

DIRECT TESTIMONY ON REHEARING

of

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Central Illinois Light Company d/b/a AmerenCILCO
Central Illinois Public Service Company d/b/a AmerenCIPS
Illinois Power Company d/b/a AmerenIP

Proposed General Increase in Rates for Delivery Service

Docket Nos. 06-0070/06-0071/06-0072
(Consolidated)

February 21, 2007

1 **Introduction**
2

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

4 A. My name is Peter Lazare. My business address is 527 East Capitol Avenue,
5 Springfield, Illinois 62701.
6

7 **Q. Are you the same Peter Lazare who previously provided testimony in this**
8 **proceeding?**

9 A. Yes.
10

11 **Q. What is the purpose of your direct testimony on rehearing?**

12 A. I respond to arguments by Central Illinois Light Company d/b/a AmerenCILCO
13 ("AmerenCILCO"), Central Illinois Public Service Company d/b/a AmerenCIPS
14 ("AmerenCIPS") and Illinois Power Company d/b/a AmerenIP ("AmerenIP")
15 (collectively, "Ameren" or the "Ameren Companies" or the "Ameren Illinois
16 Utilities") witnesses Stafford and Adams concerning the appropriate level of
17 Administrative and General (A&G) expenses the Ameren Companies should
18 recover in their delivery services rates.
19

20 **Q. What position do the Ameren Companies take with respect to the Illinois**
21 **Commerce Commission's Order dated November 21, 2006 on this issue in**
22 **the main phase of this proceeding?**

23 A. The Ameren Companies believe that the Illinois Commerce Commission's
24 ("Commission") downward adjustment of their proposed levels of A&G expenses
25 is unreasonable and should be reversed. They contend that the appropriate level
26 of A&G expenses is the \$152.3 million presented by Mr. Stafford in his rebuttal
27 testimony in the main phase of this proceeding (Respondents' Ex. 53.1,
28 Schedule 1). The figure of \$152.3 million in A&G expenses represents an
29 increase of \$59.8 million over the \$92.5 million granted by the Commission in its
30 Order dated November 21, 2006 ("November 21 Order").
31

32 **Q. Please summarize your findings concerning the Companies' proposal.**

33 A. I find serious shortcomings in the Companies' arguments on behalf of their
34 proposed increase. The problems include:
35

- 36 • A flawed analysis that fails to demonstrate the Companies' A&G expenses
37 are reasonable relative to other utilities.
- 38 • A failure to provide the Ameren Services Company ("AMS") cost study for all
39 subsidiaries as requested by the Commission.
- 40 • A failure to adequately consider the effect of merger savings on CIPS' and
41 CILCO's A&G expenses.
- 42 • The inappropriate inclusion in test year A&G expenses of pension and health
43 care costs for retired production employees.
44

45 **Q. What do these shortcomings reveal about the Companies' proposed**

46 **increase in A&G expenses?**

47 A. They call into question the basis for the Companies' proposed increase in A&G
48 expenses. When considered in conjunction with the arguments by Staff
49 witnesses Ebrey and Jones (ICC Staff Exhibits 24 and 23, respectively), it
50 becomes evident that any increase in A&G expenses over the level approved by
51 the Commission in its November 21 Order is clearly unjustified.

52

53 **Q. Please begin your discussion by reviewing the Commission's conclusion**
54 **on the issue of A&G expenses in its November 21 Order.**

55 A. The Commission concluded as follows concerning the appropriate level of A&G
56 expenses:

57

58 However, the Commission does not believe that Staff's recommended
59 disallowances as presented on rebuttal are sufficient. The Commission
60 shares Staff's concern that Ameren only accounts for approximately half of
61 the proposed increases in A&G expenses for the three operating
62 companies. Staff indicates that Ameren failed to explain \$50.3 million of
63 the requested increase. (Staff Ex. 17 at 13:290-295). Ameren attempts to
64 justify its proposed increase to A&G expenses by attributing it to Sarbanes
65 Oxley compliance costs, increased security costs since September 11,
66 2001 and increased costs of regulatory and legal compliance. However,
67 Ameren provides no cost support for these alleged increases. Therefore,
68 in addition to the individual adjustments proposed by Staff for CILCO and
69 CIPS that are discussed above, and the individual IP A&G adjustments
70 that [are] addressed later in this Order; the Commission finds that \$50.3
71 million in A&G expenses shall be disallowed for lack of substantiation. The
72 A&G expenses for CILCO should be reduced an additional \$11.267
73 million, for CIPS \$15.432 million and [for] IP \$23.601 million. The overall
74 amount of A&G expenses included in the Appendices reflects those
75 adjustments that are approved as well. (November 21 Order, p. 66)

76

77 **Q. Did the Commission reach any other conclusions concerning the issue of**
78 **A&G expenses in its November 21 Order?**

79 A. Yes. The Commission expressed the following concern about the Companies'
80 proposed increase in A&G expenses:

81

82 The Commission is concerned about the magnitude of the increase in
83 A&G expenses and the lack of substantiation for these increases. It seems
84 that the increase may be attributable to the Ameren companies'
85 relationship with Ameren Services. However, the record does not contain
86 enough information for the Commission to assess whether the Ameren
87 companies are being allocated a fair share of the costs of these services
88 for ratemaking purposes or whether amounts paid to Ameren Services are
89 reasonable for such services. The Commission has the obligation to
90 ensure "just and reasonable" rates but cannot do so if it is unable to
91 determine if the services that the Ameren companies receive through
92 Ameren Services are indeed being provided at the lowest cost. (November
93 21 Order, pp. 66-67)
94

95 **Q. Did the Commission order that the Companies take additional steps to**
96 **resolve this problem?**

