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Executive explains reasons for Ameren's rate-hike request

By Tom Kacich

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CHAMPAIGN – Uncertainty in the economy and in Illinois government is causing problems for the Ameren Illinois Utilities and is part of the reason the downstate utility has filed for a $226 million increase in gas and electric rates, the president of the company said Tuesday.

"The costs of our business – major investment in substation and transformers and poles – we're seeing very modest increases," Scott Cisel, the president and CEO of Ameren Illinois, told The News-Gazette editorial board. "What's costing so much is the financing around those acquisitions of material.

"It would help if we had an economy that was more stabilized and if our residential customers were better able to pay their bills."

Last year, Cisel said, Ameren had to write off more than $49 million in unpaid gas and electric bills. Ameren has a much higher percentage of uncollectible bills than the utility industry as a whole, he said.

"A rule of thumb in this industry is that you have about a half a percent of bills that never get paid," Cisel said. "Our percentage is getting close to 1½ percent. Part of it is the economy and part of it is people who just don't want to pay. There are times, in the late winter especially, where we see 40 percent of our residential customers that are carrying some amount that is past due. That's a lot of customers that are carrying some portion of an unpaid bill."

Adding to the dismal financial outlook, Cisel said, is that Ameren's overall electricity sales this year are down 5 percent – the first time in his 35 years with the company that he has seen a year-to-year sales decline. "And I see no quick rebound to that," he added.

Further complicating Ameren's predicament is its cost to borrow money, Cisel said. That's a result of its split identity (three former independent companies now under one umbrella but not formally merged) and Illinois' regulatory environment. He said Ameren Illinois spends $150 million a year just to borrow money.

"The rating agencies are concerned about our cash metrics. It is becoming increasingly difficult for us to issue debt," he said. Rating agencies such as Standard & Poors and Moody's have graded Ameren's bonds either at or near junk-bond level because of ongoing uncertainties in Illinois government, including the possible passage of a so-called "fumigation bill" that could remove hundreds of appointees made by former Gov. George Ryan and Rod Blagojevich. Among those appointees could be the members of the utility-regulating Illinois Commerce Commission. The fumigation bill passed the House but has not been voted on by the Senate.

The rating agencies also are concerned about Gov. Pat Quinn, who years ago helped found the Citizens Utility Board, an agency that generally opposes utility rate increases.

"I anticipate that the governor is a different person than he was when he was the director of CUB," Cisel said. "But he has strong feelings about the Illinois Commerce Commission. I can only pass on what I hear from the outside parties. They are very much concerned."

The markets don't like uncertainty, he said.

"And we have all this uncertainty in Illinois at the same time we are trying to get loans or lines of credit up to a billion dollars," Cisel said.

Ameren has cut and deferred purchases, cut the dividend on its common stock and frozen the salaries of its top 11 executives, he said. Although there have been no furloughs or layoffs, they remain possible, he said.

"There just isn't the kind of money (from cuts) that the rating agencies are looking for to elevate us out of junk-bond status," Cisel said. "You can't cut yourself to the point where you can restore financial health."

The rate increase, filed last Friday with the commerce commission, probably won't be decided until May. For customers of AmerenIP, which includes Champaign, Urbana and Danville, a typical customer who uses 10,000 kilowatt hours of electricity and 785 therms of natural gas annually would pay about $152 more. An AmerenCIPS customer who has both electricity and natural gas service would pay about $120 more a year.

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