ILLINOIS COMMERCE COMMISSION

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

SECOND REVISED

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

ILLINOIS POWER COMPANY
d/b/a AmerenIP

(The Ameren Illinois Utilities)

DECEMBER 14, 2009

TABLE OF CONTENTS

Page

ILLINOIS COMMERCE COMMISSION

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

SECOND REVISED SURREBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

Submitted on Behalf of

The Ameren Illinois Utilities

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Ronald D. Stafford. I am the managing supervisor of Regulatory Accounting for the Ameren Illinois Utilities ("AIUs"). My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63166.

Q. Are you the same Ronald D. Stafford who previously provided direct and rebuttal testimony in this proceeding?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to and discuss certain revenue requirement adjustments proposed by various parties in this proceeding concerning the following items: Incentive Compensation, Pensions and Benefits Expense, Workforce Reductions, Production Retiree Costs, Pro Forma Plant Additions, Electric Distribution Tax, Industry Association Dues, Amortization of IP Regulatory

Asset, Injuries and Damages, Maintenance of Mains, and Rate Base Adjustments for Materials & Supplies and Gas in Storage Inventory, Depreciation Reserve, and OPEB net of ADIT. Specifically, I respond to the rebuttal testimony of Illinois Commerce Commission Staff ("Staff") witnesses Ms. Theresa Ebrey, Ms. Mary Everson, Mr. Richard Bridal and Mr. Brett Seagle; Citizens Utility Board ("CUB") and The Office of the Illinois Attorney General ("AG") (jointly "CUB-AG") witness Mr. David Effron; and Illinois Industrial Energy Consumers' ("IIEC") witnesses Messrs. Michael Gorman, Robert Stephens, and Greg Meyer.

As summarized below, the AIUs disagree with a number of the adjustments proposed by Staff, AG/CUB and IIEC. The adjustments proposed by these parties should be rejected because:

- Incentive Compensation should be based on the proposal discussed by Mr. Nelson in his surrebuttal testimony (Staff witness Ebrey).
- Pensions and Benefits Expense and Production Retiree Costs should be based on the twelve months ending September 2009 rather than 2008 actual costs (Staff witness Ebrey).
- Workforce Reduction costs should be corrected to avoid double counting for the same adjustment, reflect only the electric delivery service portion of such costs, and reflect the offset for amortization of severance costs (Staff witness Ebrey).
- The adjustment for Electric Distribution Tax should consider weather normalized test year sales and elimination of prior period accrual adjustments, to the extent applicable (Staff witness Ebrey and IIEC witness Stephens).
- Staff's adjustment for the accounts payable portion of Materials and Supplies Inventory should be based on the Other Operation and Maintenance expense lead excluding service lead days to determine the correct inventory adjustment (Staff witness Bridal).
- Staff's adjustment for the accounts payable portion of Gas in Storage Inventory should be based on the PGA/Fuels expense lead excluding

service lead days instead of based on the O&M expense lead applied to the AIUs inventory rebuttal balances (Staff witness Bridal).

- Application of an additional Depreciation Reserve adjustment violates the Commission's test year rules, violates the matching principle, is contrary to Commission precedent and does not fully or properly consider adjustments reflected by the AIUs to the Depreciation Reserve in the Rebuttal Revenue Requirement (AG/CUB witness Effron and IIEC witness Gorman).

- Adjustment for Industry Association Dues should be based on the correct amounts for each utility from Staff workpapers (Staff witness Bridal).

- Amortization of the IP Regulatory Asset should be based on Ms. Everson's proposal as corrected (Staff witness Everson, AG/CUB witness Effron, and IIEC witness Meyer).

- IIEC's adjustment to remove inflation in the calculation of Injuries and Damages Expenses is unsupported and should be rejected (IIEC witness Meyer).

- Staff's maintenance of mains adjustment should be based on the most recent three year average data rather than historical three year average data (Staff witnesses Jones and Seagle).

- Rate Base Adjustments for OPEB net of ADIT should reflect only the ratepayer funded portion of the accrued OPEB liability net of deferred income taxes (Staff witness Ebrey and AG/CUB witness Effron).

I agree with certain recommendations proposed by Staff witnesses as discussed below in my surrebuttal testimony.

I am also adopting all testimony previously submitted in this proceeding by AIU witness Mr. Andrew Wichmann due to a change in his job responsibilities with the AIUs.

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

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

- Ameren Exhibit 51.1 AmerenCILCO Electric – Surrebuttal Revenue Requirement

- Ameren Exhibit 51.2 AmerenCIPS Electric – Surrebuttal Revenue Requirement
- Ameren Exhibit 51.3 AmerenIP Electric – Surrebuttal Revenue Requirement
- Ameren Exhibit 51.4 AmerenCILCO Gas – Surrebuttal Revenue Requirement
- Ameren Exhibit 51.5 AmerenCIPS Gas – Surrebuttal Revenue Requirement
- Ameren Exhibit 51.6 AmerenIP Gas – Surrebuttal Revenue Requirement

Each of these exhibits includes multiple schedules summarizing the development of operating income and rate base and presents the AIUs' electric and gas surrebuttal revenue requirement.

