

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 09-_____

DIRECT TESTIMONY

OF

CHAD W. CLONINGER

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**

THE AMEREN ILLINOIS UTILITIES

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TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
A. WITNESS IDENTIFICATION	1
B. PURPOSE, SCOPE AND IDENTIFICATION OF EXHIBITS.....	2
II. BUYER PROCESS REVIEW	2
III. CONCLUSION	9
APPENDIX.....	1

22 **B. Purpose, Scope and Identification of Exhibits**

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

24 A. My testimony discusses the AIUs' process for acquiring certain products and
25 services (which I will refer to collectively in my testimony as "services"), from Ameren
26 Services Company (Ameren Services or AMS) under the "Joint Planning Process". The
27 Joint Planning Process is discussed in more detail in the direct testimony of Mr. Craig D.
28 Nelson (Ameren Exhibit 1.0).

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

30 A. Yes. I am sponsoring the following exhibits:

31 Ameren Exhibit 10.1: List of services reviewed by C. Cloninger

32 Ameren Exhibit 10.2: Buyer's Checklist for services reviewed by C. Cloninger

33 Ameren Exhibit 10.3: Allocation Sheets for services reviewed by C. Cloninger

34 **II. BUYER PROCESS REVIEW**

35 **Q. Were you assigned services to review under the Joint Planning Process**
36 **discussed by Mr. Nelson?**

37 A. Yes.

38 **Q. Please discuss the services that you reviewed.**

39 A. I reviewed 13 services and 2 "pass-through" costs. (As discussed by Mr. Nelson,
40 pass through costs are costs that are incurred by the business segments that are
41 administered by AMS.) The services that I reviewed are included in Ameren Exhibit No.
42 10.1. Services which I reviewed were from the following areas: Human Resources ,
43 Supply Services, System Analysis, Real Estate, Transmission Operations, Planning and

44 Policy. The two pass-through items were Rental Revenues and Property Sales Revenues.
45 Of the services I reviewed, one was a service for which another employee was the
46 designated buyer, but which I reviewed and am familiar with, as discussed below.

47 **Q. Are each of the 13 services you reviewed contained in the product and service**
48 **catalog discussed by Mr. Nelson?**

49 A. Yes, the product and services catalog provides an explanation of each service as
50 well as a breakdown of the portion of total costs for the various components of the
51 service.

52 **Q. Please describe the process you used when evaluating the product and**
53 **services for which you are the designated buyer.**

54 A. For each of these services, I started by reviewing the information contained in the
55 product and services catalog. The descriptions serve to document what is included for
56 each product or service so all parties have clear expectations of what is being provided. I
57 also reviewed cost allocation spreadsheets for each service I reviewed, which I discuss
58 further below. I then met with the service provider for each service. The objective of
59 each of these meetings was 1) for me, as the designated buyer, to obtain a thorough
60 understanding of the service provided, 2) to ensure the service provider understands the
61 AIUs' goals and objectives related to the service, and 3) to discuss the cost associated
62 with the service, including how the total cost is allocated to the AIUs and the actions the
63 service provider has taken or the AIUs can take to manage and control the cost. After the
64 meeting, I completed a buyer's checklist for the service. (The "checklist" form the other
65 buyers and I used for the services assigned to each of us is included as Ameren Exhibit
66 No. 1.5 to Mr. Nelson's testimony). A copy of the checklist forms for the services I

67 reviewed is attached as Ameren Exhibit 10.2. The related allocation sheets are attached
68 as Ameren Exhibit 10.3.

69 **Q. What is the process you used when evaluating the pass-through services?**

70 A. The process I used for reviewing the pass through items is similar to the process I
71 used for the services for which I am the designated buyer with one exception. Because
72 these are pass through items, they are not included in the product and services catalog.
73 Therefore, the process I used for these did not include a review of the product and
74 services catalog.

