

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Central Illinois Light Company)	
d/b/a AmerenCILCO)	Docket No. 06-0070
Proposed general increase in rates for)	
delivery service (tariffs filed December)	(Cons.)
27, 2005))	
)	
Central Illinois Public Service Company)	
d/b/a AmerenCIPS)	
Proposed general increase in rates for)	Docket No. 06-0071
delivery service. (tariffs filed December)	
27, 2005))	
)	
Illinois Power Company d/b/a AmerenIP)	
Proposed general increase in rates for)	
delivery service (tariffs filed December)	Docket No. 06-0072
27, 2005))	
)	

**REPLY BRIEF ON REHEARING OF THE
STAFF OF THE ILLINOIS COMMERCE COMMISSION**

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Staff of the Illinois Commerce Commission (“Staff”), by and through its counsel, pursuant to Section 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission (“Commission”), respectfully submits its Reply Brief On Rehearing in the above-captioned matter.

INTRODUCTION

The Initial Brief on Rehearing of the Staff of the Illinois Commerce Commission (“Staff’s IB on Rehearing” or “Staff IBR”) was filed on March 23, 2007. The Initial Brief on Rehearing Of the People Of The State Of Illinois (“AG’s IB on Rehearing” or “AG

IBR”), the Ameren Illinois Utilities’ Initial Brief on Rehearing (“Ameren’s IB on Rehearing” or “Ameren IBR”), the Initial Brief on Rehearing Of the Citizens Utility Board (“CUB’s IB on Rehearing” or “CUB IBR”), and the Initial Brief on Rehearing Of Illinois Industrial Energy Consumers (“IIEC’s IB on Rehearing” or “IIEC IBR”) were also filed on March 23, 2007.

Some of the issues raised in the parties’ initial briefs were addressed in Staff’s Initial Brief and, in the interest of efficiency, Staff has not raised or repeated every argument or response previously made in Staff’s IB on Rehearing. Thus, the omission of a response to an argument that Staff previously addressed simply means that Staff stands on the position taken in Staff’s IB on Rehearing because further or additional comment is neither needed nor warranted.

ARGUMENT

I. THE AMEREN COMPANIES’ EVIDENCE AND ARGUMENTS ARE DEFICIENT AND THEIR ENTIRE REQUESTED INCREASE IN ADMINISTRATIVE AND GENERAL EXPENSES MUST BE REJECTED

A. Introduction

Central Illinois Light Company d/b/a AmerenCILCO (“AmerenCILCO”), Central Illinois Public Service Company d/b/a AmerenCIPS (“AmerenCIPS”), and Illinois Power Company d/b/a AmerenIP (“AmerenIP”) (collectively, “Ameren” or the “Ameren Companies” or the “Ameren Illinois Utilities”) offer no compelling reasons or arguments in their Initial Brief on Rehearing to support their proposed increase in Administrative and General (“A&G”) expenses. They fail to provide any meaningful discussion of the arguments and positions presented in this case. Nor do they explain why their

arguments on the issues should be considered more reasonable than the alternatives. Rather, the Ameren Companies choose to ignore Staff's arguments on A&G and mischaracterize certain amounts as undisputed. Staff's position and testimony do not disappear merely because the Ameren Companies choose to ignore them. Staff provided substantive arguments, which explain why the Ameren Companies' proposed increase in A&G expenses should be rejected.

As a result, Staff recommends that the Commission reaffirm the amount of A&G expenses approved in its Final Order dated November 21, 2006 from the main phase of this proceeding ("November 21 Order"). Further, Staff recommends that the Commission approve its adjustment related to pension and benefits expense. Finally, Staff recommends that the Commission adopt all of Staff's reporting requirements.