Q. Please identify the additional exhibits you will be sponsoring.

A. I am sponsoring the following additional exhibits:

- Ameren Exhibit 51.7 Incentive Compensation
- Ameren Exhibit 51.8 Pensions and Benefits
- Ameren Exhibit 51.9 Workforce Reductions
- Ameren Exhibit 51.10 M&S and Gas in Storage Inventory
- Ameren Exhibit 51.11 Amortization of Regulatory Asset
- Ameren Exhibit 51.12 Industry Association Dues
- Ameren Exhibit 51.13 Electric Distribution Tax
- Ameren Exhibit 51.14 [**THIS EXHIBIT HAS BEEN REMOVED PURSUANT TO ORDER RE MOTION TO STRIKE**]
- Ameren Exhibit 51.15 AIU Response to Staff Data Request TEE 17.08S
- Ameren Exhibit 51.16 AIU Response to Staff Data Requests TEE 18.02 and TEE 18.04

- Ameren Exhibit 51.17 AIU Response to Staff Data Request BCJ 10.01S

A. Revenue Requirement and Rate Base

Q. What is the AIUs' surrebuttal revenue requirement?

A. As shown on Ameren Exhibit 51.1, AmerenCILCO Electric's revenue requirement is $138,179,000. As shown on Ameren Exhibit 51.2, AmerenCIPS Electric's revenue requirement is $275,965,000. As shown on Ameren Exhibit 51.3, AmerenIP Electric's revenue requirement is $530,857,000. As shown on Ameren Exhibit 51.4, AmerenCILCO Gas' revenue requirement is $76,668,000. As shown on Ameren Exhibit 51.5, AmerenCIPS Gas' revenue requirement is $79,521,000. As shown on Ameren Exhibit 51.6, AmerenIP Gas' revenue requirement is $182,308,000.

Q. What is the AIUs' total electric and gas rate base?

A. As shown on Ameren Exhibit 51.1, AmerenCILCO Electric's rate base is $322,414,000. As shown on Ameren Exhibit 51.2, AmerenCIPS Electric's rate base is $557,508,000. As shown on Ameren Exhibit 51.3, AmerenIP Electric's rate base is $1,474,757,000. As shown on Ameren Exhibit 51.4, AmerenCILCO Gas' rate base is $204,442,000. As shown on Ameren Exhibit 51.5, AmerenCIPS Gas' rate base is $210,143,000. As shown on Ameren Exhibit 51.6, AmerenIP Gas' rate base is $536,577,000.

B. Staff Adjustments Accepted

Q. Does the AIUs' surrebuttal revenue requirement reflect any adjustments proposed by Staff?

A. Yes. In addition to Staff's recommended adjustments reflected in the AIUs' Rebuttal Revenue Requirement, the AIUs also have accepted Staff's adjustment to Pro Forma Plant Additions, Lobbying Expense, Customer Service and Information Expenses, Homer Works HQ Sale, Transmission Operations Plant, Sulfatreat Change Out Adjustment, and Gas Tapping Fee.

C. AIUs Adjustments accepted by Staff and Intervenors

Q. Have certain additional AIUs rebuttal issues been fully resolved?

A. Yes. Based upon a review of Staff and Intervenor rebuttal testimony, AIUs' proposals with regard to Uncollectibles, Storm Expense, Rate Case Expense, and Uncollectible Factors for Gas and Electric Supply have been accepted by Staff, AG/CUB, and IIEC and are no longer at issue. In addition, a number of other issues have also been resolved, including Collateral Expense, 2007-2008 Plant Additions, Advertising Expense, Charitable Contributions, Washington Street Office Renovation, and Company-Use and Franchise Gas Costs.

III. INCENTIVE COMPENSATION

Q. Do the AIUs continue to oppose Ms. Ebrey's proposal to disallow incentive compensation costs?

A. Yes. AIUs' witness Mr. Craig Nelson discusses in his surrebuttal testimony why such a disallowance is inappropriate.

[Lines 151-161 have been removed pursuant to Order re Motion to Strike]

IV. PENSIONS AND BENEFITS EXPENSE/PRODUCTION RETIREE EXPENSE

Q. Have the AIUs modified their rebuttal proposal to recover pensions and benefit costs based on 2010 budgeted information?

