ILLINOIS COMMERCE COMMISSION

ICC DOCKET NO. 07-0585 – 07-0590 (CONS.)

SURREBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

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)

MAY 27, 2008

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name.

A. My name is Ronald D. Stafford.

Q. Are you the same Ronald D. Stafford who submitted prefiled direct and rebuttal testimony on behalf of the Ameren Illinois Utilities?

A. Yes.

B. Purpose and Scope

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

A. The purpose of my testimony is to respond to and discuss proposals submitted in the rebuttal testimony of other parties, regarding: Plant Additions, Prior Plant Disallowances, Allocation of Common Plant for Electric Substations, Plant Held

for Future Use, Uncollectibles, Energy Toolkit, Storm Costs, Tree Trimming, MISO Payments, Accumulated Deferred Taxes and other Reserves, Supply Cost Adjustments, and Public Utilities Fund ("PUF") Base Maintenance Contribution Costs. Specifically, I respond to the rebuttal testimony of Staff of the Illinois Commerce Commission ("Staff") witnesses Theresa Ebrey, Mary Everson, and Greg Rockrohr, and to the Attorney General of the State of Illinois and Citizens Utility Board ("AG/CUB") witness David Effron.

As it relates to revenue requirements issues, Ameren Illinois Utilities' witnesses Craig Nelson, John Taylor, Dr. Mary Batcher, Mark Livasy, and Bruce Steinke are also submitting Surrebuttal Testimony on Plant Additions. Ameren Illinois Utilities' witness David Strawhun is also submitting Surrebuttal Testimony on Plant Held for Future Use. Ameren Illinois Utilities' witness Keith Martin is also submitting Surrebuttal Testimony on the Energy Toolkit. Ameren Illinois Utilities' witness Ron Pate is also submitting Surrebuttal Testimony on Storm Costs. Ameren Illinois Utilities' witness Michael Adams is also submitting Surrebuttal Testimony on Supply Cost Adjustments.

Q. Please summarize the conclusions of your surrebuttal testimony.

A. As detailed below, I conclude the following, with regard to various Staff and AG/CUB adjustments:

- Adjustment for Plant Additions since the last rate case is unsupported by the evidence (Staff witnesses Everson and Rockrohr)

- Prior Plant Disallowances for AmerenCILCO and AmerenIP AmerenIP should be recalculated to recognize additional supporting documentation provided to Staff (Staff witness Everson)

- Recommendation to Allocate Common Plant for Electric Substations has been withdrawn (Staff witness Everson)

- Staff has erred in not recognizing Plant Held for Future Use in Rate Base (Staff witnesses Everson and Rockrohr)

- Calculation of Uncollectibles should be based on more 2005-2007 actual information (Staff witness Ebrey and AG witness Effron)

- Energy Toolkit Adjustment should be based on an allocation using customers consistent and recovered through base rates, as discussed by Ameren witness Martin (Staff witness Ebrey)

- Calculation of the Storm Cost Adjustment should be based on four years of inflation adjusted normalized data (Staff witnesses Everson and Rockrohr)

- Accumulated Deferred Tax and Reserve Adjustments should be based on Ameren Illinois Utility Surrebuttal evidence (Staff witness Ebrey and AG/CUB witness Effron)

- Supply Cost Adjustments should be consistent with the evidence submitted by the AmerenIU witnesses Wichmann, Adams, and Stafford (Staff witnesses Ebrey and Kahle)

- PUF Base Maintenance Contribution adjustment is inappropriate (Staff witness Ebrey)

C. Identification of Exhibits

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

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

- Ameren Ex. 43.1 AmerenCILCO Electric – Surrebuttal Revenue Requirement, Schedules 1-7

- Ameren Ex. 43.2 AmerenCIPS Electric – Surrebuttal Revenue Requirement, Schedules 1-7

- Ameren Ex. 43.3 AmerenIP Electric – Surrebuttal Revenue Requirement, Schedules 1-7
- Ameren Ex. 43.4 – 2007 Electric Revenue Refund Credits and Reimbursements
- Ameren Ex. 43.5 – PUF Base Maintenance Fund Contribution

[Space is intentionally left blank following the striking of the offered testimony]

D. Revenue Requirement and Rate Base

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

A. As shown on Ameren Ex. 43.1, AmerenCILCO Electric's Surrebuttal Revenue Requirement is $127,115,000. As shown on Ameren Ex. 43.2, AmerenCIPS Electric's Surrebuttal Revenue Requirement is $240,612,000. As shown on Ameren Ex. 43.3, AmerenIP Electric's Surrebuttal Revenue Requirement is $486,742,000.

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

A. As shown on Ameren Ex. 43.1, AmerenCILCO Electric's Surrebuttal Rate Base is $241,470,000. As shown on Ameren Ex. 43.2, AmerenCIPS Electric's Surrebuttal Rate Base is $443,901,000. As shown on Ameren Ex. 43.3, AmerenIP Electric's Surrebuttal Rate Base is $1,266,579,000.

E. Staff Adjustments Accepted

Q. Have the Ameren Illinois Electric Utilities reflected any Staff adjustments in the calculation of the Surrebuttal Revenue Requirement?

A. Yes. The Ameren Illinois Electric Utilities accept the following Staff adjustments: (1) AmerenCILCO Storm Cost adjustment; and (2) additional adjustment to accrued OPEB liability deducted in Rate Base.

Q. Do you have any comments regarding the Ameren Illinois Electric Utilities' acceptance of these adjustments?

A. The Storm Cost adjustments has been accepted for purposes of compromise. The adjustment to accrued OPEB liability deducted in Rate Base reflects a correction for an error identified by AG/CUB witness Mr. Effron, based upon his review of my Rebuttal Exhibits.

II. PLANT ADDITIONS SINCE THE LAST RATE CASE

Q. Please summarize Ms. Everson's rebuttal testimony regarding plant additions since the Ameren Illinois Utilities' last rate case.

A. Ms. Everson testifies that the Ameren Illinois Utilities have not adequately supported its claim for recovery of plant additions that she disallowed in her Direct Testimony and continues to disallow, in part, in her Rebuttal Testimony. In summary, she argues:

- the Ameren Illinois Utilities' Rebuttal Testimony and data request responses have reinforced her disallowance calculation;
- a number of invoices could not be located;

- information in support of costs shown on Ameren Ex. 19.12 was inadequate;
- some explanations provided on Ameren Ex. 19.12 did not support the underlying costs at issue;
- invoices at issue with an identified reason of billings being sent to a different company were not adequately supported as recorded to the correct project;
- payment of a finance charge on any invoice is inappropriate;
- electronic transactions for AmerenIP were not supported by third-party or vendor documentation.

