Respondents' Exhibit No.17.0

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 06-0070/06-0071/06-0072 (CONS.)

REBUTTAL TESTIMONY

OF

MICHAEL J. ADAMS

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS

ILLINOIS POWER COMPANY d/b/a AmerenIP

May 26, 2006

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REBUTTAL TESTIMONY OF MICHAEL J. ADAMS

I. Introduction and Witness Qualifications

Q. Please state your name.

A. My name is Michael J. Adams. My business address is 3920 Pintail Drive, Suite B, Springfield, Illinois 62711.

Q. Are you the same Michael J. Adams who previously submitted direct testimony in this proceeding?

A. Yes, I am.

Q. On behalf of which parties are you presenting this rebuttal testimony?

A. I am sponsoring this testimony on behalf of Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS and Illinois Power Company d/b/a AmerenIP (the "Companies").

II. Purpose and Scope

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain issues raised by Staff witnesses Lazare and Ebrey, Industrial Intervenors Energy Consumers ("IIEC") witness Chalfant, The People of the State of Illinois ("AG") witness Effron and Wal-Mart witness Selecky. The specific issues which I will address pertain to the assignment and allocation of General and Intangible ("G&I") Plant and the Company's cash working capital ("CWC") requirements.

Q. Are you sponsoring any schedules?

A. Yes, in addition to my rebuttal testimony, I am sponsoring Ameren Exhibit Nos. 17.1 through 17.9.

III. Asset Separation Project

Q. Have you reviewed the direct testimonies of Staff witness Lazare and IIEC witness Chalfant?

A. Yes, I have.

Q. Do Staff witness Lazare and IIEC witness Chalfant propose adjustments to the level of G&I plant that the Companies have assigned or allocated to the regulated electric distribution business?

A. Yes, both witnesses propose adjustments to the level of G&I plant the Companies include in the rate base of the regulated electric distribution business.

Q. Before discussing the specific adjustments proposed by Staff witness Lazare and IIEC witness Chalfant, can you provide a brief overview of the assets which are recorded on AmerenCILCO's, AmerenCIPS' and AmerenIP's books as G&I plant?

A. Intangible plant consists primarily of software or systems that are purchased or developed for use by the Companies. For the most part, intangible plant is amortized over a short period of time (e.g., five years).

General plant consists of assets such as land, buildings and structures, office furniture and equipment, transportation equipment, stores equipment, tools, shop and garage equipment, laboratory equipment, power operated equipment and communication equipment. Each of these types of assets has a unique depreciable life which would be determined via a depreciation study.

Q. Does the fact that an asset is recorded in the G&I plant accounts mean that the asset serves each of the lines of business in which the Companies operate?

A. No. While some of the G&I plant assets are used by and benefit more than one line of business, the assets primarily benefited the "pipes and wires" businesses. For example, the land and structures that have been recorded in Accounts 389 and 390, respectively, represent discrete assets that can be identified and assigned or allocated to specific lines of business. The vast majority of the assets in those accounts are district field facilities that house field operations personnel and have never provided support to the electric production business. Accordingly, it would be inappropriate to assign or allocate a portion of these G&I plant assets to the electric production business.

Q. Are all of the G&I plant assets that support the Companies' lines of business recorded in the Companies' G&I plant accounts?

A. No. The G&I plant assets which are recorded on the books of AmerenCILCO, AmerenCIPS and AmerenIP represent assets which are used exclusively in support of each Companies' regulated lines of business. Common systems which are used by and benefit each of Ameren Corporation's regulated operating utilities (e.g., customer information system) are recorded on the books of the service company, Ameren Service Company ("AMS"). In these instances, the costs associated with these assets would be assigned or allocated to the appropriate regulated operating company based upon pre-determined allocators which have been approved by the Commission and the Securities and Exchange Commission. The general office building in St. Louis, Missouri is recorded on the books of Union Electric Company d/b/a AmerenUE and rent is charged to each of the operating companies which utilize space in the building.

Q. As of December 31, 2004, what amount of G&I plant was on the books of each of the Companies and what amount of the plant costs associated with those assets was assigned or allocated to the regulated electric distribution business?

A. Ameren Exhibit No. 7.6 shows the unadjusted amount of AmerenCILCO's G&I plant as of December 31, 2004 as well as the amount assigned to the regulated electric distribution business. Ameren Exhibit No. 7.7 shows the same information for AmerenCIPS while Ameren Exhibit No. 7.8 shows the information for AmerenIP.

Q. How did the Companies determine the appropriate amount of G&I plant costs to assign or allocate to the regulated electric distribution business?

A. The Companies performed an Asset Separation Project ("ASP") to determine how to assign or allocate the G&I plant asset costs. The objective of the ASP was to determine how each asset was used and to assign or allocate the cost of the asset to the appropriate line of business according to its use. The starting point for the study was a listing of each of the Companies' assets. Based upon a review of those assets, a preliminary determination was made as to whether the asset supported one or more lines of business. Direct assignment of assets was employed wherever possible. For example, electric production, transmission, and distribution plant, and gas plant were directly assigned to the appropriate business function. Some G&I plant assets were also directly assigned to particular lines of business. The remaining assets, which are recorded on the Companies' books as gas or electric G&I Plant, were reviewed since they may support more than one business function and thus require allocation among business units.

To determine how the G&I Plant was actually used, information regarding the use of the asset was reviewed. If necessary, the users of the assets were contacted to

determine which lines of business the assets support and an appropriate allocator to apply to the assets. The appropriate allocators were then applied to the assets in order to assign or allocate the costs of each asset to a particular line of business.

A. Response to Staff Witness Lazare

Q. Can you please summarize Staff witness Lazare's position regarding the functionalization of G&I plant?

A. Staff witness Lazare proposes to disregard the Companies' ASP results in favor of keeping the costs previously excluded from rate base outside the delivery service rate base for this case as well.[1] Staff witness Lazare proposed no adjustments regarding the functionalization of G&I plant additions made since the Companies' last DST proceeding.

