

**ILLINOIS COMMERCE COMMISSION  
DOCKET NOS. 06-0070/06-0071/06-0072 (CONS.)**

**SURREBUTTAL TESTIMONY**

**OF**

**MICHAEL J. ADAMS**

**Submitted On Behalf**

**Of**

**AMEREN COMPANIES**

**July 14, 2006**

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4 **I. Introduction and Witness Qualifications**

5 **Q. Please state your name.**

6 A. My name is Michael J. Adams. My business address is 77 South Bedford Street, Suite  
7 400, Burlington, Massachusetts 01803.

8 **Q. Are you the same Michael J. Adams who previously submitted direct and rebuttal**  
9 **testimony in this proceeding?**

10 A. Yes, I am.

11 **Q. On behalf of which parties are you presenting this surrebuttal testimony?**

12 A. I am sponsoring this testimony on behalf of Central Illinois Light Company d/b/a  
13 AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS and Illinois  
14 Power Company d/b/a AmerenIP (referred to individually as the "Company" and  
15 collectively as the "Companies").

16 **II. Purpose and Scope**

17 **Q. What is the purpose of your surrebuttal testimony?**

18 A. The purpose of my surrebuttal testimony is to respond to certain issues raised by Staff  
19 witnesses Lazare and Ebrey, and Industrial Intervenors Energy Consumers ("IIEC")  
20 witness Chalfant. The specific issues which I will address pertain to the assignment and  
21 allocation of General and Intangible ("G&I") Plant and the Companies' cash working

22 capital ("CWC") requirements.

23 **Q. Are you sponsoring any schedules?**

24 A. Yes, in addition to my surrebuttal testimony, I am sponsoring Ameren Exhibit Nos. 37.1  
25 through 37.12.

26 **III. Functionalization of General and Intangible Plant**

27 **Q. Have you reviewed the rebuttal testimonies of Staff witness Lazare and IIEC**  
28 **witness Chalfant?**

29 A. Yes, I have.

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

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

35 **Q. What is the premise of Staff witness Lazare's and IIEC witness Chalfant's proposed**  
36 **adjustments to the Companies' G&I plant levels?**

37 A. Both Staff witness Lazare and IIEC witness Chalfant base their proposed adjustments on  
38 the Commission's Orders in each Company's last delivery service tariff ("DST")  
39 proceeding. In the last DST proceedings, AmerenCIPS used a calendar year 1999 test  
40 year (Docket No. 00-0802); while CILCO and IP both used calendar year 2000 test years  
41 (Docket Nos. 01-0645 and 01-0432, respectively).

42 **Q. Please summarize your response to Staff witness Lazare and IIEC witness Chalfant.**

43 A. My position can be summarized as follows:

- 44 • To adopt the position of Staff witness Lazare and IIEC witness Chalfant, the  
45 Commission must conclude, despite all evidence to the contrary, either that: (i) the  
46 G&I plant assets on the utilities' books are being used by the Companies' affiliates'  
47 non-regulated generation businesses, or (ii) the assets are not being used in support of  
48 the Companies' regulated electric businesses.
- 49 • Neither of the propositions is correct.
- 50 • AmerenIP is the clearest example. Ameren did not acquire any of the generation that,  
51 according to Staff witness Lazare and IIEC witness Chalfant, the G&I plant on  
52 AmerenIP's books supposedly supports. Accordingly, their position is flat wrong,  
53 and fully contradicted by the facts.
- 54 • Also, Staff witness Lazare and IIEC witness Chalfant rely on out-dated test years.
- 55 • Staff witness Lazare's calculations would remove from rate base plant that is no  
56 longer in rate base.
- 57 • The modification of Staff witness Lazare's calculation to reflect the plant has already  
58 been removed from rate base drastically reduces his adjustments.

59 **Q. Before getting into the specific flaws with both Staff witness Lazare's and IIEC**  
60 **witness Chalfant's proposed adjustments, do you have any preliminary remarks**  
61 **concerning their recommendations?**

62 A. Yes. The Companies have submitted detailed studies of the G&I plant and the  
63 appropriate allocation and assignment of the assets to the electric transmission, electric

64 distribution, gas and the electric generation businesses reflected on the books of the  
65 regulated companies. The Companies' ASP, supported by detailed workpapers, shows on  
66 an account-by-account basis the assets which are included in the Companies' proposed  
67 rate base in these proceedings. The ASP shows the allocator used to assign the cost of  
68 the plant to the various lines of business reflected on the books of the regulated  
69 companies and the calculation of each allocator.

70 Neither Staff witness Lazare nor IIEC witness Chalfant has challenged the  
71 studies, despite having been provided with the workpapers supporting the analyses. Staff  
72 and the IIEC have ignored the evidence and instead opted for allocations and assignments  
73 from previous DST proceedings which are more to their liking, regardless of the  
74 applicability of those findings to the current day utilities' operations.

75 The sole basis for both Staff witness Lazare and IIEC witness Chalfant's proposed  
76 adjustment to the level of G&I plant in this proceeding is the Commission's decision in  
77 each of the Companies' most recent DST proceedings. Both witnesses merely assume  
78 the Commission's decision from the previous DST proceedings remain applicable to the  
79 current operating environment and make their proposed adjustments accordingly, with  
80 total disregard for the facts in these proceedings. They propose to disallow significant  
81 amounts of G&I plant without identifying a single asset which they deem to be not used  
82 and useful or imprudently incurred. Further, as I will discuss later, Staff witness Lazare  
83 is proposing to disallow G&I plant which is not even included in the Companies'  
84 requested rate base.

85 **Q. Please elaborate on how Staff witness Lazare and IIEC witness Chalfant have**

86 **disregarded the facts pertaining to the Companies' G&I plant.**

87 A. The test years used in the Companies' last DST proceedings are 4 to 5 years older than  
88 the test year in these proceedings. No party has challenged that calendar year 2004 is an  
89 appropriate test year for these proceedings, yet both Staff witness Lazare and IIEC  
90 witness Chalfant try to bring outdated 4 to 5 year old data into this proceeding without  
91 regard to the applicability of the data.

92 Further, neither Staff witness Lazare nor IIEC witness Chalfant acknowledges  
93 that the business structure of the Companies have changed dramatically since the last  
94 DST proceedings for each of the Companies. In the case of AmerenCIPS, the Company  
95 divested itself of its generation business in 2000, the year after the test year used in its  
96 last DST proceeding. In the case of AmerenCILCO, the Company was acquired by  
97 Ameren and divested itself of its generation business. Both events occurred in 2003, or  
98 three years after the test year for its last DST proceeding. In the case of AmerenIP,  
99 Ameren acquired only the "pipes and wires" businesses and supporting assets (i.e., no  
100 generation business) from Dynegy in 2004.

101 Despite these significant changes, both Staff witness Lazare and IIEC witness  
102 Chalfant want the Commission to ignore these facts and assume that nothing has changed  
103 in the last 4 to 5 years. While the two witnesses may want to ignore these changes (and  
104 how the Companies actually operate in today's environment), it is incumbent upon the  
105 Commission to make its decision in these proceedings based upon the facts from these  
106 proceedings.

107                   To adopt the position of Staff witness Lazare or IIEC witness Chalfant, the  
108 Commission must conclude that, despite the evidence to the contrary, that the G&I plant  
109 assets are being used by the non-regulated generation businesses or that the assets are not  
110 being used in support of the Companies' electric transmission, electric distribution, gas or  
111 electric generation businesses which remain on the books of the regulated companies.  
112 There is no evidence in the record to support either claim, because such positions are  
113 wrong and unsupportable. The G&I plant assets included in rate base in these  
114 proceedings are being used to provide electric distribution services to the Companies'  
115 customers.

116 **Q.   How does Staff witness Lazare and IIEC witness Chalfant propose to treat the G&I**  
117 **plant of AmerenIP?**

118 A.   Not surprisingly both Staff witness Lazare and IIEC witness Chalfant remained silent on  
119 this issue in their rebuttal testimonies because the flaws of their positions are most glaring  
120 in the case of AmerenIP.

121                   Ameren acquired Illinois Power from Dynegy effective October 1, 2004. Only  
122 the "pipes and wires" businesses and the supporting assets were acquired by Ameren.  
123 For Staff witness Lazare's and IIEC witness Chalfant's position to be accepted, the  
124 Commission must conclude that either:

125                   1) The G&I plant which was acquired by Ameren associated with the acquisition  
126                   of Illinois Power's pipes and wires businesses continue to support a  
127                   generation function which is owned by Dynegy; or

128                   2) The G&I plant which was acquired by Ameren associated with the acquisition  
129                   of Illinois Power's pipes and wires businesses is not used to support  
130                   AmerenIP's regulated electric businesses.

131                   There is no evidence in this proceeding to support either position simply because  
132                   neither position is true. More to the point, neither Staff witness Lazare nor IIEC witness  
133                   Chalfant identifies any specific G&I plant assets to disallow. Instead they merely  
134                   concoct a number and deem that amount of G&I plant to be unrelated to the distribution  
135                   business and thus unrecoverable.

136                   **Response to Staff witness Lazare**

137                   **Q.     Staff witness Lazare claims that there are glaring deficiencies in the Companies'**  
138                   **ASP methodology<sup>1</sup>. Do you agree?**

139                   A.     No. The Companies have provided a detailed analysis of all of the G&I plant assets that  
140                   are recorded on the books of the regulated operating utilities. The G&I plant assets are  
141                   assigned or allocated to the electric transmission, electric distribution, gas or electric  
142                   generation businesses which remain on the books of the regulated companies in a manner  
143                   which reflects how the assets are used by the individual lines of business. The assets  
144                   which have been assigned or allocated to the electric distribution business reflect those  
145                   assets which are used by the Companies to provide service to the electric distribution  
146                   customers.