A. Yes. To further limit the scope of outstanding issues in these proceedings, the AIUs will no longer propose to establish test year pension and benefits expense using 2010 budgeted data. Instead, the AIUs recommend that the Commission adopt the AIUs' alternative proposal, presented in my rebuttal testimony, to establish test year pension and benefits expense based on twelve months of actual expense for the period October 2008 through September 2009. AIUs' witness Mr. Lynn further supports why the most recent twelve months of actual expense is known and measurable. As discussed in my rebuttal and surrebuttal testimony, and the rebuttal and surrebuttal testimony of Mr. Lynn, the expenses through September 2009 have already occurred and are therefore known and measurable. The expense levels are shown on Ameren Ex. 29.0, Attachment A. Ameren Exhibit 51.8 presents the adjustment to the AIUs' rebuttal proposal to reflect expense for the period October 2008 through September 2009.

Q. How does the expense for the twelve months ended September 2009 compare to the 2010 budgeted data?

A. Pensions and benefits expense, net of the production retiree expense adjustment, is within 3% of the 2010 budgeted expense presented by the AIUs in supplemental direct testimony. This demonstrates the reasonableness of both the AIUs' original proposal and current proposal. It is not surprising that the 2010 budgeted data and year ending September 2009 data are substantially the same. Development of 2009 actual pensions and OPEBs and 2010 projected pensions and OPEBs are based on a valuation based on the same underlying demographic and financial data, such as employee census data, plan asset values, and financial market conditions. The valuation is typically finalized in June or July for a given year, as discussed further in the surrebuttal testimony of Mr. Lynn. It would also be expected the benefits expenses would be reasonably close for the most recent actual period compared to 2010. As explained in the rebuttal testimony of Mr. Lindgren, development of 2010 expense projections consider the most recent actual data available at the time such estimates are prepared, including organization headcount, actual plan experience, market trend, and economic conditions. Consideration of only one set of these inputs (regarding financial market and economic conditions),renders use of 2008 expense obsolete for the setting of rates to be placed into effect in 2010.

Q. Does Ms. Ebrey oppose recovery of pension and benefits expense based on data for the twelve months ended September 2009?

A. Yes. Ms. Ebrey claims that the actuarial portion (pensions and OPEBs) of such expenses is not known and measurable and that the non-actuarial portion (primarily major medical) selectively includes significant expense items. Specifically, regarding the actuarial portion of such costs (pensions and OPEBs), she argues that these expenses are not known and measurable to her satisfaction because the year end 2009 actuarial study is not yet complete and will not be completed until after the record in these proceedings is marked heard and taken. She also rejects any additional adjustment for other benefit costs (primarily major medical expense) based on her claim that the AIUs have “selectively” picked significant expense items and proposed to update them to the most current amounts recorded on the utilities' books.

Q. Please respond to Ms. Ebrey’s claim that the AIUs have selectively picked significant expense items and updated them to the most current amounts.

A. The AIUs are not proposing to use twelve months ending September 2009 pension and OPEB amounts to "selectively" adjust one item of test year expenses. The AIUs have proposed this approach in direct response to Ms. Ebrey's criticism that 2010 budgeted data is not known and measurable. It is unclear why Ms. Ebrey finds the use of recent, actual information so problematic, especially considering that Staff has recommended the use of recent actual data to make other adjustments. For example, Staff has introduced 2009 actual data to support and develop its tree trimming adjustment. Staff used 2009 pricing for its proposed transportation fuels adjustment. And Staff has accepted AIUs’ position to include 2009 actual data in the calculation of uncollectibles, storm expense, and pro forma plant additions. Ms. Ebrey’s position is inconsistent with her own treatment of uncollectibles, and with other adjustments supported by Staff witnesses. Her position is also inconsistent with prior Commission orders in the AIUs last two rate cases, where pension and OPEB expense was based on the most recent actual data.

Q. What evidence supports your conclusion that the 12 months ending September 2009 pension and OPEB expense is known and measurable?

A. Mr. Lynn's surrebuttal testimony explains why the quarterly amounts booked for the first three quarters of 2009 are known and measurable, and why events that occur in the fourth quarter of 2009 will not affect these previously-booked amounts. I would also point out that the development of actual 2009 pension and OPEB expense is explained in the response to Staff Data Request TEE 17.08S, which is attached as Ameren Ex. 51.15. As explained in the response, actual 2009 expense is based on data supplied by Towers Perrin. I called Ms. Ebrey before she filed rebuttal testimony to explain that all 2008 pensions and OPEB plan numbers (7 in total) included in the Towers Perrin report dated June 30, 2008 (and included with the response to TEE 17.08S) had been verified against the 2008 actuarial report that was included in the AIUs Part 285 filing. While I cannot speak for Ms. Ebrey, her failure to address this evidence in rebuttal suggests that, in her view, any evidence other than an actuarial report is not sufficient to meet the known and measurable requirement. This is obviously not correct, for the reasons explained by Mr. Lynn. The expenses through September 2009 have already been incurred and recorded on the books of the AIUs and will not change.