Q. Does Ms. Everson modify her proposed adjustments in rebuttal?

A. Yes. Ms. Everson made some limited corrections to her Direct Testimony schedules for some unsupported amounts, eliminated some duplication, and also reduced the number of years of plant additions that her sample disallowance should be applied to for some of the utilities. She did not accept any of the additional documentation provided as support for the plant additions, however, and she did not change her calculation of unsupported amounts (other than correcting errors in her Direct Testimony or eliminating duplication).

Q. How do you respond?

A. As shown below, Staff's rebuttal testimony does not respond to a large portion of my rebuttal testimony. Further, the vast majority of the invoice detail explanations I provided in rebuttal, with the exception of a few specific examples, directly support underlying costs at issue, and went unchallenged by Staff in its rebuttal. As discussed below, Staff's approach in rebuttal takes a very narrow review of the issues at hand. For example, Ms. Everson does not address at all the reasons why

she continues to disallow costs where the exact amount of the cost was highlighted on the invoice. There are at least 265 invoices totaling about $1.7 million, with no explanation as to why these costs remain unsupported.

The sections of my Rebuttal Testimony that were not responded to by Staff are as follows:

- Explanation for reasons why each invoice was disallowed (p. 9)
- Inconsistent audit approach (pp. 23-24)
- Electronic Transaction audit approach (p. 24)
- Timing of transactions relative to application to her sample (pp. 25-27)
- Magnitude of disallowance compared to prior case (pp. 27-28)
- Inclusion of 2004 AmerenIP capital additions in calculation of Ms. Everson's unsupported percentage (pp. 28-29)
- Other audit methods employed in this case (pp. 29-30)
- Vast differences in the ComEd audit approach vs. Staff's audit approach in this case (pp. 30-31)
- Vast differences in the prior AmerenIP gas audit approach vs. Staff's audit approach in this case (pp. 30-31)
- Vast differences in the other large gas, water, and sewer utility audits vs. Staff's audit approach in this case (pp. 31-33)

Q. Please summarize your position on support of plant additions.

A. The Ameren Illinois Electric Utilities have provided substantial evidence in support of plant additions at issue in this case. Staff has made the claim in its Direct and Rebuttal Testimony that certain amounts are unsupported.. Where the utilities have not provided additional support, an adjustment was made to reduce

plant additions included in Rate Base. In summary, the Ameren Illinois Electric Utilities Surrebuttal position on this issue should hold, and the Commission should reflect an adjustment to Rate Base consistent with the calculations presented in my Surrebuttal Testimony and Exhibits.

Q. Have you prepared an exhibit to recalculate Staff's Plant Additions adjustment and present other supporting documentation?

A. Yes. Ameren Ex. 43.6 contains the following schedules:

Schedules 1-5: Recalculation of Staff's Disallowance for each of the Ameren Illinois Utilities and Analysis and Explanations for each of the Ameren Illinois Utilities for unsupported amounts based on best guess regarding dollars deemed to be unsupported and reasons why amounts are deemed unsupported

[Space is intentionally left blank following the striking of the offered testimony]

Q. What is the scope of Staff's review of plant additions at the invoice or transaction level in the audit it performed in these proceedings?

A. Staff requested supporting documentation for the following:

- 35 Projects
- 2,746 Invoices
- $23,498,303 of Invoices

- 942 Electronic Transactions
- $1,446,639 of Electronic Transactions

Q. In Rebuttal Testimony, what portion of invoices and electronic transactions were considered to be supported?

A. Staff considered the following to be supported by Staff:

- 1,433 Invoices fully supported
- 236 Invoices partially supported
- $16,374,466 of Invoice dollars supported

Q. Is it correct to say that Staff considers the remaining $7,123,837 of invoices and all electronic transactions unsupported?

A. Yes.

Q. Has Staff provided valid reasons for disallowing all remaining invoices as unsupported?

A. No. Most of Staff's reasons are simply not valid, as discussed further below. Some of the reasons, such as a missing invoice or missing expense statement documentation, were valid in specific instances – but we conceded these issues at the rebuttal stage. In my Rebuttal Testimony, $961,758 of invoice dollars were placed in the "Amount Not Supported After Further Review" column. Therefore, at the time of rebuttal, about $6.2 million remained at issue. We have undertaken extraordinary efforts to further explain and support any remaining amounts identified as not supported. Additional detailed explanations have been provided

in response to data requests, most notably the response to MHE 14.05. In addition, a number of Ameren personnel, on behalf of the AIUs, have been looking in older system data, searching in boxes of invoices, and reviewing microfilm records in search of some of the requested documentation. Based on this review, we identify in surrebuttal testimony (and have provided in data request responses) additional evidence supporting our costs.

[Space is intentionally left blank following the striking of the offered testimony]

Q. Why was it necessary to continue to support costs at issue or locate missing documentation after the time of your Rebuttal Testimony?

A. Our ability to complete an exhaustive review of documentation and support before our rebuttal phase was hampered by the following circumstances:

- **The scope of the claim at issue in Staff's direct testimony.** over 1,300 invoices and 942 electronic transactions that Staff claimed had not been fully supported.

- **The lack of identifications and explanations for each disallowed cost.** Staff did not identify or provide an explanation for each disallowed invoice in direct testimony, which increased the effort substantially to try and estimate why Staff deemed many of the dollars to be unsupported.

- **The lack of workpapers indicating which costs were not supported and why.** Staff did not provide workpaper notations necessary for consultants and Ameren Illinois Utility employees to attempt a "best guess" regarding the reasons for each disallowed invoice until April 2, 2008 – only twelve calendar days before rebuttal was due.

- **Transition-related issues.** Much of the documentation which was claimed to be missing predated Ameren Corporation's acquisition of CILCO and IP, and therefore required extensive retrieval efforts to obtain (in a very short period of time).

In addition, with regard to electronic transactions, a similar review by Staff in the prior AmerenIP electric rate case and prior IP gas rate case did not result in any disallowances, despite very similar evidence, so the position of Staff on this issue was unexpected. In an effort to reasonably resolve this issue, the Ameren Illinois Utilities have continued their efforts to support costs at issue and provide up to date information to Staff, in the form of Supplemental Data Request Responses and documentation provided with Surrebuttal Testimony.

Q. In her Direct Testimony, Ms. Everson identifies some tax issues with regard to some invoice amounts. Do you agree with her statements that tax amounts remain unsupported?

A. No. Ms. Everson initially identifies two tax percentages, one for 9.6% and one for 10.6%, that were clearly in error. While I continue to believe that the invoices supplied are correct, we are unable at this time to support the difference between the invoice amount and the general ledger summary. In the spirit of compromise, I have transferred the entire amount of these invoice costs into the unsupported column.

We have reviewed all other tax explanations provided in Ameren Ex. 19.12. As a result of this review, and in additional response to Staff's testimony, we provided further explanation indicating the tax rate and documenting exactly what tax is added to the invoice amount to arrive at the project summary cost amount. As mentioned above, if the tax explanation was deemed to be incorrect, we have removed that explanation, and transferred costs into the unsupported column, if we cannot explain the difference between the invoice amount and project summary amount. This approach is very conservative, in that the majority or all of the project costs may be supported by the underlying invoice, but if we are unsuccessful in fully reconciling the two amounts, we have listed the full, rather than partial or a zero amount, as unsupported.