Q. How do you respond to Mr. Lazare's recommendation?

A. Staff witness Lazare's approach lacks any factual foundation or explication. His approach fails to reflect how the Companies' G&I plant is actually used and which lines of business benefit from the use of such assets. Further, despite Staff witness Lazare's premise, the use of the vast majority of the assets was not affected by the divestiture of the Companies' electric generating facilities. Staff witness Lazare has offered no evidence that the costs of the G&I assets were imprudently incurred or that the assets are not used in support of the Companies' electric distribution businesses. In fact, Staff witness Lazare does not discuss any specific assets but rather offers a simple calculation which purports to support his position.

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[1] Direct Testimony of Peter Lazare, ICC Staff, April 26, 2006, page 15, lines 338 through 340.

Q. To adopt Staff witness Lazare's position, must the conclusion be drawn that G&I plant which is recorded on the books of each of the Companies is used to support a non-regulated electric generating business?

A. Yes, Staff witness Lazare's position is premised solely on his belief that a portion of the Companies' G&I plant costs should be assigned or allocated to a non-regulated electric generation function.

Q. Please summarize the specific concerns expressed by Staff witness Lazare in his direct testimony.

A. Staff witness Lazare contends "the Ameren Companies have overstated the level of G&I plant and A&G expenses to be recovered from ratepayers in the distribution rate base and revenue requirement.[2]" He continues by asserting "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.[3]"

Q. How do you respond to Staff witness Lazare's assertions?

A. As I will discuss in my testimony, the level of G&I plant which the Companies have assigned or allocated to the regulated electric distribution businesses and which has been included in the rate base of the electric distribution businesses is, in fact, used by the electric distribution businesses. Given this fact, the Companies should be allowed the opportunity to earn both the return of and on those assets which are used in the provisioning of service to the Companies' electric distribution customers. Staff witness Lazare does not identify a single asset which the Companies have assigned or allocated to

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[2] Lazare, page 2, lines 38 through 40.

[3] Ibid, page 2, lines 40 through 42.

the electric distribution businesses which is not (or even that he believes is not) used in support of the electric distribution businesses. Staff witness Lazare's position is unsupported by any analysis or evidence. He merely adopts the position of the Commission in the Companies' last DST proceeding and applies those results to this proceeding, without regard to whether that position accurately reflects the use of G&I plant**.**

Q. Is Staff witness Lazare's position regarding the functionalization of G&I plant consistent with the Commission's order in the Companies' most recent delivery service tariff ("DST") proceedings?

A. Staff witness Lazare's proposed adjustment is consistent with the Commission's decision in the Companies' last DST proceedings. His position fails to reflect, however, (1) events which have occurred since the last DST proceeding and most importantly (2) the actual use of the G&I plant assets.

Q. Should the Commission deviate from its past position regarding the functionalization of G&I plant?

A. Yes. The Commission should treat G&I plant in a manner consistent with the facts in this case and should not blindly adhere to a prior position, as Mr. Lazare would have it. Staff witness Lazare's primary contention is that the Companies have not allocated an appropriate amount of G&I plant to the non-regulated electric production function. Again, Staff witness Lazare cites no instances to support his allegation.

At the time of the Company's last DST proceeding, CILCO and Illinois Power Company were owned by different parent companies. In 2003, Ameren acquired CILCO, which now does business as AmerenCILCO, and in October 2003 substantially all of

AmerenCILCO's electric generating facilities were divested to a non-regulated subsidiary of Ameren Corporation - AmerenEnergy Resources Generating Company ("ARG").

AmerenCIPS divested its electric generating facilities in 2000. The electric generating facilities previously owned by AmerenCIPS were transferred to a non-regulated subsidiary of Ameren Corporation known as Ameren Energy Generating Company ("AGC").

Illinois Power Company was acquired by Ameren Corporation in 2004. Ameren acquired only the "pipes and wires" businesses from Illinois Power's prior parent company. Ameren did not acquire any non-regulated electric generating facilities as a result of the acquisition.

Q. Do you agree with Staff witness Lazare's statement that "the production plant previously owned by CIPS and CILCO is still owned by Ameren Corporation ("Ameren Corp.") and would still require G&I plant[4]"?

A. Yes, I do. As I will demonstrate, however, the G&I plant which supports ARG and AGC is already reflected on the books of ARG and AGC and no assignment or allocation of AmerenCILCO's or AmerenCIPS' G&I plant to ARG or AGC, respectively, is necessary.

Staff witness Lazare is conspicuously silent as to how the G&I plant on the books of AmerenIP would support a non-regulated electric generating business. Clearly, Ameren acquired only the "pipes and wires" businesses and the assets used to support those businesses. Staff witness Lazare's proposed methodology fails to bridge the logic leap required to substantiate his position that AmerenIP's G&I plant assets benefit a non-regulated electric generating business which does not even exist.

[4] Ibid, page 12, lines 273 through 275.

Q. Please describe the methodology or basis employed by Staff witness Lazare to support his position that G&I plant assets reflected in the Companies' filings are used in support of an unregulated production function.

A. As best as I can tell from his testimony, associated workpapers and responses to data requests, Staff witness Lazare has not conducted a review of the Companies' G&I plant assets. Further, it does not appear that he has even attempted to determine which lines of business use or benefit from the G&I plant assets. Rather, Staff witness Lazare proposes merely to "keep the costs previously excluded from rate base outside the delivery service rate base for this case as well.[5]

Q. Is it Staff's responsibility to perform an analysis of the use of Companies' G&I plant?

A. Clearly the burden of proof as to the use of the Companies' G&I plant resides with the Companies. I consider it inappropriate and unpersuasive, however, for a witness to propose a method of assigning or allocating the costs of G&I plant assets without any information as to what the assets are and how the assets are used.