97 A. Yes, the Commission directed the Companies as follows in Section IV. E.1. e. of
98 the November 21 Order:

99

100 Therefore, the Commission directs the Ameren companies to conduct a
101 study to show the costs of services obtained from Ameren Services and
102 compare those costs with market costs. Also, as part of the study, the
103 Ameren companies shall provide an analysis of the services provided by
104 Ameren Services to all Ameren companies and provide details on how
105 those costs are allocated among the companies. The Ameren Companies
106 shall include the results of the study in the next rate filing. (November 21
107 Order, p. 67)
108

109 **Q. Did the Commission extend this directive to this rehearing?**

110 A. Yes. In granting rehearing, the Commission stated as follows:

111 Notice is also given that the rehearing was granted to determine the
112 appropriate amount of Administrative and General Expenses to be
113 included in each of Central Illinois Light Company d/b/a AmerenCILCO,
114 Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois
115 Power Company d/b/a AmerenIP revenue requirement. **In presenting
116 their direct testimony, AmerenCILCO, AmerenCIPS, and AmerenIP
117 are directed to provide (1) the results of a study showing the costs of
118 services obtained from Ameren Services Company and comparing
119 those costs with market costs and (2) an analysis of the services
120 provided by Ameren Services Company to all Ameren companies
121 and provide details on how those costs are allocated among the
122 companies, as described in Section IV. E. 1. e of the Commission's
123 November 21, 2006 Order and as offered in Section III. A. 3 of the
124 Petition for Rehearing. The Commission denied the remainder of the
125 December 11, 2006 Petition for Rehearing. (December 21, 2006, Notice
126 of Commission Action) (emphasis added)**

127

128 **Q. Did the Companies provide in rehearing a study analyzing the costs of**
129 **services obtained from Ameren Services and compare those costs to**
130 **market costs?**

131 A. Yes. A study was presented in the testimony of Ameren witness Adams
132 (Respondents' Ex. 54.0, pp.17-20, lines 379-456). He compared A&G expenses
133 for the Companies and a peer group of 51 electric utilities in two ways. The first
134 analysis examined A&G expenses (excluding Pensions and Benefits cost) as a
135 percentage of total operations and maintenance ("O&M") costs excluding fuel
136 expenses for each of the peer companies. Based on that comparison, each of
137 the Ameren Illinois Utilities fell into the first quartile of the peer group.

138

139 The second analysis compared A&G expenses per customer and again each of
140 the Ameren Illinois Utilities fell into the first quartile of the peer group.

141

142 **Q. Are these analyses problematic?**

143 A. Yes, the problem lies with the peer group chosen for the analyses. The inclusion
144 of a number of utilities that continue to have a production function undermines
145 the meaning of the results.

146

147 Those utilities directly engaged in the production function have considerable fuel
148 expenses. The Ameren Illinois Utilities have none. So, removing fuel expenses
149 from the equation as Ameren did here inappropriately raises A&G as fraction of
150 O&M for these utilities in comparison with the Ameren Companies. In fact, Mr.
151 Adams himself, admitted in discovery that his method of backing out fuel
152 expense from the analysis was inappropriate:

153

154 AG 1.4.0 In presenting his comparisons on Respondents' Exhibit 54.9,
155 why does Mr. Adams believe that it is appropriate to back out fuel,
156 but not purchased power, from total operation and maintenance
157 expense?

158

159 Response: Both fuel and purchased power should have been excluded
160 from the analysis. Excluding purchased power would impact the
161 A&G expense as a percent of total O&M calculation (as shown on
162 Respondents' Exhibit 54.9) but it would not affect the A&G expense
163 per customer calculation (Respondents' Exhibit 54.10) (Ameren
164 Response to AG Data Request AG 1-4.0)

165

166 **Q. Do you consider Mr. Adams' A&G expense per customer analysis flawed as**
167 **well?**

168 A. Yes. Per customer A&G expenses for the Ameren Companies which have

169 divested generation cannot be directly compared with utilities that retain a
170 production component. The vertically-integrated utilities incur A&G expenses
171 related not only to their transmission and distribution (T&D) functions, but also to
172 their production function. The Ameren companies incur T&D-related A&G
173 expenses only. This undermines Mr. Adams' comparison of per customer A&G
174 expenses between the Ameren Companies and the vertically-integrated utilities
175 in his peer group.

176

177

178 **Q. What do you therefore conclude about Mr. Adams' comparison of A&G**
179 **expenses for the Ameren Illinois Utilities and the peer group of 51 utilities?**

180 A. The problems with the peer group used for the analysis undermine the credibility
181 of the analysis results.

182

183 **Q. Did the Companies' Petition for Rehearing indicate that the study of**
184 **Ameren Services requested by the Commission would be provided?**

185 A. Yes, the Companies stated their willingness as follows:

186

187 There is no need to wait for the next rate case to present a study
188 demonstrating the reasonableness of the cost of services provided by
189 Ameren Services, or other evidence regarding the reasonableness of A&G
190 charges or double-counting in the Order. The Ameren Companies are
191 prepared to present such evidence in a rehearing phase, should the
192 Commission decline to revise the Order to reinstate the level of A&G
193 recommended by the ALJs. (Petition for Rehearing of the Ameren
194 Companies, December 11, 2006, pp. 10-11)

195

196 **Q. Did the Commission address this issue in granting the Companies' Petition**
197 **for Rehearing on A&G expenses?**

198 A. Yes, in its Notice of Commission Action dated December 21, 2006, the
199 Commission explicitly stated that the filing should include "an analysis of the
200 services provided by Ameren Services Company to all Ameren companies and
201 provide details on how those costs are allocated among the companies as
202 described in Section IV.E.1.e of the Commission's November 21, 2006 Order and
203 as offered in Section III.A.3 of the Petition for Rehearing".
204

205 **Q. Did the Companies indicate that they have complied with this request by**
206 **the Commission?**

207 A. Yes, the Companies maintain that their filing on rehearing is responsive to the
208 Commission's request. In response to Staff data request PL-10.33, the Ameren
209 Companies indicate that Respondents' Exhibits 54.6 and 54.7 and the testimony
210 supporting such exhibits constitute the requested study.
211

