Ameren Exhibit 2.0E (Rev.)

ILLINOIS COMMERCE COMMISSION

DOCKET Nos. 11-0279 / 11-0282 (CONS.)

REVISED DIRECT TESTIMONY

OF

RONALD D. STAFFORD

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

May, 2011

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OF

RONALD D. STAFFORD

I. INTRODUCTION

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.

Q. By whom are you employed and in what capacity?

A. I am employed by the Ameren Illinois Company (AIC or Ameren Illinois) as Manager, Regulatory Accounting.

Q. Please describe your educational background and relevant work experience.

A. See my Statement of Qualifications, attached as an Appendix to this testimony.

B. Purpose, Scope and Identification of Exhibits.

Q. What is the purpose of your direct testimony in this proceeding?

A The purpose of my direct testimony is to develop the cost of service (revenue requirement) for the gas and electric distribution systems of Ameren Illinois Company. The revenue requirement determines the level of electric and gas delivery service revenues required to pay operating expenses, to provide for depreciation and taxes, and to permit our investors an opportunity to earn a fair and reasonable return on their investment. Ameren witnesses Ms. Althoff, Mr. Schonhoff, and Mr. Jones use this jurisdictional data as the starting point for their class cost of service study and rate design development, respectively.

I will also discuss the preparation of required Part 285 schedules, and summarize those schedules that I sponsor. Finally, I sponsor adjustments to the Operating Income Statement and Rate Base.

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

A. Yes. I am sponsoring Ameren Exhibits 2.1 through 2.5. Ameren Exhibit 2.1 presents the Ameren Illinois Electric Delivery Service Jurisdictional Revenue Requirement and Rate Base for the Future Test Year December 31, 2012. Ameren Exhibit 2.2 presents the Ameren Illinois Gas Jurisdictional Revenue Requirement and Rate Base for the Future Test Year December 31, 2012. Ameren Exhibit 2.3 presents the results of the Asset Separation Project used to functionalize electric general and intangible utility plant and depreciation reserve to lines of business. Ameren Exhibit 2.4 presents the calculation of ratepayer and non ratepayer funded OPEB liability balances at September 30, 2010 before adjustment based on AIC's commitment to fund up to $100 million of the ratepayer supplied portion of the liability. Ameren Exhibit 2.5 presents the calculation of the Rider PER and Rider S factors applied to purchased power supply and purchased gas.

Q. What test year is AIC proposing to establish the revenue requirement in this proceeding?

A. Ameren Illinois is proposing a future test year comprising the twelve months ending December 31, 2012.

Q. What is the Revenue Requirement for AIC's electric operations?

A. AIC electric has an overall revenue requirement of $911,331,000 and a revenue deficiency of $59,822,000.

Q. What is the Revenue Requirement for the AIC's gas operations?

A. AIC gas has an overall revenue requirement of $351,353,000 and a revenue deficiency of $50,694,000.

II. <u>PART 285 SCHEDULES</u>

Q. Has AIC submitted schedules required in the Standard Filing Requirements applicable to this case?

A. Yes. AIC has prepared the schedules and documents required under Subparts B and D - J of 83 Ill. Admin. Code Part 285. I am sponsoring the "A", "B" and "C" Schedules in their entirety. I also am sponsoring Schedules D-7 and Schedules D-9 through D-12. Finally, I am sponsoring G-2 and G-7 schedules.

Q. Please generally describe the "A" schedules you are sponsoring and have attached.

A. The A Schedules present summary utility information regarding the rate filing including calculation of the requested revenue increase, allocations of costs to lines of business and allocation factors used in support of the Ameren Illinois jurisdictional electric and gas operations. Schedules A-2 and A-2.1 are presented in Ameren Exhibit 2.1 for electric operations and Ameren Exhibit 2.2 for gas operations.

Q. Generally, what do the attached "B" schedules show?

A. The B Schedules present jurisdictional electric and gas rate base and rate base related supporting information for Ameren Illinois jurisdictional electric and gas operations. Schedules B-1 presents jurisdictional rate base both with and without adjustments. Schedule B-2 summarizes adjustments detailed elsewhere in the B Schedules. Schedules B-2.1 through B-2.7 detail adjustments summarized on B-2. Schedule B-8 presents the requested level of cash working capital. Each of these schedules is presented in Ameren Exhibit 2.1 for electric operations and Ameren Exhibit 2.2 for gas operations.

Q. How was AIC's test year rate base calculated?

A. AIC's test year rate base is an average rate base determined based on the simple average of December 31, 2011 and December 31, 2012 balances with the exception of materials and supplies and customer deposits, which are both based on a thirteen month average of Test Year 2012 balances, and cash working capital, which is based on application of lead lag study results to test year levels of revenue and expenses.

Q. Please describe the adjustments shown on Schedule B-2.

A. Both Electric and Gas Schedules B-2.1 through B-2.5 present ratemaking adjustments to Utility Plant, Depreciation Reserve, and Accumulated Deferred Income Taxes as discussed further below. As mentioned above, the cash working capital adjustment applies lead lag study results as shown on Schedule B-8 to test year levels of revenue and expenses. Finally, Schedules B-2.6 and B-2.7 present both Materials and Supplies (including Gas Inventory) and Customer Deposits based on a thirteen month average basis. In addition, Schedule B-2.6 reduces materials and supplies and gas inventory for the portion of the thirteen month average balance in accounts payable.

Q. Generally, what do the "C" schedules show?

A. The C Schedules present jurisdictional electric and gas income statement and income statement related supporting information for Ameren Illinois jurisdictional electric and gas operations. Schedules C-1 presents the jurisdictional operating income summary both with and without adjustments. Schedule C-2 summarizes adjustments detailed elsewhere in the C Schedules. Schedules C-2.1 through C-2.16 for electric and Schedules C-2.1 through C-2.15 for gas detail adjustments summarized on C-2. Each of these schedules is presented in Ameren Exhibit 2.1 for electric operations and Ameren Exhibit 2.2 for gas operations.

Q. Please describe the adjustments shown on Schedule C-2.

A. The adjustments shown on Schedule C-2 present ratemaking adjustments to establish an appropriate level of revenues and operating expenses for establishing the revenue requirement for electric delivery service and gas base rates. Adjustments were made to reflect appropriate ratemaking treatment of certain items, to reflect changes made to the forecast, and to reflect corrections to the forecast. For example, certain adjustments remove revenues and expenses not recoverable through jurisdictional electric and gas revenues, such as PGA revenues and expenses, remove costs that AIC is not seeking recovery for in these proceedings, such as production retiree costs and earnings based incentive compensation, and add costs that AIC is seeking recovery for that are not included in AIC's test year forecast, such as a Regulatory Asset for the 2011 financial impact of the recently legislated Illinois state income tax rate increase.

Q. Generally, what do the "D" schedules show?

A. The D schedules I sponsor present various financial related information for the Ameren Illinois operations. All D schedules are presented on a combined electric and gas utility basis for Ameren Illinois.

Q. Generally, what do the "G" schedules show?

A. Schedule G-2 is the statement by Pricewaterhouse Coopers attesting that the preparation and presentation of the applicable schedules is in compliance with the AICPA Guide for Projected Financial Information issued March 1, 2009. Schedule G-7 is the calculation of the proration of accumulated deferred income taxes presented on Schedule B-9. The calculation of proration considers accelerated depreciation budgeted for 2012 including the 2012 impact on accelerated depreciation of recently enacted tax law changes discussed further in the testimony of Ameren witness Ms. Menke.

III. <u>REVENUE REQUIREMENT PROCESS</u>

Q. What is meant by "revenue requirement"?

A. The revenue requirement of a utility is the sum of operation and maintenance expenses, depreciation expense, taxes other than income taxes, income taxes, and a fair return on Rate Base. The revenue requirement is based on a test year, which is intended to reflect conditions existing during the period the proposed rates are in effect. To the extent the revenue requirement exceeds existing revenues, a revenue deficiency exists, and a rate increase is required.

Q. Please describe the basic steps utilized in calculating the revenue requirement for the electric and gas distribution systems.