147                   The Companies' ASP and associated workpapers show on an account-by-account

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<sup>1</sup> Rebuttal testimony of Peter Lazare, June 27, 2006, p. 2, lines 42-43.

148 basis the assets that are included in the Companies' proposed rate base in these  
149 proceedings. The ASP shows the allocator used to assign the cost of the plant to the  
150 various lines of business and the calculation of each allocator.

151 Interestingly, Staff witness Lazare has cited no specific deficiencies with the ASP  
152 as to the reasonableness of the allocation or assignment of costs in the study. His sole  
153 criticism is that the ASP does not include the assets recorded on the books of the non-  
154 regulated generation businesses nor does the ASP assign a portion of the costs of the  
155 Companies' G&I plant to the non-regulated generation business. Staff witness Lazare  
156 refers to this perceived shortcoming as the "narrow focus of the ASP."<sup>2</sup>

157 Staff witness Lazare's criticism is a reflection of his failure to acknowledge that  
158 the Companies have changed significantly since the last DST proceedings. By his own  
159 testimony, however, Staff witness Lazare acknowledges that AmerenCIPS and  
160 AmerenCIPS "previously owned" generation facilities<sup>3</sup>. His incorrect assumption is that  
161 the divestiture of the generation facilities of AmerenCIPS and AmerenCILCO would not  
162 affect the allocation of the G&I plant. He fails to concede or acknowledge that the G&I  
163 plant which is used by the non-regulated generation businesses has been transferred to the  
164 books of those businesses, which are separate from the books of the regulated operating  
165 utilities. Company witness Michael J. Getz will discuss further the Company's policies  
166 and procedures for ensuring that the G&I plant assets are properly reflected on the books  
167 of the appropriate company.

168 As I have mentioned previously, the absurdity of Staff witness Lazare's position

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<sup>2</sup> Ibid, p. 2, line 43.

<sup>3</sup> Ibid, p. 3, line 46.

169 is highlighted by his failure to discuss AmerenIP where only the pipes and wire  
170 businesses were acquired by Ameren Corporation. Staff witness Lazare would have the  
171 Commission believe that G&I plant assets which are now owned by Ameren Corporation  
172 are continued to be used by Dynegy, that the assets magically began to support Ameren's  
173 generation facilities, or that the assets are not being used at all. None of these positions  
174 are true. The assets on the books of AmerenIP are used by the Company to provide  
175 service to its customers.

176 **Q. What affect would including the non-regulated generation businesses in the ASP**  
177 **have on the results of the ASP?**

178 A. The results of the ASP would not change if the non-regulated generation businesses were  
179 included in the study. The Companies employed sound cost causation principles when  
180 conducting the ASP. Staff witness Lazare's "analysis" does not follow any cost  
181 causation principles. In fact, his analysis does not even identify the specific assets which  
182 he proposes to disallow. Without identifying specific assets to disallow, how can Staff  
183 witness Lazare know how such assets are used and therefore which lines of business  
184 benefit from the use of the assets? The answer is that he does not know and therefore can  
185 not support his proposed disallowance.

186 **Q. Staff witness Lazare argues that if the functionalization of G&I plant to the**  
187 **regulated utility is a settled issue then the Companies will be permitted to largely**  
188 **determine how these assets should be factored into the development of the utility's**

189 **revenue requirement.<sup>4</sup> How do you respond?**

190 A. It is my belief that one of the purposes of these proceedings is to functionalize the cost of  
191 assets in a manner consistent with the use of those assets. The purpose of the ASP is to  
192 reflect how the G&I plant assets which are on the books of the Companies are actually  
193 used. To the extent that such assets are used by the Companies to provide electric  
194 distribution services to their customers, the Companies should be allowed to recover the  
195 cost of, and a return on, those assets.

196 Instead of determining how the assets are actually used, Staff witness Lazare  
197 proposes to revert back to studies or analyses presented in prior rate proceedings which  
198 employed test years that are 4 to 5 years old and reflected a business environment which  
199 no longer exists. Continuing to rely upon outdated studies or analyses to set rates  
200 prospectively would be poor regulatory policy and would deny the Companies the  
201 opportunity to earn the return of and on those assets which are prudently incurred and  
202 used in the provisioning of electric distribution services.

203 **Q. Staff witness Lazare claims that the Companies have failed to demonstrate that the**  
204 **functionalization of G&I plant between the non-regulated generation businesses and**  
205 **the regulated utilities was performed in a reasonable manner. Please respond to**  
206 **Staff witness Lazare's claim.**

207 A. The fact that the regulated and non-regulated businesses maintain separate financial  
208 books would seem to be sufficient evidence to conclude that the functionalization was

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<sup>4</sup> Ibid, p. 3, lines 65-67.

209 performed in a reasonable manner. As Company witness Getz testifies, the Companies  
210 do not share assets between companies.

211 The Companies have presented a detailed analysis of the G&I plant assets which  
212 are on the books of the regulated utilities and allocated or assigned such assets to the  
213 appropriate line of business which remain on the books of the regulated companies based  
214 upon a review of the actual usage of such assets. The analysis was performed in  
215 consultation with the actual users of the assets.

216 As I discussed in my rebuttal testimony, the G&I plant assets which were used by  
217 the divested generation businesses were transferred to the non-regulated businesses at the  
218 time of divestiture. Company witness Getz discusses further the process used by Ameren  
219 to determine which G&I plant assets would be transferred at the time of divestiture.

220 **Q. Have you prepared exhibits detailing the functionalization of the Companies' G&I**  
221 **plant?**

222 A. Yes. Ameren Exhibit No. 37.1 provides the support for the functionalization of  
223 AmerenCILCO's G&I plant. The exhibit provides plant specific information on an  
224 account-by-account basis, the original cost of the assets, the allocator used to distribute  
225 costs, and the amount assigned to each line of business. Ameren Exhibit Nos. 37.2 and  
226 37.3 provide similar information for AmerenCIPS and AmerenIP. To the extent that the  
227 information was available in the Companies' property records, the location at which the  
228 asset resides is reflected on the exhibits.

229 **Q. Is this information the same data that was provided to the parties in this proceeding**

230 **shortly after the cases were filed?**

231 A. Yes, the information contained in Ameren Exhibit Nos. 37.1, 37.2 and 37.3 is a  
232 reformatted version of the information that was contained in the Companies' ASP  
233 workpapers which were provided to Staff and the other parties shortly after the cases  
234 were filed.

235 **Q. Staff witness Lazare states that "The Commission requires more than unsupported**  
236 **testimonials by Mr. Adams to determine the reasonableness of the Companies'**  
237 **proposed functionalization of G&I plant."**<sup>5</sup> **Please respond.**

238 A. As I have stated in my direct and rebuttal testimonies, the ASP was prepared based upon  
239 discussions with the Companies' employees who are familiar with the actual usage of the  
240 assets in question. It is my belief that such employees are in the best position to have  
241 knowledge of how the assets are used and how best to allocate or assign the costs of such  
242 assets to the various lines of business.

243 **Q. Can you provide specific names and titles of the individuals with whom you**  
244 **communicated during the preparation of the ASP?**

245 A. Yes, Ameren Exhibit No. 37.4 lists the names and titles of some of the individuals with  
246 whom I communicated during the preparation of the ASP. I reached out to individuals  
247 from each of the legacy companies (i.e., CIPS, CILCO and IP) who are familiar with the  
248 assets and how such assets are used in today's operating environment. I relied upon their  
249 first hand knowledge of the use of the specific assets in the G&I plant accounts to prepare

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<sup>5</sup> Ibid, p. 6, lines 139 – 141.

250 the ASP.

251 **Q. Staff witness Lazare states “The process by which the Companies functionalizes**  
252 **G&I plant between the regulated utility and unregulated production affiliates must**  
253 **be presented and explained.”<sup>6</sup> How do you respond?**

254 A. I agree with Staff witness Lazare’s statement, and that is why I presented direct and  
255 rebuttal testimony regarding the functionalization process. Unfortunately, Staff witness  
256 Lazare appears to believe that the functionalization process of G&I plant between the  
257 regulated utility and non-regulated generation businesses is an ongoing process. This is  
258 not the case.

259 As Company witness Getz will discuss further, at the time of divestiture, a  
260 determination was made of which assets were used to support the non-regulated  
261 generation businesses and which were used to support the regulated utility operations.  
262 The assets which were used to support the non-regulated generation businesses were  
263 transferred from the books of the regulated utilities to the books of the non-regulated  
264 generation companies. Ameren Exhibit No. 37.5 is a copy of the appropriate pages from  
265 AmerenCILCO’s 2003 Form 1 annual report to the Federal Energy Regulatory  
266 Commission (“FERC”) which shows that over \$650 million of plant was transferred from  
267 AmerenCILCO’s books to the books of AmerenEnergy Resources Generating Company  
268 (“ARG”) in 2003. Of that amount, approximately \$7 million was associated with G&I  
269 plant which was transferred.<sup>7</sup>

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<sup>6</sup> Ibid, p. 6, lines 141-144.

<sup>7</sup> Includes \$6.2 million of plant transferred from AmerenCILCO Account 316, Misc. Power Plant Equipment and \$0.8 million of plant recorded in AmerenCILCO’s G&I plant accounts.

