Ameren Exhibit 11.0RH

# ILLINOIS COMMERCE COMMISSION

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

# REBUTTAL TESTIMONY ON REHEARING

**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**

**AUGUST 10, 2010**

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## I. INTRODUCTION

**Q. Please state your name and business address.**

A. My name is Ronald D. Stafford. My business address is 1901 Chouteau Avenue, St. Louis, Missouri, 63103.

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

A. Yes, I am.

## II. PURPOSE OF TESTIMONY

**Q. What is the purpose of your rebuttal testimony on rehearing?**

A. The purpose of my testimony is to respond to the direct testimony on rehearing of Commission Staff ("Staff") witness Teresa Ebrey; Illinois Industrial Energy Consumers ("IIEC") witness Michael Gorman, and Attorney General/Citizens Utility Board ("AG/CUB") witness David Effron on proposed adjustments to the test year balances of accumulated depreciation and accumulated deferred income taxes ("ADIT"). These proposed adjustments are also addressed on behalf of the Ameren Illinois Utilities

("AIU") by Mr. Salvatore Fiorella, Mr. Daniel Dane and Dr. Karl McDermott. I will also respond to IIEC witness Greg Meyer regarding his proposed adjustment to cash working capital. The AIUs' witness Mr. David Heintz also responds to Mr. Meyer's proposal on behalf of the AIUs.

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

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

| | |
|---|---|
| Ameren 11.1RH | Correction to Staff's Adjustment to Accumulated Depreciation and ADIT |
| Ameren 11.2RH | Calculation in Support of Adjustment to Staff for Accumulated Depreciation and ADIT |
| Ameren 11.3RH | Summary of Alternative Rehearing Positions regarding Accumulated Depreciation and ADIT |
| Ameren 11.4RH | Net Impact on Rate Base of AIUs' Pro Forma Plant Additions and Post Test Year/"Roll Forward" Adjustments |
| Ameren 11.5RH | Net Plant and ADIT Comparison for February 2010 to December 2008 |
| Ameren 11.6RH | Staff Response to Data Request AIU – ICC 39.11 |
| Ameren 11.7RH | Staff Response to Data Request AIU – ICC 41.28 |
| Ameren 11.8RH | IIEC Response to Data Request AIU – IIEC 16.03 |

**Q. What is the AIUs' proposed rate base and revenue requirement on rehearing?**

A. The AIUs' proposed rate base and revenue requirement, as shown in Ameren Exhibits 2.1RH through 2.6 RH, has not changed from Direct to Rebuttal. As discussed below, the AIUs agree with Staff that the "scrivener's error" correction for AmerenIP Electric should be reflected in the Final Commission's Order on Rehearing revenue requirement appendices.

## III. SUMMARY OF POSITIONS ON ADJUSTMENTS TO ACCUMULATED DEPRECIATION AND ADIT

**Q. Please summarize the AIUs' position regarding the proposed adjustments to accumulated depreciation and ADIT.**

A. The Commission should adopt the AIUs' proposed adjustments to the test year balances of accumulated depreciation and ADIT, as presented in their rehearing direct testimony. None of the proposals presented by Staff or Intervenors supports an additional post-test year adjustment to these balances for the reasons discussed below, in my rehearing direct testimony, and in the direct and rebuttal rehearing testimony of AIUs' witnesses Mr. Fiorella, Mr. Dane and Dr. McDermott.

**Q. Please summarize the various parties' rehearing positions on the appropriate adjustment to test year gross plant in service.**

A. The AIUs and Staff expressly endorse the level of gross plant in service adopted by the Commission based on test year December 2008 electric and gas jurisdictional gross plant with all Commission ordered adjustments, including recognition of the level of post-test plant additions proposed by Staff in rebuttal in the initial phase of this proceeding and agreed to by the AIUs in surrebuttal. AG/CUB, on the other hand, proposes use of actual February 2010 gross plant in service, excluding post test year additions for new business investment.

**Q. Please summarize the various parties' rehearing positions on the appropriate adjustment to test year accumulated depreciation.**

A. Both the AIUs and Staff expressly endorse the level of accumulated depreciation adopted by the Commission based on test year December 2008 electric and gas jurisdictional accumulated depreciation with all Commission ordered adjustments with the exception of adjustments identified in the Commission Order Appendices as post test year adjustments. This includes the recognition by both the AIUs and Staff that the accumulated depreciation impact of the pro forma plant additions adjustment proposed by Staff in rebuttal in the initial phase of this proceeding and agreed to by the AIUs in surrebuttal is appropriate. In addition, both the AIUs and Staff have stated that a sign change error in the Order needs to be corrected.

