

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

**SURREBUTTAL TESTIMONY**

**OF**

**C. KENNETH VOGL**

**Submitted On Behalf**

**Of**

**AMEREN COMPANIES**

**July 14, 2006**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **C. KENNETH VOGL**

4 **DOCKET NO. 06-0070, 06-0071, & 06-0072**

5 **I. INTRODUCTION**

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

7 A. My name is C. Kenneth Vogl. My business address is 101 South Hanley, Suite 900, St.  
8 Louis, Missouri 63105.

9 **Q. Are you the same C. Kenneth Vogl who submitted testimony in these proceedings?**

10 A. Yes I am.

11  
12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to respond to portions of the rebuttal testimony submitted  
15 by Burma C. Jones and David J. Efron. Both Ms. Jones and Mr. Efron address issues  
16 related to accrued OPEB liability. My surrebuttal testimony will focus on these issues  
17 and discuss why I disagree with comments made in their rebuttal testimony.

18  
19 **III. SURREBUTTAL TO BURMA C. JONES TESTIMONY**

20 **Q. Please summarize the portion of Ms. Jones' rebuttal testimony that you are**  
21 **surrebutting with respect to accrued OPEB liability issues.**

22 A. Ms. Jones provides comments on the adjustment proposed by David J. Efron in his direct  
23 testimony. This proposed adjustment would reduce rate base by the amount of the  
24 accrued OPEB liability. Ms. Jones comments in lines 343-345 that the adjustment is

25 appropriate because the “liability reflects a cost-free source of capital on which  
26 shareholders are not entitled to receive a return”. She further comments in lines 346-348  
27 that “an OPEB liability reflects that the Companies have recorded more OPEB expense  
28 than they have actually paid”.

29 **Q. Do you agree with her description that the accrued OPEB liability “reflects that the  
30 Companies have recorded more OPEB expense than they have actually paid”?**

31 A. Yes, I agree with this description. Written another way, the accrued OPEB liability is the  
32 excess of OPEB expense recorded by the Company (a non-cash expense recorded by the  
33 Company on its income statement) over the amounts the Company has actually paid for  
34 OPEB.

35 **Q. Do you agree with her description that the accrued OPEB liability “reflects a cost-  
36 free source of capital on which shareholders are not entitled to receive a return”?**

37 A. No. A cost-free source of capital on which shareholders are not entitled to receive a  
38 return would represent funds collected through rates that are attributable to OPEB  
39 benefits, but ultimately not used to pay for OPEB benefits. This is not what the accrued  
40 OPEB liability represents. As mentioned above, the accrued OPEB liability represents  
41 the excess of OPEB expense recorded by the Company (a non-cash expense recorded by  
42 the Company on its income statement) over the amounts the Company has actually paid  
43 for OPEB. Therefore, the only way Ms. Jones' description could be accurate would be if  
44 the OPEB expense recorded by the Company were equal to the funds collected in rates  
45 attributable to OPEB benefits for every year. This is clearly not the case because the  
46 OPEB amount collected through rates is fixed for a period of time, while the amount of  
47 OPEB expense recorded by the Company varies from year to year and has generally

48 increased over the past several years. In addition, to the extent the expense recorded by  
 49 the Company differs from the amount collected through rates, the accrued OPEB liability  
 50 gets farther and farther away from what Ms. Jones has described as a “cost-free source of  
 51 capital on which shareholders are not entitled to a receive a return”.

52 **Q. Do you agree that the “cost-free source of capital on which shareholders are not**  
 53 **entitled to receive a return” should warrant an adjustment to rate base?**

54 A. Yes. It would be appropriate to make an adjustment to rate base to reflect the excess (or  
 55 shortfall) of funds collected through rates attributable to OPEB (which is not equal to the  
 56 recorded expense) over the amount of Company contributions made for OPEB purposes.  
 57 An excess of funds as described above would represent a “cost-free source of capital on  
 58 which shareholders are not entitled to receive a return”, and therefore could represent a  
 59 reduction in rate base. However, in this case there is a shortfall between what has been  
 60 collected through rates and what has been contributed by the Companies (see data in the  
 61 following two answers). This shortfall represents a real cash cost to the Companies who  
 62 should therefore be entitled to receive a return through an increased rate base adjustment.  
 63 In my opinion, if an adjustment to rate base were to be made with regards to the  
 64 regulatory treatment of accrued OPEB liabilities, then it would require an increase to rate  
 65 base equal to the described shortfall, not a decrease to rate base as Ms. Jones believes.