A First, since AIC provides electric and gas service, rate base, revenues, and expenses must be assigned or allocated among the two types of utility service. After segregating the rate base, revenues, and expenses applicable to electric service, the next step is to assign or allocate electric service between business lines and functional cost categories. Some of these costs are incurred solely to distribute electric service, and these items are directly assigned as distribution. Some costs are incurred solely for electric transmission, and are assigned to transmission. Some costs are assigned to the power supply function, or are related to purchase accounting, and are eliminated. The remaining costs, including a portion of both rate base and operating expenses, are common costs, and these items must be assigned or allocated between distribution, transmission, and other functions or lines of business.

Likewise, after segregating the rate base, revenues, and expenses applicable to gas service, the next step is to assign or allocate gas service between distribution, transmission, gas supply, and other, including a portion assigned to the gas line of business via the Asset Separation Project described later in my testimony.

Q. Have you considered the impact of purchase accounting on AIC's revenue requirement?

A. Yes, I have.

Q. Please explain the adjustments to eliminate purchase accounting.

A. In Docket No. 04-0294, the Commission approved the purchase by Ameren Corporation (Ameren) of all outstanding common and preferred stock of Illinois Power Company (IP as it was then known). Under the reorganization, IP (now merged into AIC) proposed and the Commission approved accounting entries to eliminate the effects of all purchase accounting. Also, to effectuate the impact of the AIC merger, purchase accounting entries were recorded to the AIC forecasted fourth quarter 2010 balance sheet. Accordingly, test year levels of rate base and revenue requirement have been adjusted to reflect elimination of purchase accounting.

Q. Please discuss the derivation of state and federal income tax expense.

A. The derivation of state and federal income tax expense is based on the application of statutory state and federal income tax rates applied to operating income before income taxes. The calculation of test year income tax expense is shown on Schedules C-5 and C-5.2.

IV. <u>REVENUE REQUIREMENT – ELECTRIC</u>

Q. Please describe Ameren Exhibit 2.1.

A Ameren Exhibit 2.1 reflects the proposed Electric Delivery Services' determination of Revenue Requirement for AIC. This exhibit summarizes the detail in support of Revenue Requirement as provided in Part 285, Schedules A through C of the Standard Filing Requirements.

Part 285 Schedule A-2 summarizes the calculation of the requested Revenue Increase of $59,822,000. Requested Rate Base of $1,996,557,000 and overall Rate of Return/Cost of Capital of 9.568% are also summarized on Schedules A-2. Part 285

Schedule A-2.1 presents the computation of the Gross Revenue Conversion used to calculate Electric Delivery Services' Revenue Requirement.

Part 285 Schedules B-1 and B-2 set forth AIC's Electric Delivery Services Rate Base by component unadjusted per books and as adjusted, for the test year ended December 31, 2012. Additional adjustments are detailed on Schedules B-2.1 through B-2.7. The calculation of cash working capital is set forth on Schedule B-8.

Part 285 Schedules C-1 and C-2 sets forth AIC's Electric Delivery Services Statement of Operating Income with Adjustments and includes revenues, operating expenses by function, income taxes, and net operating income unadjusted per books and adjusted at present and proposed rates, for the test year ended December 31, 2012. Additional adjustments are detailed on Schedules C-2.1 through C-2.16. Part 285 Schedules C-5.4 and WPC-5.4 provide, respectively, the Interest Synchronization Adjustment and Overall Cost of Capital used in the determination of the Electric Revenue Requirement.

Q. Are pass-through charges included in AIC's electric revenue requirement?

A. No. AIC collects distribution tax and Illinois assistance charges from Electric Delivery Services operations customers. These charges are added to customers' bills. AIC is responsible for remitting the charges it collects to the appropriate governmental or non-profit agencies. These charges are removed from AIC's Electric Delivery Service Revenues and have therefore also been eliminated from operating expenses, as discussed further below in the Electric Ratemaking Adjustments section of my testimony.

V. V. <u>REVENUE REQUIREMENT – GAS</u>

Q. Please describe Ameren Exhibit 2.2.

A Ameren Exhibit 2.2 reflects the proposed Gas Services' determination of Revenue Requirement for AIC. This exhibit summarizes the detail in support of Revenue Requirement as provided in Part 285, Schedules A through C of the Standard Filing Requirements.

Part 285 Schedule A-2 summarizes the calculation of the requested Revenue Increase of $50,694,000. Requested Rate Base of $997,566,000 and overall Rate of Return/Cost of Capital of 9.436% are also summarized on Schedules A-2.

Part 285 Schedule A-2.1 presents the computation of the Gross Revenue Conversion used to calculate Electric Delivery Services' Revenue Requirement.

Part 285 Schedule B-1 and B-2 set forth AIC's Electric Delivery Services Rate Base by component unadjusted per books and as adjusted, for the test year ended December 31, 2012. Additional adjustments are detailed on Schedules B-2.1 through B-2.7. The calculation of cash working capital is set forth on Schedule B-8.

Part 285 Schedules C-1 and C-2 set forth AIC's Electric Delivery Services Statement of Operating Income with Adjustments and includes revenues, operating expenses by function, income taxes, and net operating income unadjusted per books and adjusted at present and proposed rates, for the test year ended December 31, 2012. Additional adjustments are detailed on Schedules C-2.1 through C-2.15. Part 285 Schedules C-5.4 and WPC-5.4 provide, respectively, the Interest Synchronization Adjustment and Overall Cost of Capital used in the determination of the Gas Revenue Requirement.

Q. Are pass-through charges included in AIC's gas revenue requirement?

A. No. As stated above, Ameren Illinois collects Illinois assistance charges, municipal utility tax charges, public utility/Illinois gas revenue tax charges and ICC gross revenue tax charges from Gas operations customers. These charges are added to customers' bills. AIC is responsible for remitting these charges it collects to the appropriate governmental or non-profit agencies. These charges are removed from AIC's gas revenues and other taxes and have therefore also been eliminated from operating expenses, as discussed below in the Gas Ratemaking adjustments section of my testimony

VI. RATE MAKING ADJUSTMENTS – GAS & ELECTRIC

A. Revenue and Expense Adjustments.

Q. Please explain the adjustment to reflect the cost of Ameren Illinois' use of electricity and gas shown on Electric Schedule C-2.1 and Gas Schedule C-2.4.

A. While AIC no longer owns generating assets, it continues to use electricity at its facilities. This electricity must now be purchased from the power providers for cash. The unadjusted per books Electric Delivery Services operating expenses do not reflect the cost of AIC's use of electricity purchased from these providers, as it is charged to Account 555 - Purchased Power. The unadjusted per books Gas Delivery Services operating expenses do not reflect the cost of AIC's use of natural gas, as it is charged to Account 807 - Purchased Gas. Therefore, an adjustment has been made to reflect the cost of AIC's use of electricity and gas in the respective Electric and Gas Delivery Services operating expenses. This adjustment is reflected on Schedule C-2.1 for Ameren Illinois Electric and Schedule C-2.4 for Ameren Illinois Gas operations.

Q. Please describe the adjustment for Franchise Requirements shown on Electric Schedule C-2.2 and Gas Schedule C-2.5.

A. Under the terms of franchise agreements with various municipalities, AIC provides electricity and gas to municipal facilities at no charge, at discounted prices or in the form of cash payments, as franchise consideration. AIC does not reflect the costs of the free or discounted electricity or gas elsewhere in its operating expenses. The portion of Franchise consideration provided in the form of cash payments are recorded in Account 927, Franchise Requirements. In the test year, the PGA portion of Gas Franchise consideration is recorded as a reduction to Gas other revenues. However, operating revenues at present and proposed rates in this proceeding reflect the full value of tariff rates before Franchise consideration. The adjustment reflects: (1) elimination of the reduction to Gas other operating revenues; and (2) the full cost of electricity or gas provided as franchise consideration either at no cost, or at discounted prices, or in the form of cash payments as an increase to operating expenses net of the portion of electric and gas franchise consideration separately recovered through Rider EF (Excess Franchise). This adjustment is reflected on Schedule C-2.2 for Ameren Illinois Electric and Schedule C-2.5 for Ameren Illinois Gas operations.

Q. Has Ameren Illinois reflected an adjustment related to customer deposits?

A. Yes. Customer deposits are reflected as a deduction to rate base, since they represent a source of non-investor supplied funds. As such, it is appropriate for ratemaking purposes to include in operating expense the interest paid by AIC on such deposits. The level of interest expense associated with customer deposits is based on the Commission authorized interest rate and multiplied by the test year customer deposit balance used in the calculation of the rate base. This adjustment is reflected on Schedule C-2.4 for Ameren Illinois Electric and Schedule C-2.6 for Ameren Illinois Gas operations.

