, 19 Ill. 2d 76, 85-86, 91 (1960) ("*City of Alton*"); (2) because Ameren failed to provide evidence about how much of that $100 million should be allocated to Ameren gas instead of Ameren electric; and (3) because the Commission determined the $100 million should be deducted from rate base in 2011. *Ameren 2023 MYRP First Order* at 239-40. Shareholders did not provide the funding, but rather the return on the plan investments created the OPEB contra-liability, thus the Commission held that OPEB contra-liability should not be included in rate base as the shareholders should not be entitled to a return on the amount they did not provide. *See id*. at 228, 239-40.

The Commission has rejected the Company's OPEB Contra-liability position in past gas rate cases. In Ameren's 2020 gas rate case, the Commission concluded that a similar OPEB Contra-liability was tantamount to a pension asset and denied its inclusion in rate base. *See Ameren 2020 GRC*, Final Order at 13.

In the instant proceeding, Staff asserts that the facts and circumstances are the same as in the *Ameren 2020 GRC* and the *Ameren 2023 MYRP First Order*. There have been no changes to the methodology of the valuation of OPEB contra-liability, in that the funds are a return on the plan investments created by the OPEB contra-liability and are not shareholder funds. Staff Ex. 2.0 at 6, Attach. A. Because the facts and circumstances in this docket are identical to the facts and circumstances in Ameren's prior dockets where Ameren made similar proposals, nothing warrants the Commission to depart from its past decisions on this issue. *See Ill.-Am. Water Co*., Docket No. 16-0093, Order at 12-13 (Dec. 13, 2016) (wherein the Commission declined to depart from its "normal practice" when a utility did not provide any new facts upon which to base such departure).

The AG and IIEC/FEA/CUB agree with Staff that the Commission should reject Ameren's OPEB adjustment. Ameren disagrees with Staff, the AG, and IIEC/FEA/CUB and recommends that the Commission approve its proposal to include the OPEB contra-Liability in rates. Ameren IB at 109-23. As an alternative, Ameren argues that the

Commission should approve Staff's recommendation to exclude the negative OPEB non-service costs from rates. *Id*. at 118-19.

The Company agrees with Staff that a negative non-service OPEB expense reduces the Company's revenue requirement without a corresponding reduction in cash obligations and therefore should be excluded from the calculation of the revenue requirement. Ameren Ex. 33.0 at 17.

The AG argues that the Company's alternate proposal to couple the OPEB negative non-service costs in operating expenses with the average 2026 OPEB contra-liability balance in rate base, net of deferred taxes, "would improperly link the credit for non-service costs with allowing a return on the OPEB contra-liability balance." AG IB (Pub.) at 66.

Likewise, IIEC/FEA/CUB recommend that the Commission not exclude the negative OPEB non-service costs from the Company's cost of service. IIEC/FEA/CUB IB at 7-8. Specifically, IIEC/FEA/CUB argues that "if customers have compensated AIC for its contributions to the OPEB Trust, then AIC's customers are fully entitled to all the benefits produced by the OPEB contra-liability, including the reduction to AIC's revenue requirement due to negative OPEB non-service costs." *Id*. at 7.

Despite the AG and IIEC/FEA/CUB's claims, Staff argues that it is not fair to Ameren to require it to bear the financing cost of the cash flow shortfall resulting from negative non-service costs. The inclusion of negative OPEB expense in rates reduces the operating cash flow received by the Company for providing service to customers. Staff Ex. 10.0 at 5. The Company does not have a matching cash inflow that offsets this customer rate reduction. *Id*. at 10.

According to Staff, the Company is entitled to recover its rate base, including a fair return as determined by the Commission. *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923) ("*Bluefield*"); *Hope*, 320 U.S. at 603. As explained by Ameren, this cash flow shortfall exists and causes Ameren to incur financing costs that prevent it from earning its allowed return on rate base. Ameren IB at 119.

To provide Ameren a fair opportunity to earn its revenue requirement, and in the interest of balancing ratepayer and shareholder interests, Staff recommends the Commission exclude the negative OPEB non-service costs from rates.

OPEB Contra-Liability

Finally, Staff states, Ameren's argument that it has presented new evidence making its proposal in this proceeding different from those in prior cases is mistaken. Ameren IB at 122. The facts and circumstances have not changed from when Ameren initially proposed to include OPEB contra-liability in rates and today. The only thing that has changed is how Ameren has chosen to describe these identical facts and circumstances, as well as its nearly identical proposals, in an effort to convince the Commission that it should change course and include its OPEB contra-liability in rates in this proceeding. Slightly modifying its proposal (with negligible effects on the impact to customer rates) are not new facts or circumstances; it is the same proposal. In this docket, Staff agreed with the Company to address a cash flow shortfall issue in an effort

to balance shareholder and ratepayer interests. Especially if the Commission approves this compromise, Ameren's argument that its cash flow shortfall represents shareholder funds that must be included in rate base does not justify the extraordinary increase in rates that would result.

For these reasons, Staff recommends the Commission decide once again to reject Ameren's proposal to include its OPEB contra-liability in rates and approve Staff's adjustment for negative non-service costs.

c. AG's Position

The AG asks the Commission to remove the OPEB contra-liability from rate base because the Company's inclusion is inconsistent with Commission practice and only benefits shareholders.

For a third time in five years, Ameren Illinois has asked the Commission to include the OPEB contra-liability in its natural gas or electricity rate base. The AG asks the Commission to reject this request as it has done in previous proceedings. The Commission has consistently held that it will not include a return for shareholders on funds that were not provided by shareholders. In the Company's electric 2024 MYRP case, Ameren Illinois proposed to include the OPEB contra-liability as of December 2023 in rate base and set the OPEB expense in 2024 to $0. *Refiling Order at* 249.

In the Ameren 2020 GRC, Ameren Illinois made a similar request and the Commission concluded that the OPEB contra-liability should not be included in rate base, as the balance was not funded by shareholders. *Ameren 2020 GRC*, Final Order at 13. The Commission reached a similar conclusion in a recent Nicor Gas rate case. *N. Ill. Gas Co. d/b/a Nicor Gas C*o., Docket No. 21-0098, Final Order at 13–14 (Nov. 18, 2021). The Company argues that its shareholders made a $100 million contribution to the OPEB fund which is the reason it is overfunded. Ameren IB at 113. The AG notes that this is contrary to the Commission's prior decisions, which correctly reject the Company's proposal to require consumers to pay a return on non-shareholder funds. The AG accordingly asks the Commission to exclude the OPEB contra-liability from rate base in setting rates.

Ms. Selvaggio explained that OPEB represents non-income-related retirement benefits such as medical and life insurance benefits that are earned during an employee's career but are paid to the employee after the employee's career is over. AG Ex. 1.00 at 4. The funds to support these post-employment obligations are paid into an OPEB Trust. *Id*. at 4. An OPEB "contra-liability balance" or OPEB asset means the fund balance in the OPEB Trust—the entity that holds the Plan's assets that have been set aside to pay future OPEB benefits—is more than the anticipated cost of future OPEB benefits. *Id*. at 72–74. This typically occurs when the expected investment return on plan assets is more than the interest cost on the OPEB benefit obligation, producing income on the utility's income statement. *Id*. at 4.

The Company's proposal in this proceeding is to include $86.369 million (offset set by a reduction in ADIT of $24.619 million) in rate base representing the OPEB contra-liability (*i.e*., the amount that exceeds the anticipated cost of future OPEB benefits) at December 31, 2025, rather than the average 2026 amount which would have further increased the OPEB contra-liability by $5.940 million. AG Ex. 1.00 at 4; Ameren Sch. B-

2.6. In addition, the Company did not include the jurisdictional 2026 negative OPEB non-service costs of $13.067 million in its expenses. Ameren Ex. 19.0 (Rev.) at 27; AG IB at Attach., Sch A-5.

The AG contends that the Company's proposal treats the OPEB contra-liability incorrectly, increases rate base incorrectly by $86.369 million, and allows it to provide a return to shareholders on ratepayer funds. AG Ex. 1.00 at 4. The Company's alternative proposal in testimony does the same but increases the rate base even more. Ms. Selvaggio noted the increase in the OPEB contra-liability balance was not funded by the Company's shareholders — indeed, Company witness Ballard acknowledged the Plan balance is "increasing more rapidly than the Plan Obligations" with no cash contribution from the Company being required. AG Ex. 1.00 at 5 (*citing* Ameren Ex. 4.0 at 26, 27). The Company's last payment into the OPEB Trust was made in December 2015. *Id*. at 5; AG Ex. 1.02. As a result, Ms. Selvaggio attributes the increase in the OPEB contra-liability to higher than anticipated market returns on plan assets. *Id*. at 5–6. The Company cannot point to the increase being tied to shareholder funding. *Id*. at 5; Ameren Ex. 4.0 at 24.

The Company argues that the OPEB contra-liability should still be considered sourced from shareholder funds because shareholders must finance the cash flow shortfall created by including negative OPEB expense in rates. AIC IB at 114. However, the AG notes that if the negative OPEB non-service costs are included in the operating expenses and have the impact of reducing Employee Benefits Expense, those negative non-service costs would be included in the determination of CWC and would increase CWC, providing the Company funding for the negative expenses that reduce cash flow in the Test Year. *See* Ameren Ex. 33.1, Sch 2, ln 12. Further, the Company does not disburse funds for the OPEB non-service costs because the costs are negative, and even if they were positive, the money would come from the OPEB trust which is ratepayer funded.

Ameren Illinois points to two previous orders to support including the OPEB contra-liability in rate base. Ameren IB at 112 (*citing* Docket No. 13-0301, Final Order at 36-37; Docket No. 11-0282, Final Order at 18-19). The Company argues that in Docket No. 13-0301 (a formula rate update proceeding under EIMA) there was an agreement by the Commission with AIC's explanation that OPEB contra-liability includes excess of the amounts recovered from customers, and that in Docket No. 11-0282 (where the OPEB contra-liability was deducted from rate base) the amount deducted was net of the $100 million contribution to the OPEB Trust. Ameren IB at 121. Ameren Illinois believes this twelve-year-old docket involving its electricity service and an older gas docket are sufficient to show that the excess amount in this gas docket was shareholder funded. The AG asks the Commission to reject the Company's argument because it ignores what the Commission has repeatedly concluded in AIC's most recent gas rate case proceedings. Further, Docket No. 13-0301 is not persuasive because the EIMA has specific language for including pension assets in rate base, where there is no such language for a rate case proceeding under the Act. *See Refiling Order* at 245, 249. The AG argues that if the General Assembly wanted the Commission to include the OPEB contra-liability in rate base, there would be statutory language authorizing this treatment. Further, the Company's last payment into the OPEB Trust was made in December 2015 after the 2013

electric formula rate docket and ten years before Ameren's most recent rate proceedings. AG Ex. 1.00 at 5; AG Ex. 1.02.

Regarding the non-service costs, which cover certain administrative costs associated with the OPEB Trust, the Company argues that inclusion of the OPEB contra-liability and exclusion of negative non-service costs (*i.e*. they are not paid as costs because they are "negative") are linked. Ameren IB at 115–116. Ameren Illinois contends that inclusion of a non-cash expense (or income) item in the cost of service must always be linked to the effect that cost has on the balance sheet, and that it is a fundamental utility ratemaking principle that the income statement effect of utility operations must be considered while reconciling to the cash flow effect, by providing the opportunity for the recovery of a return on those timing differences. Ameren Ex. 44.0 at 5–6. The AG notes that every cost on the income statement impacts the balance sheet in some manner. In the case of negative OPEB non-service costs, the negative expenses increase CWC as noted by the AG above, and the Company earns a return on that CWC. *Id*. at 42. To the extent the Company believes that the inclusion of the OPEB contra-liability and exclusion of negative non-service costs are linked, the Company is mistaken, as this runs contrary to the prior rate case proceedings noted above. The AG maintains that ratepayers should receive the benefit of negative OPEB non-service costs because ratepayers funded the OPEB Trust.

Ameren Illinois argues it has new evidence to include the OPEB contra-liability and exclude the negative non-service costs, but AG contends this is unpersuasive. Ameren IB at 122. The Company's attempt to show a link between the inclusion of the OPEB contra-liability and exclusion of the negative non-service costs and the Company's removal of the 2026 incremental increase in the OPEB contra-liability do not constitute any significant changes from prior proceedings. In addition, the AG argues that even if ratepayers have received a benefit of funding the OPEB trust, they should continue to receive that benefit. *Id*. The underlying facts have not changed. *Id*. Ameren Illinois is again presenting the same position the Commission has repeatedly rejected. *Id*.

In summary, the AG asks the Commission to reject the Company's proposal to include the OPEB contra-liability in rate base because it would wrongly provide AIC a return on funds that were paid by ratepayers. It is likewise contrary to Commission practice. Further, the Company's alternative proposal presented in testimony to couple the OPEB negative non-service costs in operating expenses with the average 2026 OPEB contra-liability balance in rate base, net of deferred taxes, would improperly link the credit for non-service costs with allowing a return on the OPEB contra-liability balance. AG Ex. 3.00 at 6.

For these reasons, the AG requests that the Commission remove the OPEB contra-liability from rate base. This results in a rate base reduction of $61.75 million, which represents the removal of the OPEB contra-liability of $86.369 million offset by a reduction of ADIT of $24.619 million. AG IB at Attach., Sch. A-1.

d. IIEC/FEA/CUB's Position

In the face of multiple prior Commission Orders denying it, Ameren Illinois once more makes the request to include OPEB contra-liability in the rate base. IIEC/FEA/CUB Ex. 1.0 at 9-14. IIEC/FEA/CUB ask the Commission to again deny this request.

IIEC/FEA/CUB argue Ameren Illinois provided no new evidence supporting the inclusion, instead claiming the Commission simply misunderstood its 2011 Final Order and that appealing the 2023 and 2024 Final Orders means they should not be viewed as dispositive. *Id*.; IIEC/FEA/CUB Ex. 3.0 at 7-10. IIEC/FEA/CUB respond this is simply not the case. The Commission was clear in 2011, was clear in 2023, and was clear in 2024: unless the Company can prove the OPEB was not funded by ratepayers, or can prove the OPEB was funded by shareholders, the contra-liability cannot be included in the rate base. *Id*.

Specifically, the Commission noted in its Refiling Order in Docket Nos. 22-0487/23-0082/24-0238 (Consol.) that the crux of the OPEB issue was that Ameren Illinois failed to prove the $100 million to the OPEB fund was sourced by shareholder funds. *Refiling Order* at 248. To date, Ameren Illinois has yet to provide any evidence supporting the lack of rate payer funding or that shareholders funded the OPEB. IIEC/FEA/CUB Ex. 1.0 at 9-14; IIEC/FEA/CUB Ex. 3.0 at 7-10. Further, IIEC/FEA/CUB state that appealing the issue means nothing. As it stands, the prevailing Refiling Order remains in effect and held that the contra-liability cannot be included in the rate base. Mere hope of success on appeal, after multiple orders finding lack of evidence of shareholder funding, is not sufficient for the Commission to reverse course. In sum, IIEC/FEA/CUB state, the contra-liability cannot and should not be included in the rate base. Removing the contra-liability from the rate base reduces the revenue requirement by approximately $5.501 million. IIEC/FEA/CUB Ex. 1.0 at 2.

e. Commission Analysis and Conclusion

Here, as in previous dockets, Ameren Illinois again asks the Commission to include the OPEB contra-liability in rate base. Staff, the AG, and IIEC/FEA/CUB contend that the OPEB contra-liability should not be included in rate base. The Commission agrees with Staff, the AG, and IIEC/FEA/CUB.

Ameren Illinois correctly recognized that the issue of the appropriate ratemaking treatment of the OPEB contra-liability has been considered by the Commission in multiple recent AIC ratemaking dockets, including most recently in the Commission's Refiling Order for AIC's MYRP, where the issue was briefed at length during both the original rate plan proceeding and the rehearing phase. In that Order, the Commission rejected AIC's request to include the OPEB contra-liability in rate base, finding, in part, Ameren Illinois failed to demonstrate "the $100 million to the OPEB fund was sourced from shareholder funds" as required by *City of Alton*. *Refiling Order* at 248.

Here, Ameren Illinois asks the Commission to reverse itself and find that the OPEB fund is sourced from shareholder funds, contending that the OPEB contra-liability balance is not just funded by a return on plan assets, but also includes funding from the $100 million contribution in 2011 and increases from accrual entries to record negative OPEB expense. AIC contends that because one source of the OPEB contra-liability balance is the increases resulting from accrual entries to record negative OPEB expense, this means shareholders are a source of the OPEB contra-liability balance. AIC further asks the Commission to depart from its previous treatment of this issue because its proposal here is different from the Company's proposals in previous dockets. Specifically, AIC argues that the change in the 2026 OPEB contra-liability balance included in the

calculation of average Test Year rate base increases by the net change (negative non-service costs net of positive service costs) in OPEB, and so the Company has provided evidence of a direct link between increases in the OPEB contra-liability balance and negative OPEB expense.

The Commission rejects AIC's assertion that the Commission "did not correctly interpret the [Final] Order in Docket No. 11-0282 addressing the $100 million contribution when it issued its orders in the consolidated MYRP dockets." Ameren IB at 113, 121-22. Further, the Commission finds insufficient record evidence to support the reversal the Company requests. Contrary to AIC's assertion, the Commission finds that, while differently described, AIC's proposal here is substantively identical to the facts and circumstances that existed in AIC's previous proposals to include the OPEB contra-liability in rate base that have already been thoroughly considered and rejected by the Commission. Moreover, the Company provided no new evidence to compel the Commission's reversal of its previous finding that the $100 million contribution to the OPEB fund was not sourced from shareholder funds. The Company argued that because one source of the OPEB balance is the increases resulting from accrual entries to record negative OPEB expense, this means shareholders are a source of the OPEB contra-liability balance; however, this does not constitute new evidence that compels a different result from the Commission's past treatment of this issue. Accordingly, the Commission rejects AIC's proposal to include the OPEB contra-liability in rate base and approves Staff's adjustment to reverse AIC's OPEB contra-liability adjustment, as reflected on Staff Schedule 10.01.

4. NOLC Adjustment

a. AIC's Position

Ameren Illinois proposes two adjustments to the ADIT calculation for Net Operating Loss Carryforward ("NOLC"). These adjustments are necessary to avoid potential normalization violations based on three recent Private Letter Rulings ("PLRs") issued to similarly situated utilities by the IRS on June 28, 2024. Ameren Ex. 4.0 at 12; Ameren Ex. 29.2.

The first NOLC adjustment reflects the recalculation of Ameren Illinois' NOLC ADIT on a standalone basis per the PLRs. The second NOLC Excess Adjustment reflects the remeasurement of the Tax Cuts and Jobs Act ("TCJA") rate change excess ADIT calculation based on the PLRs. Ameren Ex. 4.0 at 13. These adjustments are required because the PLRs provide as follows: (1) the utility's NOLC ADIT asset should not be reduced by Tax Allocation Agreement ("TAA") payments for ratemaking; (2) the utility should reflect a "standalone" NOLC ADIT calculation for ratemaking; and (3) the utility would have a normalization violation if the NOLC ADIT asset is reduced by TAA payments for ratemaking. *Id*.

In the PLRs, the IRS determined that: (1) reducing the utility's net operating loss carryforward ADIT adjustment by reason of the tax allocation payments would violate the deferred tax reserve computational rules of 26 C.F.R. § 1.167(l)-1(h)(2); (2) putting into effect a rate order that fails to take into account the NOLC ADIT adjustment as a reduction to the total excess ADIT available to be amortized would result in a normalization violation; and (3) a final rate order that reduces the utility's NOLC ADIT adjustment by reason of

the tax allocation agreement payments would violate the depreciation normalization rules and result in the disallowance of the utility from claiming accelerated depreciation. Ameren Ex. 43.0 at 2. The PLRs also state that the utility should implement this change at the next available opportunity for resetting rates. For Ameren Illinois' gas operations, the current proceeding is the next available opportunity for resetting rates and therefore these NOLC adjustments are included in Ameren Illinois' ADIT calculations on Schedule B-9. Ameren Ex. 4.0 at 13.

Ameren Illinois states that the consequence of a normalization violation for Ameren Illinois would be severe, as the Company would not be allowed to claim accelerated depreciation or certain tax credits on its tax returns. Ameren Ex. 29.0 at 3. The inability to claim accelerated depreciation results in a significant increase in the Federal income tax liability, and decreased cash flow available for investment for the utility. A normalization violation would also result in a reduction in ADIT, which would significantly increase rate base and harm customers. *Id*.

Because the IRS guidance is clear that Ameren Illinois could be subject to a normalization violation if it does not treat NOLCs as it has proposed, and the consequences of a normalization violation would be severe, it is appropriate to rely on PLRs as guidance given that the facts and circumstances of the PLRs are the same as those for Ameren Illinois. Ameren Ex. 29.0 at 4.

Ameren Illinois notes that Staff agrees that the Company should adopt the accounting treatment based on the PLRs issued to other companies. Staff Ex. 10.0 at 13. No party to this case disputes Ameren Illinois' evidence regarding the severe consequences of a normalization violation.

Ameren Illinois' circumstances fit the facts and circumstances of the PLRs because: (1) Ameren Illinois is part of a consolidated group; (2) Ameren Illinois generated "standalone" Net Operating Losses ("NOLs"); (3) Ameren Illinois was paid for their NOLs via TAA payments; and (4) Ameren Illinois' NOLC ADIT asset was reduced by TAA payments. Ameren Ex. 4.0 at 13.

While a PLR issued to another taxpayer may not be formally relied on as precedent, Ameren Illinois contends these PLRs nevertheless provide useful guidance. PLRs that have already been issued to other comparably situated utilities show how the IRS interprets its regulations and how they are expected to be applied. Accordingly, the Company notes, other jurisdictions have already approved NOLC adjustments based on these PLRs, even though they were not direct recipients of the PLRs. The following jurisdictions have included the NOLC adjustment without their own PLRs: Virginia (Case No. PUR-2023-0002), Michigan (Case No. U-21461), Tennessee (Docket No. 21-00107), and Missouri (Case No. ER-2024-0319). Ameren Ex. 43.0 at 3; Ameren Ex. 29.1. (The Missouri case is for Ameren Illinois' affiliate, Union Electric Co. d/b/a Ameren Missouri, a party to the same TAA and consolidated income tax return as Ameren Illinois).

The Company asks the Commission to do the same here, and approve Ameren Illinois' NOLC adjustment based on these PLRs, as Staff witness Au agreed.

IIEC/FEA/CUB and the AG recommend that the Commission disallow the NOLC adjustments and require Ameren Illinois to get its own PLR. IIEC/FEA/CUB Ex. 1.0 at 8;

AG Ex. 3.00 at 23. These parties rely on the argument that PLRs for other utilities are not precedent for Ameren Illinois. AG IB at 67; IIEC/FEA/CUB IB at 5. These arguments entirely miss the point of the Company's proposed NOLC adjustments, which are required to avoid potential normalization violations.

Ameren Illinois asks the Commission to reject these recommendations as unnecessary, because the Company's circumstances are consistent with the circumstances of the entities receiving the PLRs. Additionally, rejecting Ameren Illinois' NOLC adjustments pending a separate PLR could result in Ameren Illinois incurring unnecessary additional costs and being subject to a normalization violation. Based on the existing PLRs on this issue, utility companies with these facts and circumstances need to make regulatory correcting adjustments at the first available opportunity to remedy or avoid a normalization violation. The rulings in the PLRs are clear and consistent, and there is no reason to burden customers with the cost of an individual Ameren Illinois PLR (or, worse, the risk of a normalization violation).

IIEC/FEA/CUB also contend that the facts and circumstances in the existing PLRs may not align with Ameren Illinois'. IIEC/FEA/CUB IB at 5-6. Ameren Illinois responds that its evidence shows why its facts and circumstances are consistent with the other PLRs. Ameren Ex. 4.0 at 13. According to Ameren Illinois, no witness or party has disputed the similarity of Ameren Illinois' facts and circumstances, so IIEC/FEA/CUB's contention that the IRS might find that Ameren Illinois is not similar is just speculation and is unsupported by the record.

In sum, Ameren Illinois contends that it has demonstrated that it is appropriate to rely on the other PLRs as guidance, particularly where the IRS guidance is clear that Ameren Illinois could be subject to a normalization violation if it does not treat NOLCs as it has proposed in this case. Thus, to reject the NOLC adjustments as AG and IIEC/FEA/CUB propose would otherwise: (1) potentially subject Ameren Illinois to a normalization violation if it does not treat NOLCs as it has proposed, and risk the severe consequences of such a normalization violation; (2) ignore that Ameren Illinois' facts and circumstances are consistent with the PLRs, and similar adjustments have been approved in other regulatory proceedings; and (3) unnecessarily burden ratepayers with the cost of getting an Ameren Illinois specific PLR.

b. Staff's Position

Staff recommends the Commission approve the Company's proposed NOLC adjustments and reject IIEC/FEA/CUB's disallowance. Staff Ex. 10.0 at 13-14. Ameren Illinois' proposal intends to avoid a normalization violation and to account for NOLC deferred tax asset on a stand-alone basis disregarding tax allocation agreement payments. *Id*. at 13, Attach. A. In Staff's opinion, it would not be prudent for Ameren Illinois to incur costs associated with filing for a PLR concerning this matter because the facts and circumstances in the existing PLRs issued to another company align with Ameren's facts and circumstances. Staff Ex. 13.0 at 13-14. In other words, Ameren Illinois' NOLC adjustments will be required regardless, and further requiring the Company to file for its own PLR would unnecessarily increase costs to ratepayers. *Id*.

Staff also recommends the Commission reject IIEC/FEA/CUB's proposed disallowances. Ameren Illinois has not simply claimed without proof that its

circumstances are similar to the Companies who were addressed in those PLRs; Ameren Illinois has provided four distinct facts that they have in common with those entities: (1) Ameren Illinois is part of a consolidated group; (2) Ameren Illinois generated "standalone" NOLs; (3) Ameren Illinois was paid for their NOLs via TAA payments; and (4) Ameren's NOLC ADIT asset was reduced by TAA payments. Ameren IB at 124-25. While both the AG and IIEC/FEA/CUB argue that Ameren Illinois' circumstances could be different than those entities, neither party has provided any detail about what differences could be dispositive or contested that Ameren Illinois shares these four facts in common with the utility entities who received PLRs.

Next, while Staff agrees that the Commission is not required to approve the Company's two NOLC adjustments, Staff argues that the risks of not doing so, such as increased costs to ratepayers, is sufficient to justify the Commission choosing to do so here. Four states: Virginia, Michigan, Tennessee, and Missouri, have chosen to do so based on similar facts and circumstances where their utilities did not receive their own PLRs, presumably to avoid the exact risks the Company and Staff raise in the instant proceeding. *See* Ameren IB at 125. Furthermore, similar treatment has been proposed in Indiana, Oklahoma, and Texas. Ameren Ex. 29.1 at 2.

Nor does the IRS's guidance prevent any of those state public utility commissions or the Commission from choosing to incorporate those changes when facts and circumstances are similar, the utility would be guaranteed to incur costs associated with obtaining its own PLR (at the ratepayer's expense), and the utility could potentially be subject to normalization violations for not complying with the IRS's guidance in the interim. Even if the IRS's "guidance" had the same force and effect of law (which to be clear it does not), neither Ameren Illinois nor the Commission would be using it as "precedent"; it would be using those PLRs as simple "guidance."

Staff contends it is wise for the Commission to save ratepayers the costs of Ameren Illinois obtaining its own PLR when the facts and circumstances are this clear, rather than to direct the Company to incur those costs at the ratepayer's expense to determine whether any unspecified differences exist. Furthermore, given the potential consequences of a normalization violation, there is great risk to ratepayers if Ameren Illinois does not incorporate these changes at this time.

For these reasons, Staff recommends the Commission approve Ameren Illinois' two NOLC adjustments and reject IIEC/FEA/CUB's NOLC disallowances.

c. AG's Position

The AG argues that Ameren Illinois cannot rely on an IRS PLR sent to another utility to increase its ADIT balance for the NOLC Adjustment. NOL is a deferred tax asset that reduces the ADIT balance and thus increases rate base. AG Ex. 3.00 at 21. In direct testimony, Ms. Ballard presented two adjustments on Schedule B-9 that increased the NOLC deferred tax asset included in the ADIT balance by $49.131 million. Ameren Ex. 4.0 at 12–13. The NOLC adjustments made by the Company represent the impact of recalculating (1) AIC's standalone NOLC ADIT and (2) the excess ADIT remeasurement of the ADIT balances from reducing the federal income tax rate from 35% to 21% due to the TCJA. AG Ex. 3.00 at 21. The adjustments account for the NOLC deferred tax asset

that had previously been reduced to offset the consolidated taxable income at the parent company or other affiliated companies. *Id*. at 21.

The Company relies on IRS PLRs sent to unrelated companies to adjust its NOLC. Ameren Ex. 29.2. Ameren Illinois argues that its circumstances fit the facts and circumstances of the PLRs because Ameren Illinois is part of a consolidated group, Ameren Illinois generated "standalone" NOLs, Ameren Illinois gas was paid for the NOLS via TAA payments, and Ameren Illinois' NOLC ADIT assert was reduced by TAA payments. Ameren IB at 12–13. The AG, however, notes that PLRs are tailored to the unique situation of the requesting taxpayer. AG IB at 67. Even if another company's facts and circumstances seem to be the same, there may be subtle differences that could lead to a different conclusion. *Id*.

Importantly, Ameren Illinois ignores IRS rules that make clear that "a PLR may not be relied on as precedent by other taxpayers or IRS personnel … ." Ameren Illinois cannot rely on a PLR issued to other taxpayers as a basis for a change in the ratemaking treatment of ADIT balances. PLRs deal only with IRS treatment of the affiliates or subsidiaries of the company which received the PLR. AG IB at 67; AG RB at 44; Ameren Ex. 29.2. Ameren Illinois has not established any relationship with the parties for which the PLRs were issued. *See* Ameren Ex. 43.0. Further, the AG states, FERC has acknowledged that the IRS, not FERC, should be the party interpreting the Internal Revenue Code. *AEP Okla. Transmission Co*., 191 FERC ¶ 61,239 at P 45 (2025). Finally, while Ameren Illinois points to other commissions including the NOLC adjustment without a specific PLR, the AG notes that the Commission is not bound by other state commissions or their actions. AG IB at 68; AG RB at 44; Ameren Ex. 43.0 at 3. Other states do not control the actions of the Commission.

Staff argues it would not be prudent for Ameren Illinois to incur costs associated with filing for a PLR because the facts and circumstances in the existing PLRs issued to another Company align with Ameren Illinois' facts and circumstances. Staff IB at 19. The AG contends that Staff has done little to analyze the facts underlying the PLR, and this is a complex area of tax law. Further, the cost of requesting a PLR shared between the various Ameren Illinois operating segments and affiliates for which the PLR might apply would be immaterial compared to the $4.4 million incremental increase in base rates to be passed on to Ameren Illinois' gas customers (*See* AG IB at Attach., Sch. 5) assuming that the facts and circumstances for AIC would be found to not be a normalization violation by the IRS. Significantly, to date, the Company has received no indication from the IRS that its previously filed tax returns raise a normalization issue. AG Ex 3.00 at 22.

For the foregoing reasons, the AG argues the Commission should not find that these PLRs are dispositive to Ameren Illinois' request. The AG asks the Commission to reject Ameren Illinois' attempt to increase rate base and instead adopt the AG's adjustment which removes $49.131 million from rate base representing an increase in ADIT of $49.131 million. AG IB at Attach., Sch A-6.

d. IIEC/FEA/CUB's Position

Ameren Illinois argues the NOLC adjustments are necessary to avoid a normalization violation. Ameren IB at 123. According to IIEC/FEA/CUB, the Company's position rings hollow, as Ameren Illinois has had consistent treatment for its NOLC for

several years with which its auditors have approved without issue. It is disingenuous to argue now that a normalization violation may occur in light of the auditors' historical treatment of the NOLC. IIEC/FEA/CUB Ex. 3.0 at 12. It has yet to happen and there's no reasonable expectation that it will occur without confirming the change is necessary with the IRS, as the other utilities cited by Ameren Illinois have done

Ameren Illinois next argues that its facts and circumstances are consistent with the PLRs issued in the past. The specific facts upon which the Company relies are that it is part of a consolidated group that generated standalone NOLs which were paid for via TAA payments and that the NOLC ADIT asset was reduced by the TAA payments. Ameren IB at 124-125. However, IIEC/FEA/CUB state, Ameren Illinois' SEC filing suggests the Company is not so certain about the similarity upon which it relies, admitting a PLR issued to another taxpayer may not be relied on as precedent, and that it is evaluating this guidance, and addressing potential impacts of the PLRs with the Missouri Commission and FERC. Furthermore, PLRs are specific to the requesting taxpayer and even though facts and circumstances may appear to be same, there could be subtle differences that could lead to a different conclusion by the IRS. IIEC/FEA/CUB Ex.1.0 at 9; AG IB at 67.

Further, Ameren Illinois contends it would be imprudent to incur costs associated with filing a PLR, because the Company (not the IRS) believes that the facts and circumstances in the existing PLRs aligns with its perspective. IIEC/FEA/CUB Ex. 1.0 at 8. IIEC/FEA/CUB question the reasonableness of some unknown cost associated with the filing with the IRS, in comparison to the impact to ratepayers which is $49.13 million in rate base.

Notably, other utilities continue to seek guidance from the IRS in the form of their own PLR request. Even the PLRs cited by Ameren Illinois were requested in part due to regulatory commission directives. IIEC/FEA/CUB Ex. 1.0, 11-12. IIEC/FEA/CUB ask the Commission to hold Ameren Illinois to the same standard that other utilities have found to be appropriate, which is submitting a request for the PLR to the IRS before making a significant change to its ratemaking cost of service.

Staff recommends the Commission reject IIEC/FEA/CUB's NOLC disallowances and approve the Company's two NOLC adjustments, concluding it would not be prudent for Ameren Illinois to incur costs associated with filing for a PLR because the facts and circumstances in the existing PLRs issued to another company align with Ameren Illinois' facts and circumstances here. However, IIEC/FEA/CUB respond that Staff's analysis was largely limited to the testimonies submitted by both the Ameren and IIEC/FEA/CUB witnesses. Staff IB at 16-19. In essence, Staff's position is that to save some unknown cost associated with a PLR, it is acceptable for ratepayers to be at risk for significant dollars, $49.13 million in rate base. IIEC/FEA/CUB disagree.

IIEC/FEA/CUB agree with the AG that relying on the PLRs as Ameren Illinois does is irresponsible. Among other factors the AG notes the IRS PLRs are sent to unrelated companies, and Ameren Illinois is not related to these other companies. Further, the IRS has made it clear that a PLR may not be relied on as precedent by other taxpayers or IRS. AG IB at 66-67.

IIEC/FEA/CUB join the AG in asking the Commission to reject the Company's attempt to increase rate base and the return to investors based on an unrelated PLR. Accordingly, IIEC/FEA/CUB recommend removing $49.13 million from rate base. The AG noted a correction to IIEC/FEA/CUB's original recommended adjustment, and IIEC/FEA/CUB agree with that correction and the AG's adjustment of $49.13 million from rate base. *Id*. at 68.

e. Commission Analysis and Conclusion

The Company proposes two NOLC adjustments to the ADIT calculation. The Company and Staff argue that that these adjustments are necessary to avoid potential normalization violations based on three recent IRS PLRs issued to similarly situated utilities. IIEC/FEA/CUB and the AG argue that IRS rules make clear that a PLR may not be relied on as precedent by other taxpayers or IRS personnel.

The Commission finds it is not necessary for Ameren Illinois to request its own PLR before making the requested NOLC adjustments to the ADIT calculation. Ameren Illinois asserts it is similarly situated to the utilities who received the PLRs. The Commission finds the similarities of the entities and their circumstances, and the possibility of significant penalties compelling. The Commission agrees that Ameren Illinois risks a normalization violation without these proposed NOLC adjustments. The Commission finds the risk of severe penalties outweighs any identified benefits associated with deferral while obtaining a PLR. Accordingly, the Commission approves Ameren Illinois' proposed NOLC adjustments and rejects the position of the AG and IIEC/FEA/CUB.

5. Derivative Adjustments – Cash Working Capital

The Commission approves derivative adjustments to CWC that are in accordance with the Commission's decisions reached herein.

C. Rate Base

Based on the above determinations, the Commission finds that the rate base for Ameren Illinois is hereby approved as shown in the rate base schedule (Schedule 3) in the Appendix to this Order.

IV. OPERATING REVENUE AND EXPENSES

A. Uncontested or Resolved Issues

1. Eliminate PGA (Sch. C-2.1)

Ameren Illinois states that the Purchased Gas Adjustment ("PGA") charge recovers the cost of the natural gas that the Company purchases from its suppliers and delivers to its customers. These revenues and expenses are the subject of separate reconciliation proceedings and are outside the scope of this base rate proceeding. Ameren Ex. 4.0 at 14. Ameren Illinois explains that the adjustment shown on Schedule C-2.1 removes the billed and unbilled revenues related to purchased gas and expenses collected through the PGA. *Id*.

Ameren Illinois explains that unbilled revenue is the estimated revenue accrued for service rendered, but not billed, at the end of any accounting period. *Id*. Due to cycle

billing where Ameren Illinois' billing system uses twenty-one cycles to bill customers, the Company records unbilled revenue. *Id*. The Company further explains that to record revenues at present rates as shown on Schedule E-5, the adjustments eliminate unbilled revenue. *Id*.

There is no dispute from any party on this issue. The Commission finds Ameren Illinois' adjustment in Schedule C-2.1 for PGA reasonable, and it is hereby approved.

2. Gas Losses Adjustment (Sch. C-2.2)

Ameren Illinois notes that Schedule C-2.2 reflects an adjustment to Gas Losses. Ameren Ex. 4.0 at 15. The Company notes that unadjusted per-books forecasted Underground Storage operating expenses do not reflect the gas inventory losses that are charged to Account 823. *Id*. at 14. Therefore, Ameren Illinois explains, an adjustment has been made to reflect the cost of the Company's inventory losses related to gas held in underground storage facilities to gas operations in Gas Delivery Services operating expenses. *Id*. at 14-15.

There is no dispute from any party on this issue. The Commission finds Ameren Illinois' adjustment to Gas Losses as reflected in Schedule C-2.2 reasonable, and it is hereby approved.

3. Company Use of Fuels (Sch. C-2.3)

Ameren Illinois explains that Schedule C-2.3 reflects an adjustment for the cost of Ameren Illinois' use of electricity and gas applicable to gas operations in Gas Delivery Services operating expenses. Ameren Ex. 4.0 at 15. Ameren Illinois further explains that unadjusted per-books forecasted Gas Delivery Services operating expenses do not reflect the gas-allocable share of the cost of the Company's use of natural gas, as it is charged to Account 804 – Purchased Gas, or the use of electricity purchased from power providers, as it is charged to Account 555 – Purchased Power. *Id*.

There is no dispute from any party on this issue. The Commission finds Ameren Illinois' calculation for company-use gas in Schedule C-2.3 reasonable, and it is hereby approved.

4. Franchise Requirements (Sch. C-2.4)

The Company notes that it has franchise agreements with various municipalities, each with its own terms. Some municipalities receive gas at no charge from the Company, and others receive gas at a discounted rate. Ameren Ex. 4.0 at 15. Ameren Illinois also notes that there are also some municipalities with terms that entitles them to a cash payment from the Company for franchise consideration. *Id*. Schedule C-2.4 accounts for these franchise items for ratemaking purposes. *Id*. The Company states that it does not reflect the costs of the free or discounted gas in its budgeted operating expenses, and the franchise fees requiring cash payments are listed in Account 927 – Franchise Requirements. *Id*. The Schedule C-2.4 adjustment: (1) reflects the free or discounted portion of franchise consideration in distribution O&M expense; and (2) reclassifies the portion of franchise terms related to cash payments in Account 927 to distribution O&M expense Account 880. *Id*. Ameren Illinois explains that the Franchise Requirements adjustment results in an increase to operating expenses, net of the portion

of gas franchise consideration separately recovered through Rider EF – Excess Franchise. *Id*. at 15-16.

There is no dispute from any party on this issue. The Commission finds Ameren Illinois' franchise requirements adjustment in Schedule C-2.4 reasonable, and it is hereby approved.

5. Interest on Customer Deposits (Sch. C-2.5)

Ameren Illinois notes that Schedule C-2.5 reflects an adjustment related to interest on customer deposits. The amount deduced from rate base for customer deposits includes an amount for interest at a rate of 4.50% per annum. Ameren Ex. 4.0 at 23. The Company explains that it is appropriate for ratemaking purposes to include in operating expense the interest paid by Ameren Illinois on such deposits. *Id*. The level of interest expense currently established by the Commission is set at 4.50%, beginning January 2025. *Id*. Therefore, Ameren Illinois states, interest at the rate of 4.50% has been multiped by the test year customer deposit balance used in the calculation of the rate base and is reflected as an increase to operating expenses on Schedule C-2.5. *Id*.

There is no dispute from any party on this issue. The Commission finds Ameren Illinois interest paid on customer deposits as reflected in the adjustment on Schedule C-2.5 reasonable, and it is hereby approved.

6. Uncollectible Expense (Sch. C-2.6)

Ameren Illinois explains that the uncollectible expense in Schedule C-2.6 is recovered through base rates as a part of the Customer Charge. Gas uncollectibles include only the portion of total Ameren Illinois' uncollectible expense that is allocable to gas operations, with the remainder recovered under Rider PGA. Ameren Ex. 4.0 at 16. In alignment with the Commission's Final Order in Docket No. 11-0282, the gas base rates portion of uncollectibles is the ratio of net write-offs for gas delivery service customers to total net write-offs. *Id*. The Company points out that, consistent with Staff's methodology used in a prior Ameren Illinois rate review, Docket No. 15-0142, along with Commission approval of the same methodology in Docket Nos. 18-0463, 20-0308, and 23-0067, Ameren Illinois used a three-year historical average of net write-offs based on 2021 through 2023. Ameren Ex. 4.0 at 16. The portion of three-year historical average of net write-offs attributable to Purchased Gas is recoverable as a Rider S Uncollectible Factor Adjustment. *Id*.; Ameren Ex. 5.0 at 6-7; Ameren Ex. 5.3 at 2.

No party opposed the Company's proposed values for uncollectible expense. The Commission finds Ameren Illinois' calculations for uncollectible expense in Schedule C-2.6 reasonable, and it is hereby approved.

7. Rider GER (Sch. C-2.7)

Ameren Illinois explains that Rider GER – Gas Energy Efficiency Cost Recovery forecasted expenses were removed from operating expenses in the test year as reflected in Schedule C-2.7. Ameren Ex. 4.0 at 16-17. More particularly, the Company notes, Schedule C-2.7 removes expenses for internal labor related to Ameren Illinois' gas Energy Efficiency ("EE") program. *Id*. at 17. In Docket No. 19-0632, following a Stipulation between the Company and the AG regarding transition of internal Company EE electric program labor to recovery through Rider EE, the Commission approved

switching of 2020 program year electric EE-related Company labor costs and EE travel costs for cost recovery in the electric EE Formula Rate update filed in 2021. *Id*. In Docket No. 19-0370, Staff and Ameren Illinois agreed that EE internal labor recovery in Ameren Illinois' gas jurisdiction should mirror recovery of such costs in its electric jurisdiction. *Id*. In Docket Nos. 20-0308 and 23-0067, the test year revenue requirement removed gas EE internal labor from base rates for rider recovery. *Id*. The 2026 Test Year revenue requirement continues that treatment. *Id.*

No party disputed the Company's treatment of this issue in this case. The Commission finds Ameren Illinois' removal of costs related to the gas EE program from operating expenses as reflected in Schedule C-2.7 reasonable, and it is hereby approved.

8. Incentive Compensation (Sch. C-2.8)

In this docket, the Company states, it is not seeking recovery of short-term incentive compensation costs related to the Short-Term Incentive Plan for officers that are based on financial performance goals. Ameren Ex. 4.0 at 21. Thus, Ameren Illinois notes that portion of incentive compensation has been removed from Test Year operating expenses as shown in Schedule C-2.8. *Id*.

No party disputed the Company's treatment of this issue. The Commission finds Ameren Illinois' adjustment to incentive compensation included in operating expenses in Schedule C-28 reasonable, and it is hereby approved.

9. Performance Share Unit Program (Sch. C-2.9)

Ameren Illinois states that Schedule C-2.9 shows the adjustment that removes the portion of LTIP costs from operating expenses in the Test Year that the Company is not seeking to recover. Ameren Ex. 4.0 at 21-22.

No party has objected to this adjustment. The Commission finds Ameren Illinois' adjustment for the Performance Share Unit Program in Schedule C-2.9 reasonable, and it is hereby approved.

10. Lobbying (Sch. C-2.10)

The Company states that Schedule C-2.10 reflects the adjustment to remove lobbying expenses from test year operating costs. Ameren Ex. 4.0 at 17. Ameren Illinois states that these costs were recorded to gas Administrative and General expense, rather than to a nonoperating expense account, based on 2023 actual amounts, adjusted by escalation factors of 3.21% for 2024 and 4.25% for 2025-2026. *Id*. Ameren Illinois notes that this adjustment in Schedule C-2.10 is consistent with the adjustment approved in the Company's most recent electric distribution Rider MAP-R – Modernization Action Plan - Reconciliation ("MAP-R") proceeding, Docket No. 24-0288. *Id*.

No party has objected to this adjustment. The Commission finds Ameren Illinois' adjustment to remove lobbying expenses from operating costs in Schedule C-2.10 reasonable, and it is hereby approved.

11. Pension Expense (Sch. C-2.12)

Ameren Illinois states that non-service pension expenses are recorded to non-operating income in the Test Year forecast to align with Securities and Exchange

Commission ("SEC") reporting. Ameren Ex. 4.0 at 18. The Company states that its Schedule C-2.12 presents an adjustment of ($1,485,000) to include non-service pension expense in operating expense Account 926, which is consistent with Commission and FERC reporting. Ameren Ex. 4.0 at 18.

The adjustment is uncontested among the parties. The Commission finds Ameren Illinois' adjustment for non-service pension expenses in Schedule C-2.12 reasonable, and it is hereby approved.

12. Rate Case Expense (Sch. C-2.13)

a. Amortization Adjustment (Sch. C-2.22)

Ameren Illinois states that Section 9-229 of the Act requires the Commission to assess the justness and reasonableness of Ameren Illinois' rate case expenses. 220 ILCS 5/9-229. The Commission's Part 288 rules are intended to guide that assessment. 83 Ill. Adm. Code 288. Consistent with that authority, Ameren Illinois notes that it submitted record evidence supporting the justness and reasonableness of its expenses to prepare and litigate this proceeding. *See, e.g.*, Ameren Exs. 5.0 at 8-17; 5.4-5.7; 15.0; 20.0 at 8; 20.1-20.2; 33.0 at 3; 34.0 at 5-8; 34.3-34.6; 45.0. Specifically, Ameren Illinois notes, initially forecasted a $3,557,963 level of rate case expense, which Ameren Illinois proposed to amortize over one year, reflecting the anticipated period between the instant docket and Ameren Illinois' next gas rate case filing. Ameren Ex. 5.0 at 9. Ameren Illinois states that it later updated this figure to $3,600,763. Ameren Ex. 34.0 at 5; Ameren Ex. 34.3.

Ameren Illinois states that Staff witness Streib, AG witness Selvaggio, and IIEC/FEA/CUB witness Leyko recommended that Ameren Illinois amortize rate case expense over two years instead of Ameren Illinois' originally proposed one year. Staff Ex. 1.0 at 7; AG Ex. 1.00 at 13-15; IIEC/FEA/CUB Ex. 1.0 at 3. The Company states that, in the interest of limiting the contested issues in this proceeding, Ameren Illinois agreed to this proposal. Ameren Ex. 34.0 at 8. Importantly for this compromise, both AG witness Selvaggio and IIEC/FEA/CUB witness Leyko noted in their rebuttal testimonies that Ameren Illinois is not harmed by a two-year amortization because the Company may include any unamortized costs in the next proceeding if the Company does file a rate case in 2026. AG Ex. 3.00 at 8; IIEC/FEA/CUB Ex 3.0 at 6. Ameren Illinois states that it agrees with that point, and the issue of rate case expense amortization is therefore uncontested. Ameren Ex. 34.0 at 8.

Ameren Illinois notes that the AG, however, proposed a disallowance of $160,845 to Ameren Illinois' rate case expense, which is discussed in Section IV.B.3. The Company asserts that, subject to the Commission's determination on that issue, the Commission should approve Ameren Illinois' rate case expense and authorize it to be amortized over a two-year period.

The Commission appreciates the resolution between the parties regarding the amortization period to apply to the Company's rate case expense. For the reasons stated in the parties' testimony, the Commission finds the amortization adjustment in Schedule C-2.22 reasonable and it is hereby approved.

b. Final Order Language on Amortization Period and Consumer Intervenor Compensation Fund

Ameren Illinois explains that, based on the agreed two-year amortization of rate case expense, Staff and Ameren Illinois reached agreement on suggested language for the Commission to include in its Final Order relating to rate case expense amortization period. *See* Staff Ex. 9.0 at 8-10; Ameren Ex. 34.0 at 9. Relatedly, Ameren Illinois states, Staff and Ameren Illinois reached agreement on suggested language for the Commission to include in its Final Order relating to the contribution to the Consumer Intervenor Compensation Fund that is required and recoverable as rate case expense under Section 9-229 of the Act. Staff Ex. 9.0 at 10-11; Ameren Ex. 34.0 at 9. The Company states that the proposed language on these issues as agreed upon between Staff and Ameren Illinois is as follows:

> The Commission has considered the costs to be expended by Ameren Illinois Company to compensate attorneys and technical experts to prepare and litigate rate case proceedings and asses that the amount included as rate case expense of $3,600,763, which is inclusive of the required Consumer Intervenor Compensation Fund Payment, to be amortized over a two-year period, resulting in $1,800,382 included in the test year revenue requirement, is just and reasonable pursuant to Section 9-229 of the Act.
>
> The Commission, consistent with Section 9-229 of the Act, hereby orders Ameren Illinois Company to make a payment of one half of the rate expense allowed by the Commission, but not to exceed $500,000, into the Consumer Intervenor Compensation Fund. The payment shall be made within the timeframe prescribed by Section 9-229. This amount represents the statutory cap for what the utility must contribute to the Consumer Intervenor Compensation Fund for this rate case proceeding.

Ameren Ex. 34.0 at 9.

The Commission has reviewed the agreed language between Staff and Ameren Illinois as set forth above, and consistent with the Commission's determination to reject the AG's proposed disallowance. The Commission approves this language and incorporates it in the Findings and Ordering Paragraphs below.

13. Adjustments for Advanced Leak Detection, Remote Methane Detection, and Fugitive Emissions Reduction Pilot Programs (Sch. C-2.15) (expense adjustments only; see Section IX for program discussion)

Ameren Illinois explains that Schedule C-2.15 reflects the adjustment to include projected 2026 costs related to the following uncontested pilot programs: Advanced Leak Detection, Remote Methane Detection, and Fugitive Emissions Reduction. Ameren Ex. 4.0 at 22. As discussed in Sections IX.A.1-3., these pilot programs are uncontested.

Because the Commission approves Ameren Illinois' proposals to undertake the Advanced Leak Detection, Remote Methane Detection, and Fugitive Emissions Reduction pilot programs, as discussed in Sections IX.A.1-3, the Commission also approves the associated ratemaking adjustments shown on Schedule C-2.15.

14. Other Ratemaking Adjustments (Sch. C-2.16)

Ameren Illinois states that other ratemaking adjustments to operating expenses adopted by the Commission in previous dockets are presented in Schedule C-2.16. Ameren Ex. 4.0 at 19. The Company has reviewed these adjustments and, where appropriate, has adopted the adjustments in this filing. *Id*. Adjustments that are based on 2023 actual costs, rather than test year amounts, are inflation-adjusted by 3.21% for 2024 and 4.25% for 2025 and 2026. *Id*.

There is no objection among the parties to the adjustments presented in Schedule C-2.16 that reduced the Company's operating expenses. The Commission finds Ameren Illinois' other ratemaking adjustments reducing operating expenses in Schedule C-2.16 reasonable, and they are hereby approved.

15. Derivative Adjustments – Depreciation for Uncontested Adjustments (Sch. C-2.17)

Ameren Illinois states that Schedule C-2.17 reflects derivative adjustments to depreciation expense associated with adjustments for previously disallowed plant, incentive compensation, the PSUP, and the Fugitive Emissions Reductions pilot program, as well as certain adjustments identified by the Company in rebuttal and surrebuttal. *See* Ameren Ex. 4.0 at 22.

Where the underlying adjustments are uncontested in this proceeding, the derivative adjustments also are uncontested. The Commission finds Ameren Illinois' derivative adjustments shown in Schedule C-2.17 reasonable, and they are hereby approved.

16. Gas Infrastructure Planning Adjustment (Sch. C-2.18)

The Company notes that in the Ameren 2023 GRC Final Order the Commission found that Ameren Illinois "shall file a long-term infrastructure plan ('Long-Term Gas Infrastructure Plan') with the Commission every two years beginning July 1, 2025." *Ameren 2023 GRC*, Final Order at 96. However, Ameren Illinois notes that the Ameren 2023 GRC Final Order did not include a method of cost recovery for this plan. Ameren Ex. 4.0 at 20. Accordingly, Ameren Illinois states, it included an adjustment on Schedule C-2.18 to reflect the 2024-2025 costs of the plan, which costs are being amortized over two years (2026-2027). *Id*. The amortization related to the 2026 Test Year is included on Schedule C-2.18. *Id*.

This adjustment is uncontested by the parties. The Commission finds Ameren Illinois' gas infrastructure planning adjustment shown on Schedule C-2.18 reasonable, and it is hereby approved.

17. Pass-Through Taxes (Sch. C-2.19)

Ameren Illinois explains that pass-through charges are not included in the Company's gas revenue requirement. Ameren Ex. 4.0 at 20. Ameren Illinois states that

its customers' bills include charges for Illinois assistance programs, municipal utility taxes, public utility/Illinois gas revenue taxes, and Commission gross revenue taxes. *Id*. The Company notes that it is responsible for remitting the amounts it collects as a result of these charges to the appropriate governmental or non-profit agencies. *Id*. These charges are removed from gas revenues and have therefore also been eliminated from operating expenses, as shown on Schedule C-2.19. *Id*. Ameren Illinois explains that the only revenue requirement impact of pass-through charges is the rate base amount associated with changes in CWC that result from the timing of cash receipt versus payment for these charges. *Id*.

No party disputed the Company's treatment of this issue. The Commission finds Ameren Illinois' removal of the pass-through taxes from the operating expenses in the Company's gas revenues reflected on Schedule C-2.19 reasonable, and it is hereby approved.

18. Amortization of Excess/Deferred ADIT (Sch. C-2.20)

Ameren Illinois states that the adjustment made in Schedule C-2.20 is to address the amortization of excess/deficient ADIT for previously disallowed plant. Ameren Ex. 4.0 at 20-21.

No party disputed the Company's adjustment. The Commission finds Ameren Illinois' adjustment in Schedule C-2.20 for amortization of excess deferred state and federal tax expense reasonable, and it is hereby approved.

19. Discount on Tax Collected and Remitted (Sch. C-2.21)

Ameren Illinois explains that it applies discount rates to its collection and remittance of the Illinois Municipality Tax, the Illinois Gross Receipts Tax, and the Illinois Public Utility Tax. AG Ex. 1.05 at 5. The AG recommended an adjustment to increase other operating revenues for those discounts based on the average discount retained from 2022-2024 (with 2024 being projected). AG Ex. 1.00 at 20. Ameren Illinois notes it did not contest an adjustment to increase miscellaneous revenues Account 495 by $215,000. Ameren Ex. 19.0 (Rev.) at 4; Ameren Ex. 19.2.

No other party contested this adjustment. The Commission finds Ameren Illinois' adjustment, along with AG's adjustment to increase the amount, to discount tax on tax collected and remitted in Schedule C-2.21 reasonable, and it is hereby approved.

20. FERC Order 898 Adjustment (Sch. C-2.21)

See discussion of this issue in Section III.A.9.

21. Actuarial Update Adjustment (Sch. C-2.21)

Ameren Illinois states that the AG proposed an adjustment in direct testimony to update Pension and OPEB costs for the most recent actuarial study provided by the Company in discovery. AG Ex. 1.00 at 12; AG Ex. 1.02. The Company states that the impact of the AG's proposed adjustment is an increase of $338,000 to Pension and OPEB expense and a reduction of $(45,000) to gross plant in rate base. Ameren Ex. 19.0 (Rev.) at 5; Ameren Ex. 19.2 at 3.

Ameren Illinois states that it agreed with the AG's recommendation to update Pension and OPEB expense for the most recent actuarial study. Ameren Ex. 19.0 (Rev.) at 5. Thus, the recommendation to use the most recent actuarial study for these expenses is uncontested. The Commission finds the adjustment reflected in Schedule C-2.21 to use the most recent actuarial study for the Pension and OPEB expenses reasonable, and it is hereby approved.

22. Incentive Compensation related to Rate Case Expense (Sch. C-2.21)

In its direct filing, Ameren Illinois states that it proposed an adjustment to operating expenses to include incentive compensation costs that the Company incurred related to rate case expense in Ameren 2023 GRC and which were not included elsewhere in the revenue requirement. Ameren Ex. 4.0 at 19; Ameren Ex. 19.0 (Rev.) at 5. AG witness Selvaggio proposed to remove this adjustment. AG Ex. 1.00 at 20-22. To limit issues in this proceeding and for the purpose of this proceeding only, Ameren Illinois states that it accepted Ms. Selvaggio's recommendation to remove this adjustment as shown on AG Exhibit 1.01 Schedule A-8. Ameren Ex. 19.0 (Rev.) at 6; Ameren Ex. 19.2. Accordingly, this issue is now uncontested.

The Commission finds the Company's removal of the adjustment for incentive compensation related to rate case expense reasonable, and it is hereby approved.

23. Asset Separation Process Plant Updates – Depreciation

See discussion of this issue in Section III.A.12.

24. Update to Affiliate Interest

The Company explains that, as part of the review of affiliate transactions undertaken in response to Staff data request KCA 8.01 (Ameren Ex. 19.7), Ameren Illinois discovered that the summary of affiliate transactions on Schedule C-13b incorrectly excluded $170,000 in interest and bank fee charges. Ameren Ex. 19.0 (Rev.) at 8. The Company states that it agreed to make the necessary updates in rebuttal testimony. *Id*. Ameren Illinois explains that this update does not impact the revenue requirement and is included in Ameren Ex. 19.2 *Id*. This matter is uncontested.

The Commission finds Ameren Illinois' update to affiliate interest is reasonable, and it is hereby approved.

25. Interest Synchronization Adjustment

Ameren Illinois notes that it proposed an adjustment to interest synchronization reflect adjustments to rate base and the weighted cost of debt. Ameren Ex. 33.1. No party contested the methodology used to compute interest synchronization.

The Commission finds Ameren Illinois' methodology used to compute interest synchronization reasonable, and it is hereby approved.

B. Contested Issues

1. OPEB Expense

a. AIC's Position

See discussion of this issue in Section III.B.3.

b. Staff's Position

See discussion of this issue in Section III.B.3.

c. AG's Position

See Section III.B.3. for further discussion of the OPEB non-service costs as those relate to the OPEB contra-liability. The AG explains that the Company proposes to treat its OPEB negative non-service costs—meaning that the plan assets are sufficient to cover these costs—in one of two ways. The Company's proposal is to not include the non-service costs in operating expenses assuming the 2026 increase in the OPEB contra-liability balance is removed from rate base. Ameren IB at 116. The Company's alternative proposal is to include the OPEB negative non-service costs in operating expenses and include the OPEB contra liability in base rate. AG Ex. 3.00 at 4; Ameren Ex. 19.0 at 26, 38-39. Each proposal is tied to including the OPEB contra-liability in some form.

Under the Company's initial proposal to exclude the negative non-service costs in operating expenses, Ameren witness Ballard stated that AIC does not consider the OPEB non-service costs components to be an element of employee compensation, which is why the Company did not include the OPEB non-service costs in operating expenses. Ameren Ex. 4.0 at 25–26. AG witness Selvaggio noted that negative OPEB non-service costs suggest that "the OPEB Trust is in a better financial position than anticipated regarding its accumulated obligations due to improved returns on investment, a lowered mortality rate or an increased life expectancy, or any combination of factors." AG Ex. 1.00 at 7. The AG asserts that the 2026 OPEB non-service costs should be included in the revenue requirement whether they are projected to be negative (a credit) or positive (a charge). AG Ex. 1.00 at 9. Ms. Selvaggio testified that "[r]atepayers provided recovery of the overstated aggregate costs of OPEB that resulted in the projected 2026 overfunded balance," and that they "therefore should receive the benefit when those costs reduce operating expenses." AG Ex. 1.00 at 9. The AG argues that shareholders should not benefit from this situation.

In addition, the AG notes that the Company includes pension non-service expenses in operating expenses. Ameren IB at 131; AG Ex. 1.00 at 9. The AG demonstrates that it is inconsistent to include pension non-service expenses in operating expenses while excluding OPEB expenses for the sole reason that it is a "negative" cost and does not increase rates, as the Company proposes. AG Ex. 1.00 at 9. The AG asserts that regulatory treatment of the OPEB expenses and pension non-service expenses should be the same. *Id*.

The AG also notes FERC guidance. Specifically, the intent of Docket No. AI18-1-000, which was to provide "clarity and certainty to the industry on how they should apply the Commission's accounting and reporting requirements to pension and OPEB costs." Docket No. AI18-1-000, cited in AG Ex. 1.00 at 8. The AG points out that FERC's

guidance requires jurisdictional public utilities to record both pension and OPEB service costs and non-service costs in their entirety to Account 926. *See* Docket No. AI18-1-000 at 2–3; AG Ex. 1.00 at 8. The AG notes that FERC's accounting issuance recognized that there are some varying rate schemes approved by FERC and other regulatory bodies to calculate recoverable pension and OPEB costs in cost-of-service rates, but FERC decided that having a uniform requirement for how jurisdictional entities should account for and report pension and OPEB costs promoted "comparability" and provided "decision-useful information" for rate decisions. AG IB at 73.

The AG demonstrates that the Commission has consistently applied the same regulatory treatment on this issue. AG Ex. 1.00 at 7-8. Both before and after the issuance of ASU No. 2017-07 in Docket No. AI18-1-000, the various components of pension and OPEB costs were reported on an aggregate basis and included in the test year operating expenses and recovered from ratepayers. AG Ex. 1.00 at 9. The Commission has consistently recognized both the service costs and non-service costs in the utility's operating expenses and has included those costs in aggregate in the revenue requirement. AG Ex. 1.00 at 9.

For these reasons and the reasons discussed in Section III.B.3, the AG requests that the Commission include the negative non-service OPEB costs in the revenue requirement, which reduces A&G expense Account 926 by $13.067 million. *See* AG IB Attachment, Schedule A-5.

d. IIEC/FEA/CUB's Position

IIEC/FEA/CUB witness Leyko recommended that non-service costs tied to OPEB that Ameren removed from the test year be included in cost of service. IIEC/FEA/CUB note Mr. Leyko explained that if customers have compensated AIC for its contributions to the OPEB Trust, then AIC's customers are fully entitled to all the benefits produced by the OPEB contra-liability, including the reduction to AIC's revenue requirement due to negative OPEB non-service costs. IIEC/FEA/CUB say that Ameren has yet to provide any evidence that shareholders rather than ratepayers funded the OPEB contra-liability; therefore, ratepayers are entitled to the full benefits of the OPEB contra-liability. IIEC/FEA/CUB Ex. 1.0 at 13-14. Furthermore, IIEC/FEA/CUB say Mr. Leyko explained the means by which Ameren's customers could have compensated the Company for its contributions to the OPEB Trust, but that had not occurred. IIEC/FEA/CUB Ex. 3.0 at 9-10. IIEC/FEA/CUB allege in sum, Ameren has not proven ratepayers, and not customers, compensated the Company for its contributions to the OPEB Trust, instead focusing on its incorrect interpretation of the 2011 Order.

IIEC/FEA/CUB witness Leyko explained how he calculated the $12.986 million reduction in the revenue requirement. *Id*. at 14; *see* IIEC/FEA/CUB Ex. 1.1. To the extent that non-service costs components of OPEB in the test year have been removed, the non-service costs should be included in the cost of service, which will reduce the revenue requirement by $12.986 million. IIEC/FEA/CUB Ex. 1.0 at 2, 13.

e. Commission Analysis and Conclusion

As discussed in Section III.B.3.e., the Commission rejects Ameren's proposal to include OPEB contra-liability in rate base and approves Staff's corresponding adjustment reversing Ameren's contra-liability modification.

The Commission observes that Staff recommends excluding the negative OPEB non-service costs on the basis that doing so would avoid a cash flow shortfall that could require Ameren to incur additional financing costs, thereby impeding its ability to earn the authorized rate of return on rate base. Staff maintains that its proposal achieves an appropriate balance between the interests of ratepayers and shareholders.

The Commission does not agree and declines to adopt Staff's recommendation. The Commission notes that FERC, in Docket No. AI18-1-000, provides clear guidance that both pension and OPEB service and non-service costs are to be recorded in Account 926 as components of utility operating income. Moreover, as discussed in Section III.B.3.e, Ameren has presented no new evidence that would warrant reversal of the Commission's prior determination that the $100 million contribution to the OPEB fund was not sourced from shareholder funds.

Accordingly, the Commission finds that ratepayers, not shareholders, should receive the benefit of the negative OPEB non-service costs. The Commission therefore concludes that the negative OPEB non-service costs shall be included in the revenue requirement, thereby reducing Ameren's revenue requirement by $13.067 million as presented by the AG. *See* AG IB at Sch. A-5.

In reaching this conclusion, the Commission emphasizes that consistent regulatory treatment of pension and OPEB costs promotes transparency, comparability, and fairness in ratemaking. Recognizing both service and non-service components in operating income aligns with FERC accounting guidance and with the Commission's longstanding practice of ensuring that ratepayers receive the benefit of funds previously recovered through rates.

2. Rate Case Expense

a. AIC's Position

The AG proposes to disallow $160,845 of Ameren Illinois' rate case expense. Ms. Selvaggio advanced four arguments in support of that proposal, all of which are related to Concentric Energy Advisors, LLC's ("Concentric") hourly rates.

Ameren Illinois states that it has established a prima facie case that its rate case expense—and particularly the amount associated with Concentric—is reasonable in amount and prudently incurred. *See generally* Ameren Ex. 5.0 at 8-16 (Lavin direct testimony discussing rate case expense and service providers); Ameren Exs. 5.4-5.7 (expense summary, engagement agreements, invoices, and affiliate hours reports); Ameren Ex. 6.0 at 2-6 (Irizarry-Robles direct testimony discussing forecasting and budgeting process); Ameren Ex. 15.0 (Dearmont Affidavit discussing rate case expense); Ameren Exs. 15.1-15.3 (additional engagement agreements); Ameren Ex. 20.0 at 6-9 (Lavin rebuttal testimony supporting rate case expense); Ameren Exs. 20.1-20.2 (additional affiliate hours reports and invoices); Ameren Ex. 34.0 at 5-10 (Lavin surrebuttal testimony supporting rate case expense); Ameren Exs. 34.3-34.5 (updated expense

summary, additional engagement agreement, and invoices); Ameren Ex. 45.0 at 1-3 (Dearmont Verification supporting rate case expense); and Ameren IB at 144-46 (discussing 220 ILCS 5/9-229 and Required Support for Compensation Costs pursuant to 83 Ill. Adm. Code 288.100).

The AG offered five arguments in support of its proposed $160,845 rate case expense disallowance: (i) the increase in hourly rates due to the promotion of two employees did not result in a change in work practices or a reduction in hours and was therefore imprudent and unreasonable; (ii) Ameren Illinois was unaware of the increase in rates associated with the promotions; (iii) the Company has increased the budget and hourly rates for Concentric because it has no incentive to reduce rate case expense; (iv) the Commission should retroactively change Concentric's rates for this case to match those in the MYRP; and (v) due to the similar engagement agreements between this case and the MYRP, and the discount pricing structure, it may be difficult to distinguish which case Concentric should have billed to and therefore the Commission should apply the discounted rate to this proceeding too. *See* AG IB at 74-81.

Ameren Illinois contends that all five of the AG's arguments are unsubstantiated and incorrect as further detailed below. In short, the AG has failed to meet its burden of proof on every element related to its proposed disallowance and the AG's proposed rate case expense disallowance should be rejected in its entirety.

The AG took issue with an increase in Concentric's hourly rates for two employees, Mr. Weiss and Mr. Rimal, after they were both promoted to Vice President at the beginning of 2025. AG IB at 76. The AG's only witness on this issue is Ms. Selvaggio, who has a bachelor's degree in accountancy and is a licensed and registered CPA in the State of Illinois. AG Ex. 1.00 at 1-2. She spent two years at a regional accounting firm in the early 80's, then spent the bulk of her career in the Accounting Department at the Commission and has been self-employed since 2016. *Id.* at 1. Ms. Selvaggio does not claim to have any experience or expertise in overseeing litigation, in soliciting and engaging outside attorneys and technical experts, or in then reviewing and overseeing their work. *Id.* at 1-2. Moreover, she does not claim to have any experience in relation to the compensation, promotion, and work practices at national financial advisory and consulting firms like Concentric. *Id.*

The AG's only evidence in support of its proposed disallowance is Ms. Selvaggio's testimony that promotions must result in a change in work practices and that those employees who are promoted must then bill fewer hours. AG IB at 76. Ameren Illinois argues this statement is completely unsubstantiated because Ms. Selvaggio offered no personal qualifications or evidence in support of her philosophical assertions about workforce advancement and billing practices at national financial advisory and consulting firms. *Id.*

As a matter of law, Ameren Illinois is not required to disprove her unsupported statements. Moreover, in attempting to meet its burden to support its proposed disallowance, the credentials of the AG's expert witness on the specific subject matter are relevant. *Ameren Trans. Co. of Ill.*, Docket No. 24-0088, Final Order at 20 (July 2, 2025). "The weight afforded such testimony will vary based on factors like its thoroughness, rationality, and perhaps most importantly, its factual basis." *Id.* at 20. Mere "statements

by witnesses advocating only partial recovery" are not enough. *Citizens Util. Bd.,* 166 Ill. 2d at 126. The record must also contain "evidence to substantiate" those positions. *Id.*

As a matter of fact, Ms. Selvaggio's statements are incorrect in as much as they directly conflict with the evidence that Ameren Illinois provided, including the Concentric engagement agreements that govern this issue in this case, and the testimony of internal experts. Ameren Ex. 31.0 at 4; Ameren Ex. 5.5. Those engagement agreements state that charges will be at current billing rates, which are differentiated by title, with the positions with the most seniority charging the most per hour, continuing down the line from Vice President to Assistant Vice President, and then eight other levels of employees. Ameren Ex. 31.0 at 4; Ameren Ex. 5.5 at 24. Ameren Illinois also offered evidence establishing that the terms of this engagement are standard in the industry. Ameren Ex. 5.0 at 11-12 (specifically discussing Concentric engagement and rates); Ameren Ex. 31.0 at 6. The Concentric engagement agreement does not—and should not—require Ameren Illinois to become involved in internal Concentric decisions about employee career advancement (*e.g.,* who should or should not be promoted from Assistant Vice President to Vice President), work load (*e.g.,* whether promotion must result in a reduction of hours worked for Ameren Illinois), or the appropriate title for specific Concentric employees working on matters for Ameren Illinois (*e.g.,* Mr. Weiss and Mr. Rimal). *See, e.g.*, Ameren Ex. 31.0 at 4-6; Ameren Ex. 5.5.

Moreover, AIC's witnesses, who do have experience and expertise in this area, testified that "[b]illing rates can also change for individuals if they are promoted, which often reflects an acknowledgement of that individual's experience and capabilities, to align with the rate prescribed in the engagement agreement." Ameren Ex. 31.0 at 6. Mr. Stafford also testified that it is standard in the industry and "reasonable for professional services employees to be recognized for promotions, and that it is not reasonable that, because of a promotion, billed rates should be lower than the rates stated in the engagement agreements." *Id.* at 6. Ameren Illinois further explains that it has shown that promotions often come after an employee has proven their ability to do the work that commands the higher level of pay, *i.e., after* a change in work practices. *Id. A*s such, there is no reason to assume that such a promotion should lead to a decreased hourly commitment, nor is there any evidence in the record one way or the other whether the promoted individuals worked more or less than contemplated at the time Concentric and Ameren Illinois entered into the engagement agreement. There is evidence in the record that individuals like Mr. Weiss have specialized knowledge and experience, making them the most prudent and reasonable choice to work on certain issues, and which consequently requires them to do certain work themselves, rather than handing the work off to more junior or less experienced personnel. Ameren Ex. 5.0 at 12. Ameren Illinois avers that the AG has failed to meet its burden of proof with regard to this first argument.

Next, the AG argues that there is no evidence that Ameren Illinois was informed of the rate increase. AG IB at 77-78. Ameren Illinois responds that this is contrary to the record evidence, pointing to Mr. Stafford's testimony that his "past experience with this consulting firm [is] that Concentric's billing rates change each January." Ameren Ex. 31.0 at 4. Therefore, every year he contacts "Concentric for applicable current billing rates in the new calendar year…" Ameren Ex. 31.0 at 4. Ameren Illinois was thereby aware of and accepted the increase that resulted in new current billing rates. Ameren IB at 140-

41. Ameren Illinois contends that the AG has failed to meet its burden of proof with regard to this second argument.

Third, the AG claims that allowing Concentric to increase "compensation for its employees after it has already agreed with Ameren on its budget and hourly rates … reflects the 'little incentive for Ameren to reduce its rate case expense' because these expenses are ultimately 'paid for by its customers.'" AG IB at 78 (quoting AG Ex. 3.00 at 11). As Mr. Stafford testified, this accusation is "speculative, unsupported and contrary to the Company's commitments to its customers." Ameren Ex. 31.0 at 9.

Ameren Illinois further contends this claim is irrelevant because compensation for Concentric's employees and Concentric's rates that are included in Ameren Illinois' rate case expense are not the same thing. The former, employee compensation, is not at issue here. The latter, Concentric's rates, are what the Commission must analyze. The AG mistakenly conflates the two.

AIC contends this claim also is inaccurate because the agreed upon budget and hourly rates have not changed. The operative engagement agreement, with its total budget and schedule of rates, has governed for the entire proceeding, regardless of how many employees Concentric promotes over the course of the engagement. *See* Ameren Ex. 5.5. And because Concentric and Ameren Illinois manage to the total budget, internal Concentric promotions do not impact total rate case expense that is ultimately included in the rates customers pay. *Id.*

Mr. Stafford testified that Ameren Illinois "incurs a cash outlay for rate case expense well in advance of collections in rates, without any inclusion of the unamortized balance in rate base or any adjustment for the time value of money related to cost recovery." Ameren Ex. 31.0 at 9. "Accordingly, there is absolutely no incentive for Ameren Illinois to incur higher rate case expenses." *Id.* at 9.

The AG's final argument is that due to the similar engagement agreements between this case and the MYRP, and the discount pricing structure, it may be difficult to distinguish which case Concentric should have billed to and therefore the Commission should apply the discounted rate from the 2022 engagement agreement to this proceeding too. AG IB. at 80-81. The AG goes so far as to say that Ameren Illinois "offered no explanation sufficient to assure this Commission that such practices could be timely captured." AG IB. at 81. Ameren Illinois submits that the AG's position is contrary to the record evidence.

Ameren Illinois provided testimony explaining how the Company reviews Concentric invoices for work performed on rate case related projects to ensure that work is billed to the correct case. Ameren IB at 141-42. Specifically, Mr. Stafford testified that he typically receives monthly invoices from Concentric and he then conducts an extensive review of those invoices. *Id*.

Moreover, the AG did not identify any entries that were actually misbilled and only raised the specter of the possibility that certain entries could be misbilled. *See generally* AG Ex 3.00. Ameren Illinois alleviated that speculative concern with testamentary evidence concerning its actual business practices and has provided the actual—and

correctly billed—Concentric invoices. Ameren IB at 142. Ameren Illinois avers that the AG has failed to meet its burden of proof on this fifth argument.

b. AG's Position

The Company seeks to include in rate case expense $769,338 in projected cost for Concentric (Ameren Ex. 34.3 at 1), a financial advisory and consulting firm Ameren engaged for pre-filing and post filing support. Ameren Ex. 5.0 at 11. In a surrebuttal exhibit sponsored by Company witness Lavin, Ameren indicated it had incurred $415,756 or only 54.04% of the projected cost for Concentric. Ameren Ex. 34.3 at 1. In reviewing materials Ameren submitted for Concentric, the AG witness Selvaggio identified unreasonable billing practices in connection with two Concentric employees, Mr. Weiss and Mr. Rimal. Ms. Selvaggio also identified other relevant concerns related to these billings. AG Ex. 3.00 at 10. As a result, Ms. Selvaggio recommended the Commission reduce the Company's projected rate case expense for Concentric by $160,845. AG Ex. 3.00 at 12. The AG argues that the record supports Ms. Selvaggio's recommendation. The AG asks the Commission to adopt this adjustment to ensure that ratepayers do not pay for rate case expense that is unjust and unreasonable, as required by the Act. 220 ILCS 5/9-229(a).

The AG points to Section 9-229 of the Act, which requires the Commission to "specifically assess the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing." *Id.* Subparts A and B of Part 288 of the Commission rules further govern the Company's recovery of rate case expense. 83 Ill. Adm. Code 288 (Utility Rate Case Expense and Consumer Intervenor Compensation Fund). Section 288.10 of the Commission rules limits the "[s]cope" for rate case expenses by a public utility for compensation of outside (or affiliate) technical experts/support staff to costs for "preparing and litigating a rate case filing" only. 83 Ill. Adm. Code 288.10(a)(2).

Section 288.110 of the Act lists ten factors that the Commission may consider in determining the justness and reasonableness of Ameren's rate case expense request; these factors include—for example—consideration of evidence about the "[n]ature, extent, and reasonableness of the work performed;" "why multiple" experts "addressed the same issues;" "fees charged for comparable services, including … fees charged in other rate cases in Illinois;" and "[h]ourly rates applicable to … outside technical experts … that regularly appear in Commission proceedings." 83 Ill. Adm. Code 288.10(b)(4), (7)–(9). According to the AG, the evidence here shows that the nature and extent of certain comparable hourly rates that Concentric billed are unjust and unreasonable.

The AG asserts that pursuant to Section 9-229 of the Act and the Commission rules, and to ensure ratepayers do not pay for rate case expense that is unjust and unreasonable, the Commission should reduce the Company's projected rate case expense for Concentric by $160,845 to account for the excessive billing rates. 220 ILCS 5/9-229(a).

The record establishes that the hourly billing rates for Mr. Weiss and Mr. Rimal unreasonably increased during the proceeding despite no change in their work practices. *See* AG Ex. 3.00 at 9-10. The Company admitted that the hourly rates for Mr. Weiss and

Mr. Rimal increased "after they were both promoted to Vice President at the beginning of 2025." Ameren IB at 139-140, *see also* AG Ex. 3.03 at 1-2, 6-7.

Ms. Selvaggio also testified that "there is no evidence that the Company was informed of the increased billing rates that were charged in 2025 to this case for these two employees [as a result of their promotions] nor does the Company's explanation adequately address why these employees' rates would change after they were already contracted for work in this proceeding." AG Ex. 3.00 at 10. The AG does not take issue with an employee's promotion but takes issue with the fact that Concentric substantially increased select employee rates during the course of the proceeding.

In response, Ameren insists the Commission "need not engage" the AG's position; the AG state that AIC's position is that these hourly charges are simply a reflection of its agreement with Concentric "that charges will be at current billing rates" (*Id*. at 140), and that AIC asserts generally that billing rates can "change for individuals if they are promoted." Ameren Ex. 31.0 at 6. AIC insists the Commission should ignore her concern because AIC was "aware of and accepted the increase that resulted in new current billing rates" because the Company's "experience…is that Concentrics's billing rates change each January." Ameren IB at 140-141. The AG asserts that neither admission resolves the issue. To the contrary, they further demonstrate the unreasonableness of AIC's position and the appropriateness of the AG's recommended disallowance.