B. The Ameren Companies' Entire Requested Increase in A&G Expenses Is In Dispute

In a rehearing that was driven by a specific Commission finding that the Ameren Companies had failed to submit adequate proof regarding their A&G expenses, it is astonishing that the Ameren Companies have chosen to both ignore their own burden and make the incorrect claim that recovery of certain additional A&G expenses is "undisputed". As explained in Staff's IB on Rehearing, the Ameren Companies' evidence on rehearing is deficient and fails to support the requested increase in A&G expenses. Those deficiencies are not cured by assertions that certain claims were not directly countered. Moreover, while Staff witnesses may not have directly countered claims that certain A&G expense components have increased, they made abundantly clear why such claims were deficient or otherwise failed to justify the requested

increase. As explained in more detail below, the Ameren Companies entire requested increase in A&G expenses is in dispute, and the Ameren's argument to the contrary only serves to undermine the credibility of its position on rehearing.

The Ameren Companies begin their argument of individual A&G expenses with the following claim:

As a preliminary matter, the Ameren Illinois Utilities presented *undisputed* rehearing evidence showing that they are entitled to recover \$26.67 million over previously approved A&G expense amounts. As no party presented evidence to dispute recovery of those amounts, the utilities' entitlement to that recovery could not be clearer.

(Ameren IBR, p. 1) Interestingly, the Ameren Companies consider the level of undisputed A&G cost increases to be \$31.689 million by page 6 of their Initial Brief on Rehearing. (Ameren IBR, p. 6) These figures raise two issues. First, it appears that the Ameren Companies are uncertain about the actual amount of A&G expenses they claim to be undisputed - \$26.67 million or \$31.689 million. While the Ameren Companies do not indicate which number should be used, it would be reasonable to assume they prefer the higher figure. Second, neither amount is, in fact, undisputed as the Ameren Companies claim.

The Ameren Companies proceed to offer a lengthy summary of the arguments for these "undisputed" increases in A&G expenses. The discussion covers such items as depreciation of Ameren Services Assets, Franchise Fees, AmerenIP A&G acquisition cost savings, salary and wage increases, human resources and information technology, Ameren Services interest and taxes, Post September 11, 2001 security, Sarbanes-Oxley compliance, maintenance of general plant, prior A&G disallowances for incentive compensation and parent company payroll distribution and duplicate disallowances for

injuries and damages, incentive compensation and amortization of procurement expense. (Ameren IBR, pp. 1, 5-14)

The assertion that these increases are somehow “undisputed” is fundamentally and factually incorrect. In fact, as Staff has demonstrated, the Ameren Companies’ proposed level of A&G expenses is largely *unsupported*, and strongly disputed. The Ameren Companies have failed to explain or justify their proposed level of Ameren Services Company (“AMS”) costs, which comprises more than 60% of A&G expenses for each of the Ameren Illinois Utilities. (Staff IBR, pp. 6-11, 15-17, 29-30) In addition, Staff has demonstrated that the Ameren Companies have failed to adequately account for merger savings and they inappropriately included pension and health care costs for retired production employees. (Staff IBR, pp. 17-28; ICC Staff Exhibit 26.0 Corrected, p. 2)

The Ameren Companies provided a line item analysis of A&G expenses even though they “do not believe that the Commission intended to require on rehearing an item-by-item reconciliation of the changes in A&G costs from the levels approved in the last round of DST cases...” (Ameren IBR, p. 17) Staff witness Jones disputed the whole analysis in which these items were presented. She explained why this analysis does not support the Ameren Companies’ proposed increases to A & G expenses. (ICC Staff Exhibit 23.0, pp. 3-4) It is Staff’s position that the analysis cannot be relied upon to explain the increase in the amount of A&G expenses sought in the current proceedings compared to the amount of A&G expenses approved in the Ameren Companies prior DST proceedings because (1) the analysis fails to include costs that have decreased since the prior DST proceedings; (2) the increases for duplicate or unintended

disallowances are based on faulty reasoning; and (3) the fact that the Ameren Companies disagree with the Commission's prior disallowances does nothing to establish that the Ameren Companies are entitled to their proposed increases in this case. (Staff IBR, pp. 28-32) Also, many of the A&G expenses that have increased are based on allocations from AMS, which Staff has explained cannot be relied on. (*Id.*, p. 30)

Given these egregious shortcomings in the Ameren Companies' testimony on rehearing, they have no basis to claim that an increase of \$31.689 million or even \$26.67 million is undisputed.

