

ILLINOIS COMMERCE COMMISSION

DOCKET Nos. 09-0306 - 09-0311 (Cons.)

SECOND REVISED

SURREBUTTAL TESTIMONY

OF

CRAIG D. NELSON

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)

DECEMBER 14, 2009

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Submitted on Behalf of

The Ameren Illinois Utilities

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Craig D. Nelson, and my business address is 300 Liberty Street, Peoria, Illinois 61602.

Q. Are you same Craig D. Nelson who previously provided direct and rebuttal testimony in this proceeding?

A. Yes, I am.

Q. Please summarize your prior testimony in this proceeding.

A. In my prior testimony I testified and supplied evidence as to the Ameren Illinois Utilities' ("AIUs") need for rate increases and the appropriateness of seeking rate increases during these particularly challenging economic times. To accomplish a primary mission of providing adequate, reliable electric and gas service to our customers, the AIUs have made, and are planning to continue to make, significant infrastructure investments to maintain and/or enhance system adequacy and reliability. In addition to these investments in the AIUs' infrastructure, including investments in pipes, wires, poles,

23 etc., the AIUs have experienced significant increases in many expense items since their
24 last Commission-approved rate increases, causing the overall cost to provide service to
25 exceed amounts approved by the Commission in those rate cases.

26 I addressed the efforts that the AIUs and their service company affiliate, Ameren
27 Services Company (“AMS”) have taken and continue to take to contain costs and
28 measures that the AIUs have offered to help mitigate the impact of these increases on our
29 customers, including the provision of energy efficiency programs and advice to help
30 customers reduce and/or control their energy bills. These efforts have been successful in
31 minimizing the need for rate increases and mitigating their impacts on our customers.

32 I explained the joint planning and buyer process in which the AIUs and AMS
33 engage so that the AIUs are assured that AMS provides necessary services at the right
34 time and at reasonable costs. The process includes discussions of service level needs and
35 review of outsourcing opportunities, cost containment measures undertaken, and how
36 AMS costs are allocated to the AIUs. In direct testimony, I discussed the transfer of 597
37 AMS employees into the Ameren Illinois Utilities organization and how the transfer
38 provided assurance to the Commission that costs related to these employees have been
39 accurately charged.

40 In my rebuttal testimony I responded generally to the direct testimony presented
41 by Staff and other intervenors, including the policy implications and the inadequacy of
42 revenue requirements recommended in that direct testimony. Once again I stressed the
43 fact that we must be allowed to recover our actual, prudent cost of service and a
44 reasonable opportunity to earn a fair rate of return in order to provide safe and reliable
45 service to our customers. During that phase of our case, the AIUs incorporated

46 adjustments proposed by Staff and other intervenors to which the AIUs agreed, bringing
47 the requested increase down to \$162 million¹ (plus the ability to recover Liberty Audit
48 implementation costs via a rider) from their \$226 million original request (which was
49 reduced to \$219 million in supplemental direct testimony filed by Ron Stafford and me).
50 I pointed out that the remaining proposed adjustments (by Staff and other parties) would
51 lead to results that were neither fair nor reasonable. Stated differently, for the AIUs'
52 management to not adjust their operations and realign budgets accordingly would imply
53 the Commission had an expectation the AIUs would grossly under earn their newly
54 authorized returns, which logically would never be the Commission's intent.

55 I explained the voluntary and involuntary employee separation (or work force
56 reduction) plans.

57 I testified that the AIUs would synchronize their spending after the Commission's
58 order to the revenue requirement approved in that order. In other words, the AIUs will
59 take direction from the Commission and adjust their spending to the amounts allowed in
60 rates by the Commission.

