DIRECT TESTIMONY

of

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Central Illinois Light Company d/b/a AmerenCILCO
Central Illinois Public Service Company d/b/a AmerenCIPS
Illinois Power Company d/b/a AmerenIP

Proposed General Increase in Rates for Delivery Service

Docket Nos. 06-0070/06-0071/06-0072
(Consolidated)

April 26, 2006

Introduction

Q. Please state your name and business address.

A. My name is Peter Lazare. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. What is your present position?

A. I am a Senior Rate Analyst with the Illinois Commerce Commission ("Commission"). I work in the Financial Analysis Division on rate design and cost-of-service issues.

Q. What is your experience in the regulatory field?

A. My experience includes fourteen years of employment at the Commission where I have provided testimony and performed related ratemaking tasks. My testimony has addressed cost-of-service, rate design, load forecasting and demand-side management issues that concern both electric and gas utilities.

Previously, I served as a Research Associate with the Tellus Institute, an energy and environmental consulting firm in Boston, Massachusetts. I also spent two years with the Minnesota Department of Public Service as a Senior Rate Analyst, addressing rate design issues and evaluating utility-sponsored energy conservation programs.

Q. Please discuss your educational background.

A. I received a B.A. in Economics and History from the University of Wisconsin and an M.A. in Economics from the University of Illinois at Springfield in 1996.

Q. What is the purpose of your testimony in this proceeding?

A. I address the proposed functionalization of common costs to the revenue requirement by Central Illinois Light Company d/b/a AmerenCILCO ("CILCO" or "AmerenCILCO"), Central Illinois Public Service Company d/b/a AmerenCIPS ("CIPS" or "AmerenCIPS"), and Illinois Power Company d/b/a AmerenIP ("IP" or "AmerenIP") (collectively, the "Ameren Companies" or "Companies"). The costs I examine include: (1) General and Intangible (G&I) plant and (2) Administrative and General (A&G) expenses.

Q. Please summarize your conclusions in this proceeding.

A. The Ameren Companies have overstated the levels of G&I plant and A&G expenses to be recovered from ratepayers in the distribution rate base and revenue requirement. The Ameren Companies propose allocations of both G&I plant and A&G expenses to distribution based on methodologies that conflict with the Commission decisions in the last round of delivery service cases.

Q. What do you recommend in this case?

A. The Commission should accept my proposed adjustments to both G&I plant and A&G expenses which produce a lower and more reasonable allocation of common costs to the revenue requirement.

My adjustments for G&I plant are downwards for AmerenCIPS and AmerenIP and upwards for AmerenCILCO:

AmerenCIPS	(61,053,000)
AmerenIP	(123,631,000)
AmerenCILCO	13,717,000

For A&G expenses, I propose the following downward adjustments:

AmerenCIPS	(11,094,681)
AmerenIP	(38,908,033)
AmerenCILCO	(17,603,606)

Q. Please begin your discussion of common costs by describing G&I plant and A&G expenses.

A. Both G&I plant and A&G expenses fall into the category of common costs, which are costs that serve multiple utility functions. G&I plant consist of ratebase items such as land, buildings, vehicles, communication equipment and computer

software on which the utility earns a rate of return. A&G expenses include expenses such as executive salaries, pensions and benefits, injuries and damages, property insurance and rate case costs for which the utility receives recovery but no return.

Q. How have these common costs been previously functionalized to distribution for the Ameren operating companies?

A. In the past, the Commission has employed two different approaches to functionalize these common costs to distribution for the Ameren Companies. The method used by the Commission has depended on whether the utility was vertically integrated, i.e. owned generation, during the test year.

For vertically integrated utilities the Commission has consistently employed a general labor allocator to functionalize both G&I plant and A&G expenses to the distribution rate base and revenue requirement. This labor allocator functionalizes common costs to the delivery service rate base and revenue requirement based on distribution's share of total production, transmission and distribution payroll costs for the vertically integrated utility. The Commission employed the general labor allocator for both G&I plant and A&G expenses in the first and second delivery service cases for CIPS, Union Electric Company ("UE") (now part of CIPS) and CILCO, as well as for the first IP delivery service case.

For a restructured IP in Docket No. 01-0432, the Commission was unable to use

the labor allocator it had adopted in the past because the utility had divested production. Therefore, the Commission chose an alternative approach of placing upward limits on the increases in common costs.

In Docket No. 01-0432, IP proposed the use of a truncated labor allocator to functionalize common costs between transmission and distribution. However, Staff opposed the proposal because it failed to offer a reasonable allocation of common costs to the production subsidiary. Instead, Staff proposed that increases in common costs be pegged to the increases in associated direct expenses. The Commission sided with Staff on the issue, concluding as follows with respect to G&I plant:

> The Commission concludes that the procedure employed by Illinois Power to determine the amount of its G&I plant investment that should be included in distribution rate base is not appropriate and is inconsistent with the procedure that the Commission determined should be used in the 1999 DST case, i.e., based on the ratio of distribution labor expense for the test year to IP's total direct electric expense for the test year, 2000. IP has argued that because of divestiture of its generation function all assets that were not sold or transferred remain to support the remaining operations of the Company. The Commission finds such argument to be deficient in that there has been no showing that the remaining operations require such a large increase in G&I relative to the amount established by the Commission in 1999. The Commission concludes that the amount of G&I plant that should be included in distribution rate base for purposes of this case is the amount proposed by Staff, as adjusted based on any specific adjustments to G&I plant that are adopted by the Commission in other sections of this Order. (ICC Docket No. 01-0432, Order at 17).

