Respondents' Exhibit 56.0

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 06-0070/06-0071/06-0072 (CONS.)

REBUTTAL TESTIMONY

ON REHEARING

OF

MICHAEL J. ADAMS

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS

ILLINOIS POWER COMPANY d/b/a AmerenIP

February 28, 2007

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I. Introduction and Witness Qualifications

Q. Please state your name and business address.

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

Q. Are you the same Michael J. Adams who previously submitted testimony in this proceeding?

A. Yes, I am.

Q. On behalf of which parties are you presenting this rebuttal testimony?

A. I am sponsoring this testimony on behalf of Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS and Illinois Power Company d/b/a AmerenIP (each individually, the "Company" and collectively the "Ameren Illinois Utilities").

II. Purpose and Scope

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the direct testimonies on rehearing of Illinois Commerce Commission ("ICC" or the "Commission") Staff witnesses Theresa Ebrey and Peter Lazare.

Q. Are you sponsoring any schedules?

A. Yes, in addition to my rebuttal testimony on rehearing which has been marked as Respondents' Exhibit 56.0, I am sponsoring Respondents' Exhibit Nos. 56.1 and 56.2.

Q. Based upon the Commission's Order, what is the scope of the review on rehearing of Ameren Services Company's ("AMS") costs?

A. The Commission identified five areas of review in its final Order:

1. Magnitude of the increase in administrative and general ("A&G") expenses;
2. Substantiation of the increased A&G expenses;
3. Comparison of AMS' costs with market costs;
4. Analysis of the services provided by AMS; and
5. Details on how AMS' costs are allocated among the Ameren Corporation's ("Ameren") subsidiaries.

Q. Have you provided evidence in response to the Commission's areas of review?

A. Yes. I have addressed each of the Commission's areas of concern in my direct testimony on rehearing. The purpose of my rebuttal testimony is to respond to the issues raised by Staff witnesses Ebrey and Lazare and to further substantiate the evidence to justify AMS' costs.

Q. Do you have some general observations regarding the Staff's testimony?

A. Yes, I do. The Ameren Illinois Utilities readily concede that they bear the burden of proof in this proceeding. They understand that they must show their A&G costs to be reasonable. The Staff concludes that the Ameren Illinois Utilities have not done so. One would think that somewhere in the Staff's testimony there would be an example of at least one item that the Staff believes to be unreasonable in amount – one example of an instance in which the Ameren Illinois Utilities are incurring an excessive expense for a necessary utility function. Staff, however, fails to identify even one.

In fact, there doesn't seem to be any aspect of the Ameren Illinois Utilities' operations that Staff finds unreasonable. The Staff does not challenge the Ameren Illinois Utilities' booking of A&G expenses to the accounts to which they are booked. The Staff does not challenge the Ameren Illinois Utilities' assignment or allocation of any specific A&G costs to any particular company – nor would it be easy for them to do so. The assignments and allocations are governed by the General Services Agreement ("GSA"), and Staff has not indicated that any provisions of that agreement are unreasonable or that any of the allocation factors are unreasonable, inappropriate or inaccurate. Moreover, there is no question that the Ameren Illinois Utilities have applied the GSA terms as written.

Thus, the situation is this: the Ameren Illinois Utilities have booked A&G costs as they should have and as they are required to. Staff's complaint that A&G costs are too high cannot be based on any mis-assignment or misallocation of such costs.

The Ameren Illinois Utilities fully recognize that recording A&G costs properly is not the end of the story. Those costs also must be prudent and reasonable in order to be recovered in full from customers. And on this point, Staff's analysis is no clearer or persuasive. Staff's point of comparison continues to be to levels from several years ago, based on a labor expense allocator the Commission has now abandoned. Staff argues, in effect, that unless the utilities can show *why* each line item increased since that time – without attributing any portion of the increase to the now discredited labor allocator – then the costs are per se unreasonable, irrespective of whether they are consistent with other measures of reasonableness.

This is no basis for ratemaking. It is no stretch to state that the Ameren Illinois Utilities simply could not run their utilities on the amount of A&G expense that the Staff recommends in its testimony. Notably, the Staff does not recommend where the utilities should make cuts. Their view is simply that, overall, the number is too high in comparison to 2000 levels.

What the Commission needs to do in this case is, in short, forget about the labor expense allocator. It is not how the utilities accounted for A&G expense

when the Commission used the allocator for ratemaking purposes, and it is not how they have accounted for these costs since. The Commission should look to the metrics of reasonableness we offered in our direct testimony on rehearing, and when it does, it will see that the A&G expense levels proposed by the Ameren Illinois Utilities are reasonable.

As Company witness Stafford explains, the utilities are accepting much of Staff's recommendation regarding future reporting, so the Commission can track future developments.

If the Commission does not accept the overall reasonableness of A&G expense, then at the very least it should do what it purported to do in the Order in this case – allow only demonstrable increases in A&G expenses since the last cases for each utility. Staff simply ignored these items in its testimony – or addressed with circular logic. Company witness Stafford laid them out in detail in his direct, and touches on them again in his rebuttal.

III. <u>Standard of Reasonableness</u>

Q. Much of the Staff testimony questions whether the Ameren Illinois Utilities have been able to justify certain costs. To what standard are the utilities being held by Staff in this proceeding regarding the demonstration of reasonableness of Ameren Services Company's ("AMS") costs?

A. It is unclear. Staff never articulates its standard of reasonableness. The standard employed by Staff witnesses Ebrey and Lazare – to the extent there is one – is self-serving and conclusory. Since we did not meet their standard – whatever it is – they conclude that A&G costs are unreasonable. To the extent I can tell what their standard is, it appears that Staff requires a year-by-year, account-by-account justification for all changes in A&G costs since 2000. This, to say the least, expands the test year concept.