Q. Please describe the adjustment for Uncollectibles Expense.

A. Electric Uncollectibles at present rates include only the portion applicable to Electric Delivery Services operations, with the remainder recovered with power supply. Gas Uncollectibles at present rates include only the portion applicable to Gas Base Rates operations, with the remainder recovered with purchased gas. The derivation of the Electric Delivery Services portion of uncollectibles is a percent based upon test year electric uncollectibles expense divided by total electric test year revenues. The derivation of the Gas Base Rates portion of uncollectibles is a percent based upon test year gas uncollectibles expense divided by test year gas revenues. This adjustment is reflected on Schedule C-2.5 for Ameren Illinois Electric and Schedule C-2.7 for Ameren Illinois Gas operations. Electric and Gas Uncollectibles are also discussed later in the Supply Cost Adjustments section of my testimony.

Q. Please describe the adjustments to incentive compensation shown on Electric Schedule C-2.7 and Gas Schedule C-2.8.

A. The adjustment removes from test year 2012 those incentive compensation expense amounts for AIC, and the Ameren Services' portion allocable to AIC, related to incentive compensation paid to officers and the portion of incentive compensation paid to directors and managers based on earnings performance goals. This adjustment is reflected on Schedule C-2.7 for Ameren Illinois Electric and Schedule C-2.8 for Ameren Illinois Gas operations.

Q. Please describe the executive compensation adjustment shown on Electric Schedule C-2.8 and Gas Schedule C-2.9.

A. As further discussed in the direct testimony of AIC witness Mr. Nelson, this adjustment reflects the elimination of AIC's allocable share of executive compensation for the five highest paid officers of Ameren, other than the President of Ameren Illinois, with the exception of incentive compensation, which is adjusted separately. This adjustment is reflected on Schedule C-2.8 for Ameren Illinois Electric and Schedule C-2.9 for Ameren Illinois Gas operations.

Q. Please explain the adjustments on Electric Schedule C-2.9 and Gas Schedule C-2.10.

A. The power smart pricing program allows for Ameren Illinois electric customers to participate in a real time pricing program for its electricity power supply purchases under Rider PSP. AIC incurs incremental costs for program administration and program evaluation. These costs are recoverable from AIC customers that elect to participate in the program. These costs are based on billings from the vendors that provided these services. The vendor specific cost information is not identified separately in AIC test year operating expenses. Therefore, AIC identified these costs from the most recent calendar year actual data. In 2010, the program administration and program evaluation costs totaled $560,389. These costs were recorded to account 923 in 2010 with a portion of these costs reflected in AIC's electric account 923 expense and a portion included in AIC's gas account 923 expense. The adjustment shown on Schedule C-2.9 for Ameren Illinois Electric and Schedule C-2.10 for Ameren Illinois Gas operations removes these costs from test year operating expense.

Q. Electric Schedule C-2.10 and Gas Schedule C-2.11 presents an adjustment identified as a UCB/POR program costs adjustment. Please explain this adjustment.

A. The uncollectibles billing (UCB) and purchase of receivables (POR) program provides for cost recovery by AIC of incremental charges incurred for systems and costs associated with this program pursuant to existing tariffs. Initial start up and programming costs that are recoverable from customers include an asset recorded on the books of Ameren Services. As this asset is depreciated, these costs are billed from Ameren Services to AIC and recorded to account 923 with a portion of these costs reflected in AIC's electric account 923 expense and a portion included in AIC's gas account 923 expense. The adjustment shown on Schedule C-2.10 for Ameren Illinois Electric and Schedule C-2.11 for Ameren Illinois Gas operations removes these costs from test year operating expense.

Q. Please describe the adjustment to injuries and damages expense shown on Electric Schedule C-2.11 and Gas Schedule C-2.12.

A. Test year injuries and damages expense have been adjusted to remove the test year accrual for claims to be paid. The accrual is replaced with a historical average of actual claims paid for the five-year period 2006-2010. Historical claims paid were restated to 2010 dollars using the change in the Consumer Price Index to recognize that 2010 costs are higher than pre 2010 costs due to the passage of time. Use of a historical average considers that claims payments vary from year to year. The Commission has historically recognized that it is appropriate to normalize AIC injuries and damages expense.

Q. Under Rider HMAC, AIC is required to identify the base amount of rider recoverable costs in the setting of electric rates. Have you identified the base amount included in test year expense?

A. Yes. The base amount is $216,151 and is identified on a workpaper in support of the injuries and damages adjustment for Electric Schedule C-2.11. The base amount reflects the inflation adjusted five-year average for 2006-2010 for HMAC related claims payments included in the injuries and damages expense described above. In calculating the test year adjustment for injuries and damages, claims defense and administration costs were budgeted with expense accruals and have been removed from test year expense through elimination of test year expense accruals in the adjustment shown on Electric Schedule C-2.11.

Q. Please explain the charitable contributions adjustment shown on Electric and Gas Schedules C-2.13.

A. The adjustment recognizes for cost recovery charitable contributions shown on Schedule C-7 recorded to a below the line account and therefore, not included in unadjusted test year operating expense. The Commission has historically recognized for cost recovery utility contributions for charitable purposes as a recoverable operating expense in rates (see, e.g., Ameren Illinois Docket Nos. 09-0306-09-0311 (Cons.) Order p. 68-69, ComEd Docket No. 07-0566 Order p. 53, and Nicor Gas Docket No. 08-0353 Order p. 26).

Q. Please describe the adjustment to depreciation expense shown on Electric and Gas Schedules C-2.14.

A Both the electric and gas schedules include an adjustment to remove depreciation expense related to previously disallowed electric and gas 2002-2006 plant additions. The adjustment is derived from evidence from project cost disallowances in Docket Nos. 09-0306 – 09-0311 (Cons.). The adjustment includes all projects previously disallowed with the exception of projects that have been retired and not included in test year expense. This adjustment is also discussed below in the Rate Base Adjustments section.

Electric Schedule C-2.14 also includes adjustments to remove depreciation expense on capitalized NESC rework costs and capitalized production retiree costs. These adjustments are described in the Electric only Rate Base Adjustments section of my testimony.

Q. Please describe the Regulatory Debits adjustment shown on Electric and Gas Schedules C-2.15.

A Schedule C-2.15 reflects adjustments for four Regulatory Debits for both AIC electric and gas operations. These adjustments are discussed below.

The first adjustment is to establish a regulatory asset, to be amortized over two years in rates, for the 2011 increase to budgeted Illinois state income taxes due to the change in the state income tax rate from 7.3% to 9.5%. Since state income tax is deductible for federal purposes, the tax rate change results in an increase to state income tax expense and a decrease in federal income tax expense. There is also an impact on current vs. deferred tax expense and accumulated deferred income taxes deducted in Rate Base as a result of the income tax increase. Through this adjustment, AIC seeks recovery of the 2011 expense increase to income taxes as a Regulatory Asset. This adjustment and tax rate increase is discussed further in the testimony of AIC witness Brenda Menke.

The second adjustment reflects AIC's incremental costs for the outside attorneys and consultants and incremental travel and related expense for internal personnel associated with the preparation and processing of the electric and gas services portions of these rate cases. The costs are detailed on the Schedule C-10 and the workpapers in support of Schedule C-10. Total costs are $6,683,517 with 50% assigned to electric and 50% assigned to gas. AIC is proposing to amortize these costs over two years, which is the expected life of rates of these proceedings and is the amortization period approved by the Commission in the AIC's most recent electric and gas rate cases. AIC is also proposing an adjustment to recognize continued annual amortization of previously authorized, but unrecovered, electric rate case costs of $495,230 and gas rate case costs of $559,125 for two years. Prior authorized rate case expenses began being amortized in May 2010 to coincide with new rates from Docket Nos. 09-0306 -09-0311 (Cons.). At the time new rates from this rate proceeding are expected to go into effect in mid to late January 2012, there will still remain three and one-half months of unamortized rate case expense. Reamortizing this expense over two years coincides with the expected period of new rates. Treatment of the unamortized prior authorized rate case expense is consistent with the recognition of similar unamortized expenses in previous AIC rate cases.

