ILLINOIS COMMERCE COMMISSION

DOCKET No. 10-0517

2ND REVISED REBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

(formerly the Ameren Illinois Utilities)

November 5, 2010

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I. <u>INTRODUCTION</u>

A. Witness Identification

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. I am the managing supervisor of Regulatory Accounting for the Ameren Illinois Company d/b/a Ameren Illinois ("Ameren Illinois" or "AIC"), formerly the "Ameren Illinois Utilities" or "AIUs".

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

A. Yes, I am.

B. Purpose and Scope

Q. What is the purpose of your revised rebuttal testimony?

A. The purpose of my revised rebuttal testimony is primarily to respond to certain recommendations in the direct testimony of Staff witness Ms. Dianna Hathhorn. Ms. Hathhorn in part recommends that the Commission reject AIC's request not to track and report all underlying cost data by rate zone, as well as its request to submit one set of schedules for its electric and gas businesses in future rate cases. These two requests are set forth in paragraphs five and seven of AIC's Petition filed August 26, 2010 and are referred to by Ms. Hathhorn in her testimony as "Proposal 4: Separate Revenue But Not Cost Data" and "Proposal 5: Single Set of Testimony and Schedules under 83 Ill. Adm. Code Parts 285, 286, and 287." AIC witness Mr. Nelson also offers rebuttal testimony in response to Ms. Hathhorn's and AG witness Mr. Rubin's recommendation to reject AIC's request not to track and report all underlying cost data by rate zone. AIC witness Mr. Jones responds to her recommendations concerning AIC's proposed allocations of costs for certain riders for the legacy utilities, as well as Staff's and AG's recommendations concerning allocations of costs in future class cost of service studies.

Q. Please summarize your revised rebuttal testimony.

A. As explained in AIC's rebuttal testimony, AIC opposes Staff and AG's recommendations that AIC continues to track and record all underlying cost data by rate zone post-merger. AIC also opposes Staff and AG's recommendation that AIC submit separate rate case schedules for its electric and gas businesses. Staff and AG's recommendations should be rejected because:

- AIC's proposal to prepare one set of testimony and schedules, a single class cost of service study, a single jurisdictional cost of service study and revenue requirement, a single combined rate base, and a single combined capital structure is consistent with:
    - the Commission's Part 285 filing requirements;
    - AIC's filings with the Federal Energy Regulatory Commission;
    - the Uniform System of Accounts; and
    - the Commission's prior practice of relying on one set of testimony and schedules in approving rates for AmerenCIPS and Illinois Metro East after the merger of those two utilities.

- Separate cost accounting and revenue requirement schedules by rate zone are not required for the Commission to determine if and how rates should be combined.
- The use of allocations to develop separate Part 285 schedules, though possible, is neither an efficient use of resources nor a necessary exercise to determine just and reasonable rates by zone and/or customer class.
- The practice of Illinois Ameren Water Company ("IAWC") and Aqua Illinois Inc. ("Aqua") is not determinative to whether AIC should provide Part 285 schedules by rate zone even though it is one utility, given the wide variation in cost of service and rates and the lack of interconnectedness of the operations and financial reporting of those water utilities.

II. <u>RESPONSE TO STAFF WITNESS MS. HATHHORN</u>

Q. In rejecting AIC's request to submit one set of schedules and testimony in future rate cases, Ms. Hathhorn claims that AIC's proposal to provide a single set of A, B, C and G schedules does not comply with Part 285. Do you agree?

A. No, I do not agree. The provisions of Part 285 cited by Ms. Hathhorn require separate Part 285 schedules only where a utility maintains "separate books" for each "service area" with "separate tariffs." As discussed below and in the testimony of AIC witness Nelson, effective October 1, 2010, AIC operates as one utility with one service area and one set of tariffs. The provisions of Part 285 cited by Ms. Hathhorn only require one set of Part 285 schedules where a utility, such as AIC, is operating as one, integrated utility.

Q. Ms. Hathhorn cites Part 285.2000, which provides that "[s]eparate rate base schedules must be provided . . . for each service area for which separate tariffs exist." Will AIC have separate service areas and tariffs post-merger?