212 **Q. In your opinion, have the Ameren Companies complied with the**
213 **Commission's directive?**

214 A. No, the Ameren Companies have not. The information provided by the
215 Companies in their rehearing testimony falls short of the Commission's directive
216 because it fails to show that the allocation of AMS costs between the various
217 Ameren subsidiaries is reasonable.
218

219 **Q. Please begin with a brief description of the study's components.**

220 A. Respondents' Exhibit 54.6 provides brief one-line descriptions of approximately
221 1400 open service requests to which AMS costs were charged for the 2004
222 calendar year. It also presents the amount of the costs in each service request
223 and identifies the allocation factor used to divide that cost between the various
224 Ameren subsidiaries. Then, Respondents' Exhibit 54.7 presents the percentage
225 allocation to the individual Ameren subsidiaries of each item identified in
226 Respondents' Exhibit 54.6.

227

228 **Q. What is the first problem with the study?**

229 A. There is a lack of information about the costs to be allocated. The descriptions of
230 the service requests fail to provide any meaningful explanation of the costs to be
231 allocated. For example, on Respondents' Exhibit 54.6, page 1, line no. 4, Project
232 14569 consisting of \$12,558,107.96 in charges is simply identified as "Project
233 PD".

234

235 Second, it is unclear based on these descriptions how AMS costs should be
236 allocated to the Ameren subsidiaries. For example, once again, on Respondents'
237 Exhibit 54.6, item A2029 (page 1, line no. 5) is identified as "CSS Phase 3 (O&M)
238 (Eff. 1-1-2001)" totaling \$7,487,935. That, in turn, is followed by A2010
239 "Production support for CSS (Eff. 1-1-2001)" totaling \$6,009,563.23. When it
240 comes to the allocation factor used for these two service requests, no costs are
241 allocated to Ameren Generating Company ("AmGen") while 22.08% and 18.37%

242 are allocated to AmerenCIPS and AmerenCILCO, respectively.

243

244 The record on rehearing does not provide a sufficient basis to determine whether
245 it is reasonable to allocate 22.08% and 18.37% of the costs for “CSS Phase 3
246 (O&M) (Eff. 1-1-2001)” and “Production support for CSS (Eff. 1-1-2001)” to
247 AmerenCIPS and AmerenCILCO and 0% of those costs to AmGen.

248

249 Further elaboration of this information problem is presented in the attached
250 Schedule 26.1. The schedule presents the AMS descriptions for the 69 largest
251 open service requests, and clearly shows that the Companies have not provided
252 enough information to evaluate the allocation factors used for these costs.

253

254 With approximately 1400 open service requests to be allocated among the
255 Ameren subsidiaries, the all-too-brief descriptions for each make it impossible for
256 Staff and the Commission to draw any conclusion about the reasonableness of
257 the overall allocation of AMS costs based on the information provided.

258

259 **Q. Does the AMS cost study, Respondents' Exhibits 54.6 and 54.7, suffer from**
260 **any other deficiencies?**

261 A. Yes. The study is incomplete. It only presents the service requests in
262 Respondents' Exhibit 54.6 and the allocation factors in Respondents' Exhibit
263 54.7. It does not present the actual dollar amounts of each cost allocated to the
264 individual Ameren subsidiaries. Nor does it present the overall allocation of AMS
265 costs among the various Ameren subsidiaries. Thus, the study does not permit a
266 comparison of the total amounts of AMS costs allocated to each Ameren affiliate
267 to determine that each receives a reasonable share of costs. Furthermore it
268 would be a considerable undertaking for Staff to perform the allocations of the
269 approximately 1400 service requests to make such a comparison possible.

270

271 **Q. Are there any additional problems with the Ameren study, Respondents'**
272 **Exhibits 54.6 and 54.7?**

273 A. Yes. The study reflects a different time period than that was used to develop the
274 Companies' proposed level of AMS costs. The information for the Companies'
275 study represents Ameren charges for the test year 2004.

276

277 Under normal circumstances, the test year would be the obvious time period to
278 use to show the reasonableness of these costs. However, it is problematic here
279 because the test year does not include the allocations of AMS costs to AmerenIP
280 which merged with Ameren in September 2004.

281

282 The Ameren Companies have addressed this issue by basing the allocation of
283 AMS costs to the three Ameren Illinois Utilities on costs for May through October
284 2005. Thus, while the Companies have adopted 2004 as their proposed test
285 year, they base the levels of AMS costs in their revenue requirements on
286 allocations received between May and October of 2005. So, from the standpoint
287 of AMS costs, 2005 is the relevant year to examine.

288
289 Thus, a study of the reasonableness of AMS cost allocations should focus on
290 2005 data. Mr. Adams' use of 2004 data, which does not include AmerenIP,
291 makes it impossible to determine whether the three Ameren Illinois Utilities all
292 received reasonable allocations of AMS costs.

293

294 **Q. Do the Companies argue that their proposed study is reasonable?**

295 A. Yes. That argument is presented in the following passage of the direct testimony
296 on rehearing of Ameren witness Adams:

297

298 Q. Have you reviewed the list of service requests and the associated
299 allocation factors?

300 A. Yes, I have.

301 Q. Based upon your review, did you observe any services or allocation
302 factors which seemed unreasonable?

303 A. No. Based on my review of the list of service requests and the associated
304 allocation factors, I did not identify any service requests or allocation
305 factors which appeared to be unreasonable. I base this opinion on my
306 knowledge and expertise in the industry, in knowing or understanding what
307 services are needed or required by utilities. (Respondents' Ex. 54.0, p. 15,
308 lines 328-337)

309

310 **Q. Do you find this argument compelling?**

311 A. No, I do not. Mr. Adams' statement that he "did not identify any service requests
312 or allocation factors which appeared to be unreasonable" falls far short of
313 providing the necessary support for the regulatory process that AMS costs are
314 indeed allocated in a fair and reasonable manner.