61 I addressed the inconsistency between Staff witnesses Ebrey and Freetly on the
62 topic of the recovery of prudently incurred uncollectibles expense. Ms. Ebrey has
63 inherently testified that she has determined the "right" amount of uncollectibles expense
64 which would be recorded in Account No. 904 and that by including this amount in base
65 rates the AIUs would be able to recover their full, prudently incurred uncollectibles
66 expense. However, Ms. Freetly says by allowing the AIUs to recover this amount via a
67 rider that their rates of return on common equity should be adjusted downward since their

¹ In the surrebuttal phase of our case, the AIUs incorporated additional adjustments into their revenue requirement, further reducing the requested increase from \$162 million to \$145 million.

68 “risk” of not recovering this amount will have been reduced. The inherent weaknesses in
69 Staff witness Freetly’s argument is that 1) she only considers one side of the equation,
70 failing to recognize that the risk of over recovering has been eliminated; 2) if Ms. Ebrey
71 has determined the right amounts to be included in base rates then the riders add little
72 value; and 3) she continues to rely upon the historical approach used by Staff to develop
73 its uncollectibles revenue requirement, but if one were to follow the logic in Ms. Freetly’s
74 suppositions that an adjustment to rate of return is appropriate that would mean that Ms.
75 Ebrey’s computations of the “right” amounts are inaccurate.

76 **II. PURPOSE OF TESTIMONY**

77 **Q. What is the purpose of your surrebuttal testimony?**

78 A. The purpose of my surrebuttal testimony is to provide a general response to the
79 rebuttal testimony submitted by the Illinois Commerce Commission Staff (“Staff”) in this
80 proceeding. My response, on behalf of the AIUs will include certain policy implications
81 of the revenue requirements recommended in Staff’s rebuttal testimony. In particular, I
82 will address the following topics.

- 83 • Overall Impact of Staff’s Rebuttal Revenue Requirements
- 84 • Disallowance of Costs to Implement Workforce Reduction Plans (Ebrey)
- 85 • Tree Trimming Evidence (Rebuttal of Jones)
- 86 • Adjustment to Rate of Return on Common Equity for Uncollectibles Rider
87 (Freetly and Ebrey)
- 88 • Incentive Compensation Issues; and
- 89 • Duplicated Smart Grid Costs

90 I will also provide a list of the witnesses who are sponsoring surrebuttal testimony
91 on behalf of the AIUs.

92 **[Lines 92-97 have been removed pursuant to Order re Motion to Strike]**

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98 **III. OVERALL IMPACT OF STAFF'S REBUTTAL REVENUE**

99 **REQUIREMENTS**

100 **Q. Have you had the opportunity to review Staff's rebuttal position on the**
101 **overall increase to the AIUs' revenue requirements?**

102 A. Yes

103 **Q. Are the revenue requirements now being recommended by the Staff in its**
104 **rebuttal testimony adequate?**

105 A. No, they are not. As I previously testified in my direct and rebuttal testimonies,
106 the AIUs' primary mission is to provide safe, adequate, and reliable electric and natural
107 gas service to our customers in a manner which would not only satisfy regulatory
108 requirements and sustain the financial viability of the AIUs, being fair and equitable to
109 both customers and shareholders, but which would also allow the AIUs to provide such
110 service in a manner that fulfills our customers' expectations. In order to fulfill this

111 mission, we must be allowed (i) to recover our actual, prudent costs of service and (ii) a
112 reasonable opportunity to earn a fair rate of return.

113 Staff, in its rebuttal testimony, is proposing that the AIUs be granted a combined
114 revenue requirement increase of less than \$44 million – less than the amount Staff
115 proposed in its direct case and clearly inadequate. Through evidence provided in our
116 surrebuttal testimony, the AIUs have supported the \$145 million revenue requirement
117 increase² which we feel is necessary to provide safe and adequate service and which will
118 enable us to enhance system performance and reliability of service through continued
119 investments in our infrastructure.

