

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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| AMEREN ILLINOIS COMPANY |) | |
| d/b/a Ameren Illinois, |) | |
| Petitioner |) | Docket No. 12-0001 |
| |) | |
| Rate MAP-P Modernization Action Plan - |) | |
| Pricing Filing |) | |

INITIAL BRIEF OF THE STAFF OF THE
ILLINOIS COMMERCE COMMISSION

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NOW COME the Staff witnesses of the Illinois Commerce Commission (“Staff”), by and through their undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission’s Rules of Practice (83 Ill. Adm. Code 200.800), and respectfully submit their Initial Brief in the instant proceeding.

I. INTRODUCTION

A. Procedural History

Section 16-108.5 of the Public Utilities Act (“PUA” or “Act”) provides that an electric utility or combination utility (providing electric service to more than one million customers in Illinois and gas service to at least 500,000 customers in Illinois) may elect to become a “participating utility” and voluntarily undertake an infrastructure investment program as described in the Section. A participating utility is allowed to recover its expenditures made under the infrastructure investment program through the ratemaking process, including, but not limited to, the performance-based formula rate and process set forth in Section 16-108.5. (220 ILCS 5/16-108.5(b))

On January 3, 2012, the Ameren Illinois Company d/b/a Ameren Illinois (collectively, “Ameren,” “AIC,” or “Company”) filed with the Illinois Commerce Commission (“Commission”) its performance-based formula rate tariff, Rate MAP-P Modernization Action Plan – Pricing Tariff (“Rate MAP-P”).

The following Staff witnesses submitted testimony in this case: Dianna Hathorn (Staff Exs. 1.0 and 10.0), Mary H. Everson (Staff Exs. 2.0 and 11.0), Burma C. Jones (Staff Exs. 3.0 and 12.0), Samuel S. McClerren (Staff Exs. 4.0 and 13.0), Daniel G. Kahle (Staff Exs. 5.0 and 14.0), Scott Tolsdorf (Staff Ex. 6.0 and 15.0), Rochelle Phipps (Staff Exs. 7.0 and 16.0), Michael McNally (Staff Ex. 8.0), William R. Johnson (Staff Exs. 9.0 and 17.0), and Bonita A. Pearce (Staff Ex. 18).

In addition to AIC, the following parties have submitted testimony in this case: the Citizens Utility Board (“CUB”), the Illinois Industrial Energy Consumers (“IIEC”), and the Peoples of the State of Illinois (“AG”) and AARP (“AG/AARP”).

During the course of the proceeding, Staff proposed various adjustments and changes to the Company’s proposed revenue requirement. The Company accepted some of Staff’s adjustments and Staff withdrew others. A summary of Staff’s final revenue requirement recommendations to the Commission in this proceeding is attached hereto as Appendix A.

Evidentiary hearings were held in this matter in Springfield on June 20-22 and June 25, 2012.

B. Legal Framework and Standards

C. Participation in EIMA/Formula Rates without AMI Plan Approval

Pursuant to a Notice of Administrative Law Judges' Ruling (July 3, 2012), the parties were directed to address the following issue:

How does the Commission's recent rejection of Ameren Illinois Company's advanced metering infrastructure plan in Docket No. 12-0244 affect Ameren's status, if at all, as a participating combination utility under Public Acts 97-0616 and 97-0646?

It is Staff's position that, if the Commission on re-hearing¹ again rejects Ameren's advanced metering plan ("AMI"), Ameren would cease to be a participating utility under Public Acts 97-0616 and 97-0646 (the "Acts"). The Infrastructure Investment and Modernization legislation must be viewed as a comprehensive scheme, and the AMI Plan under 16-108.6, the investment commitments under 16-108.5(b), the metric improvement obligations under 16-108.5(f) and recovery of costs under the formula rate (16-108.5(c)) are all interdependent components of that scheme. In short, an approved AMI plan is integral to, if not the central pillar of, the legislation. Therefore, Staff concludes that if the Commission rejects Ameren's AMI Plan on re-hearing, Ameren's election to be a participating utility under the legislation is without force or effect.

II. RATE BASE

A. Overview

B. Uncontested or Resolved Issues

1. Gross Plant in Service (except for C.8)

¹ On June 28, 2012, Ameren filed a Petition For Re-Hearing ("Petition") in the AMI proceeding, ICC Docket No. 12-0244. Ameren seeks an expedited re-hearing schedule that would have the Commission issuing an Order on Rehearing "no later than 60 days after the date the Commission grants the Company's request for Rehearing." Petition, p. 2. The Commission has not yet acted on the Petition.

2. Accumulated Depreciation

3. Plant Held for Future Use

The Company accepted Staff's adjustment to rate base for Allowance for Funds Used During Construction ("AFUDC") amounts incorrectly charged to the Company's Property Held for Future Use balance. (Ameren Ex. 13.0, pp. 6-7) In its response to Staff Data Request ("DR") DLH-4.03, the Company acknowledged that the correction was not made until after 2010, and therefore it was not reflected on its App 6, Property Held for Future Use Rate Base Information Appendix. (See Staff Ex. 1.0, p. 8)

4. ADIT – Deferred Compensation

The Company accepted Staff's adjustment in Schedule 1.09 for a deduction to rate base for amounts incorrectly included in the Company's accumulated deferred income taxes ("ADIT") balance. (Ameren Ex. 13.0, p 3) The Company acknowledged in its response to AG DR DLH-2.10 that it intends to remove the ADIT balance from its jurisdictional rate base since it no longer considers the deferred compensation ADIT to be applicable to the current cost of providing service to electric distribution customers. (Staff Ex. 1.0, p. 8)

5. Materials and Supplies

Staff proposed an adjustment to reflect a 13-month average balance for the amount of Materials and Supplies included in AIC's rate base. (Staff Ex. 3.0, p. 2) The Company accepted Staff's adjustment in rebuttal testimony and reflected a 13-month balance for Materials and Supplies on Ameren Exhibit 13.1, App 1, Lines 49-51. (Ameren Ex. 13.0, pp. 3-4)

- 6. Cash Working Capital – Employee Benefits/Payroll Lead**
- 7. Customer Advances**
- 8. Customer Deposits**
- 9. OPEB Liability**

C. Contested Issues

1. Cash Working Capital

a. Pass-Through Taxes Revenue Lag

The Commission should not allow a revenue lag for pass-through taxes. Pass-through taxes are not operating revenues and are not included in the revenue requirement as operating revenues. Pass-through taxes are funds provided by ratepayers. Utilities are required to collect the pass-through taxes from ratepayers and remit the pass-through taxes to the taxing body within 20 to 30 days after collection from ratepayers. Because pass-through taxes are funded by ratepayers, the utility has no investment in pass-through taxes on which ratepayers should pay a return through increased cash working capital. CWC is the amount of funds needed from investors to fund day-to-day utility operations. (Staff Ex. 5.0, p. 5)

Staff's position is consistent with the Commission's Final Orders in both the Company's most recent electric rate case (Docket Nos. 09-0306/0307/0308, Order, April 29, 2010, p. 54) and the only other formula rate case that has come before the Commission. (ComEd, Docket No. 11-0721, Order, May 29, 2012, p. 45) While Ameren and ComEd do not operate in the same municipalities, they both operate under the same State statutes for Energy Assistance Charges ("EAC"). It would be

unreasonable for a formula rate to incorporate a different lag for the same tax in a formula that should, for the most part, be consistent. (Staff Ex. 5.0, p. 5; Staff Ex. 14.0, pp. 5-6)

The Company argues that its choice to remit pass-through taxes earlier than required justifies increasing CWC. (Ameren Ex. 25.0, p. 6) Ratepayers should not be burdened with higher rates because of the Company's business decision. (Staff Ex. 5.0, p. 5; Staff Ex. 14.0, pp. 3- 4) Regardless of when the Company elects to remit the pass-through taxes, the funds were provided by ratepayers, not investors, and ratepayers should not have to pay a return on funds not provided by investors.

The Company makes an incomprehensible argument that pass-through taxes are somehow transformed from taxes to operating revenue because they are collected through the same billing system used to collect utility service revenue. (Ameren Ex. 15.0, p. 3) The method used to collect pass-through taxes does not change the fact that they are indeed ratepayer supplied funds. (Staff Ex. 14.0, p. 3)

Even the Company's expert witness could not agree with the Company's logic. The Company's witness David A. Heintz testified that Ameren provides no service related to pass-through taxes. (Tr., June 20, 2012, p. 195) Further, Mr. Heintz admitted that the Company does not have a revenue lag for funds received for which no service was provided. (Tr., June 20, 2012, p. 196)

b. Revenue Collection Lag

The Commission should not set revenue lag at 21 days as proposed by IIEC witness Stephen M. Rackers. (IIEC Ex. 2.0, p. 2) Section 735.160(a)(2) (83 Ill. Adm. Code 735.160(a)(2)) establishes that the number of days between the date the utility

customer receives the bill and the due date for payment of the bill must not be less than 21 days. However, this rule does not reflect the actual collection lag which has been calculated by the Company in a lead/lag study in a manner consistently accepted by the Commission. Staff supports the collection lag days as proposed by the Company. (Staff Ex. 14.0, pp. 6-7)

c. Income Tax Lead and Lag

The Commission should not set income tax lead and lag days to zero as proposed by AG/AARP witness Michael L. Brosch. (AG/AARP Ex. 1.0, p. 34) The Commission has a long standing practice of not considering current and deferred income taxes separately. Both Staff's and the Company's treatment of deferred income taxes for CWC is consistent with Commission practice. (Staff Ex. 14.0, p. 7)

d. Vacation Pay

The Commission should accept the proposal made by Ameren witness David A. Heintz to increase lead days for payroll in order to reflect the effect of accrued vacation days on CWC. (Ameren Ex. 15.0, p. 28) Staff has incorporated Mr. Heintz's proposal in its CWC calculation. The Company's proposal includes the year-over-year change in the level of the vacation accrual between the test year and the prior year. (*Id.*) However, the Company's proposal does not include the balance of accrued vacation. (Staff Ex. 12.0, p. 2) Staff addresses the proper treatment of the balance of vacation pay accrual as an operating reserve in rate base in section C. 4 below.

2. ADIT – FIN 48

Staff recommends the Commission accept the AG/AARP adjustment to ADIT for amounts that have been identified by the Company's tax experts as uncertain tax positions, since these amounts represent cost-free capital at the present time. (Staff Ex. 10.0, pp. 8-12; see *also* AG/AARP Ex. 2.0, pp. 8-12 and Schedule DJE 1.1 R; Cf. IIEC Ex. 2.0, pp. 7-8; CUB Ex. 1.0, pp. 14-25, and CUB Ex. 1.2, Schedule B-3 (similar adjustments to AG/AARP proposed))

The Company summarizes the disagreement with AG/AARP as the proper treatment of this capital in the ratemaking process after it is procured, but before it is paid back. The Company agrees with the following points on the issue of such capital:

1. The Company has in its possession a quantity of capital which it procured by means of filing income tax returns.
2. The capital at issue here resulted from claiming tax deductions which experts have concluded the Company is more likely than not going to lose.
3. When the Company loses the deductions, it will pay the capital back to the taxing authorities with interest. (Ameren Ex. 18.0, p. 4)

The uncertainty of point number 3 is the crux of the issue. In other words, while it is not at all certain that the Company will in fact lose deductions, there is no question that during the period of when the loss of those deductions is uncertain, the Company holds a quantity of funds for which there is no present cost (point number 1 above). The Company goes on to state **it agrees** the FIN 48 amounts **are non-investor supplied capital**. (Ameren Ex. 18.0, p. 13)

Thus, the Company clearly concedes that the FIN 48 amounts are not supplied by shareholders. Further, cost deductions on any tax return represent a level of

uncertainty with regard to the final Internal Revenue Service (“IRS”) determination of taxable income. The Company admits that no IRS tax assessment exists for the amounts at issue in the revenue requirement. (AIC Response to Staff DR DLH-15.01; Staff Group Cross-Examination Ex. 5) Under the Company’s proposal, if the IRS allows the tax deduction associated with the FIN 48 reserve, customers would not receive the benefit of the deferred tax credits until the first rate case after the IRS completes its review of the issues that gave rise to the FIN 48 reserve. (Staff Ex. 10.0, p. 10) Further, these determinations can take a long time to occur (Tr., June 21, 2012, pp. 242, 244), and may result in a settlement amount that is materially smaller than the original amount the Company recorded. (AIC Response to Staff DR DLH-15.02; Staff Group Cross-Examination Ex. 5) The Company has proposed no mechanism to protect customers from the increased rates they did not deserve while awaiting the IRS to complete its review of the issues that gave rise to the FIN 48 reserve. (Staff Ex. 10.0, p. 10)

The Company dismisses Mr. Smith’s testimony concerning the Federal Energy Regulatory Commission (“FERC”) guidance with respect to FIN 48, arguing that because it states that it is for financial and reporting purposes only, and does not prejudice ratemaking practice or treatment, that the guidance is not relevant to this proceeding. (Ameren Ex. 18.0, p. 14) Nonetheless, in Staff’s opinion, the Commission should consider the FERC guidance. This case uses a formula based upon the FERC Form 1 costs; thus, the FERC guidance is especially relevant. (Tr., June 21, 2012, p. 268) The FERC sets forth guidance that certain classifications that are required or permitted under FIN 48 are not permitted under FERC reporting.

