Ameren Ex. 21.0

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 07-0585/07-0586/07-0587/07-0588/07-0589-07-0590 (CONS.)

REBUTTAL TESTIMONY

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

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TABLE OF CONTENTS

Page

I. INTRODUCTION AND WITNESS QUALIFICATIONS 1

II. PURPOSE AND SCOPE 1

III. SERVICES PROVIDED BY AMS 2

IV. RESPONSE TO STAFF WITNESS LAZARE 8

- A. Staff Witness Lazare's Proposed Adjustment Of AMS' Costs 11
- B. Scope of the AMS Study 33
- C. Service Request Review 38
- D. Adequacy of Market Study 43
- E. Benchmarking Of Services Against Entire Market 48
- F. Ameren Illinois Utilities' Allocated Share of AMS Costs 55
- G. Other Staff Witness Lazare Concerns 61

V. RESPONSE TO STAFF WITNESS KAHLE 65

- A. Pass-Through Taxes 70
- B. Inclusion of Capitalized Payroll In CWC Analyses 76
- C. Rider PER 82

VI. RESPONSE TO CUB WITNESS EFFRON 84

VII. CONCLUSION 95

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REBUTTAL TESTIMONY OF MICHAEL J. ADAMS

I. INTRODUCTION AND WITNESS QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Michael J. Adams. My business address is 293 Boston Post Road, Suite 500, Marlborough, Massachusetts 01752.

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 rebuttal testimony on behalf of the electric and gas businesses 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 rebuttal testimony is to respond to the direct testimonies of Illinois Commerce Commission ("ICC" or the "Commission") Staff witnesses

Peter Lazare and Daniel Kahle and Attorney General/Citizens Utility Board ("AG/CUB") witness David Effron.

Q. Are you sponsoring any schedules?

A. Yes, in addition to my rebuttal testimony, I am sponsoring Ameren Exhibit Nos. 21.1 through 21.15.

III. SERVICES PROVIDED BY AMS

Q. What is AMS and what is its relationship to the Ameren Illinois Utilities?

A. AMS is an Ameren Corporation subsidiary that provides its parent and fellow subsidiaries (including the Ameren Illinois Utilities) with a variety of services. AMS was formed in connection with the merger of Union Electric Company and Central Illinois Public Service Company in the mid-1990s. The services provided by AMS to the Ameren subsidiaries are governed by a General Services Agreement ("GSA") which has been approved by the Commission.

Q. Please describe the purpose of the GSA.

A. The GSA governs the relationship between AMS and other Ameren subsidiaries. The document addresses issues such as (1) the agreement to furnish services; (2) the services to be performed by AMS on behalf of the Ameren subsidiaries; (3) the compensation of AMS for the provisioning of the services; (4) the Service Request process; and (5) payment for the services AMS provides to the Ameren subsidiaries.

Schedule 1 of the GSA describes in detail the services to be provided by AMS to the Ameren subsidiaries and the expected allocation factors to be used to allocate the costs associated with each service.

The GSA has been approved by the Commission, most recently in Docket No. 06-0633.

Q. Do the Ameren Illinois Utilities have the latitude to deviate from the allocation factors contained in the GSA?

A. No. In addition to the Commission's approval of the GSA, the allocation factors have also been reviewed and approved by the Securities and Exchange Commission. The Ameren Illinois Utilities can not deviate from the approved allocation factors merely because the resulting allocations are not perceived to be fair by a party to a rate case proceeding. Through the GSA, the Commission has required the Ameren Illinois Utilities and the other parties to the GSA to charge for services according to certain formulas, and the Ameren Illinois Utilities do that. While the Ameren Illinois Utilities recognize that the Commission has indicated that the approval of the GSA is not determinative for ratemaking purposes, it would be fundamentally unfair to mandate that the Ameren Illinois Utilities pay AMS one price pursuant to a formula in the GSA, and then abandon the formula completely in a rate case in favor of an untried, unknown, invented allocation methodology that assigns part of the cost of the service to entities not even taking the service. I submit that the Commission never intended by its

ratemaking qualification that the carefully crafted and tailored allocation formulas in the GSA would be either gutted or discarded in ratemaking proceedings.

The Commission repeatedly has approved the nature of the services to be provided by AMS to the Ameren subsidiaries. The basis of allocating the costs of services has also been approved by the Commission. The remaining factors to be reviewed, therefore, should be whether the costs associated with the various services are reasonable and the allocation of the costs is accurate.

Q. Does the Commission's approval of the GSA, on its own, indicate an approval of the results of the allocation process?

A. No. The Commission stated in its final Order on Rehearing in Docket No. 06-0070 et.al.

> The Commission's consent to an affiliate interest agreement under Section 7-101(3) of the Act does not constitute approval of payments thereunder for the purpose of computing expense of operations in any rate proceeding.[1]

While the Commission's approval of the GSA does not guarantee approval of the specific costs, it would seem logical that the Commission would expect the scope of services provided by AMS and allocation of the costs associated with such services to be consistent with the terms of the GSA.

[1] Final Order on Rehearing, Docket No. 06-0060 et. al., p. 28.

Q. Did the Commission direct the Ameren Illinois Utilities to provide in these proceedings a study regarding the services and related costs which AMS provides to the Ameren Illinois Utilities?

A. Yes. The final Order in Docket Nos. 06-0070 (Cons.) contained the following directive for the Ameren Illinois Utilities:

> "…the Commission directs the Ameren companies to conduct a study to show the costs of services obtained from AMS 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 AMS to all Ameren companies and provide details on how those costs are allocated among the companies. The Ameren companies shall include the result of the study in the next rate filing.[2]"

Q. Did Concentric prepare a study of the services and related costs that AMS provides to the Ameren Illinois Utilities?

A. Yes. The report summarizing the study has been marked as Ameren Exhibit 5.14 and was provided with my direct testimony in these proceedings.

Q. What standard did you employ during your review of the reasonableness of the costs allocated to the Ameren Illinois Utilities?

A. During the review of AMS' costs which were allocated to the Ameren Illinois Utilities, in addition to the review of compliance with the terms of the GSA,

[2] Illinois Commerce Commission Order, Docket Nos. 06-0070/06-0071/06-0072 (Cons.), p. 67.

Concentric employed a cost causation standard to assess the reasonableness of the allocated costs. Under cost causation principles, the standard of reasonableness was whether the costs allocated to each of the Ameren Illinois Utilities were representative of the benefits realized by each company.

Q. 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.

As stated in Section 791.30 of the Illinois Administrative Code, the cost causation principle is defined as follows:

> Costs shall be attributed to individual services or groups of services based on the following cost causation principle. Costs are recognized as being caused by a service or group of services if:
>
> a) The costs are brought into existence as a direct result of providing the service or group of services; or
>
> b) The costs are avoided if the service or group of services is not provided.

Q. Under cost causation principles would a portion of every expense incurred by AMS be allocated to each of the Ameren subsidiaries?

A. No. A portion of the costs related to each service should not be allocated to each of the Ameren subsidiaries unless each company benefits in some manner from a particular service.

Q. How did Concentric approach the review of AMS' services and costs?

A. Concentric's independent review of AMS' services and costs focused on answering the following questions:

- What was the nature of the services which AMS provided to its affiliated companies?
- Were the services requested by or do they provide benefit to the companies which were assigned or allocated the costs associated with the services?
- Did an appropriate process exist by which a benefiting company approved a service request?
- Were the costs captured in a suitable manner?
- Did the allocation methodology reflect true cost causation principles?
- Were costs allocated accurately?
- Did management routinely monitor the costs?

- Was the overall level of the costs allocated for the services reasonable?[3]

Q. Please summarize your findings from that study.

A. Concentric's findings from its review of AMS are as follows:

- The services provided by AMS were deemed to be reasonable and consistent with the needs of the Ameren Illinois Utilities;

- The processes employed to accumulate and allocate AMS' costs associated with the provisioning of these services were well defined and documented;

- AMS' costs were deemed to be reasonable based upon comparable data from other utilities and companies outside of the utility sector;

- The costs allocated to the Ameren Illinois Utilities were reasonable and based upon sound cost causation principles and the GSA which governs the relationship between AMS and the Ameren Illinois Utilities; and

- The services provided to the Ameren Illinois Utilities were necessary and beneficial to the Ameren Illinois Utilities' customers.

IV. <u>RESPONSE TO STAFF WITNESS LAZARE</u>

Q. What standard of review did Staff witness Lazare utilize during his review of the Concentric study?

[3] Ameren Exhibit 5.14, pp. 7-8.

A. Staff witness Lazare does not appear to have employed any particular standard against which to evaluate AMS' costs and the Concentric study. Without a standard against which to evaluate the reasonableness of the costs, it is impossible to ascertain whether such costs are reasonable.

Q. Do you have any general comments on Staff's assessment of the Ameren Illinois Utilities' presentation?

A. Yes. Staff witness Lazare criticizes the Ameren Illinois Utilities by concluding that "The Companies' discussion focused on the process, rather than the results.[4]" Actually, the process is the important point. Cost causation principles do not focus on the end result, but rather on the fairness of the allocation of costs associated with services provided to the various companies. Staff witness Lazare's focus on the "results" necessarily assumes cost causation for a universe of services, ignoring what these services might be, the processes for accumulating and allocating the associated costs, and, most importantly, the benefactors of the services. Staff assumes its allocator accurately reflects cost causation, without any analysis of why or how that might be so.

Q. Do you believe that Staff witness Lazare's proposed allocation of AMS' costs reflects cost causation principles?

[4] Direct Testimony of Peter Lazare, p. 15, lines 330-331.

A. No, I do not. Staff witness Lazare's proposed allocation of AMS' costs fails to reflect one of the most important principles of cost causation –whether there is any benefit derived from AMS' services by each of the Ameren subsidiaries. Staff witness Lazare's proposed re-allocation assumes that each Ameren subsidiary benefits from every AMS service. Staff witness Lazare's presumption is incorrect.

Q. Has Staff witness Lazare proposed an adjustment to eliminate a significant portion of AMS' costs which were allocated to the Ameren Illinois Utilities?

A. Yes. Staff witness Lazare has proposed that $61.2 million be eliminated from the Ameren Illinois Utilities operating expenses. This proposed disallowance represents approximately 11 percent of the Ameren Illinois Utilities total operating and maintenance ("O&M") expenses.

Q. On what basis has Staff witness Lazare developed his recommendation?

A. Staff witness Lazare concludes that the Ameren Illinois Utilities received a "disproportionate" share of AMS' costs, without explaining how he arrived at such a conclusion.

With regards to the evidence that the Ameren Illinois Utilities presented regarding AMS costs, Staff witness Lazare identified five broad "concerns":

- The Ameren Illinois Utilities provided no explanation of why the Companies received a disproportionate allocation of AMS' costs relative to their size.

- The Concentric study should have addressed all of AMS' services and costs not just A&G;

- The Concentric review focused on a small percentage of the Service Requests used to accumulate and allocate AMS' costs;

- The Concentric study did not meet the terms of the "market study" requested by the Commission; and

- The benchmarking performed by Concentric did not encompass the "entire market".

I will address each of Staff witness Lazare's unfounded concerns below. First, however, I would like to address Staff's adjustment, because I believe it provides insight into the issues Staff witness Lazare raises.

A. Staff Witness Lazare's Proposed Adjustment Of AMS' Costs

Q. Have you reviewed Staff witness Lazare's calculation of the proposed disallowance of AMS costs?

A. Yes, I have.

Q. Do you have any comments regarding Staff witness Lazare's proposed adjustment?

A. Yes. Staff witness Lazare uses AMS' actual costs in his proposed adjustment so it would seem that he has not identified any perceived imprudent or excessive costs, unnecessary services, or invalid assumptions. Beyond that point, Staff witness Lazare's proposed adjustment is significantly flawed and unreliable.. First, the total AMS costs which he uses as the starting point for his adjustment includes both capital and expense dollars. Staff witness Lazare erroneously treats all of the dollars as expense dollars. Second, Staff witness Lazare's proposed adjustment ignores the GSA which sets forth the allocation factors which the Commission approved for the various services provided by AMS to the Ameren Illinois Utilities. Third, Staff witness Lazare's proposed adjustment ignores all cost causation principles and assumes that all costs should be allocated based upon a simple average of three general allocators, which do not reflect the benefit realized by the Ameren Illinois Utilities. Fourth, Staff witness Lazare's quantification ignores all facts presented in this proceeding regarding the nature of the services provided by AMS. Finally, Staff witness Lazare's proposed allocation methodology erroneously assumes that assets, employees and non-fuel O&M are the appropriate drivers behind the costs, without any analysis of any other factor, including, significantly and damningly, each entity's *need* for and *use* of services. Staff's allocator would charge each entity for each service regardless of whether it needed or used the service.