Q. Do you find the Commission's conclusions regarding IP in Docket No. 01-0423 relevant to the discussion of functionalizing common costs for G&I plant and A&G expenses in this proceeding?

A. Yes. In this case, all the Ameren Companies have followed the scenario presented with IP by divesting their primary production plants. This restructuring prevents the Commission from continuing to use a labor allocator to functionalize between production, transmission and distribution. Nevertheless, Docket No. 01-0432 demonstrates that the Commission can achieve results that are consistent with its previous labor allocation approach for a restructured transmission and distribution utility.

Furthermore, I will present proposals in this case designed to ensure continuity with the Commission's past decisions regarding common costs for G&I plant and A&G expenses.

Q. How is the remainder of your testimony organized?

A. I discuss the functionalization of common costs in two parts. First, I examine the functionalization of G&I plant. Then I address the functionalization of A&G expenses.

G&I Plant

Q. What levels of increase in G&I plant costs do the Ameren Companies propose?

A. Significant increases in these costs are proposed for all three Ameren Companies. The increase for AmerenCIPS is from $52.3 million to $121.9 million, a rise of $69.6 million or 133% (Company Response to PL 2.3). For AmerenIP, G&I plant would increase by $72.2 million or 54% from $134.3 million to $206.5 million (Company Response to PL 2.1). In addition, AmerenCILCO G&I plant would increase by $13.2 million or 46% from $28.9 million to $42.1. (Company Response to PL 2.5)

Q. How do the Ameren Companies justify these proposed levels of G&I plant for the distribution rate base?

A. The Ameren Companies identify four primary reasons underlying the proposed increases in G&I plant. These reasons are identified identically by each of the Ameren Companies, as follows:

> 1) [T]he Company's request is based on actual per book balances of G&I plant as of December 31, 2004; 2) the Company employed an Asset Separation Project to determine the appropriate level of G&I to be allocated or assigned to the electric distribution business; 3) The Company's G&I plant balances reflect additions, retirements and transfers which have occurred since January 1, 2001; and 4) A portion of Ameren Service Company's ("AMS") G&I plant has been allocated to AmerenIP (AmerenCIPS (including AmerenUE-Illinois) and AmerenCILCO) (Ameren Companies Response to PL 2.1, PL 2.3, PL 2.5)

Q. Please discuss the role of the Asset Separation Project ("ASP") in developing the Ameren Companies' proposed functionalization of G&I plant to distribution.

A. The ASP is described in the testimony of Ameren Companies witness Mr. Adams who states that, "[t]he ASP represents the results of the review of the Company's continuing property records to determine which assets should be assigned or allocated to the electric distribution business" (AmerenCILCO Exhibit. 7.0, p. 3, lines 17-19; AmerenCIPS Exhibit 7.0, p. 3, lines 19-21; AmerenIP Exhibit 7.0, p. 3, lines 20-22) He goes on to explain:

> Where possible, an asset was directly assigned to a particular line of business. If an asset supported more than one line of business, an allocator was employed to assign the cost of the asset to each line of business it supported. (AmerenCILCO Ex. 7.0, p. 4, lines 4-7; AmerenCIPS Exhibit 7.0, p. 4, lines 3-6; AmerenIP Exhibit 7.0, p. 4, lines 4-7 (note: AmerenIP testimony is identical to the quoted language except that the last word is "supports" rather than "supported".))

Thus, under the ASP, G&I plant is functionalized to distribution through a combination of direct assignments and general allocations.

Q. How do the ASP results compare with the amounts of G&I plant functionalized to distribution in the previous round of delivery service cases?

A. For two of three Ameren Companies, the ASP has been used to shift significant levels of G&I plant to the distribution revenue requirement. For AmerenCIPS, the

ASP was used to reallocate back to distribution rate base $61.1 million in 1999 test year G&I plant that the Commission excluded in Docket No. 00-0802 (Company Response to PL 2.3). For AmerenIP, the company proposal restores to distribution rate base $123.6 million in 2000 test year G&I plant the Commission removed in Docket No. 01-0432.

The ASP has the opposite effect on AmerenCILCO in that it removes $13.7 million in 2000 test year G&I plant from the distribution rate base that the Commission approved in Docket No. 01-0637. (Company Response to PL 2.5)

Combining the $61.1 and $123.6 millions reallocated back to distribution with the $13.7 million reallocated in the opposite direction, produces an overall net increase of $171.0 million in G&I rate base for the Ameren Companies.

Q. Does the Ameren Companies' proposed use of the ASP to reallocate costs addressed in the previous round of delivery service cases present problems?

A. Yes, the ASP is a flawed methodology that the Commission has considered and rejected in previous delivery service cases. It should not be used to determine the delivery service revenue requirement in this case.

Q. When was the concept of an asset separation study previously considered by the Commission?

A. The asset separation method was first proposed to be used to functionalize G&I plant to distribution for IP's initial delivery service case, Docket No. 99-0134. The Commission considered IP's arguments concerning its "Asset Separation Study" and concluded as follows:

> The Commission concludes that IIEC's proposed labor allocator for general plant is reasonable and should be approved. A labor allocator has been commonly utilized for allocation of general plant. The adoption of the labor allocator is particularly appropriate in light of the problems associated with IP's Asset Separation Study. The Commission agrees with IIEC's position that costs associated with general plant may not be amenable to direct assignment to a particular function. (ICC Docket No. 99-0134, Order at 16).

