

**ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 06-0070, 06-0071, & 06-0072**

REBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

Submitted 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**

May 26, 2006

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3 **REBUTTAL TESTIMONY**

4 **OF**

5 **RONALD D. STAFFORD**

6 **Q. Please state your name and business address.**

7 A. My name is Ronald D. Stafford. My business address is One Ameren Plaza, 1901
8 Chouteau Avenue, St. Louis, Missouri, 63103.

9 **Q. Are you the same Ronald D. Stafford who submitted testimony in these**
10 **proceedings?**

11 A. Yes I am.

12 **Q. What is the purpose of your rebuttal testimony?**

13 A. My rebuttal testimony will present the Ameren Companies' Rebuttal Revenue
14 Requirement and related schedules, including detailed Operating Income and Rate Base
15 schedules. I will also respond to certain recommendations of Staff described in the direct
16 testimony of Staff Witnesses Peter Lazare, Burma Jones, Theresa Ebrey and James
17 Spencer, Illinois Industrial Energy Consumers ("IIEC") Witness Alan Chalfant, Illinois
18 Attorney General ("AG") witness David Efron, and Wal-Mart Witness James Selecky.

19 **Exhibit Identification**

20 **Q. In addition to your Rebuttal Testimony, please identify Exhibits 16.1, 16.2, and 16.3**
21 **that you will be sponsoring.**

22 A. Exhibit 16.1 – AmerenCILCO Rebuttal Revenue Requirement

23 Exhibit 16.2 – AmerenCIPS Rebuttal Revenue Requirement

24 Exhibit 16.3 – AmerenIP Rebuttal Revenue Requirement

25 Each of the Exhibits includes multiple schedules summarizing development of Operating
26 Income and Rate Base and presents the Ameren Companies' Rebuttal Revenue
27 Requirement. For illustrative purposes, the starting point is Staff's Pro Forma Present
28 Rates Operating Income and Rate Base with adjustments detailed to arrive at the Ameren
29 Companies' Rebuttal Filing position.

30 **Q. Please identify the additional Exhibits you will be sponsoring.**

31 A. Exhibit 16.4 – Duplicate Charges (All Companies)

32 Exhibit 16.5 - Tree Trimming (All Companies)

33 Exhibit 16.6 – Incentive Compensation (All Companies) Exhibit 16.7 – AMS

34 Reallocation (AmerenCILCO and AmerenCIPS)

35 Exhibit 16.8 – Reallocation of Depreciation Reserve (AmerenIP)

36 Exhibit 16.9 – Rate Case Expense (All Companies)

37 Exhibit 16.10 – Administrative and General Expenses (All Companies)

38 Exhibit 16.11 – ADIT Pro Forma Plant Additions (AmerenIP)

39 Exhibit 16.12 – Remove OPEBs from ADIT (All Companies)

40 Exhibit 16.13 - Pro Forma Plant Additions (AmerenIP)

41 Exhibit 16.14 – Plant Additions (All)

42 Exhibit 16.15 – Supply Procurement Adjustment (All)

43 Exhibit 16.16 – Certificates of Publications (All)

44 **Revenue Requirement**

45 **Q. What is the overall level of Rebuttal Revenue Requirement the Ameren Companies**
46 **are proposing ?**

47 A. As shown on Exhibit 16.1, AmerenCILCO's Rebuttal Revenue Requirement is

48 \$143,127,000. As shown on Exhibit 16.2, AmerenCIPS' Rebuttal Revenue Requirement

49 is \$237,681,000. As shown on Exhibit 16.3, AmerenIP's Rebuttal Revenue Requirement
50 is \$403,964,000.

51 **Duplicate Charges**

52 **Q. Please describe AG witness Effron's claim that the Ameren Companies' pro forma**
53 **adjustment for providing free and discounted service to municipalities and**
54 **governmental entities amounts to double-counting.**

55 A. As discussed further by Ameren witness Leonard Jones in his Rebuttal Testimony, the
56 majority of the free and discounted service that is the subject of the Ameren Companies'
57 pro forma adjustment is for Discounted Lighting. As Mr. Jones indicates, the Ameren
58 Companies' billing units for Discounted Lighting are priced at full tariff rates. Thus, Mr.
59 Effron's assumption that there are no reduced revenues from providing discounted
60 service is incorrect. The cost of providing discounting service is not recouped from the
61 remaining body of customers, as Mr. Effron suggests. Because revenues at present rates
62 include the discounted portion of lighting-related franchise consideration, it is necessary
63 to include the offsetting expense, as the Ameren Companies have proposed.

64 As discussed further by Mr. Jones, the claim made by Mr. Effron is partially correct as it
65 relates to free electric service. The billing units associated with this service are not
66 currently included in present rate revenues. Therefore, an adjustment is required to
67 increase billing units and revenues for all three Ameren Companies. The related
68 adjustment to uncollectibles is less than \$1,000 and is not reflected. Also, the increase in
69 kWh results in an increase in electricity distribution tax to AmerenCIPS and AmerenIP
70 (AmerenCILCO is less than \$1,000 and is not reflected). The calculation of the pro forma
71 adjustments necessary to reflect inclusion of free electric service in the Ameren

72 Companies' Rebuttal Revenue Requirement is shown on Exhibit 16.4 and included in the
73 Adjustments to Operating Income shown on Exhibits 16.1, 16.2, and 16.3.

74 **Administrative Fee for Add-on Taxes**

75 **Q. Please respond to AG witness Effron's testimony that the Ameren Companies' fee**
76 **for administering add-on taxes should be included in pro-forma operating revenues.**
77 **(06-0070, -71, -72 AG Ex. 1.0, pp. 9-11.)**

78 A. Mr. Effron is correct that the Ameren Companies' fee for administering add-on taxes
79 should be included in pro-forma operating revenues. No rebuttal adjustment is required,
80 however, because this fee has already been included in the Ameren Companies'
81 miscellaneous operating revenue allocations, as shown on WPC-23. Specifically,
82 AmerenCILCO WPC-23, line 14 shows \$134,712 (vs. \$135,000 per Effron);
83 AmerenCIPS WPC-23c, line 13 shows \$179,259 and AmerenCIPS WPC-23d, line 10
84 shows \$814, for an AmerenCIPS total of \$180,073 (vs. \$180,000 per Effron); and
85 AmerenIP line 12 shows \$613,053 (vs. \$613,000 per Effron).

86 **Uncollectibles Expenses**

87 **Q. Please respond to Staff's recommendation to normalize uncollectibles expenses.**
88 **(Staff Ex. 3.0, pp. 8-10.)**

89 A. In order to limit the number of issues in these proceedings, the Ameren Companies
90 accept Staff's adjustment to normalize uncollectibles expenses.

91 **Tree Trimming Adjustment**

92 **Q. Please describe the Tree Trimming Adjustment necessary to comply with Staff**
93 **witness James Spencer's interpretation of NESC Rule 218.**

94 As further discussed in the rebuttal testimony of Ray Wiesehan, implementing the "no
95 touch" policy described by Staff witness James Spencer (Staff Ex. 10.0) would

96 significantly increase Distribution System Maintenance costs. As shown on Exhibit 16.5,
97 the additional costs for the No Touch Policy Adjustment would increase operating
98 expense by \$27,538,000. Of this total, \$17,535,000 is incremental additional ongoing
99 costs, and the remaining \$10,003,000 reflects an amortization of the additional costs that
100 will be incurred over the next four years, in order to convert from a four-year to a two-
101 year tree trimming cycle. The increase in operating expense of \$27,538,000 is also
102 included in the Adjustments to Operating Income shown on Exhibits 16.1, 16.2, and 16.3.

