

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

**SURREBUTTAL TESTIMONY
OF
RONALD D. STAFFORD**

**Submitted On Behalf
Of
AMEREN COMPANIES**

July 14, 2006

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SURREBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

Q. Please state your name and business address.

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

Q. Are you the same Ronald D. Stafford that provided testimony in this proceeding?

A. Yes I am.

Q. What is the purpose of your testimony?

A. My surrebuttal testimony will present the Ameren Companies' Surrebuttal Revenue Requirement and related schedules, including detailed Operating Income and Rate Base schedules. I will also respond to certain recommendations of Staff described in the rebuttal testimony of Staff Witnesses Peter Lazare, Burma Jones, Theresa Ebrey and James Spencer, Illinois Industrial Energy Consumers ("IIEC") Witness Alan Chalfant, and AG witness David Efron.

Q. In addition to your Surrebuttal Testimony, please identify Exhibits 36.1, 36.2, and 36.3 that you will be sponsoring.

A: Exhibit 36.1 – AmerenCILCO Surrebuttal Revenue Requirement
Exhibit 36.2 – AmerenCIPS Surrebuttal Revenue Requirement

24 Exhibit 36.3 – AmerenIP Surrebuttal Revenue Requirement

25

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

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

33 A: Exhibit 36.4 – Reallocation of Depreciation Reserve (AmerenIP)

34 Exhibit 36.5 – Rate Case Expense (All Companies)

35 Exhibit 36.6 – Administrative and General Expenses (All Companies)

36 Exhibit 36.7 – Detail of Customer Service Integration Project Costs (AmerenIP)

37 Exhibit 36.8 – Recalculation of Staff's Adjustment to Pro Forma Plant Additions
38 (AmerenIP)

39 Exhibit 36.9 – Additional Supporting Documentation for Pro Plant Additions
40 (AmerenIP)

41 Exhibit 36.10 – Recalculation of Staff's Adjustment to Plant Additions (All)

42 Exhibit 36.11 – Contractual Documentation in support of Work Order 9915
43 (AmerenCIPS)

44 Exhibit 36.12 – Contractual Documentation in support of Work Order 11983
45 (AmerenCIPS)

46 Exhibit 36.13 – Intangible Plant in Service (AmerenCILCO and AmerenCIPS)

47 Exhibit 36.14 – Supply Procurement Adjustment (All)

48 **Revenue Requirement**

49 **Q: What is the overall level of Surrebuttal Revenue Requirement the Ameren**
50 **Companies are proposing ?**

51 A: As shown on Exhibit 36.1, AmerenCILCO's Rebuttal Revenue Requirement is
52 \$143,061,000. As shown on Exhibit 36.2, AmerenCIPS' Rebuttal Revenue
53 Requirement is \$237,674,000. As shown on Exhibit 36.3, AmerenIP's Rebuttal
54 Revenue Requirement is \$402,216,000.

55 **Duplicate Charges**

56 **Q: Has the issue regarding duplicate charges raised by AG witness Effron in his**
57 **direct testimony been resolved?**

58 A: Yes. In his rebuttal testimony at pages 10 and 11, Mr. Effron accepts the Ameren
59 Companies' pro forma adjustment for duplicate charges. ICC Staff Exhibit 12.0
60 also reflects this adjustment in development of Staff's Rebuttal Revenue
61 Requirement.

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

63 **Q: Is Mr. Effron now in agreement with the Ameren Companies that no further**
64 **adjustment is required for the Ameren Companies' fee to administer add-on**
65 **taxes?**

66 A: Yes. At page 2 of his rebuttal testimony, Mr. Effron concurs with the Ameren
67 Companies' position that no further adjustment is required. Therefore, this issue
68 has also been resolved.

69 **Tree Trimming Adjustment**

70 **Q: Is the Tree Trimming Adjustment still needed to comply with Staff witness**
71 **James Spencer's interpretation of NESC Rule 218?**

72 A: Yes. The surrebuttal testimony of Ray Wiesehan discusses the significant increase
73 in Distribution System Maintenance costs required to comply with Mr. Spencer's
74 interpretation of NESC 218. As shown on Exhibit 16.5, the additional costs for
75 the No Touch Policy Adjustment increase operating expense by \$27,175,000 in
76 this case. This amount includes \$17,293,000 for incremental additional ongoing
77 costs and \$9,882,000 for a four-year amortization of the additional costs to
78 convert from a four-year to a two-year tree trimming cycle.

79 **Incentive Compensation**

80 **Q: Please describe the incentive compensation correction shown on Exhibit 36.1,**
81 **Schedule 1, Page 2.**

82 A: On Respondents' Exhibit 16.6, a correction was made by the Ameren Companies
83 to the level of incentive compensation expense. On ICC Staff Exhibit 14.0,
84 Schedule 14.03, Staff witness Jones reflected this correct amount of incentive
85 compensation expense. The adjustment shown for AmerenCIPS and AmerenIP on
86 ICC Staff Exhibit 12.0 is also correct, but the amount shown for AmerenCILCO
87 is slightly overstated. In response to Ameren Data Request 16.01, Staff
88 acknowledged the overstatement of its proposed adjustment. This overstatement is
89 corrected on Exhibit 36.1, Schedule 1, Page 2.

90 **Q: Do you have any additional comments regarding incentive compensation?**

91 A: Yes. Ms. Krista Bauer has discussed the reasons why the Ameren Companies
92 disagree with this adjustment. Therefore, I have added back incentive

93 compensation expenses, and related payroll taxes, in the Adjustments to
94 Operating Income shown on Exhibits 36.1, 36.2, and 36.3.

95 **AMS Cost Reallocation**

96 **Q: Are there any remaining issues regarding AMS cost reallocation?**

97 A: Not to my knowledge. The Ameren Companies agree with the AMS reallocation
98 costs reflected on ICC Staff Exhibit 12.0, and no other witnesses specifically
99 addressed AMS reallocation costs in rebuttal testimony.

100 **Injuries and Damages Expenses**

101 **Q: Does AG witness Effron concur with Staff's recommendation to normalize**
102 **injuries and damages expenses, which was accepted by the Ameren**
103 **Companies?**

104 A: No. While Mr. Effron did not propose an adjustment to injuries and damages
105 expense for AmerenIP, he does indicate opposition to Staff's adjustment for
106 AmerenCILCO and AmerenCIPS.

107 **Q: Do you have comments regarding Mr. Effron's recommendation?**

108 A: Yes. The Ameren Companies continue to believe that Staff's approach to
109 normalize injuries and damages is the preferred approach in this case, in that it
110 weighs payments against accrued expense and also eliminates what Staff
111 considered to be outlying data. Mr. Effron's primary criticism of Staff's approach
112 appears to be that he disagrees with the subjectivity involved with expense
113 accruals recorded by the Ameren Companies, and again with the subjectivity
114 involved in assessing outlying data. Even Mr. Effron's recommended approach is
115 subjective, however, in that he has elected to normalize injuries and damages

116 expense over a 5-year period vs. some other period, such as a 4-year period or
117 instead based on either test year or post test year payments. His recommendation
118 to use a simple average of payments is effectively a cash basis approach, which is
119 rarely, if ever, used to set revenue and expense levels for the purpose of either
120 financial reporting or setting rates in a ratemaking context. While Mr. Effron may
121 not like the size of injuries and damages expense accruals, or the fluctuation of
122 accruals from year to year, accruals are the accepted form of accounting for
123 revenues and expenses. The fact that accruals, and payments, fluctuate from year
124 to year for a cost such as injuries and damages, helps to support Staff's
125 normalization approach. Also, Staff's weighted average approach to
126 normalization is more common and generally preferred in setting various revenue
127 and expense levels rather than the simple average normalization developed by Mr.
128 Effron, because it places more weight on current data, rather than equal weight on
129 all data, whether such data is for 2001 (three years before the test year) or for the
130 test year. I note that, in this case, Staff's proposed normalization of uncollectible
131 expense is a weighted average approach, which Mr. Effron did not oppose. Other
132 common examples of a weighted average approach used in a ratemaking context
133 are weather-normalized sales (result applied to test-year billing units rather than
134 purely historical derivation), changes in depreciation rates, and cost of debt and
135 equity. As mentioned above, the use of simple averages to establish revenue and
136 expense levels that fluctuate from time to time are rarely used in a ratemaking
137 context.

138 **Employee Pensions and Benefits Expenses**

139 **Q: Are other Ameren Companies' witnesses also addressing pensions and**
140 **benefits issues in surrebuttal testimony?**

141 A: Yes. Ameren Companies' witnesses Mr. Ken Vogl addresses issues related to
142 pensions and other post employment benefits ("OPEBs") and Ms. Marla
143 Langenhorst addresses issues related to major medical expense, in response to
144 proposals submitted by Staff witness Lazare and IIEC witness Chalfant to limit
145 the overall level of A&G expense, and OPEB liability issues raised by AG
146 witness Effron and adopted by Staff witness Jones. Except for one adjustment
147 discussed below, no other proposed adjustments to pensions and benefits costs are
148 appropriate.