315

316 **Q. What do you therefore conclude about the study the Companies have
317 presented to support their proposed allocation of AMS costs?**

318 A. The study provided in rehearing fails to establish the reasonableness of the
319 proposed allocation of AMS costs to the three Ameren Utilities in Illinois.

320

321 **Q. Is this a significant problem?**

322 A. Yes. The Companies have indicated that AMS charges account for more than
323 60% of the overall level of test year A&G expenses for each of the three Ameren
324 Illinois Utilities. If the reasonableness of the AMS charged cannot be verified, that
325 calls into question the reasonableness of over 60% of the A&G costs for which
326 the Ameren Companies seek recovery. That corresponds to questions
327 concerning the basis for over \$90 million of the \$152.3 million in A&G expenses
328 requested by the Ameren companies in rehearing.

329

330 **Q. Do you have any further reason for concern about the allocation of costs to
331 the three Ameren Illinois Utilities?**

332 A. Yes. I am concerned by the Companies' explanation of how AMS costs are

333 incurred on their behalf. In response to Staff data requests, the Companies
334 provided an identical explanation of the service request process for all three
335 Ameren Illinois Utilities (Ameren Response to Staff data request PL-10.05, 10.06
336 and 10.07). The response in part for AmerenCIPS is as follows:

337

338 The service request initiation process does not provide a clear line of
339 distinction between AmerenCIPS and AMS because the process typically
340 consists of a collection of various employees from one or more Ameren
341 companies that reach an agreement that a service request is required. As
342 such, while the centralized service request system registers an employee
343 as the service request initiator, the initiator is performing this activity in
344 conjunction with a larger group of employees based on the identified need
345 for a new service request. Service requests are generally initiated by AMS
346 employees, whether the request originally came from an AmerenCIPS
347 employee, from an AMS employee performing functions only on behalf of
348 the Ameren Illinois Utilities, or an AMS employee performing services on
349 behalf of a larger group of Ameren Companies. (Ameren Companies
350 Response to Staff data request PL-10.05)

351

352 **Q. Why do you consider this response problematic?**

353 A. The response raises questions about whether the three regulated utilities in
354 Illinois have sufficient independence to protect the interests of ratepayers. The
355 statement that the service request system “does not provide a clear line of
356 distinction between AmerenCIPS and AMS” and the acknowledgement that
357 service requests are generally initiated by AMS call into question the degree of
358 control the Ameren Illinois Utilities exert over the process.

359

360 It should be remembered that AMS provides services for all Ameren subsidiaries,
361 regulated and unregulated alike. Under these circumstances, it is essential that

362 the Ameren Utilities have sufficient independence to protect the interests of their
363 ratepayers. However, the discovery response raises questions about that
364 independence and thereby undermines the credibility of the AMS service request
365 system.

366

367 **Q. Does Mr. Stafford provide an analysis designed to show how A&G**
368 **expenses for the three Ameren Companies since the previous round of**
369 **delivery services cases?**

370 A. Yes, he presents such an analysis in Respondents' Ex. 53.1, Schedule 1.

371

372 **Q. Do you have any concerns with this analysis?**

373 A. Yes. Mr. Stafford identifies what he considers to be the factors that lead from the
374 previously approved levels of A&G expenses to the current proposal. Distinctly
375 lacking from his presentation is any documentation of savings realized by
376 AmerenCIPS and AmerenCILCO from the various mergers engineered by
377 Ameren over recent years.

378

379 **Q. Do you have a concern regarding the effect of the merger between Union**
380 **Electric and CIPS in 1995 on test year A&G expenses?**

381 A. Yes. I am concerned that the benefits of that merger are not being fully reflected
382 in A&G expenses.

383

384 **Q. Did the Companies previously provide projections of the potential benefits**

385 **of the merger between Union Electric and CIPS?**

386 A. Yes, projections were presented in testimony provided to support the proposed
387 merger. (See direct testimony of Gary Rainwater, William Koertner and Thomas
388 Flaherty in Docket No. 95-0551). Two points about the proposed benefits are
389 critical to the discussion for this case. The first is that the Companies anticipated
390 realizing their greatest merger savings in the area administrative and general
391 expenses. According to Ameren's current Chief Executive Officer and President
392 Gary Rainwater, A&G would account for \$204 million out of a total of \$590 million
393 in savings in the first ten years following the merger. (Rainwater Direct
394 Testimony, Docket No. 95-0551, p. 11, lines 1-11)

395
396 Second, the merger saving for Union Electric and CIPS were expected to
397 increase over time. From a level of \$38,235,000 in 1997, the savings were
398 expected to increase to \$81,302,000 in 2006 (Rainwater Direct Testimony,
399 Docket No. 95-0551, Exhibit, GLR-6)

400

401 **Q. What level of savings from this merger does AmerenCIPS reflect in test**
402 **year A&G?**

403 A. The amount of savings is described as follows:

404

405 A&G savings associated with filings for the former Illinois UE operations
406 that are no longer required are estimated to be about \$15,333. Of this
407 total, \$401 is estimated to be included in the proforma AMS reallocation
408 adjustment for AmerenCIPS, as a savings in Account 920, A&G labor. The
409 difference, or \$14,932, is estimated to be savings realized beyond the test

410 year. The workpaper used to derive this calculation is attached and
411 labeled "Filings Associated with UE-ILL. No Longer Required"
412 A&G savings associated with the reduction in total expense due to
413 combining the rate case filing for UE into AmerenCIPS is estimated at
414 \$481,000. Amortization of these expenses over a three year period results
415 in annual savings of \$160,333. These savings are incorporated into the
416 proposed level of test year expenses as a reduction in the requested level
417 of rate case expense in Respondents' Exhibit 16.9. The workpaper used to
418 derive this calculation is attached and labeled "Savings in Rate Case
419 Expense without UE-ILL." (Ameren Companies' Response to Staff data
420 request PL-10.02)
421

422 Thus, according to the above response, the proposed level of A&G expenses for
423 AmerenCIPS reflects just over \$160,000 in savings due to the merger with UE.