The AG asserts that a promotion should not result in increased rates from an expert doing the same work during the same proceeding. *See* AG IB at 76–78. Ms. Selvaggio testified that "[a] promotion generally is an advancement of an employee to a higher-level position with increased responsibilities and new areas of expertise due to increased skills," and that with a promotion, "the number of hours billed at the increased rate will be reduced due to the efficiencies achieved because of increased skills and expertise or the introduction of junior employees performing the work at a lower billing rate." AG Ex. 3.00 at 10. The AG claims the Concentric engagement agreement supports Ms. Selvaggio's position. The engagement agreement states that Concentric will "draw upon experienced junior staff, as needed, to complete the necessary analyses at a lower overall cost," and that Mr. Weiss "actively oversee[s] work performed by Concentric staff to ensure the need for and reasonableness of time charged to each project." Ameren Ex. 5.5 at 10. According to the AG, nowhere in the record does it show Concentric and Ameren made any such cost-effective efforts. The AG argues there is no justification for why Mr. Weiss continued to work in this capacity after he was promoted to Vice President, and no explanation why junior employees at lower billing rates were not used instead.

Ameren states it has no responsibility to ensure, demand, or otherwise enforce its agreement with Concentric so that it even considers such efforts, stating instead that "[t]hose agreements do not require Ameren Illinois to become involved in internal Concentric decisions about employee career advancements and the appropriate title for Concentric employees working on matters for Ameren Illinois." Ameren IB at 140. The AG argues that the Company simultaneously claims it reviews Concentric's invoices, but that its own statements belie this review. The Company points to Mr. Stafford's testimony about his review of such invoices, but the AG claims a closer examination of his testimony shows his attention is focused on clerical items like whether "the invoice lists the correct engagement number and legal matter number," and whether "the hours multiplied by the

billing rates are mathematically correct." Ameren IB at 142 (*citing* Ameren Ex. 31.0 at 4). Nowhere does Mr. Stafford state whether his review includes any audit, evaluation, or even inquiry into whether Concentric uses its junior staff to complete analysis "at a lower overall cost." *See* AIC Ex. 5.5 at 10.

Mr. Stafford's admission the Company is fully aware of Concentric's increased hourly rates in January only further discredits the Company's position. *See* Ameren IB at 140, *see also* Ameren Ex. 31.0 at 6. The AG argues it is patently unreasonable that the Company claims to understand and sanction this practice when there is zero evidence that AIC ever justly enforces its agreement that Concentric use junior staff to complete analysis at a lower overall cost. The AG insists that an outside third-party like Concentric should not be permitted to choose to substantially raise compensation for its employees after it has agreed with Ameren on its budget and hourly rates, and to charge Ameren the higher rate for the same services previously performed at a lower hourly cost. The AG contends Ameren's agreement to bill at "current rates" does not justify increasing costs and shifting those costs onto ratepayers without any obligation to ensure those rates remain cost-effective.

The Company admits that "it is true that portions of the rates charged for the MYRP were lower, [but that] there is nothing nefarious or unreasonable about this difference in billing rates." Ameren IB at 141. While Ameren may find the disparity in charges for the same consultant acceptable, the AG contends it is not reasonable to expect gas ratepayers to cover the increased charges for essentially the same services.

The Company further admits that the difference in these rates is because the current gas case and MYRP case each have provisions that Ameren would receive a 5% discount on billings up to $500,000 by project and after $500,000 in billings, it would receive a 10% discount. *Id.* at 141. The Company also admits the MYRP case "hit the threshold providing for the higher 10% discount, while the gas rate case did not," and that these facts alone should be sufficient for the Commission to reject the AG's recommendation. *Id.* The AG maintains the Company's position is untenable.

Ameren testified that to "control its rate case expenses," it "negotiates engagement agreements with each outside attorney and technical expert to ensure that their total expense is reasonable." Ameren Ex. 5.0 at 10. This statement, however, is irreconcilable with the record evidence because it means AIC allegedly "negotiated" and accepted significantly higher hourly rates for the same technical expert at the same third-party firm in the same year in which it was receiving a discounted rate for the same comparable services in at least one other rate proceeding. The evidence also shows Concentric's billings exceeded $850,000 during 2024 and 2025; the AG argues there is no reasonable explanation for why the Company could not have negotiated that the same rate for the same technical expert also apply to this proceeding. AG Cross Ex. 1 at 407–408 (also shows Concentric's cumulative billings through July 29, 2025 exceeded $1.432 million). The AG argues that Ameren's gas ratepayers are wrongly expected to pay this individual more than the originally agreed upon rate. The AG contends that it was unreasonable for Ameren to have entered into multiple contracts across multiple proceedings with the same vendor for the same work and yet have "negotiated" a volume discount that is triggered only for each individual project. As Ms. Selvaggio testified "it is unreasonable for any discount to be limited to a particular project when in fact Concentric performs the work

simultaneously for the same client—Ameren." AG Ex. 3.00 at 10. Accordingly, the AG asks the Commission to find this unreasonable.

In addition, Ms. Selvaggio raised concerns that Concentric's billings showed multiple instances of Mr. Weiss billing for both Ameren's rate case and MYRP project on the same days. *See* AG Ex. 3.00 at 8 (*ref.* AG Ex. 3.04). The record shows Mr. Weiss "billed for work simultaneously" across not only these two cases, but also a third one—the Nicor 2025 Gas Rate Case. *Id.* These instances, according to the AG, demonstrate a lack of care in billing, and it is unreasonable to expect Illinois ratepayers to pay charges for unusually long workdays.

Ms. Selvaggio raised concerns about how the Company could validate Mr. Weiss' billed hours across different cases when Mr. Weiss concurrently worked and billed time for the Company's gas rate case, MYRP project, and various electric reconciliation in 2024 and 2025. *Id.*, *see also* AG Ex. 3.00 at 11.

According to the AG, the Company's response amounts to nothing more than, "trust-us." Ameren asserts only that Ms. Selvaggio's concern is "unfounded" and "speculative," directing the Commission to Mr. Stafford's alleged "review" of Concentric invoices. Ameren IB at 141–142. The AG argues that the Company's position is misleading. The AG points to the evidence that Mr. Stafford's review is mostly clerical in nature. Ameren IB at 142 (*citing* Ameren Ex. 31.0 at 4). The AG also asserts that it is critical evidence that the Company acknowledges that "[d]uring the time that Mr. Weiss is working onsite at the Company's office in Collinsville, Illinois, he dedicates his time to the Ameren Illinois projects that he is working on." AG Cross Ex. 1 at 404. The AG argues that the Company's response offers no explanation sufficient to assure this Commission that Mr. Weiss' "dedic[ation]" to Ameren projects onsite are timely captured and correctly differentiated by anyone other than himself. The Company admits that "Mr. Weiss does not track the specific days that he works onsite." *Id.* at 403. And the record does not indicate the Company does, either. In other words, given the evidence, the only assurance AIC can provide is "trust us." *See* Ameren Ex. 7–8. The AG insists this "assurance" surely cannot satisfy the Act.

While Ms. Selvaggio may not have identified any rate expense entries that were "actually misbilled," the AG argues her ultimate concern is that Ameren's agreements enable—rather than disable—billing practices that can be detrimental to ratepayers. The AG contends that her concern with Mr. Weiss' different hourly rates, same-day billing on multiple AIC cases, Concentric's billing practices in light of Mr. Weiss' work location and comparable services across concurrent Commission proceedings, and with the Company's "little incentive … to reduce its rate case expense" because they are ultimately "paid for by its customers," all strongly suggest that the Company's negotiations and efforts should be reasonably directed to avoiding—not inviting—circumstances that are more likely than not to incentivize improper billing practices. The AG argues that the evidence shows the problematic "nature" and "extent" of the rates charged by Concentric.

Ameren insists the Commission should consider the AG's challenge to the Company's rate case expense within the context of the AG Panel witnesses and its scheduled cross examination but the AG argues those matters are wholly irrelevant. The AG "present[ed] a panel of three witnesses to address plant additions instead of a single

witness." Ameren IB at 138. Ameren complains that this "meant that the Company's counsel had to prepare for the cross examination of three witnesses instead of a single witness." *Id.* However, the AG contends that the record demonstrates that the three witnesses together submitted a single piece of testimony in AG Ex. 2.00 (Panel's direct testimony) and in AG Ex. 4.00 (Panel's rebuttal testimony) and argue that cross examining them together is more efficient and less burdensome than questioning three different witnesses about three different pieces of testimony.

Finally, the Company alleges it has submitted sufficient documentation in support of its rate case expense request. Ameren IB at 144–145. The AG claims the record, however, continues to show a significant disparity between the Company's amount billed and projected rate case expense. At the time Ms. Selvaggio submitted her rebuttal testimony, the Company had provided only $777,077 or 21.8% of its then requested rate case expense of $3,557,963. AG Ex. 3.00 at 11. She expressed concern that "the bulk of the rate case expenses will not be reviewed by the Commission." In the Company's surrebuttal, Company witness Lavin indicated the Company had increased its projected rate case expense to $3,600,763 (Ameren Ex. 34.0 at 5); the record shows only $1,327,433 or 36.8% of this request to be billed as of Mr. Lavin's surrebuttal testimony (Ameren Ex. 34.3 at 3). The AG points out that this disparity—unsurprisingly—is similarly reflected in the rate case expense AIC has allocated to Concentric. According to Ameren, it has incurred $415,756 or only 54.04% of the projected cost through May 2025. *Id*. at 1. Despite these disparities, the Company insists it has provided sufficient documentation. The AG iterates that the record shows that more than 60% of its rate case exp+

ense request remains unsupported. This lack of documentation, according to the AG, strongly suggests Ameren's projection could be overstated. The AG argues that, at a minimum, the disparity in the Company's costs for Concentric supports their recommendation to reduce this rate case expense allocation by a modest $160,845.

The AG insists the record shows that charges for Concentric are unjust and unreasonable. The AG thus asks the Commission to reduce Ameren's proposed rate case expense by $160,845, which removes the increased hourly rates in 2025 Concentric charged for Mr. Weiss and Mr. Rimal, as well as the unjustified added disparity between what Concentric charged for Mr. Weiss in the current gas rate case and the discounted hourly rate it charged the Company for his comparable services in Ameren's 2024 MYRP case. *See* AG Ex. 3.01 at Sch. A-2.

c. IIEC/FEA/CUB's Position

IIEC/FEA/CUB recognize that the parties now agree to a two-year amortization of rate case expense after the Company withdrew its request for a one-year amortization. IIEC/FEA/CUB concur that the Commission should adopt a two-year amortization of rate case expense. IIEC/FEA/CUB Ex. 1.0 at 4-6. Rate case expense is incurred once per rate case filing, but it is recovered in increments every year until the rates approved in the Company's next rate case go into effect. The misalignment between a one-time expense and annually recurring revenues exposes ratepayers to the risk of overpayment. The utility is not subject to a symmetrical risk of under-compensation because, as the Commission acknowledged in a recent rate case order, the utility "faces no risk of loss with a longer amortization period, as any unamortized portion of the rate case expense

can be carried forward and recovered in the next rate case." Docket No. 24-0044, Final Order at 72. In contrast, ratepayers are not refunded when they pay more than the full amount of rate case expense. IIEC/FEA/CUB Ex. 3.0 at 6.

Even in light of this asymmetry, IIEC/FEA/CUB do not propose to attempt to game the system in the opposite direction and overstate the likely gap between rate case filings. Rather, IIEC/FEA/CUB propose only that the Commission adopt Mr. Leyko's proposed two-year amortization, to reflect the fact that the Company filed each of its last 4 rate cases either 2 or 3 years apart. IIEC/FEA/CUB Ex. 1.0 at 5. Ameren has withdrawn the one-year amortization proposal, but IIEC/FEA/CUB note the Company's past vague general assertion that "it anticipates filing its next gas rate case in 2026 primarily due to the Company's continued investment in capital projects in order to maintain safe and reliable gas service for its customers" does not suffice. *Id.* at 4. Ameren retains the right to wait to file a rate case and, as such, the risk falls on the Company's ratepayers that they will overpay if Ameren decides to wait more than one year to file its next rate case. According to IIEC/FEA/CUB, the least the Commission can do is to reduce ratepayers' financial exposure by adopting a two-year amortization period, which recognizes the fact that Ameren has not filed back-to-back rate cases in several years. The revenue impact of this adjustment is approximately $1.799 million. *Id.* at 6.

d. Commission Analysis and Conclusion

Section 9-229 of the Act requires the Commission to assess the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing. 220 ILCS 5/9-229(a). Part 288 of the Commission's rules are intended to guide that assessment. 83 Ill. Adm. Code 288. Among other requirements, Part 288 requires utilities to provide "an explanation of the processes, procedures, and controls the public utility has in place to ensure that the bills from all persons covered by [the section] are accurate, reasonable, and not redundant before payment is made to those vendors" and an "explanation of reasonableness of the fees." 83 Ill. Adm. Code 288.100(b)(4)-(5).

The Commission, having reviewed the record evidence in this proceeding, finds that Ameren has failed to prove its rate case expense of $769,338 for Concentric is reasonable in total. Ameren explained that the rates paid to Concentric are governed by the engagement agreement it entered in August 2024. The Company is obligated to uphold the terms of such agreements, which includes not paying Vice President rates for analyst duties that can be performed by junior staff. *See* Ameren Ex. 5.5 at 10. The Commission agrees with the AG that the hourly billing rates for Mr. Weiss and Mr. Rimal increased during the proceeding without proper justification and contrary to the engagement agreement. *See* AG Ex. 3.00 at 9-10.

The engagement agreement between Ameren and Concentric stated that Concentric would "draw upon experienced junior staff, as needed, to complete the necessary analyses at a lower overall cost." Ameren Ex. 5.5 at 10. The engagement agreement further states that "Concentric's invoices are routinely reviewed and approved both by [Concentric] *and Ameren personnel* to ensure the *appropriateness* and accuracy of time and expenses billed to AIC." *Id.* (emphasis added). Despite having contractual review and approval power, Ameren did not provide evidence demonstrating that the

Company took steps to ensure junior staff involvement to maintain reasonable expenses and uphold the engagement agreement terms. The Commission emphasizes the Company's responsibility to ensure that its engagement agreements are followed, especially as they relate to controlling costs.

Further, the record demonstrates that Concentric did not utilize junior staff from the beginning or ensure Concentric upheld its agreement to "minimize billings." *Id.* According to the engagement agreement, Mr. Weiss "actively oversee[s] work performed by Concentric staff to ensure the need for reasonableness of time charged for each project." *Id.* The record demonstrates Ameren was aware at the time of engagement that Mr. Weiss was a not a junior employee. The Company admitted that the hourly rates for Mr. Weiss and Mr. Rimal increased "after they were both promoted to Vice President at the beginning of 2025." Ameren IB at 139-140; *see also* AG Ex. 3.03 at 1-2, 6-7. According to the Company, there are at least 8 levels of employees beneath assistant vice president, the title both Mr. Rimal and Mr. Weiss held prior to their promotion to Vice President. Ameren IB at 140; *see also* Ameren Exs. 31.0 at 4; 5.5 at 24. Despite this change in position and availability of more junior employees, the Company did not provide evidence that it attempted to uphold the terms of the engagement agreement or an explanation why both senior employees continued to bill for the rate case. While the Commission understands position changes and promotions can occur during the course of a proceeding, the record does not justify the increase in rates. Thus, the Commission accepts the AG's disallowance regarding the increased hourly rates that Concentric charged in 2025 for the continued performance of the contracted work by Mr. Weiss and Mr. Rimal.

The Commission finds that the Company offered a credible explanation as to why Concentric billed at different rates in Ameren's MYRP proceeding. The Commission is satisfied with Ameren's explanation that its "engagements with Concentric include volume discounts specific to each engagement." Ameren Ex. 31.0 at 4. It is reasonable from both a billing and a reporting standpoint to treat each matter individually. The Commission does not oppose the Company negotiating a bulk discount, or the fact that this discount was triggered for one case but not the other. The Commission declines to adopt the AG's disallowance related to the difference in the hourly rate charged for the services in this case compared to the 2024 MYRP case.

The Commission agrees with IIEC/FEA/CUB that adopting a two-year amortization period will reduce ratepayers' financial exposure.

Therefore, the Commission amends Ameren's Concentric rate case expense of $769,338 by $133,250. This adjustment removes the increased hourly rates that Concentric charged in 2025 for Mr. Weiss and Mr. Rimal and instead sets those rates at the originally contracted level. The Commission further directs Ameren to amortize the total remaining rate case expense amount over a two-year period, consistent with the adopted adjustment for Concentric. The Commission approves the remainder of Ameren's rate case expense and orders the total of $3,467,513 to be amortized over a two-year period, therefore including $1,733,756.50 in the Test Year revenue requirement.

3. Charitable Contributions

a. AIC's Position

Ameren Illinois notes that it presented evidence showing that it partners with nonprofits that share the Company's vision or equitable economic opportunities, solving for critical human needs, and sustaining environmentally vibrant communities. Ameren Ex. 1.0 at 7. In 2023, which was the last full year for which the Company had complete data at the time of its initial filing in this case, Ameren Illinois contributed $3.3 million to over 200 nonprofits in the Company's service territory. *Id*.

Ameren Illinois explains that Section 9-227 of the Act allows public utilities to recover charitable donations as operating expenses if those donations are for the public welfare or are for charitable scientific, religious, or educational purposes. 220 ILCS 5/9-227. In accordance with Section 9-227 and the Commission's rules concerning the recovery of charitable contributions, 83 Ill. Adm. Code 325 ("Part 325"), Ameren Illinois presented evidence in support of the Company's charitable contributions reflected in the revenue requirement.

In direct testimony, Ameren witness Ballard explained that charitable contributions are recorded to a non-operating expense account for FERC reporting, but that the Company made an adjustment to include charitable contributions in operating expense. Ameren Ex. 4.0 at 18-19. Specifically, on Schedule C-2. 14, Ameren Illinois notes that include the gas-allocable share of 226 projected charitable contributions. Ameren Ex. 4.0 at 19. Ameren Illinois states that it is seeking to include $0.568 million on charitable contributions in the future Test Year operating expense in this docket. *Id*. at 19-19; Sch. C-2.14.

The Company notes that the Commission previously allowed recovery of charitable donations in Ameren Illinois' gas rate cases and Ameren Illinois provided additional information regarding its charitable contributions beyond the information required by Part 285 of the Commission's rules. In particular, in Ameren Exhibit 4.3, Ameren Illinois provided the supplemental information regarding charitable contributions that is detailed in Section 325.30(a) of the Commission's Part 325 rules (Donations by Utilities). Ameren Ex. 1.0 at 7; Ameren Ex. 4.0 at 19.

The Company points out that only the AG, objected to Ameren Illinois' proposed expenses for charitable contributions. The AG recommends a disallowance of 40%, reducing the Test Year charitable contributions by $0.626 million to $0.942 million. AG Ex. 1.00 at 18. AG witness Selvaggio's proposed disallowance is based on her assertion that "[h]istorically, the Company has disbursed less to charitable organizations than the amount collected from customers in base rates." *Id*. at 16. The Company notes that using this flawed analysis, Ms. Selvaggio proposed an adjustment to set the Test Year contributions in this proceeding to the actual amount of charitable contributions that Ameren Illinois made in a single year: 2024. *Id*. at 17. Further, Ameren Illinois notes, Ms. Selvaggio failed to escalate the 2024 amount for inflation. Ameren Ex. 19.0 (Rev.) at 10.

Ameren Illinois explains that Ms. Selvaggio's proposed disallowance, however, is based on an analysis, and a corresponding table, that contained a number of inadvertent errors and stopped at 2018 which, when corrected, was a year that was actually under-

recovered by the Company (using Ms. Selvaggio's methodology) instead of over-recovered. Ameren Ex. 19.0 (Rev.) at 10-13; Ameren Ex. 19.7 at 11-12. The Company further explains that when Ms. Selvaggio's calculation is corrected for those errors, and the sample years expanded to include an even ten years of data, the analysis shows that Ameren Illinois has a significantly lower "over-recovery" than Ms. Selvaggio asserts, $(198,101) vs. over $(1.1) million that Ms. Selvaggio claimed in direct testimony. Ameren Illinois states that when 2024 is removed from the calculation for the reasons explained below, then the Company was *under-recovered* by $295,328, using Ms. Selvaggio's methodology. Ameren Ex. 19.0 (Rev.) at 12.

Ameren Illinois further explains that, when the historical snapshot includes a larger sample size like 10 years, the historical data tells a different story. Ameren IB at 148. Ameren Illinois submits that this data quite clearly refutes the AG's arguments that "historically" and "each year" Ameren Illinois has over recovered charitable contributions. Indeed, the over and under recoveries are almost evenly split, and, over the past ten years, Ameren has only over-recovered $198,101. *Id. A*meren Illinois notes that, originally, the AG's analysis contained errors that made it appear that all seven of the years that it initially chose involved an over recovery. Ameren IB at 148. Ameren Illinois further notes that, when it corrected the errors in the analysis, 2018 resulted in an under recovery of charitable contributions. *Id.*

Ameren Illinois notes that the AG cites the Final Order in Docket No. "13-1092" (Dec. 18, 2013) in an attempt to prove the marginally relevant fact that 2007 – 2012 charitable contributions were over recovered. *See* AG IB. at 84. Ameren Illinois believes the correct docket that the AG intended to cite to is actually Docket No. 13-0192. In any event, the chart represented in the AG's initial brief and attributed to that Final Order at page 53 does not appear on that page nor anywhere else in that Final Order. Ameren Illinois submits that these discrepancies make it difficult to adequately assess and rebut this argument. And once again, the AG seems to be cherry picking limited years to include in its analysis (*e.g.*, 2007-2012 and 2018-2024), while purposefully excluding others (*e.g.*, 2013-2017). The Company therefore urges the Commission to give this argument no weight.

More importantly, Ameren Illinois states, Ms. Selvaggio's recommendation to arbitrarily use 2024 as a proxy is not representative of either historical or future expenditures. As Ameren witness Ballard explained: "In 2024, the Company underwent a conversion to a new donation platform for the submission of grant and sponsorship requests. The transition to the new platform involved the implementation of data into the new platform, testing the data, and launching the new platform. During that time the Company could not process any new contribution requests." Ameren Ex. 19.0 (Rev.) at 12. Therefore, Ameren Illinois explains, actual 2024 contributions are lower than—and not representative of—other recent historical years. *Id.* at 12.

Ameren Illinois notes that it provided further evidence that using 2023 as a proxy, and adjusting for inflation, the Company's 2026 projections reasonably are in line with prior years, with only a $4,846 difference in charitable contributions expense between 2023 actuals and 2026 projections. Ameren Ex. 33.0 at 4-5.

In addition, Ameren Illinois states, it provided detailed evidence concerning its forecasting process generally—including its charitable contributions forecast—and the "reasonableness of its test year forecast, which is an accurate and reliable depiction of the forecasted capital costs, operating expenses, and revenues for AIC's gas business in calendar year 2026." Ameren Ex. 6.0 at 2. Ameren witness Irizarry-Robles specifically discussed and explained that the foundation for the forecast is Ameren Illinois' annual budget, which goes through a multifaceted, iterative process. *Id.* at 3, 5.

Ameren Illinois explains that this process resulted in "an accurate and reliable forecast of AIC's future capital costs, O&M expenses, and revenues for AIC's natural gas business in calendar year 2026." *Id.* at 7. Mr. Irizarry-Robles further testified that independent CPAs Kerber, Eck & Braeckel LLP (KEB) agreed. *Id.* at 6.

For all the reasons discussed above, the Company contends, the Commission should reject the AG's proposed disallowance and find Ameren Illinois' proposed charitable contributions expense of $1.569 million to be prudent and reasonable.

b. Staff's Position

Staff recommends the Commission reject the AG's proposed disallowance for charitable contributions and instead approve Ameren's proposed $1.568 million charitable contributions amount for gas operations. Specially, Staff agrees that it would not be reasonable to set the Company's charitable contributions at 2024 levels because that year's contribution amounts were affected by the platform transition. Staff Ex. 9.0 at 17-18.

Section 9-227 of the Act directs the Commission to consider charitable contributions as an operating expense. 220 ILCS 5/9-227. No party claims that Ameren's charitable contributions are not "donations made by a public utility for the public welfare or for charitable scientific, religious, or educational purposes" or that Ameren's actual charitable contributions are "[un]reasonable in amount." *Id*.

Furthermore, 83 Ill. Adm. Code 325.10 *et seq*. establishes the rules and requirements for utilities to follow when seeking recovery of charitable contributions. No party argues that Ameren has failed to follow these rules or disclose sufficient information to recover its proposed charitable contributions.

Instead, Staff states, the sole deciding question of whether to approve Ameren's proposed charitable contributions spending is whether to set projected spending using 2024 actual spend as a proxy, where charitable contributions were limited due to Ameren's platform transition, or 2023 actual spend as a proxy, which is the most-recent calendar year where Ameren's charitable contributions were not limited by technical constraints. According to Staff, it is not reasonable to limit Ameren's charitable contribution spending in 2026 to 2024 levels because Ameren's ability to approve grants and sponsorships in 2024 was limited by the platform transition.

As explained by Ameren, in 2024, the Company underwent a conversion to a new donation platform for the submission of grant and sponsorship requests, during which the time the Company could not process any new contribution requests. Ameren IB at 148-49; Ameren Ex. 19.0 (REV.) at 12. Thus, the Company proposes to use its actual charitable contributions for 2023 as a proxy, adjusting for inflation, for its proposed test

year 2026 charitable contributions. Ameren IB at 149. Ameren also explained its multifaceted, iterative budget forecasting process, which has been reviewed by independent CPAs. *Id*. at 149-50.

Staff disagrees with the AG's proposed adjustment to limit charitable contributions to 2024 actual spending. Specifically, Staff argues that 2024 actual spending is not reflective of the Company's likely 2026 spending because the platform transition reduced 2024's actual spending.

Furthermore, the AG's proposed disallowance amounts to an inappropriate refund to customers. Rates approved by a regulatory body are not subject to refunds, even if the regulator subsequently orders those rates reduced, because the approved rate is the lawful rate that the carrier is required to charge as long as the order approving those rates remains in effect. *Mandel Brothers, Inc. v. Chicago Tunnel Terminal R.R. Co.* 2, 2 Ill. 2d 205 (1954). Further, the rule against retroactive ratemaking requires that rates set by the Commission be applied only prospectively, and that prospective rates cannot be used to correct past rates through refunds or surcharges. *See*, *e.g.*, *Citizens Util. Co. v. Ill. Com. Comm'n*, 124 Ill. 2d 195, 207 (1988)

The AG's proposed disallowance amounts to an inappropriate refund to customers because the AG's lone support of its disallowance is that Ameren historically disburses to charitable organizations less than it receives for charitable contributions from gas customers. AG IB (Pub.) at 83. The AG does not claim, for example, that something like a platform transition will occur in the future that will similarly limit Ameren's charitable contributions in 2026. Instead, the AG only claims that Ameren has disbursed less than it has received for charitable contributions, and for that reason, Ameren should receive approximately $400,000 less, an over 40% disallowance, to its charitable contributions. In practice, this disallowance is an inappropriate refund, and Staff recommends the Commission reject the AG's proposal.

Furthermore, the data demonstrates that, historically, Ameren typically spends close to its budgeted amount on charitable contributions. Removing 2024 actual spend as an outlier due to the platform transition, Ameren has collected only $375,789 more in charitable contributions than it has disbursed since 2018. *See* AG IB (Pub.) at 83. This is a 4.6% difference in total amount collected compared to total amount disbursed. Furthermore, expanding to ten years of data shows that Ameren has only over-collected a minuscule $198,101. Even if the Commission disregards the rule against retroactive ratemaking and orders a refund, the AG's proposed approximately $400,000 disallowance is greater than both the total overcollection over the past six years (disregarding the 2024 outlier) and the total overcollection over the past ten years. Clearly, the AG's disallowance is designed to refund the 2024 overcollection of nearly $500,000.

For these reasons, Staff recommends the Commission reject the AG's proposed disallowance and instead approve Ameren's proposed charitable contributions, which are based on 2023 actual levels and adjusted for inflation.

c. AG's Position

Ameren requests $1.569 million in charitable contribution and argues that its charitable contributions forecast is reasonable. Ameren IB at 148-50; AG Ex. 1.00 at 15. Ameren seeks an increase of $0.135 million or 9.42% from what the Commission approved in Ameren 2023 GRC. *Ameren 2023 GRC Order,* Final Order at 115-116; Ameren Ex. 18.2 at 2. This is based on an amount that exceeds the Commission approved total company charitable contribution of $3,886,408 for 2026 in the Company's electric MYRP.

The AG argues that Ameren is unable to justify this amount. AIC asks the Commission to increase the charitable contribution amount that it recovers from its customers, but the record shows the Company consistently disburses less to charitable organizations than it collects. AG Ex. 1.00 at 16. As a result, each year, AIC's gas customers pay more for charitable contributions through base rates than AIC disburse for charitable purposes. The AG notes that shareholders—not local charities and not-for-profits—receive the benefit of these overpayments. Ms. Selvaggio testified to this historical trend and stated that since 2019 through 2024, Ameren's gas customers have overpaid $869,218 for charitable contributions which has benefitted shareholders rather than charitable organizations. The AG points out that recent years are consistent with the historical trend: the actual charitable contributions allocated to gas operations made in 2024 were only $0.0940 million, which is $0.0493 million or 34.4% less than the amount collected from gas customers through base rates in 2024. AG Ex. 1.00 at 16. While the Company explains that the decrease in contributions in 2024 was due to the Company's conversion to a new donation platform and the inability to process new contribution requests during this time, the AG argues that the historical trend is clear and goes back five years before this change. AG Ex. 3.00 at 13; Ameren Ex. 19.0 (Rev.) at 12-13. Even expanding to ten years of data as the Company argues, Ameren still collected $198,101 more in charitable contributions from gas customers than it disbursed to charitable organizations. AG Ex. 3.00 at 14. Not accounting for 2024, the AG shows that the Company still collected almost $400,000 more than it disbursed. AG Ex. 3.00 at 15.

Ameren attempts to discount AG witness Selvaggio's analysis, stating that her analysis contained errors and that when corrected and going back ten years, AIC has a lower-over recovery and under-recovery with 2024 removed. Ameren IB at 148. The AG asserts that Ms. Selvaggio's tables are correct. The AG notes that going back ten years as suggested by Ameren shows that in six of the ten years Ameren did not use its entire charitable budget and those six years are the most recent years. AG Ex. 3.00 at 14–15; Ameren Ex. 19.0 (Rev.) at 12. Ameren paid out its charitable budget in some years, but in more recent years, specifically 2019–2024, it has retained revenue earmarked for charitable giving. *Id.* The AG's analysis going back to 2018 is more representative than Ameren's analysis, including Ameren's recent record and accounting for more current economic conditions and the Covid-19 pandemic. The AG asserts that the Company wants to introduce 2015–2018 in order to specifically select years of under recovery. *Id.* at 61. The AG asserts that these years are an anomaly. *Id.* The AG notes that the Company's practices from 2007–2012, in which the Company over-collected $2.415 million, show that Ameren's recent record is consistent with its historical practices.

The AG demonstrates that such trends should not be overlooked by the Commission. The record shows that the Company is asking for more in charitable contributions than it actually disburses, and it is unfair for ratepayers to have to pay more than the Company actually disburses. *Id.* The AG explains that this only benefits shareholders, who retain the funds that were provided for charitable contributions, clearly contrary to the purpose of charitable giving. *Id.*

For these reasons, the AG request that the Commission limit charitable contributions to the amount actually disbursed in 2024—the most recent year. This reduces charitable contributions allocated to gas operations by $0.626 million to $0.942 million, which is the amount the Company actually disbursed in 2024. AG IB Attach., Sch A-3.

d. Commission Analysis and Conclusion

Ameren seeks to include $1,568,000 in the 2026 future test year revenue requirement for charitable contributions. Staff agrees with Ameren and supports the inclusion of Ameren's requested charitable contribution amount in the Test Year revenue requirement. The AG urges the Commission to reduce the charitable contribution amount by $626,000 to $942,000, which is the amount of Ameren's 2024 actual charitable contributions.

Section 9-227 of the Act directs the Commission to consider charitable contributions as an operating expense. 220 ILCS 5/9-227. The Commission notes that although the Ameren and the AG disagree on the amounts collected versus the amounts dispersed in past years, there is no dispute that Ameren's past charitable contributions were "donations made by a public utility for the public welfare or for charitable scientific, religious, or educational purposes" or that Ameren's actual Charitable Contributions were not "[un]reasonable in amount." *Id*. Likewise, no party disputes that Ameren has followed the rules and requirements for utilities to follow when seeking recovery of charitable contributions. *See* 83 Ill. Adm. Code 325.10, *et seq*.

The Commission finds the AG's proposal to use Ameren's 2024 actual charitable contributions as a proxy unreasonable. The Commission agrees with Staff and Ameren that the Company's 2024 actual charitable contributions are an anomaly. As Ameren witness Ballard explained, the Company transitioned to a new donation platform, which meant that Ameren was unable to process any new donation requests until the implementation was complete. Ameren Ex. 19.0 (Rev.) at 12. The Company also provided sufficient evidence to show that its 2024 actual charitable contribution amount is not representative of actual historical contributions or projected future contributions. *See* Ameren Ex. 6.0. The Commission notes that Ameren's 2023 actuals, adjusted for inflation, are reasonably close to the 2026 projections, the difference being only $4,846. *See* Ameren Ex. 33 at 4-5.

Therefore, based on the record evidence presented, the Commission agrees with Ameren and Staff that $1,568,000 should be included in the 2026 future Test Year revenue requirement for charitable contributions. The Commission agrees with the Company that there is a value in supporting organizations within their service territory to benefit those in need. The Company continues to have the ability to use shareholder funds to support these important endeavors.

4. Zonal Electrification Study (expense adjustment only; see Section IX for program discussion)

a. AIC's Position

Ameren Illinois notes that it included in Schedule C-2.15 an adjustment for $400,000 in projected 2026 costs related to the Company's proposal to undertake a Territory Study related to zonal electrification. Ameren Ex. 3.0 at 22-23; Ameren Ex. 4.0 at 22. The Company explains that its proposal for a Territory Study, and the associated ratemaking adjustment, are contested and discussed in Section IX.B.1. Ameren Illinois notes, however, that both Staff and the AG discussed the merits of the underlying study proposal in this section of their respective Initial Briefs. *See* Staff IB at 27-29; AG IB at 85-87. Ameren Illinois responds to their arguments in Section IX.B.1.

b. Staff's Position

Staff recommends the Commission approve the Company's Zonal Electrification Pilot ("ZEP") Territory Study (the "ZEP Study"). *See* Section IX.B.1., *infra*. However, Staff recommends the Commission allocate the $400,000 cost of the study equally between Ameren's gas and electric ratepayers, with the gas portion amortized by two years to align with the amortization period for the rate case expense accepted by the Company. Staff Ex. 10.0 Sch. 10.02. Said differently, Staff recommends the Commission approve $100,000 of ZEP Study costs for the Ameren gas 2026 test year, and direct Ameren to seek recovery of the ZEP Study costs allocated to electric customers in Ameren electric's MYRP reconciliation/annual adjustment proceeding for 2026.

Staff recommends the ZEP Study costs be evenly allocated between Ameren gas and Ameren electric ratepayers because a ZEP Study and a potential ZEP Tariff will impact and benefit both Ameren gas and Ameren electric customers. Staff Ex. 15.0 at 4-6. Ameren provided a list of benefits of a ZEP Study to both Ameren gas and Ameren electric customers. Staff Ex. 15.0, Attach. A. Specifically:

- Benefits for Ameren Illinois Gas Customers:
    - The ZEP Study will provide the Company awareness of potential alternative and less costly future investments in gas infrastructure, potentially leading to lower costs for remaining gas customers in the long-term.
    - The ZEP Study will provide gas customers valuable information about the potential for electrification in their area, allowing them to make more informed decisions about their future energy choices.
    - The ZEP Study could contribute to a more optimized and efficient gas system, which could benefit all gas customers.
- Benefits for Ameren Illinois' Electric Customers:
    - The ZEP Study will identify potential areas for electrification, highlighting opportunities for beneficial load growth and leading to more efficient utilization of electric infrastructure, creating a downward pressure on rates.

- The ZEP Study will provide insights that can improve integrated planning between gas and electric systems, potentially leading to overall system efficiencies.
- The ZEP Study could contribute to a more efficient, sustainable, and customer-centric energy system for the future.

Staff Ex. 15.0 at 5-6, Attach. A

An equal cost allocation between Ameren gas and Ameren electric customers will ensure that neither gas nor electric customers bear a disproportionate burden of the ZEP Study costs. Staff Ex. 15.0 at 4-5. Before the ZEP Study is conducted, it is unknown what the exact impacts will be on Ameren's current electric customers, and Ameren's gas customers who will electrify under a potential ZEP Tariff. Staff Ex. 7.0 Corr. at 19-120. It is unfair to require Ameren's gas customers to pay the entire amount for a ZEP Study that will inform a potential ZEP Tariff enabling Ameren gas customers to leave the gas system, especially for those Ameren gas customers who will either be ineligible or otherwise not electrify under a future ZEP Tariff.

For costs allocated to Ameren electric, ZEP Study costs incurred by Ameren in 2026 would be allocated equally to both gas and electric operations. Staff Ex. 10.0 at 11. The costs allocated to electric operations, if deemed prudent, would be incurred in and recovered as part of the 2026 actual costs considered in the Ameren electric 2026 MYRP annual performance evaluation and annual adjustment proceeding. *Id*. If the Commission approved the ZEP Study and approved Staff's proposal to split the costs evenly between Ameren gas and Ameren electric, there is a clear, direct mechanism for the Company to seek recovery of the costs allocated to Ameren electric.

Ameren objects to splitting the costs of the ZEP Study evenly between the Company's gas and electric customers. Specifically, Ameren argues that the ZEP Study "fundamentally supports gas system planning" and "any benefits to the electric system, such as potential load growth or more efficient infrastructure utilization, are secondary and speculative outcomes." Ameren IB at 230.

First, Staff states, the benefits of the ZEP Study and a potential ZEP Tariff for Ameren's electric customers are not speculative. In fact, the benefits Staff provided *supra* are copied word-for-word from Ameren's own witness's discovery response. Staff IB (Pub.) at 28; Staff Ex. 15.0 at Attach. A. Ameren essentially argues that the Commission should consider the potential benefits of its ZEP Study, including for its electric customers, when deciding whether to approve the ZEP Study, then in the same breath claims that the Commission should consider benefits to electric customers as "speculative" when deciding whether Ameren's gas customers should be solely responsible for the costs of the ZEP Study. In Staff's opinion, Ameren's suggestion that the Commission characterize as "speculative" potential benefits for electric customers that Ameren itself identified is disingenuous.

Next, Staff argues, the benefits of the ZEP Study and a potential ZEP Tariff for Ameren's electric customers are not "secondary." It is unclear what exactly Ameren means when it claims a benefit is "secondary." Regardless, Ameren's value judgment of whether a benefit of its ZEP Study is a "primary" or "secondary" benefit is irrelevant. There

are benefits, and Staff would argue significant benefits, for Ameren's electric customers from the ZEP Study and a potential ZEP Tariff, most notably the possibility of a "downward pressure on [electric] rates" and potentially contributing to a "customer-centric energy system for the future." Staff Ex. 15.0 at Attach. A. Ameren's gas customers should not be solely responsible to pay for a ZEP Study that could provide such significant and tangible benefits to Ameren's electric customers as well, especially if those benefits to electric customers come at the expense of gas customers experiencing the same economies of scale, they otherwise would without a ZEP Tariff electrifying future-former gas customers.

For these reasons, if the Commission approves a ZEP Study, Staff recommends the Commission allocate the $400,000 ZEP Study costs equally between Ameren gas and Ameren electric, approve $100,000 in costs for the Ameren gas 2026 future Test Year, and direct Ameren to seek recovery of the electric-allocated ZEP Study costs in Ameren electric's MYRP reconciliation/annual adjustment proceeding for 2026.

c. AG's Position

The AG directs the Commission to their adjustment in its Initial Brief Attachment, Schedule A-6, which reduces Ameren's requested distribution expense for a ZEP by $0.4 million. The AG addressed this issue further in Section IX.B.1.

d. IIEC/FEA/CUB's Position

IIEC/FEA/CUB request that the Commission disallow Ameren from recovering from its gas distribution service customers the $400,000 cost of the Company's proposed ZEP Study. IIEC/FEA/CUB Ex. 1.0 at 19-21. Simply put, the purpose of this rate case is to determine the cost of service-based revenue requirement for Ameren's gas distribution service customers, and an electrification potential study does not constitute a cost of providing gas distribution service. *Id.* at 20. IIEC/FEA/CUB contend there is no legal basis for Ameren to collect from its gas distribution service customers the cost to study potential to electrify—and thereby remove from the gas distribution service customer base—then-to-be-former customers, and that there is no basis for collecting $400,000 per year to study the possibility of doing so. *Id.* IIEC/FEA/CUB witness Leyko testified:

> The Company has not quantified any customer benefits (such as cost savings or reliability improvements) to justify inclusion in gas delivery service rates. Ms. Simms simply alludes to potential avoided capital investments in the future which may or may not materialize. Further, AIC has not pointed to specific Commission or legislative action mandating a Zonal Electrification pilot. Absent specific instructions from the Commission, AIC should not recover the costs for this pilot from customers.

Id.

IIEC/FEA/CUB argue that given the alleged and undefined benefits specific to natural gas delivery service customers, and lack of legal authority, the Commission should not foist this speculative venture on ratepayers. For the foregoing reasons,

IIEC/FEA/CUB ask that the Commission disallow recovery of the $400,000 tied to the ZEP Study.

Staff defends the recovery of Territory Study costs, albeit allocated differently than Ameren proposes, with $100,000 to be included in the Company's Test Year gas service revenue requirement. Staff IB at 27-29. Staff claims that the Territory Study could present value to the Company's gas customers if it informs a more efficient approach to future gas infrastructure investments. *Id.*at 28. Ameren has not made a concrete commitment to the scope of the Territory Study, which IIEC/FEA/CUB argue is in of itself cause to reject rate recovery of related expenditures. *See* Ameren Ex. 18.0 at 13-14.

IIEC/FEA/CUB maintain that none of the metrics referenced by Ameren witness Simms would inform Ameren as to where electrification is, in fact, likely to occur for the Company's planning purposes. *See id.* at 13. Rather, such inquiries are the subject of the Commission's ongoing FoG proceedings, as AG witness Selvaggio pointed out in her testimony. AG Ex. 1.00 at 24-27; AG Ex. 3.00 at 18. Accordingly, IIEC/FEA/CUB stand by the request that the Commission disallow the Territory Study costs outright.

With that said, IIEC/FEA/CUB agree with Staff that "it is unfair to require Ameren's gas customers to pay the entire amount for a [Zonal Electrification Pilot] Study that will inform a [Zonal Electrification Pilot] Tariff enabling Ameren gas customers to leave the gas system." Staff IB at 29.

e. Commission Analysis and Conclusion

The Commission approves the Company's adjustment for $400,000 in projected 2026 expenses related to the Company's proposal to undertake a Territory Study on zonal electrification. The Commission notes Staff's well-intentioned proposal, which IIEC/FEA/CUB agree with, to split the costs equally between Ameren gas and Ameren electric. The Commission agrees with Staff's analysis of the benefits for Ameren electric customers. *See* Section IX.B.1 of this Order. However, the Commission agrees with the Company that, at this stage, the ZEP Study "would fundamentally support gas system planning" and is "designed to evaluate gas infrastructure projects for affordable alternatives and explore decarbonization options for existing gas customers." Ameren Ex. 32.0 at 4:73-76. Although Ameren Illinois is able to take a more holistic approach to energy planning as a combined utility, the primary purpose of the study at this time is information gathering to identify areas of the gas system eligible for potential electrification. Therefore, the direct benefits of this stage of the ZEP Study are to gas customers. The Commission notes that Ameren may consider the benefits to electric customers for any potential and future costs of the ZEP Study if it continues beyond this initial information gathering stage. The Commission finds it appropriate to allocate the entirety of the one-time, non-recurring $400,000 in allowable study expenses to Ameren gas. Further, such costs shall be categorized as operational expenses.

5. Derivative Adjustments – Depreciation and Interest Synchronization

The Commission finds that the derivative adjustments to depreciation and interest synchronization expense should reflect the disallowances approved in this proceeding.

6. Injuries and Damages

a. AIC's Position

In this proceeding, Ameren Illinois states that it seeks to recover the forecasted costs of gas injuries and damages ("I&D") payments, based on a five-year average of actual claims costs consistent with the prior Commission-approved approach. The Company explains that the use of a five-year average of actual costs for I&D expense was approved in Docket Nos. 11-0282, 13-0192, 15-0142, 18-0463, 20-0308, and 23-0067. Ameren Ex. 19.0 (Rev.) at 15. The Company notes that the AG and IIEC/FEA/CUB both proposed adjustments in the direct testimony and Staff proposed an adjustment in rebuttal testimony. The AG's adjustment reduces I&D expenses by $886,000. AG Ex. 1.00 at 19. IIEC/FEA/CUB's adjustment lowers Ameren Illinois' Test Year costs of service by approximately $633,000. Staff Ex. 9.0 at 11. Ameren Illinois explains that all of these adjustments are based on removing selected costs from one of the years in the average (2020) and then calculating the average including that selectively adjusted year.

The Company notes that, as explained by Ameren witness Ballard, the use of a five-year average of actual costs is a comprehensive approach that smooths the impact of higher and lower years of injuries and damages expense and provides a reasonable method to forecast the Test Year costs in this proceeding. Ameren Ex. 19.0 (Rev.) at 15. Excluding certain selected payments from one year of the five-year average would disrupt the established Commission-approved approach and introduce selective treatment of costs within years used for the average, undermining the consistency and fairness of the rate-setting process. *Id*. Ameren Illinois notes that while the Company continues to support the use of a five-year average of actual costs as reasonable and consistent with Commission precedent, to limit the number of contested issues and for the purposes of this case only, the Company updated the I&D calculation to reflect a five-year average removing 2020 and using actual payments from 2021 through 2024, and a forecast of 2025 costs. Ameren Ex. 33.0 at 10. The 2025 forecast is based on the average of actual payments from 2022 through 2024, escalated for inflation. *Id*.

While the Company states that it does not agree that a departure from the methodology approved in prior proceedings is warranted, the Company has nevertheless reduced the Test Year I&D forecast by approximately $377,000. Importantly, this update removed the disputed year 2020 from the five-year average. Ameren Ex. 33.0 at 10. Ameren Illinois notes that Ms. Ballard explained that, by removing 2020, this adjustment addresses concerns raised by Staff and intervenors while maintaining a consistent and reasonable five-year forecasting methodology. *Id*. at 11. Thus, the Company states that its requested I&D amount, as modified by its proposed updated five-year average adjustment, is reasonable and should be approved.

b. Staff's Position

Staff recommends the Commission approve Ameren's proposed I&D spending, reflecting Ameren's approximately $377,000 reduction by removing 2020 from the five-year average.

Ameren initially proposed setting I&D expense using a five-year average of actual costs. Ameren IB at 151. While Ameren argues that "[e]xcluding certain selected

payments from one year of the five-year average would disrupt the established Commission—approved approach and introduce selective treatment of costs within years used for the average, undermining the consistency and fairness of the rate-setting process…to limit the number of contested issues and for purposes of this case only, the Company updated the [Injuries and Damages] calculation to reflect a five-year average removing 2020 and using actual payments from 2021 through 2024, and a forecast of 2025 costs." Ameren IB at 151-52.

The AG recommends the Commission reduce I&D expense by $508,000. AG IB (Pub.) at 89. Specifically. The AG argues that its method for calculating I&D expense—a five-year average from 2020 through 2024—is the "traditional method of determining the amount of [Injuries and Damages] to include in rates." *Id*. at 88. Furthermore, the AG argues the costs associated with the Canton Gas Explosion should be removed because the incident was "extraordinary" and "ratepayers should not be liable for the payment of injuries and damages related to an extraordinary incident." *Id*. at 88-89.

Likewise, IIEC/FEA/CUB recommend the Commission reduce I&D expense by $633,000. IIEC/FEA/CUB IB at 11. Specifically, IIEC/FEA/CUB argues that Ameren uses a 4.25% inflation factor, rather than a 3% inflation factor based "on actual forecasts of future inflation." *Id*. Furthermore, IIEC/FEA/CUB argue that 2020 expense should be removed from the five-year average as that year was inflated due to the Canton Gas Explosion. *Id*. However, IIEC/FEA/CUB agreed in its Initial Brief to accept Ameren's compromise reduction of approximately $377,000 from the revenue requirement. IIEC/FEA/CUB IB at 11-12.

In rebuttal testimony, Staff agreed with the AG's rationale for recommending a disallowance for I&D expense. Staff Ex. 9.0 at 13-15; Staff Ex. 13.0 at 9-12. Specifically, Staff agreed that the Canton Gas Explosion was an extraordinary event, resulting in the Commission using a civil penalty to Ameren, and that costs associated with the Canton Gas Explosion should be excluded from I&D expense because the costs stem from Ameren's failure to act prudently and reasonably. Staff Ex. 13.0 at 11-12. However, in an effort to limit contested issues in this proceeding, Staff accepts Ameren's compromise reduction of approximately $377,000 from the revenue requirement.

c. AG's Position

The Company initially requested to base its gas I&D expense on the five-year average for 2019-2023 payments indexed for inflation. AG Ex. 1.00 at 18. The Company later updated this to a five-year average using actual payments from 2021 through 2024, and a forecast of 2025 costs. The 2025 forecast is based on the average of actual payments from 2022 through 2024, escalated for inflation. Ameren Ex. 33.0 at 4, 7.

The AG proposes that the Company use a five-year average from 2020-2024 with 2024 actual payment information and that the Company removes the payments made in 2020-2024 for the Canton Gas explosion from the calculation. AG Ex. 1.00 at 19; AG Ex. 3.00 at 17. The AG's I&D expense is based on a five-year average which has been the traditional method of determining the amount of I&D to include in rates. AG Ex. 3.00 at 16. The AG states that the Company's approach is not a true five-year average because the 2025 forecast is based on the three-year average from 2022 through 2024, which places more emphasis on the last three years. As Ameren witness Ballard noted, using

a five-year average of actual costs is a "comprehensive approach that smooths the impact of higher and lower years of injuries and damages expense and provides a reasonable method to forecast the test year costs in this proceeding." Ameren Ex. 19.0 (Rev.) at 15. The AG contends its approach is a true five-year average in comparison to the Company's use of the 2025 forecast.

Regarding the Canton Gas explosion, the Commission conducted an incident investigation and issued a Notice of Probable Violation ("NOPV") on December 3, 2020, which required payment of civil penalties by Ameren. AG Ex. 1.04. According to the Gas Incident Report, the explosion completely leveled a structure, severely damaged another building, and damaged nearby structures as a result of airborne debris, resulting in estimated property damage costs of $5,233,306. AG Ex. 1.04 at 9-11. Further, the report details that one Ameren employee died, and four individuals were hospitalized as a result of the explosion. *Id*. at 11. The AG explains that this was an extraordinary event that is unlikely to recur on any regular basis.

The AG asserts that ratepayers should not be liable for the payment of injuries and damages related to an extraordinary incident with extensive property damages as well as personal injuries, and that resulted in AIC paying civil penalties. *Id.* Notably, Ameren cannot point to the Commission placing any restriction on the review of the specific costs included in each year of the calculation. *See* Ameren Ex. 19.0 (Rev.) at 15. The AG notes that the Commission should be able to review all the costs, exclude extraordinary damages payments, and make a determination that is fair to ratepayers. The AG argues that their proposal is the most fair determination of Test Year I&D.

The AG requests that the Commission reduce I&D expenses by $0.508 million as presented on AG IB Attachment, Schedule A-4. The AG notes that Ameren errs in stating that the AG's adjustment reduces I&D expense by $886,000 with a reference to AG Ex. 1.00. Ameren IB at 151. The AG updated the adjustment presented from testimony to reflect the Company's rebuttal reduction and correction and maintain the recommended reduction of $0.508 million for I&D expenses. AG IB Attach., Sch. A-4.

d. IIEC/FEA/CUB's Position

IIEC/FEA/CUB oppose Ameren's I&D expense on two grounds. IIEC/FEA/CUB argue the five-year period included an outlier, an expense that stood out from the others given the extreme difference. The other objection was the use of a five-year consumer price index of 4.25% as the inflation factor, because this historical average included a period of high inflation following the pandemic and included an annual inflation of 8% in 2022. IIEC/FEA/CUB assert including the inflation rate of 8% from 2022 in the averaging results in overstating the I&D expense.

Instead of relying on historical estimates of inflation as a proxy to forecast future inflation, Mr. Leyko relied directly on actual forecasts of future inflation which showed that between now and the end of the Test Year, that rate is expected to be 3% and not 4.25% as proposed by Ameren. Relying on the more appropriate future inflation factor and removing the 2020 expense from the five-year average, these adjustments lower Ameren's Test Year cost of service by approximately $633,000.

IIEC/FEA/CUB acknowledge in Ameren's surrebuttal case it addressed the I&D adjustment made by several parties, including IIEC/FEA/CUB, and agreed to reduce the Test Year expense by $377,211. Ameren Ex. 33.0 at 4. For purposes of this proceeding, IIEC/FEA/CUB agree to accept Ameren's compromise and the reduction of $377,211 from the revenue requirement. Should the Commission not accept this adjustment, IIEC/FEA/CUB recommend that the Commission remove $633,000 from the Company's revenue requirement based on the aforesaid arguments.

e. Commission Analysis and Conclusion

Ameren, Staff, and IIEC/FEA/CUB urge the Commission to adopt the compromise reached between the parties to reduce $377,211 from the revenue requirement. The three parties reached this compromise by agreeing to remove the disputed year 2020 from the five-year average and instead use actual payments from 2021 through 2024, and a forecast of 2025 costs, as described in more detail above.

The AG, on the other hand, argues that the Commission should continue using the true five-year actual average that includes 2020, but removes payments related to the Canton Gas Explosion. The Commission notes that prior to reaching a compromise, Staff and IIEC/FEA/CUB also urged the Commission to remove payments related to the Canton Gas Explosion. *See* Staff Ex. 13.0, 11-12; IIEC/FEA/CUB IB at 11-12.

The Commission agrees that the costs associated with the Canton Gas Explosion should be removed. The Commission finds that the AG's proposal is the most reasonable. The Commission finds removal of the outlier in this case provides a more specific remedy than the averaging methods offered. Accordingly, removing the costs associated with the Canton Gas Explosion from the five-year average of actual payments from 2022 through 2024, escalated for inflation, is a more precise method of achieving the goal of removing the costs associated with the Canton Gas Explosion. Therefore, the Commission approves a reduction of $508,000 from the revenue requirement.

7. Inflation Escalator

a. AIC's Position

Consistent with past practice, Ameren Illinois explains that it used an inflation escalation factor for certain ratemaking adjustments in its initial filing. Ameren Ex. 19.0 (Rev.) at 19. In particular, Ameren Illinois used an escalation methodology based on a five-year average. *Id*. The Commission approved the same methodology based on a five-year historical average in Docket Nos. 23-0082 and 23-0067. *Id.* The Company explains that the use of escalation factors based on a five-year historical average of actual data, as approved previously by the Commission, continues to be a reasonable method of calculating the Test Year forecast for certain ratemaking adjustments. *Id*. at 20. Furthermore, Ameren Illinois notes, using a five-year average smooths the impact of periods of higher and lower inflation to provide a reasonable basis for escalation. *Id*.

Nevertheless, Ameren Illinois points out, IIEC/FEA/CUB witness Leyko proposed an alternative methodology of inflation than that historically approved by the Commission and used in Ameren Illinois' initial filing that would use a consensus economists' 2025 and 2026 inflation forecasts, provided by *Blue Chip Financial Forecast*, dated May 1, 2025. IIEC/FEA/CUB IB. at 12-13; IIEC/FEA/CUB Ex. 1.0 at 17. Ameren Illinois explains

that Mr. Leyko asserted that a future forecast is better "because economic conditions have changed" since the inflation levels in 2021 and 2022. IIEC/FEA/CUB Ex. 1.0 at 17.

The Company notes that it agreed that economic conditions can and do change, often unexpectedly as they did in the years around the Covid pandemic. Ameren Ex. 33.0 at 11. However, Ameren Illinois further notes, Mr. Leyko failed to present any evidence that a forecast based on consensus economists' forecast would be more accurate or reliable for making these adjustments. *Id*.; Ameren Ex. 19.0 (Rev.) at 19.

To evaluate the reliability of economic forecasts relied upon by Mr. Leyko, Ameren Illinois states that it expanded the analysis provided in IIEC/FEA/CUB Exhibit 1.4; Ameren Ex. 33.0 at 11. This expanded review compared the average quarterly inflation rates forecasted by *Blue Chip Financial Forecasts* to the actual quarterly inflation rates subsequently measured over the same period. *Id* at 12.

The Company explains that the date reflected in the table indicates that the five-year average forecasted inflation data provided by *Blue Chip Financial Forecast* under reported actual inflation and was particularly inaccurate in predicating economic uncertainty in 2021 and 2022. *Id*.

Thus, Ameren Illinois states, the economic forecasts underlying Mr. Leyko's recommendations are demonstrably unreliable. Therefore, Ameren Illinois explains that its evidence shows that the consensus economists' forecast relied on by IIEC/FEA/CUB witness Leyko was not more accurate or reliable for making these ratemaking adjustments. Ameren Ex. 33.0 at 11; Ameren Ex. 19.0 (Rev.) at 19.

Even setting aside the fundamental flaws in the economic forecasts relied upon by IIEC/FEA/CUB, Ameren Illinois explains that it also presented evidence showing that those forecasts would not have provided data covering the 2026 Test Year at the time Ameren Illinois filed this rate case. Ameren Ex. 33.0 at 12. This proceeding was filed in early January 2025. *Id*. And under Mr. Leyko's proposed methodology, the Company explains, it would have had to rely on the *Blue Chip Financial Forecasts* report dated November 27, 2024. *Id*. However, Ameren Illinois states, this report only provides inflation projections from the fourth quarter of 2024 through the first quarter of 2026, which highlights the problematic fact that forecast data would have been missing for the last nine months of the 2026 Test Year. *Id*.

The Company explains that the applicability of this methodology would further be complicated if it were applied to Ameren Illinois' electric distribution MYRP. Ameren Ex. 33.0 at 12. The Company states that it filed the current MYRP in January 2023 to cover the years 2024-2027. *Id*. Under Mr. Leyko's proposal, the forecasted inflation rate in that case would have had to rely on the *Blue Chip Financial Forecasts* report dated December 2, 2022. *Id*. Yet, Ameren Illinois points out, this report only provides inflation projections from the fourth quarter of 2022 through first quarter of 2024 and does not include any forecast data for 2025, 2026, and 2027. *Id*. This example further illustrates that Mr. Leyko's proposal to change methodologies would be unreasonable. *Id*. at 12-13. Moreover, Ameren Illinois states, the limited forecast horizon used by the *Blue Chip Financial Forecasts* report does not align with the broader inflation outlook presented in Mr. Leyko's IIEC/FEA/CUB Exhibit 1.4, submitted with his direct testimony, which undermines the consistency and applicability of his proposed approach. *Id*. at 13.

Ameren Illinois asserts that the Commission should reject IIEC/FEA/CUB's methodology of addressing inflation because such a departure is not supported by the evidence here and, therefore, would depart from the Commission's past practice without sufficient justification.

Ameren Illinois notes IIEC/FEA/CUB's argument that forecasted data "can be revisited" during a rate case and "updated if necessary." IIEC/FEA/CUB IB. at 13. Ameren Illinois explains that it assumes that IIEC/FEA/CUB is relying on Part 287 of the Commission's rules, which addresses updates to future test year data. While Section 287.30 of the Commission's rules contemplates an updated filing for a utility's schedules and workpapers, evidence must be "introduced that a significant and material change affecting the revenue requirement as defined in subsection (c) of this Section has occurred." 83 Ill. Adm. Code 287.30(a). Ameren Illinois explains that IIEC/FEA/CUB's reliance on that provision misses the point because even the May 1, 2025, *Blue Chip Financial Forecasts* report relied upon by Mr. Leyko only extends through the third quarter of 2026 and, therefore, does not cover the full test year. IIEC/FEA/CUB Ex. 1.4. Thus, necessary forecast data under IIEC/FEA/CUB's methodology still would have been missing.

b. IIEC/FEA/CUB's Position

IIEC/FEA/CUB assert Ameren overstated its revenue requirement by inappropriately applying historical inflation as a forecast of future inflation in several adjustments, besides its calculation of I&D expense. IEEC/FEA/CUB witness Leyko noted several places in the Company's model with an inflation input in schedules, which have the effect of increasing the revenue requirement. Rather than relying on historical estimates of inflation to forecast future inflation, to more accurately determine the Test Year expense, it is better to rely on consensus economists' forecast of future inflation because economic conditions have changed since the high inflation experience in 2021 and 2022.

IIEC/FEA/CUB witness Leyko testified that the economist inflation forecasts were expected to be 3% between now and during the Test Year and not 4.25% as the Company presumes. IIEC/FEA/CUB Ex. 1.0 at 17-18. IIEC/FEA/CUB added that the Company's position was at odds with its own work papers, noting that the WPB-7d reports annual inflation was at 8% in 2022, and now 3.21% in 2024. *Id*. at 5.

IIEC/FEA/CUB note Ameren's claims that Mr. Leyko did not present any evidence that his forecast based on consensus economists' forecast would be more accurate or reliable for making these adjustments. Ameren IB at 153. IIEC/FEA/CUB respond by asserting Mr. Leyko relied on the very credible Blue Chip Financial Forecasts which showed that future inflation between now and at the end of the Test Year is expected to be around 3%, and not even close to the 4.25% relied upon by the Company. IIEC/FEA/CUB Ex. 1.0 at 17.

According to IIEC/FEA/CUB, Ameren attempts to undermine Mr. Leyko's reliance on the forecasted Blue Chip Financial Forecast by comparing the average quarterly inflation rates to the actual quarterly inflation rates measured over the same period. Ameren IB at 153. This argument, though, IIEC/FEA/CUB say is not evidence that

Ameren's use of a historical inflation rate is a better proxy for future inflation than economists' forecasts. IIEC/FEA/CUB RB at 11.

IIEC/FEA/CUB argue a premise Ameren makes for its case rests on the fact it relied on a five-year historical average to forecast inflation in recent cases. Ameren Ex. 33.0 at 13. IIEC/FEA/CUB assert that because Ameren did so in the past does not make it correct to do so in this proceeding, particularly with a future Test Year. IIEC/FEA/CUB point out that the Commission is certainly aware economic conditions have changed significantly since the high inflation period in the five-year period relied upon by the utility. IIEC/FEA/CUB Ex. 3.0 at 4-5. IIEC/FEA/CUB request that the Commission recognize the inappropriateness of using an inflation factor from a different period that is no longer a fair and reasonable estimate of future inflation.

IIEC/FEA/CUB refer once more to Ameren's argument that a five-year historical average is reasonable and smooths out the impacts of periods of higher and lower inflation referring to the pandemic in part. Ameren IB at 152-153. IIEC/FEA/CUB argues Ameren picks and chooses which consequence of the pandemic suits its purposes. In Ameren 2023 GRC upon which Ameren relies, Ameren rejected intervenor's proposal to adjust the collection lag calculation, referring to external factors in response to the Covid health emergency. See *Ameren 2023 GRC*, Final Order at 100. When it came to defending its labor costs as being lower than the budgeted costs, Ameren blamed the pandemic once more. *Id*. at 106. In this instance, the Commission agreed with Ameren as to Covid's impact on labor costs. *Id.*at 111. Ameren also relied upon the consequences of the pandemic to defend its residential customer counts and, again, the Commission agreed the pandemic did have bearing on the residential customer accounts. *Id*. at 132-133.

IIEC/FEA/CUB assert the takeaway from the Ameren 2023 GRC Final Order is that the pandemic can influence the utility's operating expenses. The evidence in this record suggests that it is once more true. The reality is economic conditions have changed significantly since the high inflation period in the five-year period relied upon by the utility, in part due to the pandemic. IIEC/FEA/CUB Ex. 3.0 at 4-5. IIEC/FEA/CUB ask that the Commission should recognize, as it has done so previously, that the pandemic can be an influential factor in the utility test year cost of service. In the end, it is simply wrong to use an inflation factor from a different period that is distorted due to an external variable such as the pandemic, which results in an unfair and unreasonable estimate of future inflation.

IIEC/FEA/CUB respond to Ameren's argument that the timing of its regulatory proceedings limits the use of forecasted data from the same source Mr. Leyko used. Ameren Ex. 33.0 at 12. IIEC/FEA/CUB argue this argument is without merit as forecasted data can be revisited during a rate case proceeding and updated, if necessary.

In conclusion, IIEC/FEA/CUB argue the evidence in the record establishes that a forecast based on economics' expectations for inflation is superior to Ameren's reliance on historical inflation rates that are no longer reliable. The Company inappropriately applies historical inflation as a forecast of future inflation in several adjustments besides its calculation of I&D expense. IIEC/FEA/CUB recommend the Commission direct Ameren to use a forecasted inflation rate, even though the impact of an inflation adjustment is negligible. IIEC/FEA/CUB Ex. 1.0 at 18.

c. Commission Analysis and Conclusion

In its initial filing, Ameren Illinois used an inflation escalation factor for certain ratemaking adjustments. Consistent with past practice, Ameren Illinois used an escalation methodology based on a five-year historical average. IIEC/FEA/CUB advocate for an alternative methodology that would rely on *Blue Chip Financial Forecasts*.

Ameren states that the Commission approved the same methodology based on a five-year historical average in Docket Nos. 23-0082 and 23-0067. *See* Ameren Ex. 19.0. However, it is well established that the Commission is not bound by its prior orders. *See United Cities Gas Co. v. Ill. Com. Comm'n*, 163 Ill. 2d 1, 22-23 (1994); *Commonwealth Edison Co. v. Ill. Com. Comm'n*, 2016 IL 118129. Ameren provided evidence showing the five-year average forecasted inflation data provided by *Blue Chip Financial Forecasts* under reported actual inflation and was particularly inaccurate in predicting economic uncertainty in 2021 and 2022. Ameren Ex. 33.0 at 11-13. The Commission finds this to be more persuasive than citations to past dockets.

IIEC/FEA/CUB correctly note that the pandemic can be an influential factor in the utility test year cost of service. However, the Commission concludes that Ameren Illinois has shown that the escalation methodology it used is reasonable and accurate. Therefore, the Commission adopts Ameren's escalation methodology based on a five-year historical average.

C. Recommended Operating Income Statements

See Appendix.

V. COST OF CAPITAL AND RATE OF RETURN

A. Uncontested or Resolved Issues

1. Cost of Short-Term Debt

Ameren Illinois proposed a forecasted cost of short-term debt of 3.615% for 2026 based on projected commercial paper rates for 2026. Ameren Ex. 9.0 at 11-13. Staff did not object to this value, and it was not otherwise contested. Staff Ex. 3.0 (Corr.) at 19-20.

The Commission finds that Ameren Illinois' short-term debt cost is reasonable, and it is hereby approved.

2. Cost of Preferred Stock

Ameren Illinois calculated an embedded cost of preferred stock of 4.479%. Ameren Ex. 9.0 at 14. Staff agreed with this value, and it was not otherwise contested. Staff Ex. 3.0 (Corr.) at 21.

The Commission finds that Ameren Illinois' embedded cost of preferred stock is reasonable, and it is hereby approved.

B. Contested Issues

1. Cost of Long-Term Debt

a. AIC's Position

Ameren Illinois recommends a 2026 proposed embedded cost of long-term debt of 4.501%. Ameren Exs. 23.0 at 14; 23.1. Staff witness Nyame, however, proposes an embedded cost of long-term debt of 4.492%. Staff Ex. 11.0 (Corr.) at 19.

The Company's proposed cost of long-term debt is primarily based on the coupon rates of long-term debt issues expected to be outstanding as of December 31, 2026, as well as the amortization of debt discounts and other issuance costs and the amortization of losses on reacquired debt. Ameren Ex. 9.0 at 13. The Company's recommendation reflects actual pricing terms on the March 2025 issuance of $350 million of 5.625% first mortgage bonds due 2055. Ameren Ex. 23.0 at 14.

Mr. Nyame increased his recommended embedded cost of long-term debt to address issues raised in Ameren witness O'Bryan's rebuttal testimony regarding asymmetric treatment of the principal amount and interest expense of Ameren Illinois' projected bond issuance in June 2026 and the corrected tenor for the Company's bond issuance in March 2025. Staff Ex. 11.0 (Corr.) at 19. Nevertheless, there remain inconsistences in Mr. Nyame's analyses such as his change in methodology between direct and rebuttal testimony with respect to how the unamortized expense and related annual amortization is calculated for the 4.80% series projected to be issued in 2026. No explanation was given by Mr. Nyame in rebuttal testimony for this change in methodology. Ameren Ex. 37.0 at 9.

In a traditional regulatory model, the interests of customers and a utility's shareholders are balanced when the Commission authorizes a rate of return on rate base equal to the utility's overall cost of capital. Ameren Ex. 9.0 at 11. The Company's proposed cost of long-term debt reflects actual pricing terms from the March 2025 issuance and projected terms for debt issues expected through the end of 2026, while Staff's position relies upon Mr. Nyame's flawed and inconsistent analyses. Thus, Ameren Illinois contends that the Company's proposed cost of long-term debt better reflects the pricing terms of the relevant debt issuances and should be used by the Commission to determine cost of long-term debt in this case.

b. Staff's Position

The Company proposes a 2026 year-end embedded cost of long-term debt of 4.501%. Ameren Ex. 23.0 at 14. Staff witness Nyame recommended an average 2026 proposed embedded cost of debt of 4.492%. Staff Ex. 11.0 (Pub.) Corr. at 19. Staff's original estimate of the cost of long-term debt differed from the Company's estimate because Staff's straight-line amortization of debt discount and debt expense differed slightly from the balances reported in AIC's Form 21 annual report. Staff Ex. 3.0 (Pub.) Corr. at 20. In addition, Staff updated the interest rate on the $350 million First Mortgage Bonds that were issued in March 2025 from AIC's projected interest rate of 4.7% to 5.625% which was the actual interest rate for those bonds at issuance. *Id*. Finally, Staff's embedded cost of long-term debt is calculated as an average, using the unamortized debt

balances for December 31, 2025, and 2026 instead of the Company's 2026 year-end embedded cost of long-term debt calculation. *Id*. at 20-21.

In response to AIC's rebuttal testimony, Staff adjusted the embedded cost of long-term debt calculation to weight the cost of the Company's June 2026 bond issuance, 4.800% $300 million First Mortgage Bonds, according to the portion of the year the bonds would be outstanding in 2026. Ameren Ex. 23.0 at 13; Staff Ex. 3.0 at Sch. 3.02. Additionally, Staff corrected the maturity date of AIC's 5.625% $350 million First Mortgage Bonds issued in 2025 and updated the maturity year to 2055. Staff Ex.11.03 Corr. The combined effect of these adjustments resulted in an embedded cost of long-term debt of 4.492%.

The Company argues that its recommendation reflects "actual" pricing terms of a March 2025 issuance and projected terms for debt issues expected through the end of 2026. Further, the Company contends there are inconsistencies in Staff's analyses related to a change in methodology with respect to how the unamortized expense and related annual amortization is calculated for the 4.800% series projected to be issued in 2026; they further argue that this was done without explanation.

Staff claims that the Company's argument that Staff's adjustments were unexplained is unfounded. Mr. Nyame testified the methodology applied straight line amortization on the Company's outstanding balances from 2023 through to 2026. Staff Ex. 3.0 (Pub.) Corr. at 20. Then, he adjusted the interest rate on the $350 million First Mortgage Bonds that were issued in March 2025 from AIC's projected interest rate of 4.70% to 5.625%, which was the actual interest rate for those bonds at issuance. *Id*. Finally, to calculate the average embedded cost of long-term debt, he averaged the unamortized debt balances for December 31, 2025, and December 31, 2026 (instead of the 2026 year-end balances that the Company used in its calculation). Staff Ex. 3.0 (Pub.) Corr. at 20-21.

In response to AIC's rebuttal testimony, Mr. Nyame adjusted the embedded cost of long-term debt calculation to weight the cost of the Company's June 2026 bond issuance, 4.800% $300 million First Mortgage Bonds, according to the portion of the year the bonds would be outstanding in 2026. Ameren Ex. 23.0 at 13; Staff Ex. 3.0 at Sch. 3.02.; Staff Ex. 11.0 (Pub.) Corr. at 19-20. Staff corrected their analysis in rebuttal by prorating both the interest and principal amounts. Staff Ex. 11.0 (Pub.) Corr. at 19-20. This correction appropriately reduced the total unamortized discount and expense from $3,754,958 to $2,091,832 and the annual amortized amount from $397,000 to $215,042. Staff Ex. 3.0 at Sch. 3.02, 1; Staff Ex. 11.0 at Sch.11.03 Corr. at 1. Additionally, Staff corrected the maturity date of AIC's 5.625% $350 million First Mortgage Bonds issued in 2025 and updated the maturity year to 2055. Staff Ex. 11.0 (Pub.) at 20, Sch. 11.03 Corr.

These adjustments to the June 2026 4.800% $300 million and March 2025 5.625% $350 million bond issuances, along with the explanations provided in Staff's rebuttal testimony, reflect the actual pricing of the Company's long-term debt through the end of 2026. Hence, the Company's claim of unexplained inconsistency with respect to Staff's embedded cost of long-term debt calculation is unfounded.

As further explained in Staff's Initial Brief, Staff calculated the embedded cost of long-term debt as an average of unamortized debt balances as of December 31, 2025,

and December 31, 2026. This approach is more reasonable than the Company's approach that relies solely on year-end 2026 balances because it better reflects the costs incurred to raise additional long-term debt over the capital structure measurement period. Accordingly, Staff recommends the Commission approve Staff's calculation of the Company's average 2026 embedded cost of long-term debt rather than the Company's December 31, 2026, embedded cost of debt calculation.

For these reasons, Staff recommends the Commission approve its proposed long-term debt rate of 4.492%.

c. Commission Analysis and Conclusion

The Commission finds Staff's proposed long-term debt rate of 4.492% appropriate, because it reflects the actual pricing of the Company's long-term debt through the end of 2026. Staff calculated the embedded cost of long-term debt as an average of unamortized debt balances as of December 31, 2025, and December 31, 2026. The Commission agrees with Staff that this approach is more reasonable than the Company's approach that relies solely on year-end 2026 balances because it better reflects the costs incurred to raise additional long-term debt over the capital structure measurement period.

2. Capital Structure

a. AIC's Position

Ameren Illinois proposes to use a 2026 future test year-end capital structure consisting of 0.064% short-term debt, 47.596% long-term debt, 0.339% preferred stock, and 52.000% common equity, excluding goodwill and the effects of purchase accounting in a manner consistent with the accounting treatment approved by the Commission in Docket No. 12-0001. Ameren Ex. 9.0 at 8; Ameren Ex. 23.0 at 3. While the Company's 2026 expected actual test year-end capital structure is expected to be managed and maintained in a manner consistent with sound financial practice, specifically balancing its objectives to minimize its overall cost of capital while preserving financial health and stability, Ameren Illinois is proposing a capital structure containing 52.000% equity in order to limit the number of issues in this case. Ameren Ex. 2.0 at 12-13. Ameren Illinois contends the record demonstrates that the proposed capital structure is prudent and reasonable and should be used by the Commission in its Final Order in this proceeding in determining the revenue requirement.

Staff witness Nyame proposed that the Commission use a capital structure containing 50.000% common equity. Staff Ex. 3.0 (Corr.) at 48. According to AIC, Staff's proposed capital structure, however, is inadequate and rests on a flawed analysis of industry capital structures.

IIEC/FEA/CUB witness Walters proposed that the Commission authorize an equity ratio of 50.000% for Ameren Illinois, which he asserted is consistent with the Commission's general movement toward a capital structure that includes a 50.000% common equity ratio over the last several years and is the Company's currently authorized equity ratio. IIEC/FEA/CUB Ex. 2.0 at 24-25. While PIO did not address this topic in its testimony, in its initial brief it adopted IIEC/FEA/CUB's proposed capital structure of 50.000% common equity. PIO IB at 30-31. Ameren Illinois contends that Mr.

Walters' position, like Staff's, relies on a flawed analysis of industry capital structures and ignores more relevant and appropriate data.

Company witness Weber testified that the capital structure is the mix of debt and equity capital that a public utility such as Ameren Illinois uses to finance its assets. Ameren Ex. 9.0 at 3. Because they must support long-lived assets, utility capital structures tend to include long-term securities, generally a combination of common equity and long-term debt. *Id*. In evaluating the reasonableness of a public utility's capital structure, a key consideration is whether the capital structure is consistent with the financial strength necessary for the utility to access the capital markets under reasonable terms under most economic conditions, and, if so, whether the cost of capital resulting from such a structure is reasonable. *Id*. While debt, relative to equity, is generally a less expensive form of capital due in part to the tax deductibility of interest expense, heightened leverage can increase the probability of default and the related costs of financial distress. *Id*. Beyond a certain point, Ms. Weber explained, dependence on debt as a source of capital materially increases the risk associated with a utility's cash flow, which correspondingly increases a utility's overall cost of capital. *Id*.

Ms. Weber testified that holding an investment grade credit rating implies financial strength, stability, and assurance of an issuer's ability to satisfy debt obligations, which leads to enhanced access to debt capital for a utility even in weaker market conditions. Ameren Ex. 9.0 at 7. The 2026 future test year-end capital structure recommended by the Company permits Ameren Illinois to take advantage of lower cost debt financing without elevating the risk of default and the related costs of financial distress to an unreasonable level that impairs the creditworthiness and financial integrity of the Company. *Id*. at 5. Ms. Weber explained that dependable access to debt capital benefits Ameren Illinois customers by supporting its service obligations and lower debt costs contribute to lower utility rates. *Id*. at 7.

Ameren Illinois presented evidence showing that its proposed 2026 future test year-end capital structure is reasonable and prudent. Ameren Ex. 9.0 at 10-11. Through sound financial practice, Ameren Illinois consistently manages its capital structure in a manner that allows enhanced customer service and reliability (with affiliated job creation benefits), while maintaining a strong financial position. *Id*. A healthy capital structure creates a reasonable balance between overall cost of capital and the expected costs of financial distress. *Id*. at 5. Ameren Illinois' proposed 2026 future test year-end capital structure prudently and reasonably balances the relative costs and benefits of debt and equity financing, which establishes strength and stability at a reasonable weighted average capital cost. *Id*. at 10-11.

Staff witness Nyame and IIEC/FEA/CUB witness Walters both contended that Ameren Illinois' equity ratio significantly exceeds the equity ratio for the Utility Proxy Group. Both recommended that the common equity ratio be set at 50.000%. Ameren Illinois responds that neither provided a valid reason to set the common equity ratio so low.

Mr. Nyame referenced a 2022 to 2024 average common equity ratio for the Utility Proxy Group in Ameren Exhibit 9.0 that was 43.620%. Staff Ex. 3.0 (Corr.) at 6. There are two problems with this position.

First, Mr. Nyame's calculation included 100% of short-term debt for the Utility Proxy Group, as well as securitization debt attributable to Winter Storm Uri at Atmos, ONE Gas, and Northwest Natural Gas. While short-term debt may be included in a regulatory capital structure, it is typically not considered a permanent source of capital. Ameren Ex. 23.0 at 6. Excluding short-term debt and securitization, the three-year average equity ratio for the Utility Proxy Group is 48.100%. *Id*.

Mr. Walters also compared the Company's common equity ratio to the common equity ratios of his proxy group both with and without short-term debt. IIEC/FEA/CUB Ex. 2.0 at 24. He calculated an average common equity ratio of 48.800% for his proxy group without short-term debt. *Id*. As Company witness O'Bryan noted, this is not compelling evidence that Ameren Illinois' common equity ratio is excessive compared to its peers, which is not the proxy group itself. Ameren Ex. 23.0 at 14-15.

Second, and more importantly, the appropriate analysis is to compare Ameren Illinois not to the holding companies in the Utility Proxy Group, but to the regulated operating companies within the Utility Proxy Group, using their last authorized common equity ratios. Ameren Ex. 23.3; Ameren Ex. 37.0 at 4. As Mr. O'Bryan explained, the "use of authorized equity ratios of peer gas operating companies measures what this proceeding is intended to set and is by all measures much more relevant than Mr. Nyame's use of actual equity ratios of holding companies." Ameren Ex. 37.0 at 4. The average of this group was 53.600%, with a median of 52.500% and a range of 43.200% to 62.400%. Ameren Ex. 23.0 at 5. Ameren Illinois' proposed capital structure of 52.000% of common equity is below the average and just below the median of those regulated operating companies' authorized common equity ratios. *Id*.