Q. At the time of the divestiture of AmerenCILCO's and AmerenCIPS' electric generating facilities, was a portion of the G&I plant transferred to ARG and AGC, respectively?

A. Yes. Upon the creation of ARG and AGC, G&I plant was transferred from AmerenCILCO to ARG and from AmerenCIPS to AGC. These transfers of G&I plant assets reflected those assets which were used exclusively to support the electric production function which was formerly a part of AmerenCILCO and AmerenCIPS.

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[5] Lazare, page 15, lines 338 through 340.

Q. Is it your contention that the transferred amount of G&I plant reflected all of the assets which are commonly thought of as general plant?

A. No. In addition to the specific G&I plant assets which were transferred to ARG and AGC at the time of its creation, AmerenCILCO and AmerenCIPS also transferred Miscellaneous Power Plant Equipment which was recorded in Account 316. These assets effectively represent general plant that had been used solely in support of the electric production function of AmerenCILCO and AmerenCIPS. The assets transferred by AmerenCILCO and AmerenCIPS that had been recorded in Account 316 included structures, office furniture, computers, transportation equipment, power tools, and communication equipment. All of these transferred assets are items that are typically considered general plant.

Q. Do the regulated electric transmission, electric distribution and gas businesses have accounts similar to Account 316 which would contain the assets used by these lines of business?

A. No. The general plant assets used in support of the regulated electric transmission, electric distribution and gas businesses are recorded in Accounts 389 through 399.

Q. Does the fact that the general plant assets are recorded in Accounts 389 through 399 mean that those assets benefited each of the Companies' lines of business?

A. No. General plant assets can support or benefit one or more of the Companies' lines of business. Merely because the assets are recorded as "General Plant" does not mean that the assets were used by or supported each of the Companies' lines of business.

Q. Post divestiture of ARG and AGC, what G&I plant assets remain on the books of AmerenCILCO and AmerenCIPS?

A. Only those assets which are used in support of AmerenCILCO's and AmerenCIPS' businesses are recorded in the G&I plant accounts.

Q. Staff witness Lazare complains that the ASP "leaves production out of the analysis." How do you respond?

A. I disagree. Post divestiture, the Companies continued to own certain regulated electric production assets. To the extent that the G&I plant assets were used in support of the remaining electric production assets, the G&I assets were assigned or allocated to the electric production function.

Q. Did the ASP consider the G&I plant assets recorded on the books of ARG or AGC?

A. No, the G&I assets recorded on the books of ARG and AGC are used exclusively in support of ARG's and AGC's business activities. Therefore, it would be inappropriate to assign or allocate those costs to AmerenCILCO's or AmerenCIPS' electric distribution business.

Q. Did the ASP assign or allocate any portion of AmerenCILCO's G&I plant to ARG or of AmerenCIPS' G&I plant to AGC?

A. No. Again, the G&I plant which is recorded on the books of AmerenCILCO and AmerenCIPS is used exclusively in support of the Companies' regulated electric transmission, electric distribution, and gas businesses. The G&I plant on AmerenCILCO's and AmerenCIPS' books is not used by, nor does it support, the activities of ARG or AGC.

Q. Staff witness Lazare claims that "there is an unproven assumption that these costs are solely related to the transmission and distribution functions.[7]" How do you respond?

A. I disagree with Staff witness Lazare's claim. The workpapers supporting the ASP, which were provided to Staff, reflect the nature of the G&I assets included in the Companies' electric distribution business rate base and fully support the assignment or allocation of the G&I plant to the appropriate line of business in which the Companies operate. Further, the ASP assigns or allocates G&I plant costs to the regulated electric production and gas businesses in addition to the electric transmission and electric distribution businesses.

Q. Why is it necessary to determine how an asset is used before assigning or allocating the cost of such asset to a line of business?

A. Cost causation is a concept which is typically adhered to when assigning or allocating costs. The primary tenet of cost causation is to assign or allocate costs of an asset to those lines of business which use or benefit from the use of such asset.

Q. Has Staff witness Lazare employed cost causation principles when recommending that a significant portion of the Companies' G&I plant assets should be assigned or allocated to a non-regulated electric generation function?

A. No. Staff witness Lazare fails to perform even the minimum review to determine the type of asset being assigned or allocated. His proposal fails to incorporate any required diligence to determine the appropriate assignment or allocation of the G&I plant costs.

Q. Is it difficult to determine the use of the Companies' G&I plant assets?

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[7] Lazare, page 11, lines 257 through 259.

A. No. For example, a review of a listing of the Companies' land and structures clearly indicates the location of the assets and in many cases the use of the assets.

Q. Have you summarized the assets recorded in the Companies' Accounts 389 – Land and 390 – Structures?

A. Yes. Ameren Exhibit No. 17.4 summarizes the assets recorded in AmerenCILCO's general plant accounts 389 – Land and 390 – Structures. Ameren Exhibit No. 17.5 summarizes the same information for AmerenCIPS and AmerenIP, respectively. As the exhibits show, the vast majority of these assets are local offices and associated structures throughout the Companies' service territories which house the field crews. None of the assets recorded in accounts 389 or 390 are associated with or provide benefit to any electric production facilities.

Q. Would it be appropriate to assign or allocate any portion of the amounts recorded in the Companies' accounts 389 or 390 to ARG or AGC?

A. No. If the assets recorded in the Companies' accounts 389 or 390 are not used in support of ARG's or AGC's business, which they are not, it would be inappropriate to assign or allocate such costs to ARG or AGC. This goes back to the cost causation concept which I discussed earlier.

Q. Would it be appropriate, as Staff witness Lazare suggests, to consider ARG and AGC when functionalizing the Companies' G&I plant?