Q. Please explain how Staff witness Lazare calculated his proposed adjustment of AMS' costs.

A. Staff witness Lazare started with a figure from Ameren's Form 60. The Form 60 shows total AMS costs, without regard for whether the costs were ultimately capitalized or expensed.

Unfortunately, the figure which Staff witness Lazare uses as a starting point reflects all dollars incurred by AMS on behalf of the Ameren subsidiaries, regardless of whether the dollars were capitalized or expensed. Approximately $55 million of capitalized expenditures are erroneously treated by Staff witness Lazare as expensed dollars.

Q. How has Staff witness Lazare ignored the allocation factors contained in the GSA approved by the Commission?

A. In his direct testimony, Staff witness Lazare does not even acknowledge the existence of the GSA. As discussed previously, the GSA provides a detailed description of services to be provided by AMS on behalf of the Ameren subsidiaries and the allocation factors to be used associated with each service. The GSA is based on cost causation principles and suggests allocation factors that link the costs of a service to the benefactor of that service. For example, the GSA logically points out that many of the Human Resources ("HR")-related services

should be allocated based upon the number of employees[5]. This makes sense – since HR services generally relate to employees, employee counts should heavily influence the allocation of HR costs. The GSA has been reviewed by Staff and approved by the Commission.

Q. Did Staff witness Lazare review the GSA to determine what Commission-approved allocators were available to the Ameren Illinois Utilities to reasonably allocate AMS' costs?

A. No, he did not.[6]

Q. How does Staff witness Lazare propose to allocate AMS' costs?

A. Staff witness Lazare employed three general allocators; total assets, employees, and non-fuel O&M expenses, to arrive at a simple weighted general allocation factor which he uses to re-allocate all of AMS' costs to the various Ameren subsidiaries.

Q. Has Staff witness Lazare provided an explanation of why the cost allocators contained in the GSA were not used?

A. No, he has not.

Q. Are certain AMS costs directly billed to the Ameren Illinois Utilities?

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[5] Amended and Restated General Services Agreement, March 25, 2008, Schedule 1, page 3.

[6] Response to Ameren Illinois Utilities' Data Request 16.05.

A. Yes. Of the 411 Service Requests with A&G expenses that were allocated to the Ameren Illinois Utilities, 126 of the Service Requests were directly allocated to one or more of the Ameren Illinois Utilities. These Service Requests accounted for approximately 30 percent of the AMS dollars charged to the Ameren Illinois Utilities.

Q. Is the direct allocation of costs appropriate?

A. Yes. In those instances where AMS performed work exclusively for one or more of the Ameren Illinois Utilities, the costs of such work should be allocated directly to those companies which benefited from the work (i.e., the Ameren Illinois Utilities).

Q. Does Staff witness Lazare's proposed adjustment reflect the direct assignment of costs where appropriate?

A. No. Staff witness Lazare applies the general allocators to all AMS dollars regardless of nature of the service or the benefactor of such services. In response to Ameren Illinois Utilities' Data Request 15.01, Staff witness Lazare states "Ameren would have to demonstrate that a service was provided for the exclusive benefit of the Ameren Illinois Utilities in order to constitute a sufficient basis for why an allocation to the Ameren Illinois Utilities is reasonable."

With regards to the customer service system, which is the backbone of the regulated utilities' contact with their customers, Staff witness Lazare states that

the Ameren Illinois Utilities "would have to provide evidence that the customer service system was used exclusively by the four Ameren regulated utilities"[7]. It should be intuitively obvious that the regulated utilities are the only companies which use the customer service system to bill and record dealings with the customers. The non-regulated Ameren subsidiaries have no use for a customer service system. Staff witness Lazare does not offer an opinion as to what would be considered sufficient "evidence".

Q. Has the Commission expressed a preference for direct assignment over the use of general allocators in past proceedings?

A. Yes. Staff has overlooked the support in past Commission orders for use of "direct assignment" of costs where feasible, rather than relying on the general allocator approach. The Commission's Order in *Illinois Commerce Comm'n v. Central Illinois Light Co., et al.*, Docket 99-0013 at 44 (Order, October 4, 2000), stated: "As a general proposition, the Commission believes that direct assignment of costs is superior to the application of general allocators if the costs are suited to direct assignment and sufficient cost data is available to make direct assignments." The Commission's Order in Docket 01-0423 at 79, when discussing A&G expenses, expressly reaffirmed and quoted that language from the Order in Docket 99-0013.

[7] Response to Ameren Illinois Utilities Data Request 15.05.

Absent direct allocation, the Commission found that "because it is unlikely that any allocation methodology will be perfect, the goal is to select an allocation methodology that is likely to reflect cost causation and produce fair and reasonable results.[8]" Such allocators are set forth in the GSA and are employed to allocate AMS' costs.

Q. Does sufficient cost data exist to make direct assignments?

A. Yes. As described in my direct testimony, AMS uses a Service Request system to capture costs. As AMS employees perform work, they charge their time and expenses to a specific Service Request. When established, the Service Request process identifies the method by which the costs will be allocated to the companies which benefit from the service. These allocation methodologies, including direct assignment, are the basis for assigning costs to the various Ameren subsidiaries. The Service Request process was reviewed. The results of the review are set forth in Ameren Exhibit 5.14.

Q. Can you provide an example of where direct allocation was used?

A. After the acquisition of AmerenIP, employees were transferred from the Ameren Illinois Utilities to AMS. The transfer was discussed when amending the GSA in Docket No. 05-0780. The transfer allowed the employees to work on projects

[8] Docket No. 04-0476.

which affected each of the Ameren Illinois Utilities instead of working for just one of the companies. The work of these individuals continues to benefit the Ameren Illinois Utilities exclusively. Therefore, it is appropriate to allocate the time and costs of these employees 100 percent to the Ameren Illinois Utilities.

Q. What impact did this transfer of employees have on the costs of the Ameren Illinois Utilities?

A. The employees that were transferred are currently allocated 100 percent to the Ameren Illinois Utilities based upon the nature of the work that they perform. They do not perform work for other Ameren subsidiaries. If the employees had remained employees of the individual Ameren Illinois Utilities, the employees would have charged their time to a specific Ameren Illinois Utility and any work they performed for another of the Ameren Illinois Utilities would have to be billed to that Company. The net effect is the same, therefore, transferring the employees to AMS had no impact on the Ameren Illinois Utilities.

Q. Has Staff witness Lazare reflected that 100 percent of the transferred employees time should be allocated to the Ameren Illinois Utilities?

A. No. In response to Ameren Illinois Utilities Data Request 12.20, Staff witness Lazare states:

> "Mr. Lazare did not make any specific changes to his adjustment to account for the transfer of Ameren Illinois Utilities personnel to AMS. Mr. Lazare has not seen any evidence in this proceeding to

> demonstrate that AMS provides services to the Ameren Illinois Utilities in a different manner than other Ameren subsidiaries."

Staff witness Lazare's position appears to contradict Staff's own position in Docket No. 05-0780 where Staff "found no reason to object to the proposed amendments and, therefore, does not oppose the approval of the proposed amendments to the GSA[9]" to reflect the transfer of the employees.

Under Staff witness Lazare's methodology, only 32.2 percent of the costs associated with these employees who perform work exclusively for the benefit of the Ameren Illinois Utilities would be charged to Companies.

Q. What would become of the remainder of the 67.8 percent of the costs?

A. While Staff witness Lazare does not address this issue, the costs would presumably go unrecovered.

Q. Can the costs be recovered by another jurisdiction served by Ameren?

A. No. Other regulatory jurisdictions would appropriately be unwilling to allow the recovery of costs from their constituents who received no benefit from the service.

[9] Final Order in Docket No. 05-0780, p. 4.

Q. Have you provided additional examples of services provided by AMS for the exclusive benefits of the Ameren Illinois Utilities?

A. Yes. Service Request A2858, which is shown on page 7 of Appendix 6 to Ameren Exhibit 5.14, states that "this SR records the costs for A&G related activities associated with the Illinois divisions' operations and customer service." The allocation basis is the number of electric and gas customers in Illinois.

Service Request A2594 reflects work performed for the exclusive benefit of AmerenIP. As shown on page 13 of Appendix 6, "this SR is for various services provided by the EDTS function which are for the benefit of AmerenIP." The costs are allocated 100 percent to AmerenIP.

Numerous examples of Services Requests which benefit the Ameren Illinois Utilities only were provided in Concentric's report. Staff witness Lazare fails to even acknowledge this information.

Q. Would the inappropriate allocation of costs proposed by Staff witness Lazare swing both ways?

A. Based upon Staff witness Lazare's calculation of the proposed adjustment it would. Under Staff witness Lazare's proposal, work that AMS performed exclusively for the benefit of other Ameren subsidiaries would be charged to customers of the Ameren Illinois Utilities. The inappropriate shifting of costs from the Ameren Illinois Utilities to other Ameren subsidiaries should not be

justified merely because the error is offset – to a greater or lesser extent - by the inappropriate allocation of costs to the Ameren Illinois Utilities. There is no basis on which to conclude that the errors running in different directions reach a reasonable result, or, more to the point, achieve effective assignments of costs conforming to cost causation principles.

The allocation of AMS' services has been appropriately reflected via the Service Request allocation process. The resulting allocations appropriately reflect cost causation. The resulting allocations, which have been thoroughly reviewed and discussed in Concentric's report, should not be cast aside for a lesser allocation methodology, as proposed by Staff witness Lazare.

Q. Has Staff witness Lazare provided any explanation for overturning the Commission's expressed preference for direct assignment over the use of general allocators?

A. No. Staff witness Lazare has provided no explanation for or rationale of why the Commission's preference for direct assignment should be overturned.

Q. Do you believe that the general allocators proposed by Staff witness Lazare are accurate indicators of cost causation for the work performed by AMS?

A. No, I do not. The examples of services which were direct billed to the Ameren Illinois Utilities underscores my belief.

Q. Are all three of Staff witness Lazare's proposed allocators available to the Ameren Illinois Utilities via the GSA?

A. No. Non-fuel O&M expenses is not an approved allocator in the GSA. Assets and employees are used to allocate AMS' costs where these allocators appropriately represent cost causation.

Q. Would the asset base of an Ameren subsidiary be an appropriate basis of allocation for all of AMS' services?

A. No. The embedded asset base of an Ameren subsidiary has little bearing on the costs incurred by AMS. In the case of the Ameren Illinois Utilities, it is not clear how the addition of an asset would affect AMS' costs. For example, under Staff witness Lazare's calculation, if the Ameren Illinois Utilities build a new distribution substation, his hypotheses is that the Ameren Illinois Utilities require a higher percentage of <u>ongoing</u> AMS services than they would have prior to the construction of the substation. There is simply no evidence to support such a correlation. The actual construction costs would be incurred directly by the Ameren Illinois Utilities. There would be no additional AMS employees hired as a result of the work. There would be no additional benefits expense incurred. Staff witness Lazare's assumption is unsubstantiated.

In fact, Staff witness Lazare's proposed allocation of AMS' costs to all Ameren subsidiaries is counterintuitive. To the extent that AMS would have been

involved in the planning or accounting for the costs of constructing the new substation, such costs would be directly assigned to the utility which constructed the asset. Staff witness Lazare's proposed treatment would actually spread AMS' costs to each of the Ameren subsidiaries, once again ignoring cost causation principles by failing to reflect which Ameren subsidiary actually benefitted from AMS' services.

Q. Are assets used to allocated AMS' costs?

A. Yes. In those instances where assets best reflect the benefits derived from AMS' services, the costs associated with such services were allocated based upon assets. Approximately 3 percent of AMS' costs were allocated based upon assets under the allocators the Commission previously approved.

Q. Do you agree with Staff witness Lazare's calculation of the Ameren Illinois Utilities' proportional share of assets?

A. No, I do not. The source used by Staff witness Lazare to calculate his proposed asset allocation factor reflected consolidated figures. As such, the assets shown for AmerenCILCO would include ARG assets. ARG is an unregulated generation company. Therefore, Staff witness Lazare's proposed asset allocator is in error.

Q. Are AMS' costs allocated, in part, based upon the number of employees?

A. Yes. The number of employees is already considered in the cost allocation process, where employees are the driver behind the incurred costs. In fact, six percent of AMS' costs are allocated at least in part based upon the number of employees.

Q. Do you agree with the percentages utilized by Staff witness Lazare relating to the Ameren Illinois Utilities' number of employees as a percentage of total Ameren employees?

A. No, I do not. The employee allocator calculated by Staff witness Lazare inappropriately included AMS employees in his calculation of the percentages for the Ameren subsidiaries. This means that AMS itself would bear a portion of the cost of each service it provides for the sole benefit of others. Therefore, Staff witness Lazare's resulting percentage is artificially lower than it should be and therefore does not reflect an accurate percentage of costs if the employee allocator were to be used.