103 **Q. Please respond to Mr. Spencer’s theory that any additional costs to implement his**
104 **No Touch Policy would be offset by decreased Operation and Maintenance**
105 **(“O&M”) costs.**

106 A. As further discussed in the rebuttal testimony of Mr. Wiesehan , there is no basis in fact
107 for Mr. Spencer’s claim. Notably, Mr. Spencer has offered nothing to support his
108 contention, and establishes no relationship between the level of tree trimming expense
109 and the level of outage costs. Accordingly, contrary to Mr. Spencer’s contention, there is
110 no basis for the Commission to conclude that increased tree trimming expense would be
111 offset dollar for dollar by decreased outage costs.

112 **Q. Please respond to Cities’ witness Cuthbert’s claim that the AmerenIP tree trimming**
113 **adjustment is not supported?**

114 A. In response to Cities Data Request No. 2-2, AmerenIP has provided extensive
115 documentation in support of its tree trimming costs. It is notable that AmerenIP’s
116 proposed level of distribution system tree trimming costs (exclusive of the No Touch
117 Policy Adjustment discussed above) in this case is over \$1 million less than 2005 actual

118 costs and over \$300,000 less than what AmerenIP now expects to spend on distribution
119 tree trimming in 2006.

120 Incentive Compensation

121 **Q. Do you have any comments regarding the proposal of Staff witness Jones and AG
122 witness Effron to remove incentive compensation from pro forma expense?**

123 A. Yes. In her Rebuttal Testimony, Ameren witness Krista Bauer discusses the reasons
124 why the Ameren Companies disagree with this adjustment. Therefore, I have added back
125 incentive compensation expenses in the Adjustments to Operating Income shown on
126 Exhibits 16.1, 16.2, and 16.3.

127 **Q. If the Commission finds in favor of Staff witness Jones and AG witness Effron's
128 proposal to disallow incentive compensation expense, is the adjustment proposed by
129 Jones and Effron correct?**

130 A. No. In reviewing the incentive compensation adjustment for each of the Ameren
131 Companies, it was discovered that total electric and gas incentive compensation
132 expenses, rather than electric only incentive compensation expenses, were incorrectly
133 used by the Ameren Companies to develop the pro forma cost numbers. This resulted in
134 an understatement of pro forma labor expense and an overstatement of incentive
135 compensation expense relied on by witnesses Jones and Effron for their adjustments. The
136 Ameren Companies are willing to forgo the moderate increase in labor expense that
137 would result from a full correction to its labor workpapers, but would request that, to the
138 extent incentive compensation adjustments are proposed, such adjustments be based on
139 the distribution share of electric only incentive compensation expense. The correct
140 expense is shown on Exhibit 16.6.

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Payroll Tax Expenses

Q. Please respond to AG witness Effron’s recommendations to payroll tax expenses.

A. Mr. Effron’s adjustment is directly tied to his proposed disallowance of incentive compensation expense, since such expense impacts the overall level of wages and salaries. His adjustment appears to agree with the adjustment proposed by Staff witness Jones. As discussed in Ms. Bauer’s testimony, this adjustment is inappropriate and has been added back as part of the incentive compensation expenses in the Adjustments to Operating Income shown on Exhibits 16.1, 16.2, and 16.3.

Ameren Services (“AMS”) Cost Reallocation

Q. Do you agree with Staff’s recommendation (Staff Ex. 3.0, p. 26) and AG’s recommendation (AG Ex. 1.0 for AmerenCILCO, pp. 16-17) to adjust AMS Cost Reallocation expenses (Staff Ex. 3.0, p. 26)?

A. Yes. Both Staff and AG proposed the same adjustment to AMS costs based upon a response to Staff Data Request BCJ 3.10, in which the Company acknowledged the adjustment was appropriate. Staff, however classified this as an A&G rather than O&M expense. This has been reclassified to the correct category in a reclassification adjustment shown on Exhibit 16.1 Schedule 1, Page 2.

Q. Please describe the additional adjustments necessary to properly restate the AMS Cost Reallocation for the Ameren Companies.

A. As indicated in the supplemental response to Staff Data Requests BCJ 3.03 and 3.07, it became apparent that the proposed adjustments for both AmerenCILCO and AmerenCIPS were incorrect. The Ameren Companies discovered this error as a result of the question and response to Staff Data Request BCJ 13.02 and in preparation for Rebuttal Testimony in response to Staff witness Mr. Lazare. As a result of this review, it

165 was determined that inappropriate query criteria was used in development of the 2004
166 amounts used in the AMS Reallocation adjustment for both AmerenCILCO and
167 AmerenCIPS, and for the May-July 2005 amounts used in the AmerenCIPS calculation.
168 These corrections are detailed in Exhibit 16.7, and summarized on Exhibit 16.1, Schedule
169 1, Page 2, and Exhibit 16.2, Schedule 1, Page 2.

170 **Injuries and Damages Expenses**

171 **Q. Please respond to Staff's recommendation to normalize injuries and damages**
172 **expenses. (Staff Ex. 3.0, pp. 22-26.)**

173 A. In order to limit the number of issues in these proceedings, the Ameren Companies
174 accept Staff's adjustment to normalize injuries and damages expenses.

175 **Q. Does this compromise adequately address AG witness Efron's concerns that**
176 **injuries and damages expenses for AmerenCILCO and AmerenCIPS should be**
177 **reduced, due to lower expenses in years prior to the test year?**

178 A. Yes, I believe it does. Staff's adjustment is very similar to AG witness Efron's
179 adjustment. Both methods normalize payment information, but Staff's method is
180 superior, in that it also weights payments against accrued expense. In addition, Staff has
181 also eliminated what it considered to be outlying data.

182 **Q. Please respond to Staff's recommendation to disallow reinstatement of Dynegy**
183 **eliminations in the pro forma adjustment to 2004 injuries and damages expense on**
184 **AmerenIP Schedule C-2.13.**

185 A. Upon further review, the Ameren Companies concur with Staff's adjustment to disallow
186 reinstatement of Dynegy eliminations.

Employee Pensions and Benefits Expenses

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Q. Are other Ameren Companies’ witnesses also addressing pensions and benefits issues raised by various parties in these proceedings?

A. Yes. Ameren Companies’ witness Mr. Kenneth Vogl also addresses issues related to pensions and other post employment benefits (“OPEB”). Ms. Marla Langenhorst addresses issues related to major medical expense, in response to proposals submitted by Staff witness Lazare and IIEC witness Chalfant to limit the overall level of A&G expense, and Mr. Ken Vogl responds to pension expense issues raised by Wal-Mart Stores witness James Selecky, and OPEB liability issues raised by AG witness Efron. Except for the Staff adjustments discussed below, and an OPEB-related adjustment to Accumulated Deferred Income Taxes (“ADIT”) (discussed later in my testimony), no other proposed adjustments to pensions and benefits costs are appropriate.

Q. Please respond to Staff’s adjustment to employee benefits expenses (Staff Ex. 3.0, p. 22).

A. Staff’s adjustments to employee benefits expenses are based on updated 2006 budget amounts for major medical expense provided in response to Data Requests BCJ 10.02 (AmerenCILCO) and BCJ 10.05 (AmerenIP) and are appropriate.

Q. Does AG witness Efron propose similar adjustments for AmerenCILCO and AmerenIP?

A. Yes. At page 15, line 20 of his AmerenCILCO Testimony, Mr. Efron references an amount of \$3,895,000, which is incorrect. However, on page 16, line 4 and on his Schedule C-2.2, he reflects the correct adjustment of \$3,879,000, which is consistent with the adjustment proposed by Staff witness Jones. At page 16, line 11 of his AmerenIP Testimony, Mr. Efron shows the correct adjustment of \$3,863,000. However, he

211 proposes additional adjustments based upon use of 2005 actual expense rather than 2006
212 budget expense for each of the Ameren Companies, which is not appropriate, as
213 discussed below.