149 **Q: Please respond to Mr. Effron's proposal to use 2005 rather than 2006**
150 **expense to determine pro forma pensions and benefits expenses.**

151 A: In my rebuttal testimony, I provided a number of reasons why use of 2006
152 information is more appropriate. For whatever reason, Mr. Effron ignores much
153 of my testimony and instead focuses his attention on the lack of complete
154 actuarial studies in support of 2006 expense levels.

155 **Q: Are actuarial studies conducted for all pensions and benefits costs?**

156 A: No. Actuarial studies only pertain to pensions and other post employment benefits
157 expense. Actuarial studies are not prepared for other benefits expense. Therefore,
158 my discussion herein is focused on these two expense components.

159 **Q: Why is the lack of complete actuarial studies not a valid reason to disallow**
160 **use of 2006 expense for pensions and other post employment benefits**
161 **expense?**

162 A: Actuarial studies certainly provide useful information and are very helpful in
163 measuring the overall levels of, and changes in, plan costs, for a period of time. If
164 there is a reasonable expectation that the period of time covered by the study is
165 representative of going-forward levels, such data can be reasonably relied upon in
166 whole or in part. However, due to the passage of time, costs begin to change
167 immediately after the study date. Even if there was no change in eligible
168 participants, and there was no change in the assumption for inflation rates and
169 return on plan assets, costs would immediately change due to changes in service
170 plan costs, and changes in the amortization of plan gains or losses. Such costs
171 may increase or they may decrease, but they will change. Therefore, it is generally
172 more appropriate to use more current information to establish such costs,
173 including consideration by the actuary of anticipated changes in cost components,
174 such as medical inflation rates and other plan changes. This is particularly true
175 when you consider that rates to be established in this case will not go into effect
176 until January 2, 2007, well after the 2005 study period recommended by Mr.
177 Effron. Specifically in this case, there are a number of reasons to believe 2005
178 actual data is not representative of going-forward pension and other post
179 employment benefits expense. Therefore, 2006 actuarial estimates have been
180 used, which are reasonably expected to be representative of going-forward levels,
181 and are more accurate than the actual 2005 data. As stated in my rebuttal
182 testimony, use of 2006 data includes a full year of IP on the Ameren financial
183 system and more accurately reflects AmerenIP's allocable share of pensions and
184 other post employment benefits expense. Also, use of 2006 data includes a full

185 year of the transfer of the former IllinoisUE employees to AmerenCIPS, and
 186 therefore reflects a more accurate determination of the impact of pensions and
 187 benefits costs of AmerenCIPS. In addition, use of 2006 data more closely
 188 coincides with the date new rates will go into effect as a result of these
 189 proceedings and also satisfies the criteria established in Section 287.40 of the
 190 Illinois Administrative Code for use of estimates in establishing rates.

191 **Q: Has the issue regarding the Ameren Companies' proposed elimination of the**
 192 **AmerenIP purchase accounting adjustment been resolved?**

193 A: Yes. The Ameren Companies, Staff, and AG, are all in agreement regarding this
 194 issue. In response to AG Data Request 9-3, the Ameren Companies noted that an
 195 additional adjustment should be made to properly record pension and other post
 196 employment benefit expense. This adjustment to reduce expense by \$1,773,000
 197 was reflected by Staff on ICC Staff Exhibit 14.05 (IPC).

198 **Rate Case Expenses**

199 **Delivery Services Case Expenses**

200 **Q Please comment on Ms. Jones' recommended adjustment to disallow certain**
 201 **rate case expenses for this proceeding.**

202 A. Ms. Jones has unfairly chosen to disallow certain rate case expenses without
 203 providing any basis for doing so. These adjustments fall into three categories: (1)
 204 an undefined class of rate case expense costs that Ms. Jones claims has not been
 205 supported by documentation, (2) the cost of an electric depreciation study that the
 206 Ameren Companies used to determine appropriate depreciation rates, and (3) the

207 cost of the Ameren Companies' rate case to establish a means for procuring
 208 power after December 31, 2006.

209 **Q. Which rate case costs does Ms. Jones believe are unsupported?**

210 A. That is a very good question, and one that cannot be answered by reading Ms.
 211 Jones' testimony. Ms. Jones does not identify any particular rate case expense
 212 that she believes is unsupported, and has admitted in data request responses that
 213 she has not found any particular cost to be unreasonable. Ms. Jones vaguely
 214 claims that the Ameren Companies have "not necessarily" shown that requested
 215 amounts for rate case expenses are reasonable, but does not explain why. (ICC
 216 Staff Exhibit 14.0, pp.4-6.) From my review of Ms. Jones' revised schedules, I
 217 believe that Ms. Jones has simply chosen to disallow any remaining expenses that
 218 have not yet been incurred and paid. Ms. Jones has simply added up invoices to
 219 date and has disallowed the remainder.

220 **Q. Is Ms. Jones' methodology reasonable?**

221 A. No. The Ameren Companies are allowed to recover their reasonable rate case
 222 expenses, regardless of whether they have already been invoiced. Ms. Jones has
 223 admitted this in her data request responses.

224 **Q. Please respond to Ms. Jones' claim that the Ameren Companies have not
 225 provided reasonable estimates for their rate case expenses.**

226 A. There is simply no basis for her claim. Her logic apparently rests on two
 227 arguments: (1) that the Ameren Companies' rate case estimates are "based mainly
 228 on verbal communications with its service providers" (ICC Staff Ex. 14.0, Lines

229 78-80) and (2) that actual costs have exceeded estimates, therefore the estimates
230 (notably, not the actual costs) were unreasonable.

231 *First*, Ms. Jones is incorrect that the Ameren Companies based their rate case
232 estimates “mainly on verbal communications.” The Ameren Companies provided
233 Ms. Jones with contracts and letters to support their numbers. I cannot think of an
234 instance where mere “verbal communications” with service providers were relied
235 on to derive an estimate. Ms. Jones’ claim is not based in fact.

236 *Second*, even if Ms. Jones were correct in making this claim, it simply does not
237 support a disallowance of actual, reasonable costs. Ms. Jones may believe that
238 verbal communications are inherently unreliable, and she is entitled to that
239 opinion. But the fact remains that rate cases cost money, and the Ameren
240 Companies are entitled to recover those costs. Ms. Jones has not disputed the
241 reasonableness of the actual costs.

242 **Q. Were the Ameren Companies’ original estimates unreasonable?**

243 A. No. The Ameren Companies have a clear interest in being sure that rate case
244 estimates are as accurate as possible. The Ameren Companies used the most
245 accurate information available at the time of filing – including service provider
246 rates, contracts, letters of engagement and historical data – to derive their original
247 cost estimates. It is important to remember that the Ameren Companies have
248 cultivated long relationships with many of the service providers they use in a rate
249 case, and thus are able to use historical data and experience to shape cost
250 estimates. But, there is no crystal ball that forecasts what costs will actually be.
251 Rate case costs are inherently difficult to estimate, because it is impossible to

252 predict what will happen in a litigated case. The Ameren Companies cannot
253 simply choose not to fully participate in litigation because doing so would cost
254 more than we originally thought or hoped. Rate case estimates thus naturally
255 change over time as actual costs are realized and as circumstances warrant.
256 Obviously, rate case cost estimates that are available now are more accurate than
257 those that were available at time of filing, because they are based on actual data.

258 **Q. Are the Ameren Companies' rate case expenses reasonable?**

259 A. Yes. Ms. Jones has not disputed this fact. She merely quibbles with the Ameren
260 Companies' original estimate. The fact remains that the Ameren Companies have
261 carefully managed their rate case costs and have kept expenses to an
262 extraordinarily low level. To demonstrate this fact, I note that, in ICC Docket 05-
263 0597, Commonwealth Edison Company ("ComEd") requested over \$9 million in
264 rate case expenses, as compared to the Ameren Companies' requested \$2.7
265 million. Staff recommended allowing approximately \$7.3 million of ComEd's
266 request – a total amount that is almost three times what the Ameren Companies
267 have requested in this case. While ComEd can spread its rate case costs over a
268 larger customer base, this does not mean that the Ameren Companies have any
269 less work to do to meet their evidentiary burden in a rate case. Quite the opposite
270 – the Ameren Companies in fact must prove expenses for three utilities, instead of
271 only one, and are managing to do so within estimates amounting to less than a
272 third of what the ALJ has deemed reasonable in ComEd's case. This large
273 discrepancy in costs demonstrates that the Ameren Companies have successfully

274 limited their rate case expenses to total amounts that are far below a reasonability
275 threshold.

