Ameren Ex. 45.0

ILLINOIS COMMERCE COMMISSION

ICC DOCKET NO. 07-0585 (CONS.)

SURREBUTTAL 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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SURREBUTTAL TESTIMONY OF MICHAEL J. ADAMS

I. INTRODUCTION

A. Witness Identification

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 direct and rebuttal testimony in this proceeding?

A. Yes, I am.

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

A. I am sponsoring this surrebuttal 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").

B. Purpose and Scope

Q. What is the purpose of your testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Illinois Commerce Commission ("ICC" or the "Commission") Staff witnesses

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

Q. Please summarize the conclusions of your surrebuttal testimony.

A. As detailed below, I conclude the following:

- The Ameren Illinois Utilities complied with the Commission's directive to perform a review of the Ameren Services Company ("AMS") charges included in Administrative and General ("A&G") expenses;
- The Ameren Illinois Utilities' study has fully justified the charges from AMS;
- The Companies have appropriately recorded the charges associated with the services provided by AMS, in accordance with the General Services Agreement ("GSA") and cost causation principles;
- The Commission's preference for direct assignment remains preferable to the use of general allocators;
- Staff's proposed adjustment results in an unreasonable allocation of costs and does not reflect the benefits derived from AMS' services;
- The relative size of the various Ameren subsidiaries is not the proper basis upon which to allocate AMS' costs;
- Staff's proposed adjustment should be rejected;
- Staff's proposed adjustment to include pass through taxes in the cash working capital ("CWC") adjustment with no revenue lag days does not reflect the reality of the timing of cash receipts and payments and should be rejected;
- Including capitalized payroll in the CWC analyses creates an artificial imbalance between revenues and expenses and does not accurately reflect the cash working capital requirements of the Ameren Illinois Utilities; and
- Staff's assumption that affiliated energy providers should provide preferential payment terms different than those provided by non-affiliated companies is unsubstantiated, inconsistent with the Commission's affiliated interest rules and should be rejected.

C. Identification of Exhibits

Q. Are you sponsoring any exhibits with your surrebuttal testimony?

A. Yes, in addition to my surrebuttal testimony, I am sponsoring the following exhibits:

- Ameren Exhibit 45.1 – Allocation of AMS' Costs to Ameren Subsidiaries
- Ameren Exhibit 45.2 –Service Request Review
- Ameren Exhibit 45.3 – Cash Working Capital Requirements for AmerenCILCO Gas (Including Prepayments)
- Ameren Exhibit 45.4 – Cash Working Capital Requirements for AmerenCIPS Gas (Including Prepayments)
- Ameren Exhibit 45.5 – Cash Working Capital Requirements for AmerenIP Gas (Including Prepayments).

II. RESPONSE TO STAFF WITNESS LAZARE

Q. Have you reviewed the rebuttal testimony of Staff witness Lazare?

A. Yes, I have.

Q. Has Staff witness Lazare modified his position regarding the reasonableness of the costs charged by Ameren Services Company ("AMS") to the Ameren Illinois Utilities?

A. He has corrected one of many errors in the calculation of his proposed adjustment. With that exception, Staff witness Lazare has not modified his proposed adjustment.

Q. Did you provide rebuttal testimony which addressed the issues raised by Staff witness Lazare pertaining to the allocation of AMS' costs to the Ameren Illinois Utilities?

A. Yes, I did.

Q. Has anything that Staff witness Lazare states in his rebuttal testimony caused you to modify the positions set forth in your rebuttal testimony?

A. No.

Q. Please summarize Staff witness Lazare's proposed adjustment to the level of AMS' costs allocated to the Ameren Illinois Utilities.

A. Staff witness Lazare's revised proposed adjustment to the Ameren Illinois Utilities' expenses amounts to $48.32 million. The proposed adjustment ignores the existence of the Commission approved and applied General Services Agreement ("GSA") and instead employs three allocators (one of which is not even an allocation factor identified in the GSA) to redistribute all of the AMS charges proportionately to each of the Ameren subsidiaries, without regard for whether and to the extent each Ameren subsidiary received any benefit from the AMS services being reallocated. The fact remains, there has been a proper allocation of AMS incurred expense to the Ameren Illinois Utilities, a fact never disputed by Staff witness Lazare. Staff's proposed adjustment addresses all AMS charges, not just those recorded as Administrative and General ("A&G") expenses, which the Ameren Illinois Utilities believe is contrary to the

Commission's Order in Docket No. 06-0070 (Cons.). Staff witness Lazare's proposed adjustment also disregards whether the AMS charges were capitalized or expensed. For purposes of calculating his proposed adjustment, Staff witness Lazare treats all dollars as if they were operating expenses.

Q. Before responding to the flaws in Staff's position, do you have any general observations regarding Staff witness Lazare's proposed adjustment?

A. Yes. As I noted in my rebuttal testimony, Staff's original proposed adjustment amounted to approximately 11 percent of the Ameren Illinois Utilities total operating expenses. The revised adjustment amounts to approximately 9 percent of total operating expenses, an immense disallowance. What firm can meaningfully operate when it cannot recover nine percent of its operating costs? Staff witness Lazare does not respond to this particular observation in his rebuttal testimony. Further, while he proposes to ignore the GSA for ratemaking purposes, the Ameren Illinois Utilities would presumably remain obligated to record AMS' costs in accordance with the GSA—because that's what this Commission has ordered. Given that scenario, approximately 21 percent of the Staff's proposed operating income and a similar percentage of Staff's proposed return on rate base for the Ameren Illinois Utilities will be wiped out if the Commission adopts Staff witness Lazare's proposed adjustment.

Q. What are the underlying assumptions upon which Staff witness Lazare's proposed adjustment is based?

A. Staff witness Lazare's adjustment is premised upon three flawed assumptions. The first key assumption is that the Ameren Illinois Utilities have been allocated a disproportionate share of AMS' costs based upon their relative size compared to other Ameren subsidiaries using the three metrics he selects. The second key assumption is that the GSA is irrelevant when reviewing the manner in which AMS' costs were assigned to the various Ameren subsidiaries. Staff witness Lazare's final key assumption is that the scope of the review of AMS' costs, as ordered by the Commission in Docket Nos. 06-0170 (Cons.) was intended to address all AMS costs as opposed to the A&G study sponsored by the Ameren Illinois Utilities. As I will discuss, each of the assumptions underlying Staff witness Lazare's proposed adjustment are erroneous.

Q. Is the primary basis of Staff witness Lazare's proposed adjustment that the level of AMS' costs charged to the Ameren Illinois Utilities are excessive based upon the relative size of the Ameren Illinois Utilities in comparison to the other Ameren subsidiaries?

A. Yes, it is.

Q. Do you agree with Mr. Lazare?

A. No, I do not.

Q. Why not?

A. First of all, the premise that the "relative size" of a company is even an appropriate basis upon which to evaluate the reasonableness of the costs allocated

by AMS to the Ameren Illinois Utilities is wrong. Such a premise erroneously assumes that each of the companies to which costs are being allocated require the same types and levels of services. This is clearly not the case with the Ameren subsidiaries.