Staff, IIEC, and AG/CUB also propose a change to the post test year adjustments identified in the Commission Order Appendices to accumulated depreciation. The AIU's position is that all changes to accumulated depreciation corresponding to the pro forma adjustment for plant additions have been considered and no post test year adjustment is necessary or appropriate. The calculation of the pro forma and related adjustments to depreciation expense, accumulated depreciation, and ADIT is undisputed. Staff, however, has changed its position from that proposed in the initial phase of this proceeding to now propose a post-test year adjustment to accumulated depreciation. Both Staff and IIEC use total electric and gas federal book depreciation expense for the period January 2009 through February 2010 as a basis to calculate a post test year adjustment to accumulated depreciation. AG/CUB, on the other hand, adopts actual February 28, 2010 accumulated depreciation, excluding changes related to new business for the period January 2009 through February 2010, as the basis for its proposal.

**Q. Please summarize the parties' rehearing positions on the appropriate adjustment to test year ADIT.**

A. Both the AIUs and Staff expressly endorse the level of ADIT adopted by the Commission based on test year December 2008 electric and gas jurisdictional ADIT with all Commission ordered adjustments with the exception of adjustments identified in the Commission Order Appendices as post test year adjustments. This includes the recognition by both the AIUs and Staff that the ADIT impact of the pro forma plant additions adjustment proposed by Staff in rebuttal in the initial phase of this proceeding and agreed to by the AIUs in surrebuttal is appropriate.

Staff and AG/CUB also propose a change to the post test year adjustments identified in the Commission Order Appendices to ADIT. The AIUs' position is that all changes to ADIT corresponding to the pro forma adjustment for plant additions have been considered and no post test year adjustment is necessary or appropriate. The calculation of the pro forma and related adjustments to depreciation expense, accumulated depreciation, and ADIT is undisputed. Staff, however, has changed its position from that proposed in the initial phase of this proceeding to now propose an adjustment to ADIT. Staff uses total electric distribution and gas jurisdictional ADIT for the period January 2009 through February 2010 as a basis to calculate a post test year adjustment to ADIT. AG/CUB, on the other hand, adopts actual February 28, 2010 ADIT, excluding changes related to new business for the period January 2009 through February 2010, as the basis for its proposal. IIEC has not proposed any specific post-test year adjustment to ADIT.

**Q. Staff argues that the balances of accumulated depreciation and ADIT should be "rolled forward" to the end of the pro forma period. What is your initial response?**

A. As discussed below and more fully in the testimony of AIU witness Mr. Fiorella, it is neither appropriate nor permissible to automatically "roll forward" the accumulated depreciation reserve and ADIT balances to the end of the pro forma period simply because the utility has proposed to adjust its test year plant in service via a pro forma adjustment. However, even if it were permissible and appropriate to "roll forward" those test year balances, the proposal by Staff witness Ms. Ebrey would have to be corrected to properly remove post test year changes in accumulated depreciation and ADIT associated with post test year assets not included in the AIUs' pro forma plant additions adjustment. As discussed below, Staff's post test year adjustment to the reserve also incorrectly includes depreciation on electric transmission and other plant additions (primarily new business investment) not included in the pro forma plant additions adjustment. Ameren Exhibit 11.1RH and Ameren Exhibit 11.2RH present the necessary corrections to the adjustments proposed by Staff.

**Q. Have you summarized the parties' proposed adjustments to test year accumulated depreciation and ADIT?**

A. Yes. For the Commission's convenience, as shown on Ameren Exhibit 11.3RH, I have summarized the balance for accumulated depreciation and ADIT advocated by the AIUs with no post test year adjustments, Staff with a full "roll forward" of post test year accumulated depreciation and ADIT, Staff corrected to remove a percentage of the total "roll forward" adjustments, and AG/CUB with actual accumulated depreciation and ADIT, excluding new business investment, at February 28, 2010. Since IIEC did not fully develop a rehearing position and did not directly advocate either their initial phase position, or initial phase as corrected by the AIUs, their calculation is not shown.

**Q. What is the rate base impact of the various proposed post-test year adjustments to test year accumulated depreciation?**

A. In the initial phase of this proceeding, the following post-test year adjustments to rate base with respect to accumulated depreciation were proposed/ordered:

AIU $0

Staff $0

IIEC ($192,199,000)

AG/CUB ($169,335,000)

ALJ Proposed Order $0

Commission Order ($235,347,000)

At the rehearing stage, the following post-test year adjustments to rate base with respect to accumulated depreciation have been proposed:

AIU $0

IIEC Corrected ($156,702,000) (Ameren Ex. 2.7RH.)