66 **Q. Have you provided information regarding the levels of OPEB expense included in**  
 67 **prior rate orders?**

68 A. Yes. Per various data requests, I have provided the following OPEB expenses that were  
 69 included in the Companies' prior rate orders. Please note these are annual amounts.

- 70 • CIPS – \$0.8 million

- 71           • CILCO – \$2.6 million
- 72           • IP – \$1.0 million

73 **Q. Have you provided information regarding the contributions made by the**  
74 **Companies to cover OPEB benefits?**

75 A. Yes. Per various data requests, I have provided the following contribution amounts for  
76 each Company:

- 77           • CIPS – \$41.8 million from 1999-2005 (average of \$6.0 million per year)
- 78           • CILCO – \$23.7 million from 2000-2005 (average of \$4.0 million per year)
- 79           • IP – \$22.4 million from 2002-2005 (average of \$5.6 million per year)

80 These contributions show that, on average, over each of the past several years CIPS has  
81 spent \$5.2 million more on OPEB than they have received in rates (\$6.0 million average  
82 annual contribution less \$0.8 million received annually in rates). Similarly, CILCO has  
83 annually spent \$1.4 million more than they have received in rates, and IP has annually  
84 spent \$4.6 million more than they have received in rates.

85

86 **IV. SURREBUTTAL TO DAVID J. EFFRON TESTIMONY**

87 **Q. Please comment on the portion of Mr. Effron's rebuttal testimony that you are**  
88 **surrebutting with respect to accrued OPEB liability issues.**

89 A. Mr. Effron claims that I have not cited any basis for distinguishing the Ameren accrued  
90 OPEB liability from the accrued OPEB liabilities in Docket Nos. 95-0219 and 04-0779. I  
91 am not an expert in the facts and circumstances of the prior dockets mentioned above,  
92 and as such, I am not attempting to render an opinion on the treatment of the accrued  
93 OPEB liability in these dockets. However, I am an expert in the FAS 106 accounting  
94 standard which applies to OPEB plans and I am the actuary responsible for determining

95 various components of the accrued OPEB liability. Given my expertise in this area, it is  
96 my opinion that the accrued OPEB liability should not be deducted from rate base. As I  
97 have stated previously in my rebuttal testimony and in my testimony rebutting Ms. Jones  
98 above, it is my opinion that the appropriate adjustment to the rate base is the amount of  
99 the difference between what has been collected in rates for OPEB and what has been paid  
100 by the Companies for OPEB. To the extent the Companies have paid less for OPEB than  
101 they have collected in rates, a reduction to rate base equal to that difference is warranted.  
102 To the extent the Companies have paid more for OPEB than they have collected in rates,  
103 an increase to rate base equal to that difference is warranted.

104

105 **V. SUMMARY**

106 **Q. Would you like to briefly summarize your testimony?**

107 A. Yes. Burma C. Jones and David J. Effron each submitted rebuttal testimony containing  
108 issues with regards to accrued OPEB liability. My testimony surrebutts certain portions of  
109 their testimony that address these issues.

110

111 In surrebutting Ms. Jones' testimony, I have shown why I do not agree with the rate base  
112 adjustment she is supporting. I describe my approach and provide the pieces for the  
113 corresponding rate base adjustment.

114

115 In surrebutting Mr. Effron's testimony, I have described why I did not distinguish  
116 between the accrued OPEB liability from prior rate cases and the accrued OPEB liability  
117 from the current rate case.

118

119 **Q. Does this conclude your testimony?**

120 A. Yes.

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