Q. Has Staff witness Lazare attempted to determine the relationship between the number of employees and the need for AMS' services?

A. No. In response to the Ameren Illinois Utilities' Data Request No. 12.22 he states:

> "Mr. Lazare cannot state definitively whether a utility with fewer employees might be more likely to rely on shared services from a service company. It would depend on the reasons why a utility

> chose to hire fewer employees, what tasks those employees could accomplish and what remaining tasks require the resources of a service company."

In other words, Staff witness Lazare cannot determine whether the number of employees is reflective of the level of services which may be required from AMS. He does accurately point out, however, that the allocation should reflect the tasks which employees of a service company perform. Staff witness Lazare's proposed adjustment fails to reflect the actual tasks performed by AMS employees.

Q. Do you agree with Staff witness Lazare's use of non-fuel O&M expenses as a basis for allocating AMS' costs?

A. No, I do not. First of all, as I stated earlier, non-fuel O&M is not an allocation basis contained in the GSA. Second, I do not agree with how Staff witness Lazare has calculated his percentages related to the percentage of non-fuel O&M expenses for each of the Ameren subsidiaries. The O&M expense base which Staff witness Lazare uses already reflects the allocated AMS' costs in the O&M expense dollars. Therefore, the resulting percentages that Staff witness Lazare calculates are inappropriately skewed by the amount of AMS' costs, which represent 30 percent or greater of the Ameren Illinois Utilities non-fuel O&M expenses (excluding depreciation, amortization and taxes other than income taxes).

Third, Staff witness Lazare's calculation of the non-fuel O&M factor is flawed. Staff witness Lazare's calculation is derived from Ameren's 10-k which reflects consolidated figures. Therefore, in the case of AmerenCILCO, the O&M expenses used by Staff witness Lazare also reflect amounts associated with ARG, an unregulated generation company.

Finally, the allocation of AMS' costs should be based upon the services that each Ameren subsidiary requires, not on the resulting expense dollars.

Q. Has Staff witness Lazare explained why he believes AMS' costs need to be reallocated?

A. No. Staff witness Lazare tersely concludes that "The Companies have failed to provide a reasonable explanation for their high allocation of AMS costs relative to their size.[10]" Staff witness Lazare provides no foundation for his assumption that there should be a correlation between the allocation of costs and the relative size (as he measures it) of the Ameren Illinois Utilities (as opposed to the size of the need for or consumption of AMS services).

Q. Do you have any additional comments regarding Staff witness Lazare's proposed allocation of AMS' costs?

[10] Direct Testimony of Peter Lazare, p. 16, lines 355 – 357.

A. Yes. It is easy to manipulate the results of the allocation process to achieve a desired result. For example, if the non-fuel O&M allocator proposed by Staff witness Lazare were excluded, if for no other reason than the allocator is not available to the Ameren Illinois Utilities under the terms of the GSA, and replaced with the number of customers, the resulting analysis shows that the Ameren Illinois Utilities should have received an additional $8 million of A&G expenses above the actual level of allocated costs. The alternate calculation correctly reflects AMS expense dollars only and the reassignment of the Ameren Illinois Utilities employees to AMS. The results of this analysis are shown on Ameren Exhibit 21.01. This example underscores that the focus of the allocation of AMS' costs should be based upon cost causation principles and not the desired end result. The end result can be manipulated too easily and does not reflect cost causation

Q. Are you proposing that this revised allocation of AMS' costs be adopted by the Commission?

A. No, I am not. The cost allocation process employed by the Ameren Illinois Utilities best reflects the costs and associated benefits related to AMS' services. Complying with the GSA continues to produce the results which accurately reflect cost causation and eliminates the manipulation of results.

Q. Is Staff witness Lazare's proposed treatment of AMS' costs consistent with Staff's position in Docket No. 07-0561, the current Commonwealth Edison ("ComEd") proceeding?

A. No. Staff witness Lazare suggests that "Staff did not think of using this line of analysis in previous cases.[11]"

Q. Are the nature of the services provided by Exelon Business Services Company ("EBSC") to ComEd similar to those provided by AMS to the Ameren Illinois Utilities?

A. Based upon my review of the evidence presented by ComEd in Docket No. 07-0561, the services are similar in nature.

Q. Are the allocators employed to allocate EBSC's costs similar to those used to allocate AMS' costs?

A. Yes, the allocation factors appear to be similar.

Q. What adjustment to ComEd's costs from EBSC did Staff propose in Docket No. 07-0561?

A. It does not appear that Staff proposed any adjustment to the allocated costs nor was a "demonstration of proof" required by Staff.

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[11] Response to Ameren Illinois Utilities Data Request 16.03.

Q. Was Staff witness Lazare a witness in Docket No. 07-0561?

A. Yes, he was.

Q. Has Staff witness Lazare concluded that any of the specific services provided by AMS to the Ameren Illinois Utilities were unnecessary?

A. No, he has not.[12.] Staff witness Lazare does not discuss a single AMS service in his testimony. Without identifying even so much as a single actual concern with the allocation of AMS' costs, he proposes a disallowance in excess of $60 million.

Q. Does Staff witness Lazare conclude that certain services should be provided directly by the Ameren Illinois Utilities instead of by AMS?

A. No. Staff witness Lazare does not have an opinion as to whether the centralized services company approach is more cost-effective than having each of the Ameren Illinois Utilities provide the services individually[13].

Q. Does Staff witness Lazare identify any of AMS' costs associated with providing specific services which he deemed to be excessive?

A. No, he has not.[14]

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[12] Response to Ameren Illinois Utilities Data Request 10.18.

[13] Response to Ameren Illinois Utilities Data Request 10.10.

Q. Has Staff witness Lazare taken exception to any of the actual factors used to allocate AMS costs to the Ameren Illinois Utilities?

A. No, he has not.[15]

Q. Has Staff witness Lazare identified any benefits associated with AMS which he believes have accrued to Ameren subsidiaries other than the Ameren Illinois Utilities for which there are no corresponding costs?

A. Based upon my review of Staff witness Lazare's direct testimony, he has not identified such a concern.

Q. Are you implying that the burden of proof is on Staff witness Lazare to substantiate his proposed disallowance?

A. No. The Commission made it abundantly clear in its Final Order on Rehearing that the burden of proof remained placed squarely on the Ameren Illinois Utilities to substantiate its costs.[16.] Staff must have some obligation, however, to articulate the standards against which the review was performed and why the proposed adjustment is preferable to the results presented by the Companies.

In Docket No. 06-0070 (Cons.) the Commission stated:

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[14] Response to Ameren Illinois Utilities Data Request 10.19.

[15] Response to Ameren Illinois Utilities Data Request 10.20.

[16] Final Order on Rehearing, Docket No. 06-0070 (Cons.), p. 28.

> Staff's arguments on this issue are simply lacking. While Staff points out the reductions made to G&I plant in earlier dockets and argues that these same reductions should be made again, as noted on this issue in Docket No. 05-0597, each docket should be reviewed on its own merits. Staff fails to point out any specific assets which have been inappropriately assigned to G&I, or which were previously excluded from G&I and which Ameren is now attempting to add back in. While it is correct that the burden is not on Staff to justify the level of G&I costs proposed, the Commission finds Staff's arguments on this issue wholly unpersuasive. Staff's evidence, or the lack thereof, showing any errors contained in Ameren's ASP methodology or application, is insufficient to discount the ASP finding. It appears to the Commission that the ASP, as used by Ameren in this proceeding, is a reasonable means of allocating G&I costs to the function it supports. The Commission is satisfied that Ameren, by use of the ASP, has properly allocated G&I costs for CILCO, CIPS, and IP and concludes that the proposed G&I costs are appropriate.[17]

The same deficiencies in Staff's proposed adjustment exist in these proceedings, albeit with regards to O&M expenses. With a few broad and largely inaccurate allegations regarding the evidence presented by the Ameren Illinois Utilities, Staff witness Lazare dismisses the facts in favor of an overly simplistic proposal to allocate costs based upon a composite allocator which fails to reflect perhaps the most important factor of all – customers. He has provided no evidence that the proposed allocator is more reflective of the actual costs incurred by AMS on behalf of the Ameren Illinois Utilities, other than the costs would be lower.

[17] Order in Docket No. 06-0070 (Cons.), p. 177.

Q. Does Staff witness Lazare appear to agree with the application of cost causation principles?

A. Yes, his response to the Ameren Illinois Utilities Data Request 10.15 states "Mr. Lazare believes that the utility for which the work was performed should be responsible for the cost of performing the work." However, the use of the simple average allocator belies Staff witness Lazare's stated belief.

Q. Absent any specific concerns with AMS' services the associated costs, the factors used to allocate such costs, and the benchmarking of total A&G and costs at the service/process level, would it be reasonable to conclude that the costs were reasonable and prudent?

A. Yes. Given the absence of any specific concerns regarding AMS' services and related costs as well as the benchmarking results, it would appear reasonable that the costs should be deemed reasonable and prudent. The results of Concentric's study provide the Commission with the assurances that it requested regarding AMS' services.

Q. What weight do you recommend that the Commission give to Staff witness Lazare's proposed adjustment to the AMS costs allocated to the Ameren Illinois Utilities?

A. Staff witness Lazare's analyses and resulting recommendations are irretrievably flawed. The analysis has no basis in cost causation principles. The

recommendation has no bearing on the costs or benefits which actually accrue to the individual Ameren subsidiaries. The implementation of the recommendation would result in undue financial harm to the Ameren Illinois Utilities. Therefore, Staff witness Lazare's proposed adjustment of AMS' costs allocated to the Ameren Illinois Utilities should be rejected.

B. Scope of the AMS Study

Q. There appears to be a disagreement as to the scope of the review which the Commission ordered. Please elaborate on the Ameren Illinois Utilities' understanding of the Commission's directive.

A. Based upon the concerns cited by the Commission in Docket No. 06-0070 (Cons.) it was the Ameren Illinois Utilities' understanding that the scope of the review would address A&G expenses only.

Q. On what basis does Staff witness Lazare believe that the scope of the review should have included all of AMS' services and costs?

A. In response to the Ameren Illinois Utilities' Data Request 10.09, Staff witness Lazare responded:

> "The Commission did not distinguish between A&G and other costs in that statement. Therefore, it would be reasonable to assume that the Commission was concerned about all AMS charges."

Q. How do you respond to Staff witness Lazare's interpretation of the Commission's directive?

A. The Commission's specific directive to which the Ameren Illinois Utilities have responded was cited previously. The directive can be found in the section of the Commission's Order in Docket No. 06-0070 (Cons.) discussing the Ameren Illinois Utilities' A&G Expenses. As a result of the Commission's stated concern, rehearing was granted by the Commission in that proceeding solely on the topic of A&G expenses. The Ameren Illinois Utilities and other parties to the proceeding presented extensive testimony on the topic of the reasonableness of AMS-incurred A&G costs which were allocated to each of the Ameren Illinois Utilities.

At no point during the proceedings did the Commission or any party express concerns regarding non-A&G expenses incurred by AMS on behalf of the Ameren Illinois Utilities. The Ameren Illinois Utilities have appropriately presented the results of a study in these proceedings per the Commission's directive which focused on the A&G expenses incurred by AMS on behalf of the Ameren Illinois Utilities. It would be inappropriate to expand the scope of the Commission-directed review in the midst of these proceedings.

Staff witness Lazare was an active participant in the Rehearing proceedings in Docket No. 06-0070 (Cons.). At no point in those proceedings did he express a concern regarding the non-A&G expenses. Staff witness Lazare is now attempting to inappropriately expand the scope of the study.

Q. Do the Ameren Illinois Utilities have a concern regarding expanding the scope of the study of AMS' costs?

A. Complying with Staff witness Lazare's expanded scope would be costly to the Ameren Illinois Utilities' customers and impossible to perform within the timeframe of these docketed proceedings. If the Commission believes the expanded scope of review is necessary, it should direct the Ameren Illinois Utilities to present evidence regarding all of AMS' services and costs in its next rate proceeding. To the extent that an expanded study is required, the Commission should also confirm that the scope of the review should be focused on the cost of the services provided, compliance with the terms of the GSA, and the accuracy of the resulting allocations.

Q. Do you believe that an expanded study would produce materially different results than the review of the A&G expenses?

A. No. The current study examined most of the approved allocation factors as well as the processes employed to originate a Service Request, accumulate costs, and allocate costs to the appropriate company which benefits from the provided service. The existing processes have been tested. The expanded scope would require a review of the specific Service Requests which contain the non-A&G expenses to ensure that the costs incurred and allocation methodology employed were reasonable and consistent with the GSA. Since non-A&G expenses are subject to the same process of allocations and given that the Concentric study

concludes that the existing processes of originating Service Requests and allocating costs were appropriate, it is unlikely that subjecting non-A&G expenses to a similar review would produce different results.