Q. Please elaborate.

A The Ameren Illinois Utilities acknowledge that they have the burden to both document and justify their expenses. The Ameren Illinois Utilities have justified AMS' costs in their direct, rebuttal and surrebuttal testimonies and exhibits in the direct phase of these proceedings. The Commission concluded, however, that additional evidence was required to justify over $50 million of A&G costs. The Ameren Illinois Utilities have provided a significant level of information regarding those costs, and the services to which they relate, in this rehearing phase of the proceedings. In their direct testimony on rehearing, Staff has lobbed criticisms regarding the Ameren Illinois Utilities' evidence. To some extent Staff's standard being applied can best be described as "I don't know what I want or need to justify the expenses, but I will tell you when I see it." Such a standard is arbitrary and impossible to achieve.

Q. What was the Commission's primary concern when the decision was made to exclude the incremental $50 million of A&G costs?

A. The November 21, 2006 Order stated:

> The Commission is concerned about the magnitude of the increase in A&G expenses and the lack of substantiation for these increases. It seems that the increase may be attributable to the Ameren companies' relationship with Ameren Services. However, the record does not contain enough information for the Commission to assess whether the Ameren companies are being allocated a fair share of the costs of these services for ratemaking purposes or whether the amounts paid to Ameren Services are reasonable for such services.[1]

The Commission continued by directing the Ameren Illinois Utilities to provide the following information:

> Therefore, the Commission directs the Ameren Companies to conduct a study to show the costs of services obtained from Ameren Services and compare those costs with market costs. Also, as part of the study, the Ameren companies shall provide an analysis of the services provided by Ameren Services to all Ameren companies and provide details on how those costs are allocated among the companies.[2]

Q. Have the Ameren Illinois Utilities provided the information required by the Commission in its November 21, 2006 Order?

A. Yes. The Ameren Illinois Utilities provided testimony and exhibits explaining the increases in the overall level of A&G expenses. As described in my direct testimony on rehearing, AmerenCILCO and AmerenCIPS actually experienced a

[1] November 21, 2006 Order, pp. 66-67.

[2] Ibid, p. 67.

decline in the overall level of A&G expenses since 2000. AmerenIP experienced only a slight increase in the overall level of A&G expenses since 2000.

My direct testimony also describes how the increase in A&G expenses to which the Commission's Order refers is actually the result of the allocation methodologies used in prior delivery service proceedings whereby an excessive amount of each of the Ameren Illinois Utilities' then current A&G expenses were allocated to the electric generation function, contrary to cost causation principles. This inappropriate allocation methodology was further exacerbated in the case of AmerenIP (then Illinois Power) by the fact that the Company did not even own electric generation facilities. Therefore, the increase in A&G expenses which the Ameren Illinois Utilities are seeking to recoup from delivery service customers in this proceeding reflect a reversal of past allocation methodologies and reflect the allocation of A&G costs based upon solid cost causation principles.

Q. You have mentioned "cost causation principles" a few times. What do you mean by cost causation principles?

A. The fundamental and underlying philosophy applicable to all cost studies pertains to the concept of cost causation for purposes of allocating costs to individual lines of business. Cost causation addresses the question of which line of business (and which customers served) causes particular types of costs to be incurred. To

answer this question, it is necessary to establish a link between the costs incurred to provide a given service and the companies which benefit from the provisioning of such service.

Q. Do cost causation principles mean that a portion of every expense should be allocated to each of the Ameren subsidiaries?

A. No. Despite the apparent positions espoused by Staff witnesses Ebrey and Lazare, a portion of the costs of each service request should not be allocated to each of the Ameren subsidiaries unless each company benefits in some manner from each service.

Q. Are AMS' costs assigned or allocated to specific lines of business based upon sound cost causation principles?

A. Yes. The allocation methodologies employed by AMS to assign or allocate its costs to specific Ameren subsidiaries are based upon sound cost causation principles. These allocation methodologies have been tested and approved by regulatory agencies such as the U.S. Securities and Exchange Commission ("SEC"). The external auditors would also test the allocation practices as part of their attestation of the financials. Further, the allocation methodologies have been tested and approved by Ameren's internal auditors. The direct testimony of Company witness Martin J. Lyons fully described this allocation methodology and internal auditing process. (AmerenCILCO, AmerenCIPS, and AmerenIP Exhibits 2.0, pp. 4-8). Notably, neither Staff nor any other party took issue with

the processes Company witness Lyons' testimony describes – not in the primary case, and not on rehearing.

Q. To what standards do you believe the Ameren Illinois Utilities should be held when validating the appropriateness of AMS' costs?

A. The standards to which the Ameren Illinois Utilities should be held, in terms of the portion of their A&G costs which were assigned or allocated from AMS, consist of the following three criteria:

1. Were the services provided by AMS to the Ameren Illinois Utilities necessary to provide service to the Companies' customers?

2. Were the costs associated with the services reasonable?

3. Were the costs allocated to the appropriate entities which benefit from such services in a manner consistent with sound cost causation principles?

If the answer to each of these questions was affirmative, then the portion of the Ameren Illinois Utilities' A&G expenses which were assigned or allocated to the Ameren Illinois Utilities from AMS should be deemed reasonable and should be included in each Companies' revenue requirement and recovered from the Companies' delivery service customers.

Q. Have the Ameren Illinois Utilities provided sufficient information to address each of your proposed standards and to conclude that AMS' costs, as assigned or allocated to the Ameren Illinois Utilities, are reasonable?