75 **Q. What was the process you used when reviewing the services for which
76 another employee is the designated buyer?**

77 A. Where another employee was the designated buyer for a service, I started my
78 evaluation with a thorough review of both the information contained in the product and
79 services catalog and the checklist that was completed by the designated buyer. I then met
80 with the designated buyer to obtain a thorough understanding of the service along with a
81 thorough understanding of the process that designated buyer used when he evaluated the
82 service. The designated buyer for these services utilized a review process similar to the
83 one I used for the services for which I am the designated buyer, including a review of the
84 product and services catalog, a meeting with the service provider and the completion of a
85 buyer's checklist.

86 **Q. Did you take other steps to evaluate the services for which another employee
87 is the designated buyer?**

88 A. Yes. Where I had questions pertaining to the nature of the service being provided,
89 or associated financial information, I communicated directly with the service provider
90 until all of my questions were satisfied. For example, I communicated with System
91 Analysis personnel to see why there were direct charges only to Central Illinois Light
92 Company d/b/a AmerenCILCO (AmerenCILCO). As it turns out, they have an employee
93 located in the AmerenCILCO Springfield office supporting their gas operation needs
94 related to mapping.

95 **Q. For your assigned services, do you understand the nature of each product or**
96 **service being provided?**

97 A. Yes. Based on my past working knowledge and experiences with these services,
98 the review of the services catalog and discussions with individual service providers, I
99 have an understanding of the nature of each service being provided.

100 **Q. Are most of the services you reviewed being provided by AMS personnel?**

101 A. Yes. The majority are provided internally by AMS personnel; however, as
102 discussed below some services are provided, at least in part, through outsourcing. It is
103 my understanding that AMS service providers generally seek to optimize the mix of
104 internal and external resources in an effort to reduce or contain costs.

105 **Q. Please provide examples of AMS services which you reviewed that are being**
106 **provided via outsourcing?**

107 A. The following are examples of AMS services being provided by outsourcing:

- 108 • Acquiring Real Estate is about a 50/50 split of internal to outsourced
109 resources. This work primarily involves acquiring easements for large
110 transmission and distribution electric and gas projects. There is not much
111 consistency from year to year in the number of these types of projects, so it is

112 difficult to establish a set level of employees to perform the required work.
113 Outsourcing allows the appropriate levels of resources to be used when
114 workloads increase.

115 • Transmission Vegetation Management uses internal resources; however the
116 physical labor is done with skilled union contractors.

117 • Transmission Line Maintenance uses internal resources for supervision and
118 management, however the physical labor is done with skilled union
119 contractors.

120 **Q. Are there potential savings opportunities by further outsourcing the services**
121 **you reviewed?**

122 A. At present, I do not believe so. I discussed the potential for additional
123 outsourcing with each provider and, in my opinion they have an appropriate mix of
124 internal resources and external providers.

125 **Q. Have you explored other cost containment opportunities with AMS service**
126 **providers for services you reviewed?**

127 A. Yes. In my discussions with the AMS service providers,, we reviewed their cost
128 containment measures, as well as suggestions from the service catalog pages for reducing
129 costs of the service and ways to improve upon the delivery of the service. Such
130 suggestions included more Web based meetings which eliminate the need for travel
131 expenses and carpooling when two or more people are traveling to the same location.

132 **Q. Are there examples of AMS cost containment measures for services you**
133 **reviewed?**

134 A. Yes. I am aware of several cost containment measures undertaken by AMS in
135 2007 and 2008. The following are examples of AMS cost containment efforts in 2007
136 and 2008 related to the services which I reviewed:

137 **Acquire Real Estate**

- 138 • Through a competitive bid process, this function has pre-qualified contract
139 right of way service firms to lock in costs and facilitate quick mobilization.
- 140 • This function has standardized many of their frequently-used real estate
141 forms and has established real estate policies to promote standardization and
142 efficiencies within the three operating companies.
- 143 • This function is now able to electronically access property ownership
144 information in the most populated counties, thereby reducing time and
145 expenses related to going to the court house.

146 **Manage Real Estate**

- 147 • This function has centralized the property management function of the AIU
148 to more efficiently manage our real estate assets.
- 149 • This function has indexed and scanned their property rights documents into
150 one database that allows real estate personnel throughout the state to quickly
151 research and access our property right records.