Mr. O'Bryan also compared Ameren Illinois' proposed common equity component of 52% to all authorized equity ratios for gas cases for the period of 2016 to 2025, excluding those states that include non-investor supplied capital in capital structures. Ameren Ex. 23.0 at 5. That analysis indicated an average and median authorized common equity ratio for gas cases of approximately 52.000% with a range between 50.600% and 53.000%. *Id*. Notably, those cases included three Illinois gas utility cases - Nicor, North Shore Gas Co., and Ameren Illinois - that all were authorized common equity ratios at or above 52.000% since 2021. Ameren Ex. 37.0 at 2. No evidence has been provided in this case to support a conclusion that what was deemed an appropriate equity ratio for Ameren Illinois as recently as 2021 somehow has become unreasonable in 2025. It is even more implausible considering the headwinds that the Company has faced since 2021, which were noted by Moody's Benchmark Ratios ("Moody's) in its latest credit opinion. *Id*. Mr. O'Bryan explained that these headwinds, which would argue for a higher equity ratio, prompted credit supportive actions by the Company. *Id*.

In addition, when the cases noted above are narrowed to just the Utility Proxy Group, the common equity ratios authorized averaged 53.600%, with a median of 52.500%. *Id*. In light of the empirical evidence, Ameren Illinois contends that Mr. Nyame's position that 52.000% is "unreasonable" or "excessive" appears to be an exaggeration. *Id*.

IIEC/FEA/CUB similarly argue that Ameren Illinois' requested common equity ratio exceeds the average common equity ratio for the proxy group used to establish the

Company's cost of equity estimate. IIEC/FEA/CUB IB at 14. But, the appropriate analysis of the Company's equity ratio is to examine the last authorized common equity ratios of the Utility Proxy Group. Ameren Ex. 23.3. The average of this group was 53.600%, with a median of 52.500%, which exceeds the 52.000% proposed in this case. Ameren Ex. 23.0 at 15. Further, looking back roughly ten years at all authorized equity ratios, as shown in Ameren Exhibit 23.3, produces average and median equity ratios of approximately 52.000%. *Id*.

In the Ameren 2023 GRC, IIEC/FEA/CUB witness Walters recommended an equity ratio of 52.000% for the Company. *Ameren 2023 GRC*, IIEC/FEA/CUB/UCM/PRM Ex. 2.0 at 8. Mr. Walters cited, as support for his recommendation in that case, the authorized common equity ratios among natural gas utilities with a median 52.000%. *Id*. The same table appears in Mr. Walters' direct testimony in this case, updated with data into 2025, and shows a median of recent authorized common equity ratios among natural gas utilities of the same exact 52.000%. IIEC/FEA/CUB Ex. 2.0 at 7. Thus, the Company's recommended common equity ratio is just and reasonable contrary to IIEC/FEA/CUB's claim.

Staff witness Nyame argued that Ameren Illinois' capital structure is not independent, and the Commission must consider the capital structure of Ameren Corporation ("Ameren Corp."). Mr. Nyame implied that capital infusions from the Company's parent impairs the independence of Ameren Illinois. Staff Ex. 11.0 (Corr.) at 15. However, the Mr. Nyame did not describe any detrimental financial or strategic actions the Company has taken because of its capital support from Ameren Corp., or any risk borne by Ameren Illinois' customers due to such capital support. Ameren Ex. 37.0 at 7.

The Company admits that Ameren Illinois relies on its parent for equity capital beyond what it internally generates from earnings. *Id*. The Company has required external equity capital in past years to support its operations and investment program when it has not generated sufficient retained income or free cash flow to fund the business on its own in a credit responsible manner. *Id.* Ameren Illinois' affiliation with Ameren Corp. thus does not result in any incremental risk or incremental cost of capital to the Company. *Id*.

Staff relies on a comparison of the level of financial strength implied by the financial ratios of the Company to Moody's for regulated electric and gas utilities. Staff purports to evaluate the Company in a similar way as credit rating agencies do when they rate companies. Ameren Ex. 23.0 at 6. Mr. O'Bryan pointed out that the flaw in Staff's analysis is that credit rating agencies do not apply a "one-size-fits-all" methodology across the companies within a particular industry. *Id*. at 7. In assessing financial risk of an individual company, credit agencies look at both subjective and quantitative factors. *Id*. According to Moody's, the subjective factors comprise approximately 60% of the broad rating factor weighting, with the remaining 40% focusing on quantitative credit metric factors. Based on their evaluation of these and other factors, the rating agencies will assign an appropriate credit rating and outlook and often identify the range (the "upgrade/downgrade thresholds") of a key financial metric (*e.g*., Funds from Operations ("FFO") to Debt ratio) within which such credit rating is likely to apply. *Id*. The

upgrade/downgrade thresholds referenced in each of the agencies' most recent Moody's credit reports are different. *Id*.

The Commission cannot necessarily draw any definitive conclusions about the financial strength of a particular company by comparing the financial metrics of that company versus a composite group of other companies within the industry using an analysis, such as Mr. Nyame's, that ignores more than half of the factors results in a flawed result. That this is most clearly highlighted in Ameren Illinois' recent Moody's Credit Opinion dated May 8, 2025, in which, despite multiple quantitative factors implying an "A2" rating, the actual rating assign to Ameren Illinois was "A3" due to the qualitative factors. Mr. Nyame's contention that Ameren Illinois maintains a solid cushion above the threshold that would prompt a credit rating downgrade is contradicted by Moody's own forecasts, which indicated a rating drop. Ameren Ex. 37.0 at 5.

Staff additionally attempts to calculate implied Moody's credit metrics using the Company's proposed 2026 equity ratio and applies that to the proposed 2026 gas rate base to arrive at a gas-only debt component. Mr. Nyame then uses other components of the rate case to arrive at hypothetical credit metric components, but this calculation is an oversimplification of the Moody's calculation. Ameren Ex. 23.0 at 10-11. The Company's capital structure supports all of its business activities, not only its gas components, therefore, Staff's attempts to create a gas only debt component to imply a Moody's credit rating cannot be relied upon. Not only are Staff's calculations an oversimplification of Moody's methodology, but also, while the metrics are an important input to the credit rating that is assigned by Moody's, they are not the only consideration, which Staff fails to account for in its analyses.

Moreover, Mr. Nyame recognized that his flawed analysis produced a ratio of Retained Cash Flow (or "RCF") to Debt ratio of 1.10%, which would put the ratio below investment grade, likely Ba3, producing an overall rating based on all financial metrics between Baa1 and Baa2. Ameren Ex. 23.0 at 11. This would mean, according to Mr. Nyame's analysis, a one to two notch downgrade in Ameren Illinois' credit rating. Since this result is counterintuitive to Staff's argument, Mr. Nyame "adjusts" the Company's forecasted dividend payout ratio of 52.51% by "normalizing" it to the prior three-year average of 20.98%, baselessly arguing that "the Company has not explained or justified the dividend payout ratio doubling in 2026, compared to previous years." Staff Ex. 3.0 (Corr.) at 18-19. Mr. Nyame argued that the Company's capital structure contains too much equity, that is, until that argument no longer fit that narrative. At that time, he rejected the means that the Company has to lower that common equity component in its capital structure. Ameren Illinois submits that by not paying the dividends Mr. Nyame excludes from his calculation that this difference should then be added to the Company's common equity balance, which would increase the Company's common equity ratio. There is still a need to account for the missing capital that would, if paid out, have the practical effect of reducing the common equity percentage in Ameren Illinois' capital structure, which is what Staff would endorse. In sum, Mr. Nyame's methodology would in fact have the opposite effect than he is arguing for and his analysis is fundamentally flawed.

Staff implies that Ameren Illinois' capital structure is being manipulated by Ameren Corp. With no evidence, Staff contends that Ameren Illinois maintains a higher equity

ratio than needed to serve Ameren Corp. obligations. While Staff implies that capital infusions from the Company's parent impair the independence of Ameren Illinois, Staff does not describe any detrimental financial or strategic actions the Company has taken because of its capital support from Ameren Corp.

Both Staff and the Company acknowledge the Company relies on its parent for equity capital beyond what it internally generates from earnings. However, Staff fails to address that Ameren Illinois' affiliation with Ameren Corp. does not result in in any incremental risk or incremental cost of capital to Ameren Illinois. Ameren Ex. 37.0 at 7.

The Company contends Staff's argument is unsupported and circular. First, Staff has created a hypothetical scenario where a utility subsidiary is maintaining a higher equity ratio in order to increase the parent company's rate of return. Staff Ex. 3.0 (Corr.) at 11. Staff's Initial Brief then cites back to its imaginary scenario and states as fact that Ameren Illinois' capital structure violates Section 9-230 of the Act. Staff IB at 39. Staff provides no evidence for any of its arguments other than conjecture and a misinterpretation of case law.

Staff cites *Citizens Util. Bd. v. Illinois Commerce Commission*, 276 Ill. App. 3d 730, 744 (1995) to support its theory. Staff's assertions are unsupported by any evidence and its reliance on Section 9-230 is misplaced. Section 9-230 provides in relevant part:

> In determining a reasonable rate of return upon which investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any… incremental risk, … [or] increased cost of capital … which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies.

220 ILCS 5/9-230.

The intent behind Section 9-230 was to protect customers from the nonutility activities of regulated utilities. In fact, "[t]he plain language of the statute provides the Commission with the discretion to determine whether Ameren's proposed actual capital structure is prudent and reasonable." *Ameren Ill. Co. v. Ill. Com. Comm'n*, 2013 IL App (4th) 121008, ¶ 29. Direct evaluation under this statute has only been used to measure incremental risk added from unregulated, nonutility businesses when calculating cost of capital. In *Citizens Util. Bd*., 276 Ill. App. 3d at 745, for example, the Appellate Court ordered the Commission to evaluate whether Sprint's capital structure was inflated due to its unregulated subsidiaries. In another case, the Appellate Court held that "if a utility's exposure to risk is one iota greater, or pays one dollar more for capital because of its affiliation with an unregulated or nonutility company, the Commission must take steps to ensure that such increases do not enter in its [rate of return] calculation." *Ill. Bell Tel. Co. v. Ill. Com. Comm'n*, 283 Ill. App. 3d 188, 207 (1996). In *Central Ill. Pub. Serv. Co. v. Illinois Com. Comm'n*, 243 Ill. App. 3d 421, 441 (1993), CUB argued short-term investments in the utility's unregulated parent company violated Section 9-230. The Court disagreed by pointing to evidence that these short-term investments could be used to fund regulated utility operations. *Id*. at 444. Additionally, in *Commonwealth Edison Co. v. Illinois Com. Comm'n*, 295 Ill. App. 3d 311 (1998), Staff opposed allowing ComEd to provide energy support services such as furnishing, designing, engineering, operating

and managing electrical power equipment, energy systems, and conversion systems. The concern was that a regulated utility should not be operating a nonutility business. *Id*.

Moreover, in *Citizens Utility Board*, CUB argued that the capital structure of Centel, a regulated utility, was being used to support the unregulated businesses of its parent company, Sprint. *Citizens Util. Bd*., 276 Ill. App. 3d at 745. In that case, CUB submitted evidence that the parent, Sprint, also had "unregulated" and "high-risk" operations "far greater debt [than the regulated utility] and very little equity." *Id*. The Commission had rejected that evidence. *Id*. at 747. The Court reversed, finding that the public utility bore the burden of demonstrating that the capital structure was reasonable and that the Commission had improperly placed the burden of proof on CUB. *Id*. Staff has yet to articulate how this particular case supports a finding that using Ameren Illinois' forecasted 2026 capital structure for setting gas distribution rates would violate Section 9-230 of the Act.

All of Ameren Illinois' operating divisions are regulated utility functions and there are no specific allegations that any affiliate risk is weighing on Ameren Illinois' cost of capital. Mr. O'Bryan testified that Ameren Illinois' long-term debt is secured exclusively by its own assets and not the assets of Ameren Corp. or other Ameren Corp. utility subsidiaries. Ameren Ex. 23.0 at 9. Additionally, Ameren Illinois' assets do not guarantee Ameren Corp.'s or Ameren Illinois' other affiliates' long-term debt. *Id*. at 10. Because Ameren Illinois independently manages its own capital structure, there is no incremental cost of capital that Ameren Illinois customers have to bear. *Id*.

Ameren Illinois argues that Staff's contention is not supported by evidence and should require more than a recitation of Section 9-230. According to Ameren Illinois, the fact that a utility company provides other Commission-regulated utility services, or has a public utility affiliate in another state, is not enough. The Company has offered substantial record evidence supporting a rational basis for the management of Ameren Illinois' capital structure, a management premised largely upon preserving the creditworthiness of the utility - a legitimate end. To fall under Section 9-230, there must be evidence that an unregulated enterprise, and the risk associated therewith, is effectuating a subsidization for the benefit of unregulated enterprises to the detriment of utility customers. Ameren Illinois submits that is not the case here.

b. Staff's Position

Staff recommends the Commission approve a capital structure containing 50.000% common equity. Staff Ex. 11.0 (Pub.) Corr. at 4. In Staff's opinion, Staff's recommended capital structure appropriately balances investor and consumer interests while allowing the utility to maintain and support its credit, allowing it to raise needed capital to run its business.

Staff explains that the ratemaking process under the Act, *i.e*., the fixing of "just and reasonable rates", involves a balancing of investor interests and consumer interests; it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. *Hope*, 320 U.S. at 603. A reasonable rate is one that permits a utility to earn a sufficient return that assures confidence in the financial soundness of the utility; allowing that utility to maintain and support its credit, and that allows it to raise needed capital to run its business. *Bluefield*, 262 U.S. at 692.

The Company proposes using a forecasted 2026 capital structure that contains 52.000% common equity. Ameren Ex. 23.0 at 3. Staff contends that AIC's proposed capital structure is not reasonable and that the Commission should approve Staff's proposed capital structure for AIC, which contains 50.000% common equity. Staff Ex. 11.0 (Pub.) Corr. at 4; Staff Ex. 11.0 at Sch. 11.01 Corr. The law supports Staff's position. "[T]he Commission should disallow recovery of any costs of capital in excess of that reasonably necessary for the provision of services. If a utility has included excessive equity in its capital structure, it has inflated the rate of return and its capital cost." *Citizens Util. Bd.*, 276 Ill. App. 3d at 746. Accordingly, the Company has the burden to prove to the Commission that its actual capital structure contains no more common equity than reasonably necessary to provide its services.

As Mr. Nyame explained, the overall cost of capital equals the sum of the costs of the capital structure components (*i.e*., debt, preferred stock, and common equity) after weighting each by its proportion to total capital. Staff Ex. 3.0 (Pub.) Corr. at 3. A primary goal of regulation is to properly balance the interests of a utility's ratepayers and investors. This is accomplished by minimizing the cost of reliable service to ratepayers while allowing utilities to earn a fair and reasonable rate of return on rate base. *Id*.

An optimal capital structure would minimize the cost of capital and maintain a utility's financial integrity. *Id*. at 5. Unfortunately, determining whether a capital structure is optimal remains difficult because: (1) the cost of capital is a continuous function of the capital structure, rendering its precise measurement along each segment of the range of possible capital structures problematic; (2) the optimal capital structure is a function of operating risk, which is dynamic; and (3) the relative costs of the different types of capital vary with dynamic market conditions. *Id*. Consequently, one should determine whether the capital structure is consistent with the financial strength necessary to access the capital markets under most economic conditions, and if so, whether the cost of that financial strength is reasonable. *Id*. at 5-6. Mr. Nyame explained that capital structure affects the value of a firm and, therefore, its cost of capital, to the extent it affects the expected level of cash flows that accrue to parties other than its investors. Staff Ex. 3.0 (Pub.) Corr. at 4. Employing debt as a source of capital reduces a company's income taxes, thereby reducing the cost of capital, all else equal. However, as reliance on debt as a source of capital increases, so does the probability of default. *Id*. at 4-5. As default becomes more probable, expected payments to attorneys, trustees, and other outside parties increase. *Id*. Simultaneously, the expected cash flows decline as the company foregoes investment that would have been available to it had its financial condition been stronger, including the expected value of the income tax shield from debt financing. Beyond a certain point, a growing dependence on debt as a source of funds increases the overall cost of capital. Therefore, Staff states, the Commission should not determine the overall rate of return from a utility's actual capital structure if the Commission concludes that capital structure adversely affects the overall cost of capital. *Id*.

Next, Mr. Nyame compared the level of financial strength implied by the financial ratios of the Company to Moody's ratio's for regulated electric and gas utilities. Staff Ex. 3.0 (Pub.) Corr. at 7. Although Moody's does not rigidly adhere to a formula for assigning credit ratings, Moody's publishes ratio ranges that may generally be seen at different rating levels for regulated gas utilities. *Id*. Moody's focuses on the following four ratios

to assess the financial strength of gas and electric utilities: (1) Cash Flow from Operations Before Changes in Working Capital ("CFO pre-WC") interest coverage; (2) CFO pre-WC to total debt; (3) CFO pre-WC less dividends to total debt coverage; and (4) debt to capitalization. *Id*.

Mr. Nyame presented benchmark ratios for AIC, Ameren Corp., and Staff's Gas Sample calculated for 2024 and as a three-year average from 2022 through 2024. *Id*. at 8. The Moody's historical financial ratios calculated in Staff's analysis (*i.e*., the ratios for 2024 and for the 2022-2024 three-year average) imply a credit rating of Aa3/A1 for the Company based on both the 2024 data and the three-year average data, which suggests a level of financial strength consistent with a credit rating that is higher than the Company's actual rating of A3. *Id*. For Staff's Gas Sample, the Moody's financial ratios imply credit ratings of Baa1 for 2024 and the three-year average data. *Id*. at 9. The Company has higher overall cash flow ratios and lower debt ratios (both indicative of higher financial strength) than Ameren Corp. and the Staff Gas Sample over the three-year period. *Id*.

Finally, Mr. Nyame compared the financial strength implicit in the Company's and Staff's proposed capital structures using Staff's updated revenue requirement. Staff Ex. 11.0 (Pub.) Corr. at 12. Using Staff's proposed capital structure comprising 50.000% common equity, the ratios indicate a degree of financial strength that is consistent with AIC's actual A3 Moody's rating while the Company's proposed capital structure indicates a higher degree of financial strength. *Id*. That is, the implied financial strength of the ratios indicate that the Company's proposed capital structure contains a higher common equity ratio than is necessary to maintain its current A3 Moody's credit rating. *Id*.

The Company argues in rebuttal that its proposed 52% common equity ratio is not much higher than the average common equity ratio in the gas distribution industry if you compare it to the Utility Proxy Group's last common equity ratio authorized which averaged 53.600%. Ameren Ex. 23.0 at 5. However, Mr. Nyame testified in rebuttal that in the Company's last rate case, the Commission approved a capital structure comprising 50.000% common equity because there was "no threat to the Company's financial condition or credit position to justify" such an increase to AIC's common equity ratio and the corresponding higher costs to ratepayers. Staff Ex. 11.0 (Pub.) Corr. at 5; *Ameren 2023 GRC,* Final Order at 153. In this docket, the record similarly demonstrates that there is no threat to the Company's financial condition or credit position to justify an increase to a 52.000% common equity ratio. Staff Ex. 11.0 (Pub.) Corr. at 5.

Furthermore, Ameren Corp. is rated Baa1 by Moody's, which is one notch lower than AIC's A3 Moody's rating. *Id*. at 9. All else equal, a company with less operating risk can maintain higher debt ratios without negatively affecting their credit rating. Staff Ex. 3.0 (Pub.) Corr. at 11. Yet, AIC's proposed common equity ratio of 52.000% is much higher than its riskier parent company's common equity ratio of only about 39.140% in 2024. *Id*. at 15. This is a very common arrangement in the relationships between holding companies and their operating company subsidiaries. *Id*. at 10. Nevertheless, non-rate regulated corporations have an economic incentive to maintain relatively low equity ratios (*i.e*., high debt levels) at the holding company level while maintaining relatively high equity ratios (*i.e*., low debt levels) at the utility operating company level, because they can borrow at low rates at the holding company and in turn, invest that capital in the utility,

where it will earn relatively high equity returns given the operating risk inherent in the utility operations. *Id*. The utility, in such scenarios, despite being very low risk based solely on its standalone risk, may face a higher level of risk because of its parent's debt requirements. Staff Ex. 3.0 (Pub.) Corr. at 11. In this scenario, a utility subsidiary will often be motivated to maintain a higher equity ratio than it requires in order to increase the utility's allowed rate of return. *Id*. In Illinois, if that increased cost of capital is reflected in the utility's rates, it is a violation of Section 9-230 of the Act. *Id*. at 11-12; *see* 220 ILCS 5/9-230.

Staff contends that using AIC's forecasted 2026 capital structure for setting gas distribution rates would violate Section 9-230 of the Act. AIC has not demonstrated that it requires a higher common equity ratio than its riskier parent company, Ameren Corp. Staff Ex. 3.0 (Pub.) Corr. at 12. When a larger corporation owns a utility, the corporation is generally not motivated to establish the optimal, lowest-cost capital structure for the utility, but to instead, use a capital structure with a greater percentage of equity than is optimal, thereby allowing the parent corporation to realize a greater return. *Citizens Util. Bd.*, 276 Ill. App. 3d at 744. In other words, the capital structure of the regulated utility can be manipulated to include excessive equity to inflate the rate of return. *Id*.

When the capital structure of AIC carries an excessive amount of equity, it benefits Ameren Corp., its parent and sole shareholder, to the detriment of AIC ratepayers, who would pay for the excessive amount of equity through rates. Staff Ex. 3.0 (Pub.) Corr. at 12. Thus, to serve its parent's obligations, the utility subsidiary will often maintain a higher equity ratio than needed, thereby increasing the utility's cost of capital, while leaving ratepayers with the costs. The legislature, through Section 9-230, has directed the Commission to protect ratepayers against the increased cost of capital sought by a utility with such an inflated level of equity. Specifically, in Illinois, "if a utility's exposure to risk is one iota greater, or it pays one dollar more for capital because of its affiliation with an unregulated or nonutility company, the Commission must take steps to ensure that such increases do not enter in its [rate of return] calculation." *Ill. Bell Tel. Co.*, 283 Ill. App. 3d at 207. The Commission supported Staff's interpretation of Section 9-230 and its application of Section 9-230 to utility common equity ratios in AIC's last gas rate docket. *Ameren 2023 GRC,* Final Order at 153*.*

Between 2023 and 2024, AIC received capital infusions from its parent company. Staff Ex. 3.0 (Conf.) Corr. at 16. These cash infusions from Ameren Corp. directly increase the balance of common equity at AIC. Staff Ex. 3.0 (Pub.) Corr. at 16. There is nothing in the Act that limits Ameren Corp.'s ability to give its regulated subsidiaries many millions of dollars to manage their capital structures. *Id*. Yet AIC, the Illinois regulated gas distribution utility, can only charge rates that reflect an equity ratio that is deemed reasonable for setting rates for the lower-risk gas distribution utility in this proceeding. Staff Ex. 3.0 (Pub.) Corr. at 16. There is no threat to the Company's financial condition or credit position to justify AIC's increase to a 52% equity ratio and the corresponding higher costs to ratepayers. *Id*.

Staff states that if a utility has included excessive equity in its capital structure, it has inflated the rate of return and its capital cost. *Citizens Util. Bd.*, 276 Ill. App. 3d at 746. Accordingly, the Company has the burden to prove to the Commission that its actual

capital structure contains no more common equity than reasonably necessary to provide its services. *Id*.

In evaluating the reasonableness of a public utility's capital structure, a key consideration is whether the capital structure is consistent with the financial strength necessary for the utility to access the capital markets under reasonable terms under most economic conditions and, if so, whether the cost of capital resulting from such a capital structure is reasonable. Ameren Ex. 9.0 at 3. As explained by the First Circuit Appellate Court, "[T]he Commission should disallow recovery of any costs of capital in excess of that reasonably necessary for the provision of services." *Citizens Util. Bd.*, 276 Ill. App. 3d at 746.

To evaluate the Company's forecasted 2026 capital structure, Staff compared the Company's proposed common equity ratio of 52.000% to the capital structures of companies that compose the proxy sample used to derive the Company's return on common equity ("ROE") estimate (the "Staff Gas Sample"). Staff Ex. 3.0 (Pub.) Corr. at 6. Compared to AIC's proposed 52.000% common equity ratio, the common equity ratio for the Staff Gas Sample was only 43.620% for the 3-year average 2022-2024.

AIC argues that Staff's reliance on the 2022 to 2024 average common equity ratio for the Staff Gas Sample of 43.620% is flawed because it included 100% of short-term debt for the group as well as securitization debt attributable to Winter Storm Uri at three of the Staff Gas Sample companies (*i.e*., Atmos, ONE Gas, and Northwest Natural Gas). Ameren IB at 159.

According to Staff, AIC's criticism is misplaced. The appropriate calculation of the average equity ratio includes both short-term debt and securitization debt, which results in an average equity ratio of 43.620%. Staff Ex. 11.0 (Pub.) Corr. at 10. Assuming *arguendo* that it is appropriate to exclude the short-term debt and securitization, AIC's calculation of the three-year average equity ratio of 48.100% for the Utility Proxy Group is still significantly lower than AIC's proposed 52.000% common equity ratio. *See* Staff Ex. 11.0 (Pub.) Corr. at 9.

Next, AIC analyzed the last authorized common equity ratios of the regulated operating subsidiaries of the companies within the Utility Proxy Group. Ameren Ex. 10.2 at 3; Ameren Ex. 23.2; Ameren Ex. 37.0 at 4. The average equity ratio of this group, which is neither the Staff Gas Sample nor the Utility Proxy Group, is 53.600%. Ameren Ex. 23.0 at 5.

However, the publicly traded holding companies comprising the Staff Gas Sample, not the operating subsidiaries, are used to estimate the ROE for the Company. Staff Ex. 3.0 (Pub.) Corr. at 6. The same proxy group used to derive the ROE estimate for AIC should also be used to evaluate the common equity ratio for AIC. Staff Ex. 11.0 (Pub.) Corr. at 9. Ameren Illinois, however, inconsistently uses its Utility Proxy Group to estimate ROE and uses the operating subsidiaries of the Utility Proxy Group to evaluate the common equity ratio for AIC. Ameren Ex. 10.2 at 3; *compare to* Ameren Ex. 10.3; Ameren Ex. 10.4 (wherein AIC analyzes the capital structures for operating subsidiaries, but the ROEs for parent holding companies).

The risk of an operating subsidiary can be different than its parent company. Utility operating companies often have lower risk (*i.e*., higher credit ratings and higher equity ratios) than their parent companies. Staff Ex. 11.0 (Pub.) Corr. at 9-10. For example, AIC has a higher Moody's credit rating (with 54.73% year-end 2024 common equity), than its parent company, Ameren Corp., which has a weaker Moody's credit rating (with 39.140% year-end 2024 common equity). *See* Staff Ex. 3.0 (Pub.) Corr. at 10. Combining the higher ROE of a riskier parent company with the higher equity ratio of the lower risk operating subsidiary overstates a utility's cost of capital and violates Section 9-230 of the Act, which prohibits any increased cost of capital related to a utility's affiliation with non-utility companies from inclusion in rates. 220 ILCS 5/9-230; *see also Ameren 2023 MYRP First Order* at 607; *Ameren 2023 GRC,* Final Order at 153.

Staff argues that the Company has failed to show that the operating subsidiaries are comparable in risk to the Company. Staff Ex. 11.0 (Pub.) Corr. at 9. The risk of the operating subsidiaries has not been properly assessed in comparison to the Company. Therefore, the authorized equity ratio of those operating subsidiaries should not be considered.

The Company also attempts to support its common equity ratio recommendation by presenting authorized equity ratios for gas rate cases for the period 2016 to 2025 in Ameren Exhibit 23.3. Ameren Ex. 23.0 at 5. However, most of the cases listed were settled, meaning the capital structure and ROEs were negotiated and could reflect some concession on other issues. *See* Ameren Ex. 23.2, column "Increase Authorized, Decision Type." Nonetheless, AIC relies on Ameren Ex. 23.3 to support its 52.000% common equity ratio, arguing further that it is lower than the 53.600% average authorized common equity ratios in gas rate cases during 2016 to 2025.

Furthermore, the Commission need not consider dockets as far back as 2016 when, as Staff has already noted, in the Company's last rate case, the Commission approved a capital structure comprising 50.000% common equity because there was "no threat to the Company's financial condition or credit position to justify" such an increase to AIC's common equity ratio and the corresponding higher costs to ratepayers. *Ameren 2023 GRC,* Final Order at 153. In this docket, the record similarly demonstrates that there is no threat to the Company's financial condition or credit position to justify an increase to a 52.000% common equity ratio. Staff Ex. 11.0 (Pub.) Corr. at 5.

Finally, according to Staff, the Company's reliance on the Moody's May 8, 2025, credit opinion to justify a higher common equity ratio is misplaced. The Company references qualitative factors and "headwinds" identified in the Moody's report as the source of the difference between a potential A2 rating, which aligns with the Company's quantitative metrics, and the actual A3 rating assigned by Moody's. However, when Staff specifically asked the Company to identify the qualitative factors Moody's relied on and to identify where Moody's concluded that a common equity ratio below 52.000% would negatively affect AIC's credit rating or operational effectiveness, the Company admitted that "The Moody's report referenced [sic] the data request does not contemplate AIC's credit rating ramifications of a common equity ratio below 52.000%." Staff Cross Ex. 2.0 at 1. Contrary to the Company's misplaced reliance on the Moody's report, the Company has failed to demonstrate a need for a higher common equity ratio than 50.000%.

The Commission should approve no higher equity ratio than is necessary and reasonable to support AIC's financial strength and maintain its investment grade credit rating. Staff Ex. 3.0 (Pub.) Corr. at 18. For these reasons, AIC has not provided the evidence required to establish that an equity ratio of 52.000% is necessary to maintain its financial strength and investment grade ratings. *Id*.

Staff notes that AIC disagrees with Staff and argues that it is inappropriate for the Commission to consider the capital structure of AIC's parent company. AIC argues that Staff did not describe any detrimental financial or strategic actions AIC has taken because of its capital support from Ameren Corp., or any risk borne by AIC's customers due to such capital support. Ameren Ex. 37.0 at 7.

AIC relies on its parent Ameren Corp. for equity capital beyond what it generates from earnings. Mr. Nyame testified that Ameren Corp. is a 100% equity investor in AIC, reflecting complete ownership; Ameren Corp. has significant control over decisions related to equity capital infusions at AIC. Staff Ex. 11.0 (Pub.) Corr. at 15. Ameren Corp.'s infusions of equity to AIC have allowed it to achieve a common equity ratio that exceeds its proposed ratemaking common equity ratio of 52.000%. *Id*. While allowing AIC to maintain an equity ratio of 53.786% at year-end 2024, Ameren Corp.'s own equity ratio was approximately 39.140% at year-end 2024. Ameren Sch. D-1; S&P Utility Compustat.

Corporations have an economic incentive to maintain relatively low equity ratios (*i.e*., high debt levels) at the holding company level while maintaining relatively high equity ratios at the utility operating company level. Staff Ex. 11.0 (Pub.) Corr. at 16. This is because the corporation can borrow at comparatively lower rates at the holding company level and, in turn, invest that capital in the utility, where it will earn relatively high equity returns. *Id*. This is the concept of leveraged investing, which is common arrangement in the relationships between holding companies and their operating company subsidiaries. *Id*. In such scenarios, the utility, despite being very low risk based solely on its own operating and financial risk, may face additional risk because of its parent's debt requirements. *Id*. To service its parent's obligations, the utility subsidiary will often maintain a higher equity ratio than it otherwise would need. *Id*.

AIC receives substantial capital contributions from Ameren Corp. that directly increase the common equity ratio of AIC. *Id*. at 17. The resulting high equity ratio is not justified given the lower risk of the utility because Moody's assessment of AIC's credit rating already reflects the lower operating risk of AIC compared to Ameren Corp. *Id*. Because of the nature of the relationship between AIC and Ameren Corp., the capital structure of Ameren Corp. must be considered to ensure that the holding in *Ill. Bell Tel. Co.* and Section 9-230 of the Act are not violated.

For these reasons, Staff recommends the Commission approve Staff's proposed capital structure, including a 50.000% common equity ratio. The Company's proposed capital structure is unreasonable, will inflate the rate of return and capital cost, and should be rejected because its costs of capital are in excess of what is reasonably necessary for the provision of utility services. Staff's recommended capital structure appropriately balances investor and consumer interests while allowing the utility to maintain and support its credit, allowing it to raise needed capital to run its business.

c. AG's Position

The AG supports IIEC/FEA/CUB witness Walter's proposed ROE of 9.450% and a common equity ratio of 50.000%. IIEC/FEA/CUB Ex. 4.0 at 3.

The AG contends it is patently unreasonable and unnecessary for Ameren Illinois to have an ROE between 10.420% and 11.540%, and a common equity ratio of 52.000% when its captive ratepayers are already struggling to pay their already high bills and the Company has not demonstrated that these proposals are reasonable. Ameren Ex. 38.0 at 2. The AG asks the Commission to adopt IIEC/CUB's capital structure and ROE.

d. PIO's Position

In light of the affordability impacts of Ameren Illinois' proposals in this rate case, PIO do not support Ameren Illinois' proposed 52.000% equity capital structure. Instead, PIO recommend the Commission adopt IIEC/FEA/CUB's proposed capital structure of 50.000% common equity. IIEC/FEA/CUB Ex. 2.0 at 3. PIO point out that this common equity allocation is the percentage the Commission imposed in *Ameren 2023 GRC*. *Ameren 2023 GRC*, Final Order at 153.

e. IIEC/FEA/CUB's Position

Ameren Illinois proposes a capital structure as 47.600% long-term debt, 0.060% short-term debt, 0.340% preferred equity, and 52.000% common equity. IIEC/FEA/CUB Ex. 2.0 at 23. IIEC/FEA/CUB argue that a comparison to the proxy group used by Mr. Walters and AIC does not support a 52.000% common equity ratio because the proxy group's average common equity ratio is 45.700% (including short-term debt) and 48.800% (excluding short-term debt). IIEC/FEA/CUB Ex. 2.0 at 24. IIEC/FEA/CUB contend that the Company's common ratio should stay exactly where it is at 50.000%.

According to IIEC/FEA/CUB, Ameren Illinois has not demonstrated any reason to increase its common equity ratio higher than the Company's previous authorization by this Commission. In fact, industry practice remains in the 50.000% to 52.000% range in recent years. IIEC/FEA/CUB Ex. 2.0 at 6. In Ameren Illinois' last rate case, the Commission set AIC's common equity ratio at 50.000%, after noting that AIC's proposed ratio exceeded the average of equity ratio for gas distribution companies by 2.5 percentage points over the last three years. *Ameren 2023 GRC*, Final Order at 153; *see also, generally, Ameren Ill. Co. d/b/a Ameren Ill.,* Docket No. 22-0297, Final Order (Dec. 1, 2022); *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 23-0066, Final Order (Nov. 16, 2023); *Commonwealth Edison Co.,* Docket No. 23-0055. Further, the Commission found that Ameren Illinois exhibited stronger financial metrics than Ameren Corp. and the proxy group over that same three years. *Ameren 2023 GRC*, Final Order at 153. The record presents no potential financial metric downgrade for Ameren Illinois. *Id*.

IIEC/FEA/CUB argue that the Commission should use the precedential value of their previous decisions by not authorizing AIC a common equity ratio over 50.000% because that is what is sufficient, fair, and reasonable. IIEC/FEA/CUB Ex. 2.0 at 24; *Ameren 2023 GRC*, Final Order at 197 (approving AIC's current equity ratio). Again, the proxy group for Ameren Illinois had an average common equity ratio of 45.700% including short-term debt and 48.800% excluding short-term debt. IIEC/FEA/CUB Ex. 2.0 at 24. A closer look at AIC's proxy group supports the conclusion that the Company's requested

equity ratio exceeds the average equity ratio for the proxy group used to establish AIC's cost of equity estimate. *Id.* at 24. At the very least, the record does not support increasing the Company's authorized equity ratio. AIC's existing common equity ratio of 50.000% has supported AIC's credit rating and financial integrity. *Id*.; *see Ameren 2023 GRC*, Final Order at 197. Evidence supports no more than 50.000% equity. Therefore, AIC's requested 52.000% equity would raise customer costs without evidence of deterioration in AIC's credit quality. *Id.*

IIEC/FEA/CUB argue that the utility should manage its ratemaking capital structure, like all other aspects of the utility's cost of service, to produce a reasonable capital cost while also supporting its financial integrity and credit rating. Importantly, utility management has discretion in managing its capital structure, and management has an incentive to overweight the ratemaking capital structure with too much common equity. Overweighting the ratemaking capital structure with too much common equity benefits shareholders by increasing capital cost and enhancing internal cash generation. But this overreliance on common equity burdens ratepayers with excessive cost of capital, pushing rates above a just and reasonable level. Too much common equity results in an excessive cost of capital because common equity is significantly more expensive than debt. Hence, a balanced ratemaking capital structure will reduce the utility's cost of capital to a reasonable amount and maintain the utility's financial integrity and credit rating. Supporting rate affordability and supporting acceptable credit metrics both benefit the utility via strong investment grade credit and access to capital and also benefit customers via maintenance of affordable rates.

IIEC/FEA/CUB contend that Ameren Illinois' proposed ratemaking capital structure in this case is excessively weighted with common equity, resulting in an inflated cost of capital that burdens ratepayers. As it did before in Ameren 2023 GRC, the Commission should reject the Company's proposed ratemaking capital structure in favor of a ratemaking capital structure with a reasonable mix of debt and equity that lowers cost to customers while continuing to support the utility's credit rating and financial integrity.

Ameren Illinois' proposed ratemaking equity ratio of 52.000% produces an excessive cost of capital and is more expensive than necessary to support its credit rating and financial integrity. The Commission should reject the Company's proposed capital structure and adopt instead a capital structure with a decreased equity ratio, or at least not a greater equity ratio than the 50.000% the Commission approved in AIC's most recent rate case and many other cases. *See Ameren 2023 GRC*, Final Order at 153.

IIEC/FEA/CUB ask the Commission to consider the prevailing law when considering ratemaking capital structure, including the Act and legal precedent. The Act mandates the Commission only approve rates that are just and reasonable. 220 ILCS 5/9-101. Illinois courts have articulated this principle further. In *Citizens Util. Bd.,* the Appellate Court found, "the Act requires the Commission to establish rates which are just and reasonable for both the investors and the consumers." *Citizens Util. Bd*., 276 Ill. App. 3d at 737. Accordingly, IIEC/FEA/CUB urge the Commission to adopt an equity ratio that appropriately balances the Company's debt and equity capital, that is consistent with the average capital structure that regulatory jurisdictions around the country have authorized, and will not cost customers more than is needed to support the Company's financial integrity and access to capital markets.

The Illinois Appellate Court has held, "The Commission should disallow recovery of any cost of capital in excess of that reasonably necessary for the provision of services. If a utility has included excessive equity in its capital structure, it has inflated the rate of return and its capital cost." *Id.* at 746. Thus, the Appellate Court has been clear that the Act requires an equity ratio that is *no higher than necessary* to assure the Company's financial integrity. *Id.* at 737-746 (emphasis added).

According to IIEC/FEA/CUB, the Commission's reasoning in the most recent Ameren Illinois gas rate Order is still applicable to AIC's current equity ratio. Ameren Illinois, which has the burden of proof in this case, has not shown any logical reason to increase their common equity ratio above 50.000%. *See Ameren 2023 GRC*, Final Order at 153.

Present national utilities industry market trends that do not support increasing the Company's reliance on equity in financing rate base, as industry-wide credit, financial health, and access to capital. Excluding states that utilize accumulated deferred income taxes as a source for capital, the range for the utility industry has remained between 50% to 52.000%. IIEC/FEA/CUB Ex. 2.0 at 6. Further, credit ratings have improved steadily across the natural gas utility industry since 2009. *Id.* at 7-9.

IIEC/FEA/CUB contend that this strong, stable upward trend in utility capital expenditures has driven, and is expected to continue to drive, shareholder value, making utility securities a strong, stable investment. *Id.* at 10. Utilities rate base expenditure growth, and the ensuing growth in shareholder profits, casts serious doubt on any utility company's alleged need to increase its ratemaking equity ratio or return. To the contrary, it suggests a need for regulators to consider whether currently authorized equity ratios and returns may be imposing greater costs on ratepayers than are necessary to support utilities' finances. *Id.* at 10.

Mr. Walters testified that the historical valuation of utility metrics followed by *The Value Line Investment Survey* ("Value Line"), based on a Price-to-Earnings ("P/E") ratio, Price-to-Cash Flow ratio, and Market Price-to-Book value ratio, also showed a strong current utility security valuation that is robust relative to the last several years. *Id.* at 10. Thus, market data supports Mr. Walters' finding that utilities have access to equity capital under reasonable terms and at lower costs than what AIC claims. *Id.* at 11. Additionally, the spreads of utility bonds over Treasury bond yields reflect that utilities are less risky investments now versus the long term. *Id.* at 13.

Mr. Walters found no support in industry-wide data for the Company's request for a higher ratemaking equity ratio. *See generally id.* at 17-22. IIEC/FEA/CUB contend that any assertion that AIC needs to increase its capital costs beyond what the market currently requires, in anticipation of foreseeable future market fluctuations, finds no support in the record.

Staff and IIEC/FEA/CUB recommend a common equity ratio of 50.000% for AIC. Other parties in this case agree with Staff and IIEC/FEA/CUB. Under the circumstances, Ameren Illinois bears a substantial burden to justify not maintaining its current authorized equity ratio and produce a reason why the Commission should change its precedent. *See Dep't of Cent. Mgmt. Servs. v. Ill. Labor Rels. Bd.*, 116 N.E.3d. 388, 403 (Ill. App. Ct. 2018) (citing to *Atchison v. Wichita Bd. of Trade*, 412 U.S. 800, 822 (1973) ("we require

the agency to justify its departure from its prior decisions…[i]f a reviewing court cannot discern those policies, it may remand the case to the agency for clarification and further justification of the departure from precedent")). The Company has not justified an increase in its authorized equity ratio beyond the 50.000% status quo.

In its Initial Brief, the Company implied that *authorized* capital structures of operating utility companies matter more than the *actual* capital structures of the proxy companies used to estimate the cost of equity capital for AIC. AIC IB at 160. To the contrary, "the proxy group is used to estimate the cost of equity for AIC precisely because these companies provide observable, market-based benchmarks that reflect investor-required returns for enterprises of comparable risk." IIEC/FEA/CUB Ex 4.0 at 11. Ameren Illinois acknowledges that book-value common equity ratios of the proxy group are lower, but they are still requesting a higher common equity ratio. AIC IB at 160. If the Commission grants the Company's requested 52.0% common equity ratio, it would overcompensate Ameren Illinois because AIC would have lower financial risk than the proxy group companies. IIEC/FEA/CUB Ex. 4.0 at. 12.

AIC misses the mark by not acknowledging the most recent Commission decision setting Ameren Illinois' equity ratio at 50.000%. *See Ameren 2023 GRC*, Final Order at 153. The Commission has routinely approved a 50.000% common equity ratio for Ameren Illinois. *See id*.; *see also* Docket Nos. 22-0297, 23-0066, 23-0055; Docket No. 18-0463, Order at 12 (Nov. 1, 2018); Docket No. 15-0142, Order at 89 (Dec. 9, 2015). Nothing material has changed at Ameren Illinois since 2023, and Ameren Illinois has not shown any reason to increase its equity ratio. Nor is there any "threat to the Company's financial condition or credit position to justify an increase to a 52.000% common equity ratio." Staff Ex. 11.0 (Pub.) Corr. at 5. To the contrary, at a 50.000% common equity ratio, Ameren Illinois has been able to maintain superior credit ratings and have access to capital. There is therefore no demonstrable need increase the Company's authorized equity ratio, which would unnecessarily impose a significant cost burden on ratepayers.

This Commission has fully analyzed Ameren Illinois' common equity ratio and recently found that the Company's proposed ratio was more than 2.5 percentage points above the average authorized equity ratio for gas distribution companies over the prior three years. *Ameren 2023 GRC*, Final Order at 153; *see also* Docket Nos. 22-0297, 23-0066, and 23-0055. The Commission also found that Ameren Illinois had a greater degree of financial strength than Ameren Corp. or the utility proxy group used in that proceeding over the same three years, and that Ameren Illinois' A3 Moody's rating was sound. *Ameren 2023 GRC*, Final Order at 153. The record in this case demonstrates no deterioration in Ameren Illinois' financial strength.

IIEC/FEA/CUB and Staff have presented evidence demonstrating that the Commission should continue to authorize a 50.000% common equity ratio for Ameren Illinois. This result is also supported by the AG and PIO.

f. Commission Analysis and Conclusion

AIC proposed a capital structure consisting of 0.064% short-term debt, 47.596% long-term debt, 0.339% preferred stock, and 52.000% common equity, excluding goodwill and the effects of purchase accounting in a manner consistent with the accounting treatment approved by the Commission in Docket No. 12-0001. Staff asks the

Commission to adopt its capital structure consisting of 0.062% short-term debt, 49.591% long-term debt, 0.348% preferred stock, and 50.000% common equity. IIEC/FEA/CUB, the AG, and PIO ask the Commission to adopt a capital structure containing no more than 50.000% common equity. The other parties did not take a position on this issue.

It is well established that the Company is entitled only to a return sufficient to maintain its financial integrity and attract capital on reasonable terms. *See Bluefield*, 262 U.S. at 679; *Hope*, 320 U.S. at 591. Moreover, Section 9-230 of the Act states:

> In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any … incremental risk, … [or] increased cost of capital … which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies.

220 ILCS 5/9-230.

Staff witness Nyame and IIEC/FEA/CUB witness Walters both argue that AIC's proposed capital structure is unreasonable and imprudent because it is composed of more common equity than needed to support a financially strong gas distribution utility. The Commission agrees. Specifically, Mr. Nyame testified that using Staff's proposed capital structure comprising 50.000% common equity, the ratios used in determining financial ratings, indicate a degree of financial strength that is consistent with AIC's actual A3 Moody's rating while the Company's proposed capital structure indicates a higher degree of financial strength. Staff Ex. 11 (Pub.) Corr. at 12. That is, the implied financial strength of the ratios indicate that the Company's proposed capital structure contains a higher common equity ratio than is necessary to maintain its current A3 Moody's credit rating. *Id*. Mr. Walters testified that the Proxy Group for Ameren Illinois had an average common equity ratio of 45.7% including short-term debt and 48.800% excluding short-term debt. IIEC/FEA/CUB Ex. 2.0 at 24. He further explained that a closer look at AIC's Proxy Group reveals that the Company's requested equity ratio exceeds the average equity ratio for the Proxy Group used to establish AIC's cost of equity estimate, or, at the very least, that the record does not support increasing the Company's authorized equity ratio. *Id*.

The Commission agrees with Staff, the AG, PIO, and IIEC/FEA/CUB that the Company has not proven its proposed 52.000% common equity ratio is reasonable or necessary to maintain its financial integrity. The record demonstrates that Staff's examination of financial rating indicators is supported by the fact that the Company's credit rating has not been adversely affected by the Company's operation under the 50.000% common equity ratio approved in 2023. Ameren 2023 GRC at 153. The Commission finds that the record supports the common equity ratio of 50.000% supported by Staff, AG, PIO, and IIEC/FEA/CUB. Accordingly, the Commission adopts Staff's proposed capital structure consisting of 0.062% short-term debt, 49.591% long-term debt, 0.348% preferred stock, and 50.000% common equity.

3. Cost of Common Equity

a. AIC's Position

Ameren Illinois asks the Commission to approve an ROE of 10.70% in this proceeding, while Staff proposes an ROE of 9.93%, and IIEC/FEA/CUB propose an ROE of just 9.45%.

The Company's requested ROE is based on the conclusion of its expert, Mr. D'Ascendis, that a reasonable range of ROEs for the Company would be within a range of 10.42% to 11.54%. Ameren Ex. 24.0 at 4. Mr. D'Ascendis' conclusions were derived from a comprehensive analysis of the market-based common equity cost rates of companies of relatively similar, but not necessarily identical, risk to the Company. Ameren Ex. 10.0 at 3. Ameren Illinois contends that using companies of relatively comparable risk as proxies is consistent with the principles of fair rate of return established in the U.S. Supreme Court decisions that define the standard that the ROE approved in this proceeding must meet. *Id*. Specifically, his recommendation resulted from applying and considering two cost of common equity models to the market data of a utility proxy group. In doing so, Mr. D'Ascendis made numerous conservative assumptions and tailored his analysis to reflect the Commission's practices, including some with which he disagrees.

Company witness Tomc testified that the ROE is critical to Ameren Illinois' ability to compete for capital, which in turn is important because the Company uses that capital to continue to invest in its system. Ameren Ex. 17.0 at 6. The Company's customers rely on that system to provide the services they need to run their businesses and heat their homes. *Id*. The direct testimony filed by the Illinois Manufacturers' Association and Chemical Industry Council of Illinois confirmed the importance of the Company's natural system to businesses in downstate Illinois: "Illinois' industrial sector needs a safe and reliable natural gas system that requires investment in the AIC infrastructure." IMA/CICI Ex. 1.0 at 4. Ameren Illinois needs to have access to capital to make that investment and should be afforded an opportunity to earn a fair return on the plant it has deployed to serve its customers and communities. Ameren Ex. 17.0 at 6.

Mr. Tomc further explained that the Company is at a disadvantage relative to many of its peers due to limitations on the Commission's ability to implement specific mechanisms, including deferral and recovery of unusual items, in light of what is known as the *BPI II* decision (146 Ill. 2d at 175), by the Illinois Supreme Court some 34 years ago. Ameren Ex. 17.0 at 7. Ameren Illinois notes that decision has limited the Commission's ability to develop cost recovery mechanisms on its own. *Id*.

Importantly, now that the QIP authorization has expired, the Company does not have the ability to mitigate regulatory lag associated with plant additions that many of the Company's gas distribution peers do, and the Commission is limited by the *BPI II* holding to implement any mitigating mechanisms to account for the loss of this cost recovery rider. Ameren Ex. 17.0 at 7. In contrast, other jurisdictions such as Texas have more flexibility to support infrastructure investment necessary to meet PHMSA compliance requirements and other investment priorities. *Id*. Coupled with the uncertainty that the Future of Gas proceeding brings, Ameren Illinois is in a more challenging position than many of its peers,

and the Company contends the ROE approved in this proceeding should reflect that. *Id*. Accordingly, Ameren Illinois requires a return on common equity of no less than 10.70%.

Legal Standard

Ameren Illinois explains that, in unregulated industries, marketplace competition is the principal determinant of the price of products or services. Ameren Ex. 10.0 at 6. For regulated public utilities, however, regulation must act as a substitute for marketplace competition. *Id*. Assuring that the utility can fulfill its obligations to the public, while providing safe and reliable service at all times, requires a level of earnings sufficient to maintain the integrity of presently invested capital. *Id*. Sufficient earnings also permit the attraction of needed new capital at a reasonable cost, for which the utility must compete with other firms of comparable risk, consistent with the fair rate of return standards established by the U.S. Supreme Court in the *Hope* and *Bluefield* cases. *See* Docket No. 16-0093, Final Order at 65.

The U.S. Supreme Court delineated the fair rate of return standards in *Hope*, where it stated:

> The rate-making process under the Act, i.e., the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests. Thus we stated in the Natural Gas Pipeline Co. case that 'regulation does not insure that the business shall produce net revenues.' 315 U.S. at page 590, 62 S.Ct. at page 745. But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. *Cf. Chicago & Grand Trunk R. Co. v. Wellman*, 143 U.S. 339, 345, 346; 12 S.Ct. 400, 402. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Hope, 320 U.S. at 603.

Mr. D'Ascendis summarized the requirements, as they are applied by the Commission and other regulatory agencies. Ameren Ex. 10.0 at 6-7. An adequate return is one that allows the utility to attract capital on reasonable terms, enabling the utility to provide service while maintaining its financial integrity. *Id*. That return should be commensurate with the returns expected elsewhere for investments of equivalent risk. *Id*. Ameren Illinois contends that the Commission's decision in this proceeding, therefore, should provide the Company with the opportunity to earn a return that is: (1) adequate to attract capital at reasonable cost and terms; (2) sufficient to ensure their financial integrity;

and (3) commensurate with returns on investments in enterprises having corresponding risks. *Id*. at 7.

Use of a Proxy Group

Because the Company is not publicly traded and does not have publicly traded equity securities, it is necessary to develop a group of publicly traded, comparable companies to serve as "proxies" for the Company. *Id*. at 12. In addition to the analytical necessity of doing so, the use of proxy companies is consistent with the *Hope* and *Bluefield* comparable risk standards. *Id*. Mr. D'Ascendis selected a Utility Proxy Group of utility companies that is fundamentally risk-comparable to the Company. *Id*.

Mr. D'Ascendis' analyses are based on the Utility Proxy Group, which is composed of U.S. natural gas utilities. *Id*. at 13. Utilities must compete for capital with other companies with commensurate risk (including non-utilities) and, to do so, must be provided the opportunity to earn a fair and reasonable return. *Id*. Consequently, Ameren Illinois contends it is appropriate to consider the Utility Proxy Group's market data in determining the Company's ROE. *Id*.

Ameren Illinois' ROE Analysis

Mr. D'Ascendis used two market-based models to develop his ROE range: the discounted cash flow ("DCF") model and the capital asset pricing model ("CAPM"). Ameren Ex. 10.0 at 19. The DCF model is market-based in that market prices are used in developing the dividend yield component of the model. *Id*. The CAPM is also market-based in that the bond/issuer ratings and expected bond yields/risk-free rate used in the application of the CAPM reflect the market's assessment of bond/credit risk. *Id*.

Reasonable investors use a variety of tools and do not rely exclusively on a single source of information or model. Accordingly, the models selected by Mr. D'Ascendis focus on different aspects of return requirements and provide different insights to investors' views of risk and return. Ameren Ex. 10.0 at 20. The DCF model, for example, estimates the investor-required return assuming a constant expected dividend yield and growth rate in perpetuity, while the CAPM approach provides the ability to reflect investors' views of risk, future market returns, and the relationship between interest rates and the cost of common equity. *Id*. The Company explains that just as the use of market data for the Utility Proxy Group adds the reliability necessary to inform expert judgment in arriving at a recommended common equity cost rate, the use of multiple generally accepted common equity cost rate models also adds reliability and accuracy when arriving at a recommended common equity cost rate. *Id*.

DCF Model

Ameren Illinois explains that the DCF model assumes that the present value of an expected future stream of net cash flows during the investment holding period can be determined by discounting those cash flows at the cost of capital, or the investors' capitalization rate. Ameren Ex. 10.0 at 20. DCF theory indicates that an investor buys a stock for an expected total return rate, which is derived from the cash flows received from dividends and market price appreciation. *Id*.

Mr. D'Ascendis used the single-stage constant growth DCF model. The unadjusted dividend yields were based on the proxy companies' dividends as of April 30,

2024, divided by the average closing market price on April 30, 2025. Ameren Ex. 24.1 at 5. Because dividends are paid periodically (*e.g.*, quarterly), as opposed to continuously (daily), an adjustment must be made to the dividend yield. Ameren Ex. 10.0 at 23.

Since the companies in the Utility Proxy Group increase their quarterly dividends at various times during the year, Mr. D'Ascendis made a conservative assumption to reflect one-half the annual dividend growth rate rather than the full growth rate in the dividend yield component. *Id*. Because the dividend should be representative of the next twelve-month period, this adjustment is a conservative approach that does not overstate the dividend yield. *Id*.

The application of the constant growth DCF model to the Utility Proxy Group indicated an ROE of 10.31%, using current interest rates. Ameren Ex. 24.0. at 4.

CAPM

Ameren Illinois explains that the CAPM theory defines risk as the co-variability of a security's returns with the market's returns as measured by beta. A beta that is less than 1.0 indicates lower variability than the market as a whole, while a beta that is greater than 1.0 indicates greater variability than the market. Ameren Ex. 10.0 at 25. The CAPM assumes that all non-market or unsystematic risk can be eliminated through diversification. The risk that cannot be eliminated through diversification is called market, or systematic, risk. *Id*. In addition, the CAPM presumes that investors only require compensation for systematic risk, which is the result of macroeconomic and other events that affect the returns on all assets. *Id*. The model is applied by adding a risk-free rate of return to a market risk premium, which is adjusted proportionately to reflect the systematic risk of the individual security relative to the total market as measured by beta. *Id*.

The risk-free rate adopted for the CAPM was 4.66%. Ameren Ex. 24.1 at 14. This risk-free rate is the yields on 30-year U.S. Treasury bonds on April 30, 2025. *Id*. at 15. Mr. D'Ascendis used the average of five equity risk premiums to arrive at an indicated market risk premium ("MRP") of 9.28%. Ameren Ex. 10.0 at 31; Ameren Ex. 24.1 at 14-15.

The CAPM result was 11.43%. Ameren Ex. 24.0 at 4; Ex. 24.1 at 14.

Adjustments to Common Equity Cost Rate

Mr. D'Ascendis explained that it is necessary to compare the Company's Illinois-jurisdictional size relative to the Utility Proxy Group. Ameren Ex. 10.0, 34-35. The Company's smaller size relative to the Utility Proxy Group companies indicates greater relative business risk for the Company because, all else being equal, size has a material bearing on risk. *Id*. at 34.

Size affects business risk because smaller companies generally are less able to cope with significant events that affect sales, revenues and earnings. Consistent with the financial principle of risk and return, increased relative risk due to small size must be considered in the allowed rate of ROE. Ameren Ex. 10.0 at 36. Therefore, the Commission's authorization of a cost rate of common equity in this proceeding must appropriately reflect the unique risks of the Company, including its small relative size to

the Utility Proxy Group, which is justified and supported above by evidence in the financial literature. *Id*.

The Company has greater relative risk than the average utility in the Utility Proxy Group because of its smaller size, as measured by an estimated market capitalization of common equity for the Company's Illinois operations. The Company's estimated market capitalization for its Illinois operations was $3,106.62 million as of December 2, 2024, compared with the market capitalization of the average company in the Utility Proxy Group of $8,451.52 million as of the same date. *Id*. at 37. The average company in the Utility Proxy Group has a market capitalization 2.7 times the size of the Company's estimated Illinois-based market capitalization. *Id*.

As a result, Ameren Illinois states, it is necessary to upwardly adjust the indicated range of common equity cost rates attributable to the Utility Proxy Group to reflect the Company's greater risk due to their smaller relative size. Ameren Ex. 10.0 at 37. Mr. D'Ascendis determined an adjustment based on the size premiums for portfolios of New York Stock Exchange, American Stock Exchange, and NASDAQ listed companies ranked by deciles for the 1926 to 2023 period. *Id*. The average size premium for the Utility Proxy Group with a market capitalization of $8,451.52 million falls in the third decile, while the Company's estimated market capitalization of $3,106.62 million places it in the fifth decile. The size premium spread between the third decile and the fifth decile is 0.34%. *Id*. Even though a 0.34% upward size adjustment is indicated, Mr. D'Ascendis applied a size premium of just 0.05% to the Company's indicated common equity cost rate in order to be conservative. *Id*.

Ameren Illinois further explains that flotation costs are those costs associated with the sale of new issuances of common stock. They include market pressure and the mandatory unavoidable costs of issuance (*e.g*., underwriting fees and out-of-pocket costs for printing, legal, registration, etc.). Ameren Ex. 10.0 at 38. For every dollar raised through debt or equity offerings, the Company receives less than one full dollar in financing. *Id*.

Both of the models employed by Mr. D'Ascendis assume no transaction costs. *Id*. at 39. The literature is quite clear that these costs are not reflected in the market prices paid for common stocks. Consequently, Ameren Illinois contends it is proper to include a flotation cost adjustment when using cost of common equity models to estimate the common equity cost rate. *Id*.

Mr. D'Ascendis modified the DCF calculation to provide a dividend yield that would reimburse investors for issuance costs in accordance with the method cited in the relevant financial literature. *Id*. The flotation cost adjustment recognizes the actual costs of issuing equity that were incurred by Ameren Corporation. Based on the issuance costs, an adjustment of 0.06% is required to reflect the applicable flotation costs. *Id*.; Ameren Ex. at 10.6.

Applying the 0.05% size adjustment, 0.10% credit risk adjustment, and the 0.06% flotation cost adjustment to the indicated ranges of common equity cost rates between 10.31% and 11.43% results in Company-specific ranges of common equity rates between 10.42% and 11.54%. Ameren Ex. 24.0 at 4.

Response to Staff's Recommended ROE

Staff witness Nyame recommended an ROE of 9.93%, which represents the weighted average of his DCF results (9.13%) and CAPM results (11.54%). Staff Ex. 3.0 (Corr.) at 3, 46. The weighting proposed by Mr. Nyame was two-thirds DCF and one-third CAPM. *Id*.

Mr. D'Ascendis did not challenge Mr. Nyame's application of the constant growth DCF model or his use of multiple models to estimate Ameren Illinois' ROE. However, Mr. D'Ascendis disagreed with Mr. Nyame's exclusion of Southwest Gas Holdings Corporation ("Southwest Gas") from his proxy group and with Mr. Nyame's use of a multi-stage DCF model. Ameren Ex. 24.0 at 12. While Mr. D'Ascendis disagreed with certain aspects of Mr. Nyame's CAPM analysis, he did not challenge Mr. Nyame's analysis because Mr. Nyame's result was similar to his own. *Id*. at 19.

To construct his proxy group, Mr. Nyame began with companies categorized as natural gas utilities by Value Line. From that universe of companies, he then removed companies that: (1) have less than 50% of operating revenues from regulated operations; (2) do not have an investment grade credit rating from Standard and Poor's ("S&P") Global Capital IQ or Moody's; (3) do not pay dividends; (4) do not have projected Earnings Per Share ("EPS") growth rates from S&P Global Capital IQ or Zacks Research Wizard ("Zacks"); and (5) are party to a merger or significant transaction. Staff Ex. 3.0 (Corr.) at 22. Applying his criteria, Mr. Nyame excluded Southwest Gas from his proxy group, reasoning that less than 50% of Southwest Gas' revenues come from regulated utility operations. Staff Ex. 11.0 (Corr.) at 21.

Mr. D'Ascendis explained that the problem with Mr. Nyame's approach is that he used revenues, rather than net operating income or assets attributable to regulated natural gas distribution operations. Ameren Ex. 38.0 at 4. Measures of income are far more likely to be considered by the financial community in making credit assessments and investment decisions than are measures of revenue. *Id*. From the perspective of credit markets, measures of financial strength and liquidity are focused on cash from operations, which is a direct derivative of earnings, as opposed to revenue. As part of its rating methodology, for example, Moody's assigns a 40.00% weight to measures of financial strength and liquidity, of which 22.50% specifically relates to the ability to cover debt obligations with cash from operations. *Id*.

Just as rating agencies focus on measures of cash from operations, equity analysts rely on measures of income in assessing equity valuation levels; common measures of relative value include the price-to-earnings ratio, and the ratio of Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). Ameren Ex. 38.0 at 4. Revenue, however, may be several steps removed from the earnings and cash flows that form the basis of equity valuations. *Id*. Focusing on revenue may mislead the analyst into assuming a given operating unit is the primary driver of expected growth when the majority of earnings and cash flows are derived from other business segments. *Id*. Here, the Commission is considering whether the underlying utility is the principal source of long-term growth, and as such, focusing on revenue may obscure important elements of the analysis. *Id*.

Additionally, the use of assets attributable to natural gas distribution operations are more representative of operating risk because of the ratemaking paradigm (rate base * weighted average cost of capital = operating income). Ameren Ex. 38.0 at 5. Based on year-end 2024 data, the regulated operating income and assets for Southwest Gas was 85.39% and 79.29%, respectively. The Company contends that, given that Southwest Gas clearly is primarily a natural gas distribution utility, Mr. Nyame should have included it in his proxy group. *Id*.

Regarding Staff's DCF model, Mr. D'Ascendis explained that Mr. Nyame's multi-stage DCF model is not a reasonable approach to estimating the Company's ROE. Ameren Ex. 24.0 at 14. The multi-stage DCF model and its growth rates reflect the company/industry lifecycle, which is typically described in three stages: (1) the growth stage, which is characterized by rapidly expanding sales, profits, and earnings - dividend payout ratios are low in order to grow the firm; (2) the transition stage, which is characterized by slower growth in sales, profits, and earnings, and dividend payout ratios increase, as their need for exponential growth diminishes; and (3) the maturity (steady-state) stage, which is characterized by limited, slightly attractive investment opportunities, and steady earnings growth, dividend payout ratios, and returns on equity. *Id*.

Central to Mr. Nyame's multi-stage analysis is his contention that long-term growth in GDP is an upper limit for growth. Staff Ex. 3.0 (Corr.) at 24. But this is a false premise, Mr. D'Ascendis explained. Gross Domestic Product ("GDP") is not a market measure - rather it is a measure of the value of the total output of goods and services, excluding inflation, in an economy. Ameren Ex. 24.0 at 14. And GDP growth itself is an average, not a ceiling. To demonstrate this, Mr. D'Ascendis presented the compound growth rate of the industries that comprise GDP from 1947 to 2024. Of the fifteen industries represented, seven industries, including utilities, grew faster than the overall GDP, and eight industries grew more slowly. *Id*. at 15; Ameren Ex. 24.2. The Company maintains that given that utilities have grown faster than the overall GDP over the last seventy-seven years, Mr. Nyame's premise is demonstrably incorrect, and his further suggestion that use of the long-term GDP growth rate might actually be biased in utilities' favor is also wrong. Ameren Ex. 24.0 at 15.

The basis of a multi-stage model, as presented by Mr. Nyame, is mean reversion; that is, stock growth rates revert to the average growth rate of the economy. Ameren Ex. 24.0 at 16. Therefore, it would be an inconsistent application of the multi-stage DCF model to assume anything other than growth in GDP reverting to its long-term mean. Because of the inherent theory behind multi-stage DCF models, Mr. Nyame should have used the historical real GDP growth rate for the period of 1929 to 2024, adjusted for projected inflation. *Id*. However, Mr. Nyame relied on a forecasted GDP growth rate from the Energy Information Administration ("EIA") that assumes slowing productivity growth, which is the most unpredictable and most impactful factor of GDP growth. *Id*. at 17. EIA itself notes the unpredictability of the factors they use to forecast GDP growth, but Mr. Nyame relied on the forecast anyway. *Id*. Accordingly, Ameren Illinois asks the Commission to reject Staff's projected GDP growth rate.

Mr. Nyame did not apply a size adjustment to his modeling results, arguing that a size premium has no theoretical basis, and even if there were a size premium, it is not applicable to utilities. Staff Ex. 3.0 (Corr.) at 52-57. Mr. D'Ascendis explained that, while

there has been no theoretical explanation to date, the empirical evidence of the need for a size adjustment is overwhelming. Ameren Ex. 24.0. at 20. Empirical evidence of the risk effects of size includes the fact that investors demand greater returns to compensate for the lack of marketability and liquidity of the securities of smaller firms. *Id*. It is a generally accepted financial principle that the risk of any investment is directly related to the assets in which the capital is invested. *Id*. Therefore, the Company states, the relevant risk reflected in the cost of capital must be that of Ameren Illinois, including the impact of its small size on common equity cost rate. *Id*. Consistent with the financial principle of risk and return, such increased risk due to small size must be reflected in the allowed rate of return on common equity. *Id*.

Response to IIEC/FEA/CUB's Recommended ROE

IIEC/FEA/CUB witness Walters recommended an ROE of just 9.45%, within a range of 9.00% to 9.90%. IIEC/FEA/CUB Ex. 2.0 at 2-3. Mr. Walters performed several different analyses: a constant growth DCF; a sustainable growth DCF; a multi-stage growth DCF; a risk premium model ("RPM"); and a CAPM. In setting his recommendation, he gave more weight to his sustainable growth and multi-stage DCF models. *Id*. at 62.

The principal areas in which Mr. D'Ascendis disagreed with Mr. Walters include: (1) his contention that utilities are maintaining their credit quality despite being awarded lower ROEs; (2) the composition of his proxy group; (3) the applicability of the sustainable growth rate DCF model; (4) the applicability of the multi-stage DCF model to utilities; (5) specific inputs to his DCF model; (6) specific assumptions and inputs to his CAPM; and (7) his decision to not reflect any Ameren Illinois-specific risks in his recommendation. Ameren Ex. 24.0 at 28. Ameren Illinois argues that the significant flaws in Mr. Walters' analyses should disqualify his recommended ROE from consideration in this docket.

IIEC/FEA/CUB's Proxy Group

Mr. Walters' proxy group included several water companies and excluded NiSource Inc. ("NiSource"). The Company contends that neither decision was appropriate, and Mr. Walters' analysis should be rejected in its entirety because his proxy group was flawed.

Water and wastewater utilities have specific risks not borne by natural gas companies. Ameren Ex. 24.0 at 32. As a capital-intensive industry, water and wastewater utilities require significantly greater capital investment in the infrastructure required to produce a dollar of revenue than do other industries, including electric and natural gas utilities. *Id*. In addition to its capital-intensive nature, the water and wastewater industry also experiences low depreciation rates. Water utilities experienced a depreciation rate of 2.58% for 2024. In contrast, in 2024, the natural gas utilities experienced an average depreciation rate of 3.42%. Low depreciation rates signify that the pressure on cash flows remains greater for water utilities than for natural gas utilities. *Id*. at 32-33.

Moreover, all the cases cited by Mr. Walters were water and wastewater company rate cases. Ameren Ex. 38.0 at 10. Mr. Walters did not cite, and Ameren Illinois is not aware of, any instance in which a regulatory agency has relied on water and wastewater companies to set the ROE for a natural gas distribution company like Ameren Illinois. *Id*.

Further, Ameren Illinois states, Mr. Walters excluded NiSource from his proxy group because that company had entered into an agreement with Blackstone Infrastructure Partners to sell a 19.9% equity interest in Northern Indiana Public Service Company. IIEC/FEA/CUB Ex. 2.0 at 33. The agreement, however, was announced on June 20, 2023, and finalized January 2, 2024. Ameren Ex. 24.0 at 33. Given that the transaction closed approximately fifteen months prior to Mr. Walters' analytical date of April 4, 2025, there has been more than enough time to ensure that the data on which his analysis rely are not influenced by the transaction. *Id*. As such, Ameren Illinois contends Mr. Walters should have included NiSource in his proxy group. *Id*. He did not, and his analysis is materially flawed as a result.

IIEC/FEA/CUB's DCF Model

Mr. Walters employed three DCF models: a quarterly constant growth DCF analysis; a sustainable growth DCF analysis, and a multi-stage DCF, all using price data for the thirteen-week period ending April 4, 2024. For his projected three- to five-year EPS growth rates, Mr. Walters used Zacks, S&P Capital IQ Market Intelligence, and the Institutional Brokers' Estimate System ("I/B/E/S"); he used Blue Chip for the terminal growth rate in his multi-stage DCF. IIEC/FEA/CUB Ex. 2.0 at 46. Using these inputs, he derived results that led him to conclude that more weight should be placed on his sustainable growth and multi-stage DCF models. *Id*. at 47.

Ameren Illinois contends the multi-stage DCF model is not applicable to utilities and its use is inappropriate for estimating Ameren Illinois' ROE in this proceeding. Mr. Walters' application of the sustainable growth model is also flawed. Mr. D'Ascendis explained that Mr. Walters' application of the model is circular, which is seen in the steps taken: (1) the sustainable growth rate relies on an expected ROE on book common equity; (2) that expected ROE on book common equity is then used in a DCF analysis to establish an ROE cost rate related to the market value of the common stock; and (3) that market-related ROE, if authorized as the allowed ROE in a regulatory proceeding, becomes the expected ROE on book common equity. Ameren Ex. 24.0 at 35-36. Put simply, the estimated ROEs Mr. Walters used to derive his sustainable growth rate become the regulatory outcome of this proceeding, even as those ROEs are themselves based on regulatory outcomes. *Id*. at 36.

Mr. D'Ascendis provided the reasons why Mr. Walters' DCF modeling should be disregarded. First, Mr. Walters' multi-stage DCF model is inappropriate to rely on given that utilities are in the steady state growth stage. *Id*. at 40. As such, the multi-stage DCF results should be ignored. Second, Mr. Walters' use of "sustainable" growth rates in his DCF analysis is an exercise in circularity which ignores the basic principle of rate base / rate of return regulation, namely the expected ROE from which the growth rate is derived is used to generate an ROE for regulatory purposes. *Id*. Empirical tests show that the basis of the sustainable growth DCF (*i.e*., higher retention rates lead to higher growth) is not true in reality. *Id.* Therefore, the Company contends, Mr. Walters' median constant growth DCF model results of 10.92% are the only relevant ROEs presented and the only ones that should be considered by the Commission in this proceeding. *Id*. at 34, 40.

IIEC/FEA/CUB's CAPM

Ameren Illinois contends Mr. Walters' CAPM analysis is flawed in at least three respects: (1) he relied, in part, on Vasicek betas; (2) he relied, in part, on historical betas; and (3) his choice and calculation of his MRP was flawed. Ameren Ex. 24.0 at 42.

Ameren Illinois explains that Vasicek-adjusted betas are not widely available in the market or known to investors compared to Blume-adjusted betas. *Id*. And the Vasicek adjustment looks to standard errors of betas; the higher the standard error, the less reliable the beta estimate is, and the larger the adjustment of the beta to the market, peer group, or industry average beta. *Id*. While the Vasicek-adjusted beta adjusts beta toward the industry average, it does not account for the tendency of low-beta stocks to understate expected risk. *Id*. Third, Duff & Phelps cites to a Delaware Court of Chancery decision that may support that more extreme betas tend to revert to the industry mean over time, but Mr. Walters has provided no evidence that utility betas are extreme, nor has he provided any evidence that utility betas do not revert to 1.0. *Id*.

Further, Mr. Walters' use of historical betas in his CAPM analysis is inappropriate. The determination of the ROE is a measure of the investor expected return at any given point of time using current and expected measures. Ameren Ex. 24.0 at 42. The Company maintains that the use of historical betas is neither current nor expected. *Id*. The analytical models that form the basis of the recommended ROE represent a snapshot of Ameren Illinois' investor-required return at the time of the analysis and should not be normalized based on speculation that current market conditions may change in the future. *Id*.

Moreover, Mr. Walters' estimated of the market return based on the FERC methodology is flawed because he arbitrarily excluded companies with negative growth rates and those above 20.00%. Ameren Ex. 24.0 at 42. By doing so, Mr. Walters excluded 51 companies from the S&P 500 Index ("S&P 500"), leaving only 328 companies remaining. *Id*. at 43. The market return is meant to measure the prospective return on the overall market. *Id*. Ameren Illinois contends that excluding companies based on expected growth rates that Mr. Walters deems too low or too high produces a result that no longer represents the overall market. *Id*.

Mr. Walters was not without a means of dealing with negative or extremely high growth rates. Instead of completely excluding companies from his market DCF with growth rates below 0% or above 20%, he could have assigned any company with a negative EPS growth rate a 0% growth rate, and any company with an EPS growth rate above 20% a 20% growth rate. *Id*. This would have provided a more accurate representation of the companies that comprise the S&P 500, while still recognizing Mr. Walters' concerns regarding relying on growth rates he deems unsustainable. *Id*.

Size Adjustment

Mr. Walters stated that he did not consider a size adjustment for two reasons: (1) since Ameren Illinois is not publicly-traded, one cannot calculate a market capitalization and therefore cannot compare Ameren Illinois to the Utility Proxy Group; and (2) Ameren Illinois is a subsidiary of Ameren Corp., and as such, Ameren Corp.'s size should be considered, not Ameren Illinois'. IIEC/FEA/CUB Ex. 2.0 at 72.

Ameren Illinois contends that Mr. Walters is incorrect. As a preliminary matter, while Ameren Illinois is not publicly-traded, Mr. Walters determined a comparable risk proxy group to determine the ROE for Ameren Illinois. As his proxy group is assumed to be of comparable risk to Ameren Illinois, one can also assume that Ameren Illinois would have comparable market multiples (such as market to book ("M/B") ratios) as the average proxy group company. Because that is the case, the Company explains, multiplying Ameren Illinois' book equity by the average M/B ratio of the comparable risk proxy group is a suitable proxy for an estimated market capitalization for the Company. Ameren Ex. 24.0 at 49.

Further, Mr. Walters did not calculate a flotation cost adjustment. Flotation costs are reflected on the balance sheet under "paid in capital" and incurred over time. *Id*. As a result, flotation costs remain part of a company's cost structure during the test year and beyond even if the costs were incurred prior to the test year. As noted by Dr. Morin, "Since flotation costs of common stock issues cannot be amortized because they have no finite maturity, they must be recovered by way of an upward adjustment to the allowed return on equity." *Id*. at 49. Dr. Morin further notes that the equity capital raised in a given offering remains on the balance sheet, and as such, it "would be unfair to burden the current generation of ratepayers with the full costs of raising capital when the benefits of that capital extend indefinitely." *Id*. at 50.

b. Staff's Position

Staff recommends the Commission adopt Staff's recommended ROE of 9.93%. Staff Ex. 3.0 (Pub.) Corr. at 21.

Staff states that the difference between Staff and the Company's proposed ROEs stems from different inputs in the DCF and CAPM analyses, as well as inappropriate adjustments to the ROE for size risk and flotation costs.

Staff states that the ROE is a market-based concept and is not directly observable. Rather, ROE must be estimated using market-based inputs that reflect investor expectations. The key consideration in determining the cost of equity is to ensure that the methodologies used to calculate ROE reasonably reflect investors' views of the market generally as well as the subject company. Thus, Staff asserts, it is important to understand and consider the theoretical underpinnings of the methodologies used to reach an ROE recommendation in order to ensure the methodologies used are appropriate.

The U.S. Supreme Court has opined on the means by which a regulatory body, such as the Commission, should evaluate the reasonableness of a utility's authorized ROE. Authorized ROEs must meet the following objectives: (1) be consistent with other businesses which experience comparable risk; (2) support credit quality and ensure access to capital; and (3) lead to just and reasonable rates for consumers. *See Bluefield*, 262 U.S. at 679; *Hope*, 320 U.S. at 591. Simply stated, a company's ROE should allow it to attract equity capital on reasonable terms, so the company is able to provide safe, reliable service at just and reasonable rates.

Staff's ROE Analysis

Staff measured the investor-required ROE for the Company using the DCF and the CAPM, which is an RPM. Staff Ex. 3.0 (Pub.) Corr. at 21. Because the Company does not have market-traded common stock, DCF and RPMs cannot be applied directly to the Company. *Id*. Thus, Staff applied both models to a sample of public utilities comparable in risk to the natural gas distribution operations of the Company (the Staff Gas Sample). *Id*. at 21-22. Staff's analysis indicates that the ROE for AIC's natural gas operations is 9.93%. *Id*. at 21.

According to financial theory, the market-required ROE is a function of operating risk and financial risk. *Id*. at 22. Thus, the method Staff used to select a sample reflects both the operating and financial characteristics of the target company. *Id*. To select a sample of gas distribution companies that are similar in risk to the gas distribution operations of AIC, Staff began with a list of all companies categorized as a natural gas utility by Value Line. *Id*. Staff then eliminated companies that have less than 50% of operating revenue from regulated business operations, do not investment grade credit ratings from either S&P or Moody's, do not pay quarterly dividends, do not have growth rate estimates from S&P Global Capital IQ or Zacks, and are a party to a merger or other significant transaction. *Id*. The following companies compose Staff's Gas Sample: Atmos Energy Corporation, New Jersey Resources Corporation, NiSource., Northwest Natural Gas Holding Company, ONE Gas Inc., and Spire Inc. *Id*.

DCF Analysis

Staff states that, according to the DCF theory, the market value of common stock equals the cumulative value of the expected stream of future dividends after each dividend is discounted by the investor-required rate of return. Staff Ex. 3.0 (Pub.) Corr. at 23. Since DCF analysis incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that stock prices embody. *Id*. The companies in Staff's Gas Sample pay dividends quarterly; therefore, Staff measured the annual required ROE on common equity by applying a quarterly constant-growth DCF model and a quarterly non-constant growth DCF ("NCDCF") model. *Id*.

The constant growth DCF model assumes dividends will grow at a constant rate into perpetuity and the market value of common stock (*i.e*., stock price) equals the sum of the discounted value of each dividend. *Id*. at 26.

For its NCDCF analysis, Staff modeled three stages of dividend growth. Staff Ex. 3.0 (Pub.) Corr. at 27. The first, a near-term growth stage, is assumed to last five years. *Id*. The second stage is a transitional growth period lasting from the end of the fifth year to the end of the tenth year. *Id*. Finally, the third, or "steady-state," growth stage is assumed to begin after the tenth year and continue into perpetuity. *Id*. An expected stream of dividends is estimated by applying these stages of growth to the current dividend. *Id*. The discount rate that equates the present value of this expected stream of cash flows to the company's current stock price equals the market-required return on common equity. *Id*.