A. Yes. The following response was provided in response to Staff data request PL-10.28:

> The conclusion that "AMS costs have been shown to be reasonable" is based upon the analysis that was performed in support of the direct testimony on rehearing of Mr. Adams. As the testimony and related exhibits set forth, the Ameren Illinois Companies have, for the most part, declining trends in the overall level of A&G costs (see Respondent's Exhibits 54.1 and 54.2). Mr. Adams has also concluded that the service request and associated allocation process is reasonable. The benchmarking of the A&G costs for each of the Ameren Illinois Companies was shown to be in the first quartile of similarly sized utilities (see Respondent's Exhibits 54.9 and 54.10). The salaries paid to AMS employees was shown to be reasonable based upon market comparisons (see Respondent's Exhibit 54.11). Staffing levels at AMS have held fairly constant over the last five years despite the acquisition of two additional companies (see Respondent's Exhibit 54.12). Finally, given the benchmarking studies routinely performed by AMS' Information Technology group regarding its costs and the outsourcing studies which have been performed by AMS, the statement on page 30, lines 665-666 is an accurate statement and fully supported by the testimony and exhibits of Mr. Adams.

I believe the Ameren Illinois Utilities have provided sufficient evidence throughout the entirety of these proceedings for the Commission to reasonably conclude that the A&G expenses, including that portion which has been directly assigned or allocated by AMS to each of the Ameren

Illinois Utilities are appropriate, reasonable, and fully supported by the evidence in this proceeding.

Q. What are the bases for Staff's criticism of the evidence provided by the Ameren Illinois Utilities regarding the reasonableness of the A&G costs, including the portion of AMS' costs which were assigned or allocated to the Ameren Illinois Utilities?

A. Absent any standards by which to evaluate the reasonableness of the Ameren Illinois Utilities' A&G expenses, the Staff testimony merely raises a few questions or alleged concerns regarding certain allocations and summarily dismisses all of the evidence presented by the Ameren Illinois Utilities. Staff thus dismisses the Ameren Illinois Utilities' studies without ever questioning the reasonableness of a single service provided by AMS; without expressing a concern regarding the level of expense incurred; and without raising a legitimate concern related to the allocation factors employed by AMS or the resulting allocated amounts. Similarly, Staff does not offer a position with regards to the level of increases in the A&G expenses experienced by the Ameren Illinois Utilities. I will discuss the specific questions or concerns raised by each of the Staff witnesses.

Q. Are there significant inputs to the assessment of the reasonableness of the Ameren Illinois Utilities' A&G costs for which the Staff witnesses remained silent in their direct testimonies?

A. Yes. The Staff witnesses took no issue with the wage surveys which are performed to assess the market comparability of the wages paid to AMS (and all other Ameren subsidiaries) employees. Nor did Staff express concerns regarding the staffing levels of AMS or the Ameren Illinois Utilities. The Staff witnesses did not express concerns regarding the benchmarking studies performed by the Information Technology Department to assess the reasonableness of its costs. Finally, Staff did not comment on the outsourcing studies performed by AMS to evaluate the costs of its services to those of external providers.

Q. Why is it significant that Staff did not express concerns regarding the aforementioned studies?

A. As I mentioned in my direct testimony on rehearing, the major cost component of AMS' services would be associated with personnel costs. If the wages and staffing levels are deemed to be appropriate, a significant portion of the overall costs would also have to be deemed to be reasonable.

IV. <u>Response to Staff witness Ebrey</u>

Q. Have you reviewed the direct testimony on rehearing of Staff witness Ebrey?

A. Yes, I have.

Q. To what issues raised by Staff witness Ebrey do you plan to respond?

A. I will respond to Staff witness Ebrey's discussion in her direct testimony on rehearing regarding 1) A&G expense levels, 2) her comparison of AMS charges

to A&G expense and 3) the allocation of AMS costs to the Ameren Illinois Utilities.

Q. Staff witness Ebrey asserts that you have not explained why the Ameren Illinois Utilities have reverted to the level of A&G expenses presented in the direct case as opposed to the level contained in the surrebuttal case. How do you respond?

A. The Ameren Illinois Utilities are not asking to include in rates the A&G expenses which were initially presented in their direct cases as filed in December 2005. The exhibits were created reflecting the originally filed levels of A&G expenses merely for simplicity of presentation.

Q. What level of A&G expenses are the Ameren Illinois Utilities seeking to recover in the rehearing phase of these proceedings?

A. Company witness Stafford presents the requested level of A&G expenses which the Ameren Illinois Utilities seek to recover in these proceedings. As Company witness Stafford explains in his rebuttal testimony on rehearing, the Ameren Illinois Utilities are requesting A&G expenses of $150.5 million.

Q. What do Respondents' Exhibits 54.1 and 54.2 show?

A. As I describe in my direct testimony on rehearing, Respondents' Exhibits 54.1 and 54.2 show the trend in overall A&G expenses for each of the Ameren Illinois Utilities for the calendar years 2000 through 2004, as well as the test year expense

levels requested in these proceedings. Respondents' Exhibit 54.1 shows the trend of total A&G expenses while Respondents' Exhibit 54.2 shows the trend of total A&G expenses excluding pensions and benefits expenses.

Q. Does Staff witness Ebrey criticize the content of Exhibits 54.1 and 54.2?

A. Yes. Her sole criticism appears to be that the portion of the graphs representing the test year level of A&G expenses of each of the Ameren Illinois Utilities represents electric distribution expenses only.