Q. Has Ameren's Internal Audit function reviewed the AMS cost collections and allocation processes?

A. Yes. The results of the review have been provided to Staff.[18] No questions or concerns regarding the results of the review have been raised by any parties to these proceedings.

Q. Has Staff witness Lazare expressed any specific concerns regarding the level of non-A&G expenses reported by the Ameren Illinois Utilities?

A. No, he has not.

Q. Have you benchmarked the Ameren Illinois Utilities' total O&M expenses against a peer group?

A. Yes. Similar to the A&G benchmarking which was provided in Ameren Exhibit 5.14, Concentric benchmarked each of the Ameren Illinois Utilities' total O&M expenses, for both the gas and electric companies, against a peer group of

[18] Response to Staff Data Request PL 1.79.

companies. The results of the benchmarking are shown on Ameren Exhibit 21.02 (gas) and 21.03 (electric).

Q. Please comment on the results of the benchmarking exercise.

A. With regard to the Ameren Illinois Utilities' gas businesses, each of the companies individually as well as collectively is at or below the mean and median of the peer group. The peer group of utilities against which the Ameren Illinois Utilities' gas businesses are compared contains generally the same companies which were used to benchmark the Ameren Illinois Utilities' gas A&G costs, which is shown in Figure III-5 of Ameren Exhibit 5.14.

With regards to the Ameren Illinois Utilities' electric businesses, each of the companies individually as well as collectively is below the mean and median of the peer group. The peer group of utilities against which the Ameren Illinois Utilities' electric businesses are compared contains generally the same companies which were used to benchmark the Ameren Illinois Utilities' electric A&G costs, which is shown in Figure III-8 of Ameren Exhibit 5.14.

Q. What conclusions can the Commission draw from the benchmarking results of the Ameren Illinois Utilities' total O&M expenses?

A. Based upon the results of the benchmarking of the Ameren Illinois Utilities' total O&M expenses, which would include the costs allocated from AMS, Staff witness Lazare's concerns regarding AMS' costs are unwarranted. The Ameren

Illinois Utilities have effectively managed their costs and are positioned favorably compared to its peers.

C. Service Request Review

Q. What is a Service Request?

A. AMS has established a system which utilizes projects, referred to as Service Requests, for the purpose of accumulating and charging costs to the appropriate Ameren subsidiary. For each service provided or project performed, AMS determines the appropriate Service Request to provide for the accumulation of related costs and the proper allocation factors necessary to apportion such costs to the specific Ameren subsidiaries receiving the services or benefiting from the projects.

Q. Staff witness Lazare complains that Concentric's analysis of AMS' services is "incomplete"[19]. Please elaborate.

A. Staff witness Lazare alleges that Concentric reviewed only 411 Service Requests out of a total of 1,835 Service Requests thereby leaving 1,424 Service Requests unreviewed.

Q. How do you respond to Staff witness Lazare's complaint?

[19] Direct Testimony of Peter Lazare, p. 12.

A. Staff witness Lazare is correct that there were a total of 1,835 Service Requests which captured and allocated AMS' incurred costs during 2006. Of the 1,835 Service Requests, however, only 411 contained A&G expenses which were allocated to the Ameren Illinois Utilities. Given that the focus of the review, as directed by the Commission, was to review the A&G expenses, Concentric focused only on the 411 Service Requests. Therefore, Concentric reviewed 100 percent of the Service Requests in question. Staff witness Lazare's issue regarding the number of Service Requests reviewed is directly tied to the scope of review issue.

Q. Did Concentric focus on those Service Requests which had no allocated costs assigned to the Ameren Illinois Utilities?

A. No, there would have been no benefit to the Ameren Illinois Utilities' customers in reviewing a Service Request which had no costs allocated to the Ameren Illinois Utilities. Given that there were no costs assigned to the Ameren Illinois Utilities and that the Commission would have no jurisdiction regarding the allocation of costs to entities which it does not regulate, a review of such costs would be fruitless. Further, it would be inappropriate for the Ameren Illinois Utilities' customers to bear the cost of a review which provided no benefit to those customers. Therefore, Staff witness Lazare's concern regarding the incompleteness of the AMS study, as it relates to the Service Requests, presented in these proceeding is unwarranted and should be dismissed.

Q. Of the 411 Service Requests, how many were directly allocated to the Ameren Illinois Utilities?

A. There were 126 Service Requests directly billed to one or more of the Ameren Illinois Utilities which represents approximately 30 percent of the AMS costs which were allocated to the Ameren Illinois Utilities.

Q. What additional information was available to Staff witness Lazare to perform his review of the costs allocated by AMS to the Ameren Illinois Utilities?

A. The Concentric report contains detailed information regarding the allocation process. Specifically, Appendix 5 to the report sets forth each allocator employed by AMS and the percentage allocated to each of the Ameren subsidiaries.

Appendix 6 to the Concentric report sets forth information regarding each Service Request including 1) the Service Request number; 2) the project name; 3) a description of the project; 4) the total dollars charged to the project; 5) the allocation factor; 6) the amount allocated to each Ameren subsidiary; and 7) the percentage allocated to each Ameren subsidiary.

Q. In response to Ameren Illinois Utilities Data Request No. 10.15, Staff witness Lazare states "If Ameren is able to demonstrate that work is performed directly for the benefit of one of the Ameren Illinois Utilities, Mr. Lazare

believes that the utility for which the work was performed should be responsible for the cost of performing the work." How do you respond?

A. The crux of the issue for Staff witness Lazare is obviously with the demonstration of proof. While I understand that it is Staff's role to question the evidence presented by the utilities it regulates, it should not be Staff's role to establish a standard which can not be defined or achieved.

Evidence has been presented regarding every Service Request which allocates A&G costs to the Ameren Illinois Utilities. The scope of work is set forth as well as the costs, the allocation bases for each Service Request and the resulting allocated costs. Further, Company witness Nelson has testified that the services provided by AMS are beneficial to the Ameren Illinois Utilities. To the extent that Staff witness Lazare has reviewed the information, he has dismissed the information without so much as even a single criticism as to what data might be missing.

Q. Staff witness Lazare further alleges that "while the mathematical calculations associated with the Service Requests were tested, the appropriateness of how charges were made to the Service Requests does not appear to have been tested.[20]" How do you respond?

[20] Direct Testimony of Peter Lazare, March 14, 2008, p. 12, lines 269 – 271.

A. Staff witness Lazare's allegation is incorrect. The primary purpose of the study was to assess the reasonableness of the allocated costs. As stated on page 2 of Ameren Exhibit 15.4, Concentric "reviewed the nature of the service performed, the Target Companies which were charged for the service, and the method of allocating costs to the Target Companies."

Q. What do you mean by "Target Companies" as used in Concentric's study?

A. Target Companies refers to the Ameren subsidiary for which AMS provided a service and the subsidiary which should bear the cost associated with such service.

Q. Please describe the review process employed by Concentric and how an assessment was made regarding the reasonableness of the costs allocated to the Ameren Illinois Utilities.

A. Concentric employed a seven step process to assess the reasonableness of the AMS-incurred A&G expenses which were allocated to the Ameren Illinois Utilities. The seven steps are as follows:

- Reviewed the process by which Service Requests were initiated, including the scope of the work to be performed, the allocation methodology to be employed, and the sign-off of the client (i.e., the Ameren subsidiary requesting the service) regarding the scope and allocation methodology;

- Reviewed the costs captured by the Service Requests;

- Reviewed the GSA for approved allocators;
- Assessed the reasonableness of the allocation factor chosen from the available factors;
- Tested the actual allocation process;
- Verified amounts allocated to each Ameren Illinois Utility; and
- Discussed the ongoing review process of AMS costs with management of the Ameren Illinois Utilities.[21]

Q. How did Concentric assess the reasonableness of the allocation factors used by AMS to allocate costs to the Ameren Illinois Utilities?

A. The ultimate determination as to the reasonableness of the allocation factor was based upon Concentric's understanding of the service provided, a review of the Service Request detailing the service and allocation basis, discussions with AMS and Ameren Illinois Utilities' personnel, and our experience with other clients.

D. Adequacy of Market Study

Q. Did the Commission direct the Ameren Illinois Utilities to perform a "market study"?

[21] Ameren Ex. 5.14, pp. 7-8.

A. Yes. As previously stated, the Commission directed the Ameren Illinois Utilities "to conduct a study to show the costs of services obtained from AMS and compare those costs with market costs."[22]

Q. Did the Commission define what it meant by "market costs"?

A. No, the Commission provided no further definition of the phrase.

Q. How does Staff witness Lazare define "market costs"?

A. Staff witness Lazare has unilaterally defined market costs to mean "A market study would examine the cost of receiving services from outside suppliers other than AMS.[23]"

Q. Can a study be performed which meets Staff witness Lazare's definition?

A. No. As I explained in my direct testimony, comparative data is not available from outsourcing firms absent soliciting bids from such firms.

Q. Do you agree with Staff witness Lazare's definition of "market costs"?

A. I do not. While Staff witness Lazare believes that outsourcing firms represent the market against which the Ameren Illinois Utilities should be compared, I believe that the market consists of other companies which are in the same industry or

[22] ICC Order, Docket Nos. 06-0070/06-0071/06-0072 (Cons.), p. 67.

[23] Response to Ameren Illinois Utilities Data Request 10.02.

companies which perform similar services. Clearly, both utilities and non-utilities provide the same scope of services which are provided by AMS. Therefore, I believe the "market" consists of a much broader universe of companies than does Staff witness Lazare. Whether or not a company chooses to internally or externally outsource all or a portion of its shared services should be irrelevant to the analysis.

Q. Did Concentric benchmark the Ameren Illinois Utilities' A&G expenses against those of other companies?

A. Yes. Concentric benchmarked the Ameren Illinois Utilities' total A&G expenses on a per customer basis against other gas and electric utilities. Figures III-5 through III-7 contained in Ameren Exhibit 5.14 show the results of the benchmarking of the Ameren Illinois Utilities' gas businesses. Concentric benchmarked the Ameren Illinois Utilities' gas A&G expenses against three peer groups: 1) all gas companies reporting to the FERC (Figure III-5); 2) gas companies within the same geographic region (Figure III-6); and 3) similarly-sized gas companies (i.e., more than 100,000 and less than 1 million customers) within the same geographic region (Figure III-7).

The Ameren Illinois Utilities' electric businesses were benchmarked on a per customer basis against: 1) all electric utilities filing a FERC Form 1 (Figure III-8); 2) all electric utilities filing a FERC Form 1 which do not own generation (Figure III-9); and 3) all electric utilities filing a FERC Form 1 which do not own

generation and have more than 100,000 and less than 1,000,000 customers (Figure III-10).

Concentric also benchmarked the Ameren Illinois Utilities' A&G costs on a per customer basis against twenty-two other combination utilities (Figure III-11). Further, the Ameren Illinois Utilities' A&G costs were benchmarked on a per customer basis against combination utilities which had between 500,000 and 5,000,000 customers (Figure III-12).

Q. Did Staff witness Lazare have any specific concerns with the benchmarking studies?

A. No, he did not[24].

Q. Did Concentric also benchmark the Ameren Illinois Utilities' A&G costs on a service or process basis?

A. Yes. In addition to the total A&G benchmarking which Concentric performed, we benchmarked the Ameren Illinois Utilities' costs of various services or processes were benchmarked. The costs for the Human Resources process, Information Technology; Finance and Procurement were benchmarked against two peer groups. The first peer group consisted of other utilities while the second

[24] Response to the Ameren Illinois Utilities Data Request 10.13.

peer group consisted of all non-utility companies which participated in a nationally-recognized benchmarking firm's database.

The costs associated with Legal, Government Affairs and Corporate Communications were benchmarked against the non-utility companies participating in the consulting firm's benchmarking program.

Q. Does the peer group of companies against which Concentric compared the Ameren Illinois Utilities shared services costs include companies which have outsourced all or some of its shared services?

A. Yes. Within the benchmarking of Ameren Illinois Utilities total A&G costs, there are utilities which have outsourced all or some of its shared services. It is highly probable that some of the non-utilities have likewise outsourced portions of their shared services. Despite the outsourcing by other companies, the Ameren Illinois Utilities compare favorably against the market costs.

Q. Should the Ameren Illinois Utilities seek bids from outsourcing firms to address Staff witness definition of market costs?

A. No. Requiring the Ameren Illinois Utilities to solicit bids from outsourcing firms would be a waste of time and money on behalf of both the Ameren Illinois Utilities and the outsourcing firms. Given that the Ameren Illinois Utilities' A&G costs per customer and service benchmark well against other utilities and non-

utilities, the Commission should have ample assurances that the costs are reasonable.