A. It is not necessary to consider ARG or AGC when functionalizing the Companies' G&I plant. None of the G&I plant assets recorded on the Companies' books are used to support ARG's or AGC's business operations. If ARG's or AGC's general plant were combined with the Companies' G&I plant, the outcome of the functionalization process

would be same as summarized in the ASP. ARG's and AGC's general plant would be directly assigned to that business while the Companies' G&I plant assets would be assigned to each individual Companies' regulated electric production, electric transmission, electric distribution, and gas businesses.

The outcome of the analysis would only change if the G&I plant which is recorded on the books of the Companies, ARG or AGC were used to support other legal entities. That situation does not exist.

Q. Can similar analyses be performed of AmerenCILCO's remaining G&I plant accounts?

A. Similar analyses can be performed for Account 392 – Transportation Equipment, and Account 396 – Power Operated Equipment. Together with Account 389 – Land and Account 390 – Structures, these accounts represent approximately 61 percent of AmerenCILCO's G&I plant dollars, 51 percent of both AmerenCIPS and AmerenIP's G&I plant dollars.

Q. How did you analyze the assets in Account 392 – Transportation Equipment and Account 396 – Power Operated Equipment?

A. It should be intuitively obvious that most of the types of vehicles recorded in Account 392 would be used in support of an electric transmission, electric distribution and gas business and not in support of an electric production business. The crews which are in the field providing service to the Companies' customers require vehicles and tools to perform their duties. Aerial bucket trucks, pole trucks and cable reel trailers are just a few examples of assets recorded in Account 392 which would be used to support the "pipes and wires" businesses.

To verify the accuracy of the ASP's assignment or allocation of the transportation equipment, a list of each of the vehicles which were recorded on the Companies', ARG's and AGC's books was developed. A description of the vehicles which are recorded on each Companies' books was compared to a listing from the transportation fleet system which contains the vehicle identification number, ownership by corporation and the location of the vehicle. A cross check was performed to ensure that the vehicles which were shown as being at ARG or AGC were not reflected on the Companies' books.

Ameren Exhibit No. 17.7 shows a summary listing of AmerenCILCO's assets in Accounts 392 and 396 and the owner of the asset. Ameren Exhibit No. 17.8 shows the same information for AmerenCIPS while Ameren Exhibit No. 17.9 shows the same information for AmerenIP.

Q. Why is it not possible to perform a similar analysis of the remainder of AmerenCILCO's G&I plant accounts?

A. There is limited detail within the continuing property records ("CPR") regarding the location of a specific asset recorded in Account 391 – Office Furniture and Equipment; Account 393 – Stores Equipment; Account 394 – Tools, Shop and Garage Equipment; Account 395 – Laboratory Equipment; Account 397 – Communications Equipment; and Account 398 – Miscellaneous Equipment.

Q. If limited detail regarding the G&I plant assets is available, how can the Commission be assured that the assets that benefited the non-regulated electric generation function were properly transferred at the time of divestiture?

A. Through the use of the location codes in the CPR, assets associated with production were identified and transferred to ARG and AGC. Within the CPR, location codes are

assigned to property to help group and distinguish it from other items in the same account. For example, each substation has a unique location code so the Companies can track all the property at that site. For CILCO, in the general plant accounts 393-395, 397 and 398 there was a location code for Electric General Plant and another for Electric Production General Plant. The vast majority of the property was in Electric General Plant. All general plant property with a location of Electric Production General Plant was transferred to ARG as well as specifically identified vehicles in 392. For AGC, most of the general plant was already recorded in the 316 acct. The use and location of the vehicles were identified.

Q. What input did you receive from field personnel when you were determining the appropriate functionalization of the G&I plant assets?

A. The best way to determine the appropriate functionalization of the cost of G&I plant assets is to obtain the input of the users of the assets in question. During the preparation of the ASP, I was in frequent contact with numerous field personnel that were the users of the assets. It was, in large part, based upon their recommendations that I was able to determine the appropriate functionalization of the asset costs.

Q. Based upon your detailed review of the Companies' G&I plant accounts, what is your conclusion with regards to the lines of businesses which those assets support?

A. Based upon my review, I can state with confidence that the assets recorded in the G&I plant accounts on the Companies' books are used in support of the regulated electric production, electric transmission, electric distribution and gas businesses. The non-regulated electric generating companies do not benefit from the G&I assets which are recorded on the Companies books.

Q. Staff witness Lazare states that "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.[8]" How do you respond?

A. I disagree. I can state unequivocally that the ASP methodology is far superior to the approach recommended by Staff witness Lazare to determine which businesses truly benefit from the use of the Companies' G&I plant assets. Further, the Commission adopted the ASP methodology in Illinois Power Company's most recent gas case, Docket No. 04-0476. In that case, no issues were identified regarding the study. The same methodology has been used in this proceeding. No specific issues have been identified with the study presented in this proceeding either.

Q. Has Staff witness Lazare identified any specific G&I assets which the Companies have included in this proceeding which he believes are used in support of an unregulated production function?

A. No, he has not.

Q. Has Staff witness Lazare identified any specific costs or associated assets which he has determined were imprudently incurred and thus should not be recoverable?

A. No, he has not.

Q. Has Staff witness Lazare identified specific allocators used in the ASP with which he disagrees with the use of such allocator?

A. No, he has not.

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[8] Lazare, page 9, lines 209 through 211.

Q. Has Staff witness Lazare identified an allocator employed by the Companies as part of the ASP which he believes was inaccurately calculated?

A. No, he has not.

B. <u>Response to IIEC Witness Chalfant</u>

Q. Please summarize IIEC witness Chalfant's position regarding the functionalization of G&I plant.

A. IIEC witness Chalfant proposes to allow intangible and general plant costs to increase only in proportion to the authorized increase in distribution plant.[9]

Q. How do you respond to IIEC witness Chalfant's proposed treatment of G&I plant?

A. Mr. Chalfant's recommendation arises from a comparison of the level of G&I plant which was approved in the Companies' last DST cases to the level of G&I plant included in the Companies' filing in the current proceedings. The crux of IIEC witness Chalfant's concern is not the year-over-year additions to G&I plant, but rather with the Companies' use of the ASP to functionalize G&I plant.