Staff ($229,492,000)

IIEC ($229,491,000)

AG/CUB ($124,976,000)

Staff Corrected ($152,091,000)

**Q. What is the rate base impact of the various proposed post-test year adjustments to ADIT?**

A. In the initial phase of this proceeding, the following post-test year adjustments to rate base with respect to ADIT were proposed/ordered:

AIU $0

Staff $0

IIEC $0

AG/CUB $0

ALJ Proposed Order $0

Commission Order ($81,740,000)

At the rehearing stage, the following post-test year adjustments to rate base with respect to ADIT have been proposed:

AIU $0

IIEC Corrected $0 (Ameren Ex. 2.7RH)

Staff ($16,659,000)

IIEC $0

AG/CUB ($25,771,000)

Staff Corrected ($11,664,000)

**Q. What would be the rate base and revenue requirement impacts, if the Commission's Order on Rehearing accepted the AIUs' proposed adjustments to accumulated depreciation and ADIT, compared to the May 6 Order?**

A. The AIUs' proposed adjustments to accumulated depreciation and ADIT results in an increase in rate base of $304 million and an increase in the AIUs' revenue requirement of $37 million, when compared to the Commission's May 6 Order.

**Q. What would be the rate base and revenue requirement impact, if the Commission's Order on Rehearing accepted Staff's proposed adjustments, compared to the May 6 Order?**

A. Staff's proposed adjustments before corrections results in an increase in rate base of $58 million and an increase in the AIUs' revenue requirement of $7 million. The alternative Staff adjustment (discussed below) results in an increase in rate base of $81 million and an increase in the AIUs' revenue requirement of $10 million. The corrected Staff adjustment results in an increase in rate base of $140 million and an increase in the AIUs' revenue requirement of $17 million, when compared to the Commission's May 6 Order. As corrected, Staff adjustments result in a net increase to rate base for each of the AIUs electric and gas utility and renders Staff's alternative as moot. Each of the above Staff adjustments are net of Staff's Technical Correction for the accumulated depreciation sign change error agreed to by the AIUs and Staff.

**Q. Do you also have specific responses to the proposed adjustments for accumulated depreciation and ADIT presented by Staff, IIEC and AG/CUB?**

A. Yes. Set forth below are my specific responses to the various arguments presented by Staff, IIEC and AG/CUB to "roll forward" the test year balances for accumulated depreciation and ADIT to the end of the pro forma period.

## IV. <u>RESPONSE TO STAFF WITNESS MS. EBREY</u>

**Q. What adjustment to accumulated depreciation and ADIT does Staff witness Ms. Ebrey propose on rehearing?**

A. Ms. Ebrey proposes revisions to the adjustment to the accumulated depreciation reserve presented in Appendix G to the Commission's May 6 Order. Ms. Ebrey believes that it is appropriate to revise Appendix G based on additional information not in the record in the initial phase of this proceeding. She partially adopts the accumulated depreciation and ADIT amounts as presented in Ameren Exhibit 7.2RH. Her proposed adjustments result in a rate base deduction of $246 million and revenue requirement impact of $30 million, when compared to the AIUs' proposal.

**Q. Did Staff propose adjustments to "roll forward" the balances of accumulated depreciation or ADIT in the initial phase of this proceeding?**

A. No. Staff did not propose to "roll forward" accumulated depreciation or ADIT in the initial phase of this proceeding. In its filed testimony, Staff did not object to the adjustments to accumulated depreciation and ADIT initially proposed by the AIUs. In fact, the AIUs, on surrebuttal, accepted Staff's rebuttal adjustments to test year plant in service, accumulated depreciation and ADIT. In their post hearing briefs, Staff argued (for the first time) that the "balance of net plant used to set rates should not be greater than the actual net plant balance in February 2010 or during the time that rates from this case are expected to be in effect." (Staff. Init. Br., p. 11.) But Staff did not propose any further adjustment to accumulated depreciation reserve. Nor did Staff advocate that there should be an adjustment to ADIT to roll forward that test year balance. Staff also did not take exception with the Proposed Order's rejection of the IIEC and AG/CUB's adjustment to "roll forward" the test year balance for accumulated depreciation. At oral argument, Staff confirmed that it "did not take a position about accumulated depreciation" and "did not advocate" IIEC's position. (Tr., April 13, 2010, at 98.)

**Q. Has Ms. Ebrey provided a workable alternative for the Commission to consider with regard to her "roll forward" proposal?**

A. No. The proposal is entirely subjective. If adopted, such a proposal could provide materially different results on a case by case basis depending on how Staff or any other party would interpret its application. For example, Ms. Ebrey states at page 12, "the inclusion of 'blanket' projects in the pro forma plant additions would be an indication that the utility is rolling forward its gross plant balance." However, Ms. Ebrey does not explain whether she refers to all "blanket" projects, or a majority, or a few, and does not directly address how to handle inclusion of specific projects. Under her approach, a utility with increasing net plant in service could actually fare worse under a scenario where the utility includes some, but not all, projects, but is deemed to have "rolled forward" its gross plant balance, when compared or contrasted to a utility proposing only one or a few projects to be included.

**Q. Can you provide an example that illustrates your point?**

A. Yes. Under Staff's approach, both CIPS electric and IP electric have negative rate base impact result from Staff's application of the "roll forward" approach. For IP electric, if the AIUs had proposed to include only project number 16358[1] totaling $3.086 million and project number 21376[2] totaling $2.225 million in its pro forma plant additions adjustment, it does not appear that, under Ms. Ebrey's explanation of her suggested approach, that a "roll forward" adjustment would have been applied. Accordingly, the AIUs would have realized a net increase in rate base of approximately $5 million, in contrast to a negative rate base adjustment for IP electric under Staff's calculation.