Q. Has the Commission previously accepted actual pension and OPEB expense without an actuarial report?

A. Yes. The Commission accepted the AIUs' actual pension and OPEB expense in the last two rate cases without a final actuarial report in the record. In Docket Nos. 06-0070/06-0071/06-0072 (Cons.), which involved a calendar year 2004 test year, the Commission Order agreed with AG that 2005 actual costs, rather budgeted 2006 costs, should be used to set rates for the AIU electric utilities. While AG described the 2005 costs as based on complete actuarial studies, a review of AG's testimony in that proceeding (Exhibit 1.0) indicates that their adjustment was based on information provided in response to a Staff data request asking for actual 2005 expense. No actuarial report was provided. While I do not disagree that actual expense would have been supported by an actuarial study, the study itself was not submitted as evidence in support of AG's testimony and evidence in support of its adjustment to reflect 2005 cost levels for the setting of rates based on a 2004 test year. In the most recent rate case, where a 2006 test year was used (Docket Nos. 07-0585-0590 (Cons.)), a similar approach was agreed to by the parties to use actual 2007 costs for pensions and benefits expense based upon the amounts recorded on the utility's books. Completed actuarial studies were not part of the record in that proceeding, and were not required as support for actual expense in either the 2006 or 2007 rate cases.

Q. If the Commission determines that it cannot accept the 12 months ending September 2009 expense amounts without an actuarial report, are the AIUs willing to provide the 2009 actuarial report when it becomes available?

A. Yes. If the Commission determines that the 2009 actuarial report must be provided to support actual 2009 pension and OPEB costs, the AIUs are willing to supplement the record with the final report. As Mr. Lynn explains, this report will be available in February 2010. No party would suffer any disadvantage by keeping the evidentiary record open pending receipt of the final report. In the unlikely event that the final report amounts differ from the amounts provided by Towers Perrin in July 2009, the AIUs would not object to explaining any difference and foregoing recovery of any cost increases that exceed the amounts proposed in Ameren Ex. 29.0, Attachment A.

Q. Please summarize your proposal for pensions and benefits expense to set rates in these proceedings.

A. The Commission should adopt the actual twelve months ending September 2009 expense levels provided in Ameren Exhibit. 29.0 Attachment A as the basis for calculation of pensions and benefits expense, and the derivative impact of production retiree expense.

V. <u>WORKFORCE REDUCTIONS</u>

Q. Do you agree with Ms. Ebrey's proposed adjustment for workforce reductions?

A. I agree that an adjustment is appropriate, but disagree with the methodology she uses to develop the adjustment. Ameren Exhibit 51.9 recalculates the adjustment to include the offset for amortization of severance costs discussed in the surrebuttal testimony of AIUs' witness Mr. Nelson, corrects Ms. Ebrey's calculation for double counting of incentive compensation expense and payroll tax expense, and reflects only the electric distribution share of costs attributable to the Ameren electric utilities.

Q. Why is it necessary to correct incentive compensation expense for double counting?

A. Ms. Ebrey's adjustment reflects the full amount of incentive compensation expense without considering the portion of the adjustment that has previously been removed by the AIUs in their direct case. Nor does the adjustment consider Ms. Ebrey's separate rebuttal proposal to disallow a large portion of the AIUs' requested incentive compensation expense (both AIUs' direct and all AMS). Since Ms. Ebrey did not adjust downward her adjustment for workforce reduction related incentive compensation to eliminate double counting, I have developed a ratio of the AIUs surrebuttal request for incentive compensation recovery divided by total incentive compensation for the 2008 plans in order to measure the portion of incentive compensation separately removed from revenue requirement. I then applied that percentage to the workforce reduction related incentive compensation adjustment to remove accounting for the same reduction in two separate adjustments. In summary, I have calculated the incentive compensation portion of the workforce reduction adjustment to limit the adjustment to the percentage of the overall request necessary to avoid any double counting. Since Ameren Exhibit 51.9 is calculated based on the AIUs surrebuttal incentive compensation proposal, to the extent the Commission adopts any of Ms. Ebrey's proposed adjustments to incentive compensation, the workforce reduction adjustment for incentive compensation should also be adjusted downward on a proportionate basis to avoid double counting.

Q. Why is it necessary to correct the payroll tax expense adjustment?

A. Ms. Ebrey states that she calculated the associated payroll tax adjustment "since it did not appear that amount was included in the detail provided in the response to data requests." (ICC Staff Ex. 15.0, p. 20, lines 403-04.) This is not correct. The data requests Ms. Ebrey references are Staff Data Requests TEE 18.02 and 18.04. The attachments to these data request responses (attached to my surrebuttal testimony as Ameren Exhibit 51.15) include payroll tax savings in the "other savings" category detail and are summarized with salary savings. The "other savings" category is entirely attributable to FICA, FUTA, and SUTA payroll tax savings. Therefore, to avoid double counting, I have replaced Ms. Ebrey's payroll tax adjustment with payroll taxes included within the salary savings amounts provided in response to TEE 18.02 and 18.04.