424

425 **Q. Do you consider this a reasonable level of A&G-related merger savings?**

426 A. No, I do not. It should be noted that Mr. Rainwater projected that overall merger
427 savings would increase from \$46,714,000 in 1999 to \$70,225,000 in 2004. This
428 amounts to an increase of \$23,511,000 from the previous to the current test year
429 for AmerenCIPS. Given that A&G was expected to account for more than a third
430 of the savings, it is difficult to conceive how the share of savings to be passed
431 along to AmerenCIPS delivery service customers would fall into the \$160,000
432 range.

433

434 The Ameren Companies have not claimed that the amount of UE/CIPS merger
435 savings realized fell short of projections. Thus, it appears that the A&G-related
436 savings from the merger have been realized, but have not been shared with
437 ratepayers.

438

439 **Q. Does this discussion raise any further questions about AmerenCIPS'**
440 **proposed level of A&G expenses?**

441 A. Yes. While the merger testimony from Docket No. 95-0551 identifies A&G as the
442 primary area for deriving savings, the testimony in this proceeding regards A&G
443 as a key driver of the proposed revenue requirement increase for delivery
444 services. This calls into question whether AmerenCIPS ratepayers have derived
445 their fair share of UE-CIPS merger benefits.

446

447 **Q. Does a similar issue arise with respect to the merger with CILCO?**

448 A. Yes. The merger between Ameren and CILCO was approved by the Commission
449 in 2002 (Docket No. 02-0428), after the previous delivery service case. Thus, the
450 impact of merger savings would only begin to appear in the current proceeding.

451

452 As far as the potential for savings in CILCO's A&G expenses, Ameren witness
453 Craig Nelson stated the following in the merger:

454

455 Q. Are there any other projected savings, in addition to those identified
456 for energy delivery, which would impact CILCO's financial
457 statements?

458 A. Yes. We believe Ameren can provide additional savings through
459 administrative and corporate purchasing economies, elimination of
460 duplicate administrative and corporate services, and limited staff
461 reductions. While these savings are more difficult to predict, one
462 purpose of the rate stabilization proposal is to place the risk that
463 such savings do not materialize on Ameren. We are confident that
464 they will, and that they will be sufficient to obviate any near term
465 need for rate relief that would otherwise be required for service

466 enhancements that Ameren believes are appropriate. The specific
467 level of such savings that would be reflected in the CILCO cost of
468 service is, in part, a function of the specific bases on which costs
469 are allocated to CILCO. (Ameren Ex. 3.0, p. 9, lines 182-193,
470 Docket No. 02-0428, June 19, 2002)
471

472 **Q. How does this passage impact the discussion of A&G costs in this**
473 **proceeding?**

474 A. It reveals that Ameren expected to realize significant A&G savings as a result of
475 the merger with CILCO. Mr. Nelson believes not only that these savings will
476 materialize, but that they “will be sufficient to obviate any near term need for rate
477 relief”.

478

479 **Q. Is there any inconsistency between the AmerenCILCO’s current position**
480 **and Mr. Nelson’s prior expression of avoiding near term rate relief due to**
481 **A&G-related benefits from the CILCO merger?**

482 A. Yes. The 2004 test year used for the current case comes only two years after the
483 merger docket and therefore falls into the “near term” following the merger
484 docket. However, instead of using the test year to show how A&G savings will
485 “obviate any near terms need for rate relief”, Ameren witness Stafford seeks to
486 use it to justify a significant increase in A&G expenses.

487

488 It is ironic for Mr. Nelson to claim that “the risk that such savings do not
489 materialize” is placed on Ameren. The fact that AmerenCILCO proposes to pass
490 along a significant increase in 2004 test year A&G expenses onto delivery

491 service ratepayers suggests that Ameren is, instead, passing the risk along to
492 ratepayers.

493

494 **Q. Can you summarize your concerns about the role of merger savings in the**
495 **proposed levels of A&G expenses for AmerenCIPS and AmerenCILCO?**

496 A. In both of the mergers involving the two companies, A&G was singled out as an
497 area in which significant opportunities existed to realize merger savings and
498 control costs. However, the amount of savings being realized by delivery service
499 ratepayers under the Companies' proposal is minimal.

500

501 To compound the problem, instead of regarding A&G as an area where savings
502 may be realized, the Companies consider it a platform on which to pass a
503 significant increase in costs along to ratepayers.

504

505 Thus, based on the increases proposed in Mr. Stafford's testimony on rehearing,
506 it is difficult to conceive how ratepayers are sharing in A&G-related benefits
507 resulting from the CIPS and CILCO mergers.

508

509 **Q. Do further savings-related questions arise with respect to the reliance by**
510 **all three Ameren Illinois Utilities on AMS to provide A&G-related services?**

511 A. Yes. All three Ameren Illinois Utilities rely heavily on AMS to provide A&G
512 services. For the test year, AMS costs comprise 65% of A&G expenses for
513 AmerenCIPS; 63% for AmerenCILCO and 61% for AmerenIP (Respondents' Ex.

514 54.0, p. 9, lines 190-197). They justify this reliance on claims that the
515 involvement of AMS provides benefits in terms of efficiencies and cost savings.
516 However, when it comes to documenting those benefits the Companies' analysis
517 falls short. The Companies acknowledge they have no studies or analyses to
518 document the savings derived from relying on AMS. Beyond verbal assurances
519 that these benefits are, in fact, being realized, they could offer no substantiation
520 beyond an anecdotal discussion of the savings being realized by consolidating
521 the various tax departments.