Q. Have you prepared an exhibit to address Staff witness Ebrey's concern?

A. Yes I have. Respondents' Exhibit 56.1 presents the same information as was contained in Respondents' Exhibit 54.2, with two exceptions. The exceptions are 1) that the test year level of A&G expenses reflects the expenses per the Ameren Illinois Utilities' surrebuttal testimony and are "grossed up" by the appropriate jurisdictional allocator factor to derive the total electric amount of A&G expenses and 2) the exhibit shows actual information for the calendar years 2005 and 2006. The information is presented in a stacked bar format as opposed to the tabular view presented by Staff witness Ebrey.

Q. Please describe the results of the updated analysis, as shown on Respondents' Exhibit 56.1.

A. Respondents' Exhibit 56.1 shows the trend in A&G expense levels for the electric business of each of the Ameren Illinois Utilities from the year 2000 through 2006. Information is also shown for the test year per the surrebuttal filings of each of the

Ameren Illinois Utilities. The exhibit shows that the A&G expense levels have actually declined in total from 2000 levels. Further, Exhibit 56.1 shows that the Ameren Illinois Utilities' A&G expenses have remained relatively flat since 2001, contrary to the position implied by Staff witness Ebrey.

Q. What impact did addressing Staff witness Ebrey's concern regarding the test year data have on the overall analysis of the Ameren Illinois Utilities' A&G expense levels?

A. The information in Respondents' Exhibit 56.1 for the years 2000 through 2004 did not change. The information for the test year was modified to reflect total electric figures per the Ameren Illinois Utilities' surrebuttal testimony as opposed to the electric distribution only figures that were originally reflected in Respondents' Exhibits 54.1 and 54.2. Further, information was included on the graph for the calendar years 2005 and 2006. The conclusions drawn from the analyses were not impacted by addressing Staff witness Ebrey's concern.

Q. Staff witness Ebrey argues that Staff Schedules 24.1, 24.2 and 24.3 show a better tracking of the year-to-year variance in total A&G expenses for each of the Ameren Illinois Utilities. How do you respond?

A. I have two observations regarding Staff witness Ebrey's schedules. The first is that the information presented in each of the exhibits for the years 2000 through 2004 is identical to that which is presented in Respondents' Exhibits 54.3, 54.4

and 54.5. The only difference is that Staff witness Ebrey presents the information in tabular form as opposed to graphically.

My second observation is that Staff witness Ebrey is attempting to justify the Commission's exclusion of the $50.3 million of AMS costs by including 2005 and 2006 projected expenses in the analysis. As I show in Respondents' Exhibit 56.1, the overall A&G expense levels have declined from 2000 to 2006. The surrebuttal test year A&G expense levels reflect that decline.

Q. Does Staff witness Ebrey offer an opinion or conclusion regarding the overall level of A&G expenses incurred by the Ameren Illinois Utilities?

A. No, she does not.

Q. Does Staff witness Ebrey offer any insights, conclusions or opinions on the allocation of the incurred levels of AMS' expenses to the electric distribution businesses of the Ameren Illinois Utilities?

A. No, she does not.

Q. Do you have any further observations regarding Staff witness Ebrey's analysis of the Ameren Illinois Utilities' A&G expense level trends?

A. Yes. It appears that Staff witness Ebrey's analysis is focused more on justifying the Commission's elimination of the $50.3 million of A&G expenses than it is on assessing the reasonableness of the Ameren Illinois Utilities' A&G expenses.

Based upon the analyses presented by Staff witness Ebrey, the only way by which she can conclude that the Commission's adjustment was reasonable was to inappropriately include data from 2005 and 2006 in the analysis. Even when 2005 and 2006 data are included, Staff witness Ebrey makes no assessment of the reasonableness of the Ameren Illinois Utilities' A&G expenses; she merely concludes the information is consistent with or somehow justifies the Commission's adjustment. Staff's role in this rehearing should not have been to justify the Commission's adjustment, but rather to evaluate the evidence provided by the Ameren Illinois Utilities to assess the reasonableness of the expense levels in the test year.

Q. Staff witness Ebrey expresses concern regarding the percentages of the Ameren Illinois Utilities' A&G expenses which are attributable to services provided by AMS. Is Staff witness Ebrey's concern warranted?

A. No. The percentages were provided for informational purposes only. They are not used in any manner to determine the level of A&G expenses which should be recovered from each of the Ameren Illinois Utilities.

Q. Staff witness Ebrey states at page 14 of her direct testimony on rehearing that "Ameren's response to Staff data request TEE 13.06 does not indicate

what, if any, impact this has on the analysis.[3]" Do you agree with Staff witness Ebrey's statement?

A. No. Despite Staff witness Ebrey's statement to the contrary, the Respondents' response to Staff data request TEE 13.06 clearly stated "Note that the percentages for AmerenCIPS, AmerenCILCO and AmerenIP are merely used for descriptive purposes in the testimony of Company witness Adams."[4]

Q. Staff witness Ebrey implies that the Ameren Illinois Utilities share her concern regarding the AmerenIP calculation. Do you agree?

A. No. A revised percentage was provided in response to Staff data request TEE 13.06. As I stated previously, the percentages were used for informational purposes only to provide an indication of the order of magnitude that AMS' costs represent in terms of each of the Ameren Illinois Companies' total A&G expenses. Modifying the AmerenIP response for purposes of responding to Staff's data request did not impact the Ameren Illinois Utilities' level of or justification of the A&G expenses.

Q. Why was the AmerenIP percentage modified?

A. The revised calculation reflects a reduction of AmerenIP's A&G expenses associated with reduced headcount post acquisition. The change in the percentage

[3] Direct Testimony of Theresa Ebrey, p. 14, lines 265-266.