Staff's premise fails to consider the specific services that are provided, the costs of such services, and the basis of allocation. The assumption is made that all services benefit each of the Ameren subsidiaries in proportion to their relative size using Staff witness Lazare's metrics. As I discussed at length in my rebuttal (and was not addressed in Staff's rebuttal), Staff's AMS charges adjustment ignores fundamental cost causation principles. Staff disregards the evidence that certain services are provided for the exclusive benefit of one or more of the Ameren subsidiaries.

Q. Does AMS directly assign costs wherever possible?

A. Yes it does. As I stated in my rebuttal testimony, approximately 30 percent of AMS' costs were directly assigned to the Ameren Illinois Utilities.[1]

Q. Is it true that the Commission has continued to express a preference for the use of direct assignment of costs wherever possible?

A. Yes, it has.

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[1] Ameren Exhibit 21.0, p. 15, lines 273-275.

Q. Has Staff witness Lazare accepted the reasonableness of the direct assignment of costs?

A. No. Ameren witness Nelson, an officer of the Ameren Illinois Utilities, testifies that certain employees directly assign their costs to the Ameren Illinois Utilities. Similarly, I discuss the direct assignment of costs for various Service Requests ("SRs"). Despite this evidence, Staff witness Lazare asserts that the Ameren Illinois Utilities have provided no proof that the services were provided for the exclusive benefit of the Ameren Illinois Utilities. Staff offers no insight as to the nature of the proof required. So, it would seem, sometimes a direct assignment of costs is preferred by Staff, sometimes a general allocation approach is preferred by Staff, and I suppose, some hybrid but the point is, we are dealing with the proverbial moving target when all the Ameren Illinois Utilities intend is to abide by the Commission's directives.

Q. What justification does Staff witness Lazare provide for deviating from the Commission's long-standing preference for direct assignment?

A. While Staff witness Lazare acknowledges the Commission's preference for direct assignment, he asserts "that does not guarantee a preference over a general allocation approach in each and every case.[2]" No other justification was provided, and no explanation was offered as to why the Commission should deviate from its preference in this case.

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[2] Lazare Rebuttal, p. 14, lines 332-333.

Q. Does Staff's espoused position comply with any standard of cost causation that you are aware of?

A. No. To the contrary, the concept of cost causation is conspicuously absent from Staff witness Lazare's testimony. Whereas cost causation principles call for the assignment of costs based upon the benefit derived by each company receiving a service, Staff's position is at the opposite end of the spectrum whereby every Ameren subsidiary would receive a portion of AMS' costs of providing a service regardless of whether each subsidiary derived any benefit from a service.

Q. Does the GSA provide some foundation regarding the Commission's expectation regarding the allocation of shared services costs provided by affiliated companies?

A. Yes it does. The GSA provides direction regarding the nature of the services to be provided by AMS to the Ameren Illinois Utilities and how the costs associated with such services should be allocated. When the GSA is amended, the Commission's Accounting Staff reviews and responds to the requested changes and provides recommendations as to potential modifications to the Ameren Illinois Utilities' positions. As with a rate case, the Commission weighs the evidence in the proceeding and renders an opinion as to the reasonableness of the modifications to the GSA. Based upon the review and approval by the Commission, the Ameren Illinois Utilities should have a reasonable expectation that the Commission expects the Companies to adhere to the terms of the GSA.

Q. What weight does Staff witness Lazare give the GSA?

A. Staff witness Lazare effectively ignores the GSA. He cites the Commission's Order in Docket Nos. 06-0070 (Cons.) to allegedly support his position that the GSA is not binding on the Commission. I do not construe the language in the Commission's Order as broadly as does Staff witness Lazare but that is a matter for the lawyers to address in briefs. With the caveat that I am not an attorney, in its Order, the Commission states "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.[3] The Commission does not suggest that the GSA should be set aside for some alternative allocation approach.

As I stated earlier and also in my rebuttal testimony, it is reasonable to conclude that the Commission would want to review the costs which are allocated by AMS to the Ameren Illinois Utilities. It is also reasonable that the Commission would want to review the compliance with the terms of the GSA. The leap which Staff witness Lazare erroneously makes, in my opinion, is that the GSA can be wholesale ignored in rate proceedings. Such a position would be poor regulatory policy.

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[3] Order on Rehearing, May 16, 2007), p. 28.

Simply stated, Staff witness Lazare has no foundation for his proposed adjustment if the Ameren Illinois Utilities are expected to comply with the terms of the GSA.

Q. If the GSA is not the guiding document against which allocations from AMS to the Ameren Illinois Utilities are evaluated, what standards has the Commission articulated with regards to the review of costs incurred on behalf of the regulated utilities in the State of Illinois?

A. To my knowledge, no such standards have been established by the Commission. As a result, the standards to which the various companies are held are imposed by each individual witness, which results in inconsistent standards across companies.

Q. Does such an approach produce equitable results for each of the regulated companies?

A. No. As I stated in my rebuttal testimony, the standard to which Staff witness Lazare is holding the Ameren Illinois Utilities in these proceedings is markedly different than that to which Commonwealth Edison Company ("ComEd") was held in its current rate proceeding.

Q. Please explain.

A. As I explained in my rebuttal testimony, ComEd presented testimony similar to that filed by the Ameren Illinois Utilities in support of their shared service costs. No Staff witness questioned the evidence. Clearly ComEd was not held to the

same standard of proof as the Ameren Illinois Utilities have been in these proceedings.

Q. Why was the scope of the AMS study limited solely to A&G costs?

A. As I explained at length in my rebuttal testimony, the Ameren Illinois Utilities had a reasonable expectation based upon the concerns expressed by the Commission in their last delivery service rate case that the focus of the review should be on A&G expenses. The Commission's adjustment to AMS' costs was reflected in A&G only accounts. The sole focus of the Commission's discussion in its final Order was related to A&G expenses. During rehearing, the parties (including Staff witness Lazare) focused exclusively on A&G expenses. The Commission's directive to perform the AMS study was contained in the A&G section of the final Order.

The quote which Staff witness Lazare cites in his rebuttal testimony further supports the Ameren Illinois Utilities' position regarding the intended scope of the review of AMS' costs. The first line of the quotation states "The Commission is concerned about the magnitude of the increase in **A&G expenses** and the lack of substantiation for these increases.[4]" (emphasis added) The Commission's focus was exclusively on A&G expenses.

The Ameren Illinois Utilities have fully complied with the directive ordered by the Commission.

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[4] Lazare Rebuttal, p. 30, lines 697 and 698.

Q. What percentage of total AMS charges are A&G related?

A. A&G expenses account for approximately 62 percent of total AMS charges.

Q. Does Staff witness Lazare also conclude that the study of AMS' costs was deficient because it does not address all costs regardless of whether the costs associated with a service are not charged to the Ameren Illinois Utilities?

A. Yes, he does.

Q. How do you respond?

A. Staff witness Lazare's position is perplexing. He complains that the level of costs allocated to the Ameren Illinois Utilities is "disproportionately high" yet he wants to review other services to presumably determine if additional costs should be allocated to the Ameren Illinois Utilities. There would be no other reason to provide the information.