120 **Q. Please discuss consequences which would result should the Commission**
121 **adopt Staff's proposed rate increase.**

122 A. As I testified in my rebuttal testimony, there are significant negative
123 consequences, both from a financial and a customer-service perspective, which would
124 result should the AIUs not receive an adequate rate increase. In order to preserve their
125 financial integrity, the AIUs would need to take steps subsequent to the Commission's
126 order to mitigate the downward pressure on their credit ratings with which they would be
127 faced. This downward pressure would make it more difficult and costly for the AIUs to
128 secure adequate financing and for the AIUs to maintain and/or improve their credit
129 ratings which have only recently been upgraded to investment grade from junk status.

130 The AIUs would necessarily need to synchronize (or match) their levels of
131 spending with the revenue requirement (or cost recovery) allowed in the new rates by

² The \$145 million does not include the recovery of costs related to the implementation of Liberty Audit recommendations.

132 taking actions to ensure that the amount which is being spent to operate the various
133 functions of the three AIUs is aligned with cost recovery approved for the respective
134 functions.

135 Other potential actions, as I testified in my rebuttal testimony, include (i) deferral
136 or cancellation of planned plant additions and replacements and (ii) reduction, deferral or
137 cancellation of other operating expenditures. These actions regrettably would in turn lead
138 to less reliable service and reduced levels of customer service and satisfaction, a result
139 which the AIUs would like to avoid.

140 **Q. Why would the AIUs find it necessary to take steps to synchronize its**
141 **expenditures with the revenue requirement approved in this proceeding?**

142 A. The AIUs simply cannot operate on \$101 million less than what they have
143 requested and remain financially viable without ensuring that their operating expenses are
144 in line with their operating revenues. Essentially, the AIUs would view Commission
145 approval of Staff's proposed rate increases as a Commission directive to the AIUs to
146 synchronize our expenditures with the lower, inadequate amount of future revenues rather
147 than the level which the AIUs have determined is necessary to operate, maintain, and
148 improve upon existing service levels and operating systems. Moreover, approval of
149 Staff's revenue requirement for the various operating functions/activities would indicate
150 to us that the Commission has determined and expects the amounts of expense to be
151 incurred (or the appropriate level of spending) for the activity in question by the AIUs
152 should approximate Staff's proposals.

153 For example, Staff has proposed to allow only \$34.6 million of expenditures for
154 tree-trimming in the revenue requirement versus the \$39.3 million which the AIUs have

155 determined to be the amount needed to perform this function. Or stated differently, Staff
156 has determined that the annual cost of performing the tree-trimming function is \$34.6
157 million. Therefore, in order to have an “opportunity” to earn authorized rates of return,
158 the AIUs will find it necessary to align or synchronize our levels of spending for tree-
159 trimming activities in 2010 and other years in which the rates resulting from this
160 proceeding are in effect with Staff’s \$34.6 million proposal. This level of spending is
161 approximately \$4.7 million less than what the AIUs are reasonably certain to incur in
162 2010.

163 **Q. Are there other impacts which would result from the Commission granting**
164 **an inadequate rate increase and the resulting steps which the AIUs would take to**
165 **synchronize spending with the allowed cost recovery?**

166 A. Yes. The disparity between the rate increase which the AIUs have requested
167 (\$145 million) and Staff’s proposal (less than \$44 million) is so great that the potential
168 for further job loss would become a reality. That is, the jobs of both employees and
169 contractors, both union and management positions, would be at stake as the AIUs
170 disengage some contractors, reduce contractor spend with other contractors and once
171 again look to reduce the number of the AIUs’ employees. These are moves the AIUs do
172 not want to take, but unfortunately would be required to take. They would only
173 exacerbate the unfavorable economic conditions in our service territories and would
174 stymie the AIUs’ efforts to provide safe and reliable service in a manner in which our
175 customers expect and demand.

