

ILLINOIS COMMERCE COMMISSION

DOCKET Nos. 11-0279, 11-0282 (Cons.)

REBUTTAL TESTIMONY

OF

RONALD D. PATE

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

July 26, 2011

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7 **I. INTRODUCTION**

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

9 **A. My name is Ronald D. Pate. My business address is 370 South Main Street, Decatur,**
10 **Illinois 62523.**

11 **Q. Are you the same Ronald D. Pate who provided direct testimony in this proceeding?**

12 **A. Yes, I am.**

13 **II. PURPOSE OF TESTIMONY**

14 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

15 **A. The purpose of my rebuttal testimony is to respond to the testimony of Illinois Commerce**
16 **Commission Staff (Staff) witnesses, Ms. Dianna Hathhorn, Mr. Gregory Rockrohr, and Mr.**
17 **Yassir Rashid, as well as People of the State of Illinois and Citizens Utility Board (AG/CUB)**
18 **witness, Mr. David Efron.**

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

20 **A. Yes, I am sponsoring the following exhibit:**

21 Ameren Exhibit 26.1: Deferred/Cancelled and Added Projects

22 **III. RESPONSE TO STAFF WITNESS, MS. HATHHORN**

23 **Q. Ms. Hathhorn recommends an adjustment to normalize the expense of substation**
24 **painting. The expense is included in the test year under Liberty Audit recommendation**
25 **Rec. VI 23 - Correct substation paint deficiencies. Does AIC oppose this adjustment?**

26 **A.** No. AIC's acceptance of this adjustment is recognized in the rebuttal revenue
27 requirement schedules sponsored by AIC witness Mr. Ronald Stafford.

28 **Q. Ms. Hathhorn also recommends an adjustment to disallow capital costs to**
29 **implement three recommendations of the Liberty Audit. What is the rationale for her**
30 **proposed disallowance?**

31 **A.** She believes the projects associated with these costs will not be placed in-service prior to
32 December 31, 2012. The three Liberty recommendations are (1) Rec. V-11B2 - Determine
33 conductor galloping corrective measures; (2) Rec. V-21 - Develop a common and up-to-date
34 engineering manual for the entire AIC territory; and (3) Rec. V-30B - Meet all distribution-
35 transformer damages curves for downstream coordination.

36 **Q. Does AIC agree with her recommendation to disallow the capital costs for these**
37 **three Liberty recommendations?**

38 **A.** No. Ms Hathhorn is correct that certain Liberty recommendations have an "ending date"
39 in 2013. But capital dollars for these projects have been allotted in 2012 and 2013, and assets
40 will be placed in service in both 2012 and 2013. Even though the recommendation may not be
41 fully implemented until 2013, the capital dollars allotted for 2012 associated with these

42 recommendations are for work to be completed in 2012. The "ending date" for a particular
43 recommendation is not equivalent to the in-service date of the assets. Nor does the "ending date"
44 of a recommendation determine when assets will be used and useful. The work planned for the
45 test year associated with these recommendations will be completed in 2012, as the assets are
46 deemed used and useful. The usefulness of assets placed in-service in 2012 is not dependant on
47 the work that will still need to be completed in 2013.

48 **Q. Can you provide a specific example?**

49 **A.** Yes. For instance, the work planned for 2012 for recommendation V-30B will consist of
50 three moderate-sized substation projects and about one hundred smaller substation and
51 distribution circuit changes. The items will be either completed on standing work orders or
52 specific projects with an in-service date earlier than December 31, 2012. This particular
53 recommendation would require AIC to complete similar work in 2013. Again, only the costs
54 associated with the work done in calendar year 2012 are included in test year rate base. The
55 portion of work that will be completed in 2012 will be used and useful, independent of additional
56 work that will be performed in 2013 to implement the entirety of this recommendation

57 **Q. Can the same be said for the capital costs associated with Rec. V-21 and Rec. V-**
58 **11B2, namely that work planned for the test year for these recommendations will be placed**
59 **in service in 2012?**