[4] AmerenCILCO's, AmerenCIPS' and AmerenIP's Response to Staff Data Request TEE 13.06.

was not the result of a change in AMS allocations. Rather, the change was made to pre-acquisition A&G costs incurred by Illinois Power under its previous ownership which would not be incurred on a going forward basis. The reduced costs were already reflected in AmerenIP's test year expense levels. Therefore, the percentage required modification but the expense levels proposed in these proceedings remain unchanged.

Q. Staff witness Ebrey also expresses concerns regarding a perceived uneven allocation of AMS costs. How do you respond?

A. Such a conclusion or position reflects an apparent lack of understanding on the part of Staff witness Ebrey regarding how AMS' costs are allocated. As I described in detail in my direct testimony on rehearing, AMS captures costs via a service request process. Each service request has an allocator which determines the amount of the costs that are assigned to each of the Ameren subsidiaries. This does not mean, however, that a portion of the costs from each service request are assigned to each Ameren subsidiary. To the contrary, many of the service requests are directly assigned to a specific Ameren subsidiary. Therefore, the analysis presented by Staff witness Ebrey is meaningless.

Q. Please elaborate.

A. A simple reading of Staff witness Ebrey's testimony implies that she believes that all costs should be distributed amongst the Ameren subsidiaries based upon their

respective asset and expense levels, without regard for cost causation. This, of course, is utterly inappropriate. The utilities would never be expected to subsidize non-utility operations, and the converse should be equally true. Costs should be assigned and allocated in accordance with principles of cost causation, which is precisely what the terms of the GSA are intend to do.

Referring to column (B), line 5 of Respondents' Exhibit 54.6, the description of the AMS service request is "CSS Phase 3 (O&M) (Eff. 1-1-2001)". A person with even a superficial understanding of the utility industry should know that "CSS" stands for customer service system. As shown in column (D) of the same exhibit and line, approximately $7.5 million was charged to this particular service request. As shown in column (C) of the exhibit, the costs assigned to this particular service request are allocated based upon an allocator identified as "002L". Referring to Respondents' Exhibit 54.7, line 49, column (B) shows that the allocator is based upon the number of electric and gas distribution customers in Missouri and Illinois. Columns (R), (S) and (T) of line 49 of Respondents' Exhibit 54.7 sets forth that 59.55 percent, 22.08 percent and 18.37 percent of the charges captured by the service request were allocated to AmerenUE (MO), AmerenCIPS and AmerenCILCO, respectively.

Q. In your opinion, is it logical that Ameren Generating Company ("AmGen") did not receive a portion of the costs associated with the CSS?

A. Yes, irrefutably so. The CSS is used exclusively by the local gas and electric distribution companies to maintain records and produce monthly bills on behalf of the distribution companies' customers. AmGen does not use the customer service system. AmGen does bill the distribution customers directly. AmGen does not maintain records regarding complaints or requests generated by these customers. It is perfectly logical, therefore, that AmGen is not allocated any portion of these costs. Staff witness Ebrey's concern is unwarranted and should be dismissed.

Q. What role does AmGen's level of assets or operating expenses have in the allocation of AMS' costs?

A. In a situation where a service request relates to services provided by AMS to each of the Ameren subsidiaries and the level of assets or expenses is a reasonable surrogate for cost causation, it would follow that AmGen would receive a proportional share of such costs. Again, the guiding principle behind the assignment or allocation of AMS' costs has to be cost causation.

I will provide further examples and discussion regarding the appropriateness of AMS' assignment and allocation of costs when I address certain issues raised by Staff witness Lazare.

Q. Has the appropriateness of specific allocation factors and how costs would be allocated been formerly reviewed and addressed by the Commission?

A. Yes. When AMS was formed, the Commission approved the GSA, which set forth the services which would be provided by AMS and how such costs would be allocated. The GSA was updated and approved as part of the proceedings addressing the acquisition of CILCO and again with the acquisition of Illinois Power.

Q. Has Staff witness Ebrey expressed any specific concerns regarding the overall A&G expense levels of the Ameren Illinois Utilities?

A. No, she has not.

Q. Has Staff witness Ebrey identified any specific AMS service requests (and the associated services thereby provided) which she deemed to be an unnecessary or unwarranted service?

A. No, she has not.

Q. Has Staff witness Ebrey identified any specific costs associated with AMS' services which she deemed to be excessive?

A. No, she has not.

Q. Has Staff witness Ebrey identified any specific allocation factors employed by AMS to assign or allocate costs to the various Ameren companies which she deemed to be in error or inappropriate?

A. No, she has not.

Q. Has Staff witness Ebrey identified any specific costs which were assigned or allocated to the Ameren Illinois Utilities which she deemed to be excessive, imprudent or unnecessary?

A. No, she has not.

V. <u>Response to Staff witness Lazare</u>

Q. Have you reviewed the direct testimony on rehearing of Staff witness Lazare?

A. Yes, I have.

Q. Does Staff witness Lazare question the validity of your benchmarking of the Ameren Illinois Utilities' A&G expenses to those of other utilities?

A. Yes. Staff witness Lazare expresses concerns regarding the inclusion of vertically-integrated utilities in the peer group to which I compared the Ameren Illinois Utilities.

Q. Is Staff witness Lazare's concern warranted?

A. No. Respondents' Exhibit 54.8 identifies the companies I included in the peer group. The information for each of the companies was derived from a commercial service which accumulates and reports information from energy companies Form 1 annual reports to the FERC.