270 Ameren Exhibit No. 37.6 provides similar pages from AmerenCIPS' 2000 FERC  
 271 Form 1 annual report. The pages show that approximately \$1.3 billion of plant was  
 272 transferred from AmerenCIPS to Ameren Energy Generating Company ("AGC") in  
 273 2000. Of that amount, approximately \$38 million was associated with G&I plant which  
 274 was transferred.<sup>8</sup>

275 Since the remaining assets on the books of Companies reflect the costs of G&I  
 276 plant assets which are used in the provisioning of service to the Companies' customers,  
 277 the costs of such assets were assigned or allocated to the appropriate line of business (i.e.,  
 278 electric transmission, electric distribution, gas and the electric generation lines of  
 279 business which remain on the books of the regulated companies). Such assignments and  
 280 allocations were made based upon consultations with the users of such assets.

281 **Q. Staff witness Lazare implies that the Companies removed "the large majority of**  
 282 **production (and presumably associated G&I plant) from the equation before the**  
 283 **functionalization process began.<sup>9</sup> How do you respond?**

284 A. Without sounding like a broken record, only the G&I plant costs which were on the  
 285 books of the Companies were considered in the ASP. The G&I plant which is on the  
 286 Companies' books reflects those assets which are used to provide service to the  
 287 Companies' customers. No G&I plant which is on the books of the non-regulated  
 288 generation businesses are used in support of the Companies' business operations. No  
 289 G&I plant which is on the books of the Companies is used in support of the non-regulated

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<sup>8</sup> Includes \$35 million of plant transferred from Account 316, Misc. Power Plant Equipment and \$3 million of plant recorded in the G&I plant accounts.

<sup>9</sup> Ibid, pp. 5-6, lines 120-122.

290 generation businesses. Therefore, the ASP considered only those assets and the  
291 associated costs which are used to provide service to the Companies' customers. Such an  
292 approach is reasonable, prudent and should be adopted by the Commission.

293 **Q. Staff witness Lazare offers various criticisms of your presentation in this case, such**  
294 **as “argument falls considerably short of the mark,”<sup>10</sup> “Belated effort,”<sup>11</sup> and**  
295 **“explanation falls woefully short”<sup>12</sup> in his rebuttal in an attempt to undermine the**  
296 **ASP. Please respond.**

297 A. I will leave any arguments regarding the rules of evidence to legal counsel. I will say,  
298 however, that my direct testimony set forth a detailed explanation of how the ASP was  
299 performed. The workpapers supporting the ASP were provided to all parties in these  
300 proceedings shortly after the cases were filed. Not a single data request was received  
301 from Staff witness Lazare concerning the ASP.

302 My rebuttal testimony provided further explanation as to why the non-regulated  
303 businesses were not considered in the ASP.

304 In my opinion, sufficient evidence has been included in the record to support the  
305 reasonableness of the ASP. Despite this evidence, Staff witness. Lazare continues to  
306 ignore the facts supporting the ASP and instead falls back on 4 to 5 year old evidence to  
307 support a position which is not representative of how the Companies operate today, and  
308 instead offers mere sound bytes such as those referenced in the question.

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<sup>10</sup> Ibid, p. 5, line 108.

<sup>11</sup> Ibid, p. 5, line 111.

<sup>12</sup> Ibid, p. 5, line 113.

309 **Q. Are the Companies proposing “a significant change in the functionalization of costs**  
310 **between production, transmission and distribution”<sup>13</sup> as claimed by Mr. Lazare?**

311 A. The Companies' ASP results reflect the appropriate functionalization of the G&I plant  
312 which is being used exclusively by the regulated operating utilities to provide service to  
313 its customers. The functionalization process employed by the ASP reflects the changes in  
314 the structure of the Companies, including the divestiture of most of the generation  
315 function to non-regulated generation businesses.

316 The purpose of this proceeding is to set rates based upon the Companies' costs of  
317 providing service to its' customers during the time period in which the rates will be in  
318 effect and to allow the Companies to earn a fair rate of return on those assets which are  
319 prudently incurred and used and useful in the provisioning of service to the Companies'  
320 customers.

321 Despite Staff witness Lazare's position, how the Companies do business today  
322 has significantly changed from how business was conducted 4 to 5 years ago when the  
323 utilities were still vertically integrated. Clearly the cost structure from 4 to 5 years ago is  
324 not reflective of today's costs. Neither is the functionalization of G&I plant which was  
325 used by the Commission to allocate costs in a vertically integrated utility environment.

326 The ASP reflects the necessary modifications to the functionalization process to  
327 reflect today's operating costs and the actual use of assets which are assigned or allocated  
328 to the regulated utility lines of business.

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<sup>13</sup> Ibid, p. 5, lines 117-118.

329 **Q. Staff witness Lazare claims that “The Commission has concluded that these costs**  
330 **are not conducive to a direct assignment approach and should be instead allocated**  
331 **on a general basis.”<sup>14</sup> Do you agree with Mr. Lazare’s statement?**

332 A. Mr. Lazare is selective in his use of the citation of the Commission’s Order. In the Order  
333 in Docket No. 01-0645, the Commission “note[d] that while it has expressed a preference  
334 for the direct assignment of costs, that preference was subject to the condition that the  
335 costs in question are suited to direct assignment and sufficient cost data is available to  
336 make direct assignments.”<sup>15</sup>

337 The Commission continued “In the Commission’s view, important considerations  
338 in assessing whether costs should be directly assigned to a specific function, or how they  
339 should be allocated among functions, are the nature of the facilities and the type and  
340 scope of activities for which they are used.”<sup>16</sup>

341 The ASP examined the nature of the facilities and the type and scope of activities  
342 for which the G&I plant was used, per the guidance from the Commission. While some  
343 of the assets were direct assigned to the electric distribution business, most of the assets  
344 were allocated between the Companies’ regulated utility lines of business, reflecting that  
345 the assets were used in the provisioning of service to all of the Companies’ customers,  
346 not just the electric distribution customers.

347 Mr. Lazare would have the Commission believe that the Companies’ commercial  
348 office buildings in Marion, Quincy, Lincoln, Decatur, Springfield or elsewhere

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<sup>14</sup> Ibid, p. 5, lines 117-118.

<sup>15</sup> Order in Docket No. 01-0645, p. 34.

<sup>16</sup> Ibid, p. 34.

349 throughout state are used by the non-regulated generation businesses. To the contrary,  
350 these facilities house crews which are responsible for operating and maintaining the pipes  
351 and wires businesses in these communities. These crews (and the assets that they use) do  
352 not spend portions of their time at the non-regulated generation businesses' facilities.  
353 They begin their days at the commercial offices. During the day, they are in the field  
354 constructing and maintaining the Companies' pipes and wires. At the end of the day, the  
355 crews return to the commercial office and store their equipment on the grounds overnight.

356 Accordingly, there would be no reasonable or valid basis for assigning or  
357 allocating any portion of that G&I plant away from the distribution utilities. That,  
358 however, is precisely what Mr. Lazare does.

359 **Q. Staff witness Lazare claims in his rebuttal testimony that “Costs are not conducive**  
360 **to a direct assignment approach.”<sup>17</sup> Do you agree?**

361 A. No. Once the usage of the G&I plant assets is determined, the costs can be direct  
362 assigned to one or more of the lines of business. For example, if a bucket truck is used  
363 exclusively by the electric distribution business, the cost of the vehicle can be direct  
364 assigned to the electric distribution business. If the asset is used by both the electric  
365 transmission and the electric distribution business, but not the gas business, the cost can  
366 be directly assigned to the electric transmission and electric distribution businesses and  
367 allocated between the two businesses based upon its actual usage or a proxy for its usage.

368 The underlying assumption in Staff witness Lazare's position is that all G&I plant

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<sup>17</sup> Lazare Rebuttal, p. 7, lines 158-159.

369 serves all lines of business. That assumption is unsupported by any facts or analysis.

370 **Q. Staff witness Lazare concludes that “there is no reasonable alternative to Staff’s**  
371 **approach in this proceeding.”<sup>18</sup> Do you agree?**

372 A. No. The Companies’ ASP is the only methodology that reviewed the nature of the  
373 facilities and the type and scope of activities for which they are used, per the  
374 Commission’s guidance in Docket No. 01-0645. The ASP methodology reflects the G&I  
375 plant that was on the books of the Companies as of December 31, 2004 and reflects how  
376 those assets are actually used in the Companies’ current operating environment.

377 Interestingly, the Staff “approach” is not what one could ever reasonably deem to  
378 be an “analysis.” Staff witness Lazare merely attempts to use prior DST orders as a  
379 starting point, based upon information which is 4 to 5 years old. He ignores the fact that  
380 the Companies have divested most of the electric generation assets and the G&I plant that  
381 supports the non-regulated generation plant. He ignores all evidence as to the nature and  
382 use of the assets. Staff witness Lazare’s position is, at best, superficial, and is  
383 inconsistent with the purpose of and evidence in these proceedings.

384 **Q. Do you agree with the quantification of Staff witness Lazare’s proposed adjustment**  
385 **to G&I plant?**

386 A. No. Staff witness Lazare’s quantification of his proposed adjustment to G&I plant fails  
387 to reflect that the costs associated with many of the assets which he is proposing to  
388 disallow are not even included in the Companies’ rate base in this proceeding.

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<sup>18</sup> Ibid, p. 7, lines 167-168.

389 **Q. Please elaborate.**

390 A. To quantify his proposed disallowance, Staff witness Lazare relied upon the Companies'  
 391 responses to data requests. In a series of six data requests (PL-2.01 through PL-2.06),  
 392 Staff witness Lazare requested that the Companies quantify the impact of using the ASP  
 393 on plant in service for the test year used in the Companies' last DST proceedings. Staff  
 394 witness Lazare proceeded to take the information and quantify his proposed  
 395 disallowance.