The third adjustment reflects the continued amortization of the IP regulatory asset approved by the Commission in Docket No. 04-0294. In that proceeding, which approved the acquisition of IP by Ameren, AIC was authorized to recover up to $67 million of the costs incurred to obtain acquisition related savings over a four year period. In Docket No. 09-0306 – 09-0311 (Cons.), the Commission approved extending the amortization an additional two years in rates.

Similar to prior authorized rate case expense not fully amortized, as discussed above, AIC is proposing to continue to amortize the remaining three and one-half months of unamortized IP regulatory asset costs over the two year expected life of new rates in these proceedings. The adjustment is assigned to electric and gas operations based on IP electric and gas rate base authorized in Docket No. 09-0306 – 09-0311 (Cons.), in accordance with the electric/gas allocation method approved by the Commission in Docket No. 04-0294. The test year 2012 budgeted amortization is subtracted from the adjusted amount, resulting in a reduction to test year expense for amortization of Regulatory Debits.

The fourth adjustment removes from test year amortization expense the credit to expense for the difference between budgeted uncollectibles and the estimated amount of test year uncollectibles to be recovered in rates under the Bad Debt Rider. Since this credit is associated with the true up of bad debts recoverable through the Rider, it is not properly included in establishing electric delivery service or gas base rates revenue requirement.

B. Rate Base Adjustments.

Q. What does the amount of customer advances for construction shown on the workpaper in support of Electric and Gas Schedule B-1 represent?

A. The amount for customer advances for construction represents the balance of cash advances received from customers for the test year based on the simple average of balances as of December 31, 2011 and December 31, 2012, for construction attributable to the Electric and Gas Delivery Services operations. This amount is deducted from Rate Base for both gas and electric operations.

Q. Please describe the adjustment for plant additions previously disallowed on Electric Schedule B-2.1 and Gas Schedule B-2.3.

A. Both the electric and gas schedules include an adjustment to remove previously disallowed electric and gas 2002-2006 utility plant additions. The adjustment is derived from evidence from project cost disallowances in Docket Nos. 09-0306 – 09-0311 (Cons.) and includes all projects previously disallowed with the exception of projects that have been retired and not included in utility plant in service. Each project is documented in workpapers in support of the referenced Schedules.

Q. Please describe the adjustment to the accumulated reserve for depreciation shown on Electric and Gas Schedules B-2.4.

A. Both the electric and gas schedules include an adjustment to remove depreciation reserve amounts related to previously disallowed electric and gas 2002-2006 plant additions, as discussed above, based on project cost disallowance evidence submitted in Docket Nos. 09-0306 – 09-0311 (Cons.). The adjustment includes the depreciation reserve adjustment for all previously disallowed project costs with the exception of projects that have been retired and not included in test year utility plant in service. The second adjustment on Electric Schedule B-2.4 removes 87% of the depreciation reserve impact of test year capitalized NESC rework costs. The third adjustment removes accumulated depreciation associated with capitalized production retiree costs that AIC is not seeking recovery of in these proceedings. These adjustments are described in more detail in the Electric Rate Base Adjustments section of my testimony.

Q. Is AIC proposing an adjustment to rate base for cash working capital?

A. Yes. AIC is proposing an adjustment for cash working capital, calculated using the "Gross Lag" methodology, as explained by Ameren Illinois witness David Heintz. The calculation of Cash Working Capital is shown on Electric and Gas Schedules B-8.

Q. Please explain how cash working capital for purchased gas and purchased power is recovered.

A. Cash Working Capital for purchased gas is recovered in base rates and is included in the calculation shown on Schedule B-8. Cash Working Capital for purchased power is recovered through the Supply Cost Adjustments under Rider PER, as discussed below in the Supply Cost Adjustments section of my testimony.

Q. Please explain how the unadjusted level of accumulated deferred income taxes (ADIT) shown on Schedule B-9 was determined.

A. AIC tracks deferred tax assets and liabilities by temporary difference between book basis and tax basis that gave rise to the deferred tax asset or liability. AIC also tracks the deferred tax assets and liabilities by electric and gas operations. The electric balances are further assigned to a function, such as Electric Transmission, Electric Distribution, or Other. Similarly, the gas balances are either assigned to Gas or Other, with the portion assigned to Electric Delivery Services and Gas operations deducted from Rate Base based on the simple average of December 31, 2011 and December 31, 2012. In accordance with the Commission's Part 285 instructions, an additional adjustment is shown on Schedule B-9 to reflect the proration adjustment shown on Schedule G-7. AIC witness Brenda Menke also discusses in her testimony the impact of recent tax law changes on test year ADIT.

Q. Please explain how the adjustment to ADIT shown on Schedule B-2.5 was determined.

A. Similar to the adjustment described above for accumulated reserve for depreciation, both the electric and gas schedules include three adjustments. The first adjustment to ADIT is for amounts related to previously disallowed electric and gas 2002-2006 plant additions based on project cost disallowance evidence submitted in Docket Nos. 09-0306 – 09-0311 (Cons.). The adjustment includes the ADIT adjustment with the exception of projects that have been retired and not included in test year utility plant in service used to calculate Rate Base. The second adjustment on Electric Schedule B-2.5 removes 87% of the ADIT impact of test year capitalized NESC rework costs. The third adjustment removes ADIT associated with capitalized production retiree costs that AIC is not seeking recovery of in these proceedings. These adjustments are described in more detail in the Electric only Rate Base Adjustments section of my testimony.

Q. On Schedule B-2, you reference an adjustment for Materials and Supplies shown on Electric and Gas Schedules B-2.6. What is represented by this adjustment?

A. AIC has reflected a thirteen month average balance for general materials and supplies allocable to electric and gas operations, and gas inventory. Both thirteen month average balances are net of associated accounts payable in accordance with the methodology agreed to by AIC and Staff in the most recent AIC rate case proceedings. The adjustment represents the restatement of December 2012 ending inventory to the thirteen month average, net of associated inventory remaining in accounts payable.

Q. Have customer deposits been reflected in the Electric and Gas Delivery Services operations Rate Base?

A. Yes. The balance for customer deposits reflects a 13-month average for the test year period December 31, 2011 through December 31, 2012. This amount has been reflected as a reduction to rate base, as shown on Schedule B-1. The adjustment shown on Schedule B-2.7 reflects the difference between the thirteen month average and the December 31, 2012 balance for customer deposits.

Q. Why was a thirteen month average rather than a simple average balance used for material and supplies and customer deposits?

A. The Commission has historically recognized in rates use of a thirteen month average for these Rate Base items due to the fact that they fluctuate from month to month. Therefore a thirteen month average approach is normally used to establish the Rate Base balance rather than a point in time balance or a simple average balance.

Q. Is there an adjustment to rate base for unamortized pre-1971 investment tax credits?

A. No. The balance of unamortized pre-1971 investment tax credits applicable to Electric Delivery Services operations has been fully amortized.

Q. Is Ameren Illinois making an adjustment related to its OPEB liability?

A. No. As discussed below, the per books OPEB liability balance, after adjustments for additional cash contributions to be made in 2011, has not been funded by ratepayers and therefore has not been deducted from Rate Base.

VII. RATE MAKING ADJUSTMENTS – GAS ONLY

A. A. Revenue and Expense Adjustments

Q. Is AIC making an adjustment to eliminate PGA revenue and expense?

A. Yes. The PGA gas charge is the recovery of the cost of natural gas that AIC purchases from suppliers and delivers to customers. These revenues and expenses are the subject of reconciliation proceedings outside of the scope of the instant base rate proceeding. The adjustment eliminates the PGA revenue and expense that is collected through the PGA and is shown Gas Schedule C-2.1.

Q. Are pass-through charges included in AIC's gas revenue requirement?

A. No. Ameren Illinois collects Illinois assistance charges, municipal utility tax charges, public utility/Illinois gas revenue tax charges and ICC gross revenue tax charges from Gas operations customers. These charges are added to customers' bills. AIC is responsible for remitting these charges it collects to the appropriate governmental or non-profit agencies. These charges are removed from AIC's gas revenues and other taxes and have therefore also been eliminated from operating expenses, as shown on Gas Schedule C-2.2. The only revenue requirement impact of pass-through charges is the Rate Base amount associated with changes in cash working capital, resulting from the timing of cash receipt versus payment for these charges.