Q. Why is it necessary to correct Ms. Ebrey's adjustment to reflect only the electric delivery service portion of the workforce reduction adjustment?

A. Staff Data Requests TEE 18.02 and 18.04 requested information concerning workforce reduction savings for each of the AIUs. Because the electric AIUs provide both electric distribution and transmission service, the A&G portion of salary and benefits expenses allocable to electric transmission service should be excluded because transmission-related costs are not recovered in electric delivery service rates. To determine the correct electric distribution adjustment, I have reviewed the workforce reduction positions detailed in response to TEE 18.02 and TEE 18.04 to determine which positions fall into the A&G category, and then recalculated the salary and benefits adjustments to remove the electric transmission portion of such costs.

VI. MATERIALS AND SUPPLIES INVENTORY

Q. At page 19 of his rebuttal testimony, Staff witness Bridal recommends an adjustment to remove the accounts payable portion of materials and supplies (including gas in storage). Do you agree with this adjustment?

A. In order to minimize issues in these proceedings, the AIUs will agree to reflect adjustments for other materials and supplies ("M&S") and gas in storage inventory.

However, the M&S inventory adjustment should be based on the payment lead days, rather than a combination of payment plus service lead days, for the other Operation and Maintenance category, since the analysis is designed to determine the portion of inventory in accounts payable rather than measurement of an operating expense lead associated with provision of service to customers.

Q. Have you proposed a similar adjustment for gas in storage inventory?

A. Yes. However, the Operation and Maintenance expense category used by Mr. Bridal is not closely aligned with gas in storage. Rather, the PGA expense component of cash working capital is more closely aligned with gas in storage because PGA and inventory gas are commingled. Therefore, gas purchases injected into inventory are accounted for through the payment lead of the PGA expense calculation. Accordingly, a more accurate adjustment for the A/P portion of gas in storage inventory can be performed by using the payment lead time portion of the PGA expense component of cash working capital, rather than operation and maintenance expense, to calculate the portion of gas in storage inventory that has been received and placed in inventory but has not yet been paid for by the AIUs.

Q. Do you have an exhibit that summarizes your proposed adjustments to inventory of accounts payable?

A. Yes. Ameren Exhibit 51.10 presents the calculations described above.

VII. DEPRECIATION RESERVE ADJUSTMENTS

Q. Please summarize the AIUs' surrebuttal position with regard to the pro forma plant additions adjustment and associated adjustments.

A. In order to limit contested issues, the AIUs have accepted Staff's adjustment to include the AIUs' requested level of pro forma plant additions through February 2010. Staff's proposal includes all associated adjustments to the accumulated depreciation reserve, accumulated deferred income taxes, and depreciation expense related to the pro forma plant additions. Accordingly, both Staff and the AIUs have included in their rate base and operating income statement all corresponding pro forma adjustments for the derivative impact of the proposed pro forma plant additions. Specifically, adjustments to the depreciation reserve balance include all retirements of year end 2008 utility plant in service associated with the pro forma plant additions along with additional adjustments to increase the reserve for salvage, decrease the reserve for cost of removal, and increase the reserve for depreciation expense.

Q. Are all plant additions that could reasonably be expected to be incurred after 2008 and through February 2010 included in the plant additions pro forma adjustment?

A. No. The AIUs have not proposed to include all plant additions in the proposed pro forma adjustment. A total of $99 million of plant additions (excluding electric transmission) have been incurred or are expected to be placed in service from January 2009 through February 2010 that are not included in the pro forma adjustment.

Q. You indicated above that year end 2008 utility plant in service has been adjusted for retirements. Please explain.

A. The pro forma plant additions adjustment includes adjustments to reflect retirement of assets being replaced as a result of the pro forma additions. Accordingly, a portion of the 2008 utility plant in service balance has been reduced to reflect these retirements. This adjustment impacts both the year end 2008 utility plant in service balance and the year end 2008 accumulated depreciation reserve balance. The remaining utility plant in service assets not retired by plant additions through the pro forma adjustment are included in rate base in amounts equal to the year end 2008 balances.

Q. In his rebuttal testimony (AG/CUB Ex. 4.0, p. 2), Mr. Effron states that because "The Companies have proposed to adjust the test year utility plant in service to reflect plant additions through May 2010," it is necessary to also adjust the full accumulated depreciation reserve to May 2010. Mr. Gorman maintains a similar position. Please respond.