214 **Q. Please discuss Mr. Effron's proposal to use 2005 actual expense rather than 2006**
215 **budget expense for selected pensions and benefits costs.**

216 A. Mr. Effron evidently considers the use of pro forma adjustments to be inappropriate for
217 purposes of setting rates when, in fact, use of 2006 estimates is more appropriate under
218 the prevailing circumstances, for a number of reasons. First, 2006 data reflects a full year
219 of AmerenIP inclusion on the Ameren's financial systems, and more accurately reflects
220 AmerenIP cost apportionment than would 2005 data. Second, use of 2006 data also
221 reflects a full year of the transfer of the former AmerenUE-Illinois employees to
222 AmerenCIPS, and therefore reflects a more accurate determination of the impact of
223 pensions and benefits costs of AmerenCIPS. Third, use of 2006 data more closely
224 coincides with the date new rates will go into effect as a result of these proceedings
225 (January 2, 2007). Fourth, reasonably certain changes in cost components (such as
226 medical inflation rates and plan changes) are reflected in 2006 estimates, but would not
227 be fully reflected, or reflected at all, in 2005 actual data. The Ameren Companies' use of
228 2006 data thus satisfies the criteria established in Section 287.40 of the Illinois
229 Administrative Code for appropriate use of pro forma adjustments to establish rates.

230 **Q. Beginning at page 16, line 19 of his testimony, Mr. Effron discusses his proposed**
231 **elimination of the AmerenIP purchase accounting adjustment made by the**
232 **Company on AmerenIP Schedule C-2.11. Is Mr. Effron correct in proposing this**
233 **elimination?**

234 A. No. In response to AG Data Request 8-1, the Ameren Companies indicated that
235 Adjustment C-2.11 (Purchase Accounting Elimination) is necessary to remove the
236 impacts of purchase accounting from 2004 test year expense, and is the adjustment that
237 converts expense from levels that exclude amortization of the actuarial losses to levels
238 that include amortization of the actuarial losses that were removed as part of the relevant
239 purchase accounting. Adjustment C-2.14 (Annualized Employee Pensions), on the other
240 hand, starts with 2004 expense excluding purchase accounting (as noted on workpapers
241 provided in response to BCJ 6.11 part 1, pages 6 and 11) and converts expense to 2006
242 levels, again excluding purchase accounting.
243 The adjustment made on C-2.11 could have been collapsed into the adjustment made on
244 C-2.14, but the Ameren Companies believe that reflecting a discrete elimination of
245 purchase accounting shows express compliance with the Commission's Order issued in
246 Docket No. 04-0294.

247 **Rate Case Expenses**

248 **Q. Please comment on Ms. Jones' recommendation to disqualify expenses the Ameren**
249 **Companies incurred in conducting its depreciation study (Staff Ex. 3.0, p. 24).**

250 A. Ms. Jones has incorrectly concluded that, because the Ameren Companies have not
251 proposed any changes in depreciation rates, that expenditures related to the depreciation
252 study are not a recoverable rate case expense.

253 **Q. Was the depreciation study conducted in preparation for this proceeding?**

254 A. Yes.

255 **Q. Was the depreciation study a necessary expenditure in determining appropriate**
256 **depreciation rates for this proceeding?**

257 A. Yes. The depreciation study was an important and necessary expenditure to determine
258 appropriate depreciation rates for all of the Ameren Companies. The study was
259 especially necessary in this case, because the Companies are moving from a period of
260 frozen rates. The study was in fact used to assess the accuracy of current rates. Even
261 though the study supported a moderate overall increase in expense, the Ameren
262 Companies do not currently propose a change in depreciation rates, to allow the
263 development of fuller histories of ownership for both AmerenCILCO and AmerenIP
264 under Ameren ownership, and for the integration of the former AmerenUE-Illinois
265 operations into AmerenCIPS.

266 **Q. You indicated above that the Ameren Companies are not requesting a change in**
267 **depreciation rates in these proceedings. Other than requesting inclusion of**
268 **depreciation study costs as recoverable rate case expense, are the Ameren**
269 **Companies requesting any additional findings by the Commission regarding results**
270 **of the depreciation study conducted thus far?**

271 A. Yes. The Ameren Companies are requesting permission to reallocate the AmerenIP
272 depreciation reserve in order to mitigate future impacts of changes in depreciation rates.
273 The proposed reallocation of year-end 2004 reserve balances is attached as Exhibit 16.8.

274 **Q. Why would such a reallocation mitigate the impact of future changes in depreciation**
275 **rates?**

276 A. The review of AmerenIP's depreciation reserve by account and by function indicated a
277 large disparity in the actual reserve vs. the calculated reserve conducted in preparation of
278 the depreciation study. Mathematically, a reallocation of the book reserve does not
279 automatically increase or decrease rates in and of itself, but it does tend to smooth out

280 rates over time. In this particular case, however, the shortfall is predominantly in assets
281 with a shorter life. Amortization of the reserve shortfall of shorter-lived assets occurs
282 over a much shorter time span, and results in a higher overall depreciation expense. By
283 reallocating the reserve, the impact of any reserve shortfalls on an account-by-account
284 basis is mitigated.

285 **Q. Could the Ameren Companies alternatively request permission to reallocate its**
286 **depreciation reserve by approval of the Federal Energy Regulatory Commission**
287 **(“FERC”)?**

288 A. The Ameren Companies’ understanding is that they could request such approval from
289 FERC. However, since a depreciation study has been conducted in conjunction with the
290 instant proceedings, the Ameren Companies consider it to be more administratively
291 efficient and more appropriate to request such approval from the ICC at this time.

292 **Q. Please comment regarding Ms. Jones’ recommendation to disallow recovery of rate**
293 **case expenses related to the Basic Generation Services proceeding (Staff Ex. 3.0, pp.**
294 **5-8).**

295 A. Ms. Jones’ recommendation is incorrect. For several reasons, the Ameren Companies
296 should be allowed to recover, through this proceeding, expenses related to the Ameren
297 Companies Basic Generation Services proceeding (05-0160, -0161, and -0162, consol.)
298 (“BGS Proceeding”). The BGS Proceeding was a necessary part of restructuring the
299 electricity industry in Illinois, as the Customer Choice Act intended, and was beneficial
300 to all ratepayers. In accordance with the Customer Choice Act’s provisions, the
301 Commission conditioned Ameren’s acquisition of CILCO and IP on establishing a
302 competitive bidding process when the existing supply contracts expire:

303 Applicants will work with the Staff to develop an RFP process for
304 supply of the native load of CILCO and AmerenCIPS subsequent
305 to the expiration of their respective supply arrangements with CIGI
306 and Ameren Energy Marketing, and **agree to seek ICC approval**
307 **of such RFP process . . .**

308 (Appendix A to Final Order, Case No. 02-0428, p. 5, ¶ F.)

309 Further, I am advised the Ameren Companies are statutorily obligated, under Section 16-
310 103(a) of the Act, 220 ILCS 5/16-103(a), to make supply service available to most retail
311 customers. Under the BGS Proceeding’s final order, the Ameren Companies are in fact
312 offering supply service options to all customers. If a retail electric service customer
313 switches, then comes back to the Ameren Companies at a later date, the Ameren
314 Companies must have sufficient supply available to serve that customer. In short, even
315 though a customer currently is not taking supply from the Ameren Companies, every
316 customer has the fall-back option of taking supply from the Ameren Companies, at any
317 given time. The BGS Proceeding was necessary in establishing this statutorily mandated,
318 default supply safety mechanism for all customers. It would thus be unfair to straddle
319 only a portion of retail electric customers within the Ameren Companies’ service
320 territories with the costs of establishing such a mechanism, through power supply pricing.
321 Such costs are appropriately allocated among all retail electric customers, through this
322 delivery services tariff proceeding.