[1] Fox River-New 138-34kV Sub Phase A shown on ICC Staff Ex. 1.0 RH, Attachment A, Page 11.

[2] Plaza Data Center Reliability shown on ICC Staff Ex. 1.0 RH, Attachment A, Page 15

**Q. Do the AIUs agree that Staff's new position on rehearing is the appropriate adjustment to accumulated depreciation and ADIT in this proceeding?**

Q. No. As explained in the AIUs' direct testimony on rehearing and in the initial phase of this proceeding, the appropriate adjustment is to increase the test year balances for accumulated depreciation and ADIT by the amounts specifically related to the pro forma plant additions approved in the Commission's May 6 Order. The AIUs do not agree that it is appropriate to "roll forward" the test year balances of accumulated depreciation and ADIT to the end of the pro forma period (i.e., February 28, 2010).

**Q. Why is any adjustment to "roll forward" the test year balances for accumulated depreciation and ADIT inappropriate?**

A. As discussed in my prior testimony and more fully in the testimony of AIUs' witness Mr. Fiorella, any adjustment to "roll forward" the test year balances on accumulated depreciation and ADIT, including Staff's proposal, is inappropriate because the adjustment is not "known and measurable" and violates the test year principle. Any "roll forward" of the depreciation reserve or ADIT also creates an improper match between a utility's revenue and expenses, when you consider the test year value for plant in service and the other elements of rate base, capital structure and cost of service.

**Q. Why is any adjustment to "roll forward" test year balances for accumulated depreciation and ADIT not "known and measurable"?**

A. As stated in my direct testimony on rehearing, in the initial phase of this proceeding, each adjustment was made differently with vastly different results. If every adjustment is vastly different each time it is calculated, it is difficult to see how the adjustment can be known and measurable at the outset of a rate case. In the initial phase of this proceeding, AIUs and Staff proposed a $0 adjustment. AG/CUB presented an adjustment of $169,335,000. IIEC's adjustment was $192,199,000 and the Commission's adjustment was $317,087,000. Now, in rehearing testimony, the AIUs are still proposing a $0 adjustment; Staff has changed from a $0 adjustment to a $246,151,000 adjustment (mathematical corrections reduce Staff's adjustment to $163,755,000); IIEC has not calculated a full adjustment but recommends an adjustment be made and has changed its position to now recommend an ADIT adjustment in principle; and AG/CUB's adjustment is now $150,747,000 with both an accumulated depreciation and ADIT adjustment, when no ADIT adjustment was proposed previously. I would note that none of the foregoing calculations match with or support the May 6 Order.

**Q. Please respond to Ms. Ebrey's comments at page 18 that if Staff and Intervenors had agreed on the same assumptions and basis in calculating their adjustments, their respective adjustments to accumulated depreciation would be the same.**

A. Ms. Ebrey would be correct if all parties could agree to use the same assumptions and basis. I am not aware of any scenario where if all inputs are identical, outputs will not also be identical. However, the underlying problem with Ms. Ebrey's suggestion is that parties cannot agree whether the adjustment should be made at all, much less whether the adjustment should be based on expense or balance sheet related information, whether it should include all plant related accounts, whether it should include non plant related amortizations, whether it should be based on an expense approach (Order and Staff on rehearing), combination of balance sheet and expense data (IIEC initial phase), balance sheet only data (AG/CUB), and whether it is allowed (Order, IIEC, AG/CUB, Staff on rehearing) or not allowed (ALJ's Proposed Order, AIU, Staff initial phase) under the Commission's test year rules.

**Q. Why is any adjustment to "roll forward" test year balances for accumulated depreciation and ADIT an improper match with the adjusted test year value for plant in service approved in the Commission's May 6 Order?**

A. As explained in my direct testimony on rehearing, all adjustments directly related to the pro forma plant additions have been accounted for. Any additional adjustment to "roll forward" test year balances would be incorrect from a regulatory accounting perspective.

**Q. Why is any adjustment to "roll forward" test year balances for accumulated depreciation and ADIT improper from a regulatory accounting perspective?**

A. Such adjustments are improper from a regulatory accounting perspective because the "roll forward" of test year balances for accumulated depreciation and ADIT is not associated with any other modifications to unadjusted test year balances, nor are any derivative impacts of what amounts to the recognition of 14 additional months of depreciation expense accounted for. In other words, from a regulatory accounting perspective, the full "roll forward" of both accumulated depreciation and ADIT does not correspond to a full "roll forward" of any of the other components of rate base, revenues, expenses, or cost of service. Conversely, the AIUs' pro forma, and the annualization of depreciation expense discussed at page 18 of Ms. Ebrey's testimony, both maintain the match between depreciation expense and accumulated depreciation.