Q. Do the Ameren Companies witnesses address previous Commission decisions concerning the functionalization of G&I plant?

A. No, they do not. The Ameren Companies fail to offer testimony explaining why the Commission should reverse course and accept a flawed methodology it rejected in a previous delivery service docket.

Q. Does the asset separation study the Ameren Companies propose in this docket differ from the previous version in any respect?

A. Yes. In its current incarnation, the asset separation study presents a limited analysis that functionalizes costs only between functions of the utility companies themselves. This leaves production out of the analysis. The Ameren Companies

explain their decision to exclude production as follows:

> The asset separation project did not allocate or assign any general plant [intangible plant] assets to Ameren Generating Company because the assets recorded on the books of AmerenCIPS [AmerenIP, AmerenCILCO] are not used by nor do they support the operations of Ameren Generating Company. The assets addressed by the asset separation project are used solely in support of AmerenCIPS'[, AmerenIP's, and AmerenCILCO's] gas, electric transmission and electric distribution business. (Ameren Companies Response to PL 6.1, 6.2 & 6.3)

Q. Do you have any concerns with the Ameren Companies' method of functionalizing G&I plant?

A. Yes. My first concern is with the narrow scope of the ASP presented for this proceeding. The exclusion of production makes the ASP considerably more narrow and limited than the corresponding asset separation study presented and rejected in IP's initial delivery service case, Docket No. 99-0134. There is an unproven assumption that these costs are solely related to the transmission and distribution functions.

Q. What is your second concern?

A. The failure to factor production into the analysis is particularly problematic given past Commission decisions on this issue. In this case, the Ameren Companies propose to reallocate to distribution G&I plant that the Commission had allocated to production in the previous round of delivery service cases. The Ameren Companies' decision to exclude production costs from the analysis in this case

means there is no substantial support for the Ameren Companies' proposed reallocation of these costs from production to distribution.

Q. What is your next concern about this issue?

A. The Ameren Companies erroneously presume that production is no longer a consideration in the process of functionalizing G&I plant to the delivery service rate base. However, the production plant previously owned by CIPS and CILCO is still owned by Ameren Corporation ("Ameren Corp.") and would still require G&I plant. However, the Ameren Companies have placed this production plant outside the scope of their analysis of the issue. Thus, with no substantive evidence on the issue, Ameren Corp. is asking the Commission to take its word that production has received a reasonable allocation of G&I plant.

Q. Do you have any further concerns about this lack of information on the functionalization of these costs to production?

A. Yes, the Ameren Companies' analysis assumes that the divestiture of production to an unregulated subsidiary of Ameren Corp. somehow changes the relationships governing the functionalization of G&I plant. However, there is no evidence that the physical relationships governing the incurrence of these costs have changed. In particular, the Ameren Companies have failed to introduce any evidence that Ameren Corp's production subsidiary requires any less G&I plant than it required before restructuring.

Q. Is there evidence that the Ameren Companies seek to saddle the distribution revenue requirement with an unreasonable level of G&I plant?

A. Yes. The Ameren Companies proposes to include in the revenue requirement G&I plant that the Commission had excluded in the last round of delivery service cases. This means that the Ameren Companies are seeking to reverse the most recent set of Commission decisions concerning the functionalization of G&I plant to delivery services.

Not only does the Ameren Companies' proposal run counter to the most recent decisions for the companies, but it conflicts with all other Commission decisions for the Ameren Companies and Commonwealth Edison Company ("ComEd") concerning the appropriate allocation of G&I plant to delivery services. Those Commission decisions have consistently favored a general allocation approach over the use of direct assignments to determine G&I plant levels. (See ICC Docket No. 99-0117 (ComEd) Order dated August 26, 1999, p. 11; ICC Docket No. 01-0423 (ComEd) Order dated March 28, 2003, p. 41; ICC Docket Nos. 99-0129 & 99-0134 (Illinois Power) Order dated August 25, 1999, p. 30; ICC Docket No. 01-0432 (Illinois Power) Order dated March 28, 2002, pp. 17-18; ICC Docket No. 99-0121 (AmerenCIPS and AmerenUE) Order dated August 25, 1999, p. 21).

Q. Do the Ameren Companies filings address this precedent issue?

A. No, they do not. The Ameren Companies fail to discuss this regulatory experience or explain why the long standing practices in this area should not be

followed in the current proceeding. The Ameren Companies certainly are not barred from arguing for their proposed functionalization methodology in this case, or in future cases. However, the Ameren Companies have an obligation to explain why they believe the Commission should deviate from an approach it has consistently employed in the development of "just and reasonable" rates for delivery services. The Ameren Companies have clearly not met that obligation.

Q. What is your opinion of the role for Commission precedent in functionalizing G&I plant from a policy perspective?

A. I believe precedent should play an important role in this case for a number of reasons. One is that the Commission has been consistent on this issue since the advent of delivery service. It has consistently supported the use of an approach that was not followed in the Ameren Companies' asset separation study for functionalizing G&I costs.