As I stated in my direct testimony on rehearing, companies that met the following three criteria were included in the analysis:

1. Total electricity revenues of between $200,000,000 and $1,400,000,000;
2. Total electric customers of between 100,000 and 700,000; and
3. Total MWH sales of between 5,000,000 and 25,000,000.

Based upon these criteria, a peer group of 51 companies, including each of the three Ameren Illinois Utilities, was selected. No distinction was made as to which companies owned generation.

Q. Is it necessary to include a criterion of whether a company owns regulated generation when establishing the peer group?

A. No. As Staff witness Lazare states in his testimony, I excluded fuel costs from the analysis in an attempt to put the companies on equal footing. It was pointed out through the data request process that purchased power costs should also be excluded. By excluding these two cost components, the companies should be comparable.

Q. Would the fact that a company owns regulated generation impact the benchmarking results?

A. No. As I mentioned, by excluding the fuel and purchased power costs from the analysis, each of the companies should be on equal footing. With regards to the A&G as a percentage of total operations and maintenance ("O&M) expenses, it is true that a company which owns generation may incur slightly higher A&G expenses, but the majority of those additional A&G expenses would likely be in the form of pensions and benefits costs, which also have been excluded from the

analysis. Further, the higher A&G expenses would be compared to a higher level of total O&M expenses.

Staff witness Lazare's criticism may have been appropriate if the A&G expenses of the peer group companies was being compared to just the distribution O&M expenses. The benchmarking analysis, however, compares the A&G expenses to total O&M expenses, which would include any non-fuel and non-purchased power expenses incurred associated with owning, operating, and maintaining the generation facilities.

Q. Staff witness Lazare makes the statement "In fact, Mr. Adams himself, admitted in discovery that his method of backing out fuel expense from the analysis was inappropriate".[5] Do you agree with Staff witness Lazare's assessment of your response?

A. No. As the response shown in Staff witness Lazare's testimony shows, I agreed that purchased power expenses should also have been excluded from total O&M expenses before finalizing the comparison of A&G expenses as a percent of total O&M. I do not, however, agree that the backing out of fuel expenses from the analysis was inappropriate.

Q. Does Staff witness Lazare express concerns regarding your benchmarking of the A&G costs per customer for the peer group?

[5] Direct Testimony on Rehearing of Peter Lazare, p. 6, lines 150 – 152.

A. Yes. Staff witness Lazare argues that companies which have divested generation cannot be directly compared with utilities that retain a production component. As I stated previously, once the pensions and benefits expenses are excluded from the analysis (which they have been for purposes of benchmarking the A&G cost per customer), I would expect that there would not be much incremental A&G expenses incurred associated with owning regulated generation. Therefore, I do not believe that there would be a material impact on the benchmarking analysis.

Q. Please elaborate.

A. Many of the A&G accounts would not impact a generation function. For example, Account 927 is Franchise Requirements. The expenses in this account would be attributable to the regulated transmission and distribution ("T&D") businesses and no portion of the costs would be allocated to the generation function, if it existed.

Account 928 contains costs for Regulatory Commission expenses. Again, these costs should be 100 percent attributable to the T&D businesses. Accounts 930 and 930.1 contain expenses associated with advertising. It is highly unlikely that the generation business would be placing ads.

As I stated, I do not believe that the existence of a generation function would have a material impact on the overall level of A&G expenses.

Q. Staff witness Lazare concludes that the Ameren Illinois Utilities rehearing testimony falls short of the Commission's directive to include "an analysis of the services provided by Ameren Services Company to all Ameren companies and provide details on how those costs are allocated among the companies…" How do you respond?

A. I disagree with Staff witness Lazare's conclusion. My direct testimony on rehearing clearly and succinctly identifies the nature of the services provided by AMS to the Ameren Illinois Utilities. A discussion of these services begins on page 10 of my direct testimony on rehearing. With regards to details on how the costs are allocated among the Ameren companies, that is precisely the information that is contained in Respondents' Exhibits 54.6 and 54.7.

Q. Staff witness Lazare complains that the descriptions of each service request contained on Respondents' Exhibit 54.7 do not provide meaningful information. How do you respond?

A. Additional information can be provided if it had been requested. Each service request has supporting documentation which presents additional details as to the specific nature of the work to be performed. Such descriptive detail typically ranges from 2 to 15 pages in length per service request. Given that there are over 1,400 service requests which received charges in 2004, the volume of paper provided would have been significant, so it was not provided as a supporting workpaper. If Staff witness Lazare had asked for the additional detail, it would have been made available to him.

Q. Can the information contained in Respondents' Exhibits 54.6 and 54.7 be consolidated in an effort to address Staff witness Lazare's apparent concerns?

A. Yes. Respondents' Exhibit 56.2 merges the information previously provided in Respondents' Exhibits 54.6 and 54.7. Admittedly, a little work would have been required on Staff's part to obtain the complete picture, so Respondents' Exhibit 56.2 shows the service requests to which AMS charges its costs, the allocator used to allocate those costs, the basis of the allocation, and the amount allocated to each of the Ameren subsidiaries. Previously Staff would have had to work through the multiplication effort to achieve the final result. Respondents' Exhibit 56.2 now provides that result.

Q. Please describe the results shown on Respondents' Exhibit 56.2.

A. Respondents' Exhibit 56.2 sets forth information related to the total amount that was billed to each service request in 2004, the allocation methodology, and the amount allocated to each Ameren subsidiary. As the exhibit shows, of the approximately $380 million of AMS charges during 2004, approximately 15 percent was assigned or allocated to AmerenCIPS and approximately 14 percent was assigned or allocated to AmerenCILCO.