323 **Q. Could the Ameren Companies fairly recover its BGS Proceeding costs through the**
324 **Supply Procurement Adjustment (“SPA”) mechanism, as Staff recommends?**

325 A. It is possible, but the more appropriate (and equitable) mechanism is through DST rates.

326 **Q. Are the Ameren Companies’ BGS Proceeding costs known at this time?**

327 A. Yes. The Ameren Companies have provided Staff with invoices supporting all of their
328 actual BGS Proceeding costs to date. While the BGS Proceeding’s final order has been

329 issued, necessary and unavoidable costs will still be incurred, as the matter is currently
330 under appeal. The Ameren Companies have provided documentation supporting a
331 reasonable estimate of these expected future BGS Proceeding expenses.

332 **Q. Are the Ameren Companies' Delivery Service ("DS") Proceeding costs known at**
333 **this time?**

334 A. Not with finality, because this proceeding is ongoing. The Ameren Companies, however,
335 have provided Staff with invoices supporting virtually all of their actual, known, DS
336 Proceeding costs to date, and intend to provide further support for such costs, in the form
337 of supplemental responses to Data Request BCJ 11.02.

338 **Q. Have the Ameren Companies provided all rate case expense invoices, as Staff**
339 **requested?**

340 A. Yes. The Ameren Companies provided all rate case expense invoices in support of the
341 response to Data Request BCJ 11.02. Some additional invoices have since been received.
342 As indicated above, invoices and other supporting documentation will be provided to
343 Staff in supplemental responses to the aforementioned Data Request.

344 **Q. Please respond to Staff's assertions that the Ameren Companies have not provided**
345 **invoices supporting rate case expenses in a timely manner.**

346 A. The Ameren Companies have provided the requested invoices. The invoices were not
347 provided in response to Data Request BCJ 4.01, because they were not responsive to the
348 request, contrary to Ms. Jones' testimony. Data Request BCJ 11.02 did not specifically
349 request cost invoices. When Staff specifically requested invoices in support of actual
350 costs, to supplement the Ameren Companies' response to BCJ 11.02, the information was
351 assembled and provided to Staff.

352 **Q. Have you provided a calculation of the Ameren Companies proposed rate case**
353 **expense in these proceedings?**

354 A. Yes. Exhibit 16.9 provides the calculation of rate case expense that is included on
355 Exhibits 16.1, 16.2, and 16.3, Schedule 1, Page 2.

356 **Administrative and General (“A&G”) Expenses**

357 **Q. Please summarize the activities related to A&G.**

358 A. A&G costs include expenses for legal services, information and technology services,
359 regulatory compliance functions, business planning and strategic functions, accounting
360 services, and human resource functions, among several other expenses. A&G costs
361 essentially represent the Ameren Companies’ costs of running a regulated business, in the
362 existing regulatory environment.

363 **Q. How are A&G costs determined?**

364 A. The Ameren Companies track their A&G costs according to the specific types of
365 activities that give rise to such costs. Where appropriate, such costs are allocated among
366 the Ameren Companies, according to the precise allocation methods described in Marty
367 Lyons’ direct testimony. Further, FERC provides specific accounting instructions on
368 how a regulated utility is to record various types of costs, with specific examples of the
369 types of costs to be included as A&G. Both FERC and ICC require allocating A&G costs
370 into various accounts in submitted annual reports (FERC Forms 1 and 2, and ICC Form
371 21). Both FERC and ICC also require significant detail in accounting for numerous
372 operating and capital costs, including, for example, labor and regulatory commission
373 expense included in A&G.

374 **Q. Please respond to Staff Witness Lazare’s recommendation to significantly reduce**
375 **the Ameren Companies’ recovery of A&G expenses (Staff Ex. 6.0, pp. 17-28).**

376 A. Mr. Lazare's A&G testimony is seriously flawed. Mr. Lazare's analysis incorporates
377 unsupported faulty calculations, and outdated allocators, resulting in unreliable and
378 incorrect conclusions. Mr. Lazare's opinions appear based on a generalized view of the
379 Ameren Companies' actual cost data, failing to consider the real dollars being spent due
380 to real world cost increases. Mr. Lazare's A&G recommendation (which Staff has
381 identified as preferable to Staff witness Burma Jones' A&G recommendation in this case)
382 completely ignores Staff's own field work audit of the Ameren Companies' accounting
383 practices. Mr. Lazare has also rejected – largely without comment and certainly without
384 analysis – the Ameren Companies' testimonial evidence and data request responses as to
385 what actual A&G costs are and what is driving changes in A&G costs. This approach is
386 contrary to FERC and ICC practices. Instead, Mr. Lazare offers mere speculation that the
387 Ameren Companies' unregulated affiliates' costs have been incorrectly allocated to the
388 Ameren Companies.

389 **Q. Is there any support for Mr. Lazare's theory in the results of Staff's field work audit**
390 **or in the Ameren Companies' testimony or data request responses?**

391 A. No. Mr. Lazare's approach appears to be largely invented for the purpose of this case,
392 and appears to have no factually valid underpinnings.

393 **Q. Is Mr. Lazare's approach consistent with FERC or ICC practices?**

394 A. FERC and ICC recognize that A&G costs represent real cost items, necessary to the
395 operation of the Ameren Companies' electric business. Contrary to Mr. Lazare's belief,
396 A&G costs are not just a big pot of dollars that the Company is attempting to recover
397 from passive ratepayers. This outdated view of A&G costs has been rejected by FERC
398 and ICC.

399 **Q. Have you conducted an analysis of the types of activity included in A&G costs?**

400 A. I have reviewed such costs for the period of May through October 2005 for
401 AmerenCILCO, AmerenCIPS, and AmerenIP. The results of this review are shown on
402 Exhibit 16.10, Schedule 1. Account 926 costs primarily relate to major medical,
403 pensions, and other post employment benefits expense (OPEBs), and have been excluded
404 from this review because they are addressed separately in the Direct and Rebuttal
405 Testimony of Company witness Mr. Ken Vogl, in the Direct Testimony of Company
406 witness Mr. Martin Lyons, and in the Rebuttal Testimony of Ms. Marla Langenhorst.
407 Also, a portion of account 920 costs also relate to pension and benefit costs. For the same
408 reasons, the portion of pensions and benefit costs recorded to accounts 920 and 926 have
409 been excluded from this review, since they are being separately addressed.

410 **Q. Why did you select the period May through October 2005 for your review?**

411 A. This period is more reflective of pro forma cost levels than use of the historical test year.
412 The period of May through October 2005 represents the first six months of actual
413 operations that include both the transfer of the former Illinois Union Electric operations
414 to AmerenCIPS (May 2005) and operation of AmerenIP on Ameren's financial systems.

415 **Q. How have changes in the regulatory environment affected the Ameren Companies'
416 A&G costs?**

417 A. Major changes in the existing regulatory environment have caused significant increases
418 in the Ameren Companies' A&G costs. For example, following the terrorist attacks of
419 September 11, 2001, the Ameren Companies have been required to significantly increase
420 security measures at their facilities, resulting in significant cost increases. These
421 increased security costs directly impact information technology and general counsel

422 costs and indirectly impact many other areas, such as internal audit, and Controllers..
423 Additionally, Congress's passage of the Sarbanes-Oxley Act in 2002 has impacted
424 virtually all aspects of the Ameren Companies' operations and led to significant increases
425 in tax, internal audit, controllers, information technology, and general counsel costs.
426 Further, the increasingly complex legal and regulatory environment in which the Ameren
427 Companies operate leads to increased legal and regulatory service expenses, as well.
428 Such costs would obviously not increase at the same rate for the Ameren Companies'
429 generation affiliates, given the unregulated nature of their business.