A. No. AIC has and will have one service area that encompasses the territories previously served by AmerenCIPS, AmerenCILCO, and AmerenIP. In addition, AIC will have one tariff book applicable to AIC with prices by rate zone and customer class. The rate zones will not function or operate as distinct divisions within AIC; nor are the rate zones separate legal entities. The rate zones have not been created to define the boundaries of a service area; nor is there an operational need to assign future costs to a particular zone after the merger. As AIC witness Jones explains, the rate zones exist for rate design purposes only, namely so that former customers of the legacy utilities can be charged their currently effective rates until such time as the Commission authorizes different pricing in a future rate case.

Q. Ms. Hathhorn cites Part 285.3000, which provides that if the utility "maintains separate books for each service area for which separate tariffs exist," the utility's schedules shall present "information for each service area" for which a change in rates is being requested. In addition, Ms. Hathhorn cites Part 285.7000, which also provides that if the utility "maintains separate books for each service area . . . for which separate tariffs exist," the utility's schedules shall present "information for each service area" for which a change in rates is being requested. Will AIC be maintaining "separate books for each service area for which separate tariffs exist"?

A. No. As discussed above, effective October 1, 2010, AIC has one service area and one set of tariffs. As AIC witness Nelson discusses, AIC now operates as one utility with one set of financials. As a result, AIC believes it should be permitted to track and record post-merger underlying cost data, e.g. capital expenditures and O&M expenses, on a company basis in one set of books and records for the surviving legal entity, and not for the individual rate zones. Mr. Nelson explains why it would be inefficient, impractical and unreasonably costly for AIC to account for and report costs by rate zone.

Q. Is AIC's proposal consistent with the Commission Part 285 filing requirements?

A. Yes. Although I am not an attorney, it seems intuitive to me that if AIC has one service area and one set of tariffs and operates as one utility, Part 285 allows AIC to file one rate case and submit one set of testimony and schedules in future rate cases and does not require AIC to present separate Part 285 schedules for each zone. If Part 285 permits AIC to submit one combined set of testimony and schedules in future rate cases for the surviving legal entity, then AIC does not need to track and record costs by rate zone to comply with Commission filing requirements. AIC witness Nelson sets forth the practical reasons why the Commission should not require separate cost tracking and recording by rate zone, while AIC witness Jones explains why separate cost accounting by rate zone is not necessary to set rates.

Q. Is AIC's proposal also consistent with AIC's filings or filing requirements for the Federal Energy Regulatory Commission?

A. Yes. Beginning October 1, 2010, FERC recognizes AIC as one legal and reporting entity. FERC Form 1 will be filed on a consolidated AIC basis beginning with the calendar year end 2010 report and future quarterly FERC reports will be presented for AIC on a consolidated basis. From an operational perspective, AIC already has converged from three to one transmission pricing zone in 2007 under the Midwest ISO.

Accordingly, the FERC electric transmission tariffs administered by the Midwest ISO have been based on combined AIC information since 2007.

Q. Is AIC's proposal also consistent with the Uniform System of Accounts ("USOA")?

A. Yes. The USOA applicable to Illinois electric utilities, codified as 83 Ill. Adm. Code 415 and the USOA applicable to Illinois gas utilities, codified as 83 Ill. Adm. Code 505, do not provide, require, or even suggest or recommend that utilities maintain separate books by rate zone or geographic area.

Q. Ms. Hathhorn also claims that, if AIC does not maintain the underlying legacy utility cost data separately, Staff and other parties will not be able to provide separate revenue requirement schedules by rate zone. Practically speaking, is there a need for separate revenue requirement schedules by rate zone post-merger?

A. No. There is one revenue requirement applicable to AIC's electric jurisdictional operations and one revenue requirement applicable to AIC's gas jurisdictional operations. If requested or required by the Commission, as discussed further by AIC witness Jones (Ameren Ex. 4.0, lines 98-110, 144-157), AIC electric and gas revenue requirements could be further allocated by rate zone. Class cost of service studies for each zone could then be developed for reference, should parties choose to use them.

Q. Ms. Hathhorn claims that the Commission needs separate revenue requirement schedules by rate zone post-merger to determine "if and how rates should be combined." (ICC Staff Ex. 1.0, lines 186-190.) Does the Commission need

separate revenue requirement schedules by rate zone to determine in the future whether if and how rates should be combined?

