ILLINOIS COMMERCE COMMISSION

ICC DOCKET NO. 07-0585 (CONS.)

REBUTTAL TESTIMONY

OF

ANDREW R. WICHMANN

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO,

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS, and

ILLINOIS POWER COMPANY d/b/a AmerenIP

(The Ameren Illinois Utilities)

April 14, 2008

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name.

A. My name is Andrew R. Wichmann.

Q. Are you the same Andrew R. Wichmann who submitted pre-filed direct testimony on behalf of the Ameren Illinois Utilities?

A. Yes.

B. Purpose and Scope

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my testimony is to respond to and discuss proposals submitted in the direct testimony of other parties. Specifically, I respond to the direct testimony of Theresa Ebrey, Mary H. Everson, and Dennis L. Anderson for the

Staff of the Illinois Commerce Commission ("Staff"); Michael Gorman for Illinois Industrial Energy Consumers ("IIEC") and David Effron for the Attorney General of Illinois ("AG") and the Citizens Utility Board ("CUB").

Q. Please summarize the conclusions of your rebuttal testimony.

A. As detailed below, I conclude the following:

- I present the Ameren Illinois Utilities' rebuttal revenue requirement for gas distribution service and accept and reject certain of Staff's and AG/CUB's proposed adjustments.
- Staff's adjustment disallowing wage increases for management employees that have already gone into effect (as of April 1, 2008) is unreasonable and should be rejected. The existing increases are obviously known and measurable.
- Staff's reasons for adjusting rate case expense are generally incorrect. The proposed 2-year amortization period is valid and appropriate. All rate case expenses and estimates have been supported and additional invoices and amounts have been provided since Staff's direct testimony filing.
- Staff's proposed normalization adjusting injuries and damages improperly combines two distinct methods to produce an unfair result. The Ameren Illinois Utilities' proposed 5-year normalization method is reasonable and should be approved.
- I present my calculations of percentage breakdowns of incentive compensation payout allocations by "financial-based" and "performance-based" amounts, as described in Ms. Bauer's testimony.
- As discussed in the testimony of Mr. Stephen Underwood, Staff's proposed reclassification of accounting for gas loss is improper and should be rejected.

C. Identification of Exhibits

Q. Will you be sponsoring any Exhibits with your rebuttal testimony?

A. Yes, I am attaching and sponsoring the following exhibits:

- Ameren Exhibit 20.1 AmerenCILCO Gas – Rebuttal Revenue Requirement

- Ameren Exhibit 20.2 AmerenCIPS Gas – Rebuttal Revenue Requirement
- Ameren Exhibit 20.3 AmerenIP Gas – Rebuttal Revenue Requirement

Each of these exhibits includes multiple schedules summarizing the development of Operating Income and Rate Base and presents the Ameren Illinois Utilities' rebuttal revenue requirement. Ameren Illinois Utilities' witness Mr. Ronald Stafford will sponsor similar exhibits presenting the rebuttal revenue requirement for the Ameren Illinois Electric Utilities. In addition, schedules are provided to reconcile Staff's Direct Filing position to that of the Ameren Illinois Utilities on rebuttal. (Ameren Exhibits 20.1, 20.2 and 20.3)

For the electric utilities and with only the exception of AmerenCILCO gas, as explained below in my testimony, these numbers correspond to the numbers presented in ICC Staff Exhibit 1.0. My rebuttal testimony describes the corrections needed to ICC Staff Exhibit 1.0 to agree to the AmerenCILCO Gas Revenue Requirement, as presented in direct testimony.

Q. Please identify the additional exhibits you will be sponsoring.

A. I am attaching and sponsoring the following additional exhibits:

- Ameren Ex. 20.4 Incentive Compensation
- Ameren Ex. 20.5 Labor Adjustment
- Ameren Ex. 20.6 Rate Case Expense
- Ameren Ex. 20.7 Injuries and Damages
- Ameren Ex. 20.8 Materials & Supplies and Gas in Storage
- Ameren Ex. 20.9 Collateral and Prepayments

- Ameren Ex. 20.10 Staff Response to Ameren DR 9.02

II. REVENUE REQUIREMENT AND RATE BASE

Q. What is the overall level of Rebuttal Revenue Requirement being proposed by the Ameren Illinois Utilities?

A. As shown on Ameren Exhibit. 20.1, AmerenCILCO Gas Rebuttal Revenue Requirement is $78,028,000. As shown on Ameren Ex. 20.2, AmerenCIPS Gas Rebuttal Revenue Requirement is $76,428,000. As shown on Ameren Ex. 20.3, AmerenIP Gas Rebuttal Revenue Requirement is $184,088,000.