It is unnecessary for the Commission to establish thresholds for the level of G&I plant that can be added to rate base in a given year. The Companies already have the burden of proof to demonstrate that its costs are reasonable and that the assets are used and useful. No further safeguards are necessary or appropriate.

Quite frankly I believe IIEC witness Chalfant's proposal is unrealistic. To use an extreme example, let us assume that the Companies' service territory was to experience multiple tornadoes in a given year which did extensive damage to the Companies' system

[9] Direct Testimony and Exhibits of Alan Chalfant On Behalf of Illinois Industrial Energy Consumers, April 26, 2006, page 2, lines 38 through 41.

which essentially had to be rebuilt. Under IIEC witness Chalfant's proposal, the Companies should be allowed a commensurate increase in its G&I plant. Clearly such cause and effect are not and should not be linked. The Companies evaluate the additions to G&I plant independent of the amount of capital additions to electric distribution plant and based upon the need for and affordability of specific assets at a given time.

Q. IIEC witness Chalfant states that "intangible and general plant costs are incurred to support a utility's competitive and regulated services, including distribution service. "[10] Do you agree?

A. I agree with Mr. Chalfant's statement. Where I disagree with Mr. Chalfant is with his implicit assumption that all of the G&I plant used in support of the competitive and regulated services are recorded on the books of the Companies. If the Companies were vertically integrated utilities and all G&I plant was reflected on one set of books, Mr. Chalfant's position may have been accurate. Such a situation, however, no longer exists with the Companies. As I discussed in response to Staff witness Lazare's concerns, the G&I plant which supports ARG and AGC is on the books of ARG and AGC. The G&I plant which supports the regulated business functions of the Companies are on the books of the Companies. The portion of the G&I plant which was used to support the electric generating facilities that was recorded on the books of the Companies prior to the divestiture of the electric generating facilities was transferred when ARG and AGC were formed. Further, much of the common plant which was used to support ARG and AGC functions is recorded in Account 316. Those assets were also transferred to ARG and AGC upon their formation.

[10] Chalfant, page 14, lines 271 through 273.

Q. IIEC witness Chalfant asserts that "the ASP ignores the fact that, prior to unbundling, the operating companies historically incurred substantial overhead costs to support generation and other services that are now considered competitive.[11]" How do you respond?

A. IIEC witness Chalfant's statement is incorrect. Mr. Chalfant's statement highlights his lack of familiarity with the nature of G&I plant that is recorded on the books of the Companies. On the other hand, the ASP reflects that the G&I plant which is recorded on the books of the Companies is used in support of the Companies' regulated businesses, while the G&I plant which is used in support of ARG and AGC is recorded on the books of ARG and AGC.

Q. IIEC witness Chalfant criticizes the ASP because it "assigns only 4.7% of AmerenCILCO's general plant to the electric production function.[12]" Please respond.

A. IIEC witness Chalfant's statement is correct. The ASP allocated the G&I plant which is recorded on the books of AmerenCILCO to each of its lines of business, which included regulated electric production, electric transmission, electric distribution, and gas. The electric production function to which G&I plant costs were allocated within the ASP reflect those electric generating assets which remained on the books of AmerenCILCO post divestiture of ARG. While the G&I plant which is used to support ARG has been appropriately transferred from AmerenCILCO's books to ARG's books, the electric production which remains at AmerenCILCO should be assigned or allocated its

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[11] Chalfant, page 16, lines 314 through 316.

[12] Chalfant, page 16, lines 319 through 320.

appropriate share of the G&I plant which is used in support of the electric production function. The same approach was employed for AmerenCIPS and AmerenIP.

Q. Do you agree with IIEC witness Chalfant's statement that unbundling did not magically transform G&I plant costs needed to support competitive operations into costs incurred to support the provisioning of regulated services[13]?

A. I agree with Mr. Chalfant's statement. As a result of unbundling, the G&I plant which is used to support ARG's and AGC's operations has been transferred from AmerenCILCO's and AmerenCIPS' books to ARG's and AGC's books. The G&I plant which remains on the books of the Companies' books is used to support only the regulated services.

Q. Has IIEC witness Chalfant identified any specific G&I assets which the Companies have included in this proceeding which he believes are used in support of an unregulated production function?

A. No, he has not.

Q. Has IIEC witness Chalfant identified any specific costs or associated assets which he has determined were imprudently incurred and thus should not be recoverable?

A. No, he has not.

Q. Has IIEC witness Chalfant identified specific allocators used in the ASP with which he disagrees with the use of such allocator?

A. No, he has not.

Q. Has IIEC witness Chalfant identified an allocator employed by the Companies as part of the ASP which he believes was inaccurately calculated?

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[13] Chalfant, page 16, lines 323 through 325.

A. No, he has not.

C. <u>Recommendation with regards to the functionalization of G&I Plant</u>

Q. Based upon your review of the direct testimonies of Staff witness Lazare and IIEC witness Chalfant, have you modified your position concerning the functionalization of the Companies' G&I plant?

A. No. The positions set forth by Staff witness Lazare and IIEC witness Chalfant are inconsistent with the facts in this proceeding. A detailed review of the specific G&I plant assets which are recorded on the books of the Companies clearly demonstrates that such assets are related to and used in support of the Companies' regulated lines of business. There has been no evidence presented by either Mr. Lazare or Mr. Chalfant that the assets are used in support of any competitive services. Both witnesses merely offer unsubstantiated conjecture that the Companies' G&I plant is used to support ARG, AGC or any other unregulated services.

Q. What is your recommendation to the Commission regarding the best methodology by which to functionalize the Companies' G&I plant?