430 **Q. What other accounts have shown significant cost increases since the Ameren**
431 **Companies' prior delivery services rate cases?**

432 A. Account 926, which includes costs related to major medical, pensions, and OPEBs, has
433 shown significant cost increases. Ms. Langenhorst's rebuttal testimony discusses why
434 major medical costs have increased since the time of the last Delivery Services rate
435 proceedings, and why these costs are prudent and necessary costs for recovery in these
436 proceedings. Mr. Vogl's Direct and Rebuttal Testimonies discuss in detail the level of
437 pensions and OPEBs included in this proceeding, why these costs have increased since
438 the time of the last Delivery Services rate proceedings, and why these costs are prudent
439 and necessary costs for recovery in these proceedings.

440 **Q. Both Staff witness Lazare and IIEC witness Alan Chalfant claim that A&G**
441 **expenses should increase in proportion to any authorized increase in other (non-**
442 **A&G) O&M expenses. Do you agree?**

443 A. No. Using Mr. Lazare's and Mr. Chalfant's reasoning, one could assume that the cost of
444 health care increases at the same rate as the cost of nails, and at the same rate as the cost

445 of candy bars, and so on. This would be sheer coincidence, and every consumer knows
446 that this is not true in fact. The idea that all A&G expenses have the same cost drivers as
447 each other, and as all O&M expenses, has no basis in reality and defies common sense.
448 Obviously, O&M costs are more significantly impacted by system-related changes and
449 growth, such as increases in customers and system load. A&G costs, on the other hand,
450 can be more vulnerable to changes that are external to the Ameren Companies' delivery
451 system, such as increased regulatory and legal requirements, skyrocketing health care
452 costs, and other inflationary pressures. While both A&G and direct O&M costs are
453 impacted by all of the above-mentioned factors, there is no logical reason to assume that
454 these cost categories are or should be affected uniformly, or even comparably. In reality,
455 the Ameren Companies' evidentiary record demonstrates that they are not.

456 **Q. What weight should the Commission give to Staff witness Lazare's and IIEC**
457 **witness Chalfant's theories regarding the appropriate level of A&G expenses in**
458 **these rate proceedings?**

459 A. While I am not an attorney, my understanding is that the Commission must make its
460 ruling based upon the evidence of record in the specific rate proceedings in which issues
461 are being determined. Here, the Ameren Companies have demonstrated their actual costs
462 and have provided all of the necessary support for those costs. The Ameren Companies
463 have also presented evidence to support the accuracy of their cost allocation methods, in
464 the direct testimony of Marty Lyons. No witness has presented testimony to dispute the
465 prudence of any particular A&G cost, or any A&G cost allocation. For these reasons, the
466 Commission should disregard Mr. Lazare's and Mr. Chalfant's A&G recommendations
467 and focus instead on the record facts.

468 **Q. Is Staff's preferred approach to disallow a portion of A&G costs according to the**
469 **prudence of the activities giving rise to such costs?**

470 A. No. Even though Staff conducted a field work audit and issued numerous discovery
471 requests regarding A&G, Staff has explicitly stated that it prefers to rely on the
472 calculation presented by Staff witness Mr. Lazare (in Schedule 6.3), which is based on
473 neither Staff's field work audit nor its discovery results. Staff presents an alternative
474 treatment of A&G costs in Burma Jones' testimony, which is based on Staff's actual
475 review of the Company's proposed A&G costs. Nevertheless, Staff has indicated in no
476 uncertain terms that they believe the correct approach to setting A&G costs in these
477 proceedings is based on the calculation submitted by Staff witness Lazare on his Exhibit
478 6.0, Schedule 6.3. As previously stated, the Commission should reject Mr. Lazare's
479 unfounded approach.

480 **Q. Please describe Mr. Lazare's calculation of Staff's proposed A&G disallowance.**

481 A. Mr. Lazare has essentially attempted to present a "virtual" vertically integrated power
482 company, as though the Ameren Companies had never divested their generation facilities.
483 Mr. Lazare's calculations pull in estimated AMS costs for the Ameren Companies'
484 divested generation affiliates, based on his estimate of what he believes to be the
485 distribution share of total AMS costs. He then compares those cost allocations to the
486 approved distribution share of A&G costs from the prior AmerenCILCO and
487 AmerenCIPS delivery services rate proceedings, and calculates his disallowance based on
488 total A&G costs for AmerenCILCO and AmerenCIPS. Since the Ameren Companies are
489 not affiliated with the generation facilities used to serve AmerenIP, Mr. Lazare did not

490 make a similar calculation for AmerenIP, but elected instead to tie in the proposed
491 increase in AmerenIP A&G costs to the results for AmerenCILCO.

492 **Q. Please comment on Mr. Lazare's calculations.**

493 A. Mr. Lazare's schedule is filled with errors and omissions. As shown on Exhibit 16.10,
494 Schedule 2, I have corrected Mr. Lazare's analysis, and have highlighted the necessary
495 changes to his schedules. As corrected, Mr. Lazare's proposed A&G disallowance would
496 result in a decrease in A&G costs from the Ameren Companies' proposal of \$1.6 million
497 instead of \$67.6 million as Mr. Lazare testifies.

498 **Q. Were corrections made to both formulas and inputted data?**

499 A. While I do not believe Mr. Lazare's underlying methodology is appropriate, I did not
500 alter any of his formulas when correcting his schedules.

501 **Q. Have you identified corrections to inputted data?**

502 A. Yes. I have highlighted inputted data corrections in bold.

503 **Q. Please list the corrections you have made to Mr. Lazare's Exhibit 6.0, Schedule 6.3,**
504 **Page 1 of 2.**

505 A. Top of page 1 – Exhibit number, schedule number, and heading has been changed.

506 Page 1, Line No. 8 – AmerenCIPS Total amount has been corrected.

507 Page 1, Line No. 9 – AmerenCILCO Total amount has been corrected.

508 Page 1, Line No. 11 – AmerenEnergy Resources has been added.

509 Page 1, Line No. 12 – The name and amount have been corrected.

510 Page 1, Line No. 13 – AmerenEnergy Resources Generating has been added.

511 Page 1, Line No. 14 – AmerenEnergy has been added.

512 Page 1, Line No. 15 – AmerenEnergy Marketing amount has been corrected.

513 Page 1, Line No. 16 – AmerenEnergy Fuels, Svcs. amount has been corrected.

514 Page 1, Line No. 17 – AmerenCIPS Sales Expense has been added.

515 Page 1, Line No. 18 – AmerenCILCO Sales Expense has been added.

516 Page 1, Line No. 23 – AmerenCILCO allocator source has been further detailed.

517 Page 1, Line No. 25 – AmerenCIPS source has been corrected.

518 Page 1, Line No. 26 – AmerenCILCO source has been corrected.

519 **Q. Please list the corrections you have made to Mr. Lazare’s Exhibit 6.0, Schedule 6.3,**

520 **Page 2 of 2.**

521 A. Top of page 2 – Exhibit number, schedule number, and heading has been changed.

522 Page 2, Line No. 5 – AmerenCIPS Company Proposed number has been updated.

523 Page 1, Line No. 6 –AmerenCILCO Company Proposed number has been updated.

524 Page 2, Line No. 15 – AmerenIP Company Proposed number has been updated.

525 **Q. Please discuss why the corrections were made to Page 1, Lines 8 and 9.**

526 A. Mr. Lazare used unadjusted 2004 AMS cost data for AmerenCIPS and AmerenCILCO.

527 This data is outdated and is not consistent with what the Ameren Companies have

528 presented on a pro forma basis. By using 2004 unadjusted data, Mr. Lazare is in effect

529 double counting an A&G reduction already presented by the Ameren Companies in its

530 pro forma exhibits for AmerenCIPS and AmerenCILCO. The first two corrections,

531 therefore, reflect the lower adjusted test year A&G related-AMS expenses included in the

532 proposed revenue requirement for AmerenCIPS and AmerenCILCO.