C. Contrary to the Ameren Companies' Arguments, They Have Failed To Support Their Requested Increase In A&G Expenses

1. The Evidence Demonstrates That There are No Duplicate Disallowances

The Ameren Companies continue to argue that the \$50.3 million A&G disallowance in the Commission's November 21 Order resulted in duplicate disallowances. (Ameren IBR, p. 15) In Direct Testimony on Rehearing, the Ameren Companies originally claimed \$9.1 million in duplicate disallowances. However, following Staff's testimony on Rehearing, \$5.7 million for pensions, OPEBs, and Major Medical expense was removed as a duplicate disallowance in rebuttal testimony, leaving a claimed total of \$3.4 million in duplicate disallowances for injuries and damages, incentive compensation and amortization of rate case expense. (*Id.*, pp. 14-15)

The Ameren Companies are incorrect in their claim that these are duplicate disallowances. This is clear when one compares the November 21 Order with the Proposed Order issued on October 4, 2006 from the main phase of this proceeding (“October 4 Proposed Order”). Because the November 21 Order appears to make no changes to the A&G expense adjustments reflected in the October 4 Proposed Order, other than the additional \$50.3 million disallowance ordered by the Commission, one would expect total A&G expense in the November 21 Order to be \$50.3 million less than total A&G expense in the October 4 Proposed Order. However, a comparison of total A&G expense of \$92,451 million in the November 21 Order (Appendices A, B, C, p. 1) with total A&G expense of \$139,294 million in the October 4 Proposed Order (Appendices A, B, C, p. 1) shows that there is a difference of \$46.8 million, which is \$3.5 million less than the Commission’s additional disallowance of \$50.3 million. Thus, \$3.5 million of A&G adjustments approved in the October 4 Proposed Order were subsumed in the additional disallowance of \$50.3 million. Therefore, the Ameren Companies’ claim of \$3.4 million in duplicate adjustments is in error.

2. AMS Service Charges Are Not Reasonable

The Ameren Companies claimed to “have demonstrated the reasonableness” of their AMS charges as requested in the Commission’s Final Order for this docket. (Ameren IBR, p. 28) The Ameren Companies present a narrative explaining how AMS came about, how it operates and the billings included in determining the revenue requirement. (Ameren IBR, p. 29) Ironically, after noting that AMS accounts for more than 60% of A&G expenses for each of the three operating companies, the Ameren Companies argue that “a significant portion of A&G expenses do not come from AMS

and come directly from other sources”. (Ameren IBR, pp. 29-30) This focus on the non-AMS costs still leaves unexplained more than 60% of A&G expenses that do pertain to AMS.

In their argument concerning the level of AMS costs included in each utility’s overall A&G expenses, the Ameren Companies wrongly claim that 61 percent of AmerenIP’s A&G expenses were attributable to services received from AMS. (Ameren IBR, pp. 29 – 30) In response to ICC Staff data request TEE 13.06, Ameren witness Adams agreed with Staff that amounts for AmerenIP Direct Costs not provided by the Ameren Companies were not deducted and revised his calculation to reflect AMS costs of 76.99% of AmerenIP’s total A&G costs. (ICC Staff Exhibit 24.0 (Corrected), Attachment C) The portion of A&G costs attributable to services provided by AMS is much more significant than the Ameren Companies acknowledge. (See Ameren IBR, p. 30)

The Ameren Companies further claim that the trend analyses presented by Ameren witness Adams show that the Ameren Companies’ A&G costs are reasonable. (*Id.*, pp. 30, 32) As Staff explained in its testimony and in its Initial Brief on Rehearing, Mr. Adams’ trend analysis contains errors both in its initial and revised forms and cannot be relied upon. (Staff IBR, pp. 32 – 34) Alternatively, Staff’s analysis presents an apples-to-apples comparison and proves that the A&G expense levels the Commission approved in its November 21 Order are more reasonable than those proposed by the Ameren Companies. (*Id.*, pp. 35 – 36)

The Ameren Companies discuss their efforts in this proceeding to justify the level of A&G expenses represented by AMS charges, which is comprised of a narrative which

identifies AMS costs and describes how they are incurred. When it comes to tax services, the Ameren's Initial Brief on Rehearing states:

Tax services are another example of services that an affiliated company can provide more competently and efficiently than through outsourcing. Because tax laws and regulations that apply to utilities can be unique, it makes good business sense to have on hand a company like AMS to serve these needs. In addition, the Ameren Illinois Utilities have found it more cost effective and efficient to have these services provided by a shared services company instead of retaining the capabilities within each of the individual companies.