A. Mr. Effron and Mr. Gorman are wrong. I would first reiterate that because the AIUs have agreed with Staff's rebuttal proposal concerning pro forma plant additions, the relevant period for Mr. Effron and Mr. Gorman's proposed adjustment is the month ending February 2010, not May 2010. I assume that Mr. Gorman and Mr. Effron would agree. More fundamentally, however, their proposed adjustment results in a mismatch between plant additions and the associated depreciation reserve. The AIU and Staff's plant addition adjustments already reflect derivative adjustments to utility plant and the depreciation reserve. To extend the depreciation reserve on embedded plant to February 2010 would result in an overstatement of the depreciation reserve. Indeed, neither Mr. Effron nor Mr. Gorman can directly tie their proposed adjustment to increase the depreciation reserve to embedded plant because the vast majority of year end 2008 utility plant in service remains at year end 2008 under the AIU and Staff proposal. Messrs. Effron and Gorman's proposed one-sided adjustment to increase the depreciation reserve out to May 2010 (or February 2010) is a clear and obvious violation of the matching principle. As stated in my rebuttal testimony, if the test year ended May 2010 (now February 2010), an adjustment to depreciation reserve to match May (now February) 2010 plant in service would be appropriate. Here, however, the AIUs have selected a calendar year 2008 test year. Messrs. Effron and Gorman's adjustment only to the depreciation reserve is one sided and does not consider all other adjustments to operating income, capital structure, and rate base that would be necessary for their proposals to be in accordance with the matching principle.

Q. Are Messrs. Effron and Gorman's proposed adjustments to the depreciation reserve known and measurable?

A. No. Their adjustments are based entirely on unsupported estimates. This may explain why both witnesses calculate vastly different amounts for their adjustments, despite both witness's claim that they are each trying to accomplish the same objective. The aggregate adjustment for all AIUs proposed by Mr. Effron would reduce rate base by $198,033,000 based upon a review of AG/CUB Corrected Exhibit 2.1 projecting the Reserve Adjustment out to May 31, 2010; Mr. Gorman's adjustment would reduce rate base by an aggregate $227,962,000 based upon a review of IIEC Exhibit 2.25 projecting the Reserve Adjustment out to May 31, 2010. A fundamental premise of Mr. Effron's adjustment is that capital expenditures excluding new business for 2008, divided by capital additions for 2008, provides a proper foundation for adjusting the depreciation reserve. Mr. Effron appears to mix apples and oranges in stating that his numerator is stated as expenditures (capital spend) and the denominator is stated as capital additions (spend placed in service). Furthermore, looking at one historical year of plant additions to adjust the depreciation reserve for a future period assumes, without analysis or support, that the historical year reviewed is representative of the future period. No party has proposed any rate base adjustments in this proceeding that are based on only one year of historical data.

Mr. Gorman's proposed adjustment is quite different in that he starts with 2008 embedded plant, rather than embedded plant excluding new business. New business should be excluded from the adjustment because the AIUs have not included new business capital additions in its pro forma plant additions adjustment. Mr. Gorman also does not consider or acknowledge that the AIUs have already reflected adjustments to the depreciation reserve for both embedded plant and pro forma additions. Accordingly, these adjustments cannot be relied on, and are not known and measurable just because Messrs. Gorman and Effron say that they are.

Q. What would be the ratemaking impact if the Commission were to adopt Mr. Effron or Mr. Gorman's depreciation reserve adjustment?

A. Adopting this adjustment would have the perverse impact of reducing rate base (and the corresponding revenue requirement), despite the fact that pro forma capital items being placed into service after the test year are being added to plant in service prior to implementation of new rates in these proceedings. Staff and the AIUs recommend inclusion in rate base of capital additions through February 2010. These additions, in the aggregate, increase rate base by $249,027,000. As explained above, bringing the depreciation reserve on embedded plant forward to May 2010 under Mr. Gorman's and Mr. Effron's proposals result in a <u>deduction</u> to rate base of $227,962,000 in the case of Mr. Gorman, and $198,033,000 in the case of Mr. Effron, thereby materially reducing the aggregate rate base and revenue requirement impact of the pro forma plant additions adjustment. It would be absurd to penalize utilities for making pro forma plant additions adjustments that are expressly provided for in Part 287.40.

Q. At page 19 of his rebuttal testimony, Mr. Gorman again refers to an AmerenUE rate case in Missouri as support for the need to adjust the depreciation reserve. Please respond.

A. As stated in my rebuttal testimony, AmerenUE is regulated by the Missouri Public Service Commission under different rate case rules regarding filing requirements, test year options, use of true ups, use of trackers and riders, and the scope of regulation, just to name a few. The "true up" referred to by Mr. Gorman involves restating all components of rate base to actual numbers at a point in time. What Mr. Gorman is proposing in the current case is not a true up of all actual components of rate base, but rather a one-sided adjustment, based on estimates, for only one component of rate base. As stated in my rebuttal, his adjustment is no different than taking one component of the capital structure out to some future period based on an estimate, and leaving all other components of the capital structure at some historical period. His proposal is anything but a "true up."