396 Staff witness Lazare's quantification is flawed. The amount that he proposes to  
 397 disallow is seriously overstated. For example, since he relied upon G&I plant in service  
 398 as of December 31, 2000 for AmerenCILCO, his proposed disallowance would include  
 399 plant which has already been transferred to the non-regulated generation company (i.e.,  
 400 ARG) which was formed in 2003. Similarly with AmerenCIPS, Staff witness Lazare  
 401 employs information as of December 31, 1999 to quantify his proposed adjustment. The  
 402 non-regulated generation company AGC, which consists primarily of AmerenCIPS'  
 403 former generation facilities was formed in 2000 and the assets would have been  
 404 transferred from the Company's books to AGC in 2000.

405 For both AmerenCILCO and AmerenCIPS, the G&I plant which was transferred  
 406 to ARG and AGC would already have been removed from the Companies' proposed rate  
 407 base in these proceedings. Therefore, Staff witness Lazare is proposing to disallow plant  
 408 which is not even included in rate base.

409 IP's 2000 test year used in its last DST proceeding included significant amounts

410 of intangible plant associated with information systems which were used by the  
 411 Company. Since the acquisition of IP by Ameren, many of the systems on the books of  
 412 IP have been written off by Ameren. Despite the fact that the intangible plant has been  
 413 written off since AmerenIP's last DST proceeding and is not included in rate base in  
 414 these proceedings, Staff witness Lazare is proposing to disallow a portion of the  
 415 intangible plant which is no longer even on the books of the Company.

416 Staff witness Lazare's position also fails to recognize the further amortization or  
 417 depreciation of the G&I plant assets which were on the books of the Companies as of  
 418 December 31, 1999 or 2000. For example, most intangible plant has an amortized life of  
 419 five years. Therefore, most if not all of the intangible plant which was on the  
 420 Companies' books in the last DST proceedings would be fully amortized and have a net  
 421 book value of zero in these proceedings. However, Staff witness Lazare proposes to  
 422 disallow the value of the intangible plant that was on the books of the Companies in the  
 423 prior DST proceedings, even though the assets have a net value of zero in rate base of  
 424 these proceedings.

425 The same would also be true with general plant. Staff witness Lazare's proposed  
 426 adjustment fails to reflect the further depreciation of general plant since the last DST  
 427 proceedings.

428 **Q. Have the Companies quantified the impact on Staff witness Lazare's proposed G&I**  
 429 **plant adjustments correcting for plant costs which are not included in the**  
 430 **Companies' rate base requests?**

431 A. Yes. Ameren Exhibit No. 37.7 summarizes the impact on Staff witness Lazare's  
432 proposed adjustment to AmerenCILCO's G&I plant once those assets which are not  
433 included in rate base in this proceeding are excluded. According to Staff witness  
434 Lazare's direct testimony in this proceeding, he proposed to add back G&I plant in the  
435 amount of \$13,717,000.<sup>19</sup> As I have mentioned previously, Staff witness Lazare's  
436 adjustment was based solely upon the Companies' responses to a series of Staff data  
437 requests. Upon further review of the responses pertaining to AmerenCILCO, the  
438 Companies determined that approximately \$55 million of common plant had been  
439 excluded from the responses to the requests. Once the \$55 million of common plant is  
440 considered in the data request responses, Staff witness Lazare would have likely  
441 recommended a disallowance of approximately \$17 million. Based upon the Companies'  
442 analysis, \$6,234,000 of G&I plant as of December 31, 2000 should have been added to  
443 the Company's rate base request. The Company's actual request level of rate base in this  
444 proceeding reflects the actual plant costs as of December 31, 2004, so no adjustment to  
445 increase plant costs as of December 31, 2000 is required.

446 Ameren Exhibit No. 37.8 shows similar information for AmerenCIPS. Staff  
447 witness Lazare recommended a disallowance of AmerenCIPS' G&I plant, as of  
448 December 31, 1999, in the amount of \$61,053,000.<sup>20</sup> Once the G&I plant as of  
449 December 31, 2000 which is no longer on the Companies' books is removed, Staff  
450 witness Lazare's adjustment would be \$37.7 million instead of the original amount of  
451 \$61.1 million.

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<sup>19</sup> Staff Exhibit 6.0, Direct Testimony of Peter Lazare, p. 16, lines 373-376.

<sup>20</sup> Ibid, p. 16, lines 373-376.

452 Ameren Exhibit No. 37.9 shows similar information for AmerenIP. Staff witness  
453 Lazare had proposed a disallowance of AmerenIP's G&I plant as of December 31, 2000  
454 of \$123,631,000.<sup>21</sup> Once the G&I plant as of December 31, 2000 which is no longer on  
455 the Company's books or via pro forma adjustments are removed, Staff witness Lazare's  
456 adjustment would be \$12,037,000 instead of \$123,631,000.

457 **Q. Please explain how the Companies' determined the amount of pre-2001 G&I plant**  
458 **which is no longer on the books of the Companies.**

459 A. With regards to Ameren Exhibit Nos. 37.7, 37.8 and 37.9, Part A of the exhibits show the  
460 calculation of Staff witness Lazare's proposed adjustments to the Companies' G&I plant.  
461 Ameren Exhibit No. 37.7 has been updated to reflect the inclusion of approximately \$55  
462 million of AmerenCILCO's common plant. Column B on the exhibits reflects the level  
463 of G&I plant on AmerenCILCO's and AmerenIP's books as of December 31, 2000. The  
464 amounts shown in Part A, Column B of Ameren Exhibit No. 37.8 reflect the level of G&I  
465 plant on AmerenCIPS' books as of December 31, 1999.

466 Part B of the exhibits calculates the vintage of the Companies currently requested  
467 level of G&I plant. The vintage of the G&I plant was determined based upon queries of  
468 the Companies' plant accounting system. Column C of Part B of the exhibits shows the  
469 amount of plant which is included in the Companies' requested rate base in these  
470 proceedings which has an in-service date of calendar year 2000 or prior.

471 Part C of the exhibits calculates the amount of pre-2001 G&I plant which is

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<sup>21</sup> Ibid, pp. 16-17, lines 377-380.

472 included in the Companies requested rate base in these proceedings. Column B shows  
473 the actual G&I plant balances as of December 31, 1999 for AmerenCIPS and as of  
474 December 31, 2000 for AmerenCILCO and AmerenIP. Column C, which reflects the  
475 level of pre-2001 G&I plant which is no longer on the Companies' books, was derived by  
476 subtracting the amounts in Column C from Part B of the exhibit, from the amounts in  
477 Column B in Part C of the exhibit. For example, referring to Ameren Exhibit No. 37.7  
478 for AmerenCILCO, the Company had intangible plant of approximately \$30 million and  
479 General Plant in the amount of approximately \$52 million as of December 31, 2000. As  
480 of December 31, 2004, the Company had no intangible plant and general plant in the  
481 amount of \$56,175,000.<sup>22</sup> Based upon this information, over \$42 million of G&I plant  
482 which was on the books of CILCO as of December 31, 2000 is no longer on the books as  
483 of December 31, 2004.<sup>23</sup>

484 For AmerenCIPS, the amount of G&I plant as of December 31, 1999 which is no  
485 longer on the Company's books as of December 31, 2004 is \$23,918,000.<sup>24</sup> For  
486 AmerenIP, \$156,146,000 of G&I plant which was on the Company's books as of  
487 December 31, 2000 is no longer on the Company's books as of December 31, 2004.<sup>25</sup>

488 Using the allocators from the Companies' current ASP, the amount of the pre-  
489 2001 vintage G&I plant which has been assigned to the electric distribution business rate  
490 base is shown in Column F of Part C of the exhibit. The restatement of Staff witness  
491 Lazare's proposed adjustment, reflecting only the plant which remains in service at the

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<sup>22</sup> See Part A, Column B, lines 1 and 2 of Ameren Exhibit No. 37.7.

<sup>23</sup> See Part C, Column D, line 9 of Ameren Exhibit No. 37.7.

<sup>24</sup> See Ameren Exhibit No. 37.8, Part C, Column C, line 9.

<sup>25</sup> See Ameren Exhibit No. 37.9, Part C, Column C, line 15.

492 end of the calendar year 2004, is shown in Column H of Part C of the exhibits.

493 Part D of the exhibits shows the amount by which Staff witness Lazare has  
494 overstated his proposed adjustments related to the Companies' G&I plant. For  
495 AmerenCILCO, Staff witness Lazare has overstated his proposed adjustment by over \$23  
496 million, employing the corrected response to Staff's data request. Staff witness Lazare  
497 has overstated his proposed adjustment to AmerenCIPS' G&I plant by over \$18 million.  
498 The adjustment to AmerenIP's G&I plant, as proposed by Staff witness Lazare, has been  
499 overstated by approximately \$112 million. In total, Staff witness Lazare has proposed  
500 adjustments of approximately \$154 million to the Companies G&I plant for costs which  
501 are not even included in the Companies' rate base in these proceedings.

502 **Q. Staff witness Lazare claims that the "Companies are attempting to refunctionalize**  
503 **this plant back to the revenue requirement."**<sup>26</sup> **How do you respond?**

504 A. The Companies' ASP reflects the actual assets which were on the books as of December  
505 31, 2004 and how such assets are used by the Companies to provide service to its  
506 customers. The G&I plant which has been included in the Companies' rate base in these  
507 proceedings reflect the plant that is used by the electric delivery services business. The  
508 Companies transferred the G&I plant which supported the non-regulated generation  
509 business to those businesses. Therefore, the Companies are not attempting to  
510 refunctionalize plant back to the electric distribution business, as claimed by Staff  
511 witness Lazare, but rather is accurately reflecting how the assets are used and attempting  
512 to earn a fair return on those assets which are used by the electric distribution business

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<sup>26</sup> Rebuttal Testimony of Peter Lazare, p. 8, lines 174-176.