A. No. As Mr. Jones discusses, a single AIC revenue requirement and class cost of service study, in addition to rate zone specific billing determinants and bill impact studies, provide sufficient information to determine how rates should be combined. Should the Commission desire to review rate zone specific class cost of service studies, separate revenue requirements can be developed in conjunction with Part 285 Schedule E-6 schedules, and used to develop rate zone specific class cost of service studies.

Q. What would be the added complications in presenting separate revenue requirement schedules by rate zone post-merger?

A. Such an approach requires extensively more detail on the front end of the rate case filing in assembly of unadjusted test year data, in the calculation of pro forma and/or ratemaking adjustments, and in the determination of adjusted test year revenues, expenses, operating income, and rate base. In addition, presenting separate revenue requirement schedules by rate zone post-merger expands significantly on the part 285 requirements to present additional A, B, and C schedules by rate zone and on a combined AIC basis. Potentially, every ICC operating expense and rate base account would need to be reviewed before and after any pro forma or ratemaking adjustments to assess not only a reasonable allocation factor, whether more that one allocation factor is appropriate, and whether separate allocations should be performed for adjustments to test year data.

Q. Ms. Hathhorn suggests that the Commission rules would not prohibit AIC from using reasonable allocation methods to estimate the impact of "separate

operations" and develop Part 285 schedules for the separate rate zones. Would AIC be able to use reasonable allocation methods to develop Part 285 schedules for the separate rate zones?

A. Yes. AIC could use reasonable allocations to develop Part 285 schedules for separate rate zones. But that would result in AIC having to file multiple rate cases and/or compile multiple sets of schedules and testimony for the same integrated utility. Contrary to Ms. Hathhorn's suggestion, AIC will not have "separate operations" for the individual rate zones. Future plant investment and O&M expense will impact *AIC's* operations and *AIC's* customers. As discussed previously, the more administratively efficient approach is to present one set of Part 285 schedules and one revenue requirement for both the electric and gas utility operations. If the Commission requests or requires AIC to present costs by rate zone, such segregation of the revenue requirement can be accomplished through allocations and shown in supplemental schedules to the Part 285 Schedule E-6 Class Cost of Service Study. (See Ameren Ex. 4.0, lines 98-110, 144-157.)

Q. Even if AIC could develop separate Part 285 schedules for each rate zone using reasonable allocations, why would AIC choose not to do so?

A. To present every Section A, Section B, or Section C schedule, for example, by rate zone would increase costs to prepare and review such schedules, and would be an inefficient use of resources for AIC as well as Staff and rate case intervenors who must review these schedules. There are a large number of Part 285 schedules that are provided for informational purposes. In my experience with the AIUs' recent electric and gas rate case filings, these additional schedules have limited application in the determination of pre-merger revenue requirements. Post-merger, the presentation of such informational data based on allocations would have questionable value, particularly when AIC electric and gas data would be presented for each of the Part 285 schedules, to the extent applicable, for AIC electric and gas utility rate filings. The more efficient and effective use of resources is to present Part 285 schedules on an AIC basis.

Q. Ms. Hathhorn recommends an alternative to require AIC to provide workpapers listed in Attachment A with all its rate filings until rates are combined (ICC Staff Ex. 1.0, lines 268-270). Please respond.

A. In response to AIC Data Request 1.01, Ms. Hathhorn agreed that her alternative proposal only applies to 2010 and prior balances and is further limited to only future rate filings that require the provision of 2010 and prior balances for compliance with Part 285. Based upon that clarification, AIC agrees with the provisions of her alternative proposal discussed at lines 268-270.

Q. Ms. Hathhorn notes that AIC did not "expressly" request any approvals from the Commission regarding its presentation of Part 285 schedules for the former Illinois Metro East territory. Has the Commission ever required in any rate case that AIC present separate schedules for the former Illinois Metro East territory?