(Ameren IBR, p. 35) This discussion could be best described as irrelevant. Whether or not having AMS provide tax services makes sense in theory, the Commission must decide whether it works for ratepayers in practice. That requires a determination of how the costs for AMS to provide tax services were developed and an examination of how these costs are allocated among Ameren subsidiaries. The Ameren Companies' unsupported claim that the use of AMS is "more cost effective and efficient" does not aid the Commission in making such an analysis. Furthermore, the question arises why the Ameren Companies are unable to provide more substantive explanations for these expenditures. That failure on rehearing is particularly egregious given the Commission's prior admonition to the Ameren Companies that "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 amounts paid to Ameren Services are reasonable for such services". (November 21 Order, p. 66)

The Ameren Companies go on to assert that, "Whenever services are provided to more than one company, it is typically more cost effective to centralize those services into one company and provide such services to the affiliates from one centralized

location”. (Ameren IBR, p. 35) However, without affirmative evidence provided by the Ameren Companies, this statement is unsupported. And even if centralizing services proves more cost-effective, ratepayers must receive a share of the savings to benefit.

The Ameren Companies go on to discuss the service request system underlying the expenditure of AMS costs. According to their Initial Brief on Rehearing, “No AMS charges may be assigned or allocated to the Ameren Illinois Utilities if the companies have not requested the service, agreed to the level of service, and approved the method of allocation”. (Ameren IBR, p. 36) However, the suggestion that the operating companies themselves “requested the service” conflicts from the following explanation for the service request process previously provided by the Ameren Companies:

Service requests are generally initiated by AMS employees, whether the request originally came from an AmerenCIPS employee, from an AMS employee performing functions only on behalf of the Ameren Illinois Utilities, or an AMS employee performing services on behalf of a larger group of Ameren Companies.

(ICC Staff Exhibit 26.0 Corrected, p. 14)

In their Initial Brief on Rehearing, the Ameren Companies continue their narrative of AMS costs by describing the process by which AMS audits the service request system:

This audit examines the computer systems, billings and source documentation to ensure the services provided are authorized, documented and accurately recorded in Ameren Services’ and Ameren subsidiaries’ books and records. This Internal Audit Department also examines service request allocation factors to ensure use of such factors complies with SEC guidance and the GSA.

(Ameren IBR, p. 37) This claim of a thorough audit process is contrary to record evidence. The only audit of AMS costs provided by the Ameren Companies for the test

year proved to be thoroughly superficial. The perfunctory analysis was limited to the following sentence:

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

(ICC Staff Exhibit 26.0 Corrected, p. 22; Schedule 26.2, p. 2) A single sentence indicating compliance with ICC administrative rules falls considerably short of demonstrating that the Ameren Companies are actively engaged to ensure that the AMS costs ratepayers pay are reasonable and fair. (ICC Staff Exhibit 26.0 Corrected, p. 23)

3. AMS Allocation Methods Have Not Been Shown to be Reasonable

The Ameren Companies have failed to demonstrate that the AMS allocation methods were reasonable. There is no comfort in the Ameren Companies' claim that allocation factors must be submitted to the SEC for approval before implementation. (Ameren IBR, pp. 36-37) The Energy Policy Act of 2005 repealed the Public Utilities Holding Company Act of 1935 and transferred the utility holding company oversight authority previously held by the SEC to the Federal Energy Regulatory Commission ("FERC"). Whereas the SEC was proactive in approving allocation factors prior to use, the FERC is reactive. Allocation factors are no longer reviewed prior to use as a matter of course, but at the election of the holding company or a State commission. (Section 1275(b) of the U.S. Energy Policy Act of 2005 (Public Law 109-58, August 8, 2005.))