Second, the Ameren Companies' proposed direct assignment alternative was previously proposed and rejected in IP's first delivery service case. In the current case, the Ameren Companies are recycling an old proposal that has already been found to be fundamentally flawed. Moreover, the Ameren Companies present a discernible lack of evidence to indicate why this discredited approach should now be approved.

Q. What do you specifically propose to address the Ameren Companies' proposed reallocation of $171.0 million in G&I plant back to the revenue requirement?

A. I propose the Ameren Companies' proposal be rejected in favor of continuing to keep the costs previously excluded from rate base outside the delivery service rate base for this case as well.

Thus, my proposal would serve to align the current DST rate case with the decision handed down by the Commission in the previous round of delivery service cases for the Ameren Companies.

Q. Do you recommend any adjustment to the Ameren Companies' proposed G&I plant additions subsequent to the 2000 test year?

A. No, I do not. I focused my attention on the G&I plant that the Commission removed in the previous round of delivery service cases for the Ameren Companies and that the Ameren Companies now propose to restore. I have not sought to extend this analysis to plant additions that were incurred after those Commission decisions to determine whether they are consistent with the previous round of cases.

Q. How were your specific adjustments to the Ameren Companies' proposed level of G&I plant developed?

A. I began by sending data request to the Ameren Companies asking them to recalculate their proposed level of G&I plant in a manner consistent with the most recent Commission Orders for the three operating Companies. The Ameren Companies refused, stating:

> The Companies have not performed the analysis described in this request and thus cannot produce papers providing the requested analysis. Performance of this analysis would require the Companies to incur significant, unwarranted expense. (Ameren Companies Responses to PL 4.1, 4.2 & 4.3)

Given this refusal, I developed adjustments for each of the Ameren Companies as shown in Schedule 6.1 attached to my testimony. These adjustments identify the amount of G&I plant included in [or excluded from] the Ameren Companies current proposal that was previously excluded from [or included in] each company's delivery services rate base by the Commission.

For AmerenCIPS, I removed the $61,053,000 in 1999 test year G&I plant that the Commission excluded in Docket No. 00-0802 and AmerenCIPS seeks to restore in this case (Attachment to Company Response to PL-2.3, Col (B), Line 11).

For AmerenIP, I removed the $123,631,000 in 2000 test year G&I plant that the Commission excluded in Docket No. 00-0802 and AmerenIP seeks to

restore in this case (Attachment to Company Response to PL-2.1, Col (B), Line 11).

For AmerenCILCO, I added back the $13,717,000 in 2000 test year G&I plant that the Commission included in Docket No. 00-0802 and AmerenCILCO seeks to remove in this case (Attachment to Company Response to PL-2.5, Col (B), Line 11).

These adjustments are balanced by accompanying revisions to accumulated depreciation, depreciation expense and deferred income taxes for the three companies. The specific calculations of these impacts are presented in Schedule 6.1.

Administrative and General (A&G) Costs

Q. What levels of increase do the Ameren Companies propose for A&G expenses in this proceeding?

A. The Ameren Companies propose significant increases in A&G expenses. The current and proposed A&G expenses with accompanying levels of increase are as follows:

(in $000s)

Company	Current 1/	Proposed 2/	Increase	%
AmerenCIPS a/	26,209	42,939	16,730	63.8
AmerenCILCO	6,733	33,278	26,545	394.3
AmerenIP	16,555	77,448	60,893	367.8
Total	49,497	153,665	104,168	210.5

Sources: 1/ Ameren Companies responses to PL 3.1, 3.3 & 3.5.
2/ Schedule C-1.

Note: a/ Current revenues for AmerenCIPS include revenues for AmerenUE whose territory was taken over by AmerenCIPS since the last delivery service case.

Q. How do the Ameren Companies justify these proposed increases in A&G expenses?

A. The Ameren Companies witness Lyons seeks to support the proposed increases by arguing that a "principal driver of A&G in this case is pensions and post retirement benefits." (AmerenCILCO Exhibit 2.0, p. 8, line 171; AmerenCIPS Exhibit 2.0, p. 8, line 171; AmerenIP Exhibit 2.0, p. 8, line 171) He goes on to state that expenses have risen at AmerenIP and AmerenCILCO since the mergers "as Ameren has taken steps to move these companies onto the Ameren information systems and operating platforms and improve each company's level of service and operations to a level consistent with Ameren standards". (AmerenCILCO Exhibit 2.0, pp. 8-9, lines 179-183; AmerenCIPS Exhibit 2.0, pp. 8-9, lines 179-183, AmerenIP Exhibit 2.0, pp. 8-9, lines 179-183)) Mr. Lyons identifies other factors that he contends contribute to the increase, including

"investments in technology in communication equipment and services and computer equipment and software, requiring information technology support and employee training" (AmerenCILCO Exhibit 2.0, p. 9, lines 183-186; AmerenCIPS Exhibit 2.0, p. 9, lines 183-186; AmerenIP Exhibit 2.0, p. 9, lines 183-186) He also indicates that salary and wage increases affect the level of A&G costs. (AmerenCILCO Exhibit 2.0, p. 9, lines 186-187; AmerenCIPS Exhibit 2.0, p. 9, lines 186-187; AmerenIP Exhibit 2.0, p. 9, lines 186-187)

Q. Do you find the Ameren Companies' arguments for these proposed increases in A&G expenses to be reasonable?

A. No, I do not. The Ameren Companies have failed to explain why increases in A&G expenses ranging from 63% to 394% (or 210% on a collective basis) are necessary.