522

523 **Q. Why does this present a problem?**

524 A. The lack of concrete information about the benefits of AMS raises two issues.
525 First, if, in fact, AMS produces A&G cost savings, then the question arises
526 concerning how these savings are being passed along to ratepayers. Second, if
527 the Companies are unable to document savings, then the question arises
528 whether ratepayers actually benefit from this reliance on AMS. Testimonials by
529 the Companies and their consultants are insufficient. There must be real,
530 concrete evidence to support that claim. So far, that evidence has not
531 materialized.

532

533 **Q. Were the Ameren Companies asked about written audits they performed of**
534 **AMS activities for the test year?**

535 A. Yes, each was asked the following question in discovery:

536

537 Please provide a sample of written audits prepared by AmerenCIPS of
538 AMS activities for the test year. (See Staff Data Requests: PL 10.11(c),
539 10.12(c) and 10.13(c).
540

541 **Q. What was the response?**

542 A. A response was provided for AmerenCIPS and the responses for AmerenCILCO
543 and AmerenIP simply referenced the response for AmerenCIPS (See Company
544 Responses to Staff Data Requests: PL 10.12(c) and 10.13(c)). The response for
545 AmerenCIPS is as follows:

546

547 A sample of the written audits prepared on behalf of AmerenCIPS
548 regarding Audits of Transactions with Affiliate Interests by Ameren's
549 Internal Audit Department was provided on November 29, 2004, to Staff's
550 Director of Accounting, Mary Selvaggio. (Companies' Response to Staff
551 Data Request PL-10.11(c).
552

553

554 **Q. Have you obtained a copy of the referenced audit provided to Ms.**
555 **Selvaggio?**

556 A. Yes. It is attached to my testimony as Schedule 26.2.
557

558

558 **Q. What kind of analysis does the audit provide of the reasonableness of the**
559 **AMS costs incurred by AmerenCIPS?**

560 A. The analysis is limited to the following sentence:
561

562

562 Controls are adequate to ensure that AmerenIllinois is in compliance with
563 the ICC administrative rules cited in this report.
564

565 **Q. What do you conclude concerning this audit?**

566 A. It raises questions about the degree to which the Ameren Companies scrutinize
567 the costs they incur from AMS. A single sentence stating that the Companies are
568 in compliance with ICC administrative rules does not demonstrate that they are
569 actively engaged on behalf of ratepayers to ensure that the AMS costs they
570 receive are reasonable and fair.

571

572 **Q. Do you have any other concerns about the Companies' proposed level of**
573 **A&G expenses?**

574 A. Yes, I have concerns about the proposed level of pension costs and health care
575 benefits pertaining to retired employees.

576

577 **Q. Please explain.**

578 A. My particular concern is with those AmerenCIPS, AmerenCILCO and AmerenIP
579 employees that previously worked in the production area before generation was
580 divested. The Companies indicate that their proposed levels of test year A&G
581 expenses for delivery services includes pension and health care costs for retired
582 production workers (Ameren Companies Responses to Staff data requests PL-
583 10.34 – PL 10.39).

584

585 **Q. Please explain.**

586 A. When the Companies divested their generation plants, they continued to assume
587 the A&G-related pension and health care costs for retired employees that had

588 previously worked in the production area. Thus, their proposed levels of A&G-
589 related pension and health care expenses include costs associated with those
590 retired production workers.

591

592 **Q. How do the Companies justify the inclusion of these costs?**

593 A. The following response for AmerenCIPS is representative of their viewpoint:

594

595 When generation was divested, assets and liabilities for retirees who
596 retired prior to the date of divestiture remained with AmerenCIPS, based
597 upon an agreement approved by the Illinois Commerce Commission.
598 (Ameren Companies' Response to Staff data request PL-10.34(b))
599

600 **Q. How do you assess this argument?**

601 A. The argument is deficient in two respects. First, it is vague. The response
602 references an agreement approved by the Commission but fails to identify what
603 agreement or the circumstances under which it received Commission approval.

604

605 Second, the argument fails to address the issue of why these costs for
606 production workers should be included in the revenue requirement. The response
607 offers no evidence that the Commission specifically concluded that pension and
608 health care costs for retired production workers should be included in the delivery
609 services revenue requirement.

610

611 Furthermore, from a cost-causation standpoint, these costs clearly do not belong
612 in delivery services. These are clearly legacy costs associated with the

613 generation of electricity that have nothing to do with the provision of delivery
614 services to ratepayers.

615

616 **Q. Do the Companies provide estimates of the magnitude of these costs?**

617 A. Yes. The estimates provided for pension costs associated with retired production
618 employees are as follows:

619	AmerenCIPS	\$ 176,000
620	AmerenCILCO	\$ 652,000
621	AmerenIP	\$1,028,000
622	Total	\$1,856,000

623 (Source: Company Responses to Staff data requests PL-10.34, 10.35 and 10.36)

624

625 The estimates provided for health care costs associated with retired production
626 employees are as follows:

627	AmerenCIPS	\$ 498,000
628	AmerenCILCO	\$ 760,000
629	AmerenIP	\$1,506,000
630	Total	\$2,764,000

631 (Source: Company Responses to Staff data requests PL-10.37, 10.38 and 10.39)

632

633 Total Pensions and Health Care \$4,620,000

634

635 **Q. How do you assess these estimates?**

636 A. I find it difficult to assess the reasonableness of these estimates. Each response
637 for both pension and health care costs presents two numbers. The first is the
638 total cost for all retired employees of the utility and the second represents the
639 associated cost for retired production workers only. Following is a representative
640 example of how the cost figures are provided:

641
642 The problem is that the response only presents the individual costing figure
643 without an accompanying explanation or workpapers. The lack of supporting
644 information undermines a determination of the fairness and accuracy of the
645 figures provided.

646
647 The fact that this is a problem has been established. The extent of the problem
648 remains to be determined.

649

650 **Q. What do you conclude from this inappropriate allocation?**

651 A. I draw two conclusions. The first is that the Company has overstated its proposed
652 level of A&G expenses by including costs that clearly do not belong.