Determining the market-required rate of return with the DCF methodology requires a dividend growth rate that reflects the expectations of investors. *Id*. at 26. However, the

level of growth indicated by the average three- to five-year growth rates for the Staff Gas Sample is not likely sustainable over the long-term. *Id*. Therefore, Staff also applied a NCDCF model to mitigate the effects of the unsustainable near-term growth rates. *Id*.

To estimate the growth rate parameter for the first stage of Staff's NCDCF analysis, which is assumed to last five years, Staff used the average of Zacks, S&P Global Capital IQ, and Value Line growth rate estimates as of April 15, 2025, which were also used in Staff's constant growth DCF analysis. *Id*. at 28. The growth rate employed in the second stage, five-year transitional period, equals the average of the first stage growth rate and the economy-wide, third stage growth rate. *Id*. at 28-29. For the third stage, which begins at the end of the tenth year, Staff calculated the nominal overall economic growth beginning in 2035 to estimate the long-term growth expectations of investors. *Id*. at 29.

The overall economic growth rate is composed of two parts, the expected real growth rate and the expected inflation rate. *Id*. Staff estimated the expected real growth rate from EIA's forecasts of real GDP. Staff Ex. 3.0 (Pub.) Corr. at 29. EIA forecasts that real GDP will average 1.68% over the 2035-2050 period. *Id*.

Staff extrapolated an estimate of the expected inflation rate from the difference in yields on U.S. Treasury bonds, which contain a premium for expected inflation, and U.S. Treasury Inflation-Protected Securities ("TIPS"), which do not contain a premium for expected inflation. *Id*. The estimate of long-term expected inflation equals is 2.10%. *Id*. at 30. The two components of nominal overall economic growth rate were then combined to estimate one half of the long-term growth rate for the third stage. *Id*. Using a formula from the long-term estimates of real GDP growth of 1.68% and expected inflation of 2.10%, the long-term estimate of overall economic growth equals 3.81%. The EIA nominal economic growth, the other half of the long-term growth rate, was estimated as 3.91%. The average of these two growth rates equals the overall long-term economic growth rate of 3.86%. *Id*. Staff's growth rate estimates for its constant growth DCF analysis can be found in Staff Schedule 3.03. The third stage of Staff's NCDCF analysis for the Staff Gas Sample is found in Staff Schedule 3.04.

Staff states that the long-term GDP growth rate is a reasonable estimate for the steady-state growth rate of the Staff Gas Sample. *Id*. at 31. Ideally, company-specific steady-state growth rate estimates are preferable. *Id*. However, such company-specific data is not available for AIC in this docket. Staff Ex. 3.0 (Pub.) Corr. at 31. Thus, while the long-term GDP growth rate might be biased upward for generally below average growth companies such as utilities, it is a reasonable proxy for the growth rate that investors could reasonably expect utilities to sustain over the over the long-term. *Id*.

Staff's DCF models utilize a current stock price reflecting all information that is available and relevant to the market; thus, it represents the market's assessment of the common stock's current value. *Id*. Staff measured each company's current stock price with its closing market price from April 15, 2025, and those results are available in Staff Schedule 3.05. *Id*.

Staff explains that because current stock prices reflect the market's concurrent expectations of the cash flows the securities will produce and the rate at which those cash flows are discounted, an observed change in the market price does not necessarily indicate a change in the required rate of return on common equity. *Id*. Rather, a price

change may reflect investors' re-evaluation of the expected dividend growth rate. *Id*. In addition, stock prices change with the approach of dividend payment dates. *Id*. Consequently, when estimating the required return on common equity with the DCF model, one should measure the expected dividend yield and the corresponding growth rate concurrently. *Id*. at 31-32. Using a historical stock price along with current growth expectations or combining an updated stock price with past growth expectations will increase the inaccuracy of the estimate of the market-required rate of return on common equity. *Id*. at 32.

Staff estimates the next four expected quarterly dividends by assuming the current declared dividend rate will remain in effect for a minimum of four quarters and then adjusting during the same quarter it changed during the preceding year; if the utility did not change its dividend during the last year, Staff assumed the rate would change during the next quarter. Staff Ex. 3.0 (Pub.) Corr. at 32. This is because most utilities declare and pay the same dividend per share for four consecutive quarters before adjusting the rate. *Id*. The average expected growth rate was applied to the declared dividend rate to estimate the expected dividend rate. *Id*. Staff Schedule 3.05 presents the quarterly dividends for the prior year and Staff Schedule 3.06 presents the expected quarterly dividends for the coming year, respectively. *Id*.

Based on Staff's DCF analysis for the Staff Gas Sample, the constant growth DCF estimate, excluding the estimate for ONE Gas, Inc., is 10.19% and the NCDCF estimate is 8.06%. *Id*. at 33. ONE Gas, Inc. was eliminated because it's constant DCF result was more than one standard deviations from the sample mean and there was no high-end estimate that far from the mean estimate to balance out this low-end outlier. *Id*. Staff's DCF estimate of the required rate of return on common equity for the Staff Gas Sample is based on the average of the constant growth DCF and the NCDCF estimates, which is 9.13%. *Id*.

Ameren Illinois argued in rebuttal testimony that multi-stage DCF should not be used because the utility industry is in a steady state of growth. Ameren Ex. 24.0 at 2. However, as noted above, Staff's decision to average the constant growth DCF and non-constant DCF estimates is in response to an average growth rate for the Staff Gas Sample being relatively higher than the long-term economic growth rate. Staff Ex. 11.0 (Pub.) Corr. at 22. Staff calculated the implied ROE for each company in the Staff Gas Sample based on growth, dividend payout ratios, and other data published in Value Line. *Id*. That resulted in an average ROE of 14.87% for the Staff Gas Sample, which is 492 basis points higher than the 9.95% implied average ROE estimated by Value Line for 2028-2030. *Id*. The 492-basis-point difference between these two ROE estimates further indicates that the current observed high growth rate of 6.09% is unlikely to persist over the long term, hence why Staff's recommendation averages the constant growth DCF and NCDCF analyses' results. *Id*. at 22-23.

CAPM Analysis

Staff explains that CAPM is a one-factor RPM based on the theory that the market-required rate of return for a given security equals the risk-free rate of return plus the measure of market risk for that security. Staff Ex. 3.0 (Pub.) Corr. at 34. Mathematically, a risk premium equals the difference between the expected rate of return on a risk factor

and the risk-free rate. *Id*. If the risk of a security is measured relative to a portfolio, then multiplying that relative measure of risk and the portfolio's risk premium produces a security-specific risk premium for that risk factor. *Id*.

In the CAPM, the risk factor is market risk, which is risk that cannot be eliminated through portfolio diversification. *Id*. To implement the CAPM, one must estimate the risk-free rate of return, the expected rate of return on the market portfolio, and a security or portfolio-specific measure of market risk. *Id*.

Staff examined the suitability of the yields on four-week U.S. Treasury bills and 30-year U.S. Treasury bonds as estimates of the risk-free rate of return. *Id*. at 35. Staff relied upon the 4.39% yield on four-week U.S. Treasury bills, as of April 15, 2025, to estimate the risk-free rate of return. *Id*. at 37. Staff explained that the proxy for the nominal risk-free rate should contain no risk premium and reflect similar inflation and real risk-free rate expectations to the security being analyzed through the risk premium methodology. *Id*. at 35. The federal government's fiscal and monetary authority makes securities of the United States Treasury virtually free of default risk. *Id*. However, due to relatively long terms to maturity, U.S. Treasury bond yields also contain an interest rate risk premium that diminishes their usefulness as measures of the risk-free rate. *Id*. at 36. U.S. Treasury bill yields contain a smaller premium for interest rate risk. *Id*. Thus, in terms of interest rate risk, U.S. Treasury bill yields more accurately measure the risk-free rate. *Id*. Although expectations for short and long-term real risk-free rates and inflation should equal over time, during finite time periods, short and long-term expectations may differ. Staff Ex. 3.0 (Pub.) Corr. at 37. Therefore, an estimator of the long-term nominal risk-free rate should not be chosen mechanistically. *Id*. Rather, the similarity in current short-term and long-term nominal risk-free rates should be evaluated. *Id*. Staff reviewed the EIA forecasts and the Survey of Professional Forecasters ("Survey"). EIA and Survey forecasts of inflation and real GDP growth expectations suggest that, currently, the U.S. Treasury bill yield of 4.39% more closely approximates the long-term risk-free rate. *Id*. at 38-39. Thus, Staff used the U.S Treasury bill yield to estimate the risk-free rate of return. *Id*. at 39.

Staff estimated the expected rate of return on the market by conducting a DCF analysis on the firms composing the S&P 500 as of March 31, 2025. *Id*. Staff eliminated firms not paying dividends or firms for which neither Zacks nor Market Intelligence growth rates were available. Staff Ex. 3.0 (Pub.) Corr. at 40. Staff also eliminated companies with growth rates greater than 20% or less than 0%. *Id*. The resulting company specific estimates of the expected rate of return on common equity were then weighted using market value data from Zacks. *Id*. The estimated weighted average expected rate of return for the remaining firms, composing 74.62% of the market capitalization of the S&P 500, equals 13.22%. *Id*.

Beta measures risk in a portfolio context. *Id*. When multiplied by the market risk premium, a security's beta produces a market risk premium specific to that security. *Id*. Staff used Value Line betas, Zacks betas, and a regression analysis to estimate the beta of the Staff Gas Sample. *Id*.

Staff relied on multiple methods to estimate beta because true betas are forward-looking measures of investors' expectations of market risk. *Id*. at 43. That is, betas that

Staff calculates and betas that Value Line, Zacks, and other financial information services publish are proxies for true betas. *Id*. at 43-44. Therefore, like all proxies, beta estimates are subject to measurement error. *Id*. at 44. Thus, there is no single, definitively "correct" beta for a given company. *Id*. Beta measurements can overstate a security's risk and consequently its cost at times and understate it at other times. *Id*. Indeed, this is true of any cost of common equity estimation methodology. *Id*. The inevitable presence of measurement error is why Staff recommends against reliance on any single model to estimate the cost of common equity. *Id*. In fact, Staff's analysis relies on multiple models involving a sample composed of multiple companies. *Id*. Similarly, using multiple approaches to estimate beta mitigates the effect of measurement error on Staff's cost of common equity estimate for the Staff Gas Sample's beta estimates. *Id*.

Because both the Zacks beta estimate and the regression beta estimate are calculated using monthly returns rather than weekly returns (as Value Line uses), Staff averaged those results to avoid over-weighting the monthly time interval data. *Id*. The average of those two estimates is 0.80. *Id*. at 45. Staff then averaged that result with the Value Line beta (0.82) to obtain a single estimate of beta for the Staff Gas Sample (0.81). *Id*. Based on Staff's CAPM analysis, the estimated ROE for the Staff Gas Sample is 11.54%. *Id*.

Staff's ROE Recommendation

Staff states that a thorough analysis of the required ROE requires both the application of financial models and the analyst's informed judgment. Staff Ex. 3.0 (Pub.) Corr. at 45. An estimate of the required rate of return on common equity based solely on judgment is inappropriate. *Id*. at 45-46. Nevertheless, because techniques to measure the required ROE necessarily employ proxies for investor expectations, judgment remains necessary to evaluate the results of such analyses. *Id*. at 46. Along with DCF and CAPM analyses, Staff considered the observable 6.01% rate of return the market currently requires on less risky A rated long-term utility debt. *Id*. Based on Staff's analysis, AIC's investor-required ROE is 9.93% for the Staff Gas Sample. *Id*. Staff's ROE recommendation is determined by applying a two-thirds weight to the DCF-derived result (9.13%) and one-third weight to the risk-premium-derived result (11.54%) for the Staff Gas Sample. *Id*.

Staff applied a two-thirds weight to the DCF result and one-third weight to the risk premium result because beta estimates have significantly increased due to pandemic related disruptions in capital markets. *Id*. at 47. Because betas are measured over the most recent five-year period, market data covering the period between April 2020 and March 2025 was used. *Id*. In that period, a single week in May of 2020 saw Value Line betas jump substantially for the Staff Gas Sample from an average of 0.58 to 0.83. Monthly regression betas also increased drastically due to market turmoil, from an average of 0.79 to 0.86 during March 2025. *Id*. Thus, current beta estimates likely overstate the ROE for the Staff Gas Sample. *Id*. Recently the Commission adopted Staff's application of this type of weighting in rate cases filed in 2024. *See Liberty Utils. (Midstates Natural Gas) Corp. d/b/a Liberty Utils*., Docket No. 24-0043, Final Order at 58-59 (Oct. 31, 2024); *Aqua Ill., Inc*., Docket No. 24-0044, Final Order at 104-105 and 126-129 (Nov. 21, 2024); *Ill.-Am. Water Co*., Docket No. 24-0097, Final Order at 148 (Dec. 5, 2024).

If AIC is riskier than the Staff Gas Sample, then an adjustment should be made to align AIC's ROE with the associated risk. Staff Ex. 3.0 (Pub.) Corr. at 48. Staff's analysis indicates that the risk of AIC is appreciably lower than the overall risk of the Staff Gas Sample. *Id*. The credit ratings assigned to a company reflect both business and financial risk. Because credit ratings reflect a company's overall risk, Staff compared the implied Moody's ratings of the Staff Gas Sample and AIC. The Staff Gas Sample has an implied rating of Baa1. *Id*. AIC's implied Moody's rating is Aa3/A1, which is approximately three notches higher than the Staff Gas Sample's implied Moody's rating. *Id*. Thus, Staff recommends an adjustment be made to AIC's capital structure to align with the financial risk of the Staff Gas Sample. *Id*. With Staff's recommended reduction in the common equity ratio to 50.00%, no additional adjustment to the cost of common equity is necessary. *Id*.

Staff's Response to AIC's ROE Analysis

The Company requests a 10.70% ROE for AIC, based on various analyses that the Company claims indicate a ROE for AIC is in the range of 10.23% and 11.06%. Ameren Ex. 10.0 at 4. The Company relies on constant growth DCF and CAPM analyses to estimate its ROE. Id. at 3. The Company performed its analyses on the same six company gas sample Staff used (the Company's Utility Proxy Group), except they also included Southwest Gas Holdings, Inc. *See* Ameren Ex. 10.0 at 15; Staff Ex. 11.0 (Pub.) Corr. at 21.

For the Utility Proxy Group, the Company obtained ROE estimates of 10.12%, and 10.95% for its DCF and CAPM analyses, respectively. *See* Staff Ex. 3.0 (Pub.) Corr. at 50. The Company then applied a 0.05% adjustment to reflect AIC's smaller size relative to the Utility Proxy Group and an additional 0.06% for flotation costs. *Id*. From those estimates, the Company developed a preliminary ROE assessment between 10.23% and 11.06%. *Id*. at 51. From this range the Company recommended an ROE of 10.70%. *Id*.

Staff recommends the Commission reject the Company's ROE proposal. The Company's analysis contains several errors that led its witness to over-estimate the Company's cost of common equity. Some of the more significant flaws in his analysis of the Company's cost of common equity are: (1) the ROE recommendation includes an unwarranted "size risk adjustment" of five basis points; (2) the flotation cost adjustment of six basis points is unwarranted; (3) the witness presented the RPM approach to demonstrate the reasonableness of his ROE estimate, which improperly based the equity risk premium on historical data. *Id*. at 60.

AIC claims that in applying several cost of common equity models to the market data of its Utility Proxy Group, it made numerous conservative assumptions and tailored its analysis to reflect the Commission's practices, including some with which the Company disagrees. Even if the Company's assertion is true with respect to some inputs used in its analysis (*e.g*., spot stock prices and the use of both weekly and monthly betas), Staff states that the Company's 10.70% ROE recommendation is based on an unjustified size-risk adjustment and an unverified flotation cost, as well as inputs that have been repeatedly rejected by the Commission and would unfairly burden ratepayers, in violation of the *Hope* and *Bluefield* standards.

Staff argues that AIC's DCF analysis is flawed because it overestimates the investor-required ROE. A single-stage constant growth DCF model employs a single growth rate estimate, thus the reasonableness and long-term sustainability of that growth rate must be carefully evaluated. In this case, the 6.09% average growth rate used by AIC exceeds the long-term economic growth rate of 3.86% and is unlikely to be sustainable indefinitely. For this reason, Staff applied NCDCF model in addition to a constant growth DCF model to mitigate the effects of unsustainable near-term growth rates. Staff Ex. 3.0 (Pub.) Corr. at 24. In contrast, the Company relied exclusively on the constant growth DCF model and did not apply a NCDCF model. Thus, the Company's DCF estimate overstates the investor-required ROE.

To further evaluate the sustainability of the 6.09% near-term growth rate for the Staff Gas Sample, Staff calculated the implied ROE for each company in the Staff Gas Sample based on growth, dividend payout ratios, and other data published in Value Line. Staff Ex. 11.0 (Pub.) Corr. at 22. That resulted in an average ROE of 14.87% for the Staff Gas Sample, which is 492 basis points higher than the 9.95% implied average ROE estimated by Value Line for 2028-2030. *Id*. The 492-basis-point difference between these two ROE estimates further indicates that the current observed high growth rate of 6.09% is unlikely to persist over the long term; hence, Staff's recommendation is based, in part, on an average of the constant growth DCF and NCDCF analyses' results. *Id*. at 22-23. For these reasons, Staff states that AIC's DCF estimate overstates the investor-required ROE.

Size Adjustment

The Company recommends the Commission approve a 0.05% upward size-based business risk adjustment to its ROE. Ameren Ex. 10.0 at 37. The basis for the Company's recommendation is the difference in size between the market capitalization of his proxy groups and a hypothetical estimate of what AIC's market capitalization would be. *Id*.

Staff argues that a size-based risk premium for a utility is contrary to financial theory and unsupported by empirical studies. Staff Ex. 3.0 (Pub.) Corr. at 52. Because a size-based risk premium has no theoretical basis, to the extent that a correlation between firm size and return exists, that relationship is likely the result of some other factor or factors that are related to both size and return, such as liquidity or information costs, rather than a direct relationship between size and return. *Id*. Relatively illiquid securities impose costs on the investor since they may be unable to sell them at a fair price on a timely basis. *Id*. The securities of smaller companies tend to be less liquid than those of larger companies since the potential breadth of the market for the former tends to be more limited. *Id*. In addition, gathering information regarding the expected cash flows and risks of a security imposes costs an investor must recover through the returns that that security generates. *Id*. If fewer sources of information regarding smaller companies exist, then obtaining information might be more expensive. *Id*.

If the Company's securities are less liquid or the availability of information regarding the Company is more restricted than the average security, then adding a size-based premium to an analysis of the Company's cost of common equity might be proper. *Id*. However, Staff notes, the Company has not provided any evidence to demonstrate that a size premium is warranted for utilities. Staff Ex. 3.0 (Pub.) Corr. at 53. Staff

explains how even for non-utilities, evidence of the existence of a size-based risk premium is not very strong. *Id*. at 54. In sum, although the relationship between firm size and return has been studied from a variety of angles, no theoretical or empirical support has been found for the notion that, all else equal, investors require higher rates of return for smaller utility stocks than they do from larger utility stocks. *Id*. at 56.

Additionally, Staff highlights that the Commission has rejected a size-based risk premium multiple times in the past. *See, e.g., Util. Servs. of Ill., Inc*., Docket No. 21-0198, Final Order at 93 (Dec. 1, 2021); *Ill.-Am. Water Co*., Docket No. 07-0507, Final Order at 92 (July 30, 2008); *Consumers Ill. Water Co*., Docket No. 97-0351, Amended Order at 39 (June 17, 1998). In Docket No. 21-0198, the Commission rejected a size-based risk premium adjustment, concluding that: "The Company presents no information about its size, structure, or relationship to its parent company or any new supportive empirical or financial studies which would cause the Commission to adopt a size adjustment in this case." Docket No. 21-0198, Order at 83.

In the Company's prior rate proceeding, the Company presented the same type of "business risk adjustment" before the Commission and the Commission rejected that adjustment concluding that, "[b]ecause Ameren Illinois is also a wholly owned subsidiary within the much larger Ameren Corporation, the Commission accordingly finds that a size risk adjustment is unwarranted here." *Ameren 2023 GRC,* Final Order at 194; *see also* Docket No. 07-0507, Final Order at 92. A size-based risk premium was rejected by the Commission because the company witness failed to demonstrate that there is a direct relationship between the size of a utility and its risk. Docket No. 97-0351, Amended Order at 39; *see also Aqua Ill., Inc*., Docket No. 03-0403, Order at 43 (Apr. 13, 2004). Because the Company is also a wholly owned subsidiary within the much larger Ameren Corp., Staff recommends the Commission make a similar decision here. *See* Staff Ex. 3.0 (Pub.) Corr. at 57. Ameren Illinois has failed to provide any evidence in this docket to differentiate itself from the utilities in these prior Commission Orders, explain why the Commission should rule differently than it did on this exact same proposal in Ameren Illinois' last rate case, or otherwise justify a size-based risk premium.

In rebuttal testimony, the Company commented that the Commission indirectly accepted a size adjustment in the past. Ameren Ex. 24.0 at 24-25; *see also Ill.-Am. Water Co*., Docket No. 16-0093, Final Order at 66 (Dec. 13, 2016); *Aqua Ill., Inc*., Docket No. 14-0419, Final Order at 44 (Mar. 25, 2015). However, the Commission made clear in the Final Orders' language quoted by the Company in its own testimony that the Commission's approval of ROEs in those dockets were "not an endorsement of every input of every aspect of the methodologies performed by these parties." *Id*. To Staff's knowledge, the Commission has never expressly accepted a size-based ROE adjustment, while it has expressly rejected them repeatedly.

For these reasons, Staff recommends the Commission reject the Company's recommended 0.05% size-based adjustment to increase ROE.

Flotation Cost Adjustment

The Company recommends a 0.06% increase in ROE to provide AIC an opportunity to recover flotation costs. Ameren Ex. 10.0 at 39. Staff explains that flotation costs are incurred by a company when it issues common equity to the public; that is,

flotation costs refer to common equity issuance costs. Staff Ex. 3.0 (Pub.) Corr. at 58. The Company's flotation cost calculation is based on the costs of issuing equity that was incurred by Ameren Corp., which was then applied to its Utility Proxy Group. *See id*. The Company estimated its flotation cost adjustment by applying a modified DCF formula that accounts for flotation costs to its Utility Proxy Group and compared the results to the standard DCF formula results for its Utility Proxy Group. Ameren Ex. 10.0 at 39; *see also* Staff Ex. 3.0 (Pub.) Corr. at 58.

Staff does not agree that a flotation cost adjustment is warranted in this docket. The Commission has repeatedly rejected generalized flotation cost adjustments in previous cases. *See, e.g., N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 17-0124, Final Order at 109 (Jan. 31, 2018); *MidAmerican Energy Co*., Docket No. 14-0066, Final Order at 49 (Nov. 6, 2014); *Ameren Ill. Co. d/b/a Ameren Ill*., Docket No. 13-0192, Final Order at 165-66 (Dec. 18, 2013); *MidAmerican Energy Co*., Docket No. 01-0696, Final Order at 23-24 (Sept. 11, 2002); *Cent. Ill. Pub. Serv. Co and Union Elec. Co*., Docket Nos. 02-0798/03-0008/03-0009 (Consol.), Final Order at 83, 89 (Oct. 22, 2003); *Cent. Ill. Light Co*., Docket Nos. 01-0465/01-0530/01-0637 (Consol.), Final Order at 75, 79 (Mar. 28, 2002); *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 04-0779, Final Order at 92-94 (Sept. 20, 2005); *N. Shore Gas Co. and Peoples Gas Light & Coke Co*., Docket Nos. 07-0241/07-0242 (Consol.), Final Order at 102 (Feb. 5, 2008); Docket No. 11-0282, Final Order at 126; *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 95-0219, Final Order at 41, 46 (Apr. 3, 1996). The Commission also rejected Ameren's identical flotation cost proposal in the Company's last rate case. *Ameren 2023 GRC,* Final Order at 194-95. The Company's calculation is not based on issuance costs that the Company has incurred but has not previously recovered through rates. Therefore, Staff concludes a flotation cost adjustment should not be considered in setting the investor-required rate of return on common equity for AIC. Staff Ex. 3.0 (Pub.) Corr. at 59.

In rebuttal testimony, the Company argued that because AIC receives capital from its parent and provides returns on the capital that roll back up to the parent, issuance costs are being denied, and the denial of those issuance costs penalizes the investors that fund utility operations. Ameren Ex. 24.0 at 26. However, Staff does not agree that Ameren has demonstrated that it has incurred issuance costs that have not previously been recovered through rates. *See* Staff Ex. 11.0 (Pub.) Corr. at 29. Even if the Company had demonstrated this (which, again, it has not), a 0.06% adjustment is much too high, and instead a flotation cost adjustment should be calculated using the formula previously utilized by the Commission. *See, e.g., Cent. Ill. Light Co*., Docket No. 02-0837, Final Order at 40 (Oct. 17, 2003); *MidAmerican Energy Co*., Docket No. 01-0444, Final Order at 15-16 (Mar. 27, 2002); *MidAmerican Energy Co*., Docket Nos. 99-0122/99-0130 (Consol.), Final Order at 10 (Aug. 25, 1999). If a flotation cost is deemed appropriate, which again Staff argues that it is not, unrecovered issuance costs should only include those costs, verified by the Company, that: (1) were incurred to raise funds for utility purposes; and (2) have not been recovered. Staff Ex. 11.0 (Pub.) Corr. at 29. Using this formula, with Staff's imputed common equity balance of $6,941,575,762 and ROE of 9.93%, and assuming $5,381,544 of unrecovered issuance costs per Ameren Schedule D-5 – Gas, the ROE flotation cost adjustment would be less than 0.01% or 0.008%. *Id*. at 29-30.

According to Staff, the Company's 0.06% upward flotation cost adjustment unnecessarily increases the ROE. The Commission rejected Ameren's identical flotation cost proposal in the Company's last rate case. *Ameren 2023 GRC,* Final Order at 194-95. The Company's calculation is not based on issuance costs that the Company has incurred but has not previously recovered through rates. Additionally, the Company has not provided any additional rationale for the Commission to deviate from past practice. The Commission should likewise reject a flotation cost adjustment in this docket. Staff Ex. 3.0 (Pub.) Corr. at 59.

For these reasons, Staff recommends the Commission reject the Company's 0.06% floatation cost adjustment. Alternatively, if the Commission deems a flotation cost adjustment is warranted and that the Company has verified its unrecovered issuance costs, Staff recommends the flotation cost adjustment should be less than 0.01%.

RPM

The Company utilized the total market approach RPM to check the reasonableness of the common equity estimate. *See* Ameren Ex. 10.0 at App. B-1; Staff Ex. 3.0 (Pub.) Corr. at 60. This resulted in an RPM-based cost of common equity of 10.64% Ameren Ex. 10.0 at App. B-9; Staff Ex. 3.0 (Pub.) Corr. at 61.

According to Staff, there are several flaws with the Company's RPM analyses. First, the Company's RPM improperly based the equity risk premium on historical data for the Beta-Derived equity risk premium and the S&P Utility Index-Derived equity risk premium. Staff Ex. 3.0 (Pub.) Corr. at 61. Forward-looking expectations cannot be deduced from past experience with any reasonable degree of accuracy. *See id*. Further, because no single, optimal measurement period exists, the selection of a measurement period will necessarily be arbitrary, and that arbitrarily selected measurement period will dictate the magnitude of the resulting risk premium. Staff Ex. 3.0 (Pub.) Corr. at 61. Thus, while this approach would, at best, only produce the "correct" risk premium by sheer chance, it is undoubtedly subject to manipulation. *Id*. at 62. Moreover, historical risk premiums do not measure investors' current return requirements because they are not only retrospective rather than forward-looking, but because they measure earned returns rather than required returns. *Id*. Due to unpredictable movements in the financial markets and the economy, the difference between realized and required returns can be substantial and there is no way to know whether the actual earned rate of return is higher or lower than the investor required rate of return at some point in the past. *Id*. Thus, even if one could accurately predict future earned returns from past earned returns, those earnings would not represent the returns investors require. *Id*. Thus, Staff states, historical premiums are not reliable proxies of current risk premiums. *Id*.

Second, the Company's comparison of the DCF and CAPM results based on the Non-Price Regulated Proxy Group with the DCF and CAPM results based on the Utility Proxy Group is flawed. *Id*. at 63. This comparison overlooks the fact that regulated utilities face different risk levels than non-regulated companies. *Id*. Specifically, the absence of competition for regulated utilities generally makes them far less risky, and thus results in lower required returns for investors. *Id*. The Company has not established that their Non-Price Regulated Proxy Group and the Utility Proxy Group have similar total investment risk because of their similar betas and residual standard errors of the Value

Line regression analysis. *See* Ameren Ex. 10.0 at App. B-11; Staff Ex. 3.0 (Pub.) Corr. at 63. If the total investment risk was similar, there would be no need to use two samples; meanwhile, the process to select the Non-Price Regulated Proxy Group does not effectively screen for similarity in risk. Staff Ex. 3.0 (Pub.) Corr. at 63. The substantial differences in risk profiles makes comparing these two groups inappropriate. *Id*. Staff did not identify and describe every flaw in AIC's RPM analysis because the Company witness stated he did not rely upon those models in making the final ROE recommendation. *Id*. at 64. However, given the flaws addressed by Staff, Staff recommends the Commission disregard these analyses and models in this proceeding. *See* Ameren Ex. 10.0 at App. B-1; Staff Ex. 3.0 (Pub.) Corr. at 64.

The Commission has previously rejected the use of bond yield plus RPMs to determine the cost of common equity in several prior proceedings. *See, e.g*., Docket No. 14-0066, Final Order at 48-49; Docket No. 13-0192, Final Order at 165; Docket No. 11-0282, Final Order at 125; *Ill.-Am. Water Co*., Docket No. 11-0767, Final Order at 110 (Sept. 19, 2012); *Aqua Ill., Inc*., Docket No. 11-0436, Final Order at 38 (Feb. 16, 2012); *N. Shore Gas Co. and The Peoples Gas Light & Coke Co*., Docket Nos. 12-0511/12-0512 (Consol.), Final Order at 207 (June 18, 2013); *N. Shore Gas Co. and The Peoples Gas Light & Coke Co*., Docket Nos. 11-0280/11-0281 (Consol.), Final Order at 139 (Jan. 10, 2012); *N. Shore Gas Co. and The Peoples Gas Light & Coke Co*., Docket Nos. 09-0166/09-0167 (Consol.), Final Order at 128 (Jan. 21, 2010); Docket Nos. 07-0241/07-0242 (Consol.), Final Order at 93-94 (Feb. 5, 2008).

Furthermore, the Commission has rejected the Company's risk premium analyses in several past AIC gas rate cases.

In this docket, the Company's RPM suffers from the same infirmities as the models the Commission has rejected in prior cases and Staff concurs with the Commission's prior decisions on RPM.

Response to AIC's Criticisms of Staff's ROE

AIC disagrees with Staff's exclusion of Southwest Gas from the Staff Gas Sample. Staff explains that Southwest Gas was excluded from Staff's Gas Sample because less than 50% of its operating revenues come from regulated utility operations. Staff Ex. 11.0 (Pub.) Corr. at 21. This 50% threshold was one of several screening criteria Staff applied to ensure the sample companies reflect a risk profile comparable to AIC's regulated gas distribution business. *Id*. According to financial theory, the market-required rate of return on common equity is a function of operating risk and financial risk. Staff Ex. 3.0 (Pub.) Corr. at 22. Thus, Staff states, the method used to select a sample should reflect both the operating and financial characteristics of the target company. Given Southwest Gas did not meet the screening threshold for Staff's Gas Sample, Staff states that it was appropriate to exclude Southwest Gas from the Staff Gas Sample.

Next, AIC disagrees with Staff's use of a multi-stage DCF model. Specifically, AIC questions Staff's use of the forecasted long-term GDP growth rate from the EIA as the steady-state input in Staff's NCDCF model. AIC argues that Staff should have relied on the historical real GDP growth rate for the period of 1929 to 2024, adjusted for projected inflation. *Id*. at 173.

AIC's argument assumes that stock growth rates revert to the average historical growth rate of the economy. *Id*. This is improper. AIC's use of the phrase "mean" incorrectly implies an equivalence of the sample mean AIC uses with the single, true population mean. Staff Ex. 11.0 (Pub.) Corr. at 23. Unfortunately, due to the large variance of market returns, one would need such a long time period to accurately measure the true mean that the mean most likely would have changed in the interim. *Id*. Even if one were to incorrectly accept the means of historical data as accurate estimators of investor expectations, their use remains problematic because the true historical mean is unobservable and no universally accepted sample historical measurement period exists. *Id*. at 24. Thus, analysts cannot know if the data they select is truly representative of the data investors use. For this reason, the historical real GDP growth rate should not be used as a proxy for the long-term growth rate of the Staff Gas Sample here. Rather, Staff concludes, the Commission should continue to rely on the forward-looking economic growth rate that Staff relies on in its DCF analysis as a proxy for the long-term growth rate of Staff's Gas Sample. *Id*.

Although EIA does not forecast the real risk-free rate, EIA does forecast real GDP growth, which is a proxy for the real risk-free rate. Staff Ex. 3.0 (Pub.) Corr. at 38. Risk-free securities provide a rate of return sufficient to compensate investors for the time value of money, which is a function of production opportunities, time preferences for consumption, and inflation. Brigham and Houston, Fundamentals of Financial Management, 128 (Dryden 8th ed.). The real risk-free rate excludes the premium for inflation. Staff Ex. 3.0 (Pub.) Corr. at 39. The real GDP growth rate measures output of goods and services without reflecting inflation expectations and, as such, also reflects both production and consumers' consumption preferences. Staff Ex. 3.0 (Pub.) Corr. at 39. Therefore, both the real GDP growth rate and the real risk-free rate of return should be similar since both are a function of production opportunities and consumption preferences without the effects of either a risk premium or an inflation premium. *Id*.

For these reasons, Staff recommends the Commission approve a 9.93% ROE for AIC in this proceeding.

Staff's Response to IIEC/FEA/CUB

IIEC/FEA/CUB recommend a 9.45% ROE for AIC. IIEC/FEA/CUB estimated the ROE for AIC using DCF, CAPM, and RPMs. IIEC/FEA/CUB used a 13-week average of stock prices rather than spot stock prices in its DCF analyses believing it to be more reasonable despite acknowledging that the Commission typically relies on spot prices. *Id*. at 31. IIEC/FEA/CUB also used a forecasted Treasury Bond yield to estimate the risk-free rate in its CAPM analysis. *Id*. at 50. Staff reiterates its previous arguments regarding spot stock prices, the use of Treasury Bond yields, beta estimates, and additional risk-premium models.

c. AG's Position

The AG supports IIEC/FEA/CUB's proposed ROE of 9.45%.

d. PIO's Position

In light of the affordability impacts of Ameren Illinois' proposals in this rate case, PIO do not support Ameren's proposed 10.70% ROE. PIO recommend the Commission

adopt IIEC/FEA/CUB's proposed 9.45% ROE. IIEC/FEA/CUB Ex. 2.0 at 3. PIO contend that IIEC/FEA/CUB's proposal is the closest of any of the parties who submitted testimony on this issue to the return on equity adopted by the Commission in the Ameren 2023 GRC of 9.44%. *Ameren 2023 GRC*, Final Order at 197.

e. IIEC/FEA/CUB's Position

IIEC/FEA/CUB request that the Commission adopt Mr. Walters' recommended 9.45% ROE, which achieves the careful balance of shareholder and consumer interests that the Act, established Commission practice, and court precedent require. Staff also recommends that AIC should receive a lower ROE. The Commission should reject AIC's proposed ROE of 10.70%, which drastically overstates the Company's cost of capital and would impose exorbitant costs on ratepayers for no purpose other than to increase AIC's profit margins. Both Staff and AIC's ROE models are inflated due to spot pricing used in their DCF analyses. *See* IIEC/FEA/CUB Ex. 4.0 at 4. If one accounts for changes in the market since Staff's analysis, the result would be an updated ROE of 9.58%. IIEC/FEA/CUB Ex. 4.0 at 10.

Legal Standard

IIEC/FEA/CUB explain that the Act charges the Commission with determining the market-required return on common equity for AIC. U.S. Supreme Court precedent in *Hope* and *Bluefield* governs what constitutes a just and reasonable utility rate of return. *Bluefield*, 262 U.S. 679; *Hope*, 320 U.S. 591. Under these precedents, a utility is entitled only to a return sufficient to maintain its financial integrity and to attract capital at reasonable terms. The return is to be commensurate with the return investors could earn by investing in other companies of comparable risk. *Bluefield*, 262 U.S. at 692–93; *Hope*, 320 U.S. at 603. "The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." *Bluefield*, 262 U.S. at 693.

Section 9-201(c) of the Act obligates the Commission to set just and reasonable rates. 220 ILCS 5/9-201(c). The Act's stated purpose is to "prevent exorbitant rates and unjust discrimination and undue preferences in rates" and to protect consumers. *Springfield Gas & Elec. Co., v. Springfield*, 126 N.E. 739, 744 (1920). The ROE is to be set no higher than necessary to meet the standards in *Hope* and *Bluefield*. As the *Hope* case noted, "fixing just and reasonable rates involves a balancing of investor and consumer interests." *Hope*, 320 U.S. 591 at 603. Other jurisdictions have recognized that regulation is not intended to allow a utility a return on equity any higher than necessary to satisfy *Hope* and *Bluefield*. The rate regulation framework places the duty to prevent excessive prices and unfair business practices on the Commission. The statutes that establish the regulation of utilities reflect the weight of this obligation. *See Pub. Sys. v. Fed. Energy Regul. Comm'n*, 606 F. 2d 973, 979 n.27 (D.C. Cir. 1979) (discussing the provisions of the Federal Power Act and the Natural Gas Act and stating, "protection of consumer includes maintaining the financial integrity of the regulated firm, but the focus of regulation remains control of the economic power of utilities that enjoy monopoly status.").

IIEC/FEA/CUB's ROE

IIEC/FEA/CUB ask the Commission to approve the 9.45% ROE proposed by Mr. Walters. IIEC/FEA/CUB Ex. 2.0 at 2-3, 62-63. Anything higher than 9.90%, which is Mr. Walters upper estimate, would violate U.S. Supreme Court precedent and the Act because the ROE is only supposed to be "reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." *Id*. (quoting *Bluefield*, 262 U.S. at 693). However, should the Commission authorize a capital structure above 50.0%, IIEC/FEA/CUB propose an ROE in the lower half of Mr. Walters' range, somewhere between 9.00% and 9.45% to reflect a reduced financial risk. *Id*.

Mr. Walters used several models based on financial theory to estimate AIC's cost of common equity. Those models are a constant growth DCF model, a multi-stage growth DCF model, and a CAPM. *Id*. at 28. Mr. Walters applied these models to a proxy group consisting of publicly traded utilities with investment risks similar to AIC. *Id*. Mr. Walters found that the credit ratings for AIC are BBB+ from S&P and A3 from Moody's. *Id*. at 30. S&P stated that AIC has a projected stable credit outlook though 2026 and also projects that AIC should keep its current credit rating. *Id*. at 31-32. Overall, Mr. Walters' summary of his models yielded a constant growth DCF return average and median for the proxy group in the 13-week analysis of 13.73% and 10.92%, respectively. *Id*. at 38. The average and median sustainable growth rate for the proxy group in a 13-week period are 9.16% and 9.00%. *Id*. at 40-41. The results of IIEC/FEA/CUB's 13-week average and median multi-stage DCF model are 9.35% and 8.63%, for the same time period. *Id*. at 40-41.

IIEC/FEA/CUB's Proxy Group

The proxy group used by Mr. Walters is the same proxy group relied on by AIC's cost of equity witness. *Id*. at 33. Mr. Walters found that one company, NiSource Inc., should not be utilized because it "sold off a portion of its holdings in its vertically integrated electric utility company" by entering into an agreement with another company which "[acquired] a 19.9% equity interest [in the utility company] …for $2.150 billion." *Id*. at 33. Because the removal of this company from AIC's original proxy group lowered the proxy group to only six, Mr. Walters evaluated other utilities in the regulated utility sector using Value Line's Water Utility universe to be able to rely on a proxy group of 12 regulated utility companies ("Proxy Group"). *Id*. at 34; IIEC/FEA/CUB Ex. 2.2.

The Proxy Group has an average corporate rating from Moody's of Baa1, which is one notch lower than AIC's rating from Moody's, and an average corporate rating from S&P of A-, which is one notch above AIC's BBB+. IIEC/FEA/CUB Ex. 2.0 at 34; IIEC/FEA/CUB Ex. 2.2. The Proxy Group, as reported in S&P Global Market Intelligence ("MI") and Value Line has an average common equity ratio (including short-term debt) of 45.7% and 48.8% (excluding short-term debt), respectively. IIEC/FEA/CUB Ex. 2.0 at 34; IIEC/FEA/CUB Ex. 2.2. The Proxy Group's credit ratings are comparable to the Company's, while AIC's requested equity ratio of 52.00% exceeds the Proxy Group's equity ratio. *Id*. at 34.

IIEC/FEA/CUB conclude that AIC's investment risk is adequately represented by the Proxy Group when taking into consideration the 50% common equity ratio recommended by Staff and further supported by IIEC/FEA/CUB. Staff Ex. 3.0 at 19. If the Commission decides to adopt AIC's common equity ratio, IIEC/FEA/CUB contend an ROE in the lower end of Mr. Walters' range is warranted. IIEC/FEA/CUB Ex. 2.0 at 63.

DCF Models

Mr. Walters used several versions of the DCF model in his analysis of the cost of equity for AIC. The DCF model calculates a stock price by summing up the present value of expected future cash flows, discounted at the investor's required rate of return or cost of capital. *Id*. at 35. The model requires a current stock price, expected dividend, and expected growth rate in dividends, as explained in Mr. Walters' testimony. *Id*.

For determining the current stock price for the constant growth DCF model, Mr. Walters used the average of the weekly high and low stock prices of the utilities in the proxy group for a 13-week period ending on April 4, 2025. *Id*. at 36. Mr. Walters used this method because an average price is less susceptible to market variations or volatility. *Id*. For the dividend in the constant growth DCF model, Mr. Walters used each proxy utility's most recent quarterly dividend as reported in Value Line, annualized and adjusted for next year's growth. *Id*.

In order to estimate expected growth in dividends for the constant growth DCF model, Mr. Walters relied on a consensus or average of estimates of independent securities analysts. *Id*. at 37. In support of this method, Mr. Walters illustrated that securities analysts' growth estimates historically have been more accurate than extrapolations based on past growth rates data has been. *Id*. at 37-38. He explained that analysts performing backward-looking assumptions makes sense because investors respond to analysts' growth projections, which in turn is captured in observable stock prices. *Id*. at 37. To calculate a consensus of analysts' expected growth rate, Mr. Walters calculated the mean of the most recent projections from Zacks, MI, and I/B/E/S that were available at the end of the 13-week sample (on April 5, 2025). *Id*. at 37. Mr. Walters weighted each of these analyst forecasts equally, as he saw no reason to treat any one of them as more or less credible than the others. *Id*. at 37-38. This method yielded an average growth rate for the proxy group of 10.19%. *Id*. at 38.

Mr. Walters' constant growth DCF model, using these inputs from a 13-week analysis, produced average and median returns for the Proxy Group of 13.73% and 10.92%, respectively. *Id*. However, the average long-term growth rate of the Proxy Group of 10.19% is 146% higher than the projected 4.14% long-term growth rate of the U.S GDP. *Id*. As Mr. Walters explained, a utility's long-term growth rate cannot exceed its economy's long-term GDP growth rate in perpetuity. *Id*. at 38-39.

Mr. Walters used a sustainable growth DCF model, which is determined by the percentage of the utility's earnings that is retained and reinvested in its plants and equipment. *Id*. at 39-40. In other words, the less a utility pays out in dividends to shareholders, the greater the sustainable growth rate. The average and median sustainable growth rates of the Proxy Group are 5.74% and 5.48% respectively. *Id*. at 40; IIEC/FEA/CUB Ex. 2.6. These growth rates produce average and median DCF results of 9.16% and 9.00% respectively. IIEC/FEA/CUB Ex. 2.0 at 41.

Mr. Walters explained that while the constant growth DCF model produces results that reflect the rational investment expectations in the coming years, it does not account for the reasonable expectation of a shift in the growth rate to a more sustainable growth rate. *Id*. at 41. A multi-stage DCF model accounts for a growth rate that changes over time. *Id*. The model reflects three growth periods: (1) a short-term growth period consisting of the first five years; (2) a transition period consisting of the next five years (years 6-10); and (3) a long-term growth period starting in year 11 and extending into perpetuity. *Id*. at 42.

For the short-term growth period, Mr. Walters relied on the consensus of analysts' growth projections used in his constant growth DCF model. *Id*. For the transition period, growth rates were reduced or increased by an equal factor reflecting the difference between the analysts' growth rates and the long-term sustainable growth rate. *Id*. For the long-term period, Mr. Walters assumed each company's growth would converge to the maximum sustainable long-term growth rate. *Id*. Mr. Walters developed his long-term sustainable growth rate based on the consensus of long-term GDP growth rate projections by independent economists. *See id*. at 41-43. He explained that the Blue Chip Economic Indicators publishes the consensus for GDP growth projections twice a year. *Id*. at 44. Mr. Walters observed that these projections reflect current outlooks for GDP and are likely to have an influence on investor expectations of future growth outlooks with the "consensus of projected GDP growth [being] about 4.14% over the next 10 years." *Id*.

Mr. Walters provided other sources of projected long-term GDP growth. *Id*. at 45. The nominal GDP growth and the real GDP growth projections made by these sources supported the use of the consensus for 5-year and 10-year projected GDP growth outlooks as a reasonable estimate of market participants' long-term GDP growth. *Id*. at 45-46 (referencing Blue Chip Economic indicators).

For the stock price, dividend, and growth rates in his multi-stage DCF analysis, Mr. Walters relied on the same 13-week average stock prices and most recent quarterly dividend payment data referenced in his constant growth DCF analysis. *Id*. at 46. For the first stage of his multi-stage DCF analysis, he used the same consensus of analysts' growth rate projections he used in his constant growth DCF model. *Id*. For the second stage (transition stage), he transitioned the growth rate from the first stage to the third stage using a straight linear trend. *Id*. For the third stage of his multi-stage DCF analysis, he transitioned the growth rate from the first stage to the third stage using a straight linear trend. *Id*. 46. For this third stage the long-term sustainable growth stage is 4.14% and is based on the consensus of economists' long-term projected nominal GDP growth rate. *Id*. at 46. Under this multi-stage DCF model, the average and median ROEs of the Proxy Group over a 13-week period are 9.35% and 8.63% respectively. *Id*. at 46. These DCF models are summarized in Table CCW-8 in Mr. Walters' direct testimony. *Id*. at 47.

Based on his analysis of the Commission's rulings, Mr. Walters observed that it is typical for the Commission to rely on spot prices for determining the cost of equity in the DCF. *Id*. at 47. Mr. Walters testified that using a 13-week average period is more reasonable because it does not distort cost of equity estimates as opposed to the short-term market volatility and anomalous movements. *Id*. at 48. For example, if the Commission were to rely on spot pricing on April 2, 2025, the Dow Jones Industrial

Average dropped over 1600 points and the S&P 500 fell nearly 5% because of the announcement of things such as tariff enactments, proposals, and modifications. *Id*. at 48. Similarly, between March and April 2025, the market was volatile because of certain media coverage surrounding tariffs, "which were later delayed, rescinded, or never implemented." IIEC/FEA/CUB Ex. 4.0 at 5. However, his 13-week average provides a more smooth and stable representation of investor expectations over time, which aligns with standard financial practices and regulatory precedents ensuring that estimates are more reliable for ratemaking purposes. IIEC/FEA/CUB Ex. 2.0 at 48. IIEC/FEA/CUB understand the Commission's historical practice, however, given the unique and extreme volatility of the market this year, IIEC/FEA/CUB contend it is far more reasonable to rely on an average.

CAPM

Mr. Walters explained that the CAPM method of analysis is based upon the theory that the market-required rate of return for a security is equal to the risk-free rate, plus a risk premium associated with the specific security. *Id*. at 49. The beta in the equation represents the stock-specific risk that cannot be reduced through diversification. *Id*.

According to Mr. Walters, in a well-diversified portfolio, specific risks related to individual stocks can be reduced by balancing the portfolio with securities that offset the impact of firm-specific factors, such as business cycle, competition, product mix, and production limitations. *Id*. Non-diversifiable risks, on the other hand, are related to market conditions and are referred to as systematic risks. *Id*. These risks cannot be reduced through diversification and are considered market risks. *Id*. Conversely, non-systematic risks, also known as business risks, can be reduced through diversification. *Id*. According to the CAPM, the market does not compensate investors for acting on risks that can be diversified away. *Id*. at 50. Thus, investors are only compensated for taking on systematic, or non-diversifiable, risks. *Id*. Beta is a measure of these systematic risks. *Id*.

The CAPM requires an estimate of the market risk-free rate, the company's beta, and the MRP. Mr. Walters used Blue Chip Financial Forecasts' projected 30-year Treasury bond yield of 4.50% for his CAPM analysis. *Id*. For the beta, Mr. Walters used the Proxy Group's current average Value Line beta of 0.87, the Proxy Group's historical average Value Line beta of 0.77, and the Proxy Group's current MI beta of 0.66. *Id*. at 50-51. Mr. Walters also derived MRP estimates using two approaches, a risk premium approach and a DCF approach. *Id*. at 55. Mr. Walters' risk premium estimate was derived by estimating the expected return on the market using S&P 500 data and adjusting for inflation, resulting in an 11.64% expected return and ultimately a 7.14% risk premium after subtracting the risk-free rate. *Id*. at 55-56.

For the DCF approach, Mr. Walters employed two versions of the constant growth DCF model. For the first version, he employed the FERC method of estimating the expected return on a market by performing a constant growth DCF analysis on each of the dividend paying companies of the S&P 500 index. *Id*. at 56. The growth rate component is based on the average of the growth projections excluding companies with growth rates that were negative or greater than 20%. *Id*. The weighted average growth rate for the remaining companies is 10.40%. *Id*. After reflecting the FERC prescribed

method of adjusting the dividend yield by (1 + 0.5g), the weighted average expected dividend yield is 2.00%. *Id*. "Thus, the DCF-derived expected return on the market is the sum of those two components, or 12.40%." IIEC/FEA/CUB Ex. 2.0 at 56. "The MRP then is the expected market return of 12.40% less the projected risk-free rate of 4.50%, or approximately 7.90%." *Id*. at 56.

The second DCF-based MRP estimate was derived by performing the same DCF analysis, except using all companies in the S&P 500 index rather than just the dividend paying companies. *Id*. at 57. The weighted average growth rate for these companies is 10.80%. *Id*. After reflecting the FERC prescribed method of adjusting the dividend yield the weighted average expected dividend yield is 1.79%. *Id*. Thus, the DCF-derived expected return on the market is the sum of those two components, or 12.59%. *Id*. The MRP then is the expected market return of 12.59% less the projected risk-free rate of 4.50%, or approximately 8.09%. *Id*. The average expected market return based on the DCF model is 12.50%, and the market risk premium averaging the two DCF estimates is 8.00%. *Id*.

Mr. Walters observed that his average expected market return of 11.29% exceeds long-term market expectations of several financial institutions. *Id*. Because of this, his expected market returns, and the associated MRPs, should be considered reasonable, if not high-end estimates. *Id*. at 58. Further, Mr. Walters observed that his MRP estimates are in the range of 5.00% to 8.00%. *Id*. at 59. The Kroll Bond Rating Agency, LLC ("Kroll") analysis indicates that the MRP falls somewhere in the range of 5.00% to 7.17%. *Id*. Kroll utilizes multiple methods to determine its estimates, including its own analysis that results in an implied return on the market of 9.73%. *Id*. at 59-60. The results of Mr. Walters' CAPM analyses are shown in Table CCW-11. *Id*. at 61.

Response to AIC's Criticisms

AIC asserts that including water companies is improper and that NiSource should be included. *See* Ameren Ex. 24.0 at 32. IIEC/FEA/CUB state that NiSource was involved in a materially significant 20% equity sale and thus should be excluded, and the inclusion of certain regulated water utilities is appropriate given comparable risk and credit quality and to achieve a statistically robust sample. IIEC/FEA/CUB Ex. 4.0 at 14-15.

AIC argues utilities exhibit steady growth and that a multi-stage DCF using GDP as an upper bound is inapplicable. However, IIEC/FEA/CUB state, a regulated utility's earnings/dividends cannot outpace the economy in which it operates over a long period of time. IIEC/FEA/CUB Ex. 2.0 at 43; IIEC/FEA/CUB Ex. 4.0 at 17. Mr. Walters' 4.14% long-term GDP growth input is reasonable and supported by academic sources. *See* IIEC/FEA/CUB Ex. 2.0 at 45. AIC has not presented evidence to refute any of the cited academic sources.

AIC claims that Mr. Walters used circular logic in IIEC/FEA/CUB's sustainable growth model. *See* Ameren Ex. 24.0 at 35-36. Mr. Walters explained that the sustainable growth rate is not circular because it is based on retained earnings and reinvestment (formulated as 1 - dividend payout %), used to derive long-term growth, and grounded in Value Line forward projections and market-to-book ratios. IIEC/FEA/CUB Ex. 2.0 at 39-40.

AIC objects to the use of Vasicek betas, historical betas, and the MRP range in the CAPM analysis. Ameren Ex. 24.0 at 42. IIEC/FEA/CUB state that MRPs in the 5.0% - 8.0% range are supported by financial literature and empirical evidence. IIEC/FEA/CUB, Ex. 4.0 at 21-22 (*citing Modern Regulatory Finance*, Dr. Roger Morin at 190-191; Duarte & Rosa; Professors Ross, Westerfield, and Jordan; Mahera; and Brealey, Myers, and Allen). The best example for "future risk premium" is the average of historical risk premium. *See* IIEC/FEA/CUB at 22–23, (*citing Modern Regulatory Finance*, Dr. Roger Morin at 156). IIEC/FEA/CUB state that Vasicek betas are widely used and supported by literature because they incorporate industry information, like utilities, whereas Blume does not. IIEC/FEA/CUB Ex. 4.0 at 23-24; *The Financial Review*, Vol. 33 (1998) at 183-198, "An Examination of Blume and Vasicek Betas," Martin Lally). Therefore, IIEC/FEA/CUB state that AIC's and Mr. D'Ascendis' disagreement with Vasicek-adjusted betas are unfounded.

Response to AIC's ROE

AIC witness D'Ascendis recommends a 10.7% ROE. Ameren Ex. 10.0 at 44. IIEC/FEA/CUB contend this recommendation is overstated and unreasonable. ROEs for gas utilities have trended downward and the average remains well below 10.0%. IIEC/FEA/CUB Ex. 2.0 at 2. Mr. D'Ascendis' ROE after accounting for AIC's relative size and flotation costs is between 10.23% and 11.06%. *Id*. at 63; Ameren Ex. 10.0 at 39. AIC's proposed ROE of 10.7% is well in excess of the current market ROEs for regulated gas utilities, for regulated utilities in general, and for AIC in particular. IIEC/FEA/CUB Ex. 2.0 at 63-69. It is significantly inflated and, while certainly a benefit to shareholders, creates an unnecessary burden for ratepayers. *Id*.

Mr. Walters testified that AIC's ROE analyses produced skewed results for several reasons: (1) Mr. D'Ascendis used a DCF based entirely on analysts' projective growth instead of proven historical growth; (2) Mr. D'Ascendis used a stock price from a single date instead of an average over a longer period of time; (3) Mr. D'Ascendis' MRP estimates are unreliable and excessive because he assumed an expected return on the market of 15.98%, which results in an MRP of 11.62% after subtracting out a spot risk-free rate of 4.36%; (4) Mr. D'Ascendis' average MRP of 8.03% is above the high end of the range of 5.00% to 8.00%, which is indicated by empirical evidence; and (5) several of Mr. D'Ascendis' CAPM results are unreliable and excessive. *See id*. at 63-69.

AIC's Size Adjustment

Mr. D'Ascendis proposes to add a return on equity adder of five basis points to his proxy group market return to reflect his mistaken belief that AIC has greater risk relative to that of his proxy group companies, due to its market capitalization size. AIC Ex. 10.0 at 37. IIEC/FEA/CUB contend there are several fundamental errors and flaws in Mr. D'Ascendis' quantitative estimate and logic. First and foremost, AIC is not a publicly traded company. *Id*. at 12; IIEC/FEA/CUB Ex. 2.0 at 72. For this reason, Mr. D'Ascendis does not actually know what the market value capitalization is for AIC. *See* Ameren Ex. 10.0 at 37; IIEC/FEA/CUB Ex. 2.0 at 72. Mr. Walters testified that Mr. D'Ascendis' approximation is not meaningful and cannot be used to make an accurate measurement of an ROE adder if one is so justified, which it is not. IIEC/FEA/CUB Ex. 2.0 at 72.

Second, an ROE adder is not justified because AIC is a subsidiary of Ameren Corp., which has a market capitalization of around $26.7 billion. *Id*. This compares with the average market capitalization for the Proxy Group of approximately $8.45 billion. *Id*. Simply put, the holding company which owns AIC has a market capitalization that is significantly higher than that of the Proxy Group's company average. *See id*.; Staff Ex. 3.0 at 15. Because AIC is part of Ameren Corp., the "the book value of its equity is $42.78 per share in 2024 while its recent market value of its equity is $98.84 per share." IIEC/FEA/CUB Ex. 2.0 at 72. For this reason, the market capitalization of its parent company is what is relevant in assessing AIC's market capitalization risk and not Mr. D'Ascendis' estimation of an implied stand-alone market capitalization for AIC. *Id*. at 73.

Third, Mr. D'Ascendis did not demonstrate in his testimony that a size premium is applicable to the utility industry. *Id*. While size premiums are present in industrial companies, they are not appropriate nor present to value utility companies. *Id*. (*citing* Wong, Annie, 1993, "Utility stocks and the size effect: An empirical analysis", *Journal of the Midwest Finance Association*, at 95-101).

Fourth, "modern portfolio theory operates under the assumption that the market does not compensate investors for taking on risks that can be diversified away." *Id*. This leads to investors only being "compensated for taking on systematic, or non-diversifiable market risks." *Id*. at 73.

Fifth, Staff explained that a "size-based risk premium for a utility is contrary to financial theory and unsupported" empirically. Staff IB at 55 (*citing* Staff Ex. 3.0 (Pub.) Corr. at 52. Further, and perhaps more importantly, as Staff points out, the Commission has repeatedly rejected size-adjustment adders.

Thus, AIC's size risk is mitigated both by being part of Ameren Corp.'s total system and by being a utility. For all these reasons, adding a small company risk adder ignores the fact that AIC is not a stand-alone small company, but rather an affiliate of a larger utility holding company operating in the U.S. The size adjustment, as proposed by Mr. D'Ascendis, is inappropriate and should be ignored. *See Dep't of Cent. Mgmt. Servs. v. Ill. Labor Rels. Bd*., 116 N.E.3d. 388, 403 (Ill. App. Ct. 2018) (*citing Atchison v. Witchita Bd. Of Trade*, 412 U.S. 800, 822 (1973) ("we require the agency to justify its departure from its prior decisions…[i]f a reviewing court cannot discern those policies, it may remand the case to the agency for clarification and further justification of the departure from precedent.").

AIC's Flotation Cost Adjustment

Mr. D'Ascendis also recommended a flotation cost adjustment, even though the Commission has routinely rejected such adjustments. *See e.g., Ameren 2023 GRC*, Final Order at 194-195 (Nov. 16, 2023); Docket No. 17-0124, Final Order at 109; Docket No. 14-0066, Final Order at 49; Docket No. 13-0192, Final Order at 165-66; Docket No. 01-0696, Final Order at 23-24; Docket Nos. 02-0798/03-0008/03-0009 (Consol.), Final Order at 83, 89; Docket Nos. 01-0465/01-0530/01-0637 (Consol.), Final Order at 75, 79; Docket No. 04-0779, Final Order at 92-94; Docket Nos. 07-0241/07-0242 (Consol.), Final Order at 102; Docket No. 11-0282, Final Order at 126; Docket No. 95-0219, Final Order at 41, 46. IIEC/FEA/CUB state that the Commission should again reject any such arguments absent compelling evidence to change that precedent. *See Dep't of Cent. Mgmt. Servs.*

v. Ill. Labor Rels. Bd., 116 N.E.3d. 388, 403 (Ill. App. Ct. 2018) (*citing Atchison v. Witchita Bd. of Trade*, 412 U.S. 800, 822 (1973) ("we require the agency to justify its departure from its prior decisions…[i]f a reviewing court cannot discern those policies, it may remand the case to the agency for clarification and further justification of the departure from precedent"). Even if the Commission is no longer inclined to reject them, the adjustment is still unnecessary. IIEC/FEA/CUB Ex. 2.0 at 70.

AIC's DCF Model

AIC utilized only one form of DCF model, a single-stage constant growth model. Similar to Mr. Walters' model, Mr. D'Ascendis' proxy group's average DCF return is based on a growth rate of 6.61%, which is nearly 60% higher than the consensus of economists' projections for the economy of 4.14%. IIEC/FEA/CUB Ex. 2.0 at 65. Unlike Mr. Walters, Mr. D'Ascendis chose not to adjust for this unrealistic growth rate. *Id*. at 66. Therefore, for the same concerns addressed related to this growth rate, his DCF model produces unreasonable high-end results. *Id*.

On rebuttal, Mr. D'Ascendis testified that the multi-stage DCF is not applicable to utilities and is inappropriate for this proceeding. Ameren Ex. 24.0 at 2. A multi-stage DCF, however, is more reliable than one that relies on a single date due to the volatility in the market. IIEC/FEA/CUB Ex. 2.0 at 67. Mr. Walters testified that commissions throughout the country adopt an average of the market, whether it is 30-day or a 6-month average. IIEC/FEA/CUB Ex. 4.0 at 9.

AIC's CAPM

For his CAPM return estimate, Mr. D'Ascendis relied on a proxy group beta of 0.82, which was the average of the mean and median beta published by Bloomberg and Value Line for his proxy companies, a projected/current MRP of 8.03%, and a projected/current risk-free rate of 4.36% to produce a projected/current CAPM return of 10.95%. IIEC/FEA/CUB Ex. 2.0 at 67. IIEC/FEA/CUB argue that this estimate is problematic.

Certain of Mr. D'Ascendis' MRP estimates are excessive and unreliable due to unsustainable growth rates used to develop his market return, specifically, his fifth measure which assumes an expected return on the market of 15.98%. *Id*. at 67. Mr. D'Ascendis developed his MRP for his CAPM by averaging five MRP estimates to develop his recommended MRP of 8.03%. *Id*. One used historical Ibbotson data, another using regression analysis, a third using his predictive RPM, the fourth is based on a Value Line projected market return, and the fifth was based on the Value Line projected return on S&P 500. *Id*. at 68. As Mr. Walters explained, the results of this CAPM study are not reasonable because in addition to his continued use of the PRPM model, Mr. D'Ascendis' MRP average estimates are significantly overstated because they fall outside of the range of empirical evidence. *Id*.

Notably, Mr. D'Ascendis' fifth MRP is excessive because it relies on a projected return on the market of 15.98%. *Id*. at 69. These MRP estimates exceed empirical evidence by at least 45.25%. *Id.* Several studies have shown that an MRP in the range of 5.0%-8.0% is reasonable for the United States. *Id*. (*citing* studies by Duarte & Rosa; Professors Ross, Westerfield, and Jordan; Mahera; and Brealey, Myers, and Allen); *see Modern Regulatory Finance*¸ Dr. Roger A. Morin, at 190-192 (noting that there is a "slight

preference" for the upper end of the range (i.e., 8%) during tumultuous times in capital markets with examples being the 2008-2009 credit crisis and the 2020 pandemic). Similarly, "professional practices showed that 71% of textbooks/trade books used a historical average as the MRP, and 60% of financial advisors used a MRP in the range of 7.0% to 7.4%." IIEC/FEA/CUB Ex. 2.0 at 69. If you remove the most excessive MRP, it will reduce Mr. D'Ascendis' average MRP to 7.13% and if you apply that to his average beta of 0.82, his average CAPM result would be 10.21%. *Id*. at 69.

Response to Staff's ROE

There are three main differences between Staff and IIEC/FEA/CUB's analyses: (1) proxy group size; (2) inclusion of NiSource in the proxy group; and (3) use of spot pricing.

According to IIEC/FEA/CUB, the largest flaw in Staff witness Nyame's proposal is his reliance on spot stock prices and interest rates that assume "a single day's price fully captures investor expectations without distortion." IIEC/FEA/CUB Ex. 4.0 at 3. At the time of his analysis, there was heightened, short-lived volatility, which led to an overstatement of the cost of equity compared to any reasonable expectations for the Test Year. *Id*. In fact, on the date that Mr. Nyame chose to do his study, April 15, 2025, the Chicago Board Options Exchange Volatility Index closed at 30.12, which is more than 50% above normal levels indicating significant investor uncertainty. *Id*. at 6.

Mr. Walters testified it is not empirically defensible to base the ROE for the Test Year and beyond on a single day's stock price data taken during a short-lived market panic that has since passed. *Id*. at 7. In contrast, reliance on spot prices during brief periods of elevated volatility heightens the risk of bias and measurement error and may produce results that diverge from both investor expectations and fundamental valuation. In the face of real-world evidence proving Mr. Walters's concern that reliance on spot stock prices from a single day is real and threatens to bias AIC's authorized ROE, IIEC/FEA/CUB impress upon the Commission the importance of adopting the national norm regulatory practice of relying instead on a recent average of stock prices. *Id*. Typical averaging windows from other jurisdictions range from 30 days to 6 months; Mr. Walters reasonably proposes 13 weeks. *Id*. at 4, 7-9. As Mr. Walters testified, "This approach balances the need for current data with the need to mitigate volatility, providing a fair and reasonable estimate for ratemaking purposes." *Id*. at 9.

Further, in light of the relative calming of the market by the time of his rebuttal testimony, Mr. Walters performed the calculations to update Mr. Nyame's CAPM analysis to use the most recent market data inputs. *Id*. at 12. He found the exact same CAPM approach Mr. Nyame took, applied to updated inputs, and leaving his DCF results unchanged, would produce an ROE of 9.58%. *Id*. While still inflated, IIEC/FEA/CUB assert this corrected ROE is more reasonable than AIC's request.

f. Commission Analysis and Conclusion

There are three ROE recommendations with three significantly different results: (1) AIC proposes a 10.70% ROE using a constant growth DCF and CAPM models as well as a size adjustment and a flotation cost adjustment; (2) Staff proposes a 9.93% ROE using constant growth DCF, NCDCF, and CAPM models; and (3) IIEC/FEA/CUB propose a

9.45% ROE using constant growth DCF, multi-stage growth DCF, and CAPM models. AIC IB at 166,167, 170; Staff IB (Pub.) at 44, 48; IIEC/FEA/CUB IB at 24. The AG and PIO support IIEC/FEA/CUB's proposal. The other parties did not take a position on this issue.

When determining the cost of equity capital, the Commission is called on to estimate the required return to investors regarding investments of comparable risk. The task necessarily involves considering competing interests and weighing the plausibility of competing expert opinions. When making an ROE determination, long standing precedent instructs the Commission to appropriately balance the reasonable interests of both shareholders and ratepayers. *See generally Hope*, 320 U.S. 591 (1944); *Bluefield*, 262 U.S. 679 (1923).

To apply financial models in calculating AIC's ROE, parties rely on proxy groups consisting of gas public utilities with risk comparable to that of Ameren Illinois because Ameren Illinois does not have market-traded common stock. As part of his analysis, Company witness D'Ascendis used a proxy group comprised of seven U.S. gas distribution utilities ("the Utility Proxy Group"). Staff used the Company's Utility Proxy Group, excluding Southwest Gas Holdings, Inc., ("Staff Gas Sample") because it derives less than 50% of its operating revenues from regulated utility operations, thereby reducing the comparability in risk to Ameren Illinois. IIEC/FEA/CUB utilized the Company's Utility Proxy Group, except that it excluded NiSource Inc. and then included six water companies. Once again, the Commission rejects the use of water utilities in a proxy group to determine a gas utility's ROE. As the Commission has explained, water companies are less risky than gas utilities as shown by the higher equity ratios and credit ratings, and therefore not comparable. Further, the Commission agrees with Staff regarding the elimination of Southwest Gas Holdings, Inc. from the proxy group, because its inclusion would introduce unnecessary measurement error into the DCF and CAPM analyses. The Commission accordingly rejects AIC's use of Southwest Gas Holdings, Inc. and IIEC/FEA/CUB's use of water companies in their respective proxy groups for determining AIC's ROE in this proceeding.

Ameren Illinois applied adjustments which were contested by both Staff and IIEC/FEA/CUB. Specifically, both Staff and IIEC/FEA/CUB took issue with the Company's proposed size risk adjustment and flotation cost adjustment. The Commission has rejected a size-based risk premium multiple times in the past, particularly where a utility is a wholly owned subsidiary within a much larger organization, and therefore distinguishable from an independent utility of the same size. *See e.g., Util. Servs. of Ill., Inc*., Docket No. 21-0198, Order at 93 (Dec. 1, 2021); *Ill.-Am. Water Co*., Docket No. 07-0507, Order at 92 (July 30, 2008); *Consumers Ill. Water Co*., Docket No. 97-0351, Amended Order at 39 (June 17, 1998). Most recently, the Commission stated in Ameren 2023 GRC, "[b]ecause Ameren Illinois is also a wholly owned subsidiary within the much larger Ameren Corporation, the Commission accordingly finds that a size risk adjustment is unwarranted here." *Ameren 2023 GRC*, Final Order at 194 (finding that Ameren Illinois' relationship with Ameren Corp. renders a size-based risk adjustment unwarranted for the purposes of calculating AIC's ROE). The Commission finds that Ameren Illinois has provided no evidence to compel a different result and the Commission therefore rejects AIC's proposed size-based risk adjustment.

The Company recommends a 0.06% increase in the authorized ROE to provide AIC an opportunity to recover flotation costs. The Commission notes that Staff and IIEC/FEA/CUB object to AIC's proposed flotation cost adjustment, arguing the Company's calculation is not based on issuance costs that the Company has incurred but has not previously recovered through rates. The Commission has repeatedly rejected generalized flotation cost adjustments in previous cases. *See e.g., N. Ill. Gas Co*., Docket No. 17-0124, Order at 109 (Jan. 31, 2018); *MidAmerican Energy Co*., Docket No. 14-0066, Order at 49 (Nov. 6, 2014); *Ameren Ill. Co*., Docket No. 13-0192, Order at 165-66 (Dec. 18, 2013); *MidAmerican Energy Co*., Docket No. 01-0696, Order at 23-24 (Sept. 11, 2002); *Cent. Ill. Pub. Serv. Co. and Union Electric Co*., Docket Nos. 02-0798/03-0008/03-0009 (Consol.), Order at 83, 89 (Oct. 22, 2003); *Cent. Ill. Light Co*., Docket Nos. 01-0465/01-0530/01-0637 (Consol.), Order at 75, 79 (Mar. 28, 2002); *N. Ill. Gas Co*., Docket No. 04-0779, Order at 92-94 (Sept. 20, 2005); *N. Shore Gas Co. and Peoples Gas Light & Coke Co*., Docket Nos. 07-0241/07-0242 (Consol.), Order at 102 (Feb. 5, 2008); *Ameren Ill. Co*., Docket No. 11-0282, Order at 126 (Jan. 10, 2012); *N. Ill. Gas Co*., Docket No. 95-0219, Order at 41, 46 (Apr. 3, 1996). The Commission also rejected Ameren's identical flotation cost proposal in the Company's last rate case. Ameren 2023 GRC at 194-95. The Commission finds that Ameren has not demonstrated that it has incurred issuance costs that have not previously been recovered through rates, nor has it demonstrated why the Commission should reverse course in its treatment of flotation costs. The Commission therefore rejects the Company's proposed 0.06% flotation cost adjustment.

In addition to the inappropriate adjustments applied by AIC, the Company presented the RPM approach to demonstrate the reasonableness of its ROE estimate, which improperly based the ERP on historical data. The Commission has previously articulated a concern regarding the inability of historical data to reflect changes in investor perception of the ERP and finds the Company's RPM did not address this concern. Moreover, the Company's risk premium models rely upon the use of forecasted interest rates which are inferior to current market interest rates, as noted earlier. Accordingly, the Commission again rejects AIC's use of the risk premium model here.

The Commission observes that AIC used a single-stage constant growth DCF model, which employs a single growth rate estimate, meaning the Commission must evaluate the reasonableness and long-term sustainability of that growth rate. The Commission agrees with Staff that in this case, the record shows the 6.09% average growth used by AIC exceeds the long-term economic growth rate of 3.86% and is unlikely to be sustainable indefinitely. Staff Ex. 3.0 (Pub.) Corr. at 24. Because of this unsustainability, the Commission agrees with Staff's application of an NCDCF model in addition to a constant growth DCF model to mitigate the effects of unsustainable near-term growth rates, while the Company relied exclusively on the constant growth DCF. The Commission agrees with Staff that this resulted in the Company's DCF estimate overstating the investor-required ROE.

IIEC/FEA/CUB used a 13-week average of stock prices rather than spot stock prices in its DCF analyses, despite its acknowledgement that the Commission typically relies on spot prices. The Commission notes that only the most recent stock price can reflect the most recently available information to the market, and therefore, the

Commission has repeatedly ruled against the use of historical stock prices in DCF analyses. The Commission accordingly rejects IIEC/FEA/CUB's use of average stock prices in the DCF analysis.

The Commission has consistently approved the use of DCF and CAPM models in determining the cost of common equity. Staff's ROE analysis, as modified herein, using DCF and CAPM models, is consistent with the Commission's preferred and accepted methods and does not suffer from the use of previously rejected adjustments, methodologies, or inputs. However, the Commission disagrees with the exclusion of One Gas, Inc. from the proxy group. Staff supported the exclusion by noting that the estimate for One Gas, Inc. was "nearly" two standard deviations from the sample mean, with no higher end estimate to balance it out. Staff Ex. 3.0 (Pub.) Corr. at 33. The Commission finds Staff's rationale for eliminating One Gas, Inc. is substantively imprecise and the results are not fully reflective of the current market conditions. In addition, Staff's exclusion of One Gas, Inc. has the effect of artificially constricting the DCF results to a narrow range that is less likely to reflect varied market responses to conditions in other jurisdictions, limiting the possible inputs to comparable proxy groups. Based on Staff's selection process in this proceeding, it is not necessary to eliminate distinctive gas companies from the proxy group prior to modeling, as described above. The Commission observes that consolidations and acquisitions have led to a market decline in the number of relevant gas utilities available for inclusion in sample groups. The Commission must carefully balance the need for a robust sample group with the realities of an evolving market. In this proceeding, Staff's Gas Sample consisted of only six companies, limiting how many can be removed while still maintaining an accurate representation of the current market conditions. Thus, the Commission finds One Gas, Inc. should be included in the DCF proxy group and model calculations.

The Commission disagrees with Staff's proposed DCF and CAPM weighting as it does not adequately reflect current effects of recent volatile conditions that have persistent impacts in multi-year market data. Staff noted that estimates have increased significantly for the Gas Sample because of disruptions in the capital markets due to the pandemic. In a single week in May 2020, Value Line betas for the Gas Sample increased from an average 0.58 to 0.83, a 0.25 difference. Staff Ex. 3.0 (Pub.) Corr. at 47. Staff further noted that due to more recent market turmoil, monthly regression betas have increased significantly. *Id.* Staff concluded that "current beta estimates likely overstate the ROE for the Gas Sample." *Id*. Staff has moved toward more reliance on DCF, and in recent cases, the Commission has concurred.

The Commission previously adopted Staff's ROE, which applied two-thirds weight to the DCF result and one-third weight to the CAPM result, in two 2024 rate cases. In those cases, the Commission agreed that the current beta estimates in the CAPM models overstated the ROE for the proxy group. The Commission approved Staff's methodological adjustment of applying less weight to the CAPM result. *See Aqua Ill. Inc*., Docket No. 24-0044, Final Order at 106-107 (Nov. 21, 2024); *Ill. Am. Water Co*., Docket No. 24-0097, Final Order at 151 (Dec. 5, 2024). The Value Line betas for the proxy groups in those rate cases jumped from an average of 0.60 to 0.77, a 0.17 difference, during a single week. *See generally id*. The Value Line betas for the Gas Sample in this case remain volatile, changing eight basis points more than the increase

that necessitated the adjusted weighting applied to the DCF and CAPM results in the 2024 rate cases. The Commission further notes that in Ameren's electric Multi-Year Rate Plan Order, instead of adjusting the weighting assigned to the CAPM model to balance inordinately high betas, the Commission eliminated Value Line betas altogether from the authorized ROE determination. *See Ameren Ill. Co.,* Docket Nos. 22-0487/23-0082 (Cons.), Order at 370 (Dec. 14, 2023); *see also Commonwealth Edison Co.,* Docket Nos. 22-0486/23-0055 (Cons.), Order at 467-468 (Dec. 14, 2023). The Commission emphasizes it has an obligation and broad authority to determine just and reasonable rates, and by extension, considerable discretion in the methods used to determine the rate of return reflected in such rates. *See Hope*, 320 U.S. at 602.

The Commission finds that the increased volatility in betas used in Staff's CAPM model necessitates application of less weight to the CAPM result than suggested by Staff, so as to not overstate the ROE for the Gas Sample. Accordingly, the Commission applies three-fourths weight to the DCF result and one-fourth weight to the CAPM result. The Commission approves the resulting ROE of 9.60%.

C. Recommended Overall Rate of Return

Based on the findings in this Order concerning Ameren Illinois' capital structure and costs of debt, preferred stock, and equity, the Commission adopts a rate of return of 7.053% as calculated below.

CAPITAL COMPONENT	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	49.591%	4.492%	2.227%
Short-term Debt	0.062%	3.615%	0.002%
Preferred Stock	0.348%	4.479%	0.016%
Common Stock	50.000%	9.600%	4.800%
Bank Facility Costs			0.008%
Total	100.00%		7.053%

VI. COST OF SERVICE

A. Uncontested or Resolved Issues

1. Uncontested Elements of Cost of Service Study

The Act requires that utility rates of service be cost based. *See generally* 220 ILCS Article 5. As Ameren witness Staver explained:

> The development of an embedded cost-of-service study [("ECOSS")] satisfies this requirement by classifying and assigning costs of the natural gas distribution system to the

> rate classes in a manner consistent with the costs of serving each rate class. The ECOSS in this proceeding presents the functionalization, classification, and allocation of costs related to the storage, transmission, and distribution of natural gas delivery services to the Company's rate classes. The ECOSS results provide a target revenue requirement for each rate class which is used as a guide for assigning revenue responsibility to each rate class (revenue allocation).

Ameren Ex. 11.0 at 3. Mr. Staver presented the results of Ameren Illinois' single ECOSS utilizing a 2026 future Test Year. Ameren Ex. 11.0 at 2; Ameren Ex. 11.1-11.3. The methodology in that ECOSS is consistent with that which the Commission has utilized consistently for decades, and which the Commission most recently approved for Ameren Illinois in its last gas rate case. Ameren Ex. 25.0 at 5. Ameren Illinois has not proposed any changes in this proceeding to the cost allocation methods that the Commission authorized in Ameren 2023 GRC, the Company's most recent gas rate case. Ameren Ex. 11.0 at 8. Ameren Illinois has only "updated the inputs to the allocation factors to include the current test year information." *Id*. at 8.

Staff affirmatively supported Ameren Illinois' ECOSS. Staff Ex. 4.0 at 10-14; Staff Ex. 12.0 (Rev.) at 5-7. No party objected to approval of the Company's proposed ECOSS in this proceeding. The Commission therefore approves the Company's ECOSS as filed.

B. Contested Issues

1. Allocation of Transmission and Distribution Main Plant Costs

a. AIC's Position

Ameren Illinois explains that Transmission and Distribution ("T&D") mains costs include plant costs in FERC accounts 365-269, 374-376, 378, and 379 including transmission and high- and low-pressure distribution costs. Ameren Ex. 25.0 at 2, fn.2. These accounts also include distribution load dispatch, distribution rents, and maintenance of other distribution equipment. Id. In this case, as in previous gas rate cases, Ameren Illinois used the two-part Peak and Average ("P&A") method to allocate demand-related T&D mains costs among rate classes. *Id*. at 2.

The Company explains that it used this two-part external allocation factor for T&D mains costs "because such an approach reflects sound cost-causation principles and because the Commission has expressed a clear preference for such an approach for many years." Ameren Ex. 25.0 at 2. In addition, Ameren Illinois notes, the National Association of Regulatory Utility Commissioners' Gas Distribution Design Manual (the "NARUC Design Manual") states that the P&A method "allocates cost to all classes of customers and tempers the apportionment of costs between the high and low load factor customers." *Id*. at 8.