533 **Q. Please discuss why AmerenEnergy Resources, AmerenEnergy Resources**

534 **Generating, AmerenEnergy, AmerenCIPS sales expense, and AmerenCILCO sales**

535 **expense have been added.**

536 A. Mr. Lazare's version of a virtually integrated power company only includes a portion of
537 the companies and cost components necessary to present the full picture. Mr. Lazare's
538 analysis failed to include AmerenEnergy Resources, which is the parent company of the
539 generating companies owning the former AmerenCIPS and AmerenCILCO production
540 assets. Mr. Lazare also failed to include AmerenEnergy Resources Generating, which
541 owns the former AmerenCILCO production assets. Mr. Lazare failed to include
542 AmerenEnergy, which is the short-term trading company for the power supply produced
543 by the former AmerenCIPS and AmerenCILCO production assets. Mr. Lazare failed to
544 include AmerenCIPS and AmerenCILCO sales expense, which have traditionally been
545 assigned to the production function. Schedule WP-AD-008-1f from Docket No. 00-0802
546 (Exhibit 16. 10, p.1, line 24), which is relied on by Mr. Lazare, shows that sales labor was
547 considered a component of the production function in that case. To be consistent, sales
548 expense should be included as a component of production under Mr. Lazare's analysis.
549 Therefore, sales expenses have been added back here. It should be noted that sales
550 expense has also been excluded from the Ameren Companies' proposed level of
551 operating expense assigned to the distribution function in the current rate proceedings.

552 **Q. Please explain what the amounts represent as shown on lines 11 through 18.**

553 A. These amounts represent the A&G-related AMS costs for the same period used by the
554 Ameren Companies in developing the pro forma revenue requirement for AmerenCIPS
555 and AmerenCILCO.

556 **Q. Please explain why the amounts shown on Page 2, Lines 5, 6, and 15 have been**
557 **adjusted.**

558 A. These amounts represent the Ameren Companies' proposed A&G expense included in
559 Rebuttal Revenue Requirement.

560 **Electricity Distribution Tax**

561 **Q. Please explain the adjustment to electricity distribution tax shown on Exhibit 16.2,**
562 **Schedule 1, Page 3.**

563 A. In responding to Data Request BCJ 12.01, it became apparent that the pro forma
564 calculation of electricity distribution tax for AmerenCIPS included the wrong kWh sales.
565 In that response, the Ameren Companies provided the corrected amount, and the
566 correction is summarized on Exhibit 16.2, Schedule 1, Page 3.

567 **Income Tax Expenses**

568 **Q. Please respond to AG witness Effron's recommendations to adjust income tax**
569 **expenses.**

570 A. If I understand Mr. Effron's testimony correctly, I believe he has calculated income tax
571 expense consistent with the approach used by Staff and the Ameren Companies. As a
572 result, differences in the resulting income tax expense for the Ameren Companies as
573 compared to Staff and AG are the result of the impact on such expense of adjustments
574 proposed by said parties, and not due to differences in the underlying methodology.

575 **General and Intangible Plant and Expenses**

576 **Q. Please respond to Staff's recommendation to disallow General and Intangible Plant**
577 **and Expenses, as shown on ICC Staff Exhibit 1.0, Schedule 1.08.**

578 A. Staff witness Lazare's proposed disallowance is inappropriate for the reasons given in the
579 Rebuttal Testimony of witness Mr. Michael Adams. The expense disallowance has been
580 added back on Exhibit 16.1, 16.2, and 16.3, Schedule 1, Page 3 and the Rate Base
581 disallowance has been added back on Exhibit 16.1, 16.2, and 16.3, Schedule 2, Page 2.

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Ameren Services (“AMS”) General and Intangible Plant

Q. Do you agree with Staff’s recommendation to disallow recovery of AMS General and Intangible Plant (Staff Ex. 3.0, pp. 10-15)?

A. Yes. The Ameren Companies agree with Staff that with the material investment in such plant is recouped through the AMS billing process, and concur with Staff’s recommendation to remove such plant in these proceedings. There is one minor correction required for AmerenCIPS, however. In response to Ameren Data Request 10.02, Staff acknowledged that the AMS Plant adjustment was slightly overstated. This correction is shown on Exhibit 16.2, Schedule 2, Page 2.

Cash Working Capital

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. Staff witness Ebrey has proposed an expense lead time of 90 days, AG witness Effron had proposed an expense lead time of 91.25 days, and Wal-Mart witness Selecky has proposed an expense lead time of 91.5 days. All three approaches are very similar. The Ameren Companies believe that use of 91.25 days is more technically correct, based upon the underlying rationale presented by these witnesses. Therefore, in an attempt to resolve this issue, the Ameren Companies have utilized 91.25 days to calculate its Rebuttal Revenue Requirement. Has Cash Working Capital been recalculated to reflect other changes to the Ameren Companies Revenue Requirement and changes to certain interest expense lead days?

604 A. Yes. As further discussed in the Rebuttal Testimony of Mr. Adams, certain adjustments
605 have been made to the calculation of cash working capital. The adjusted calculation is
606 shown on Exhibits 16.1, 16.2, and 16.3, Schedule 2, Page 3 for the Ameren Companies.

607 **Materials and Supplies**

608 **Q. Do you agree with Staff’s recommendation to decrease the Ameren Companies’ test**
609 **year Materials and Supplies inventory balances? (Staff Ex. 2.0, pp. 20-21.)**

610 A. In order to limit the number of issues in these proceedings, the Ameren Companies
611 accept Staff’s adjustment to decrease the test year Materials and Supplies inventory
612 balances.

613 **Accumulated Deferred Income Taxes**

614 **Q. Please respond to Staff’s concern that the Ameren Companies have failed to account**
615 **for the impact of pro forma plant adjustments on Accumulated Deferred Income**
616 **Taxes (“ADIT”). (Staff Ex. 2.0, pp. 21-22.)**

617 A. In response to Data Requests TEE 7.01-7.05 provided to Staff on April 24, the impact of
618 ADIT on the requested pro forma plant adjustments was quantified. Staff, however, did
619 not reflect this adjustment in its direct case filing. Therefore, this adjustment has been
620 reflected in the Ameren Companies’ Rebuttal Revenue Requirement and is detailed on
621 Exhibit 16.11 and shown on Exhibit 16.3, Schedule 2, Page 2.

622 **Q. Mr. Effron claims that the OPEB liability and related deferred taxes should be**
623 **treated on a consistent basis. Do you agree? (06-0070, -71, and -72 AG Ex. 1.0, pp.**
624 **7-9.)**

625 A. Yes. The Company is proposing an adjustment to remove the OPEB-related ADIT in
626 account 190 for each of the Ameren Companies. This adjustment is set forth on Exhibit
627 16.12 and is also shown on Exhibits 16.1, 16.2, and 16.3, Schedule 2, Page 2. This

628 adjustment has the effect of excluding the OPEB-related ADIT from rate base consistent
629 with exclusion of the underlying OPEB liability from rate base. In his Rebuttal
630 Testimony, Mr. Vogl discusses reasons why the OPEB liability should be excluded from
631 Rate Base.

632 **Q. Do you agree with AG witness David Effron’s testimony that Ameren CILCO’s net**
633 **rate base deduction for ADIT should be reduced by \$9,817,000? (06-0070 AG Ex.**
634 **1.0, p. 9.)**

635 A. Yes. In response to Data Request AG 3.5, the Company noted certain errors in the
636 Account 190 balance of ADIT. This adjustment is summarized on Exhibit 16.1, Schedule
637 2, Page 2.