Q. What is your first concern about this proposed increase?

A. The Ameren Companies' proposed increases in A&G expenses fall far out of line with the proposed increases in direct expenses. While the combined levels of A&G expenses for the three operating companies amount to a 210% increase over existing levels, the proposed increases in direct expenses are far more modest, amounting to 12.1% on average over the levels approved in the last round of delivery service cases.

These differences are presented in Schedule 6.2 and show that in contrast to the proposed collective increase of $104,168,000, or 210.5%, in A&G expenses, the Ameren Companies propose a collective increase of $22,413,000 or 15.1% in the total of Distribution, Customer Accounts, and Customer Service and Information expenses over the previously approved levels from the previous round of cases. These figures document how the proposed increases in indirect A&G expenses dwarf the more modest increases proposed for direct distribution expenses.

Q. Why are you concerned that A&G expenses are increasing so much more rapidly than Distribution, Customer Accounts and Customer Service expenses?

A. The significantly higher rate of increase for A&G expenses would indicate that the success the Ameren Companies contend they are realizing in controlling direct expenses is not carrying over to A&G expenses. It is not evident why the Ameren Companies can control one set of costs but not another. The dissimilar rates of increase also call into question the validity and accuracy of the very large increases in A&G expenses indicated by the Companies' proposal.

Q. Do these divergent increases undermine any argument by Mr. Lyon concerning the proposed increase in A&G expenses?

A. Yes. They call into question his argument that A&G expenses have risen at AmerenIP and AmerenCILCO due to efforts to improve each company's level of service and operations to a level consistent with Ameren standards.

(AmerenCILCO Exhibit 2.0, pp. 8-9, lines 179-183; AmerenCIPS Exhibit 2.0, pp. 8-9, lines 179-183; AmerenIP Exhibit 2.0, pp. 8-9, lines 179-183) Service and operations entail a broad range of expenditures including not just A&G expenses but also direct expenses as well. However, the Ameren Companies propose much more modest increases in direct expenses for these two affiliates. Since the need to address service and operations deficiencies impacts direct as well as indirect expenses, this argument does not justify the inordinate increase in A&G expenses for AmerenIP and AmerenCILCO given the much more modest increase in direct expenses.

Q. Have you found any alternative explanation for this extraordinary increase in proposed A&G expenses with respect to AmerenCIPS and AmerenCILCO?

A. Yes. The Ameren Companies' proposed functionalization of A&G expenses to the distribution revenue requirement appears to reflect a significant reallocation of costs associated with Ameren Services Company ("AMS"). AMS is an unregulated subsidiary that performs a number of tasks for and provides services to other Ameren Companies. In the area of A&G expenses, AMS accounts for a significant share of these expenditures. The allocation of AMS costs among Ameren subsidiaries is based on principles that directly conflict with Commission decisions in the last round of delivery service cases for both AmerenCIPS and AmerenCILCO. These deviations leave the Ameren Companies' customers with unreasonably high levels of A&G expense.

Q. What is the consistency issue as it applies to AmerenCIPS and AmerenCILCO?

A. In this proceeding the Ameren Companies seek to engender a massive shift in the allocation of A&G-related AMS costs from the last round of delivery service cases for AmerenCIPS and AmerenCILCO. In the previous delivery service cases all A&G expenses for these two companies including AMS costs were functionalized on the basis of a general allocator. That approach allocated a minority of the overall A&G expenses to distribution for both operating companies, 46% for CILCO (Docket No, 01-0637, Staff Ex 16.0, Schedule 2) and 34.33% for AmerenCIPS (as well as 31.76% for AmerenUE) (Docket No. 00-0802 WP-AD-008-1f).

In the current proceeding, AmerenCIPS and AmerenCILCo have adopted a significantly different allocator for the component of A&G expenses represented by AMS costs. Specifically, the allocation of A&G-related AMS costs to distribution for AmerenCIPS and AmerenCILCO has risen dramatically to 67.07% (See Schedule 6.3, p. 1 of 2). This represents a significant shift of this key component of A&G expenses to distribution now that AmerenCIPS and AmerenCILCO have divested generation and restructured themselves as transmission and distribution utilities.

Q. What concern is raised by this significant reallocation of A&G-related AMS expenses from production to distribution?

A. The concern is that the Ameren Companies have essentially decided unilaterally to reverse the Commission decisions in the previous rounds of delivery service cases by shifting responsibility for a significant component of the overall A&G expenses to delivery service customers. In the past the Commission has determined that delivery service should bear a smaller share of common A&G expenses. Those conclusions were made not just in the last round of delivery service cases for CIPS and CILCO, but also for the first round of delivery service cases for CIPS, CILCO and IP.

In the current case the Ameren Companies have made an independent decision to deviate from this precedent by fundamentally shifting A&G expenses pertaining to AMS charges from production to distribution, raising the revenue requirement in the process.

Q. Does the Ameren Companies' filings offer any explanation or justification for this large-scale reallocation of A&G expenses to distribution?

A. No, they do not. The only discussion provided in the Ameren Companies' filing are general explanations regarding why A&G expenses have increased from the last round of cases to the current proceeding. There is no discussion to indicate that the significant reallocation of A&G-related AMS expenses represents a significant deviation from the last round of delivery service cases.