Q. What is the primary reason why taxes are included as a cost associated with invoice amounts?

A. There are about 50 invoices that include the Missouri 4.225% use tax or Illinois 6.25% use tax, which is added to the invoice amount to reconcile the total to the

project summary listing supplied on Ameren Ex. 43.6. Staff's proposal disallows about $213,000 related to these use taxes.

Q. At pages 11 and 12 of her Rebuttal Testimony, Ms. Everson questions reliance on vendor supplied invoices as support of project costs. Please respond.

A. In response to Staff's concern, there are no longer any vendor supplied invoices that are being relied as support for project costs. For the majority of line items previously identified as supported by vendor invoices, invoices have since been located in utility files. **[Space is intentionally left blank following the striking of the offered testimony]**

Q. Beginning at the bottom of page 12 of her Rebuttal Testimony, Ms. Everson discusses a "flat fee purchase charge." Do you have any response to her criticisms?

A. Yes. Flat fee purchase charges apply to larger invoice[1] amounts as a cap on the amount of purchase charge. The reason for this is to more properly assign the cost to process larger amount invoices in relationship to smaller amount invoices. In essence, there is a cost to process each invoice, whether the invoice is for $10,000 or $100,000 or $1 million, but that cost doesn't increase continuosly. Therefore, a cap is in place to recognize this fact. Overall, a relatively small number of invoices in Ms. Everson's sample are subject to the flat fee purchase

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[1] The policy specifically refers application of charges to purchase orders at the time invoices are paid. There can be one or more than one invoice related to each purchase order.

charge. With regard to project # 13919, the size of the invoice resulted in application of the flat purchase charge.

While Ms. Everson criticized the AIU's explanation of this charge, and therefore disallowed a portion of costs impacted by the flat fee charge, it should be noted that she has also accepted inclusion of the flat fee purchase charge as support for costs totaling over $675,000 based on a review of AmerenIP project 17415[2].

Q. At lines 307-323 of her Rebuttal Testimony, Ms. Everson discusses a policy regarding what she refers to as "non-stock percentage rates." Is this the same as the purchase rate, purchase charge, stores charge, or stores handling charge you have used elsewhere in your Rebuttal and Surrebuttal Testimony?

A. Yes. I have used these terms interchangeably, as illustrated above in discussion of the flat fee purchase charge.

Q. Do you have any additional comments regarding these charges?

A. Yes. There are some 300 line items for which Staff has disallowed the entire invoice cost, or just the purchase charge portion added to the invoice amount.

Q. Have the Ameren Illinois Utilities provide a full explanation for these charges?

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[2] Examples identified are charges of: $385,620.80 with an additional flat fee charge of $800.00; $151,994.88 with an additional flat fee charge of $800.00; and $138,779.17 with a additional flat fee charge of $800.00.

A. Yes. The information provided in Ameren Exhibit 19.12 and in response to numerous data requests explain the purchase rate change, and provide a full reconciliation of the invoice amount to the project summary listing.

Q. Does the policy Ms. Everson refers to at lines 315-323 support the applications of flat fee and percentage based charges in specific instances?

A. Yes. The policy specifically states "All purchase orders will receive the purchasing rate charge or a fixed rate charge, depending on the dollar value of the purchase order".

Q. At pages 16-18, Ms. Everson attempts to explain why she only allowed partial invoice amounts for some projects and then continues into a discussion of project manager approvals and billings to other companies. Please comment.

A. Ms. Everson's Rebuttal Testimony on these topics are not clear. On the one hand, she discusses partial invoice amounts. We have identified roughly 235 invoices that Ms. Everson partially disallowed, so I am not sure the point she is making here. Regarding project manager approvals, Staff has not provided a specific criticism of the current process or identified processes other utilities use and how they are different than the Ameren Illinois Utilities. Rather, Staff offers a general comment that we have not provided any additional information to substantiate the costs. I am not sure what additional information Staff needs, particularly when the underlying invoice can be identified as support for the project in question. Staff seems to want more support, but has not specified what additional support is desired. We should not lose sight of the fact that Staff's audit in this case is one of

cost review and support, rather than one that deals with controls. We have provided sufficient documentation to support the underlying costs at issue in this section of Staff's testimony – which is the ultimate point.

Q. Continuing at page 17 of her Rebuttal Testimony, Staff comments on and criticizes data request responses regarding source documents, summary listings, and general ledger amounts. How do you respond?

A. Staff claims that my data request response to MHE 12.04 is circular, which is simply not the case. I never intended to state or otherwise imply that the general ledger supports costs recorded in the general ledger, as Ms. Everson claims. My complete response to 12.04, which asked for "supporting documentation to demonstrate that only a partial amount of the invoice was included in the project totals," is as follows:

> As described in Mr. Stafford's Rebuttal Testimony (Ameren Ex. 19.0 Rev. lines 364-367), when accounts payable receives an invoice it contacts the project manager in the field, who is responsible for providing the appropriate accounting treatment. Thus, the individual closest to the transaction provides which company should be charged and what amount of the invoice should be charged to which specific project. The specific documentation that records the amounts which are determined by the project manager in the field to be appropriate is the general ledger[, of] which a summary was provided in the Ameren Illinois Utilities' Response to ICC Staff Data Request No. MHE 3.04 filed February 5.

This statement shows that project cost detail is pulled from the general ledger – not support for the general ledger itself. Support for the general ledger can come in many forms, such as work orders, project summaries, continuing property

records, policies, procedures, and other source documentation. A review of the evidence requested by Accounting Staff, for example, to audit plant additions in the last AmerenIP gas rate case discloses that review did not include vouchers or invoices, but instead focused on a review of work orders, planned vs. actual capital additions, costs transferred from construction work in progress to utility plant in service, reimbursements of project costs, and clarification with regard to project cost categories.[3]

Q. At the bottom of page 18 and at page 19, Ms. Everson cites two examples where costs were assigned to the wrong project. How do you respond?

A. Based on what I have reviewed thus far, I agree with her that these costs were assigned to the incorrect project. Therefore, I have placed these costs in the "Unsupported Column". I note that Staff identifies only two invoices out of 2,746 (and countless more line items of documentation of vouchers, taxes, and purchase rate adders) for which costs were assigned to the wrong project in error.

Q. At pages 19-20, Ms. Everson questions the premise that, in the normal course of business, utilities can be expected to incur a finance charge from time to time. How do you respond?