**Q. Why is any adjustment to "roll forward" test year balances for accumulated depreciation and ADIT an improper match with other test year values for rate base, capital structure and cost of service approved in the Commission's May 6 Order?**

A. The test year approved in this proceeding is December 2008. All components of rate base, capital structure, and cost of service are based on a test year December 2008 with the exception of two of the AIUs' capital structures set at March 2009. Use of a complete capital structure "roll forward" is not only expressly provided for in the Commission's rules specific to capital structure measurement, but also recognizes that all line items of the capital structure have to be stated at the same point in time. In contrast, Staff, IIEC, and AG/CUB have proposed a full "roll forward" of two (Staff and IIEC) or a substantial "roll forward" of three (AG/CUB) line items of rate base without adjustment to any of the other rate base lines, and perhaps more importantly, no proposed "roll forward" of test year data for revenues and expenses.

**Q. Do you agree with Ms. Ebrey's conclusion that the AIU's pro forma plant additions are equivalent to "rolling forward" the balance of gross plant?**

A. No. The AIUs' pro forma adjustment excluded $160,443,000[3] million in plant investment placed in service during the fourteenth month period between December 31, 2008 and February 28, 2010, as shown on Ameren Exhibit 11.2RH. Thus, the AIUs' pro forma plant additions are not the equivalent to a "roll forward" of the AIU's entire gross plant balance. Yet, Staff's proposed adjustment brings forward the entire balance of accumulated depreciation and ADIT. Even if it were appropriate to "roll forward" the

[3] Includes $58,347,000 of electric transmission investment not included in the plant additions pro forma adjustment.

test year balances of accumulated depreciation and ADIT, it would not be appropriate to match February 28, 2010 actual balances for accumulated depreciation and ADIT with AIUs' test year plant in service plus the pro forma plant additions when the AIUs did not propose inclusion of any new business investment, any electric transmission investment, or a portion of non-new business related investments recorded to gross plant in service.

**Q. If it were appropriate to "roll forward" test year balances for accumulated depreciation and ADIT, what would be the proper matching balance for plant in service?**

A. The proper matching would be to "roll forward" only a percentage of accumulated depreciation and ADIT based on the portion of pro forma plant additions to all plant additions. To calculate an adjustment to accumulated depreciation and ADIT that ignores the fact of $160 million of additional investment financed by the AIUs over the same time period is not included in rate base results in a mismatch that materially understates rate base. In the initial phase of this proceeding, both IIEC and AG/CUB recognize that the AIUs did not include all additions in its pro forma adjustment and made adjustments to consider this fact. AG/CUB on rehearing also attempts to address this by removing all new business and electric transmission investment in its calculation. Staff and IIEC; however, have proposed adjustments that "roll forward" the entire balance of accumulated depreciation and all but the electric transmission portion of ADIT.

**Q. Please explain Ms. Ebrey's adjustment to include accumulated depreciation for transmission plant.**

A. I believe this overstatement was based on a misunderstanding. In response to Data Request AIU-ICC 39.11 (attached as Exhibit 11.6RH), Ms. Ebrey indicated it was her understanding that transmission plant was excluded from the depreciation reserve and ADIT. However, I have reconfirmed that the actual removal of transmission does not occur until line 30 on the line labeled "Allocation to Illinois Jurisidictional Operations". Ms. Ebrey's source for ADIT is line 30, after the jurisdictional allocation, but her source for book depreciation is line 22. Similar to tax depreciation shown on line 23, both lines include transmission, and mathematically the removal of transmission does not occur until line 30. Accordingly, Ms. Ebrey's adjustment to accumulated depreciation incorrectly includes depreciation on transmission plant.

**Q. Given that the AIUs included only a portion of the post-test year plant investment in service by February 28, 2010, what would be the appropriate amount of accumulated depreciation and ADIT, if it were appropriate to "roll forward" those balances?**

A. Shown on Ameren Exhibit 11.2RH is the correction to remove accumulated depreciation and ADIT based on a two step process to: (1) first remove additional accumulated depreciation associated with electric transmission investment and; (2) apply the ratio of pro forma plant additions to total plant additions, exclusive of electric transmission investment, to recognize only a percentage of the "roll forward" adjustment in proportion to total plant additions included in the AIUs' pro forma plant additions adjustment. This calculation is also summarized on Ameren Exhibit 11.1RH and compared/contrasted with Staff's proposed adjustment.

**Q. On p. 7, Ms. Ebrey discusses the AIUs' adjustment to the test year accumulated depreciation for annualized depreciation expense due to new depreciation rates. What is the relevance and significance of that adjustment?**

A. The relevance is that annualization of existing depreciation rates was a necessary known and measurable adjustment to depreciation expense to recognize that test year depreciation rates were not fully reflective of new rates authorized in Docket Nos. 07-0585 – 07-0590 (Cons.). To ignore this adjustment would have overstated depreciation expense included in cost of service on a net basis (collectively for the AIUs) used to set rates in this proceeding. From a regulatory accounting perspective, it was necessary to reflect the net decrease in depreciation expense as a reduction to accumulated depreciation to maintain a proper match between depreciation expense and the accumulated depreciation reserve.