Q. Please explain the Other Revenue Adjustments shown on Gas Schedule C-2.3.

A. Schedule C-2.3 reflects three adjustments to revenues to remove unbilled revenues, including the portion related to purchased gas, reconcile to billing unit revenues from Schedule E-5 sponsored by AIC witness Karen Althoff, and to increase revenues for franchise costs recoverable as an operating expense through the Franchise Adjustment discussed previously. Unbilled revenue is the estimated revenue accrued for service rendered, but not billed at the end of any accounting period. AIC's billing system uses 21 billing cycles in order to bill customers. Due to cycle billing, Ameren Illinois records unbilled revenue. In order to record revenues at present rates as shown on Part 285, Schedule E-5, the adjustment eliminates the unbilled revenue.

B. Rate Base Adjustments

Q. Please explain the Hillsboro Gas adjustment shown on AIC Gas Schedule 2.1.

A. This adjustment reduces utility plant in service for the value of Hillsboro Gas Storage Field investment that the Commission deemed to not be used in useful in the previous AmerenIP gas rate proceeding. In accordance with the prior Commission Order, a debt only return is included on the disallowed investment component and is shown on Gas Schedule A-2.

Q. Please explain the adjustment for Hillsboro Inventory Pricing shown on Gas Schedule B-2.2.

A. This adjustment eliminates $10,368,000 base gas inventory at the Hillsboro Storage Field based on evidence presented in Docket No. 04-0476 and $2,841,000 base gas inventory at the Hillsboro Storage Field based on evidence presented in Docket No. 07-0585 – 07-0595 (cons.). The Commission has previously determined that these inventory values will be recovered when the Hillsboro Storage Field is retired.

Q. What is the overall effect on AIC's Gas Delivery Services Operation's proposed Rate Base after considering applicable adjustments?

A. For AIC gas, proposed Rate Base is $977,566,000, as shown on Gas Schedule B-1.

VIII. RATE MAKING ADJUSTMENTS –ELECTRIC ONLY

A. Revenue and Expense Adjustments

Q. Has AIC reflected an adjustment to remove NESC related costs from Electric Revenue Requirement?

A. Yes. In the most recent rate order of AIC electric operations in Docket Nos. 09-0306 – 09-0311 (cons.), the Commission disallowed NESC rework O&M and capital costs. The NESC rework program is discussed further in the testimony of AIC witness Ron Pate. In total, 87% of prior 2008 test year costs were disallowed from rate recovery in that proceeding based on an analysis of the Order. For the test year, AIC's budget for NESC costs does not identify the recoverable vs. nonrecoverable portion of these costs. Electric Schedule C-2.3 removes 87% of test year operating expenses based upon the Commission's findings in the prior rate order.

Q. Has AIC made an adjustment to eliminate costs associated with procurement of power from the Electric Delivery Services operating expenses?

A. Yes. Electric Schedule C-2.6 reflects an adjustment to remove from Electric Delivery Services operating expenses the costs associated with the procurement of electric power supply. These costs are included in the Supply Procurement Adjustment detailed on Ameren Exhibit 2.5. My testimony and Ameren Exhibit 2.5 provide the detail for the costs to be recovered through the Supply Procurement Adjustment (SPA), power supply portion of the Cash Working Capital Adjustment (CWC), and the delivery service and power supply portion of Uncollectibles through Rider Purchased Electricity Recovery (PER) or its successor tariff(s). Ameren witness Mr. Heintz supports development of the revenue lag and expense lead for the CWC, and Ameren witness Leonard Jones discusses how these costs will be recovered through power supply rates. In addition, Ameren Exhibit 2.5 also includes the gas base rates and purchased gas portion of Uncollectibles recoverable through Rider S – System Gas Service or its successor tariff(s). Ameren witness Karen Althoff discusses how these costs will be recovered through purchased gas rates.

Q. Please explain the Production Retiree Pensions and Benefits Adjustments shown on Electric Schedule C-2.12.

A. The adjustment shown on Electric Schedule C-2.12 removes the test year pension and post retiree medical benefits costs (OPEBs) for AIC retirees from generating plants associated with the production function. These costs are not recoverable through Electric Delivery Services Rates. The adjustment also removes costs for an allocable portion of AIC management retirees.

Q. Are pass-through charges included in AIC's electric delivery services revenue requirement?

A. No. Ameren Illinois collects Illinois distribution tax and Illinois assistance charges from Electric Delivery Services operations customers. These charges are added to customers' bills. AIC is responsible for remitting these charges it collects to the appropriate governmental or non-profit agencies. These charges are removed from AIC's electric revenues through the functionalization process and have therefore also been eliminated from operating expenses, as shown on Electric Schedule C-2.16. The only revenue requirement impact of pass-through charges is the Rate Base amount associated with changes in cash working capital, resulting from the timing of cash receipt versus payment for these charges.

B. Rate Base Adjustments

Q. Is AIC proposing an adjustment for Capitalized NESC Rework costs?

A. Yes. Ameren witness Mr. Pate discusses the work performed to be in compliance with the NESC. Adjustments have been made to reduce operating expenses and capital costs to remove the portion of the corrective work for previously installed electric distribution facilities included in operating expenses or Rate Base. In the most recent rate order of AIC electric operations in Docket Nos. 09-0306 – 09-0311 (Cons.), the Commission disallowed rework O&M and capital costs. In total, 87% of 2008 test year costs were disallowed from rate recovery in that proceeding based on a review of the Order. For the test year, the AIC NESC budget does not identify these cost based upon recoverable vs. nonrecoverable costs. Therefore, Electric Schedule B-2.2 removes 87% of test year NESC related capital investment based upon the Commission's findings in the prior rate order.

Q. Please describe the adjustment to Capitalized Production Retiree costs.

A. The adjustment shown on Electric Schedule B-2.3 removes the capitalized portion of capitalized pension and post retiree medical benefits costs (OPEBs) from the date of the spin-off of generation assets for CIPS, CILCO, and Illinois Power through the test year. The adjustment considers the portion of capitalized pension and post retiree medical benefits costs (OPEBs) for AIC retirees from generating plants associated with the production function and also removes capitalized costs for an allocable portion of AIC management retirees.

Q. What is the overall effect on AIC's Electric Delivery Services Operation's proposed Rate Base after considering these applicable adjustments?

A. For AIC electric, proposed Rate Base is $1,996,557,000, as shown on Electric Schedule B-1.

IX. ASSET SEPARATION PROJECT

Q. How did AIC determine the appropriate amount of General and Intangible ("G&I") Plant to include in the rate base of the Electric Delivery Services operations?

A. Common G&I plant that supports both the electric and gas businesses is recorded in electric plant accounts on AIC's books and records. Many of the assets recorded in general and intangible plant accounts serve multiple functions supporting both the electric and gas operations and, therefore, cannot be directly assigned entirely to one type of service or the other. AIC retained Concentric Energy Advisors (Concentric) to conduct an Asset Separation Project (ASP) in these rate case proceedings. The purpose of the ASP was to determine the portion of the common general and intangible plant recorded in the electric plant accounts at December 31, 2011 and December 31, 2012 for use in developing average Test Year 2012 plant that should be allocated to the electric delivery services operations for ratemaking purposes. The methodology utilized by Concentric for assigning the accumulated reserve for depreciation to each asset allocated an amount of the reserve to all assets in the study population, including those assets which were determined to be retired but for which the retirements were not recorded as of December 31, 2011 and December 31, 2012. The unrecorded retirements identified and included in the ASP reduced plant in service in the ASP and in Electric Delivery Services operations rate base. The ASP has been developed in a manner similar to the ASP approved by the Commission in prior Ameren Illinois rate proceedings. AIC has used the results of the ASP to assign general and intangible plant, reserve and depreciation expense to both the electric and gas operations, and functionally to the electric lines of business.

Q. Which classifications of assets were specifically examined as part of the ASP?

A. The ASP examined all G&I assets recorded on the AIC's electric books.

Q. Did the ASP include a review of the assets used to support the activities of non-regulated businesses?

A. While the study examined only the G&I assets on the books of the regulated utility, to the extent that an asset was determined to not be used by any regulated line of business, the cost of the asset was assigned, in whole or in part, to either the "Retired" or "Other" classification and would not be reflected in the assets of the regulated businesses.