The FERC guidance states:

This is an important measurement objective of the Commission's Uniform Systems of Account because accumulated deferred income tax balances, which are significant in amount for most Commission jurisdictional entities, reduce the base on which cost-based, rate-regulated entities are permitted to earn a return. FIN 48, which does not permit a liability for uncertain tax positions related to temporary differences to be classified as a deferred tax liability, frustrates this important measurement objective. **Therefore, entities should continue to recognize deferred income taxes for Commission accounting and reporting purposes based on the difference between positions taken in tax returns filed or expected to be filed and amounts reported in the financial statements.** (Staff Ex. 10.0, pp. 10-11) (*Emphasis added*)

However, the language in the FERC guidance that the Company uses to support its position follows:

This guidance is for Commission financial accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.²

As expressly stated in this sentence, the purpose of the FERC guidance is for the reporting of financial information in the FERC Form 1, which provides the inputs for the formula rates. This sentence indicates that FERC cannot preempt companies' rights to present evidence in a ratemaking proceeding regarding the appropriate treatment of the FIN 48 amounts; it does not indicate that the FERC guidance on this issue should be ignored. In this docket, the evidence presented by the Company is insufficient to dismiss the FERC guidance on the proper inclusion of FIN 48 amounts in the ADIT balance that reduces rate base as reported in the Company's FERC Form 1 and to require ratepayers to pay a return on capital that the Company has yet to incur a cost for. (Staff Ex. 10.0, pp. 11-12)

² The complete guidance is included in CUB Ex. 1.3, pp. 16-22.

3. ADIT – Projected Additions

The Commission should accept the AG/AARP adjustment to the balance of ADIT to reflect the estimated ADIT that will be generated by 2011 and 2012 plant additions. (Staff Ex. 10.0, pp. 12-13; see *also* AG/AARP Ex. 2.0, pp. 15-18 and Schedule DJE 1.4 R) The Company's surrebuttal testimony focuses on the 2011 and 2012 ADIT, which is increased significantly due to bonus depreciation. (Ameren Ex. 15.0, p. 15) This position was rejected in the ComEd order:

Because federal tax laws regarding 2011 allow businesses like ComEd, currently, to depreciate plant additions at 100%, ComEd has use of funds now that it would not have otherwise normally have had access to without borrowing or other forms of financing. In effect, ignoring this windfall to ComEd would be to allow ComEd an interest-free loan at the ratepayers' expense for several months. It also would artificially increase rates until the time when a final order in the 2011 reconciliation docket takes place. It cannot have been the intention of the General Assembly, when enacting Section 16-108.5, to allow this statute to artificially raise rates for several months.
(Order, Docket No. 11-0721, May 29, 2012, p. 59)

The facts and the law are no different in this case. Further, the Commission rejected ComEd's request for rehearing on this issue. It would be unreasonable for the Ameren formula rate, which is based upon the same statute as ComEd's, to contain a different conclusion on the same issue as ruled upon in Docket No. 11-0721.

4. Accrued Vacation Pay as Operating Reserve

Staff and Intervenors proposed an adjustment to treat the liability for accrued vacation pay, which represents a source of non-investor supplied capital, as an operating reserve and deduct it from Rate Base. (Staff Ex. 12.0, pp. 2-3; AG/AARP Ex. 2.0, pp. 13-15; AG/AARP Ex. 4.0, pp. 8-9; CUB Ex. 1.0, pp. 13-14; CUB Ex. 3.0, pp. 16-

19) The operating reserve is offset by the related ADIT, which the Company included in Rate Base. Because the vacation pay accrual takes place in advance of payment, there is a book-tax timing difference; *i.e.*, vacation pay is only deductible for income tax purposes when it is paid. The Company properly records ADIT to recognize the effect of this timing difference. (Staff Ex. 12.0, p. 3) Intervenor witnesses posit that, if an ADIT debit balance is included in Rate Base, the related accrued liability should be included in the operating reserves deducted from Rate Base. (AG/AARP Ex. 2.0, pp. 14-15; CUB Ex. 1.0, pp. 13-14; CUB Ex. 3.0, p. 19)

Staff's adjustment is similar in some respects to AG/AARP witness David Efron's adjustment;³ however, Staff's adjustment differs materially in the direct labor allocation factor chosen to calculate the electric portion of accrued vacation pay. Staff chose to use the direct labor allocation factor that *includes* administrative and general labor, whereas Mr. Efron chose to use the direct labor allocation factor that *excludes* administrative and general labor. (Staff Ex. 12.0, Sch. 12.01, p. 2; AG/AARP Ex. 4.1 Corrected, Sch. DJE-1.3R) Upon further reflection, Staff believes that the direct labor allocation factor that *excludes* administrative and general labor is the more accurate choice, as it is the allocation factor the Company used to calculate the electric portion of its 2010 Year End Other Post Employment Benefits Liability. (Ameren Ex. 2.2(Rev.), Wkp 16) Therefore, the adjustment as proposed by Mr. Efron is adopted by Staff and reflected in Appendix A.

Staff and Intervenor proposed a similar adjustment regarding accrued vacation pay in Docket No. 11-0721, Commonwealth Edison Company's formula rate filing. In

³ CUB witness Ralph Smith's adjustment differs from AG/AARP witness Efron's and Staff's adjustment in its calculation of the amount of accrued vacation pay to deduct from Rate Base.

the Order entered May 29, 2012 in Docket No. 11-0721, the Commission approved the adjustment to deduct accrued vacation pay from Rate Base. (Staff Ex. 12.0, p. 3) Staff is not aware of any differences between the facts regarding accrued vacation pay from the Commonwealth Edison docket as opposed to the Ameren docket that would warrant a different regulatory treatment. (Tr., June 21, 2012, p. 466) In order to maintain consistency in the formula rate filings and because accrued vacation pay represents a source of non-investor supplied capital, the Commission should adopt the AG/AARP adjustment to treat the Company's liability for accrued vacation pay as an operating reserve and deduct it from Rate Base.

5. Account 190 Asset – Unamortized ITCs

The Commission should accept the AG/AARP and CUB adjustment to rate base to remove inclusion of a deferred tax asset related to the Company's past investment tax credits ("ITCs") since the Commission has never previously allowed Ameren a return on such asset. (See AG/AARP Ex. 2.0, pp. 4-5 and Schedule DJE 1.1 R; CUB Ex. 1.0, p. 26 and CUB Ex. 1.2, Schedule B-4)

The Company is correct that in Docket No. 11-0282, it changed its presentation of ITCs, based upon an AG/CUB recommendation, such that a deduction was made to income tax expense for amortization of ITCs. (See Ameren Ex. 23.0, p. 17) The record also shows that, in Docket No. 11-0282, no deferred tax asset for ITCs was included in rate base. (AIC Response to Staff DR DLH-16.02; Staff Group Cross-Examination Ex. 3; Tr., June 21, 2012, p. 231) The AG/AARP argues that, if the deferred ITC is not deducted from rate base, then the deferred tax debit (or asset) balance that arises directly from that deferred ITC should not be added to rate base; i.e., the treatment

should be consistent. (AG/AARP Ex. 2.0, p. 5) Staff agrees with this conclusion. The Company cites to no authority other than its own opinion that it “believes” it is appropriate to include the deferred tax asset in rate base since it now flows through the amortization of the ITC to ratepayers. (*Id.*; Tr., June 21, 2012, p. 299) The Commission should reject the Company’s self-serving adjustment based only on its beliefs and instead use sound, consistent principles to treat the deferred ITC credits and tax assets consistently by including neither amount in rate base.

6. Account 190 Asset – Step-Up Basis Metro

Staff recommends the Commission reject the AG/AARP⁴ adjustment to remove a deferred tax asset recorded at the time of Central Illinois Public Service Company’s purchase of certain depreciable assets from Union Electric. (Staff Ex. 10.0, p. 6; see *also* AG/AARP Ex. 2.0, pp. 6-7 and Schedule DJE 1.1 R) The Company demonstrated that the adjustment is improper since net ADIT included in rate base from this asset purchase is zero. (Ameren Ex. 13.0, pp. 26-27; AIC Responses to Staff DRs DLH-12.01, see AG Cross-Examination Ex. 2; and AIC Responses to DLH-16.04 through DLH-16.06, see Staff Group Cross-Examination Ex. 3, provided further evidence supporting its testimony.) Since the net effect to ADIT of the transaction is zero, no adjustment is necessary.

7. CWIP Not Subject to AFUDC

AIC accepted Staff’s adjustment in Schedule 1.10 for a deduction to rate base for specific project amounts duplicated in rate base, first in the balance of CWIP not subject

⁴ AG/AARP Ex. 2.0, pp. 6-7 and Schedule DJE 1.1 R

to AFUDC and second in the Company's 2011 projected plant additions. (Staff Ex. 1.0, p. 8; Ameren Ex. 13.0, p. 6) AIC stated Staff's adjustment is preferable to that of AG witness Brosch. (See Ameren Ex. 13.0, p. 6 and AG/AARP Ex. 2.0, pp. 4-5) Staff further agreed that the cost of non-AFUDC CWIP should be included, though, as a component of the actual year's cost during the annual reconciliation. (Staff Ex. 1.0, p. 10)

8. Average Rate Base – Projected Plant/ADR/ADIT

The Company opposes IIEC's proposal that projected plant additions for a rate year be determined using an average rate base. Ameren Ex. 12.0 at 5. Staff stated at the hearings that it also does not support this recommendation. (Tr., June 21, 2012, pp. 260, 269) Further, the IIEC recommendation was rejected in the ComEd Order. (Order, Docket No. 11-0721, May 29, 2012, pp. 17-18)

9. Other

III. OPERATING EXPENSES

A. Overview

B. Uncontested or Resolved Issues

1. Adjustment for Athletic Ticket/Event Expenses

Both AG/AARP and CUB recommend an adjustment to remove the costs for athletic event expenses. Staff also disallowed these athletic event expenses in its proposed adjustment to Account 930.1 - Corporate Sponsorships. The Company

agreed and removed these costs from Account 930.1 in its rebuttal testimony. (Ameren Ex. 13.0, pp. 4-5)

2. Adjustment for Contributions to Political Groups/Quincy Gems

Staff, AG/AARP, and CUB propose the disallowance of charitable contributions made to organizations of a political nature. The Company agreed and removed them from the revenue requirement. (Ameren Ex. 16.0, p. 13) The Company also agreed to remove from the revenue requirement a donation made to the Quincy Gems Baseball organization. (Ameren Ex. 26.0, pp. 9-10)

3. Adjustment for EEI Memberships Dues Allocated to Lobbying

Staff, AG/AARP, and CUB propose the disallowance of a portion of the Edison Electric Institute membership dues attributable to lobbying activities be removed from this formula rate filing. The Company agreed to remove the expenses for industry association dues related to the portion of dues allocated for legislative and lobbying activities. (Ameren Ex. 16.0, p. 2)

4. Correction for Previously Disallowed Depreciation Expense

C. Contested Issues

1. Section 9-227 Donations/Charitable Contributions

Staff proposes that the following contributions be disallowed and excluded from rates: (1) donations made to community and economic development organizations and animal wellness groups which are not Section 501(c)(3) organizations; and (2) a donation to a Section 501(c)(3) organization, the Illinois High School Association, that was not for an educational purpose but in support of the state football playoffs. (Staff Ex. 6.0, pp. 2-6; Staff Ex. 15.0 pp. 2-7)

The disallowance of donations to organizations which are not Section 501(c)(3) organizations is appropriate because this accounting treatment is consistent with the Company's own policy concerning charitable contributions and also prior Commission practice. The Company has a policy of seeking recovery from customers only for those donations made to Section 501(c)(3) organizations. (Ameren Ex. 16.0, p. 4) Section 501(c)(3) organizations are considered by the Internal Revenue Code to be "charitable organizations" and donations to these organizations are tax deductible on the donor's federal income tax return. The Company has not followed its own internal policy concerning donations made for the public welfare which are not tax deductible. In the order of the recent ComEd Formula Rate case, Docket No. 11-0721, the Commission's analysis and conclusion concerning charitable contributions implied that only tax-deductible charitable contributions may be included in rates. (Final Order, Docket No. 11-0721, May 29, 2012, p. 98) In the minutes for the Special Open Meeting on May 29, 2012 where Docket No. 11-0721 was discussed and decided, the Commissioners presumed that only 501(c)(3) organizations were being considered for recovery. (Docket No. 11-0721, Special Open Meeting Minutes, p. 31) The Final Order in 11-0721 goes on to say that, "The Commission agrees with CUB/City's observation that a strict interpretation of the statute helps to ensure a more reasonable level of contributions is

recovered from ratepayers.” (Final Order, Docket No. 11-0721, May 29, 2012, p. 98) These recent observations by the Commission support the conclusion that donations made for the public welfare should, at a minimum, be made to Section 501(c)(3) charitable organizations. In addition, the Commission has a long history of disallowing recovery for donations made to community and economic development organizations. (Staff Ex. 6.0, pp. 3-4)

Staff also disallowed a donation to the Illinois High School Association, a Section 501(c)(3) organization. (*Id.*) The purpose of the donation was not for an educational purpose, as is required by Section 9-227 of the Act, but rather in support of the state football playoffs. Thus, the donation should be disallowed.

