

SUPPLEMENTAL
DIRECT TESTIMONY

ON REHEARING

of

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Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

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

Proposed General Increase in Electric Rates
and
Proposed General Increase in Gas Rates

Docket Nos. 09-0306 – 09-0311 (Cons.)

August 3, 2010

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Theresa Ebrey. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 Q. Are you the same Theresa Ebrey who previously provided direct and rebuttal
6 testimony in this proceeding?

7 A. Yes. I provided direct testimony in this case as ICC Staff Exhibit 1.0 and rebuttal
8 testimony as ICC Staff Exhibit 15.0. I also provided direct testimony on rehearing
9 as ICC Staff Exhibit 1.0RH.

10 Q. What is the purpose of your supplemental direct testimony on rehearing?

11 A. As directed in the Notice of Administrative Law Judges' Ruling ("ALJ Ruling")
12 issued on July 27, 2010, I am providing additional responsive testimony to
13 Question 7 contained in the June 15, 2010 Notice of Commission Action
14 regarding the pension and benefits expense testimony that was properly stricken
15 by the ALJ Ruling on July 23, 2010.

16 Pension and Benefits Expense

17 Question 7:

18 With regard to pension and other post-employment benefits, what, if any,
19 adjustment is legally appropriate?

20

21 Q. How do you respond to AIU witness Getz's testimony on this issue?

22 A. The testimony provided by AIU witness Getz¹ on this topic does nothing
23 more than discuss how the AIU record costs related to Pension and OPEB
24 on their books. Nothing in his testimony discusses how the costs so
25 recorded reflect an appropriate basis for a pro forma adjustment for
26 ratemaking purposes.

27 Q. How do you respond to AIU witness Lynn's testimony on this issue?

28 A. The testimony provided by AIU witness Lynn² discusses how the amounts
29 on the 2009 actuarial report were determined. It too fails to address the
30 **legal** appropriateness of an adjustment to the Order in this proceeding.

31 Q. Please comment on the actuarial reports provided in AIU witness Lynn's
32 testimony.

33 A. For the first time in this case, the complete final actuarial report for calendar
34 year 2009 has been provided.³ This is because no final report was available
35 prior to their issuance in January 2010. This report should not be the basis
36 for a pro forma adjustment in this proceeding.

37 First, the actuarial report does not establish that the Company's proposed pension
38 and benefits expense are appropriate in the context of this case. The

¹ Ameren Exhibit 5.0RH, pp. 5-9, lines 109 – 197.

² Ameren Exhibit 8.0RH.

³ Ameren Exhibits 8.3RH – 8.7 RH.

39 Commission's conclusion in the May 6 Order validated Staff's concern that the
40 Company's adjustment was not known and measurable.⁴ The fact that the
41 expense amounts reflected in the January 2010 report did not change from the
42 expense amounts included in the July 2009 report does not demonstrate that the
43 expense amounts *could* not change. A subsequently issued report cannot
44 retroactively demonstrate that a proposed pro forma adjustment to an historical test
45 year was known and measurable at an earlier point in time before the record of
46 evidence was closed. The January 2010 report does not demonstrate that the
47 expense numbers from the July 2009 report could not have changed.

48 Second, the workforce reduction that took place in the final quarter of 2009 was not
49 reflected in the final 2009 actuarial study. Based on analysis performed by the
50 actuary, Ameren determined that the decrease was "well below the materiality
51 threshold for both pension and OPEB plans."⁵ However, based on the AIU
52 response to Staff data request TEE 23.05, that threshold was set for the pension
53 plan for Ameren Corporation as a whole and not for the individual Illinois utilities.

54 Q. Are you saying the actuarial study is deficient for not reflecting the workforce
55 reduction?

56 A. No. What I am questioning is the use of the actuarial study in this situation as
57 support that the AUI's proposed pension expense is known and measurable for
58 ratemaking purposes. While the workforce reduction may not have met the

⁴ Order, April 29, 2010, Docket No. 09-0306 – 09-0311 (Cons.), p. 90.

⁵ Ameren Exhibit 8.0RH, p. 8, lines 177 – 179.