513 from the customers which benefit from the use of such assets.

514 **Q. Staff witness Lazare claims that it does not matter whether Ameren Corporation**  
515 **has merged with IP and CILCO or divested production plant since the prior DST**  
516 **proceedings.<sup>27</sup> How do you respond?**

517 A. I confess I cannot understand Mr. Lazare's position. He is effectively saying that the  
518 Commission should ignore the facts – i.e., it should ignore the nature of the assets  
519 involved and how assets are used when determining how to functionalize the costs of the  
520 assets. I'm not sure what cost causation principles Staff witness Lazare is attempting to  
521 create, but such a position, if adopted by the Commission, would be extremely poor  
522 regulatory policy. "Never let the facts get in the way of a good story" may work in  
523 television, but should not be a guiding regulatory principle.

524 **Q. Have the Companies adequately substantiated the level of G&I plant which the**  
525 **Companies are seeking to include in the delivery services revenue requirement?**

526 A. Yes, the Companies have adequately substantiated the level of G&I plant assigned or  
527 allocated to the energy services business. The results of the ASP have been fully  
528 discussed in my direct, rebuttal and surrebuttal testimony. The functionalization process  
529 is clearly set forth in the exhibits to my testimony. The G&I plant assets which have  
530 been assigned or allocated to the electric distribution business are used to provide service  
531 to the Companies' customers. The usage of the assets was determined in consultation  
532 with the Companies' employees that were familiar with the use of the assets. No party

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<sup>27</sup> Ibid, p. 8, lines 180-182.

533 has questioned the allocators used in the ASP. No party has alleged that the costs  
534 associated with the assets were imprudently incurred. No party has alleged that the assets  
535 are not used and useful.

536 **Response to the Rebuttal Testimony of IIEC Witness Chalfant**

537 **Q. IIEC witness Chalfant claims that you are seeking “to divert the Commission’s**  
538 **attention from the fact that the burden of proof to support the accuracy of the**  
539 **Companies’ ASP rests with the Companies.”<sup>28</sup> How do you respond?**

540 **A.** IIEC witness Chalfant’s statement is incorrect. Nothing could be further from the truth.  
541  
542 The Companies welcome the opportunity to discuss the specific assets and use of such  
543 assets which are described in the ASP. Not surprisingly, neither Staff nor the IIEC wants  
544 to focus the Commission on the ASP because they have no support for their contention  
545 that the non-regulated generation businesses also benefit from the use of the Companies  
546 G&I plant. The Staff and the IIEC do not want the Commission to focus on such an  
547 argument because they can not defend such a position.

548 Staff and the IIEC have offered only the position from Commission decisions  
549 employing test years which are 4 to 5 years old to substantiate their positions. Neither  
550 the Staff nor IIEC has offered any evidence that the G&I plant assets in question are not  
551 used and useful. Neither the Staff nor the IIEC have questioned whether the costs  
552 associated with the G&I plant assets were prudently incurred. Neither Staff nor the IIEC  
553 offer any specific criticisms of the Companies’ ASP calculations.

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<sup>28</sup> Rebuttal Testimony of Alan Chalfant, June 27, 2006, p. 4, lines 55-57.

554 The Companies' have offered testimony, exhibits and workpapers which  
555 substantiate the use of the G&I plant assets. The surrebuttal testimony of Company  
556 witness Getz further supports the results of the ASP.

557 **Q. Have the Companies supported the specific rationale behind the actual allocation of**  
558 **G&I plant to the distribution function?**

559 A. Yes. The Companies have provided direct, rebuttal, and now surrebuttal testimony  
560 discussing the methodology employed to assign or allocate the G&I plant to the electric  
561 distribution business. Ameren Exhibit Nos. 37.1, 37.2 and 37.3 show the details of the  
562 functionalization process. The parties to these proceedings have had access to this  
563 information since shortly after the cases were filed. Ameren Exhibit No. 37.4 identifies  
564 some of the Company personnel that were contacted to identify the actual use of G&I  
565 plant assets.

566 **Q. IIEC witness Chalfant argues that you are conveying “a false impression that G&I**  
567 **costs can be directly assigned and functionalized with great precision through the**  
568 **ASP.”<sup>29</sup> How do you respond?**

569 A. IIEC witness Chalfant and I obviously disagree on a number of issues when it comes to  
570 the functionalization of G&I plant. First, IIEC witness Chalfant appears to believe that  
571 the Companies continue to operate as vertically integrated utilities. They do not.  
572 Virtually all generation plant was divested to non-regulated generation businesses, which  
573 operate separately.

574 IIEC witness Chalfant appears to believe that G&I plant assets which are on the  
575 books of the Companies are used in support of the non-regulated companies. Based upon  
576 discussions with Company personnel who are familiar with the actual use of the G&I

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<sup>29</sup> Ibid, p. 5, lines 95-96.

577 plant, I am comfortable stating that the G&I plant which is on the books of the regulated  
 578 utilities is used exclusively in support of the provisioning of service to the Companies'  
 579 customers.

580 IIEC witness Chalfant appears to believe that if plant is recorded as G&I plant  
 581 that it must be used in support of all lines of business. A review of the nature and use of  
 582 the assets recorded on the Companies books reveals that many of the assets recorded as  
 583 G&I plant are used to support one or more lines of business, but not always all of the  
 584 lines of business.

585 **Q. Please explain your last point.**

586 A. IIEC witness Chalfant claims "If it were possible to directly associate such costs with a  
 587 specific line of business, there would be no need to account for them as G&I plant in the  
 588 first instance."<sup>30</sup> Such a position is unrealistic given the Uniform System of Accounts  
 589 used by regulated companies. Using the example of a bucket truck which is located in a  
 590 portion of the Companies' service territory which only houses electric distribution crews,  
 591 under IIEC Chalfant's scenario, the bucket truck should be booked in an electric  
 592 distribution plant account. While such a situation would be ideal, unfortunately no  
 593 electric distribution plant account exists in which to record an asset such as the bucket  
 594 truck. The cost of the truck has to be recorded in a G&I plant account. That should not  
 595 mean, however, that the cost of the truck has to be allocated to every line of business in  
 596 which the company operates.

597 **Q. IIEC witness Chalfant states "In reality, the Ameren Companies account for**  
 598 **transportation and power operated equipment as G&I plant because it can be used**  
 599 **to move personnel, materials and supplies at generating stations, as well as to**

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<sup>30</sup> Ibid, p. 6, lines 98-100.

600 **support the provision of delivery services.”<sup>31</sup> How do you respond?**

601 A. While Company witness Getz will respond more thoroughly to IIEC witness Chalfant's  
602 statement, I have to say that I am surprised by the statement. It has been my experience  
603 that each line of business has available to it the assets that it needs to execute its duties. I  
604 have never heard of a situation where transportation and power operated equipment are  
605 shared back and forth between an electric distribution function and an electric production  
606 function.

607 In a vertically integrated utility environment, I would agree that the costs of  
608 certain assets were allocated to various business functions, but the physical asset (i.e.,  
609 transportation or power operated equipment) typically resides in a single location. The  
610 plant which resided at the non-regulated generation facilities was transferred to the non-  
611 regulated generation company's books at the time of divestiture.

612 **Q. IIEC witness Chalfant claims that the fact that AmerenCIPS and AmerenCILCO**  
613 **have on their books some of the same types of vehicles that are listed on the books of**  
614 **AGC “underscores the potential for the shifting of common costs from competitive**  
615 **to regulated operated operations.”<sup>32</sup> How do you respond?**

616 A. The Companies have never disputed that some limited number of assets could be used by  
617 both the regulated utility functions and the non-regulated businesses. The issue is  
618 whether the assets used by the non-regulated business were on the books of the regulated  
619 utilities. I believe that IIEC witness Chalfant's example is supporting evidence for my  
620 claim that the assets which the Companies' use associated with the provisioning of  
621 service to the electric distribution customers are recorded on the books of the electric

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<sup>31</sup> Ibid, p. 6, lines 112-116.

<sup>32</sup> Ibid, pp. 6-7, lines 117-125.

622 distribution business while those that are used by the non-regulated businesses are  
623 recorded on the books of the non-regulated businesses.

624 **Q. IIEC witness Chalfant claims that he “seeks to preserve continuity in the**  
625 **Commission’s established policy regarding the functionalization of common**  
626 **costs.”<sup>33</sup> How do you respond?**

627 A. Similar to Staff witness Lazare, IIEC witness Chalfant’s recommendation seeks to extend  
628 a Commission decision from cases using either a 1999 or a 2000 calendar year test year  
629 to a 2004 test year. IIEC witness Chalfant wants the Commission to ignore the fact that  
630 the structure of the Companies is no longer the same.

631 IIEC witness Chalfant also ignores the fact that only the electric transmission,  
632 electric delivery and gas businesses of IP were acquired by Ameren in 2004. IIEC  
633 Chalfant recommends that the Commission disregard this fact and continue to allocate  
634 costs associated with G&I plant which is used to support the acquired lines of business to  
635 a non-existent generation business.

636 The G&I plant assets in question in these proceedings are used exclusively by the  
637 Companies to provide electric transmission, electric distribution and gas services to its  
638 customers. IIEC witness Chalfant has provided no evidence to support his claim that the  
639 G&I plant assets in question are used to support a non-regulated generation business.

640 **Q. IIEC witness Chalfant claims that you offer “no details regarding the methods**  
641 **previously employed to separate G&I plant between generation and distribution**  
642 **operations.”<sup>34</sup> How do you respond?**

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<sup>33</sup> Ibid, p. 7, lines 133-135.