2. Account 909 – Advertising Expense

a. Signage Costs

Staff proposes to disallow costs associated with signage that represents goodwill or promotional advertising. (Staff Ex. 6.0, pp. 6-8; Staff Ex. 15.0 pp. 9-11) Specifically, Staff proposes to disallow costs to update a lobby sign and vehicular magnets with the Company’s new name and logo following the consolidation of the three legacy utilities in 2010. (*Id.*) Section 9-225(2) of the Act expressly states that advertising costs of a goodwill or institutional nature shall not be considered for the purpose of determining rates:

In any general rate increase requested by any gas or electric utility company under the provisions of this Act, the Commission shall not consider, for the purpose of determining any rate, charge or classification of costs, any direct or indirect expenditures for promotional, political, *institutional or goodwill advertising*, unless the Commission finds the

advertising to be in the best interest of the Consumer or authorized as provided pursuant to subsection 3 of this Section. (*Emphasis added*)

The Company claims that, “These costs were necessary to correctly identify AIC as the new provider of electric service in the service areas of the former legacy utilities.” (Ameren Ex. 26.0R, p. 14) The signage contains no allowable advertising delineated in Section 9-225 of the Act and represents a duplicative expense resulting from the Company’s decision to merge its legacy utilities. Ameren’s customers should not be burdened with these duplicative expenses.

b. Brand Related Expenses

Staff, AG/AARP, and CUB propose to disallow brand-related expenses associated with the Company’s evaluation of its customers’ ability to recognize the new Ameren name and logo following the merger of the legacy Illinois utilities. (Staff Ex. 6.0, p. 8; Staff Ex. 15.0 pp. 11-13) These costs were incurred to assess the customers’ recognition of the Company’s name and not for any of the allowable purposes as described in Section 9-225 of the Act. (Ameren Ex. 16.0, p. 22) Mr. Ogden stated in his rebuttal testimony, “This particular communications effort in 2010 funded, among other things, the use and analysis of focus groups to clearly identify our customers’ recognition of our name.” (*Id.*) Name recognition and market intelligence gathering do not benefit ratepayers in any way and are not an allowable advertising expense. The Commission has previously disallowed these types of brand related expenses as pointed out in CUB witness Mr. Smith’s direct testimony. (CUB Ex. 1.0, p. 31) Staff’s adjustment is consistent with past Commission policy and should be adopted in this Order.

c. E-store Costs

Staff, AG/AARP, and CUB disallowed the costs for the operation of an on-line store where employees can purchase branded items such as flashlights, coffee mugs, and hats. (Staff Ex. 6.0, p. 9; Staff Ex. 15.0 pp. 13-14) Company witness Ogden stated:

As I stated in my rebuttal testimony, these costs (\$95,000) were incurred to purchase inventory for the online employee e-store. Much of the cost for the e-store related to this invoice was for stocking of AIC merchandise after the merger of the legacy utilities. (Ameren Ex. 26.0R, p, 17)

The Company claims that these costs benefit employee morale and facilitate public recognition of employees as representatives of AIC. (Ameren Ex. 16.0, p. 22) The costs associated with stocking an on-line store with corporate branded products are not necessary for the provision of safe, reliable utility service. These costs do not represent informational and instructional advertising but rather institutional or goodwill advertising and should be disallowed.

d. Other Account 909 Expenses

Staff proposes to disallow advertising costs for which the Company is unable to provide the adequate support necessary to justify their inclusion in rates under Section 9-225. (Staff Ex. 15.0 pp. 7-9) The Company provided information in support of its advertising costs in response to Staff DR ST-2.07. (Staff Group Cross Ex. 1)

The information provided in the original DR response did not reconcile to the Company's FERC Form 1 Account 909 amount for two reasons. First, the Company's response to Staff DR ST-2.07 provided amounts and supporting invoices for the Total Company with no indication as to the allocation to the electric operations. Second, not

all of the costs associated with Account 909 were included in the Company's response to Staff DR ST-2.07. After Staff filed direct testimony adjusting advertising expenses to the amount supported by the Company, the Company provided a supplemental DR response, ST-2.07R (Ameren Ex. 26.1), which included a 60% allocation factor applied to all of the costs to represent the electric jurisdictional amount of those costs. The Company's DR response ST-2.07R also included the rest of the costs included in Account 909 to reconcile to the amounts on the FERC Form 1. The additional costs contained in Staff DR ST-2.07R could not be verified. The Company provided additional invoices in response to Staff DR ST-6.04 (Ameren Exhibit 26.2) but it was not possible to verify the individual costs shown in ST-2.07R with the invoices provided in ST-6.04. The burden of proof to show that these costs should be included in rates lies with the Company and the Company has not met that burden to recover these additional costs. The unsupported costs should be disallowed.

3. Account 930.1 – Corporate Sponsorship

Staff, AG/AARP, and CUB propose to disallow costs associated with corporate sponsorships. (Staff Ex. 6.0, pp. 2-6; Staff Ex. 15.0 pp. 2-7) The Company has chosen to provide financial support in the form of corporate sponsorship for several events and organizations in 2010. These sponsorships put the Company's name in a good light in their communities and represent goodwill advertising which is prohibited by the Act from being recovered in rates.

These sponsorship costs were recorded in Account 930.1 General Advertising Expenses. Properly includible in this account is the cost of advertising activities on a local or national basis of a good will or institutional nature, which is primarily designed to

improve the image of the utility or the industry. Account 909 is for informational and instructional advertising and specifically prohibits goodwill or institutional advertising. In surrebuttal testimony, Mr. Ogden states, “As explained in my rebuttal testimony, these costs support our community outreach efforts and provide venues to inform customers about electric safety, electric supplier choice, storm preparation and energy efficiency practices.” (Ameren Ex. 26.0, pp. 23-24) The advertising that Mr. Ogden refers to would be considered informational and instructional advertising expenses and properly recorded in account 909. The corporate sponsorships themselves however are not informational or instructional advertising but rather goodwill advertising which is properly recorded in account 930.1 and specifically denied recovery through rates by Section 9-225 of the Act.

4. Regulatory Asset Amortization

Section 16-108.5(c) of the Act “permits the recovery of existing regulatory assets over the periods previously authorized by the Commission.” In the instant proceeding, the actual 2010 amortization expense recorded by AIC includes eight months’ amortization for the regulatory asset related to severance costs and an irregular monthly amount for the regulatory asset related to integration costs. (AG/AARP Ex. 1.0, pp. 40 – 42) In lieu of actual amortization expense, AG/AARP witness Mr. Brosch proposes to adjust the 2010 amortization expense to reflect the same monthly amount of amortization expense for all twelve months, as if the monthly amount of amortization that resulted from the 2009 rate case had been in effect during all twelve months of 2010. (*Id.*)

Staff disagrees with Mr. Brosch's proposal. The proposal does not comport with Staff's understanding of Section 16-108.5, because the statute does not mention a restatement of actual expense as part of the recovery of regulatory assets over the periods authorized by the Commission. Staff notes that it is not necessary to normalize the amortization expense because the formula rates will be set each year, and the actual cost recovery of these amounts will not give rise to under- or over-recovery of these expenses. Moreover, Staff notes that Section 16-108.5(d)(3) indicates that "normalization adjustments shall not be required." (Staff Ex, 18.0, pp. 6 – 7, lines 119 – 146) AIC witness Mr. Stafford also disagrees with Mr. Brosch's proposed treatment of the amortization of regulatory assets, based on his understanding of Section 16-108.5 of the Act. Furthermore, he agrees with Staff that such a proposal is unnecessary given the annual formula rate reconciliation process and that the statute prohibits normalization adjustments. (Ameren Ex. 23.0, p. 26, lines 547 – 559) For all these reasons, Staff urges the Commission to reject Mr. Brosch's proposed adjustment to regulatory asset amortization expense.

5. Other

IV. REVENUES

A. Uncontested or Resolved Issues

B. Contested Issues

1. Late Payment Revenues

The Commission should reject the AG/AARP adjustment to allocate 100% of late payment revenues as an offset in the determination of rates in this proceeding. (See

AG/AARP Ex. 1.0, pp. 36-40 and AG/AARP Ex. 1.3) The Company argued against the adjustment stating it would run counter to the Commission's long-standing practice to include in electric delivery service revenue requirements only electric distribution system costs. (Ameren Ex. 13.0, pp. 27-32) Staff agrees. (Staff Ex. 10.0, pp. 6-7)

The Company suggests that the appropriate solution to the proper allocation of late payment revenue related to its electric power supply service is to modify its Purchased Electricity Recovery Rider ("Rider PER"), either at the time of the Rate Redesign proceeding or at the time of the next Rider PER update filing, to consider both electric power supply related costs and late payment revenue charges not reflected through electric delivery service bills. (Ameren Ex. 13.0, p. 31) Staff concurs that Rider PER may need modifications regarding these revenues. (Staff Ex. 10.0, pp. 6-7)

The Company concedes that the past Commission treatment of customer deposits as a 100% deduction to rate base should possibly be changed to align with the treatment of late payment revenues. (Ameren Ex. 13.0, p. 31) However, the Company states it is not opposed to the present treatment, or that application of a revenue allocator to customer deposits would be appropriate if Rider PER were modified. (*Id.*, p. 32) Since the Company's proposed treatment to deduct 100% of customer deposits is consistent with past delivery services orders, (*Id.*), and no party appears to object to such treatment, Staff does not propose any adjustments either, and notes that this issue may need to be revisited in the future depending on any revisions made to Rider PER.

V. RATE OF RETURN

A. Overview

Staff recommends an 8.86% rate of return on rate base for Ameren Illinois Company's ("AIC" or the "Company") electric delivery services, pursuant to the provisions of Section 16-108.5 of the Public Utilities Act ("Act").

B. Uncontested or Resolved Issues

1. Rate of Return on Common Equity

AIC's rate of return on common equity is 10.05%, which equals the monthly average 4.25% 30-year U.S. Treasury bond yield, plus 580 basis points, as set forth in Section 16-108.5(c)(3) of the Act. (Staff Ex. 7.0, p. 12; Ameren Ex. 3.0 (Rev.), p. 5)

C. Contested Issues

1. Year End or Average Capital Structure

Staff recommends establishing formula rates using an average 2010 capital structure comprising 51.49% common equity, 46.06% long-term debt and 2.45% preferred stock. (Staff Ex. 16.0, Sch. 16.01) Staff recommends the Commission adopt a formula rate methodology that calculates average balances of net short-term debt, long-term debt, preferred stock and common equity in accordance with 83 Ill. Adm. Codes 285.4020 and 285.4000(b). (Staff Ex. 7.0, pp. 3 and 7-8)

Average capital structures are less sensitive to manipulation than capital structures measured on a single date. (*Id.*, p. 2) Furthermore, an average capital structure would produce a more accurate measure of a company's earned rate of return on common equity for a calendar year, which is required for the purpose of determining customer surcharges or refunds under Section 16-108.5(c)(5). (*Id.*)

2. CWIP Accruing AFUDC Adjustment

Staff recommends an adjustment to the average balances of long-term debt, preferred stock and common equity to remove the portions already reflected in the allowance for funds used during construction (“AFUDC”) rate. The Commission’s formula for calculating AFUDC assumes short-term debt is the first source of funds financing construction work in progress (“CWIP”); however, it is not necessarily the only source. That formula also assumes any CWIP not funded by short-term debt is funded proportionately by the remaining sources of capital (*i.e.*, preferred stock, long-term debt and common equity). Thus, to avoid double counting the portions of long-term debt and common equity that the AFUDC formula assumes is financing CWIP, Staff subtracted \$1,160,828 from the preferred stock balance, \$21,823,575 from the long-term debt balance and \$24,396,349 from the common equity balance. (Staff Ex. 7.0, pp. 4-5; Staff Ex. 16.0, Sch. 16.03)

The Company had a higher balance of CWIP than short-term debt every month from December 2009 through December 2010. (Ameren Ex. 2.2 (Rev.), WP 12, p. 158; Staff Ex. 16.0, Schedule 16.02, p. 1) Therefore, the AFUDC formula assumes that long-term sources of capital fund CWIP during those months. (Staff Ex. 7.0, p. 5) After removing the portion of short-term debt reflected in the AFUDC calculation, any remaining amount of CWIP accruing AFUDC is allocated to long-term sources of capital based on their proportions to total long-term capital. (*Id.*)

AIC had no short-term debt during 2010, thus, the 2010 AFUDC rate wholly comprises the costs of long-term debt, preferred stock, and common equity, weighted in the same proportions that they compose total capital. Consequently, the above adjustments do not affect the capital structure ratios that will be applied to rate base for

2010. Nevertheless, because the Commission will establish a capital structure methodology for future formula rate proceedings and given that the Company's usage of short-term debt during the period formula rates are effective could affect the remaining capital assigned to rate base, that capital structure methodology should include Staff's AFUDC-related adjustments to the long-term components to the capital structure. (*Id.*, p. 6)

The Company agreed to Staff's CWIP adjustment in Docket No. 11-0282. (*Id.*, p. 7)

3. Common Equity Balance – Purchase Accounting

In addition to subtracting the portion of common equity that the AFUDC formula assumes is financing CWIP, as noted above, Staff proposes to subtract the amount of common equity invested in Ameren Energy Resources Generating Company ("AERG") from AIC's average 2010 common equity balance. This adjustment, which removes any incremental increase in cost of capital resulting from the Company's affiliation with non-utility companies as required under Section 9-230 of the Act, should not be necessary in future formula ratemaking proceedings since AmerenCILCO transferred AERG to a non-utility subsidiary of Ameren Corp. in October 2010. (Staff Ex. 7.0, pp. 8-9)

Additionally, Staff recommends subtracting from the common equity balance the sum of (1) purchase accounting adjustments that are collapsed into ICC Account 114 (as identified on the Company's 2010 Form 21, p. 13); and (2) income statement purchase accounting adjustments, which flowed through to retained earnings. (Staff Ex. 7.0, p. 10; Staff Ex. 16.0, pp. 13-14) Those purchase accounting adjustments did not result in a single dollar expenditure on utility plant or service. Rather, they represent a

reevaluation of utility assets and liabilities that were already in place and, as such, are inconsistent with a rate setting procedure based on original cost rather than fair value.