A. I recommend that the Commission adopt the ASP methodology to functionalize the Companies' G&I plant as of December 31, 2004. The ASP methodology analyzed each G&I plant asset and determined its actual use by each of the Companies' regulated lines of business. As I have stated previously, the Companies' G&I plant is used only in support of its regulated lines of business. The G&I plant which supports ARG's and AGC's competitive services are recorded on the books of ARG and AGC. It is not necessary or appropriate to assign or allocate any portion of the Companies' G&I plant to ARG or AGC.

No witness to this proceeding has offered any criticisms of the current study's allocators or calculations. The criticisms arise primarily from a lack of familiarity with the Companies' structure and specific assets.

Q. Does the fact that the Commission has employed a different methodology to functionalize costs in past DST proceedings cause you to alter your recommendation?

A. No. I am aware that the Commission has used alternative methods to functionalize the Companies' G&I plant assets in prior proceedings. The fact is, however, that the Companies for which the Commission adopted an alternative methodology by which to assign and allocate G&I plant to the lines of business in past proceedings are not the same Companies today. CILCO and Illinois Power have been acquired by Ameren Corporation. Nearly all of AmerenCILCO's and AmerenCIPS' electric generating assets have been divested to unregulated businesses. At the time of the divestiture, the G&I plant which was used to support the divested electric generating assets was transferred from AmerenCILCO's and AmerenCIPS' books to ARG's and AGC's books.

I do not believe that the Commission is restricted to blindly accepting its past practices. The ASP offers a summary of the specific G&I plant assets which are recorded on the books of each of the Companies. The exhibits which I have provided in my rebuttal testimony succinctly set forth the specific location and use of many of the assets. The allocators employed to assign or allocate the plant costs to the regulated lines of business which benefit from the use of the assets have not been challenged by any party to this proceeding.

For the above reasons, I continue to recommend that the Commission adopt the ASP as the most appropriate and accurate methodology by which to assign or allocate the Companies' G&I plant assets to the regulated lines of business which benefit from the use of such assets.

IV. Cash Working Capital

Q. Have parties proposed changes to the Companies' cash working capital analyses?

A. Yes. Changes to the cash working capital analysis have been proposed by Staff witness Ebrey, AG witness Effron and Wal-Mart witness Selecky.

A. Response to Staff witness Ebrey

Q. Have you reviewed the direct testimony of Staff witness Ebrey as it relates to the subject of cash working capital?

A. Yes, I have.

Q. Please summarize Staff witness Ebrey's proposed adjustments to the cash working capital requirements of the Ameren Illinois operating companies.

A. Staff witness Ebrey proposes a number of changes to the Companies' cash working capital analyses. Most significantly, Staff witness Ebrey employs a different methodology by which to calculate the Companies' cash working capital requirements. She also proposes adjustments to certain test year expense levels; and the expense leads for base payroll, federal withholding, federal unemployment taxes, property taxes and interest expenses.

Q. Are there adjustments which Staff witness Ebrey proposes that the Companies will not oppose?

A. Yes. The Companies have accepted Staff witness Ebrey's proposed changes to the weighted expense lead times for base payroll, federal unemployment taxes and property taxes.

Q. Please explain Staff witness Ebrey's proposed change in the methodology used to determine the Companies' cash working capital requirements.

A. The Companies employed a "Net Lag" methodology to determine its cash working capital requirements. The methodology employed by the Companies is consistent with the methodology ultimately approved by the Commission in Docket Nos. 02-0798/03-0008/03-0009 (Cons.), the prior gas rate cases of AmerenCIPS and AmerenUE-Illinois.

In this proceeding, Staff witness Ebrey proposes to use a "Gross Lag" methodology to calculate the Companies' cash working capital requirements.

Q. Please explain the differences between the two methodologies.

A. Under the Net Lag approach employed by the Companies, an overall revenue lag, representing the passage of time from when the Companies provide service to its customers and the receipt of available funds from its customers for such services, is netted against the expense lead for the various expense classifications. The net of the revenue lag and expense lead are then multiplied by the expense level for each expense classification.

Under the Gross Lag methodology, the revenue lag is applied to gross revenues and non-cash items which are used to reduce the revenues. The expense leads are applied to each expense classification.

Thus, the primary difference between the two methodologies is the reflection of revenues in the Gross Lag methodology.

Q. What explanation does Staff witness Ebrey's use for employing the Gross Lag methodology to calculate the Companies' cash working requirements?

A. Staff witness Ebrey states that "My CWC calculation uses the methodology approved by the Commission in Docket 04-0476 because it reduces the revenues for non-cash items and better addresses the exclusion of non-cash items than does the net lag approach used by the Company in the instant proceeding. "[14]

Q. What was Staff witness Ebrey's position in AmerenCIPS and AmerenUE's gas rate proceedings in dockets 02-0798, 03-0008, 03-0009 (consolidated)?

A. Staff witness Ebrey stated in her direct testimony in those proceedings on page 5, lines 90-93, of ICC Staff Exhibit 3.0 that "Rather than the methodology used by the Company in the instant case, the more appropriate method of deriving a net lag is to offset the expense lead by the revenue lag for each expense area" (or the Net Lag approach). According to Staff witness Ebrey, "This methodology is consistent with the Company' description of a lead/lag study cited above as well as that utilized by AmerenUE in 2002 in Case EC-2002-1 before the Missouri Public Service Commission."