E. Benchmarking Of Services Against Entire Market

Q. Please discuss Staff witness Lazare's complaint that the market study Concentric conducted does not meet the Commission's request for a market study discussed in the Final Order in Docket No. 06-0700 (Cons.).

A. Staff witness Lazare asserts that the AMS study which I sponsor was not set up to be representative of the entire market in that it compares the Ameren Illinois Utilities to a peer group limited to organizations participating in the Hackett benchmarking program.

Q. Has Staff witness Lazare elaborated on what he means by "entire market"?

A. Yes. In response to Ameren Illinois Utilities' Data Request 10.03, Staff witness Lazare states "The entire market for comparable utility companies would be all utility companies with similar characteristics to the Ameren Illinois Utilities. The entire market for comparable non-utility companies would include all non-utility companies with similar characteristics to the Ameren Illinois Utilities." According to Staff witness Lazare, the similar characteristics would include size, geographic area and structure[25.]

[25] Response to Ameren Illinois Utilities' Data Request 15.03.

Q. How do you respond to Staff witness Lazare's assertions?

A. Staff witness Lazare's concern is without merit. It is unreasonable, if not impossible to garner information from every comparable company to compare costs at the service level to those of the Ameren Illinois Utilities. The Ameren Illinois Utilities made a reasonable effort to compare its costs at the service level to those of other companies. At the service level, Ameren Illinois Utilities' costs were compared to similarly situated utilities and to every company in the benchmarking consulting firm's database. Expecting the Ameren Illinois Utilities to compare its costs to the "entire market" as defined by Staff witness Lazare is impractical.

Q. Is Staff witness Lazare aware of a source from which to obtain benchmarking information pertaining to the entire market?

A. No, he is not.[26] Most likely that is because no such source of benchmarking data for all companies is available.

Q. Despite his concern regarding the peer groups against which the Ameren Illinois Utilities' A&G costs were benchmarked, has Staff witness Lazare identified any companies which should have been included or excluded from the analyses?

[26] Response to Ameren Illinois Utilities' Data Request 10.12.

A. No, he has not.[27]

Q. Have you benchmarked the Ameren Illinois Utilities' total A&G expenses to the "entire market" of electric and gas utilities?

A. Yes. Figure III-5 of Ameren Exhibit 5.14 shows the results of the benchmarking of the Ameren Illinois Utilities' total gas A&G expenses against 159 gas companies in the United States. This represents every gas company which reported results that were accumulated by a publicly available database service.

Figure III-8 of Ameren Exhibit 5.14 shows the results of the benchmarking of the Ameren Illinois Utilities' total electric A&G expenses against 123 electric companies in the United States. Once again, this represented every electric company which filed a Form 1 report with the Federal Energy Regulatory Commission and which had been accumulated by a public database service.

These analyses reflect the size, geographic area and structure of the companies as desired by Staff witness Lazare.

Q. How did the Ameren Illinois Utilities compare when benchmarked against the entire market of gas and electric utilities?

[27] Response to Ameren Illinois Utilities' Data Request 10.23.

A. For both the gas and electric businesses, the Ameren Illinois Utilities were each individually and collectively at or below the mean and median of the peer group on an A&G cost per customer basis.

Q. Can the data provided through the publicly available database be used to evaluate the Ameren Illinois Utilities' A&G costs at a service level?

A. No. The publicly available database reported information primarily at the FERC account level. It was not possible to delve deeper into the data and derive comparable results at the service level. For that reason, Concentric retained The Hackett Group to provide costs at the service level against which the Ameren Illinois Utilities' costs could be measured.

Q. Who is The Hackett Group?

A. The Hackett Group ("Hackett") is a benchmarking firm established in 1991. Hackett has performed over 3,500 benchmarking engagements at more than 2,100 of the world's leading companies. This includes 97 percent of the Dow Jones Industrials; 77 of the Fortune 100; and 90 percent of the Dow Jones Global Titans Index.

Q. What role did Hackett fill during the review of AMS' costs?

A. Hackett provided benchmark data against which the cost of AMS' services charged to the Ameren Illinois Utilities were evaluated for reasonableness and

competitiveness. Hackett provided benchmark data for two peer groups; the first being a utility peer group while the second peer group consisted of all companies in Hackett's database.

Q. What do you mean by "services"?

A. Within this context, "services" equates to the processes which are provided by AMS. As I discussed earlier, with the assistance of Hackett, Concentric benchmarked the costs for Human Resources, Information Technology; Finance, Procurement, Legal, Government Affairs and Corporate Communications.

Q. Does Staff witness Lazare complain that "no single peer group was identified that included all of the processes benchmarked.[28]"?

A. Yes, however Staff witness Lazare's concern is unfounded. Not all of Hackett's clients participate in every aspect of their benchmarking studies, therefore, the peer groups against which AMS' costs were evaluated did change based upon the participating companies.

Q. Was Hackett instructed to modify the peer groups to produce results which placed AMS' costs in a favorable light?

[28] Direct Testimony of Peter Lazare, p. 13.

A. Absolutely not. The utility peer group was pre-established based upon defined criteria.[29] The peer group only changed when one or more of the selected companies did not participate in the benchmarking of a particular service or function. The second peer group consisted of all of the companies in the Hackett database. Again, not all of the companies participated in every aspect of the benchmarking studies, so only those companies which participated in the relevant area of review were included in the peer group.

Q. What companies were included in the peer groups against which AMS' service costs were evaluated?

A. The lists of both the utility and non-utility benchmarking participants are set forth in Ameren Exhibit 5.14, Appendix 8. As the listing shows, the non-utility participants represent a wide-diversity of industries in the market place. The participants would include both companies which outsource their shared services and companies which internally source the services.

The number of utilities and non-utility companies against which the Ameren Illinois Utilities' costs at the service level were benchmarked was as follows:

[29] Ameren Ex. 5.14, p. 53.

Service/Process	No. of Utilities in Peer Group	Approx. No. of Non-Utilities in Peer Group
Human Resources	8	125
Information Technology	10	95
Finance	13	115
Procurement	8	75

These companies provide a broad representation of the market place, as required by the Commission.

Q. Does Staff witness Lazare complain that he does not know what specific criteria were used to include individual companies in the benchmarking study[30]?

A. Yes he does.

Q. How do you respond?

A. Page 53 of Ameren Exhibit 5.14 sets forth the specific criteria employed to select the peer groups.

Q. Does Staff witness Lazare contend that the unitized costs for the peer groups are inappropriate?

[30] Response to Ameren Illinois Utilities' Data Request 10.14.

A. No, Staff witness Lazare has stated that he has no reason to believe that the unitized costs are inappropriate.[31] Unitized costs refer to the cost of providing a service divided by a common denominator so that the costs can be reviewed on a comparable basis.

F. Ameren Illinois Utilities' Allocated Share of AMS Costs

Q. Staff witness Lazare states the Ameren Illinois Utilities provide no explanation of why the Companies receive a disproportionate allocation of AMS costs relative to their size[32]. How do you respond?

A. Staff's reasoning is entirely circular. Staff witness Lazare begins with his own result from his invented allocator, and concludes that the Ameren Illinois Utilities allocations are wrong because they do not match the results from his allocator, which he believes shows that his allocator is correct. He never identifies what the Ameren Illinois Utilities are doing wrong, other than not matching his result.

Q. On what bases does Staff witness Lazare conclude that the costs allocated to the Ameren Illinois Utilities were disproportionate?

A. Staff witness Lazare's conclusion is based upon his faulty assumption that the allocations should reflect each of the Ameren subsidiaries' size, according to his chosen size metrics.

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[31] Response to Ameren Illinois Utilities' Data Request 10.14.

[32] Direct Testimony of Peter Lazare, p. 15, lines 347-349.

Q. Please discuss Staff witness Lazare's complaint that the Company has not addressed the relative share of AMS costs allocated to the Ameren Illinois Utilities.

A. Appendices 5, 6 and 7 provided with Ameren Exhibit 5.14 provide exactly that information. The appendices show the Service Requests, the amount charged to each Service Request, the allocation basis, and the amount charged to each Ameren subsidiary.

Q. Does Staff witness Lazare dispute the information provided in those appendices?

A. No. Staff witness Lazare fails to even acknowledge the appendices.

Q. Does Staff witness Lazare ever discuss actual AMS services, allocators or costs?

A. No, and such a discussion would not help his analysis. In light of the specific services which AMS provides, it is abundantly clear that the general allocators which Staff witness Lazare proposes to use to allocate AMS' costs do not reflect the cost drivers behind the costs.

Q. Please explain.

A. Page 28 of Ameren Exhibit 15.4 sets forth a broad description of the services provided by AMS on behalf of the Ameren Illinois Utilities, as well as other

Ameren subsidiaries. One such service is Customer Services. Under Staff witness Lazare's proposal, the costs associated with Customer Services would be allocated to each of the Ameren subsidiaries based upon a simple average of its assets, employees and non-fuel O&M expenses for the Ameren Corporation as a whole.[33] Not a single one of Staff witness Lazare's proposed allocators is a cost driver behind the Customer Service costs. To the extent that AMS is dealing with a specific Company's customer, the time and related expense should be direct billed to the appropriate utility. If the service is provided to benefit all of Ameren's customers, the costs should be allocated across the companies based upon the relative number of customers for each Ameren subsidiary. Staff witness Lazare does not even consider the number of customers in his proposed allocation.

Q. Did Staff witness Lazare consider customers as a basis of allocating AMS' costs?

A. No. As stated in response to Ameren Illinois Utilities Data Request 10.05, the only additional allocation basis considered by Staff witness Lazare was revenues. Customers were never considered in Staff witness Lazare's analysis.

Q. Are there other examples which demonstrate the unreasonableness of Staff witness Lazare's proposed allocation of costs?

[33] Direct Testimony of Peter Lazare, p. 16, lines 368-374.

A. Yes. The Ameren Illinois Utilities plan to spend approximately $40 million annually on energy efficiency initiatives in the coming years. These initiatives are being implemented for the sole benefit of the Ameren Illinois Utilities' customers. Under Staff witness Lazare's proposed allocation of AMS' costs, however, the Ameren Illinois Utilities would only be allowed to recover 32.2 percent of these costs. The Ameren Illinois Utilities would be imprudent to go forward with the planned initiatives when it would be allowed to recoup less than one-third of the expenses.

The list of examples undermining the perceived logic of Staff witness Lazare's proposed allocation of AMS' costs is limited only by the number of services that AMS provides. Other examples of services would include employee-specific services; rent for specific employees; dealings with specific unions unique to one or more utilities; information technology system development costs related to programs developed for a specific use, company or state; and legal services provided for a specific incident or initiative. The use of a general allocator does not make sense when better information is available.

Q. Does Staff witness Lazare acknowledge the need to allocate costs in conformance with cost causation principles?

A. Yes and no. On the one hand Staff witness Lazare has proposed a cost allocation basis which does not reflect any basis of cost causation and fails to reflect the nature of the services provided by AMS. His position is supported by his

response to Ameren Illinois Utilities Data Request 10.07 where Staff witness Lazare states:

> "Size is a determinant of the level of business activity for a company. A larger size would indicate that more resources are required for the company to function effectively. AMS is one of the resources utilized by the Ameren companies. It would be reasonable to assume then that Ameren subsidiaries would utilize the resource represented by AMS in proportion to their size."

On the other hand, Staff witness Lazare appears to agree with the concept of cost causation. In response to Ameren Illinois Utilities Data Request 10.15 he states "the utility for which the work was performed should be responsible for the cost of performing the work."

Q. How do you reconcile these two positions?

A. The two positions are irreconcilable. The use of broad based allocators is at the opposite end of the spectrum as direct allocation.

Q. Is it reasonable to allocate AMS costs to the Ameren Illinois Utilities based on their "relative size," as compared to other Ameren affiliates?

A. No. Under Staff witness Lazare's proposal, the unregulated generation companies would receive a sizeable portion of the allocations because of their asset base. Many of the services provided by AMS are geared to the operating companies and provide no benefit to the unregulated generation companies. Where data regarding specific cost drivers is available, as in the case of AMS' costs, it makes

no sense to ignore such data in favor of a general allocator. Further, as I discussed earlier, the selection of the different allocators can produce materially different results.

Q. Is Staff witness Lazare aware of any prior proceedings in which the Commission or Staff has used size as a basis of allocating costs?

A. No, he is not.[34]

Q. Can Staff witness Lazare cite any other regulatory jurisdictions which have adopted the allocation of costs in a method similar to that proposed in these proceedings?

A. No, he can not.[35]

Q. How does AMS allocate the costs associated with the services that it provides to the Ameren subsidiaries?

A. Simply stated, the allocations are based upon the factors set forth in the GSA.

Q. Have the Ameren Illinois Utilities provided sufficient evidence that they received a reasonable allocation of AMS costs relative to other Ameren affiliates?