(Staff Ex. 7.0, p. 10)

The Company acknowledges that Staff's explanation of purchase accounting adjustments and reasoning is correct. (Ameren Ex. 13.0, p. 16) Yet, the Company opposes Staff's proposed adjustment to remove from the common equity balance approximately \$100 million of retained earnings that the Company claims were generated by purchase accounting. (*Id.*, p. 17) The Company argues:

Ameren Illinois issued dividends that reduced the retained earnings that resulted from purchase accounting and recorded the same in accordance with applicable accounting rules. A dividend results in credit to cash and a corresponding reduction to retained earnings, which is a component of stockholder equity....The retained earnings adjustment was effectively eliminated through the payment of common dividends (\$61M in 2007 and \$60M in 2008) out of net income available to common shareholders. (Ameren Ex. 13.4, pp. 1-2)

Staff disagrees with the Company's claim that paying dividends can eliminate purchase accounting adjustments to net income. Staff explains this could only be true if the purchase accounting adjustments to net income were a necessary condition for AmerenIP to pay a portion of its common dividends, which is incorrect. That is, AIC's common dividends were paid from cash, and as such, dividend payments decrease the amount of funds available for investment. In contrast, purchase accounting adjustments, including those to net income, do not represent either changes in funds (*i.e.*, cash) available for investment or the generation of cash. That is, the Company cannot invest funds "generated" by purchase accounting in utility plant or distribute those funds to investors in the form of common dividends. This concept is illustrated in the Company's cash flow statement, which subtracts purchase accounting adjustments

from net income to calculate cash from operations, whereas common dividend payments reduce cash. (Staff Ex. 16.0, pp. 14-15)

Furthermore, the lines separating the common equity components – *i.e.*, paid in capital and retained earnings – are permeable. (*Id.*, p. 15, including footnote 19) For example, in 1998, Illinois Power Company implemented a quasi-reorganization that eliminated a retained earnings deficit. As explained in Illinois Power Company's 1999 Form 10-K:

A quasi-reorganization involves restating a company's assets and liabilities to their fair values, with the net amount of these adjustments added to or deducted from the deficit. Any balance in the retained earnings account is then eliminated by a transfer from common stock equity, giving the Company a "fresh start" with a zero balance in retained earnings.

Similarly, from 2007 through 2009, AmerenIP reduced capital available for investment through the payment of common dividends totaling \$152 million, which was recorded as a reduction to the retained earnings component of common equity. (*Id.*) Immediately thereafter, beginning in the first quarter of 2009, Ameren Corp. contributed \$155 million to AmerenIP, which was recorded as an increase in the paid in capital component of common equity. The contributed capital (*i.e.*, equity infusions) effectively returned to AmerenIP the \$152 million capital that AmerenIP had distributed to Ameren Corp. through the common dividend payments, with a net increase of \$4 million to AmerenIP's common equity balance. That is, with the combination of AmerenIP common dividend payments by Ameren and the offsetting equity infusions of Ameren Corp. to AmerenIP, the Company essentially transferred retained earnings balance to paid in capital. (*Id.*)

AIC claims that it “follows the dictations of the Generally Accepted Accounting Principles and Statement of Financing Accounting Standards among other applicable accounting standards with respect to the recording of common dividend payments” and “the ratemaking retained earnings adjustment is not recorded for financial reporting but rather was calculated as a ratemaking adjustment.” (Staff Group Cross Ex. 4, p. 2) Specifically, AIC assigned first quarter 2005 dividend payments to 2004 purchase accounting earnings first, before allocating remaining 2005 dividend payments between purchase accounting and non-purchase accounting earnings, and all dividends in 2007 and 2008 to purchase accounting earnings first. (Ameren Ex. 13.04, p. 7, notes 3 and 4) Despite the Company’s claims regarding AIC’s accounting practices, AIC does not and cannot cite to a provision in the Commission’s Uniform System of Accounts or a Financial Accounting Standards Board (“FASB”) proclamation that directs utilities to assign (1) earnings to “purchase accounting” and “non-purchase accounting” accounts or sub-accounts; or (2) common dividends to purchase accounting-related net income first and non-purchase accounting-related net income second. (Staff Group Cross Ex. 4, pp. 7-8)

The Company attempts to justify its claim that making common dividend payments would have been impossible if not for the purchase accounting adjustments by arguing that Section 7-103 of the Act prohibits making dividend payments when the retained earnings balance is less than zero. Specifically, AIC states:

Given that common dividends reduce the amount of retained earnings recorded on balance sheet, and since Illinois State Law [Section 7-103] prohibits payment of common dividends in an amount that would result in a negative retained earnings, it is impossible for AmerenIP to have paid \$76 million in common dividends out of retained earnings to its parent Company without net income generated as a result of push down accounting. ...Additionally, when retained earnings are paid out in

common dividends, the retained earnings no longer exist on AmerenIP's balance sheet. (Staff Group Cross Ex. 4, p. 1)

The Company misinterprets Illinois Law. While it is true that Section 7-103(2) of the Act sets forth certain conditions that must be met before dividends can be paid, including a "sufficient earned surplus,"⁵ the final paragraph of 7-103(2) makes clear that those conditions limit only the dividends a utility may pay without Commission approval:

If any dividends on common stock are proposed to be declared and paid other than as above provided, the utility shall give the Commission at least thirty days' notice in writing of its intention to so declare and pay such dividends and the Commission shall authorize the payment of such dividends only if it finds that the public interest requires such payment. Provided, however, that the Commission may grant such authority upon such conditions as it may deem necessary to safeguard the public interest. (220 ILCS 5/7-103(2), emphasis added)

While it is arguable that a positive retained earnings balance is a necessary condition for a utility to pay dividends without Commission authorization, the Commission has the power to authorize the payment of dividends even when a utility's balance of retained earnings is negative. For example, in Docket No. 92-0415, Illinois Power Company requested and received Commission authority under Section 7-103 of the Act to declare and pay quarterly dividends on preferred and common stock despite a possible negative retained earnings balance. (Order, Docket No. 92-0415, 1993 Ill. PUC LEXIS 119, March 24, 1993)

For all the foregoing reasons, Staff recommends the Commission adopt its proposed adjustment to remove all purchase accounting adjustments, including goodwill, from the Company's common equity balance.

⁵ "Earned surplus" is also known as "retained earnings."

4. Subsequent Discussions/Report on Capital Structure

While Staff believes its proposed capital structure is appropriate in the current proceeding, it is probable that a capital structure containing that same level of common equity would not be prudent and reasonable in future formula rate proceedings. Thus, Staff recommends the Commission order the Company to work with Staff to explore more leveraged capital structures for future years and subsequently provide a report to the Commission with its 2013 formula rate filing. (Staff Ex. 8.0, pp.3-4) The Company does not oppose these recommendations, except to the extent the reporting requirement would require a consensus on what constitutes an appropriate capital structure. (Ameren Ex. 14.0, pp. 3-4)

5. Common Equity Ratio/Cap Limit

The authorized rate of return on common equity under the formula rates plan is a function of only two factors: (1) the average yield on 30-year U.S. Treasury bond yields plus 580 basis points, and (2) possible performance penalties. Consequently, the authorized rate of return on common equity does not respond to changes in the common equity ratio. That is, Section 16-108.5 of the PUA severs the inherent link between the rate of return on common equity and the level of financial risk associated with a utility's capital structure. Therefore, absent rigorous Commission oversight of the capital structure, Section 16-108.5 provides a clear incentive to utilities to increase their respective common equity ratios. (Staff Ex. 8.0, pp. 2-3)

Significantly, the credit ratings agencies have indicated that the implementation of formula rates will be favorable toward AIC's credit quality and, indeed, it has already resulted in improved credit ratings. (Ameren Ex. 24.0, p. 9) Specifically, Moody's noted

that formula rates plan should result in more timely cost recovery, resilient credit metrics, and better ability to earn returns, while helping to substantially offset lingering concerns about the regulatory framework. (Staff Ex. 8.0, p. 3) In addition, S&P states the new law improves regulatory risk and provides a “streamlined process” for rate setting expected to improve the stability of the utilities’ cash flows and ultimately reduce regulatory lag. (*Id.*) Therefore, it is probable that a capital structure containing as much common equity as the capital structure Staff presented in this proceeding would not be prudent and reasonable on a going-forward basis.

Nonetheless, Section 16-108.5(c)(2) requires the use of the utility’s actual capital structure for the applicable calendar year, excluding goodwill, subject to Article IX generally and a determination of prudence and reasonableness consistent with Commission practice and law. The most recent calendar year for which actual data was available at the time of filing was 2010. Since AIC’s 2010 capital structure evolved prior to the reductions in operating risk resulting from the passage of Public Acts 97-0616 and 97-0646, for this proceeding, Staff recommends that the Commission adopt the actual calendar year 2010 capital structure that Staff proposes, adjusted to remove all purchase accounting adjustments, rather than an alternative capital structure adjusted to consider the effects of formula rates. (*Id.*, p. 4)

Staff recommends that its capital structure proposal be adopted in this proceeding. S&P indicates that AIC’s regulated utility operating risk is lower than that of Ameren, which includes significantly riskier generation operations. Given that AIC has lower operating risk than Ameren, AIC should be able to maintain more financial risk (i.e., have a lower common equity ratio) than Ameren to achieve the same stand-alone credit rating as Ameren. Thus, Ameren’s common equity ratio of 52.54% represents an

upper bound for AIC's equity ratio. Appropriately, Staff's proposed common equity ratio for AIC is slightly lower at 51.49%. The Company's proposal, however, is greater than Ameren's, at 54.28%. (Staff Ex. 8.0, p. 5) If the Commission chose to adopt the Company's proposed capital structure, it would violate Section 9-230 of the Act, which states as follows:

In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any (i) incremental risk, (ii) increased cost of capital, or (iii) after May 31, 2003, revenue or expense attributed to telephone directory operations, which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies. (220 ILCS 5/9-230)

Staff also compared AIC's capital structure to those of other similarly rated electric companies. (Staff Ex. 8.0, pp. 5-6) Moody's categorizes debt securities on the basis of the risk that a company will default on its interest or principal payment obligations. The resulting credit rating reflects both the operating and financial risks of a utility. As of the end of 2010, AIC had a Moody's corporate credit rating of Baa3 (equivalent to an S&P rating of BBB-), which, as noted above, was recently upgraded to Baa2. (Staff Group Cross Exhibit 6) Based on data from the S&P *Utility Compustat* database, the average common equity ratio for utilities in the electric industry with an S&P credit rating in the BBB range equals 47.02%. Staff's proposed common equity ratio of 51.49% indicates an appreciably lower degree of financial risk than the average BBB rated electric industry company. Thus, Staff's proposed common equity ratio may be higher than necessary for that rating. Yet, the Company's proposed common equity ratio is even higher still, at 54.28%. This indicates, just as the comparison to Ameren's

common equity ratio above, that the Company's proposed common equity ratio is unnecessarily high. (Staff Ex. 8.0, pp. 5-6)

The Company's only response to Staff's analysis is to note that "in the last few years, Moody's has expressed concerns about the supportiveness of the regulatory environment in Illinois, which the agency rates at the sub-investment grade Ba level." (Ameren Ex. 14.0, p. 5) Based on that observation, the Company claims that AIC "has been required to elevate its common equity ratio to a level greater than that of its parent and other comparably-rated electric utilities." (*Id.*) This extrapolated conclusion is entirely unfounded. First, the Company presented no analysis or outside corroboration to substantiate the implication that AIC has greater operating risk than Ameren or other comparably-rated utilities. While Staff's analysis compared AIC's risk relative to that of Ameren and other utilities, the Company's response merely attempts to establish the absolute operating risk level of AIC. It did not, however, present any information regarding the risks of Ameren and other Baa rated utilities at all. Thus, it undeniably fails to address the critical issue of relative risk, rendering illogical the Company's argument that AIC must maintain a higher relative equity level.

Second, the Company's attempt to establish the absolute operating risk level of AIC is deficient and biased. Regulatory environment is only one factor affecting operating risk; yet, the Company discusses only the effects of that factor to the exclusion of all others. Indeed, despite AIC's regulatory environment, S&P still concluded that AIC's overall operating risk is lower than that of Ameren. Thus, as Staff explained, AIC should be able to maintain more financial risk (i.e., have a lower common equity ratio) than Ameren to achieve the same stand-alone credit rating as Ameren. The Company has presented nothing to suggest otherwise.

6. Balance and Embedded Cost of Long-Term Debt

Similar to AIC, Staff proposes to set the cost for \$50 million of the 9.75% bonds that IP issued during October 2008 equal to the cost of long-term debt and set the cost of CILCO December 2008 bond issuance equal to 6.76%. Those adjustments were adopted by the Commission in AIC's most recent gas rate case, Docket No. 11-0282. (Order, Docket No. 11-0282, 1/10/12, pp. 75-77; Ameren Ex. 3.0 (Rev.), p. 5; Staff Ex. 16.0, Schedule 16.04)

Staff also proposes to remove the incremental cost increase due to AmerenCIPS' decision to refinance a \$67 million, 5-year intercompany promissory note bearing an interest rate of 4.7% with \$61.5 million in 30-year bonds bearing an interest rate of 6.7%. The Company opposes Staff's adjustment for the intercompany note, asserting the adjustment is not necessary because the Company is using a year-end capital structure. (Ameren Ex. 14.0, p. 7) Regardless of this argument, the Commission adopted this adjustment in prior rate cases.⁶ (Order, Docket Nos. 09-0306 et al., 4/29/2010, pp. 137-138; Order, Docket Nos. 07-0585 et al., 9/24/2008, pp. 173-178) Notwithstanding the Company's preferred use of a year-end capital structure rather than Staff's proposal to use an average capital structure, the Company offers no cogent justification for the Commission to reverse previous decisions on this matter should an average capital structure be adopted.

AIC's embedded cost of long-term debt equals 7.44%, as shown on Schedule 16.04. That embedded cost reflects time-weighted cost calculations for carrying value,

⁶ Staff noted that this adjustment will not be necessary in future formula ratemaking proceedings given the 4.7% intercompany note's original maturity date was May 2, 2010.

annual amortization expense and interest payments as described in 83 Illinois Administrative Code 285.4000(b). (Staff Ex. 7.0, pp. 11-12)

7. Balance and Embedded Cost of Preferred Stock

AIC's average embedded cost of preferred stock equals 5.00%, which reflects time-weighted cost calculations as described in 83 Illinois Administrative Code 285.4000(b). (*Id.*, pp. 7 and 12)

8. Cost of Short-Term Debt, including Cost of Credit Facilities

Staff recommends that in future formula ratemaking proceedings, the Company's cost of short-term debt should equal the weighted cost of short-term borrowings, as provided in the Company's Form 10-K, because FERC Form 1 does not separately present short-term debt costs from total debt costs. (Staff Ex. 7.0, p. 10) The Company agreed to use Staff's proposed cost of short-term debt when AIC has a short-term debt balance; however, AIC recommends using the cost of short-term borrowings defined under the Company's revolving credit facility whenever AIC's short-term debt balance is zero. (Ameren Ex. 24.0, p. 8) The cost of short-term borrowings defined under the Company's revolving credit facility is inappropriate for formula ratemaking since it would not reflect the actual interest costs incurred by AIC for short-term borrowings. (Staff Ex. 16.0, pp. 15-16) Moreover, the Company's proposal to specify a cost rate for a zero short-term debt balance is meaningless – in fact, AIC did not apply any cost rate to its 2010 short-term debt balance of zero. (Ameren Ex. 2.1, p. 30, line 3) The Commission should adopt Staff's proposed methodology for determining the cost of short-term debt in future formula ratemaking proceedings.