60 **A.** Yes. Over \$1.2 million will be spent in calendar year 2012 completing work related to
61 the galloping conductor recommendation (V-11B2). AIC will not spend that amount of dollars
62 in a single location, but will be correcting galloping situations on a number of circuits throughout
63 the state; each will be put into service in 2012 based on each individual circuit projects'

64 completion date. For the Engineering Manual recommendation V-21, time spent on this
65 recommendation will be charged as engineering indirect overhead and placed in service in 2012
66 according to the same schedule as non-Liberty engineering indirect overhead. As with
67 recommendation V-30B, the dollars in the test year associated with these recommendations
68 relate to capital work that will be placed in service in 2012.

69 **Q. Did any other Staff witnesses testify on the prudence or used and usefulness of the**
70 **test year capital costs to be spent on Liberty projects?**

71 **A.** Yes. Staff witness Ms. Mona Elsaid specifically reviewed all of the proposed Liberty
72 capital projects and concluded that AIC's investments to implement the Liberty Audit
73 recommendations are prudent and expected to be used and useful. She does not recommend any
74 disallowances.

75 **IV. RESPONSE TO STAFF WITNESS, MR. ROCKROHR**

76 **Q. What disallowances does Mr. Rockrohr recommend?**

77 **A.** Mr. Rockrohr proposes to disallow 100 percent of AIC's forecasted costs to correct
78 existing NESC violations on AIC's distribution circuits. AIC asked for recovery of only 13
79 percent of its test year NESC corrective costs based on the amount of costs recovered in its last
80 rate case, Docket Nos. 09-0306 (Cons.). Mr. Rockrohr's disallowance equates to a further
81 decrease of \$328,247 from test year operating expense and an additional \$174,483 disallowance
82 from test year plant in service with related adjustments to depreciation expense, accumulated
83 depreciation and accumulated deferred incomes taxes.

84 **Q. Mr. Rockrohr suggests that AIC has not been separately tracking NESC corrective**
85 **costs as required by prior Commission rate case orders. Do you agree?**

86 **A.** No. AIC is in compliance with the Commission's prior orders related to NESC corrective
87 costs. Beginning in 2009, AIC established projects to track separately costs incurred in
88 correcting existing NESC violations identified in connection with the circuit inspections set forth
89 in the Company's NESC Corrective Action Plan. The Company now budgets and books actual
90 expenses for these NESC Corrective Action Plan costs, utilizing these project work orders. This
91 tracking meets the requirements established by the Commission in Docket Nos. 07-585 (Cons.).
92 and Docket Nos. 09-0306 (Cons.).

93 **Q. Does AIC oppose Mr. Rockrohr's adjustment?**

94 **A.** No. To limit the number of contested issues, AIC will not oppose Mr. Rockrohr's
95 adjustment to remove the remaining 13 percent of NESC corrective costs from test year costs.

96 **V. RESPONSE TO STAFF WITNESS, MR. RASHID**

97 **Q. What did Mr. Rashid review in connection with this proceeding in his role as**
98 **Electrical Engineer for the Commission?**

99 **A.** Mr. Rashid reviewed information that AIC provided on forty specific electric capital
100 projects. He also reviewed AIC's test year operation and maintenance expenses in ICC
101 Accounts 580 through 598.

102 **Q. Does Mr. Rashid recommend any disallowances to AIC's electric operation and**
103 **maintenance expense?**

104 A. No. Mr. Rashid only asked that AIC offer rebuttal testimony explaining variations in
105 electric distribution expenses from year to year. In my direct testimony, I outlined the activities
106 planned for the test year that were causing an incremental increase to electric distribution
107 expense. My testimony in response to Mr. Effron's proposed adjustments further explains the
108 necessary work that is primarily causing the increase in electric distribution expense for the test
109 year. In addition, AIC witness Mr. Getz identifies the cost drivers for the increase in electric
110 distribution expense in the last two prior test years and the current test year. That evidence
111 largely explains the operational reasons for the fluctuation in electric distribution spending in test
112 years and non-test years since 2005.