176 **IV. DISALLOWANCE OF COSTS TO IMPLEMENT WORKFORCE**

177 **REDUCTION PLANS**

178 **Q. On page 21 of her rebuttal testimony, Ms. Ebrey states that she “consider[s]**
179 **severance costs a one time cost which does not reflect a normal on-going level of**
180 **cost.” How do you respond?**

181 A. While it is true that the costs of implementing the workforce reductions (or
182 severance) plans are one-time costs, the AIUs should be allowed to amortize that expense
183 and recover it over a three-year time period similar to the manner in which rate case
184 expense which is also a “one-time” expense is recovered. The cost to implement the
185 voluntary severance plan is \$1,861,903 and the cost of the involuntary plan is \$887,361,
186 resulting in a total cost of \$2,749,264. Amortizing this amount over three years would
187 result in the inclusion of \$916,421 in the AIUs’ revenue requirement.

188 **Q. Please comment on Staff’s recommendations regarding the treatment of costs**
189 **incurred by the AIUs to implement their workforce reduction plans.**

190 A. I disagree with Ms. Ebrey’s proposal that while including the benefits of these
191 cost-cutting measures in the revenue requirement, the costs incurred to arrive at the
192 benefits should not be recovered from rate payers. In effect, she is taking (incorporating)
193 all the benefits of our workforce reduction cost-cutting measures and passing them on to
194 our ratepayers while pretending that there are no costs associated with the creation of
195 those benefits. This is simply not fair, and the Commission should approve the AIUs’
196 proposal to amortize and recover these costs over a three-year time period, similar to the
197 manner in which rate case expense is recovered.

198 **V. TREE TRIMMING EVIDENCE**

199 **Q. Staff witness Burma Jones confirms her proposed adjustment to normalize**
200 **tree trimming expense as proposed in her rebuttal testimony by stating on page 6**
201 **that we “did not provide any information to support the AIU’s position that the**
202 **amount of tree trimming expense projected in the 2010 budget is the appropriate**
203 **amount of tree trimming expense for the 2008 historical test year.” Do you agree?**

204 A. No, I do not agree. The AIUs have provided evidence in testimony and in
205 response to Ms. Jones’ series of data requests, BCJ 12.01 through BCJ 12.08. However,
206 Ms. Jones seems to have disregarded the evidence presented by AIUs’ witness Stafford in
207 his direct testimony and by me in my rebuttal testimony and that information which has
208 been provided to Ms. Jones in response to her data requests. AIUs’ witness Terry Tate,
209 who prepared the responses to Ms. Jones’ data requests noted above, is sponsoring the
210 responses as exhibits to his surrebuttal testimony.

211 **VI. ADJUSTMENT TO ROE FOR UNCOLLECTIBLES RIDER**

212 **Q. Staff witness Janis Freetly continues to recommend a downward adjustment**
213 **to the rate of return to reflect an alleged reduction of risk that could result from the**
214 **AIUs being allowed to recover uncollectibles via an uncollectibles rider. How do**
215 **you respond to Ms. Freetly’s arguments?**

216 A. Her arguments continue to assume that 1) the risk of over recovery is non-existent;
217 and 2) a system that promotes under recovery of uncollectibles is acceptable. The return
218 on equity should not be set at a lower rate to compensate for the rider mechanism. As
219 explained below, there has been no reduction in risk and no shift in risk from investors to
220 ratepayers.

221 **Q. Ms. Freetly discusses, beginning at page 19 of her rebuttal, results from the**
222 **two approaches she used to estimate a downward adjustment to the costs of**
223 **common equity that would result from the adoption of the gas and electric**
224 **uncollectibles riders. Please comment.**

225 A. The two approaches developed by, and relied upon by, Ms. Freetly in arriving at
226 her proposed downward adjustments consist of 1) an implied Moody's ratings analysis
227 and 2) an Operating Income Adjustment. AIUs' witness Nickloy testifies in his rebuttal
228 testimony, the use of the Ms. Freetly's hypothetical implied Moody's analysis is
229 misleading, and if implemented, can undo the positive ratings effects of the rider since
230 the current ratings of the AIUs reflect the presence of the rider. And, as I previously
231 testified the use of an operating income adjustment approach is contrary to legislative
232 intent, does not hold up under scrutiny, and is punitive in nature. The wide disparity in
233 the results Ms. Freetly obtains from the two approaches which appear on page 20 of her
234 rebuttal testimony and which I have set forth in the following table only adds credence to
235 the fact that her "operating income adjustment" doesn't make sense and is inappropriate
236 to use.