A. There are often legitimate reasons why an invoice may be paid after the due date, for example, when additional measures need to be taken to ensure that costs are correct, recorded properly, and appropriately approved pursuant to Ameren

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[3] Docket No. 04-0476 responses to data requests BCJ 3.04, BCJ 3.05, BCJ 4.02, BCJ 4.04, BCJ 5.01, BCJ 6.06, BCJ 6.07

Illinois Utilities' procedures. On-time payment is a high priority, but not at the expense of accuracy or controls. I further note that approximately 245 of Staff's reviewed invoices showed that the Ameren Illinois Utilities received a discount for early payment (the full costs of which, astoundingly, Staff also claims should be disallowed) – compared to only about 10 invoices showing a finance charge for late payment. In total, this accounts for $500,000 of Staff's disallowed amounts.

[Space is intentionally left blank following the striking of the offered testimony]

Q. Please respond to Ms. Everson's discussion regarding a late revision to Staff Data Requests MHE 3.03 and 3.06.

A. I agree that these revisions were filed late relative to the time of Staff's filing, and I take responsibility for not providing that information to Staff in time to incorporate into their Rebuttal Testimony. However, this information was not readily available, as I later explain.

Q. Please explain the purpose of these revisions.

A. In preparing detailed electronic transaction line item support for Ameren Ex. 19.13, I became aware of the fact that for some projects, the amounts shown as electronic transactions in response to MHE 3.03 and MHE 3.06 were incorrect. Therefore, it was necessary to revise those responses to provide a more accurate amount of dollars associated with electronic transactions, and reclassify incorrectly labeled dollars into the correct cost categories. For Project 19053, the electronic transaction amounts should have been shown as $0, and the revised data request response reflected this revision. For the other five sampled projects with electronic transactions, the amounts were revised, up or down, to agree to the detail on Ameren Ex. 19.13. The difference was also reclassified into the appropriate cost category in the revised responses.

Q. Staff witness Everson devotes a great deal of attention to Records Retention issues. Do you have any comments?

A. Yes. These issues are primarily addressed by Ameren witness Bruce Steinke. Briefly, in response to Staff's suggestion of a widespread or systemic problem, I note that the majority of documents that cannot be located at the time of my Surrebuttal Testimony is attributed to one human error. Specifically, it is my understanding that around the time of acquisition by Ameren, some invoices at a decentralized AmerenCILCO storage facility were erroneously placed with other boxes that did not require retention and inadvertently destroyed. A majority of all missing documents for projects sampled by Staff are attributed to this error. As I stated in Rebuttal Testimony, for AmerenCILCO’s electric operations, 100% of

the transactions sampled occurred prior to the acquisition of CILCO by Ameren.

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Q. Can you provide an example that illustrates your point?

A. Yes. A review of AmerenCIPS data indicates that a total of 776 invoices were included in Ms. Everson's sample. Of that total, 440 were fully or partially disallowed. The 440 fully or partially disallowed invoices represented 627 line items of data from the project summary listings. Of the 627 line items, 6 remain unsupported due the inability to locate the proper invoice, or less than 1% of the total.

Q. Ms. Everson's provides some Plant Recommendations. Will you be addressing these issues?

A. No. These will be addressed by Ameren Illinois Utilities' witness Mr. Steinke.

Q. Do you have any other comments related to the topic of Plant Additions at issue in this case?

A. Yes. Six data requests were served to Staff witness Everson on May 16th. Responses were due on Friday May 23rd but have not been received as of Monday May 26th. Pending Staff's responses to those data requests, it may be necessary for an Ameren witness to provide additional testimony with regard to those responses.

III. PLANT ADDITIONS DISALLOWED IN THE LAST RATE CASE

Q. Please describe Ms. Everson's recommendations regarding plant additions disallowed in the last rate case.

A. Ms. Everson continues to recommend disallowance of plant additions disallowed in the last rate case. She has not challenged or responded to the positions or arguments I made in Rebuttal Testimony.

Q. Do her proposed adjustments for previously disallowed additions consider additional supporting documentation provided by the Ameren Illinois Electric Utilities in rebuttal?

A. No. I can only assume Staff has no meaningful support for these disallowances.

Q. Has Ms. Everson provided an explanation for why she did not reflect all additional supporting documentation in calculating her disallowance for prior plant additions?

A. No.

Q. How do you respond?

A. Staff does not appear to have conducted any review of (or at least has not responded to) the additional evidence submitted. In response to my eight pages of Rebuttal Testimony, Ms. Everson simply claims that our rebuttal on this issue is similar to that regarding Plant Additions Since the Last Rate Case. (Staff Ex. 14.0, p. 7, lines 131-134.)

Q. Is this true?

A. No. The facts are simple and straightforward. . For the 20 projects identified as unsupported in ICC Staff Ex. 14.0, Schedule 14.07, the Ameren Illinois Electric Utilities provided additional evidence in rebuttal supporting a portion of the proposed disallowed dollars, for 6 of the 20 projects. For the remaining projects and dollars, the utilities reflected an adjustment to reduce Plant Additions included in Rate Base in my Rebuttal Testimony. As shown below, 18 invoices support dollars at issue in six projects. This additional documentation should have confirmed for Staff that neither of Staff's previously stated reasons for disallowance was valid for the majority of the costs. In the amounts cited, either the amount at issue was fully explained and reconciled, or neither reason given by Staff for the disallowance applied to the invoice at issue.

Prior Additions Disallowed	Number of Invoices	Invoice Issue	Amounts Issue	Neither Reason	Total
CIL WO # 03174	2	$0.00	$710.58	$0.00	$710.58
CIL WO # 03632	6	0.00	1,535.87	35,043.51	36,579.38
CIL WO # 147278	1	0.00	0.00	5,382.00	5,382.00
IP WO # 25297	3	0.00	2,938.54	13,587.50	16,526.04
IP WO # 25438	4	0.00	21,090.72	0.00	21,090.72
IP WO # 25760 (1)	2	0.00	0.00	939,464.58	939,464.58
Supported	18	$0.00	$26,275.71	$993,477.59	$1,019,753.30

(1) Shown incorrectly as 25780 on Staff Schedule 14.07 IP E, Page 3

Q. Please summarize your position on this issue.

A. As noted above, the Ameren Illinois Electric Utilities have provided additional support for over $1 million of plant additions disallowed in the prior rate case. It would be patently unfair for the Ameren Illinois Utilities to be penalized in this rate case in light of the evidence. The Ameren Illinois Utilities have properly

responded to Staff's Direct Testimony claims of unsupported costs. Where the utilities have not provided additional support, we appropriately reduced our plant addition costs included in Rate Base. In summary, the Ameren Illinois Electric Utilities Rebuttal and Surrebuttal positions on this issue should hold, and the Commission should reflect an adjustment to Rate Base consistent with the calculations presented in my Rebuttal Testimony.