<sup>34</sup> Ibid, p. 8, lines 145-146.

643 A. IIEC witness Chalfant is correct. I do not believe that it is incumbent upon the  
644 Companies to support allocation methodologies which are no longer in use or relevant to  
645 the use of G&I plant included in these proceedings. Given that the G&I plant which  
646 supports the non-regulated generation business is on the books of the non-regulated  
647 generation business, there is no need to allocate G&I plant between companies. The  
648 Companies have, however, fully supported the allocations used to assign or allocate G&I  
649 plant to the electric distribution business.

650 **Q. IIEC witness Chalfant claims that you concede “that G&I plant costs incurred by**  
651 **vertically integrated utilities support both competitive and regulated services.”<sup>35</sup>**  
652 **How do you respond?**

653 A. I must supplement my rebuttal testimony. I agree with IIEC witness Chalfant that G&I  
654 plant costs incurred by a vertically integrated utility may support both generation and  
655 distribution services. The Companies are not, however, vertically integrated utilities.  
656 The Companies are, for the most part, pipes and wires businesses only. Further, I do not  
657 concur with IIEC witness Chalfant’s position that G&I plant should be allocated to all  
658 lines of business regardless of the actual use of such assets.

659 **Q. IIEC witness Chalfant would have the Commission believe that the Companies’**  
660 **employees relied upon to develop the ASP would mislead the Commission regarding**  
661 **the use of the Companies’ G&I plant assets to guarantee recovery of such costs.<sup>36</sup>**  
662 **How do you respond?**

663 A. Such a comment is both cynical and equally applicable to IIEC witness Chalfant. IIEC  
664 witness Chalfant is equally an advocate of those positions which benefit his clients.

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<sup>35</sup> Ibid, p. 9, lines 166-168.

<sup>36</sup> Ibid, p. 9, lines 176-178.

665 IIEC witness Chalfant does not work for the Companies, nor is he involved in the  
666 day-to-day operations of the Companies. Moreover, it is now obvious that he does not  
667 know how the G&I plant assets are used. Conversely, as part of the ASP process, the  
668 Companies' employees who are familiar with the day-to-day use of the assets were  
669 contacted to determine to which lines of business to assign the costs of the assets.

670 **Q. IIEC witness Chalfant criticizes your hypothetical scenario of a tornado impacting**  
671 **the Companies' service territory. How do you respond?**

672 A. Having experienced the recent tornadoes in Springfield, I am not so sure that my scenario  
673 is that far-fetched. The point of my example, however, is to demonstrate that there is no  
674 correlation between the level of investment in electric transmission and electric  
675 distribution plant and the investment in G&I plant. IIEC witness Chalfant has offered no  
676 empirical evidence to support his proposed adjustment.

677 Ameren Exhibit Nos. 37.10, 37.11 and 37.12 contain actual information regarding  
678 changes in plant balances from the years 2001 through 2004 for AmerenCILCO,  
679 AmerenCIPS, and AmerenIP, respectively. The exhibits show the actual change in  
680 balances related to intangible, distribution, and general plant for the four years. As the  
681 exhibits show, G&I plant balances can vary widely from year-to-year. Obviously the  
682 Companies will have the burden of proof to demonstrate that the changes in plant  
683 balances are reasonable. It would be unreasonable, however, to adopt IIEC witness  
684 Chalfant's proposal to limit the changes to the level of change in the electric distribution  
685 plant balances. Presuming that the G&I plant additions were prudently incurred and were  
686 used and useful, the cost of the assets should not be disallowed solely because the  
687 percentage increase exceeded the increase in electric distribution plant.

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**IV. Cash Working Capital**

**Q. Have you had an opportunity to review the rebuttal testimony of Staff witness Ebrey?**

A. Yes, I have reviewed the rebuttal testimony of Staff witness Ebrey and will respond to the issues raised in her rebuttal testimony.

**Q. What issues does Staff witness Ebrey raise in her rebuttal testimony?**

A. Staff witness Ebrey addresses six issues. The issues include:

1. The use of the gross lag methodology to calculate cash working capital requirements in contrast with the net lag approach as filed by the Companies;
2. The use of the mid-point of 366 days for calculating the expense lead time associated with interest expense payments made by the Companies.
3. The exclusion of payments made by Ameren Services Company when calculating the expense lead time associated with other operations and maintenance expenses.
4. The expense lead time associated with property tax payments made by AmerenIP.
5. The amount of base payroll expense for payroll taxes withheld and adjusts the expense lead time associated with payroll related taxes.
6. The inclusion of total base payroll when calculating the cash working capital requirements of the Companies rather than the payroll amounts charged to expense.

Reflecting her adjustments, Staff witness Ebrey proposes cash working capital requirements of (\$1,575,000) for AmerenCILCO, (\$3,470,000) for AmerenCIPS, and (\$6,613,000) for AmerenIP.

**Q. Are there any adjustments proposed by Staff which you will not oppose?**

711 A. Yes. First, I accept Staff's proposed weighted average expense lead time for AmerenIP's  
712 property tax payments. Second, while I do not agree with excluding the timing of  
713 specific payments made by Ameren Services Company when calculating the expense  
714 lead time associated with other operations and maintenance expenses, I will, in the  
715 interest of expediting this case, accept the rebuttal position of Staff witness Ebrey.

716 **Q. Why do you disagree with excluding specific payments made by Ameren Services**  
717 **Company?**

718 A. I disagree with Staff witness Ebrey's position for two reasons. First, Staff witness Ebrey  
719 continues to confuse the measurement of time between a vendor's provision of a service  
720 and the payment for that service (as evidenced on an invoice which is used to determine  
721 the cash working capital factor) with a jurisdictional expense level to which the cash  
722 working capital factor is applied. If a service company is responsible for the payment of  
723 invoices and the service company is governed by a standard set of operating policies and  
724 procedures, there would be no logical reason why the service company would elect to pay  
725 Illinois-related invoices on a schedule different from non-Illinois invoices, or, for that  
726 matter, the Illinois portion of an invoice compared with the non-Illinois portion of the  
727 same invoice. As noted in my rebuttal testimony and provided in response to Staff Data  
728 request TEE-2.05:

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

736  
737 Since Ameren Services Company is responsible for processing all payments for

738 the operating companies, it would be inappropriate to exclude specific invoices paid by  
739 Ameren Services Company when calculating the expense lead time associated with other  
740 operations and maintenance expenses. The expense level to which the net lead (or lag) is  
741 applied are (and should be) Illinois jurisdictional costs only. Staff witness Ebrey appears  
742 to agree with this position. In response to Ameren Data Request 14.07, she states:

743 If AMS incurs an expense on behalf of one of Ameren's operating  
744 utilities, it would be appropriate to include payment of such invoice in that  
745 specific operating utility's determination of the payment lead time  
746 provided that expense would be incurred by the operating utility on a  
747 stand-alone basis.<sup>37</sup>  
748

749 Second, Staff witness Ebrey does not take issue with the fact that the Companies'  
750 analyses of the expense lead times associated with payroll and pensions and benefits may  
751 include payments made on behalf of Ameren Services employees who may or may not  
752 dedicate their time solely to Illinois operations. If, for example, all employees are  
753 covered under a common health insurance plan and a premium is paid to the vendor of  
754 the plan, Staff witness Ebrey seems to suggest that the Companies pay the Illinois-only  
755 portion of the vendor's invoice on a schedule different from that of the non-Illinois  
756 portion which is definitely not the case! But, rather than belabor the point, I accept, with  
757 reservations, the rebuttal position of Staff witness Ebrey for the purposes of this case.

758 **Gross vs. Net Lag**

759 **Q. Do you agree with Staff witness Ebrey's recommendation to use a gross lag**  
760 **methodology to derive the cash working capital requirements for the three**  
761 **Companies?**

762 **A.** No. I disagree with the use of the gross lag methodology for several reasons. First, as I  
763 stated in my rebuttal testimony, the Companies use the net lag methodology to ensure

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<sup>37</sup> ICC Staff Response to Ameren Data Request 14.07.

764 consistency across Ameren's regulated utilities, regardless of the jurisdiction. Second,  
 765 the methodology has been accepted by both state regulatory jurisdictions in which the  
 766 Companies operate. Third, it has been the Companies' observation that most state  
 767 regulatory jurisdictions have adopted the net lag approach to determine a company's cash  
 768 working capital requirements. Finally, the gross lag methodology produces results which  
 769 are counter-intuitive when compared with the results that are produced using the net lag  
 770 methodology.

771 **Q. Has the net lag methodology been considered by both state regulatory jurisdictions**  
 772 **in which Ameren operates?**

773 A. Yes. The net lag methodology has been considered and its results included in the  
 774 determination of revenue requirements for the Companies in both jurisdictions (i.e.,  
 775 Illinois and Missouri). The Commission approved the net lag methodology in Docket  
 776 Nos. 02-0798/03-0008/03-0009 (cons).

777 **Q. What methodology did AmerenUE employ to determine the cash working capital**  
 778 **requirements in its recently filed rate proceeding in its Missouri jurisdiction?**

779 A. The net lag methodology was employed to determine the cash working capital  
 780 requirements of both the electric and gas businesses in Missouri. The methodology  
 781 employed in the current Missouri proceeding is identical to the methodology used to  
 782 determine the cash working capital requirements of the Companies in this proceeding.