Q. How does Staff witness Ebrey explain the change relative to her position in the AmerenCIPS and AmerenUE proceedings?

A. In her direct testimony in this proceeding Staff witness Ebrey states that "As the witness addressing CWC in that (AmerenCIPS and AmerenUE) proceeding, I reviewed the CWC analysis that AmerenUE had proposed in its Missouri gas rate case. It was my opinion at that time that the net lag methodology addressed the concern I had with non-cash items being included in the CWC analysis. In addition, everything else equal, it seemed

[14] ICC Staff Exhibit 2.0, Page 7, lines 109-112

appropriate for the same methodology to be used by the Ameren Company in both its Illinois and Missouri jurisdictions for concurrent gas rate cases. "[15]

She continues by stating "I believe that the methodology utilized in the CWC analysis prepared by Navigant Consulting, Inc. in the last Illinois Power Company rate case is superior to the methodology used in Docket Nos. 02-0798/03-0008/03-0009. In particular, it better addresses my concern that the non-cash items be excluded from the CWC analysis.[16]"

Q. Does the explanation provided by Staff witness Ebrey seem reasonable?

A. No. The explanation provided by Staff witness Ebrey is specious. The Net Lag methodology employed by the Companies only includes revenues in the calculation to determine the revenue lag. The calculation of the revenue lag would be same whether the non-cash items were excluded from the calculation or not.

The Gross Lag methodology presented by Staff witness Ebrey requires that the level of revenues first, be determined, and second, be adjusted for various non-cash items. Therefore, it seems counterintuitive to reject a methodology which requires no determination of revenues or adjustments to said revenues. It should also be noted that Staff witness Ebrey utilizes the same revenue lag as was calculated by the Companies.

In the prior Ameren proceedings in which Staff witness Ebrey recommended a change to the Net Lag methodology, the result was a decrease in the Companies' requested level of cash working capital. Similarly, in this proceeding Ms. Ebrey is recommending a change in methodology (from the one that she previously

[15] Ebrey, Page 8, lines 119 through 125.

[16] Ebrey, page 8, lines 127 through 131.

recommended) which coincidentally results in a reduction of the Companies' requested level of cash working capital. On its face, it appears that Ms. Ebrey is less concerned about the methodology used than the result achieved.

Q. Has Ameren adopted the Net Lag methodology for all of its regulated operating companies?

A. Yes, it has.

Q. Why have the Companies adopted the Net Lag methodology to determine the cash working capital requirements?

A. There are three reasons why the Companies adopted the Net Lag methodology to determine its CWC requirements. First, the Companies wanted to ensure consistency across all of the companies. Second, the methodology has been accepted by both state regulatory jurisdictions in which the companies operate, including Illinois. Finally, it has been the Companies' observation that most state regulatory jurisdictions have adopted the Net Lag approach to determine a company's CWC requirements.

The ability to adopt one methodology for both jurisdictions is expected to reduce the Company's cost of conducting such analyses. In addition, the iterative nature of the Gross Lag methodology increases the difficulty of calculating the Companies' CWC requirements.

Q. What do you mean by the "iterative nature of the Gross Lag methodology"?

A. The Gross Lag CWC calculation requires modification each time any one of the following components is changed:

1. Revenues
2. Proposed increase

3. Uncollectible expenses

4. Depreciation and Amortization Expenses

5. Return on equity

6. Non-cash OPEB expenses.

The Net Lag methodology does not include revenues (except to calculate the revenue lag), so no such adjustments are necessary. The Companies' studies do not include uncollectible expenses, depreciation and amortization, return on equity or non-cash OPEB expenses, therefore, no adjustment to the Companies' methodology is required. Staff witness Ebrey's concerns with regards to the Companies' CWC methodology are unfounded.

Q. Please state the Companies' concern with the "flip-flopping" regarding the methodology used to determine the CWC requirements for the Ameren companies.

A. CWC analyses can be costly and time-consuming to conduct. Ameren has presented CWC studies in a number of rate proceedings employing the Net Lag methodology. In fact, the Net Lag methodology has been adopted by this Commission in past rate proceedings.

The Companies have made efforts to streamline the process (and thereby the cost) of preparing such studies. The Companies now uses statutory due dates instead of actual payment dates wherever possible so that fewer items need to be analyzed. Analysis of these items would likely increase the Companies' CWC requirements if analyzed. The Companies also calculate leads and lags for all of the regulated operating companies in a jurisdiction which are then applied to the specific company's operating expense levels.

Under this approach, one study can be performed for all of the companies instead of performing numerous studies.

No other party to this proceeding had an issue with the Companies' use of the Net Lag methodology. Staff witness Ebrey appears to grappling with issues related to the CWC analysis that are not even issues. There are no revenues considered in the Net Lag approach and therefore there are no non-cash items in the analysis. Her explanation that the Gross Lag methodology better addresses her issues with the treatment of revenues is simply stated a meritless flip-flop on her position in prior proceedings for the sole purpose of obtaining a lower CWC requirement.

The Companies have appropriately prepared, documented and supported its cash working capital analysis. The Net Lag methodology used by the Companies has been accepted by this Commission in prior rate proceedings. No other party to this proceeding has expressed concerns with the use of the Net Lag methodology.

Staff's recommendation to employ an alternative CWC methodology should be rejected.

Q. Do you agree with the test year level of expenses as proposed by Staff witness Ebrey in her calculation of the cash working capital requirements of the Companies?

A. No. The expense levels for each expense area as adjusted for rebuttal purposes and the data sources supporting the expense levels are shown in Exhibit No. XX, of Company witness Ronald D. Stafford.

Q. Staff witness Ebrey states that since the expense lead times for Federal Withholding taxes and FICA taxes are identical on an unweighted basis, the same expense lead should be applied to both. Do you agree?

A. No. One of the principal reasons for conducting a lead lag study is to determine the weighted average expense lead or revenue lag time associated with different expense areas of a company since the expense lead time is a function of both the timing of dollars leaving the company as well as the absolute magnitude of such dollars. In an instance where one is comparing Federal Withholding taxes and FICA remittances, it is important to keep in mind that the social security portion of FICA is capped whereas Federal Withholding taxes are not. Thus, FICA remittances decrease toward the end of any given year as employees exceed the cap thus acting to decrease the weighted average expense lead time. This is not the case with Federal Withholdings which are not capped.