Q. What is the overall level of Rate Base being proposed by the Ameren Illinois Utilities?

A. As shown on Ameren Ex. 20.1, AmerenCILCO Gas Rebuttal Rate Base is $194,700,000. As shown on Ameren Ex. 20.2, AmerenCIPS Gas Rebuttal Rate Base is $191,559,000. As shown on Ameren Ex. 20.3, AmerenIP Gas Rebuttal Rate Base is $541,169,000.

A. Staff Adjustments Accepted

Q. Have the Ameren Illinois Utilities accepted any Staff adjustments, reflected in the calculation of rebuttal revenue requirement?

A. Yes. A number of Staff's proposed adjustments have been reflected in the calculation of Rebuttal Revenue Requirement. Without necessarily conceding the arguments in support of the positions taken, the Ameren Illinois Utilities accept Staff's adjustment to Employee Benefits Expense, Customer Deposit Interest, Advertising Expense, and Industry Association Dues.

Q. Have you reviewed the expense levels on Staff witness Mr. Kahle's Cash Working Capital calculation?

A. Yes. The expense levels are found in Staff Exhibit 3.0, Schedule 3.01, page 2 for each of the Ameren Illinois Utilities.

Q. Do you agree with Mr. Kahle's proposed expense levels?

A. Generally yes, except for any changes Mr. Michael Adams has made in his rebuttal testimony. However, most of Mr. Kahle's cash working capital expense levels will change based upon changes in the Ameren Illinois Utilities' rebuttal revenue requirement.

B. Miscellaneous Reconciliation Between Ameren Exhibit 20.1, Schedule 6, and ICC Staff Exhibit 1.0, Schedule 1.01, CILCO G.

Q. Please explain the above-referenced reconciliation.

A. Ameren Exhibit 20.1, Schedule 6 reflects a reconciliation between ICC Staff Exhibit 1.0, Schedule 1.01, CILCO G, based on the Ameren Illinois Utilities' correction of CILCO gas schedule C-1 eliminating the environmental rider revenue (by errata filing on February 1, 2008). I understand that Staff chose to rely upon the originally filed Schedule C-1 to create the schedule in question, based on Staff's response to Ameren Data Request 9.02 (attached as Ameren Exhibit 20.10).

C. Customer Deposit Interest

Q. Ms. Everson recommends an adjustment to revise the Ameren Illinois Utilities' calculation of interest on customer deposits, due to a Commission-ordered new customer deposit interest rate (subsequent to the Ameren

Illinois Utilities' initiation of these proceedings). (ICC Staff Ex. 2.0, p. 6.) Do you agree with this recommendation?

A. Yes.

Q. **Do you believe Staff has accounted correctly for this adjustment?**

A. No. In the Ameren Illinois Utilities direct case filing this adjustment modified the Customer Accounts portion of O&M expenses. Staff has this adjustment in the Administrative and General portion of O&M expenses. The Customer Accounts group of accounts more closely relates to Customer Deposit interest. Ameren Exhibits 20.1, 20.2 and 20.3 correctly reflects accounting for this adjustment.

D. Materials and Supplies and Gas in Storage

Q. **Please describe Staff witness Ms. Everson's proposal to reduce rate base by the amount of accounts payable associated with materials & supplies inventory and gas in storage inventory? (ICC Staff Exhibit 2.0, page 4, lines 74-87).**

A. Ms. Everson's adjustment reduces rate base by the amount of accounts payable associated with the purchase of materials and supplies as well as gas in storage inventory, based on her rationale that shareholders have not incurred any cost when the materials and supplies and the gas in storage were purchased on account with a vendor.

Q. **Do you agree with this proposed adjustment?**

A. I do not disagree with Ms. Everson's rationale. However, the Ameren Illinois Utilities disagree with the value of the gas in storage used in this calculation, as discussed in the rebuttal testimony of Ameren Illinois Utilities' witness Mr. Scott Glaeser. Ameren's Exhibit 20.8 presents my calculation of this proposed adjustment based upon the new gas in storage value. Ameren Exhibit 20.8 also presents the Ameren Illinois Utilities' rebuttal adjustment to materials and supplies, based on Mr. Glaeser's testimony.