Q. At page 21 of his rebuttal testimony, Mr. Gorman states that your proposal is to adjust gross plant rather than net plant. Is he correct?

A. No. The AIUs' proposal clearly includes adjustments to both embedded plant and depreciation reserve, as discussed at length in my direct, rebuttal, and surrebuttal testimonies, and documented by evidence submitted on my exhibits and workpapers in support of the pro forma plant additions adjustment.

Q. Please summarize your position on the depreciation reserve issue.

A. The AIUs have accepted Staff's adjustment to include the AIUs' requested level of pro forma plant additions through February 2010. Staff's proposal includes all associated adjustments to the accumulated depreciation reserve, accumulated deferred income taxes, and depreciation expense related to the pro forma plant additions. Accordingly, both Staff and the AIUs have included in their rate base and operating income statement all corresponding pro forma adjustments for the derivative impact of the proposed pro forma plant additions adjustment. Specifically, adjustments to the depreciation reserve balance include all retirements of year end 2008 utility plant in service associated with the pro forma plant additions, along with additional adjustments to increase the reserve for salvage, decrease the reserve for cost of removal, and increase the reserve for depreciation expense. These adjustments are in accordance with the Commission's rules at Part 287.40 that allow for pro forma adjustments. No additional adjustment is necessary or warranted under the Commission's rules. Conversely, the adjustments proposed by Mr. Effron and by Mr. Gorman violate the matching principle and are not known and measurable. Additionally, as discussed by Mr. Fiorella, the depreciation reserve adjustments proposed by Messrs. Effron and Gorman are not consistent with Commission precedent. The Commission should affirm its precedent on this issue as a matter of good regulatory policy, as further discussed by Mr. Fiorella.

VIII. <u>AMORTIZATION OF IP REGULATORY ASSET</u>

Q. Have you reviewed the rebuttal testimony of Staff witness Everson, AG/CUB witness Effron, and IIEC witness Meyer on this issue?

A. Yes. All three witnesses oppose AIUs' continued recovery of the Illinois Power Company d/b/a AmerenIP ("AmerenIP") regulatory asset amortization. Each proposes a form of normalization and/or amortization of the remaining unamortized balance beginning with new rates in these proceedings.

[Lines 497 – 524 have been removed pursuant to Order re Motion to Strike]

IX. INDUSTRY ASSOCIATION DUES

Q. Have you reviewed Staff witness Bridal's proposal to with regard to industry association dues?

A. Yes. I agree with Mr. Bridal's overall adjustment with some modification. In response to Ameren's Data Request 28.04, Mr. Bridal has agreed that some changes are needed to conform to his workpapers. These corrections are provided on Ameren Exhibit 51.12.

X. ELECTRIC DISTRIBUTION TAX

Q. Do Staff witness Ms. Ebrey and IIEC witness Mr. Stephens recommend an adjustment to electric distribution tax expense?

A. Yes. Due to the existence of credits or refunds, Ms. Ebrey now opposes the entire pro forma adjustment for this tax. Mr. Stephens, on the other hand, suggests that the pro forma amount be adjusted to reflect test year refunds.

Q. Do you agree with either party's approach?

A. Mr. Stephens's approach is the better one. Based upon a review of recent history, it is clear that the utilities have been receiving some level of refunds of this tax. While it is uncertain whether refunds will continue into the future, the AIUs agree with both Ms. Ebrey's and Mr. Stephens's proposal to reflect the test year level of refunds as a reduction in this rate proceeding. Mr. Stephens's method of utilizing the rate case pro forma adjustment as a starting point and adjusting for refunds is better aligned with ratemaking than Ms. Ebrey's approach, which is based on 2008 actual expense. Mr. Stephens's approach adopts use of weather normalized kilowatt hour sales delivered applied to statutory tax rates as the basis for the adjustment. Since these sales are used in the calculation of delivery service revenues, there is a matching of sales used to derive revenues with sales used to calculate expense. Also, Mr. Stephens's approach eliminates the impact of any adjustments to prior period accruals that may exist with the per books electric distribution tax expense. This approach of eliminating prior period adjustments has previously been endorsed by Ms. Ebrey in her evaluation of the incentive compensation adjustment proposed by the AIUs. In summary, Mr. Stephens's approach is more appropriate for purposes of setting rates in these proceedings. The adjustment to reflect use of the AIUs' pro forma expense adjusted for test year refunds is identified as Ameren Exhibit 51.13.

XI. INJURIES AND DAMAGES EXPENSES

Q. Does IIEC witness Meyer continue to oppose an inflation adjustment for historical claims expenses included in the injuries and damages adjustment?