A. No. AIC did voluntarily present pre-merger data for the former Illinois Metro East territory in various Part 285 schedules. As noted above, AIC intends to provide 2010 and prior data for the Part 285 schedules identified on ICC Staff Exhibit 1.0

Attachment A to the extent applicable, in future rate cases. With the merger effective date of October 1, 2010, the legacy data for October through December 2010, with some exceptions identified in the AIC petition and direct testimony, will be based on estimates since actual data by legacy utility will not exist after the merger date.

Q. Has Staff or any other party ever requested in a rate case that the AIC file separate schedules for the former Illinois Metro East territory?

A. No. Since the merger with CIPS, each electric and gas general rate case proceeding has presented revenue requirements for CIPS plus the former Metro East territory on a combined basis.

Q. Has the Commission approved consolidated schedules and relied on consolidated cost of service studies for Illinois Metro East and AmerenCIPS in prior rate cases?

A. Yes. The Commission relied on combined CIPS plus the former Metro East territory data in the most recent three AIUs' electric rate cases and the most recent two AIUs' gas rate cases identified as Docket Nos. 06-0070-06-0072 (Cons.), 07-0585-07-0590 (Cons.), and 09-0306-09-0311 (Cons.). While not an attorney, I find the Commission's prior practice in this instance relevant and reasonable since the two former utilities were operating as one utility with integrated operations and customer service, with varying rates.

Q. Ms. Hathhorn claims that the AIC merger "will potentially have larger impacts to ratepayers than the former situation with MetroEast." Does the fact that

the next AIC rate case may impact more customers require separate schedules in this instance?

A. No. The fact that there are more customers should not weigh into that decision. Whether there are 5 customers or 500,000 customers within a customer class does not change the fact that customer impacts should be considered. AIC's proposal fully addresses this concern in the most efficient and effective manner in the rate design phase of the proceeding.

Q. Does Ms. Hathhorn indicate how big a merger has to be -- and how many customers have to be impacted -- to require separate schedules for the legacy utilities in post-merger filings?

A. No. Ms. Hathhorn does not provide an indication of how big a merger has to be to require separate schedules.

Q. Ms. Hathhorn notes that Illinois American Water Company ("IAWC") and Aqua Illinois Inc. ("Aqua") provide Part 285 schedules by rate zone and on a total company basis. Why is Staff's comparison with these water utilities not valid and determinative in this instance?

A. As a former employee of IAWC, I know that there are vast differences in the operation of a water utility when compared to electric and gas utilities. Unlike electric and gas utilities that are connected through a multi state series of pipes and wires, and regulated both by federal and state commissions, water utilities have geographically separate and distinct service territories that are not interconnected and cannot be interconnected without substantial additional investment.

Typically, water systems are limited in size and scope due to limitations in transmission capability and an inability to mix water sources without increasing costs to process and treat such water. Water sources for most Illinois utilities come from rivers, lakes, and wells, and the quality of water varies depending on the source. Typically water from river supplies costs more to treat than lake or well supplies. In some well water systems, the availability of multiple wells can also reduce transmission and distribution pipeline investment and pumping costs. Even two well water systems with centrally located wells could require vastly different chemicals and treatment costs to supply and process water suitable for drinking[1]. For example, one well system could have very good water quality and require limited treatment prior to distributing the supply to customers, while another well supply could have hardness issues and require treatment to soften the water supply, or water quality issues, such as infiltration of radon or farmland chemical run-off. While treatment of water supplies varies, mixing two supplies would require changes in treatment due to changes in water quality resulting from mixing supplies. As such, water supplies for lake vs. river vs. well or even two separate well systems are not typically interconnected, unlike electric and gas service. Thus, the comparison of water utility operations and rate filings to those of electric and gas utilities is not an "apples to apples" comparison.

Q. Can you provide an example of two geographically close water systems that are not interconnected for the reasons you discuss above?

[1] Water is the only utility ingested by customers. Water supplied to utility customers must be in compliance with Environmental Protection Agency requirements that limit contaminants, measured in parts per million, in potable water supplied to customers.

A. Yes. Two of IAWC's water systems in geographically close proximity are the Pekin and Peoria district service areas. Yet, these two systems are not interconnected not only due to costs to interconnect the water production, transmission and distribution systems, but also vast differences in the source of the water supplies and the cost to produce, treat, and distribute such supplies. Pekin has a series of wells located throughout the service area that supply water to that district's customers, while Peoria relies on the Illinois River for its water supply. Pekin's production costs are limited at each well site when compared to Peoria's extensive investment in a river water production and treatment plant. Pekin's water treatment costs are substantially less due to quality of the pre treated water supply. In addition, Pekin's centrally located wells minimize required transmission investment and reduce distribution investment and pumping costs, when compared to Peoria.