783 **Q. Is there a benefit to employing just one methodology to determine the Companies'**  
 784 **cash working capital requirements?**

785 A. Yes. As I stated in my rebuttal testimony, "The Companies also calculate leads and lags  
 786 for all of the regulated operating companies in a jurisdiction which are then applied to the

787 specific Companies' operating expense levels. Under this approach, one study can be  
788 performed for all of the Companies instead of performing numerous studies.”<sup>38</sup>

789 Intuitively, it would appear obvious that performing one lead-lag study for all of  
790 the Illinois Companies would be less costly than performing separate studies, employing  
791 different methodologies, for each specific company. Further, the Companies have refined  
792 the approach to preparing lead-lag studies to a point where individuals involved in the  
793 analysis understand the information required. Employing different methodologies would  
794 likely create confusion and unnecessary rework. The Companies have also prepared  
795 testimony to support the cash working capital request in such a fashion that the testimony  
796 shell can be easily updated in future proceedings. Use of multiple lead-lag  
797 methodologies would require that unique testimony be prepared for each proceeding, at  
798 an incremental cost to the Companies and its customers.

799 Finally, interrogatories would likely be easier to respond to when one  
800 methodology is employed for all of the Companies. The use of a common data set to  
801 calculate the cash working capital requirements is expected to lessen the number of  
802 requests. As parties to future rate proceedings become familiar with the methodology,  
803 requests will likely focus on specific issues instead of the approach.

804 **Q. What are your observations regarding the use of the net lag methodology to**  
805 **determine a company's cash working capital requirements in other state**  
806 **jurisdictions?**

807 A. The net lag approach seems to be becoming a standard. Several states, including, but not  
808 limited to, Arizona, California, Colorado, Georgia, Hawaii, Illinois, Iowa, Maryland,

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<sup>38</sup> Rebuttal Testimony of Michael Adams, p. 32, lines 3-6.

809 Massachusetts, Missouri, Oklahoma, Pennsylvania, Vermont and Virginia, have all  
810 approved the use of the net lag methodology. The use of a net lag methodology has also  
811 been approved within the provinces of Alberta, British Columbia, Nova Scotia and  
812 Ontario.

813 **Q. Are you surprised by the negative cash working capital requirement amounts**  
814 **proposed by Staff witness Ebrey?**

815 A. No. Employing the methodology and assumptions used in her analyses, the result will  
816 almost always be a negative cash working capital result, when the opposite should be  
817 true.

818 **Q. Please explain.**

819 A. As shown on Schedule 13.01, Staff witness Ebrey creates a scenario for each of the  
820 Companies in which the revenues considered in the analyses are less than the expense  
821 levels. In other words, under Staff witness Ebrey's approach, the Companies are  
822 generating operating losses on a cash basis. When the revenue lag is multiplied by the  
823 revenues (which have been reduced to exclude the return on equity,  
824 depreciation/amortization expenses, uncollectible expenses, and non-cash OPEB  
825 expenses) the result will usually be less than a higher level of expenses multiplied by the  
826 expense leads.

827 **Q. Why do you say that the opposite should be true?**

828 A. The revenue lag for the Companies is 43.24, which means that it takes 43.24 days, on  
829 average, for the Companies to receive payment from its customers and to have access to  
830 the money for service provided during a given month. Conversely, the Companies are  
831 paying providers of services, on a dollar weighted basis, approximately 40 days after

832 services are provided. Therefore, on a net basis, the Companies are paying the vendors  
 833 over 3 days before payment is received from the customers.

834 Further, employing Staff witness Ebrey's proposed gross lag methodology, the  
 835 Companies are paying expenses which exceed revenue levels. According to Staff witness  
 836 Ebrey's analyses, the Companies are collecting between \$25 million and \$75 million less  
 837 in available revenues to pay cash expenses. While the scenario is not logical, Staff  
 838 witness Ebrey's analyses shows that the Companies' shareholders would actually be  
 839 providing funds to support day-to-day operations, which would mean that the Companies  
 840 have a positive cash working capital requirement. Staff witness Ebrey concludes,  
 841 however, that the Companies have negative cash working capital requirements ranging  
 842 from \$1.5 million to \$6.6 million. Staff witness Ebrey's position simply does not make  
 843 sense.

844 **Q. Is Staff witness Ebrey's recommended cash working capital requirements consistent**  
 845 **with information on receivables and payables as shown on the Companies' balance**  
 846 **sheets?**

847 A. No. To further attempt to make sense of Staff witness Ebrey's analyses I examined the  
 848 Companies' consolidated balance sheets as of December 31, 2004, focusing on Accounts  
 849 Receivable (FERC account 142) and Accounts Payable (FERC Account 232).<sup>39</sup>

850 As shown in the following table, AmerenCILCO and AmerenCIPS clearly have a  
 851 positive cash working capital requirement with AmerenIP at the margin. I am not  
 852 advocating that the balance sheet information be used to derive the cash working capital  
 853 requirements of the Companies; however the information was merely used as a sanity  
 854 check to determine whether the results from the gross lag methodology proposed by Staff

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<sup>39</sup> Schedule B-3 of the Companies Revised Part 285 (MFR) Filings, Docket 06-0070/06-0071/06-0072

855 witness Ebrey are realistic. The sanity check confirms that Staff witness Ebrey's results  
 856 are not realistic.

Company	A/R - FERC 142 (\$000)	AP - FERC 232 (\$000)
CILCO	49,168	37,413
CIPS	48,840	22,589
IP	106,720	108,940

857

858 **Q. Please summarize the benefits of using a net lag methodology when determining**  
 859 **cash working capital requirements?**

860 A. The principal benefit of using a net lag methodology is that it is more intuitive in terms of  
 861 its results. If the revenue lags exceed the expense leads, a positive cash working capital  
 862 amount is generated. An additional benefit is that by negating the need for considering  
 863 dollar revenues, it circumvents the contentious issue of identifying and removing non-  
 864 cash items included in dollar revenues from the analysis. These non-cash items may  
 865 include, but are not limited to, items such as depreciation, other post employment  
 866 benefits, uncollectibles, return on equity, as well as other non-service related items which  
 867 may be considered elsewhere such as customer deposits, revenues from special (non-  
 868 service related) riders, and other miscellaneous revenues. The net lag methodology,  
 869 consistent with the definition of a lead lag study, does consider the timing of the receipt  
 870 of revenues from customers without having to specifically identify which revenues are  
 871 cash or which ones are service related or considered elsewhere since, to the extent that  
 872 such charges are on a bill, a customer pays both simultaneously.

873 **Q. Staff witness Ebrey refers to your discussion of the iterative nature of the gross lag**

874 **methodology as “disingenuous.”<sup>40</sup> Do you agree?**

875 A. No. If calculated correctly, the gross lag methodology can create a circular error when  
876 establishing both a company's cash working capital requirement and rate base. By  
877 removing the return on equity from revenues, the cash working capital requirement will  
878 change, which changes rate base, which in turn changes the return on equity. To avoid  
879 such circular logic, the return on equity either needs to be “hard coded” into the  
880 calculation or numerous iterations of the calculation need to be run. No such iterative  
881 process exists with the net lag approach.

882 Clearly, this is not disingenuous as suggested by Staff witness Ebrey.

883 **Q. Do you agree with Staff witness Ebrey that the gross lag methodology “does a better  
884 and more accurate job of excluding the effects of non-cash items from the  
885 determination of cash working capital”?<sup>41</sup>**

886 A. I do not. To the contrary, I believe the gross lag methodology produces illogical results  
887 and adds unnecessary confusion to the determination of the Companies cash working  
888 capital requirements.

889 **Q. How does the use of the gross lag methodology produce illogical results?**

890 A. As I have already discussed, all aspects of Staff witness Ebrey's analyses indicate that the  
891 Companies should have a positive cash working capital requirement, however, she  
892 concludes that all three Companies have negative cash working capital requirements.

893 A revenue lag longer than the weighted average expense lead would indicate a  
894 positive cash working capital requirement. The shareholders having to provide cash to  
895 fund the day-to-day operations, as indicated by Staff witness Ebrey's negative cash

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<sup>40</sup> Rebuttal Testimony of Theresa Ebrey, June 27, 2006, p. 8, line 149.

<sup>41</sup> Ibid, p. 5, lines 94-96

896 position, would also indicate a positive cash working capital position.

897 Clearly, Staff witness Ebrey's analyses are producing flawed results.

898 **Q. Are the leads and lags used in Staff witness Ebrey's gross lag methodology different**  
899 **than the Companies' net lag approach?**

900 A. With the exception of the expense lead time associated with interest expense, which I will  
901 address later in my testimony, all of the other leads and lags are identical between the  
902 Companies' analyses and Staff witness Ebrey's calculations.

903 **Q. Given that the leads and lags are, for the most part, the same, to what do you**  
904 **attribute the wide variance in results between the Companies analyses and Staff**  
905 **witness Ebrey's calculation of the Companies' cash working capital requirements?**

906 A. I have not checked all of Staff witness Ebrey's calculations, so I can not state that her  
907 analyses are computationally correct, however, I believe that Staff witness Ebrey's  
908 proposed treatment of the so-called "non-cash items" and inclusion of total payroll has  
909 produced illogical results.

910 **Q. Is it inconceivable for a company to have a negative cash working capital**  
911 **requirement?**

912 A. No. In those instances where a company receives payment from its customers sooner  
913 than it makes payment to its vendors, it is conceivable that the company would have a  
914 negative cash working capital requirement. Such a scenario does not exist for the  
915 Companies.