638 **Customer Service System Integration**

639 **Q. Please respond to Staff’s adjustment to Pro Forma Plant Additions (Staff Ex. 2.0,**
640 **pp. 20).**

641 A. The Ameren Companies have only recently received workpapers detailing Staff’s
642 proposed disallowance on May 16, 2006, even though Ameren’s first Data Request
643 submitted to Staff on April 21 requested that Staff submit supporting workpapers at the
644 time of its Direct Case Filing on April 26. As a result, the Ameren Companies are still
645 reviewing and trying to understand what exact charges are proposed for disallowance on
646 this project. The Ameren Companies reserve the right to submit additional evidence on
647 this proposed adjustment.

648 **Q. When was the detailed information for this project requested by Staff?**

649 A. The information was requested as part of Staff’s field work audit, which commenced on
650 January 23, 2006.

651 **Q. When was the detailed information provided to Staff?**

652 A. The information was provided to Staff on January 30, 2006.

653 **Q. Did Staff indicate that the submitted information was inadequate?**

654 A. I do not recall any verbal or written communication received regarding inadequate
655 support for this project.

656 **Q. Was Staff informed that the actual project cost was higher than the amount**
657 **included in the Company's filing?**

658 A. Yes. Staff was informed during the week of January 23, 2006 that the actual project cost
659 exceeded \$12 million, as compared to the Ameren Companies' filed amount of \$11.939
660 million. The detailed information submitted to Staff on January 30, 2006 showed costs to
661 date of \$12.131 million.

662 **Q. In calculating its proposed disallowance, did Staff adjust its calculation for the**
663 **higher actual amount submitted in the detailed information provided on January**
664 **30, 2006?**

665 A. No. Staff's adjustment in ICC Staff Exhibit 2.0, Schedule 2.03 (IPC) shows that the
666 starting point for Staff's adjustment is the Ameren Companies' original filed numbers. In
667 addition, the workpapers supporting the proposed disallowance provided by Staff on May
668 16, 2006 also indicate that the disallowance was based on the lower filed amount.

669 **Q. Did Staff send any formal Data Requests asking for either updated cost amounts or**
670 **for additional supporting documentation for this project?**

671 A. No formal or informal Data Requests were received by the Ameren Companies
672 requesting either updated cost information or additional supporting documentation for
673 what Staff now claims to be unsupported costs.

674 **Q. Did the Ameren Companies submit any additional cost information to other parties**
675 **in these proceedings?**

676 A. Yes. In response to Data Request AG 3-98, the Ameren Companies submitted actual
677 costs of \$12,724,111 for this project booked through February 2006. This response was
678 submitted to AG, Staff, and other parties on March 21, 2006.

679 **Q. Did AG, Staff, or any other party receiving this response propose an adjustment to**
680 **reflect this higher cost information in their filed direct testimony?**

681 A. No.

682 **Q. What is the actual cost of the project booked through April 2006?**

683 A. The actual cost is \$12,739,446 compared with the Company's original filed estimate of
684 \$11,939,000.

685 **Q. Has the Ameren Companies recalculated the pro forma adjustments to consider the**
686 **electric distribution share of this higher cost number?**

687 A. Yes. The calculation is shown on Exhibit 16.13.

688 **Q. Is it appropriate to include the actual costs for this project in determination of rates**
689 **in these proceeding?**

690 A. Yes. The actual costs are known and measurable. The underlying assets are being used
691 in the provision of service to customers. As discussed above, the Ameren Companies are
692 still reviewing Staff's workpapers to assess whether there is any validity to Staff's
693 adjustment against the lower dollar amount originally requested.

694 **Plant Additions**

695 **Q. Please respond to Staff's adjustments to Plant Additions (Staff Ex. 2.0, pp. 16-20).**

696 A. As discussed previously, the Ameren Companies just recently received workpapers
697 detailing Staff's proposed disallowance on May 16, 2006, even though Ameren's first

698 Data Request submitted to Staff on April 21, 2006 requested that Staff submit supporting
699 workpapers at the time of its Direct Case Filing on April 26, 2006. As a result, the
700 Ameren Companies are still reviewing and trying to understand what exact charges are
701 proposed for disallowance. Unlike the Pro Forma Additions adjustment submitted above,
702 the Ameren Companies were able to partially determine the proposed disallowance in
703 advance of receipt of workpapers on May 16, 2006. As a result, the Ameren Companies
704 are providing direct support of its costs available to date, such as invoices from vendors,
705 contracts for work performed, and legible copies of invoices where Staff indicated such
706 data was illegible, and indirect support, based on a sampling of expense statements listed
707 as unsupported. This support is provided in Exhibit 16.14.

708 **Q. When was the detailed information for these projects provided to Staff?**

709 A. All requested information was provided to Staff during the time frame of January 25
710 through February 23, 2006.

711 **Q. What was the scope of Staff's review?**

712 A. Staff reviewed thousands of invoices in support of about 35 projects.

713 **Q. Did Staff indicate concern with the fact that certain invoices were missing?**

714 A. Yes. Staff did indicate concern with certain missing invoices. The expressed scope of
715 concern was primarily focused on invoices that could not be located or had inadvertently
716 been destroyed, as was the case with respect to invoices housed at a particular
717 AmerenCILCO storage location.

718 **Q. Did Staff ever indicate to Ameren representatives that missing documentation was**
719 **of sufficient scope to result in a proposed Rate Base disallowance?**

720 A. No. On two occasions during Staff's last week of on site field work (February 14-17,
721 2006), I asked Staff representative Diana Hetherington, who was assisting Staff witness
722 Teresa Ebrey with the on-site portion of the field work audit, whether Staff would require
723 the Ameren Companies to perform additional follow-up research regarding unsupported
724 costs. To the best of my knowledge, neither Ms. Ebrey nor Ms. Hetherington requested
725 that the Ameren Companies perform follow-up research.

726 **Q. Was Staff obligated to inform the Ameren Companies that additional follow-up was**
727 **needed?**

728 A. Staff was not obligated to request such follow-up, under the circumstances, although
729 Ameren Companies expected that such communication would be forthcoming if Staff
730 determined that the scope of the missing documentation was sufficient to warrant a
731 proposed Rate Base disallowance.

732 **Q. Did Ameren representatives offer a potential alternative for the missing invoices?**

733 A. Yes. On the next-to-last day of Staff's field work (February 16, 2006), I orally offered to
734 Ms. Hetherington the option of having the Ameren Companies request the missing
735 invoices from third party vendors. At that time, my understanding was that if Staff
736 deemed the missing information to be material, the Ameren Companies would have the
737 opportunity to rectify the situation by pursuing documentation directly from the vendors
738 providing goods and/or services. The oral Staff response was that Staff would let the
739 Company know if that was needed.

740 **Q. Did Staff provide any oral or written follow-up regarding missing invoices or other**
741 **alleged unsupported costs, or send any formal Data Requests asking for either**
742 **updated cost amounts or for additional supporting documentation for the projects?**

743 A. No oral or written requests were received by the Ameren Companies requesting
744 additional supporting documentation for what Staff now alleges to be unsupported costs.

745 **Q. Did Staff send any written Data Requests for additional support for proposed**
746 **disallowed costs?**

747 A. No. While Staff did request support in the form of contracts, invoices, and other
748 supporting documentation for other projects outside the scope of Staff's field work audit,
749 no formal written Data Requests were issued for the projects that are the subject of
750 Staff's proposed Rate Base disallowance.