113 **Q. Does Mr. Rashid recommend any disallowances to AIC's proposed rate base based**
114 **on his review of test year electric capital projects?**

115 A. Yes. He recommends that the Commission disallow costs associated with two specific
116 work orders: \$1,015,250 associated with WO 26669 and \$2,122,864 associated with WO 26577.

117 **Q. What is Mr. Rashid's basis for these proposed disallowances?**

118 A. He concludes that the projects will not be used and useful within the test year. He notes
119 that WO26669 has been deferred to 2020. And he does not believe that WO 26577 will be
120 placed in service during the test year.

121 **Q. Does the Company agree that these specific projects likely will not be placed in**
122 **service during the test year?**

123 A. Yes. These specific projects originally had estimated in-service dates for 2012 at the
124 time the forecasted test year was prepared. AIC, however, no longer expects that these specific
125 projects will be completed by the end of 2012.

126 **Q. Why is the work associated with WO 26669 being deferred to 2020?**

127 **A.** This project is to install two additional 69 kV capacitor banks at the North Champaign
128 substation. This project was originally created to meet load requirements established by NERC,
129 should a Category C3 event occur. It is being deferred because an updated load analysis showed
130 that the affected load magnitude no longer met the criteria for which this mitigation effort was
131 initially created.

132 **Q. Why is the work associated with WO 26577 likely not to be completed by 2012?**

133 **A.** Capital dollars were budgeted to WO 26577 to address software modifications that would
134 be required to address amendments to provisions in the Illinois Administrative Code related to
135 credit and collections currently being litigated in Docket No. 06-0703 (Part 280 Proceeding). In
136 response to Staff data request YMR 1.01 (dated April 8, 2011), the Company indicated that this
137 project will be completed 18-24 months following the project start date. Because of the
138 regulatory uncertainty of when a Final Order will be issued in the Part 280 proceeding and what
139 the Final Order may recommend, the Company will not start this project until a Final Order has
140 been entered. As Mr. Rashid notes, the Part 280 Proceeding has been going on for four and half
141 years. At the time of the filing of AIC rebuttal, it is my understanding that Commission still has
142 not issued a Final Order in that docket. Although AIC expects to incur costs implementing this
143 project in 2012 once a Final Order is issued, the Company no longer expects the project to be
144 completed in 2012.

145 **Q. At the time that AIC included these two specific projects in its test year forecast, did**
146 **the Company expect to complete these projects in 2012?**

147 **A.** Yes. AIC initially expected – and had budgeted – to complete the work associated with
148 these projects in 2012. In the case of the two additional 69 kV capacitor banks at the North
149 Champaign substation, an updated load analysis performed after the Company originally
150 budgeted for this project revealed that the project was no longer necessary for implementation in
151 2012. In addition, the unexpected delay in receiving a Final Order in the Part 280 Proceeding
152 has made full implementation of WO 26577 likely to fall outside of the test year.

153 **Q.** **Mr. Rashid asked that AIC state in rebuttal whether it “included other projects**
154 **with completion dates after the end of 2012 in its proposed rate base.” Did AIC include**
155 **any projects in its proposed rate base with original completion dates after 2012?**

156 **A.** No. AIC did not include any capital projects with completion dates after 2012 in its
157 proposed rate base. The Company's response to Staff data request DLH 11.03 (dated April 13,
158 2011), which was sponsored by AIC witness Mr. Michael Getz, shows that all specific projects
159 included in the forecast for 2011 or 2012, including these two projects, had original in-service
160 dates prior to the end of 2012.