E. Collateral and Prepayments

Q. Please describe Mr. Effron's proposed adjustment to collateral and prepayments on the Ameren Illinois Utilities.

A. Ameren Illinois Utilities' witness Mr. Timothy I. Moloney testifies regarding Mr. Effron's proposal as it concerns the Ameren Illinois Utilities' diminished and limited access to unsecured credit resulting from a reduction in the credit ratings of the Ameren Illinois Utilities after the December 31, 2006 test year. While it is not clear from Mr. Effron's testimony, his workpapers show that the proposed adjustment modifies the Ameren Illinois Utilities' original adjustment based upon updated information and data the Ameren Illinois Utilities provided after their direct case was filed, in response to AG DR 4.13-REV.

Q. Do you agree with Mr. Effron's proposal to adjust Collateral and Prepayments?

A. The Ameren Illinois Utilities disagree with Mr. Effron's proposal, as discussed in Mr. Moloney's rebuttal testimony. However, I have adjusted the Ameren Illinois Utilities' rebuttal revenue requirement to reflect the additional and updated data that was provided in response to AG DR 4.13-REV. Ameren Exhibit 20.9

presents the value of the updated calculation compared to the originally filed amount.

III. LABOR EXPENSE

Q. Please describe Staff's adjustment to annualized labor expense.

A. Staff witness Ms. Ebrey recommends adjusting annualized labor expense to reflect a 3% wage increase effective July 1, 2007, based on her assessment of actual wage increases approved in December 2007. (ICC Staff Ex. 1.0, p. 11.)

Q. Do you agree with this adjustment?

A. Yes.

Q. Ms. Ebrey also recommends disallowing wage increases for management employees projected for April 1, 2008, because she claims that they are estimates and not "known and measurable." (ICC Staff Ex. 1.0, p. 12.) Please respond.

A. The wages have already increased to slightly beyond the estimated levels as of the time of the filing of this rebuttal testimony, thus the increases are known and measurable. Further, the Ameren Illinois Utilities' direct testimony supported a conclusion that the increases were reasonably likely to occur within 12 months. (AmerenCILCO, AmerenIP, and AmerenCIPS Exhibits 3.0G, p. 10.) Staff was provided with workpapers for direct testimony showing estimated wage increases of 3.47%. In response to Staff DR 12.07, Ms. Ebrey stated she had "no opinion" whether this increase was unreasonable. Ameren Exhibit 20.5 reflects the 2008 actual wage increase for management employees of 3.73%. I would disagree with the complete disallowance of these wage increases in any event, because the proposed pro forma adjustments amounts at time of direct testimony filing were determinable and reasonably expected to occur within 12 months. But, at this point in time, the wage increases are actual, proven, and in effect. Staff's adjustment thus has no basis and should be rejected.

Q. Should Ms. Ebrey's recommended change to employer FICA tax thus also be adjusted?

A. Yes. Ameren Exhibit 20.5 illustrates the correct FICA tax adjustment based upon the adjustment to 2008 management employee labor expense.

IV. <u>RATE CASE EXPENSE</u>

Q. Please describe Staff's proposed adjustment to rate case expense.

A. Staff witness Ms. Ebrey adjusts the Ameren Illinois Utilities' proposed rate case expense recovery based on the following claims: (1) the amortization period is too short; (2) the timeframe for amortization is incorrect; (3) the amount for prior rate case expense is incorrect; and (4) certain expenses have not been supported.

Q. What is your response?

A. Ms. Ebrey's claims are generally incorrect. The proposed amortization period is valid and appropriate as explained below. As shown below, all rate case expenses have been supported and additional invoices and amounts have been provided since Staff filed testimony.

A. Rate Case Amortization Period

Q. Is a 5-year and 3-year amortization period reasonable for the Ameren Illinois Utilities to recover the costs of gas and electric rate cases, respectively?