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[34] Response to Ameren Illinois Utilities Data Request No. 10.07(b).

[35] Response to Ameren Illinois Utilities Data Request No. 10.28.

A. Yes. As explained in the report addressing the AMS Study performed by Concentric, the following were reviewed:

- The nature of the services which AMS provided to its affiliated companies;
- Whether the services benefit the companies which were allocated the costs associated with service;
- Whether an appropriate process existed by which a benefitting company approved a service request;
- Whether costs were captured in a suitable manner;
- Whether the allocation methodology reflected true cost causation principles;
- Whether the costs were allocated accurately;
- Whether management routinely monitor the costs; and
- Whether the overall level of allocated costs for the service was reasonable.

The results of Concentric's review are fully described in Ameren Exhibit 5.14.

G. Other Staff Witness Lazare Concerns

Q. Staff witness Lazare criticizes the testimony of Company witness Nelson when he refers to your testimony on the topic of risks and benefits of outsourcing[36]. How do you respond?

A. Staff witness Lazare misses the point of Company witness Nelson's testimony. He does not refer to my direct testimony because he has no opinion on the subject. To the contrary, clearly the Ameren Illinois Utilities have found it cost-effective to internally outsource certain centralized services to AMS. As long as AMS continues to be a provider of cost-effective and quality services, it is unnecessary to look elsewhere for such services, regardless of whether AMS is an affiliate or not. Company witness Nelson merely referred to my direct testimony because of the combination of my experience with utilities which had outsourced or considered the outsourcing of services and the research that was performed while preparing the AMS report. The fact that I am an "outside provider" is irrelevant. Given that I am an "outside provider" my bias would presumably lean to outsourcing the services. My role as a consultant is to advise and assist my clients to make informed and cost-effective decisions.

Q. Do you believe that the outsourcing of the functions currently provided by AMS would result in savings to the Ameren Illinois Utilities' customers?

[36] Direct testimony of Peter Lazare, pp. 6-7, lines 135-139.

A. I do not. As I stated in my direct testimony, utilities which had recently externally outsourced shared services did not realize an immediate benefit. The firm providing the outsourcing services typically agreed to maintain the costs at the current level of expenses. As shown in Figure III-1 of Ameren Exhibit 15.4, the Ameren Illinois Utilities' total A&G expenses have decreased by approximately $24 million from 2003 to 2006. The Ameren Illinois Utilities' customers would never realize the benefit of these cost reductions if the services provided by AMS had been outsourced. To the contrary, the outsourcer would reap the benefits.

Figures III-3 and III-4 of Ameren Exhibit 15.4 show the declining cost per customer of the Ameren Illinois Utilities' gas and electric A&G expenses, respectively. As the exhibits demonstrate, the Ameren Illinois Utilities have significantly decreased the A&G costs per customer. Staff witness Lazare fails to even acknowledge the significant reductions in overall A&G expenses or the A&G costs per customers.

Q. Do you believe that the existence of AMS has produced savings for the Ameren Illinois Utilities' customers?

A. Yes, I do. While I have not performed a detailed empirical study of the likely costs that would be incurred under a "stand-alone" scenario versus the internally outsourced shared services company scenario, I believe the answer resides in Figures III-1, III-3 and III-4 set forth in Ameren Exhibit 5.14. Figure III-1 shows

the decline in total A&G expenses from 2003 through 2006. In 2003 and most of 2004, IP was operating, for the most part, under a stand-alone utility model. Once acquired, the A&G services were subsumed into AMS. The result was a declining level of A&G expenses. Similarly, Figures III-3 and III-4 reflect a declining level of A&G per customer from 2002 through 2006. From 2004 to 2005, the A&G cost per customer decreases significantly. In my opinion, the decrease is reflective of the internal outsourcing of services to AMS.

Q. Staff witness Lazare expresses concern that documentation regarding the challenges of AMS' costs by Ameren Illinois Utilities management were not documented. How do you respond?

A. There are many decisions and discussions which occur within companies on a daily basis which are not documented. This lack of documentation does not in any way negate the existence or effectiveness of the process employed by the Ameren Illinois Utilities management to review and question AMS' costs.

Q. Absent any documentation, how can you assure the Commission that the review process exists?

A. My observations regarding the review process were based upon discussions with management personnel from both AMS and the Ameren Illinois Utilities. I also spoke with individuals who administer Ameren's budgeting process and who oversee the Service Request process. Each individual discussed challenges to

both budgeted levels of expenses and actual expenses by Ameren Illinois Utilities' management. Company witness Nelson also testifies to this review process.

Q. Will documentation regarding such challenges be retained prospectively?

A. Yes. It is my understanding that at the request of the Commission Staff the Ameren Illinois Utilities have agreed to document challenges to AMS' budgeted and actual expenses and the resolution of such challenges.

V. RESPONSE TO STAFF WITNESS KAHLE

Q. Have you reviewed the direct testimony that Staff witness Kahle filed in these proceedings?

A. Yes, I have.

Q. What adjustments has Staff witness Kahle proposed to the cash working capital ("CWC") requirements proposed by the Ameren Illinois Utilities?

A. Staff witness Kahle has proposed five modifications to the cash working capital requirements which I sponsored on behalf of the Ameren Illinois Utilities. Those adjustments are as follows:

1. Use of the Gross Lag methodology rather than the Net Lag methodology;
2. Inclusion of pass-through taxes in the calculation of the revenue lag with zero lag days;
3. Inclusion of capitalized payroll in the level of payroll expenses used to determine the Ameren Illinois Utilities' CWC requirements;

4. Correction of the expense lead associated with Employee Benefits; and

5. Reflecting Staff's proposed levels of operating expenses in the CWC analysis.

Q. Do you have a position with regards to Staff witness Kahle's proposed adjustments?

A. As I will discuss, I do not take exception to Staff witness Kahle's use of the Gross Lag methodology if applied correctly. I agree with Staff witness Kahle's expense lead associated with Employee Benefits. With the exception of payroll and benefits, Company witness Wichmann will respond to any concern regarding the expense levels included in Staff witness Kahle's CWC analyses. I will comment, however, that the operating expenses used to determine the appropriate level of CWC for each of the Ameren Illinois Utilities should reflect the levels adopted by the Commission in these proceedings.

I take exception to Staff witness Kahle's proposed treatment of pass-through taxes and the inclusion of capitalized expenditures in the operating expenses used to calculate the Ameren Illinois Utilities' CWC requirements.

Q. Please explain what you mean when you state that you do not take exception to the use of the Gross Lag methodology, if applied correctly.

A. While I presented the Ameren Illinois Utilities' CWC requirements employing a Net Lag methodology, I am not opposed to the use of the Gross Lag methodology. As I demonstrated in my direct testimony, the Net Lag and Gross Lag

methodologies produce the same results if calculated correctly. The differences generated between the use of the two methodologies are the result of incorrect application of the modifications proposed by Staff. Therefore, in order to focus on the inaccuracies of Staff witness Kahle's analyses, I will also employ the Gross Lag methodology to determine the Ameren Illinois Utilities' CWC requirements.

Q. Do both the Net Lag and Gross Lag methodologies consider revenues and operating expenses when determining the appropriate level of CWC for the Ameren Illinois Utilities?

A. Yes. Under the Net Lag methodology, the revenues are presumed to equal the incurred operating expenses, and thus there is no need to set forth the revenues. Under the Gross Lag methodology, the revenues are expressly shown to equal the incurred operating expenses.

Q. What revenues are considered in the CWC analyses?

A. The revenues included in the CWC analyses are those which are available to pay cash operating expenses.

Q. Please elaborate.

A. As shown on ICC Staff Exhibit 3.0, Schedule 3.01 CILCO-E, page 3 of 4, column (C), line 1, the total operating revenues used by Staff witness Kahle are $111,537. This figure ties to ICC Staff Exhibit 1.0, Schedule 1.01 CILCO-E, column (I), line

1. In other words, the revenues used by Staff witness Kahle reflect the revenue requirement which Staff believes to be necessary to earn a fair return on the Ameren Illinois Utilities' assets and to pay its operating expenses. From this amount, under the Gross Lag methodology, the return on equity and all non-cash operating expenses are removed from the operating revenues. (See ICC Staff Exhibit 3.0, Schedule 3.01 CILCO-E, page 3 of 4, column (C), lines 2 through 5). The residual revenues are the amount required to pay cash operating expenses.

Q. When employing the Gross Lag methodology, is it important to maintain a balance between the level of revenues and operating expenses considered in the analyses?

A. Yes, it is. The level of revenues considered in the analyses should reflect only those funds which are available to pay actual cash operating expenses. Thus the reason that a number of reductions are made from actual revenues to arrive at the amount which is truly available to pay actual operating expenses. Similarly, the operating expenses considered in the CWC analyses should only include those operating expenses for which there is a corresponding revenue stream.

Q. Did the calculation of the Ameren Illinois Utilities' CWC requirements under the Gross Lag methodology maintain this balance between revenues and operating expenses?

A. Yes. As shown on Ameren Exhibit 5.7E, column (C), lines 8 and 24, the revenues and operating expenses considered in the CWC analyses were equal.

Q. Does the analyses set forth by Staff witness Kahle maintain the balance between revenues and operating expenses?

A. No, it does not. As I will discuss later in my rebuttal testimony, Staff witness Kahle inappropriately makes changes to the level of operating expenses (e.g., capitalized items) without a corresponding change to the revenue side of the equation. (Refer to ICC Staff Exhibit 3.0, Schedule 3.01 CILCO-E, page 2 of 4, column (C), lines 3 and 20). Under Staff witness Kahle's approach, the operating expenses have been artificially inflated thereby erroneously reducing the Ameren Illinois Utilities' CWC requirements.

Q. What impact does the use of the Gross Lag methodology have on the Ameren Illinois Utilities' CWC requirements?

A. The use of the Gross Lag methodology, by itself, has no impact on the Ameren Illinois Utilities' CWC requirements.

Q. Has Staff witness Kahle accurately reflected the expense lead for Employee Benefits?

A. Yes. The calculation of the expenses lead associated with Employee Benefits should be 24.746 days. The expense lead originally filed by the Ameren Illinois

Utilities contained a cell reference error and should be updated to reflect the corrected expense lead days.

Q. What was the affect on the Ameren Illinois Utilities' CWC requirements of adjusting the expense lead for Employee Benefits?

A. Adjusting the expense lead for Employee Benefits reduced the Ameren Illinois Utilities' CWC requirements by approximately $9,000.

Q. Do you agree with the revenue and expense levels reflected in Staff witness Kahle's determination of the Ameren Illinois Utilities' CWC requirement?

A. No. The revenues and operating expenses reflected in Staff witness Kahle's analyses reflect Staff's adjusted levels. The analyses reflect the Ameren Illinois Utilities' position regarding the appropriate level of operating expenses for the adjusted test year. The ultimate level of CWC requirements should reflect the level of operating expenses authorized by the Commission in these proceedings.

Q. What affect do the adjusted revenue and expense levels have on the Ameren Illinois Utilities' CWC requirements?

A. Staff's proposed adjustment to the levels of operating revenues and operating expenses increase the Ameren Illinois Utilities' CWC requirements by approximately $2 million.

A. Pass-Through Taxes

Q. Please explain Staff witness Kahle's proposed adjustment with regards to Pass-Through Taxes.

A. Staff witness Kahle has proposed to include pass-through taxes in the CWC analyses, but to reflect a revenue lag associated with these taxes of zero days.

Q. What is the impact of Staff witness Kahle's proposed adjustment regarding pass-through taxes?

A. The following table sets forth the reduction of the Ameren Illinois Utilities' CWC requirements based upon Staff witness Kahle's proposed adjustment to pass-through taxes. As the table shows, the total reduction is approximately $7 million.

Company	CWC Impact ($000s)
AmerenCILCO – Gas	($1,085)
AmerenCIPS – Gas	($1,106)
AmerenIP – Gas	($3,005)
AmerenCILCO – Electric	($ 284)
AmerenCIPS – Electric	($ 633)
AmerenIP – Electric	($ 847)
Total	($6,961)

Q. What expense lead days does Staff witness Kahle propose for the pass-through taxes?

A. Staff witness Kahle assigns an expense lead of 42.790 days for the pass-through taxes.

Q. Do you agree with Staff Kahle's proposed treatment of pass-through taxes?

A. No. Staff witness Kahle's position has no foundation in reality.

Q. Please explain.

A. As I explained in my direct testimony, the revenue lag consists of five components; (1) a service lag; (2) a billing lag; (3) a collections lag; (4) a payment processing lag; and (5) a bank float lag. Collectively, these components add up to the 40.95 days of revenue lag utilized by both Staff and the Ameren Illinois Utilities for purposes of determining the CWC requirements for the Ameren Illinois Utilities.

