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Ameren Illinois utilities to become one company, press case for more revenue

By TONY REID - H&R Staff Writer | Posted: Wednesday, September 29, 2010 12:01 am

NEW YORK - The Ameren Corp. Illinois utilities are about to combine into a new company, but the message to customers is the same: We'll give you good, reliable service, but we need more of your money.

The upcoming changes in the utilities' corporate structure and Ameren's strategy for maximizing its return on investment were outlined Tuesday to an audience of investors and analysts in New York City.

All three Illinois utilities - AmerenIP, AmerenCIPS and AmerenCILCO - will combine into Ameren Illinois Co. in a move that will be completed Friday. Ameren said the new giant utility company offers a streamlined structure and greater convenience and efficiency for customers and the chance to save on costs.

And keeping costs under control will be a major plank of Ameren's strategy going forward, as it seeks to focus resources on improving the electrical delivery system and reliability. In return, however, Ameren said it deserves to earn more money faster.

"For several years, our regulated utilities have been earning returns that are well below our authorized levels due in part to regulatory lag," said Marty Lyons Jr., Ameren's senior vice president and chief financial officer. Regulatory lag is the amount of time it takes for the utilities to get new rates approved for delivering electricity and natural gas to homes and businesses.

"□ We expect our utility businesses to earn a 2010 return on equity in the range of 8 to 8½ percent," Lyons told the Bank of America Merrill Lynch 2010 Power & Gas Leaders Conference. "□ But that would still fall short of our current allowed return on equity of approximately 10 percent ..."

Lyons stressed that as current state regulations permit a return of 10 percent, the utilities should get it quicker in return for investments to enhance solid, reliable service and increased customer satisfaction. He said Illinois customers already were getting a good deal, as their residential utility delivery rates were roughly 15 percent below the national average; in Missouri, Ameren's home state, they are 35 percent cheaper than nationwide averages.

But despite Ameren's needs and the forceful message to investors in New York City, the reality is that the corporation has had a tougher time selling its strategy in the Land of Lincoln. The utilities' request this year for an electric and natural gas delivery rate package worth \$130 million was gutted by the state's utility regulators, the Illinois Commerce Commission, which only approved \$15 million.

Ameren has now filed evidence in a rehearing and is seeking to get at least \$52 million added to the \$15 million that was permitted. An administrative law judge is expected to issue a

recommendation by Oct. 6, and the ICC commissioners are due to make a final decision by Nov. 12.

The Citizens Utility Board consumer watchdog group, which fought Ameren's proposed rate hikes the first time around, hasn't heard anything from the utilities to win a change of heart.

"We still think that if you look at the way Ameren's Illinois profits have increased, there is no need for any rate increase," said David Kolata, the utility board's executive director. "Their profits have increased substantially while, for your average consumer in Illinois, things aren't going so great."

Ameren Corp. expects to earn between \$2.50 and \$2.80 per share in 2010, and its shares are rated among the best performers among utilities. Its dividend payouts to shareholders also placed Ameren within the top 3 percent of firms in the S&P 500 index.

Ameren Corp. shares closed Tuesday up 12 cents, or 0.42 percent, at \$28.37.

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