276 Using Ms. Jones' logic, it would seem that the Ameren Companies could throw
277 their rate case cost-management measures out the door and spend considerably
278 more on their rate case, as long as they have provided a large cost estimate at time
279 of filing. Staff's position only encourages a utility to overestimate its rate case
280 expenses from the outset and to overspend throughout the case.

281 **Q. Do you have any comments regarding Ms. Jones' proposal to disallow**
282 **invoiced amounts for CSS Consulting and Manpower, Inc.?**

283 A. Yes. The costs included in the Ameren Companies' rate case expense related to
284 these companies should be recognized as a legitimate cost in the preparation and
285 processing of information for these rate cases. Specifically, \$7,000 of the CSS
286 Consulting work was directly related to collection of historical asset data from the
287 Companies' property records to assist in preparation of the depreciation study.
288 The remaining \$5,000 was for work performed in preparation of the minimum
289 filing requirement schedule C-13 requiring four years of historical affiliate
290 transaction data. The use of CSS Consulting provided the opportunity for the
291 Ameren Companies to tap the expertise of a former Manager retired from the
292 Controllers group within Ameren Services, who had a great deal of familiarity
293 with Ameren's property accounting records and affiliate transaction detail. For
294 Manpower, \$1,000 was incurred for costs of one individual to assist with
295 preparation of data for the depreciation study. The remaining \$5,000 has been an
296 ongoing process in response to the volume of data requested by Staff witness

297 Ebrey in her audit of Plant Additions. Specifically, the individual in question has,
298 under my direction and supervision, pulled and/or copied thousands of sheets of
299 paper to help the Ameren Companies compile data requested by Ms. Ebrey, along
300 with assisting in the review of her proposed Plant Additions and Pro Forma Plant
301 Additions adjustments, and assembly of various Rebuttal and Surrebuttal Exhibits
302 and supporting documentation in support of the Ameren Companies' response to
303 these issues.

304 **Depreciation Study Expenses**

305 **Q. Please comment on Ms. Jones' recommendation to disqualify expenses the**
306 **Ameren Companies incurred in conducting its depreciation study (Staff Ex.**
307 **3.0, p. 24).**

308 A Ms. Jones continues to claim that, because the Ameren Companies have not
309 proposed any changes in depreciation rates, expenditures related to the
310 depreciation study are not a recoverable rate case expense.

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

312 A Yes.

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

315 A. Yes. As I previously testified, the depreciation study was an important and
316 necessary expenditure to determine appropriate depreciation rates for all of the
317 Ameren Companies, especially because the Companies' rates have been frozen
318 for almost ten years. In DR responses, Ms. Jones has argued that the Ameren

319 Companies "did not make reasonable use" of the results of the depreciation study,
320 because we did not request a change in depreciation rates.

321 **Q. Did the study support a change in depreciation rates?**

322 A. The study supported a small decrease in depreciation rates for AmerenCIPS and
323 AmerenCILCO, but a very large increase in depreciation rates for AmerenIP.

324 **Q. Did the Ameren Companies make reasonable use of these results?**

325 A. Yes. These results were analyzed and our decision not to request a change in
326 depreciation rates was based on these results.

327 **Q. Please explain.**

328 A. While the results of the depreciation study supported a moderate overall increase
329 in expense, there was a large disparity between the increase in rates recommended
330 for AmerenIP versus the other utilities. This increase would have caused
331 AmerenIP's rates to jump substantially higher. While Ms. Jones implies that the
332 only reasonable use of a depreciation study is to request rates in exact accordance
333 with the study's results, I respectfully disagree. Because the Ameren Companies
334 are very concerned about the affect of an increase in rates on our customers, the
335 decision was made that an increase in depreciation rates would not be requested
336 until a more complete history of ownership for all of the utilities had been
337 established.

338 **Q. What impact does a complete history of ownership have on a depreciation
339 study?**

340 A. As Ms. Jones testifies, "[d]epreciation rates depend on asset lives, salvage value
341 and removal costs." (ICC Staff Exhibit 14.0, Lines 146-148.) What Ms. Jones

342 does not realize is that these values often cannot be accurately determined by a
343 book. When a depreciation study is conducted, analysts conduct field work and
344 interview company employees about specific asset use and performance. This
345 information is of great use in determining accurate depreciation rates. The results
346 of such interviews and field work may differ after Ameren Corporation has
347 developed a fuller history of ownership of its assets, thus affecting the results of
348 the depreciation study itself.

349 Weighing these factors, in light of the significant disparity in depreciation study
350 results between utilities and the impact that a requested change in depreciation
351 rates could have on AmerenIP customers, the Ameren Companies decided not to
352 request an increase in rates. The Ameren Companies determined that the results
353 of the depreciation study under prevailing circumstances supported maintaining
354 the status quo.

355 **Q. You indicated above that the Ameren Companies are not requesting a**
356 **change in depreciation rates in these proceedings. Other than requesting**
357 **inclusion of depreciation study costs as recoverable rate case expense, are the**
358 **Ameren Companies requesting any additional findings by the Illinois**
359 **Commerce Commission (“ICC”) regarding results of the depreciation study**
360 **conducted thus far?**

361 A. Yes. Based on the depreciation study, the Ameren Companies are requesting
362 permission to reallocate the AmerenIP depreciation reserve in order to mitigate
363 future impacts of changes in depreciation rates. Attached as Exhibit 36.4 is the

364 proposed reallocation based on year-end 2004 reserve balances, along with an
365 illustration of the depreciation rate impact of the reallocation.

366 **Q. In your rebuttal testimony, you indicated that the Ameren Companies could**
367 **alternatively request permission to reallocate its depreciation reserve by**
368 **approval of the Federal Energy Regulatory Commission (“FERC”). Is that**
369 **correct?**

370 A. Yes. As I stated in my rebuttal testimony, however, since a depreciation study has
371 been conducted in conjunction with the instant proceedings, the Ameren
372 Companies consider it to be more administratively efficient and more appropriate
373 to request such approval from the ICC at this time.

374 **Q. Please respond to Ms. Jones comment that she has “found nothing to indicate**
375 **that reallocation of the depreciation reserve is acceptable under the rules of**
376 **Generally Accepted Accounting Principles (“GAAP”).**

377 A. While there may be other authoritative sources that provide support under GAAP,
378 the Statement of Financial Accounting Standards (“FAS”) 71: Accounting for the
379 Effects of Certain Types of Regulation does provide guidance that can be
380 construed as supportive of the Ameren Companies' request, given that AmerenIP
381 is a rate-regulated utility under ICC jurisdiction. Specifically, at paragraph 51 of
382 FAS 71, a threshold issue is addressed: “Should accounting prescribed by
383 regulatory authorities be considered in and of itself generally accepted for
384 purposes of financial reporting by rate-regulated enterprises?” The answer
385 provided in paragraph 52 stated in part “.....the economic effect of regulatory
386 decisions-not the mere existence of regulation-is the pervasive factor that

387 determines the application of generally accepted accounting principles.” In other
388 words, actions of a regulator, such as in this case approving reallocation of the
389 depreciation reserve, can directly impact and influence whether a rate-regulated
390 utility is in compliance with GAAP.

391 **Q. For AmerenIP, how does the reallocation of the 2004 depreciation reserve**
392 **balance mitigate the impact of future changes in depreciation rates?**

393 A. As explained in my rebuttal testimony, the review of AmerenIP's depreciation
394 reserve by account and by function indicated a large disparity in the actual reserve
395 vs. the calculated reserve conducted in preparation of the depreciation study. As
396 illustrated on Exhibit 36.4, the reserve shortfall is predominantly in shorter lived
397 assets. Amortization of the reserve shortfall of shorter-lived assets occurs over a
398 much shorter remaining life, and results in higher overall depreciation expense.
399 By reallocating the reserve, the impact of any reserve shortfalls on an account by
400 account basis is mitigated.

401 **Q. What is the impact on depreciation expense of the proposal reallocation of**
402 **the depreciation reserve?**

403 A. In this specific case, the reallocation has the impact of mitigating the otherwise
404 necessary increase in depreciation expense by \$17,099,000 annually, as shown on
405 Exhibit 36.4. This is a significant benefit to AmerenIP's customers on a going
406 forward basis, if approved.