The expense lead consists of three components; (1) a service lead; (2) a payment lead; and (3) a bank float lead. Collectively, the expense lead used by both Staff and the Ameren Illinois Utilities was determined to be 42.79 days.

Staff witness Kahle's position is premised on the incorrect position that the Ameren Illinois Utilities have access to the funds associated with the pass-through taxes for 42.79 days. That is simply not the case. The Ameren Illinois Utilities collect the funds associated with the pass-through taxes when the

customers pay their bills. There is no separate source of funds provided by the customers associated with the pass-through taxes.

By way of his testimony, Staff witness Kahle appears to suggest that there is no service lag associated with the pass-through taxes. While that may be a reasonable position, similarly there can not be a service lead on the expense side of the CWC calculation if there is no service lag on the revenue side of the equation. Staff witness Kahle has proposed no such adjustment to the expense lead. Staff witness Kahle's position is irrevocably flawed because it fails to reflect the true timing of cash receipts and cash outlays. Therefore, Staff witness Kahle's proposed treatment of pass-through taxes within the CWC analyses must be rejected.

Q. Is it appropriate to include a service lag/lead for the pass-through taxes?

A. Yes. The level of pass-through taxes are directly associated with the level of sales to and revenues collected from the Ameren Illinois Utilities' customers. Therefore, it is the delivery of service which generates the pass-through taxes.

Q. Why should pass-through taxes be included in the CWC analyses?

A. There is a slight timing difference between the Ameren Illinois Utilities' receipt of payment from its customers and the remittance of the taxes to the proper taxing authority. By including the pass-through taxes in the CWC analyses, the Ameren

Illinois Utilities' are reflecting the benefit of having access to the funds from the time of receipt to the time of remittance.

Q. From a cash flow perspective, what is the proper treatment of pass-through taxes?

A. There is clearly a lag from the point of billing to the receipt of the funds. Including the service lag, the Ameren Illinois Utilities average 40.95 days from the provisioning of service to the receipt of funds (including those funds associated with pass-through taxes). Excluding the service lag, the lag between billing and receipt of cash would be approximately 25.74 days. Despite Staff witness Kahle's assertion to the contrary, the Ameren Illinois Utilities do not have access to the funds attributable to the pass-through taxes during those days.

As shown by the CWC analyses of both Staff and the Ameren Illinois Utilities, funds are remitted to the proper taxing authorities approximately 42.79 days from the midpoint of the month in which service was provided to the customers. Therefore, the Ameren Illinois Utilities would have access to the funds for less than two days (i.e., 42.79 minus 40.95).

If the Commission were to determine that there was no service lag/lead associated with the pass-through taxes, a revenue lag of 25.74 days should be applied to the appropriate level of revenues attributable to pass-through taxes and an expense lead of 27.58 days (i.e., 42.79 minus 15.21 days) should be applied to

the expense levels associated with pass-through taxes. This change would result in no change to the Ameren Illinois Utilities' CWC requirements.

Q. Has the Commission taken a position on Staff witness Kahle's proposed treatment of pass through taxes in a recent ruling?

A. Yes, it has. In Docket Nos. 07-0241/07-0242 (Cons.), Staff proposed the same treatment of pass-through taxes in its Reply Brief on Exceptions at page 8. In its final Order, the Commission stated:

> "Regarding Staff's first argument – that there is no revenue lag for pass-through taxes – Staff's apparent concern is that pass-through taxes provide no service to the customer and involve no product or service costs (other than tax collection costs, which are presumably recovered as O&M expenses). Moreover, several of the taxes are paid quarterly or annually, which raises the question of how, in common sense, they can have a revenue lag. That said, however, the Utilities still must obtain revenue to remit to the taxing bodies, and the only revenue collection mechanism in the record, with its attendant revenue lag, is the monthly bill. Consequently, while the Commission would welcome additional analysis, as Staff suggests, addressing the movement of pass-through taxes in and out of the Utilities' accounts for CWC purposes, we do not have that analysis here. For now, we will include pass-through taxes in the revenue portion of the gross lag study approved in these documents.[37]"

Q. Has Staff presented any further analysis regarding the movement of pass-through taxes in these proceedings?

A. No, it has not.

[37] Commission's Order in Docket Nos. 07-0241/07-0242 (Cons), page 22.

Q. Has Staff presented information regarding a revenue source other than the monthly bills which would purportedly recover the pass-through taxes?

A. No. Staff has presented no information regarding a distinct revenue source other than the monthly bills by which the pass-through taxes would be collected simply because no such alternative source of funds exists. The pass-through taxes are, in fact, recovered through the customers' payment of its monthly bill.

B. Inclusion of Capitalized Payroll In CWC Analyses

Q. Please describe the adjustment proposed by Staff witness Kahle with regards to capitalized payroll.

A. Staff witness Kahle proposes to include capitalized payroll in the CWC analyses by adding the amount of capitalized payroll to the operating expenses.

Q. What is the impact of Staff witness Kahle's proposed adjustment on the CWC requirements of the Ameren Illinois Utilities?

A. The impact, by Company, of Staff witness Kahle's proposed inclusion of capitalized payroll in the CWC analyses is to reduce the Ameren Illinois Utilities' CWC requirements by approximately $3 million, as broken down by each of the Companies in the following table:

Company	CWC Impact
AmerenCILCO – Gas	($ 210,000)
AmerenCIPS – Gas	($ 103,000)
AmerenIP – Gas	($ 454,000)

Company	CWC Impact
AmerenCILCO – Electric	($ 362,000)
AmerenCIPS – Electric	($ 589,000)
AmerenIP – Electric	($1,150,000)
Total	($2,868,000)

Q. What is Staff's justification for the inclusion of capitalized items in the analysis of the CWC requirements of the Ameren Illinois Utilities?

A. Staff justifies the use of this limited number of capitalized items in the calculation of the CWC requirements of the Ameren Illinois Utilities on the grounds that the Commission accepted a similar position in the rate proceedings of the Ameren Companies (Dockets 06-0070-0071-0072 (Cons.) (Order November 21, 2006, p. 36)). Staff witness Kahle has provided no independent justification or rationale for the inclusion of the capitalized items in the CWC analyses, and, in fact, they should not be included at all. As I explain later, capitalized items are appropriately included in rate base not in the CWC analyses.

Q. How do you respond to Staff witness Kahle's proposed adjustment?

A. As I discussed in response to the use of the Gross Lag versus the Net Lag methodology, to accurately determine the CWC requirements of the Ameren Illinois Utilities, it is necessary to maintain the balance between the revenue and expense levels reflected in the CWC analyses. Staff witness Kahle has artificially created an imbalance by including in his analyses expenses for which there is no

corresponding revenues, thereby resulting in a lower CWC requirement which is not indicative of the Ameren Illinois Utilities' true CWC needs.

Q. How does such an approach result in a flawed determination as to the level of CWC for the Ameren Illinois Utilities?

A. By including additional expenses in the CWC analyses without a corresponding increase in revenue, Staff witness Kahle has effectively created an imbalance between revenues and expenses. Such an imbalance will naturally result in a lower CWC requirement, but it will not reflect the actual CWC position of the Ameren Illinois Utilities. While the use of the Gross Lag Methodology is acceptable for purposes of determining the CWC requirements of the Ameren Illinois Utilities in these proceedings, the balance between the revenues and expenses reflected in the analyses must be maintained for the methodology to produce accurate results.

Q. In what additional way is Staff witness Kahle's inclusion of these capitalized items inappropriate?

A. Staff witness Kahle's analyses represents only a partial view of capitalized expenditures. The Ameren Illinois Utilities incur significant levels of expenditures on an annual basis associated with capital programs and initiatives. Staff witness Kahle's proposed treatment of capital expenditures does not reflect all of the capital expenditures; he is selective in what items to include. Further,

Staff witness Kahle has reflected an expenditure with significant dollars and relatively short expense lead time, thereby artificially deflating the CWC requirements of the Ameren Illinois Utilities. Therefore, Staff's analyses reflects an incomplete view of capitalized expenditures and an artificially created imbalance between the revenues and operating expenses resulting in a flawed conclusion as to the Ameren Illinois Utilities' CWC requirements.

Q. Have the Ameren Illinois Utilities included all of the capitalized expenditures in their CWC analyses?

A. No. The Ameren Illinois Utilities' analyses reflect the actual expenses incurred during the test year. The capitalized amounts are appropriately included in rate base and thus earn a return on such investments. Therefore, it is inappropriate to include the capitalized expenditures in the CWC analyses. Regardless, it would be inappropriate to include only a portion of the capitalized expenditures and only on one side of the revenue and expense equation.

Q. Please explain.

A. As I discussed earlier, the revenues which Staff witness Kahle uses reflect the revenue requirement for the Ameren Illinois Utilities. From those revenues, he subtracts non-cash expenses and return on equity. The residual revenues are those dollars which are available to pay <u>cash</u> operating expenses. There are no incremental dollars in the analyses to account for the capitalized expenditures

which Staff witness Kahle proposes to include in the analyses. Therefore, Staff witness Kahle has artificially created an imbalance between the levels of revenues and expenses considered in the analyses.

Q. Is there a revenue stream which could be included in the CWC analyses which would address your concerns?

A. The only solution of which I am aware would be to include in the CWC analyses a separate revenue stream relating to the amount of capitalized payroll. The revenue lag for this revenue stream would have to be the composite years over which the Ameren Illinois Utilities' assets are depreciated.

Q. Have you performed such a calculation?

A. I have not. I do not agree with the inclusion of the capitalized expenditures in the CWC analyses. Therefore, I do not suggest that an alternative to address Staff witness Kahle's flawed recommendation is warranted.

Q. Staff witness Kahle also argues that it is appropriate to include the capitalized payroll in the CWC analyses because "the test year is a historical test year and no portion of payroll after the effective date of the new rates is included in the rate base.[38]" How do you respond?

[38] Direct Testimony of Daniel G. Kahle, Docket Nos. 07-0585 – 07-0590 (Cons.), ICC Staff Exhibit 3.0, March 14, 2008, page 10, lines 221 through 222.

A. Staff witness Kahle's concern is unfounded. The test year presented by the Ameren Illinois Utilities in these proceedings reflect a full twelve months of wages, reflected for known and measurable changes. There is no need to reflect some level of payroll after the effective date of the new rates. Staff has not adjusted the expense level of wages to address this so-called concern of Staff witness Kahle's. Therefore there is no need to make such an adjustment for the CWC analyses.

Q. Are the Ameren Illinois Utilities allowed to recover the capitalized payroll costs?

A. Yes. The capitalized payroll would be included in rate base, and thus the Ameren Illinois Utilities would be authorized to earn a return on and of those expenditures.

Q. Has the Commission recently addressed this same issue in other dockets?

A. Yes. In Docket Nos. 07-0241/07-0242 (Cons.), Staff witness Kahle proposed the same adjustment to the CWC analyses. In those dockets, the Commission correctly concluded that "the precedential rationale for including a capitalized cost in an analysis concerning operational expenses is missing.[39]"

[39] Final Order, Docket Nos. 07-0241/07-0242 (Cons.), p. 19.

Q. Have you prepared exhibits reflecting the appropriate level of CWC required by each of the Ameren Illinois Utilities?

A. Yes, I have. Ameren Exhibits 21.04 through 21.09 show the appropriate level of CWC requirements for each of the Ameren Illinois Utilities' gas and electric utilities employing the Net Lag methodology.

Ameren Exhibits 21.10 through 21.15 reflect the appropriate level of CWC requirements for each of the Ameren Illinois Utilities' gas and electric utilities employing the Gross Lag methodology.

As the exhibits show, the CWC requirements under the Gross Lag methodology are the same as those under the Net Lag methodology.

C. Rider PER

Q. Has Staff witness Kahle proposed an adjustment to the CWC component of Rider PER?

A. Yes, he has.

Q. Please explain Staff witness Kahle's proposed adjustment.

A. As Staff witness Kahle points out, the Ameren Illinois Utilities' current credit ranking has shortened the service period for purchased power to a half-month with payments due on the 1st business day 9 days following the end of the service period. Staff witness Kahle does not contest the application of the shortened

payment periods for non-affiliated companies, but disallows the shortened payment period for affiliated companies.