Q. Why were the AMS services for which no costs were allocated to the Ameren Illinois Utilities excluded from the study?

A. Again the issue goes to the concept of cost causation. Only those A&G services for which a portion of the costs were allocated to the Ameren Illinois Utilities were reviewed. If no benefit was derived from a service and no costs were allocated to the Ameren Illinois Utilities associated with such services, the services were appropriately excluded from the study. It is not persuasive to suggest that the exclusion of those services which do not impact the Ameren Illinois Utilities somehow negatively impacts the veracity of the AMS study.

Q. For those services for which a portion or all of the costs were allocated to the Ameren Illinois Utilities, did the study fully address the allocation of costs to all Ameren subsidiaries?

A. Yes. Despite Staff witness Lazare's assertions to the contrary, for each of the A&G-related SRs which were allocated in whole or in part to the Ameren Illinois Utilities, the study shows the allocation basis, and the dollars and percentage of costs allocated to each of the Ameren subsidiaries. Appendix 6 to Ameren Exhibit 5.14 is a 197 page appendix which shows for each SR:

- The SR Number;
- The Project Name;
- The lead resource center;
- The total amount charged to the SR;
- The amount charged to each of the Ameren Illinois Utilities;
- The amount charged to each of the other Ameren subsidiaries;
- The percentage allocated to each of the Ameren subsidiaries;
- The factor used to allocate the costs to each of the Ameren subsidiaries; and
- The formula used to calculate the allocation factor.

Q. Does Staff witness Lazare raise questions regarding five SRs which were contained in Appendix 6 to Ameren Exhibit 5.14?

A. Yes, he does.

Q. How do you respond to Staff witness Lazare's criticisms of the five SRs?

A. The five SRs actually undermine Staff witness Lazare's position. Each of the five SRs clearly identifies the specific Ameren Illinois Utility for which the work in question is being performed. As an example, referring to SR A2649, the project name is "IP Applications Support". The description states "This SR records the cost of maintaining, supporting, and enhancing existing and new computer systems associated with Illinois Power." The costs charged to the SR are, therefore, logically billed 100 percent to AmerenIP.

In response to this information Staff witness Lazare merely alleges that "the service request does not identify or explain the specific activities undertaken of AmerenIP's computer systems.[5]" No argument is proffered that the work performed under this SR do not directly benefit AmerenIP, yet Staff witness Lazare proposes to re-allocate the charges to each of the Ameren subsidiaries. Without further analysis the description of the SR is just that-a limited electronic tab-the tab is not expected to be a full length description of the associated work. Yet, without any investigation, Staff is content to throw out dollars associated with customer derived benefits.

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[5] Lazare Rebuttal, p. 16, lines 376-377.

Perhaps even more suspect is questioning SR A0155. The project name of the SR is "Building Services Labor – Ameren/CIPS." The description of the services provided states "The services provided under this SR are A&G related activities associated with management of the operation and maintenance of CIPS owned buildings, including associated administrative, space utilization and supervision.[6]"

Staff witness Lazare's criticism of this SR is that "it is also not clear why ratepayers benefit from having AMS employees, rather than AmerenCIPS employees, manage and maintain utility-owned buildings.[7]" First, Staff witness Lazare does not dispute that the services in question are provided for the exclusive benefit of AmerenCIPS. Second, AMS provides its services to the Ameren Illinois Utilities at cost, therefore the cost of an AMS employee should be no different than that of a utility employee. This fact was stated on page 28 of Ameren Exhibit 5.14. Therefore, who the individuals that operate and maintain the AmerenCIPS buildings work for is irrelevant.

Q. Setting aside the rationale for the proposed adjustment, do you agree with the calculation made by Staff witness Lazare?

A. No, I do not. Staff witness Lazare does not differentiate between capitalized expenditures and operating expenses. In fact, included in the total AMS figure

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6 Ameren Exhibit 5.14, Appendix 6, page 45.

7 Lazare Rebuttal, p. 17, lines 398-400.

shown on Schedule 18.02, page 1 of 2, of Staff witness Lazare's rebuttal testimony, is approximately $55 million (or 11.5 percent of the total) of capitalized expenditures. Staff witness Lazare merely treats all dollars the same for purposes of his proposed adjustment. Staff witness Lazare dismisses my criticism by stating, "since both sets of costs are being passed along to Illinois ratepayers, the Commission must ensure that capitalized costs are also allocated in a reasonable manner.[8]" While Staff witness Lazare's statement may be true, it clearly misses the point. When proposing an adjustment, whether the costs in question have been capitalized or expensed can not be ignored.

Q. Please explain.

A. If Staff had proposed to disallow the capitalized costs of a substation, the costs would not be eliminated from operating expenses. Clearly, the proper adjustment would be to eliminate the cost of the substation from plant in service. Staff witness Lazare fails to present the appropriate treatment of his proposed adjustment. While the distinction may be of no concern to Staff witness Lazare, I can assure the Commission that while no adjustment is palatable, an adjustment of a dollar amount to rate base is not the same as a similarly sized adjustment to operating expenses.

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[8] Lazare Rebuttal, p. 12, lines 278-280.

Q. Is it your belief that the AMS costs allocated to the Ameren Illinois Utilities and recorded in the Ameren Illinois Utilities' A&G accounts have been fully justified?

A. Yes, they have.

Q. Absent an articulated standard by the Commission or Staff, what evidence has the Ameren Illinois Utilities provided to substantiate the reasonableness of AMS' costs?

A. The Ameren Illinois Utilities provided evidence regarding trends in total A&G costs over recent years, including the total cost per customer trends which have declined sharply. The results of a benchmarking study were provided for both the gas and electric businesses which clearly show that the Ameren Illinois Utilities, both collectively and individually, compare well to other gas, electric and combination utilities. The benchmarking compared for the Ameren Illinois Utilities to (1) all utilities within the United States; (2) regional utilities in the Midwest; and (3) similarly sized utilities. For the electric businesses of the Ameren Illinois Utilities, the A&G expenses were compared against other electric distribution only companies. The benchmarking results are complete and provide sound comparisons for similarly sized and situated companies.

As part of my rebuttal testimony, I also presented the results of the benchmarking of the Ameren Illinois Utilities' total O&M expenses.[9] Again, the

[9] Ameren Exhibits 21.02 and 21.03.

benchmarking results showed that the Ameren Illinois Utilities compared well, both collectively and individually, to other utilities.

The Ameren Illinois Utilities have also provided the results of the benchmarking of the costs of specific services provided by AMS to the Ameren Illinois Utilities. For each of the services provided by AMS, for which there was comparable data, the total cost of providing the service was compared to both other utilities and to non-utility companies. For the most part, AMS' costs compared favorably to the peer companies.

Finally, the results of a review of AMS' allocation process were provided. The review assessed the nature of the services provided, the costs of providing the services, the benefactors of the services, the allocation bases employed to distribute the costs and the appropriateness of the ultimate cost to each of the Ameren Illinois Utilities related to each service.

Q. Staff witness Lazare contends that your rebuttal testimony focused on the shortcomings in his analyses rather than answering questions he raised regarding your study of AMS' costs.[10] How do you respond?