407 **Post-2006 Auction Case Expenses**

408 **Q. Please comment regarding Ms. Jones' continued recommendation to disallow**
409 **recovery of rate case expenses related to the Basic Generation Services**
410 **proceeding ("BGS Proceeding") (ICC Staff Ex. 14.0, p. 10-12).**

411 A. Ms. Jones continues to stick her head in the sand and ignore the fact that the BGS
412 Proceeding benefited all of the Ameren Companies' customers. Staff does not
413 dispute that Section 16-103(c) of the Public Utilities Act requires the Ameren
414 Companies to be the electricity supply "provider of last resort" to all customers,
415 and thus must offer supply service options to all customers. The Ameren
416 Companies' ability to provide these options was secured through the BGS
417 Proceeding. Thus, all delivery services customers benefited from the BGS
418 Proceeding.

419 **Q. Please respond to Ms. Jones' statement that "[t]he fact that the Companies**
420 **must offer service to whoever [sic] wants it predates the BGS proceeding."**
421 **(ICC Staff Ex. 14.0, Lines 205-206.)**

422 A. This response ignores the obvious fact that the Ameren Companies ability to
423 provide supply service to whomever wants it *after December 31, 2006*, does *not*
424 predate the BGS Proceeding. That ability was secured through the BGS
425 proceeding. BGS Proceeding costs should thus be allocated to all of the Ameren
426 Companies' customers.

427 **Q. What would be the effect of recovering BGS proceeding costs through the**
428 **Supply Procurement Adjustment ("SPA"), as Staff recommends?**

429 A. If the Ameren Companies were to recover their BGS proceeding costs through the
430 SPA, only a portion of the Ameren Companies' customers would actually pay for

431 costs that were incurred for the benefit of all customers. And, due to the nature of
432 the Ameren Companies' customer populations, such costs would be
433 disproportionately borne by residential customers, who do not currently have the
434 same supply service options as large industrial customers. Under Staff's proposal,
435 large industrial customers with supply service options could choose alternative
436 electricity suppliers in the short term, while reserving the right to return to the
437 Ameren Companies' supply service options in the future without paying for those
438 options. In short, Staff's proposal violates cost causation and allocation
439 principles.

440 **Administrative and General ("A&G") Expenses**

441 **Q: Have you reviewed the rebuttal testimony of Staff witness Lazare and IIEC**
442 **witness Chalfant, who continue to take issue with the Ameren Companies'**
443 **proposal regarding A&G expenses (Staff Ex. 17.0, pp. 10-28), (IIEC Ex. 5.0,**
444 **pp. 10-16).**

445 A: Yes. As I will discuss further below, both Mr. Lazare's and Mr. Chalfant's
446 recommendations are severely flawed, for several reasons. Both approaches rely
447 on a generalized view of A&G, rather than a review of specific A&G expenses.
448 While Mr. Lazare does respond to specific testimony submitted in support of
449 pensions and benefits costs, he does not rely on this information to formulate his
450 proposal. He also ignores other submitted evidence in Company testimony,
451 Company responses to data requests, and even Staff's own field work audit, as to
452 what A&G costs are, and what is driving changes in A&G. Instead, he attempts to
453 recreate his own version of a virtually integrated power company as if Ameren

454 had never divested its generation business from AmerenCILCO and AmerenCIPS.
455 He bases his recommended total A&G expenses on the results of this analysis and
456 then applies his AmerenCILCO results to AmerenIP, since Ameren did not
457 acquire and does not own the generation assets previously owned by IP. Mr.
458 Chalfant's approach is even more extreme, in that he does not even acknowledge
459 specific, detailed evidence presented by the Ameren Companies in testimony or in
460 responses to data requests. While both Mr. Lazare and Mr. Chalfant have had the
461 opportunity to review hundreds of Company responses to data requests that deal
462 with A&G expenses, neither witness has placed any reliance on this information
463 to recommend that any specific A&G expenses should be allowed for recovery, or
464 not be allowed for recovery, with the exception of Mr. Lazare's acknowledgement
465 of submitted evidence regarding pensions and benefits expenses. Neither witness
466 has identified any specific A&G expenses that have been imprudently incurred.
467 While they allege that a portion of A&G costs support non-regulated production
468 functions, they provide no factual basis for that allegation. Neither witness has
469 identified any specific A&G expenses that do in fact support or relate to non-
470 regulated production functions. They merely assume this to be the case and
471 challenge the Companies to prove them wrong.

472 **Q: Do any of the test year A&G expenses support non-regulated production**
473 **functions of the Ameren Companies?**

474 A: To the extent test year A&G expenses support non-regulated production
475 functions, the Ameren Companies have assigned an allocable portion of test year
476 A&G expenses to non-regulated production functions on the books of

477 AmerenCILCO and AmerenIP. In the test year, AmerenCIPS did not own any
478 production assets, nor did they have any employees assigned to production.
479 Therefore, no A&G expenses were assigned to non-regulated production for
480 AmerenCIPS.

481 **Q: Do any of the test year A&G expenses support non-regulated production**
482 **functions of other Ameren affiliates involved in the generation of electricity?**

483 A: No. A&G expenses supporting non-regulated production functions of other
484 Ameren affiliates are recorded on the books of the other Ameren affiliates.

485 **Q: What is the amount of A&G expense on the books of other Ameren affiliates**
486 **involved in non-regulated production functions?**

487 A: For 2004, the amount of A&G expenses total \$49,053,865. The entities used for
488 this analysis are the same entities used by Mr. Lazare to develop his A&G
489 proposal. Specifically, the entities are Ameren Energy Resources \$1,735,964,
490 Ameren Generating Company \$24,514,907, Ameren Energy Resources
491 Generating \$5,226,898, Ameren Energy \$411,677, Ameren Energy Marketing
492 \$8,530,080, and Ameren Energy Fuels and Services \$8,634,340.

493 **Q: How does this compare with the requested levels of A&G for AmerenCILCO**
494 **and AmerenCIPS?**

495 A: The surrebuttal level of A&G for AmerenCILCO as shown on Exhibit 36.1 is
496 \$36,164,000 and the surrebuttal level of A&G for AmerenCIPS as shown on
497 Exhibit 36.2 is \$46,089,000, for a total for these two entities of \$82,253,000.

498 **Q: Why is AmerenIP not included above?**

499 A: As mentioned previously, Ameren did not acquire and does not own the
500 generation assets previously owned by Illinois Power Company ("IP"). As such,
501 Ameren affiliates do not perform non-regulated production functions that
502 correspond with generation of electricity previously performed by IP.

503 **Q: Is any portion of the \$49,053,865 of A&G costs recorded on the books of the**
504 **other Ameren affiliates also included in the requested level of A&G for**
505 **AmerenCILCO and AmerenCIPS?**

506 A: No. These costs can't be recorded on the books of two companies, and are
507 independent of each other.

508 **Q: Given the above, is it reasonable to assume that costs recorded on the books**
509 **of AmerenCIPS and/or AmerenCILCO are somehow supporting the non-**
510 **regulated production functions of the other six Ameren affiliates, as alleged**
511 **by Mr. Lazare and Mr. Chalfant?**

512 A: No. These costs can't be recorded on the books of two companies, and are
513 independent of each other.

514 **Q: Why are A&G expenses supporting non-regulated production functions of**
515 **other Ameren affiliates on the books of the other Ameren affiliates, rather**
516 **than on the books of the Ameren Companies?**

517 A: Common sense is one good reason. The underlying driver is proper financial
518 reporting. If Ameren recorded A&G expenses attributable to one legal entity, such
519 as AGC, on the books of another legal entity, such as AmerenCIPS, it would be
520 improper accounting, and result in improper reporting of expenses for Ameren's
521 entities that submit reports to the SEC, FERC, and ICC. As such, allocation of

522 costs, such as A&G expenses, is the subject of review from time to time by each
523 of these regulatory bodies, in addition to review from time to time by Ameren's
524 internal auditors and external auditors conducting the review of Ameren's books
525 and records.

526 **Q: How does Ameren determine whether A&G expenses should be recorded on**
527 **the books of the Ameren Companies vs. other Ameren affiliates?**

528 A: This determination is based on the work being performed, as previously described
529 in detail in the direct testimony of Martin Lyons. If an employee of AmerenCIPS,
530 for example, charges his/her time to an A&G account, and he/she performs work
531 for another affiliate, then the affiliate will be issued a bill for that work, and
532 reimbursement to AmerenCIPS will be recorded as a reduction to A&G expense.
533 If that same employee routinely performs work for other Ameren affiliates, that
534 employee would instead be employed by Ameren Services Company. In that case,
535 time reporting would be governed by the General Services Agreement ("GSA").
536 In the example used above, the employee performing work on behalf of the other
537 affiliate would have the ability to directly assign such time to the affiliate. The
538 A&G expense associated with the specific work performed would in turn be
539 recorded on the books of that affiliate. If instead the work performed were to
540 benefit more than one Ameren affiliate, the GSA provides a number of different
541 allocation methods that could be used to allocate costs common to more than one
542 legal entity, within the Ameren affiliate group of companies.