IV. ALLOCATION OF COMMON PLANT FOR SUBSTATIONS-ELECTRIC

Q. Did Ms. Everson respond to your Rebuttal Testimony regarding common facilities at combination electric substations?

A. Yes. She has withdrawn her recommendation to use a different allocation method to allocate common plant in this case.

V. PLANT HELD FOR FUTURE USE

Q. Please describe Mr. Rockrohr's testimony regarding plant held for future use.

A. The majority of Mr. Rockrohr's testimony apparently takes issue with (1) the Commission's long-standing practice of allowing plant held for future use to be included in rate base as it applies to this particular plant, and (2) the Commission's related standard.

Q. Please restate the Commission's standard for including plant held for future use in rate base.

A. As I stated in my rebuttal testimony, I understand the Commission has a long-standing policy of including plant held for future use in rate base where the utility

demonstrates a plan for placing the property into service within ten years of the test year. (Ameren Ex. 19.0, pp. 44-47.) Staff has stated agreement with my understanding of the Commission's standard. (ICC Staff Ex. 22.0, p. 8.)

Q. Does Staff argue that the plant held for future use at issue here does not meet the Commission's standard?

A. No. Mr. Rockrohr has not claimed that AmerenCIPS has failed to demonstrate a plan for placing the property into service within ten years of the test year.

Q. What is the nature of Mr. Rockrohr's complaints?

A. Mr. Rockrohr disagrees that "the AmerenCIPS′ property that is being discussed is a good candidate for rate base inclusion in the instant rate case," and states four purportedly factual reasons why – because, he claims: (1) the substation might never be built due to difficulty obtaining property rights, permitting and certification; (2) the "in-service" date is uncertain; (3) the substation may not occupy all of the land at issue; and (4) inclusion in rate base "would be much more appropriate" in a future rate proceeding, given what he claims to be a shorter expected length of time between rate cases. Mr. Rockrohr also states that he is "unable to reconcile AmerenCIPS′ proposed inclusion of this property in rate base with Section 9-211 of the Public Utilities Act."

Q. How do you respond?

A. Mr. David Strawhun testifies regarding any factual inaccuracies within Staff's claims. From an accounting perspective, I disagree with Mr. Rockrohr's

suggestion that any of these claims would distinguish this case such that plant held for future use should not be in rate base. None of these claims address the Commission's standard allowing plant held for future use in rate base where the utility shows a plan for putting the property into service within ten years. For example, Staff presents no evidence indicating that *any* utility's plan for placing plant into service within ten years from the test year would not be contingent upon obtaining property rights, permits, and regulatory approval, or that the specific details of a plan might change within that ten-year period. Thus, Mr. Rockrohr's arguments appear to question the Commission's "ten-year" policy on plant held for future use – not the facts in this case.

Q. Do Mr. Rockrohr's arguments provide any basis for the Commission to change its long-standing policy regarding plant held for future use, or to apply it differently here?

A. No.

Q. Please explain the rationale behind including plant held for future use in rate base in this or any case.

A. As I stated in my rebuttal testimony, plant held for future use is a traditional component of rate base, allowing a utility to implement prudent long-term planning strategies. Plant held for future use allows a utility to earn a return on property that has been prudently acquired and held for future operations, on the basis that such land purchases are good management decisions for the benefit of customers. In this case, Mr. Strawhun's rebuttal and surrebuttal testimonies

demonstrate that the land purchase at issue was a prudent management decision for the benefit of customers, and also AmerenCIPS's plan and need to put the land into service within ten years of the test year. Even Staff witness Mr. Rockrohr stated (in his direct testimony, pp. 7-8) he does not disagree with the prudence of the purchase of the land at issue: "I have no reason to dispute AmerenCIPS' assertion that its purchase of the substation site was prudent because there were a very limited number of viable substation sites in the geographic area . . .." (Staff Ex. 10.0, pp. 7-8.) Thus, from a regulatory accounting perspective, the costs meet the Commission's standards and are appropriately included in rate base.

Q. Please respond to Mr. Rockrohr's general claims of uncertainty, i.e.: (1) the substation might never be built due to difficulty obtaining property rights, permitting and certification and (2) the "in-service" date is uncertain.

A. These claims are speculative, and relate to the general uncertainty of the future itself – not of the Ameren Illinois Utilities' plans (as Mr. Strawhun also refutes). The very concept of allowing plant held for future use in rate base acknowledges the lead time and regulatory uncertainty inherent in bringing a facility into service, while at the same time recognizing the value of long-term planning to customers. For example, in Docket 82-0026, the Commission acknowledged that long-range plans "cannot be accepted as a certainty," but also recognized the benefits to customers in long-range planning, in allowing plant held for future use in rate base reasonably falling within its ten-year standard.

Q. Please respond to Mr. Rockrohr's claim that the substation may not occupy the entire parcel of land at issue.

A. Mr. Strawhun responds regarding the factual accuracy of this claim. From my perspective, the regulatory accounting literature acknowledges that utilities must often purchase additional land in advance to ensure proper planning for the future, and to minimize the possibility that no site will be available due to a failure to obtain the necessary regulatory approval. One treatise states: "In these situations, commissions sometimes extend the time frame of the definite plan and allow the various land purchases in the rate base as prudent purchases under the circumstances."[4] that commissions may allow alternative land purchases in rate base as prudent under the circumstances, particularly where, as here, and as noted by Mr. Rockrohr, there are a "limited number of viable substation sites in the geographic area." (Staff Ex. 10.0, pp. 7-8.) For example, one treatise states:

> Overall economic conditions or specific conditions in the area where a utility operates may make it prudent to invest in land in order to secure future plant sites. *This may well be the case where land is extremely scarce* . . . . Under these situations, some commissions deem these land purchases as good management decisions for the benefit of ratepayers and thus allow rate base treatment.[5]

There is no need for requesting special or unusual treatment of the purchases at issue, because the property and plan at issue fall reasonably within the Commission's long-standing policy standard for including plant held for future use in rate base. However, these statements bolster the Commission's standard

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[4] Accounting for Public Utilities, §4.04[6], 4-37(1) (Matthew Bender).
[5] Accounting for Public Utilities, §4.04[6], 4-37(2) (Matthew Bender) (emphasis added).

and show that there are additional bases here for including such costs in rate base, contrary to Staff's claims.

Q. Is there any merit to Mr. Rockrohr's claim that a shorter standard time period is warranted where rate cases are filed more frequently?

A. No. Notably, Mr. Rockrohr does not claim that the Commission's long-held adoption of a ten-year standard is in any way related to the length of time between rate cases.

Q. Please respond to Mr. Rockrohr's belief that he is "unable to reconcile AmerenCIPS' proposed inclusion of this property in rate base with Section 9-211 of the Public Utilities Act."

A. I am not a lawyer, but, as I noted in rebuttal, prior orders indicate the Commission has previously rejected this argument and applied the ten-year standard. Further, the regulatory accounting literature indicates that including plant held for future use in rate base is accepted by the majority of jurisdictions, as consistent with the "used and useful" legal standard. Based on the literature, it is my understanding that whether a particular jurisdiction accepts plant held for future use in rate base hinges on whether that jurisdiction agrees that such prudent long-term planning provides benefits to customers.