Q. Does Respondents' Exhibit 56.2 show that the allocation of AMS' costs between the various Ameren subsidiaries is reasonable?

A. No. A single exhibit can not reasonably be expected to provide the information necessary to definitively conclude that the allocation of AMS' costs is reasonable. One must look at the totality of the evidence to make this determination.

Q. In addition to Respondents' Exhibit 56.2, what evidence have the Ameren Illinois Utilities provided to facilitate the conclusion that allocation of AMS' costs between the various Ameren companies is reasonable?

A. My direct testimony identifies the nature of the services provided by AMS to the Ameren subsidiaries (See Respondents' Exhibit 54.6). I explain how costs are captured and reported by AMS and how those costs are allocated to each Ameren subsidiary (See Respondents' Exhibit 54.7). I presented evidence regarding the how the A&G expenses compare to the level of expenses incurred by a peer group of companies (See Respondents' Exhibits 54.9 and 54.10). Based upon the totality of the evidence, I concluded that the Ameren Illinois Utilities' A&G expenses were reasonable.

I described how the A&G expenses of the Ameren Illinois Utilities have in fact declined since 2000 (See Respondents' Exhibit 56.1). I explained in detail the efforts that AMS undertakes to ensure that its costs are reasonable and comparable to those of external providers. Finally, the Ameren Illinois Utilities have responded to numerous data requests during the rehearing phase of this proceeding alone related to AMS' costs.

Q. Staff witness Lazare cites a concern with the Ameren Illinois Utilities' justification of the reasonableness of AMS' costs by referring to a service request. Please explain his concern.

A. Staff witness Lazare identified a service request labeled as "Project PD" which received AMS charges in the amount of $12,558,107.96 during 2004. Staff witness Lazare expresses concern that the description does not provide meaningful explanation of the costs. Understandably there will be some projects undertaken by AMS which are confidential and the exact nature of the work performed is unknown. By looking at the allocation methodology associated with the specific service request, however, Staff witness Lazare would have been able to conclude that the service request was assigned directly to Ameren Corporation and that no portion of the service request was assigned or allocated to the Ameren Illinois Utilities.

Q. Does Staff witness Lazare also express concerns regarding why the costs associated with two specific service requests were not assigned or allocated to AmGen?

A. Yes. Staff witness Lazare questions why the costs associated with the service requests entitled "CSS Phase 3 (O&M) (Eff. 1-1-2001) with costs totaling $7,487,935 and a service request entitled "Production support for CSS (Eff. 1-1-2001) with costs totaling $6,009,563.23 were not allocated in total or in part to AmGen.

I previously discussed why it is appropriate to assign or allocate the costs associated with the customer service system to only the energy delivery companies. The flaw in Staff witness Lazare's position is that not all companies receive a portion of the costs associated with each service request. As I stated, AmGen has no distribution customers, and as such it does not track scheduled appointments, complaints or other outstanding customer issues. Nor does AmGen produce monthly bills to customers for energy delivery services, things which are routinely tracked via the customer service system. Since AmGen is not a user of the customer service system, it would be inappropriate to assign or allocate any portion of these costs to AmGen. Therefore AMS' allocation methodology is consistent with cost causation principles.

Q. Staff witness Lazare complains that with approximately 1,400 open service requests to be allocated among the Ameren subsidiaries it is impossible for Staff and the Commission to draw any conclusion about the reasonableness of the overall allocation of AMS costs based on the information provided by the Ameren Illinois Utilities. How do you respond?

A. I disagree with Staff witness Lazare's position on many fronts. First, in response to Staff data request PL-10.20, the Ameren Illinois Utilities explained that AmerenCIPS was assigned or allocated charges from 480 of the 1,437 service requests which received charges during 2004. Of that amount, 156 were directly assigned to AmerenCIPS. AmerenCILCO was assigned or allocated charges from 435 of the 1,437 service requests which received charges during 2004. Of that

amount 96 were directly assigned to AmerenCILCO. Therefore, the number of service requests which allocated charges to the AmerenCILCO and AmerenCIPS is actually a manageable number.

With regards to Staff witness Lazare's overarching concern, the Ameren Illinois Utilities did not claim that the review or justification of AMS' costs was going to be easy. It does take some effort to review and question the nature of the service requests, the basis of the allocation factors, and generally how AMS' costs are assigned or allocated to its affiliated companies. The approach is not like the labor allocator which the Commission has adopted in the past. A simple percentage of all expenses is not going to be allocated to each Ameren company.

Given the complex nature of the allocation system, it is not reasonable to expect that a simple and concise exhibit can be presented which justifies all of the allocations. The Commission should, however, take some comfort in the fact that the SEC has reviewed AMS' allocation processes and found the methodology and results to be justified. Similarly the Companies' Internal Audit Department has also reviewed AMS' allocation methodology and the reasonableness of the achieved results. Each of these independent parties have concluded that the processes are appropriate and are functioning properly. The Commission should be able to take notice of, and solace in, the reviews performed by these independent groups.

Q. Do you concur that a review of AMS' cost allocations can be a daunting task?

A. Yes. On the surface, the task of reviewing AMS' costs and the assignment or allocation of those costs to the various Ameren companies can appear to be onerous. As one begins to work through the actual allocations, you realize that the process is not that difficult. Some effort is required, however, to review, understand, and work through the allocation process.

The level of effort is less daunting when a reasonable approach to the review is taken. For example, referring to Respondents' Exhibit 54.16, approximately 34 percent of AMS' charges to AmerenCILCO were direct charged. For AmerenCIPS, approximately 23 percent of AMS' charges were direct charged. Further, a mere 181 service requests account for over 80 percent of AMS' total dollars. Of the 181 service requests accounting for over 80 percent of AMS' total dollars, 66 were directly assigned to a specific company.