Q. Do you consider this reallocation reasonable?

A. No, I do not. The Ameren Companies have offered no reasonable argument for discarding the allocation methodology adopted by the Commission in the previous round of CIPS and CILCO delivery service cases.

Q. What do you therefore propose with respect to A&G expenses for AmerenCIPS and AmerenCILCO?

A. I propose a downward adjustment in A&G-related AMS expenses to the revenue requirements for these Ameren Companies to reflect a more reasonable allocation of A&G expenses to distribution. The specific downward adjustments which are developed in Schedule 6.3 are identified as follows:

AmerenCIPS	(11,094,681)
AmerenCILCO	(17,603,606)

Q. How was your adjustment developed?

A. The adjustment is presented in Schedule 6.3. The first step in my calculation was to identify the amounts of 2004 A&G-related AMS expenses allocated to AmerenCIPS, AmerenCILCO and AmerenEnergy. The AMS figures came from WPC-2.6b, p 2 of 2,Column (m), line 75 for AmerenCIPS and WPC-2.6b, p 2 of 2, Colum (j), line 86 for AmerenCILCO. These figures are for both transmission and distribution. To get the distribution share of the total, I used the ratio of

distribution to total A&G expenses from Schedule C-4, Columns (e) and (f), line 148 for AmerenCIPS and Schedule C-4, Columns (e) and (f), line 140 for AmerenCILCO. This analysis produced a combined total of $71,553,887 in 2004 A&G-related AMS costs for the AmerenCIPS and AmerenCILCO revenue requirements, or 67.07% of the $106,685,562 total.

I then developed an alternative allocation of this $106,685,562 total that is consistent with the allocations approved in the most recent rounds of delivery service cases. As previously noted, 46% of total A&G expenses were allocated to distribution in CILCO's last case, Docket No. 01-0637 and 34.33% and 31.75% of A&G for CIPS and UE in Docket No. 00-0802. To simplify matters, I assume the higher 34.33% figure should apply for both CIPS and UE. Then, I took a simple average of the 46% for CILCO in Docket No. 01-0637 and 34.33 for CIPS in Docket No. 00-0802 to produce an average allocation to distribution in the most recent set of cases of 40.17%. Thus, I have allocated 40.17% or $42,855,590 of the total of $106,685,562 in A&G-related AMS expenses to distribution. The difference between this figure and the proposed allocation of $71,553,877 for AmerenCIPS and AmerenCILCO is $28,698,287. Thus, I propose an adjustment of $28,698,287 in A&G expense for AmerenCIPS and AmerenCILCO.

Q. Would you characterize this proposed adjustment as modest?

A. Yes. In fact, it is a far smaller adjustment than would be appropriate based on the precedent from IP's last delivery service case (Docket No. 01-0432). Docket No.

01-0432 represented the first case where the Commission allocated A&G expenses for a T&D utility that had divested generation. In that case, the Commission decided that the level of increase for A&G expenses should be tied to the percentage increase for direct operating expenses, stating as follows:

> The Commission accepts Staff's contention that based on the 1999 DST Order, IP should be required to allocate a portion of it's a&G expense to "generation' even though prior to the test year in this case IP divested all of its generation, and had essentially no generation facilities, business or labor expense during the 2000 test year. The Commission also accepts the arguments of Staff and IIEC that based on the 1999 DST Order, the mathematical relationships between A&G expenses in distribution operating expenses and distribution labor expense must be maintained in this case. (ICC Docket No. 01-0432, Order at 48)

Following that precedent in the current proceeding would mean increases in A&G expenses of 11.1% for AmerenCIPS, 32.1% for AmerenCILCO and 13.5% for AmerenIP. Applying these percentages would produce a far larger adjustment to the proposed 145.2% increase for AmerenCIPS, 394.2% increase for AmerenCILCO and 367% increase for AmerenIP.

Q. How do you propose to allocate this adjustment between AmerenCIPS and AmerenCILCO?

A. I propose to allocate the adjustment on an equal percentage basis to the proposed increases for AmerenCIPS and AmerenCILCO. The allocation process is presented in Schedule 6.3.

Q. How do you approach the issue of an A&G adjustment for AmerenIP?

A. I begin with the Commission Order in the Company's last delivery service case, Docket No. 01-0432 which limited the increase in A&G expenses to the same percent as the increase in direct expenses. Since the Company proposes an increase of 13.5% in direct Distribution, Customer Accounts and Customer Service expenses (See Schedule 6.2, p. 3 of 4), an approach consistent with the Commission most recent Order would limit the increase in A&G expenses to 13.5% or $2.235 million. However, to maintain consistency with my proposed A&G adjustments for AmerenCIPS and AmerenCILCO, I have pegged the proposed increase for AmerenIP to the 132.8% increase I propose for AmerenCILCO. This produces an adjustment of $38.9 million to the Company's proposed level of A&G expenses for AmerenIP.

Q. Please explain the relationship between your proposed adjustments for AmerenCIPS, AmerenIP and AmerenCILCO and the adjustments sponsored by Staff witness Burma Jones (ICC Staff Exhibit 3.0) pertaining to A&G expenses for these operating companies.