**Q. Why is it appropriate to adjust the test year balance for accumulated depreciation for amounts associated with post-test year plant additions and the annualizing of depreciation expense, but not for increases associated with "rolling forward" embedded plant?**

A. Adjusting accumulated depreciation for known and measurable changes to depreciation expense provides a proper match of the impact of changes in one component of the cost of service with changes in other components of cost of service. Conversely, the post test year and "roll forward" adjustments are one sided and violate not only the Commission's test year and pro forma adjustment rules, but also basic regulatory accounting and ratemaking principles, as Mr. Fiorella explains in his direct and rebuttal testimony on rehearing.

**Q. Does Ms. Ebrey adopt the AIUs' technical corrections to the balances for accumulated depreciation and ADIT?**

A. Ms. Ebrey agrees with the first correction to remove the non plant related amortization of the IP regulatory asset and the third correction to recognize that account 117 is non depreciable. She opposes the second and fourth technical corrections.

**Q. Given the direct testimony on rehearing presented by Staff and Intervenors, do the AIUs still believe that the second and fourth corrections are appropriate?**

A. The second technical correction aligns the depreciation adjustment to the IIEC proposal. While it appears that IIEC has withdrawn its proposed adjustment, given the Commission's ruling on this issue[4], I believe it is within the Commission's discretion to consider a 14 month adjustment that was expressly approved in the Order, as modified for the first and third technical corrections agreed to by the AIUs and Staff. As corrected, the IIEC adjustment is $162,224,000 for accumulated depreciation which is very close to Staff's corrected total adjustment for accumulated depreciation and ADIT of $163,755,000 and relatively close to AG/CUB's adjustment for accumulated depreciation and ADIT of $150,747,000. With regard to the fourth correction, I agree with Ms. Ebrey that the adjustment is no longer necessary.

**Q. Please respond to Ms. Ebrey's assertion that the AIUs proposed an adjustment to ADIT in their case in chief.**

A. Ms. Ebrey's testimony is correct, but incomplete. It was appropriate to adjust ADIT for pro forma additions given the fact that tax depreciation rates are accelerated in the early years and consideration of the impact of federal tax bonus depreciation rules.

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[4] The Commission's Order, at page 31, states: "the Commission approves ***IIEC's correction*** to AIU's adjustment for plant additions through February 2010 to account for contemporaneous additions to the reserve for accumulated depreciation over that same time period" (emphasis added). In the IIEC Position section, at page 24, the Order states ***"IIEC has proposed what it considers an appropriate correcting adjustment"*** (emphasis added).

As discussed by Mr. Greg Nelson in his direct rehearing testimony, bonus depreciation provided for a substantial 50% tax depreciation deduction in the year additions were placed in service, resulting in the tax depreciation rate applicable to new investment in 2009. The bonus rules applied to 2009 but not to 2010.

**Q. Is the fact that CWC and materials and supplies are measured at a specific point in time relevant to your testimony concerning the mismatch caused by rolling forward the balance of depreciation reserve?**

A. No. CWC and materials and supplies are based on a test year of 2008. The fact that Staff, IIEC, and AG/CUB have not elected to update these rate base items merely points out the selective and one side nature of their proposed adjustments.

**Please address the "scrivener's error" identified in Ms. Ebrey's testimony (pp. 28-29, l. 569-589).**

A. The AIUs agree that Ms. Ebrey's correction of the "scrivener's error" is appropriate and should be reflected in the Final Order's revenue requirement appendices. While the adjustment is not reflected in the AIUs' proposed rehearing revenue requirement exhibits for AmerenIP-Electric, the AIUs agree with Ms. Ebrey's calculation shown on ICC Staff Exhibit 1.0RH, Schedule 1.02RH IP-E.

**Q. Ms. Ebrey notes that her primary proposal, if accepted, would result in a net decrease to rate base for AmerenCIPS Electric and AmerenIP Electric. In your opinion, would a negative adjustment to rate base due to a pro forma plant adjustment be just and reasonable?**

A. It frankly makes no sense for a utility with increasing plant investments such as the AIUs to receive a negative adjustment in rate base due to a pro forma plant additions adjustment, and further calls into question whether there is an appropriate match between the calculations used for accumulated depreciation and ADIT in relation to gross plant in service. As shown on Ameren Exhibit 11.5RH, over the 14 month period from December 2008 to February 2010, the AIUs jurisdictional net plant investment (excluding electric transmission) increased by $180,744,000. With consideration of changes for ADIT, the increase was $106,846,000 based on information readily available in record evidence or response to Staff data requests. For CIPS electric and IP electric, the net increase is almost half of the total, or $49,954,000. Yet Staff's calculations, prior to the AIUs' corrections, result in a decrease, rather than increase, in rate base, thus pointing out the disparity in approach advocated by Staff to "roll forward" the entire balance of accumulated depreciation and ADIT rather than aligning the adjustment with AIUs' pro forma adjustment.