Approach	CILCO		CIPS		IP	
	Gas	Electric	Gas	Electric	Gas	Electric
Implied Moody's ratings	15	50	10	10	15	20
Operating Income	160	76	149	119	106	48
Difference (Expressed as an Absolute Value)	145	26	139	109	91	28

237 The Commission should not approve this attempt by Staff to reduce the AIUs' revenue
238 requirements by lowering the allowed costs of common equity for the reasons set forth
239 above and in Mr. Nickloy's and my rebuttal testimony.

240 **Q. Staff witness Janis Freetly testifies at line 428 that “essentially, the riders**
241 **require rate payers who pay their bills to provide a guarantee to the AIUs that all of**
242 **their uncollectibles expense will be recovered.” On line 438 she again says, “[t]he**
243 **uncollectible riders guarantee the AIUs’ recovery” Please comment.**

244 A. I’m surprised Ms. Freetly refers to this as a “guarantee.” She seems to have
245 overlooked the “prudence and reasonableness” standards which are required in the new
246 law. The law provides that “[t]he Commission shall review the prudence and
247 reasonableness of the utility’s actions to pursue minimization and collection of
248 uncollectibles which shall include, at a minimum, the 6 enumerated criteria set forth in
249 this Section.” [220 ILCS 5/16-111.8(c)] Since the Commission is required by law to
250 review the AIUs’ actions in regard to uncollectibles expense in order for the AIUs to be
251 allowed to recover such costs, there clearly is no “guarantee” provided to the AIUs by
252 their ratepayers that “all of their uncollectibles expense will be recovered.”

253 **Q. Do the riders provide any additional “guarantee” in regard to recoverability?**

254 A. There has not been any change in the law as to the amount which can be
255 recovered. Prior to the enactment of the new law, the AIUs were entitled to recover all
256 prudent uncollectibles cost. And, subsequent to the passage of the new law, all prudent
257 uncollectibles cost is still recoverable. The new law simply provides for the usage of a
258 rider mechanism to ensure that “no more and no less than its actual uncollectible amount”
259 is recovered. [220 ILCS 5/16-111.8(c)] The prudence standard still applies; there is no
260 additional guarantee of full uncollectibles cost recovery.

261 **Q. Should allowed ROE be reduced if, and when, the Commission approves the**
262 **new uncollectibles riders?**

263 A. The return on equity should not be set at a “lower” rate to compensate for the
264 rider mechanism. Although the downside risk that the AIUs will fail to recover prudent
265 uncollectibles cost is mitigated through the use of the rider, likewise, the upside potential
266 that the AIUs will recover in excess of their prudent uncollectibles is correspondingly
267 reduced. Once again, Ms. Freetly has failed to acknowledge that the AIUs have always
268 been entitled to recover prudently incurred uncollectibles costs and the rider mechanism
269 in the new law ensures that “no more or no less” than prudent costs will be recovered.
270 And, she continues to focus solely on the “no less” language.

271 **Q. At line 405, Ms. Freetly states that “Mr. Nelson implies that investors are**
272 **risk neutral...” and at line 408, that “...Mr. Nelson claims that there should be zero**
273 **impact on the return on equity...” Please comment.**

274 A. As a result of the “no more and no less” standard incorporated into the new law
275 and, if approved, the uncollectibles riders and amounts included in rates on which Staff
276 and the AIUs have reached a Stipulated Agreement, the AIUs’ investors do find
277 themselves in a “risk-neutral” position since no more and no less than the amount of
278 prudently incurred uncollectibles costs can be recovered. Therefore, due to the risk
279 neutral aspects of the rider mechanism, it only follows that there should be zero impact
280 on return on equity.