543 **Q: At page 15, lines 304-317, Mr. Chalfant attacks the GSA for not specifying**
544 **precise allocators. Is this a fair criticism of the GSA?**

545 A: No. As Mr. Chalfant correctly states, the GSA does provide a menu of cost of
546 allocation methods, and does not specify precise allocators. Contrary to Mr.
547 Chalfant's vision of a perfect world, it is simply not practical to lay out precise
548 allocators in the GSA, because precise allocators are not static, and need to be
549 reviewed and updated from time to time. In addition, the activities performed by a
550 particular group of employees can change from time to time, and result in the
551 request for approval of a new allocator. If, for example, an allocator based on
552 number of customers was precisely detailed in the GSA, each subsequent change
553 based on number of customers would or could result in either approval of a new
554 GSA, or filing of an addendum to the agreement. Such an exercise is not practical
555 from an administrative standpoint. Allocators in any event are subject to audit
556 reviews from time to time by SEC, FERC, ICC, and/or Ameren's internal or
557 external auditors. A number of allocators were reviewed in the context of data
558 requests issued by Staff witnesses Lazare and Jones in these proceedings, but no
559 specific adjustments were proposed based on review of these allocators by Staff
560 or any other parties, including IIEC, that received this information.

561 **Q: Both Mr. Lazare and Mr. Chalfant have questioned the reasonableness of the**
562 **overall level of A&G expenses, and have also alleged that there should be a**
563 **relationship between A&G and other O&M expenses. How do you respond?**

564 A: I continue to disagree with both witnesses that there is or should be a direct
565 relationship between A&G and other O&M expenses for the reasons I stated in
566 my rebuttal testimony. To provide context for this issue, I reviewed the Ameren
567 Companies' O&M and A&G expenses compared with the same proxy group of

568 ten other utilities with similar megawatt hours and customers used by Mr. Lyons
569 in his direct testimony at page 10, lines 210-218. As shown on Exhibit 36.6,
570 Schedule 1, the Ameren Companies compare very favorably with the other
571 utilities for A&G expenses in relationship to other O&M expenses. More
572 specifically, in the Ameren Companies' surrebuttal filing, A&G expenses divided
573 by distribution plus customer expenses, is 76.01%. This compares with the ten-
574 utility proxy group average of 104.51%. As such, even if the argument could be
575 made that there is a direct relationship between A&G other O&M, then the overall
576 level of A&G costs requested by the Ameren Companies is reasonable.

577 **Q: At lines 198-201 is his rebuttal testimony, Mr. Chalfant states that you**
578 **testified that no witness has disputed any particular A&G cost or A&G**
579 **allocation proposed by the Ameren Companies. Is this a correct reading of**
580 **your testimony?**

581 A: No. In my rebuttal testimony, I stated that "No witness has presented testimony to
582 dispute the prudence of any particular A&G cost, or any A&G cost allocation". I
583 did not imply that no witness has disputed any particular A&G cost or A&G
584 allocation. Various witnesses have proposed A&G expense adjustments, some of
585 which the Ameren Companies agree with and have been included as adjustments
586 in surrebuttal revenue requirement. While Staff witnesses Jones and Lazare have
587 asked numerous Data Requests regarding cost allocations, neither witness has
588 disputed a specific cost allocation. The fact remains that no witness has presented
589 testimony to dispute the prudence of any particular A&G cost, or any A&G cost
590 allocation.

591 **Q: Have you conducted any further analysis of the types of activity included in**
592 **A&G costs?**

593 A: Yes. Exhibit 36.6, Schedule 2 presents annualized May through October 2005
594 detailed activity based A&G costs included previously on Exhibit 16.10, Schedule
595 1. Since the information submitted on Exhibit 16.10 excluded pension and benefit
596 costs, I have added back the surrebuttal level of these costs as supported by
597 Ameren Companies' witnesses Vogl and Langenhorst. As stated in my rebuttal
598 testimony, May through October 2005 annualized is more reflective of ongoing
599 cost levels than using purely 2004 data, because this represents the first six
600 months of actual operations that include both the transfer of the former Illinois
601 Union Electric operations to AmerenCIPS (May 2005) and operation of IP on
602 Ameren's financial systems. Also, May through October 2005 annualized
603 represents the same time period used to calculate pro forma AMS-reallocated
604 costs.

605 **Q: What is the result of this analysis?**

606 A: This schedule supports not only the reasonableness of the Ameren Companies'
607 requested level of A&G expense, but also provides substantive detail in support of
608 A&G. As illustrated, for the Ameren Companies, the overall level of requested
609 A&G is slightly more than \$150.5 million. Detailed support is provided for \$151
610 million.

611 **Q: At lines 265-270 is his rebuttal testimony, Mr. Chalfant states that you**
612 **testified that increases in security, legal, and regulatory expenses have**
613 **disproportionately impacted the regulated businesses of the Ameren**

614 **Companies relative to the generation operations of their affiliates. Is this a**
615 **correct reading of your testimony?**

616 A: No. The primary point I was making in this section of my testimony was that
617 A&G costs have increased significantly due to the changing regulatory
618 environment we are in today, and would impact A&G disproportionately
619 compared with increases in other O&M expenses. There was no inference made
620 that increased security costs would be higher for the distribution business than the
621 generation business. The discussion regarding the generation business was limited
622 to the belief that legal and regulatory services expenses would not increase at the
623 same rate for unregulated generation as it would for the Ameren Companies.

624 **Q: Please respond to Mr. Lazare's discussion regarding your adjustments to his**
625 **proposed A&G disallowance.**

626 A: Mr. Lazare indicates agreement with the recalculated results for AmerenCILCO
627 and AmerenCIPS, but recommends that the results for AmerenIP not be used,
628 because they would produce an increase when compared to the AmerenIP's
629 requested level of A&G costs.

630 **Q: Have you recalculated these schedules to consider changes in the Ameren**
631 **Companies' proposed surrebuttal revenue requirement?**

632 A: Yes. As shown on Exhibit 36.6, Schedule 3, Page 2 of 2, I have updated the
633 Ameren Companies' proposed level of A&G for AmerenCIPS and for AmerenIP.
634 The resulting downward adjustment changes from \$3,345,118 to \$3,345,311 for
635 Ameren CIPS. The resulting downward adjustment changes from \$4,975,701 to
636 \$4,952,508 for AmerenCILCO. The resulting upward adjustment for AmerenIP

637 changes from \$6,697,747 to \$8,484,351. The recalculated sum for the Ameren
638 Companies is +\$186,531.

639 **Q: With regard to his proposal not to use the AmerenIP results, Mr. Lazare**
640 **states at lines 385 and 386 of his rebuttal testimony that “there must be some**
641 **evidence to indicate that the company should receive an even greater**
642 **increase than it proposed in direct”. Is this a valid argument for not**
643 **increasing AmerenIP’s A&G expense, under his proposal?**

644 A: No. Mr. Lazare has not identified any valid reason for not making the adjustment,
645 other than he does not like the results. There are numerous reasons why this logic
646 is faulty. First, Mr. Lazare has not identified any statutory or legal restriction on
647 the ability of Staff witnesses to propose a greater increase for a particular cost, or
648 group of costs, that a company proposes. Second, Staff witnesses have accepted a
649 number of adjustments and corrections to what the Ameren Companies originally
650 proposed in these proceedings. Some of these adjustments, such as corrections to
651 the AMS Reallocation, and updated Rate Case expense, have resulted in
652 increases. In addition, Mr. Lazare himself is inconsistent in approach, in that he
653 has proposed an increase to AmerenCILCO general and intangible plant
654 compared to the Ameren Companies’ proposal. In the case of general and
655 intangible plant, Mr. Lazare was consistent in that he proposed a uniform
656 approach, whether positive or negative, for each of the Ameren Companies, but
657 for some reason, he has elected to not follow a uniform approach for A&G
658 expenses.

659 **Q: Is there other evidence presented by the Ameren Companies that would**
660 **support increasing AmerenIP's A&G above the Ameren Companies'**
661 **requested level?**

662 A: Yes. As indicated on Exhibit 36.6, Schedule 1, the Ameren Companies' A&G
663 expenses in relationship to other O&M expenses compare very well with a
664 benchmark group of similarly situated utilities. As such, there is ample room
665 under this approach to authorize a greater level of A&G expenses to AmerenIP, or
666 the AmerenCompanies, than proposed in surrebuttal revenue requirement. Also,
667 as indicated on Exhibit 36.6, Schedule 2, AmerenIP's A&G costs allocable to the
668 electric distribution business for the period May through October 2005 annualized
669 is higher than the amount included in surrebuttal revenue requirement, which also
670 provides ample room for an increase to AmerenIP's A&G expense, under Mr.
671 Lazare's proposal.