653

654 **Q. What is your second conclusion?**

655 A. The fact that the Companies would include production-related costs in its delivery
656 service revenue requirement erodes confidence in its functionalization process.

657 The filters they employ to keep production costs out do not always serve their
658 intended purpose.

659

660 **Q. Do you have any additional concerns about the inclusion of generation-**
661 **related costs in the revenue requirement?**

662 A. Yes. It should be remembered that when the Ameren Companies divested their
663 generation, ratepayers did not receive any remuneration as a result.

664 Furthermore, AmGen as an unregulated entity is able to participate in a power
665 market that contributes to electricity prices that significantly exceed the
666 previously regulated prices as evidenced by the recently results of the Illinois
667 auction. Under the circumstances it would be unfair to saddle delivery service
668 ratepayers with ongoing generated-related pension and health care costs.

669

670 **Q. Does this complete your direct testimony on rehearing?**

671 A. Yes, it does.

Ameren Services Company
Open Service Requests To Which Charges Were Recorded
For the Twelve Months Ended December 31, 2004

Docket Nos.06-0070/06-0071/06-0072 (Consolidated) on Rehearing
ICC Staff Exhibit 26.0
Schedule 26.1

Line No.	Project (A)	DESCRIPTION (B)	ALLOCFACT (C)	AMOUNT (D)
1	A1247	MAINTAIN & ADMINISTER CONTRACT EMPLOYEE BENEFITS	004B	\$ 24,430,018.74
2	A1239	MAINTAIN & ADMINISTER MANAGEMENT EMPLOYEE BENEFITS	004C	18,459,972.22
3	A0866	RENT FOR AMEREN SERVICES EMPLOYEES		18,201,041.53
4	14569	PROJECT PD	AMC	12,558,107.96
5	A2029	CSS PHASE 3 (O&M) (EFF. 1-1-2001)	002L	7,487,935.00
6	A2010	PRODUCTION SUPPORT FOR CSS (EFF. 1-1-2001)	002L	6,009,563.23
7	15277	ILLINOIS POWER ACQUISITION INTEGRATION	AMC	5,799,110.35
8	A0223	DATAOPS - CUSTOMER SYS SUPPORT	002L	5,214,045.54
9	A0132	ENTERPRISE ARCH. - LAN/WAN SUPPORT	001A	4,856,538.77
10	A2191	401(K) COMPANY MATCH - MGMTUE CONTRACT	004K	4,793,824.99
11	A0536	PERFORM DAILY AMS BANKING ACTIVITIES		4,704,894.82
12	A0439	ENERGY MANAGEMENT SYSTEM SUPPORT FOR AMEREN	010A	4,641,936.45
13	A0442	TRANSMISSION COORDINATION AND DISPATCH FOR AMEREN	010A	4,388,549.58
14	A0253	PROVIDE SERVICES TO BFT THE TOTAL CO (AMS)	004A	4,292,777.32
15	A2487	CILCO - LOCAL 8 & LOCAL 51 EMPLOYEE BENEFIT PLANS	CIL	4,271,339.12
16	A2538	SUPPLY CHAIN - PURCHASING INITIATIVE	007A	4,064,352.00
17	A0486	CSS PHASE II - REGULATED PORTION	002M	4,026,017.45
18	A2398	CILCO IT EAD AND DATA OPS ONGOING SUPPORT	CIL	3,606,220.33
19	A0256	MAINTAIN AND ADMINISTER EMPLOYEE BENEFIT PLANS	004A	3,564,348.78
20	A0084	AMS PC'S & REPRODUCTION EQUIP DEPR(ELEC/GAS MO/IL)		3,523,922.00
21	A0234	DATA OPERATIONS - OPEN SYSTEMS SUPPORT	001A	3,203,230.53
22	A2190	DENTALVISION (EXCL. 1455) & 401(K) - CONTRACT	UEC	3,040,433.46
23	A2324	AMEREN ENERGY MARKETING - BUSINESS SERVICES	GMC	2,621,101.60
24	A0051	MAINTAIN CORPORATE MODEL-BUDGET SYSTEM	007A	2,445,839.16
25	A0754	CORPORATE MEMBERSHIPS - AMEREN (ELEC/GAS MO/IL)	001A	2,346,450.38
26	A2187	EMPLOYEE BENEFITS MGT, CIS, UEC CONTRACT	004I	2,322,382.11
27	A0664	CSS PHASE II - DEREGULATED PORTION	002F	2,293,494.96
28	A0792	AUDIT OF CONTROLLERS OPERATIONS	017A	2,285,117.67
29	A0125	BPS - INDIRECT FUNCTIONAL		2,149,077.15
30	A0002	PROCESS/PAY INVOICES&DISB REQUESTS(ELEC/GAS MO/IL)	017B	2,145,551.06
31	A0508	PROCESS AMEREN/UE CUSTOMER PAYMENTS	UEC	2,061,747.89
32	A1078	PROCESS DISTRIBUTION CUSTOMER PAYMENTS	002L	2,031,435.38
33	A0001	MAINTAIN GEN'L BOOKS&FIN'L RECORDS(ELEC/GAS IL/MO)	017A	2,023,249.38
34	A0988	HELPDESK, PCS & ERIPHERALS	018A	1,949,466.27
35	A2079	CORP COMM SERVICES ALLOCATED - ADVERTISING & PR	002A	1,920,199.64
36	A0391	LEGAL-ALLOCATED-GENERAL-ELEC/GAS MO/IL	001A	1,852,696.28
37	A1048	ADMINISTRATION - TELECOM	001A	1,844,891.60
38	A0175	DISTRIBUTION ENGINEERING SERVICES - ALLOCATED	002L	1,821,736.47
39	A0993	HUMAN RESOURCES SUPPORT-DEVELOPMENT HR	004A	1,819,846.27
40	A0312	BILLING SYSTEM SUPPORT - UE (ELEC/GAS MO/IL)	UEC	1,812,491.03
41	A0293	GAS CONTROL	012A	1,807,645.03
42	AXA11	EXECUTIVE ADVISORY SERVICES - AMS (ABOVE THE LINE)		1,781,199.30
43	A0325	MOTOR TRANS (ENGR/SUPER -> ALLOCATED)	016A	1,605,717.88
44	A0154	INDUSTRIAL RELATIONS SERVICES FOR AMEREN/UE	UEC	1,591,848.86
45	A0520	EE - NON-TECHNICAL/ADMIN -ALLOCATED	010A	1,576,452.95
46	A0021	INVESTOR RELATIONS / EXTERNAL FINANCIAL REPORTING	007A	1,539,732.32
47	UEC03	INDIRECT OVERHEADS POWER OPERATIONS	UEC	1,520,249.92
48	A0819	AMEREN SERVICES ACCRUED VACATION LIABILITY		1,502,689.59
49	A0436	SPV OF THE AMEREN GEN. & TRANSM. DISPATCH	012D	1,481,991.53
50	A0406	ADMINISTRATIVE SUPPORT/OFFICE EXPENSES-CLAIMS		1,468,388.24
51	A0222	DATAOPS - FINANCIAL SYS SUPPORT	017A	1,455,063.46
52	A0428	COMPENSATION ADMINISTRATION - ALLOCATED	004A	1,430,208.73
53	A2394	ED PERFORMANCE IMPROVEMENT	002L	1,394,646.93
54	A2186	GROUP LIFE & ADD (UE/AME/AMC)	004H	1,393,765.58
55	A0158	TRAINING, CONSULTING & DEVEL-ALLO(C/ELEC/GAS MO/IL)	004A	1,376,747.19
56	A0483	TRIS	004O	1,373,066.53
57	A0372	EE-TECHNICAL/MISC.-GEN'L (SPLIT BY PEAK LOAD)	010A	1,369,242.86
58	A2517	IT SUPPORT - UEC - CALLAWAY	UEC	1,332,678.13
59	A2078	CORP COMM INDIRECT FUNCTIONAL - GEN ADMIN		1,309,078.66
60	A2389	CIL - ENCLOSE AMERENCILCO UTILITY BILLS	CIL	1,286,684.22
61	A0940	SOFTWARE DEPRECIATION FOR THE ILL DEREG PROJ	002M	1,263,049.38
62	A1033	TRUNKED RADIO - UEC - TELECOM	UEC	1,262,136.32
63	A0392	ALLOCATED - REGULATORY - ELECTRIC/GAS MO/IL	003A	1,246,630.47
64	A0262	AMEREN COMMON STOCK TRANSACTIONS AND ACTIVITIES	007A	1,211,495.90
65	A0315	BILLING SYSTEM SUPPORT-ALLOCATED (ELEC/GAS MO/IL)	002L	1,203,140.63
66	A2158	ORACLE SOFTWARE IMPLEMENTATION (EXPENSE ITEMS)	001A	1,198,146.00
67	A0567	AMS - TAX WORK		1,179,061.13
68	A2257	CORPORATE SECURITY GOVERNANCE	004A	1,128,752.12
69	14314	CALLAWAY EMPRV PROJECT	UEC	1,089,780.61

