

ILLINOIS COMMERCE COMMISSION

ICC DOCKET NO. _____

DIRECT TESTIMONY

OF

MICHAEL J. GETZ

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 7, 2009

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23 A. A statement of my qualifications is attached as an appendix to this testimony.

24 **B. Purpose and Scope**

25 **Q. What is the purpose of your direct testimony in this proceeding?**

26 A. The purpose of my testimony is to explain the Ameren Illinois Utilities' intercompany
27 billing processes and cost allocators applicable to services provided in the proposed
28 standalone affiliate services agreement ("AIU Agreement") proposed in this case. I also
29 explain how allocation factors for Ameren Services Company ("Ameren Services")
30 services provided to the Ameren Illinois Utilities will be adjusted to prevent cross-
31 subsidization in accordance with the AIU Agreement. Finally, I will describe the process
32 used to transfer incidental personal computing assets.

33 **C. Identification of Exhibits**

34 **Q. Will you be sponsoring any exhibits with your direct testimony?**

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

- 36 • AIU Exhibit 2.1, Schedule 1 – Ameren Services Service Request ("SR")
37 Allocation Factors
- 38 • AIU Exhibit 2.1, Schedule 2 – Ameren Services SRs to be Reallocated
39 from AmerenCILCO
- 40 • AIU Exhibit 2.1, Schedule 3 – IB Journal Entry Example

41
42 **II. COST ALLOCATORS IN THE AIU AGREEMENT**

43 **Q. Please explain the rationale behind the proposed Ameren Illinois Utilities'**
44 **intercompany billing processes and cost allocators.**

45 A. The proposed AIU Agreement being considered in this Docket would, on Commission
46 approval, bring about the need for certain new allocation procedures and clarifications for

47 intercompany billing. As Mr. Craig Nelson's testimony explains, the proposed affiliate
48 agreements in this Docket reflect changes set in place by the transfer of 597 Ameren
49 Services employees (who previously had been providing services for the Ameren Illinois
50 Utilities) to the Ameren Illinois Utilities, beginning on January 1, 2009. As he also
51 explains, over 94% of those employees were specifically transferred to AmerenCILCO,
52 with the understanding that the large majority of those employees had, and would
53 continue to, provide services to two or more of the Ameren Illinois Utilities. As a result,
54 certain changes to intercompany billing processes between the Ameren Illinois Utilities
55 and cost allocators are now necessary, in order to ensure continued proper accounting and
56 cost recovery following those employees' transfers. Certain changes to Ameren Services
57 cost allocators are also necessary to reflect this change in circumstances.

58 **Q. What types of changes are proposed to the Ameren Illinois Utilities' intercompany**
59 **billing processes and cost allocators?**

60 **A.** In the past, intercompany billing processes have been employed primarily for payment of
61 storm assistance costs between Ameren utilities. Now, many different types of services
62 will need to be accounted for through intercompany billing service allocators ("IBs"), in
63 order to effectively allocate the costs of previous Ameren Services employees who have
64 now been transferred to AmerenCILCO.

65 **Q. How were those IBs developed?**

66 First, I reviewed the 2008 actual SR allocation codes used by the Ameren Services
67 employee divisions moved to the Ameren Illinois Utilities, based on actual year-to-date
68 payroll costs as of October. For each Resource Management Center ("RMC") or cost
69 center that was moved from Ameren Services, labor SRs and their associated allocation

70 factors were identified and a corresponding IB was set up to mirror that distribution. For
71 example, system relay services that had been previously charged to Ameren Services SR
72 A2987 and allocated based on electric distribution customers was mirrored as CIL IB
73 B0740 and similarly allocated based on electric distribution customers. IBs were also
74 created using this same process to allocate non-labor costs. And, for instances where the
75 service performed would benefit all of the Ameren Illinois Utilities equally, a new 001K-
76 AIU allocation factor has been created. The allocation factors employed by these new
77 IBs are included on Schedule 2 of the Ameren Illinois Utilities Service Agreement.