161 **Q.** **Is it unusual for a project to be deferred or cancelled once it has been included in**
162 **AIC's approved annual budget?**

163 **A.** Not necessarily. AIC operates to an approved overall budget in any given year, not a set
164 list of projects and work orders at approved amounts. As part of the standard business practice,
165 the Company regularly reviews its capital budgets after approval. As priorities change, specific
166 projects placed in that budget and planned for that year may be deferred or cancelled for a
167 variety of reasons, such as customers deciding not to pursue the work, new load analysis
168 indicating a project is not necessary, higher priority work evolves, or government relocation

169 work is requested. Storm costs, if higher than normal, may also cause the budgeting for certain
170 activities to be re-prioritized. In addition, design changes, permit requirements, land or right-of-
171 way acquisitions, cost recovery and regulatory uncertainty are all factors that can cause the
172 timetable for completion of a specific project to be postponed or extended. Likewise, specific
173 projects may also be expanded, accelerated or added to the budget to address reliability concerns
174 or changed circumstances. Dollars may also shift from specific projects to standing work orders
175 and vice versa. It would be imprudent for a utility to micromanage its operations in such a
176 manner that it spent only the budgeted amount for each project – no more and no less. Operating
177 a utility – just like any other business – requires flexibility in how approved budgeted capital
178 dollars are ultimately spent at the division and the project level. Without that flexibility in
179 allotting and reallocating approved funding, a utility cannot adequately react to changes in
180 priorities so that it can continue to provide a level of service that remains safe and reliable.

181 **Q. At the time of the filing of the Company's rebuttal, are any other specific projects**
182 **included in test year rate base being considered for deferment or cancellation?**

183 **A.** Yes. Some other specific projects are under consideration for deferral or cancellation,
184 while others are expected to be added to the 2012 budget or to have increased funding. Ameren
185 Exhibit 26.1 identifies the handful of specific projects included in test year rate base and initially
186 scheduled to be completed in 2012 that are currently under consideration for deferment and
187 cancellation. In total, 16 projects that were included in test year rate base in the amount of \$7.25
188 million are being considered for deferment or cancellation, including the two projects identified
189 by Mr. Rashid. As the Company's response to Staff data request DLH 11.03 indicates, this

190 represent 2.4 percent of the approximately \$298 million in gross plant additions AIC intends to
191 place in service during calendar year 2012.

192 **Q. You mentioned that AIC has identified new specific projects in 2011 or 2012 or an**
193 **increase in spending for current projects in rate base. Please elaborate.**

194 **A.** As discussed in my direct testimony, the Integrated Spending (ISP) Tool helps prioritize
195 projects based on changing needs. Criteria for this prioritization include variables such as safety,
196 reliability, employee development, and business process improvement. On a monthly basis
197 following this ranking, a subset of AIC leadership called the Central Review Committee (CRC)
198 meets to review the list. Projects are funded based on the highest priority. This ongoing review
199 process ensures alignment between available funds and projects which support safe and reliable
200 service. Necessary new projects may be identified. Dollars may be funneled from specific
201 projects being deferred or cancelled into other specific projects that require additional funding or
202 into standing work orders. At the time of the Company's rebuttal, a number of additional
203 specific projects already have been identified as work that needs to be done in 2011 or 2012.
204 Ameren Exhibit 26.1 lists the additional projects being planned for 2012 at this time. In total, 13
205 projects in the amount of \$8.79 million have been identified as additional necessary work for
206 2011 or 2012 that were not included in the Company's forecasted test year.

207 **Q. What is the net effect of the addition of certain projects and the deferral of others?**

208 **A.** There is no material effect to test year rate base. The difference between the capital
209 additions that are moving out of the test year and the capital additions coming into the test year is
210 only \$1.54 million. The Company still intends to spend – and manage its operations to – the
211 aggregate amount of capital dollars approved in the budget for 2012. Any shifting of dollars

212 amongst specific and blanket projects based on changed priorities does not mean that the
213 Company will not spend the overall approved budgeted capital dollars in the test year. Nor does
214 it mean that AIC will place in service less plant additions than what were included in the test
215 year. The Company's response to Staff data request DLH 11.03 shows that, as of April 2011,
216 total estimated capital spending for gas and electric distribution plant additions to be placed in
217 service in 2011 or 2012 remained on target with the rate case forecast.