The Ameren Companies further explain the service request process, discussing the numerous costs and the allocators for those costs. While admitting that "the review of AMS' allocations could be daunting", the Ameren Companies reference Mr. Adams'

contention that a “reasonable approach” would make the task “less difficult”. (Ameren IBR, p. 38) For example, the Ameren Companies note that 34 percent of AMS charges for AmerenCILCO and 23 percent for AmerenCIPS “were direct charged”. (Ameren IBR, p. 38) The Ameren Companies’ statement assumes that because AMS costs are direct charged, they must be accurate. As a result, there is no need for further review or scrutiny since direct charging by definition puts them in their rightful place. And if regulators have any concerns, Mr. Adams is there to provide unbiased testimony that the Ameren Companies’ approach is reasonable. From an evidentiary standpoint, this appears weak, to put it mildly.

The Ameren Companies go on to state, “Mr. Adams tested the accuracy of AMS’ allocation process, and found that the allocation factors were properly applied to the Ameren Illinois Utilities”. (Ameren IBR, p. 39) The problems with this testing process were amply demonstrated in the hearing process where Mr. Adams was unable to describe the AMS costs in his allocation study. For a service request described as “power plant software expense”, Mr. Adams stated, “We don’t know the nature of that software cost”. (Tr., p. 121, lines 7-8)¹ When asked about “data operations – open systems support”, Mr. Adams indicated he did not know the purpose of these particular costs. (Tr., pp. 121-122) Mr. Adams also was unable to describe a service request pertaining to software being depreciated for the Illinois deregulated market. (Tr., p. 123) Nor did he know for a fact why AmerenCIPS and AmerenCILCO received a much higher allocation of Oracle software implementation costs than Ameren Generating

¹ It should be noted that subsequently under redirect Mr. Adams claimed to have further knowledge of that expense. However, on re-cross, Mr. Adams admitted his memory was refreshed by Ameren witness Stafford. (Tr., p. 151)

Company. (Tr., p. 125) Indeed, Mr. Adam's confirmed on cross that the "study" amounts to nothing more than a printout of costs (Tr., pp. 117-129) and that he looked at only "twenty percent or so" of the AMS service requests in more detail (Tr., p. 123). The question becomes what scrutiny, if any, Mr. Adams gave to the remaining 80%.

The Ameren Companies state that "Mr. Adams also testified to his belief that both Staff witnesses Burma Jones and Peter Lazare tested or reviewed AMS' costs and allocation process and identified no problems with the methodology and results during those proceedings". (Ameren IBR, p. 39) This statement is simply incorrect. The Staff's problems with the Ameren Companies' AMS cost study were fully identified and clearly explained in Mr. Lazare's direct testimony on rehearing. (See ICC Staff Exhibit 26.0 Corrected, pp. 9-13)

4. Ameren's Studies of Benchmarking A&G Expenses with Other Utilities Are Deficient

The Ameren Companies provide an explanation of the studies they prepared to benchmark their A&G expenses against other utilities. Those studies examined A&G expenses as a percentage of O&M expenses and on a per-customer basis as well. Their Initial Brief on Rehearing sums up Mr. Adams' conclusions accordingly:

From the benchmarking comparison, Mr. Adams concluded that, overall, the Ameren Illinois Utilities are doing an above-average job of managing the total A&G costs. Most companies strive to be above average in benchmarking analyses. Based upon the results of this benchmarking analysis, the Ameren Illinois Utilities have actually achieved above-average performance in an area that matters most - the amount that each electric customer pays to cover A&G costs.

(Respondents' Initial Brief, p. 41) The Ameren Companies' discussion of these studies is misleading. The Ameren Companies' own witness, Mr. Adams, admitted that the study based on O&M costs is deficient because, "[b]oth fuel and purchased power

should have been excluded from the analysis.” (ICC Staff Exhibit 26.0 Corrected, p. 6; AG Cross Exhibit 1 On Rehearing) The Ameren Companies’ Initial Brief on Rehearing fails to even discuss the shortcomings identified by Mr. Adams, the author of the study.