The Company explains that the "A" or "Average" component of this two-part allocator is a volumetric component, known as Average demand. *Id*. at 2. This is the smaller component of the two and it is uncontested. *Id*. at 8. The "P" or "Peak" component of this two-part allocator is a peak demand component, known as Design Day demand. *Id*. Ameren Illinois notes that this is the larger component of the two and it is contested.

As proposed, this peak demand component is consistent with: (1) how the Company's system is designed and (2) what the Commission has previously approved for this component of the allocation factor. *Id*.

Ameren Illinois notes that certain large customers, namely IIEC/FEA, however, opposed the Company's use of the Design Day component of the P&A allocation method. IIEC/FEA Exs. 1.0 at 10-20; 2.0 at 2-8. To that end, IIEC/FEA witness York recommended that the Commission adopt the two-part Average and Excess ("A&E") allocation methodology, instead of the two-part P&A methodology. IIEC/FEA Ex. 1.0 at 20. The Company explains that the A&E methodology uses a similar "A" or "Average" component but replaces the "P" or "Peak" Component with a different demand-based component. Instead of using the peak demand, the A&E method uses the difference between the Non-Coincident Peak ("NCP") demand and the average demand. IIEC/FEA Ex. 1.0 at 21. Notably, this would shift costs away from industrial customers and to the residential and seasonal classes. Ameren Ex. 25.0 at 15-16.

Ameren Illinois states that Ms. York's recommendation is contrary to long-standing Commission practice, does not best reflect cost causation, is based on an incorrect analysis, and would be impossible to implement in this case. Moreover, the Company states, it is not clear whether Ms. York actually seeks a change to the cost of service study ("COSS") to be used in this case; rather she simply recommends that the Commission reconsider the cost allocation method here. IIEC/FEA Ex. 1.0 at 13.

Further, Ameren Illinois notes, Staff witness Williams testified that she disagreed with Ms. York's claims that the A&E methodology is superior to the Company's P&A methodology. Staff Ex. 12.0 (Rev.) at 7. Indeed, the Company states, Staff affirmatively agreed that Ameren Illinois' cost of service study takes into consideration both the volumes delivered to each customer service classification through the year, and the volumes delivered to each customer service classification on the peak day, and recommended that the Commission use Ameren Illinois' proposed ECOSS which utilizes the P&A method. Staff Ex. 4.0 at 13-14.

Ameren Illinois states that IIEC/FEA witness York testified that the Company's use of the P&A method does not follow cost-causation and does not accurately allocate T&D capacity cost. IIEC/FEA Ex. 1.0 at 2. The Company contends that claim is inaccurate. In this docket, as in previous dockets, Ameren Illinois has demonstrated that the P&A method accurately reflects cost causation.

Ameren Illinois explains that the proportion of the T&D costs that are allocated to each component is based on the system load factor, with the smaller Average demand component weighted by the system load factor, and the larger Design Day demand component weighted by one minus the system load factor. Ameren Ex. 25.0 at 4. The Company further explains that this method for calculating the P&A allocation factor considers both volumetric usage and peak usage and is consistent with the NARUC Manual. NARUC Design Manual at 27-28. It results in a Commission-approved and accurate cost allocation. *See Ameren 2023 GRC*, Final Order at 207-08.

In contrast, Ameren Illinois states, the A&E method assigns less responsibility to customers who contribute to peak demand and instead "assigns greater cost responsibility to gas deliveries that are more variable due to weather-sensitivity or other

factors." IIEC/FEA Ex. 1.0 at 21. Indeed, the Company notes, Staff witness Williams testified that the A&E method uses the NCP for its calculation which is in direct conflict with how T&D mains are designed. See Staff Ex. 12.0 (Rev.) at 5.

Ameren Illinois asserts that the Commission should reject IIEC/FEA's allocation method proposal and approve the Company's continued use of the P&A method.

Moreover, Ameren Illinois states, it is not possible to revise the ECOSS to incorporate an A&E methodology within the timeframe of this docket. *See* Section VI.B.3., *infra*. The Company states that it needs at least twelve months after the Final Order in this case to prepare any additional ECOSS scenarios such as the alternative T&D mains cost allocation using A&E. Ameren Ex. 39.0 at 12. Moreover, even if the timeframe itself was not prohibitive, Ameren Illinois does not have the requisite information to conduct an ECOSS incorporating an A&E methodology using NCP data and cannot obtain that information within the parameters of instant docket. *Id*. For this reason alone, the Commission must reject IIEC/FEA's request that "the Commission reconsider the cost allocation method in this rate case." IIEC/FEA Ex. 1.0 at 13.

In further response to IIEC/FEA, Ameren Illinois notes that IIEC/FEA assert that the P&A method counts average demand twice in the cost allocation—once in the Average demand component and again in the peak demand, or Design Day demand, component. IIEC/FEA Ex. 1.0 at 22-24. This assertion is incorrect. The Company points out that the P&A method does not double count the average, instead a portion of the costs are allocated based on peak demand, while the remaining portion of the costs are allocated based on the average demand. Ameren Ex. 25.0 at 8. Ameren Illinois further notes that the average is never used twice in allocating the same costs and thus is never double counted. Ameren Ex. 39.0 at 5. The Company notes that the Commission has previously rejected IIEC's "double counting" argument. *See* Docket No. 13-0192, Final Order at 179; *see also* Ameren Ex. 39.0 at 6. Ameren Illinois maintains that the Commission should again reject this argument in this case.

Ameren Illinois reiterates that only IIEC/FEA oppose the Company's ECOSS in this proceeding. *See* IIEC/FEA IB at 2-15. Ameren Illinois explains that the testimony of their witness, Ms. York, and IIEC/FEA's Initial Brief left the parties in a state of confusion about what IIEC/FEA is actually asking the Commission to do in this docket. *Compare* Staff IB at 71 (IIEC/FEA does not propose any changes to Ameren's COSS in this proceeding. Instead, IIEC/FEA recommends the Commission direct Ameren to provide an Average and Excess ("A&E") COSS for consideration in its next rate case.") and Ameren IB at 184 ("it is not clear whether Ms. York actually seeks a change to the COSS to be used in this case; rather she simply recommends that the Commission reconsider the cost allocation method here."); with IIEC/FEA IB at 3 ("In this case, IIEC/FEA advocates that the Commission endorse the A&E method discussed below but it has not prepared a COSS study based on the A&E method that can be used for revenue allocation. Instead, IIEC/FEA has prepared an alternative revenue apportionment recognizing the need for gradualism regardless of the selected cost allocation method.").

Ameren Illinois submits that this lack of clarity in IIEC/FEA's request, however, should not cloud the appropriate outcome in this case: the Commission should reject whatever it is that IIEC/FEA is asking it to do regarding Ameren Illinois' ECOSS. Ameren

Illinois explains that its ECOSS using the P&A method accurately reflects cost causation and is consistent with long-standing Commission precedent for Ameren Illinois. Ameren IB at 181-87. To the contrary IIEC/FEA's A&E method does not satisfy either of those criteria. *Id*.

Ameren Illinois points out that IIEC/FEA, for the first time in their Initial Brief, argue that "even though IIEC/FEA could not produce the results of an A&E study in this case for the Commission to consider," the Commission can simply choose to allocate the revenue requirement somewhere between Ameren Illinois' P&A result and the Design Day Demand cost of service, which is the P element in the P&A. IIEC/FEA IB at 12. Ameren Illinois submits that IIEC/FEA is thereby asking the Commission to disregard 220 ILCS 5/1-102(d)(iii), which provides guidance to the Commission to apply cost causation principles, and to place a thumb on the scale to more heavily weight the P factor in the P&A method. Or, even worse, to pick an allocation methodology out of thin air and apply it. Such a decision, however, would have no basis in the facts and evidence in the record, and would therefore constitute reversible error. *Apple Canyon*, 2013 IL App (3d) 100832, ¶ 40 ("the Commission must base its factual findings on the evidence and on matters officially noticed … nothing can be treated as evidence unless it is introduced as evidence and satisfies the threshold evidentiary requirements of admissibility."). This is especially true because of the decades of Commission decisions supporting the P&A method. The Commission cannot take an approach in one order, and then arbitrarily use a different approach in a different order without justification. *Niles Twp. High Sch. Dist. 219*, 369 Ill. App. 3d at 139; *Commonwealth Edison Co. v. Illinois Com. Comm'n*, 180 Ill. App. 3d 899, 901 (1989) ("the Commission may not depart, sub silentio, from its usual rules of decision to reach a different, unexplained result in a single case").

b. Staff's Position

IIEC/FEA do not propose any changes to Ameren's COSS in this proceeding. Instead, IIEC/FEA recommend the Commission direct Ameren to provide an A&E COSS for consideration in its next rate case. IIEC/FEA Ex. 1.0, at 30.

Although Staff does not object to IIEC/FEA's recommendation, Staff disagrees with IIEC/FEA's assertion that the A&E allocation method is superior to the P&A method. Staff Ex. 12.0 (Rev.) at 5-6. For instance, IIEC/FEA claim that an A&E COSS more closely reflects cost causation than a P&A COSS. Staff explains that, considering that the peak demand of all customers is the Coincident Peak ("CP"), and that the A&E method uses NCP for its calculation, IIEC/FEA's proposal is in direct conflict with how T&D mains are designed. Staff Ex. 12.0 (Rev.), at 6. Indeed, IIEC/FEA acknowledge that T&D mains are designed for the highest system demand (i.e., CP), not the highest individual class demand (i.e., NCP). *See id*.; IIEC/FEA Ex. 1.0, at 13-14, 19, 28.

IIEC/FEA also assert that "[d]esign [d]ay [d]emand is the driver of T&D main capacity and provides [AIC] with the ability to achieve its stated purposes of meeting all customer demands for natural gas at all times." IIEC/FEA Ex. 1.0, at 14-15. Staff agrees with IIEC/FEA that T&D mains are designed to meet customer demands "at all times." *Id*. at 15; Staff Ex. 12.0 (Rev.), at 6. This means that the system is designed to meet CP when system demand is the highest and all other times outside of CP. *Id*. Yet, as Staff

explained, this is also true for the P&A method, which accounts for system use on peak and non-peak demand days. Staff Ex. 4.0 at 12-13; Staff Ex. 12.0 (Rev.), 6.

Further, IIEC/FEA ignore that the cost of the distribution system is not tied exclusively to the peak load capacity of the distribution system. *Id*. There are costs associated with putting a distribution system in place and operating the system, regardless of peak load capacity, that are not affected by a change in capacity. Staff Ex. 12.0 (Rev.) at 6. This is why it is important to consider the average daily usage of customers and not just peak load capacity in the T&D main cost allocation, as the P&A allocation method does. *Id.*

For the reasons stated above, Staff: (1) does not object to IIEC/FEA's recommendation that the Commission direct the Company to prepare and submit an A&E COSS in its next rate case; and (2) recommends the Commission approve Ameren's proposed COSS, which uses the P&A methodology, in this proceeding. *Id*. at 7.

c. IIEC/FEA's Position

IIEC/FEA note Ameren proposes to allocate fixed T&D capacity costs across rate classes using the P&A method. Ameren Ex. 11.0. IIEC/FEA recognize this method was adopted by the Commission in prior Ameren rate cases but argue it should not be followed again based on the evidence in this case. IIEC/FEA argue that the Commission should instead endorse using the A&E method for Ameren because (1) the P&A method does not accurately reflect the costs caused by customers and (2) the A&E method is consistent with the direction from the Commission in its prior order and more reasonably reflects how the system is designed and used by customers.

IIEC/FEA note that the P&A method allocates the costs of T&D mains, including plant and depreciation, to each class using both a demand component (Design Day Demand) as well as a volumetric component (Average Demand). IIEC/FEA Ex. 1.0 at 11. IIEC/FEA state incorporating each of these components is implicitly an attempt to balance the physical design of the system to serve customers with the actual usage by customers. IIEC/FEA argue looking at the components of this method illuminates the inherent flaw and imbalance present in the P&A approach. First, IIEC/FEA assert Design Day Demand is the maximum demand that the T&D system is built to serve and consists of the aggregate maximum customer class peak demands that are coincident with each other on the system's peak day. IIEC/FEA Ex. 1.0 at 11. IIEC/FEA point out this captures the maximum capacity of the system. Second, IIEC/FEA explain the Average Demand is the annual volume of gas usage divided by 365 days. IIEC/FEA Ex. 1.0 at 11. IIEC/FEA further explain in order to arrive at the P&A composite allocator for a class, that class's respective Design Day Demand allocator is weighted by 1 - the system Load Factor ("LF"), while the class's Average Demand allocator is weighted by the system LF. IIEC/FEA state the two allocators are then summed together to arrive at that class's P&A allocation factor. IIEC/FEA Ex. 1.0 at 11.

IIEC/FEA argue two major reasons to reject this P&A approach are that Ameren does not build and design its T&D system to serve "average demand" and the P&A double counts "average demand" for each class in determining how each contributes to system peak demand. IIEC/FEA allege these flaws mean that the P&A does not accurately reflect

the costs caused by customers in different classes and, so, should be disfavored by the Commission.

IIEC/FEA argues Ameren builds its system based on the peak demands of its customers. IIEC/FEA Ex. 1.0 at 13; *see also* IIEC/FEA Ex. 1.1.

IIEC/FEA conclude, based on the evidence, the appropriate allocation of T&D costs is the Design Day Demand method. IIEC/FEA state that since the Commission declined that approach in prior rate cases, IIEC/FEA is not recommending it be used here even though it continues to be a reasonable way to allocate these costs. IIEC/FEA argue, for *this* case, the contrast between the evidence referenced above and the P&A method's double inclusion of average demand calls into question the P&A's value and accuracy of determining cost causation and allocation.

IIEC/FEA contend that when the Commission is considering these costs, it is important to remember the size and scope of the system (and magnitude of the costs) to reliably serve Design Day Demand is driven by weather-sensitive customers. IIEC/FEA pointsout Ameren's 2024 Natural Gas Distribution System Demand Study indicates that weather, specifically outside air temperature, is the primary driver of natural gas demand. IIEC/FEA Ex. 1.0 at 15.

IIEC/FEA maintain once the system capacity is installed, the costs are fixed and do not change for any amount of gas that is flowing through the system. IEC/FEA Ex. 1.0 at 15; *see also* Ameren Ex. 11.0 at 6.

IIEC/FEA reiterate a second flaw inherent in the P&A method is that it double counts "average demand" in determining how each customer class contributes to system peak demand. IIEC/FEA argue the average demand is counted first in the Average Demand component and again in the Design Day Demand component. IIEC/FEA Ex. 1.0 at 22.

IIEC/FEA argue the double counting of Average Demand occurs in the next step of the process where each class's contribution to the system's Peak Demand (i.e., Design Day Demand) is determined. IIEC/FEA point out in this second step, the P&A method considers the entire Peak Demand, including the Average Demand. IIEC/FEA Ex. 1.0 at 23-24.

IIEC/FEA contend the double counting occurs because, mathematically, the P&A method does not capture the difference between Peak Demand and Average Demand. So, IIEC/FEA conclude, rather than being a method that allocates capacity on two separate and distinct services of volumetric or "throughput" service (providing a portion of capacity used to serve average daily demands) and reliability service (that capacity above the portion used every day for throughput), it allocates the "average demand" portion twice. IIEC/FEA argue counting this portion twice intermingles the services provided by T&D capacity to the detriment of high load factor customers and goes beyond the Commission's stated goal of recognizing "the role of year-round demands in shaping transmission and distribution investments." *Ameren 2023 GRC,* Final Order at 207.

In Ameren's prior rate case, the Commission declined to endorse a Design Demand Day method to allocate T&D costs. Instead, the Commission noted its preference for a method that includes an average demand component in the allocation of

capacity costs – this is akin to a volumetric component. IIEC/FEA argue the P&A method includes an average demand component but has other significant flaws. IIEC/FEA contend the evidence in this case – including the data request responses provided by Ameren – shows that on a strictly cost-causative basis, the most appropriate allocation of T&D costs is the Design Day Demand method. IIEC/FEA Ex. 1.0 at 30. To the extent that Commission prefers to continue relying on a partial energy or volumetric weighted method, IIEC/FEA contend the A&E approach is more accurate and reasonable than the P&A approach.

The primary difference between these approaches is that the A&E uses each class's NCP to determine the excess demand component along with considering the average demand. While it may seem counter-intuitive to adopt this approach that does not include the Design Day Demand component for capacity, IIEC/FEA argue this method improves the accuracy of the COSS relative to the P&A method because it does not double count Average Demand in the calculation of the composite allocation factor. IIEC/FEA Ex. 2.0 at 12. IIEC/FEA assert the A&E method also appropriately assigns more capacity cost to the weather-sensitive customer classes who drive the Company's Design Day Demand. IIEC/FEA conclude this alone makes the A&E approach more reasonable and reflective of cost causation.

In addition to resolving the double counting problem, IIEC/FEA contend the A&E method more reasonably reflects how Ameren's system is designed to provide safe and reliable delivery of natural gas every day of the year and is used by customers than the P&A method. IIEC/FEA witness York testified that the company incurs the cost of mains to meet the aggregate demand of its customers on the expected day of its greatest system demand. IIEC/FEA Ex. 1.0 at 28. In its 2024 Natural Gas Distribution System Demand Study, the Company acknowledged that its system peak demand is primarily driven by weather-sensitive customer classes who use natural gas for space heating. IIEC/FEA argue by using the excess demand component as an allocator, the A&E method assigns greater cost responsibility to gas deliveries that are more variable due to weather and other factors. IIEC/FEA Ex. 1.0 at 28. Relative to the P&A method, IIEC/FEA argue this approach is more reflective of cost-causation because the excess T&D main capacity is held in reserve to meet the demand of weather-sensitive customer loads that spike on a peak day. *Id*. At the same time, IIEC/FEA contend the A&E method incorporates the same average demand component as the P&A method, which addresses the Commission's desire for a cost allocation method that recognizes the T&D capacity is used to provide service on the system peak day as well as on all other days throughout the year.

For the reasons discussed above, IIEC/FEA assert the A&E method would be an improvement to the COSS methodology, while maintaining consistency with the reasoning behind the Commission's order in Ameren's prior rate case. IIEC/FEA could not produce the results of an A&E study in this case for the Commission to consider because the Company has not collected or estimated the NCP demand data for its rate classes. IIEC/FEA asks the Commission to order Ameren to develop, maintain, and provide NCP demand data as well as an A&E COSS study for consideration in its next rate case.

Even absent the NCP data to perform a COSS study using the A&E approach, IIEC/FEA contend the Commission can still make a decision that is fair and equitable with respect to an appropriate cost of service result. The results of the P&A method and Design Day Demand method are bookends to a range of results that would occur on a spectrum between energy and demand-related allocation methods. IIEC/FEA posit the A&E method represents the less heavily energy weighted method than the P&A but is not a pure demand method, so the results of an A&E cost of service study would generally fall between the results of a P&A cost of service and the Design Day Demand cost of service. IIEC/FEA Ex. 1.0 at 27. IIEC/FEA conclude this is a reasonable range to consider when allocating the revenue requirement increase across the rate classes until Ameren provides the appropriate and necessary data in its next case. Lastly, IIEC/FEA argue gradualism and rate mitigation are necessary in this case regardless of the COSS method used.

IIEC/FEA note Staff recognizes that IIEC/FEA recommend the Commission direct Ameren to provide an A&E COSS for consideration in its next case. IIEC/FEA point out Staff states it does not object to this recommendation. Staff IB at 73. Furthermore, IIEC/FEA note Staff asks the Commission to approve the P&A methodology in this proceeding because it does not believe the A&E is a superior method. IIEC/FEA state the premise of Staff's position is rebutted by the same arguments against Ameren above, but a few additional items require a response. First, IIEC/FEA note Staff argues that "considering that the peak demand of all customers is the [CP], and that the A&E method uses NCP for its calculation, IIEC/FEA's proposal is in direct conflict with how T&D mains are designed." Staff IB at 72. IIEC/FEA argue this is partially accurate but misleading. IIEC/FEA assert the evidence in this case – including the data request responses provided by Ameren – shows that on a strictly cost-causative basis, the most appropriate allocation of T&D costs is the Design Day Demand method. IIEC/FEA Ex. 1.0 at 30. IIEC/FEA comment that Staff seems to bolster the case for using the Design Day Demand method to most accurately allocate Transmission and Distribution Mains from a cost causation perspective. IIEC/FEA states even though the evidence would support such a method, it did not ask the Commission to order the Design Day Demand method here because in the prior rate case the Commission explained its preference for a method that includes an average demand component in the allocation of capacity costs – akin to a volumetric component. As discussed above, IIEC/FEA state the P&A method includes an average demand component to accomplish this but has other significant flaws including that average demand is double counted in the overall calculation. IIEC/FEA offer, to the extent that the Commission prefers to continue relying on a partial energy or volumetric weighted method, the A&E approach is more accurate and reasonable than the P&A approach. IIEC/FEA conclude that since the evidence in this case does not include the NCP information necessary to calculate the A&E method the Commission should order Ameren to provide this information in its next case.

d. Commission Analysis and Conclusion

The Commission rejects IIEC/FEA's proposed COSS adjustment which utilizes the Design Day method to allocate demand-related distribution and transmission main costs to customer classes. The record evidence demonstrates that the P&A allocation method for allocating T&D main costs proposed by AIC is best reflective of cost causation

principles, produces fair and reasonable results, and properly emphasizes the role of year-round demands in shaping transmission and distribution investments. The Commission approves the Company's use of the P&A method.

The record does not support consideration of an allocation method based solely on peak-day demand. Ameren's representation that the P&A method is consistent with industry practice, this Commission's practice, and reflects cost causation principles. The Commission does not agree with IIEC/FEA's assertion that the P&A method over-allocates costs to large customers.

IIEC/FEA correctly observed that past Commission decisions are not subject to *res judicata* and the Commission has the discretion to change course in this docket. *See United Cities Gas Co. v. Ill. Com. Comm'n*, 163 Ill. 2d 1, 22-23 (1994); *Commonwealth Edison Co. v. Ill. Com. Comm'n*, 2016 IL 118129, 24. If the Commission decides to depart from past practice, it must provide reasoning for doing so. IIEC/FEA have presented the same arguments that have already been considered and rejected by this Commission multiple times. This record does not support a deviation from prior cases. Accordingly, the Commission approves the Company's use of the P&A method in its ECOSS for demand-related Transmission and Distribution main costs.

2. Classification of Distribution Main Plant Costs

a. AIC's Position

In the ECOSS, Ameren Illinois explains, the process of classification of costs includes assigning categories of cost causation based on how the costs are generally incurred. Ameren Ex. 11.0 at 5. Typically, the Company explains, the three classifications in the ECOSS are: (1) commodity- or energy-related costs; (2) demand- or capacity-related costs, and (3) customer-related costs. Id. Ameren Illinois classified its T&D main costs as demand-related costs. Ameren Ex. 11.0 at 8-9. In her direct testimony, Ms. York disagreed with this classification and argued that the Company's system design is driven by aggregate peak demand and on the expansion of the distribution system to connect new customers. As such, Ameren Illinois notes, Ms. York argues a portion of distribution mains should be classified as customer-related rather than demand-related. IIEC/FEA Ex. 1.0 at 16. Ms. York is wrong.

Ameren Illinois states that customer-related costs include expenses the Company incurs to provide service to individual customers. Ameren Ex. 11.0 at 6. Those costs usually vary with the number of customers, as opposed to the demand or the amount of energy consumed. Id. Demand-related costs, on the other hand, are associated with the facilities needed to supply customers' energy needs. Id. Accordingly, demand-related costs in the ECOSS include both Transmission Plant and Distribution Plant since the primary purpose of the distribution system is meeting the daily demands of its customers on its peak day and every other day of the year. Ameren Ex. 25.0 at 19. Thus, Ameren Illinois notes, distribution system costs should be recovered through the Company's demand-components, not customer-components, which are generally allocated based on the number of customers in each class. *Id*.

Nonetheless, Ameren Illinois points out, Ms. York stated that there are two cost-causative factors associated with distribution main facilities. First, she claimed that the

diameter of distribution mains is driven by the aggregate peak demand, and second, that the total installed length of distribution mains is based on the expansion of the distribution system to connect new customers. IIEC/FEA Ex. 1.0 at 17. Ms. York then relied on the Commission's decision in Docket 17-0124 to show that the Commission has previously used a minimum system study to determine that distribution mains should be classified as customer-related. Id. Accordingly, the Company states, Ms. York asked the Commission to direct Ameren Illinois to perform a minimum system study to calculate the customer components of distribution mains for its next rate case. Id. at 19.

The Company contends that Ms. York's reliance on the Commission's decision in Docket 17-0124, which concerned Northern Illinois Gas Company (Nicor), is misplaced. While Nicor used the minimum system study to classify distribution mains costs as customer-related and demand-related, it should be noted that Nicor continues to use the P&A method to allocate those customer-related costs of T&D mains. So, there is no practical effect of using a minimum system. In other words, the Company states, there is no meaningful difference in the way T&D mains costs are classified and allocated among rate classes between Nicor and Ameren. Ameren Ex. 25.0 at 20. Therefore, cost allocations approved by the Commission in the prior Nicor rate case actually align with the methods proposed by Ameren Illinois in this case. Id. Moreover, Ameren Illinois notes, Nicor's use of the minimum distribution study does not impact Nicor's customer charge because Nicor bases that charge on a percent of total revenue. Id. This results in a similar value to what Ameren Illinois uses, "further mitigating any difference between the approach taken by AIC and Nicor." Id. at 20.

Furthermore, Ameren Illinois states, the Commission in its own words has stated that it does not require a uniform COSS approach among gas utilities in Illinois and that more than one approach is reasonable because each utility has its own set of unique circumstances. Ameren Ex. 25.0 at 20-21. Indeed, the Company notes, there are clear differences between what might drive investment in Nicor's distribution system mains versus what might drive investment in Ameren Illinois' distribution mains. Id. at 21. "As a down-state, rural utility, AIC cannot make decisions in the same way as a more urban utility territory such as Nicor. This is exemplified by the fact that Nicor has roughly three times the number of customers as AIC while AIC's territory is larger than the state of Indiana." Id. at 21.

Ameren Illinois states that it is important to note that this proposal to allocate a portion of distribution mains costs to the customer components would shift revenue responsibility to the GDS-1 class, i.e., the residential class, which accounts for the majority of customers on Ameren Illinois' system. Ameren Ex. 25.0 at 19. In addition to a shift in revenue responsibility to the residential class, IIEC/FEA's proposal is counter to the primary purpose of the distribution system—meeting the demands of customers on both peak days and every other day. Id. at 19. The Company explains that, based on the primary purpose of the distribution system, it is appropriate to classify distribution system costs as a demand-component, and not a customer-component. Id. Further, the Company's classification of distribution mains as demand-related has been accepted by Staff and the Commission in previous rate cases; and the Commission has rejected similar proposals from IIEC. See, e.g., Docket 13-0192, Order at 179-80; Docket No. 20-0308, Order at 182; Docket 23-0067, Order at 210. Ameren Illinois maintains that the

Commission should again reject IIEC/FEA's proposal to classify a portion of distribution main costs as customer-related and should maintain the Company's appropriate classification of distribution main costs as demand-related.

b. IIEC/FEA's Position

IIEC/FEA argue system peak demand caused by weather-sensitive customer classes is the primary driver of investment in T&D main capacity. For distribution mains, IIEC/FEA assert there are additional factors that should be considered when classifying this cost. IIEC/FEA explain, at a high level, distribution mains are installed to meet both system peak load requirements and to connect customers to the utility's gas system. IIEC/FEA Ex. 1.0 at 17. IIEC/FEA reason this means that there are two cost-causative factors associated with the distribution mains facilities installed by a utility when expanding its distribution system. First, IIEC/FEA point out the diameter of distribution mains is driven by the aggregate peak period gas demand placed on the utility's system by its customers. Second, IIEC/FEA argue the total installed length of distribution mains is driven by the need to expand the geographic footprint of the distribution system to connect new customers. *Id*. IIEC/FEA contend this second cost-causative factor is a reason why a portion of distribution mains should be classified as customer-related and allocated on based on the number of customers in each class. Again, IIEC/FEA present a hypothetical scenario to explain why this is the case. IIEC/FEA asks the Commission to consider an example where Ameren serves two customers with the same Design Day Demand requirements using distribution mains with identical characteristics (i.e., same material, diameter, installed cost per foot). IIEC/FEA argue if both customers are connected to the same transmission main but customer A is located twice as far from that main as customer B, then a greater level of investment in distribution main is needed to serve customer A than is needed to serve customer B, who is closer to the transmission main. IIEC/FEA contends classifying a portion of distribution main costs as customer-related incorporates this cost-causative characteristic. IIEC/FEA Ex. 2.0 at 8.

IIEC/FEA state after recognizing that this cost-causative characteristic should be addressed, the next step is to determine how much (or what percentage) of the distribution mains cost should be classified as customer-related for the COSS study. IIEC/FEA reiterate this Commission has already accepted one approach for another gas utility in Illinois. IIEC/FEA state in Docket No. 17-0124, Nicor used a minimum system study to determine that 48% of its distribution mains investment should be classified as customer-related and reflected this classification of distribution mains investment in its COSS study. Docket No. 17-0124, Final Order at 110; IIEC/FEA Ex. 1.0 at 17. IIEC/FEA point out the Commission approved the COSS study. IIEC/FEA explain since then, the Commission has approved Nicor's use of a minimum system study to determine the customer-classified portion of distribution mains in multiple rate cases. Docket Nos. 18-1775, 21-0098, and 23-0066. IIEC/FEA argue in approving this method, the Commission noted it is not merely a subjective approach to classification of distribution costs but follows the definition of customer-related costs based on the minimal unit cost for each customer connection and the demand-related costs for the diverse sizes of mains needed based on customer gas transportation requirements. IIEC/FEA Ex. 1.0 at 18; Docket No. 23-0066, Order at 145 (Nov. 16, 2023).

IIEC/FEA allege, as with the A&E method for the allocation of T&D costs, Ameren has not provided the information to enable IIEC/FEA to calculate a customer component of distribution mains for Ameren's system COSS study. IIEC/FEA contend because having this information will help better align the cost of supplying public utility services to those who cause the costs to be incurred, the Commission should order Ameren to calculate and provide the customer-component of its distribution mains in its next rate case.

c. Commission Analysis and Conclusion

The Commission finds Ameren has demonstrated that it should be allowed to continue to classify both Transmission and Distribution main costs as demand-related costs in its ECOSS. The Commission finds Ameren's argument that the primary purpose of the distribution system is meeting demands of its customers on its peak day and every other day of the year persuasive, so distribution costs should be recovered through the Company's demand-components. The Commission has rejected IIEC/FEA's proposal to classify a portion of distribution main costs as customer-related in previous cases, and this record does not support a deviation from that decision. The Commission adopts the Company's classification of Distribution main costs as demand-related.

3. Additional Analysis/Studies in Next Gas Rate Case

a. AIC's Position

The Company notes that IIEC/FEA and Staff request that the Commission direct Ameren Illinois to provide an A&E COSS and calculate a customer component of distribution mains for consideration in the Company's next rate case. IIEC/FEA Ex. 1.0 at 30-31; Staff Ex. 12.0 (Rev.) at 2. Ameren Illinois states that the Commission should reject their requests for three reasons.

First, Ameren Illinois explains, as a very practical matter, there may not be enough time to produce the additional analysis/studies and incorporate them into Ameren Illinois' next rate case, which could be filed in 2026, so a minimum timeline is necessary for these studies, if ordered. Ameren Exs. 5.0 at 9; 20.0 at 8; 34.0 at 8. A Final Order in this case is not anticipated until late in 2025. The Company notes, however, that it needs at least 12 months after the Final Order in this case to assess data availability, conduct data gathering, and prepare the additional COSS scenarios such as the alternative T&D mains cost allocation using A&E, or a minimum system study. Ameren Ex. 39.0 at 12. The Company points out that there likely will not be enough time to prepare the requested analysis/studies and incorporate them into Ameren Illinois' submission in its next rate case.

Second, Ameren Illinois explains, one of the major cost-drivers in conducting these additional analysis/studies is the NCP data, which the Company is not currently required to and does not collect and maintain. *Id*. It is unclear how the Company would be able to gather and develop this information in the future—let alone obtain it immediately to commence the analysis/studies concurrently with a Final Order in this docket—given that it has never been required to do so. *Id*.

Third, the Company explains, the Commission must consider the incremental costs for these proposed additional analysis/studies. On the one hand, the timing and costs of

the collection processes are not currently known. *Id*. And, as explained above, the analysis/studies are alternatives—so even in the unlikely event that the Commission chooses to reject decades of the use and approval of the P&A method, the Commission may only select one of the alternative allocation methods and not both—A&E or customer components derived from a minimum system study. Yet, Ameren Illinois notes, IIEC/FEA do not request the analysis/studies that would support those methods in the alternative—they request both simultaneously.

On the other hand, Ameren Illinois notes, it is undisputed that the Company's P&A methodology is consistent with current and historical industry practice in Illinois and remains in line with the Commission's prior preferences. Therefore, the Company states, it would not be prudent and reasonable to add the additional administrative burden and costs that such analysis/studies would entail. For the foregoing reasons, Ameren Illinois maintains, the Commission should reject the recommendations of IIEC/FEA and Staff to conduct additional analysis/studies.

b. Staff's Position

In Section VI.B.1.b, Staff noted that it does not object to IIEC/FEA's recommendation that the Commission direct the Company to prepare and submit an A&E COSS in its next rate case.

c. IIEC/FEA's Position

IIEC/FEA ask the Commission to endorse the improved cost allocation methodologies proposed by IIEC/FEA relating to the A&E method for allocating T&D mains costs and classifying a portion of distribution main costs as customer-related. IIEC/FEA explains ordering Ameren to provide this analysis and information in its next rate case is a vital first step. IIEC/FEA contend by requiring these studies, the Commission will have critical additional information that it can rely on the make decisions that better align the cost of supplying public utility services to those who cause the costs to be incurred. IIEC/FEA concludes this will enhance equity in the rates customers pay.

IIEC/FEA note Ameren opposes the studies requested by IIEC/FEA by citing timing, lack of data, and incremental cost. With respect to timing, IIEC/FEA argue it does not control when Ameren files a rate case. IIEC/FEA contend the possibility that Ameren may choose to file a rate case before it can collect the necessary data to perform the requested studies is not something within our control. IIEC/FEA point out if Ameren knows when it will file a case, it should say so. IIEC/FEA argue the Commission can order the information to be provided as soon as 12 months of data is available. IIEC/FEA posit, in that situation, the information may be available during the pendency of the case process through other methods including supplemental testimony, discovery responses, or stipulated agreements. IIEC/FEA assert the information requested is valuable to determining the cost of service to set rates – which Ameren points out is required by the Act. Ameren IB at 181. IIEC/FEA conclude Ameren should be ordered to track and provide it to the Commission and regulatory stakeholders. Next, IIEC/FEA note Ameren's attempt to use lack of data currently collected as the reason to reject IIEC/FEA's requested study makes little sense. IIEC/FEA contend it is the lack of data that the requested study seeks to resolve. Lastly, IIEC/FEA assert Ameren's putative concerns about the incremental cost of performing these studies are overstated. IIEC/FEA point

out many other companies collect this information or perform these studies in the regular course of business. IIEC/FEA state the simple fact is that only Ameren has the information to be able to perform these studies. IIEC/FEA argue that an A&E study and a minimum distribution study will aid the Commission in setting just and reasonable rates that reflect the cost of service for the reasons described. Thus, the Commission should order Ameren to undertake the additional analysis and studies for its next rate case.

IIEC/FEA points out Staff states it does not object to IIEC/FEA's recommendation that the Commission direct Ameren to provide an A&E COSS for consideration in its next case. IIEC/FEA note Staff also did not object to the inclusion of a customer component of distribution mains in Ameren's next rate case. Staff Ex. 12.0 at 7. IIEC/FEA appreciate the Staff's willingness to consider these issues.

d. Commission Analysis and Conclusion

IIEC/FEA urge the Commission to order Ameren to provide an A&E COSS for consideration in its next rate case. The Commission notes that Staff does not object to IIEC/FEA's recommendation that the Commission direct Ameren to prepare and submit an A&E COSS in its next rate case.

The Commission recognizes that Ameren argues that there are number of impediments to producing an A&E COSS for its next rate case. Notably, Ameren states that there may not be enough time to produce the analysis because its next rate case could be filed in 2026. Ameren further states that it needs at least 12 months after the Final Order in this case to assess data availability, conduct data gathering, and prepare the additional COSS scenarios such as the alternative T&D mains cost allocation using A&E, or a minimum system study. See Ameren Ex. 39 at 12. Ameren further argues that one of the key cost-drivers in conducting these additional analysis/studies is the NCP data, which it currently does not collect and maintain.

The Commission is mindful that Ameren has offered credible and unrebutted testimony that it is unlikely to be able to conduct an A&E COSS study in time to include in its next rate case. The Commission also notes that while Staff did not object to IIEC/FEA's recommendation, it disagreed with IIEC/FEA's assertion that the A&E allocation method is superior to the P&A method. Staff Ex. 12.0 (Rev.) at 5-6. However, the Commission believes the additional data could be useful in making a more informed future decision. In order to balance the legitimate concerns raised by Ameren, the Commission directs the Company to be prepared to submit an A&E COSS for consideration in future rate cases by 2027.

VII. REVENUE ALLOCATION

A. Contested Issues

1. Class Revenue Allocation Methodology

a. AIC's Position

Ameren Illinois proposed a class revenue allocation methodology that moves rates closer to recovering each customer class's revenue requirement, as determined by the gas ECOSS, and retaining the revenue allocation methodology approved by the Commission in the Company's last rate case, Docket No. 23-0067. Ameren Ex. 12.0 at

8-9. AIC's allocation constrains movement to full class cost of service to no more than 2.0 times the overall average system rate change and to no less than 0.5 times the overall system rate change. *Id*. at 9. The application of rate increase (ceiling) constraint limits excessive customer bill impacts, and the rate decrease (floor) constraint serves to further limit increases necessary in other classes and stabilize rates in those affected classes. *Id*.

If the Commission determines that more rapid movement toward cost-based rates is appropriate, Ameren Illinois proposed alternative mitigation factors of 2.25 times or 2.50 times the overall system average. Ameren Ex. 26.0 at 5. These alternatives would maintain essential consumer protections while accelerating progress toward full cost recovery.

Ameren Illinois, Staff, and IIEC/FEA all agree that movement toward rates that recover the full cost of service for a class is appropriate, at some point, but disagree on how and when that goal should be achieved. Staff and IIEC/FEA argue the Commission should reject the Company's proposed revenue allocation in favor of their alternate proposals. However, the Company contends its proposed class revenue allocation methodology is the most equitable under the circumstances and is aligned with past Commission-approved methodologies, including the three-step process to achieve rate uniformity ordered in the Company's last rate case. Therefore, Ameren Illinois asks the Commission to reject Staff and IIEC/FEA arguments.

Response to Staff

Staff witness Williams objected to the Company's proposed revenue allocation and use of revenue limiters in this case and recommended a revenue allocation based on the Company's COSS without any revenue limiters. Staff Ex. 4.0 at 19-20. To reiterate, Ameren Illinois is proposing to retain the revenue allocation methodology approved by the Commission in its last rate case. That methodology limits the delivery service revenue increase allocated to any one class to no more than 2.0 times the overall system increase, which is consistent with the longstanding principle of gradualism to avoid unreasonably high increase for customers in any given class. Ameren Ex. 26.0 at 2.

The Commission has previously approved rate capping mechanisms and in doing so stated that "[c]ontinued movement toward cost-based rates and the elimination of inter- and intra-class subsidies should be considered a priority . . . ." *See Ameren Ill. Co*., Docket Nos. 09-0306/09-0307/09-0308/09-0309-09-0310/09-0311 (Consol.), Order at 260 (Apr. 29, 2010). Additionally, revenue allocation limits have been authorized and reapproved by the Commission in numerous other rate cases, such as Docket Nos. 13-0192, 15-0142, 18-0463, and 20-0308. Ameren Ex. 26.0 at 3. The Company's proposed 2.0 times factor addresses and appropriately balances the competing interests of moving rate classes to recovery of full cost of service while avoiding unreasonably high increases for customers in any given class. *Id*. In the Company's last gas rate case, Ms. Williams was supportive of mitigation caps, and proposed a 2.0 times factor to allow the Company to "make progress toward cost-based rates." *Ameren 2023 GRC*, Staff Ex. 5.0 at 13; Staff Ex. 14.0 at 13. The Company's proposed 2.0 times revenue allocation mitigation factor achieves the right balance of moving more quickly towards cost-based rates in a careful and gradual manner. Ameren Ex. 26.0 at 4. However, to the extent the Commission

agrees with Ms. Williams to move more swiftly towards setting cost-based rates, the Company suggests a more gradual revenue allocation mitigation of 2.25 times or 2.50 times overall system average, higher than Company's current multiplier of 2.0 times but not a complete removal of that consumer protection. *Id*. at 5.

In Staff's objection to Ameren Illinois' rate mitigation, Ms. Williams stated that her primary concern is that GDS-4 customers will not achieve rates that recover their full cost of service in a reasonable time frame. Staff Ex. 12.0 (Rev.) at 12. While the Company agrees with moving towards cost-based rates, Staff's analysis is uncompelling because it appears to be based on historical actual rate case average trends for each class and subclass and assumes that future rate increases will continue at historical average levels. Ameren Ex. 40.0 at 3. However, it is far from certain that future rate increases will follow those trends, as a rate case is based on detailed information that is very specific to a particular test year (*i.e*., investments, operating expenses, usage, and demand, to name a few). *Id*. at 3-4.

According to Ameren Illinois, Staff assumes that future rate increases will continue at "historical average" levels, but this assumption ignores that each rate case is an independent proceeding, based on detailed, test year-specific evidence regarding the utility's investments, operating expenses, usage patterns, and demand characteristics. Ameren Ex. 40.0 at 3-4. Additional variables can affect future analysis, such as load growth, economic conditions, and regulatory changes (including changes to the cost-allocation methodology that Staff itself has advocated for in this proceeding). Rate cases are not formulaic exercises where past trends can be reliably projected into the future, and historical averages cannot capture the unique circumstances that will drive each future rate case. Therefore, Ameren Illinois maintains that Staff's projections are a speculative, unreliable basis for rejecting Ameren Illinois' proposal and departing from established Commission policy.

Staff argues that Ameren Illinois' revenue limiter "considers only the increase in present revenues and does not consider bill impacts, which may be less than the revenue increase that the revenue limiter addresses." Staff Ex. 4.0 at 18. According to Ameren Illinois, this argument misconstrues the purpose of revenue allocation mitigation, which serves to limit excessive customer bill impacts. Ameren IB at 193. The Commission has consistently applied the principles of gradualism to revenue increases, and has authorized revenue allocation limits as a means to stabilize rates and limit impacts to customer bills in a more equitable way while shifting towards cost-based rates. Because revenue increases directly translate into higher cost for service and drive bill increases, revenue limiters are an essential protection to prevent unreasonable levels of bill impacts for customers. Ameren Illinois states that Staff's own analysis demonstrates why revenue allocation mitigation is necessary.

Staff's proposal to use unmitigated revenue allocations would materially increase the delivery service revenue increase allocated to GDS-4 Rider T customers taking service >60 psi, and result in a 119% increase in delivery service revenues assigned to the largest customers (those with a Maximum Daily Contract Quantity ("MDCQ") above 30,000) and a 62% increase in delivery service revenues assigned to smaller customers (those with an MDCQ below 30,000). Ameren Ex. 26.0 at 4. In contrast, the system-wide increase is approximately 22%, so the Company's proposed mitigation would limit the

increase to any rate class to approximately 44%. *Id*. If Ms. Williams' focus is on the change to the total bill for customers, which is an important consideration, Staff's unmitigated revenue allocation proposal, which would more than double bills for the GDS-4 Rider T >60 psi >30,000 MDCQ customers, would impose an unreasonable level of bill impact and represent a departure with the longstanding principles of gradualism. Ameren Ex. 40.0 at 5. Such dramatic increases - which would more than double the bill impact to certain customers - represent precisely the type of rate shock that gradual revenue allocation limits are designed to prevent.

The Company's proposed methodology has been approved by the Commission previously and presents the most equitable way of moving customer rates toward uniform rates and also towards cost-based rates. Therefore, Ameren Illinois asks the Commission to reject Staff's proposal to remove rate mitigation altogether and to instead retain the Company's revenue allocation mitigation methodology.

IIEC/FEA oppose the Company's class revenue allocation proposal, asserting that the proposed cap of 2.0 times the system average increase does not adequately reflect a gradual transition toward cost of service in this case. IIEC/FEA Ex. 1.0 at 8. IIEC/FEA propose an alternative revenue allocation, recommending that no class receive an increase less than 0.75 times the system average increase or greater than 1.25 times the system average increase. *Id*. at 10.

Ms. York's rate mitigation methodology to change the downward adjustment mechanism and move the threshold for mitigation from 0.5 times to 0.75 times, and move the thresholds for the upward adjustment from 2.0 times to 1.25 times, would dramatically slow the ability of the Company to address inter-class subsidy concerns and adjust revenues to be more reflective of cost of service, counter to long-standing Commission direction. Ameren Ex. 26.0 at 6. Ms. York's proposal could unnecessarily perpetuate inter-class (and sub-class) subsidies and greatly diminishes progress in achieving cost-based delivery service rates. *Id*.

Ms. York has not provided any justification for why every sub-class of customers should be subjected to an increase in allocated revenues, which would severely limit the ability to more equitably allocate costs. Nor has she explained the rationale for her proposal to increase the floor threshold from 0.5 times to 0.75 times. Overall, Ms. York's proposal would inhibit the Company's efforts to move closer to cost-based rates and perpetuate inter-class subsidies. Ameren Ex. 26.0 at 8. Accordingly, the Company asks the Commission to reject IIEC/FEA's arguments.

In sum, IIEC/FEA's proposed methodology would slow the Company's ability to address inter-class subsidy concerns and adjust revenues to be more reflective of cost of service. Moving the upward adjustment threshold from 2.0 times to 1.25 times and the downward adjustment threshold from 0.5 times to 0.75 times would perpetuate inter-class subsidies and diminish progress in achieving cost-based delivery service rates. Ameren Ex. 26.0 at 6.

b. Staff's Position

Staff recommends the Commission approve a revenue allocation for Ameren Illinois' gas service based on the Company's COSS without any revenue limiters. Staff

Ex. 4.0 at 19-20. Unlike the revenue allocations proposed by the Company and IIEC/FEA, both of which employ revenue limiters, Staff's recommendation ensures that each customer class recovers 100% of its cost to serve. *Id*. at 20.

Staff witness Williams testified that each customer class is responsible for a certain amount of the total revenue requirement. Staff Ex. 4.0 at 14. A COSS determines each class's cost responsibility and, therefore, how much revenue is necessary from each class to recover that class's cost of service. *Id.* When a utility proposes a rate design, it is determining how much revenue will be recovered from each class (the class revenue allocation) and whether the cost to provide service to each class (the cost to serve) will be fully recovered from the respective class. *Id.* For example, if the COSS indicates that the residential customer class's cost to serve is $100,000 and proposed residential rates are set to recover $100,000, then 100% of the residential class's cost of service is being recovered from the residential class. *Id.* However, if the proposed residential rates recover less than $100,000, then the residential class would be recovering less than 100% of its cost to serve and other classes would be required to pay higher rates to make up for the resulting revenue shortfall. *Id.* The COSS is a very important tool in the development of rates and is a key consideration in determining the appropriate class revenue allocation. *Id.*

Ms. Williams testified that Ameren Illinois' current customer classes are the same as in its most recent general rate case. Staff Ex. 4.0 at 15; Ameren Sch. 4.2 at 9; *Ameren 2023 GRC*, Ameren Ex. 11.0 at 4 (Jan. 6, 2023). Specifically, Ameren Illinois' current customer classes are: 1) GDS-1 (Residential); 2) GDS-2 (Small General Delivery); 3) GDS-3 (Intermediate General Delivery); 4) GDS-4 (Large General Delivery); 5) GDS-5 (Seasonal); 6) GDS-6 (Inadequate Capacity Delivery); and 7) GDS-7 (Contract Service). Staff Ex. 4.0 at 15; Ameren Ex. 12.0 at 3-4; Ameren Ex. 12.1; Ameren Ex. 12.3; Ameren Sched. E-5.

Staff provided a summary of the base revenue allocation, *i.e*., allocation of the revenue requirement excluding revenues from Riders Transportation Banking Service and Unsubscribed Bank Capacity Charge: (1) at present rates; (2) at Ameren proposed rates in this proceeding; and (3) at COSS-based rates. Staff Ex. 4.0 at 16, Table 2. Staff's recommendation is COSS-based and ensures that Ameren Illinois recovers from each customer class its corresponding, full costs to serve. *Id.*

Response to Ameren Illinois

The Company proposes to retain the revenue allocation approved in its most recent rate case, which "constrains movement to full class cost of service" through a ceiling of 2.0 times ("2.0x") the overall system average increase and a floor of 0.5 times ("0.5x") the system average increase. Ameren Ex. 12.0 at 9. Company witness Schonhoff explained that implementing a ceiling on rate increases "serves to limit excessive customer bill impacts." *Id.* Relatedly, the proposed floor on rate decreases will "limit increases necessary in other classes and… stabilize rates in those affected classes." *Id.* Mr. Schonhoff testified that the Company's primary objectives in developing rates are to derive prices that allow the Company a reasonable opportunity to recover its authorized revenue requirement and design cost-based rates while being mindful of bill impacts. *Id.* at 7. Ameren Illinois insists that its proposal is "consistent with the

longstanding principle of gradualism which avoids unreasonably high increases for customers in any given class." Ameren Ex. 26.0 at 2.

Staff disagrees. Staff notes Ameren Illinois' intention to "limit excessive [customer] bill impacts" (*see* Staff Ex. 4.0 at 18; Ameren Ex. 12.0 at 9), through use of the revenue limiter. However, the Company's proposal considers only the increase in present revenues and does not consider bill impacts, which may be less than the revenue increase that the revenue limiter addresses. Staff Ex. 4.0 at 18.

Ms. Williams explained the importance of evaluating bill impacts when determining the propriety of a revenue limiter. Numerically, it is sometimes correct that a 40% increase in costs will result in a 40% increase in monthly bills. *Id.* However, in rate design, there are numerous costs and other factors that impact customers' bills. *Id.* For example, under Ameren Illinois' revenue reallocation, the GDS-4 Rider T >60 >30k MDCQ customer class would require a 119.28% increase in present revenues in order to bring the class to its full cost to serve. Ameren Ex. 12.3 at 1. Seeing an increase this large is concerning as such a large increase would suggest a significantly larger bill impact. Staff Ex. 4.0 at 19. Yet, looking only at this percentage increase is misleading because the highest bill impact that the GDS-4 Rider T >60 >30k MDCQ customer class would experience under its full cost of service is a 6.73% increase, not 119.28%. Staff Ex. 4.0, Attach. C; *see also* Staff Ex. 4.0 at 19. Ms. Williams concluded that because the GDS-4 customer class has the lowest bill impacts of all the AIC rate classes, it is not unreasonable for GDS-4 class rates to be set at a level that would recover its full cost of service. This is especially true when considering that Ameren Illinois' proposed revenue limiter will require reallocating GDS-4 revenues to other classes, many of which will experience bill impacts higher than what they would be at COSS-based rates. Staff Ex. 4.0 at 19.

Ms. Williams analyzed the effects of AIC's proposed 2.0x limiter on recovering the revenue requirement for customer classes with a deficit over the course of the next three rate cases. Staff Ex. 12.0 (Rev.) at 8-10; Staff Sched. 12.03. Ms. Williams first calculated the average revenue requirement increase per customer class using the COSS from previous and current rate cases. *Id.* at 8. Next, using the average revenue requirement increase per customer class, Ms. Williams forecasted the revenue requirement increases for individual rate classes over the next three rate cases. *Id.* Last, Ms. Williams applied AIC's proposed revenue requirement ceiling (2.0x the system average increase). Staff Ex. 12.0 (Rev.); Ameren Ex. 12.3; Ameren Ex. 26.0 at 5. The results of this analysis are shown in Staff Schedule 12.03 and summarized in Staff Exhibit 12.0 (Rev.), 9, Table 1.

Ms. Williams' analysis revealed that under Ameren Illinois' current proposal to maintain the 2.0x limiter, by the end of this rate case: GDS-4 Rider T ≤60 will have a deficit of $28,562; GDS-4 Rider T >60 ≤30k will have a deficit of $1,630,319; and GDS-4 Rider T >60 >30k will have a deficit of $12,456,719. Staff Ex. 12.0 (Rev.) at 9. This will result in a total deficit of $14,115,600 in the GDS-4 subclasses which will be reallocated to other customer classes. At the end of Rate Case 2, the only GDS-4 subclass with a deficit will be GDS-4 Rider T>60 >30k, and that deficit will increase to $17,382,324. Staff Ex. 12.0 (Rev.) at 9. At the end of Rate Case 3, the only GDS-4 subclass with a deficit will be GDS-4 Rider T >60 >30k, and that deficit will increase to $24,703,950. *Id.* Over

the course of 3 rate cases GDS-4 Rider T >60 >30k will create a total deficit of $54,542,993 to be reallocated to other classes. *Id.*

Although most under-recovering classes will reach their full cost of service within the next three rate cases (GDS-4 Rider T ≤60 and GDS-4 Rider T >60 ≤30k), roughly $56 million will be reallocated to other customer classes over the span of three rate cases. *Id.* Further, the deficit for GDS-4 Rider T >60 >30k could continue to grow indefinitely under the Company's proposal. Staff Sched. 12.03. The Company's proposal would be counterproductive to achieving cost-based rates and could result in a growing burden on non-GDS-4 rate classes that already have rates that over-recover their costs to serve. In other words, AIC's proposal does not facilitate progress toward cost-based rates in that it continues to saddle non-GDS-4 customers with the burden of paying for, or subsidizing, the costs to serve GDS-4 customers. Staff Ex. 12.0 (Rev.) at 10.

Ms. Williams also analyzed the Company's alternative proposal, a 2.25x limiter, in the same manner. *Id.* at 11. The results of her analysis are presented in Staff Schedule 12.04 and summarized in Staff Exhibit 12.0 (Rev.) at 11, Table 2. Ms. Williams concluded that the Company's alternative proposal suffers from the same infirmities as its primary proposal. *Id.* Although most under-recovering customer classes would reach their full cost of service within the next three rate cases (GDS-4 Rider T ≤60 and GDS-4 Rider T >60 <30k), roughly $48.5 million would be reallocated to other customer classes over the span of the next three rate cases and the deficit for GDS-4 Rider T >60 >30k would continue to grow indefinitely under AIC's alternative proposal. Staff Ex. 12.0 (Rev.) at 11; Staff Sched. 12.04. Like AIC's primary proposal of 2.0x limiter, the Company's alternative proposal (a 2.25x limiter) is counterproductive to achieving cost-based rates and could result in a growing burden on classes from which AIC is already over-recovering their costs to serve. Staff Ex. 12.0 (Rev.) at 11.

Ms. Williams had particular concerns with reallocating GDS-4 revenues under AIC's rate limiter proposals. By design, the GDS-4 customers will not achieve rates that recover their full cost to service within a reasonable time frame. *Id.* at 12. Indeed, this outcome is exceedingly likely when considering that the Company's GDS-4 rate class has maintained a deficit for at least the last six gas rate cases, and Ms. Williams' analysis shows that, using either revenue limiter AIC proposes, GDS-4 will continue to maintain a deficit for at least the next three rate cases. *Id.* at Attach. A; Staff Scheds. 12.03 and 12.04.

Ms. Williams had numerous criticisms of Ameren's arguments. First, Ameren Illinois asserts that the proposed revenue allocation limiters are identical to the Commission-approved allocation in the Company's most recent rate case. *Id.* at 193-94. Ameren Illinois insists that the Commission has previously authorized and reapproved revenue allocation limits and should do so in this proceeding because the current limit "achieves the right balance of moving more quickly towards cost-based rates in a careful and gradual manner." *Id.* at 195. Staff does not dispute that the Commission has approved and reauthorized revenue allocation limiters when appropriate but Staff argues Commission orders are not *res judicata*. *Miss. River Fuel Corp. v. Ill. Com. Comm'n*, 1 Ill. 2d 509, 514 (1953). In this proceeding, Ms. Williams demonstrated that reauthorizing the Company's proposed revenue allocation limits will result in unreasonable rates for the classes that will over-recover as a result. Ms. Williams' recommendation to approve a

COSS-based revenue allocation achieves cost-based rates without unreasonable bill impacts. Staff IB (Pub.) at 73-86. Ameren Illinois' proposed rate limiters do not move rates towards cost-based rates, which is the stated goal of the rate limiters. The Company's sole support for its proposed rate limiters is that its proposal is identical to the Commission-approved allocation in the Company's most recent rate case; Staff asks the Commission to reject this argument because the proposed rate limiters will result in unreasonable rates for the classes that will over-recover. The Company ignores that Commission decisions are not subject to *res judicata*. Staff contends the Commission should not reauthorize the current revenue allocation limits simply because it has done so in other proceedings, especially where such action would result in unreasonable rates. Therefore, Staff asks the Commission to reject the Company's proposed revenue allocation limits.

Second, the Company claims that Staff's analysis illustrating the consequences of authorizing a 2.0x or 2.25x limiter is "uncompelling because it appears to be based on historical actual rate case average trends… and assumes that future rate case increases will continue at historical average levels." Ameren IB at 195. Ameren Illinois insists that Staff's analysis is speculative because "it is far from certain that future rate cases will follow [historical] trends." *Id.* Notably, the Company does not dispute that GDS-4 has historically carried a deficit or that it will continue to do so under the Company's proposal. In fact, GDS-4 has carried a deficit for at least the last six general rate cases. Staff Ex. 12.0 (Rev.) at 12. Based on that data, and in the absence of any contradictory record evidence (save AIC's bald assertion that its next rate case will, for some unstated reason, break a pattern dating to at least 2011), Staff's analysis demonstrates it is exceedingly likely that GDS-4 will continue to carry a deficit in future rate cases. Staff IB (Pub.) at 77-80. Therefore, it is entirely reasonable for the Commission to conclude that Ameren Illinois' proposal will not facilitate movement toward cost-based rates and could result in a growing burden on non-GDS-4 rate classes with rates that already over-recover the Company's costs to serve. *Id.* at 79. At the very least, the Company's proposal unnecessarily delays achievement of cost-based rates.

Third, Ameren Illinois argues that Staff's proposal will cause a "119% increase in delivery service revenues assigned to the largest [GDS-4] customers… and 62% for smaller GDS-4 customers." Ameren IB at 196. According to AIC, this means that Staff's proposal will more than double the delivery portion of the bill for some the larger GDS-4 Rider T customers. *Id.* However, it appears that the Company is confusing two separate concepts: (1) the increase in present revenues required to bring GDS-4 to full cost of service; and (2) the total bill impacts resulting from the authorized increase in present revenues.

The required increase in present revenue to reach full cost of service cannot be analyzed in a vacuum. Staff IB (Pub.) at 77. Rate design requires consideration of numerous costs and other factors that impact customers' bills; meaning it can be misleading to look at the class revenue percentage increase in isolation. *Id.* Indeed, per the Company, the highest bill impact that the GDS-4 Rider T >60 >30k MDCQ customer class would experience under its full cost of service is a 6.73% increase, with the largest bill impact for any GDS-4 subclass under Staff's recommended methodology being 9.10%. *Id.*; Staff Ex. 4.0, Attach. C, 2. In fact, according to the Company, the bill impacts

for GDS-4 customers decrease as their usage increases. Staff Ex. 4.0, Attach. C, 2. Staff's recommendation, then, does not double the total bills of Ameren's Rider T customers, as Ameren Illinois alleges.

Further, the GDS-4 customer class has the lowest bill impacts of all the AIC rate classes under the COSS-based revenue allocation Staff recommended. Staff IB (Pub.) at 77. Thus, approving a COSS-based revenue allocation that assigns each customer class its full cost of service does not, as the Company claims, "impose an unreasonable level of bill impact" or "represent a departure" from gradualism for GDS-4 or any other customer class. Ameren IB at 196. Instead, Staff's recommendation strikes the appropriate balance between movement toward cost-based rates and avoiding unreasonably high bill impacts.

In sum, Staff determined that the Company's proposals to implement a 2.0x or 2.25x limiter are contrary to cost causation principles. Simply put, Staff's analysis demonstrates that authorizing either a 2.0x or a 2.25x revenue allocation limiter will prevent Ameren Illinois from implementing rates that reflect continued movement toward cost-based rates, which will in turn prevent elimination of inter- and intra-class subsidies in future rate cases. Staff Ex. 12.0 (Rev.) at 12.

For these reasons, Staff recommends the Commission approve its recommendations.

Response to IIEC/FEA

IIEC/FEA proposed to change the revenue limiter to so that no class "receives an increase less than 0.75 times ("0.75x") the system average increase, or greater than 1.25 times ("1.25x") the system average increase." IIEC/FEA Ex. 1.0 at 3. IIEC/FEA asserts that mitigation for subsidized classes, here, GDS-4, is required and recommends the previously authorized revenue limiter be changed "to protect all customer classes from an excessive increase in this case." *Id.* at 2. Additionally, IIEC/FEA suggest that the revenue limit ceiling of 2.0x the system increase, which was approved by the Commission in Ameren Illinois' most recent general rate case, Docket No. 23-0067, is inconsistent with gradualism. *Id.* at 7. IIEC/FEA stress the importance of cost-based rates and minimizing customer impacts to allow customers to adjust to rate changes. *Id.* at 8; Staff Ex. 12.0 (Rev.) at 13.

Staff responds that IIEC/FEA's proposal does not consider the importance of bringing classes to their respective costs of service to minimize the subsidies that some customer classes will pay due to the under-recovery of other classes. *Id.* Although the stated purpose of IIEC/FEA's proposal to change the revenue requirement limiter is "to protect all customer classes from an excessive increase," (IIEC/FEA Ex. 1.0 at 2) it effectively protects only the GDS-4 customer classes and may result in that customer class (GDS-4 Rider T >60 >30k) carrying a deficit, and being subsidized by ratepayers in other customer classes, in perpetuity. Staff Ex. 12.0 (Rev.) at 13; Staff Sched. 12.02. Despite IIEC/FEA's stated concern with the "excessive increase" needed to bring GDS-4 to its full cost of service, IIEC/FEA's position overlooks the "excessive increase" that other classes will experience as a result of its proposed revenue requirement reallocation, specifically regarding GDS-4. Staff Ex. 12.0 (Rev.) at 13. In fact, under IIEC/FEA's proposal, no class requiring a decrease in revenues to reach its full cost of service would

receive a decrease in its revenue requirement. *Id.* Instead, every customer class would receive an increase in rates. *Id.* Conversely, Staff's proposal moves the GDS-4 revenue requirement closer to its cost to serve. Staff Ex. 12.0 (Rev.) at 14.

Ms. Williams analyzed the impact of IIEC/FEA's proposed limitations on recovering the revenue requirement for each customer class over the course of the next three rate cases. Staff Sched. 12.02. She first calculated the average revenue requirement increase per customer class using the ECOSS from previous and current rate cases. Staff Ex. 12.0 (Rev.) at 14. Next, using the average revenue requirement increase per customer class, she forecasted individual rate class revenue requirement increases over the next three rate cases. *Id.* Lastly, she applied IIEC/FEA's proposed revenue requirement ceiling (1.25 times the system average increase.) *Id.* The results of this analysis are shown in Staff Schedule 12.02 and summarized in Staff Exhibit 12.0 (Rev.), 14, Table 3.

Ms. Williams' analysis shows that, under IIEC/FEA's proposal, most under-recovering classes will reach their full cost of service within 3 rate cases (GDS-4 Rider T ≤60 and GDS-4 Rider T >60 <30k). Staff Sched. 12.02. Roughly $80 million will be reallocated to other customer classes over the span of the next three rate cases. *Id.* For perspective, $80 million is about 11% ($80,000,000 ÷ $727,732,051 = 10.99%) of Ameren Illinois' entire gas system revenue requirement for the 2026 test year. Ameren Ex. 12.3; Staff Sched. 12.02. Crucially, other classes, some of which are already over-recovering (*i.e*., subsidizing GDS-4), will carry the burden of recovering more than 10% of the system's revenue requirement over the course of the next three rate cases if GDS-4 is not brought to its full cost of service. Staff Ex. 12.0 (Rev.) at 15. Under Staff's proposal, however, the highest bill impact a GDS-4 customer will experience is only 9.10% while the other classes' highest bill impacts range from 13.92% to 33.29%. Staff Ex. 4.0 Attach. C; Staff Ex. 4.0 at 19.

IIEC/FEA's claim that its proposed limiter is a "moderate movement toward cost of service" (IIEC/FEA Ex. 1.0 at 31) is only partially correct, as shown in Staff Exhibit 12.0 (Rev.), 16, Table 4. Based on AIC's last six rate cases, GDS-4 Rider T ≤60 and GDS-4 Rider T >60 <30k will reach their full cost of service. Staff Ex. 12.0 (Rev.) at 16. Conversely, GDS-4 Rider T >60 >30k is forecasted to experience an increasing deficit. Staff Sched. 12.02. Thus, GDS-4 Rider T >60 >30k will move further away from its cost of service over AIC's next three rate cases. *Id.* Therefore, while IIEC/FEA's proposal may moderate some classes' movements toward their respective costs of service, it fails to make movement towards achieving full costs of service for all classes. Staff Ex. 12.0 (Rev.) at 15. That is, based on AIC's recent rate case experience, the deficit for GDS-4 Rider T >60 >30k could continue to grow indefinitely under IIEC/FEA's proposal. Staff Ex. 12.0 (Rev.), 15-16; Staff Sched. 12.02.

Further, if the cost to serve each customer class increases by the historical average in the next three rate cases, the total deficit of under recovering classes would grow from $20.1 million to $35.9 million over the next three rate cases. Staff Ex. 12.0 (Rev.) at 16; Staff Sched. 12.02. Additionally, customer classes to which these deficits are reallocated, many of which are already over-recovering, will have an increased revenue requirement burden placed upon them. *Id*. Therefore, IIEC/FEA's proposal is counterproductive to achieving cost-based rates and could result in a growing burden on

classes from which Ameren Illinois is already over-recovering their costs to serve. Staff Ex. 12.0 (Rev.) at 16. IIEC/FEA's proposal is also inconsistent with IIEC/FEA's support for rates that reflect cost causation (IIEC/FEA Ex. 1.0 at 2) and the Commission's repeated endorsement of, and effort to achieve, cost-based rates. Staff Ex. 12.0 (Rev.) at 17; *see, e.g., Ameren Ill. Co. d/b/a Ameren Ill*., Docket No. 15-0142, Order at 108-109 (Dec. 9, 2015).

IIEC/FEA contends this proposal "offers the Commission a fair and reasonable approach for this case" (*id.* at 19), but Staff responds that IIEC/FEA ignores the importance of bringing classes to their respective costs of service to minimize the subsidies that some customer classes will pay due to the under recovery by other classes. Staff IB (Pub.) at 81. Under IIEC/FEA's proposal, GDS-4 alone will benefit at the expense of other classes. *Id.* In fact, no class requiring a decrease in revenues to reach its full cost of service would receive a decrease in its revenue requirement. *Id.* Instead, every customer class would receive an increase in rates. *Id.*

Further, under IIEC/FEA's proposal, GDS-4 will continue to carry a deficit for at least the next three rate cases and could do so indefinitely. Staff IB (Pub.) at 83; Staff Sched. 12.02. As Staff demonstrated, IIEC/FEA's proposed revenue allocation pushes GDS-4 and other customer classes away from achieving full cost of service. The deficit of GDS-4 Rider T >60 >30k will continue to increase, with the total deficit of under-recovering classes growing from $20.1 million to $35.9 million. *Id.* The deficit will be reallocated to, and recovered from, other customer classes.

Simply put, IIEC/FEA's proposal results in continued subsidization of GDS-4 by other customer classes, many of which are already over-recovering to account for the previous GDS-4 deficit and all of which will experience increased rates under IIEC/FEA's proposal. Viewed this way, IIEC/FEA's approach is inconsistent with the Commission's stated goal of achieving cost-based rates. *Id.* at 84; *see, e.g., Ameren Ill. Co. d/b/a Ameren Ill*., Docket No. 15-0142, Order at 108-09 (Dec. 9, 2015); *Ameren 2020 GRC* at 194 (Jan. 13, 2021); *Ameren 2023 GRC* at 219. Conversely, Staff's recommendation to assign each class its full cost of service is the "fair and reasonable approach" the Commission should adopt.

For these reasons, Staff recommends the Commission reject the Company's and IIEC/FEA's revenue limiter proposals and instead approve a revenue allocation for Ameren Illinois that is based on the Company's COSS without any revenue limiters. Staff Ex. 4.0, 19-30; Staff Ex. 4.0, Attach. B.

c. IIEC/FEA's Position

The Act charges the Commission with setting just and reasonable rates. 220 ILCS 5/9-201(c). A COSS study is often the tool used by Commissions to design just and reasonable rates that allocate cost responsibility to customer classes based on cost-causation. COSS studies frequently incorporate disputed methods and contain a variety of imprecise characteristics. In and of themselves, these COSS disputes lend credence to the principles that the ratemaking process is "not an exact science" and that setting rates "requires the use of pragmatic adjustments which may be called for by the particular circumstances". *See Amax Zinc Co., Inc. v. Illinois Commerce Com'n*, 124 Ill.App.3d 4, 11 (5th Dist. 1984). IIEC/FEA contends even if parties do agree on a COSS study, there

are other policy considerations that may exist to guide the revenue allocation process like rate continuity, rate stability, revenue stability, minimizing rate shock, and gradualism.

In this case, Ameren Illinois used its proposed cost of service study as a guide for class revenue allocation but does not propose to move all the way to cost of service. The Company proposed to make movement towards its cost of service but limited the increase for any class to 2.0 times the overall average system rate increase. Ameren Ex. 12.0 at 9. According to the Company, the rate increase ceiling constraint serves to limit excessive customer bill impacts. *Id*. For the GDS-4 Rider T customers, the company's proposal would mean they see an approximate 44% increase compared to a system average of 22.2%. IIEC-FEA Ex. 1.0 at 5. IIEC/FEA argues this excessive rate increase in present revenues for the GDS-4 customers is the result of the flaw in the P&A method where Average Demand is counted twice in the cost allocation process. *Id*.

Although IIEC/FEA opposes the Company's reliance on the P&A method, it does agree with the Company's proposal to use rate mitigation measures to allocate the claimed revenue requirement deficiency. *Id*. IIEC/FEA argues Ameren's mitigation efforts still fall short and that additional mitigation is reasonable considering the magnitude of the requested overall rate increase and the reliance on an inappropriate cost of service study. As such, IIEC/FEA recommends an alternative revenue allocation, as reflected in IIEC/FEA Ex. 1.0 at 9, Table 3. This allocation reflects a moderated spread, where no class receives an increase less than 0.75 times the system average increase (floor) and no class receives greater than 1.25 times the system average increase (ceiling). Since the table is based on the Company's claimed revenue deficiency, IIEC/FEA recommends that if the Commission approves an overall increase less than the amount proposed by Ameren Illinois, IIEC/FEA's revenue allocation should be scaled accordingly.

IIEC/FEA agrees that moving towards cost-based rates is an important objective but it must be balanced against the need to avoid rate shock and provide customers with time to adjust – especially in a period of substantial overall increases. IIEC/FEA Ex. 2.0 at 9. As shown in IIEC/FEA Ex. 1.0 at 9, Table 3, IIEC/FEA's proposed revenue spread maintains a below-system average increase for the residential class. To put the difference between the Company's recommended revenue allocation and IIEC/FEA's alternative in perspective, IIEC/FEA witness York testified that the impact of its recommended revenue allocation on residential customer is about $0.83 per monthly bill. IIEC/FEA Ex. 1.0 at 10. If the Commission approves an increase less than the amount proposed by the company, the impact would be less.

IIEC/FEA is not recommending a Design Day Demand COSS study in this case as the basis for revenue allocation. Instead, IIEC/FEA asks the Commission to order Ameren Illinois to conduct certain studies and provide additional information in its next rate case. IIEC/FEA argues because the results of the P&A method and Design Day Demand method represent the range of results between energy and demand-related allocation methods (and there is ample evidence for the Commission to decide the Design Day Demand method is appropriate), it is worth looking at the impact to residential customers if the Design Day Demand COSS was used. In direct testimony, IIEC/FEA put forward a comparison of the Company's P&A COSS results and a Design Day Demand COSS. Those results are shown in IIEC/FEA Ex. 1.0 at 16, Table 2.

A Design Day Demand COSS study would result in the residential class being allocated $20.3 million more than the P&A COSS study. In the unlikely event the residential class was brought to full cost of service and the company was awarded 100% of its requested increase, the bill impact would be approximately $2.28 per month. IIEC/FEA Ex. 2.0 at 14. IIEC/FEA contends this result, too, could be mitigated through the revenue allocation step of the overall rate design process to account for gradualism and other factors. Ultimately, this analysis shows that, even under the Design Day Demand approach, rate impact mitigation caps and floors for certain customer classes would be appropriate given the magnitude of the overall rate case.

To summarize, IIEC/FEA agrees moving toward cost-based rates is an essential goal in ratemaking. However, IIEC/FEA maintains this must be balanced with measures that limit sharp increases and protect consumers from rate shock, as well as other policy considerations. IIEC/FEA's proposed alternative revenue allocation - which sets a minimum increase of 0.75 times and a maximum increase of 1.25 times the system average for any customer class - offers the Commission a fair and reasonable approach for this case. At the same time, ordering further studies and refinements for the next rate case will ensure future improvements and greater equity.

Reply to Ameren Illinois

Ameren Illinois continues to support its initial revenue allocation that caps the increase to any class at 2.0 times the system average increase. Ameren Illinois' approach follows the P&A method for its allocations within the COSS used as the starting point for its proposed revenue allocation. IIEC/FEA recognizes the Company opposes IIEC/FEA's alternative approach as hindering the Company's ability to address inter-class subsidies and adjust revenues to be more reflective of cost of service. Ameren IB at 197. However, IIEC/FEA asserts the magnitude of movement required to reach cost of service will depend on the COSS methods used to set the baseline of what is the cost to serve each class.

IIEC/FEA argues that flaws inherent in the P&A method used to allocate Transmission and Distribution mains costs make AIC's COSS study inappropriate to use in this case. IIEC/FEA contends that while on the Design Day Demand approach would be most reflective of cost causation, the A&E method represents an improvement over the P&A method while maintaining consistency with the reasoning behind the Commission's order in the Company's prior rate case. IIEC/FEA could not produce the results of an A&E study in this case for the Commission to consider because the Company has not collected or estimated the NCP demand data for its rate classes. IIEC/FEA contends the Commission can still make a decision that is fair and equitable with respect to an appropriate cost of service result by considering the results of the P&A method and Design Day Demand method as bookends to a range of results that would occur on a spectrum between energy and demand-related allocation methods. The difference in outcomes – as reflected in Table 2 in IIEC/FEA Ex. 2 – between the P&A method and the Design Day Demand method is significant. IIEC/FEA argues under either method rate impact mitigation caps and floors for certain customer classes remain appropriate given the magnitude of the overall rate case. IIEC/FEA concludes the broad difference in outcomes favors IIEC/FEA's more gradual movement towards cost of service in this case.

Reply to Staff

Staff recommends the Commission approve a revenue allocation for Ameren Illinois' gas service based on the Company's COSS without any revenue limiters. Staff IB at 73. IIEC/FEA argues that Staff's proposal to move 100% towards cost of service as shown by the disputed P&A method is unreasonable and will result in severe rate shock. Under Staff's approach, the GDS-4 class would see an unreasonable increase of 119.3% as shown in Table 2 in IIEC/FEA Ex. 2.0. IIEC/FEA understands the basis for Staff's approach is its conclusion that the highest bill impact would be 9.10%. IIEC/FEA Ex. 2.0 at 18. However, IIEC/FEA argues that Ms. Williams' analysis is flawed, misleading, and should be rejected. *Id*.

IIEC/FEA contends there are at least two issues with the calculations relied on by Staff. First, the calculations rely on a limited set of usage and MDCQ assumptions, including an approximate 70% load factor across all GDS-4 subclasses. IIEC/FEA Ex. 2.0 at 19. Customers within a class may have load factors significantly different than the load factor assumption reflected in the typical bill calculation. Customers with a lower load factor would see a larger increase while customers with a higher load factor would see lower impacts. *Id*. Second, the typical bill calculations used in Staff's analysis include gas supply costs, rather than just delivery service costs. Including gas supply costs in the typical bill calculation mutes the impact of the Company's proposed delivery service rate increase in this case. IIEC/FEA Exhibit 2.1 demonstrates that removing gas supply costs from the analysis (while maintaining Ms. Williams' load profile assumptions) shows that the highest GDS-4 impact would be about 52%. Ms. York testified that lower load factor customers would see higher delivery service rate increases than this. IIEC/FEA Ex. 2.0 at 19. IIEC/FEA concludes there is no reliable basis for Staff's conclusion that the highest bill impact for GDS-4 customers at full cost to service using the P&A method is 9.10%. Staff IB at 77, 83.

Staff argues that IIEC/FEA's revenue allocation proposal is too gradual in that Staff's analysis shows it would take several rate cases to reach the cost of service. IIEC/FEA responds that Staff's analysis on this point is uncompelling because it appears to be based on historical rate case average trends for each class and subclass and assumes that future rate increases will continue at average levels. Ameren Ex. 40.0 at 3. IIEC/FEA argues given the many moving variables in each rate case, Staff's assumptions are too speculative and unreasonable for the Commission to rely on when considering how to mitigate revenue allocation so that it incorporates gradualism.

Under IIEC/FEA's approach that same GDS-4 class would see an increase of 27.8% or 1.25 times the system average increase. IIEC/FEA contends this is meaningful movement over the system average increase while balancing the competing interests of gradualism in setting rates. IIEC/FEA urges the Commission to reject the Staff's drastic changes based on a disputed COSS methodology and instead adopt the proposal of IIEC/FEA.

d. Commission Analysis and Conclusion

The Commission adopts Staff's proposed revenue allocation for Ameren's gas service based on the Company's COSS without any revenue limiters. The Commission agrees that this revenue allocation ensures that each customer class recovers 100% of

its cost to serve. The record shows that if the Commission approves AIC's proposal to retain the revenue allocation approved in its most recent rate case, by the end of this rate case: GDS-4 Rider T ≤60 will have a deficit of $28,562; GDS-4 Rider T >60 ≤30k will have a deficit of $1,630,319; and GDS-4 Rider T >60 >30k will have a deficit of $12,456,719. Staff Ex. 12.0 (Rev.), 9. This will result in a total deficit of $14,115,600 in the GDS-4 subclasses, a revenue responsibility that will be reallocated to other customer classes. Additionally, Staff offered other calculations predicting the downstream effects if this revenue allocation persists throughout the next three rate cases, demonstrating that over the course of 3 rate cases GDS-4 Rider T >60 >30k will create a total deficit of $54,542,993 to be reallocated to other classes. *Id*.

While Ameren Illinois contends that Staff's analysis is speculative because "it is far from certain that future rate cases will follow [historical] trends," AIC does not dispute that GDS-4 has historically carried a deficit or that it will continue to do so under Ameren's proposal. AIC IB at 195. Indeed, the record demonstrates that GDS-4 has carried a deficit for at least the last six general rate cases. Staff Ex. 12.0 (Rev.), 12. Ameren's proposed rate limiters are not moving rates towards cost-based rates, which is the intended context of the rate limiters. Accordingly, the Commission rejects AIC's proposed maximum revenue allocation and adopts Staff's proposal.

The Commission rejects IIEC/FEA's proposal to change the revenue limiter to so that no class "receives an increase less than 0.75 times ("0.75x") the system average increase, or greater than 1.25 times ("1.25x") the system average increase. The Commission notes Staff's projection that IIEC/FEA's proposal would result in roughly $80 million being reallocated to other customer classes over the span of the next three rate cases. This means other classes, some of which are already over-recovering (i.e., subsidizing GDS-4), would carry the burden of recovering more than 10% of the system's revenue requirement over the course of the next three rate cases if GDS-4 is not brought to its full cost of service. Accordingly, the Commission rejects IIEC/FEA's proposal.