Staff also determined annual credit facility commitment fees of \$5,490,382 for AIC, after adjusting the fees associated with credit facilities that were jointly arranged for AIC and its non-utility affiliates, in accordance with Section 9-230 of the Act. To calculate the Company's credit facility cost, Staff prorated the costs associated with the June 30, 2009 credit facility using the same proration the Company employed (*i.e.*, 252 days for the credit facility costs the Commission examined in the 2009 rate case and 113 days for the credit facility costs the Commission examined in the 2011 rate case). Finally, Staff divided the Company's total bank commitment fees by total capitalization. Thus, Staff added 14 basis points to the Company's overall cost of capital. (Staff Ex. 7.0, p. 11)

Staff's calculation used the costs for the June 2009 credit facility that the Commission authorized in Docket Nos. 09-0306 through 09-0311 (Cons.) and the costs of the September 10, 2010 credit facility that the Commission authorized Docket No. 11-0282. Specifically, in Docket Nos. 09-0306 et al. (Cons.), the Commission adopted Staff's adjustment to reduce bank commitment fees associated with the Illinois credit facility, stating:

The Commission is rightfully concerned that the ratepayers of [AIC] not subsidize the cost of Ameren's borrowing, and therefore, the Commission will adopt Staff's proposal on this issue... Staff postulates that there were no benefits to jointly negotiating that Facility with the Missouri Facility and that the allocation of overall costs to the Illinois Facility was too high. The Commission finds Staff's arguments on this issue convincing, and will adopt Staff's proposed facility fee adjustments for the purpose of this proceeding. (Order, Docket Nos. 09-0306 et al. (Cons.), 4/29/2010, pp. 157-158)

In Docket No. 11-0282, the Commission found that the Company failed to demonstrate that it is certain, or even likely, that the fee rate schedule for the Illinois

credit facility would have been exactly the same if it had been negotiated totally independently from the other two credit facilities that Ameren Corp. and its subsidiaries entered into during July 2010. (Order, Docket No. 11-0282, 1/10/2012, p. 63) The Commission should adopt Staff’s proposed cost of credit facility fees, as it has done in past rate proceedings for AIC.

9. Other

Staff recommends the following changes to sources and descriptions provided in Company Sch FR D-1 and Apps 12 and 13 to reflect Staff’s recommendations regarding a rate of return on rate base.

Summary of Proposed Changes to Company SCH FR D-1 and Apps 12 and 13

| Citation | Staff Recommendation |
|--|---|
| Lines 1 through 4, Columns (A) and (B) | Change description and source to “Not Used” |
| Line 5, Column (B) | Change source to “Sch FR D-1 WP 16, Average Adjusted Common Equity Balance, divided by 1,000” to reflect average common equity balance, less purchase accounting adjustments, including goodwill, and any adjustments for remaining CWIP accruing AFUDC |
| Line 6, Column (A) | Change description to “Adjusted Preferred Stock Balance (\$ in 000s)” |
| Line 6, Column (B) | Change source to “Sch FR D-1 WP 15, Average Adjusted Preferred Stock Balance, divided by 1,000” to reflect the average preferred stock balance, less the portion of preferred stock that is reflected in the AFUDC rate |
| Line 7, Column (A) | Change description to “Adjusted Long-Term Debt Balance (\$ in 000s)” |
| Line 7, Column (B) | Change source to “Sch FR D-1 WP 14, Average Adjusted Long-Term Debt Balance, divided by 1,000” to reflect the average long-term debt balance, less the portion of long-term debt that is reflected in the AFUDC rate |
| Line 8, Column (B) | Change source to “Sch FR D-1 WP 12 Pg 1 Col (F) Ln 14, divided by 1,000” |
| Line 18, Column (B) | Change source to “Sch FR D-1 WP 15” |
| Line 19, Column (B) | Change source to “Sch FR D-1 WP 14” |
| Line 20, Column (B) | Change source to “Form 10-K” |
| Line 22, Column (B) | Change source to “Sch FR D-1 WP 12 Pg 2 Ln 11, divided by 1,000” |
| Company’s proposed App 12 | Delete |
| NEW Sch FR D-1 WP 12 | Calculate short-term debt balance and the cost to maintain credit facilities using work paper that is substantially similar to Schedule 16.02 |
| Company’s proposed App 13 | Delete |
| NEW Sch FR D-1 WP 13 | Calculate adjustments to the long-term capital components that result from remaining CWIP accruing AFUDC using work paper that is substantially similar |

| | |
|-------------------------|--|
| | to Schedule 16.03 |
| NEW Sch FR D-1 WP 14 | Calculate the average long-term debt balance and the embedded cost of long-term debt using work paper that is substantially similar to Schedule 16.04 |
| NEW Sch FR D-1 WP 15 | Calculate the average preferred stock balance and the embedded cost of preferred stock using work paper that is substantially similar to Schedule 16.05 |
| NEW Sch FR D-1 WP 16 | Calculate the average common equity balance, including adjustments to remove purchase accounting adjustments, including goodwill, and non-utility and unregulated affiliates, using work paper that is substantially similar to Schedule 16.06 |

VI. REVENUE REQUIREMENT

A summary of Staff's final revenue requirement recommendations to the Commission in this proceeding is attached hereto as Appendix A.

VII. COST OF SERVICE AND RATE DESIGN

A. Resolved Issues

1. Standard of Review for Rate MAP-P Class Cost Allocation and Rate Design

Ameren filed its Rate MAP-P filing under Section 16-108.5 of the Act. Section 16-108.5(c) states:

Until such time as the Commission approves a different rate design and cost allocation pursuant to subsection (e) of this Section, rate design and cost allocation across customer classes shall be consistent with the Commission's most recent order regarding the participating utility's request for a general increase in its delivery services rates.
(220 ILCS 5/16.108.5(c))

The Company's last rate case was Docket No. 09-0306 (Cons.), and the statute requires that the cost allocation and rate design in this proceeding should be consistent with the cost allocation and rate design approved in the Commission Order for that case. (Staff Ex. 9.0, p. 6)

AIC acknowledges that Section 16-108.5 of the Act requires that rate design and cost allocation across customer classes shall be consistent with the Commission's most recent order. (Ameren Ex. 9.0, p. 4; Ameren Ex. 10.0, pp. 2-4) The Company also accepts that the determinations made in Docket No. 09-0306 (Cons.) Order should be applied in the current proceeding. (*Id.*)

2. ECOSS Class Cost Allocation

The Company provided embedded cost of service studies (ECOSSs) for all three Ameren Rate Zones. Staff Ex. 9.0 at 7. Staff initially had concerns with the Company's proposed Services allocator. (*Id.*, p. 8) Staff observed that there were some significant shifts in class allocation percentages and the calculation of Services costs for Rate Zone 2 contained some errors. (*Id.*, pp. 8-9) AIC corrected the errors identified by Staff and provided revised Services allocators for all three Rate Zones in rebuttal testimony. (See, *generally*, Ameren Ex. 20.0) Upon review of the revised studies, Staff determined that the Company's revised Services allocators were consistent with the ECOSSs Services allocators approved in Docket No. 09-0306 (Cons.) and therefore had no objection to the Company's proposed ECOSS cost allocation to classes. (Staff Ex. 17.0, p. 6)

3. Class Revenue Allocation

Staff proposed, Staff Ex. 9.0 at 14-15, and Company accepted, (Ameren Ex. 19.0, pp. 4-5), a recommended revenue allocation that ensures that revenue allocation constraints are +/- 50% of the system average rate change for a rate zone. Both the Company's and Staff's revenue allocation approaches attempt to address a rate

decrease in a way that is consistent with the revenue allocation methodology approved by the Commission in Docket No. 09-0306 (Cons.) for rate increases. (*Id.*)

4. Rate Design

AIC proposed that the individual charge components for each Delivery Service Rate be adjusted following the methodology used in Docket No. 09-0306 (Cons.). (Ameren Ex. 9.0, p. 4)

Staff concludes that the Company's proposed rate design method for all charges consistent with that found in the Docket No. 09-0306 (Cons.) Orders. (Staff Ex. 9.0, p. 22)

5. Section 16-108.5(c)(4) Protocols – Weather Normalization and Common Costs

Section 16-108.5(c)(4)(H)-(I) of the Act provides that:

The performance-based formula rate approved by the Commission shall ... [p]ermit and set forth protocols, subject to a determination of prudence and reasonableness consistent with Commission practice and law, for ... historical weather normalized billing determinants[,] and allocation methods for common costs.
(220 ILCS 5/16-108.5(c)(4)(H)-(I))

Staff does not object to the Company's weather normalizing billing determinants or to the proposed methodology for allocating common costs. Staff, however, recommends that these two protocols for allocating common costs to rate classes be addressed in the subsequent proceeding devoted to cost of service and rate design issues as required by Section 16-108.5(e). (Staff Ex. 9.0, p. 23) The Company apparently does not object to this recommendation.

B. Contested Issues

VIII. FORMULA RATE TARIFF

A. Uncontested or Resolved Formula/Tariff/Filing Issues

1. Uncollectibles Expense – Reconciliation in Rider EUA

The Company agreed to Staff's recommendation regarding uncollectibles expenses for purposes of the reconciliation calculation, to allow the amount of uncollectibles expense to be recovered through the formula rate to equal the amount in the previous year's formula rate filing, rather than the actual amount incurred. In other words, the formula rate will always reflect zero for the over or under recovery of uncollectibles expense. (Staff Ex. 1.0, p. 15; Ameren Ex. 12.0, p. 6) It further agreed with Staff's recommendation to change its electric uncollectibles adjustment rider, Rider EUA, to the net write-off method. (*Id.*, p. 7; Ameren Ex. 12.2)

2. Interest Rate Formula for Reconciliation Computation

In direct testimony, in addition to recommending a different interest rate than proposed by AIC, Staff proposed a change to the formula of the interest rate calculation in the Company's Schedule FR A-4. (Staff Ex. 1.0, p. 17) While the rate to be used on Schedule FR A-4 is still contested, Staff has withdrawn its recommendation to change the formula since the Company correctly pointed out it contained computational errors. (*Id.*, p. 15)

3. Miscellaneous Staff/AIC Agreed-Upon Tariff Language Changes

Staff proposes several changes to the Company's formula rate template. (Staff Ex. 1.0, pp. 17-21) Other than the error in the interest rate formula in Schedule FR A-4 discussed above, the Company did not oppose these recommendations, and reflected the changes in its rebuttal formula. (Staff Ex. 10.0, p. 15; Ameren Ex. 12.0, pp. 8-9)

Subsequent to the evidentiary hearing, an error was discovered on Sch FR A-3, Return on Equity (ROE) Collar Computation. The formula/source for the ROE Collar Tax Gross-up at line 41, column B, is incorrect. Staff and the Company agree that "(Ln 40) * ((1.0) - (Ln 25))" should be replaced with "(Ln 40) * Sch FR C-4 Col C Ln 5" to correct the error. Because there is no ROE collar computation in an initial formula rate filing, the correction has no effect on the revenue requirement in the instant proceeding.

Staff witness Samuel S. McClerren offers his opinion that AIC's submitted tariffs comply with the requirements of Section 16-108.5, with the exception of two instances in which AIC could have provided additional detail regarding termination terms and conditions of Rate MAP-P, similar to the level of detail found in ComEd's Delivery Service Pricing and Performance ("DSPP") tariff filing. (Staff Ex. 4.0, p. 2)

Additionally, Staff identifies one instance in which AIC plans a four business day filing interval rather than the two day filing interval utilized by ComEd. (*Id.*, p. 3) The four day versus two day filing issue is addressed in this Initial Brief at Section VIII(A)(5).

It is important to compare AIC's tariff for Rate MAP-P with ComEd's Rate DSPP tariff because both companies submitted initial tariffs to become participating utilities as defined in Section 16-108.5 of the Act. Given that Section 16-108.5 provides a new regulatory framework for the purpose of setting rates, and given that this proceeding will establish precedent going forward, Staff recommends that the Commission utilize a consistent approach to review tariff submissions. (Staff Ex. 4.0, pp. 4-5) With respect

to Section 16-108.5(c)(6), AIC's proposed tariffs adequately replaced existing tariffs by removing existing rates and including the phrase, "shown in the Delivery Charges Informational Sheet supplemental to the Rate MAP-P tariff." (*Id.*, p. 6) However, AIC and ComEd had different approaches reflected in termination language in the "Application of Delivery Service Charges" section. AIC's proposed tariff states the following:

Operation of this tariff is terminable in accordance with the provisions of 220 ILCS 5/16-108.5. In the event the operation of this tariff is rendered inoperable pursuant to 220 ILCS 5/16-108.5, the rates in effect at the time of termination or inoperability shall survive until such time as new rates become effective in accordance with the Act. (Staff Ex. 4.0, pp. 9-10; see also Ameren Ex. 9.1, p. 5)

ComEd's proposed tariff, states:

Notwithstanding the provisions of the previous paragraph, after December 31, 2017, or in the event that (a) the Company does not fulfill its obligations in accordance with the provisions of Section 16-108.5(b) of the Act; (b) the average annual increase in the amount paid by certain retail customers for electric service exceeds 2.5%, as presented in the report that must be filed by the Company with the ICC by July 31, 2014, in accordance with the provisions of Section 16-108.5(g) of the Act; or (c) this tariff is otherwise terminated in accordance with provisions in the Act, the then currently effective delivery service charges remain in effect beyond the end of the otherwise scheduled December monthly billing period as necessary until such time that the ICC approves delivery service rates in accordance with Article IX of the Act. Such then approved delivery service rates may include retroactive rate adjustment with interest, as applicable, to reconcile the Company's delivery service rates charged with its actual corresponding delivery service costs. (Staff Ex. 4.0, p. 10; see also ComEd Rate DSPP, p. 572)

Staff considers ComEd's language to be more comprehensive and recommends that AIC be directed to add that termination detail to its "Application of Delivery Service Charges" tariff section. (Staff Ex. 4.0, pp. 10-11) In response, AIC witness Robert J.