A. No. None of the Ameren Illinois Utilities is or has been on a 5-year filing schedule. The Ameren Illinois Utilities filed their last electric delivery service rate cases which were docketed in 2006. Moreover, facts and issues have changed for both gas and electric delivery systems since the last rate cases were filed. Costs and other rate inputs have become volatile. The Ameren Illinois Utilities have committed to increasing improvements to the electric distribution system infrastructure. These issues alone will fuel the need to file rate cases on a more frequent basis. Additionally, Ms. Ebrey argues that even if a longer amortization period is used and the utility continues to file rate cases in a shorter time frame, then the utility would still recover its costs. Even if true, the utility would not be afforded the opportunity to recover such costs in a timely manner or in a time frame matching the current and explicitly described rate case cycle.

Q. Why have the Ameren Illinois Utilities proposed a 2-year amortization period for rate case expense?

A. The Ameren Illinois Utilities reasonably expect to file gas and electric distribution rate cases at least every two years due to a number of reasons. As Mr. Nelson explains in his direct testimony, that there are several factors influencing our authorized return as well as system improvements that will continue into the future. The Ameren Illinois Utilities' recent rate case filing history supports approval of a 2-year amortization period.

Q. Please describe the Ameren Illinois Utilities' rebuttal position on this issue.

A. The Ameren Illinois Utilities continue to believe that a 2-year amortization period for both gas and electric rate case expenses is reasonable under current and expected circumstances.

B. Unamortized Rate Case Expense

Q. Please describe Ms. Ebrey's adjustment to unamortized rate case expense.

A. Ms. Ebrey testifies that she has adjusted the unamortized prior rate case expense to reflect amortization through October 2008. This is the approximate date the rates from the current proceedings will go into effect.

Q. Do you agree with this adjustment?

A. Yes.

Q. Please respond to Mr. Effron's adjustment to disallow the actual costs of the prior electric rate case.

A. Mr. Effron essentially requests that the Commission reverse its prior order approving the amortization of costs incurred in association with prior rate cases, Docket Nos. 06-0070, 06-0071, and 06-0072 (cons.). This is obviously inappropriate. Such an adjustment would deny the Ameren Illinois Utilities the opportunity to recover their Commission-approved, prudently incurred costs. As Staff witness Ms. Ebrey stated: "The reason for including the unamortized balances in these cases is that the Commission approved amortization period for such costs has not expired. It would be contrary to the plain language of the prior orders to disallow such costs." (ICC Staff Exhibit 1.0, lines 418-422.)

C. Pending Rate Case Expense

Q. What is your response to Ms. Ebrey's proposed adjustment to the Ameren Illinois Utilities' rate case expenses associated with services from Gannett Fleming Inc., Navigant Consulting, and Concentric Energy Associates?

A. As shown below, this adjustment should be rejected. The Ameren Illinois Utilities have supported these costs, they are reasonable, and thus they should be allowed.

1. Gannett-Fleming

Q. Are the costs of services from Gannett Fleming known, measurable, and reasonably likely to occur?

A. Yes. Ms. Ebrey's claim that the Ameren Illinois Utilities have overestimated the costs of services from Gannett Fleming is demonstrably incorrect. Actual costs have been supported and are consistent with estimates, showing those estimates to be reasonable. Invoices to date supplied to Staff for the gas depreciation study equal $82,000 compared to the estimated amount of $78,000. The electric depreciation study costs to date (at only the rebuttal phase) have been $29,000, compared to the total estimated amount of $42,000. It is evident in the rebuttal phase that depreciation remains a contested issue in this case – thus eliminating any basis for Ms. Ebrey's theory. Based upon actual amounts, the Gannett Fleming depreciation study estimates for gas should increase by $1,000 per utility, and for electric should decrease by $4,000 per utility, as shown in Ameren Exhibit 20.6.

Additionally, Staff (apparently arbitrarily) disallowed an amount (60% of electric and 50% of gas) of the additional projection allocated for Gannett Fleming post-filing support. These are prudent expenditures, and are known, measurable, and reasonably likely to occur. The Ameren Illinois Utilities have shown that actual costs are tracking estimates from Gannett-Fleming; further, the electric depreciation study remains a contested issue in this case. The Ameren Illinois Utilities have shown it is reasonably likely that actual costs of Gannett-Fleming's services in this case will include the entire estimated $25,000 of post filing support. (Ameren Exhibit 20.6)

2. Navigant Consulting/Concentric Energy Advisors Costs

Q. Are the costs of services invoiced from Navigant Consulting ("Navigant") supported and reasonable?

A. Yes. Staff has accepted all expenses invoiced by Navigant.

Q. Have the Ameren Illinois Utilities provided additional support for their ongoing costs?

A. Yes. On April 8, 2008, I provided additional invoices and costs to Staff for services through March 2008 that track and support the estimate provided in WPC-10 of the minimum filing requirement.