Ameren Corporation

Audit of the Service Request Billing

November 29, 2004

Ameren

**Internal Audit Report
04-04**

Environment:

- For purposes of this report, Ameren Corporation's regulated subsidiaries that are under the jurisdiction of the Illinois Commerce Commission (ICC) are referred to collectively as AmerenIllinois. AmerenIllinois consists of Union Electric Company d/b/a AmerenUE (conducting business in Illinois), Central Illinois Public Service Company d/b/a AmerenCIPS, and Central Illinois Light Company d/b/a/ AmerenCILCO.

- All of Ameren Corporation's regulated subsidiaries are integrated distribution companies (IDC), which can only provide utility services and tariff rates. AmerenUE and AmerenCIPS became IDCs in March 2002, whereas AmerenCILCO became an IDC in October 2004.

- Ameren Services Company has established a work order system that utilizes projects (referred to as Service Requests) for the purpose of accumulating and allocating costs to Ameren Corporation and all of its subsidiaries, in accordance with the approved General Services Agreement and the Federal Energy Regulatory Commission Uniform System of Accounts.

Scope:

We reviewed policies and transactions related to AmerenIllinois' interaction with affiliated interests for the period September 1, 2002 to September 30, 2004.

This audit reviewed AmerenIllinois' compliance with the following applicable sections of the 83 Illinois Administrative Code and approved General Service Agreement:

- Part 450, "Non-Discrimination in Affiliate Transactions for Electric Utilities"
- Part 550, "Non-Discrimination in Affiliate Transactions for Gas Utilities"
- Part 416, "Accounting for Non-Public Utility Business of Electric Utilities"
- Part 506, "Accounting for Non-Public Utility Business of Gas Utilities"
- General Services Agreement between Ameren Services Company and Ameren Corporation, Union Electric Company, Central Illinois Public Service Company, CIPSCO Investment Company, and Central Illinois Light Company

Conclusion:

Controls are adequate to ensure that AmerenIllinois is in compliance with the ICC administrative rules cited in this report.

Procedures over Discretion Logs

There is no common Discretion Policy (as defined in the ICC Code) for AmerenIllinois.

- Currently AmerenUE and AmerenCIPS operate under a separate Discretion Policy than AmerenCILCO. This is due to transitional integration issues.
- Different policies result in different classifications and documentation of discretionary acts.

Management Action Plan:

Ameren is in the process of adopting one Discretion Policy companywide. This will bring consistency to the identification and documentation of discretionary acts companywide.

Target Date: December 25, 2004

Accountability: Dan Laurent, Manager, Regulatory Planning

Distribution List:

Gary L. Rainwater, Chairman and CEO

Warner Baxter, Executive Vice-President and CFO

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