751 **Q. You indicate above that Staff did request support for other projects in the form of**
752 **contracts. Did Staff ever indicate to the Company that contracts would be an**
753 **acceptable alternative for missing invoices for the projects that are the subject of the**
754 **Rate Base disallowance?**

755 A. No. As indicated above, however, the Ameren Companies have since obtained contracts
756 that support a portion of the proposed disallowed costs.

757 **Q. Did Staff request a more legible copy of invoices that were deemed to be illegible**
758 **prior to its direct case filing proposing the Rate Base disallowance?**

759 A. No.

760 **Q. You made reference to expense statements previously. Did Staff propose to disallow**
761 **employee expenses for the some of the projects?**

762 A. Yes, for certain projects.

763 **Q. Did Staff give any indication prior to filing its direct testimony that employee**
764 **expenses for those projects would be disallowed?**

765 A. No. During the first week of Staff's field audit, I informed Staff witness Ms. Ebrey that
766 pulling expense statements would be more time consuming than pulling straight invoices,
767 and costs for employee expenses were not material. In response, Ms. Ebrey indicated
768 that it was not necessary to pull expense statements at that time. To my knowledge, Ms.
769 Ebrey gave no indication that she had reconsidered her position regarding pulling of
770 expense statements at any later time.

771 **Q. Have you reviewed the calculation of Adjustment to Plant Additions presented on**
772 **ICC Exhibit 2.0, Schedule 2.02, page 2 of 3, for each of the Ameren Companies?**

773 A. Yes.

774 **Q. In the calculation of Adjustment to Plant Additions, Staff cites Company Schedule**
775 **B-5 as the source for 2001-2004 Plant Additions. What information is presented on**
776 **Schedule B-5?**

777 A. Schedule B-5 presents information on Gross Additions, Retirements, Adjustments, and
778 Transfers for the period of 2001-2004.

779 **Q. What portion of the information shown on Schedule B-5 has Staff used to calculate**
780 **its adjustment?**

781 A. Staff has reflected only Gross Additions from Schedule B-5.

782 **Q. Is that correct?**

783 A. No. The underlying assumption that all recorded Gross Additions during 2001-2004 are
784 still in Test Year Rate Base is generally correct. While it would be extremely time
785 consuming to fully assess the validity of this assumption with regard to all accounts, I
786 note that in the area of Intangible Plant for AmerenCILCO and AmerenCIPS, some

787 recorded gross additions can be tied to related retirements or transfers, and should be
788 removed from the calculation shown on Schedule 2.02, Page 2 of 3.

789 **Q. What adjustments to Intangible Plant have you identified for AmerenCILCO?**

790 A. Account 303 recorded Plant Additions of \$10,061 in 2003 that were retired in that same
791 year. The year-end 2003 Plant balance in account 303 is \$0. Also, as evidenced on
792 Schedule B-1, the unadjusted Test Year Balance in account 303 is \$0. Therefore, these
793 additions are clearly not in Rate Base, and should not be adjusted downward. To do so
794 results in a negative balance for account 303 before pro forma adjustments, which is
795 simply not correct.

796 **Q. What adjustments to Intangible Plant have you identified for AmerenCIPS?**

797 A. Account 303 recorded Plant Additions of \$10,094 in 2002 that were transferred out of
798 utility plant in 2003. This is evidenced by year-end 2003 Plant balance in account 303
799 showing a balance of \$0. This is also evidenced on Schedule B-1, where the unadjusted
800 Test Year Balance in account 303 is \$0. Therefore, these additions are clearly not in Rate
801 Base, and should not be adjusted downward. Again, to do so results in a negative balance
802 for account 303, which is simply not correct.

803 **Q. Have you recalculated Staff's adjustment based on the additional supporting
804 documentation obtained to date and corrections noted above?**

805 A. Yes. These calculations are set forth on Exhibit 16.14.

806 **Q. Is the Ameren Companies' Rebuttal Revenue Requirement based on the
807 calculations set forth on Exhibit 16.14?**

808 A. No. The Ameren Companies believe that no adjustment is warranted, given the evidence
809 submitted above, and object to Staff's recommended disallowance. Therefore, the

810 proposed disallowance for each Company has been reinstated in its entirety on Exhibits
811 16.1, 16.2, and 16.3.

812 **Q. Are the Ameren Companies continuing to obtain additional supporting**
813 **documentation?**

814 A. Yes. Such review is ongoing, and the Ameren Companies reserve the right to provide
815 additional documentation of disallowed costs.

816 **Adjustments to Rider MV**

817 **Q: Please respond to Staff's recommendation that SPA Costs should be allocated based**
818 **on kilowatt hour of power purchased. (Staff Ex. 2.0, pp. 22-24.)**

819 A: The Ameren Companies would agree to allocate SPA Costs based on kilowatt hours of
820 power purchased. The allocation by Company based upon the percentages shown by Ms.
821 Ebrey at page 24, lines 456 and 457 of her Direct Testimony is acceptable. While this
822 establishes the allocation of total SPA costs to be recovered by Company, the actual
823 amount to be recovered by Company will be based on the amount of costs that the
824 Commission ultimately assigns to the SPA in this proceeding. Attached is Exhibit 16.15,
825 Schedule 1, which summarizes the positions of the parties in these proceedings regarding
826 the explicit level of costs being assigned to the power supply administration function, to
827 be recovered through the SPA in this proceeding. As discussed in the Rebuttal
828 Testimony of Company witness Mr. Wil Cooper, the Ameren Companies are proposing
829 that total SPA costs by Company will be divided by jurisdictional forecasted power and
830 energy sales to establish recovery of SPA costs through the Ameren Companies' Rider
831 Market Value and its associated Market Value Adjustment Factor mechanism.

832 **Q: What costs are eligible for recovery under the SPA?**

833 A: The express language in the SPA states in relevant part: “This adjustment shall also
834 include all costs including capital and operating costs for generation resources incurred
835 outside of the CPA process and any costs assigned to the power supply administration
836 function in the Company’s delivery service rate cases, as approved by the Commission
837 from time to time.”

838 **Q: Have you reviewed evidence submitted by Staff and Intervenors regarding costs**
839 **that are proposed for recovery under the SPA?**

840 A: Yes. As stated above, Staff and Intervenors have explicitly recommended that certain
841 costs be recovered under the SPA rather than recovered through delivery service rates, as
842 summarized on Exhibit 16.15, Schedule 1.

843 **Q: Are the adjustments to A&G expense and G&I plant proposed by Staff witness**
844 **Lazare and IIEC witness Chalfant eligible for recovery under the SPA?**

845 A: A review of both proposals indicate that a large majority of the proposed adjustments are
846 structured to shift costs to the generation/production business line, as shown on Exhibit
847 16.15, Schedules 2 and 3. Neither Mr. Lazare nor Mr. Chalfant have offered a
848 recommendation in evidence as to how such costs can be recovered under their proposals.
849 I do not believe the SPA was originally drafted in contemplation of the extreme
850 positions taken by Mr. Lazare and Mr. Chalfant in these proceedings. Nevertheless,
851 inclusion of such costs for recovery through the SPA may be appropriate, given the
852 underlying methodology employed by both Mr. Lazare and Mr. Chalfant, which is
853 premised on a transfer of costs from the distribution business line to the
854 generation/production business line.

855 **Q: Please respond to Staff's recommendation to, in the future, recalculate the Cash**
856 **Working Capital rate recovered through the SPA.**

857 A: The Ameren Companies would agree to recalculate the Cash Working Capital rate in
858 future DS rate cases.

859 **Certificates of Publication**

860 **Q. Have the Ameren Companies published notice of their filing in compliance with**
861 **Part 255 of the Commission's Rules?**

862 A. Yes, they have. Certificates to this effect are attached as Exhibit 16.16.

863 **Conclusion**

864 **Q. Does this conclude your rebuttal testimony?**

865 A. Yes, it does.

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