VIII. RATE DESIGN/TARIFF CHANGES

A. Uncontested or Resolved Issues

1. Rate Design Methodology

In direct testimony, the Company proposed a methodology for determining usage-based distribution charges. Ameren Ex. 12.0 at 6-7. Staff and IIEC/FEA were the only other parties to address this issue in testimony, and they do not oppose the Company's proposed methodology. Staff Ex. 4.0 at 21; IIEC/FEA 1.0 at 31-32.

The Commission finds Ameren Illinois' proposed rate design methodology reasonable, and it is approved.

2. Incremental Gas Meter Charges

In direct testimony, the Company proposed an Incremental Gas Meter Charge for an alternative diaphragm meter at $676.50 annually or $56.38 per month for twelve consecutive months, and $5,560.00 annually or $463.33 for twelve consecutive months for an alternate rotary meter. Ameren Ex. 11.0 at 13. Staff agreed with these amounts. Staff Ex. 4.0 at 39.

The Commission finds Ameren Illinois' proposed Incremental Gas Meter Charges are reasonable, and they are approved.

3. Rider T – Reduction to Banking Service Limit

In direct testimony, Ameren Illinois proposed to reduce its Banking Service Limit from ten to six times the Maximum Daily Contract Quantity ("MDCQ") for Rider T Customers to better align the amount of Banking Service being used by Rider T customers based on the recent utilization by those customers. Ameren Ex. 14.0 (Rev.) at 12-13. In response to Staff and IIEC/FEA opposing this proposal, and in the interest of narrowing the contested issues in this proceeding, Ameren Illinois explains that it elected to withdraw its proposal and keep the Banking Service Limit at its current level of ten times the MDCQ for Rider T Customers. Ameren Ex. 27.0 at 4.

The Commission observes that the Company has withdrawn its proposal to reduce the Banking Service Limit, and the current Banking Service Limit is still in effect.

4. Zonal Electrification Pilot Tariff (Withdrawn)

In direct testimony, Ameren Illinois proposed the Zonal Electrification Pilot Tariff to allow the Company to "explore decarbonization initiatives through pilot project locations on the gas distribution system where it may be preferable and more economical to provide affected customers an option to receive incentives from the Company in exchange for relieving the Company from its obligation to serve that portion of the service territory with the understanding that those customers would electrify their home or business with those incentives." Ameren Ex. 13.0 at 2. Ameren Illinois explains that, under its proposal, Zonal Electrification Projects would need to first be approved by the Commission after the Company filed an economic study, and any Zonal Electrification Project would go forward only if all impacted customers agreed in writing to terminate their gas service upon completion of the project and upon Commission approval. *Id*. at 4,6.

Ameren Illinois points out that other parties to this proceeding, including Staff, expressed concern with the Company's tariff proposal. For example, Staff witness Au expressed concern with the regulatory treatment contemplated by the Company's proposed tariff. Staff Ex. 2.0 at 13; Staff witness Seagle expressed concern with cost subsidization between electric and gas customers. Staff Ex 5.0 at 6. Staff witness Horne discussed, among other things, perceived challenges associated with the pilot's integration into the Company's 2026-2029 EE Plan. Staff Ex. 7.0 (Corr.) at 6-7.

Ameren Illinois explains that, in response to this opposition, and in an effort to reduce the number of contested issues, the Company withdrew the proposed tariff while reserving its right to address each of the issues raised by parties in the future, as appropriate, and noting the Company's commitment to engage in future conversations with stakeholders regarding this topic. Ameren Ex. 18.0 at 12-14. While withdrawing the tariff proposal, Ameren Illinois emphasizes that it represented a reasonable step forward to leverage the strengths of both the natural gas and electric systems holistically to make informed decisions that benefit customers, better optimize infrastructure investments, and support decarbonization. *Id*. at 14. Ameren Illinois states that it further committed that it will not include the proposed tariff in any compliance tariff filing after the Commission's entry of a Final Order. Ameren Ex. 26.0 at 23.

The Commission observes that the Company has withdrawn its proposed Zonal Electrification Pilot Tariff and does not make a conclusion on this issue. The Company's proposal to proceed with the Territory Study related to zonal electrification is discussed in Section IX.B.1.

5. Tariff Change to Reduce Main Extension Allowance

As part of the Company's commitments from its previous gas rate case, Docket No. 23-0067, the Company states that it reviewed a provision in its tariff that provided 400 feet of free main extensions for new gas service, which exceeds the standard 200 feet of free main extensions outlined in the Illinois Administrative Code. Ameren Ex. 2.0 at 13, 17; 83 Ill. Adm. Code 501.600(b). Ameren Illinois notes that, after reviewing its existing policy, the Company proposed to reduce its current 400 feet free extension to a 200 feet free main extension. Ameren Ex. 2.0 at 16-17.

Ameren Illinois notes that PIO witness Cebulko testified that while he recommended that the Commission open a dedicated rulemaking to examine line-extension subsides, he supported the Company's proposal to reduce the main line extension. PIO Ex. 2.0 at 47.

The Commission finds the proposed tariff change to reduce the main extension allowance from 400 feet to 200 feet is reasonable and approved.

B. Contested Issues

1. Customer Charge

a. GDS-1 Residential Customers

(i) AIC's Position

In direct testimony, Ameren Illinois states that it presented the Company's proposed increase to the fixed monthly customer charge for the GDS-1 class, which is the residential customer class. Ameren Ex. 12.0 at 3.5; Ameren Ex. 12.8. GDS-1 is available for any residential customer using natural gas predominantly for residential purposes. Ameren Ex. 12.0 at 4. The Company notes that Ameren witness Schonhoff presented testimony describing how the Company determines natural gas delivery service charges, including for the GDS-1 class. Ameren Ex. 12.2

The Company notes that its GDS-1 customer charge is set at a level to recover the class's customer-related cost component from the Company's ECOSS. Ameren Ex. 12.2 at 1. Ameren Illinois' current GDS-1 customer charge is $20.30, and the Company's proposal would increase the customer charge to $25.16. Ameren Ex. 12.8. Ameren Illinois has provided ample evidence that the Company's proposed customer charge is based on customer-related costs and is reasonable.

Ameren Illinois notes that PIO are the only party that took issue with the Company's proposed GDS-1 customer charge, but PIO's recommendation is not supported by the record evidence and goes against the Commission's Final Order in the Company's last rate case proceeding. Therefore, Ameren Illinois states, PIO's arguments should be rejected.

Ameren Illinois states that PIO witness Cebulko recommended that the Commission reject the Company's proposal to increase its residential customer charge and instead approve a residential customer charge that recovers no more than 40% of the costs recovered through fixed charges. PIO Ex. 1.0 at 97. The Company further states that PIO claim that relying solely on the Company's ECOSS results for fixed recovery does not conform with the Commission's Final Order in the Company's previous rate case. *Id*. at 89-90. Mr. Cebulko also claims that a higher customer charge will reduce the incentive for customers to invest in energy efficiency and that "lower income residents are more likely to be lower usage customers." *Id.* at 92-95. Therefore, those customers will be harmed by a higher customer charge.

Ameren Illinois urges the Commission to reject this position for several reasons. First, Ameren Illinois states, PIO's argument that the Commission's Final Order in the last rate case does not rely on the Company's ECOSS results for setting fixed customer charges is a misinterpretation. In the last rate case, the Company proposed cost-based customer charges for all customers by dividing the allocated customer-related costs from the ECOSS model by the number of customer bills. *Ameren 2023 GRC,* Order at 236. The very percentage Mr. Cebulko references, and takes issue with, equals the value directly from the Company's ECOSS results. Ameren Ex. 26.0 at 10-11.

The Company explains that, in the Company's previous rate case, the Commission approved a customer charge that recovered 43.9% of the residential revenues precisely because that percentage reflected the ECOSS derived customer-related costs. Ameren IB at 202. The Commission's approval of cost-based customer charges in the prior rate case supports, rather than undermines, the Company's current proposal, which follows identical methodology - dividing customer-related costs from the ECOSS by the number of customer bills. Ameren Ex. 26.0 at 11. Additionally, Staff explicitly confirms that the Company's "customer charges are COSS-based and are aligned with Staff's proposed revenue requirement." Staff Ex. 4.0 at 20. Staff further recommends that the "Commission reject PIO's proposed residential customer charge and instead adopt Staff's proposed residential customer charge." Staff IB at 93.

The Company notes that in the current proceeding, the customer charges use the same cost-based rate design methodology proposed in the last proceeding (one based solely on ECOSS results), taking the customer related costs form the ECOSS and dividing by the number of customer bills, which forms the basis for the Company's proposed cost-based charge of $25.16/month for GDS-1 customers. Ameren Illinois' rate design methodology for determining customer charges, stating that the customer charges are COSS-based and are aligned with Staff's proposed revenue requirement. Staff Ex. 4.0 at 20. Ameren Illinois explains that the slight changes in percentage from the prior rate proceeding (43.9%) to the current proceeding (44.3%) are a function of small variances in the underlying customer-related costs, not an arbitrary increase in the percentage of revenue to be collected from fixed customer charges, and both the prior and proposed percentages round to the same whole percentage of 44%. Ameren Ex. 26.0 at 11.

Next, Ameren Illinois responds to Mr. Cebulko's claims that the Company's proposed customer charge contradicts State policy goals and is problematic considering energy efficiency goals and electrification programs. PIO Ex. 1.0 at 91. Ameren Illinois states that these claims are not supported by the record. The Company further explains

that its rate design methodology, on the other hand, is supported by both facts and analysis as testified to by Ameren witness Schonhoff. Ameren Ex. 26.0 at 12. And, again, Ameren Illinois maintains its methodology aligns with the Commission's Final Order in the prior rate case and Staff's testimony in this proceeding.

Ameren Illinois points out that Mr. Cebulko also asserts that the Company's proposed customer charge would disproportionately harm low-usage customers, which he claims also tend to be low-income customers. PIO Ex. 1.0 at 93. However, the Company notes, his argument is based on a generic study that uses average household consumption data from the Midwest Census Region in 2019 (*see* PIO Ex. 2.0 at 54, Table 4) and not Ameren Illinois-specific customer data. Actual billing data over the twelve months indicates that the Company's low-income customers use approximately five more therms of gas annually than non-low-income customers. Ameren Ex. 26.0 at 12-13. Ameren Illinois explains that this means that Mr. Cebulko's proposal to reduce the customer charge and increase volumetric charges would actually increase bills to low-income customers. *Id*. Mr. Cebulko's assumptions ignore the Company's actual metered usage data of low-income customers. Ameren Ex. 40.0 at 9. Ameren Illinois argues that the Commission should not deviate from long-standing practice of setting cost-based rates and adjust the Company's proposed customer charge for residential customers to address perceived (and unsupported) low-income customer impacts.

Further, Ameren Illinois explains that PIO conflate "known" and "unknown" low-income customers. PIO acknowledge but then dismisses the significance of the distinction between customers who self-identify for low-income programs ("known") versus those who do not ("unknown"). PIO Ex. 2.0 at 53. PIO cite studies claiming that "unknown low-income customers tend to use less energy than known low-income customers." *Id.* at 53-54. Ameren Illinois states that this claim is difficult, if not impossible, to verify for ratemaking purposes because if the utility does not know who these customers are, it is difficult to determine their usage patterns. Ameren Illinois submits that its billing data reflects actual customer behavior within its service territory, providing far more reliable guidance than speculative attributions from national or regional demographic studies.

Finally, Ameren Illinois states, PIO's recommendation to approve a residential customer charge that recovers no more than 40% of costs through the fixed charge is unsupported by any analysis. Mr. Cebulko's proposal to set fixed charges at 40% of the class revenue requirement does not follow proper ratemaking principles, and instead is arbitrary and inconsistent with methodologies approved in prior Commission orders. Ameren Ex. 40.0 at 9. However, the Company states that its proposal to set both fixed and variable costs based on the Company's ECOSS results follows longstanding cost-causation principles and will result in more efficient use of the gas system. *Id.* Ameren Illinois also maintains that PIO's arbitrary 40% cap would have the effect of requiring the Company to recover a portion of fixed costs through variable charges, leading to inefficient price signals and cross subsidies from high usage to low usage customers. This would be contrary to basic ratemaking principles and lead to economic inefficiency.

(ii) Staff's Position

Staff recommends the Commission approve Ameren's proposed residential customer charge. Staff Ex. 4.0 at 21.

Staff states that Ameren's proposed residential customer charge is $25.16 per month and designed to recover 44.3% of residential costs, which reflects the amount of fixed residential costs. *See* Ameren Ex. 12.5, Sch. E-5; Ameren Ex. 26.0 at 11; Staff Ex. 4.0, Attach. C; Staff Ex. 4.0 at 20. Ameren's proposed residential customer charge is identical to a COSS-based residential customer charge, which is what Staff proposed. Staff Ex. 4.0, at 21. And, approving a COSS-based customer charge facilitates recovering customer costs only through customer charges and usage-distribution costs only through variable charges. Staff Ex. 12.0 (Rev.), at 19.

Staff notes that PIO recommend the Commission limit Ameren's residential customer charge to recover no more than 40% of its total revenues, which would result in a monthly customer charge of $22.72 assuming the Commission approves the Company's proposed revenue requirement. PIO Ex. 1.0 at 89. Staff states that PIO offer several reasons for its proposal, all of which are unpersuasive.

First, PIO assert its proposal would accomplish the following: (1) protect low-income customers; (2) encourage energy efficiency; and (3) meet state policy goals. PIO Ex. 1.0 at 89. PIO also assert that approving the COSS-based residential customer charge is inconsistent with the Ameren 2023 GRC Order. *Id*. There, however, the Commission authorized a fixed charge aligned with the fixed cost portion of the COSS-based residential revenue requirement. *Ameren 2023 GRC,* Order at 243. Here, as Staff explained, authorizing Ameren to recover 44.3% of its residential revenue requirement through a fixed charge is entirely consistent with the Ameren 2023 GRC Order. Staff IB (Pub.) at 90. This is because 44.3% is the fixed cost portion of Ameren's COSS-based residential revenue requirement.

PIO next argues that "moving more of Ameren's rate recovery to the fixed charge shifts costs from high usage customers to lower usage customers." PIO IB (Pub.) (Rev.) at 33. Staff reiterates that its recommended rate design, which is cost-based, is designed to recover all fixed customer-related costs from the customer (fixed) charge and to recover all variable costs from the delivery (variable) charge. Staff Ex. 12.0 (Rev.) at 24-25. This cost-based approach to rate design sends proper price signals to all customers, including low-income customers who may, but will not necessarily, have lower usage than the average residential customer usage. *Id*. at 25.

Additionally, PIO assert that "increasing the fixed customer charge reduces the price signals and incentives customers face, undermining the state's policy of encouraging the efficient use of energy." PIO IB (Pub.) (Rev.) at 34. PIO argue that volumetric rates better reflect changes in customer behavior and system demand than fixed charges. *Id.* PIO are essentially proposing a residential customer charge contrary to cost causation principles. Indeed, as Staff noted, PIO's proposal would result in recovery of fixed costs through variable charges. Staff IB (Pub.) at 91. PIO even acknowledge that Ameren's proposed increase to customer charges is based on increased customer costs reflected in the COSS. PIO Ex. 1.0 at 89.

Finally, PIO fail to support its position with record evidence. There is nothing in the evidentiary record that shows that directing Ameren to recover fixed costs through variable charges will encourage wise energy consumption. PIO's argument offers nothing upon which the Commission can justify limiting Ameren's customer charge to 40% of its residential revenue requirement. Conversely, Staff's recommendation is COSS-based, consistent with cost-causation principles, ensures that fixed costs are recovered through the customer charge, and ensures that variable costs are recovered through the delivery charge. Staff IB (Pub.) at 93.

For these reasons, Staff recommends the Commission reject PIO's proposed residential customer charge and instead adopt Staff's proposed residential customer charge. Staff Ex. 4.0 at 21; Ameren Ex. 12.5, Sch. E-5.

(iii) PIO's Position

PIO request the Commission reject Ameren's proposal to increase its residential customer charge from $20.30/month to $25.16/month. Ameren Ex. 26.0 at 9. Instead, PIO argue that the Commission should approve a residential customer charge that allows Ameren to recover 40% of the costs recovered through a fixed charge. PIO note that this will not change Ameren's expected revenue, and claim it is a fair, just, and reasonable rate. PIO state that this rate would assist the Commission in accomplishing the policy goals of: 1) encouraging efficient gas use; and 2) ensuring customers have the ability to control their gas bills through conservation or electrification. PIO Ex. 2.0 at 50.

PIO emphasize that any adjustment to the residential customer charge should advance the Commission's longstanding objectives of promoting equity, affordability, and efficient gas use while also supporting Illinois' clean energy goals. PIO draw the Commission's attention to the Ameren's 2023 GRC, in which the Commission adopted an approach to the residential customer charge that "ensure[d] that customers who use more gas pay more and encourages lower natural gas utilization consistent with the Commission's prior precedent." *Ameren 2023 GRC*, Final Order at 243 (Nov. 16, 2023) *Ameren 2023 GRC Order* at 243. PIO explain that the Commission in that case also considered whether the proposed charge furthered Illinois' clean energy goals and whether it "limit[ed] the burden on low-usage customers, who are more likely to be low-income customers, and advance[d] the State's equity and affordability policies." *Id*.

In this case, PIO assert that Ameren is arguing, to the contrary, that its COSS should control. But PIO state that Commission's Order in Ameren's last case the Ameren 2023 GRC Order details how and why the Commission can and should take into consideration whether the COSS sets an appropriate level for a customer charge. *Ameren 2023 GRC* Order at 243.

PIO maintain that, in the current case, adjustments to the residential customer charge are warranted to advance the Commission's goals of equity and efficiency. PIO find such adjustments are warranted for two reasons: reducing the average bills of low-income customers and increasing the incentive customers have to use energy efficiently.

First, PIO assert that moving more of Ameren's rate recovery to the fixed charge shifts costs from high usage customers to lower usage customers. PIO Ex. 1.0 at 94. PIO claim low-income customers generally use less energy than non-low-income

customers. PIO Ex. 2.0 at 52; PIO Ex. 1.0 at 95. PIO provided data documenting the EIA's periodic Residential Energy Consumption Survey which shows that income and energy use—both across the country and in the Midwest—are positively correlated. PIO Ex. 1.0 at 95.

PIO disagree with Ameren's assertion that the Company's known low-income customers actually use more energy on average. Ameren Ex. 26 at 12. PIO argue that low-income households who receive energy assistance are a small minority of low-income households, and they tend to be differently-situated than the larger pool of low-income households. PIO Ex. 2.0 at 53. For example, PIO cite to figures from the Edison Electric Institute showing that 4 out of 5 families who are eligible for Low Income Heating Assistance Program received benefits in 2021. *Id*. PIO also rely on a study by the Department of Health and Human Services, showing that, in the Midwest (as was the case across the country) unknown low-income customers tend to use less energy than known low-income customers. *Id*. at 53-54. PIO state that Ameren's only argument in response is to claim that the Company had already disputed PIO's arguments with "actual meter data" from its known low-income customers. Ameren Ex. 40.0 at 9. But PIO reiterate that Ameren ignores the fact that known low-income customers are only a fraction of the low-income customer pool, and therefore the Company does not effectively refute PIO's cited studies showing that low-income populations use less energy on average than the general population. PIO also point out that Ameren bases their own conclusions on a twelve-month snapshot purporting to show that low-income customers consume five therms more per year than others. *See* Ameren IB at 203; Ameren Ex. 26.0 at 12-13. PIO challenge that this is undermined by a known selection bias that impacts the trustworthiness of Ameren's preferred data on (by tending to overstate) the usage of low-income customers. PIO Rev. IB at 34. PIO conclude that Ameren's approach does not constitute a persuasive equitable impact analysis.

Further, PIO assert that increasing the fixed customer charge reduces the price signals and incentives customers face, undermining the state's policy of encouraging the efficient use of energy. PIO Ex. 2.0 at 52. Indeed, by discouraging energy efficiency, PIO claim that the Company's proposed rate scheme frustrates one of the Act's stated goals. *People ex rel. Madigan v. Ill. Com. Comm'n*, 25 N.E.3d 587, 589-90 (2015) (discussing 220 ILCS 5/1-102(a)). PIO argue volumetric rates better align with cost causation because they vary with customer usage, while fixed charges do not. As customer behavior and system demand patterns evolve over time (*e.g.*, through conservation, efficiency improvements, or electrification) PIO believe volumetric rates more accurately reflect those changes, whereas fixed charges remain static. PIO Ex. 2.0 at 52. PIO claim that giving customers a market signal promotes efficiency, one of the four key goals set out for the Commission in the Act and encourages them to ensure energy is used when the benefits outweigh the costs. *See* 220 ILCS 5/1-102(a).

PIO also assert that Ameren's argument runs contrary to the Commission's recent findings regarding Ameren's service territory. PIO point out that, in Ameren's last rate case, the Commission limited Ameren's residential customer charge to 43.9% of revenues in order to "encourage lower natural gas utilization," "limit the burden on low-usage customers, who are more likely to be low-income customers," and "advance the State's equity and affordability policies." *Ameren 2023 GRC,* Order at 243. PIO argue

that the Commission therefore agreed with PIO two years ago that higher fixed charges shift costs away from higher-usage customers in Ameren's territory and undermine its duty to maintain equitable and affordable rates. *Id.* ("The Commission also agrees that the policy considerations identified by the AG and PIO justify lowering the customer charge. PIO posit that higher customer charges shift costs away from customers who use more gas to those who use less. As a result, these charges undermine the Commission's duty to maintain equitable and affordable rates"). PIO therefore claim that Ameren's contrary suggestion that increasing fixed charges benefits low-income customers not only misreads the record, it disregards this most-recent precedent.

PIO argue that statutes likewise affirm that the Commission may weigh broader policy objectives—such as equity, affordability, and environmental quality—when establishing rates. 220 ILCS 5/1-102(d). Section 5/1-102(d)(iv) specifically authorizes the Commission to consider factors beyond cost of service, so long as the rationale is explained.

PIO are concerned about Ameren's claim that the Commission "must favor allocating costs on the principle of cost causation," and maintains that the Commission may appropriately weigh other relevant policy considerations in setting just and reasonable rates. Ameren IB at 10. To the extent this is meant to support its customer charge analysis, PIO believe this is wrong. PIO argue that Ameren's citations to statute and to caselaw are incorrect or lack important context. PIO agree with Ameren that the Commission can and should consider cost causation when allocating rates, and that customer classes should generally be responsible for the cost their usage causes to the system. But PIO still believe that is just the beginning of the discussion when the Commission is considering where it should set the customer charge portion.

PIO also claim that this is also consistent with recent practice. PIO note that Ameren takes issue with PIO's reading of the Ameren 2023 GRC Order, but point out that, there, the Commission clearly capped the customer charge at 43.9% of revenues after considering cost causation along with policy objectives including equity, affordability, and alignment with state clean energy goals. *Ameren 2023 GRC,* Order at 243 ("Consistent with its finding in furtherance of the State's clean energy goals, this approach also limits the burden on low-usage customers, who are more likely to be low-income customers, and advances the State's equity and affordability policies").

PIO therefore conclude that Ameren's assertion—that ECOSS results alone dictate the proper customer charge—ignores the statutory framework, relevant judicial precedent, and the Commission's own prior determinations.

In the exercise of its ratemaking discretion, PIO argue that the Commission should reject Ameren's proposed increase to the GDS-1 customer charge and adopt PIO's recommendation to cap fixed recovery at 40%, rejecting its proposed increase from $20.30/month to $25.16/month.

(iv) Commission Analysis and Conclusion

The Commission has reviewed the record and adopts Ameren's proposal to increase the customer charge of GDS-1 customers which Staff supports. The Commission accepts Ameren's proposed increase to the fixed monthly customer charge

for the GDS-1 rate class. The Commission notes that Ameren proposed the increased customer charge of $25.16 from its current charge of $20.30, which represents approximately 44.3% of residential revenues to be collected through the fixed charge. The Commission finds 44.3% is reasonable and consistent with the Commission's precedent. The Commission notes that 44.3% is the fixed cost portion of Ameren's COSS-based residential revenue requirement, which is consistent with cost-causation principles and ensures that fixed costs are recovered through the customer charge, and variable costs are recovered through the delivery charge. Staff agrees that Ameren's proposed increase is reasonable.

The Commission declines to adopt PIO's recommendation that the Commission limit Ameren's residential customer charge to recover no more than 40% of its total revenues. The Commission finds that PIO's recommendation is not supported in the record and PIO's reliance on the Ameren 2023 GRC Order is misplaced. In that docket, the Commission approved a residential revenue customer charge that would "collect no more than 43.9% of its residential revenue through its fixed customer charge." Ameren 2023 GRC Order at 243. The Commission notes that 43.9% is what Ameren proposed in that docket. In other words, the Ameren 2023 GRC Order authorized a fixed charge aligned with the fixed cost portion of the COSS-based residential requirement, just as it does here. *Id*.

b. GDS-4 Large General Delivery Service Customers

(i) AIC's Position

In direct testimony, Ameren Illinois notes that it presented the Company's proposed increase to the fixed monthly customer charges for the GDS-4 class, which is the Large General Delivery Service customer class. Ameren Ex. 12.0 at 3-5; Ameren Ex. 12.8. GDS-4 is available to non-residential customers whose highest Average Daily Usage is equal to or greater than 1,000 therms. Ameren Ex. 12.0 at 4. The Company points out that Ameren witness Schonhoff presented testimony describing how the Company determines natural gas delivery service charges, including for the GDS-4 class. Ameren Ex. 12.2.

Ameren Illinois notes that IIEC/FEA witness York testified that she "support[s] the Company's proposed GDS-4 Rider T customer charges in this case" but she also indicated that if the Commission were to approve a revenue increase less than that proposed by the Company, she would "recommend that the Company's proposed GDS 4 Rider T customer charges be maintained, and that the demand charges be reduced to recover the remaining portion of the revenue requirement allocated to the GDS-4 Rider T class." IIEC/FEA Ex. 1.0 at 32. Ameren Illinois observes that, in briefing, IIEC/FEA recommend that, if the Commission approves a revenue increase less than proposed by Ameren Illinois, the GDS-4 customer charge increases as proposed by the Company be maintained with the demand charges reduced to recover the remaining portion of the increase allocated to that class. IIEC/FEA IB at 19-20.

The Company states that the Commission should reject Ms. York's suggestion that the proposed GDS-4 customer charges should be maintained even if the Commission approves a different revenue requirement. Ameren witness Schonhoff testified that Ms. York is asking for a similar outcome for GDS-4 Rider T customers that PIO witness

Cebulko requested for GDS-1 residential customers: that their respective customer charges "be arbitrarily set," which would "move away from the Company's proposal of setting cost-based rates based on ECOSS results." Ameren Ex. 26.0 at 14. Mr. Schonhoff explained: "The calculation of a cost-based customer charge for any customer class or sub-class, including GDS-4 Rider T customers, is a function of the customer-related cost components that are ultimately included within the approved revenue requirements for each class or sub-class." *Id.* at 14-15. The Company states that its position, which is supported by Staff, is that the customer charge for all customer classes, including the GDS-4 Rider T subclass, should be cost-based and should be based on the ECOSS results for customer-related costs. *Id.* at 15. As such, Ameren Illinois states, and as further addressed above, the Company opposes Ms. York's recommendation and proposes to adhere to the currently approved rate design methodology and adjust final customer charges to a level of customer-related costs associated with the final Commission-approved revenue requirement.

(ii) Staff's Position

Staff notes IIEC/FEA recommends that, if the Commission approves a lower revenue requirement than initially proposed by Ameren, then the Company's proposed customer charges for GDS-4 Rider T customers should be maintained, and the demand charges reduced accordingly. IIEC/FEA Ex. 1.0 at 4 at 32. Staff recommends the Commission reject this proposal.

Staff testified that Ameren's proposed GDS-4 customer charge of $670 is set to recover $2,722,920 (99.86%) of the $2,726,645 customer related costs. Staff Ex. 12.0 (Rev.) 18; Ameren Ex. 12.5. If the Commission orders adjustments that result in the customer-related costs for GDS-4 to decrease 10%, then the amount of customer-related revenues will decrease accordingly, from $2,726,645 to $2,453,980 ($2,726,645 x 0.9). *Id.* In this scenario, if AIC's proposed customer charges are maintained, GDS-4 customer charges would over recover the customer-related costs by $268,940 ($2,722,920 - $2,453,980) or 10.96% ($268,940 / $2,453,980). Staff Ex. 12.0 (Rev.) at 18. Simply put, a portion of GDS-4 variable costs will be recovered from the customer charge. *Id*. Moreover, the GDS-4 customer charge applies to all GDS-4 customers, regardless of if they are Rider T or Rider S customers. Staff Ex. 12.0 (Rev.) at 18; Ameren Ex. 12.5. IIEC/FEA's proposal to maintain the customer charge for GDS-4 Rider T customers could result in another, unjustifiable change in rate design, where Rider S customers and Rider T customers have different customer charges. Staff Ex. 12.0 (Rev.) at 18.

As argued above, if the Commission approves a revenue requirement different from Ameren's proposed revenue requirement, the COSS should be updated; the customer charge should be recalculated using an updated COSS to ensure that all the customer (fixed) costs are recovered from the customer (fixed) charges only; and the remaining costs should be recovered via the distribution delivery (variable) charges. Staff Ex. 12.0 (Rev.) at 18-19. Staff's rate design proposal results in customer charges that are cost-based; customer-related costs should be recovered via the customer charge and variable costs should be recovered from the variable charge. Staff Ex. 4.0 at 20-23. Rates that are cost-based should be consistent with the COSS and not have variable costs recovered via the customer charge and vice versa. Staff Ex. 12.0 (Rev.) at 19.

For these reasons, Staff recommends the Commission reject IIEC/FEA's proposal regarding the GDS-4 Rider T customer charges and instead adopt Staff's COSS-based customer charges consistent with any necessary adjustments corresponding to the Commission-approved revenue requirement.

(iii) IIEC/FEA's Position

IIEC/FEA note Ameren proposes to increase the GDS customer charges by $170, with the remainder of the revenue increase to be collected in the GDS-4 demand charges. IIEC/FEA also points out the Company specifically proposes to maintain non-uniform demand charges for the GDS-4 Rider T >60 psig customers in Rate Zone III. Ameren Ex. 12. IIEC/FEA recognize the Company's proposal is consistent with the Commission's Order in the last rate case, directing it to move toward rate uniformity for GDS-4 Rider T customers over the course of three rate cases. IIEC/FEA Ex. 1.0 at 31. IIEC/FEA generally support the Company's proposed GDS-4 Rider T customer charges in this case. IIEC/FEA argue, however, that higher customer charges could be justified to recognize a customer-related portion of distribution mains. IIEC/FEA state that, while they asked the Commission to order Ameren to calculate and provide the customer component of its distribution mains in its next rate case, there is movement that can be made in this case. If the Commission approves a revenue increase less than was proposed by the Company, IIEC/FEA recommend that the proposed GDS-4 customer charge increase be maintained and that the demand charges be reduced to recover the remaining portion of the increase allocated to that class. IIEC/FEA Ex. 1.0 at 32. IIEC/FEA argue, in this way, there is a symbolic recognition that a portion of distribution mains should be classified as customer-related and allocated on based on the number of customers in each class.

IIEC/FEA also note Staff opposes IIEC/FEA's proposal on the basis that if the GDS-4 customer charges are maintained, the GDS-4 customer charges would over recover the customer-related costs. Staff IB at 94. IIEC/FEA argue a higher customer charge could be justified to recognize a customer-related portion of distribution mains. IIEC/FEA witness York testifies that a portion of these mains is customer-related and should be reflected in that bill component.

(iv) Commission Analysis and Conclusion

Based on the evidence in the record, the Commission agrees with Ameren and Staff and declines IIEC/FEA's recommendation. The Commission also agrees that customer charge for all customer classes, including the GDS-4 Rider T subclass, should be cost-based and should be based on the ECOSS results for customer-related costs. The Commission will adhere to the currently approved rate design methodology under which final customer charges will be adjusted to the level of customer-related costs associated with the final Commission-approved revenue requirement.

2. Revisions to Ameren's Low Income Discount Rate Rider LICA

a. AIC's Position

The Company states that in the Ameren 2023 GRC, the Commission approved a low-income gas discount for eligible Ameren Illinois customers in a tariff called Rider LICA—Low Income Credit Adjustments (also referred to as the Natural Gas Service Discount). Ameren Ex. 1.0 at 10; *Ameren 2023 GRC,* Order at 265-67. Ameren Illinois

explains that, at the time of briefing, its low-income gas discount has been in effect for less than one year. Ameren Ex. 1.0 at 10.

While the Commission adopted the AG's Rider LICA proposal in the Ameren 2023 GRC, the Commission directed Staff "to work with the Company and stakeholders to commence workshops no later than January 15, 2026, to further consider the questions raised in this docket and the Low-Income study report, including but not limited to" the following issues:

> (1) should rider LICA, or another cost recovery mechanism, be limited to residential customers only;
>
> (2) should the LIDR program incorporate seasonal differences in costs to customers and enable the Company to discount either the distribution charge or the whole bill depending on the maximum potential discount to eligible customers;
>
> (3) should additional low-income levels be added to the program;
>
> (4) should the Commission consider approving a uniform LIDR program across all regulated gas utilities in Illinois.
>
> (5) is customer self-reporting income sufficient;
>
> (6) what other income reporting methods could be used in determining customer eligibility; and
>
> (7) what effect the approved LIDR has on the AGS market and issues of competitive neutrality.

Ameren 2023 GRC, Order at 266-67. Ameren Illinois states that the Commission further directed Staff to present a report "60 days after the workshop conclude synthesizing the workshops and any recommended steps the Commission or the Company should take going forward." *Id*. at 267.

Ameren Illinois states that it implemented the low-income gas discount in October 2024. Ameren Ex. 1.0 at 10. The program as initially implemented has five tiers with eligibility associated to each tier based on household income up to 300% of the Federal Poverty Level, and eligible customers receive a monthly discount on their total gas bill charges ranging from 5% to 75%. *Id*. Ameren Illinois notes that the evidence shows that the Company's existing Rider LICA tariff sheets fully comply with the Commission's direction in the Ameren 2023 GRC Order. Ameren Ex. 26.0 at 18.

Ameren Illinois explains that in parallel with implementing Rider LICA as modified and adopted by the Commission, the Company appealed the Commission's determination to adopt the AG's proposal for the tariff, which included five tiers of customer eligibility and applied percentage discounts to the total charges on a customers' bill rather than just the delivery charges. *Ameren 2023 GRC Order* at 265. The Appellate Court vacated the modified version of Rider LICA adopted by the Commission and remanded back to the Commission for further hearings. *Ameren Ill. Co.*, 2025 IL App (5th) 240014, ¶ 133.

The Company notes that although Ameren Illinois did not propose any changes to Rider LICA in its direct filing in this proceeding, COFI witness Pavey made three recommendations regarding the Company's existing low-income discount program. First, Mr. Pavey recommended that the Commission "direct the Company to recalculate its existing five-tiered discount rate structure within Rider LICA to ensure its discounts continue to help enrolled customers achieve a target 3% energy burden . . . .[and] incorporate anonymized LIHEAP customer average income and usage data into the calculation of Tiers 1 through 4 of the discount rate, available from the Department of Commerce and Economic Opportunity [("DCEO")]." COFI Ex. 1.0 at 4, 73-75. Second, Mr. Pavey recommended that "the Commission transition to a Percentage of Income Payment Plan (PIPP) format for the delivery of low-income discounts." *Id.* at 4. Third, Mr. Pavey recommended that the Commission direct Ameren Illinois make changes to the Rider LICA tariff sheets to reference the Ameren 2023 GRC Order and this proceeding. *Id.* at 24. In addition to Mr. Pavey's recommendations, IIEC/FEA witness York recommended that any revenue shortfall resulting from low-income discounts ("LID") should be recovered entirely from the GDS-1 class. IIEC/FEA Ex. 2.0 at 20.

The Company points out that the record contains substantial evidence demonstrating why no changes should be made to Rider LICA at this time.

As to Mr. Pavey's first recommendation, Ameren Illinois states that it would be premature and administratively inefficient to consider either resetting the discounts or recalculating the midpoints based on updated customer data. Ameren Ex. 26.0 at 16. That is because the continuation of the Company's Rider LICA in its current form, including the use of five discount tiers and percentages, is not a certainty due to the opinion of the Appellate Court remanding this issue back to the Commission for further hearings. *Ameren Ill. Co.*, 2025 IL App (5th) 240014, ¶ 133.

Ameren Illinois notes that, in reliance on the Ameren 2023 GRC, COFI argues that the low-income discount established in Rider LICA "must not remain static for the Commission's stated goal of energy affordability to be achieved[.]" COFI IB at 2. Ameren Illinois submits that COFI's arguments ignore several important facts regarding the Ameren 2023 GRC Order, which weigh against the Commission taking any action on Rider LICA in this case.

Ameren Illinois explains that, as even COFI recognizes, the Commission's decision regarding Rider LICA in the Ameren 2023 GRC Order was vacated by the Appellate Court and remanded for further hearings. COFI IB at 17. Ameren Illinois acknowledges COFI's argument that any remand does not "operate as an excuse to not update the existing discount percentages[.]" COFI IB at 17. But, according to Ameren Illinois, any action by the Commission regarding Rider LICA in this case may be superseded upon remand.

Ameren Illinois states the Commission should not enter subsequent orders, including in this case, that could be construed to interfere with the Appellate Court's jurisdiction over Rider LICA and determination to remand the tariff on appeal. The Company notes that the Appellate Court has addressed the impact of subsequent Commission decisions on pending appeals and directed as follows:

> Section 10-201 of the Act gives this court jurisdiction over appeals from Commission decisions. This court's power to

> decide appeals precludes the Commission from entering any order which would effectively interfere with this court's review of the order from which appeal is taken. Thus, the Commission's subsequent orders cannot be construed to interfere with our jurisdiction here. To give this court's remand effect, the Commission's decision on remand must supersede any orders entered in this case after the order from which this appeal is taken. The Commission will especially need to reconsider any orders premised on the correctness of the decision which we hereby reverse.

Citizens Util. Bd., 276 Ill. App. 3d at 749-50. Ameren Illinois submits that if the Commission were to modify Rider LICA in this case, the Commission may have to revisit that decision upon remand the Ameren 2023 GRC. Thus, it would be premature and administratively inefficient at this time to consider making any of the changes to Rider LICA advocated for by COFI in this case, particularly if the discount program will not be retained in its current format.

Ameren Illinois observes that COFI's arguments that the Company is committed to continuation of Rider LICA in its current form, COFI IB at 17-18, are refuted by the well-established legal principle that Ameren Illinois may not alter its tariff in any way absent notice and Commission action under Section 9-201 of the Act. *See also Independent Voters of Ill.*, 117 Ill. 2d at 104-105 (recognizing that case may be remanded to the Commission to correct erroneous portion of rates after a rate order is reversed by a reviewing court).

The Company states that Ameren witness Schonhoff explained that, as a practical matter, the Company is not in a position to update the LICA discount percentages because the Company did not develop the LICA discount percentages that were adopted by the Commission in the last rate case proceeding and does not know how that analysis was performed. Ameren Ex. 26.0 at 16. Therefore, Ameren Illinois states, it does not have the relevant analysis or workpapers relied on for that determination that would permit the Company to perform any recalculations of the existing Rider LICA discount percentages. *Id*.

Ameren Illinois notes that none of the points raised by COFI regarding Mr. Schonhoff's role at the Company or his participation in matters relating to Docket No. 25-0083, which is the Company's electric rate design case, contravene Mr. Schonhoff's testimony that the Company did not develop the discount percentages originally adopted by the Commission in the Ameren 2023 GRC. COFI IB at 18-19. As such, if the Commission were to order any update to the discount percentages in this case, that directive would necessitate additional effort and resources on the part of the Company, which simply are not warranted at this time.

Finally, Ameren Illinois states, Staff witness Williams testified that, even with the Company's proposed rate increases, the existing discounts are sufficient and also that no changes should be made to the existing program at this time given the Commission-directed workshops that will begin in early 2026 to specifically address the gas utility discount programs. Staff Ex. 4.0 at 29; Staff Ex. 12.0 (Rev.) at 31. Ms. Williams

specifically stated: “There are no bills, at average usage, that are above the 3% energy burden.” Staff Ex. 4.0 at 29.

Ameren Illinois states that, as to Mr. Pavey’s second recommendation to transition to a PIPP format for conveying low-income discounts to gas customers, Ameren witness Schonhoff testified that the Company agreed with many of Mr. Pavey’s comments regarding a PIPP-like program. Ameren Ex. 26.0 at 17. Among other things, the Company notes, Mr. Schonhoff agreed that a PIPP-like program “will improve the targeting of discounts for each enrolled customer” and “provides the most straightforward and equitable approach to energy affordability.” *Id.*; COFI Ex. 1.0 at 24. Ameren Illinois acknowledges that the Commission now has approved a PIPP-like rider for the Company’s electric service customers. *Ameren Ill. Co.*, Docket 25-0083, Order at 40-43 (Aug. 7, 2025). However, Ameren Illinois maintains that it would be premature to consider a transition to a PIPP-like format for Rider LICA given the appeal relating to the Ameren 2023 GRC, as well as the upcoming workshops intended to address the efficacy of the new gas utility low-income discount programs.

In the *Ameren 2023 GRC*, Ameren Illinois notes, the Commission directed “Staff to work with the Company and stakeholders to commence workshops no later than January 15, 2026, to further consider the questions raised in this docket and the Low-Income study report[.]” Ameren *2023 GRC,* Order at 266. Given this directive, which will provide all interested parties the opportunity to review experiences to date with Rider LICA and offer their insights on potential improvements informed by actual reporting data for the first full year for all Illinois gas utility programs, it would be premature to address changes to Ameren Illinois’ Rider LICA in this proceeding. The Company notes that, as Ameren witness Schonhoff explained, the Company appreciates the understanding and patience of stakeholders as it navigates these complex issues together, and the Company looks forward to finding solutions together through stakeholder engagement. Ameren Ex. 40.0 at 12.

Ameren Illinois states that as to Mr. Pavey’s third recommendation to make changes to the Rider LICA tariff sheets to include references to the Ameren 2023 GRC and Docket No. 25-0083, Ameren Illinois submits that the Rider LICA tariff sheets fully comply with the Ameren 2023 GRC Order and that no changes to Rider LICA should be made in the case for the reasons articulated above. Ameren Ex. 26.0 at 18. As such, the Company states, any changes addressed at the Rider LICA sheets would be premature at this time.

Ameren Illinois states that IIEC/FEA witness York recommended that any revenue shortfall resulting from LIDs should be recovered entirely from the GDS-1 class. IIEC/FEA Ex. 2.0 at 20. Ameren Illinois states that Ameren witness Schonhoff explained the Company’s opposition to this recommendation. In particular, he explained that collecting all revenue shortfall from GDS-1, or residential, customers would impose an additional burden on those customers and be contrary to the Ameren 2023 GRC Order, which approved the Company’s proposal to collect it from all customer classes. Ameren Ex. 40.0 at 11; Staff Ex 12.0 (Rev.) at 34. Ms. Williams also acknowledged that “the Commission has directed LID workshops to occur in early 2026” and, considering this, she proposed “no changes be made to the existing LID program at this time.” Staff Ex. 12.0 (Rev.) at 31.

b. Staff's Position

Staff recommends the Commission make no changes to Ameren's LID program. Staff Ex. 4.0 at 32. As a threshold matter, Staff analyzed the affordability of gas bills in Ameren's service territory under current, Ameren-proposed, and COSS-based rates. Staff Ex. 4.0, Sched. 4.3. An affordable gas bill is defined as 3% of a household's monthly income. Staff Ex. 4.0 at 28. This 3% energy burden threshold is frequently used to evaluate affordability, including in AIC's most recent rate case. *Ameren 2023 GRC,* Order at 258, 263, 266. Using a 3% energy burden threshold means utility bills are considered unaffordable if a household is spending more than 3% of its income on gas utility bills. Staff Ex. 4.0 at 28.

Staff notes that Ameren provides service in sixty-nine Illinois counties. Staff Ex. 4.0, Attach. C. Staff's calculation of the Median Household Income ("MHI") for each county is shown in Staff Schedule 4.3 and a summary is included in Staff Exhibit 4.0 at 27, Table 7. The weighted MHI for AIC's service territory (based on the number of households in AIC's natural gas service territory) is $67,791. Staff Sch. 4.3. This data is derived using data from the United States Census Bureau, as described in Staff Schedule 4.3.

Staff explained that MHI is an important factor in calculating affordability because it can be used to determine energy burdens for customers in each county served by Ameren. Staff Ex. 4.0 at 27. Using the MHI is beneficial because the median represents the middle-income level of all the incomes within the county. *Id.* For example, the MHI in Jackson County ($45,572) indicates that half (50%) of the AG in Jackson County make more than $45,572 and half (50%) make less than $45,572. *Id.* This means that if bills exceed 3% of MHI, then the bills are likely unaffordable for half of the households residing in that county. *Id.* at 27-28.

Affordable bills for each county in Ameren's service territory are listed in Staff Schedule 4.3 and summarized in Staff Exhibit 4.0 at 29, Table 8. Staff's affordability analysis shows that there are no bills, at average usage, that are above the 3% energy burden threshold in AIC's service territory. Staff Sch. 4.3. Under present rates, COSS-based, or AIC-proposed rates, bills would be below the 3% energy burden threshold. *Id.* Staff also calculated the weighted MHI for all of the counties in AIC's service territory, noting a weighted affordable monthly gas bill for AIC is $169.45 (i.e., $67,791 x 0.03 / 12).

There are some counties that will experience higher bills in the winter months (because they will be using more gas to heat their homes). Staff Ex. 4.0 at 30. As such, Staff notes that customers that have monthly bills that are at or above the 3% energy burden level may experience difficulty paying for their bills in the winter if they are not enrolled in a program that would level out their monthly bills. *Id.*

Though a customer may experience an unaffordable bill in the winter months, that does not necessarily mean that their total annual bills are unaffordable. Staff Ex. 4.0 at 30. To determine if a customer is experiencing unaffordable bills (an energy burden above 3%), it is sometimes necessary to look at their total annual bills, instead of their monthly bill; particularly when the Company has a leveling bill plan. *See id.* This may help to ease the financial strain of higher bills in the winter months as their bills will not fluctuate. Staff Ex. 4.0 at 31.

Staff also testified that, in the counties where AIC provides service, there are 202,119 individuals with income less than 50% of the Federal Poverty Level ("FPL") and 902,594 individuals with income less than 200% of the FPL. *Id.* Importantly, the 902,594 individuals with income less than 200% of the FPL represents individuals and not households. *Id.* This distinction is important because there may be multiple low-income individuals in the same household. *Id.* Per AIC's April 2025 220 ILCS 5/8-201.10(a) compliance filing, AIC currently has 742,139 residential customers and 6.46% (47,960) of those residential customers are low-income customers. *Ameren Ill. Co.*, 220 ILCS 5/8-201.10(a) Credit and Collections and Arrearage Monthly Report (Apr. 29, 2025).

Ameren's low-income discount program went into effect in October 2024 and is available to customers with incomes at or below 300% of the FPL. *Id.* The discounts offered range from 5% to 75% and eligibility is determined via DCEO Local Administering Agencies ("LAA") (for Tiers 1-4) and Ameren (for Tier 5). Ameren Ex. 1.0 at 10; Staff Ex. 4.0, Attach. E; *Ameren Ill. Co. d/b/a Ameren Ill.*, Rider LICA – Low-Income Credit Adjustment, ILL.C.C No. 2 Original Sheet No. 52-52.008, issued Aug. 15, 2024, and effective Aug. 21, 2024. Although Staff proposes no changes to Ameren's LID Program, Staff's analysis included review of participation rates and an alternative recovery method. Staff Ex. 4.0 at 32.

Participation rates for Ameren's LID Program are found in Staff Schedule 4.7. Staff testified that as of January 2025, 56,340 customers participated in Ameren's LID Program. Staff Ex. 4.0 at 32; Staff Sch. 4.7. Of those 56,340 participants, 95.36% (53,726 participants) have income below 200% of the FPL (Tiers 1-4). *Id.* Less than 5% of those participating in Ameren's LID are Tier 5 customers. *Id.*

Staff notes an increase in participation each month (October 2024 to January 2025) for all tiers. Staff Ex. 4.0 at 33. This means that each month new participants enrolled in Ameren's LID Program. *Id.* Staff also observes that despite a trend of increased participation, the month-to-month increase is dwindling. *Id.* For example, from October 2024 to November 2024, there was a 13.18% increase in participation for Tier 1. *Id.* However, from November 2024 to December 2024, the increase in Tier 1 participation fell to 5.93%. *Id.*

Additionally, Staff observe that increases in participation are not equal across all tiers. *Id.* From December 2024 to January 2025, each tier experienced the following increase in participation: Tier 1, 2.19%; Tier 2, 2.08%; Tier 3, 2.63%; Tier 4, 3.52%; and Tier 5, 34.74%. Staff Ex. 4.0 at 33; Staff Sch. 4.7. Stalling enrollment rates may indicate that Ameren's LID Program is nearing its maximum rate of participation; that is, a large percentage of those customers willing and able to participate in Ameren's LID may already be enrolled. Staff Ex. 4.0 at 33.

Staff also analyzed alternative cost recovery mechanisms for Ameren's LID. Staff Ex. 4.0 at 33-36; Staff Sch. 4.6. Specifically, Staff analyzed an alternative recovery method for GDS-1 and GDS-2 customer classes that would recover the LID recovery cost through a variable therm charge instead of a fixed charge. Staff used the updated LICA charge of $2.18 (for GDS-1 customers) and $21.80 (for GDS-2 customers) and determined how much cost recovery each class was responsible for by multiplying the updated LICA charge by the bill counts for each class. Staff Ex. 4.0, Attach. G. After

calculating the cost recovery amount for each class, Staff then divided the cost recovery amount for each class by their respective annual therm usage, resulting in a $0.03927 and $0.09584 per therm charge for classes GDS-1 and GDS-2, respectively. Staff Ex. 4.0, Staff Sch. 4.6.

An average-use customer would see charges ($2.20 for GDS-1 and $21.76 for GDS-2) similar to the flat LICA charges ($2.18 for GDS-1 and $21.80 for GDS-2). Staff Ex. 4.0, Sch. 4.6. However, the actual usage-based LID charge for GDS-1 and GDS-2 customers would vary for each month based on actual usage. *Id.* For example, an average GDS-1 residential customer experiences their lowest usage month in July (11 therms) and their highest usage month in January (136 therms). Staff Ex. 4.0 at 34. Accordingly, an average GDS-1 customer would experience LID recovery charges ranging from $0.43 ($0.03927 x 11 therms) to $5.34 ($0.03927 x 136 therms) throughout the year. Staff Ex. 4.0, Staff Sch. 4.6; Staff Ex. 4.0, Attach. G.

Median use GDS-2 customers would see their LID charges decrease 69.88% from $21.80 to $3.28. Staff Ex. 12.0, Staff Sch. 12.06. Even customers at the 70th percentile would experience a decrease in their bills; they will see their charge decrease from $21.80 to $13.81. Staff Ex. 12.0, Staff Sched. 12.06; Staff Ex. 12.0 (Rev.), Attach. E. This means that at least 70% of GDS-2 customers will experience a decrease in their LID charges. From this Staff also concluded that, at most, 30% of GDS-2 customers may experience an increase in their LID charges. Staff Ex. 12.0 (Rev.) at 34. In fact, for a GDS-2 customer to experience an increase in their LID charges, they must use more than 2,729 ($21.80 / $0.0954 x 12) therms per year. *Id.*

Similarly, median use GDS-1 customers will see their LID charges decrease 19.85% from $2.18 to $1.75. Staff Ex. 12.0 (Rev.) at 34. This means at least 50% of residential customers will see a decrease in their LID charges and less than 50% will see an increase in their bills. *Id.* In order for a GDS-1 customer to experience an increase in LID charges, they will have to use more than 666 therms per year. *Id.*

For these reasons, Staff does not recommend the Commission authorize changing Ameren's Rider LID recovery mechanism to a usage-based charge. *Id.* This is because, under a usage-based charge, the LID recovery charge would vary according to gas usage in a given month; it may fluctuate widely over the course of a year; and it may result in higher recovery charges during months when GDS-1 and GDS-2 customers are using the most gas and receiving their highest gas bills. Staff Ex. 4.0 at 35.

Staff also observes that Ameren's LID Program (and related charges) only went into effect on October 1, 2024. *Id.* There has not been adequate time to evaluate whether the program is working and whether it is reaching the targeted customer base. *Id.* Upon initial implementation it was assumed that, after the LID Program had been in effect for some time, Rider LID and the cost recovery mechanism for the program may need modification to maximize the amount of customers that take advantage of the program and to determine a methodology for fairly allocating the cost recovery to the customer classes. *Ameren 2023 GRC,* Order at 265-68. Staff concluded that it is too soon following implementation to make changes to the program as it has yet to be in effect for a full year. *Id.* Staff concluded that more time and information is needed to determine the efficiency of the program and how it can be improved. Staff Ex. 4.0 at 35. The appropriateness of

a variable LID recovery charge will be a concept worth considering once the program has been in place for a longer period. *Id.*

Staff next considered an alternative LID mechanism that moved GDS-2 customers from the 10x multiplier to the 1x multiplier. Staff Sch. 12.06. Staff did so to determine whether there was a reasonable alternative LID charge that could be proposed to alleviate the burden of LID charges on low-usage customers. Staff Ex. 12.0 (Rev.) at 32-35.

Staff's analysis shows that if GDS-2 customers were moved to the 1x multiplier for the LID charge, the total amount of LID charges for the GDS-2 customer class would decrease 83% from $17,310,661 to $3,000,573. *Id.* at 32. A flat, or fixed LID charge for GDS-2 customers would decrease 83% from $21.80 to $3.78 a month. *Id.* A variable LID charge, rather than a fixed charge, would result in an 83% decrease from $0.09584 to $0.01662 per therm. Staff Ex. 12.0 (Rev.) at 32; Staff Sch. 12.06.

The same analysis revealed that if GDS-2 customers are moved to the 1x multipliers for LID charge, the total amount of LID charges for the GDS-1 customer class would increase 73% from $19,444,519 to $33,715,725. *Id.* at 33. The GDS-1 flat LID charge would increase to $3.78 per month from $2.18 per month and a variable charge would result in a 73% increase from $0.03927 to $0.06809 per therm. Staff Ex. 12. (Rev.) at 33; Staff Sch. 12.06.

Staff concluded that an alternative LID charge that moves GDS-2 customers to a 1x multiplier will place an inequitable burden on the GDS-1 customer class. Staff Ex. 12.0 (Rev.) at 33. Under the current LID charge methodology, GDS-1 recovers 52.7% of the LID costs and GDS-2 recovers 46.92%. *Id.* If GDS-2 moved to a 1x multiplier for LID charges, that allocation would drastically change: GDS-1 would recover 89.06% of the total LID costs and GDS-2 would recover 7.93%. Staff Ex. 12.0 (Rev.) at 33. Moreover, GDS-1 customers will experience an increase in their LID charges using either a fixed or variable charge. *Id.* Thus, each class's LID allocation will drastically change at the expense of, and detriment to, GDS-1 customers. Staff Ex. 12.0 (Rev.) at 33; Staff Sch. 12.06. Therefore, an alternative LID charge that moves GDS-2 customers to a 1x multiplier is unreasonable and will place an undue burden on residential customers.

As a final note, Staff observes the wide variances of commercial customers that have an annual therm usage less than 4,000,000 therms. Staff Ex. 4.0 at 35. Staff recommended that Ameren present an alternative approach to the LID flat recovery charges for commercial customers that would assign different multipliers to different commercial rate classes. *Id.* This approach would better reflect the diversity among non-residential customers that use fewer than 4,000,000 therms annually. *Id.* at 35-36. Ameren did not do so in rebuttal or surrebuttal testimony. Staff Ex. 12.0 (Rev.) at 32.

In sum, Staff recommends the Commission make no changes to Ameren's LID Program in this proceeding. Staff Ex. 4.0, 35; Staff Ex. 12.0 (Rev.) at 34. Alternatively, if the Commission chooses to pursue decreasing the burden on low-usage customers, Staff recommends the Commission require AIC to submit the following analyses in its next gas rate proceeding: (1) alternative multipliers for calculating LID charges for non-residential customers; and (2) alternative LID charges that vary with usage for residential and non-residential customers. Staff Ex. 12.0 (Rev.) at 35.

COFI recommends several changes to Ameren's LID Program, including that: (1) the Commission direct AIC to recalculate its discount structure to ensure that customers are maintaining a 3% energy burden; (2) the Commission require Ameren calculate discounts using customer income data from DCEO; (3) the Commission change the LID to deliver discounts via a PIPP format; and (4) Ameren provide updated discounts in its rebuttal testimony. COFI Ex. 1.0 at 4, 17.

COFI maintains that "[t]he goal of any low-income discount rate design should be to reduce the energy burden of financially struggling customers to an affordable level." *Id*. at 6. To update the calculation for discounts, COFI recommended the Commission order Ameren to update the methodology for determining discounts by updating the following components of the discounts: (1) average customer usage; (2) average household ("HH") size; (3) the average income for the first four tiers; and (4) changing the baseline of Tier 1 from 40% to 25%. *Id*. at 14-16. COFI recommends the Commission maintain the goal of a 3% energy burden. *Id.* at 4. Though not a recommendation, COFI had concerns with why and how Ameren forecasted increases in LID qualifying customers. *Id*. at 15.

Staff recommends the Commission reject COFI's proposal. Ameren's LID program has only been in effect since October 2024. Staff Ex. 12.0 (Rev.) at 26. COFI's recommendation is based on just three months of data. Changes to the discount levels are premature when considering the Company has not yet submitted any of its reporting requirements. *Id.* As such, any significant structural changes or updates to the LID program (e.g., tiers, discounts, terms, HH size, discount calculations) will likely result in inconsistent data being provided when Ameren submits its LID reporting requirements which would diminish the usefulness of any LID Program data submitted by the Company. Staff Ex. 12.0 (Rev.) at 26. Considering that the Commission planned LID workshops to occur in early 2026, Staff disagrees that any significant structural changes to the existing Ameren LID program should be ordered in this proceeding. Staff Ex. 12.0 (Rev.) at 26-27.

Staff recommends the Commission reject COFI's proposals to change the HH size used to calculate the discounts from a 3-person household to a 2-person household and revise the income assumptions to either the 2025 FPL income assumptions or DCEO data. COFI Ex. 1.0 at 16-17. COFI did not provide any information regarding how his proposals will affect the program costs, recovery charges paid by customers, data sent by AIC for the reporting requirements, or the bill impacts of LID eligible customers. *Id.* at 15-16. But Staff notes that affordability for all customers should be a consideration when recommending any LID Program changes. Staff Ex. 12.0 (Rev.) at 27. Absent any record evidence on how much COFI's proposed changes will cost customers, it is impossible for the Commission or any other party to evaluate whether these changes would result in affordable bills for non-low-income customers. *Id.* That is, there is a possibility that COFI's recommended changes would result in unaffordable bills for non-low-income customers who are ineligible to receive assistance through Ameren's LID Program. *Id.*

Relatedly, current census data shows that Ameren has an average household size of 2.33 persons in its service territory, whereas the DCEO data has an average household HH size of 2.22. Staff Sch. 12.05; COFI Ex. 1.0 at 15-16. Since DCEO data does not reflect the larger group of Ameren's LID-eligible residential gas customers who are not

enrolled in LIHEAP, reliance on DCEO data could result in calculating new discounts based on data that is not representative of the Company's entire LID-eligible population.

COFI's proposed FPL income table is also flawed because it used 25% of the FPL as a baseline for Tier 1 discounts. COFI Ex 1.0 at 16-17. Staff notes that this proposal is contrary to COFI-LAC's previous Commission-accepted proposal to use 40% of the FPL as baseline for Tier 1 discounts. Staff Ex. 12.0 (Rev.) at 28; *see N. Shore Gas Co. & Peoples Gas Light & Coke Co.*, Docket No. 23-0668/23-0069 (Consol.), COFI-LAC Ex. 1.0, 63 (Jul. 17, 2023); To stay aligned with Illinois' other large gas utilities' LID Program designs, using 40% of the FPL as a baseline for Tier 1 discounts is more appropriate than 25%. Staff Ex. 12.0 (Rev.) at 28. It is also important to note that in a more recently determined LID, the Commission approved Staff's proposal to use 40% of the FPL as the baseline for Tier 1. *Commonwealth Edison Co.,* Docket No. 24-0163, Final Order at 30-41, 43-45 (Mar. 6, 2025). Put another way, the Commission confirmed its preference for using 40% as a baseline for Tier 1 when it recognized "the relatively large number of households with no income in Tier 1." *Id.* at 45. COFI did not provide any evidence that shows a decrease in the number of households with no income in Tier 1. Staff Ex. 12.0 (Rev.) at 28; *see* COFI Ex. 1.0.

COFI also expresses concerns with achieving a maximum energy burden of 3% given the Company's requested rate increase. COFI Ex. 1.0 at 14. COFI insists that "[I]t is critical that the discount rate percentages achieve a maximum 3% target energy burden." COFI Ex. 1.0 at 14. COFI's argument ignores that, in addition to utility LIDs, there is other assistance available for the Company's customers who are most in need of financial assistance to achieve affordable energy bills. Staff Ex. 12.0 (Rev.) at 28-29. COFI is also concerned about the amounts of federal funding LIHEAP receives. COFI Ex 1.0 at 17-18. COFI claims that if the number of LIHEAP-eligible households increase, or if federal funding decreases, then households will need the discount rates to reach affordability. *Id*. at 18. COFI contends that customers cannot depend on LIHEAP as a means to make bills more affordable.

Staff finds COFI's arguments to be speculative and exaggerated. As Staff explained, LIHEAP's State funding is not static and recently increased. Staff Ex. 12.0 (Rev.) at 29. As of January 2025, the monthly Base Energy Assistance Charge ("BEAC") increased 33% from $0.48 to $0.64. Staff Ex. 12.0 (Rev.) at 29; *Ameren Ill. Co. d/b/a Ameren Ill.,* Energy Assistance Charge for Supplemental Low-Income Energy Assistance Fund, ILL.C.C. No. 2, 1st Informational Sheet Supplemental to Sheet No. 36.001 Cancelling Original Informational Sheet, issued Dec. 17, 2024, and effective Jan. 1, 2025. When LIHEAP uses at least 80% of its funding in a fiscal year, the BEAC will receive a $0.16 increase (up to a maximum BEAC of $0.96). *Id.; see also* 304 ILCS 20/13. If LIHEAP meets the 80% threshold for two more years, LIHEAP will receive the maximum amount of State Funding currently available through the BEAC, effectively doubling the State Funding that was available to LIHEAP in 2024. Staff Ex. 12.0 (Rev.) at 30. Thus, LIHEAP is not at immediate risk of being unavailable and it is unreasonable to ignore LIHEAP benefits when determining LID discounts for customers. To best aid all of Ameren's customers (those eligible for a LID and those who are not eligible for the LID), the optimal and most reasonable option is for the LID and LIHEAP benefits to be designed

to work together. *Id.* For the reasons stated above, Staff recommends the Commission reject COFI's proposal to recalculate Ameren's LID Program discounts using DCEO data.

Likewise, Staff recommends the Commission reject COFI's proposal for AIC to transition its current LID program to a PIPP format. COFI Ex. 1.0 at 3-4, 23-24. This is because COFI's proposal is not fully developed. The record evidence does not sufficiently explain how the proposed LID Program design would function; how much it will cost; how long it will take to implement; or the bill impacts to all customers. Staff Ex. 12.0 (Rev.) at 31. As noted above, the Commission has directed LID workshops to occur in early 2026. *Id.* Accordingly, Staff recommends no changes be made to the existing LID program in this proceeding. Staff Ex. 12.0 (Rev.) at 31.

In the event the Commission is inclined to pursue changing Ameren's LID Program to a PIPP format, Staff recommends the Commission require AIC to propose tariff changes reflecting a PIPP format in its next rate case. *Id.* There are factors to consider when approving a PIPP format LID program that have not been thoroughly discussed in this case, including but not limited to, changes to the cost of the LID and related cost recovery charges, and customer bill impacts. *Id.* Absent sufficient consideration of these factors on the record, it is premature to adopt a PIPP format for AIC's LID Program in this rate case. *Id.*

Staff has no objection to COFI's proposal for Ameren to update the first and fifth pages of Rider LICA tariff sheets with a reference to the Ameren 2023 GRC Order in the same section as the references to the Commission's December 2022 report to the General Assembly. Staff Ex. 12.0 (Rev.) at 35; COFI Ex. 1.0, 24.; *Ameren Ill. Co.*, Gas Service Schedule Ill.C.C. No. 2, Original Sheet No. 52, 52.004, issued Aug. 15, 2024, and effective Aug. 21, 2024.

Staff's affordability analysis examined the MHI for each county in which the Company provides natural gas delivery services. Staff Ex. 4.0 at 27-31. The purpose of Staff's analysis was to assess affordability of gas bills in Ameren's service territory under current rates, Ameren-proposed rates, and COSS-based rates.

Staff explained that MHI is an important factor in calculating affordability because it can be used to determine energy burdens for customers in each county serviced by Ameren. Staff IB (Pub.) at 95. Staff acknowledges that, for any given county within Ameren's service territory, if bills exceed 3% of MHI, then bills are likely unaffordable for half (50%) of all households residing in that county. *Id.* However, Staff's analysis demonstrated that under present rates, Ameren-proposed rates, or COSS-based rates, there are no residential bills at average usage above the 3% energy burden threshold when using MHI for income data. *Id.*

COFI argues that Staff's affordability analysis "is inherently flawed for purposes of analyzing energy affordability and determining whether the discount rate percentages should be updated in light of Ameren's requested rate increase." COFI IB at 19. Specifically, COFI asserts that Staff "made no assessment of the affordability of customer rates for those customers whose incomes fall below the MHI." *Id.* COFI asserts that Staff used a weighted median household income to calculate a weighted affordable monthly gas bill to incorrectly apply the 3% target energy burden to each county. *Id.* at 20. COFI further asserts that Staff's analysis "does not address the purpose nor target population

of the discount rates." *Id.* at 22. COFI concludes that Staff's affordability analysis is "based on the wrong metric, MHI, rather than an assessment of whether bills are affordable for customers living in poverty in Ameren's service territory." *Id.* at 23.

However, COFI's criticisms of Staff's affordability analysis fall short in multiple ways: (1) weighted median income was not a factor (or input) in Staff's analysis, but is a product (or output) of Staff's analysis; (2) the weighted median gas bill was not a factor in Staff's analysis, but a product of Staff's analysis; and (3) Staff's affordability analysis analyzed general affordability for residential customers of Ameren, not low-income affordability. Staff witness Williams repeatedly clarified that neither the weighted median income nor the weighted median gas bill was used as an input in Staff's affordability analysis. Tr. at 140-42.

Regarding COFI's third criticism, the analysis was not designed or offered for the purpose of assessing whether Ameren's LID Program should be changed or updated in this proceeding. Staff did not cite its affordability analysis as a reason to reject COFI's proposed changes to Ameren's LID Program. Instead, Staff performed the analysis to determine whether Ameren's proposed rates would result in affordable gas bills (i.e. bills at or below the Commissions 3% energy burden threshold) for Ameren's entire service territory. Staff Ex. 4.0 at 29.

Further, Staff points out an important distinction between MHI and the FPL. The FPL measures the incomes of households and is dependent upon household size whereas the MHI is not dependent upon household size. Staff expressly recognized that: (1) eligibility for Ameren's LID Program is based on a customer's income relative to the FPL; and (2) Ameren customers with incomes less than 300% of the FPL may be eligible for Ameren's LID Program. *Id.* Staff then offered several reasons as to why the Commission should reject COFI's proposed updates, including the lack of full representation in DCEO data, significant structural updates potentially resulting in inconsistent data for reporting requirements, LID workshops (which will occur in early 2026), and lack of evidence showing how COFI's changes will impact the costs of the LID. Staff Ex. 12.0 (Rev.) at 26-27. Thus, contrary to COFI's argument, Staff's analysis does not employ the "wrong metric"; rather, Staff's analysis addresses precisely the population intended: households within Ameren's service territory.

COFI next argues that Staff's analysis does not appropriately consider customers whose bills may be higher than 3% of monthly MHI during the winter months. COFI IB at 20-21. COFI's argument, however, is based on monthly bills rather than annual bills, which can also be used to analyze affordability. Staff IB (Pub.) at 96. COFI's narrow view of affordability dismisses Staff's reasonable suggestion that customers whose bills exceed 3% of monthly income during the winter months could benefit from enrollment in a levelized payment plan offered by Ameren so that their bills are static and affordable throughout the year. *Id.*

Staff states that COFI fails to explain why a customer's annual bills coupled into a payment plan offered by Ameren is not a reasonable method for achieving affordability. Nor does COFI offer any critique of the levelized payment plan offered by the Company. Ameren's LID program, while mandated by statute and no doubt critical for Ameren's LID-

eligible customers, is not the only means to reach affordability, as demonstrated by Staff's affordability analysis and accompanying discussion.

Staff also clarifies that it never testified nor argued that LIHEAP can or should be solely relied upon to bridge the affordability gap, if any, between the LID Program and 3% energy burden targets. Staff's position has remained consistent throughout this proceeding: in addition to Ameren's LID Program, "there is other assistance available for the Company's customers who are most in need of financial assistance to achieve affordable energy bills." Staff IB (Pub.) at 105. Contrary to COFI's assertion, Staff does not rely on LIHEAP for its affordability analysis; to put it another way, Staff does not rely on LIHEAP to make Ameren bills affordable to customers. Staff concluded that the LID Program, in addition to other payment options offered by the Company and LIHEAP, can be utilized to achieve affordability for all of Ameren's customers. *See id*. at 106.

Second, COFI offers no authority for its suggested reading of the LIHEAP statute. Further, Staff does not rely upon LIHEAP to suggest changes to discount rate percentages. Staff analyzed the affordability of gas bills in Ameren's service territory under current rates, Ameren-proposed rates, and COSS-based rates. Importantly, Staff is not proposing any changes to the LID program; COFI is the party proposing changes. It seems COFI is attempting to call into question the legality of its own position.

COFI next argues that "counting on LIHEAP to ensure affordability… would be unwise" because "Illinois LIHEAP funding levels appear to be on a downward trajectory [in] post-Covid years." COFI IB at 24-25. COFI insists that "[f]urther developments at the federal level caution against relying on LIHEAP to address energy unaffordability due to uncertain funding levels." *Id.* at 25. According to COFI, Staff's recommendation is flawed because it "relies in part on the availability of 'other assistance' including LIHEAP." *Id.* at 24. COFI further asserts that Staff's knowledge regarding administration and specific funding percentages of LIHEAP shows "failure to truly assess the reasonableness of relying on LIHEAP to help address affordability." *Id.* at 27.

Initially, Staff notes that it is entirely unclear how developments at the federal level, such as "a Discretionary Budget Request to Congress, issued May 2, 2025," ("Discretionary Budget Request") or testimony to a Congressional subcommittee, COFI IB at 26-27, somehow demonstrates LIHEAP cannot be relied upon to help Ameren's low-income customers achieve an affordable energy burden either this year or in future years. For example, COFI fails to acknowledge that the evidentiary record in this proceeding does not include what the response to or the result of the Discretionary Budget Request was. Furthermore, COFI does not demonstrate that Staff's analysis is weakened or diminished by any of that knowledge regarding LIHEAP administration or funding that COFI claims is absent from Staff's analysis or undermines Staff's analysis.

The Commission should not make changes to Ameren's LID Program because, among other things, any changes to the program at this point are premature. Staff IB (Pub.) at 97-98, 105. As Staff explained, Ameren's LID Program was implemented in October 2024, just three months prior to the filing in this proceeding. *Id.* at 100. Further, the LID Program has been active for less than a year and, as such, Ameren is not yet required to submit the reporting requirements identified in its last general rate case. *Ameren 2023 GRC,* Order at 267-68. staff noted that although the LID Program may

require changes after it has been in effect for sufficient time and enough data has been collected, the Commission-ordered workshops scheduled to begin in early 2026 will provide an appropriate forum for consideration of any proposed structural changes. Staff IB (Pub.) at 105.

COFI disagrees, arguing that Staff's position is "ill-conceived." COFI IB at 29. COFI's contention appears to be that because Staff is not aware of "how long [the Commission-ordered LID] workshops will last or whether there will be an end date," citing the workshops is not reason enough to delay updating discount percentages. *Id.*

Staff notes that the workshops are scheduled to begin in January 2026. The absence of a certain duration or end date does not justify structural changes to Ameren's LID Program when considering that doing so could diminish the usefulness of any data submitted by the Company. This is especially true when considering that the Ameren 2023 GRC Order clearly contemplates a robust workshop process that will evaluate the efficacy of Commission-authorized LID Programs. *Ameren 2023 GRC,* Order at 266-67.

Further, duration of the workshops does not change the fact that COFI is asking the Commission to adopt structural changes to Ameren's LID Program without record evidence demonstrating the impact of those changes. COFI's proposal to update the discount percentages turns, in part, on using income thresholds for a 2-person household, not a 3-person; and the income thresholds for the 2-person household size is based on DCEO data, not FPL data. COFI IB at 14. As Staff noted, DCEO data accounts for only LID-eligible residential gas customers who are enrolled in LIHEAP, not all LID-eligible residential gas customers. Staff IB (Pub.) at 104. In other words, using DCEO data would certainly result in updated discounts based only on a subset of Ameren's entire LID-eligible population, specifically, Ameren LID-eligible customers also enrolled in LIHEAP. *Id.* It reasonably follows that DCEO data could cause inaccurate discount percentage updates.

Further, COFI fails to explain how its proposal would affect the program costs, recovery charges paid by customers, data sent by AIC for the reporting requirements, or the bill impacts of LID eligible customers. Staff IB (Pub.) at 104. Staff stated its concern that, absent any record evidence, it is impossible for the Commission to determine whether these structural changes ensure affordability for all Ameren customers, including those who are not eligible for the LID Program. *Id.*

Staff also notes that current census data shows that Ameren has an average household size of 2.33 persons in its service territory, whereas the DCEO data has an average household size of 2.22. Staff IB (Pub.) at 104; Staff Sch. 12.05; COFI Ex. 1.0 at 15-16. Crucially, DCEO data does not reflect the larger group of Ameren's LID-eligible residential gas customers who are not enrolled in LIHEAP. Staff IB (Pub.) at 104. Thus, reliance on DCEO data could result in calculating new discounts based on data that is not representative of the Company's entire LID-eligible population. *Id.*

COFI also complains that Staff witness Williams "confessed unfamiliarity with the discount rate-setting process that occurred in 2023." COFI IB at 29. Staff counters that Staff witness Williams' familiarity with process that occurred in the Ameren 2023 GRC has no bearing on the issue of whether the Commission should adopt COFI's proposal in this proceeding. Staff witness Williams is familiar with Ameren's LID Program, the

purposes for which it was implemented, and the data the Company must report to the Commission in connection with the LID Program. Staff Ex. 4.0 at 31-35; Staff Ex. 12.0 (Rev.) at 25-35.

Alternatively, if the Commission is inclined to pursue changing Ameren's LID Program to a PIPP format, which it should not, Ameren should be required to propose tariff changes reflecting a PIPP format in its next rate case. Staff IB (Pub.) at 107. This will ensure sufficient consideration of critical factors (e.g., cost of the LID, recovery, and bill impacts) attendant to adoption of a PIPP format. *Id.*

Staff has no objection to COFI's proposal for Ameren to update the first and fifth pages of its Rider LICA tariff sheets with a reference to the Ameren 2023 GRC Order in the same section as the references to the Commission's December 2022 report to the General Assembly. Staff Ex. 12.0 (Rev.) at 35; COFI Ex. 1.0 at 24.); *Ameren Ill. Co. d/b/a Ameren Ill.*, Gas Service Schedule ILL.C.C. No. 2, Original Sheet No. 52, 52.004, issued Aug. 15, 2024, and effective Aug. 21, 2024.

The Company argues that Rider LICA complies with the Ameren 2023 GRC Order, and any changes would be premature. Ameren IB at 210. However, as COFI notes, Rider LICA currently contains reference only to the Commission's 2022 Report to the General Assembly. COFI IB at 31. Yet, Ameren's current LID Program is largely the result of the Ameren 2023 GRC Order. *Id*.; *Ameren 2023 GRC,* Order at 265-68. The Commission issued the Ameren 2023 GRC Order in November 2023, nearly two years ago. Thus, it is not clear to Staff how additional reference to the Ameren 2023 GRC Order is premature.

For these reasons, Staff recommends the Commission order Ameren to update the first and fifth pages of Rider LICA with reference to the Ameren 2023 GRC Order.

c. IIEC/FEA's Position

IIEC/FEA maintains its position that any revenue shortfall resulting from LIDs should recovered entirely from the GDS-1 class. However, given the Commission's determination that revenue shortfalls resulting from LIDs should be recovered from all classes, IIEC/FEA points out that a flat monthly charge is the most reasonable approach considering there is not cost-causation basis for allocating these costs to non-Residential customer classes in the first instance. IIEC/FEA Ex. 2.0 at 20.

d. COFI's Position

COFI states that it is certain, based on the various positions of the parties, that Ameren's rates will increase significantly when the Commission enters a final Order in this proceeding. Unless discount rate percentages are increased in conjunction with that rate increase, Ameren's low-income customers will face unaffordable energy burdens. In this case, Ameren has requested increased revenues of more than $128 million in its surrebuttal testimony. Ameren Ex. 33.0 at 2.

Initially, Ameren witness Schonhoff testified that the typical residential customer (using 665 therms per year) will experience an increase in their delivery service rates of 18.7% or approximately $9.09/month on average. Ameren Ex. 12.0 at 13. Lower usage customers will experience an average delivery service rate increase of 20.0%. *See* Ameren Ex. 12.6.

With this increase in rates—even if ultimately smaller than requested based on the Company's latest revenue projection—the current LIDR discounts need to be increased above the current percentages to ensure enrolled customers maintain an affordable energy burden.

It is important to note, too, that Ameren rates are expected to continue to increase on a regular basis. Company witness Luke Lavin testified that the Company intends to file another rate increase request in 2026—regardless of the size of the increase granted by the Commission in this case. Ameren Ex. 5.0 at 9. Failing to correspondingly adjust discount rate percentages in each tier that are designed to ensure that customers, on average, not face bills with energy burdens higher than 3% disrupts the Commission's affordability goals.

As noted by COFI witness Pavey, the goal of any low-income discount rate design should be to reduce the energy burden of financially struggling customers to an affordable level. Energy burden is commonly defined as the percentage of a household's monthly income that is spent on electricity and heating services. This metric has been consistently adopted by the Commission in its low-income discount rate orders, including in Ameren electric's rate design order, just issued by the Commission on August 7, 2025. *See* Docket No. 25-0083, Order at 41

Researchers and policy experts nationwide have repeatedly cited an energy burden of 3% of household income for electricity and 3% for heating services, for a combined energy burden of 6%, as a reasonable standard for affordable energy services. COFI witness Pavey testified that any total energy expenditure that exceeds this 6% threshold is considered high or excessive. COFI Ex. 1.0 at 6. The 3% cap for heating services is based on the longstanding recognition that total shelter costs are generally deemed to be unaffordable to the extent that they exceed 30% of income, and that utility costs tend to equal 20% of total shelter costs. A multiplication of those two data points (20% times 30%) yields the 6% figure. *Id.*

The five-tiered Ameren gas discount rate (0 to 50% of the federal poverty level (["FPL"], 51% to 100% FPL, 101% to 150% FPL, 151% to 200% FPL and 210 to 300% FPL) was modeled after the discount rate proposals offered by COFI witness Roger Colton in the Nicor and The Peoples Gas Light & Coke Company and North Shore Gas Company ("PGL/NS") cases, as highlighted in the testimony of AG witness Larkin-Connelly in *Ameren 2023 GRC*. *Id.* at 7. Mr. Larkin-Connelly based his recommendation for a gas discount rate on Mr. Colton's five-tiered, whole-bill discount rate approach, which based the recommended discount percentages based on a 3% maximum energy burden. *See* COFI Ex. 1.1, 1.2, 1.3 and 1.4, respectively.