Q. Why was it necessary to review AIC's assets recorded as G&I plant as part of the ASP?

A. As previously mentioned, all common G&I plant (i.e., plant which is utilized by both AIC's gas and electric businesses) is recorded on the books of the electric business. By reviewing the individual assets, a more appropriate determination can be made as to the value of the assets used to serve each line of business.

Q. Was direct assignment of G&I plant employed?

A. Yes. If an asset was used exclusively by one line of business, the cost of the asset was direct assigned to that business line.

Q. How were costs allocated if direct assignment was not possible?

A. If an asset was used by multiple lines of business, Concentric employed a number of allocation factors that were determined to best represent the usage of the asset by the various lines of business. Multiplying the cost of the asset by the appropriate percentages of the allocation factor would assign the cost of the assets to the various lines of business to reflect the usage of the asset.

Q. If it was determined that the allocation of costs was necessary, what allocators were used?

A. Approximately twelve allocators were used in the ASP. As previously discussed, where possible, assets were direct assigned to the electric production, electric transmission, electric distribution or gas businesses. Where assets were determined to no longer be employed by the electric transmission, electric distribution or gas business, the cost of the asset was “retired”. The retired allocator was not assigned to any line of business. Other allocators employed in the study allocated the cost of assets based upon such factors as 1) the number of customers, 2) the number of employees, 3) the use of one of the AIC’s office buildings, 4) and O&M expenses. O&M expense allocators included allocations between 1) electric transmission, electric distribution and gas (i.e., OMTDG); 2) electric transmission and electric distribution (i.e., OMTD); and 3) electric distribution and gas (i.e., OMDG).

Q. How were the allocation percentages developed for each allocator?

A. Where an asset served only one line of business, 100 percent of the cost of the asset was allocated to that line of business. Where an allocation was employed, the allocation factor was determined based upon actual expense levels per AIC's financial books and records as of September 30, 2010.

Q. Based upon your review of the assets recorded as G&I plant, did you identify any assets which were not used to support the electric transmission, electric distribution or gas lines of business?

A. Yes. Approximately three percent of the costs of the G&I assets were classified as "Retired" or not supporting a regulated line of business.

Q. Was the reserve for accumulated depreciation and amortization assigned or allocated to the appropriate lines of business as part of the ASP?

A. Yes. The reserve for accumulated depreciation and amortization, by account, was allocated using the allocated percentages resulting from the assignment of the assets using the methodology described above.

Q. Please summarize the results of the ASP.

A Ameren Exhibit 2.3 (Corr.) summarizes the results of the ASP. Page 1 presents G&I Plant and the Reserve for Accumulated Depreciation for the 2012 Average Test Year. Page 2 presents similar information at December 31, 2011 and Page 3 presents

December 31, 2012 summary results for the ASP. In calculating test year revenue requirement, the average balances shown on Page 1 are used to calculate Utility Plant and Reserve for Accumulated Depreciation for Electric G&I Plant and Depreciation Reserve included in Jurisdictional Electric and Gas Rate Base shown on Schedule B-1. The Plant percentages shown on Page 1 are also used to assign Electric G&I Test Year Depreciation Expense to lines of business.

As shown on page 1 of the corrected exhibit, as of December 31, 2012, 71.60 percent of the total general and intangible plant assets were assigned to the electric distribution business; 7.85 percent of the G&I assets were assigned to the electric transmission business; 17.62 percent of the assets were assigned to the gas business; and the remaining G&I assets were assigned to other non-regulated lines.

Also, as shown on page 1 of the exhibit, as of December 31, 2012, 72.62 percent of the total general and intangible reserve for depreciation was assigned to the electric distribution business; 7.86 percent of the G&I reserve was assigned to the electric transmission business; 18.12 percent of the reserve was assigned to the gas business; and the remaining G&I reserve was assigned to other non-regulated lines.

X. OPEB LIABILITY

Q. Does AIC have an OPEB liability on its books?

A. Yes. The balance as of September 30, 2010, which coincides with the date of the AIC merger, was $120.515[1] million.

[1] Amount shown is net of $3.588 million additional December 2010 OPEB trust fund contributions attributable to the January – September 2010 nine month review period.

Q. Has recovery of OPEBs in AIC rates been sufficient to fully fund the existing OPEB liability as of September 30, 2010?

A. No. However, in recent AIC rate cases, the full OPEB liability, net of related deferred income taxes, has been reflected as a Rate Base deduction as if ratepayers had provided sufficient funds to fully fund the liability.

Q. Has AIC performed a detailed analysis of ratepayer funded OPEB contributions to assess whether the existing OPEB liability as of September 30, 2010 is in fact fully funded by ratepayers?

A. Yes. Ameren Exhibit 2.4 presents the results of an extensive analysis of OPEB dollars included in AIC rates since the time of adoption of FAS 106, compared to dollars accrued to expenses and dollars placed into the OPEB trust. The analysis has been undertaken to determine whether ratepayers have fully funded the existing liability. That analysis concluded that \$60.253 million of the \$120,515 million liability balance has been recovered from ratepayers with the remaining portion of the liability not recovered through customer rates. As a result of this analysis, AIC has requested authority from Ameren Corporation to contribute additional funds to the OPEB trust. The analysis performed is discussed in more detail below.

Q. Has AIC received authority to make this additional contribution to the OPEB trust?

A. Yes. The Company initially developed its test year schedules and procured Board approval for an additional OPEB contribution based on a preliminary estimate of the ratepayer-funded portion of OPEB liability at \$100 million. The Company subsequently calculated the ratepayer-funded portion of OPEB liability to be approximately \$60 million. As Mr. Nelson indicates in his direct testimony, the Board has approved - and the Company is committed to - funding the ratepayer-funded portion of the OPEB liability, up to $100 million. The additional funding of $100 million was reflected in the AIC 2011 budget and incorporated into Towers Watson's latest actuarial forecast for 2011 cash contributions into the OPEB trust. The contribution amount made by the Company to fund the ratepayer-funded portion of OPEB liability, although it would not impact rate base, would affect the test year level of OPEB expense.

Q. Has AIC presented a detailed analysis of ratepayer funding in prior rate cases, since implementation of FAS 106?

A. No. This is the first rate case that the AIC has submitted detailed evidence in direct testimony analyzing ratepayer funding since implementation of FAS 106. Thus, this is the first opportunity for the Commission to address historical funding and contribution levels that date back to implementation of FAS 106, to assess whether it is appropriate to recognize the test year OPEB liability, net of related ADIT, as a deduction to Rate Base.

Q. Please explain the accounting for OPEBs that gives rise to a liability on the books of the AIC.

A. Prior to 1991, the AIUs accounted for post employment benefits costs on a cash "pay as you go" basis. In 1991 for AmerenCILCO and 1992 for AmerenCIPS and AmerenIP,[2] Financial Accounting Standards Statement 106 was implemented. This statement required the recognition of post employment benefits costs (also referred to as

[2] FAS 106 was issued in December 1990. Utilities were required to implement FAS 106 no later than calendar year 1993.

PBOPs or OPEBs) on an accrual basis over the service life of employees. OPEB accruals are entered as a debit, or increase, to expense, with a credit, or offsetting increase in the associated OPEB balance sheet liability. Funding of the OPEB liability is discretionary on the part of the utility. The AIC legacy utility funding policies varied prior to integration into Ameren. In general, AmerenIP historically funded the liability based on ratepayer supplied funds rather than expense accruals. After the merger with Ameren, the funding policy changed to align with expense accruals without consideration of whether such accruals were aligned with rate recovery. Historically, since the merger with Ameren, CIPS has generally funded OPEB liabilities based on expense accruals without consideration as to whether such accruals were aligned with rate recovery of OPEB costs. CILCO generally funded OPEB expense accruals until 1998, even though no source of ratepayer funding existed for CILCO electric, since there had been no general rate case filings for CILCO's electric operations since 1981. Thereafter, funding was limited to gas only based on a commitment made to the Commission in CILCO's 1990 gas rate. After acquisition by Ameren, funding was aligned with expense accruals.