Q. Previously you indicated some differences in regulation of electric and gas utilities when compared to water utilities. Are there other differences in regulation that impact rate setting in Illinois?

A. Yes. Most of the IAWC and Aqua water systems produce the water supply from lakes, rivers, or wells. As such, the cost of service includes production costs which, as indicated above, can vary dramatically from one water system to another. Water utility costs also include transmission. In contrast, the ICC regulated electric and gas utility base rates exclude purchased power and purchased gas costs, respectively. ICC regulated electric utility base rates also exclude transmission costs. In IAWC's case I would also note that, even with the extensive geographic and source of supply differences between service areas, the Commission has approved over the last several IAWC rate cases the consolidation of disparate service areas (such as Alton, Cairo, East St. Louis, Peoria, Pontiac and Champaign) into a single tariff pricing rate area. In rate case filings, IAWC submits one set of schedules for the single tariff pricing area, even though there may be some pricing differences between legacy service areas. By comparison, the AIC seek to file one set of schedules for an integrated service area that lacks the service area disparity I discuss above for IAWC.

Q. Are there other operational differences that impact financial reporting for water utilities when compared to electric and gas utilities?

A. Yes. With geographically separate and distinct service areas, inventories, assets, and most or all operating personnel are often maintained separately given the vast difference in operating systems used to provide service to customers. Conversely, AIC's electric and gas service territory serves the southern two thirds of Illinois with pipes and wires that already are or can be further interconnected if such interconnection would improve or enhance service to customers.

III. RESPONSE TO STAFF WITNESS MS. PHIPPS

Q. What are Ms. Phipps's recommendations?

A. Ms. Phipps does not object to AIC's proposal to submit a single combined capital structure. She recommends that the Commission grant the relief requested in AIC's petition provided that it requires AIC to (1) identify the original issuer of all legacy securities in future rate case filings in the same format as Attachment 2.01 to her testimony; and (2) report balance sheet impact of purchase accounting relating to AmerenCILCO and AmerenIP in the same format as Attachment 2.02 of her testimony.

Q. Does AIC object to Ms. Phipps's recommendation that AIC identify the original issuing utility of legacy securities in the format shown in ICC Staff Ex. 2.0, Attachment 2.01?

A. No. Ms. Phipps's recommendation is acceptable to the AIC.

Q. Does AIC object to Ms. Phipps's recommendation that AIC submit information regarding ratemaking adjustments to the AIC balance sheet due to purchase accounting adjustments in the format shown in ICC Staff Ex. 2.0, Attachment 2.02?

A. Yes. AIC cannot anticipate in advance what ratemaking adjustments to AIC balance sheet due to purchase accounting adjustments will be proposed in future rate proceedings. To the extent ratemaking adjustments are proposed, AIC would agree to provide such adjustments in the form of a workpaper or workpapers in support of the underlying adjustment. The exact form of such workpaper or workpapers should consider, among other things, the nature of the underlying ratemaking adjustment, the basis for the adjustment, and whether the adjustment is based on historical or projected information. As such, AIC cannot agree that the underlying adjustment should or even can be limited or otherwise restricted to the format provided in ICC Staff Exhibit 2.0, Attachment 2.02. In summary, AIC agrees that any such ratemaking adjustment or adjustments should be supported, and intends to support such in the form of workpaper or workpapers, but cannot agree to the restrictions in the format proposed by Staff that would somehow apply to all future rate cases.

IV. CONCLUSION

Q. Does this conclude your revised rebuttal testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I, Matthew R. Tomc, certify that a copy of the foregoing *2nd Revised Rebuttal Testimony of Ronald D. Stafford - Ameren Exhibit 5.0R (2nd Rev.)* was filed on the Illinois Commerce Commission's e-Docket and served electrically to all parties of record in this docket as of this 4th day of November, 2010.

Matthew R. Tomc