Q. What support does Staff witness Kahle provide for his proposed adjustment?

A. Staff witness Kahle contends that the shortened payment period does not apply to the affiliated companies because "the funds for these purchases come from and end-up in the same pool of money.[40]"

Q. How do you respond to Staff witness Kahle's proposed adjustment?

A. I have two observations regarding the proposed adjustment. Based upon Staff witness Kahle's proposed adjustment, it would appear that he believes that the dealings with affiliates should be handled differently than those with non-affiliated companies. The Commission's rules pertaining to transactions with affiliated marketing companies strictly forbid such unique treatment. Section 450.20 of the Commission's Administrative Code states:

> Electric utilities shall not provide affiliated interests or customers of affiliated interests preferential treatment or advantages relative to unaffiliated entities or their customers in connection with services provided under tariffs on file with the Illinois Commerce Commission (Commission). This provision applies broadly to all aspects of service, including, but not limited to, responsiveness to requests for service, the availability of firm versus interruptible services, the imposition of special metering requirements, and all terms and conditions and charges specified in the tariff.

[40] Direct Testimony of Daniel Kahle, p. 18, lines 406-407

Providing payment terms which are different than those encountered between the Ameren Illinois Utilities and non-affiliated marketing companies would appear to be contrary to the Commission's Code.

Second, the Ameren Illinois Utilities and Ameren's marketing affiliates do not commingle funds as suggested by Staff witness Kahle. Each business operates as a stand-alone company and is responsible for its own financial transactions. Further, the source of the funds has no relevance as to the timing of payment for transactions. The CWC component of Rider PER should reflect the actual timing of cash receipts and cash payments, not Staff witness Kahle's assumed preferential treatment afforded to an affiliated marketing company.

For the above reasons, Staff witness Kahle's proposed adjustment to the CWC component of Rider PER should be rejected.

VI. <u>RESPONSE TO CUB WITNESS EFFRON</u>

Q. Have you reviewed the direct testimony in these proceedings of AG/CUB witness Effron?

A. Yes, I have.

Q. Are there any adjustments proposed by AG/CUB witness to which you would like to respond?

A. Yes. I will respond to AG/CUB witness Effron's proposed adjustment to AmerenIP's test year A&G expenses charged to Accounts 920 through 923.

Q. Please describe the adjustment proposed by AG/CUB witness Effron.

A. AG/CUB witness Effron used as a starting point the level of A&G expenses charged to Accounts 920 through 923 approved by the Commission in Docket No. 06-0072, which used a 2004 test year. AG/CUB witness Effron calculates this amount by taking the total of A&G costs related to Accounts 920 through 923 times the percentage of costs that were disallowed, effectively stating that 69.53 percent of total A&G was disallowed so 69.53 percent of accounts 920 through 923 was disallowed. He then escalated this last approved level of A&G expenses charged to Accounts 920 through 923 by 3 percent per year to reflect inflation.

AG/CUB witness Effron's proposed adjustment is based solely on the premise that the Company's requested level of A&G expenses is nearly 2.4 times the amount approved in AmerenIP's last rate case and that, in AG/CUB witness Effron's opinion, the Company has not explained or justified the increase. The end result of AG/CUB witness Effron's proposed adjustment was the proposed disallowance of $19,794,000 of A&G expenses for AmerenIP. This is the difference between the amount approved in the last rate case, escalated by inflation, and the expenses included by AmerenIP in this case, for Accounts 920 through 923.

Q. How do you respond to AG/CUB witness Effron's proposed adjustment?

A. With regards to the explanation and justification of the increased level of A&G expenses from 2004 to 2006, the Ameren Illinois Utilities have provided support for these increases, and have responded to a number of data requests on that precise topic. AmerenIP's response to Staff Data Request TEE-1.33 provides a detailed narrative explanation of year-over-year variances from 2004 to 2006.

The comparison of the level of expenses between 2004 and 2006 for AmerenIP produces specious results because of the fact that during the transition of ownership, the Company received no allocated costs from either its former owner or from AMS. Therefore, the true cost of services provided is not reflected in the 2004 expense levels.

Furthermore, the level of A&G expenses which AG/CUB witness Effron uses as the basis for his proposed adjustment reflects the disallowance of over $50 million of A&G expenses incurred by AMS on behalf of the Ameren Illinois Utilities. The Ameren Illinois Utilities have submitted a detailed study which supports the A&G expenses, including those incurred by AMS on behalf of the Ameren Illinois Utilities.

The limitation of AG/CUB witness Effron's analysis to only Accounts 920 through 923 ignores changes that occurred as a result of the systems conversion and the associated accounting practices and processes, as well as organizational

shifts completed as part of the acquisition of IP. One cannot exclusively compare the value of an account in 2004, under Dynegy's ownership, to the value of that account after the acquisition integration in 2006 without taking into consideration material differences in accounting practices and processes.

With regards to AG/CUB witness Effron's use of inflation, in prior cases, the Commission has rejected the argument that inflation between rate cases is a better indication of test year expenses than the actual costs themselves[41]. Moreover, the Commission's rule on *pro forma* adjustments, Section 287.40, states in part that: "Attrition or inflation factors shall not be substituted for a specific study of individual capital, revenue and expense components."

As I will explain, AG/CUB witness Effron's proposed adjustment of $19,794,000 is not consistent with the evidence provided by AmerenIP, and should not be accepted by the Commission.

Q. Have you reviewed the apparent variability in the level of expenses for AmerenIP's A&G Accounts 920 through 923 from 2004 to 2006?

A. Yes, I have.

Q. Can you discuss the driving reasons behind the variability by account?

[41] Docket No. 05-0597

A. Yes. I will provide an overview of the reasons for the cost variability for each of the accounts questioned by AG/CUB witness Effron.

Q. With regards to Account 920, Administrative and General Salaries and Wages, can you discuss the nature of the expenses reported in this account?

A. Account 920 includes the compensation of officers, executives, and other employees of the utility properly chargeable to utility operations and not chargeable directly to a particular operating function.

Q. What was the actual level of expenses recorded in Account 920 in 2004?

A. The actual expenses recorded in Account 920 in 2004 amounted to $13,521,709.

Q. What level of expense did AmerenIP seek in its last rate case for Account 920?

A. AmerenIP included $17,429,056 of Account 920 expenses in its last rate case.

Q. What was the actual level of expense recorded in Account 920 in 2006?

A. The actual level of expenses recorded in Account 920 in 2006 amounted to $19,774,415.

Q. What level of expense did AmerenIP include in its revenue requirement in these proceedings?

A. AmerenIP is seeking $19,263,730 of expenses in Account 920 in its electric filing.

Q. Please explain the increase in actual expenses in Account 920 from 2004 to 2006.

A. The increase is due primarily to the systems conversion and the changes in associated accounting practices and processes occurring as part of the acquisition of AmerenIP. Under the ownership of Dynegy, pension and benefits expenses were recorded entirely within Account 926. Under Ameren ownership, pensions and benefits for employees processed through AMS follow labor expenses, and get recorded in the corresponding accounts, such as Account 920. Thus, a significant portion of the increase is due to pensions and benefits being allocated to Account 920.

Q. Is this an example of how AG/CUB witness Effron failed to take into account differences in accounting practices and processes?

A. Yes. Since AG/CUB witness Effron limited his analysis to only Accounts 920 through 923 and did not take into account differences that arose due to systems conversion and changes in associated accounting practices and processes, he failed to recognize the increase in Account 920 was directly related to the decreases in Account 926.

Q. Did Account 926 actually experience a large decrease?

A. Yes. In 2004, the expenses recorded in Account 926 amounted to $17,682,206. In 2006, only $7,324,915 was charged to Account 926. Therefore, the decrease in Account 926 more than offsets the increase in Account 920 which AG/CUB witness Effron is inappropriately attempting to eliminate.

Q. Did AmerenIP provide information to the parties in these proceedings regarding the differences in accounting practices and procedures?

A. Yes. This information was provided in AmerenIP's response to Staff Data Request TEE-1.33.

Q. What expenses are reported in Account 921, Office Supplies and Expenses?

A. Account 921 includes office supplies and expenses incurred in connection with the general administration of AmerenIP's operations which are assignable to specific administrative or general departments and are not specifically provided for in other accounts. This includes the expenses of the various administrative and general departments, the salaries and wages of which are includible in account 920.

Q. What was the actual level of expenses recorded in Account 921 in 2004?

A. The actual expenses recorded in Account 921 in 2004 amounted to $3,220,327.

Q. What level of expense did AmerenIP seek in its last rate case for Account 921?

A. AmerenIP included $8,652,128 of Account 921 expenses in its last rate case.

Q. What was the actual level of expense recorded in Account 921 in 2006?

A. The actual level of expenses recorded in Account 920 in 2006 amounted to $7,499,405.

Q. What level of expense did AmerenIP include in its revenue requirement in these proceedings?

A. AmerenIP is seeking $7,278,937 of expenses in Account 921 in these proceedings.

Q. Please explain the increase in actual expenses in Account 921 from 2004 to 2006.

A. As discussed at some length in the Commission proceeding to acquire Illinois Power (Docket No. 04-0294) and in the prior rate proceeding (Docket Nos. 06-0070/06-0071/06-0072 (Cons.)), the prior owner of IP did not have significant operating funds during the last two years (2003 and 2004) of operating IP. This resulted in account 921 being substantially lower in 2004 than the historical average for IP. In 2001 and 2002, Account 921 expenses for IP were higher in total, but comparable, to the levels experienced under Ameren ownership for 2005 and 2006. Specifically, the increases within this account can be attributed to increased telecommunication related expenses, increased payments for

professional and contract services, increased software expenses and increased customer related postage expenses.

Further, the variance in expense levels is attributable, in part, to the application of different accounting methodologies. For example, Illinois Power would spread A&G-related telecom loadings to various A&G accounts. AmerenIP, on the other hand, charges all such telecom loadings exclusively to Account 921.

Q. Please describe the nature of the expenses reported in Account 922, Administrative Expenses Transferred - Other.

A. Account 922 is credited with administrative expenses recorded in accounts 920 and 921 which are transferred to construction costs or to nonutility accounts.

Q. What was the actual level of expenses recorded in Account 922 in 2004?

A. The actual expenses recorded in Account 922 in 2004 amounted to a credit of $(10,964,663).

Q. What level of expense did AmerenIP seek in its last rate case for Account 922?

A. AmerenIP included a credit of $(9,705,821) for Account 922 in its last rate case.

Q. What was the actual level of expense recorded in Account 922 in 2006?

A. The actual level of expenses recorded in Account 922 in 2006 amounted to $(928,257).

Q. What level of expense did AmerenIP seek in these proceedings?

A. AmerenIP is seeking to credit $(890,553) of expenses in Account 922 these proceedings.

Q. Please explain the decrease in the credit from 2004 to 2006 associated with Account 922.

A. Ameren did not begin using Account 922 until January 2005. Ameren's policy is to use this account to capitalize expense from Account 921. IP used this account differently than Ameren by capitalizing different expense accounts and used different capitalization ratios. The first full year using Ameren's policies, procedures and practices related to this account was 2006.

Q. Is this another example of where AG/CUB witness Effron failed to take into account differences in accounting practices and processes?

A. Yes. This information was provided in the Companies' response to Staff Data Request TEE-1.33.

Q. What costs are reported in Account 923, Outside Services Employed?

A. Account 923 includes the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. The account also includes the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility.

Q. What was the actual level of expenses recorded in Account 923 in 2004?

A. The actual expenses recorded in Account 923 in 2004 amounted to $13,708,290.

Q. What level of expense did AmerenIP seek in its last rate case for Account 923?

A. AmerenIP included $5,883,266 of Account 923 expenses in its last rate case.

Q. What was the actual level of expense recorded in Account 923 in 2006?

A. The actual level of expenses recorded in Account 923 in 2006 amounted to $10,705,114.

Q. What level of expense did AmerenIP seek for in these proceedings?

A. AmerenIP is seeking $10,852,989 of expenses in Account 923 in these proceedings.

Q. Please explain the variance in actual expenses in Account 923 from 2004 to 2006.

A. Account 923 actually experienced a decrease of approximately 22 percent in overall expense levels from 2004 to 2006, however, the amount for which recovery was sought in 2004 was lower than the actual expense level in 2006.

AmerenIP records AMS related depreciation and amortization in Account 923. In the prior rate case proceeding (Docket Nos. 06-0070/06-0071/06-0072 (Cons.)), a large pro forma adjustment was made to retire a number of the former IP systems, thus reducing deprecation expense, and convert IP to Ameren's operating systems. At the time IP converted to the operating systems utilized by the other Ameren Illinois Utilities, depreciation of those systems was reallocated to reflect that AmerenIP was also a beneficiary of such systems, or if a new system was required for AmerenIP integration, the costs of such systems were fully allocated to AmerenIP. Some system conversions took place in April 2005 and while others occurred in October 2005. For all such conversions, a full year of depreciation was not realized until 2006. The increase in depreciation and amortization expenses associated with AMS systems is the primary reason for the increase in Account 923 from 2004 to 2006.

VII. <u>CONCLUSION</u>

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.