Q. What factor has led to an OPEB liability on the books of the AIC?

A. The OPEB liability existing on the books of the AIC is the difference between FAS 106 expense accruals, giving rise to existence of the liability, and funding of the liability with cash contributions, which reduces the liability. Since FAS 106 is an accounting pronouncement that follows accounting rules for accrual of expense, utilities are required to record to expense an amount for any given period that will likely if not always vary from the amount recovered in rates. To the extent cash contributions are not sufficient to match, or offset, the level of expense accruals, an OPEB liability will exist on the books of the utility.

Q. Would it have been possible for the entire OPEB liability existing as of September 30, 2010 to fully represent ratepayer-supplied OPEB funds?

A. It is possible that all, some, or none of the liability on the books of AIC could have been funded by ratepayers because the liability is based on FAS 106 actuarially determined expense and the existence of a liability is a function of expense accruals net of cash contributions into the OPEB trust. If for example, expense accruals were comparable to OPEB recovery in rates, an existing per books liability would likely be fully funded by ratepayers. On the other hand, if OPEB costs recovered in rates have been inadequate to match the level of cash contributions placed into the trust, then none of the liability would be funded by ratepayers because in this example contributions would have exceeded cash collections from ratepayers, and the utility would have had to find other funding sources for the ratepayer funding shortfall.

Q. Did AIC seek to determine whether in fact the OPEB liability was ratepayer funded?

A. Yes. Since the ratepayer funded portion, if any, is not known without undertaking an extensive analysis of OPEB expense included in rates compared to expense accruals and cash contributions, AIC undertook such an analysis. As discussed more fully below, the analysis indicated that for CIPS, ratepayer supplied funds exceeded cash contributions and for both CILCO and IP, ratepayer funds were inadequate to fully fund the per books liability.

Q. Does AIC control ratepayer-supplied OPEB funds?

A. Yes. All funds received from ratepayers are commingled with receipt of other funds. Funds received from ratepayers are not placed into separate accounts and earmarked to pay different expense items. To the extent AIC does not place funds equivalent to or greater than the ratepayer-supplied amounts into the OPEB trust funds, AIC agrees that the electric delivery service and gas portion of the difference, net of associated ADIT, should be treated as a rate base deduction. As a result, AIC has committed to funding the ratepayer supplied portion of the OPEB liability based on the extensive analysis of ratepayer supplied funds and cash contributions since time of adoption of FAS 106.

Q. Does the existence of an OPEB liability represent a cost free source of capital?

A. Only to the extent that the ratepayers have supplied such funds. As summarized on Ameren Exhibit 2.4 and as discussed below, ratepayers have funded a large portion of the funds giving rise to the OPEB liability on the books of AIC.

Q. Please explain Ameren Exhibit 2.4.

A. Ameren Exhibit 2.4 presents the results of the analysis of ratepayer supplied OPEB funds compared to FAS 106 expense accruals and cash contributions. Schedule 1 summarizes the OPEB liability per books and the amount funded by ratepayers, net of accumulated deferred income taxes. Schedule 2 summarizes the OPEB in rates by docket number and provides the rate per kwh or rate per therm determined based on the level of OPEBs in rates divided by authorized kwh and therms for electric and gas rate orders, respectively. In applying OPEBs in rates to actual customer billing units, residential rate reductions due to the electric deregulation law have been considered in determining actual collections from ratepayers. Schedule 3 presents, by legacy utility, the accumulated per books OPEB liability for each year since adoption of FAS 106. The per books liability is comprised of three components: (1) increase to the liability for expense accruals; (2) decrease to the liability for contributions into the OPEB trust fund; and (3) increase or decrease for other activity such as correcting or adjusting journal entries and retiree copayments. Also presented on Schedule 3 for each legacy utility is the OPEB liability based on ratepayer supplied funds. The calculation of the ratepayer liability holds constant the level of cash contributions into the OPEB trust fund and other activity to isolate the change in the liability per books for ratepayer supplied funds vs. accounting expense accruals. The calculation of the accounting and ratepayer liability balances by legacy utility from the date of adoption of FAS 106 through September 30, 2010 are presented on Schedule 3. The sum of the three legacy utility liability balances per books and per rates are combined and presented on Schedule 1.

Q. Please explain the ratemaking recognition for OPEB expense.

A. The Commission has consistently recognized FAS 106 expense as a component of revenue requirement in general rate case orders issued at or near the time of implementation of FAS 106 by the utilities. Therefore, of the six AIC electric and gas utilities, only CILCO electric[3] did not have some level of FAS 106 expense reflected in rates from time of adoption until 2007. Thus, for CILCO electric the existence of a fully funded ratepayer liability is impossible.

[3] CILCO electric did not have a general rate increase from 1981 until 2006 with rates including some level of OPEB costs effective January 2007.

Q. Please discuss the analysis performed to determine what portion of the CIPS legacy utility liability existing at September 2010 is funded by ratepayers.

A. Since CIPS implemented FAS 106 in 1992, I conducted an analysis of the OPEB liability per books and in rates from 1992 through September 2010. Funding for both CIPS electric and gas operations were initially established in a 1991 rate case Docket No. 91-0193. The amount of OPEBs in rates for electric operations was $15.2 million in total with $11.787 million attributed to electric operations. The electric amount was not reset in a general rate case filing for CIPS' electric operations until 2007. The amount of OPEBs in rates for gas operations was $3.413 million and this amount was not reset in a general rate case filing for CIPS' gas operations until 1998. Due to customer growth, the amount actually collected from ratepayers exceeded $15.2 million from 1993-1998 when CIPS gas rates were reestablished in Docket No. 98-0545. Ratepayer collections exceeded $10 million per year for each subsequent year until new electric rates were established effective January 2007. Except for only one year (1994), ratepayer collections exceeded trust fund contributions each year. As stated earlier, if ratepayer funds equal or exceed cash contributions into the OPEB trust, which is the case for CIPS, then the per books OPEB liability, to the extent one exists, is fully funded by ratepayers. In this specific example, ratepayer funding consistently exceeded cash contributions into the trust. Thus, while the OPEB liability per books is only $11.033 million, the ratepayer funded liability balance for the CIPS legacy utility is $87.563 million, as shown on Schedule 3, Page 1. To determine the combined AIC OPEB liability, the entire $88 million liability has been netted with CILCO and IP.

Q. Please discuss the analysis performed to determine what portion of the CILCO legacy utility liability existing at September 2010 is funded by ratepayers.

A. Since CILCO implemented FAS 106 in 1991, I conducted an analysis of the OPEB liability per books and in rates from 1991 through September 2010. While some level of OPEBs was included in rates for CILCO, they were only for gas operations. For CILCO electric operations, there was no general increase in rates from 1981 until new rates went into effect in January 2007 from Docket Nos. 07-0585- 07-0590 (Cons.). OPEBs collected from CILCO gas rates totaled less that $2 million per year from Docket Nos. 90-0040 and 94-0040 until 2003, when new gas rates were established for CILCO in Docket No. 02-0837. Cash contributions into the OPEB trust, however, were in the $6 million to $9 million range for most years, as shown on Schedule 3, Page 2. Since OPEB funds collected from ratepayers were inadequate to fully fund cash contributions, it is impossible for the entire per books OPEB liability to be funded by ratepayers. As a result, while the OPEB liability per books is $63.976 million, ratepayers have materially underfunded OPEBs relative to the level of cash contributions placed into the OPEB trust, meaning that the utility has been required to find other sources of funds for a larger portion of these cash contributions. Since ratepayers' funds have been inadequate, an OPEB asset exists that AIC is entitled to earn a return for CILCO on a stand alone basis. The asset balance attributable to CILCO is $52.982 million, as shown on Schedule 3, Page 2. To determine the AIC OPEB net liability, the $53 million OPEB asset is netted against the $88 million liability for CIPS and the IP liability balance discussed below.

Q. Please describe the analysis of ratepayer supplied OPEB funds conducted to determine what portion of the IP legacy utility liability existing at September 2010 is funded by ratepayers.