VI. UNCOLLECTIBLES EXPENSE

Q. Please summarize the rebuttal testimony of Staff witness Ms. Ebrey and AG witness Mr. Effron recommending adjustments to the Ameren Illinois Utilities' proposed level of uncollectibles expense.

A. Staff witness Ms. Ebrey has moved from a four-year average of 2003-2006 proposed in her Direct Testimony to a five-year average of 2003-2007 net write-offs divided by revenues to establish her uncollectible percentage for each utility. In addition, she proposes some modification to the calculation of 2007 revenues to calculate her electric uncollectible percentages. AG/CUB witness Mr. Effron and the Ameren Illinois Utilities are in agreement with the use of a three-year average of 2005-2007 net write-offs divided by revenues to establish the uncollectible percentage for each utility. This approach was originally proposed by AG/CUB and slightly modified by the utilities in Ameren Ex. 19.4.

Q. Do you agree with Ms. Ebrey's proposal to add 2007 net write-offs and revenues in the development of her proposed uncollectible percentage?

A. I agree it is a step in the right direction. As discussed below, however, the logic for modifying 2007 electric revenues is inappropriate for a number of reasons.

Q. How do you respond to Ms. Ebrey's claims to maintain use of 2003 data to calculate her uncollectible percentage based on a five-year average?

A. This approach would be appropriate if we were trending net write-offs on an absolute dollar basis, because use of 2003 data helps to support the fact that there is a clear upward trend over time with net write-offs[6]. However, we are not performing a trend analysis here, but rather developing an historical average of

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[6] See table at pages 51-52 of Mr. Stafford's Rebuttal Testimony

net write-offs to revenues that is most likely to represent an expected level during the first year of new rates to be established in this proceeding.

Q. Are there any reasons why 2003 experience should be included in this case?

A. No. All it serves to do is understate the uncollectible percentage. Use of the 2003 data unfairly distorts the uncollectibles expense levels.

Q. Are there are other reasons why 2003 information should be excluded?

A. There are at least two other reasons. In the most recent Commonwealth Edison, the utility proposed and Staff accepted use of 2006 information to calculate the uncollectible percentage[7]. As such, while the utility presented 2003-2005 information as part of its required Part 285 filed documents, only 2006 was used in the calculation. Perhaps more important is the fact that Ms. Ebrey failed to respond or comment on my Rebuttal Testimony at pages 51 and 52 that refuted the use of 2003 data as an outlier and unrepresentative of going levels. Therefore, her use of 2003 data and development of a five-year average to include 2003 data is simply not credible.

Q. How do you respond to Ms. Ebrey's proposal to modify 2007 electric revenues for credits and refunds made to customers as a result of the Rate Relief Act?

A. Ms. Ebrey's recommendation is flawed for a number of reasons. First, she departs from use of actual data for 2007 for one adjustment without establishing

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[7] WPC-16 and ICC Staff Ex. 1.0, Schedule 1.6 both show an uncollectible percentage of .73%, which is higher than the AIU requested rate for all three electric utilities in these proceedings.

that the 2007 adjustments are unique in and of themselves or providing any supporting analysis to demonstrate that no other adjustments should be made.

Q. Why is this a problem?

A. Modification of some but not all actual data needs to be sufficiently analyzed and supported, particularly in this example, where a number of years of actual data is being used for both revenues and net write-offs. Under Staff's analysis, for the six electric and gas utilities, five years of data, there are 30 sets of data for revenues and 30 sets of data for net write-offs, for a total of 60 data sets. 57 of those sets of data are based on unadjusted actual information, with only 3 sets adjusted by Ms. Ebrey. Thus, the rationale for adjusting three and only three data sets has to be supported as sufficiently unique from all other data sets to warrant special treatment. Ms. Ebrey has not established this is appropriate.

Q. Can you provide some analysis that Ms. Ebrey could have performed to support her approach?

A. Yes. On the gas side, purchased gas prices have increased dramatically. As shown on FERC Form 21, page 321, AmerenIP account 804 Natural Gas City Gate Purchases have increased from $322,991,667 in 2004 to $405,307,289. For just AmerenIP, this reflects an increase of over $80 million in purchased gas expenses in just two years. As such, large swings or continuous increases in purchased gas revenues may impact net write-offs in a different period, or cause write-offs to increase or decrease at a rate higher or lower absent the change. While such a review may require some judgment, it nonetheless is an example of

a change that should be considered when the reviewer elects to depart from actual data for three of 60 data sets. On the electric side, Account 456 transmission revenues can swing up or down from year to year based on demand and/or other factors, and thus could impact the uncollectible percentage in isolation. Ms. Ebrey includes these revenues in her development of her uncollectible percentage, but has not indicated any analysis of the impacts of these potential swings. Another example is the large increase in rental revenues from Ameren Services in 2006 and 2007. Again, Ms. Ebrey has not indicated any analysis to support modification of only three data sets. In summary, a number of increases, decreases, or fluctuations from year to year could warrant an adjustment or further review, when taken in isolation. In proposing her adjustment, Ms. Ebrey has not established that one and only one adjustment is warranted, particularly when data for multiple years is aggregated.

Q. What is the second flaw in Ms. Ebrey's adjustment to 2007 electric revenues?

A. Ms. Ebrey has included amounts from the original response to Data Request TEE 5.01 that included credits for the street lighting conversion program. These amounts are recorded to a below-the-line Account 426 and were never recorded as a credit to revenues, as implied by Ms. Ebrey's calculation, where she adds back an amount that never existed.

Q. What is the third flaw in Staff's adjustment to 2007 electric revenues?

A. Staff witness Ms. Ebrey has artificially inflated 2007 electric revenues to eliminate the impact of refunds to customers and reductions to customers'

outstanding balances without establishing whether an offsetting adjustment should be made to artificially inflate net write-offs, or otherwise support her implied position that 2007 net write-offs are unaffected by such refunds to customers and reductions to customers' outstanding balances. Logic says otherwise. If a customer's outstanding balance is reduced, any portion of that balance written off as uncollectible is reduced on a dollar-for-dollar basis.

Q. What is the fourth flaw in Staff's adjustment to 2007 electric revenues?

A. The fourth flaw is that Staff witness Ms. Ebrey has failed to consider that the vast majority of refunds to customers and reductions to customers' outstanding balances were reimbursed to the Ameren Illinois Electric Utilities by others, as outlined under the Rate Relief Plan. Ms. Ebrey was informed by telephone in late January of this year that these reimbursements were recorded as an increase to revenues. However, she failed to take this in consideration and adjust her calculation to mitigate her adjustment for these reimbursements. As shown on Ameren Ex. 43.4, about 86% of the 2007 revenue credits were offset with revenue reimbursements. More specifically, of the $221 million of revenue credits provided and recorded as a reduction to revenues, over $189 million of those credits were reimbursed to the Ameren Illinois Electric Utilities and recorded as an increase in revenues in 2007.