A. I disagree. Staff witness Lazare does not cite a single specific concern regarding the AMS expenses included in the Ameren Illinois Utilities costs.

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[10] Lazare Rebuttal, p. 20, lines 463-471.

Q. Staff witness Lazare asserts that the "fundamental issue here is the overall allocation of all AMS to all Ameren Companies.[11]" How do you respond?

A. I disagree with Staff witness Lazare's position. I believe that one of the issues to be resolved in these proceedings is the reasonableness of the allocations of AMS' costs to the Ameren Illinois Utilities. While such a conclusion includes an assessment of whether costs are allocated based upon reasonable cost causation principles, those services which have no impact on the costs of the Ameren Illinois Utilities are irrelevant to these proceedings.

Staff witness Lazare has provided no evidence to support his belief that all services support each of the Ameren subsidiaries. He can not produce evidence to support such a claim because the position is not accurate. The reason that the allocation of AMS' costs is higher to the regulated utilities than to other Ameren subsidiaries is that the regulated subsidiaries require a higher level of support.

Q. Figure V-1 in Ameren Exhibit 5.14 shows the allocation of AMS' A&G charges to the various Ameren subsidiaries. Have you updated the figure to reflect total AMS charges?

A. Yes. Ameren Exhibit 45.01 shows the amount and percentage of AMS' charges to the various Ameren subsidiaries. As the exhibit shows, AmerenCILCO received 10 percent of total AMS charges while AmerenCIPS and AmerenIP

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[11] Lazare Rebuttal, p. 18, lines 425-426.

received 14 and 21 percent, respectively. AmerenUE and the other Ameren subsidiaries received 55 percent of the total AMS charges.

The following table shows a breakdown of the AMS charges by account classification. As the table shows, A&G expenses represented over 62 percent of total AMS charges. The second highest category of charges were capitalized expenditures, which accounted for over 11 percent of total AMS charges.

Line No.	Account Classification	Amount Charged	% Charged
	(A)	(B)	(C)
1	A&G	$ 293,724,851	62.03%
2	Capitalized	54,435,552	11.50%
3	Distribution	24,332,304	5.14%
4	Customer Accounts	24,188,068	5.11%
5	Generation	15,463,884	3.27%
6	Balance Sheet	14,685,072	3.10%
7	Clearing Accounts	13,510,215	2.85%
8	Gas	13,206,807	2.79%
9	Transmission	9,762,242	2.06%
10	Other Income & Deductions	5,831,332	1.23%
11	Sales	2,505,565	0.53%
12	Customer Service	1,905,713	0.40%
13		$ 473,551,604	100.00%

Q. What can be concluded from the above table?

A. First of all, the amount of capitalized dollars which Staff witness Lazare mistakenly treats as operating expenses are material. Second, over $63 million of AMS charges were charged to the distribution, customer accounts, gas, and customer services functions. Clearly these are functions associated with the pipes and wires businesses run by the Ameren Illinois Utilities and AmerenUE. The services provided by AMS would be in support of the provisioning of services to

the customers of the Ameren Illinois Utilities and AmerenUE and should be recovered from those customers which benefit from the services. Therefore, proposing to reallocate these charges to the remaining Ameren subsidiaries simply does not make sense.

Q. In a further effort to ameliorate Staff witness Lazare's concerns, have you created an exhibit similar to Appendix 6 from Ameren Exhibit 5.14 reflecting all SRs?

A. Yes. Ameren Exhibit 45.02 shows the same information as that contained in Appendix 6 to Ameren Exhibit 5.14. Ameren Exhibit 45.02 contains a sheet summarizing each of the 881 SR which allocated charges to the Ameren Illinois Utilities during the test year. In addition to the information which was provided on Appendix 6, a summary of the account classifications to which charges were recorded.

Q. Do you have any observations regarding the 881 SRs?

A. Yes. Based upon my review, approximately one-half of the SRs pertain to specific initiatives undertaken by the Ameren Illinois Utilities such as storm repairs, pipe or wire relocations due to governmental road construction; new business additions; and system reliability or condition improvements. The costs incurred for each of these types of SRs were appropriately charged to the specific Ameren Illinois Utility for which the work was performed.

Q. Can you provide specific examples of SRs which you believe clearly benefit only one of the Ameren Illinois Utilities?

A. Yes. SR 0K476[12] is entitled "Champaign Mattis-Replace Capacity Bank Cans". The description of the worked performed under this SR states "This SR captures costs associated with replacing capacitor bank cans at the Champaign Mattis substation, including engineering, drafting, supervision, surveying, consulting, material and labor." The SR is directly allocated to AmerenIP.

SR C0290[13] is entitled "Strong Thunderstorms/Tornado 3/11/06." The description of the work performed states "This SR captures the costs associated with thunderstorms/tornado that occurred on 3-11-06." The SR is appropriately directly allocated to AmerenCIPS.

SR C1227[14] is entitled "Electric Government Relocations CILCO." The description of work performed under this SR states "This SR captures the costs for the miscellaneous electric government relocation jobs for AmerenCILCO, Budget Group E-50." The SR is directly allocated to AmerenCILCO.

There are numerous other examples of such projects which are clearly performed for the exclusive benefit of one of the Ameren Illinois Utilities.

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12 Ameren Exhibit 45.02, p. 93.

13 Ameren Exhibit 45.02, p. 723.

14 Ameren Exhibit 45.02, p. 736.

Q. How would these Company-specific improvements be treated under Staff witness Lazare's proposed adjustment?

A. Under Staff witness Lazare's proposed treatment of AMS' costs, a portion of costs would be allocated to each Ameren subsidiary. It is illogical, at best, to allocate costs which clearly benefit only one of the Ameren subsidiaries to each of the subsidiaries. Only companies which benefit from the services should bear the costs of the services.

Q. Staff witness Lazare has suggested that it is difficult to determine for SRs which are directly billed to one of the Ameren Illinois Utilities whether some amount should be allocated to other Ameren subsidiaries. How do you respond?

A. Some of the SRs which I discussed in my rebuttal testimony were directly assigned to one of the Ameren Illinois Utilities. Staff witness Lazare has implied that he has no way to determine that the direct assignment was appropriate. A review of the SRs reveals, however, than in many instances there are similar SRs for the other companies as well. The following table sets forth just a few of the activities which have unique SRs at each or most of the regulated utilities.