Q. Staff witness Ms. Ebrey questions the level of the Navigant and Concentric Energy advisors("CEA") costs leading up to the Ameren Illinois Utilities' rate case filing. Have these costs been supported?

A. As of this date, I have provided Staff with actual invoices for services through March 2008. The invoices describe the rate case services performed. Staff has not indicated that these invoices are somehow insufficient. These invoices support all Navigant and CEA costs up until the filing date.

Q. Please respond to Ms. Ebrey's individual concerns regarding the Navigant and CEA invoices for work performed prior to the Companies' filings on November 2, 2007.

A. Ms Ebrey states that invoices supporting identified pre-filing tasks fall short of the amounts proposed in the Ameren Illinois Utilities' rate case expense proposals. But, as previously noted, the Ameren Illinois Utilities have provided invoices for services through March 2008 and have fully substantiated these costs. Staff has not indicated that the invoices are in any way insufficient.

Q. Please address Ms. Ebrey's concerns regarding a paid Navigant invoice marked "Do Not Bill". (ICC Staff Ex. 1.0, p. 18.)

A. Ameren Illinois Utilities and Navigant have investigated the "Do Not Bill" invoice and determined that Navigant had an error on the invoice by including the words "Do Not Bill". The amount billed and paid was examined and determined to be correct. There should be no remaining question that such costs have been supported and should be allowed.

Q. Please respond to Ms. Ebrey's individual concerns regarding the Navigant and CEA invoices supporting the minimum filing requirements.

A. At the time of Staff's direct testimony filing, Ms Ebrey asserted invoices had only been provided to date totaling $512, 200. As of this rebuttal filing date, invoices have been provided to Staff supporting the minimum filing requirements totaling

$600,000, compared to the original budgeted amount of $650,000. These are the actual costs of the minimum filing requirement – demonstrating that estimates were reasonable and are tracking actual costs. The difference between the two amounts – $8,000 for each gas and electric utility – has been applied to the updated rate case expense schedule. (Ameren Exhibit 20.6).

Q. Ms Ebrey reduces rate case expense because, she claims, "certain costs were contracted with CEA that would not have been incurred had Ameren not switched consulting firms in the middle of case preparation." (ICC Staff Ex. 1.0, p. 19.) How do you respond?

A. Staff has no basis for this claim. In fact, this speculation is incorrect. In no way did the Ameren Illinois Utilities incur additional costs by continuing to work with their expert witness, Mr. Adams, after he began work for a different consulting firm on July 1, 2007. Estimated costs of post-filing services increased in October 2007, several months after Mr. Adams switched to CEA, and for entirely different reasons than Ms. Ebrey suggests. At that time, the Ameren Illinois Utilities reexamined the scope of work requested from Mr. Adams, and determined that the Ameren Illinois Utilities would need significantly more post-filing assistance from Mr. Adams than previously anticipated. The Ameren Illinois Utilities asked Mr. Adams to prepare a revised estimate reflecting the decision to increase the scope of Mr. Adams' work on these rate cases. Notably, Ms. Ebrey concedes an increased level of complexity in these rate case filings (at lines 403-404). Given these circumstances, it is incorrect to assume that there was a resulting increase of costs from Mr. Adams' decision to work for another firm. Even if there had been transition costs resulting from this type of circumstance – and there were not – such costs would not have been imprudent. Staff's hypothesis fails to take into account the fact that if the Ameren Illinois Utilities had continued to use Navigant after Mr. Adams had switched firms, they would have been forced to switch their chosen expert witness, who has been retained for his experience and knowledge, has been retained by the Ameren Illinois Utilities on many occasions and is intimately familiar with their operations and business. Staff's theory also falsely assumes that no transition costs would have been incurred by choosing a far more difficult transition – choosing another expert witness at Navigant who would have needed to be brought up to speed. Such costs of remaining with Navigant would have been exacerbated by the fact that another lead consultant also switched from Navigant to CEA at the same time as Mr. Adams. Notably, Ms. Ebrey makes no claim that the Ameren Illinois Utilities' choice of expert was imprudent.