The Ameren Companies’ Initial Brief on Rehearing discusses Mr. Adams’ comparison of per-customer A&G expenses between Ameren and a peer group as follows:

Mr. Adams also compared the Ameren Illinois Utilities’ A&G expenses per customer, again excluding the pensions and benefits expenses, to the peer group. This analysis provides insights into the amount each customer is expected to pay related to A&G costs.

(Ameren IBR, p. 41) The Ameren Companies try to suggest that their per-customer A&G expenses compare favorably with a peer group based on a simple and straightforward analysis. However, this analysis is flawed as well. The existence of vertically integrated utilities in the peer group chosen for the analysis skews the results. The Ameren Companies incur A&G expenses for the T&D functions only, while vertically-integrated utilities also incur A&G expenses related to production. This added responsibility raises A&G expenses for vertically-integrated utilities on a per-customer basis and means they are not comparable with A&G expenses for T&D utilities such as the Ameren Companies on a per-customer basis. (ICC Staff Exhibit 26.0 Corrected, pp. 6-7) Again, the Ameren Companies’ Initial Brief on Rehearing notably fails to even mention this fault, much less justify the study results in light of this shortcoming.

The Ameren Companies’ Initial Brief on Rehearing notes Mr. Adams’ conclusion that the benchmarking analysis found “the Ameren Illinois Utilities are doing an above-average job of managing the total A&G costs”. (Ameren IBR, p. 41) The fundamental flaws in the Companies’ studies render this conclusion meaningless.

5. Ameren's Market Studies Fail to Address Commission's Concern

A lengthy discussion of market studies designed to show the reasonableness of personnel costs for AMS is also discussed in the Ameren Companies' Initial Brief on Rehearing, which included their participation in numerous salary surveys and determination of market prices for management salaries. (Ameren IBR, pp. 42-44) The Ameren Companies acknowledge that "AMS has not performed a study of its staffing levels". (*Id.*, p. 44)

The Ameren Companies explain that "periodic studies are performed of AMS' costs against those of non-affiliate providers". (*Id.*, p. 45) They discuss areas such as information technology (IT), the Help Desk function, lockbox service, and accounts payable, and conclude that AMS expenditures in these areas are reasonable. (*Id.*, pp. 42-50)

However, the Ameren Companies' discussion misses the mark since it fails to respond to the Commission's fundamental concern about AMS:

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 amounts paid to Ameren Services are reasonable for such services. The Commission has the obligation to ensure "just and reasonable" rates but cannot do so if it is unable to determine if the services that the Ameren companies receive through Ameren Services are indeed being provided at the lowest cost.

(November 21 Order, pp. 66-67) The fundamental issue for the Commission is whether the Ameren Illinois Utilities are being allocated "a fair share" of AMS costs and whether they pay "reasonable" amounts to AMS for these services. The Ameren Companies'

“market studies”, which discuss AMS salaries and business practices, avoid rather than address this issue. Regardless of whether AMS salaries are reasonable or services are provided effectively, the issue remains whether AMS serves its regulated and unregulated subsidiaries in a fair and equal manner. Regardless of how AMS operates, regulated subsidiaries may pay a price if they must shoulder an inordinate share of the costs.

In sum, the limitations of these market studies combined with the shortcomings of the Ameren Companies’ other analyses amount to a failure to provide any assurance to the Commission that their AMS expenses are reasonable. The Ameren Companies failed to take advantage of the extra opportunity that they were provided when the Commission granted rehearing to justify an increase in A&G costs.

6. The Ameren Companies Fail to Address the Staff’s Evidence and Arguments

The Ameren Companies try to sidestep many of the shortcomings in their evidence and analysis by simply ignoring Staff’s discussions. Staff presented evidence and arguments that call into question the appropriateness of the AMS Reallocation adjustment included in each Company’s revenue requirement based on the unsubstantiated increases in the levels of costs between 2004 and 2005. (Staff IBR, pp. 37 – 42) Through the AMS reallocation adjustment, the Ameren Companies not only revised the AMS allocation factors to reflect the addition of IP, but also increased the amounts to which these AMS allocation factors were applied. When questioned about this, the Ameren Companies failed to provide any substantiation for these increased amounts. They simply chose to ignore the evidence and arguments in their Initial Brief on Rehearing.