Line No.	Service Provided	Service Request Number For			
		AmerenCILCO	AmerenCIPS	AmerenIP	AmerenUE
	(A)	(B)	(C)	(D)	(E)
1	Pipeline Integrity	0K396	0K398	0K399	0K397
2	Energy Delivery Electric Training	A2462	A0179	A2611	A0176
3	Construction Standards	A2486	A0202	A2594	A0200
4	Governmental Affairs	A2387	A0897	A2598	A0896
5	IT Application support	A2398	A1006	A2649	A1007
6	Energy Delivery Performance Improvement	A2450	A2393	A2607	A2392
7	Electric Training	A3076	A2395	A2611	none
8	Risk Management	A2421	A0354	none	A0102
9	Gas Meter Testing	A2443	A2444	A2918	none
10	Accounting Support related to Customer Load	A2479	A2478	none	A2477
11	Support Regional Operations	A2652	A2654	A2672	none
12	Support Customer Service	A2653	A2654	A2672	none
13	CTG related activities	A2731	none	none	A2728
14	Rent for facilities only used by to support Ameren Illinois	A2910	A2910	A2910	none
15	New business blankets - Electric	C1250	C0101	C3201	0A197
16	Transmission and Distribution Line blankets	C1122	C0102	C3176	0A073
17	Government Relocations	C1227	C0103	C3183	0A012
18	Tax related activities	A2354	A0183	A2605	A0178
19	Economic Development Services	A2372	A0833	A2623	A0839
20	Industrial Relations Support	A2481	A0157	A2628	A0154
21	Labor/HR Service for BCS	A2834	A2833	A2832	A2831
22	Gas Training Support	A2447	A0294	A2615	A0291
23	Gas Storage Support	A2635	A2634	A2614	none
24	Division Operations Support	A2712	A2713	A2714	none
25	Customer Service Support	A2722	A2720	A2723	none
26	Building Services Labor	A2412	A0155	A2603	A0153
27	Property Management	A2420	A0282	A2593	A0281
28	Strategic Sourcing	A2557	A2558	none	A2556

Q. Does Staff witness Lazare's proposed treatment of AMS costs result in an equitable treatment of such costs?

A. No. Staff witness Lazare's proposed adjustment to AMS costs merely redistributes the actual costs proportionately to each Ameren subsidiary employing the three metrics which he purports reflect the relative size of each of the companies. The proposed redistribution of costs disregards all cost causation principles in favor of the three metrics. Under Staff witness Lazare's proposed approach, costs which exclusively benefit the Ameren Illinois Utilities' customers would be spread to AmerenUE and Ameren's non-regulated utilities. Similarly, AmerenUE specific costs and those of the non-regulated subsidiaries would be reallocated to the Ameren Illinois Utilities. Clearly, the Ameren Illinois Utilities'

customers should not be required to pay for services from which they derived any benefit. Such is the scenario created by Staff witness Lazare.

III. RESPONSE TO STAFF WITNESS KAHLE

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

A. Yes, I have.

Q. What differences still exist between your position and that of Staff witness Kahle related to the appropriate level of cash working capital ("CWC") requirements proposed for the Ameren Illinois Utilities?

A. The remaining differences relate to the (1) Staff's inappropriate inclusion of pass-through taxes in the calculation of the revenue lag at zero lead days and (2) Staff's flawed position that certain capitalized expenditures should be included in CWC analysis as operating expenses.

Q. Did Staff witness Kahle propose an adjustment to the CWC analyses to reflect the interest on Transitional Funding Trust Notes ("TFTN")?

A. Yes, he did.

Q. Do you agree with Staff witness Kahle's proposed treatment of the interest on TFTNs?

A. Yes, the adjustment proposed by Staff witness Kahle pertaining to the treatment of the interest expense on TFTNs is appropriate.

Q. Is the use of the Gross Lag methodology still an open issue?

A. No. As I stated in my rebuttal testimony, while I remain a proponent of the use of the Net Lag methodology, I am willing to accept the use of the Gross Lag methodology as long as the methodology is applied properly. As I will discuss, Staff witness Kahle's proposed inclusion of capitalized expenditures in the CWC requirements determined under the Gross Lag methodology inappropriately skew the results of the analyses.

Q. Do you have any comments regarding Staff witness Kahle's discussion in his rebuttal testimony regarding the Gross Lag methodology?

A. Yes. Staff witness Kahle states that "The Net Lag methodology does not consider the amount of cash provided by ratepayers through base rates.[15]" Such a statement is not true. As I stated in both my direct and rebuttal testimony, the Net Lag methodology presumes that the operating expenses considered in the analysis are the same as the revenues available to pay such operating expenses. Therefore, the Net Lag methodology inherently includes the consideration of revenues, but it does not reflect revenues on the exhibit.[16]" Staff continues to have the misperception that only the Gross Lag methodology reflects revenues. In fact, both methodologies reflect revenues but only the Gross Lag methodology actually shows the revenues on the exhibit.

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[15] Rebuttal Testimony of Daniel G. Kahle, May 14, 2008, p. 4, lines 74 – 75.

[16] Ameren Exhibit 5.0, p. 26, lines 548-551 and Ameren Exhibit 21.0, p. 67, lines 1256 – 1259.

A. Pass Through Taxes

Q. Does Staff witness Kahle continue to recommend that pass through taxes be included in the CWC analyses with a revenue lag of zero days?

A. Yes, he does.

Q. Has Staff witness Kahle accepted any of the arguments presented in your rebuttal testimony regarding the inappropriateness of his proposed adjustment?

A. Staff witness Kahle acknowledges one portion of the flaw in his proposed adjustment by eliminating the service lead from the expense lead associated with the pass through taxes. As a result, Staff witness Kahle has reduced the expense lead by 15.21 days.

Q. Does Staff witness Kahle's modification of his proposed adjustment fully address the concerns that you identified in your rebuttal testimony?

A. No. Staff witness Kahle implies in his rebuttal testimony that our disagreement on this issue is over whether the pass through taxes are funded by ratepayers. That is not an issue in this case. The bottom line is the number of days which the Ameren Illinois Utilities have access to the funds (i.e., revenues) prior to remitting those funds to the appropriate taxing authorities.

Q. Did you cite a prior Commission order in your rebuttal testimony which directed Staff to provide additional analysis regarding the movement of pass through taxes?

A. Yes, I did.

Q. Has Staff witness Kahle addressed the concerns which the Commission raised in that proceeding?

A. No. As best I can tell, Staff witness Kahle has performed no additional analysis since Docket Nos. 07-0241/0242 (Cons.). He has effectively merely repackaged his arguments in a different manner. His proposed adjustment does not, however, reflect the true timing differences between the receipt of revenues and the remittance of the taxes. In fact, as I stated in my rebuttal testimony, Staff witness Kahle's analysis has no basis in reality.

Q. By way of his proposed adjustment, does Staff witness Kahle effectively presume that the portion of a customer's bill associated with pass through taxes reflects cash that is available to the Ameren Illinois Utilities immediately?

A. Yes. By including the revenues attributable to pass through taxes in the CWC analysis at zero days, Staff witness Kahle's analysis ignores the elapsed time associated with meter reading, billing, collections and payment processing. Clearly these funds are not available to the Ameren Illinois Utilities immediately, so it is unclear how Staff witness Kahle presumes that the Companies magically have access to these funds without the benefit of the meter reading, billing, collections and payment processing. The customers would remit the payment of their bills, in its entirety, on or near the payment due date. Separate payments are

not made for pass through taxes immediately and the remainder of the bill at a later time. Staff witness Kahle failed to address this error in his rebuttal testimony.

Q. Have you estimated the elapsed time during which the Ameren Illinois Utilities have access to the funds associated with pass through taxes?

A. Yes. As I stated in my rebuttal testimony, if the Commission were to determine that there was no service lag/lead associated with the pass-through taxes, using the Energy Assistance Tax as an example, 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 appropriately reflect the existence of 1.84 day timing difference between the collection of the funds associated with pass through taxes and the remittance of such funds to the appropriate taxing authorities. The change would, however, result in no change to the Ameren Illinois Utilities' CWC requirements since the timing difference is already reflected in my CWC analyses.