218 **Q. How does AIC's actual to budget capital spend compare in recent years?**

219 **A.** AIC typically spends, in the aggregate, the capital costs approved in the Company's
220 annual budget. Mr. Getz in his direct testimony (Ameren Ex. 9.0E, ll. 187-202) indicates that,
221 for total capital expenditures on average from 2007-2009, overall electric and gas actual
222 expenditures were approximately 102% of budgeted expenditures.

223 **Q. Does AIC agree with Mr. Rashid that the costs budgeted for WO26669 and WO**
224 **26577 should be disallowed in their entirety?**

225 **A.** No. The net change to test year plant additions will be non-material. Again, the relevant
226 inquiry is whether the Company has provided sufficient evidence that it will place into service
227 the overall level of capital expenditures provided in the forecast. That two specific projects may
228 no longer be expected to be used and useful by the end of 2012 does not mean the costs included
229 in the forecast for these projects should be disallowed. Other projects not included in the
230 original forecast will be completed. Other current projects will require more funding.

231 **Q. If any adjustment to proposed rate base were made, what would be the appropriate**
232 **adjustment?**

233 A. The appropriate adjustment, if any, would be to adjust rate base by the difference
234 between the capital additions moving out of the test year and the capital additions moving into
235 the test year. Otherwise, Staff's adjustment would be completely one-sided insofar as rate base
236 would be adjusted to exclude projects that will not be completed during the test year, but newly-
237 identified projects would not be included.

238 VI. **RESPONSE TO AG/CUB WITNESS, MR. EFFRON**

239 Q. **Mr. Efron notes that AIC is forecasting higher electric distribution expense in 2012**
240 **as compared to prior years. What factors are driving this increase?**

241 A. As explained in my direct testimony (Ameren Ex. 6.0E, pp. 54-64), the cost drivers that
242 are largely causing total electric distribution expense to increase in 2012 from 2009 levels are
243 associated with substation maintenance, circuit maintenance, vegetation management and
244 implementation of recommendation from the Liberty Audit. In addition, as AIC witness Mr.
245 Getz notes, the Company included funds in its 2012 budget for major storm expense.

246 Q. **Does Mr. Efron dispute the prudence of the work identified in your direct**
247 **testimony and in response to discovery requests?**

248 A. No. In response to AIC-AG/CUB 1.01, Mr. Efron admits that he "does not dispute the
249 Company's evidence that the work needs to be performed."

250 Q. **Does Mr. Efron believe that AIC should experience minimal variation in expense**
251 **levels from year to year?**

252 **A.** No. In response to AIC-AG/CUB 1.02, Mr. Efron admits that "it would not be unusual
253 for the Company, or any other utility, to experience variation in expense levels from year to year
254 that he would consider being more than minimal."

255 **Q.** **In his direct testimony, Mr. Efron states that there is no evidence that expenses are**
256 **actually increasing from the levels in 2009 and 2010 with the possible exception of**
257 **vegetation management. In response to AIC-AG/CUB 1.01, he "questions why the**
258 **Company did not perform the necessary work in 2010 and is not expecting to perform the**
259 **work in 2011." What is your response?**

260 **A.** As explained in the direct testimony of AIC witness Mr. Craig Nelson (Ameren Ex. 1.0E,
261 pp. 14-16), the Company initially reduced its 2010 capital budget in June 2009 and further
262 reduced its operating and capital budgets following the Commission's Final Order in AIC's last
263 rate case. Many of these spending cuts (e.g. reduction/deferral of fleet equipment, meter, and
264 transformer purchases) were carried forward into the 2011 operating budget. But as Mr. Nelson
265 also makes clear, "the Company cannot continue to sustain all of the cuts made if it is to continue
266 to provide adequate, safe and reliable service." (Ameren Ex. 1.0E, ll. 347-348.) As explained in
267 my direct testimony and in response to discovery requests, for each of the operational areas
268 identified above that are driving the increase in electric distribution expense, there is an
269 identified amount of work for which the Company has requested cost recovery so that it can
270 continue to provide adequate, safe and reliable service. Ameren witness Mr. Nelson explains
271 AIC's plan to hire the additional personnel that will be needed to perform the test year electric
272 and gas projects.