Importantly, Mr. Colton's recommended discount for the fifth tier (201% to 300% FPL) was set for a minimum 5% discount. Mr. Colton made clear that his 5% minimum discount percentage for the Tier 5 (201% to 300% FPL) customers was not based simply on achieving a 3% energy burden calculation (and for many, resulted in an energy burden that may at times fall below a 3% level). COFI Ex. 1.0 at 8. Rather, Mr. Colton's proposal was designed to reflect a minimum discount level needed to ensure that customers in this income group were provided a meaningful discount for which it would be worth applying. It was also proposed in recognition of the fact that households with Tier 5 income often

see their incomes fluctuate below that level, and do not receive LIHEAP or other assistance programs because of maximum income eligibility rules. *Id.*

Ameren gas, too, utilizes that same 5% discount. And recently, the Commission adopted a 5% minimum discount for Commonwealth Edison Company based on similar reasoning in Docket No. 24-0163. *Commonwealth Edison Co.,* Docket No. 24-0163, Final Order at 30-41, 43-45 (Mar. 6, 2025)

Furthermore, no party can reasonably argue that in the two years since the last rate case, the incomes of Ameren's low-income customers have risen faster than the rate at which Ameren's rates are likely to increase in this case. As Ameren's rates increase, and low-income customers' incomes do not keep up, low-income customers will be faced with unaffordable energy burdens. COFI witness Pavey explained the severe consequences of high energy burdens—testimony that went unanswered by the Company. For example, the research consistently finds that when households are unable to afford energy services, AG are at risk for electric and heat shutoffs, and all of the health- and societal-related consequences that follow the loss of essential utility service. COFI Ex. 1 at 10. In 2022, the U.S. Energy Information Administration found that 27% of U.S. households struggle to afford energy bills. *Id.* This energy affordability gap results in households unable to afford the basic necessities of life. When a home loses access to essential utility services, including electricity and any form of heating service, the home is uninhabitable. *Id.*

Mr. Pavey explained that "[e]ven when a household is able to remain connected to these essential services, which happens in part due to the availability of the LIHEAP vendor payments, AG tend to engage in self-imposed energy deprivation in an effort to keep energy bills lower. Such behaviors include keeping the home's temperature at unsafe levels—either too cold in the wintertime or too warm in the summer months." *Id.*

Mr. Pavey explained that by "deprivation," he is referencing what has been referred to as "energy limiting behavior" by academic authors who have studied the relationship between financial status and energy usage. He noted one such study defines "energy limiting behavior" as "the inability or unwillingness to consume enough energy to reach a desired level of comfort." Mr. Pavey recounted that he has "heard from many LIHEAP households that they limit energy consumption due to affordability concerns, especially regarding running air conditioning during the summer, even when heat warnings are in effect." *Id.*

Mr. Pavey noted, too, that there is significant evidence that energy unaffordability *itself* can lead to poverty, as opposed to just being a factory exacerbating overall poverty. In addition, Mr. Pavey testified that it has been documented that energy unaffordability is a primary reason people turn to exorbitantly priced payday loans, with interest rates that are unaffordable and continue the cycle of poverty. *Id.* at 11-12. And of course, a household that is forced, due to energy unaffordability, to engage in deprivation of energy usage puts the inhabitants at risk of cold- and heat-related illness and even death. *Id.* at 12.

Finally, loss of essential energy utility services makes a home uninhabitable, with energy insecurity and housing insecurity inextricably linked. Low-income utility customers are at particular risk when it comes to risk of loss of housing, Mr. Pavey explained.

Tenants whose rent is subsidized by the Housing Choice Voucher ("HCV") Program (a.k.a. "Section 8") are often responsible for ensuring continuous utility service in their residences. *Id.* Tenants in the HCV Program whose leases require tenant-paid utilities who are unable to maintain service are considered in violation of the program rules and can face termination of their housing assistance. *See* 24 C.F.R. §§ 982.404(b)(1)(i), (b)(3).

All of these real-world impacts of energy unaffordability should be taken into account by the Commission as it assesses the proposals for a low-income discount rate in this case and focuses on establishing rates that are truly affordable.

COFI states that minor adjustments to the LIDR discounts are needed to ensure bills are affordable. COFI provided unrebutted recommendations for improving Ameren's existing five-tiered low-income discount rate—or as Ameren calls it, its low-income discount adjustment ("LIDA")—to ensure that Ameren's low-income customers pay no more than 3% of their monthly income toward gas utility service. Ameren's rate filing fails to update the program notwithstanding the Company's proposed rate increase, contravening the Commission's objective in establishing the program.

In response to Staff data request LW 3.05, the Company stated that "(t)here were two changes made to update the Rider LICA informational filing for this Gas Rate Case; the average usage was adjusted, and the delivery service rates were updated from those in effect at the time to those proposed in this case. *Id.* at 14. All other components of the total gas bill were not changed and are the same values filed with the Rider LICA informational sheet in September 2024. *Id.* It appears, in terms of the cost of Rider LICA, the Company has assumed an increase in the number of qualifying customers for each tier, as shown in COFI Exhibit 1.5. No explanation was provided as to why this increase in participation is forecasted, or how it obtained the increase in participation numbers presented in the exhibit. *Id.* at 15.

In addition, in response to Staff data request LW 3.06, Ameren simply recalculated what the cost and annual average bill discounts will be, without updating the discount rate percentages themselves for each tier, based on the requested rate increase. *Id.* at 14-15. As shown in that response, the only input Ameren does update for purposes of the credit to qualifying customers is its understanding of the average annual usage of Ameren residential customers, which the Company states is $124.79 per month. Multiplied by 12, the Company assumes a total average annual bill of $1,497.48. The Company also computes what the average, monthly low-income discount will be as a result of the requested rate increase, as shown in COFI Exhibit 1.5, citing Ameren Response to LW 3.06, attachment 1. Conspicuously absent is any updating of the average annual income *by tier* of Ameren customers, based on either average federal poverty level data by income tier or Ameren customer LIHEAP data, available from DCEO, which retains anonymized average income and usage datasets for Ameren customers. *Id*. Likewise missing is any calculation of the percentage discount needed to ensure a 3% energy burden is maintained in each discount tier as rates increase.

In order to update the discount rate percentages, Ameren should have incorporated either FPL data by tier *or* average income data collected by DCEO, which DCEO collects as Ameren utility customers apply for LIHEAP. COFI Ex. 1.6, details the

2025 FPL income data released by the U.S. Department of Health and Human Services ("HHS") each year. Based on that information, the average income of customers whose annual income falls in each of the five tiers is below, assuming an average 2-person household:

Tier 1: $5,287.50

Tier 2: $15,862.50

Tier 3: $37,012.50

Tier 4: $37,012.50

Tier 5: $52,875.00

Incorporating the latest FPL data—which is not currently incorporated in the exiting Ameren discount rates since they were set in 2023—is critical to the process of updating the Ameren discount rate percentages. When combined with the updated rate increase, and the average bill and usage figures that are also in the record, the Company can and should be ordered to update the percentage discounts. To be clear, this remains COFI's primary request in this proceeding.

Mr. Pavey also provided, as an alternative to Ameren-provided usage, average household size and average income data, an anonymized dataset, provided by DCEO and publicly available, that details Ameren LIHEAP customer income, household size and usage. This DCEO Ameren customer dataset shows income for the Company's LIHEAP customers that is *less* than the midpoints for each FPL tier. As noted above, the Company should have updated the assumed Ameren LIDA customer income based on either 2025 FPL income assumptions or the actual Ameren LIHEAP customer datasets available from DCEO, as highlighted above. Such updating of customer income is essential, for updating the discount rate percentages and to ensure the target energy burden for Ameren gas customers achieves an average maximum 3% energy burden.

That being said, COFI recognizes that the Commission rejected the recommendation to use the anonymized DCEO data when setting the ComEd discount percentages in its new LIDR program. The important point in this proceeding is that the discount percentages must be updated in light of the Company's requested rate increase if the Commission's commitment to ensure affordable rates for Ameren's financially struggling customers is to be achieved and retained. The update itself is the critical "ask" here and now. A more detailed discussion of the appropriateness of the use of the anonymized DCEO data going forward can occur at a later date, perhaps in the Commission workshops. But, to be clear, an update to the discount rate percentages for each tier is needed in the Final Order in this case and should be ordered by the Commission.

Other evidence exists that justifies updating the discount rate percentages, including the Company's own testimony that the subsidy to support the discount rate program will increase in amount after new rates are established. As noted in COFI witness Pavey's testimony, Ameren forecasts that the subsidy for Rider LICA (the discount rate program funding mechanism) is increasing by 2.3% in light of its rate filing. COFI Ex. 2.0 at 7. COFI's data request 2.02 requested an update to the percentage discount need in each tier to produce a 3% maximum average energy burden, something

the Company simply ignored in its response, and as Mr. Schonhoff testified, continually refused to update in this case.

COFI notes that Ameren itself understands the importance of updating other rates and charges. For example, Ameren witness Staver testifies that the Company seeks an update to its Incremental Gas Meter Charges because the cost data that forms the basis of the initial charges approved in *Ameren 2023 GRC* consisted of metering equipment cost and labor cost consistent in a past rate proceeding. AIC updated the analysis using the previously approved methodology to reflect current metering equipment cost and labor cost. He states, "The result of this calculation shows that the Incremental Gas Meter Charges need to be updated to reflect the current cost." Ameren Ex. 11.0 at 12-13. Similarly, Ameren's discount rate program, like any other program or delivery service cost, should be updated when the inputs that make up the cost or program cost assumptions change.

COFI states that Ameren cannot be allowed to continue to raise rates without examining whether the inputs to the percentage discounts in each discount rate tier need adjusting to ensure that the goal of the program—affordability for Ameren's financially struggling gas customers—is achieved. Without such updating, the Commission's goal of ensuring that bills for LIDR-eligible customers do not exceed an average 3% energy burden will not be achieved.

Ameren's arguments against updating discount rate percentages are flawed and do not stand up to scrutiny. In response to COFI witness Pavey's recommendation to update the discount rate percentages, the Company refused to provide updated discount rate percentages, and even claimed that it did not know how to calculate these variables. Ameren Ex. 26.0 at 16; Ameren Ex. 40 at 11. Company witness Schonhoff testified, "it would be premature and administratively inefficient at this time to consider either resetting the discounts or recalculating the midpoints based on updated customer data" because Ameren successfully appealed the Ameren 2023 GRC Order adopting low-income discount rates. Ameren Ex. 26.0 at 16. He also testified that "as a practical matter, the Company is not in a position to update the LICA discount percentages because the Company did not develop the LICA discount percentages that were adopted by the Commission in the last rate case proceeding…" Ameren Ex. 26.0 at 16.

COFI argues that Ameren's position is wrong as a matter of law and fact. First, although Ameren successfully appealed the Ameren 2023 GRC Order that established the Company's five-tiered low-income discount rates in the Fifth District of the Illinois Appellate Court, the Commission filed its Petition for Leave to Appeal the Fifth District's decision to the Illinois Supreme Court and awaits a decision from that Court. Even if the Court passes on accepting the Commission's Petition for Leave to Appeal, the Commission has the opportunity on remand to revisit its decision and revise the order to address the Court's concerns. That process does not mean that the discount rate program is terminated, which is now firmly established in Illinois for every investor-owned utility serving more than 500,000 customers. Nor does any anticipated remand process operate as an excuse to not update the existing discount percentages to ensure continued consistency with the Commission's 3% target energy burden.

Contrary to this claimed uncertainty, Ameren has made clear in multiple ways its continued commitment to providing a low-income discount rate for its customers. Despite Ameren fighting the program in court, Ameren witness Singh specifically pointed to it as one of several "initiatives the Company has undertaken to support customers who may need assistance with their energy bills." Ameren Ex. 1.0 at 9-10. More than 52,500 customers are now enrolled. *Id*. at 11. In addition, in Docket No. 25-0083 the Company indicated its commitments to offer a whole-bill electric discount rate had not changed in light of the Fifth District's decision. *See* COFI Ex. 1.8. But specific direction is needed from the Commission in the Final Order in this case ordering the Company to update the discount rate percentages in accordance with the updated data listed above and given the new rate increase.

In terms of Mr. Schonhoff's claims that the Company lacks the ability to update the percentages because it did not design the original discounts, COFI Cross Exhibit 4 makes clear that this assertion is not credible. Since 2021, Mr. Schonhoff has served as Director of Rates and Analysis for Ameren Illinois and in that role, "began leading several groups with overall responsibility for natural gas and electric regulated rate making, tariff administration, supporting rate cases and other regulatory proceedings, and implementing the rates and regulatory aspects of [Public Act ("P.A.") 102-0662]." Ameren Ex. 12.0 at App.; COFI Cross Ex. 4. Mr. Schonhoff confirmed that in his role as Director of Rates and Analysis, he reviewed the development of a five-tiered discount rate labelled as "Option 3" in Docket No. 25-0083, wherein the PIPP format was adopted by the Commission on August 7, 2025. The workpapers for that five-tiered discount rate are in the record of this docket as COFI Ex. 2.1. Mr. Schonhoff admitted that he supervised the development of the five-tiered discount rate provided in that case. COFI Cross Ex. 4. Finally, Mr. Schonhoff stated that "If the Commission were to order Ameren Illinois to update the existing Rider LICA discount rate program (either the discount percentages or the cost recovery mechanism), the Company would do so." COFI Ex. 2.2 at 2.

COFI argues that Staff's objections to COFI's proposed adjustments are flawed and should be rejected. Staff witness Willliams presented an affordability analysis of Ameren gas rates that declared, "There are no bills, at average usage, that are above the 3% energy burden threshold in AIC's service territory." Staff Ex. 4.0 at 29, Sch. 4.3. In doing so, Ms. Williams applied an MHI metric that is inherently flawed for purposes of both analyzing energy affordability and determining whether the discount rate percentages should be updated in light of Ameren's requested rate increase. As discussed below, this Staff analysis should be rejected as a basis for assessing affordability.

Ms. Williams assessed the MHI of each county served by Ameren. Staff Ex. 4.0 at 26. Staff claims, "MHI is an important factor in calculating affordability because it can be used to determine energy burdens for customers in each county served by Ameren Illinois." *Id.* at 27. MHI, however, represents the middle income level of all the incomes within the county. *Id.* Stated another way, half of the incomes above the median are higher, and half of the incomes below the median are lower. Ms. Williams testified that an affordable energy burden, as declared by the Commission, is 3%. Staff Ex. 4.0 at 28; Tr. at 75. Ms. Williams further confirmed that bills that exceed this 3% marker are "unaffordable." Tr. at 76-77, 100.

The problem with Ms. Williams' affordability analysis, however, was that it made no assessment of the affordability of customer rates for those customers whose incomes fall below the MHI—the very customer subset that are eligible for the low-income discount rate. Tr. at 79, 81-82. Instead, Ms. Williams took the weighted MHI of all of the counties in Ameren's service territory "based on the number of households in AIC's natural gas service territory" of $67,791, and calculated a "weighted affordable monthly gas bill," wrongly applying the 3% target energy burden to each county—again based on the median income for each county's population. Staff Ex. 4.0 at 28-29; Tr. at 83.

Based on this listing of an "Affordable Monthly Bill," Ms. Williams states that no "COSS, Company or Staff proposed bills at average usage" are higher than 3% of the monthly median incomes. Staff Ex. 4.0 at 29. Ms. Williams thus claims these bills as "affordable" even as they reach as high as Staff's calculated weighted average bill of $169.45 per month (or higher, depending on the individual county), an unaffordable figure for a family in poverty. Tr. at 79. Ms. Williams does express concern about her assessment that "there are some counties that will experience higher bills in the winter months (because they will be using more gas to heat their homes)." Staff Ex. 4.0 at 30. She acknowledges that customers that have monthly bills that are "at or above the 3% energy burden level may experience difficulty paying for their bills in the winter if they are not enrolled in a program that would levelized (sic) their monthly bills." *Id.* Her resolution of this problem is to suggest AG enroll in levelized budget billing plans. She does not propose any modifications to the Company's low-income discount rate program. *Id.* at 32.

COFI witness Pavey highlighted the significant flaws in this analysis. The mistake in Staff's analysis, he testified, is equating MHI with household poverty levels, and ignoring the fact that the discount rate program is designed to address unaffordability for customers whose income falls below the MHI for each county, with incomes at 0% to 300% of the federal poverty level. COFI Ex. 2.0 at 16. In fact, examination of MHI is not relevant to determining whether customers living in poverty within a designated geographic territory have affordable bills. Poverty guidelines are established and published each year by the HHS and represent a set of numerical dollar values used to determine which households are considered living in poverty. These guidelines vary based on family size and are updated annually. *See id*. at 16-17.

Staff's use of MHI, on the other hand, represents the midpoint of income within a designated territory and does not address the purpose nor target population of the discount rates. *Id.*; Tr. at 85-86. In fact, Ms. Williams testified that the existing low-income discounts are not based on MHI. Tr. at 88-89. She also confirmed that that she did not assess whether customers whose income falls below 200% of FPL had affordable bills. Tr. at 90-91. In addition, Ms. Williams made no analysis of what the average number of persons per household is, which impacts affordability assessments as well. *Id.*

These oversights are fatal flaws in Staff's affordability analysis. In counties that Ameren serves, there are 202,119 individuals with incomes less than 50% of the FPL and 902,594 with income less than 200% of the FPL. While there may not be more than one individual within a household, Mr. Pavey testified that the average household size for Ameren's LIHEAP customer base is 2 persons. COFI Ex. 1.0 at 16-17. Regardless,

Staff's conclusion that no bills are unaffordable in Ameren's service territory counties is based on the wrong metric, MHI, rather than an assessment of whether bills are affordable for customers living in poverty in Ameren's service territory. COFI Ex. 2.0 at 17-18.

COFI states that relying on LIHEAP and PIPP as income sources would be unlawful and unjustified. Fundamentally, it is questionable at best whether the Commission can even take LIHEAP into account in setting the discount rate percentages. The federal LIHEAP statute says that "the amount of any home energy assistance payments or allowances provided [to] an eligible household … shall not be considered income or resources … for any purpose under any Federal or State law, including any law relating to … public assistance, or welfare programs." 42 U.S.C. § 8264(f). A decision by this body to set a public assistance benefit at a certain level based on an assumption any given household will receive LIHEAP would thus be unlawful.

Putting aside the legal argument, counting on LIHEAP to ensure affordability in this context would be unwise for a variety of reasons. COFI witness Pavey warned:

> Developments at the federal level certainly counsel in favoring of ensuring LIDA is able to meet Ameren customer's affordability needs given the uncertain future of the LIHEAP program. Current LIHEAP funding serves just over one-third of eligible households, and most (if not all) LAAs in Ameren's service territory run out of funding before the end of any given LIHEAP season, leaving households without access to LIHEAP. If the number of LIHEAP-eligible households increases (as Ameren appears to predict will happen) or federal funding decreases (highly possible at this juncture), households will need the discount rates to reach affordability.

COFI Ex. 1.0 at 17-18.

As shown in data presented by DCEO Deputy Director of Community Assistance David Wortman at the April 23, 2025 Policy Advisory Committee ("PAC") meeting, Illinois' LIHEAP funding levels appear to be on a downward trajectory post-COVID years. *See* COFI Ex. 1.0 at 18. There was a 22% drop in federal LIHEAP funding for Illinois between Program Years 2023 and 2024. The federal funding dropped another 39% between Program Years 2024 and 2025. These facts alone suggest reliance on the State's LIHEAP program as a means to reduce unaffordable rates and achieve a 3% energy burden are misplaced.

In addition, Mr. Pavey noted, community action agencies throughout the state, but particularly within the Ameren service territory, are expected to exhaust their LIHEAP program year funds long before the LIHEAP 2025 program year ends in August. COFI Ex. 1.0 at 19. The majority (if not all) of the LAAs that were expected to exhaust their fiscal year funding the weeks and months before the end of LIHEAP fiscal year are concentrated within Ameren's service territory. *Id*. Further developments at the federal level caution against relying on LIHEAP to address energy unaffordability due to uncertain funding levels. See id. at *Id.* at 19-20.

In addition, the White House's Discretionary Budget Request to Congress, issued May 2, 2025, specifically proposes cutting LIHEAP entirely, and, as Mr. Wolfe noted in his testimony, has already put program staff on administrative leave, leaving an open question about what will happen in Fiscal Year 2026 and beyond. *Id.*

Cross-examination of Ms. Williams reveals Staff did not assess the reasonableness of relying on LIHEAP to address any affordability gap that results from the approval of increased Ameren rates and unadjusted discount rate percentages. *See* Tr. 106-116. Ms. Williams pointed to an anticipated increase in the statutorily authorized funding mechanism for Illinois' Supplemental LIHEAP funding of 16 cents to support Staff's reliance on LIHEAP as a means to increase affordability for Ameren customers. Staff Ex. 12.0 Rev at 30. But Ms. Williams is unaware of what portion of the state's LIHEAP budget would be available to Ameren customers from this funding mechanism. Tr. at 116-18.

COFI points out that the Commission specifically rejected Ameren's view that the Commission could rely on LIHEAP to fill in any energy affordability gaps when a discount rate program is not set to achieve a 3% energy burden. See Docket No. 25-0083, Order at 42.

As Mr. Pavey summarized, given the great uncertainty in LIHEAP funding in each year, let alone the coming year, the assumption that LIHEAP benefits will be available in sufficient amounts to ensure affordability for the Company's financially struggling customers is misplaced. The Commission is best-served by relying on a sufficiently robust low-income discount in either a PIPP format or a tiered discount rate framework that is rooted in a 3% / 6% energy burden target, not the existence of a federal program neither it nor Ameren controls. That commitment requires direction to the Company to update its discount rate percentage discounts. *Id.* at 20.

COFI states that the Commission should reject Staff's position that it is premature to update the LIDR. Ms. Williams points to Commission-ordered workshops in 2026 as the reason to reject any kind of update or structural change to the existing LIR. Staff Ex. 12.0 (Rev.) at 26-27; Tr. at 129. Ms. Williams stated, however, that she has no idea how long those workshops will last or whether there will be an end date. Tr. at 130, 132. She also stated she was unaware that the Company plans to file a request for yet another rate increase in 2026. Tr. at 132-33. Ms. Williams acknowledged that any assessment of the efficacy of the discount rates would be based on discount rate percentages that were put in place in 2023, although she confessed unfamiliarity with the discount rate-setting process that occurred in 2023. Tr. at 126, 135-37.

COFI states that as an alternative to updating the existing five-tiered discount rate percentages, the Commission should order Ameren to implement a PIPP program. While the updating of Ameren's low-income discounts would improve average energy burden in all tiers, as discussed above, it is important to note again that the Commission just approved the adoption of a PIPP program for Ameren's electric customers in Docket No. 25-0083. COFI provided support for the establishment of a PIPP rather than a five-tired discount rate in that proceeding. While Illinois' existing five-tier gas discount rates have been a game-changer in terms of improving the affordability of gas utility customers' monthly bills, Mr. Pavey recommended that the Commission should ultimately require the

utilities to transition to a PIPP format—particularly since the Commission approved this in Ameren electric's rate design case. COFI Ex. 1.0 at 23-24; *see also* COFI Ex. 1.9, COFI Ex. 1.10. A PIPP-like structure would determine energy affordability for each household, with no need to use averaging or tiers, and which will improve the targeting of discounts for each enrolled customer. *Id.* at 23-24.

In addition, a PIPP-like structure will ensure that the discount rates need not be updated each time a utility files a rate increase request with the Commission. That is the case because, under a PIPP format, a customer's bill will always be capped at 3% (or 6%) of their income, no matter what happens with utility rates or FPL data. Under a PIPP scenario, a customer only needs to provide their household's income and household size when applying for LIHEAP and enrollment in a discount rate program, in order to ensure that the 3% maximum energy burden target is achieved. *Id.*

Finally, COFI states that the Commission should order Ameren to revise Rider LICA tariff language to reflect the origin of the discount rates. As pointed out by COFI witness Pavey, under the "Purpose" heading of the LICA tariff at page 1 (Original Sheet 52), the description refers only to the Commission's December 2022 Report to the General Assembly as the basis for implementing Rider LICA. That same, limited description appears at page 5 of the tariff (Original Sheet 52.004). The fact is, the basis for the low-income discount rate is primarily the Ameren 2023 GRC Order, which established the applicability of a five-tiered discount to the whole bill, not just delivery service in the Ameren 2023 GRC Order. In addition, adjustments to the tariff approved in this proceeding will come as a result of the Final Order in this case. References to these Orders should be reflected at both referenced pages of the Rider LICA tariff. COFI notes that Staff did not object to this recommendation. Staff Ex. 12.0 CORR at 35.

e. Commission Analysis and Conclusion

In 2023, the Commission approved the State's first low-income discount programs, including one for Ameren ("Rider LICA"). *See* Ameren 2023 GRC at 265-268. In Ameren 2023 GRC, the Commission adopted a five-tiered whole bill discount program that provided discounts targeting a 3% energy burden for low-income customers. *Id.* at 265-267. Given Rider LICA's nascent nature, the Commission directed the commencement of a workshop series by January 15, 2026, to consider related issues after the program's implementation. *Id.* at 266-267. The Commission further directed the Company to track information related to system savings of the program. *Id.* at 267-268. The program approved in the Ameren 2023 GRC is the Company's current Rider LICA, which is at issue in this case.

The Commission is committed to maintaining Rider LICA's goal of ensuring a maximum 3% energy burden cap to promote affordability. "The goal of any low-income discount rate design should be to reduce the energy burden of financially struggling customers to an affordable level." COFI Ex. 1.0 at 6. The record in this case, Ameren 2023 GRC, other Commission approved low-income programs, and State legislation all affirm the Commission's reliance on a 3% energy burden as an appropriate affordability marker. *See e.g.,* COFI Ex. 1.0 at 6 (any total energy expenditure that exceeds a 6% threshold is considered high or excessive); Staff Ex. 4.0 at 28 (an affordable gas bill is defined as 3% of a household's monthly income); Ameren 2023 GRC at 258, 263, 266;

Ameren Ill. Co. d/b/a Ameren Ill., Docket No. 25-0083, Order at 41 (Aug. 7, 2025) ("3% and 6% energy burdens [are] appropriate measures of affordability. An energy burden of 3% . . . is often regarded as the standard of affordability by academics and governmental agencies"); *N. Ill. Gas Co., d/b/a Nicor Gas Co*., Docket No. 23-0066, Order at 202 (Nov. 16, 2023) ("The reigning measure of energy affordability aims for a maximum 6% of income burden for gas (3%) and electric service (3%)"); 305 ILCS 20/18(c)(2) ("[T]he percentage shall be no more than a total of 6% of the relevant income for gas and electric utility bills combined"). The Commission notes no party of record refutes that the 3% energy burden remains an appropriate affordability target in a low-income discount program.

The revenue requirement approved in this Order will increase all customers' gas bills, including Rider LICA-eligible customers. Ameren has proposed a $134.3 million rate increase in this case. COFI Ex. 1.0 at 3. Ameren witness Schonhoff testified that the typical residential customer, using 665 therms per year, will experience an increase in delivery service rate of 18.7%, or approximately $9.09 per month. Ameren Ex. 12.0 at 13. Lower use customers will experience an even higher increase of 20.0% for delivery service. Ameren Ex. 12.6. All customers, regardless of usage rate, will incur at least a 10.7% increase on their total bills, or at least $6.52 monthly, if Ameren's proposals are approved. *Id.* Even the cost of Rider LICA, which is applied to *every customer's* bill, including eligible customers, will increase by 2.3% if the Company's proposals are accepted. COFI Ex. 2.0 at 7. The Company's current Rider LICA provides a 75% discount for Tier 1, 55% for Tier 2, 25% for Tier 3, 10% for Tier 4, and 5% for Tier 5. Ameren 2023 GRC at 265; COFI Ex. 1.0 at 5. These discounts were specifically designed using FPL data to achieve a 3% energy burden for Ameren's service territory. COFI Ex. 1.0 at 4, 7-8. COFI provided evidence that the changes enacted by this docket will likely result in Rider LICA customers exceeding the 3% energy burden target. *See* COFI Ex. 1.0 at 15; COFI IB at 5-12. The Commission agrees with COFI that adjustment to the Rider LICA's discounts is appropriate and necessary to maintain the intention of the program in response to Ameren's rate increase.

Failing to update Rider LICA to ensure a maximum 3% energy burden may adversely impact the utility of the data available during the workshop series. The Commission understands Staff would like to preserve the low-income discount program dataset for the workshop series but notes the dataset is inherently going to change because of the increase in rates. Further, the Commission ordered the Company to track data that enables an evaluation of the system benefits and savings. Ameren 2023 GRC at 266-267. If the Rider LICA no longer ensures the 3% energy burden, the figures collected may be skewed and the total system impacts of Ameren's Rider LICA may not be accurately quantified. Adjusting the discount levels to maintain the intention of the program will preserve the efficacy and stated goal of the approved Rider LICA. The Commission does not agree that modestly adjusting the discount percentages is a "structural change" to the program but rather a mathematical adjustment to preserve the integrity of the program in the wake of increased rates.

The Commission agrees with COFI that adjusting the LID discounts to maintain the 3% energy burden in this case appropriately protects low-income customers and is not premature. Upon conclusion of the workshop series, the Commission directed Staff

to file a report of findings and recommendations. *Id*. This report may result in additional investigation or docketed proceedings. The rate increase enacted by this Order will go into effect immediately. Waiting for the workshop series to conclude would leave Rider LICA eligible customers without the intended benefits for an indeterminate amount of time. The Commission finds it important to adjust Rider LICA now in response to an increased rate base.

Accordingly, the Commission directs Ameren to adjust its existing Tier 1-4 discounts within Rider LICA to ensure the program continues to achieve a maximum 3% energy burden for gas service accounting for the rate increase approved in this Order. Ameren should engage with COFI and other parties of record on its Tier adjustment to the extent necessary.

The Commission agrees with COFI that Rider LICA should maintain the use of FPL data, consistent with other utilities and Ameren's current programs. While the Commission acknowledges Staff's MHI data could be considered more tailored to the Company's actual service territory, it is not properly targeted to low-income customers like FPL data is. MHI data fails to focus on low-income households. MHI represents the middle-income level of all the incomes in a particular territory. The Commission agrees that equating MHI with household poverty levels ignores the fact that the discount rate program is designed to address unaffordability for customers whose incomes fall below the MHI. As the Commission has found previously, using FPL data is preferable in low-income discount programs, like Ameren's, because it "ensures that the discount percentage amount is accurately based on the income level assigned to each tier, which is important for maintain the intended energy burden targets." *Commonwealth Edison Co.,* Docket No. 24-0163, Final Order at 41 (March 6, 2025). Further, the Commission agrees with Staff that structural changes to the program are premature before the workshop series may begin. Changes to the data upon which the tiers and discounts are calculated would be a structural change to the program.

The Commission reiterates that LIHEAP and PIPP are not sufficient to bridge the affordability gap. Those programs have different income eligibility requirements than the five tiers approved by the Commission and operate with fixed budgets on a first come first serve basis. Assistance from those programs is not guaranteed for all Rider LICA eligible customers. As the Commission has previously held, reliance on these programs as stable financial options to ensure affordability is not appropriate. *Ameren Ill.,* Docket No. 25-0083, Order at 42.

The Commission declines to adopt COFI's PIPP structure proposal at this time. Normally, a rate case would be an appropriate forum to enact changes to the Rider LICA; however, the 2026 workshops were intended to provide opportunity to review a consistent dataset and consider potential changes to the low-income discount program. Adopting a structural change to the program would interfere with the data reviewed during the workshops. Further, as Staff notes, the record evidence in this case does not sufficiently provide information regarding the cost of adopting a PIPP-like structure, implementation timelines, and bill impacts. The Commission clarifies this decision is not an opposition of the PIPP-like structure proposed by COFI, which Ameren agreed to the benefits of. In fact, the Commission has already approved a PIPP-like structure for Ameren's electric low-income discount program. *See Ameren Ill.,* Docket No. 25-0083, Order at 41. The

Commission agrees that an advantage of a PIPP-like structure is that discount rates need not be updated each time a utility files a rate increase because, under a PIPP format, a customer's bill will always be capped at a percentage of their individual income. COFI, Staff, and other interested stakeholders are encouraged to consider the PIPP-like structure during the workshop series and beyond to continue refining and improving Rider LICA.

The Commission recognizes the uncertainty surrounding Rider LICA after the Fifth District's vacatur and remand. The Fifth District directed remand to "more adequately address" (1) "the Commission's authority to issue a mandate requiring payment of a low-income rider by a utility's allegedly more affluent customers," (2) "to consider the matter consistent with the Commission's own recommended guidelines," and (3) "to further consider its conclusion that requires the utility to keep the system in place despite evidence of fraud or abuse." *Ameren Ill. Co.,* 2025 IL App (5th) 240014, ¶133. The Commission does not dispute that the remand proceeding may result in changes to Rider LICA. However, that proceeding is upcoming while the changes to the revenue requirement enacted by this Order will be immediate. Rider LICA, as approved in Ameren's 2023 GRC, remains in effect, and will continue until the conclusion of the remand proceeding. Ameren Ex. 26.0 at 18. Notably, the Fifth District's decision did not opine on the 3% energy burden. The mathematical adjustment directed in this case is to preserve the intended 3% energy burden of the program already in place. The Commission does not agree low-income customers should have to wait until the remand proceedings conclude to achieve gas affordability as intended by Rider LICA.

COFI proposes changes to the Rider LICA tariff language to reflect its inception from the Ameren 2023 GRC. The Commission agrees with COFI and Staff that the tariff arose from that Order, not simply a report to the General Assembly. The fact that the case is on remand and will return to the Commission is not relevant. COFI's edits are adopted.

3. Gas Delivery Service Charges Summary Tariff

a. AIC's Position

The Company proposes removing GDS-1 through GDS-7 individual charge components from the Rate Schedule tariffs and summarizing these into a single proposed Gas Delivery Service Charges tariff. Ameren Ex. 12.0 at 15. Staff does not oppose Ameren Illinois' proposal to summarize the GDS-1 through GDS-7 rates into a single Gas Delivery Service Charges tariff; however, Staff argues that the Commission should reject Ameren Illinois' proposal to simultaneously remove the GDS-1 through GDS-7 rates from the individual gas customer class tariff pages. Staff IB at 107-108.

Ameren Illinois explains that Staff misunderstands the Company's intent to create an improved gas customer experience—in fact, one that is more similar to that of the Company's current electric customers, many of whom also receive gas delivery services—by asserting that "removing the rates from the customer class tariff pages will make referencing tariff sheets more difficult and time consuming." Staff IB at 108; Staff Ex. 4.0 at 37. Ms. Williams also asserted that "[t]he Company's proposal would require reviewing multiple tariff schedules to access the same information." *Id.* Instead, Ms.

Williams proposes Ameren Illinois to create a new, supplementary summary tariff while maintaining the existing tariff sheets with duplicate information.

Ameren Illinois further explains that Staff's position is illogical because it fails to acknowledge how a single, standalone summary tariff would give the Company's customers the ability to view and compare all rates more quickly and conveniently, without needing to shuffle through or reference multiple tariff sheets. Having one resource for reviewing GDS-1 through GDS-7 rates is also less likely to confuse the customer than is searching for rates across multiple, several-page documents. Additionally, for the Company, a mandate to maintain rate updates across numerous documents only adds to its administrative burden, without providing additional benefit to the Company's customers for whom the rates are published in the first place.

Ameren Illinois also notes that Ms. Williams asserted that removing the actual prices from each delivery service tariff and presenting them in a separate tariff sheeting would be unnecessarily burdensome. *Id*. However, as indicated in the Company's direct testimony, this proposal is consistent with how the Company presents its electric delivery service charges. Ameren Ex. 12.0 at 15. The Company further notes that having a single tariff for all the gas delivery service prices would not be unnecessarily burdensome because, as it stands today, all existing delivery rate tariffs contain multiple pages, which would require a customer to read through several pages in order to review all of the definitions, terms, and rate prices of the tariffs. Ameren Ex. 26.0 at 19. Additionally, Ameren Illinois is not aware of, and Staff did not cite to, any regulatory reason or any prior rulemaking that would prohibit its proposal of creating a single tariff to summarize deliver service prices. Ameren Illinois further explains that Staff's proposal to maintain the prices in eight separate locations going forward is an inefficient use of utility and Commission resources—on a duplicative, outdated routine that could potentially cause more confusion to customers, especially those already familiar with the simplicity of Ameren Illinois summarized electricity tariffs.

b. Staff's Position

Staff recommends the Commission reject the Company's proposal to remove rates from the gas customer class tariff pages.

In addition to updating its rates in this case, Ameren proposes to remove GDS-1 through GDS-7 individual charge components from the rate schedule tariffs and create a summary page that lists the charges for each customer class. Ameren Ex. 12.0 at 15; Ameren Ex. 12.9. Although Staff does not oppose Ameren creating tariff pages that summarizes customer class rates, Staff objects to Ameren doing so at the expense of removing the rates from the tariff sheets that define the customer classes. Staff Ex. 4.0 at 37. In direct testimony, Staff explained that removing the rates from the customer class tariff pages will make referencing tariff sheets more difficult and time consuming. *Id*. Currently, reviewing the definition, terms, and rates of a particular customer class requires reviewing the customer class tariff schedule. The Company's proposal would require reviewing multiple tariff schedules to access the same information. *Id*. Simply put, the Company's proposal would be unnecessarily burdensome for anyone reading the tariff. *Id*.

Ameren insists that Staff's recommendation, to create the rate summary page and allow the rates to remain on their respective customer class tariff pages, is duplicative and will cause confusion for customers. *Id*. Ameren's proposal does not "obviate[] the need to look through numerous pages to identify and compare prices between classes", reduce confusion, or result in a more "user-friendly" process. Ameren IB at 211-12.

For these reasons, Staff recommends the Commission reject the Company's proposal to remove the rates from the customer class tariff pages; and adopt Staff's recommendation for Ameren to create the rate summary page and allow the rates to remain on their respective customer class tariff pages. *Id*.

c. Commission Analysis and Conclusion

The Commission finds Staff's recommendation is supported by the record. The Commission concludes that the rates should not be removed from the tariff sheets that define the customer classes. The Commission agrees with Staff that the Company's proposal would require reviewing multiple tariff schedules to access the same information.

4. RNG Tariff (see Section IX.B)

This issue is addressed in Section IX.B.2, below.

5. Rider T – Customer Switching

a. AIC's Position

Ameren Illinois states that Rider T – Transportation Service (Rider T) governs the Company's transportation services. Non-residential customers are eligible to participate in the Company's existing transportation program and must affirmatively elect to participate. The participating customers are referred to as transportation customers, Rider T customers, or end users. Ameren Ex. 14.0 (Rev.) at 3. Customers who want to switch from Rider S – System Gas Service (Rider S) to Rider T must request that switch between January 1 and twelve business days before April 1 for the enrollment to be effectuated on May 1. *See* ILL C.C. No. 2, 4th Rev. Sheet No. 5.011. Rider S allows certain non-residential customers to take gas supply through Rider S or, in the alternative, purchase gas from a third-party supplier. ICEA/RESA Ex. 1.0 at 3. The Company explains that customers who want to switch from Rider T to Rider S must request that switch between January 1 and no later than twelve business days prior to April 1 in order for the enrollment to be effectuated on May 1. ILL C.C. No. 2, 10th Rev. Sheet No. 3.035; 11th Rev. Sheet No. 3.036.

Ameren Illinois explains that its tariffs also provide for "drop procedures," where a customer may drop a supplier and remain on Rider T by contacting the Company's call center. A drop request from a customer must be received and processed by the Company at least twelve business days but no more than forty-five calendar days before the requested termination date. Ameren Ex. 27.0 at 7. The Company explains that a customer on Rider T without a supplier shall receive gas supply priced pursuant to the daily or monthly cashout section including penalty charges (as applicable) for up to two billing periods. If a customer has not been enrolled by a new supplier within two billing periods, the customer shall default to Rider S for supply service and will not be allowed to return to Rider T service until the next enrollment date. *Id.*

The Company explains that ICEA/RESA witness Wright recommended that the Commission direct Ameren to allow eligible customers to switch from Rider S to Rider T at any time of year, provided that the switch would only be effectuated after a ten-day recission window and with sufficient time for the Company to move the electric account to monthly billing. ICEA/RESA Ex. 2.0 at 7. Ameren states that Mr. Wright argued that such a change is necessary to allow for "customer choice" and "free movement of customers between supply options," and recommended that the timing restrictions be lifted to allow customers "an opportunity to quickly adapt and respond to market headwinds and other price signals" and to "mitigate risk" by quickly responding to market volatility and price spikes. ICEA/RESA Ex. 1.0 at 3-4. The Company emphasizes that ICEA/RESA's proposal is based entirely upon ICEA/RESA's assumptions about the operations and hedging strategies of other utilities in Illinois. ICEA/RESA IB at 3-5.

Ameren Illinois notes that the timing limitations on switching between Rider S and Rider T, and the annual enrollment periods applicable to both Riders, are designed to allow the Company to forecast the total volume required by Rider S customers before each winter season. The Company states that Ameren witness Garrett, who is the Manager of Gas Supply for the Company, explained that the May 1 deadline for annual enrollment in Rider T "enables AIC to determine the volume requirements, review its portfolio, and make adjustments to prepare for the upcoming winter," and allows the Company to know what resources are needed to reliably serve the Rider S customers during the winter season and maintain system integrity. Ameren Ex. 14.0 (Rev.) at 1; Ameren Ex. 27.0 at 8. Mr. Garrett further explained that continuous enrollments throughout the year may jeopardize system reliability or increase costs during winter peak periods. Ameren Ex. 27.0 at 8.

Moreover, Ameren explains that the Company is unique in Illinois (and distinct from the other Illinois utilities that ICEA/RESA cites) in that it is a dual-fuel utility with billing and digital complexities that other utilities do not experience. Ameren's customers are not solely gas or solely electric—some take both gas and electric service from the Company, and many customers are billed for both services on the same bill. *Id.* at 8. Because all Rider T customers are billed on a calendar month basis, any customer taking both gas and electric service require both services to be switched from cycle billing to calendar month billing. *Id*. This switch could become complex and problematic, and ultimately, policies and procedures will need to be changed. *Id.* at 8-9. Ameren Illinois explains that adoption of this significant shift in the Company's policies and procedures would likely lead to system modifications (the scope of which are not yet known), resulting in additional costs to be recovered from Ameren customers that have not yet been quantified. Ameren Ex. 41.0 at 3. Ameren Illinois witness Garrett also explained why a comparison of Ameren Illinois' practices and procedures to other Illinois utilities is overly simplistic and inappropriate given the differences between each utility's systems.

Ameren Illinois argues that rather than acknowledge the evidence showing that an enrollment period for Rider T enables Ameren Illinois to forecast the total volume required by Rider S customers before the winter season, ICEA/RESA argue that customers should be allowed to "insulate themselves from market volatility, price spikes, or other unforeseen disruptions to natural gas supply either domestically or abroad." ICEA/RESA IB at 4. The Company points out that there is no evidence in the record that free and

uninhibited enrollment in Rider T will allow customers to avoid price changes or market volatility (which can be caused by multiple factors, including the invasion of Ukraine by Russia, as ICEA/RESA witness Wright references). Instead, Ameren Illinois explains that allowing continuous enrollment is likely to allow customers to increase costs during winter peak periods and then avoid those costs. For example, if customers decided to switch from Rider T to Rider S in January, Ameren Illinois would be required to provide supply for those customers. This is supply that was not planned when setting up the winter portfolio and would require Ameren Illinois to find the supply during the highest load, tightest supply period. Ameren Ex. 27.0 at 8. Those same customers who caused the increase in cost, could then switch back to Rider T in February, avoiding the higher cost since there is a two-month lag to collect actual cost through the Purchased Gas Adjustment. The current annual enrollment process allows AIC to know what resources are needed to reliably serve the Rider S customers during the upcoming winter season and maintain system integrity. *Id.*

Ameren Illinois states that Staff witness Sackett agreed that the record is unclear as to how much Mr. Wright's proposed changes would impact Ameren Illinois' operations and systems. Staff Ex. 16.0 at 7. Staff recommended, and Ameren agreed, that more information is required regarding Mr. Wright's proposed changes. *Id.*; Ameren Ex. 41.0 at 4. Ameren agreed to consider ICEA/RESA's proposal and the impacts it will have on the Company's operations and systems, including the costs that would be associated with such a change, which are ultimately recovered from ratepayers. Ameren Illinois notes that it also recommended that the study be completed by December 31, 2026, with the results of the study sent by email to the parties in this case and the study participants. Ameren Ex. 41.0 at 5; ICEA/RESA Cross Ex. 1 at 1. The Company has also agreed to further analyze ICEA/RESA's proposal and make a recommendation, along with an estimate of the timeline and expenses associated with implementing that proposal, in its next rate case. Ameren Ex. 41.0 at 4-5; Ameren IB at 214-15. Staff agrees that this is the appropriate next step. Staff Ex. 16.0 at 7; Staff IB at 109-10.

b. Staff's Position

Staff recommends the Commission order Ameren to study the feasibility of permitting year-around switching from Rider S to Rider T and to present the study and results in its next rate case.

Staff witness Sackett stated that, "[t]he record is unclear as to how much the [proposed ICEA/RESA] change would impact Ameren's operations and systems. There is simply not enough information on this record for me to make a recommendation regarding ICEA/RESA's proposed change." Staff Ex. 16.0 at 7. Because the record is unclear, Staff recommends that the Commission order Ameren to study how feasible such an implementation would be and to offer the study and its results, including the timeline and expenses along with its recommendation and any restrictions, in its next rate case. *Id.* Until Staff has a full accounting as to what kind of impact such an implementation would have, it is unable to provide a substantive opinion as to whether it would support or reject ICEA/RESA's proposal. *Id*.

c. ICEA/RESA's Position

ICEA/RESA explain that while Ameren provides gas delivery to all of its natural gas customers, not all customers take their gas supply from the Company, and those who do receive gas supply from Ameren take service on the Company's Rider S. *See* ICEA-RESA Ex. 1.0 at 3. Certain customers (non-residential customers with consumption over 5,000 therms per year), that exercise their choice to purchase gas from a third-party supplier must switch to Ameren's Rider T to change suppliers, ICEA/RESA further explain. *Id*. ICEA/RESA note, however, that customers are not free to do so at the time of their choosing to best suit their needs, as Ameren restricts the timing of this switch to the period running January 1 to twelve business days before April 1, with the switch effectuated on May 1 of each year. *Id*.

ICEA/RESA contend that Ameren's switching restrictions are highly unusual. According to ICEA/RESA, all three other major Illinois gas utilities (Nicor, North Shore Gas, and Peoples Gas) all allow unrestricted switching. *See* ICEA-RESA Ex. 1.0 at 5. When presented with this fact, ICEA/RESA observe that Ameren witness Garrett responded that each utility has unique hedging strategies and Ameren's may be more impacted. *See* Ameren Ex. 27.0 at 6. However, ICEA/RESA highlight that not only did Mr. Garrett not provide specifics in testimony, which specifically asked in discovery, Ameren provided no specific differences between Ameren's hedging strategy and other Illinois utilities with unrestricted switching. ICEA-RESA Ex 2.0 at 4; ICEA-RESA Cross Ex. 1. ICEA/RESA note that Mr. Garrett conceded he is not familiar with other Illinois utilities' hedging strategies. *See* ICEA-RESA Cross Ex. 1.

ICEA/RESA state that under Ameren's current tariffs, any customer eligible to take supply from a gas supplier who misses the Company's mid-March deadline of a given year must wait until May 1 of the following calendar year before any new third-party supply rate could take effect. *Id*. ICEA/RESA reason that Ameren's enrollment restriction therefore deprives customers of the right to enjoy the benefits of a negotiated supply rate under Rider T at any time of the year and significantly diminishes the ability of customers seeking a negotiated, fixed supply rate to insulate themselves from market volatility, price spikes, or other unforeseen disruptions to natural gas supply either domestically or abroad. *See* ICEA-RESA Ex 1.0 at 4. ICEA/RESA point to Mr. Wright's recommendation that the Commission should direct Ameren to allow customers to switch from Rider S to Rider T at any time, provided it is effectuated after a 10-day recission window and with sufficient time for Ameren to move the electric account to monthly billing, to address Ameren's operational concerns and hypothetical concerns related to rapid switching. Per ICEA/RESA, Ameren disagrees and instead insists that the implications of the proposed change be studied in workshops, after which Ameren will make an assessment on the feasibility of the change. *See* Ameren IB at 214-215.

ICEA/RESA note that Ameren defends its severe limitations on switching to Rider T by referring to its need, operationally, to provide a required recission window and switch from cycle billing to monthly billing on a customer's electric invoicing when the customer switches from Rider S to Rider T. *See* Ameren Ex. 27.0 at 8. In addition, ICEA/RESA further note, Ameren witness Garrett raised the potential for other impacts *see* ICEA-RESA Ex. 2.0 at 3, but Ameren conceded in discovery that it has "not analyzed the impact of a continuous enrollment mechanism for customers seeking to move from Rider S to

Rider T at any point during the year." ICEA-RESA Ex. 2.0 at 3; ICEA-RESA Ex. 2.01. ICEA/RESA argue that theoretical roadblocks, however, are insufficient to justify Ameren's refusal to implement the continuous enrollment mechanism sought by ICEA/RESA, and offered by all three other major Illinois gas utilities.

Mr. Wright nevertheless responded to the concrete issue raised by Ameren by clarifying his recommendation to specifically allow Ameren enough time to switch electric billing cycles and have enough buffer for the rescission window. *See* ICEA-RESA Ex. 2.0 at 7. ICEA/RESA conclude that the Commission should adopt Mr. Wright's recommendation because it responds to the concrete, non-hypothetical concerns raised by Ameren and, in doing so, offers reasonable concessions intended to accommodate both Ameren and suppliers. *See id.* at 7.

ICEA/RESA observe that Ameren objected on other grounds as well, focusing primarily on the impact of removing switching restrictions on Ameren's supply service. Specifically, ICEA/RESA explain, Ameren invokes its need to forecast the total volume required by Rider S customers before each winter season, and claims that the Company seeks to avoid "a moving target" due to "continuous enrollments" and exposure to "too much or too little services depending on the movement to/from Rider S." *See, e.g.*, ICEA-RESA Ex. 2.0 at 2; ICEA-RESA Ex. 1.01.

Within this broad category of arguments, ICEA/RESA further explain, Ameren raises several concerns related to the impact of mass switching or quick switches between Rider S and Rider T (and back). Mr. Wright explained why these concerns were not legitimate—for instance, one concern relied on a theoretical mass exodus of Rider S customers to Rider T, even though Ameren has had its Transportation program in place for nearly 30 years and Ameren provided no examples of mass switching. *See* ICEA-RESA Ex. 2.0 at 5. Second, according to ICEA/RESA, Mr. Wright demonstrated that any concerns about rapid switching are overblown because of the extended time Ameren requested (and Mr. Wright conceded) for switching to Rider T and that immediate return is highly unlikely given the complexity of supply agreement negotiation and the high likelihood of early termination fees or liquidated damages for switching quickly back to Rider S. *See* ICEA-RESA Ex. 2.0 at 5.

To the extent Ameren may have to adjust how it forecasts the total volume of gas required by Rider S customers before a winter season with unrestricted enrollment, ICEA/RESA argue, Ameren offers no explanation as to why other utilities are apparently perfectly able to do so with no enrollment deadline for switching to a gas supplier from default supply, nor does it seem interested in taking proactive measures to identify whether other Illinois natural gas utilities possess a solution to its alleged problem. ICEA/RESA note that Ameren points to the successful experience of other utilities' programs in its testimony—such as highlighting zonal electrification of other utilities nationwide—and could consult with any other Illinois gas utility or gas utilities nationwide. *See* Ameren Ex. 3.0 at 24.

ICEA/RESA note that Ameren also refers to "drop procedures", for the situation in which a customer already on Rider T stops taking service from a third-party supplier and remains on Rider T but on Ameren supply for up to two billing periods, and states that these procedures are inconsistent with Mr. Wright's recommendation. Ameren IB at 212-

14. According to ICEA/RESA, Ameren's tariffs provide that such customers must contact Ameren no more than forty-five calendar days and no less than twelve business days before the requested termination date. *Id.* However, in these scenarios, ICEA/RESA explain, the Rider S to Rider T re-enrollment period described by Ameren would only apply if a customer takes default supply from Ameren for more than two billing periods and then wishes to use Rider T's enrollment period to switch back to Rider T again.

ICEA/RESA argue that the key takeaway is that it is Ameren's enrollment restrictions that create the theoretical conflict that the Company says it seeks to avoid. Thus, ICEA/RESA reason, if Rider T had no enrollment period, then there would be no conflict with the separate restrictions on switching back to Rider T from Rider S under the scenario that Ameren envisioned. *See* Ameren IB at 212-213. In other words, ICEA/RESA argue, Ameren refers to switching restrictions independent of Rider T's seasonal enrollment period, which means dropping Rider T's enrollment restrictions would *not* impact the operation of the drop procedures but for when in the year the customer may switch back to Rider T after going on Rider S supply.

ICEA/RESA note that Ameren only proposes an additional process. While ICEA/RESA appreciate Ameren's stated willingness to present the results of its study—including the timeline and expenses—in the Company's next rate case, ICEA/RESA argue that Ameren still hedges as to what exactly the Company would ultimately recommend. *Id.* Clearly, ICEA/RESA reason, year-round switching to suppliers is not a problem for all three other major Illinois gas utilities with default supply service, and the Commission should not take Ameren's hypothetical concerns at face value when the Company has a wealth of knowledge and examples for the feasibility of year-round switching to gas suppliers within Illinois. *See* Ameren Ex. 3.0 at 24. Each utility may be unique in various ways, ICEA/RESA note, including in hedging strategies and operational configuration, but Ameren has not even articulated how its systems and processes may be so different from the other three major Illinois gas utilities in any relevant regards as to justify its unwillingness to remove its switching restrictions in this case. *See generally* Ameren IB at 212-16.

On this issue, ICEA/RESA observe, Staff found the record unclear and thus took no position on ICEA/RESA's proposal. Staff IB at 109-110. ICEA/RESA further observe that Staff instead recommended that Ameren study the issue and present the study in its next rate case. *Id.* ICEA/RESA argue that Mr. Wright has in fact responded to Ameren's more concrete concerns, including by adjusting his position in his rebuttal testimony, leaving only hypothetical concerns lodged by Ameren. In this proceeding, ICEA/RESA further argue, the Commission has a full record before it sufficient to direct Ameren to implement year-round switching (with certain safeguards as proposed by Mr. Wright), and the Commission should do so. ICEA/RESA conclude that additional workshops with an open-ended ambit on feasibility are not the appropriate solution to the solvable problem of limited non-residential gas customer supply flexibility.

d. Commission Analysis and Conclusion

The Commission agrees with Staff that the record lacks sufficient evidence to determine how ICEA/RESA's request for immediate year-around switching across Riders S and T customer classes would affect Ameren's systems, operations, or costs. The

Commission therefore directs Ameren to conduct a study of the feasibility of ICEA/RESA's proposal, to be completed no later than December 31, 2026. In the next rate case after that study is completed, Ameren shall make a recommendation about whether and to what extent changes to the Company's tariffs addressing switching from Rider S to Rider T are feasible.

6. Rider T – Daily Balancing

a. AIC's Position

In the Ameren 2023 GRC Order, the Commission approved an agreement between Ameren Illinois, Staff, and ICEA that required Ameren Illinois to provide an update to Staff and ICEA regarding the Company's long-term strategy to move all Rider T customers to daily balancing and eliminate monthly read and balancing for Rider T customers. *Ameren 2023 GRC,* Order at 231. The Commission directed Ameren to provide that update no later than May 2024. *Id.*

The Company states that ICEA/RESA acknowledged that Ameren satisfied its obligations arising from the Ameren 2023 GRC by providing Staff and ICEA an update by May 31, 2024 that included a discussion of the scope of the necessary upgrades. ICEA/RESA Ex. 1.0 at 8. In that update, Ameren Illinois recommended workshops with suppliers, customers, and Staff to identify what is needed to help define final requirements and the scope to identify costs and timeline. Ameren Ex. 27.0 at 10; Ameren Ex. 27.2. In particular, the update clarified that "Ameren Illinois cannot identify costs or timeline without specific feedback on the needs for GDS-2, GDS-3, and GDS-5 daily balancing." Ameren Ex. 27.0 at 10. Ameren also emphasized that workshops would allow all suppliers serving Rider T customers an opportunity to provide input on the design of the program. *Id.*

In rebuttal testimony, Ameren explained that it cannot move forward with a timeline or date certain until suppliers resolve the following questions: (1) what are acceptable time frames to receive usage data; (2) what are an acceptable number of days to have gaps in data; and (3) is it acceptable to use estimated daily usage data. Ameren Ex. 27.0 at 11; Ameren Ex. 27.2. Ameren explained that these open questions are substantive and require feedback from all interested stakeholders in the decision-making process. Ameren Ex. 41.0 at 6.

ICEA/RESA witness Wright recommends that the Commission direct Ameren Illinois to move GDS-2, GDS-3, and GDS-5 customers to daily reads by a date certain or, in the alternative, direct the Company to undertake "time-limited workshops with required action in Ameren's next rate case for the transition of GDS-2, GDS-3, and GDS-5 to daily read." ICEA-RESA Ex. 2.0 at 8-10. Ameren Illinois has proposed that it host the first workshop regarding moving monthly balanced transportation customers to daily-balancing no later than May 1, 2026. *Id*. In the event the Commission approves the Company's proposed workshops on this issue, Ameren Illinois agreed with ICEA/RESA's request to propose a plan to move GDS-3, GDS-3, and GDS-5 Rider T customers to daily read in its next rate case or—if a rate case is not filed within 12 months of December 31, 2026—in a separate proceeding initiated by the Company. ICEA-RESA Cross Ex. 1 at 4. Ameren Illinois notes that Staff also agreed that workshops "for all interested

stakeholders is the proper first step," and recommended that the Commission "allow Ameren to initiate the proposed workshops." Staff Ex. 16.0 at 9.

The Company points out that neither Staff nor ICEA/RESA provided any feedback to Ameren Illinois after the submission of the update in May 2024. Despite the fact that Ameren Illinois identified the open questions and information needed before proceeding with the transition to daily reads, and reiterated those points throughout this proceeding, ICEA/RESA confusingly assert that "Ameren has not explained why it could not or would not resolve the issues the Company raised in this docket related to the implementation of full daily read across rate classes eligible to take supply service under Rider T *prior* to this proceeding (and presented the Company's solutions here)." ICEA/RESA IB at 8 (emphasis in original). That is not correct. Ameren Illinois asked for feedback and additional information in May 2024, and ICEA/RESA did not respond. Ameren has been clear that it is seeking feedback from all suppliers serving the Company's Rider T customers to find the best option to move forward. The Company proposes to use the workshops to educate suppliers on the obstacles and answer the questions identified in the report previously submitted. Ameren Ex. 41.0 at 5.

Ameren further asserts that ICEA/RESA's claim that "it is unclear why Ameren would not be able to prepare and present here both a timeline and cost scope" and that "Ameren could have and should have proposed a timeline and cost scope . . . in this rate case" (ICEA/RESA IB at 8-9) ignores the clear and unambiguous testimony of Ameren witness Garrett, the update provided to ICEA in May 2024 and provided again in this docket, and the supporting testimony of Staff witness Sackett.

Ameren Illinois states that it requires certain information before it can develop and implement a plan to transition DS-3, GDS-3, and GDS-5 Rider T customers to daily read, and workshops are the appropriate next step to obtain that data. Moreover, all suppliers serving the Company's Rider T customers should be afforded the opportunity to provide input on the design of the program. The Company states that Staff agreed that workshops are the appropriate next step, and ICEA/RESA did not object. Specifically, ICEA/RESA conclude that workshops are an appropriate next step in this process if the workshops are time limited and the Company is required to make a proposal in its next rate case for the scope and timing of moving GDS-2, GDS-3, and GDS-5 customers to daily read. ICEA/RESA IB at 9.

The Company has proposed, and Staff has agreed, to time limited workshops. The Company has also agreed to propose a plan to move GDS-2, GDS-3, and GDS-5 customers to daily read in its next rate case or—if a rate case is not filed within 12 months of December 31, 2026—in a separate proceeding initiated by the Company. The Commission should approve Ameren's recommendation and direct the Company to hold workshops on this issue, with the first to commence no later than May 1, 2026. The Commission should also direct Ameren to offer a proposal for the scope and timing of moving GDS-3, GDS-3, and GDS-5 Rider T customers to daily read in its next rate case or—if a rate case is not filed within 12 months of December 31, 2026—in a separate proceeding initiated by the Company.

b. Staff's Position

In the Ameren 2023 GRC, Staff recommended the Commission order Ameren to study the impact of moving transportation customers from monthly-balancing to daily-balancing and present the result with an implementation recommendation in its next rate case, which the Commission adopted. *Ameren 2023 GRC,* Order at 247-50. In this proceeding, Staff witness Sackett concluded that Ameren fulfilled its obligation to conduct the study and present its results. Staff Ex. 8.0 at 6; *see* Ameren Ex. 14.0 (Rev.) at 5-7. Staff agrees with Ameren that Ameren's suggested workshops for all interested stakeholders is the proper first step. Staff Ex. 16.0 at 8. More information is needed before the Commission determines whether Ameren should move from monthly balancing to daily balancing. *Id*. at 9.

Therefore, Staff recommends the Commission reject ICEA/RESA's proposal and instead allow Ameren to initiate the proposed workshops. Although Staff did not recommend a specific timeline for those workshops, Staff sees no reason as to why they could not begin prior to the Commission's Final Order in this proceeding. *Id.*

c. ICEA/RESA's Position

According to ICEA/RESA, Ameren and ICEA/RESA agree that the Commission should direct the Company to offer in its next rate case a proposal for the scope and timing of moving GDS-2, GDS-3, and GDS-5 Rider T customers to daily read. *See* Ameren IB at 216. ICEA/RESA explain that Ameren's position is consistent with Mr. Wright's adjusted position but for a time limitation on a preceding workshop process that is separate from the preparation and filing of the Company's next rate case, which is fully within the Company's control. *See* ICEA-RESA Ex. 2.0 at 9. While ICEA/RESA believe that Ameren (or Staff) should be directed by the Commission to complete this workshop process by a date certain, ICEA/RESA note that the filing of the Company's next rate case does provide an organic—if indeterminate—deadline at some point in the future. ICEA/RESA observe that Staff agrees with Ameren that workshops are the appropriate next step and has indicated a willingness to starting the workshop process before the Final Order but otherwise recommends no timeline. Staff IB at 111.

ICEA/RESA witness Wright explains that, to the best of his understanding, Ameren determines each of its customers' gas usage in one of two ways: physical meter readings each month (or "monthly read"), or using AMI to collect and transmit much more granular usage data that is typically collected daily (or "daily read"). *See* ICEA-RESA Ex. 1.0 at 6. Currently, according to ICEA/RESA, Ameren's rate classes GDS-4 (Large General Gas Delivery Service), GDS-6 (Inadequate Capacity Gas Delivery Service), and GDS-7 (Special Contract Gas Delivery Service) customers are daily read, and its rate classes GDS-2 (Small General Gas Delivery Service), GDS-3 (Intermediate Gas Delivery Service), and GDS-5 (Seasonal Gas Delivery Service) are typically monthly read. *See id.*

Mr. Wright further explained that because gas suppliers must balance their nominations with their customers' usage, and gas suppliers are subject to significant and needless penalties from Ameren resulting from monthly read, all gas customers taking supply from a gas supplier under Rider T should be on daily read. *See, e.g.*, ICEA-RESA Ex. 1.0 at 7. ICEA/RESA explain that this is because during Operational Flow Order

("OFO") days in particular, Ameren imposes stringent tolerances on how much nominations match usage, and, while this is typical of a gas utility, monthly read customers' usage is measured against the average usage for a pool of customers instead of the amount of gas they actually used during the OFO day (which is the case for daily read customers), leading to substantial and unnecessary cashout penalties to the detriment of customers in rate classes with monthly read. *See id.* at 7.

ICEA/RESA note that this is not the first time that this issue has been raised by ICEA/RESA. In the Ameren 2023 GRC, ICEA witness Mehling recommended moving all Rider T customers (*i.e.* those with a gas supplier) to daily read and daily balancing and that Ameren agrees with this proposal, at least in concept. *See* ICEA-RESA Ex. 1.0 at 8. Per ICEA/RESA, the issue is a matter of timing; Ameren refuses to commit to a timeline or a date certain for completing the moving of GDS-2, GDS-3, and GDS-5 customers to daily read. *See* ICEA-RESA Ex. 2.0 at 8. Ameren instead recommends workshops to address a series of questions related to providing daily read for all customers eligible for service under Rider T. *Id.*

ICEA/RESA argue that Ameren has not explained why it could not or would not resolve the issues the Company raised in this docket related to the implementation of full daily read across rate classes eligible to take supply service under Rider T *prior* to this proceeding (and presented the Company's solutions here). *See* ICEA-RESA Ex. 2.0 at 8. Indeed, ICEA/RESA further argue, because Ameren already provides daily read for all customers in rate classes GDS-4, GDS-6, and GDS-7 and works with gas suppliers on data matters for those rate classes constantly, it is unclear why Ameren would not be able to prepare and present here both a timeline and cost scope related to the highly similar implementation of daily read for customers in rate classes GDS-2, GDS-3, and GDS-5. *Id.*

ICEA/RESA conclude that Ameren should be directed to move GDS-2, GDS-3, and GDS-5 to daily read by a date certain—into agreement to Ameren's proposed workshops despite the needless delay but only if the workshops are time-limited and Ameren is required to make a proposal in its next rate case for the scope and timing of moving GDS-2, GDS-3, and GDS-5 customers to daily read (the latter of which, ICEA and RESA note, Ameren has already agreed to do). *See* ICEA-RESA Ex. 2.0 at 9. ICEA/RESA urge the Commission to direct Ameren or Staff to commence the workshop process regarding daily read for all customers eligible to take service under Rider T as soon as is feasible, and to complete the process by a date certain such that it can be completed in advance of the Company's preparation and filing of its next rate case.

d. Commission Analysis and Conclusion

The Commission finds that Staff and Ameren agree that workshops are the appropriate next step to identify the scope of work, timeline, and potential costs associated with the transition of monthly balanced gas transportation customers served under Rider T to a daily balancing schedule. This is consistent with the recommendations made in the Company's compliance document, provided to Staff and ICEA in May 2024, and with the record evidence in this proceeding that demonstrates that specific information and analysis is required before GDS-2, GDS-3, and GDS-5 customers can be transitioned to daily read.

The Commission notes that ICEA/RESA do not appear to oppose the workshop process, provided the workshops are time limited, and Ameren has agreed to propose a plan for moving GDS-2, GDS-3, and GDS-5 customers to daily read in its next rate case or—if a rate case is not filed within 12 months of December 31, 2026—in a separate proceeding initiated by the Company.

The Commission agrees that it is appropriate to initiate workshops to address the questions identified by Ameren Illinois and allow Staff, customers, and suppliers the opportunity to participate. Therefore, Ameren is directed to initiate a workshop with suppliers, customers, and Staff on this issue no later than May 31, 2026. Ameren is further directed to propose a plan for moving GDS-2, GDS-3, and GDS-5 customers to daily read in its next rate case or—if a rate case is not filed within 12 months of December 31, 2026—in a separate proceeding initiated by the Company.

7. Timing of Compliance Tariffs

a. AIC's Position

Ameren states that Staff witness Williams recommended that the Commission order the Company to submit its compliance tariffs at least five business days before the proposed effective date of the tariffs. Staff Ex. 4.0 at 41. The Company notes that Staff witness Williams explained in rebuttal testimony that a compliance filing submission at least five business days before the proposed effective date allows Staff time to review the compliance filing for consistency with the Commission's Final Order. Staff Ex. 12.0 (Rev.) at 36.

Ameren submits that Ms. Williams' recommendation would provide for a longer period than that expressly contemplated by Section 9-201 of the Act. Ameren Ex. 26.0 at 20. In particular, with respect to the review period associated with the suspension of the Company's tariffs, the Act states, in pertinent part:

> The Commission shall incorporate into the period of suspension a review period of 4 business days during which the Commission may review and determine whether the new or revised schedules comply with the Commission's decision approving a change to the public utility's rate.

220 ILCS 5/9-201(b). Ameren Illinois explains that, therefore, the Act contemplates the appropriate review period to determine whether the Company's compliance tariffs comply with the Commission's Final Order. The Company states that it will comply with the direction of the Commission in regard to the filing of its compliance tariffs.

b. Staff's Position

Staff recommends the Commission order AIC to submit its compliance tariffs at least five business days before the proposed effective date for those tariff schedules. Staff testified that five business days will provide sufficient time to review the compliance filing and ensure it is consistent with the Commission's Final Order before the proposed effective date of those tariff schedules. Staff Ex. 12.0 (Rev.) at 36.

The Company does not agree with Staff's recommendation regarding the timing of the compliance filings, but nevertheless, Ameren stated they will comply with the direction

regarding compliance tariffs provided in the Commission's Final Order in this proceeding. Therefore, Staff recommends the Commission order Ameren to submit its compliance tariffs at least five days before the proposed effective date.

c. Commission Analysis and Conclusion

Ameren objects to Staff's request for a five-business day review period on the grounds that it would provide one additional day beyond what the legislature prescribed yet states that the Company will nonetheless comply with any direction the Commission issues.

The Commission appreciates Ameren's willingness to cooperate with Staff's reasonable request. Therefore, the Commission directs Ameren to submit its compliance tariffs at least five days before the proposed effective date.

8. Rulemaking to Address Main and Service Line Extension Policy

a. AIC's Position

Ameren Illinois explains that the Company and PIO agreed on the Company's proposal in this proceeding to reduce the free main extension allowance from 400 feet to 200 feet. Ameren Ex. 2.0 at 17; PIO Ex. 2.0 at 47. The Company states that while PIO did not contest Ameren Illinois' proposal to modify its tariff to reduce the allowance for free main extension, PIO recommended the Commission initiate a rulemaking to address gas utility line extension allowances more broadly. PIO Ex. 1.0 at 71. According to Ameren Illinois, it appears that PIO prefer a dedicated rulemaking related to line extensions rather than addressing the issue within the on-going FoG proceeding because the workshops in that proceeding "are already working through a crowded agenda, and because they have yet to address line-extension subsidies[.]" PIO IB at 36.

Ameren Illinois explains that there are factors the Commission should consider before deciding whether to initiate a rulemaking. The Company further explains, in the Ameren 2023 GRC Order, the Commission acknowledged that modifying line extension allowances was a broad question that called for additional input and, therefore, should be considered in the FoG proceeding or a separate proceeding. *Ameren 2023 GRC,* Order at 95. In initiating the FoG proceeding, the Commission expressly stated that line extension allowances would be one of the issues to be addressed: "The need for line extensions (for both mains and services) on the gas distribution system in the future and the need for a rulemaking to modify existing codified line extension allowances[.]" Docket 24-0158, Order at 2.

The Company states that a discussion about modifying such allowances is certain to garner interest from a number of stakeholders who may not have a reason to intervene or follow this current proceeding (*e.g.*, homebuilder organizations) but may be engaged in the FoG process. *Id.* Since the FoG workshops have not concluded and there still is an opportunity in that setting to discuss the gas line extension allowance policy of the State—as the Commission acknowledged in initiating that proceeding—that discussion may be better suited to occur in the FoG process first where a number of interested stakeholders are already engaged. *Id.* Taking the issue up in the FoG process will allow various stakeholders to provide feedback about appropriate next steps related to the gas line extension allowance policy.

Ameren Illinois further states that, since the subject of natural gas utility line extension allowances was included in the Commission's Order initiating the FoG proceeding, it is logical to assume that the numerous stakeholders participating in the FoG workshops are anticipating workshop discussions related to line extension allowances. And, Ameren Illinois notes, PIO have provided no valid reason to prematurely remove this issue from consideration in the context of those workshops, particularly where there is no guarantee that a "dedicated rulemaking" will address the issue on a different timeline than it might be addressed in the FoG context.

Ameren Illinois submits that the discussion of natural gas utility line extension allowances is better suited to the FoG workshops because they are more accessible to a broad variety of stakeholders than a formal rulemaking proceeding that likely would be more challenging for non-attorney or non-subject matter expert stakeholders to navigate. By first discussing natural gas utility line extension allowances in a larger audience workshop setting, it will allow stakeholders from a broad spectrum to provide input regarding natural gas line extension policies and provide valuable feedback on what should be the appropriate next steps.

The Company notes that the Commission could utilize the FoG process as the forum to first discuss gas line extension allowance policy for the reasons stated above, but defers to the Commission on the appropriate setting for further discussion of natural gas line extension policies that are consistent with the Act and the APA be it the FoG proceeding or a rulemaking proceeding.

As a final matter, Ameren Illinois responds to the suggestion by PIO that its line extension allowances in its Commission-approved tariff somehow are inconsistent with the Illinois Administrative Code. PIO IB at 35-36. PIO rely upon Section 501.600(b), which allows public utilities to provide a line extension allowance of 100 feet for low pressure system main or 200 feet for high pressure system main. 83 Ill. Adm. Code 501.600(b). PIO argue that the Company's "line extension allowances, as modified by the proposal it makes in this proceeding, still exceed the minimum set by the Illinois Administrative Code." PIO IB at 35. Ameren Illinois avers that PIO's argument is a red herring.

Ameren Illinois explains that, as stated in the Company's Commission-approved tariff, the Company provides "Extensions of the Distribution System as described in this Section in lieu of 83 Ill. Adm. Code 501." Ill. C. C. No. 2, 2nd Revised Sheet No. 4.011. Thus, Ameren Illinois received authorization from the Commission to set the line extension allowances that PIO criticize. Therefore, regardless of the outcome the Commission arrives at regarding PIO's request for a separate rulemaking, the Company asks the Commission to reject PIO's unsupported assertion that Ameren Illinois' line extension allowances are in any way inconsistent with Section 501.

b. PIO's Position

PIO note that Ameren has proposed a modification to its line extension allowance policy in this proceeding. Specifically, Ameren proposes a partial reform of its line-extension allowance, reducing the amount of main-line allowance it provides for free to all customers down from 400 feet to 200 feet. PIO Ex. 2.0 at 45. PIO note, however, that Ameren has, however, retained its universal 60-foot free service-line allowance. *Id*. PIO

ultimately support Ameren's proposed modifications but believe the Commission should open a dedicated rulemaking on this issue because it presents sufficiently complex and important questions that require the consideration of significant equities of all Illinois citizens, natural gas customers, and natural gas utilities.

PIO observe that Ameren's proposed modifications to its line extension allowances continue to exceed the minimum requirements established by Section 501.600(b). Currently, the code requires utilities to provide 100 feet of low pressure main (or 200 feet of high pressure main) for free to each applicant living in an urban area. PIO point out that the rule does not require utilities to provide any free main extensions to customers in rural areas or free service extensions to any customer in rural or urban areas. PIO Ex. 2.0 at 46. PIO argue that, while Ameren should further reduce and change its remaining line extension allowances, PIO are not arguing the Commission should direct that change in this docket.

PIO note that Ameren's justification for reducing its line extension allowance relies on reasoning that, if applied consistently, would support a reduction to all new customer line allowances. PIO identify Ameren's claim that any free-extension policy should approximate the net benefit a new customer brings to the system. *Id*. at 45. PIO also point to Ameren's acknowledgement that, as customers leave the system, remaining customers shoulder more fixed-cost burden. *Id*.

PIO note that while the Ameren's 2023 GRC Order agreed with Ameren that "the historical rationale for [such policy] has changed," it deferred a final decision to a future rulemaking or the FoG proceeding. *Ameren's 2023 GRC*, Order at 95. But because the workshops in the FoG proceeding are already working through a crowded agenda, and because they have yet to address line-extension subsides, PIO argue that the Commission should open a dedicated rulemaking on this topic.

PIO assert that a dedicated rulemaking would assist the Commission and stakeholders in addressing these important questions more efficiently and comprehensively. Issues to be addressed, according to PIO, include whether and how utilities should be encouraged to further approach the existing administrative minimum (given the economic realities and changes to historic policy rationale). PIO note that Ameren has deferred to the Commission on whether a dedicated rulemaking is necessary. Ameren Ex. 17.0 at 9.

c. Commission Analysis and Conclusion

In the Ameren 2023 GRC the Commission agreed with PIO that the historical policy rationale for line extension allowances had changed and this issue is a broad question that calls for additional input from a variety of stakeholders. Ameren 2023 GRC at 95. The Ameren 2023 GRC Order determined that the issue was best addressed, at least initially, in the FoG series. *Id.* The FoG series remains ongoing and will conclude after this proceeding. In 2023, the Commission noted that FoG "need not prevent the Commission or the Company from modifying line extension allowances in future proceedings." *Id.* To that end, Ameren and PIO in this case agreed to reduce the free main extension allowance from 400 feet to 200 feet, as discussed in Section VIII.A.5.

PIO asks the Commission to initiate a dedicated rulemaking on line extension allowances. PIO Ex. 1.0 at 71. PIO state that the FoG series has not discussed line extension policy and that its agenda is "already crowded;" therefore, the Commission should re-examine its line extension rule. PIO Ex. 2.0 at 46; *see also* PIO Ex. 1.0 at 70; Ameren Ex. 17.0 at 9. PIO argue the Company's proposal in this case does not resolve outstanding issues, such as rural and urban customer distinctions, or address service line allowances. *Id.* To address these deficiencies, PIO requests the Commission initiate a dedicated rulemaking on line extension policy. *Id.* Ameren Illinois defers to the Commission on the need for a rulemaking. Ameren Ex. 17.0 at 9.

The Commission agrees with PIO that additional review of line extension allowance policy is needed. The Commission remains committed to FoG and receiving a robust set of views, data, and recommendations following its conclusion but finds there is a necessary distinction between gas distribution system changes due to the State's decarbonization goals and the prudency of investment decisions. Ameren's test year contains $70.9 million for new mains and service line extensions. PIO Ex. 1.0 at 66. The Commission must scrutinize the prudency of any plant investments ratepayers fund for decades. The continued socialized costs of line extensions represent a potential burden to ratepayers that may no longer provide sufficient benefit to justify the costs, especially given future potential stranded assets. Examining these socialized costs does not prohibit Ameren system expansion as an individual customer can pay to connect to the gas distribution system.

The Commission affirms its findings in the Ameren 2023 GRC that the historic policy rationale for line extension allowances has changed. The energy landscape is rapidly evolving, and the existing line extension policy may no longer provide a balanced benefit to ratepayers in the State. Accordingly, the Commission directs Staff to issue a report on Illinois utilities' line extension policies. The Commission finds there is relevant record evidence for Staff to examine in this case, recent gas utility rate cases, FoG, investigations and actions by other states, and other relevant data to inform Staff's report. Staff's line extension policy report shall review and analyze the line extension allowances of each gas utility in Illinois, including the costs and miles of service lines and mains extended through the policies, and how those costs relate to the quantified benefits provided to all ratepayers. Staff's report shall compare each utility's policy to the Commission's current rule on line extension allowances. *See* 83 Ill. Adm. Code 501.600. Staff shall provide the Commission with recommendations on next steps, such as rulemaking, Commission investigation, targeted workshop, or other actions. Staff shall issue its report to the Commission 180 days from the date of this Order.

IX. PILOT PROGRAMS

A. Uncontested or Resolved Issues

1. Advanced Leak Detection Pilot Program

a. Scope

In order to enhance the detection and mitigation processes for pinpointing and remediating methane emissions, Ameren Illinois proposed the satellite-based Advanced Leak Detection pilot program. Ameren Ex. 8.0 at 36. This pilot program uses "spectral

imagery data collected by sensor platforms and analyzes the data using artificial intelligence algorithms to isolate unique spectral signatures [associated with methane] within the imagery." *Id*. at 36. Company witness Kloeppel testified that other utilities have successfully implemented similar pilot concepts. *Id*. at 36-37.

The Advanced Leak Detection pilot program advances both policy and safety goals. From a policy perspective, this pilot is an embodiment of Ameren Illinois' "commitment to the clean energy transition and ongoing decarbonization efforts." Ameren Ex. 3.0 at 20. This pilot will provide valuable data that will help Ameren Illinois more accurately quantify methane emissions and reductions - data Ameren Illinois currently does not have - and thereby develop long term strategies for system upgrades, maintenance, and low-carbon fuel alternatives. *Id*. at 20. From a safety perspective, this pilot program will enable regulatory compliance with elevated leak threshold detection expectations established in the PHMSA Notice of Proposed Rulemaking Pipeline Safety: Gas Pipeline Leak Detection and Repair, and will help Ameren Illinois evaluate the feasibility of integrating this type of technology into long-term operations. Ameren Ex. 8.0 at 36.

Staff affirmatively supported this program and no party opposed it. Staff Ex. 6.0 at 4; Ameren Ex. 22.0 at 8. Indeed, Staff stated: "the technology could revolutionize the process of methane gas detection in Illinois . . . [and i]n the long term, . . . aid in Illinois' goal to reduce overall greenhouse gas emissions in the State." Staff Ex. 6.0 at 4.

b. Data Privacy

Staff raised concerns that through the Advanced Leak Detection pilot program, Ameren Illinois could potentially collect, store, and disseminate spectral imaging data that could implicate customer privacy concerns. Staff Ex. 6.0 at 5-6. Staff witness Harmening asked the Commission to direct Ameren Illinois "to work with Staff to address Staff's data privacy and customer notification concerns." Staff Ex. 14.0 at 4.