Q. Please summarize your position on uncollectibles.

A. After reviewing the Rebuttal Testimony of Staff and AG, I continue to maintain that a three-year average of 2005-2007 net write-offs divided by revenues is

appropriate to establish the uncollectible percentage for each utility, and recommend that the Commission adopt the approach as set forth on Ameren Ex. 19.4, which is supported by both AG/CUB and the Ameren Illinois Utilities.

VII. ENERGY TOOLKIT

Q. Please address Staff's rebuttal testimony regarding Energy Toolkit expense.

A. Ameren Illinois Utilities' witness Mr. Martin discusses why these costs should be allowed. While Staff witness Ms. Ebrey continues to take issue with the Ameren Illinois Utilities' proposal to recover these costs, she did not disagree with my testimony that if the Commission allows for such recovery, the Energy Toolkit expenses should be allocated based on customers, as presented in my Rebuttal Testimony.

VIII. STORM COSTS

Q. Please summarize Ms. Everson's and Mr. Rockrohr's rebuttal position regarding the Ameren Illinois Utilities' proposal to recover storm costs.

A. Ms. Everson has agreed to include a six-year normalization of historical inflation-adjusted storm expense for each of the Ameren Illinois Electric Utilities. This approach is consistent with my proposal for AmerenCIPS and AmerenIP in Rebuttal Testimony, and is similar to my proposal for AmerenCILCO to employ a four-year normalization of historical inflation-adjusted storm expense. Mr. Rockrohr takes issue with the Ameren Illinois Electric Utilities' original request to amortize large storm costs and include the unamortized portion in Rate Base.

Mr. Rockrohr also responds to the Rebuttal Testimony offered by Ameren Illinois Utilities' witness Mr. Pate.

Q. How do you respond?

A. The only outstanding cost issue is the normalization period for AmerenCILCO electric storm costs. As a compromise, I accept Ms. Everson's adjustment to reflect a six-year normalization for AmerenCILCO consistent with the normalization period for AmerenCIPS and AmerenIP. With regard to Mr. Rockrohr's testimony taking issue with the Ameren Illinois Electric Utilities' original request to amortize large storm costs and include the unamortized portion in Rate Base, the proposal is moot in this case from a cost standpoint given the agreement discussed above.

Q. Please respond to Mr. Rockrohr's claims at page 19, lines 407-410.

A. Mr. Rockrohr seems to imply that the Ameren Illinois Utilities as common practice would underperform on maintenance simply to have the opportunity to place unamortized storm costs in Rate Base. That is simply not the case. The decision to propose rate base treatment of storm costs in this case was made by me in preparation of my Direct Testimony, without any discussion with operations or maintenance personnel or supervisors that perform routine maintenance activity and/or responded to the storm damage. It was strictly an accounting decision based on my review of storm costs data in the test year 2006 and early 2007. As such, that decision had nothing to do with our maintenance activities. Furthermore, any proposals in the future with regard to whether or not

we again propose unamortized storm costs in Rate Base are not helpful, and speculative at best. There is certainly no dictate or interest on the part of the Ameren Illinois Utilities, to my knowledge, to manage our maintenance activities around speculation as to whether we may or may not propose a certain form of ratemaking treatment in the future. Further, as discussed above, the issue is moot in this case because the Ameren Illinois Electric Utilities and Staff are in agreement on the accounting for storm costs. On behalf of the Ameren Illinois Utilities, Mr. Pate will further address Mr. Rockrohr's remaining issues discussed with regard to storm response costs.

IX. TREE TRIMMING

Q. Please address the testimony of AG/CUB witness David J. Effron regarding the Ameren Illinois Utilities' 2008 budgeted tree trimming expenses.

A. In his Rebuttal Testimony, Mr. Effron withdrew his proposed adjustment to the Ameren Illinois Electric Utilities' proposed tree trimming expense. Staff's rebuttal filing also reflects the reallocation of tree trimming expense proposed by the Ameren Illinois Electric Utilities. Therefore, there are no remaining issues with regard to the appropriate level of tree trimming expense to be included in Revenue Requirement.

X. MISO PAYMENTS

Q. Are the parties in agreement with regard to Mr. Effron's proposal to eliminate MISO expense?

A. Yes. Both AmerenIP electric's Rebuttal and Surrebuttal Revenue Requirement reflected the elimination of this expense, and Staff's Rebuttal filing also reflects this elimination, so all parties that have addressed this issue are in agreement.

XI. ACCUMULATED DEFERRED TAXES AND OTHER RESERVES

Q. Please summarize the testimony of AG/CUB witness David Effron regarding accumulated deferred taxes and other reserves ("ADIT")?

A. Mr. Effron describes a change to the calculation of the Ameren Illinois Electric Utilities' Accrued OPEB Liability deducted in Rate Base. He also continues to propose an adjustment to be included the Accrued Reserve for Injuries and Damages as an adjustment to Rate Base.

Q. How do you respond?

A. As indicated earlier in my Surrebuttal Testimony, I agree that the adjustment to the Accrued OPEB Liability is appropriate, but disagree with the appropriateness of including any adjustment to Rate Base, positive or negative, for the Reserve for Injuries and Damages.

Q. Please explain why you disagree with the adjustment for the Reserve for Injuries and Damages.

A. As indicated in my Rebuttal Testimony, the Ameren Illinois Utilities have modified their proposal for injuries and damages expense from an accrual basis to a cash basis for ratemaking, based on a five-year average of cash claims paid, as discussed by Ameren Illinois Utilities' witness Andrew Wichmann. Use of a cash basis eliminates the existence of a Reserve balance for ratemaking. Under a cash

basis, there is no debit to expense and credit to a Reserve account, or an advance payment to be recorded as an Asset or as a negative Reserve balance. Thus, a Reserve balance, positive or negative, simply does not exist. While Mr. Effron's statement that a Reserve balance still exists on the utilities balance sheet for reporting purposes, that is because the utilities continue to accrue expense for reporting purposes. What Mr. Effron fails to acknowledge, however, is that rates are being set on a cash basis, which eliminates the existence of the Reserve for ratemaking.

XII. SUPPLY COST ADJUSTMENTS

Q. Do you have any comments with regard to Ms. Ebrey's rebuttal testimony discussing the Supply Procurement Adjustment?

A. Yes. As stated in my Rebuttal Testimony, Ms. Ebrey and I agree on the amount of the adjustment, and agree that the amortization period for the amortized portion of the costs should be consistent with the amortization period approved by the Commission in this case for electric rate case expense. We only disagree with whether such amortization should be based on two years or three years, for the reasons outlined in Mr. Wichmann's Rebuttal Testimony.