672 **Q: Please summarize your position regarding the recommendations of Mr.**
673 **Lazare and Mr. Chalfant to limit the Ameren Companies' proposed increase**
674 **in A&G expense.**

675 A: As indicated above, the Ameren Companies have supported its requested level of
676 A&G costs, have demonstrated that such costs are reasonable both in total in
677 comparison with other O&M expenses, and have provided detailed support for not
678 only pensions and benefits costs, but also for other A&G costs. In addition, the
679 Ameren Companies have supported the fact that other Ameren affiliates involved
680 in non-regulated production functions have substantial A&G costs independent of
681 the costs recorded on the books of the Ameren Companies. The burden of proof

682 has been met by the Ameren Companies in these proceedings to demonstrate that
 683 the requested level of A&G costs are reasonable. Further, neither Mr. Lazare nor
 684 Mr. Chalfant has identified a single cost that is imprudent. Neither Mr. Lazare nor
 685 Mr. Chalfant has identified a single A&G cost that is not properly allocated to the
 686 Ameren Companies. These witnesses have offered only unfounded and general
 687 assumptions, which are at odds with the specific facts. In summary, while Mr.
 688 Lazare's corrected approach would produce an even higher level of A&G expense
 689 than the level requested by the Ameren Companies, the Ameren Companies'
 690 recommendation is that the flawed approaches submitted by Mr. Lazare and Mr.
 691 Chalfant should be entirely disregarded, and the Commission in turn should
 692 authorize A&G expense included in the Ameren Companies' surrebuttal revenue
 693 requirement.

694 **Electricity Distribution Tax**

695 **Q: Are the Ameren Companies and Staff in agreement with regard to this**
 696 **expense?**

697 A: Yes. Staff has included AmerenCIPS' proposed adjustment to this tax in
 698 calculation of revenue requirement shown on ICC Staff Exhibit 12.0.

699 **General and Intangible Plant and Expenses**

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

702 A: Staff witness Lazare's proposed disallowance is inappropriate for the reasons
 703 given in the surrebuttal testimony of Ameren Companies witnesses Mr. Michael
 704 Adams and Mr. Michael Getz. The expense disallowance has been added back on

705 Exhibit 36.1, 36.2, and 3.3, Schedule 1, Page 3 and the Rate Base disallowance
706 has been added back on Exhibit 36.1, 36.2, and 36.3, Schedule 2, Page 2.

707 **Cash Working Capital**

708 **Q: Has Cash Working Capital been recalculated to reflect changes to the**
709 **Ameren Companies Revenue Requirement?**

710 A: Yes, as further discussed in the surrebuttal testimony of Mr. Adams, certain
711 adjustments have been made to the calculation of cash working capital. The
712 adjusted calculation is shown on Exhibits 36.1, 36.2, and 36.3, Schedule 2, Page 3
713 for the Ameren Companies.

714 **Accumulated Deferred Income Taxes**

715 **Q: Has Staff reflected your proposed adjustment for the impact of pro forma**
716 **plant adjustments on Accumulated Deferred Income Taxes (“ADIT”) in its**
717 **calculation of pro forma rate base included in ICC Staff Exhibit 12.0?**

718 A: Yes. The adjustment is shown Schedule 12.03 (IPC), page 2, column (e). The
719 Ameren Companies and Staff are in agreement with regard to this adjustment.
720 One of the pro forma adjustments is still at issue, however. To the extent there is
721 an ADIT impact, it is reflected as a separate adjustment.

722 **Q: Does AG witness Mr. Effron and Staff witness Ms. Jones agree with the**
723 **Ameren Companies’ proposal to remove the OPEB-related ADIT in**
724 **calculating rate base?**

725 A: No. Both Mr. Effron and Ms. Jones recommend that the OPEB liability be
726 deducted from rate base, rather than remove the OPEB-related ADIT. For the
727 reasons discussed in the surrebuttal testimony of Ameren Companies’ witness Mr.

728 Vogl, I have reversed Mr. Effron's and Ms. Jones' proposed OPEB liability
729 adjustment, and reinstated the adjustment to remove the OPEB-related ADIT.

730 **Q: Has Staff reflected Mr. Effron's proposed adjustment to reduce Ameren**
731 **CILCO's net rate base deduction for ADIT by \$9,817,000?**

732 A: Yes. Staff has reflected this adjustment on ICC Staff Exhibit 12.0, Schedule 12.03
733 (CIL), page 2, column (e). This adjustment is not at issue.

734 **Customer Service System Integration**

735 **Q: Please respond to Staff's discussion regarding the IP Pro Forma Plant**
736 **Adjustment (Staff Ex. 13.0, pp. 22-23, lines 437-461).**

737 A: Staff witness Ms. Theresa Ebrey continues to take issue with a portion of the costs
738 related to the project to integrate IP into Ameren's Customer Service System. In
739 order to limit the number of issues surrounding this project, the Ameren
740 Companies are willing to reduce its request for cost recovery on this project to the
741 level of such costs previously provided to Staff witness Ebrey during the field
742 work portion of her audit way back on January 30, 2006 in the amount of \$12.131
743 million. The electric distribution share of such costs should be included in the
744 determination of rates in this proceeding.

745 **Q: Have cost savings related to this project been included in cost of service?**

746 A: Yes. Schedule C-2.4 of AmerenIP's minimum filing requirements provides a
747 detailed listing of cost savings related to the AmerenIP acquisition and
748 integration. Line number 6 titled "Convert IP to Ameren's Customer Service
749 Systems" reflects total savings of \$4.5 million from this project.

750 **Q: Do total cost savings related to this project exceed the additional amount of**
751 **revenue requirement associated with the project?**

752 A: Yes. \$4.5 million of cost savings exceeds the revenue requirement associated with
753 \$12.131 million¹ of additional costs amortized over 5 years, as submitted by
754 AmerenIP. It should be noted that only the electric distribution share of such
755 savings and costs are included in the instant proceeding.

756 **Q: Does the electric distribution share of cost savings related to this project**
757 **exceed the electric distribution share of additional amount of revenue**
758 **requirement associated with the project?**

759 A: Yes. Schedule C-2.4 reflects \$3.124 million of costs assigned to the electric
760 distribution business, which exceeds the revenue requirement associated with
761 \$8.189 million of additional costs shown on Exhibit 36.8, and assigned to the
762 electric distribution business.

763 **Q: At lines 458-461 of her rebuttal testimony, Ms. Ebrey states that “no party,**
764 **including the Companies, has proposed an increase to plant in service for an**
765 **increased cost of this project, thus, my adjustment remains as proposed in**
766 **my direct testimony”. Is this a correct interpretation of the Ameren**
767 **Companies’ rebuttal testimony?**

768 A: No. As stated at lines 688-691 of my rebuttal testimony, I indicated that it is
769 appropriate to include the actual costs for this project in the determination of rates
770 in this proceeding, because the actual costs are known and measurable, and the
771 underlying assets are being used in the provision of service to customers. This

¹ Cost savings also exceed the revenue requirement associated with the higher amount of \$12.739 included in rebuttal revenue requirement.

772 calculation was presented on Exhibit 16.13 and the costs were included in
 773 calculation of rebuttal revenue requirement reflected on Exhibit 16.3. As stated
 774 above, I have lowered the request for this project to match detailed information
 775 provided to Staff witness Ebrey during the field work portion of her audit in
 776 January.

777 **Q: Does Ms. Ebrey's statement at lines 458-461 of her rebuttal testimony**
 778 **provide a valid reason for not proposing an adjustment to reflect more**
 779 **accurate cost information in Staff's calculated revenue requirement?**

780 A: No. I am aware of no prohibition against Staff proposing a higher cost number if
 781 evidence supports such recognition. As stated previously, other Staff witnesses
 782 have proposed both positive and negative adjustments, and considered more
 783 accurate or updated cost information in the determination of the appropriate level
 784 of costs. Ms. Ebrey should have done the same with this project, but elected not to
 785 do so. It is particularly surprising that Ms. Ebrey elected to quantify costs to
 786 disallow from a detailed listing of project costs that totaled \$12.131 million, and
 787 at the same time ignore the higher cost number in calculating her pro forma
 788 numbers. Her methodology is, frankly, beyond comprehension.

789 **Q: At lines 445-446 of her rebuttal testimony, Ms. Ebrey states that the burden**
 790 **of proof for the supporting the requested level of costs lies with the**
 791 **Companies. Do you agree with Ms. Ebrey's comment?**

792 A: Yes. I agree that the Ameren Companies do have the burden of proof. In that
 793 regard, a detailed listing of the \$12.131 million of project costs was provided to

794 Ms. Ebrey on January 30, 2006. A copy of the same detailed listing of project
795 costs is attached as Exhibit 36.7.

796 **Q: At lines 641-647 of your rebuttal testimony, you indicated that you were still**
797 **trying to understand what exact charges Staff proposed to disallow on this**
798 **project. Have you completed your review?**

799 A: Yes. Exhibit 36.8 presents a recalculation of Ms. Ebrey's proposed adjustment to
800 reflect additional documentation in support of costs Ms. Ebrey proposed to
801 disallow, based on her alleged lack of documentation. The additional supporting
802 documentation is attached as Exhibit 36.9.