Mill indicated that AIC's Rate MAP-P compliance tariff will reflect Staff's requested language. (Ameren Ex. 12.0, p. 11)

Staff also identifies material in Commonwealth Edison's tariff filing that AIC's does not contain. Regarding informational filings, ComEd's proposed tariff provides that:

In the event that (a) the Company does not fulfill its obligations in accordance with the provisions of Section 16-108.5(b) of the Act; (b) the average annual increase in the amount paid by certain retail customers for electric service exceeds 2.5%, as presented in the report that must be filed by the Company with the ICC by July 31, 2014, in accordance with the provisions of Section 16-108.5(g) of the Act; or (c) this tariff is otherwise terminated in accordance with provisions in the Act, and the then currently effective delivery service charges remain in effect beyond the end of the otherwise scheduled December monthly billing period, such then currently effective delivery service charges must be refiled by the Company with the ICC for informational purposes with proper references that such delivery service charges are to remain in effect until such time that the ICC approves delivery service rates in accordance with Article IX of the Act. The provisions of this paragraph survive any termination of this tariff, as applicable. (Staff Ex. 4.0, p. 12; see *a/so* ComEd Rate DSPP, p. 579)

Staff recommends that AIC also include the termination language in its "Informational Filings" section. (Staff Ex. 4.0, p. 13) In response, Mr. Mill indicated that AIC's Rate MAP-P compliance tariff will reflect Staff's requested language. (Ameren Ex. 12.0, p. 11)

4. Period of Time for Filing Compliance Formula Tariff with ICC

Staff notes another difference between AIC's proposed Rate MAP-P tariff and ComEd's proposed DSPP tariff. Specifically, Ameren's tariff provides that:

The annually updated delivery service charges that are scheduled to be applicable beginning with a January monthly Billing Period and extending through the following December monthly Billing

Period shall be filed with the ICC for informational purposes within **four (4) business days** after the ICC issues its Order pertaining to such updates. (Staff Ex. 4.0, p. 11; see also Ameren Ex. 9.1, p. 5) in contrast, ComEd's tariff states that:

For the annually updated delivery service charges that are scheduled to be applicable with a January monthly billing period and extending through the following December monthly billing period, the Company must file such delivery service charges with the ICC for informational purposes within **two (2) business days** after the ICC issues its Order pertaining to such updates to such delivery service charges as described in the Annual Updates section of this tariff. (Staff Ex. 4.0, p. 11; see also ComEd Rate DSPP, p. 575)

AIC explains this difference as follows:

A period of 4 business days was selected to allow sufficient time to accommodate potential changes required by the Commission within the formula rate. The issue is less of a concern after the initial approval of Rate MAP-P. However, unlike ComEd, AIC has three separate rate zones so there is added complexity for such compliance filings for AIC and the potential additional two days could perhaps be beneficial. (Staff Ex. 4.0, pp. 11-12; see also Response to Staff Data Request SSM 1.02)

The period of four business days appears reasonable when considering the additional complexity of submitting delivery service tariff filings for three separate rate zones.

(Staff Ex. 4.0, p. 12)

B. Contested Formula/Tariff/Filing Issues

1. Incentive Compensation – Stated Level/Test of Reasonableness

IIEC witness Mr. Gorman proposes to impose a ceiling, or “stated level” of incentive compensation expense, based on an average of the amount of incentive compensation approved by the Commission in AIC's last three rate cases. This stated level of expense would be automatically reflected in the formula rates and the Company would have to justify any amounts that exceed this ceiling. (IIEC Ex. 1.0, pp. 16 – 19)

Staff disagrees with Mr. Gorman's proposal. Based on Staff's understanding of Section 16-108.5(c) of the Act, the statute permits the recovery of incentive compensation expense in the formula rates, subject to a determination of prudence and reasonableness consistent with Commission practice and law, to the extent that such incentive compensation expense is based on the achievement of operational metrics, including metrics related to budget controls, outage duration and frequency, safety, customer service efficiency and productivity, and environmental compliance. Incentive compensation that is based on net income or an affiliate's earnings per share shall not be recoverable under the performance-based formula rate. The Act does not specify a dollar limit, instead it provides for the actual amount to be considered for prudence and reasonableness, within the context of the statute. Mr. Gorman's proposal would, instead, substitute an assumed amount which is presumed to be prudent and reasonable and forego analysis of the actual amount for the year. (Staff Ex. 18.0, pp. 3 – 4)

AIC witness Mr. Nelson also disagrees with Mr. Gorman's proposed "stated value" caps, based on his understanding of Section 16-108.5 of the Act. Furthermore, he agrees with Staff that such a proposal is unnecessary given the formula rate reconciliation process. (Ameren Ex. 21.0, pp. 9 - 10)

For all these reasons, Staff urges the Commission to reject Mr. Gorman's proposal.

2. Incentive Compensation – Metrics/Requirements

IIEC witness Mr. Gorman also recommends that the Commission impose a condition whereby the Company would have to satisfy its performance metrics and

reliability standards in order to recover incentive compensation expense in the formula rates. Staff does not oppose the idea that AIC could incorporate some additional metrics related to Section 16-108.5(f) into its incentive compensation plans prospectively; however, Staff does not understand Section 16-108.5 to impose this requirement for recovery of incentive compensation expense in the formula rates in the manner Mr. Gorman proposes. (Staff Ex. 18.0, p. 4)

3. Affiliate Service Charges – Stated Level/Test of Reasonableness

IIEC witness Mr. Gorman asserted that these affiliate service charges will not receive regulatory scrutiny within a formula rate case; therefore, he proposed to limit them to a stated value to ensure that customers will pay no more than a reasonable level for this expense. (IIEC Ex. 1.0, p. 18) Mr. Gorman recommends going forward that the Commission use a “stated level” equal to \$124 million, the amount of affiliate service charges expense included in the instant proceeding, in lieu of actual expense. (*Id.*) He references this amount to the formula rate filing (Sch. FR C-13 A, Sch. 13 B and Sch. 13 C). However, Staff was unable to locate these schedules or the \$124 million to which Mr. Gorman refers. Similar to Mr. Gorman’s proposal regarding the treatment of incentive compensation expense, this “stated level” would act as a ceiling amount for expense that would be automatically reflected in the formula rates. The Company would have to justify any amounts that exceed this stated amount. (IIEC Ex. 1.0, pp. 18 – 19)

Staff disagrees with Mr. Gorman’s proposal because it does not comport with Section 16-108.5 of the Act. Staff understands that Section 16-108.5 permits recovery of affiliate service charge expense in the formula rates, subject to a determination of

prudence and reasonableness, consistent with Commission practice and law. Therefore, Staff does not support the substitution of actual expense amounts with a stated amount in future proceedings. (Staff Ex. 18.0, pp. 5 – 6)

AIC witness Mr. Nelson also disagrees with Mr. Gorman's proposed "stated value" caps, based on his understanding of Section 16-108.5 of the Act. Furthermore, he agrees with Staff that such a proposal is unnecessary given the formula rate reconciliation process. (Ameren Ex. 21.0, pp. 9 - 10)

For all these reasons, Staff urges the Commission to reject Mr. Gorman's proposal. Staff notes that the Commission declined to impose a similar cap on affiliate expenses in the recent ComEd formula rate order (Docket No. 11-0721, p. 158)

4. Rate Case Expense – Stated Level/Test of Reasonableness

The Illinois Industrial Energy Consumers (IIEC) make the following proposal with respect to rate case expense:

[T]he Commission [should] establish a stated amount of [rate case] expense that will act as a ceiling amount for expense that may be automatically included in Rate MAP-P. To the extent Ameren Illinois' actual expense is equal to or less than the stated amount, it could be automatically included in Rate MAP-P. If this expense exceed [sic] the stated amount, then Ameren Illinois can either include the stated ceiling amount in Rate MAP-P or the Commission will initiate an investigation of the proposed amount to determine whether the higher amount is reasonable and prudent.
(IIEC Ex. 1.0, p. 16)

IIEC witness Michael P. Gorman contends that in formula rate proceedings, rate case expense should be "aggressively managed" and subject to "critical review" so that AIC will be incented to manage rate case expense itself. (*Id.*, p. 17) Otherwise, Mr. Gorman suggests, rate case expense is likely to "get out of hand." (*Id.*) Mr. Gorman

recommends that the stated amount be \$1.0 million, based on the annual amortized rate case expense incurred in AIC's last rate case. (*Id.*) Mr. Gorman asserts that this will protect consumers and assure that rate case expense remains prudent and reasonable. (*Id.*)

This proposal should be rejected. First, Section 9-229 of the PUA requires the Commission to:

[S]pecifically assess the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing. This issue shall be expressly addressed in the Commission's final order. (220 ILCS 5/9-229)

IIEC's proposal would effectively prevent the Commission from "expressly address[ing] in its final order the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing." (Staff Ex. 11.0, pp. 3-4) This could easily lead to a utility spending less than that cap, but including the full amount of the cap (ceiling) in its rate filing. (*Id.*, p. 4) Under this scenario, an insufficient review of rate case expense might result and the revenue requirement could include a rate case expense amount in excess of the actual amount incurred. (*Id.*)

Second, the Commission currently has an ongoing rulemaking proceeding dealing with rate case expense. (Staff Ex. 11.0, pp. 4-5) Imposition by Commission Order of a rate expense ceiling in this proceeding might result in an inconsistency with any rule subsequently adopted by the Commission. In other words, it would be advisable and would serve the ends of administrative economy to decline to impose a cap of the nature proposed by IIEC at this time.

Third, in its Final Order in Docket No. 11-0721, the Commission's basis for rejecting IIEC's proposal relied on the Commission's order in Docket No. 10-0467, a Commonwealth Edison rate proceeding in which the Commission stated that rate case expense must be documented with proof of the work performed by the individual or the entity as well as the reasonableness of the hourly rate charges for services. (*Id.*, p. 4) AIC agrees with this position. (AIC Ex. 21.0R, p. 9) In rebuttal, Mr. Gorman clarified that IIEC's position was to set a ceiling only on expense amounts for which the Company had demonstrated prudence and reasonableness. (IIEC Ex. 4.0, p. 13)

5. Schedules to be Included in Rate MAP-P/Tariff Complexity

In his Direct Testimony, Illinois Industrial Energy Consumers ("IIEC") witness Robert R. Stephens expresses concern that the tariff structure for Rate MAP-P is unduly complex and more specific than necessary, and that Appendices A and B, in particular, go far beyond what is required to define a standardized process. (IIEC Ex. 3.0, p. 4)

Mr. Stephens states that the vast majority of customers who take electricity service would have no use for the level of detail in Rate MAP-P. (*Id.*, p. 5) He believes the proposed tariff would actually reduce the transparency to most ratepayers of the ratemaking process due to AIC's incorporation of voluminous appendices using arcane technical terms and abbreviations. (*Id.*, pp. 5-6) Mr. Stephens also notes that the level of detail in the tariff would not obviate the need for the ICC to apply analysis or judgment in future rate efforts, and that alternatives such as policy manuals should be considered. (*Id.*, pp. 7-8) AIC's disagreed with Mr. Stephens' position on Appendices A and B, stating that AIC included the information necessary for a full and complete implementation of the formula rate provisions of the Public Utilities Act. (Ameren Ex.