A. I conducted an analysis for IP only for the period from 2005 through September 2010 due to the fact that IP had historically funded the OPEB liability based on ratepayer supplied funds and began recovering OPEBs in rates at or near the time of adoption of FAS 106. At the end of 2004, IP only had a liability balance on its books of $2.036 million. Of that amount, IP had determined that the ratepayer supplied portion of that liability was $565,000 and therefore funded that amount in 2005, leaving an unfunded per books balance of only $1.471 million. With the acquisition by Ameren, the OPEB funding strategy changed from ratepayer funding to an expense accrual funding approach. As shown on Exhibit 2.4, Schedule 3, Page 3, a ratepayer funding shortfall existed in 2005 and 2006 when IP recorded over $43 million of expense but recovered only about $15 million in rates. With new electric rates taking place effective January 2007, ratepayer supplied funding was adequate to cover FAS 106 expense for the subsequent period of review. In summary, from 2005 through September 2010, the IP analysis concluded that of the additional per books liability of $45.507 million realized, $25.671 million was funded by ratepayers.

Q. Please summarize the results of your analysis for the AIC legacy utilities.

A. The total per books OPEB liability is $120.515 million. The ratepayer funded OPEB liability balance is $60.253 million. AIC has concluded that none of the remaining liability should be reflected as deduction to Rate Base, after accounting for the commitment to fund the ratepayer portion of the liability.

XI. MERGER COSTS AND BENEFITS

Q. What merger integration and process optimization costs and savings are reflected in the test year?

A. As discussed by Ameren witness Mr. Nelson, AIC has included in the test year approximately $4.0 million of O&M savings and $2.3 million of O&M costs related to the merger integration/process optimization study. In addition, AIC has included in test year rate base approximately $780,000 of capital cost savings and $3.0 million of capital costs related to the merger integration/process optimization study. These costs and savings, as discussed in more detail by Ameren witness Mr. Mazurek, were generally determined through a merger-integration study AIC conducted, with assistance from Accenture LLP, a consulting firm.

Q. Please describe how the test year level of merger costs was established.

A. Merger costs included in the AIC forecast total $9.315 million. Ameren witness Mr. Mazurek discusses in detail the implementation of AIC merger initiatives in his testimony.

Q. Please explain further the proposed rate-making treatment for these costs and savings.

A. AIC's rate-making treatment reflects the amortization over a four year period for the merger costs in the amount of $2.329 million per year. This four year amortization period recognizes that savings from these initiatives will continue to accrue to ratepayers in future rates. Also, the four year amortization period is consistent with the amortization period for merger costs established by the Commission in Docket No. 04-0294 related to the IP reorganization. With regard to merger savings, AIC has reflected estimated test year savings from 2011 and 2012 merger initiatives in the 2012 test year forecast and proposes that future savings from merger initiatives would accrue to ratepayers in subsequent rate cases, net of related costs incurred to realize such savings.

XII. SUPPLY COST ADJUSTMENTS

Q. Are you also providing testimony in support of certain costs related to AIC's electric power supply and purchased gas?

A. My testimony and Ameren Exhibit 2.5 Schedules 1 through 4 provide the detail for the costs to be recovered through the Supply Procurement Adjustment (SPA), power supply portion of the Cash Working Capital Adjustment (CWC), electric power supply portion of the Uncollectibles Adjustment, and purchased gas portion of the Uncollectibles Adjustment.

Q. Please describe the SPA Adjustment shown on Schedule 1.

A. The adjustment summarizes the test year personnel and related costs incurred to procure the supply of power. As discussed earlier in my direct testimony, the Electric Delivery portion of these A&G expenses was removed from operating expense. AIC is also proposing an adjustment to recognize continued annual amortization of previously authorized, but unrecovered, supply procurement costs of $97,446 over two years, which is the expected life of new rates to be authorized in these proceedings. Ameren witness Leonard Jones further discusses application of the SPA adjustment in development of a Rider PER factor.

Q. Please describe the adjustment for CWC related to purchased power shown on Schedule 2.

A. Schedule 2 develops a CWC percent using a purchase power cost of $1,000,000 for illustrative purposes, 21.25 Net Lag Days, and the equity and debt components of AIC's proposed capital structures. The 21.25 Net Lag Days are sponsored by Mr. Heintz in his direct testimony based on 49.75 Revenue Lag days and 28.50 Expense Lead Days. With regard to the equity and debt components, a CWC requirement is determined by calculating a return on the equity (grossed up for income taxes) and debt components of AIC's electric operations proposed capital structures to determine total revenue requirement applicable to the power supply portion of CWC. As shown on Schedule 2, the resulting CWC percentage is 0.80%. Mr. Jones, in his direct testimony, discusses how this percentage should be applied in determination of the Rider PER factor for CWC.

Q. Please describe the adjustment for Electric and Gas Uncollectibles.

A. Electric and Gas Uncollectibles at present rates include only the portion applicable to Electric Delivery Services operations, with the remainder recovered with power supply. Gas Uncollectibles at present rates include only the portion applicable to Gas Base Rates operations, with the remainder recovered with purchased gas. The derivation of the Electric Delivery Services portion of uncollectibles is a percent based upon test year electric uncollectibles expense divided by total electric test year revenues as shown on Electric Schedule C-2.5. The derivation of the Gas Base Rates portion of uncollectibles is a percent based upon test year gas uncollectibles expense divided by test year gas revenues as shown on Gas Schedule C-2.7. Schedule 3 identifies the amount of uncollectibles attributable to electric delivery service and electric power supply and also identifies the amount of uncollectibles attributable to gas base rates and purchased gas. AIC witness Leonard Jones further delineates customer class responsibility for the

Electric delivery service and power supply uncollectibles. Ameren witness Karen Althoff further delineates customer class responsibility for the Gas base rates and purchase gas uncollectibles.

XIII. ORIGINAL COST DETERMINATION

Q. Is AIC seeking an original cost determination?

A. Yes.

Q. What is the relevance of an original cost determination?

A. Certain requirements for preservation of records are associated with or related to an original cost determination. For example, certain records must be retained for a certain number of years after an original cost determination

Q. What do you recommend regarding an original cost determination?

A. I recommend that the Commission conclude and make a finding in the Order in this proceeding that AIC's plant balances as of December 31, 2009 reflected on Ameren Illinois Electric Schedule B-5 and Ameren Illinois Gas Schedule B-5 is approved for purposes of an original cost determination.

XIV. CONCLUSION

Q. Does this conclude your revised direct testimony?

A. Yes, it does.

XV. APPENDIX

STATEMENT OF QUALIFICATIONS
RONALD D. STAFFORD

I graduated from Ball State University in Indiana with a Bachelors of Science in Accounting and have a Masters in Business Administration with concentrations in Management and Finance from Southern Illinois University at Edwardsville. I am licensed as a Certified Public Accountant in Illinois and a member of the Illinois CPA Society.

A. Prior to joining Ameren Corporation in October 2004, I was continuously employed for over 23 years at American Water, a water/sewer utility service provider operating in more than 20 states. My responsibilities at American Water primarily involved the areas of accounting, budgeting and forecasting, financial analysis, rates, and regulation. My last position at American Water was Director of Rates and Revenue, Assistant Treasurer, and Assistant Comptroller, on behalf of the Illinois and Iowa region companies.

B. I have previously testified in the most recent three electric delivery services rate cases and the most recent two gas rate cases for the Ameren Illinois Utilities in support of requested revenue requirement, in numerous water and sewer accounting, rate, regulatory, and acquisition related matters before this Commission. Also, I have previously presented testimony before the Iowa Public Utilities Board, Missouri Public Service Commission, and Public Utilities Commission of Ohio on various accounting, rate, and regulatory matters.

C. Effective December 1, 2010 I was promoted from Managing Supervisor to Manager of Regulatory Accounting for Ameren Illinois Company. As Manager of Regulatory Accounting, my responsibilities primarily involve preparation of cost of service studies and development of accounting exhibits and testimony in support of applications for rate changes for the Ameren Corporation's ("Ameren") electric and gas utilities in Illinois. I also provide assistance to the Director of Regulatory Policy and Rates regarding timing and need for rate cases and effect on financial forecasts of proposed rate changes, and conduct studies to determine the effect on filed tariffs and operating income of various accounting policies and practices, including analysis of results and suggestions for appropriate changes. I also prepare or assist in the preparation of regulatory required reports and exhibits primarily for the various regulatory commissions, and provide data, answer inquiries, and assist representatives of regulatory commissions in conducting their audits and reviews.