Suffice it to say that the review of AMS' allocated costs is not as daunting as implied by Staff witness Lazare.

Q. Staff witness Lazare expresses concerns that AmerenIP is not addressed in Respondents' Exhibit 54.6 and 54.7. How do you respond?

A. As I stated in my direct testimony on rebuttal, AmerenIP did not begin receiving allocated charges from AMS until the second quarter of 2005, approximately six months after its acquisition. The amount of AMS-related costs for AmerenIP for purposes of this rate proceeding was based upon six months of actual charges annualized.

Q. How can the Commission be assured that the portion of AMS' costs which have been assigned or allocated to AmerenIP are reasonable?

A. The allocation process did not change after the acquisition of AmerenIP. Rather, the allocation factors used to assign or allocate AMS' costs would have changed, as necessary, to reflect the addition of Illinois Power.

Q. Please elaborate.

A. As with each of the other Ameren subsidiaries, some of AMS' service requests would be direct assigned to AmerenIP in those instances where AmerenIP was the sole benefactor of the service provided by AMS. In those instances where AmerenIP shared in the benefit derived from AMS' services, the allocation percentages would have been modified to reflect the addition of AmerenIP. For example, sticking with the CSS service request, AMS' costs associated with the service request were allocated to AmerenUE(MO), AmerenCIPS, and AmerenCILCO in 2004 based upon the number of electric and gas distribution customers for each company. With the acquisition of AmerenIP, the allocation basis would have remained the same, but the denominator in the equation would have been revised to reflect the additional customers of AmerenIP. AmerenIP would then be allocated its proportional share of the CSS costs.

Q. Staff witness Lazare expresses concern regarding the independence of the Ameren Illinois Utilities to exert influence over the allocation process. How do you respond?

A. Company witness Stafford responds to Staff witness Lazare's concern regarding independence.

Q. Staff witness Lazare is also critical of the internal audit report addressing the assignment and allocation of AMS' costs. Please respond.

A. Anyone familiar with the internal audit reports knows that the summary of the group's work which has been cited by Staff witness Lazare is not unusual in its terse conclusions. The true content and findings of the internal audit would be contained in the workpapers supporting the audit. It does not appear that Staff witness Lazare has either requested or reviewed those workpapers. Therefore, I think it was premature and inappropriate on his behalf to draw the conclusion that he recites in his direct testimony on rehearing regarding the thoroughness of review performed by the internal audit group.

Q. Has Staff witness Lazare expressed any concerns regarding the overall A&G expense levels of the Ameren Illinois Utilities?

A. No, he has not.

Q. Has Staff witness Lazare identified any specific AMS service requests (and the associated services thereby provided) which he deemed to be an unnecessary or unwarranted service?

A. No, he has not.

Q. Has Staff witness Lazare identified any specific costs associated with AMS' services which he deemed to be excessive?

A. No, he has not.

Q. Has Staff witness Lazare identified any specific allocation factors employed by AMS to assign or allocate costs to the various Ameren companies which he deemed to be in error or inappropriate?

A. No, he has not.

Q. Has Staff witness Lazare identified any specific costs which were assigned or allocated to the Ameren Illinois Utilities which he deemed to be excessive, imprudent or unnecessary?

A. No, he has not.

Q. Yet Staff witness Lazare dismisses the Ameren Illinois Utilities' evidence in its entirety, is that correct?

A. Yes. Staff witness Lazare identifies a few perceived deficiencies in the Ameren Illinois Utilities' evidence supporting AMS' costs and then dismisses all of the evidence, without citing a single specific perceived error in the end result of the allocation process and the costs assigned or allocated to the Ameren Illinois Utilities.

Q. Does Staff witness Lazare's level of review and ultimate recommendation appear to be reasonable?

A. No. Many of the perceived deficiencies cited by Staff witness Lazare related to AMS' costs and how those costs are allocated or assigned to the Ameren Illinois Utilities arise from Staff witness Lazare's own lack of standards against which to evaluate the reasonableness of the costs and the apparent minimal level of review which was afforded to the evidence.

Q. Please elaborate.

A. Simply because Staff witness Lazare does not seek or obtain answers to questions regarding the evidence should not translate into a conclusion that the Ameren Illinois Utilities' study is flawed and should be rejected. There has to exist some expectation that the parties to this proceeding perform the requisite analysis to thoroughly review the study and supporting documentation to render an informed decision regarding the study.

As a result of Staff witness Lazare's review, he identifies a few general questions regarding the Ameren Illinois Utilities' study and then deems the study to be non-responsive to the Commission's directive in this rehearing proceeding. Such a position is untenable. Staff witness Lazare does not attempt to quantify a level of A&G expenses which he believes to be unreasonable. He simply dismisses the Ameren Illinois Utilities' study and concludes that the Commission's adjustment is appropriate. Staff witness Lazare's analysis is rudimentary at best and provides no basis for the Commission to determine what level of A&G expenses is reasonable for each of the Ameren Illinois Utilities.

The Ameren Illinois Utilities have provided sufficient evidence to conclude that the nature of the services were reasonable, the costs associated with such services were appropriate, that the allocation of said costs was performed appropriately and that the resulting level of A&G costs, in total and as assigned or allocated by AMS, were reasonable. Staff witness Lazare's testimony provides no evidence to the contract and should be rejected.

Q. Does this conclude your rebuttal testimony on rehearing?

A. Yes, it does.

CHI-1577099v1