Q. Should the Commission accept Staff witness Kahle's position regarding the treatment of pass through taxes?

A. No. Staff witness Kahle's position is fatally flawed. No further analysis which was requested by the Commission was presumably proffered by Staff witness Kahle because no reasonable and factually accurate scenario can be constructed

which collaborates his espoused belief that the Ameren Illinois Utilities has immediate access to the funds associated with pass through taxes. As my analysis shows, in fact, the Ameren Illinois Utilities have access to the funds for less than 2 days, not over 25 days as suggested by Staff witness Kahle. Staff's proposed treatment of the revenues associated with pass through taxes should be rejected.

B. Capitalized Expenditures

Q. Please respond to Staff witness Kahle's recommendation to include certain capitalized expenditures in the CWC analysis.

A. Staff continues to develop and offer reasons why they believe that certain capitalized items should be included in the CWC analysis. Such a position is wrong and should be rejected.

Q. Has Staff witness Kahle responded to the criticisms that you raised in your rebuttal as to why the proposed treatment of the capitalized expenditures should be rejected?

A. No. Staff witness Kahle's argument for his treatment is based exclusively on the Commission's decision in the Ameren Illinois Utilities' last electric cases (Docket Nos. 06-0070 (Cons.). While I will not rehash the decision in those proceedings was flawed, I do not believe that the mistake should be repeated merely based upon past mistakes. Further, the appropriateness of the proposed adjustment should be evaluated based upon the merit of the arguments in the proceeding and not merely rely upon a prior Commission ruling. The evidence in this proceeding

shows Staff witness Kahle's proposed adjustment is flawed, does not reflect the true CWC requirements of the Companies, and should be rejected.

Q. Has the Commission reversed its decision on this issue in a more recent proceeding?

A. Yes. As I stated in my rebuttal testimony, the Commission rejected Staff's position in Docket Nos. 07-0241/0242 (Cons.). Staff witness Kahle dismisses that decision by claiming that the circumstances were different. The circumstances in the two cases are not different. Only the result was different and did not favor Staff's proposed adjustment.

Q. Were the circumstances in Docket Nos. 07-0241/0242 (Cons.) different than those in these proceedings as suggested by Staff witness Kahle?

A. No, the circumstances are the same. It was only the end result which was different and does not support Staff witness Kahle's position. The Commission correctly rejected Staff's position in those proceedings and should do so again in these proceedings.

Q. Staff witness Kahle contends that there is no basis for the argument that you made in your rebuttal testimony that by including capitalized amounts in the CWC analysis creates an imbalance between revenue and expense levels. How do you respond?

A. Staff witness Kahle is incorrect. The CWC requirement of a company is determined based upon the timing differences between the receipt of revenues and

the remittance of payment for services. For the most part, Staff witness Kahle and I agree on these timing differences. With regards to the capitalized payroll amounts, Staff witness Kahle proposes to include an expense for which there is no corresponding revenue stream. Therefore, it is impossible to evaluate the timing difference between the receipt of revenues and remittance of payments associated with the capitalized payroll because Staff witness Kahle only considers one side of the equation. As I have stated, such an adjustment creates an imbalance in the CWC analyses and artificially understates the Ameren Illinois Utilities' CWC requirements.

In my rebuttal testimony I walked through a detailed explanation of the revenues and expenses that are included in the CWC analysis and provided proof that the revenues and expenses reflected in Staff's analysis are equal.[17] By including the capitalized expenditures on the expense side of the equation, there can be no disputing that an imbalance is created. Nor has Staff witness Kahle identified the source of the revenues in the CWC analysis to compensate the Ameren Illinois Utilities for the added capitalized expenditures.

Q. Does Staff witness Kahle also argue that the capitalized expenditures should be included in the CWC analysis since the outlays require cash?

A. Yes, but I fail to see the point of Staff witness Kahle's observation. All capitalized expenditures require cash outlays, but Staff witness Kahle does not

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[17] Ameren Exhibit 21.0, beginning at p. 67, line 1264.

propose to include all capitalized expenditures. He proposes only to include capitalized payroll.

Q. Does Staff witness Kahle state that "Capitalized payroll included in rate base does not include any payroll costs going forward[18]"?

A. Yes, however I fail to see the relevance of the comment. In accordance with an historical test year, rate base does not include most expenditures which have not yet been incurred. Yet Staff witness Kahle proposes to afford different treatment to the capitalized payroll expenditures.

Q. What conclusion does Staff witness Kahle reach regarding capitalized payroll expenditures?

A. Based upon his statements that since capitalized payroll requires cash and future capitalized payroll is not included in rate base that the capitalized payroll should be included in the CWC analyses.

Q. How do you respond?

A. Staff witness Kahle has again concocted a timing difference where one does not exist. His CWC analyses consider capitalized expenditures which are beyond the end of the test year in these proceedings. Further, Staff witness Kahle has included in the CWC analyses an expenditure for which there is no corresponding revenue stream. As a result, Staff witness Kahle has artificially understated the Ameren Illinois Utilities' CWC requirements.

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[18] Kahle Rebuttal, p. 8, lines 176-177.

Q. Is Staff witness Kahle's concern regarding the payroll commitments of the Ameren Illinois Utilities a legitimate concern?

A. No. Again there are endless examples of "day-to-day operational obligations" in the form of capitalized expenditures which are not included in the Ameren Illinois Utilities' CWC analyses. The CWC analyses are intended to reflect the timing differences between revenue streams and cash operating expenses only for the twelve month test year period. Staff witness Kahle does not propose to include all such obligations but rather selectively focuses on capitalized payroll.

Capitalized payroll will be recovered when the Ameren Illinois Utilities include in rate base the assets with which the capitalized payroll expenditures are associated. There is no reason to reach outside of the test year and selectively bring forward capitalized expenditures to include in the CWC analyses. If the Commission decides to include the capitalized expenditures, a revenue stream must also be included in the CWC analyses.

Q. Has Staff witness Kahle addressed your observation that he has identified no source of revenues from which the capitalized payroll would be paid?

A. No, he has not. It appears that Staff witness Kahle wants the Commission to presume that the funds to pay the capitalized payroll expenditures will miraculously appear when needed. Such a position is nonsensical and must be rejected. Staff witness Kahle's analyses fail to identify the source of the revenues in his analyses associated with capitalized payroll expenditures simply because

the analyses contain no revenues associated with the capitalized payroll. The timing of the payments and the fact that the payments are outlays of cash are irrelevant. If the capitalized payroll expenditures are included in the CWC analyses, a source of revenues with an appropriate revenue lag needs to be included in the analyses. Failure to include such a revenue source creates an artificial imbalance which will seriously underestimate the Ameren Illinois Utilities' CWC requirements.

C. Purchased Electricity Recovery

Q. Does Staff witness Kahle continue to recommend that the Ameren Illinois Utilities receive preferential treatment associated with the timing of payments from affiliated companies?