A. Ms. Jones and I are offering two separate and distinct options for the Commission to consider in determining a just and reasonable level of A&G expense for AmerenCIPS, AmerenIP and AmerenCILCO. The first option, which Staff prefers, is my proposed set of adjustments. Staff believes those adjustments should be adopted for the reasons expressed in my testimony. Furthermore, if the Commission were to accept my proposed adjustment, then it

does not have to rule on the adjustments proposed by Ms. Jones that pertain to A&G expenses only.

If the Commission rejects my proposed adjustments to A&G expenses, then Staff would recommend acceptance of all the adjustments presented and defended in Ms. Jones' testimony.

Q. Does this complete your testimony?

A. Yes, it does.

AmerenCIPS

General and Intangible Plant Adjustment

For the Test Year Ending December 31, 2004
(In Thousands)

Line No.	Description	General & Intangible Plant	Accumulated Depreciation	Accum. Def. Income Taxes	Depreciation Expense
	(a)	(b)	(c)	(d)	(e)
1	Amount Per Staff	$ 60,855			
2	Amount Per Company	121,908 (1)	$ (64,075) (2)	$ (127,728) (3)	$ 3,969 (4)
3	Percentage		-50.08% (5)	-4.99% (6)	-50.08% (6)
4	Total Staff Proposed Adjustment	$ (61,053) (7)	$ 32,089 (8)	$ 6,374 (8)	$ (1,988) (8)

(1) Source: Company Schedule B-1, Col. (E), Lines 5 and 35.
(2) Source: Company Schedule B-1, Col. (E), Lines 38 and 40.
(3) Source: Company Schedule B-1, Col. (E), Line 47.
(4) Source: Company Schedule C-1, line 75.
(5) Source:

Total Plant in Service Per Company Sch. B-1	$ 121,908
Staff Proposed G&I Plant Adjustment	(61,053)
Percentage	-50.08%

(6) Source:

Total Plant in Service Per Company Sch. B-1	$ 1,224,008
Staff Proposed G&I Plant Adjustment	(61,053)
Percentage	-4.99%

(7) Source: Line 1 minus Line 2.
(8) Source: Line 2 times Line 3.

AmerenIP

General and Intangible Plant Adjustment

For the Test Year Ending December 31, 2004
(In Thousands)

Line No.	Description	General & Intangible Plant	Accumulated Depreciation	Accum. Def. Income Taxes	Depreciation Expense
	(a)	(b)	(c)	(d)	(e)
1	Amount Per Staff	$ 82,826			
2	Amount Per Company	206,457 (1)	$ (10,362) (2)	$ (21,260) (3)	$ 17,303 (4)
3	Percentage		-59.88% (5)	-6.36% (6)	-59.88% (6)
4	Total Staff Proposed Adjustment	$ (123,631) (7)	$ 6,205 (8)	$ 1,352 (8)	$ (10,361) (8)

(1) Source: Company Schedule B-1, Col. (E), Lines 5 and 35.
(2) Source: Company Schedule B-1, Col. (E), Lines 38 and 40.
(3) Source: Company Schedule B-1, Col. (E), Line 47.
(4) Source: Company Schedule C-1, line 75.
(5) Source:

Total Plant in Service Per Company Sch. B-1	$ 206,457
Staff Proposed G&I Plant Adjustment	(123,631)
Percentage	-59.88%

(6) Source:

Total Plant in Service Per Company Sch. B-1	$ 1,945,360
Staff Proposed G&I Plant Adjustment	(123,631)
Percentage	-6.36%

(7) Source: Line 1 minus Line 2.
(8) Source: Line 2 times Line 3.

AmerenCILCO

General and Intangible Plant Adjustment

For the Test Year Ending December 31, 2004
(In Thousands)

Line No.	Description	General & Intangible Plant	Accumulated Depreciation	Accum. Def. Income Taxes	Depreciation Expense
	(a)	(b)	(c)	(d)	(e)
1	Amount Per Staff	$ 55,847			
2	Amount Per Company	42,130 (1)	$ (21,285) (2)	$ (25,069) (3)	$ 1,877 (4)
3	Percentage		32.56% (5)	1.88% (6)	32.56% (6)
4	Total Staff Proposed Adjustment	$ 13,717 (7)	$ (6,930) (8)	$ (471) (8)	$ 611 (8)

(1) Source: Company Schedule B-1, Col. (E), Lines 5 and 35.
(2) Source: Company Schedule B-1, Col. (E), Lines 38 and 40. $ (170,967)
(3) Source: Company Schedule B-1, Col. (E), Line 47.
(4) Source: Company Schedule C-1, line 74.
(5) Source:

Total Plant in Service Per Company Sch. B-1	$ 42,130
Staff Proposed G&I Plant Adjustment	13,717
Percentage	32.56%

(6) Source:

Total Plant in Service Per Company Sch. B-1	$ 730,788
Staff Proposed G&I Plant Adjustment	13,717
Percentage	1.88%

(7) Source: Line 1 minus Line 2.
(8) Source: Line 2 times Line 3.

Changes in Direct and A&G Expenses
Total: AmerenCIPS, AmerenIP & AmerenCILCO

	Last DST Case	Proposed	Increase	Percent
Dist Exp	109,765,000	131,449,000	21,684,000	19.8%
Cust accts	29,556,000	34,578,000	5,022,000	17.0%
Cust svc	8,717,000	4,424,000	(4,293,000)	-49.2%
Subtotal	148,038,000	170,451,000	22,413,000	15.1%
A&G	49,497,000	153,665,000	104,168,000	210.5%

Sources: 1/ Docket No. 01-0465/01-0530/01-0637Appendix A, Schedule 1.
2/ Schedule A-5, pp. 4-5.