152 **Q. Have the AIUs explored possible reductions in service levels from AMS at**
153 **reduced costs for services you reviewed?**

154 A. Yes, the service level of each service was discussed as part of meetings with the
155 service providers or buyers. My conclusion is that the service providers are providing the
156 appropriate level of service to the AIUs for the services which I have reviewed.

157 **Q. Have you reviewed the allocation of costs to the AIUs for each service which**
158 **you reviewed?**

159 A. Yes. For each assigned service, a cost summary sheet (see Ameren Exhibit 10.3
160 attached to my testimony) was created that provided the “Allocation Factor” or “Factors”
161 being applied to the service’s charges and supporting data. Each cost summary sheet sets
162 forth the allocation of the costs to the various business segments, the comparison of the
163 costs allocated to the AIUs in 2009 to the previous year (2008), and other related

164 information. I reviewed the allocation factors used for the charges and the allocation of
165 costs to the various business segments, as well as a comparison of these costs allocated to
166 AIU in the previous year as shown on the cost summary sheets. Where I determined
167 clarification was needed, I followed up with certain service providers to get more
168 information. Some examples of those follow-ups include:

- 169 • HR Consulting and Project Management – In reviewing the cost allocation, I
170 determined that AER receives 8.46% of the charges. My follow-up
171 determined that the allocation was appropriate because AER utilizes these
172 services infrequently, when a training session is near one of their facilities.
173 The service's costs also increased from the previous year because they added
174 people to provide better support at AIU's request.
- 175 • Acquire Real Estate – The capital cost of this service increased by 33.2%
176 from 2008 to 2009. After follow up, it was determined this was due to
177 several large projects with AIUs. They include, but are not limited to:
 - 178 ○ Prairie States Project 345kv Lines – 3 projects for 38 miles
 - 179 ○ LaSalle-Ottawa 138kv – 32 miles
 - 180 ○ Latham-Oreana 345kV Line – 8 miles
 - 181 ○ Brokaw-South Bloomington 345kV Line– 5 miles
 - 182 ○ Marion-Carterville Gas – 11 miles
- 183 • Transmission Vegetation Management – there was an 86.5 % decrease in
184 O&M costs from 2008 to 2009. After follow up, it was determined that the
185 cost decrease resulted from AIUs assuming the responsibility for the
186 Distribution Vegetation Management, which was included in previous year's
187 total vegetation management cost.

188 **Q. Overall, does the allocation methodology appear to be reasonable for services**
189 **which you reviewed?**

190 A. Yes. Based on my review of the cost summary sheets, I concluded that the
191 allocation methodology was reasonable for the type of service.

192 **Q. Does the resulting allocation of cost to the AIUs for services which you**
193 **reviewed appear to be reasonable?**

194 A. Yes. In my review, I noted one exception, for the Sell Real Estate service. There
195 was a budgeted O&M charge in 2009 for \$17,700. This charge was an error, and AIUs
196 will not be charged. Otherwise, based on the indicated allocation factors, the allocation of
197 costs to the AIUs for services I reviewed appears reasonable.

198 **Q. Did you make any suggested changes to the AMS service providers?**

199 A. No.

200 **Q. Please summarize your testimony regarding the process the AIUs follow to**
201 **acquire services you reviewed from AMS.**

202 A. Overall, I understand the nature of the services being provided to the AIUs, the
203 services are necessary for the AIUs and, in my opinion, the cost for each service appears
204 to be reasonable.

205 **III. CONCLUSION**

206 **Q. Does this conclude your direct testimony?**

207 A. Yes, it does.

APPENDIX

STATEMENT OF QUALIFICATIONS

CHAD W. CLONINGER

I am a 1986 graduate of Bradley University with a Bachelor of Science degree in Electrical Engineering Technology. I began employment with Central Illinois Public Service Company upon graduation in 1986 as an Engineer and have held numerous positions including Transmission Engineer, Distribution Engineer, Area Operations Supervisor, Human Resource and Safety Representative and Electric Superintendent.