

**ILLINOIS COMMERCE COMMISSION**

**DOCKET 09-0602**

**REBUTTAL TESTIMONY**

**OF**

**CRAIG D. NELSON**

**SUBMITTED ON BEHALF**

**OF**

**CENTRAL ILLINOIS LIGHT COMPANY  
d/b/a AmerenCILCO**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY  
d/b/a AmerenCIPS**

**ILLINOIS POWER COMPANY  
d/b/a AmerenIP**

**(The Ameren Illinois Utilities)**

**OCTOBER 19, 2010**

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6 **Submitted on Behalf of**

7 **The Ameren Illinois Utilities**

8 **I. INTRODUCTION**

9 **A. Witness Identification**

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

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

13 **Q. Are you the same Craig Nelson who previously provided testimony in this**  
14 **proceeding?**

15 A. Yes.

16 **II. PURPOSE OF TESTIMONY**

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

18 A. The purpose of my rebuttal testimony is to explain Ameren Illinois' proposal to  
19 withdraw Rider RPS and focus this proceeding on addressing the necessity of the Liberty  
20 Audit projects. In so doing, I also address the testimony of Staff witnesses Mr. Stoller,  
21 Ms. Elsaid, and the testimony of AG witness Mr. Ralph Smith.

22 **III. WITHDRAWAL OF LIBERTY AUDIT PROPOSAL**

23 **Q. What is Ameren Illinois' proposal on rebuttal with respect to Rider RPS?**

24 A. As explained in “Ameren Illinois’ Response in Opposition to Motion To Dismiss,  
25 and Motion To Amend Petition To Voluntarily Withdraw Rider RPS, Without  
26 Prejudice,” filed concurrently with my testimony, Ameren Illinois agrees to voluntarily  
27 withdraw its proposal to implement Rider RPS, without prejudice to the filing of a future  
28 rider proposal as necessary, appropriate, and consistent with Commission rules and  
29 regulations. In light of this proposal, I do not respond to the testimony of Staff and the  
30 AG regarding Rider RPS, except to note that the withdrawal of the Rider RPS proposal in  
31 no way constitutes an endorsement of the positions taken in testimony of Staff or the AG  
32 with respect to the Rider.

33 **Q. Does that mean that Ameren Illinois is withdrawing its Petition in this**  
34 **docket?**

35 A. No. Ameren Illinois’ Petition sought more than just the implementation of Rider  
36 RPS. Paragraph 20 of the Petition states:

37 Specifically [Ameren Illinois] seeks clarification on each recommendation to  
38 ascertain whether or not the Commission agrees with the Liberty recommendation  
39 as far as providing a value to customers. If the Commission determines on a  
40 decisional prudence basis that the cost of certain recommendations outweigh any  
41 benefits, the Commission should so advise the AIUs. The AIUs share the  
42 Commission’s goal of ensuring ratepayers are not saddled with investments that  
43 are not cost effective.

44 The referenced clarification is still needed.

45 **Q. Why is clarification still required?**

46 A. For at least two reasons. In its audit, Liberty found that certain improvements and  
47 enhancements to Ameren Illinois’ electric distribution system should be undertaken.  
48 Overall, however, Liberty found that “. . . Ameren-IL acceptably planned, designed,  
49 constructed and maintained its electric delivery systems, and that it worked very hard to  
50 restore its customers’ service following the 2006 storms.” (See Ameren Ex. 5.1, p. ES-

51 1.) As the Liberty recommendations are for “improvements” to a well maintained  
52 system, they could be viewed as not “necessary,” thereby raising the question of whether  
53 the Commission in fact believes they are required. As I previously explained, the  
54 Commission has not approved the Liberty Audit projects. (Ameren Ex. 1.0, p. 7.) Thus,  
55 although Ameren Illinois accepted implementation of Liberty-recommended projects as  
56 set forth in its Implementation Plan, as I explained in my direct testimony, “[a]ll the AIUs  
57 are asking for is some form of approval of a project or projects.” (Id.) Commission  
58 review and approval of the projects is warranted to ensure that ratepayers are not saddled  
59 with investments that are not cost effective.