Staff witness Ebrey's proposed adjustment is an inconsistency in her methodology. For all other expense lead calculations she weights the cost to determine the lead. For FICA, however, she proposes to exclude the weighting. Staff's proposed adjustment to the FICA expense lead time should be rejected.

Q. Staff witness Ebrey uses property tax expense lead times from the lead lag study performed during the Illinois Power gas rate case (04-0476) as a proxy for when Ameren Services may have paid them. Do you agree with her approach?

A. No. What Staff witness Ebrey fails to state is that the estimate of property tax expense lead time of 427.64 days which she uses in her analysis is based on taxes for the year 2002 paid during 2003. What would be an "apples to apples" comparison is to examine for Illinois Power, 2003 property taxes paid in 2004. However, even that would not be representative since Ameren Services did not begin making payments on behalf of AmerenIP until 2005. The Companies did not perform an analysis of 2004 property taxes paid in 2005 for any of its Illinois electric companies since the test year was for the

twelve months ended December 31, 2004. The Commission should thus reject Staff Ebrey's recommendation and use a weighted average of AmerenCIPS and AmerenCILCO expense lead time on property taxes as a proxy for AmerenIP the result of which is 406.55 days.

Q. On pages 14-15 of ICC Staff Exhibit 2.0, Ms. Ebrey describes her concerns with the inclusion of Ameren Missouri operations data as well as sample data from outside the test period when calculating the O&M CWC factor. How do the Companies respond?

A. The Companies' response to ICC Staff Data request TEE-2.05 addressed this issue. In the response the Companies stated:

> "Ameren Services processes all payments for the operating utilities. The processes employed are consistent regardless of the utility or the jurisdiction for which a payment is made. Under these circumstances, it is irrelevant whether the selected sample includes invoices from a different jurisdiction or even outside of the test year period. The sample produces a net lag which reflects the payment processing practices and timeframes which exist for all of the operating Company."

Q. Have the Companies examined what impact the exclusion of Ameren Missouri operations data as well as data from outside the test period may have on the weighted average expense lead time associated with Other O&M expenses?

A. Yes. When AmerenUE invoices are removed from the "Other O&M" sample and all invoices with paid dates prior to the test year are removed, the weighted average expense lead time associated with other O&M expense increases from 49.39 days as filed to 50.06 days, i.e., an increase of about 1.4 percent.

Q. Staff witness Ebrey expresses a concern that the Companies have failed to include employee contributions to benefit plans when performing their lead lag analysis. How do you respond?

A. I disagree with Staff witness Ebrey's concern. The Companies provided the following supplemental response to ICC Staff Data Request TEE-2.19

> "Employee contributions, with the exception of the 401-K program, are generally not considered in the lead lag study because beginning 1/1/06, employee health and welfare related paycheck deductions (medical, dental, vision, and FSA) are remitted to a set of VEBA (Voluntary Employee Benefit Administration) trusts on or around the same day as pay day, sometimes a day earlier. These trusts, consisting of both employer and employee contributions, are generally the source of funds to pay health and welfare claims weekly from service vendors. The Companies have elected to be conservative and not consider employee contributions to health and welfare programs in their lead lag studies for two reasons:
>
> 1. Employee deductions may be bi-weekly, semi-monthly, or monthly depending on the nature of the health and welfare program; claims are settled weekly, i.e., in advance of employee contributions.
>
> 2. Employee contributions total less than 25% (on average) of total claims costs.

The Companies' response to ICC Staff Data Request TEE-3.08 provides a response to how employee 401-K contributions were considered in the analysis.

> "The Companies have not included employee contributions to the 401-K program in the test year expense amounts used to calculate cash working capital requirements. Since employer and employee 401-K contributions to Northern Trust are shown as leaving on the same day, similar information is considered for remittances to Merrill Lynch when computing the expense lead time associated the program as a whole. To the extent that employee related 401-K remittances to Merrill Lynch leave a day earlier than the company match, that has been factored into the Company analysis."

Q. Do you have any other comments concerning Staff witness Ebrey's proposals?

A. Yes. Once the Commission has settled the outstanding issues in these proceedings, the expense levels employed in the CWC analyses will need to be modified to reflect the Commission's rulings. Similarly, if the Commission adopts Staff witness Ebrey's CWC methodology, each of the revenue components will need to be updated to reflect the Commission's Order.

B. Response to AG witness Effron

Q. Have you reviewed the direct testimony of AG witness Effron as it relates to the subject of cash working capital?

A. Yes, I have.

Q. Please summarize AG witness Effron's proposed adjustments to the cash working capital requirements of the Ameren companies.

A. AG witness Effron proposes a change to the Companies' expense leads for federal withholding and FICA contributions and interest expenses.

Q. Do you agree with AG witness Effron's adjustment to Federal withholding taxes and employee FICA contributions when calculating cash working capital requirements?

A. Yes. Company witness Stafford's revised cash working capital exhibit reflects the adjustment.

Q. Staff witness Ebrey, AG witness Effron, and Wal-Mart witness Selecky all propose an adjustment to the expense lead time associated with interest expense. How do you respond?

A. Company witness Stafford will address this issue.

C. Summary of Key Results

Q. Provide a summary of key results from your revised analyses for the Companies.

A. After reflecting the acceptance of the adjustments to base payroll, federal and state withholdings and employee FICA taxes, and Federal Unemployment Taxes, all the revisions discussed herein taken together result in a cash working capital requirement for AmerenCILCO of $803,000, AmerenCIPS of $1.132 million, and AmerenIP of $352,000. The revisions represent reductions from the $2.906 million for AmerenCILCO, $4.670 million for AmerenCIPS, and $11.403 million for AmerenIP as originally filed by the

Company. The revised cash working capital amounts are shown in Respondents' Exhibit 16.1 (AmerenCILCO), Exhibit No. 16.2 (AmerenCIPS), and Exhibit No. 16.3 (AmerenIP) of Company witness Ronald D. Stafford.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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