**Q. Why else is a negative adjustment to rate base due to pro forma plant additions adjustment inappropriate in this proceeding?**

A. As discussed further in the testimonies of Mr. Fiorella and Mr. Dane, a negative adjustment is inappropriate because it misapplies the Commission's rules and exacerbates, rather than mitigates, regulatory lag.

**Q. Does Ms. Ebrey present an alternative proposal for an adjustment to accumulated depreciation and ADIT?**

A. Yes. Staff's alternative proposal would eliminate the negative impact to rate base for IP electric and CIPS electric. I disagree with Ms. Ebrey's calculation shown on ICC

Staff Ex. 1.0RH, Attachment B, page 2 of 2 because it does not consider all pro forma adjustments. In response to Data Request AIU-ICC 41.28 (see Ameren Exhibit 11.7RH), Ms. Ebrey agreed that a correction was appropriate. However, Ms. Ebrey's calculation still differs from the AIUs due to Mr. Ebrey's inclusion of a separate line item for supplemental direct testimony adjustments. The AIUs did not present a separate revenue requirements and rate base calculation with the supplemental direct testimony. Accordingly, the supplemental adjustments are included in the line Ms. Ebrey refers to as Revised Rebuttal Exhibits. Attached as Ameren Exhibit 11.4RH is the correct calculation of the rate base impact by utility.

**Q. Please summarize Ameren Exhibit 11.4RH.**

A. In a format similar to Ms. Ebrey's Attachment B, page 2 of 2, the exhibit summarizes the pro forma adjustments to gross plant in service net of adjustments to accumulated depreciation and ADIT to arrive at a net rate base impact of the pro forma plant additions adjustment for each of the AIUs' electric and gas utility. Line 6 summarizes the net rate base impact per order at negative $68,041,000 in total with a net negative result for AmerenCIPS Electric, AmerenIP Electric, AmerenCIPS Gas, and AmerenIP Gas. Line 11 summarizes the net rate base impact per Staff's rehearing proposal at negative $10,055,000 in total with a net negative result for AmerenCIPS Electric and AmerenIP Electric. More specifically, the Staff's calculation identifies a rate base deduction of negative $16,660,000 for IP-electric and negative $5,832,000 for CIPS electric, or approximately a revenue requirement impact of $3 million, which would be eliminated under Staff's alternative proposal.

## V. RESPONSE TO IIEC WITNESS MR. GORMAN

**Q. Please explain the adjustment proposed by IIEC.**

A. IIEC is now recommending the same adjustment to accumulated depreciation proposed by Staff and also recommending that a post test year adjustment to ADIT is now appropriate without providing a specific recommendation with regard to a dollar adjustment.

**Q. Does IIEC's adjustment use the same methodology that Mr. Gorman advocated in the direct case?**

A. No. As discussed previously, IIEC's proposed adjustment in the direct case limited the change in depreciation reserve for only those accounts impacted by the pro forma.

**Q. Do the AIUs agree with the IIEC adjustment as presented in rehearing?**

A. No, for the reasons discussed in response to Staff witness Ebrey.

**Q. Did IIEC propose an adjustment to ADIT in their case in chief?**

A. No.

**Q. Does IIEC have a recommendation regarding an appropriate ADIT adjustment in rehearing?**

A. No. In response to Data Request AIU-IIEC 16.03, received Monday August 9th (see Ameren Exhibit 11.8RH), Mr. Gorman indicated he still does not have a recommendation.

**Q. Has IIEC proposed an adjustment to ADIT in prior proceedings where it is has argued that a "roll forward" of accumulated depreciation is necessary?**

A. Not to my knowledge.

**Q. At page 11 of IIEC 10.0RH, Mr. Gorman argues that most of the variance in post-tear year changes in net plant is not attributable to the Commission's post-test year depreciation adjustment. Please comment.**

A. Mr. Gorman purports to shown his calculation of the variance on IIEC Exhibit 10.1RH, but his analysis is incomplete. His analysis does not consider the impact depreciation accruals on accumulated depreciation and does not consider the impact of jurisdictional allocations of general and intangible plant assets and retirements. Mr. Gorman's does indicate a substantial difference in retirements between actual and the order. While that variance does exist, it has no impact on the variance in net plant. Retirements reduce both plant in service and accumulated depreciation by a like amount, resulting in no difference in net plant. Almost all the variance in retirements is attributable to general plant. As I explained in the initial phase filing (Ameren Exhibit 2.0), the AIUs use the vintage retirement approach for general plant retirements, which provides for the retirement of assets in the year a vintage group of assets is fully depreciated on a per books basis. As a result, there is no direct link between general plant pro forma additions and general plant retirements. Accordingly, the AIUs explained in testimony and footnoted in its workpapers supporting the pro forma additions that general plant retirements were estimated based on existing depreciation rates rather than based upon historical experience of retirements to additions used for other functional asset groups. No party took issue with this calculation.