60 Second, parties to this proceeding, particularly AG witness Mr. Smith, appear to  
61 question whether the Liberty projects should be implemented. Thus, this is an issue of  
62 concern for the parties in this case, and should be addressed. Although the projects were  
63 recommended by Liberty, Mr. Smith testifies:

64 Q. Are the AIUs able to demonstrate the prudence and cost-effectiveness of  
65 the Liberty Audit compliance costs for which they are seeking expedited Rider  
66 RPS rate recovery from customers?  
67

68 A. This is not clear. (AG Ex. 1.0, p. 24.)

69 He also expressed concern that cost benefit analyses of the projects had not been  
70 performed and a quantification of customer benefits had not been undertaken. (AG Ex.  
71 1.0, pp. 34-35.) Mr. Smith further testified that Ameren Illinois has not clearly  
72 demonstrated the prudence and cost-effectiveness of the Liberty Audit compliance costs.  
73 (AG Ex. 1.0, p. 24.) Staff witness Mr. Stoller also requested that Ameren Illinois provide  
74 a “detailed explanation of why the Commission should grant pre-approval of decisional  
75 prudence with respect to each RPS project [Ameren Illinois] proposes to undertake.”  
76 Thus, the question of whether the projects are prudent and should be implemented is

77 clearly at issue. Therefore, Ameren Illinois has sought leave to amend their petition to  
78 withdraw the Rider RPS proposal, but to retain its request for Commission “clarification”  
79 as set forth in Paragraph 20 of the Petition. In light of potential opposition to some or all  
80 of the projects, it is appropriate to continue this proceeding under an amended petition, to  
81 address the question of whether the projects provide ratepayer benefits on a cost-effective  
82 basis and so should be implemented.

83 **IV. COMMISSION REVIEW AND APPROVAL OF LIBERTY**  
84 **RECOMMENDED PROJECTS**  
85

86 **Q. How does Ameren Illinois propose to obtain clarification?**

87 A. Ameren Illinois believes that some form of Commission dispositive review of the  
88 AIU proposed implementation plan is warranted. Ameren Illinois has provided  
89 substantial information describing the Liberty Audit projects. (see Ameren Exs. 3.0-3.3  
90 (Mueller Direct)). To the extent that parties believe that the projects are not warranted or  
91 do not provide benefits commensurate with their costs, the Commission should be  
92 apprised of such concerns and afforded the opportunity to find accordingly. The projects  
93 were not the product of utility management planning, nor were they conceived of by  
94 Ameren Illinois, but rather an independent consultant retained by the Commission. It  
95 does not make sense to expect Ameren Illinois to implement the projects recommended  
96 by an independent consultant today and determine if they produce sufficient benefits to  
97 customers later.

98 AG witness Smith requests the addition of a cost benefit analysis. It would be  
99 within the purview of the Commission to decide if additional analysis is required prior to  
100 approving recommended projects.

101 **Q. Is additional information related to the specific projects needed?**

102 A. Staff witness Stoller and AG witness Smith both ask for more information on the  
103 projects. With respect to Mr. Stoller's request, yes.

104 Mr. Stoller recommends:

105 1) Ameren should provide in its rebuttal testimony a list of the specific  
106 projects for which it seeks Commission cost-recovery approval through  
107 Rider RPS, identified by AIU utility and specifying the anticipated cost of  
108 each project.

109 2) Ameren should provide in its rebuttal testimony a detailed explanation  
110 of why the Commission should grant pre-approval of decisional prudence  
111 with respect to each RPS project AUI proposes to undertake.

112 3) Ameren should identify and explain in its rebuttal testimony, for each  
113 project for which Ameren desires Commission approval for the recovery  
114 of any dollars through its Rider RPS, a specific method by which the  
115 Commission can obtain independent information and analysis upon which  
116 it can base an ex post determination of whether those projects were  
117 accomplished both prudently and at reasonable cost.

118 As noted above, a specific list of projects for which Ameren Illinois seeks approval has  
119 already been provided. Moreover, considerable detail on the projects was provided as  
120 part of Ameren Illinois witness Mueller's Direct Testimony, specifically Ameren  
121 Exhibits 3.1 to 3.3. However, the Liberty Audit Final Report Executive Summary and  
122 Ameren Illinois' response thereto have not been made a part of the record. Mr. Mueller  
123 sponsors these rebuttal exhibits on behalf of Ameren Illinois. These documents provide  
124 additional information and context related to the projects. The Ameren Illinois Response  
125 additionally provides the parameters of its acceptance of the recommended projects.  
126 There is considerably more data and information available. Liberty has been issuing data  
127 requests for over two years. Because Liberty is the consultant hired by the Commission,  
128 presumably it has access to those records. The sheer volume of those records would  
129 make it impractical to make a part of the record in this proceeding.

130 **Q. Why should the Commission grant pre-approval of decisional prudence with**  
131 **respect to the projects Ameren Illinois proposes to undertake?**

132 A. For the reasons stated above, the Commission should provide dispositive review  
133 of the recommended projects and Ameren's implementation thereof. Approval of the  
134 projects would provide Ameren Illinois with the assurance that the projects are cost  
135 effective and beneficial to ratepayers. Commission approval of the projects would be a  
136 grant of *decisional* prudence, or the prudence in actually making the decision to initiate  
137 implementation of the projects. Examining the prudence of decision to implement the  
138 projects prior to their implementation is clearly preferable to implementing them and then  
139 deciding if they were cost effective and prudent after the fact.