803 **Q: Please summarize the Ameren Companies' proposal regarding this project.**

804 A: As stated in my rebuttal testimony, the Ameren Companies continue to maintain
805 that this project should be fully included in revenue requirement. The actual costs
806 are known and measurable and the underlying assets are being used in the
807 provision of service to customers. Staff's proposed adjustment, in whole or in
808 part, should be disregarded.

809 **Plant Additions**

810 **Q: Please summarize your understanding of Staff's proposed rebuttal**
811 **adjustments to Plant Additions (Staff Ex. 13.0, pp. 17-22).**

812 A: Staff continues to propose certain adjustments to the Ameren Companies' level of
813 plant additions, based upon Staff witness Ebrey's review of supporting
814 documentation. Ms. Ebrey accepted some of the additional documentation
815 provided in Company rebuttal as adequate, but did not accept various other
816 documents as adequately supporting the underlying plant additions recorded on

817 the books of the Ameren Companies. In particular, Ms. Ebrey (1) made certain
818 mathematical errors in summing invoice costs and schedule presentation, (2) did
819 not accept contractual documentation as adequate support for certain project
820 costs, and (3) did not accept a sample of employee expense reports as adequate to
821 support this category of costs. Finally, Ms. Ebrey (4) erroneously continued to
822 apply her adjustment percentage to all gross plant additions without regard to
823 whether such additions are in the Ameren Companies requested level of utility
824 plant in service.

825 **Q: Has the Ameren Companies recalculated the Staff's proposed adjustments to**
826 **properly consider provided supporting documentation?**

827 A: Yes. The calculation shown on Exhibit 36.10. Schedule 1 reflects data for
828 AmerenCILCO. Schedule 2 reflects data for AmerenCIPS. Schedule 3 reflects
829 data for AmerenIP.

830 **Q: At lines 428-436 of her rebuttal testimony, Ms. Ebrey criticizes the Ameren**
831 **Companies' request to provide additional supporting documentation. Please**
832 **respond.**

833 A: Recalculation of Staff's Plant Additions adjustment is only based on
834 documentation previously provided in rebuttal. Certain contractual documentation
835 is again being provided to address specific issues, but no additional expense
836 reports or other supporting documentation is being provided, in order to limit the
837 number of differences between the two proposals, and at least in part address Ms.
838 Ebrey's referenced criticism stated above.

839 **Q: Please discuss the adjustments for AmerenCILCO.**

840 A: For work order 3648, three invoices were provided in CILCO Ex. 16.14-WO
 841 3648.pdf that sum to \$75,681.13. This amount, therefore, was listed as supporting
 842 documentation in Company rebuttal, as shown on Exhibit 16.14, Schedule 1, Page
 843 3 of 3, line 17. Staff's proposed adjustment recognizes that additional support has
 844 been provided for all but \$15,299.35 of this total. The \$15,299.35 appears to be a
 845 mathematical error, in that Staff was silent on this apparent discrepancy in
 846 rebuttal, and none of the three invoices provided total to the amount in question.
 847 Therefore \$15,299.35 has been shown as a supported amount on Exhibit 36.10,
 848 Schedule 1, Page 3 of 3, line 17.

849 **Q: Please discuss the adjustments for AmerenCIPS.**

850 A: For work order 9915 and work order 11983, Staff witness Ebrey disallowed costs
 851 associated with these work orders because the support provided was from internal
 852 company purchase orders and did not provide third-party support of the costs in
 853 question. The purchase orders provided are contracts with the vendors. These
 854 purchase orders represent blanket orders and define pricing and terms of the
 855 underlying agreement of work to be performed. This documentation provides
 856 direct support for the costs in question and should be allowed. The total amount
 857 supported by these contracts is \$501,868.42 for work order 9915 and \$6,624.30
 858 for work order 11983, and is provided on Exhibits 36.11 and 36.12, respectively.

859 **Q: In these proceedings, has Staff previously requested contracts or contractual**
 860 **documentation in support of work to be performed?**

861 A: Yes. Staff witness Ebrey, in Data Requests 4.05 and 4.06, asked for third-party
 862 support (contracts, invoices, etc.) as support for nine work orders/projects entirely

863 independent of the underlying work orders that are the subject of her Plant
 864 Additions adjustment. As indicated in my rebuttal testimony, for some reason that
 865 I do not understand, Ms. Ebrey chose not to request copies of contracts or indicate
 866 that contractual documentation would be an acceptable form of documentation in
 867 support of the projects that are the subject of her proposed disallowance. As stated
 868 above, contractual documentation is being provided in support of work orders
 869 9915 and 11983.

870 **Q: Have contracts and/or contractual documentation been recognized as**
 871 **adequate support plant additions included in rate base in other rate**
 872 **proceedings?**

873 A: Yes. There are numerous examples where the Commission has accepted
 874 contractual documentation as support for plant additions. In addition, I note that
 875 the minimum filing requirements for electric distribution rates expressly provide
 876 that pro forma adjustments to the test year “shall be supported by actual
 877 expenditures, written contracts, purchase orders, job orders, invoices or other
 878 evidence of reasonable certainty.” Thus, the Commission clearly understands
 879 contracts to establish the reasonable certainty necessary to support a pro forma
 880 adjustment.

881 **Q: Please discuss the adjustments for AmerenIP.**

882 A: For work order 25438, full support for three large invoices were provided on IP
 883 Ex. 16.14-WO 25438 prt 1.pdf on page two, IP Ex. 16.14-WO 25438 prt 5.pdf on
 884 page one, and IP Ex. 16.14-WO 25438 prt 10.pdf on page one, respectively with
 885 additional supporting documents located on these pdf files behind the summary

886 invoice. Adding these three invoices sums to the \$323,857.73 total that was
887 identified as supported on Exhibit 16.14, Schedule 3, Page 3 of 3, column (E),
888 line 36. Of this total, the portion not reflected by Staff has been added back on
889 Exhibit 36.9, Schedule 3, Page 3 of 3, column (E), line 36.

890 **Q: At lines 403-417 of her rebuttal testimony, Ms. Ebrey continues to disagree**
891 **with the Ameren Companies to correct her Plant Additions adjustment for**
892 **retirements and transfers. Please respond.**

893 A: As stated at lines 774-802 of my rebuttal testimony, Ms. Ebrey uses Plant
894 Additions as reported on Company Schedule B-5 in her calculation of the Plant
895 Additions adjustment reflected on ICC Staff Exhibit 13.0, Schedule 13.02. She
896 applies her adjustment percentage to the sum of 2001-2004 Plant Additions to
897 determine the "Staff Adjustment to Utility Plant in Service". To the extent Plant
898 Additions included in her calculation are not being in the Ameren Companies'
899 requested level of gross Utility Plant in Service, Ms. Ebrey's calculation has the
900 effect of reducing Utility Plant in Service for a given assets or group of assets
901 below the level included in the Ameren Companies' proposed Rate Base, and in
902 turn results in a negative balance in Utility Plant for a given asset. As stated in my
903 rebuttal testimony, certain Intangible Plant Additions recorded in prior years and
904 included in Ms. Ebrey's calculation were retired or transferred, and are not in the
905 Ameren Companies' requested level Utility Plant in Service in these proceedings.
906 In response to Ameren Data Request 14.12, Ms. Ebrey stated that she "is not
907 aware of any rate cases where Staff has proposed that a regulated utility be
908 authorized a negative balance of gross utility plant in service for any account or

909 for any functional plant group.” As shown on Exhibit 36.13, Staff’s adjustment in
 910 this case results in negative Utility Plant in Service in both Account 303
 911 specifically and for the entire functional group of Intangible Plant in Service for
 912 both AmerenCILCO and AmerenCIPS. Therefore, Staff’s adjustment has been
 913 corrected to exclude from 2001-2004 Plant Additions the identified Intangible
 914 Plant assets not included in the Ameren Companies’ requested level of gross
 915 Utility Plant in Service.

916 **Q: Is the Ameren Companies’ Rebuttal Revenue Requirement based on the**
 917 **calculation set forth on Exhibit 36.10?**

918 A: No. The Ameren Companies believe that no adjustment is warranted, given the
 919 evidence submitted above, and continue to object to Staff’s recommended
 920 disallowance. Therefore, the proposed disallowance for each Company has been
 921 reinstated on Exhibit 36.1, 36.2, and 36.3.