The variance in net plant is due primarily to the change in gross additions. As indicated on IIEC Exhibit 10.1RH, Page 2 of 3, line 1, the variance in 2009 Additions is $119,072,000. While that variance does not fully consider jurisdictional allocations and does not measure the full 14 month period from December 2008 to February 2010, it does point out the significant increase in plant additions during that time period.

## VI. RESPONSE TO AG/CUB WITNESS MR. EFFRON

**Q. Please explain the adjustment proposed by AG/CUB.**

A. AG/CUB is now proposing use of the actual balance for gross plant in service, less the actual balance of accumulated depreciation and ADIT, all exclusive of new business and all as of the same date February 28, 2010. The net adjustment reduces rate base by $150,747,000, which has a revenue requirement of approximately $18 million on a combined basis for each of the AIUs.

**Q. Does AG/CUB's adjustment use the same methodology argued by Mr. Effron in the direct case?**

A. For accumulated depreciation, AG/CUB has used a very similar methodology in recognizing that the AIUs' proposed plant additions do not include electric transmission and new business and, accordingly, has excluded electric transmission and removed new business from its proposed adjustment. AG/CUB previously did not propose a post test year adjustment to either gross plant in service or ADIT, but now proposes an adjustment to both rate base line items, based on actual jurisdictional data at February 2010 excluding electric transmission and new business.

**Q. Do the AIUs agree with the AG/CUB adjustment as presented in rehearing?**

A. The AIUs do not agree that a Plant adjustment is appropriate given the scope of rehearing. Staff agrees that the pro forma plant additions are beyond the scope of rehearing. However, the AIUs note that a "roll forward" of the balances of accumulated depreciation and ADIT cannot result in an accurate statement of the AIUs' net plant at the end of the pro forma period without giving consideration to the actual plant additions that were placed in service (and retirements) during the pro forma period.

**Q. How do you respond to Mr. Effron's claim that if the adjustment to depreciation reserve is rejected as not being known and measurable, the adjustment for pro forma plant additions should also be rejected?**

A. The Final Order determined that the pro forma plant additions are known and measurable. No party sought rehearing on this finding. AG/CUB argued in briefs that the pro forma plant data should be trued up with actual data, but the Commission rejected this approach.

## VII. RESPONSE TO IIEC WITNESS MR. MEYER

**Q. Have you reviewed the testimony on rehearing of IIEC witness Mr. Meyer?**

A. Yes. He concludes that there is no connection between the amount of test year late fee revenue received by the AIUs ($9.4 million) and the cash working capital ("CWC") cost ($3.75 million) incurred by the AIUs as a result of customers who pay late, as reflected in the 28.13 day collections lag calculated by the AIUs in their lead lag study. Mr. Meyer asserts that an appropriate collection lag is 21 days. As one of the AIUs' witnesses Mr. David Heintz explains in more detail in his rebuttal testimony, Mr. Meyer is incorrect in his assertion that there is no "direct connection" between the CWC cost arising from the collection lag and late payment fee revenues. Both the CWC cost (a function of the collection lag) and the late fee revenues result from the AIUs' customer payment patterns. Moreover, Mr. Meyer's proposal to use a 21 day collection lag instead of the AIUs' actual calculated collection lag is unsupported; Mr. Meyer provides no evidence that a 21 day collection lag is reasonable or appropriate.

**Q. Does Mr. Meyer dispute the AIUs' calculation of the CWC cost related to late payments?**

A. No. Mr. Meyer states: "The $3.75 million, corrected from $3.9 million, is a mathematically correct recalculation of the difference in CWC effects of the two collection lag periods at issue." (IIEC Ex. 11.0RH, p. 6.)

**Q. Does Mr. Meyer dispute the fact that the AIUs received $9.4 million in late payment revenues in the test year?**

A. No. He agrees the AIUs have customers who do not pay on time and accepts that the $9.4 million represents the actual amount of late payment revenue received in the test year.

**Q. What is Staff's position on this issue?**

A. Staff witness Ebrey agrees with the AIUs' position. She states, "that the costs and revenues related to late payments should be both included in or both excluded from the revenue requirement". This is consistent with the matching principle wherein costs for a period should be matched with revenues for the same period. Since the revenues associated with late payment fees decrease the amount of revenues to be recovered through base rates, the costs associated with the collection lag should also be reflected in the revenue requirement." (ICC Staff Ex. 1.0RH, p. 27.)

## VIII. CONCLUSION

**Q. Does this conclude your rebuttal testimony on rehearing?**

A. Yes, it does.