140 **Q. What information did AG witness Mr. Smith request?**

141 A. He asserts that Ameren Illinois should have provided cost-benefit analyses and  
142 quantified the benefits to its customers of the Liberty projects.

143 **Q. Did Liberty conduct any kind of cost benefit analysis for its recommended**  
144 **projects?**

145 A. It is my understanding that costs and benefits were considered by Liberty.  
146 However, it is also my understanding that the scope of the audit did not include a formal  
147 cost-benefit analysis.

148 **Q. Do you agree that a cost benefit analysis should be provided?**

149 A. Ameren Illinois has provided substantial information on the projects. (See  
150 Ameren Ex. 3.1). To the extent that the Commission requires additional analysis it is  
151 within its purview to make inquiry and Ameren Illinois will respond accordingly.  
152 However, no party in this proceeding has identified any specific project that it claims is

153 not necessary or prudent, or raised a specific concern about the costs or benefits of any  
154 individual project. Conducting further cost benefit analyses without specification would  
155 require significant resources and effort on Ameren Illinois' part. Such an analysis could  
156 be performed if the cost effectiveness or value of a particular project was called into  
157 question by the Commission.

158 **Q. Mr. Smith claims that Ameren Illinois has been able to complete a number of**  
159 **the Liberty Audit recommendations without Commission pre-approval, so no pre-**  
160 **approval is required now. Do you agree?**

161 A. No. It is correct that some recommendations have been completed, but these  
162 recommendations did not have substantial incremental costs. As Ameren Illinois witness  
163 Mr. Mueller explained in his direct testimony, the Ameren Illinois has been able to  
164 complete several recommendations that do not entail significant incremental costs. Most  
165 of these completed items have involved process-type changes that could be  
166 accommodated without substantial additional personnel or capital costs. Thus, the fact  
167 that they were completed has little bearing on the need for clarification.

168 **Q. Please summarize your position on the scope of clarification.**

169 A. As I discussed in my direct testimony, Ameren Illinois seeks clarification on each  
170 recommendation to ascertain whether or not the Commission agrees with the Liberty  
171 recommendation as far as providing a value to customers. If the Commission determines  
172 that the costs of certain recommendations outweigh any benefits, the Commission should  
173 so advise Ameren Illinois. Ameren Illinois shares the Commission's goal of ensuring  
174 that ratepayers are not saddled with expenditures that are not cost effective. If the

175 Commission determines that the benefits of certain recommendations exceed the costs,  
176 the Commission should approve those recommendations.

177 **Q. Are there any other matters that you feel should be addressed?**

178 A. Yes. I believe two additional assertions raised in Mr. Stoller's Direct Testimony  
179 warrant clarification. First, in his Direct Testimony, Mr. Stoller states as follows:

180 However, I recommend that the Commission not indulge  
181 the AIUs in this effort to secure special, expedited cost  
182 recovery consideration for what the Commission and the  
183 AIU ratepayers should reasonable expect from the AIUs  
184 going forward, *and which they should reasonably expect*  
185 *the AIUs to have already done in the past in the normal*  
186 *course of providing adequate and reliability public utility*  
187 *service.* (Emphasis added) (ICC Staff Ex. 1.0, p. 8)

188 The above quoted portion of Mr. Stoller's testimony does not accurately reflect Liberty's  
189 overall conclusion. Specifically, the scope of Liberty's investigation was intended to  
190 determine if Ameren Illinois did the following:

- 191 1. Appropriately planned, designed, constructed, inspected, and maintained  
192 their electricity delivery systems.
- 193 2. Adequately planned, prepared, and executed service restoration efforts  
194 following the July.

195 Liberty stated the following in the Executive Summary to its Final Report:

196 Despite the large number of areas in which Ameren-IL can  
197 improve, Liberty's overall conclusions are that Ameren-IL  
198 acceptably planned, designed, constructed, and maintained  
199 its electric delivery systems, and that it worked very hard to  
200 restore its customers' service following the 2006 storms.

201 A copy of the above cited Executive Summary is provided by Ameren Illinois witness  
202 Mr. Mueller.

203 **V. RESPONSE TO STAFF WITNESS ELSAID**

204 **Q. Have you reviewed the testimony of Staff witness Elsaid?**

205 A. Yes. She testifies that the estimated implementation costs associated with certain  
206 Liberty recommendations are transmission related costs, and as such should not be  
207 recovered through base delivery service rates.

208 **Q. What is your response?**

209 A. The costs of FERC jurisdictional transmission facilities will not be recovered  
210 through base delivery service rates.

211 **VI. CONCLUSION**

212 **Q. Does this conclude your testimony?**

213 A. Yes, it does.

214