Changes in Direct and A&G Expenses
AmerenCIPS

	1999			2004		
	AmerenCIPS 1/	AmerenUE 2/	Subtotal	AmerenCIPS 3/	Increase	Percent
Dist Exp	35,670,000	5,602,000	41,272,000	45,402,000	4,130,000	11.6%
Cust accts	9,877,000	2,579,000	12,456,000	14,864,000	2,408,000	24.4%
Cust svc	2,866,000	323,000	3,189,000	2,027,000	(1,162,000)	-40.5%
Subtotal	48,413,000	8,504,000	56,917,000	62,293,000	5,376,000	11.1%
A&G	22,067,000	4,142,000	26,209,000	42,939,000	16,730,000	63.8%

Sources: 1/ Docket No. 00-0802, Appendix B, p. 1 of 2.
2/ Docket No. 00-0802, Appendix B, p. 2 of 2.
3/ Schedule C-1.

Changes in Direct and A&G Expenses
AmerenIP

	2000 1/	2004 2/	Increase	Percent
Dist Exp	51,052,000	61,341,000	10,289,000	20.2%
Cust accts	10,403,000	12,007,000	1,604,000	15.4%
Cust svc	4,180,000	1,143,000	(3,037,000)	-72.7%
Subtotal	65,635,000	74,491,000	8,856,000	13.5%
A&G	16,555,000	77,448,000	60,893,000	367.8%

Sources: 1/ Docket No. 01-0465/01-0530/01-0637Appendix A, Schedule 1.
2/ Schedule C-1.

Changes in Direct and A&G Expenses
AmerenCILCO

	2000 1/	2004 2/	Increase	Percent
Dist Exp	17,441,000	24,706,000	7,265,000	41.7%
Cust accts	6,697,000	7,707,000	1,010,000	15.1%
Cust svc	1,348,000	1,254,000	(94,000)	-7.0%
Subtotal	25,486,000	33,667,000	8,181,000	32.1%
A&G	6,733,000	33,278,000	26,545,000	394.3%

Sources: 1/ Docket No. 01-0465/01-0530/01-0637
Appendix A, Schedule 1.
2/ Schedule C-1.

Staff's Proposed A&G Adjustment
AmerenCIPS and AmerenCILCO

Development of Proposed Distribution Share

AmerenCILCO 1/	46.00%
AmerenCIPS 2/	34.33%
Average	40.17%

Breakdown of Ameren Services Costs

	Total		Distribution 4/		Revised Distribution	Staff Adjustment
AmerenCIPS	40,432,935	3/	37,092,765	5/		
AmerenCILCO	38,771,101	4/	34,461,112	6/		
Subtotal	79,204,036		71,553,877		42,855,590	(28,698,287)
AmerenEnergy Genco b/	19,512,106					
AmerenEnergy Marketing b/	6,050,720					
AmerenEnergy Fuels, Svcs. b/	1,918,700					
Subtotal AmerenEnergy	27,481,526					
Total, AmerenCIPS, AmerenCILCO & AmerenEnergy	106,685,562		106,685,562			
Distribution (% of Total)			67.07%		40.17%	

Sources:
1/ Docket No, 01-0637, Staff Ex 16.0, Schedule 2.
2/ Docket No. 00-0802 WP-AD-008-1f.
3/ WPC-2.6b, Sponsored by R.D. Stafford, Col. (M), Line 76.
4/ WPC-2.6b, Sponsored by R.D. Stafford, Col. (J), Line 86.
5/ Schedule C-4, page 2 of 2, Cols (E) and (F), line 148.
=40,432,935*(58246/63491)
6/ Schedule C-4, page 3 of 3, Cols (E) and (F), line 140.
=38,771,101*(55002/61881)

Staff-Proposed A&G Adjustments for Individual Operating Companies

Allocation of A&G Adjustment Between AmerenCIPS and AmerenCILCO

	Current	Company Proposed	Company Proposed Increase	Staff Proposed Adjustment	Percent Reduction to Increase	Staff Proposed Increase	Staff Proposed A&G	Percent Increase
AmerenCIPS	26,209,000	42,939,000	16,730,000	(11,094,681)	-66.3%	5,635,319	31,844,319	21.5%
AmerenCILCO	6,733,000	33,278,000	26,545,000	(17,603,606)	-66.3%	8,941,394	15,674,394	132.8%
Subtotal AmerenCIPS & AmerenCILCO	32,942,000	76,217,000	43,275,000	(28,698,287)	-37.7%	14,576,713	47,518,713	44.2%

Calculation of Adjustment for AmerenIP

	Current	Increase in Direct Expense	Increase Based on 01-0432 Order	Increase for AmerenCILCO	Staff Proposed Increase Based on AmerenCILCO	Staff Proposed A&G	Company Proposed A&G	Staff Proposed Adjustment
AmerenIP	16,555,000	13.49%	2,233,733	132.80%	21,984,967	38,539,967	77,448,000	(38,908,033)

Summary of Staff A&G Adjustments

AmerenCIPS	(11,094,681)
AmerenCILCO	(17,603,606)
AmerenIP	(38,908,033)
Total A&G Adjustments	(67,606,320)