281 **Q. Do you agree with Ms. Freetly statement that “investors prefer more**
282 **certainty”?**

283 A. Yes, I agree that investors prefer certainty (or alternatively less uncertainty).
284 However, with the use of the uncollectibles rider, it is now more certain that investors
285 will recover “no more or no less” than what is recorded in Account 904. It is interesting

286 that Ms. Freetly only analyzes one side of the investors' risk spectrum – under recovery –
287 while choosing to ignore the fact that now investors cannot over recover.

288 **Q. Is it true as Ms. Freetly contends, that the “uncollectible riders shift the risk**
289 **of under recovery of bad debt from the investors?”**

290 A. No, this is not true. With or without the use of the rider mechanism, prudently
291 incurred bad debts are recoverable costs from rate payers. That is, whether the AIUs
292 elect to recover their uncollectibles costs through base rate treatment or through a rider
293 mechanism, the risk of recovery is neutral. As I testified earlier, the law (before and after
294 enactment of the new law) allows utilities to recover their actual costs. The new law
295 simply provides a mechanism to do so, which ensures that no more or no less than actual
296 cost will be recovered. Therefore, no shift of risk from investors to ratepayers has taken
297 place.

298 **Q. Please comment on Ms. Freetly's comparison of the riders to letters of credit.**

299 A. Ms. Freetly implies that the use of the uncollectible riders is analogous to the use
300 of “letters of credit.” This is not at all a good analogy because once again Ms. Freetly is
301 equating the use of the uncollectible riders to a “guarantee” the AIUs will recover
302 uncollectible expenses, ignoring the fact that it is the Commission's responsibility, as set
303 forth in the law, to review uncollectibles costs for prudence and reasonableness. There is
304 no guarantee (as explained above) and a rider mechanism is not analogous to a letter of
305 credit.

306 **VII. INCENTIVE COMPENSATION**

307 **Q. In her rebuttal testimony, Ms. Ebrey’s asserts that, “[t]he AIU[s] have**
308 **offered no argument of how the budget compliance KPIs [Key Performance**
309 **Indicators (“KPIs”)] are based on anything other than financial related goals.**
310 **Therefore, the costs related to those KPIs should be disallowed from recovery in the**
311 **revenue requirement.” Do you agree?**

312 A. No. As Mr. Lindgren states in his rebuttal testimony, costs associated with KPIs
313 for O&M Budget Compliance and capital budget compliance provide ratepayer benefits.
314 The establishment and focus on budget targets provides benefits to ratepayers by setting a
315 goal for managing overall expenditures for projects and services within a defined period
316 of time. Cost management/cost control is beneficial to customers to assure dollar
317 resources are spent on priority initiatives and within the desired timeframe. This helps
318 ensure that customers receive quality service in the most cost-effective manner. Ms.
319 Ebrey appears to acknowledge in her rebuttal testimony that there are ratepayer benefits
320 from these goals when she asserts that shareholders receive an “equal, if not greater”
321 benefit from cost management or cost control measures – suggesting that ratepayers
322 obtain some benefit as well.

323 **Q. Ms. Ebrey states on pages 9-10 of her rebuttal testimony that, with respect to**
324 **the customer benefits of the AIUs’ incentive plans’ operational goals, “the missing**
325 **piece of the analysis is the outcome of the AIU’s performance of those goals....”**
326 **Please comment on her assertion.**

327 A. Customer benefit information was provided in the Company’s direct testimony.
328 AIUs’ witness Stafford introduced the topic of incentive compensation in his direct

329 testimony and AIUs' witness Lindgren provided further information in Ameren Exhibit
330 42.1.