Q. Has the increased cost estimate been shown to be reasonable?

A. Yes. The increased estimate from CEA has been shown to be reasonable, as the actual post-filing estimates and costs incurred are proving to be in line with the October 2007 estimate from CEA.

Q. Please respond to Ms. Ebrey's individual concerns regarding the Navigant and CEA invoices supporting the lead lag study and AMS market study.

A. As of this rebuttal filing date, the Ameren Illinois Utilities have provided invoices supporting the lead lag study totaling $100,000, compared with the original budgeted amount of $130,000. These are the actual costs of the lead lag study and the difference between the two amounts results in a decrease of the original budgeted amount of only $5,000 for each gas and electric utility (as reflected in Ameren Exhibit 20.6). Thus, actual costs are in line with estimates. As of this rebuttal filing date, the Ameren Illinois Utilities have provided invoices supporting the AMS market study totaling $653,000 compared to the original budgeted amount of $750,000. This difference between the two amounts results in a decrease of the original budgeted amount of $16,000 for each gas and electric utility. These changes have been applied to the updated rate case expense schedule (Ameren Exhibit 20.6).

Q. Please respond to Ms. Ebrey's individual concerns regarding the overall level of increase for post-filing support.

A. While Ms. Ebrey concedes the increased level of complexity in these rate filings (ICC Staff Exhibit 1.0, lines 403-404) she does not fully appreciate that with increased complexity come increased costs. The post-filing support estimate was increased with the expectation that CEA would need to budget for a significantly increase in time and expense due to the higher level of complexity in the rate filing and testimony provided with the filing. And CEA has, in fact, had to provide substantial additional support for unanticipated issues, including the plant addition disallowances. Further, the discovery process in the rate cases has been far more exhaustive than in the last delivery service rate cases. Costs for CEA post-filing support totaling $253,000, through January 2008 have been substantiated by invoices provided to Staff. This amount is only $5,000 less than the costs Ms. Ebrey allowed in her direct testimony for the *entire* post-filing support. Staff's recommendation on this issue would thus not allow the Ameren Illinois Utilities to recover their prudently incurred costs. The facts support a conclusion that the pro forma amounts are in line with the actual costs to date, and thus supports the Ameren Illinois Utilities' proposal.

Q. Please describe Ms. Ebrey's adjustment to the Energy Efficiency rate case expense.

A. Ms. Ebrey has disallowed the entire cost, based on her belief (expressed in Ameren/Staff DR 9.01) that the expert witness was hired to provide testimony that does not relate to this rate case. The Ameren Illinois Utilities disagree with this adjustment. Mr. Craig Nelson explains the need for Mr. Philip Hanser's expertise and testimony in these proceedings.

V. INJURIES AND DAMAGES

Q. Please describe Ms. Ebrey's recommendation regarding injuries and damages expense.

A. Ms. Ebrey purports to use the same methodology to normalize injuries and damages expense that was approved by the Commission in Docket Nos. 06-0700/06-0071/06-0072 (Cons.) and 07-0241/07-0242 (Cons.).

Q. Is Ms. Ebrey's methodology the same as the Commission approved in those dockets?

A. No. In Docket Nos. 06-0700/06-0071/06-0072 (Cons.), the Commission approved a five-year average of the Ameren Illinois Utilities' injuries and damages expenses. In Docket Nos. 07-0241/07-0242 (Cons.), the Commission approved the utilities' actual test-year expenses, adjusted for a highly unusual credit recorded in a prior year. In this case, Staff combines these two entirely different methodologies to an unfair result, by *both* normalizing *and* removing costs she has deemed to be "outliers."

Q. Is this approach reasonable?

A. No. The entire point of normalizing is to flatten out the peaks and valleys of a volatile cost component, by averaging actual costs over a reasonable time period. Staff has subjectively chosen to remove certain costs from this average, which does not result in an accurate "normal" calculation. The Ameren Illinois Utilities' proposed cost level averages actual costs over a 5-year period, which is a reasonable period of time over which to account for the highs and the lows. Notably, Ms. Ebrey does not claim that the Ameren Illinois Utilities' proposed injuries and damages expense level is unreasonable or does not reflect a "normal" amount.