Q. What comments do you have with regard to Ms. Ebrey's proposal for the Uncollectibles Adjustment factor?

A. I agree that the correct factor should be based on the Uncollectibles percent approved by the Commission for each of the Ameren Illinois Electric Utilities. I disagree with her on the calculation of the factor, as I am basing my

recommendation on use of 2005-2007 information, while Ms. Ebrey is now relying on a 2003-2007 modified approach to calculate her uncollectibles Adjustment factor. For the reasons stated earlier in my Rebuttal and Surrebuttal Testimonies, the Commission should establish the adjustment factors for each utility based 2005-2007 data, as proposed by the Ameren Illinois Electric Utilities.

Q. Do you have any comments with regard to the Cash Working Capital component of the Supply Procurement Adjustment?

A. Yes. Cash Working Capital associated with the power supply should be based on the calculations shown on Ameren Exhibit 3.16E for each of the Ameren Illinois Electric Utilities. The Ameren Illinois Utilities' witness Mr. Adams addresses the Rebuttal Testimony offered by Staff witness Mr. Kahle, in support of the calculation shown on Ameren Exhibit 3.16E.

XIII. <u>PUF BASE MAINTENANCE CONTRIBUTION</u>

Q. Do you have any response to Ms. Ebrey's rebuttal recommendation to remove the costs associated with the PUF Base Maintenance Contribution?

A. Yes. As I will discuss, Ms. Ebrey's proposed adjustment should be disregarded for a number of reasons, as summarized below:

- This adjustment is not proper Rebuttal and should have been introduced in Direct testimony
- Foundation for the adjustment has not been sufficiently established
- Adjustment is single issue rate making

- Effective date of any change is after the period recognized for pro forma adjustments in 83 Ill Adm Code 287.40
- Staff's Adjustment is not consistent with the amount included in AIU's Revenue Requirement
- Funding level could increase, calling further into question rationale for this adjustment

Q. Please explain why the proposed adjustment is not proper Rebuttal.

A. Ms. Ebrey's proposed adjustment is not responsive to any Direct Testimony of the Ameren Illinois Electric Utility witnesses and is therefore not proper Rebuttal. In addition, at the time of Staff's filing of Direct Testimony in this proceeding, it would have been known to Staff that Section 2-203 of the Act was to be repealed. Therefore, if Staff was intent on proposing this adjustment, it should have done so in Direct Testimony.

Q. Please discuss what you mean by the statement that Staff has not established a proper foundation for the adjustment.

A. At line 785 of her Rebuttal Testimony, Ms. Ebrey references Senate Bill 1926 and appears to rely entirely on whether this Amendment becomes Public Act by the time of this order as support for her adjustment. First of all, the existence of this Senate Bill calls seriously into question whether Ms. Ebrey's adjustment is known or measurable, which is the criteria for such an adjustment in the first place. While I agree with Ms. Ebrey that Section 2-203 is to be repealed pending further legislation, the legislation required to extend the funding source is known to Staff, and the overwhelming evidence is that this bill will become law. The current

version of the amendment passed the Senate on April 17th and neither the Ameren Illinois Utilities nor Commonwealth Edison opposed it. There is no reason, and no foundation for that matter, to support a position that the funding provided by the Ameren Illinois Utilities will dry up, as implied by Ms. Ebrey

Q. Why do you suggest that Staff's proposed adjustment is single issue ratemaking?

A. Staff has isolated out this one line item of expense and indicates that an adjustment should be reflected because of a pending, but unsupported, change to take place in January 2009. In proposing this adjustment, Staff has not provided any analysis or support to indicate that this adjustment is anything other than a form of single issue ratemaking. More specifically, no evidence has been provided by Staff to indicate that they have analyzed or even looked at other costs in 2009 that could increase to offset any speculative change in this one isolated item of expense. Allowance for this one adjustment is simply not appropriate without looking at other cost increases or decreases that could be realized by January 1, 2009.

Q. Is Staff's proposed adjustment also inappropriate under the Commission's test year rules?

A. Yes. The Ameren Illinois Utilities filed its rate case in these proceedings based on an historical test year ending December 31, 2006. Section 83 of the Illinois Administrative Code provides for pro forma adjustments to historical test year data that are reasonably certain to occur with 12 months after the filing date of

tariffs. Since tariffs were filed November 2, 2007, pro forma adjustments can extend out to November 2, 2008. Staff acknowledges that their proposed adjustment will not take place before January 1, 2009, which is beyond the 12-month period for pro forma adjustments discussed above.

Q. Please explain why you state that Staff's proposed adjustment is not consistent with the amount included in the AIU's Revenue Requirement.

A. Staff's adjustment does not consider that a portion of account 928 expense is not assigned to the electric distribution operations. Ameren Exhibit 43.5 corrects Staff's calculation to provide the actual level of expense included in the Ameren Illinois Electric Utilities' Test Year Revenue Requirement.

Q. You indicate that the funding level could increase, rather than decrease as Staff has indicated. Please explain.

A. It is a well established fact that the State of Illinois is strapped for funds, which supports the continuation of the funding source provided from the public utilities at issue here. The amendment to the Senate bill continues the existing $5.5 million utility contribution level. However, it is my opinion that the likelihood of utility funding requirements increasing is equal to, or greater than, the likelihood of utility funding requirements decreasing.

Q. Do you have any recommendations to address your later concern?

A. I recommend that the Commission set initial rates in this proceeding based on the level of expense included on Ameren Exhibit 43.5. The Commission would then

authorize an across-the-board change to tariff rates effective January 1, 2009, to implement any modifications, up or down, in the required utility funding level. This approach is more equitable and fair to both the AIUs and ratepayers than the proposal outlined by Ms. Ebrey, which is clearly one sided in favor of ratepayers at the possible expense of the utilities.

Q. Can you provide examples of how this proposal would be calculated?

A. Yes. As shown on Ameren Exhibit 43.5, AmerenIP's expense included in Revenue Requirement is $757,000, based on a total utility funding requirement of $5.5 million. If the $5.5 million funding requirement goes to zero, as Staff seems to imply, then the $757,000 amount would be reduced to $0, and Ameren Illinois Utilities' witness Jones would recalculate tariff rates to implement a reduction to AmerenIP ratepayers in the an amount approximately equal to $757,000. If, on the other hand, the $5.5 million utility funding level increases to $6.0 million, this results in an increase of 9% (($6 million divided by $5.5 million) -1). In this example, Mr. Jones would recalculate AmerenIP tariff rates to increase the $757,000 expense level by another $68,000 (for a total of $825,000). The additional $68,000 to be collected from AmerenIP ratepayers would be based on a simple calculation of $757,000 multiplied by the 9% reference above.

XIV. <u>CONCLUSION</u>

Q. Does this conclude your testimony?

A. Yes, it does.