Staff also presented evidence and arguments that call into question why it is appropriate for the Ameren Illinois Utilities to receive a larger share of AMS costs than did the Ameren Illinois unregulated affiliates. The Ameren Companies failed to offer any explanation of why the regulated Illinois utility subsidiaries receive a larger portion of AMS costs than does the unregulated Illinois generation subsidiary. This is the type of information Staff expected to see from Ameren. Further, it is the type of information the Commission requested, as it expressed in its Notice of Commission Action dated December 21, 2006:

In presenting their direct testimony, AmerenCILCO, AmerenCIPS, and AmerenIP are directed to provide (1) the results of a study showing the costs of services obtained from Ameren Services Company and comparing those costs with market costs and (2) *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*, as described in Section IV. E. 1. e of the Commission's November 21, 2006 Order and as offered in Section III. A. 3 of the Petition for Rehearing. (emphasis added)

(Notice of Commission Action dated December 21, 2006, pp. 10 – 11)

D. Staff's Pension and Benefits Expenses Adjustment Must be Accepted

The Ameren Companies agree with Staff that the program expenses they had previously reflected in their adjustment for pensions and benefits expenses are not necessary. (Ameren IBR, p. 5) The only disagreement remaining between the Ameren Companies and Staff regarding the Pensions and Benefits adjustment to the November 21 Order is how to reflect the Ameren Companies' share of AMS in the proposed adjustment. (*Id.*, p. 25)

The Ameren Companies continue to argue that pensions and benefits expenses have been removed from both accounts 920 and 926 in the AMS reallocation adjustment. (*Id.*, pp. 26 – 27) However, the tables provided in Staff’s IB on Rehearing show that the Ameren Companies removed only the impact of the change in AMS pension and benefits expense from 2004 to 2005 in the AMS Reallocation adjustment. The Ameren Companies made adjustments to account 920 for differences *other than* pensions and benefits expenses. However, in doing so, the Ameren Companies never removed the 2004 pension and benefits expense from account 920. (Staff IBR, pp. 44 – 46) As a result, Staff’s proposed adjustments to pension and benefits expenses, which include the AMS allocated amounts for both 2005 and as reflected in the November 21 Order, should be approved by the Commission. (Staff IBR, Appendix A, Schedule 9 (CIL); Appendix B, Schedule 9 (CIPS); and Appendix C, Schedule 9 (IPC))

E. Staff Strongly Recommends That the Commission Approve Reporting Requirements

The Ameren Companies’ Initial Brief on Rehearing fails to acknowledge the reporting requirements recommended by Staff (ICC Staff Exhibit 23.0, pp. 9-10) or that the Ameren Companies have indicated a willingness to provide the reports, except that which calls for the specifics of the bench marking plan. (Respondents’ Exhibit 55.0 (Revised), p. 32)

Although the Ameren Services Company Service Request Manual states that “AMS will establish a bench marking plan to the extent deemed appropriate by senior management of AMC [Ameren Corporation] in order to continue to improve the effectiveness of services offered to AMC, the operating companies and affiliates and to

ensure that the services offered are cost competitive,” neither Ameren witness Stafford nor Ameren witness Adams is aware of such a plan. (Tr., pp. 39 & 131) However, Mr. Adams testified that Ameren performs market studies related to the salaries paid to AMS employee to ensure competitive rates of compensation, which he considers a benchmark. (Respondents’ Exhibit 54.0, p. 21; Tr., p. 132) Also, periodic studies are performed of AMS’ costs against those of non-affiliated providers, which he also conceded is a benchmark. (Respondents’ Exhibit 54.0, p. 24; Tr., p. 132) Therefore, whether or not the Ameren Companies have a bench marking plan per se in accordance with the Ameren Services Company Service Request Manual, they appear to be performing bench marking activities. (Tr., p. 132) Consequently, formulating a bench marking plan and preparing the recommended bench marking report should not be burdensome.

Staff recommends that the Commission order the Ameren Companies to provide the reports described and to establish a bench marking plan in order to improve the effectiveness of services offered by AMS and to ensure that the services offered are cost competitive.

CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations on rehearing in this docket.

Respectfully submitted,

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