78 **Q. How are IBs processed?**

79 A. IBs are all initially charged to the FERC major 921-A&G Office Expenses account, and
80 then allocated to fixed target accounting set up specifically for that IB. This method will
81 ensure that when any IB has been charged, the ultimate accounts and companies charged
82 will always be the same for that IB. In other words, once an IB has been chosen, there is
83 no further selection of accounting targets that could possibly result in accidental
84 misallocation to the wrong company or account. For example, assume \$1,000 is charged
85 to CIL IB B0740 from above for System Relay. The initial account charged is CIL 921.
86 The IB process will allocate the \$1,000 to the fixed target accounting of account 592 for
87 AmerenCILCO, AmerenCIPS and AmerenIP based on electric distribution customers.
88 So, the end result is 17% of the costs or \$170 is allocated to AmerenCILCO account 592;
89 32% or \$320 is allocated to AmerenCIPS account 592, and the remaining 51% or \$510 is
90 allocated to AmerenIP account 592. The IB process automatically adds payroll loading
91 for the AIU labor charges. It also will create the inter-company entries for revenue in

92 account 456, payables in account 234 and receivable in account 146. An example of the
93 journal entries for this IB is included on AIU Exhibit 2.1, Schedule 3.

94 **Q. Please explain how the cost allocators have been designed to ensure that the Ameren**
95 **Illinois Utilities' costs are properly allocated.**

96 **A.** To ensure accuracy, consistency, and a smooth transition to the new procedures,
97 intercompany billing allocations have been modeled after existing Commission-approved
98 Ameren Services service request allocations. The same percentages are being used for
99 most of the IBs that were previously used for SRs – such as number of total customers,
100 number of electric distribution customers, number of gas customers, number of
101 employees, and so on. (See AIU Exhibit 2.1, Schedule 3.)

102 For AIU intercompany billing purposes, allocations were modified to limit the activity to
103 the AIU companies. For example, the existing allocation for number of vehicles includes
104 all Ameren companies in Illinois, Missouri and the generation segment. For the AIU IB
105 process only the AIU vehicle counts were used in determining the allocation factor.

106 **Q. What controls are in place to ensure only the appropriate personnel are allocating**
107 **costs to AmerenCIPS and AmerenIP?**

108 **A.** The Ameren Illinois Utilities' time reporting system limits access to IB projects. Only
109 the Ameren Services-transferred RMCs at AmerenCILCO should be able to charge these
110 IBs. Personnel in the Ameren Illinois Utilities' Financial Services will monitor the costs
111 monthly to ensure that only the Ameren Services-transferred RMCs apply charges to IBs.

112 **Q. Please explain how decisions will be made regarding the services AmerenCILCO**
113 **will provide to AmerenCIPS and AmerenIP.**

114 **A.** The officers of each of the Ameren Illinois Utilities will sign off on the AIU Agreement.
115 Schedule 1 of that document lists the services to be provided under the AIU Agreement.
116 As noted in the AIU Agreement's Section 2, if additional services are requested, then
117 Schedule 1 will be revised as necessary, subject to ICC approval.

118 **Q. Are any non-service costs processed through the IBs?**

119 **A** Yes, there are some incidental office supplies and expenses that flow through the IB
120 projects. Also, in some cases, rather than assign three lines of accounting to manually
121 allocate an invoice, it is more efficient to use an IB to target the charges automatically
122 among the Ameren Illinois Utilities, using an approved allocation factor.

123 **Q. How will AmerenCIPS and AmerenIP review AmerenCILCO service charges?**

124 **A.** Personnel in the Financial Services area will prepare a monthly report of the costs, which
125 will be distributed to a designated Business Performance Specialists ("BPS") for each of
126 the Ameren Illinois Utilities to review for reasonableness. The BPS prepare budgets,
127 perform financial analysis and work closely with the operating areas. They report
128 directly to the division management and indirectly to the AIU Controller. The review
129 will include sampling and verification of the appropriate source department, allocation
130 percentages and payroll loading rates. The BPS can challenge any charges that do not
131 appear reasonable for the specific AIU company they are reviewing.

132 **III. ADJUSTMENTS TO AMS ALLOCATION FACTORS**

133 **Q. Please explain the changes necessary to Ameren Services, cost allocation methods.**