Q. What do you recommend?

A. In my calculation, I have agreed with Ms. Ebrey's approach of normalizing costs over a five-year period, but I have modified this approach to include all of the AmerenIP electric 2005 actual payments in the injuries and damages expense calculation. This result is fair, consistent with methodology previously approved by the Commission, and results in a "normal" expense level. My calculation is consistent with the Ameren Illinois Utilities' original proposed amount, and is reflected in Ameren Exhibit 20.7.

Q. Do you agree with Ms. Ebrey's Injuries and Damages expense adjustment to the other Ameren Illinois Utilities?

A. Yes – I agree to the gas adjustments to AmerenIP, AmerenCILCO and AmerenCIPS and to the electric adjustments to AmerenCILCO and AmerenCIPS.

VI. INCENTIVE COMPENSATION

Q. Please describe Ameren Exhibit 20.4, related to incentive compensation.

A. Ameren Exhibit 20.4 was prepared in support of Ameren Illinois Utilities' witness Ms. Krista Bauer's rebuttal testimony. Ameren Exhibit 20.4 shows my calculations of percentage breakdowns of 2008 payout allocations by "financial-based" and "performance-based" amounts, as described in Ms. Bauer's testimony.

Q. How did you determine the percentage breakdowns shown in 20.4?

A. Using the Ameren Illinois Utilities' 2008 budgeted amounts of incentive compensation plan payouts, I applied the 2007 AMS labor allocator to the AMS portion of the incentive compensation plan payouts to allocate AMS between the utilities, allocated the target budget between gas and electric, and then between O&M and capitalized.

Q. Please describe the expected (budgeted) payout breakdowns shown in Ameren Exhibit 20.4.

A. The first portion, labeled 2008 Incentive Compensation Plan – 2008 Budgeted Amounts, represents the amounts of the new incentive compensation plan based upon 2008 budgeted amounts. It is broken down into two pieces: O&M related incentive compensation and capitalized incentive compensation. Each piece is further divided into performance based and financial based incentive compensation. These amounts are used to develop the percentage of performance based and financial based incentive compensation. The second portion, labeled 2006 Incentive Compensation Plan – 2008 Budget Amount Allocation, was developed by using the amount of Staff's incentive compensation adjustment (ICC Staff Ex. 1.0, Schedule 1.07) and multiplying it by the appropriate percentage developed in the first section.

VII. ACCOUNTING FOR GAS LOSSES

Q. What is Staff's position regarding accounting for gas losses?

A. Staff witness Everson proposes reclassifying gas losses according to the nature of the gas losses. In particular, she asserts, based on the testimony of Staff witness Mr. Daniel Anderson, that gas losses that occur as a result of a specific cause or incident can be characterized as "physical losses" and this type of physical loss should be classified as a current operating expense and recorded in Account 823, "Gas losses". She further asserts that losses that are not attributable to a specific cause or incident can be characterized as storage field performance variations, and this gas should be classified as "non-recoverable base gas" and recorded in Account 352.3, "Nonrecoverable natural gas." .

Q. Why does Ms. Everson's believe it is necessary to reclassify gas losses?

A. As discussed by Ameren witness Stephen Underwood, she believes that, based on Mr. Anderson's analysis of the nature of the losses experienced in recent years, that some of Ameren's gas field performance variations should have been recorded in Account 352.3. In reliance on Mr. Anderson's testimony, Ms.

Everson re-categorized almost all unidentified gas losses as performance variations, and thus added inventory to Account 352.3.

Q. Do you agree with the conclusions of Staff regarding accounting of gas losses?

A. No. As I discuss below, and based upon the rebuttal testimony of Ameren witness Stephen D. Underwood, it is not appropriate to treat performance variations separately from physical losses for the purposes of accounting for lost gas. According to Ameren witness Underwood, the gas described by Mr. Anderson as a "performance variation" is lost gas properly included in Account 823 ("Gas losses").

Q. How does the Uniform System of Accounts for Gas Utilities address gas losses?

A. Account 823 covers gas losses, and states as follows:

> This Account shall include the amounts of inventory adjustments representing the cost of gas lost or unaccounted for in underground storage operations due to cumulative inaccuracies of gas measurements or other causes. (See Paragraph G of Account 117, Gas stored underground – Noncurrent.) If, however, any adjustment is substantial, the utility may, with approval of the Commission, amortize the amount of the adjustment to this Account over future operating periods.