331 **[Lines 330 – 334 have been removed pursuant to Order re Motion to Strike]**

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335 **Q. On page 10 of Ms. Ebrey's rebuttal testimony, Ms. Ebrey states that "[i]f the**
336 **benefit [of a KPI] does not outweigh the cost associated with the goal, there is no net**
337 **benefit to ratepayers." Do you agree?**

338 A. No. Essentially, Ms. Ebrey is requiring a higher standard be applied for recovery
339 of incentive compensation costs than the standard applied for recovery of almost all other
340 O&M and capital costs. While it is true that other O&M and capital costs are included in
341 rates by the Commission based on evidence provided to the Commission, the
342 Commission does not require that a cost/benefit analysis be performed for each such
343 expenditure. As Mr. Lindgren discusses in his rebuttal, the AIUs view incentive
344 compensation as a common and necessary component of the total compensation package
345 for employees in the electric and gas utility industry. That is, incentive compensation is
346 part of the necessary and prudent operating costs that the AIUs incur.

347 **[Lines 346-352 have been removed pursuant to Order re Motion to Strike]**

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352 However, it is impractical and unnecessary to provide a cost/benefit analysis for each and
353 every cost incurred by a utility.

354 **Q. Is a quantifiable financial benefit required to demonstrate that a KPI**
355 **provides ratepayer benefits?**

356 A. No. As Ms. Ebrey acknowledges (response to AIU-ICC 23.11), a KPI's benefit
357 does not need to be a quantified financial benefit in order to show that the KPI produces a
358 ratepayer benefit.

359 **[Lines 358-361 have been removed pursuant to Order re Motion to Strike]**

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362 **Q. On page 11 of Ms. Ebrey's rebuttal testimony, she states that "[m]any of the**
363 **KPIs which I am not including for recovery merely state that they are in response to**
364 **a Company "obligation according to federal and state rules" or performance within**
365 **a "required" time." How do you respond?**

366 A. The AIUs must comply with regulatory requirements – these goals align the goals
367 of individuals with the goals of management (statutory compliance).

368 **Q. Ms. Ebrey also recommends, on page 12 of her rebuttal testimony, that**
369 **"none of the amounts allocated from AMS to the AIU be recovered in base rates."**
370 **Please comment.**

371 A. AMS incentive compensation expenses are properly part of the charges from
372 AMS to the AIUs under the General Services Agreement.

373 **[Lines 372-373 have been removed pursuant to Order re Motion to Strike]**

374 **Q. Does Ms. Ebrey allow recovery of costs associated with any KPIs?**

375 A. Yes. She states on page 11 of her rebuttal testimony that: “Certain KPIs included
376 on Ameren Exhibit 42.1 are based on Surveys, Indices, and duration of service
377 interruptions. The specific goal targets do illustrate the customer benefit. Therefore, I
378 am allowing recovery of the costs associated with those goals;” and, “In addition, certain
379 other KPIs are based on response or performance time to meet customer needs. These are
380 also based on specific measurements which I consider to be of benefit to customers. I am
381 also allowing recovery of the costs associated with those goals.”

382 **Q. Have the AIUs explained the benefits which customers receive from each of**
383 **the KPIs for which they are seeking recovery of costs?**

384 A. Yes, benefits which the AIUs’ customers receive from each KPI are set forth in
385 the three exhibits to my rebuttal testimony. Therefore, consistent with the reasoning in
386 Ms. Ebrey’s testimony which I have referenced above, the AIUs should be allowed to
387 recover the costs associated with achieving these KPI goals and the resulting customer
388 benefits.

389 **[Lines 388-390 have been removed pursuant to Order re Motion to Strike]**

390

391 **VIII. DUPLICATED SMART GRID COSTS**

392 **Q. Staff Witness Everson lists six projects in her rebuttal testimony at lines 99-**
393 **120 that are “slated” for recovery in both the rate case through base rates and the**
394 **Future Grid Surcharge Rider (“Rider FGS”) and states that they are more**
395 **appropriately recovered through the rate case. Do you accept her position?**

396 A. Yes, the AIUs accept Ms. Everson’s position that these costs be recovered
 397 through the rate case. And, I will supplement my testimony in Docket No. 09-0449, the
 398 Rider FGS proceeding, so that the acceptance of Ms. Everson’s position regarding these
 399 costs is reflected in that proceeding.