134 A. Because most of the transferred Ameren Services employees are now working for
135 AmerenCILCO, the headcount-related percentage of Ameren Services charges for
136 AmerenCILCO would increase. A separate entry would then be required to redistribute
137 these headcount-related charges to AmerenCIPS and AmerenIP. To simplify any
138 ongoing reallocations from AmerenCILCO to AmerenCIPS and AmerenIP, these
139 headcount related factors would be adjusted among the AIU based on the total number of
140 electric and gas customers. For example, 566 of the former AMS personnel moved to
141 AmerenCILCO. For AMS allocation purposes, these 566 employees would be
142 reallocated to the AIU based on total customers so AmerenCILCO would be assigned
143 21% of these employees or 119, AmerenCIPS would be allocated 28% or 158, and
144 Ameren IP would be allocated the remaining 51% or 289 employees. Prior to the transfer
145 AmerenCILCO had 388 employees. So rather than report 954 employees at
146 AmerenCILCO (388 + 566) we would report 507 (388 + (21% of 566 or 119)) and use
147 this in the headcount allocation factor. This reallocation would enable the existing SR
148 process to distribute the headcount related costs in a more reasonable manner to prevent
149 cross-subsidization and eliminate the need for a second tier allocation from
150 AmerenCILCO to AmerenCIPS and AmerenIP.

151 **Q. How will Ameren Services allocations for redistribution be identified?**

152 A. The Ameren Illinois Utilities will continue to use a list of Commission-approved Ameren
153 Services direct allocation factors, which is updated annually. The current approved list is
154 attached as Exhibit 2.1, Schedule 1. Because of the employee transfer, if no reallocation
155 among the AIU occurs the AmerenCILCO portion of the following allocation factors will
156 increase in 2009:

- 157 • 001A - Composite (Sales, Customers and Employees)
- 158 • 004x - # of Employees
- 159 • 017C - # of Active Projects (CIL inter-company billing projects increased)
- 160 • 018A - # of PCs (PCs are assigned to company of employee)

161 In addition, AmerenCILCO would also see increases in rent charges (which are
162 headcount-related) and corporate and functional indirect allocations (which are based on
163 total direct allocated costs). By reallocating the incremental AmerenCILCO portion of
164 each of these above allocation factors based on total customers those costs will be
165 appropriately allocated to AmerenCIPS and AmerenIP by the AMS service requests.
166 Adjustments similar to those described above for headcount allocation would be made for
167 the composite and number of PC allocation factors. Also, intercompany billing projects
168 would also be excluded when calculating the number of active project allocation factor.

169 The attached Exhibit 2.1, Schedule 2 shows a list of Ameren Services SRs that would be
170 impacted by the reallocation to prevent overstating the AmerenCILCO costs.

171 **IV. TRANSFER OF INCIDENTAL PERSONAL COMPUTING ASSETS**

172 **Q. Please describe the incidental assets transferred along with the AMS employees to**
173 **AmerenCILCO, for which the Ameren Illinois Utilities seek waiver of Commission**
174 **approval, or alternatively, approval.**

175 **A.** Along with the transfer of AMS employees to AmerenCILCO, employee-assigned
176 personal computing equipment was transferred as well. This equipment was valued at

177 approximately \$410,000, using the book valuation method, using the average age of the
178 computing equipment transferred.

179 **Q. Why are PCs the only equipment being transferred?**

180 A. At Ameren, PCs are owned by the company the employee works for. As a result, when
181 the employees transferred from AMS it was necessary to transfer their related PCs. Since
182 most of the employees transferred to AmerenCILCO, it will be necessary to transfer
183 depreciation expense for these PCs among all three AIU companies based on customers.

184 **Q. How are other capital assets treated by AIU?**

185 A. Other tangible plant assets besides PC equipment are purchased directly by the respective
186 AIU company. For example, the office furniture used by employees at a location is
187 owned by the same company that owns the building. Each company will continue this
188 practice.

189 **Q. How is depreciation on the incremental PCs at AmerenCILCO allocated?**

190 A. A separate journal entry will be prepared to distribute the depreciation expense related to
191 the PCs transferred from AMS. The depreciation will be allocated among the AIU
192 companies based on total customers.

193 **V. CONCLUSION**

194 **Q. Does this conclude your testimony?**

195 A. Yes, it does.

STATEMENT OF QUALIFICATIONS

My name is Michael Getz. I am employed by AmerenCILCO as Controller for the Ameren Illinois Utilities. In this role, I am responsible for financial variance analysis, reporting and budget coordination for Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, Illinois Power Company d/b/a AmerenIP (the “Ameren Illinois Utilities”).

I graduated from Bradley University in 1982 with a Bachelor of Science degree in Accounting. In 1983, I obtained my Certified Public Accountant certification in the State of Illinois. I began my employment at Central Illinois Light Company in 1984. In 1988, I received my Masters of Business Administration degree from Bradley University, and obtained my Certified Management Accountant certification in 1996. I have worked in various positions in the Fixed Assets, Accounts Payable, and General Accounting areas.