922 **Real Time Pricing**

923 **Q: Ameren Companies’ witness Mr. Leonard Jones discusses additional costs of**
 924 **\$1,484,531 associated with a proposed real time pricing program. Does the**
 925 **Ameren Companies’ Surrebuttal Revenue Requirement calculated on**
 926 **Exhibits 36.1, 36.2, and 36.3 reflect the additional costs for this program?**

927 A: No. To the extent the Commission ultimately approves implementation of this
 928 program in these proceedings, as outlined in the testimony of Mr. Jones, the
 929 additional costs will need to be considered in the calculation of revenue
 930 requirement approved by the Commission.

931 **Adjustments to Rider MV**

932 **Q: With regard to the topic of adjustments to Rider MV, what portion of Ms.**
933 **Ebrey's testimony will you be addressing? (Staff Ex. 13.0, pp. 23-28.)**

934 A: I will address Ms. Ebrey's points regarding uncollectible rates and the
935 Uncollectibles Factor Gross Up, along with the overall level of costs to be
936 recovered through the Supply Procurement Adjustment ("SPA"). Company
937 witness Mr. Wil Cooper will also respond to portions of Ms. Ebrey's testimony on
938 this topic.

939 **Q: Do you agree with Staff's recommendation regarding uncollectibles?**

940 A: Yes. If I understand her testimony correctly, I agree with her recommendation to
941 apply the same uncollectibles rate to the SPA as applied to base rate revenues. For
942 this purpose, I interpret base rate revenues to be equivalent to delivery service
943 revenues as established in these and subsequent rate proceedings. I also agree
944 with her recommendation that the same uncollectibles rate should be used for the
945 Uncollectibles Factor Gross-up to be recovered through RiderMV, as further
946 clarified and discussed in supplemental direct and rebuttal testimonies of Mr.
947 Cooper.

948 **Q: Should the uncollectibles rate used for the Uncollectibles Factor Gross Up be**
949 **recalculated in future delivery service ("DS") rate cases?**

950 A: Yes. This approach would be consistent with the approach agreed to by Staff and
951 the Ameren Companies to recalculate the Cash Working Capital rate in future DS
952 rate cases. In response to Ameren Data Request 14.15, Ms. Ebrey indicated her
953 agreement by stating "that to the extent that the Uncollectibles Factor Gross Up is

954 approved in this proceeding, it should be recalculated in future delivery services
 955 rate cases”.

956 **Q: Please describe Ms. Ebrey’s proposal for cost recovery through the SPA.**

957 A: Yes. She agrees with the Ameren Companies’ proposal that the amount of
 958 \$812,857 for Ameren personnel and related costs necessary to obtain the power
 959 supply should be recovered through the SPA. She disagrees with the amount of
 960 BGS tariff support costs quantified by the Company on Rebuttal Exhibit 16.15
 961 that Staff claims should be recovered through the SPA vs. the Companies’
 962 proposal to recover such costs through DS rates. She also disagrees with the
 963 separate list of costs to be recovered through the SPA and attributed to evidence
 964 submitted by CNE/PES. Finally, she does not address whether A&G and General
 965 and Intangible (“G&I”) plant costs reassigned by Staff witness Lazare and IIEC
 966 witness Chalfant’s from the electric distribution business line to the
 967 generation/production business line should be recovered through the SPA.

968 **Q: Do you sponsor an exhibit that provides costs eligible for recovery under the**
 969 **SPA?**

970 A: Yes. Exhibit 36.14, Schedule 1 provides the amounts that have been specifically
 971 quantified and attributed for recovery by Staff or Intervenors. As stated in the
 972 rebuttal testimony of Ms. Ebrey, costs attributed to CNE/PES witness O’Connor
 973 have not been adequately identified as being procurement related. These costs,
 974 therefore, have been removed. Exhibit 36.14, Schedule 2 documents the costs
 975 allocated from the electric distribution business line to the generation/production
 976 business line by Mr. Lazare. Exhibit 36.14, Schedule 3 documents the costs

977 allocated from the electric distribution business line to the generation/production
 978 business line by Mr. Chalfant.

979 **Q: Please respond to Ms. Ebrey's claim regarding BGS tariff support costs.**

980 A: To clarify, there are two separate issues regarding BGS tariff support costs². The
 981 first issue is the appropriate level of costs to be recovered and the second issue is
 982 the appropriate recovery mechanism. In the Rate Case Expenses section of my
 983 testimony, I discuss the Ameren Companies' position on both issues, which
 984 differs from Staff's position discussed in the testimonies of Staff witnesses Ebrey
 985 and Jones. Specifically with regard to the overall level of costs to be recovered,
 986 the amounts supported by the Ameren Companies is documented on Exhibit 36.5
 987 and included on Exhibit 36.14, Schedule 1, for illustrative purposes under Staff's
 988 proposal to recover such costs through the SPA. If the Commission ultimately
 989 finds that the amount of BGS tariff costs supported differs from the amounts
 990 proposed by the Ameren Companies, then the amount shown on Exhibit 36.14,
 991 Schedule 1 would need to change. I believe this addresses the point Ms. Ebrey is
 992 attempting to make at lines 539-542 of her rebuttal testimony.

993 **Q: Have the calculations shown on Exhibit 36.14, Schedule 2, been modified to**
 994 **consider changes in cost allocations?**

995 A: Yes. Mr. Lazare has agreed in part with the Ameren Companies' recalculation of
 996 his proposed A&G disallowance, which is based on a functional A&G cost
 997 allocation. Consistent with Mr. Lazare's approach, the cost allocation for
 998 AmerenCIPS and AmerenCILCO has been updated to correspond with the

² Also identified by the terms "Post-2006 Auction Cases" and "Basis Generation Services proceeding" in other sections of my testimony, and by the term "Procurement Case Expense" on Exhibit 36.5.

999 AmerenCompanies' surrebuttal level of A&G costs. Also, his proposal to now
1000 disregard AmerenIP's result, now that it is positive rather than negative, is clearly
1001 incorrect and inconsistent, as dicussed in more detail earlier in my testimony.
1002 Therefore, his cost allocation has been corrected to reflect AmerenIP on a
1003 consistent basis with AmerenCIPS and AmerenCILCO. In addition, the Ameren
1004 Companies have identified certain corrections that should be made to Mr.
1005 Lazare's calculation of his proposed G&I Plant disallowance, and have reflected
1006 those changes on Schedule 2. As discussed in more detail in the surrebuttal
1007 testimony of Mr. Michael Adams, Mr. Lazare's proposed G&I Plant disallowance
1008 was based on responses to Data Requests PL-2.1, PL-2.3, and PL-2.5. These data
1009 request responses did not properly calculate the G&I Plant on the books of
1010 AmerenCILCO at December 31, 2000, as requested by Mr. Lazare, nor did they
1011 consider the portion of such assets no longer on the books of the Ameren
1012 Companies at year end 2004 and, therefore, not included in the Ameren
1013 Companies Rate Base in these proceedings. Therefore, Schedule 2 has been
1014 adjusted to restate Mr. Lazare's proposed G&I Plant disallowance based upon
1015 corrected data.

1016 **Q: Have the calculations shown on Exhibit 36.14, Schedule 3, been modified to**
1017 **consider changes in cost allocations?**

1018 A: No. Mr. Chalfant has not changed his cost allocation. A few exhibit references
1019 have been updated, but no changes are reflected in the cost numbers.

1020 **Q: At page 16, lines 318-330 of his testimony takes issue with the**
 1021 **appropriateness to recover, through the SPA, G&I and A&G costs that he**
 1022 **proposes to exclude from delivery service rates. Do you have any comments?**

1023 A: While Mr. Chalfant's proposal to exclude certain costs for recovery differs from
 1024 that of Lazare, both the limitation approach suggested by Mr. Chalfant and the
 1025 functional allocation approach sponsored by Mr. Lazare start with costs that were
 1026 directly assigned to the Ameren CIPS and AmerenCILCO's
 1027 generation/production business line in the prior DS rate case or, in the case of
 1028 AmerenIP, attributed to AmerenIP's former generation/production line. As such,
 1029 both approaches in effect reassign costs from the distribution business to the
 1030 generation/production business. The costs at issue are on the books of the Ameren
 1031 Companies. As such, both Mr. Lazare and Mr. Chalfant assign costs on the books
 1032 of the Ameren Companies to the generation/production business line. To the
 1033 extent the Commission adopts Mr. Lazare's or Mr. Chalfant's position in whole or
 1034 in part, a determination would need to be made as to whether such costs are
 1035 includable as costs assigned to the power supply administration function in
 1036 accordance with the express language of the SPA.

1037 **Conclusion**

1038 **Q. Does this conclude your surrebuttal testimony?**

1039 A. Yes, it does.

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