400 **IX. INTRODUCTION OF SURREBUTTAL WITNESSES**

401 **Q. Who will be sponsoring surrebuttal testimony on behalf of the AIUs?**

402 A. Surrebuttal testimony and exhibits will be sponsored by the following witnesses.

Exhibit Number	Witness	Topics Addressed
Ameren Ex. 49.0 – 49.2	Craig D. Nelson	Impact of Staff’s Revenue Requirements Costs to Implement Workforce Reduction Plans Tree Trimming Evidence Adjustment to Rate of Return on Common Equity for Uncollectibles Rider Incentive Compensation Issues Duplicated Smart Grid Costs
Ameren Ex. 50.0 – 50.2	Ronald D. Pate	Relocation of Pana East Substation
Ameren Ex. 51.0 – 51.17	Ronald D. Stafford	Revenue Requirement
Ameren Ex. 52.0	Kathleen C. McShane	Cost of Equity
Ameren Ex. 53.0	David A. Heintz	Response to Staff Witness Ebrey and IIEC Witness Meyer
Ameren Ex. 54.0 – 54.1	Randall K. Lynn	2009 Pension and OPEB Expense
Ameren Ex. 55.0 – 55.1	Leonard M. Jones	Cost of Service and Rate Design Issues
Ameren Ex. 56.0 – 56.6	Karen R. Althoff	Class Cost of Service Matters
Ameren Ex. 57.0	Paul M. Normand	Rate Design Storage Allocation to

		Transportation Customers Class Subsidy Issues
Ameren Ex. 58.0 – 58.1	Peter J. Millburg	Changes to Gas Delivery Service Tariffs
Ameren Ex. 59.0	Michael G. O’Bryan	Response to Staff Witness Phipp re: Amount and Allocation of Credit Facility Costs
Ameren Ex. 60.0	Lee R. Nickloy	Response to Staff witness Phipps re: AmerenCILCO Credit Ratings and AmerenIP October 2008 Long-Term Debt Issuance
Ameren Ex. 61.0 – 61.5	Michael J. Getz	Transportation Fuel Costs
Ameren Ex. 62.0 – 62.7	Terry N. Tate	Tree Trimming Expense
Ameren Ex. 63.0 – 63.2	Stephen D. Underwood	Hillsboro Storage Field – Used and Useful Lincoln SulfaTreat Vessel
Ameren Ex. 64.0	Kenneth C. Dothage	NAESB Intraday Nomination Cycles Rider T Banking Rights and Bank Sizes
Ameren Ex. 65.0	Vonda K. Seckler	Operational Flow Orders and Critical Days Notifications Working Capital Allowance and Pricing for Gas in Storage Volumes
Ameren Ex. 66.0 – 66.2	George T. Justice	NESC Compliance Response to the Cities Witness Brodsky
Ameren Ex. 67.0 – 67.3	Robert J. Mill	Rider VGP Uncollectible Expense in Rates
Ameren Ex 68.0 – 68.8	David W. Sosa, Ph.D.	Response to CUB/AG Witness Fenrick re: Benchmark Analysis
Ameren Ex. 69.0	Salvatore Fiorella	Response to CUB/AG Witness Effron and IIEC Witness Gorman re: Depreciation

		Reserve
Ameren Ex. 70.0 – 70.1	Michael S. Kearney	Demonstrating & Selling Expenses (Economic Development)
Ameren Ex. 71.0	Ronald J. Amen	Peer Group Benchmarking

403 X. **CONCLUSION**

404 Q. **Does this conclude your second revised surrebuttal testimony?**

405 A. Yes, it does.