59 materiality threshold to reflect in the actuarial study for Ameren Corporation, it was
 60 of significance for ratemaking purposes as it affected the revenue requirements for
 61 each AIU on an individual utility basis. The adjustment was significant for
 62 ratemaking purposes even though the percentage of the adjustment compared to
 63 present operating revenues was far less than 5%:

64	<u>UTILITY</u>	<u>Present Revenues</u> ⁶	<u>Adjustment</u> ⁷	<u>%</u> ⁸
65	CILCO – E	\$111,166,000	\$999,000	0.90%
66	CIPS – E	\$204,660,000	\$918,000	0.43%
67	IP – E	\$418,384,000	\$557,000	0.14%
68	CILCO – G	\$72,901,000	\$1,147,000	1.58%
69	CIPS – G	\$70,417,000	\$1,562,000	2.22%
70	IP – G	\$166,030,000	\$317,000	0.19%

71 The materiality threshold for the purposes of the actuarial study should not be the
 72 threshold for ratemaking purposes. The impacts to all associated costs should be
 73 reflected in the revenue requirement for any pro forma adjustment adopted in the
 74 Order. It would be inappropriate to remove the employee-related costs associated
 75 with the workforce reduction while increasing pension expense by an amount which
 76 includes those same employees.

77 Q. Have you accepted a final actuarial study as support for pro forma adjustments for
 78 pension expense in prior cases?

79 A. Yes, I have. However, I do not recall in any previous cases where the specific
 80 circumstances of this case were present - a workforce reduction occurring at the

⁶ Appendix to the Order for each AIU, p. 1, column (d), line 1.

⁷ *Id.*, p. 2, Workforce Reduction Adjustment before Taxes.

⁸ Present Revenues divided by Adjustment.

81 end of the year in question which was not reflected in the year end actuarial study.
82 The additional facts in this case must be considered in the weight given to the year
83 end actuarial study if it is allowed into the record on rehearing.

84 Q. Do you have any other comment on AIU witness Lynn’s testimony?

85 A. Yes. Mr. Lynn’s testimony indicates:

86 **Upon Ameren Corporation’s (“Ameren”) selection of**
87 **assumptions**, the entire calculation process is performed by
88 Towers Watson and the results are audited by the AIU’s
89 independent auditors PricewaterhouseCoopers (“PWC”) for
90 compliance with the applicable accounting standards.⁹

91 and

92 **Ameren and its auditors** deemed the estimated decrease in
93 aggregate future service due to the headcount reduction to be
94 well below the materiality threshold for both pension and
95 OPEB plans.¹⁰

96 As evidenced in the above quotes, it was Ameren that decided what assumptions
97 were to be the bases for the actuarial study and what constitutes a “significant”
98 event in the calculations to derive pension expense. Ameren determined the
99 assumptions for the calculation, albeit with the advice of Towers Watson and
100 PWC. Therefore, the study’s results were under Ameren’s control and final
101 approval.

102 Q. In its response to the Staff Motion to Strike, the AIU claim that the “upshot of this
103 testimony is to establish that the AIU meets the known and measurable standard
104 of Part 287.40.” Please comment.

⁹ Ameren Exhibit 8.0RH, p. 3, lines 67 – 70.

¹⁰ *Id.*, p. 8, lines 177 – 179, emphasis added.

105 A. While in hindsight, one could, as Ameren does here, argue that the adjustment is
106 known and measurable. However, that argument conflicts with Part 287.40
107 which states:

108 Any proposed known and measurable adjustment to the test year
109 shall be individually identified and supported in the direct testimony
110 of the utility.

111 Ameren's direct testimony on rehearing cannot provide support that a pro forma
112 adjustment is known and measurable. If Ameren's argument is accepted, then it
113 could likewise be appropriate to reduce the amount of pro forma plant additions
114 which have been shown as being less than the amount approved in the
115 Commission's Order.¹¹

116 Q. Are you suggesting that post-test year plant additions should be decreased?

117 A. No. That is not a topic to be considered on rehearing. My purpose is to point out
118 that to proceed down the path of accepting additional evidence, such as the 2009
119 actuarial study after the conclusion of the case, as support for a pro forma
120 adjustment would open up the Commission to adjusting any or all components of
121 an approved revenue requirement for reconsideration based on post-record
122 information. All rate cases could potentially change from 11-month proceedings
123 to up to 18 month proceedings (11 months for the initial rate case order plus 1
124 month to file for rehearing plus 5 months for the rehearing order).

¹¹ ICC Staff Exhibit 1.0RH, p. 31, lines 623 – 634.

125 Conclusion

126 Q. Does this question end your prepared supplemental direct testimony on
127 rehearing?

128 A. Yes.