12.0, p. 13) Company witness Mr. Mill stated that the appendices enhanced transparency to the ratemaking process by providing verifiable accuracy, would be easily auditable, and that results can be replicated without ambiguity. (Ameren Ex. 12.0, pp. 13-14)

This issue was also addressed in the Commonwealth Edison formula rate proceeding, Docket No. 11-0721. There, IIEC witness Michael Gorman argued that Rate DSPP should be less detailed and specific, similar to Mr. Stephens' argument in this proceeding. (IIEC Ex. 1.0, pp. 9-11) Specifically, Mr. Gorman proposed that the Commission adopt Schedules FR A-1 and FR A-1Rec from ComEd's proposed formula rate. (Order, Docket No. 11-0721, May 29, 2012, p. 152)

The Commission found:

IIEC's recommendation is well-taken regarding simplification of ComEd's tariffs pursuant to Section 16-108.5 of the Public Utilities Act and it is hereby adopted. Specifically, the workpapers and schedules, etc. may be part of a filing, but they are not to be part of the tariffs. The Commission also notes that Section 16-108.5 of the Public Utilities Act is not easy to comprehend, but it will last for 10 to 11 years, unless it is dramatically altered by the General Assembly or the Appellate or Supreme Courts. IIEC's recommendation to instigate a rulemaking regarding a systematic approach governing the formula rate process will add clarity to the reconciliations that will take place pursuant to this statute, which should provide greater clarity for utilities, ratepayers and Commission Staff. This recommendation is also adopted by this Commission. (Order, Docket No. 11-0721, May 29, 2012, p. 153)

Staff recommends the Commission adopt the same approach with AIC that it used in the ComEd case. Specifically, Rate MAP-P should include Schedules FR-A1 and FR-A1 Rec. The remaining schedules may be part of a filing but they should not be part of the tariff. This would maintain consistency between AIC's formula rate and ComEd's formula rate. Both AIC and the Commission recognize the importance of consistency

between the two formula rates. (Staff Ex. 13.0, pp. 3-4) AIC itself acknowledged the importance of maintaining this consistency when Mr. Mill explained:

- Q. How was the Rate MAP-P PBR template designed?
- A. Ameren Illinois patterned its Rate MAP-P Excel spreadsheets, or PBR template, after the ComEd formula template (Rate DSPP) filed with the Commission on November 8, 2011. Differences between the ComEd and Ameren Illinois PBR formula templates exist primarily due to historical ratemaking differences and other business differences. Adopting a comparable PBR design should facilitate a more efficient review process. (Ameren Ex. 2.0R, p. 7)

The Commission indicated it will initiate a rulemaking to create a systematic approach governing the formula rate process. (Order, Docket No. 11-0721, May 29, 2012, p. 153) Such a rule would apply to both ComEd and AIC and assumes consistency between the two formula rates. Following the Commission's approach from the ComEd Order would maintain this consistency. (Staff Ex. 13, p. 4)

In his surrebuttal testimony, Mr. Mill indicated a strong preference to retain the material in Appendices A and B, but stated, "Ultimately, if the detailed formula schedules are not made part of the tariff, it's of little consequence to AIC." (Ameren Ex. 22, p. 6) AIC continues to question the utility of the associated rulemaking effort. (*Id.*, pp. 6-7)

Staff recommends that the Commission should be clear in its Order that it is adopting as the formula all the schedules that comprise the template pursuant to Section 16-108.5(d)(3) which states:

The Commission shall not, however, have authority in a proceeding under this subsection (d) to consider or order any changes to the structure or protocols of the performance-based formula rate approved pursuant to this Section. Thus, the Commission does not have authority to approve any further changes to the formula adopted in this proceeding.

(220 ILCS 5/16-108(d)(3); see also Staff Ex. 10.0, p 17)

Staff concludes that the Commission does not have the authority to approve any further changes to the formula adopted in this proceeding. Staff also recommended that the Commission order Ameren to file on e-Docket with a copy to the Manager of Accounting of the Commission, the final template approved by the Commission that consists of all schedules comprising the formula by the time rates resulting from this order are effective. (Staff Ex. 10.0, p. 17) The Company has indicated that it agrees with Staff's recommended clarifications. (Ameren Ex. 22.0, p. 4)

6. Filing of Final Approved Formula Template/Schedules with ICC

See Staff discussion in Section VIII(B)(5).

7. Rulemaking – Formula Rate Process

See Staff discussion in Section VIII(B)(5).

8. Other

C. Contested Reconciliation Issues

1. Year End or Average Rate Base

The Commission should accept Staff's (Staff Ex. 1.0, pp. 11-14) and other parties' recommendations, (see IIEC Ex. 2.0, pp. 9-10, AG/AARP Ex. 2.0, pp. 18-20, CUB Ex. 1.0, pp. 35-39), to use an average rate base, rather than a year-end rate base, in measuring the actual results achieved during the year for purposes of the reconciliation calculation.

Section 16-108.5(c)(6) of the Act states that the performance based formula rate approved by the Commission shall:

Provide for an annual reconciliation, with interest as described in subsection (d) of this Section, of the revenue requirement reflected in rates for each calendar year, beginning with the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section, with what the revenue requirement would have been had the **actual cost information for the applicable calendar year** been available at the filing date.
220 ILCS 5/16-108.5(c)(6) (emphasis added)

Further, Section 16-108.5(d)(1) goes on to describe the requirements and information to be included in future filings of updated cost inputs to the performance-based formula rate for the applicable rate year and the corresponding new charges, stating that:

The filing shall also include a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) **with the actual revenue requirement for the prior rate year (as reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year)**.
220 ILCS 5/16-108.5(d)(1) (emphasis added)

Section 16-108.5(d)(1) concludes, stating that:

Notwithstanding anything that may be to the contrary, the intent of the reconciliation is to ultimately reconcile the revenue requirement reflected in rates for each calendar year, beginning with the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section, with what the revenue requirement would have been had the **actual cost information for the applicable calendar year** been available at the filing date.

220 ILCS 5/16-108.5(d)(1) (emphasis added)

While the Act does not specifically state that either year-end or average rate base should be used in determining the reconciliation revenue requirement, the Act is specific and consistent in requiring actual cost information be used for the applicable calendar

year, and not “as of” the applicable year end. The specific language of the Act clearly bears the interpretation that the reconciliation revenue requirement is to be calculated for a period of time, not as of a particular point in time. (Staff Ex. 1.0, pp. 12-13)

The record is clear that average rate base can be calculated from cost information “reflected” in FERC Form 1. The FERC Form 1 for any given year includes both the plant in service balance at the beginning of the year (page 204 and page 206) and at the end of the year (page 205 and 207); thus, a revenue requirement using average rate base can be calculated using information “reflected” in FERC Form 1. Also, operating and maintenance costs “reflected” in FERC Form 1 are “for” the calendar year, so those costs more closely match the average plant in service for the calendar year. (*Id.*)

In the ComEd order, ruling on this same issue, the Commission adopted the proposal made by the AG and others to compute the reconciliation rate base using an average. (Order, Docket No. 11-0721, May 29, 2012, p. 18) Staff acknowledges that this is still at issue in the rehearing phase of the ComEd proceeding, however, until such a time the Commission issues a Final Order on rehearing ruling that an average rate base should not be used, the Commission conclusions remain in effect and should be consistently applied in this similar proceeding. It would be unreasonable for the Ameren formula rate, which is based upon the same statute as ComEd’s, to contain a different conclusion on the same issue as ruled upon in Docket No. 11-0721. (Staff Ex. 10.0, p. 13)

2. Interest Rate on Under/Over Collections

In direct testimony, consistent with Commission practice, Staff's proposed reconciliation computation on Schedule FR A-4, line 4, used the interest rate on customer deposits approved by the Commission pursuant to 83 Ill. Adm. Code 280.70(e)(1) rather than the weighted average cost of capital proposed by AIC. (Staff Ex. 1.0, pp. 16-17) Staff noted that when calculating interest on reconciling amounts or balancing factors, the Commission generally uses the interest rate on customer deposits. (Staff Ex. 1.0, p. 17)

However, in rebuttal testimony, Staff recommends the Commission order on this issue be consistent with the ComEd order. (Staff Ex. 10.0, p. 14) In the ComEd order, the Commission adopted a hybrid approach to use the weighted costs of short-term debt and long-term debt and exclude the weighted cost of common equity as the methodology in calculating the interest rate. (Order, Docket No. 11-0721, May 29, 2012, p. 166) Staff acknowledges that this is still at issue in the rehearing phase of the ComEd proceeding, however, until such a time the Commission issues a Final Order on rehearing ruling that changes this decision, the Commission conclusions remain in effect and should be consistently applied in this similar proceeding. It would be unreasonable for the Ameren formula rate, which is based upon the same statute as ComEd's, to contain a different conclusion on the same issue as ruled upon in Docket No. 11-0721.

3. Other

D. Other Legal Issues

1. CUB's Additional Steps for Commission Review of Project Costs

IX. OTHER

A. Resolved or Uncontested Issues

1. Original Cost Determination

Staff recommends the Commission approve the Company's request for an original cost finding. (Ameren Ex. 2.0R, p. 15; Ameren Ex. 2.3) If the Commission makes any additional adjustments to plant, those adjustments should also be reflected in the original cost determination. Therefore, Staff recommends the Commission include the following language in the Findings and Orderings paragraphs of its Order in this proceeding:

- (#) the Commission, based on AIC's proposed original cost of plant in service as of December 31, 2010, before adjustments, of \$4,920,009,000, and reflecting the Commission's determination adjusting that figure, unconditionally approves \$4,908,210,000 as the composite original cost of jurisdictional distribution services plant in service as of December 31, 2010. (Staff Ex. 1.0, p. 22)

As of the filing of Staff's rebuttal testimony, there were no further plant adjustments at issue, and the Company did not oppose Staff's language. (*Id.*, p 16)

2. Uncollectibles Expense – Net Write Off in Rider EUA

As discussed above in Section VIII, A. 1, the Company did not oppose Staff's recommendation to change the Company's Rider EUA to the net write off method.

3. Net Plant Allocator

In direct testimony, Staff recommended the Company correct an error in its formula rate Excel files that resulted in a small error in its net plant allocator. (Staff Ex.

1.0, p. 22) The Company agreed and made the correction in rebuttal. (Ameren Ex. 13.0, p. 5)

4. Depreciation Study

Staff proposes that Ameren prepare a depreciation study to update its depreciation rates prior to its next rate proceeding. (Staff Ex. 2.0, p 2) AIC's current depreciation rates were approved in Docket No. 07-0585 et al. (Cons.). (*Id.*, p. 3) Those rates are based upon depreciation studies for individual plant accounts within each of the three legacy utilities, which produced rates that were not necessarily uniform for the same account across each operating utility. (*Id.*) A new depreciation study should be performed now that the three legacy utilities have been combined into one. (*Id.*)

AIC accepted this recommendation in its response to Staff DR MHE 4.01, and also indicated that it was currently having such a study performed and expects to include the results of this study in its May 2013 formula rate filing. (AIC Ex. 13.0, p. 4; Staff Ex. 2.0, p. 3)

5. Rate Case Expense – Section 9-229 Statement

AIC acknowledged on its Schedule C-10 that: "Ameren Illinois is not yet requesting recovery of rate case expense related to this proceeding as none were incurred in 2010". (Staff Ex. 2.0, p. 2) Staff understands Section 9-229 of the PUA to require that the Commission expressly address in its final order the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate proceeding. (*Id.*, p. 4) Given the requirement for the Commission to expressly address this issue in its order, Staff

recommends that the Commission incorporate the following language into its rate order in this proceeding:

Pursuant to Section 9-229, the Commission is required to expressly address in its final order the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing. The costs included for recovery in this filing are amortization of costs approved in Docket No. 04-0294, 07-0585 et al (Cons.), and 09-0306 et al (Cons.) that were previously established as regulatory assets by the Commission in that order. The costs associated with this proceeding were not incurred in 2010 and as such, are not considered for recovery in this proceeding. Costs incurred in 2011 and 2012 that are related to this proceeding will be considered as part of the proceedings related to the recovery of costs for those years. Thus, there are no costs expended by the Company to compensate attorneys or technical experts to prepare and litigate a general rate case filing for the Commission to address in this proceeding.
(*Id.*)

AIC concurred with this recommendation in rebuttal testimony. (Ameren Ex. 13.0, p. 34)

B. Contested Issues

- 1. Income Taxes – Interest Synchronization**
- 2. Gross Revenue Conversion Factor**

X. CONCLUSION

WHEREFORE, for all of the following reasons, Staff respectfully requests that the Commission's order in this proceeding reflect all of Staff's recommendations regarding the Company's request for a general increase in electric and gas rates.

July 10, 2012

Respectfully submitted,

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Ameren Illinois Company
Adjustments to Operating Income
For the Year Ending December 31, 2010
(In Thousands)

| Line No. | Description | Interest Synchronization (App. A, p. 6) | Charitable Contributions (Sch. 15.01) | Advertising (Sch. 15.02) | (Source) | (Source) | (Source) | (Source) | Total Operating Statement Adjustments |
|----------|----------------------------------|---|---------------------------------------|--------------------------|----------|----------|----------|----------|---------------------------------------|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) |
| 1 | Electric Operating Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | Other Miscellaneous Revenues | - | - | - | - | - | - | - | - |
| 3 | Total Operating Revenues | - | - | - | - | - | - | - | - |
| 4 | Uncollectible Accounts | - | - | - | - | - | - | - | - |
| 5 | Distribution Expenses | - | - | - | - | - | - | - | - |
| 6 | Customer Accounts Expenses | - | - | - | - | - | - | - | - |
| 7 | Cust. Service & Inform. Expenses | - | - | (1,380) | - | - | - | - | (1,380) |
| 8 | Admin. & General Expenses | - | (72) | (263) | - | - | - | - | (335) |
| 9 | Depreciation & Amort. Expenses | - | - | - | - | - | - | - | - |
| 10 | Regulatory Debits | - | - | - | - | - | - | - | - |
| 11 | Taxes Other Than Income | - | - | - | - | - | - | - | - |
| 12 | | - | - | - | - | - | - | - | - |
| 13 | | - | - | - | - | - | - | - | - |
| 14 | | - | - | - | - | - | - | - | - |
| 15 | Total Operating Expense | - | - | - | - | - | - | - | - |
| 16 | Before Income Taxes | - | (72) | (1,643) | - | - | - | - | (1,715) |
| 17 | State Income Tax | 300 | 5 | 120 | - | - | - | - | 425 |
| 18 | Federal Income Tax | 1,335 | 23 | 533 | - | - | - | - | 1,891 |
| 19 | Deferred Taxes and ITCs Net | - | - | - | - | - | - | - | - |
| 20 | Total Operating Expenses | 1,635 | (44) | (990) | - | - | - | - | 601 |
| 21 | NET OPERATING INCOME | \$ (1,635) | \$ 44 | \$ 990 | \$ - | \$ - | \$ - | \$ - | \$ (601) |