A. Yes. He does not refute AIU witness Mr. Wichmann's rebuttal testimony on this topic but rather relies on past Commission practice as his basis for opposing the adjustment. The inflation adjustment has not been opposed by Staff in these proceedings, is consistent with the treatment of normalized storm expense endorsed by Staff, AG/CUB, and the AIUs in these proceedings, and is consistent with normalized storm costs in the most recent AIU proceedings. The inflation adjustment should be adopted for the reasons discussed in my surrebuttal testimony and the direct and rebuttal testimonies of Mr. Wichmann. As I stated earlier, I am adopting Mr. Wichmann's testimony as my own in this proceeding.

XII. MAINTENANCE OF MAINS

Q. Staff witnesses Jones and Seagle have proposed that account 887 maintenance of mains be based on a three year average of historical 2006 through 2008 expense. How do you respond?

A. While I disagree with an approach that selectively picks one account for an adjustment, I agree in concept that this specific account has been trending upward, and therefore could be considered for either normalization, or averaging, which has the effect of lowering expense in revenue requirement, or alternatively trending such expense forward, which has the effect of increasing expense in revenue requirement. Of these two approaches, Staff has selected the normalization approach that lowers revenue requirement. For purposes of this case only, the AIUs also propose to normalize these expenses, based on the three year period ending September 2009. Use of more recent data to normalize these expenses will yield a test year level of expense that is more reflective of the expense the AIUs are likely to incur during the period when new rates go into effect in May 2010.

Q. Have the AIUs provided information regarding the reason for the increase to Account 887?

A. Yes. The AIUs have explained the reasons for the increase to expenses in Account 887 in response to Staff Data Request BCJ 10.01 and two supplemental responses. Mr. Seagle has attached two of three responses to his rebuttal testimony.[1] The first supplemental response was not included in Mr. Seagle's BCJ 10.01S, and is attached as Ameren Exhibit 51.17. I would note, however, that because Staff and the AIUs have both proposed to normalize the amount of expense in Account 887 using a three year average, the reason for the increase bears little relevance to the question of which approach to use. Staff has not explained why use of more recent data in the average is not appropriate. Staff's approach is at odds with their recommended approach on other issues, such as Ms. Jones' recommendation to include 2009 data in her tree trimming adjustment, and Mr. Seagle's recommendation to use 2009 pricing data for the transportation fuels adjustments. The AIUs continue to propose to normalize these expenses based on the three year period ending September 2009. Because the AIUs proposed use of more recent data to normalize these expenses, which will yield a test year level of expense that is more reflective of the expense the AIUs are likely to incur during the period when new rates go into effect, the AIUs approach should be used.

---

[1] The second supplemental response to BCJ 10.01 and identified in Mr. Seagle's Rebuttal Testimony as Attachment B is incorrectly identified as a response to ENG 10.01S2 rather than BCJ 10.01S2.

XIII. RATE BASE ADJUSTMENTS FOR OPEB NET OF ADIT

Q. Both Staff witness Ms. Ebrey and AG/CUB witness Mr. Effron propose to reduce rate base for the full balance of year end 2008 gas and electric delivery portion of OPEB net of accumulated deferred income tax. What is your understanding of the basis for their positions?

A. Ms. Ebrey argues that ratepayers have supplied funds for future OPEB obligations and therefore the accrued OPEB liability is a source of cost-free capital. Mr. Effron's rebuttal is confusing on this point, but it appears he continues to endorse his direct position that OPEB liabilities represent "ratepayer-supplied OPEB funds" and, as such, the liabilities should be deducted from the AIUs' rate bases. He also rejects my rebuttal position that no Rate Base adjustment is warranted because CILCO and CIPS did not track ratepayer supplied funds.

[Lines 614-753 have been removed pursuant to Order re Motion to Strike]

XIV. OPEN ITEMS

Q. In your rebuttal testimony, you indicated that you were still reviewing Staff responses to AIUs' data requests regarding industry association dues and customer service and information expenses. You previously discussed proposed adjustments to industry association dues. Have you completed your review of Mr. Bridal's proposed adjustment for customer service and information expenses?

A. Yes. The AIUs accept Mr. Bridal's proposed adjustment to customer service and information expenses. This adjustment is reflected in the AIUs' surrebuttal revenue requirement.

Q. In your rebuttal testimony, you indicated that the AIUs intend to withdraw their adjustment for bonus depreciation on the 2010 pro forma plant additions. You also indicated that the AIUs would monitor pending legislation to assess whether any changes are pending that would impact the adjustment for bonus depreciation on the 2010 pro forma plant additions. Have any changes occurred since the AIUs' rebuttal filing that would result in changes to the pro forma adjustment for bonus depreciation?

A. No. There is no pending legislation that supports continuation of the bonus depreciation provision in 2010. Therefore, the AIUs are not proposing an adjustment in surrebuttal. For purposes of this proceeding, the AIUs no longer consider this to be a contested issue.

XV. CONCLUSIONS

Q. Does this conclude your second revised surrebuttal testimony?

A. Yes, it does.