916 **Q. Is Staff witness Ebrey proposing that the Commission adopt the gross lag**  
917 **methodology as the method by which to determine a company's cash working**  
918 **capital requirements in future proceedings?**

919 A. No. In response to a data request, Staff witness Ebrey states:

920 "Ms. Ebrey is not proposing that the Commission adopt the gross lag  
921 methodology as the preferred methodology by which to determine a  
922 company's cash working capital requirement in all future rate cases since  
923 the circumstances of each individual rate case need to be weighed in the  
924 determination of the components of rate base, including cash working  
925 capital."<sup>42</sup>  
926

927 **Q. How do you respond?**

928 A. Clearly Staff witness Ebrey is not as convinced that the gross lag methodology  
929 "produces a more accurate result" as she claims in her rebuttal testimony.<sup>43</sup>  
930 Rather, it appears that Staff witness Ebrey confirms my suspicion as set forth in  
931 my rebuttal testimony that the gross lag methodology conveniently produced a  
932 lower cash working capital requirement in these proceedings than did the net lag  
933 approach.

934 The methodology used to calculate the Companies' cash working capital  
935 requirements should not be driven by the result generated. As I have explained,  
936 the net lag approach has produced logical results which are consistent with other  
937 indicators of the Companies' cash position. The gross lag approach, on the other  
938 hand, produces illogical and unexplainable results.

939 Staff witness Ebrey's recommendation to use the gross lag methodology to  
940 determine the Companies' cash working capital requirements should be rejected.

941 **Inclusion of Capitalized Payroll in Cash Working Capital Requirements**

942 **Q. Does Staff witness Ebrey propose to include the capitalized portion of payroll  
943 expense in the cash working capital requirements of the Companies?**

944 A. Yes. Staff witness Ebrey adjusted base payroll to include total electric distribution

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<sup>42</sup> Staff response to Companies data request 14.05.

<sup>43</sup> Ebrey Rebuttal, p. 6, lines 117-119.

945 payroll

946 **Q. Do you agree with Staff witness Ebrey's proposed adjustment to payroll expenses?**

947 A. No. The capitalized portion of payroll would already be included in rate base and, if  
 948 approved by the Commission, would earn a return. Second, without analyzing the payroll  
 949 portion of all capital projects, it is impossible to determine whether such projects accrued  
 950 an allowance for funds used during construction, which is effectively a carrying cost that  
 951 is included in the overall capitalized cost. Third, Staff witness Ebrey is proposing to  
 952 select the capital costs associated with only one lead lag item for inclusion in the cash  
 953 working capital analyses. If Staff witness Ebrey is of the opinion that the cash working  
 954 capital analyses should include all cash outflows, (including capital costs) then all cash  
 955 outflows associated with all other elements of the cash working capital analysis should be  
 956 included as well. Finally, Staff witness Ebrey's recommendation effectively ensures that  
 957 the Companies' cash working capital requirements will be negative by including the  
 958 capitalized costs associated with payroll in the expense portion of her analyses while only  
 959 reflecting revenues which, in theory, match operating expenses. In other words, Staff  
 960 witness Ebrey has inappropriately created an apples to oranges comparison and thus, her  
 961 results should be rejected by the Commission.

962 **Calculation of Expense Lead Time Associated with Interest Expense**

963 **Q. How does Staff witness Ebrey calculate the expense lead time on interest expense?**

964 A. Staff witness Ebrey proposes to use 366 days in the year as the basis for calculating the  
 965 expense lead time on interest expense. According to her, this approach would be  
 966 "consistent with the Companies' calculations"<sup>44</sup>.

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<sup>44</sup> Staff Exhibit 13.0, page 10, line 186.

967 **Q. Do you agree with the approach taken by Staff witness Ebrey?**

968 A. No. First, Staff witness Ebrey is misstating the approach used by the Companies and  
969 second, is being inconsistent in her approach. Thus, her proposal for calculating the  
970 expense lead time on interest expense should be rejected.

971 **Q. How is Staff witness Ebrey misstating the Companies' approach?**

972 A. Where applicable, and consistent with standard industry practice, the Companies use 365  
973 days in their calculations of revenue lags and expense leads. Recognizing however that  
974 the Companies' test year was a leap year, the Companies used 366 days in the  
975 denominator when calculating a daily measure of cash working capital requirements for  
976 each expense item considered in the Companies' lead lag study (i.e., the cash working  
977 capital factor which is defined as the net lag divided by the number of days in the test  
978 year). This daily measure was then multiplied by test year expenses at proposed rates to  
979 derive the cash working capital requirements of the Companies. Thus, she is not being  
980 "consistent with the Companies' calculations," and her position itself seems to be  
981 internally inconsistent and thus warrants rejection by the Commission.

982 **Q. Please explain why Staff witness Ebrey is being internally inconsistent in her**  
983 **position.**

984 A. Throughout the lead lag study, the midpoint of a period is determined by dividing 365  
985 days by the appropriate period of time. For example, to determine the midpoint of a year,  
986 the study would divide 365 by 2 to arrive at the midpoint of the year, or 182.5 days.

987 When determining the midpoint of a year for purposes of determining the interest  
988 expense lead, Staff witness Ebrey uses 366 days to arrive at a midpoint of 91.50 days.  
989 The variance in the calculations yields a difference of 0.25 days. While the use of the

990 difference seems small, the impact on the Companies cash working capital requirement  
991 ranges from approximately \$5,000 to \$25,000.

992 **Payroll and Payroll Withholding Taxes**

993 **Q. Please describe the rebuttal position taken by the Companies with respect to payroll**  
994 **and payroll withholdings.**

995 A. The Companies agreed with AG witness Effron that there was inadvertently a double-  
996 counting of withholding taxes within base payroll. Thus, in the rebuttal presentation, the  
997 Companies ascribed a zero expense amount to federal withholding, state withholding, and  
998 employee FICA taxes when computing the cash working capital requirements of the  
999 Companies.

1000 **Q. Does Staff witness Ebrey agree with the rebuttal position of the Companies?**

1001 A. No. In observing that “to disregard payroll taxes discounts the fact that payroll  
1002 withholding taxes are not remitted until several days after each payday,”<sup>45</sup> Staff witness  
1003 Ebrey continues to sponsor the inclusion of payroll withholding taxes in the  
1004 determination of the cash working capital requirements of the Companies. In her rebuttal  
1005 testimony, Staff witness Ebrey decreases the amount of base payroll expense for payroll  
1006 taxes withheld and includes the expense lead time associated with payroll related taxes.  
1007 Additionally, she includes total base payroll when calculating the cash working capital  
1008 requirements of the Companies rather than the payroll amounts charged to expense.

1009 **Q. Do you agree with Staff’s adjustments?**

1010 A. I disagree with the approach taken by Staff witness Ebrey and the results obtained. For  
1011 instance, Staff witness Ebrey has failed to include the withholding amounts associated  
1012 with the annualized labor adjustment when computing the base payroll less withholding

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<sup>45</sup> Ibid, p. 14, lines 270-272

1013 amount.

1014 **Q. What do you propose in place of the approach taken by Staff witness Ebrey?**

1015 A. In lieu of trying to estimate a dollar amount of withholding, the Companies recommend  
1016 that the Commission adopt the Companies rebuttal response to the position of AG  
1017 witness Effron, i.e., assign a zero expense to federal and state withholdings and  
1018 Employee FICA. In doing so, the Commission would effectively reject the rationale  
1019 behind the rebuttal position of Staff witness Ebrey, i.e., remittances sent several days  
1020 after payday.

1021 **Q. What are the impacts of each of the issues raised by Staff witness Ebrey that you**  
1022 **have accepted, accepted for the purposes of this case, or have contested?**

1023 A. All impacts are calculated using the net lag methodology since, for reasons discussed in  
1024 my surrebuttal testimony, I do not accept Staff's recommendation to utilize the gross lag  
1025 methodology. The impacts of each of the issues raised by Staff witness Ebrey are as  
1026 follows:

- 1027 1. The adjustment on the expense lead time for AmerenIP's property taxes acts to  
1028 reduce its cash working capital requirement by about \$1,400.
- 1029 2. The impact of revising the expense lead time on other operations and maintenance  
1030 expenses to exclude invoices related to Ameren Services reduces the cash  
1031 working capital requirements of AmerenCILCO, AmerenCIPS, and AmerenIP by  
1032 about \$50,000, \$78,000, and \$100,000,
- 1033 3. While, for reasons described in my surrebuttal testimony, I do not agree with Staff  
1034 witness Ebrey's premise for adjusting the expense lead time associated with  
1035 interest expense, its impact is to reduce the cash working capital requirements of

1036 AmerenCILCO, AmerenCIPS, and AmerenIP by \$4,800, \$8,500, and \$25,000  
1037 respectively.

1038 4. While I do not agree with its premise, including, as proposed by Staff witness  
1039 Ebrey, total payroll (including amounts charged to construction, stores, clearing,  
1040 and miscellaneous) will increase the cash working capital requirements of  
1041 AmerenCILCO, AmerenCIPS, and AmerenIP by approximately \$812,000,  
1042 \$770,000, and \$2.65 million respectively relative to the amounts filed by the  
1043 Companies in their rebuttal.

1044 **Q. Reflecting the above modifications, what are the Companies' cash working capital**  
1045 **requirements, employing the net lag approach?**

1046 A. Employing the net lag approach and reflecting the above modifications AmerenCILCO's  
1047 cash working capital requirement is approximately \$754,000 as shown on Company  
1048 witness Stafford's Exhibit No. 36.1, Schedule 2, page 3 of 3. AmerenCIPS' cash  
1049 working capital requirement is approximately \$1.006 million as shown on Company  
1050 witness Stafford's Exhibit No. 36.2, Schedule 2, page 3 of 3.. AmerenIP's cash working  
1051 capital requirement is approximately \$285,000 as shown on Company witness Stafford's  
1052 Exhibit No. 36.3, Schedule 2, page 3 of 3.

1053 **Q. Does this conclude your surrebuttal testimony?**

1054 A. Yes, it does.

1055 CHI-1543771v1