Ameren witness Kloeppel explained that the satellite imagery capture that Ameren Illinois will conduct as part of its proposed program is considered to occur in public airspace and, as such, there is no customer-specific information that would be collected for which notice reasonably would be needed. Ameren Ex. 22.0 at 9. Mr. Kloeppel further explained that, as the Company proceeds with this new technology, the Company will continue to address data privacy concerns with the approved vendor and notify customers as appropriate. *Id*.

Furthermore, Ameren Illinois has agreed to work with Staff to address data privacy concerns associated with this program. Ameren Ex. 36.0 at 32-33. To that end, Ameren Illinois recommended one modification to language to be included in the Final Order in this case regarding this issue as proposed by Mr. Harmening. As Mr. Kloeppel explained, Ameren Illinois suggests including the clause "if any" after "data" because it is not yet clear whether the Company's deployment of the Advanced Leak Detection technology actually will collect any personal data of customers. Staff's recommended language with Ameren Illinois' modification is as follows:

> The Commission orders the Company to work with Staff to agree on data privacy concerns including the development of

> a framework to notify individuals of the collection of their data, if any, through the "Advanced Leak Detection" program.

Staff Ex. 14.0 at 4 (setting forth the bulk of the language above); Ameren Ex. 36.0 at 33 (adding the phrase "if any,").

c. Cost Recovery

Ameren Illinois proposed to spend $300,000 in O&M on this pilot program in the 2026 test year. Ameren Ex. 8.0 at 37. This amount is reflected as a ratemaking adjustment in Schedule C-2.15. Ameren Ex. 4.0 at 22. Recovery of the cost associated with the Advanced Leak Detection pilot program is uncontested.

d. Commission Analysis and Conclusion

The Commission finds this pilot, which will help the Company detect methane gas leaks, to be an important opportunity for Ameren to reduce greenhouse gas emissions in Illinois. The Commission appreciates Staff's concern regarding data privacy and the Commission orders the Company to work with Staff to agree on data privacy concerns including the development of a framework to notify individuals of the collection of their data, if any, through the "Advanced Leak Detection" program. The proposed cost for this program is uncontested and the Commission finds it to be reasonable. The pilot is approved.

2. Remote Methane Detection Pilot Program

a. Scope

Ameren Illinois proposed to test the feasibility and effectiveness of remote methane detectors and their ability to interconnect and communicate with Ameren Illinois' Advanced Meter Infrastructure ("AMI") networks. Ameren Ex. 8.0 at 38-40. This pilot program could add an additional safety capability to detect and communicate gas leaks. *Id*. at 39. Other gas companies have successfully implemented this technology, and organizations such as fire departments and Associated Electric and Gas Insurance Services support the use of these remote detectors. *Id*. No party opposed the Company's proposed pilot program.

b. Cost Recovery

Ameren Illinois proposed to spend $100,000 in O&M on this pilot program in the 2026 Test Year. Ameren Ex. 8.0 at 40. This amount is reflected as a ratemaking adjustment in Schedule C-2.15. Ameren Ex. 4.0 at 22. No party contests the recovery of this cost associated with the Remote Methane Detection pilot program. Therefore, Ameren's proposed spend is authorized.

3. Fugitive Emissions Reduction Pilot Program

a. Scope

Consistent with the Commission's decarbonization efforts, the Fugitive Emissions Reduction pilot program is designed to reduce fugitive emissions from active gas leaks. Ameren Ex. 8.0 at 35. The pilot will use advanced leak detection technology, specifically in the form of an Advanced Mobile Leak Detection ("AMLD") automobile, to enable the repair of a greater number of active leaks on Ameren Illinois' system. *Id*. The AMLD

automobile is designed to accomplish this because it will be able to cover more territory than traditional walking leak surveys. *Id*. This pilot is also critically interconnected with the Advanced Leak Detection pilot program, discussed above. Implementing both pilots at the same time "is essential for operational balance, as advanced leak detection without increased repair capabilities could lead to identifying more leaks than the Company can promptly address. Ameren Illinois contends that the combination of these pilots allows for both accurate leak detection and targeted repairs, which maximizes emissions reduction and system improvement." Ameren Ex. 22.0 at 36 (internal citation omitted).

As Ameren witness Simms testified, from a policy perspective, "[b]y reducing our leak backlog, we are not only addressing current emissions but also ensuring our infrastructure is prepared to support a future with low-carbon and renewable gases. This approach allows us to make environmental progress while leveraging existing infrastructure, minimizing disruption to customers, and supporting a just transition." Ameren Ex. 3.0 at 20-21. Although the AG originally questioned the timing of this pilot program and its inclusion in this docket, in rebuttal testimony the AG withdrew its objection to, and its proposed disallowance associated with, the program. AG Ex. 1.00 at 24-25; AG Ex. 3.00 at 2. Therefore, this pilot program is uncontested.

b. Cost Recovery

Ameren Illinois proposed funding this pilot program in the 2026 test year with $3.3 million of additional capital and $0.9 million in additional O&M. Ameren Ex. 8.0 at 36; Ameren Ex. 19.0 (Rev.) at 23. These amounts are reflected as ratemaking adjustments in Schedules B-2.4 and C-2.15, respectively. Ameren Ex. 4.0 at 22. The recovery of these costs associated with the Fugitive Emissions Reduction pilot program is uncontested.

c. Commission Analysis and Conclusion

This pilot, which is interconnected with the Advanced Leak Detection program and is uncontested, will also help to identify leaks on Ameren's system. The Commission finds it reasonable, and it is approved.

4. Pilot Program Reporting Requirements

While Staff witness Seagle did not oppose any of the pilot programs proposed for cost recovery in this proceeding, he requested that the Commission approve a reporting mechanism that would, in his view, increase transparency and clarity regarding use of Ameren Illinois' resources. Staff Ex. 13.0 at 8. Specifically, he requested, for each pilot program that receives Commission approval in this proceeding, that the Commission order the following:

> [T]he Company provide as compliance filings in this docket: 1) a comprehensive list of qualitative and/or quantitative objectives and goals of each pilot program; 2) a detailed explanation of the progress towards completion of the goals and objectives of each pilot program; 3) a list and the number of resources, including but not limited to cash or employees, utilized to reach those goals; and 4) any other pertinent information the Company deems necessary to keep the

> Commission apprised of any new developments as the Company implements the Commission approved pilot programs.

Id. at 8-9.

Mr. Seagle also recommended that the Company provide to the Director of the Safety and Reliability Division an initial report for each Commission approved pilot program six months after the date of the Final Order in this docket. Staff Ex. 13.0 at 9. Ameren Illinois understands that Commission Staff will review the initial report and provide feedback to the Company for the first annual report that should be filed one year after the date of the Final Order in this docket. Further, Mr. Seagle's recommendation provides that reports would be filed in this docket every year thereafter so long as the pilot programs are in effect. *Id*.

Ameren Illinois agreed to provide the reporting described above, specifically as limited to pilot programs that receive Commission approval in this proceeding. Ameren Ex. 36.0 at 34. Ameren Illinois' understanding is that the Territory Study discussed below in Section IX.B.1 would not be subject to these reporting requirements as evidenced by the fact that it is the subject of a separate request for a compliance filing requirement. *See, infra,* Section IX.B.1.a. Moreover, the Territory Study is not an ongoing pilot program that would lend itself to ongoing reporting requirements. *See, infra,* Section IX.B.1.b. Subject to that caveat, the Company states, this issue is uncontested.

The Commission agrees that the recommendations of Staff are necessary. Accordingly, the Company is directed provide as compliance filings in this docket: (1) a comprehensive list of qualitative and/or quantitative objectives and goals of each pilot program; (2) a detailed explanation of the progress towards completion of the goals and objectives of each pilot program; (3) a list and the number of resources, including but not limited to cash or employees, utilized to reach those goals; and (4) any other pertinent information the Company deems necessary to keep the Commission apprised of any new developments as the Company implements the Commission approved pilot programs.

5. Directive on Heat Pump Workshops

In conjunction with meeting the State's clean energy goals, Ameren Illinois has highlighted the importance of retaining customer choice in energy supply and the need for "a hybrid future to meet energy needs in a decarbonized Illinois." Ameren Ex. 3.0 at 4. To that end, the FoG proceeding has included discussions of meeting customer heating needs "by an optimized combination of low carbon fuels, natural gas, and electricity, rather than trying to rely solely on one or the other." *Id*. at 4-5. In this proceeding, in an effort to coordinate planning and investment, Ameren Illinois asks the Commission to provide a directive ordering "workshops with the purpose of initiating a future docket to address, among other topics . . . a path for review and approval of a heat pump pilot for deployment in Illinois." *Id*. at 29. Ameren Illinois is unaware of any party that opposed this proposal in testimony. Nevertheless, Ameren Illinois has briefed this matter under "Contested Issues" in the event that any party opposes it after the close of evidence. Ameren Illinois contends the Commission should include the requested workshop directive in its Final Order in this proceeding.

Company witness Tomc discussed the primary topics to address in such workshops: "(1) pilot design, scope and size; (2) cost recovery mechanisms; (3) cost apportionment between gas and electric services; (4) customer engagement and education; (5) low-income customer needs; and (6) how the pilot will be assessed at its conclusion." Ameren Ex. 2.0 at 16. Additionally, Ameren Illinois wants "to hear from stakeholders about any additional considerations they believe should be considered." *Id*. at 16. Ameren Illinois did not propose funding for a heat pump pilot in this docket; Ameren Illinois seeks only the Commission directive to engage in workshops so that a heat pump pilot can be brought to the Commission for approval in a future docket. Ameren Ex. 3.0 at 26.

"As part of the clean energy transition, Ameren Illinois customers will need to have the option of a hybrid heating future for those energy needs as the industry and society transition to more decarbonization." Ameren Ex. 3.0 at 7. Ameren Illinois seeks the Commission's assistance "to support advancement of hybrid heating systems where most residential customers use electric heat pumps with backup gas furnaces that operate when the ambient temperature is below the heat pump capacity." *Id*. at 7. Company witness Simms explained the benefits of hybrid heating, which include the following:

1. Maximizes the opportunity of reaching net zero while providing flexibility, optionality, resiliency, and affordability benefits to customers;

A. A majority of households would have dual fuel solutions in 2050—using electric heat pumps for day-to-day heating and cooling and turning to gas-fired furnaces or boilers on the coldest days of the year;

1. Provides customers with multiple sources of energy and addresses potential concerns around resiliency of all-electric heating;

2. Delivering natural gas on the coldest days will help reduce the rapid and significant investment needed in electrical distribution infrastructure for substantial electrification; and

3. Provides optionality for future State decisions on the role of the natural gas system by not overcommitting to full electrification or high low carbon fuels.

Id. at 7.

Ameren Illinois raised this issue in this case because it is important to shape near term investment decisions to enable hybrid heating. Ameren Ex. 3.0 at 8; see also *id*. at 8-9; Ameren Ex. 8.0 at 18. In addition to the proactive approach outlined above, Company witnesses Simms, Kozak, and Kloeppel testified that Ameren Illinois will continue to prepare for a hybrid heating future by complying with federal pipeline safety requirements, curbing fugitive emissions, enhancing storage fields, and exploring investment in geothermal loops. *See* Ameren Ex. 3.0 at 10-11; *see also generally* Ameren Ex. 7.0; Ameren Ex. 8.0. Ameren Illinois refers to this approach as an "all of the above" solution. Ameren Ex. 3.0 at 25.

AIC's vision for a future heat pump pilot is part of that "all of the above" approach. The Company intends to use "strategic market intervention to drive customer adoption of heat pumps across the Company's service territory while focusing on dual fuel solutions." Ameren Ex. 3.0 at 26. Ameren Illinois anticipates participation by 100 primarily income-

qualified residences in a three-phase pilot involving recruitment, installation, and evaluation. *Id*. at 26-27. The pilot program could offer direct incentives covering "the entire cost of the dual fuel HVAC equipment and installations," *e.g*., "a new high efficiency gas furnace, a new high efficiency air source heat pump, installation/labor costs, duct/vent repair, electrical panel/rewiring, and health and safety costs." *Id*. at 26. Additionally, the pilot would offer customer education to provide information on new equipment, ensure customer satisfaction, and comfort with use of the new system." Id. at 26. As Ms. Simms testified, initial modeling shows that:

> with participation at 100 residential hybrid systems, [the pilot] would be expected to save at least 49,000 therms of natural gas and 448,000 pounds of carbon dioxide in first year impacts gained from the removal of inefficient natural gas burning equipment and the supplementing of natural gas heating with electric heating.

Id. at 27.

Although Ameren Illinois has an initial vision, it is critical that stakeholders participate in the development of this proposed pilot. Ameren Ex. 3.0 at 26. Therefore, to further the State of Illinois' clean energy goals and to efficiently and economically achieve the clean energy transition, while at the same time enhancing transparency and stakeholder participation, Ameren Illinois asks the Commission to "provide a directive that this topic and related considerations be explored through workshops with the purpose of initiating a future docket to address, among other topics, the feasibility [of] cost allocations, cost recovery mechanisms, customer engagement and education, low income customer needs, and a path for review and approval of a heat pump pilot for deployment in Illinois." *Id*. at 29.

This issue is uncontested by any party. If Illinois is to attain a net-zero or zero carbon future by 2050, the Commission, utilities, and other stakeholders must pursue a multi-faceted approach, and employ multiple measures, to get there. Therefore, the Commission directs Ameren Illinois to engage in workshops with interested stakeholders with the purpose of initiating a future docket to address a path for review and approval of a heat pump pilot for deployment in Illinois. This directive does not preclude other means by which parties may further discuss or pursue heat pump proposals.

B. Contested Issues

1. Zonal Electrification Territory Study

a. AIC's Position

The concept of Zonal Electrification combines the targeted decommissioning of existing gas distribution infrastructure and replacement with electric alternatives. Zonal Electrification will allow Ameren Illinois "to evaluate proposed gas infrastructure projects when investments are needed and provide opportunities for existing gas customers to electrify if desired, eliminating the need for those gas investments." Ameren Ex. 3.0 at 21. Ultimately, "[t]he electrified area would no longer require the additional capital investments dedicated to the gas infrastructure, therefore allowing the retirement of those existing natural gas systems." *Id*. at 21-22. As a dual fuel utility providing both electric

and gas services, Ameren Illinois is uniquely positioned to implement Zonal Electrification in its service territory. *Id*. at 24. As Ameren witness Simms testified: "Our dual fuel service model provides us with comprehensive insights into energy consumption patterns and infrastructure needs in those areas where we provide gas and electric service, positioning us to effectively evaluate and implement Zonal Electrification strategies where they are most beneficial to our customers." *Id*. at 24.

Ameren Illinois initially proposed a four-part Zonal Electrification pilot ("ZEP") program consisting of: (1) a tariff; (2) a Territory Study; (3) identification of projects, assessment of customer interest, and an economic study to validate prudency; and (4) submission to the Commission for review and approval of projects followed by execution on those projects. Ameren Ex. 3.0 at 22. Over the course of this docket, however, and after incorporating input from the other parties, Ameren Illinois revised its proposal to include at this time only a Territory Study (or "ZEP Study") and not a full pilot program. Ameren Ex. 18.0 at 10, 12-13. For the study, Ameren Illinois "proposes to work with a third-party consultant to generate a screening level assessment of opportunities across the Company's service territory. This assessment will combine gas system, electric system, and customer data at a Census Tract (or other geographic) level, providing a granular view of opportunities." Ameren Ex. 3.0 at 22. Along with building stock information, this study will "include data regarding pipeline risks, replacement schedules, electric distribution headroom and upgrade costs, and building electrification costs." Ameren Ex. 18.0 at 13.

Ameren Illinois states that it provided evidence that the proposed ZEP Study will "be crucial for understanding how to best integrate electrification efforts with our existing infrastructure. . . . This approach would allow us to gather critical data and insights that will inform future decision-making and policy development . . . ." Ameren Ex. 18.0 at 13. For example, Ameren Illinois anticipates that the study will help the Company identify Environmental Justice and other communities specified in P.A. 102-0662 for prioritization in electrification; which portions of highest risk pipeline are hydraulically feasible and cost-effective for electrification; customer costs associated with electrification; and estimated electric distribution upgrade costs. Ameren Ex. 18.0 at 13-14. As Ameren witness Simms testified:

> Understanding how these factors, amongst others, will impact infrastructure costs and customer affordability is paramount. By conducting this territory study in the future test year, we can refine our methodologies and learn valuable lessons before any actual implementation. It will help the Commission and other stakeholders understand the potential impacts of zonal electrification on ratepayers, system reliability, and system decarbonization.

Id. at 14. Ms. Simms further explained that the ZEP Study will allow the Company to gather the kind of information that will directly address the concerns raised by certain parties regarding lack of specificity in project locations. *Id*. at 13 (*citing* AG Ex. 1.00 at 26; PIO Ex. 1.0 at 74.

Staff recommended that the Commission approve the ZEP Study, subject to cost allocation issues that are unresolved. Staff Ex. 15.0 at 2. Staff and the Company also disagree on the most appropriate course of action after Ameren Illinois completes the ZEP Study. Ameren Illinois committed to sharing the results of the completed study (provided customer and system protections are maintained), but the Company submits that the Commission should not order the Company to submit a formal compliance filing. Ameren IB at 227. Designing the ZEP Study to accommodate such a filing may "unnecessarily restrict the scope and form of the final work product." Ameren Ex. 32.0 at 4-5. Specifically, the amount of data and analysis is not likely to be conducive to or appropriate for a regulatory filing. *Id*. at 5.

In contrast, Staff wants the Company to make a compliance filling in this docket with the completed study by January 30, 2027, and file a report on the study in this docket by March 1, 2027. Staff IB at 119-20. It is unclear to Ameren Illinois what the difference between these two filings would be, other than the due date. Ameren Illinois avers that, at worst they seem to be entirely duplicative requests, and at best they seem to be an inefficient use of resources. Ameren Illinois asks the Commission to simply order Ameren Illinois to share the work product in the manner most efficient for all the interested parties. Given Ameren Illinois' commitment to stay engaged with stakeholders throughout this process, nothing more prescriptive is needed at this time.

PIO witness Cebulko supported "the general concept of a zonal electrification pilot program," agreed that it is a worthwhile pursuit, noted appreciation that Ameren Illinois "brought this proposal forward," and recommended that the Commission approve the proposed study "as a first step," provided the Company engages in certain activities, including consulting with stakeholders. PIO Ex. 1.0 at 76; PIO Ex. 2.0 at 48-49. Ameren Illinois is amenable to the condition suggested by PIO. Ms. Simms testified specifically that:

> [The Company] intends to hold a meeting for interested stakeholders to provide their input on scope and content of the Territory Study. The Company will then take that input and use it, as appropriate, to develop and complete the study with a third-party, industry expert consultant. This approach ensures an objective, comprehensive, and efficient analysis of Ameren Illinois' entire service territory. Stakeholder input can be considered to help develop the Territory Study, while the consultant will ensure a consistent and scientifically sound methodology throughout the process, maintaining efficiency and timeliness in the study's execution. The Company will maintain transparency about the study's methodology and results, allowing for informed discussions. This approach allows stakeholders to provide input based on concrete data and analysis, scenarios leading to more productive and meaningful engagement in the Company's long-term planning efforts.

Ameren Ex. 32.0 at 6-7.

Notwithstanding its support of the study, PIO appears to be under the mistaken impression that Ameren Illinois has indicated that "running a zonal electrification program requires a significant amount of knowledge about individual customers' consumption preferences, characteristics, and projected electrical load." PIO IB at 37, n.167 (*citing* Ameren Ex. 2.0 at 12). PIO therefore asks the Commission to "reiterate" that the Company should use programmatic tools like deemed values and engineering estimates in its ZEP Study. PIO IB at 38. Ameren Illinois points out that the testimony that PIO references in its initial brief actually concerns ROE, not zonal electrification. *Compare* PIO IB at 31 with Ameren Ex. 2.0 at 12. Ameren Illinois did offer testimony in response to PIO to rebut the assertion that Ameren Illinois has an obligation to consider alternatives to traditional pipeline investments like advanced leak repair, relining, and NPAs, one of which could be electrification. *See* Ameren Ex. 21.0 at 18. This testimony does not bear on whether the study should move forward. As such, the Commission need not include any directive to Ameren Illinois to use programmatic tools like deemed values and engineering estimates in the study.

The AG opposes the ZEP Study in its entirety, arguing, among other things, that it is better suited for the FoG proceeding. AG IB at 85-87; AG Ex. 1.00 at 24-27; AG Ex. 3.00 at 18. Ameren Illinois agrees that the FoG proceeding is related to this issue, but the Company feels strongly that the Commission should not wait for the conclusion of that proceeding to allow the Company to assess zonal electrification issues. Ameren IB at 225-29. In Ameren Illinois' view, zonal electrification is an integral part of the future of providing gas distribution service. The proposed study is a critical component of the Company's current, forward-looking strategy. *Id*. The study "is crucial to understand how to best integrate decarbonization efforts within the Company's infrastructure investments" and also will "generate a screening-level assessment of opportunities across the Company's service area, which would inform the Company's decision-making as it navigates the evolving energy landscape." *Id*. (*citing* Ameren Ex. 32.0 at 6).

Ameren Illinois provided evidence showing how the ZEP Study will address missing details noted by AG witness Selvaggio. *See, e.g*., Ameren Ex. 18.0 at 13-14. Finally, to the extent Ms. Selvaggio maintained that legislative changes may be needed, Ameren Illinois notes that this appears to be a vestige of the AG's opposition to the tariff itself. With the withdrawal of the tariff, Ameren Illinois is not proposing, in the context of this case, to charge gas customers to convert a gas customer to an electric customer. Ameren Illinois also is not aware of any prohibition in the Act to conducting the ZEP Study as proposed by the Company. As such, there do not appear to be any legislative changes that would be required to allow the Company to pursue the ZEP Study.

IIEC/FEA/CUB oppose the study because in their view, it "does not constitute a cost of providing gas distribution service. IIEC/FEA/CUB IB at 10. Ameren Illinois avers that the argument that this may not be related to current gas distribution service is immaterial. As the Supreme Court has stated: "we do not believe that lack of a direct connection to current service bars a utility from recovering a mandatory, prudently incurred operating expense from ratepayers." *Citizens Util. Bd*., 166 Ill. 2d at 126.

For all of these reasons, Ameren Illinois asks the Commission to approve the ZEP Study coupled with recovery of associated costs as discussed below. Ameren Illinois

contends that the Commission may not direct the Company to undertake the study in the absence of appropriate cost recovery for the effort.

Ameren Illinois proposed to spend $400,000 in O&M for the ZEP Study in the 2026 Test Year. Ameren Ex. 3.0 at 22-23; Ameren Ex. 18.0 at 13; Ameren Ex. 19.0 (Rev.) at 21-22; Ameren Ex. 32.0 at 2. This amount is reflected as a ratemaking adjustment in Schedule C-2.15. Ameren Ex. 4.0 at 22.

In effect, Staff asks the Commission to order Ameren Illinois to conduct the ZEP Study, but to only allow recovery for $100,000 - one fourth of the cost - of the $400,000 study.

First, Staff seeks to split the cost recovery equally between Ameren Illinois' gas and electric customers and to "direct Ameren Illinois to seek recovery of the ZEP Study costs allocated to electric customers in Ameren electric's MYRP reconciliation/annual adjustment proceeding for 2026. Staff IB at 27; Staff Ex. 15.0 at 7; Staff Ex. 10.0 at 10. Ameren Illinois contends that this split of the study costs is not appropriate. Ameren IB at 229-30. The study at issue fundamentally supports gas system planning and is "designed to evaluate gas infrastructure projects for affordable alternatives and explore decarbonization options for existing gas customers. Any benefits to the electric system, such as potential load growth or more efficient infrastructure utilization, are secondary and speculative outcomes." *Id*. (*citing* Ameren Ex. 32.0 at 4).

Ameren Illinois recognizes that its situation as a combined utility permits the Company to take a holistic approach to energy planning. "However, this integrated perspective does not negate the need for appropriate cost allocation based on primary purpose and direct benefits. To the extent the Commission agrees with the Company that the ZEP Study should proceed, its costs should be borne by gas customers who will directly benefit from optimized infrastructure investments and potential transition opportunities." Ameren Ex. 32.0 at 4. To ensure fair cost allocation, and "[g]iven the direct and substantial benefits to gas customers and operations," the Company believes the cost should be recovered in this gas rate proceeding. Ameren Ex. 32.0 at 3. Further, Ameren Illinois submits that Staff's proposal to split the cost would not accurately reflect the study's primary purpose and beneficiaries. *Id*.

Staff admits that this may result in stranded costs, because "[t]he costs allocated to electric operations, if deemed prudent, would be included in and recovered as part of the 2026 actual costs considered in the Ameren electric 2026 [MYRP] annual performance evaluation and annual adjustment proceeding." Staff IB at 29. The clear implication of this statement is that if the opposite is true - that if the costs are deemed imprudent or otherwise not appropriate for recovery in the MYRP - those costs will be stranded, and Ameren Illinois will not be able to recover them. Courts have recognized the importance of cost recovery as an element of utility ratemaking. *Citizens Util. Bd*., 166 Ill. 2d at 126. The Company asks the Commission to reject Staff's proposal to only approve a small portion of the costs of the ZEP Study in this proceeding.

Second, Staff asks the Commission to amortize the costs of half of the ZEP Study over two years, purportedly to align with the amortization period for rate case expense. Staff IB at 27; Staff Ex. 10.0 at 10-11. A two-year amortization would not be appropriate, however, because as Staff has requested, Ameren Illinois plans to complete the entire

study in 2026. Ameren Ex. 33.0 at 15-16; Staff Ex. 15.0 at 8-9. Moreover, a Zonal Electrification Study is not part of or even similar to rate case expense and there is no rational justification for amortizing the two different categories of costs over the same time period. Therefore, Ameren Illinois contends that the costs associated with this study should not be amortized and are properly included, in their entirety, in 2026 Test Year expense. Ameren Ex. 33.0 at 15.

In summary, Ameren Illinois maintains that the Commission may not direct Ameren Illinois to undertake this study in the absence of appropriate cost recovery for the effort. According to Ameren Illinois, it would be unlawful for the Commission to order Ameren Illinois to undertake the study but allow recovery of only one fourth of the total cost of the study, as Staff requests.

b. Staff's Position

Staff recommends the Commission approve the Company's ZEP Study, subject to Staff's recommendations below.

The Company initially proposed a ZEP Tariff, which it withdrew in its rebuttal testimony. *See* Section VIII.A.4, *supra*. However, despite withdrawing the ZEP Tariff, Ameren Illinois maintained its request for the Commission to approve a ZEP Study. Ameren Ex. 18.0 at 12-13.

Staff recommends the Commission approve $400,000 for the ZEP Study and include $100,000 in the 2026 future Test Year revenue requirement. Staff IB App., Sched. 12; *see also* Section IV.B.4. In Staff's view, the ZEP Study is not merely a procedural step; rather, it is a crucial investment to understanding the potential impacts and benefits of the any future zonal electrification program. The ZEP Study is designed to provide a detailed financial analysis and projections that will aid in assessing the viability of a zonal electrification program. Staff Ex. 7.0 Corr. at 20-21. According to the Company, the insights gained from this study will be instrumental in evaluating whether such a program aligns with Illinois' clean energy transition objectives and the long-term goals of the energy landscape. Ameren Ex. 3.0 at 23. Further, the outcomes of the ZEP Study will directly inform discussions between Ameren Illinois, Staff, and stakeholders, facilitating informed decisions about whether the offers significant energy efficiency improvements and potential cost savings that justify its implementation. Staff Ex. 7.0 Corr. at 21.

On that matter, Staff recommends the Commission order Ameren Illinois to present the results of the ZEP Study in both the Grid Plan Workshops and stakeholder advisory group ("SAG") meetings prior to any implementation of the ZEP Tariff. More specifically, Staff recommends the Commission require that discussions regarding the design, scope and cost allocation be included as a specific agenda item in the Commission's ongoing Grid Plan Workshops. Staff Ex. 7.0 Corr. at 22. Such discussions are essential to ensure transparency, stakeholder engagement, and alignment with Illinois' clean energy transition objectives under the Act. Staff Ex. 15.0 at 7; *see* 220 ILCS 5/16-105.17. Given the benefits of a potential ZEP Tariff to both gas and electric customers for the $400,000 ZEP Study, such discussions are critical to assess equitable cost allocation and impacts on both gas and electric customers. Integrating the ZEP Study results into SAG meetings, as supported by Ameren Illinois' intent to seek SAG acceptance for related energy efficiency methodologies (Staff Ex. 7.0 Corr., Attach. A), would ensure compliance with

energy efficiency stakeholder processes under Section 8-103B of the Act. Staff Ex. 15.0 at 7; *see* 220 ILCS 5/8-103B. This dual-forum approach addresses potential customer impacts and aligns the ZEP Tariff with broader grid planning and decarbonization goals as contemplated in the FoG proceedings. Staff Ex. 15.0 at 7.

Staff also recommends the Commission order the Company to complete the ZEP Study no later than December 31, 2026; file a report on the results of the ZEP Study not later than March 1, 2027; and file the completed ZEP Study as a compliance filing both in this docket within 30 days of completion and as part of its next general rate case. Staff Ex. 15.0 at 8-9. The Company believes that the ZEP Study represents a "modest incremental step" toward decarbonization in Illinois. Ameren Ex. 18.0 at 15. It anticipates the ZEP Study will commence in the first quarter of 2026, following the conclusion on this proceeding; and conclude by the end of 2026. *Id*. Staff observed that requiring Ameren Illinois to complete the ZEP Study no later than December 31, 2026, will ensure timely availability of ZEP Study results for consideration in the Commission's FoG workshops, as well as inclusion in future proceedings, *e.g*., the 2027 Grid-Plan cycle, the 2026-2029 energy efficiency portfolio, and any post-FoG proceedings. Staff Ex. 15.0 at 9. Relatedly, this deadline ensures transparency, stakeholder access, and the ability for interested parties to evaluate the ZEP Study before ZEP expenditures and implementation are proposed. *Id*.

The Company did not directly respond to Staff's recommended filing deadlines for either the ZEP Study or comprehensive ZEP Study report. The Company disagrees with Staff's recommendation to file the ZEP Study as a formal compliance filing, claiming that it "may unnecessarily restrict the scope and form of the final work product." Ameren Ex. 32.0, 4-5. The Company would agree, however, to share the results of the ZEP Study subject to maintaining customer and system protections. The Company did not elaborate on or otherwise explain how requiring that the ZEP Study be filed as a formal compliance filing would restrict its scope or form. Without more, this is not a good reason to avoid requiring Ameren Illinois to file the ZEP Study as a compliance filing and the Commission should reject the Company's argument.

The AG asks the Commission to reject AIC's ZEP Study. AG IB (Pub.), 85-87. Specifically, the AG argues that because the ZEP Study is "directly tied to decarbonization through electrification", that it should be addressed through the Commission's FoG proceeding. *Id*. at 85-86. While Staff agrees that electrification policy issues will continue to be considered in the FoG proceeding, Staff contends that Commission approval of the ZEP Study in this docket does not pre-judge any policy outcomes in that docket.

Staff agrees with the AG that a ZEP Study and ZEP tariff should be considered as part of the ongoing FoG proceeding and as part of other proceedings, such as grid plan workshops and SAG meetings. However, considering the ZEP Study and ZEP Tariff as part of those other proceedings should not preclude the Commission from acting in this docket to approve a ZEP Study that would benefit all parties' efforts to pursue Illinois decarbonization goals. Staff argues that this docket is an appropriate proceeding in which to approve the ZEP Study.

In its Initial Brief, Ameren Illinois argues that "the Commission should not order the Company to submit a formal compliance filing" because "[d]esigning the [ZEP Study] to

accommodate such a filing may unnecessarily restrict the scope and form of the final work product." Ameren IB at 227.

The Company's stated rationale is intentionally vague and provides the Commission and parties no detail about why requiring a compliance filing would "unnecessarily restrict the scope and form of the final work product." Ameren IB at 227. Staff maintains that Ameren Illinois has had numerous opportunities, both in its testimony and in its Initial Brief, to explain why publicly disclosing its ZEP Study as a compliance filing is not in the best interests of all parties, but has failed to do so. Staff argues that transparency is essential to evaluate the effectiveness of a potential ZEP tariff and ensure alignment with the state's decarbonization goals.

For these reasons, Staff recommends the Commission order Ameren Illinois to file a report on the results of the ZEP Study no later than March 1, 2027, and file the completed ZEP Study as a compliance filing both in this docket within 30 days of completion and as part of its next general rate case.

Staff's discussion of cost recovery is in Section IV.B.4.b.

c. AG's Position

The AG contends that Ameren's ZEP Study should be rejected, and that it should instead be addressed as part of the ongoing FoG proceeding. The Company withdrew its request for a Zonal Electrification pilot/tariff, however, the Company still proposes to proceed with the zonal electrification Territory Study at the cost of $400,000. The AG opposes shareholder funding of any portion of the study. AG Ex. 3.00 at 17. The Company is requesting $400,000 of 2026 distribution expenses for an economic study to determine whether the estimated electricity conversion costs associated with a Zonal Electrification Project would be less than the avoided costs of maintaining existing gas service and associated existing gas facilities. Ameren Ex. 13.0 at 5, 7.

The proposed ZEP Study is a study of the Company's entire system, which admittedly would include both its gas and electric systems. AG Ex. 3.00 at 18. Notably, Ameren Illinois seeks to recover this from its gas customers, despite acknowledging that it touches upon both gas and electric systems. AG IB at 85. To the extent AIC contends that by withdrawing the tariff/pilot the Company is not proposing to charge gas customers to convert a gas customer to all-electric, the AG responds that this is inaccurate. The Territory Study is directly tied to decarbonization through electrification. AG IB at 85.

The AG argues that this type of proposal should be addressed through the Commission's separate FoG proceeding, which was ordered as a result of the Ameren 2023 GRC, Final Order at 94–95, and started in March 2024. *Ill. Com. Comm'n On its Own Motion,* Docket No. 24-0158, Final Order at 4-5 (Mar. 7, 2024). The workshops for FoG, which are ongoing, are meant to help develop an actionable framework for Ameren Illinois and other Illinois gas utilities' future infrastructure investments in light of the State's decarbonization efforts codified in P. A. 102-0662, which requires Illinois to reach 100% clean energy by 2050. *See* 20 ILCS 3855/1-5(1.5), Docket No. 24-0158, Order at 1. The Commission indicated that the FoG is the forum through which "methodologies for achieving decarbonization," including but not limited to issues of "cost considerations" and "the role and scope of energy efficiency" efforts, should be presented, addressed, and

evaluated. *Ameren 2023 GRC*, Final Order at 94–95. The FoG proceeding is also to "identify the technologies, data, legislation, regulation, and investments necessary to adapt these [energy] systems" and to "identify critical topics and expand upon perspectives, studies, data, arguments, and other key information individual stakeholders have on each topic." Docket No. 24-0158, Order at 4. The FoG proceeding is expected to result in recommendations for potential Commission action and legislative changes. The AG contends that this territory study properly belongs within the adaptation of energy systems and expansion of studies in FoG. AG IB at 86.

Ameren Illinois has indicated it has taken an active role in FoG workshops, and in both the Decarbonization Pathways and Pilots working groups. Ameren Ex. 18.0 at 3. The AG maintains that AIC's ZEP Study fits squarely within those groups. Given that the FoG workshops remain ongoing, the Company is actively participating in that proceeding, and that the Commission will not be fully informed until that process is concluded, the AG contends that it would be inappropriate, and/or at minimum, premature to adopt the Company's proposed ZEP Study in this rate case proceeding. AG Ex. 1.00 at 24-27; AG Ex. 3.00 at 18. Further, charging gas customers to convert a gas customer to an electric customer contradicts the fundamental principle of cost-causation. 83 Ill. Adm. Code 791.30. In effect, the Company is asking all gas customers to pay for a study that would potentially assist a select number of gas customers to electrify and leave the gas system via a future pilot. AG IB at 87. This violates cost-causation as gas customers would be paying for a study that is intended to shift customers off gas service. *Id*. The AG further argues that the potential for transition or investment in electrification does not equate to benefits to gas customers. *See* Ameren Ex. 32.0 at 4.

For these reasons, the AG asks the Commission to reject AIC's ZEP Study, which reduces distribution expenses by $0.4 million. AG IB Attach., Sch. A-6.

d. PIO's Position

PIO support Ameren Illinois' proposal to study where and how to best implement a zonal electrification project, especially after Ameren Illinois clarified that it "intends to hold a meeting for interested stakeholders to provide their input on scope and content of the [ZEP] Study." Ameren Ex. 32.0 at 6. PIO believe it is important to invest the appropriate resources at this stage to identify where on AIC's system there is a confluence of factors that make a successful zonal electrification project possible or likely. PIO only objected to the Company's initial pilot proposal because that specific proposal was not sufficiently fleshed out.

PIO is concerned, however, that AIC appears to believe that running a zonal electrification program requires a significant amount of knowledge about individual customers' consumption preferences, characteristics, and projected electrical load. *See* Ameren Ex. 2.0 at 12. To the contrary, PIO contend zonal (or targeted) electrification programs can use estimates and averages to derive the amount of incentives to offer to promising individuals, groups, or communities. PIO dispute the Company's claims that it would need a lot of information before it could calculate how much to offer potential participants to commit to fully electrify. For a specific question, AIC could use "deemed values and engineering estimates to represent average costs and impacts." *Id*. at 12. PIO argue that setting the specific values for these costs and impacts "will be a challenge,"

but that challenge is not insurmountable and other regulators and utilities are working on these questions around the country. PIO Ex. 2.0 at 12. Therefore, PIO urge the Commission to reiterate to Ameren Illinois that, when designing their study, and when considering how to eventually implement a zonal electrification program, the use of such programmatic tools like deemed values and engineering estimates can help avoid some of the operational issues the Company is concerned about at this stage.

e. Commission Analysis and Conclusion

No party has disputed that consideration of zonal electrification is an integral part of the future of providing gas distribution service. AIC proposed the ZEP Study as an important component of the Company's effort to integrate decarbonization efforts within the Company's infrastructure investments. Neither Staff nor PIO oppose the ZEP Study, and the AG opposes the ZEP Study only insofar as they believe the topic to be more appropriately addressed in the FoG series. The other parties took no position on the ZEP Study.

While the ZEP Study is undeniably related to topics that will be addressed in the FoG series, the Commission need not and should not wait for the conclusion of FoG to allow the Company to assess zonal electrification issues within its own service territory. As Staff correctly noted, Commission approval of the ZEP Study in this docket will not have the effect of prejudging any policy outcomes in the FoG series. Rather, the Commission's approval of the ZEP Study in this docket will provide more robust information for stakeholders to analyze within the FoG series including valuable information on alternative investments, localized information on electrification potential, and system efficiency. Staff Ex. 15.0, Attach A.

As noted by the Company during oral argument, this stage of the ZEP Study is an information-gathering pilot to "identify communities where there's an overlap of electric and gas service provided by Ameren", and no customer contact is being proposed at this time. Oral Argument Trans. at 52:18-19, 132:10-16. The additional information derived from the ZEP Study can inform the effectiveness of related discussions at the FoG series with more granular data and assessment. Since Ameren's proposal confirms that the ZEP Study will be lengthy and preliminary to investment decisions, the Commission agrees that initiating the ZEP Study now will provide more timely information for future consideration. Accordingly, the Commission finds the ZEP Study is appropriate for inclusion within this docket.

Regarding reporting and compliance, the Commission notes and appreciates Ameren's commitment to stay engaged with stakeholders throughout the FoG series but finds that Staff's recommendations are appropriate where ratepayers are expected to fund the ZEP Study. Accordingly, the Commission hereby approves the Company's ZEP Study, as modified by Staff's recommendations regarding reporting and compliance. The issue of cost recovery was briefed and decided, supra, in Section IV.B.4. The Commission directs the Company to present the completed ZEP Study in both Grid Plan Workshops and SAG meetings before any ZEP Tariff implementation, which will ensure transparency and stakeholder engagement. The Commission further directs Ameren Illinois to complete the ZEP Study by December 31, 2026.

2. RNG Interconnection Pilot

a. AIC's Position

There is no single, direct path to decarbonization. Rather, if Illinois is to attain a net-zero or zero carbon future by 2050, the Commission, utilities, and other stakeholders must pursue a multi-faceted approach, and employ multiple measures, to get there. *See* Ameren Ex. 2.0 at 14; Ameren Ex. 3.0 at 6. As such, and as in its last gas rate case, Ameren Illinois committed to exploring clean energy initiatives that could help advance Illinois' progress towards its clean energy goals, recognizing that Ameren Illinois' gas system can be leveraged toward that end. Ameren Ex. 1.0 at 12; Ameren Ex. 2.0 at 13; Ameren Ex. 3.0 at 4-5.

AIC's proposed Renewable Natural Gas ("RNG") interconnection allowance in this rate case is a clean energy initiative that exemplifies such leveraging. As further explained below, the allowance would alleviate a significant hurdle to RNG facilities' development - the upfront cost to interconnect to the existing system - and thereby help foster these contributors to Illinois' clean energy future. Critically, the allowance has no impact on the revenue requirement in this proceeding. Further, the revenues generated by RNG facilities that interconnect with Ameren Illinois' gas system as a result of the allowance will, all else equal, reduce future revenue requirements that would otherwise be recoverable from customers. In other words, the Company contends, the RNG interconnection allowance is a win for Illinois, a win for RNG developers, and a win for customers. It is a rare win-win-win.

Biogas is a methane product that is produced when organic materials, like livestock manure, food waste, and sewage treatment waste, degrade under anaerobic conditions. Absent combustion or capture for beneficial use, biogas is released into the atmosphere. Ameren Ex. 3.0 at 14. RNG facilities capture biogas and refine it to pipeline quality gas, an alternative energy source that can be used for heating and in vehicles, among other customer needs. Ameren Ex. 3.0 at 4, 14-15. AIC's gas system can be leveraged to encourage the development of these facilities - and, in turn, the environmental benefits they provide.

Today, the Company's FERC-approved Standard of Operating Conditions ("SOC") authorizes it to accept and transport RNG through its system, via displacement, to an interstate pipeline interconnect, where the RNG then enters interstate commerce. Ameren Ex. 3.0 at 17; *see also, generally,* Ameren Ex. 3.2 (Ameren Illinois' SOC).

Ameren Illinois also has in place an RNG Interconnection Policy, which governs RNG facility interconnections to AIC's system. Ameren Ex. 3.0 at 16. *See also, generally,* Ameren Ex. 3.1 (Ameren Illinois' RNG Interconnection Policy). Among other things, the policy establishes the RNG interconnection application process. Ameren Ex. 3.0 at 16. That process includes a requisite screening study that serves multiple purposes. *Id*. The study determines whether AIC's current infrastructure can accept certain anticipated RNG production, or whether system upgrades are necessary to accomplish that end. It also determines whether Ameren Illinois can accept all of the anticipated RNG production at a subject interconnection location, given that system load varies depending on the time of the year and that may impact the volume of supply that can be displaced at a specific

interconnection location at a particular time. The study also determines whether an RNG facility can otherwise safely and reliably connect to AIC's system. *Id*. at 16-17.

The RNG Interconnection Policy also details the technical requirements for interconnection, which include, among other things, the anticipated RNG production's quality and pressure. It also includes metering, safety, and other operational equipment specifications, which must adapt to locational system conditions, considering feed source and system load at the time of production. Ameren Ex. 3.0 at 17.

Simply put, any production that does not adhere to AIC's standards does not enter AIC's system. In this way, the RNG Interconnection Policy ensures that AIC's gas system continues to be safe, reliable, and efficient for customers, consistent with the Act's requirements. *See, e.g*., 220 ILCS 5/8-401.

Ameren Illinois also already has in place a Commission-approved Standards and Qualifications for Gas Service tariff that permits an upfront allowance, equal to up to seven times the estimated annual delivery revenue, to offset the cost of a main extension requested by a non-residential customer or applicant. Ameren Ex. 3.0 at 15-17; Ameren Ex. 26.0 at 20-22; Ameren Ex. 12.9 at 2. In addition to providing for a revenue test, the tariff also provides for a non-refundable contribution from the applicant (where the cost of a system expansion exceeds the estimated revenue), a pre-construction revenue guarantee agreement, and additional assurances (in the form of cash, irrevocable letters of credit, surety bonds, or other payment arrangements agreed to by Ameren Illinois). Moreover, the tariff confirms that the applicant is not entitled to a refund if other customers attach to the main extension. Ameren Ex. 26.0 at 20-22; Ameren Ex. 12.9 at 2.

Today, two RNG facilities are interconnected to, and transport their RNG production through, AIC's system under AIC's SOC and RNG Interconnection Policy. Ameren Ex. 3.0 at 18. To encourage the development and interconnection of more facilities, Ameren Illinois proposes to amend the same section of its Standards and Qualifications for Gas Service tariff to provide for a similar upfront allowance for RNG interconnections. Ameren Ex. 3.0 at 15-16; Ameren Ex. 26.0 at 21-22; Ameren Ex. 12.9 at 2. AIC's proposed tariff language, and the procedure it outlines, tracks, nearly verbatim, that already approved by the Commission for non-residential main extension allowances. It includes a seven-times annual revenue test (considering the estimated FERC-approved transportation service revenues generated by the interconnection), a pre-construction revenue guarantee agreement, additional assurances, and confirmation that the RNG facility applicant is not entitled to a refund if others attach to the interconnection facilities. Ameren Ex. 3.0 at 15; Ameren Ex. 26.0 at 21-22; Ameren Ex. 12.9 at 2. The proposed tariff changes would effectuate its proposed allowance and permit Ameren Illinois - with the Commission's support and approval - to leverage its gas system to advance Illinois further on its clean energy path.

Notably, the environmental benefits of promoting captured methane for beneficial use are not the only anticipated benefits of the allowance. There are anticipated economic benefits insofar as increased numbers of RNG facilities in Illinois mean a potentially increased need for the engineering, construction, and operational expertise associated with those facilities. Ameren Ex. 3.0 at 19. And, as detailed below, there are cost benefits to other customers.

Importantly, AIC's proposed RNG interconnection allowance benefits Illinois customers another way. As explained, the allowance has no effect on the revenue requirement in this case. Ameren Ex. 18.0 at 16. Ameren Illinois is not proposing to purchase any RNG production to supply retail customers. Ameren Ex. 3.0 at 17. Rather, RNG production is simply transported, at FERC-approved rates, through Ameren Illinois' gas system to an interstate pipeline interconnection location. *Id*. at 17-18. Further, AIC's proposed allowance will be returned to Ameren Illinois within seven years through that FERC-approved transportation rate. *Id*. at 18. And, since RNG facilities can be expected to operate for twenty-five to thirty years, well after the initial seven-year allowance period expires, the allowance is expected to mitigate future revenue requirements in future rate cases insofar as the ongoing revenues it generates will offset future costs of service. *Id*. at 19; Ameren Ex. 26.0 at 21. Specifically, revenue that Ameren Illinois receives for transportation service is included in its total operating revenue, which nets against the revenue requirement allocated to other customer classes. Ameren Ex. 3.0 at 18; see also Schs. C-23 & E-5 ("miscellaneous revenue"). All else equal, an increase in miscellaneous (other) revenue equates to lower retail prices. Ameren Ex. 3.0 at 18.

Simply put, the Company maintains that leveraging AIC's gas system to encourage RNG facility development as AIC's proposed RNG interconnection allowance does delivers a host of potential benefits to Illinois. It is a win for the State's clean energy goals, for RNG facilities and the economic development they represent, and for gas customers. As such, the Company asks the Commission to approve this diverse clean energy initiative.

Of the many parties and witnesses to this proceeding, only PIO opposed this innovation. AIC argues that PIO witness Saddique's criticisms of the innovation are undermined by the evidence. AIC contends the Commission should reject PIO's opposition for three more reasons: PIO's arguments are contradictory and warrant skepticism; PIO ignore Commission decisions that support public utility efforts to promote RNG facilities' interconnection and, in turn, the environmental and economic benefits that the Commission has expressly recognized those facilities deliver; and PIO misapprehend its various legal burdens in this case. Ameren Illinois maintains that the evidence in this case provides ample basis for the Commission to approve AIC's proposed RNG interconnection allowance. This evidentiary basis is found augmented by a shared commitment to exploring diverse initiatives that could further Illinois' clean energy goals.

Mr. Siddique raised two concerns with the innovation: (1) a concern that the anticipated environmental benefits have not, at this stage, been quantifiably proven; and (2) a concern that the allowance could pose a financial risk to customers if anticipated RNG facility revenues are not realized. ELPC/PIO Ex. 1.0 at 4. Ameren Illinois responds that both concerns are unwarranted.

Regarding environmental benefits, Mr. Siddique testified that the Company has not precisely quantified the extent to which interconnections will produce environmental benefits, rendering the proposed allowance underdeveloped. ELPC/PIO Ex. 1.0 at 9-12. Ameren Illinois responds that it is elementary that the capture for beneficial use of methane contributes to Illinois' decarbonization goals. Ameren Ex. 32.0 at 7. It likewise is elementary that each RNG facility that interconnects to Ameren Illinois' system can reasonably be expected to capture and refine for beneficial use methane emissions that

would otherwise be released given the very operational purpose of RNG facilities. Ameren Ex. 32.0 at 7; Ameren Ex. 18.0 at 16. Even more fundamentally, Mr. Siddique's criticism overlooks that the Company is a transporter, not a developer in this process. Its responsibility is to facilitate an economical means of transporting the gas to a suitable market. Ameren Ex. 32.0 at 8. Given that role, Ameren Illinois is not privy to the information necessary to quantify an RNG's facility's emissions. RNG facilities, on the other hand, have that information and, therefore, are the appropriate entities to quantify it. Ameren Ex. 18.0 at 16. That said, Ameren Illinois expects that any RNG facilities electing to take the allowance will include direct emissions information in their federally mandated Scope 1 reporting. *Id*.

Mr. Siddique also raised skepticism that more leaked methane may result from increased numbers of RNG facilities connecting to Ameren Illinois' system, implying that more gas would escape into the environment due to leakage on the system. ELPC/PIO Ex. 1.0 at 6. Yet, Ameren Illinois has an "unaccounted for gas factor" ("UGF") that is currently 0.57503%. The UGF captures variations in gas receipts minus gas deliveries, and the physical amount of gas lost due to leaks is only one of its many components. Even (incorrectly) assuming, for the sake of argument, that the UGF is due entirely to leaks, the remaining 99.42497% of the gas would reach its destination. Ameren Ex. 18.0 at 17. Moreover, the Company explains, there is a basic economic incentive to a developer to ensure that all the methane from its facility reaches Ameren Illinois' system and, in turn, to minimize any potential leaked methane. *Id*.

Mr. Siddique criticized that the Company's proposal is underdeveloped because Ameren Illinois has not identified a "goal" number of RNG facilities to interconnect to its system. ELPC/PIO Ex. 1.0 at 5-6. However, because Ameren Illinois is not an RNG facility developer, Ameren Illinois cannot quantify this number. Ameren Ex. 18.0 at 17. Additionally, the total number of RNG facilities that Ameren Illinois can actually interconnect depends on myriad factors that must be evaluated on a facility-by-facility basis, such as system capacity, regulatory requirements, infrastructure, operational conditions, and market demand. As such, Ameren Illinois studies each RNG facility's interconnection request to determine whether and how to integrate a facility without compromising the system's safety, reliability, or operational efficiency. Ameren Ex. 3.0 at 19.

AIC's service territory - which is largely rural - presents significant RNG potential. Ameren Illinois believes that the proposed tariff will spur more RNG facility development than in the allowance's absence. Ameren Ex. 18.0 at 17. But, if that development does not occur, the status quo will remain. If the allowance does spur RNG facility development and interconnection, the allowance is mutually beneficial - or at least neutral - for all stakeholders. *Id*. Therefore, the Company contends Mr. Siddique's environmental-related concern is unwarranted.

Mr. Siddique is also concerned that Ameren Illinois may not fully recoup upfront RNG interconnection allowances via later revenue receipts. ELPC/PIO Ex. 1.0 at 4-5. AIC responds that this overlooks several realities. The allowance would function in all material respects the same as Ameren Illinois' existing Commission-approved main extension allowance. Ameren Ex. 26.0 at 20-22. Ameren Illinois has extensive experience with allowances and revenue guarantee agreements under its existing tariff

as part of its core business. *See* Ameren Ex. 12.9 at 2. RNG facility guarantee agreements will be similarly treated. Ameren Ex. 26.0 at 21 *see also* Ameren Ex. 32.0 at 8. Ameren Illinois points out that Mr. Siddique's concern here also ignores that the RNG facilities will be bound by the tariff language governing the revenue test, guarantee agreements, and additional assurances, should the Commission approve the allowance. *See Sheffler v. Commonwealth Edison Co*., 2011 IL 110166, ¶ 28 (a Commission-approved tariff binds the utility and the customer and governs their relationship; it "is a law, not a contract, and has the force and effect of a statute") (*quoting Adams v. N. Ill. Gas Co*., 211 Ill. 2d 32, 55 (2004)) (internal quotations omitted). Unlike AIC's existing Commission-approved allowance, however, the RNG Interconnection allowance has the additional benefit of leveraging AIC's gas system to promote Illinois' clean energy goals in a manner that is mutually beneficial - or at least neutral - for all stakeholders.

The Company cautions that on the one hand, PIO fault Ameren Illinois for (necessarily) being unable to definitely prove today that removing a significant hurdle to RNG interconnection - its upfront cost - will in fact incentivize RNG interconnection. *See, e.g*., PIO IB at 38-39, 42, 44. Mr. Saddique questioned the ultimate success of the proposal or that it "would move the needle" for Illinois given that significant capital requirements "constrain rapid RNG deployment." ELPC/PIO Ex. 1.0 at 9, 11. On the other hand, however, PIO assume without record basis that there is a queue of RNG facilities, specifically fifteen, that are ready and willing to interconnect to AIC's system today, allowance or none. PIO IB at 40-41.

Ameren Illinois maintains that if the proposed interconnection allowance does not ultimately encourage RNG facilities to interconnect, then that is the status quo. But, the Company maintains, at least the Commission and Ameren Illinois will have tested whether the Company's gas system can be leveraged in this low-risk manner to advance Illinois' clean energy goals. PIO's latter point is inconsistent with PIO's legal burdens, procedurally improper, and substantively meritless. Regardless, Ameren states that PIO disfavor RNG facilities. *See, e.g*., PIO IB at 42 (suggesting that RNG interconnections are not worthwhile investments). Ameren Illinois maintains that the Commission should view PIO's opposition to the Company's proposal in the context of that bias.

Furthermore, PIO ignore Commission precedent and the evidence in this case. PIO fault Ameren Illinois for not providing what PIO would deem a "robust cost-benefit analysis" of the RNG interconnection allowance proposal. PIO IB at 39. PIO also want a "marginal-CO2-equivalent-emission analysis" and for Ameren Illinois to condition RNG facilities' participation on their commitment to complex, extensive environmental analysis and reporting. *Id*. at 43-44. PIO argue that without all these analyses, the Company's proposal is based only on "assumption[s]" - "that it is good policy to induce more [RNG producers] onto the system because of Illinois' climate goals and because of the 'economic benefits' of engineering, construction, and plant employment" and that it "is worth investing in [RNG interconnections] to support Illinois' climate goals." *Id*. at 42, 44.

However, the fact that the Company's proposal is good policy is not based on assumptions. It is based on the Company's extensive industry knowledge and experience with RNG development. Ameren Ex. 32.0 at 10. It also is based on evidence regarding the myriad benefits of RNG development. *Id*. at 7; Ameren Ex. 3.0 at 14-15, 16, 19-20; Ameren Ex. 18.0 at 16-17.

What is more, that evidence is not just Ameren Illinois' say-so. The Commission has itself expressly acknowledged that investing in RNG interconnections is worthwhile because RNG development provides environmental and economic benefits to Illinois. Docket No. 20-0722 concerned Nicor's upfront RNG interconnection allowance pilot ("Rider 81"). *Northern Ill. Gas. Co*., Docket No. 20-0722, Final Order at 1 (June 24, 2021). There, in approving Nicor's pilot, and an allowance of up to $3.2 million per RNG facility or an aggregate of $16 million in total allowances, the Commission "recognize[d] that RNG has the potential to reduce methane emissions and reduce waste streams." *Id*. at 35. The Commission further found that investing in RNG development in this way "could have economic benefits, such as creating jobs." *Id.; cf. MidAmerican Ener. Co*., Docket No. 22-0209, Order at 7, 2 (Dec. 15, 2022) (approving tariffs effectuating Rate PRG – Producers of Renewable Gas Transportation Service, where, like here, the utility's evidence was that promoting RNG facilities "[e]nables the delivery of environmental and economic benefits"). Indeed, the myriad benefits of facilitating RNG interconnections that the Commission acknowledged in its conclusions in Docket No. 20-0722 - such as capturing methane and converting it to beneficial use, recycling RNG biproduct as fertilizer, improving local air quality by reducing livestock manure odors, and creating construction and operations jobs - are benefits articulated in the evidence in this case. *Compare* Docket No. 20-0722, Final Order at 24-25 with Ameren Ex. 3.0 at 14-15, 16, 19-20; Ameren Ex. 18.0 at 16-17; Ameren Ex. 32.0 at 7. While PIO accuse Ameren Illinois of simply assuming that investing in RNG interconnections is good policy, PIO disregard not only the evidence, but also that the Commission has already recognized that that much is true.

PIO ignore prior Commission decisions in another way: PIO overlook that the Commission also recognizes the benefits of proposals aimed at fostering innovation. PIO press for extensive analyses that could demonstrate - to PIO's satisfaction today - the ultimate success of AIC's RNG interconnection proposal in the future. But the Commission has rejected the notion that extensive analyses are a prerequisite to approval of proposals that are intended to foster innovation. For example, in approving Nicor's RNG interconnection pilot, the Commission stated that it "accepts experience and learnings gained through pilot programs as significant benefits of pilot programs . . . ." Docket No. 20-0722, Final Order at 25, 33 (rejecting the notion that it was necessary for Nicor to set pre-determined levels for evaluating the success of the pilot).

In this case, the evidence reflects that pilot projects and other innovations provide a risk-managed environment to test, operate, and evaluate new and innovative technologies, business models, and approaches before committing more resources to large-scale implementations. In this way, innovations, like the Company's RNG interconnection allowance proposal, can identify areas that provide customers benefits while and advancing Illinois' clean energy goals. *See* Ameren Ex. 3.0 at 13; Ameren Ex. 1.0 at 12; Ameren Ex. 2.0 at 14-15.

Further, with regard to the extensive analyses that PIO believe RNG facilities should themselves be required to provide, Ameren Illinois points out that PIO overlooks that the very purpose of the Company's proposal is to facilitate RNG interconnections by removing - not creating - barriers for entry. Ameren Ex. 32.0 at 8. Ameren Illinois believes that it is the Company's responsibility to offer services to those who express interest in

interconnection with its gas system by providing economic allowances for those projects, just as Ameren Illinois would for any other load customer. *Id*.

Ameren Illinois contends that PIO misapprehend its legal burdens in this proceeding, in at least two respects. First, parties must timely present their evidentiary positions. Relatedly, their arguments in brief must be supported with evidence (or law). *See, e.g., Ameren Trans. Co. of Ill., et al*., Docket No. 24-0088, Order at 19 (July 2, 2025); Ameren IB at 8-9.

In its Initial Brief, PIO crafts, for the first time, a cost analysis attempting to demonstrate that the RNG interconnection allowance proposal negatively impacts customers. PIO IB at 40-41. Neither Mr. Saddique nor any other witness presented such cost demonstration in testimony, however. *See generally* ELPC/PIO Ex. 1.0; ELPC/PIO Ex. 2.0. (Rather, Mr. Saddique's only concern regarding transmission revenues was that Ameren Illinois may not ultimately recover the cost of the allowance. *See, e.g*., ELPC/PIO Ex. 1.0 at 4-5. But that concern is dispelled by the revenue test, guarantee agreements, and additional assurances required by the tariff.) PIO's late cost demonstration is not supported by any evidentiary cites. PIO IB at 40-41.

Ameren Illinois contends that PIO's tactic is improper under the law. It has deprived Ameren Illinois of an opportunity to respond with evidence. Had PIO attempted in testimony to demonstrate how the Company's proposal might impact customers from a cost perspective, the Company would have not only responded with evidence, but also explained why the assumptions underlying PIO's cost demonstration - including the number of assumed RNG facilities ready and willing to interconnect today without an allowance, the level of transmission revenue relative to the level of allowances, and the period of that revenue - are inaccurate. Since all of those assumptions are extra-record anyway, Ameren Illinois argues the Commission can and should simply disregard them.

Even setting aside its procedural deficiency, PIO's eleventh-hour cost demonstration is contradicted by the evidence. For example, PIO assume that fifteen RNG facilities are ready and willing to interconnect today without an allowance. But the evidence is that two facilities have interconnected to Ameren Illinois' system since 2015. Ameren Ex. 3.0 at 18; Ameren Ex. 32.0 at 10. As explained, the evidence is also that the transmission revenue generated will continue to directly offset Ameren Illinois' costs to serve its customers for well after the seven-year extension guarantee period, since an RNG facility is expected to stay operating for 25 to 30 years. Ameren Ex. 26.0 at 21. The evidence is that the transmission revenues generated by the interconnections are expected to mitigate against future revenue requirements, not simply cancel out the cost of interconnection after forty-some years. *Cf*. PIO IB at 40-41.

The second way that PIO misapprehends its legal burdens in this case is by assuming that it is the Company's obligation "to confirm that there are no better alternative decarbonization paths that offer a better emissions-reduction return on investment." PIO IB at 39. But it is not Ameren Illinois' position that there are other decarbonization paths that render investing in RNG interconnections not worthwhile - that is PIO's position. And PIO bear the legal duty to support its own position. *See, e.g.,* Docket No. 24-0088, Final Order at 19; Ameren IB at 8-9. Here, that would mean demonstrating, with evidence, which alternative decarbonization paths, why they are "better," and how they are lower

cost. Notably, the alternatives mentioned by ELPC/PIO witness Saddique in testimony would impose a cost on customers. Ameren Ex. 32.0 at 10. AIC's proposed RNG interconnection allowance would not. *Id*.; Ameren IB at 234-35.

It is not AIC's obligation to rule out every other potential alternative route to decarbonization in proposing this (or any other) innovation. To the contrary, there is not one direct path to decarbonization. Rather, if Illinois is to attain a net-zero or zero carbon future by 2050, the Commission, utilities, and other stakeholders must pursue a multi-faceted approach, and employ multiple measures, to get there. *See* Ameren Ex. 2.0 at 14; Ameren Ex. 3.0 at 6; Ameren Ex. 18.0 at 16. Toward that end, the Commission has encouraged AIC to explore leveraging its gas system in ways that could move Illinois forward on a multi-faceted path to decarbonization. The Company's proposed RNG interconnection allowance answers that call and, as the Commission has past recognized, reflects good clean energy policy. It facilitates interconnection in the State of RNG developers - who are contributors to Illinois' clean energy future - in a manner that is mutually beneficial, or at least neutral, for all stakeholders: customers, RNG developers, other Illinois businesses and communities, and the State more broadly. As such, Ameren Illinois asks the Commission to approve AIC's proposed RNG interconnection allowance.

b. PIO's Position

PIO ask the Commission to reject the Company's proposed RNG proposal. PIO argue the Company has not demonstrated that the proposed allowance is likely to achieve the goals it set out for the program, nor is it a prudent investment. There are many decarbonization and reliability investments that better utilize limited company resources than this RNG proposal.

The main questions the Commission and intervenors needed Ameren Illinois to answer in its affirmative case were: how much marginal CO_2-equivalent emissions does this program reduce, and at what cost? Specifically, PIO believe the Company must answer what emissions would be in a scenario without the program and demonstrate that no superior alternative decarbonization paths exist that provide a better emissions-reduction return on investment. Because Ameren Illinois has not provided answers to either question, PIO contend that the Commission should reject Ameren's RNG allowance proposal.

PIO maintain that AIC has not demonstrated that its RNG allowance proposal is prudent or reasonable. Ameren Illinois did not provide any robust cost-benefit analysis of its program and instead rely on the vague claims that the program would "help spur additional RNG facility development," and was "necessary to encourage the development of additional RNG facilities." Ameren Ex. 3.0 at 15, 19. PIO argue that Ameren Illinois could not support these claims when pressed on them. Ameren Illinois did not identify any reports, data, workbooks, or analyses to support its claim that its program would "help spur additional RNG facilities." ELPC PIO Ex. 2.1. Instead, Ameren Illinois supported this claim with the conclusory statement that it "believes RNG customer-producers are more likely to develop their RNG project with the RNG allowance in place." ELPC PIO Ex. 2.1. PIO also argue that Ameren provided no reports, data, workbooks, or analyses to support this claim. See ELPC PIO Ex. 2.1 (Ameren Response to PIRG 6.02(c)). PIO assert that AIC's justification is insufficient. Ameren Illinois attempts to excuse its

deficiencies by claiming the program would "not add any costs to the proposed revenue requirement." ELPC/PIO Ex. 2.1 (Ameren Response to PIRG 6.01(a)). PIO contend that this is incorrect, and the Commission should therefore reject the proposal. First, AIC proposes to spend funds constructing physical interconnections without assurance of cost recovery through customer bills for years, if at all. PIO argue that there are many other uses to which AIC could put those funds while they would otherwise be unavailable. Second, PIO observe that Ameren has not provided evidence showing how many RNG facilities would actually be incentivized or constructed as a result of this program. When the Company was directly asked to provide answers to how much it proposes to spend on this program, it confirmed it did no qualitative analysis to determine whether or how much their program would induce new interconnections. ELPC/PIO Ex. 2.1. PIO maintain that that alone is sufficient for the Commission to reject AIC's proposal.

Additional deficiencies exist which further undermine the prudence and reasonableness of AIC's proposed allowance. Regardless of how many RNG facilities Ameren Illinois brings on or how much foregone transmission fees they forego to induce those new facilities, PIO argue that AIC places an enormous amount of weight on the argument that bringing RNG facilities online is worth investing in to support Illinois' climate goals. PIO admit that in certain circumstances, that may be true, but whether and how much RNG facilities are worth investing in is a much more complex question than Ameren Illinois assumes. PIO urge the Commission to conclude that AIC's proposal does not account for this complexity, and it therefore has not demonstrated that its support for RNG facilities using this allowance are worthwhile investments.

Ameren Illinois argues that "RNG facility[ies] interconnecting to the Company's system should reduce methane that would otherwise be emitted into the atmosphere, not tracked for emissions purposes, and provide beneficial use of that energy." Ameren Ex. 18.0 at 16. This seems to be where the Company thinks the analysis should stop. Before, methane leaked out of these sources into the atmosphere, and now it is captured, used beneficially, and converted from methane to CO2. But PIO believe that Ameren Illinois is wrong, it is not quite that simple, and there is more analysis needed.

PIO maintain that the appropriate inquiry is whether the full lifecycle emissions of RNG production - including leaks during production, processing, and transportation - compare favorably with the lifecycle emissions of the energy the RNG is intended to replace. ELPC/PIO Ex. 2.0 at 4-5. PIO believe this analysis requires a consideration of how the methane is consumed, how it is processed for pipeline delivery, how much is leaked into the atmosphere along the way, and whether, in the absence of this program, the methane would have been released into the atmosphere or whether it would have been captured. ELPC/PIO Ex. 1.0 at 7. PIO contend this is a question of whether this program moves the needle for RNG producers, or whether it is a giveaway to those that would be coming online anyway.

PIO take issue with the Company's suggestion that RNG should be subsidized simply because "every little bit helps." Ameren Ex. 18.0 at 16. PIO argue that this would only be the case if RNG production is at a place where it can scale cost-effectively and if there are no other investments that are a better return on investment. RNG is not the kind of technology where investment in deployment is going to bring it down the cost curve eventually. *See* ELPC/PIO Ex. 1.0 at 9-10. There are many other decarbonization

technologies that - were Ameren Illinois to have conducted the appropriate marginal-CO2-equivalent-emission analysis - compare favorably to supporting RNG.

PIO reject AIC's claim that "quantifying the emissions" of an RNG facility is solely "a developer's responsibility." Ameren Ex. 18.0 at 16. Ameren Illinois is currently not privy to that data, and Ameren Illinois claims that it is therefore not responsible for considering such emissions. Ameren Ex. 18.0 at 16. But Ameren Illinois is proposing a special benefit for RNG producers based on the assumption that it is good policy to induce more of them onto the system because of Illinois' climate goals and because of the "economic benefits" of engineering, construction, and plant employment. *See* Ameren Ex. 3.0 at 18-19. These facilities are not coming onto the system to provide gas to AIC's customers, but merely to transmit that gas to interstate pipelines. *Id*. at 17-18. PIO contend that AIC's claims of economic benefit should not be given any weight, since it did not provide an estimate as to whether or how many additional RNG facilities it expects the allowance to induce. *See id*. at 19. PIO maintain that if this is all, or mostly, about emissions reductions, Ameren Illinois could, and should, have conditioned participation in that special benefit so the Company could be sure that the program was achieving the decarbonization goal used to justify this proposal. *See id*. at 18-19. For example, Ameren Illinois could have proposed a program that included minimum environmental standards for RNG producers (or for the entire program), required RNG producers submit environmental impact plans, required real-time monitoring with automatic shut-off capabilities, and verified producers' reported data. Instead, Ameren Illinois did none of those things and categorically dismissed all of them as "complex, expensive analys[es]" that "could create unnecessary barriers to entry[.]" Ameren Ex. 32.0 at 8.

Further, AIC's reliance on analogizing the RNG allowance to its existing main extension allowance is misplaced. In AIC's last general rate case, the Commission explicitly acknowledged "the historic policy rationale for line extension allowances has changed," and the Commission expressly declined to expand the use of allowances outside their narrow, traditional context. *Ameren 2023 GRC*, Final Order at 95. PIO therefore maintain that Ameren Illinois' attempt to use main extension allowances as a precedent for a wholly new RNG allowance backfires because the Commission has already questioned whether existing allowances - much less generous new allowances - are appropriate policy tools at all. PIO argue that, while Ameren Illinois might want to encourage RNG development, Illinois has not made a policy choice to favor such development. Creating a new subsidy for RNG developers, without the same process or rulemaking framework the Commission established in its last Final Order as part of the FoG proceeding, only compounds PIO's concerns. *Ameren 2023 GRC*, Final Order at 95.

In conclusion, PIO ask the Commission to deny the Company's RNG proposal. PIO believe that is necessary because Ameren Illinois did not conduct sufficient analysis that justifies the program on Company's own terms. PIO contend the proposal does not include any of the metrics or cost-benefit analysis that should support any ratepayer-funded program. Because the Company's proposal is open-ended, does not account for any of the complexities of a lifecycle analysis, and outsources any and all reporting, oversight, and environmental monitoring to third parties, the Commission should reject the proposal.

c. Commission Analysis and Conclusion

RNG facilities capture biogas, an organic methane product, and refine it to pipeline quality gas, an alternative energy source that can be used for heating and other customer needs. Ameren Illinois introduced a proposal that would facilitate RNG development in Illinois by temporarily deferring, while guaranteeing later recoupment of, the upfront cost of interconnection for RNG facilities. Accordingly, Ameren Illinois' proposed RNG interconnection allowance has no effect on the revenue requirement in this proceeding. The record reflects that the Company's proposal is expected to mitigate the revenue requirements in future gas rate cases.

PIO argue the Company did not meet its burden to show Ameren's proposal is prudent and reasonable. The Commission agrees information gaps exist in this record regarding the intended benefits, environmental impacts, and ultimate costs of the program. PIO observe that Ameren has not provided evidence showing how many RNG facilities would be incentivized or constructed because of this program. ELPC/PIO Ex. 2.1. PIO also contend net emissions and specific information regarding the technology used at the proposed RNG facilities is missing from this record. ELPC/PIO Ex. 2.0 at 4-5; ELPC/PIO Ex. 1.0 at 7. AIC argues information "quantifying the emissions" of an RNG facility is "a developer's responsibility" and that it is not privy to that data. Ameren Ex. 18.0 at 16. The Commission disagrees and finds this a relevant consideration when determining if a decarbonization pilot intended to perpetuate RNG facilities is appropriate. Further, while the Commission understands the Company intends to defer costs in this rate case, the Company was not able to provide the full cost when asked directly. *Id.* The Company confirmed it did not complete a qualitative analysis to determine whether or how much their program would induce new interconnections. *Id.* Without this record support, the Commission cannot analyze the prudence of the program. The record lacks sufficient support to determine whether this program is a prudent investment at this time.

The Commission has previously recognized the environmental benefits of RNG production. *See N. Illinois Gas Co., d/b/a Nicor Gas Co.,* Docket No. 20-0722, Final Order at 1 (Jun. 24, 2021); *MidAmerican Energy Co.,* Docket No. 22-0209, Final Order at 7, 2 (Dec. 15, 2022). However, the record evidence in this case indicates uncertainties remain with respect to the complexities of the Company's proposal and its economic benefits. The Commission is not bound by its prior decisions and must review each investment based upon the record. Further, the energy landscape is ever evolving, and there are many emerging technologies that can be used to combat climate change and promote decarbonization.

The Commission finds that the FoG series is the more appropriate forum for evaluating decarbonization projects, like RNG, in the context of the State's overall energy transition and climate goals. The Commission particularly notes PIO's concerns with emissions and environmental impacts associated with RNG facilities and agrees these are complex technologies that require additional analysis. Participants in FoG include experts in a variety of fields, including environmental protection and control. The FoG series is a better forum for these discussions because it will reduce redundancies in recoverable costs from ratepayers and provide an opportunity to robustly discuss PIO's concerns regarding net environmental impacts, costs, and the program's ability to achieve its decarbonization goals. The Commission finds it premature to approve the RNG pilot

project in this proceeding and encourages parties to discuss RNG's role in the State's energy transition further during FoG.

For these reasons, the Commission rejects Ameren Illinois' proposal for an RNG interconnection allowance.

X. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

(1) Ameren Illinois Company d/b/a Ameren Illinois is an Illinois corporation engaged in the storage, transmission, distribution, and sale of natural gas to the public in the State of Illinois and, as such, is a "public utility" as defined in Section 3-105 of the Public Utilities Act;

(2) the Commission has jurisdiction over the parties hereto and the subject matter herein;

(3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record, and are hereby adopted as findings of fact and conclusions of law; the Appendix attached hereto provides supporting calculations;

(4) the test year for the determination of the rates herein found to be just and reasonable should be the 12 months ending December 31, 2026; such test year is appropriate for purposes of this proceeding;

(5) for the test year 2026, and for the purposes of this proceeding, the Company's rate base is $3,155,204,000;

(6) the $4,478,082,000 original cost of plant for Ameren Illinois at December 31, 2023, as presented in Ameren Ex. 5.1, is unconditionally approved as the original cost of plant;

(7) a just and reasonable rate of return which Ameren Illinois should be allowed to earn on its net original cost rate base is 7.053%; this rate of return incorporates a return on common equity of 9.600%; on preferred stock of 4.479%; on long-term debt of 4.492%; and on short-term debt of 3.615%;

(8) the rate of return set forth in Finding (7) results in total operating revenues of $682,848,000 and net annual operating income of $222,536,000 based on the test year approved herein;

(9) for purposes of calculating both base rates in this proceeding and calculating the amortization of deferred state and federal income taxes excesses and deficiencies baseline for Rider VITA, the Commission finds that the State income tax rate in effect is 9.50%, which is the sum of the Illinois personal property tax replacement income tax rate and the Illinois State income tax rate, and the federal income tax rate in effect is 21.00%. The Commission further finds that the amortization of deferred state income taxes excesses and deficiencies is $505,378 and the amortization of deferred federal income taxes excesses and deficiencies is $(3,744,715).

These amounts are exclusive of amortization of deferred state and federal income taxes excesses and deficiencies for previously disallowed plant;

(10) for purposes of calculating the Invested Capital Tax Cost ("ICT") Adjustment, the Commission finds that the ICT Base Rate Allowance included in Test Year Revenue Requirement is $26,250,000;

(11) the Commission has considered the costs to be expended by Ameren Illinois to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense of $3,467,513, which is inclusive of the required Consumer Intervenor Compensation Fund Payment, to be amortized over a two-year period, resulting in $1,733,756.50 included in the test year revenue requirement, is just and reasonable pursuant to Section 9-229 of the Act;

(12) the Commission, consistent with Section 9-229 of the Act, hereby orders Ameren Illinois to make a payment of one half of the rate expense allowed by the Commission, but not to exceed $500,000, into the Consumer Intervenor Compensation Fund. The payment shall be made within the timeframe prescribed by Section 9-229. This amount represents the statutory cap for what the utility must contribute to the Consumer Intervenor Compensation Fund for this rate case proceeding;

(13) Ameren Illinois' rates that are presently in effect are insufficient to generate the operating income necessary to permit Ameren Illinois the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently canceled and annulled;

(14) the specific rates proposed by Ameren Illinois in its initial filing on January 8, 2025 do not reflect various determinations made in this Order; Ameren Illinois' proposed rates should be permanently canceled and annulled consistent with the findings herein;

(15) Ameren Illinois should be authorized to place into effect tariff sheets designed to produce annual base rate revenues of $678,905,000 which represents a gross increase of $72,948,000; such revenues will provide Ameren Illinois with an opportunity to earn the rate of return set forth in Finding (7) above; based on the record in this proceeding, this return is just and reasonable;

(16) Ameren Illinois should be authorized to implement pilot programs related to Advanced Leak Detection, Remote Methane Detection, and Fugitive Emissions Reduction;

(17) Ameren Illinois is directed initiate a Rider T-Daily Balancing workshop and be prepared to propose a plan for moving GDS-2, GDS-3, and GDS-5 customers to daily read in its next rate case or if a rate case is not filed within twelve months of December 31, 2026, in a separate proceeding initiated by the Company;

(18) Ameren Illinois is directed conduct a study of the feasibility of ICEA/RESA's Rider T- Customer Switching proposal. The study should be completed no

later than December 31, 2026, with Ameren Illinois making a recommendation in its next rate case after the study;

(19) Ameren Illinois should be authorized to conduct a Zonal Electrification Study. Ameren Illinois is directed to file its ZEP Study filing within 30 days of completion and in its next general rate case;

(20) Ameren Illinois is directed to prepare and submit an A&E COSS for consideration in future rate cases by 2027;

(21) Ameren Illinois is directed to update Discount Rate Rider-LICA to maintain a 3% energy burden for Tiers 1-4 effective at such time as the new tariff sheets authorize by this Order become effective. Ameren Illinois is further directed to use Federal Poverty Level for Discount Rate Rider-LICA. Ameren Illinois is directed to update the Discount Rate Rider-LICA language to reflect its inception from Ameren 2023 GRC;

(22) sufficient reason exists to examine the existing line extension policy of the State of Illinois and directs Staff of the Illinois Commerce Commission to file a report with findings and recommendations with 180 days of this Order;

(23) the determinations regarding cost of service, rate design, and tariff provisions contained in the prefatory portion of this Final Order are just and reasonable for purposes of this proceeding; the tariff sheets filed by Ameren Illinois should incorporate the rates, rate design, and other provisions set forth and referred to herein; and

(24) unless otherwise specified in this Order, new tariff sheets authorized to be filed by this Order should reflect an effective date not less than five days after the date of filing, with the tariff sheets to be corrected, if necessary, within that time period.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets presently in effect rendered by Ameren Illinois Company d/b/a Ameren Illinois are hereby permanently canceled and annulled, effective at such time as the new tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general rate increase, filed by Ameren Illinois Company d/b/a Ameren Illinois on January 8, 2025, are permanently canceled and annulled.

IT IS FURTHER ORDERED that Ameren Illinois Company d/b/a Ameren Illinois is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (15), (16), and (17) of this Final Order, applicable to service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that the $4,478,082,000 original cost of plant for Ameren Illinois Company d/b/a Ameren Illinois at December 31, 2023, as presented in Ameren Ex. 5.1, is unconditionally approved as the original cost of plant.

IT IS FURTHER ORDERED that Ameren Illinois is directed to comply with all of the findings contained herein.

IT IS FURTHER ORDERED that any motions, petitions, objections, and other matters in this proceeding that remain unresolved are disposed of consistent with the conclusions herein.

IT IS FURTHER ORDERED that pursuant to Section 10-113(a) of the Public Utilities Act and 83 Ill. Adm. Code 200.880, any application for rehearing shall be filed within 30 days after service of the Order on the party.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 19th day of November, 2025.

(SIGNED) DOUGLAS P. SCOTT

Chairman