A. Yes, he does.

Q. What support does he provide for his position?

A. The shorter lead time in which the Ameren Illinois Utilities have to pay suppliers for electricity purchases, because of the Companies' current credit situation, results in a higher CWC requirement. To partially offset the increased CWC requirement, Staff witness Kahle proposes that the Ameren Illinois Utilities receive preferential or different payment terms from its affiliated suppliers.

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

A. As I stated in my rebuttal testimony, the Commission has rules in place to protect against preferential treatment between affiliated companies. Staff witness Kahle is essentially proposing to bypass such safeguards.

Further, Staff witness Kahle makes an unsubstantiated assumption that the affiliated suppliers would even be willing to provide different payment terms for the Ameren Illinois Utilities. He claims that "it is not logical that Ameren Energy Marketing Company would refuse to keep the Ameren Illinois Utilities as customers if their payments were not advanced as allowed under the Supplier Forward Contracts.[19]" Beyond the fact that the statement is totally unsubstantiated, would such ill-founded logic also apply to other non-affiliated providers? Clearly the non-affiliated providers could also choose to not seek advanced payments, but they did not. It is unreasonable to assume that the affiliated providers would be more willing to waive the accelerated payments and assume additional risk without compensation. These are precisely the types of situations which the Commission's affiliate rules are intended to prevent.

Q. Have you prepared updated exhibits which reflect the correct calculation of each of the Ameren Illinois Utilities' CWC requirements?

A. I have not. The Ameren Illinois Utilities' operating expenses have not materially changed from their rebuttal position so I have not provided an update to the CWC calculations.

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[19] Kahle Rebuttal, p. 11, lines 246-249.

Q. What changes, if any, may be required to finalize the CWC requirements?

A. If the Commission determines that the level of expenses needs to be revised, the adopted expense levels should be reflected in the CWC analyses.

IV. RESPONSE TO STAFF WITNESS EBREY

Q. Have you reviewed the rebuttal testimony of Staff witness Ebrey?

A. Yes, I have.

Q. Do you wish to rebut a number of errors and faulty assumptions which she employs to arrive at an adjustment to the Ameren Illinois Utilities' rate case expenses?

A. Yes, I do.

Q. To what issues raised by Staff witness Ebrey will you respond?

A. I will address issues related to the transitioning of rate case assistance work from Navigant Consulting, Inc. ("Navigant") to Concentric Energy Advisors. I will also respond to issues raised by Staff witness Ebrey pertaining to the billing rates of certain Concentric employees.

A. Transition Costs

Q. Was Navigant retained by the Ameren Illinois Utilities to assist with the preparation of the rate cases which are the subject of these proceedings?

A. Yes. Based upon a letter proposal dated January 17, 2007, Navigant was retained to assist with the preparation and support the six rate cases which are the subject of these proceedings. Navigant continued working on the project until July 2007.

Q. What happened in July 2007 that caused Navigant to cease working on the rate case preparation?

A. Effective July 1, 2007, I switched my employment from Navigant to Concentric. I have assisted the Ameren Illinois Utilities with a number of previous rate cases, so as a result the Ameren Illinois Utilities decided to transfer the rate case assignment from Navigant to Concentric.

Q. Did all of the work performed by Navigant immediately transition to Concentric?

A. No. Navigant continued to support the project through September 2007. During the transition months, Navigant and Concentric employees worked side-by-side on the project.

Q. Did the work eventually transition completely to Concentric?

A. Yes. Concentric assumed full responsibility for the work during the September/October 2007 timeframe.

Q. Was a letter proposal addressing the scope of work to be performed provided by Concentric?

A. Yes. A letter proposal dated October 3, 2007 addressed the scope of work to be performed by Concentric.

Q. Was the scope of work performed by Concentric similar to that performed by Navigant?

A. The scope of work assumed by Concentric was identical to that originally being performed by Navigant. Concentric's role was merely a continuation of the work which had been performed by Navigant.

Q. Staff witness Ebrey contends that there were additional costs incurred associated with the transitioning of the work from Navigant to Concentric. How do you respond?

A. Staff witness Ebrey is incorrect. There were no transition costs nor was there any duplication of effort during the transition—nor has she offered any credible evidence to support her claims—just conclusions. During August and September of 2007 consultants from Navigant continued to bill time to the project. The Navigant consultants were responsible for finalizing their work assignments and workpapers associated with portions of the work which had been completed. This activity would have been performed regardless of whether the transition had taken place.

Q. Staff witness Ebrey implies that there was a duplication of effort associated with work on the lead lag study and the minimum filing requirements. How do you respond?

A. Both Navigant and Concentric performed work on the lead lag study and minimum filing requirements. There was no duplication of effort. For example, a Navigant employee was responsible for completing the lead lag studies for the Ameren Illinois Utilities' gas businesses. That individual billed time in the

August and September timeframe to successfully completing the lead lag studies for the gas businesses. Another individual was responsible was responsible for completing the lead lag studies for the Ameren Illinois Utilities electric businesses. This split responsibility may have led to Staff witness Ebrey's erroneous conclusion.

Q. How can you be sure that no duplication of effort existed during the transition period from Navigant to Concentric?

A. First of all, I was personally involved in the work and oversaw the transition of the work. I closely monitored the progress of work performed towards the end of successfully filing the rate cases.

Second, another consultant also left Navigant and joined Concentric. That individual worked primarily on the lead lag study and minimum filing requirements. Therefore, there was no transfer of responsibilities from one individual to another consultant. The work was continually performed by the same individual.

Q. Does Staff witness Ebrey offer any other bases for her position that there was a duplication of effort during the transition period?

A. No, and the invoices provided for Navigant services for late August and early September also indicate the scope of work performed during the transition.[20]"

[20] Rebuttal Testimony of Theresa Ebrey, May 14, 2008, p. 16, lines 320 through 322.

B. Billing Rates

Q. Does Staff witness Ebrey also express concerns regarding billing rates charged by certain Concentric employees?

A. Yes she does. Staff witness Ebrey expresses concerns regarding purported variances between the hourly billing rates of myself and my former Navigant and current Concentric colleague, Mr. Joseph Weiss. Staff witness Ebrey also addresses billing issues for my Concentric colleague, Mr. John Taylor.

Q. How do you respond to Staff witness Ebrey's concerns?

A. Staff witness Ebrey compares the billing rates cited in both the Navigant and Concentric letter proposals. These billing rates represent the billing rates which were in effect at the time of the letter proposals. Annually, billing rate levels are reviewed by both Navigant and Concentric to assess what changes, if any, need to made to hourly billing rates. The differences which Staff witness Ebrey cite are merely the timing difference between the date of the letter proposals and when work was performed and billed.

Q. Is it common to pass along increased billing rates on existing assignments?

A. It depends on the nature of and contractual arrangement for the assignment. As has been explained to Staff witness Ebrey, the work which both Navigant and Concentric have been performing for the Ameren Illinois Utilities was performed on a time and expenses basis. Given the iterative nature of the work being performed, it is difficult to provide a firm estimate for the work. Therefore,

changes in billing rates which occur during the course of the project may be passed along to the client.

Q. Given that the rate case was performed on a time and expenses basis, has this resulted in higher costs to the customers of the Ameren Illinois Utilities?