273 **Q. Mr. Effron recommends the Commission disallow the entire \$2.9 million of**
274 **incremental O&M included in the test year for substation maintenance expense. What is**
275 **AIC's response to his proposed disallowance?**

276 **A.** As explained in my direct testimony (ll. 1243-57) and in response to AG-DJE 1.17R
277 (dated July 26, 2011), the \$2.9 million incremental increase in O&M expense is necessary to
278 accomplish planned work in the Company's Substation Maintenance Program. First, to complete
279 timely repairs of failed equipment and operate the substation facilities, AIC projects that it
280 requires 135 full-time electricians based on the collective man hours associated with this work.
281 Second, 50 percent of the current work force for this activity is over the age of 55 and AIC
282 anticipates a very high rate of retirement in future years. The addition of these apprentices will
283 enable AIC to maintain a knowledgeable work force to provide timely response to substation
284 issues. Third, much of the substation equipment on AIC's electrical system is 50 years or older.
285 As this equipment continues to age, it requires increased amounts of maintenance to keep it
286 functioning. The price of replacement parts increases exponentially as these facilities age and
287 become "specialty" items. Therefore, equipment costs are also escalating at a rate greater than
288 current available resources.

289 At present, AIC completes about 50 percent of the outstanding repair orders within a
290 year. The Company believes that higher completion rates support continued and improved
291 reliability. This is not possible without additional staff and additional funding for replacement
292 parts. AIC carries out "just in time" replacement, using a program of testing to identify
293 necessary repairs. With continued limited resources to support staffing and equipment, AIC will
294 be required to accept lower levels of maintenance completion, and repairs will need to be

295 deferred for even greater periods of time. The requested level of funding for this activity will
296 prevent such deferments and lower completion levels.

297 **Q. Mr. Effron claims that is no evidence of any increase in electrician staffing taking**
298 **place in 2010 and 2011. Please comment.**

299 **A.** As explained above, AIC is still operating under spending cuts instituted after the
300 conclusion of the Company's last rate case. That AIC's headcount has not yet increased,
301 however, does not mean that the work does not have to be done and that apprentices will not be
302 hired. As noted above, Mr. Effron does not dispute the prudence of the work to be performed.
303 He is solely concerned with the timing of obtaining resources to perform the work. The
304 Company has requested this level of funding in the test year so that it has a sufficient number of
305 man hours available to conduct the work in the test year.

306 **Q. Does Mr. Effron dispute the number of full-time employees necessary to perform**
307 **substation maintenance in the test year?**

308 **A.** No. In response to AIC-AG/CUB 1.12, Mr. Effron admits that he has not rendered an
309 opinion concerning the number of FTEs necessary to perform substation maintenance during
310 2012.

311 **Q. Mr. Effron also recommends that the Commission reduce forecasted circuit**
312 **maintenance expense by \$4 million. What is the Company's response to his proposed**
313 **disallowance?**

314 **A.** Mr. Effron is correct that the balance of identified circuit maintenance work at the end of
315 2010 was approximately \$12 million. What Mr. Effron is not taking into consideration is the fact
316 that circuit inspections are constant. Without additional funding, the balance will continue to