Ameren Illinois Company
Rate Base
For the Year Ending December 31, 2010
(In Thousands)

| Line No. | Description | Company Rebuttal Pro Forma Rate Base (Co. Sch. C) | Staff Adjustments (App. A, p. 4) | Staff Pro Forma Rate Base (Col. b+c) |
|----------|--|---|--|---|
| | (a) | (b) | (c) | (d) |
| 1 | Gross Plant in Service | \$ 5,185,573 | \$ - | \$ 5,185,573 |
| 2 | Less: Accumulated Depreciation | (2,464,105) | - | (2,464,105) |
| 3 | - | - | - | - |
| 4 | Net Plant | <u>2,721,468</u> | - | <u>2,721,468</u> |
| 5 | Additions to Rate Base | | | |
| 6 | Plant Held for Future Use | 373 | - | 373 |
| 7 | CWIP Not Subject to AFUDC | 241 | - | 241 |
| 8 | Cash Working Capital | 10,750 | (1,441) | 9,309 |
| 9 | Materials & Supplies Inventory | 26,188 | - | 26,188 |
| 10 | - | - | - | - |
| 11 | - | - | - | - |
| 12 | - | - | - | - |
| 13 | - | - | - | - |
| 14 | - | - | - | - |
| 15 | - | - | - | - |
| 16 | Deductions From Rate Base | | | |
| 17 | Customer Advances | (24,222) | - | (24,222) |
| 18 | Accumulated Deferred Income Taxes | (467,996) | (151,577) | (619,573) |
| 19 | Customer Deposits | (28,829) | - | (28,829) |
| 20 | OPEB Liability | (71,858) | - | (71,858) |
| 21 | Budget Payment Plans | - | - | - |
| 22 | Operating Reserve for Accrued Vacation Pay | - | (11,159) | (11,159) |
| 23 | Rate Base | <u>\$ 2,166,115</u> | <u>\$ (164,177)</u> | <u>\$ 2,001,938</u> |

Ameren Illinois Company
Adjustments to Rate Base
For the Year Ending December 31, 2010
(In Thousands)

| Line No. | Description | Cash Working Capital (App. A, p. 8) | FIN 48 (AG Sch. DJE 1.2 R) | ADIT on Projected Plant (AG Sch. DJE 1.4 R) | Operating Reserves for Vacation Pay (AG Sch. DJE 1.3 R) | Unamortized ITC (AG Sch. DJE 1.1 R) | (Source) | (Source) | Total Rate Base Adjustments |
|----------|--|--|-------------------------------|--|--|--|-------------|-------------|-----------------------------|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) |
| 1 | Gross Plant in Service | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 2 | Less: Accumulated Depreciation | - | - | - | - | - | - | - | - |
| 3 | | - | - | - | - | - | - | - | - |
| 4 | Net Plant | - | - | - | - | - | - | - | - |
| 5 | Additions to Rate Base | - | - | - | - | - | - | - | - |
| 6 | Plant Held for Future Use | - | - | - | - | - | - | - | - |
| 7 | CWIP Not Subject to AFUDC | - | - | - | - | - | - | - | - |
| 8 | Cash Working Capital | (1,441) | - | - | - | - | - | - | (1,441) |
| 9 | Materials & Supplies Inventory | - | - | - | - | - | - | - | - |
| 10 | | - | - | - | - | - | - | - | - |
| 11 | | - | - | - | - | - | - | - | - |
| 12 | | - | - | - | - | - | - | - | - |
| 13 | | - | - | - | - | - | - | - | - |
| 14 | | - | - | - | - | - | - | - | - |
| 15 | | - | - | - | - | - | - | - | - |
| 16 | Deductions From Rate Base | - | - | - | - | - | - | - | - |
| 17 | Customer Advances | - | - | - | - | - | - | - | - |
| 18 | Accumulated Deferred Income Taxes | - | (39,618) | (107,990) | (547) | (3,422) | - | - | (151,577) |
| 19 | Customer Deposits | - | - | - | - | - | - | - | - |
| 20 | OPEB Liability | - | - | - | - | - | - | - | - |
| 21 | Budget Payment Plans | - | - | - | - | - | - | - | - |
| 22 | Operating Reserve for Accrued Vacation Pay | - | - | - | (11,159) | - | - | - | (11,159) |
| 23 | Rate Base | <u>\$ (1,441)</u> | <u>\$ (39,618)</u> | <u>\$ (107,990)</u> | <u>\$ (11,706)</u> | <u>\$ (3,422)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (164,177)</u> |

Ameren Illinois Company
Revenue Effect of Adjustments
For the Year Ending December 31, 2010
(In Thousands)

| Line No. | Description (a) | Per Company (b) | Staff Adjustments (c) | Per Staff (d) |
|----------|---|--------------------------------|--------------------------------|--------------------------------|
| 1 | Present Revenues | \$ 858,705 ⁽¹⁾ | \$ - | \$ 858,705 ⁽²⁾ |
| 2 | Proposed Increase | <u>(19,851) ⁽³⁾</u> | <u>(29,052) ⁽⁴⁾</u> | <u>(48,903) ⁽⁵⁾</u> |
| 3 | Proposed Revenues | <u>\$ 838,854</u> | <u>\$ (29,052)</u> | <u>\$ 809,802</u> |
| 4 | % Increase | -2.31% | | -5.69% |
| 5 | Staff Adjustments: | | | |
| 6 | | | | |
| 7 | ADIT on Projected Plant | | (13,533) | |
| 8 | Rate of Return (Applied to Company Rate Base) | | (5,409) | |
| 9 | FIN 48 | | (4,965) | |
| 10 | Advertising | | (1,654) | |
| 11 | Operating Reserves for Accrued Vacation Pay | | (1,467) | |
| 12 | Interest Synchronization | | (993) | |
| 13 | Unamortized ITC | | (429) | |
| 14 | Gross Revenue Conversion Factor | | (349) | |
| 15 | Cash Working Capital | | (181) | |
| 16 | Charitable Contributions | | (73) | |
| 17 | | - | - | |
| 18 | | | | |
| 19 | | | | |
| 20 | Rounding | | <u>1</u> | |
| 21 | Total Revenue Effect of Staff Adjustments | | <u>\$ (29,052)</u> | |

Sources:

- (1) Appendix A, p. 1, column (b), line 3
- (2) Appendix A, p. 1, column (d), line 3
- (3) Appendix A, p. 1, column (e), line 3
- (4) Appendix A, p. 1, columns (f) + (h), line 3
- (5) Appendix A, p. 1, column (i), line 24

Ameren Illinois Company
 Interest Synchronization Adjustment
 For the Year Ending December 31, 2010
 (In Thousands)

| Line No. | Description (a) | Amount (b) |
|----------|---|-------------------|
| 1 | Staff Rate Base | \$ 2,001,938 (1) |
| 2 | Weighted Cost of Debt | 3.57% (2) |
| 3 | Synchronized Interest Per Staff | 71,407 |
| 4 | Company Interest Expense | <u>75,522</u> (3) |
| 5 | Increase (Decrease) in Interest Expense | <u>(4,115)</u> |
| 6 | Increase (Decrease) in State Income Tax Expense | |
| 7 | at 7.300% | <u>\$ 300</u> |
| 8 | Increase (Decrease) in Federal Income Tax Expense | |
| 9 | at 35.000% | <u>\$ 1,335</u> |

(1) Source: Appendix A, p. 3, Column (d).

(2) Source: ICC Staff Exhibit 16.0, Schedule 16.01

(3) Source: Company Schedule C-5.4

Ameren Illinois Company
Gross Revenue Conversion Factor
For the Year Ending December 31, 2010

| Line No. | Description | Rate | Per Staff With Bad Debts | Per Staff Without Bad Debts |
|----------|---|----------|--------------------------|-----------------------------|
| | (a) | (b) | (c) | (d) |
| 1 | Revenues | | 1.000000 | |
| 2 | Uncollectibles | 0.6453% | <u>0.006453</u> | |
| 3 | State Taxable Income | | 0.993547 | 1.000000 |
| 4 | State Income Tax | 7.3000% | <u>0.072529</u> | <u>0.073000</u> |
| 5 | Federal Taxable Income | | 0.921018 | 0.927000 |
| 6 | Federal Income Tax | 35.0000% | <u>0.322356</u> | <u>0.324450</u> |
| 7 | Operating Income | | <u>0.598662</u> | <u>0.602550</u> |
| 8 | Gross Revenue Conversion Factor Per Staff | | <u>1.670392</u> | <u>1.659613</u> |

Ameren Illinois Company
Adjustment to Cash Working Capital
For the Year Ending December 31, 2010
(In Thousands)

| Line | Item (a) | Amount (b) | Lag (Lead) (c) | CWC Factor (d) (c/365) | CWC Requirement (e) (b*d) | Column b Source (f) |
|------|------------------------------------|-------------------|-------------------|------------------------------|---------------------------------|---|
| 1 | Revenues | \$ 527,295 | 49.75 | 0.13630 | \$ 71,871 | ICC Staff Sch. 14.01, P. 2, Line 6 |
| | Collections of Pass-through Taxes: | | | | | |
| 2 | Energy Assistance Charges | 16,793 | 0.00 | 0.00000 | - | |
| 3 | Municipal Utility Tax | 46 | 0.00 | 0.00000 | - | |
| 4 | Total Receipts | <u>\$ 544,134</u> | | | <u>\$ 71,871</u> | Sum of Lines 1 through 3 |
| 5 | Employee Benefits | 31,317 | (15.97) | (0.04375) | (1,370) | |
| 6 | FICA | 10,391 | (13.13) | (0.03597) | (374) | |
| 7 | Base Payroll and Withholdings | 127,599 | (13.12) | (0.03595) | (4,587) | |
| 8 | Other Operations and Maintenance | 175,346 | (48.87) | (0.13389) | (23,477) | ICC Staff Sch. 14.01, P. 2, Line 17 |
| 9 | Federal Unemployment Tax | 96 | (76.38) | (0.20926) | (20) | |
| 10 | State Unemployment Tax | 85 | (76.38) | (0.20926) | (18) | |
| 11 | St. Louis Payroll Expense Tax | 10 | (83.51) | (0.22879) | (2) | |
| 12 | Federal Excise Tax | 3 | (30.21) | (0.08277) | - | |
| 13 | Electric Distribution Tax | 35,755 | (30.13) | (0.08255) | (2,952) | |
| 14 | Energy Assistance Charges | 16,793 | (38.54) | (0.10559) | (1,773) | |
| 15 | Municipal Utility Tax | 46 | (48.54) | (0.13299) | (6) | |
| 16 | Gross Receipts Tax | 106 | (45.63) | (0.12501) | (13) | |
| 17 | Corporation Franchise Tax | 3,234 | (161.97) | (0.44375) | (1,435) | |
| 18 | Property/Real Estate Taxes | 4,201 | (375.08) | (1.02762) | (4,317) | |
| 19 | Interest Expense | 67,469 | (91.25) | (0.25000) | (16,867) | Appendix A, p. 6, Col. i, Line 3 less line 20 below |
| 20 | Bank Facility Costs | 3,938 | 156.59 | 0.42901 | 1,689 | |
| 21 | State Income Tax | 12,686 | (37.88) | (0.10378) | (1,317) | Appendix A, p. 1, Col. i, Line 17 |
| 22 | Federal Income Tax | 56,386 | (37.88) | (0.10378) | (5,852) | Appendix A, p. 1, Col. i, Line 18 |
| 23 | Deferred Taxes and ITCs Net | (1,245) | (37.88) | (0.10378) | 129 | Appendix A, p. 1, Col. i, Line 19 |
| 24 | Total Outlays | <u>\$ 544,216</u> | | | <u>\$ (62,562)</u> | Sum of Lines 5 through 23 |
| 25 | Cash Working Capital per Staff | | | | \$ 9,309 | Line 4 plus line 24 |
| 26 | Cash Working Capital per Company | | | | 10,750 | Ameren Exhibit 13.1 |
| 27 | Difference -- Adjustment per Staff | | | | <u>\$ (1,441)</u> | Line 25 minus Line 26 |

Note:

Amount is from Ameren Exhibit 13.1, page 19, Column C except where noted in "Source" column
Lag (Lead) is from Ameren Exhibit 13.1, page 19, Column D except where noted (Shaded):
Lines 2 and 3: Staff Ex. 5.0, pp. 4-7
Line 5: Ameren Ex. 15.0, p. 17
Line 7: Ameren Ex. 15.0, p. 28

Ameren Illinois Company
Adjustment to Cash Working Capital
For the Year Ending December 31, 2010
(In Thousands)

| <u>Line</u> | <u>(a)</u> | <u>Amount</u> (b) | <u>Source</u> (c) |
|-------------|--|----------------------|-------------------------------------|
| 1 | Total Operating Revenues | \$ 809,802 | Appendix A, p. 1, Column i, Line 3 |
| 2 | Uncollectible Accounts | (5,257) | Appendix A, p. 1, Column i, Line 4 |
| 3 | Depreciation & Amortization | (164,072) | Appendix A, p. 1, Column i, Line 9 |
| 4 | Regulatory Debits | (7,131) | Appendix A, p. 1, Column i, Line 10 |
| 5 | Return on Equity | (106,047) | Line 9 below |
| 6 | Total Revenues for CWC calculation | <u>\$ 527,295</u> | Sum of Lines 1 through 5 |
| 7 | Total Rate Base | \$ 2,001,938 | Appendix A, p. 3, Column d, Line 23 |
| 8 | Weighted Cost of Capital | 5.30% | Schedule 16.01 |
| 9 | Return on Equity | <u>\$ 106,047</u> | Line 7 times Line 8 |
| 10 | Operating Expense Before Income Taxes | \$ 564,603 | Appendix A, p. 1, Column i, Line 16 |
| 11 | Employee Benefits Expense | (31,317) | Ameren Exhibit 4.2, line 9 |
| 12 | Payroll Expense | (127,599) | Ameren Exhibit 4.2, line 11 |
| 13 | Uncollectible Accounts | (5,257) | Appendix A, p. 1, Column i, Line 4 |
| 14 | Depreciation & Amortization | (164,072) | Appendix A, p. 1, Column i, Line 9 |
| 15 | Regulatory Debits | (7,131) | Appendix A, p. 1, Column i, Line 10 |
| 16 | Taxes Other Than Income | (53,881) | Appendix A, p. 1, Column i, Line 11 |
| 17 | Other Operations & Maintenance for CWC Calculation | <u>\$ 175,346</u> | Sum of Lines 10 through 16 |