A. No. As Staff witness Ebrey points out most of the work for which estimates were provided in the letter proposal was actually completed below the provided estimate. Therefore the customers of the Ameren Illinois Utilities actually benefited from the time and material work. If the work had been performed on a firm basis, the Ameren Illinois Utilities could have been charged up to the quoted price.

Q. Does Staff witness Ebrey also address the billing rates of Mr. Joseph Weiss?

A. Yes she does.

Q. How do you respond to Staff witness Ebrey's concerns regarding Mr. Weiss' billing rates?

A. Staff witness Ebrey expresses concern that Mr. Weiss' hourly billing rates changed when he joined Concentric and then again in 2008. The 2008 increase relates to the routine annual revision to billing rates and not to a promotion as suggested by Staff witness Ebrey.

With regards to the 2007 increase, Staff witness Ebrey asserts that "No evidence of added value to ratepayers has been provided related to Mr. Weiss'

efforts on the rate case consultation and the increased billing rate.[21]" Staff witness Ebrey is very selective in the evidence that she presents. A review of the Navigant invoices, which she has obviously performed, would reveal that Navigant had an Associate Director and two Managing Consultants assigned to the assignment. Each of these individuals had billing rates which were $65 to $125 per hour higher than the rate charged by Mr. Weiss during 2008. After Concentric assumed full responsibility for the completion of the project, besides myself, Mr. Weiss was the most senior individual assigned to the project. Mr. Weiss assumed a much more significant role in the completion of the work for the Ameren Illinois Utilities at a much lower cost than would have been incurred under Navigant.

Q. Does Staff witness Ebrey's proposed adjustment to Concentric's billing rates reflect the total cost of the assignment?

A. No. Staff witness Ebrey does not acknowledge that the total cost of the services was lower than it would have been if the services had been provided by Navigant throughout the engagement.

Q. Would Mr. Weiss' billing rate have changed if he had not left Navigant?

A. Mr. Weiss' billing rate would likely have increased effective January 1, 2008 regardless of his move from Navigant to Concentric, because Navigant typically adjusted billing rates at least annually.

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[21] Ebrey Rebuttal, p. 18, lines 372 – 374.

Q. What concerns does Staff witness Ebrey express with regard to Mr. John Taylor's billing rates?

A. Staff witness Ebrey expresses concerns with both to Mr. Taylor's title and the change in his 2008 billing rate.

Q. How do you respond to Staff witness Ebrey's concerns with regards to Mr. Taylor's title and billing rate?

A. Effective January 1, 2008, Mr. Taylor was promoted to the title of Consultant with Concentric. Therefore Mr. Taylor's 2008 billing rate would reflect both his promotion and the increase in billing rates.

Q. For both Mr. Weiss and Mr. Taylor, Staff witness Ebrey alleges that "No evidence of added value to ratepayers has been provided[22]" related to the increased billing rates. How do you respond?

A. To the contrary, both Messrs. Weiss and Taylor were required to perform at higher levels than their respective titles imply during this assignment. In fact, Mr. Taylor was called upon to provide expert testimony in these proceedings, a role that he was not originally intended to fill.

As I stated earlier, the services were provided to the Ameren Illinois Utilities on a time and expenses basis. The fees were not fixed. Actual billings were billed at Concentric's then current billing rates.

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[22] Ebrey Rebuttal, p. 18, lines 372-374 and p. 19, lines 380 – 382.

C. Incurred Expenses

Q. Has Staff witness Ebrey questioned some of the expenses incurred by Navigant and Concentric consultants?

A. Yes, she has. Staff witness Ebrey proposes to disallow (1) four hours of billed time which was misclassified; (2) certain so-called entertainment costs; (3)various hotel expenses; and (4) vending costs.

Q. How do you respond to Staff witness Ebrey's proposed disallowances?

A. While the Ameren Illinois Utilities do not agree with Staff witness Ebrey's arguments regarding these items, they will not challenge the proposed adjustments.

D. Budgeted versus Actual Expenditures

Q. Do you wish to respond to Staff witness Ebrey's proposed adjustment to the level of budgeted rate case expenses?

A. Yes. When I prepare an estimate of the costs to support the preparation and support of Ameren Illinois Utilities rate cases, I typically provide an estimate of the professional fees to prepare the rate filings and a separate estimate to support the filings. The later estimate is largely an approximation of the likely-to-be-incurred costs, because it can be difficult to accurately estimate the level of support which will be required to successfully defend the filings. Staff witness Ebrey has proposed to apply the same percentage that actual pre-filing recorded rate case expenses were under budget to the post-filing support. Her adjustment

pre-supposes a linkage between the two levels of effort which simply do not exist. The fact that Concentric was able to complete the rate filings under budget does not correlate to supporting the filings under the provided estimate.

Q. How do you suggest that rate case expenses for the services Concentric provided be determined?

A. Actual billings through March have been provided to Staff. Concentric's involvement in these proceedings will likely be completed by the end of July, barring any rehearing support. I recommend that the Ameren Illinois Utilities be allowed to submit actual billings in rate case expenses via the reply briefs. Subject to Staff's review, such actual expenses would be included in the approved rate case expenses.

E. Prepaid Expenses

Q. Does Ameren witness Andrew Wichmann discuss Staff witness Ebrey's concerns regarding prepayments?

A. Yes, he does.

Q. As Ameren witness Wichmann discusses, can the prepayments be addressed as part of the CWC calculation?

A. Yes. The CWC analyses currently reflect the lapsed payment time experienced during the test year. Given that the downgrades occurred subsequent to the test year and that certain fuel vendors are requiring prepayments for gas purchases, the modified payment periods can be reflected in the CWC analyses.

Q. Have you updated the CWC analyses to reflect the payment periods currently imposed by fuel vendors?

A. Yes, I have. As Ameren Exhibits 45.03 through 45.05 show, the CWC requirements for AmerenCILCO, AmerenCIPS and AmerenIP increase by $35.2 million, $21.2 million and $56.6 million, respectively.

V. RESPONSE TO CUB WITNESS EFFRON

Q. Has AG/CUB witness Effron modified his originally proposed adjustment to AmerenIP's A&G expenses?

A. Yes, he has. AG/CUB witness Effron has reduced his adjustment by $7.7 million due to the modification of accounting practices implemented after the acquisition of IP by Ameren.

Q. Has AG/CUB witness Effron disputed your rebuttal testimony supporting the increases in other increases in AmerenIP's A&G expenses recorded in Accounts 920-923?

A. No, he has not.

Q. Have you fully responded to AG/CUB witness Effron's concerns regarding the increases in AmerenIP's A&G expenses?

A. Yes, I have. Please refer to Ameren Exhibit 21.0 beginning at page 84.

Q. Do you have any further evidence to provide to substantiate the alleged increases in AmerenIP's A&G expenses?

A. No, I do not. The level of AmerenIP's A&G expenses have been fully-justified between the AMS study which I have sponsored and the direct, rebuttal and this surrebuttal testimony which I am sponsoring on the topic of A&G expenses.

VI. CONCLUSION

Q. Does this conclude your surrebuttal testimony?

A. It does.