317 grow. The last year of the first circuit inspection cycle is 2011. Additional hardware issues will
318 continue to be identified as circuits are inspected in the next cycle which will be on-going in
319 2012-2015. Hardware issues encompass ongoing required maintenance due to factors such as
320 aging facilities and weather exposure. Examples include broken cross arm braces, bent pole top
321 pins, missing bolts, etc. As illustrated in the Company's response AG-DJE 1.17R, the balance at
322 the end of 2010 was estimated at \$12 million. During this final year of inspections for the first
323 cycle, the Company estimates that it will add an additional \$4.7 million to the balance. As
324 inspections move into the second cycle, the Company anticipates that the number of hardware
325 issues identified will be reduced by approximately 70 percent. With the expectation of
326 continuing to identify \$2-\$2.5 million of issues in 2012-2015, incremental spend is necessary to
327 address the balance and additional issues. The incremental \$6.4 million added to the base year
328 spend of \$920k will allow the Company to mitigate the majority of the issues by the end of 2014.
329 The outstanding balance of previously identified issues plus the additional issues expected to be
330 found cannot be corrected in a timely manner without additional funding. The Company
331 believes that it would be appropriate to address the hardware issues within 365 days of
332 identifying them. Based on projections, an additional \$6.4 million per year would allow for the
333 mitigation of the current backlog and additional expected issues within that time frame.

334 **Q. Mr. Effron also recommends that the Commission reduce vegetation management**
335 **expense by \$2.836 million. What is the Company's response?**

336 **A.** For clarification, it appears that Mr. Effron's 2012 cost reflects \$52,965,000 when in fact
337 AIC's actual response in the referenced data request (ST 3.09) is \$52,985,000. As explained in
338 my direct testimony and in the Company's response to Staff data request ST 3.09 (dated March

339 25, 2011) and Illinois Attorney General data request AG-DJE 1.24 (dated April 15, 2011), AIC's
340 projected 2012 vegetation management expense contains incremental dollars for a number of
341 trimming and reliability initiatives. Test year distribution tree trimming expense covers
342 estimated costs for the number of miles scheduled to be trimmed by 2012 based on the average
343 cost per mile. It also includes the costs for supervisory and planning personnel. In addition, the
344 2012 budget includes incremental dollars to cover some miles to be trimmed by 2013 in 2012 to
345 stay on the 48 month trim cycle, given that 2012 has the fewest circuit miles to be trimmed in the
346 four year cycle. The 2012 budget also includes incremental dollars to reduce the amount of
347 overhang. Reducing overhang is a reliability initiative to help eliminate branches that could fall
348 into electric lines, particularly during strong wind or storm situations. In 2012, AIC will focus
349 on single- and two-phase primary, in addition to the current work on three-phase primary. In
350 addition, incremental dollars were added to the 2012 budget to reflect necessary work for
351 additional sub transmission cycle trimming and mid cycle vegetation management trimming.
352 Because of the amount of trimming planned for 2012 and the extra dollars budgeted for tree
353 trimming reliability initiatives in the test year, AIC's 2012 vegetation management budget
354 exceeds the annual increase that the Company has incurred in recent years.

355 **Q. Mr. Effron proposes to eliminate the entire incremental expense increase of**
356 **\$15,700,000 associated with the implementation of Liberty Audit projects/plans, claiming**
357 **that there is no plausible explanation of why the expenses are not increasing in 2011 to**
358 **implement the recommendations. What is the Company's response?**

359 **A.** The projects and plans designed to implement the Liberty Audit recommendations
360 require incremental funding needed to acquire the necessary resources. As noted in my direct

361 testimony, the Company believes that the Liberty recommendations can provide customer
362 benefits through the maintenance or enhancement of utility's distribution system or otherwise aid
363 in some measure of customer satisfaction. Staff agrees, and recommends that the Company
364 implement Liberty's recommendations. But before AIC can perform the work associated with
365 these recommendations, it needs to hire the personnel and acquire the materials. In his response
366 to AIC-AG/CUB 1.13, Mr. Efron admits that he does not have an opinion concerning the
367 number of full time employees necessary to perform the Liberty Audit work planned for 2012.
368 The reality is that AIC does not currently have the sufficient number of available man hours.

369 **VII. CONCLUSION**

370 **Q. Does this conclude your rebuttal testimony?**

371 **A.** Yes, it does.