Mr. Anderson, in lines 127 – 135 of his testimony, admits that significant "performance variations" result from: (i) errors introduced over long periods of time through engineering calculations, (ii) numerous gas losses that occur that are not estimated because they are unknown or of small magnitude, and (iii) accumulated clerical and accounting errors, metering inaccuracies, and other operational/maintenance losses. These types of "performance variations" that Mr. Anderson refers to appear to be the exact "cumulative inaccuracies of gas measurements" that must be recorded in Account 823. As a result, the language of Account 823 makes clear there is no basis to shift performance variations to Account 352.3.

Q. Do you agree with the recommendation that the gas identified by the Ameren Illinois Utilities as lost be classified as non-recoverable base gas?

A. The Ameren Illinois Utilities disagree with the recommendation, as discussed in Mr. Underwood's testimony. As I discussed above, the language of Account 823 makes clear that gas losses, including performance variations described by Mr. Lounsberry, are properly included in Account 823. In his testimony, Mr. Underwood states that reservoirs cannot hold an infinite volume of gas, and that, in its present form, the recommendation to continually transfer performance variations to non-recoverable base gas does not take into account the ability of the reservoir to physically hold these volumes of gas. Thus, Staff's recommendation to continually transfer performance variations to Account 352.3, as non-recoverable base gas, would eventually exceed the capacity of the reservoir to hold gas and would cause rate base related to the gas storage field to increase substantially over time.

Q. Does the language of Account 352.3 address lost gas?

A. No, it does not. Account 352.3, Nonrecoverable natural gas, states:

> A. This account shall include the cost of gas in underground reservoirs, including depleted gas or oil fields and other underground caverns or reservoirs used for the storage of gas which will not be recoverable.
>
> B. Such nonrecoverable gas shall be priced at the acquisition cost of native gas or, when acquired for storage by purchase or presumed to be supplied from the utility's own production, priced as outlined in Paragraph B of Account 117, Gas stored underground – Noncurrent. After devotion to storage, the cost of the gas shall not be restated to effect subsequent price changes in purchased gas or changes in the cost of gas produced by the utility. When the utility has followed the practice of adjusting nonrecoverable gas to the weighted average cost of gas purchased or supplied from its own production, cost shall be the weighted average cost of such gas at the effective date of this Account.

Account 352.3 does not refer to the calculation or recording of gas losses. Account 352.3 refers to gas in the reservoir, so it is not an appropriate account to record lost gas. As discussed above and in the rebuttal testimony of Mr. Underwood, Mr. Anderson's performance variations are lost gas, and as such should be recorded in Account 823.

Q. Do you agree with Ms. Everson's recommendation that the Ameren Illinois Utilities should in future record gas losses according to the nature of the loss, with physical losses expensed in Account 823; and adjustments for underground storage field performance variations recorded in Account 352.3?

A. No. Based on Mr. Underwood's testimony and for the reasons I discuss above, it is not appropriate to record what Staff describes as "performance variations" in a separate account, and it is not appropriate to record the performance variations as unrecoverable gas.

Q. If the Staff's recommendation were to be adopted, do you agree with the method used to calculate the change in nonrecoverable gas costs?

A. No. Staff's recommendation does not treat gas consistently from year to year. Staff suggests capitalizing certain gas losses for 2006, thus reducing the Ameren Illinois Utilities' test year expense and increasing rate base. But if Staff's recommendation is followed, then like gas losses should be evaluated and capitalized as well, and become a part of rate base. In the testimony presented by Ms. Everson in Schedule 2.04-CILCO G (Page 2 of 2), Schedule 2.04 – CIPS G (Page 2 of 2), and Schedule 2.04 – IP G (Page 2 of 2), the dollar and volume of gas losses switched from Account 823 to Account 352.3 were only for the gas losses identified in 2006. To properly adjust in this manner, gas losses identified as performance variations in other years would also need to be adjusted from Account 823 to Account 352.3. Mr. Underwood summarizes the impact to rate base associated with transferring "performance variation" gas losses into rate base over the last ten years.

VIII. <u>CONCLUSION</u>

Q. Does this conclude your testimony?

A. Yes, it does.