

ILLINOIS COMMERCE COMMISSION

DOCKET No. 12-0293

REBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

Submitted on Behalf

Of

**AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois**

July 31, 2012

TABLE OF CONTENTS

| | Page No. |
|---|-----------------|
| I. INTRODUCTION..... | 1 |
| A. Witness Identification | 1 |
| B. Purpose, Scope and Identification of Exhibits | 1 |
| II. REVENUE REQUIREMENT | 2 |
| III. ADJUSTMENTS ACCEPTED | 3 |
| IV. RATE MAP-P TEMPLATE/TARIFF CHANGES | 5 |
| V. ADJUSTMENT TO COMMON EQUITY – PURCHASE ACCOUNTING | 7 |
| VI. ACCRUED LIABILITY FOR VACATION PAY | 13 |
| VII. ADIT ADJUSTMENT RELATED TO 2012 PROJECTED PLANT | 17 |
| VIII. ADIT ADJUSTMENT RELATED TO INVESTMENT TAX CREDITS..... | 21 |
| IX. CWIP NOT SUBJECT TO AFUDC ADJUSTMENT..... | 23 |
| X. ADIT ADJUSTMENT RELATED TO STEP-UP METRO | 26 |
| XI. TREATMENT OF LATE PAYMENT REVENUES | 28 |
| XII. INCOME TAX EXPENSE ADJUSTMENTS | 34 |
| XIII. REGULATORY COMMISSION EXPENSE ADJUSTMENT | 40 |
| XIV. AMORTIZATION OF FORMULA RATE COMMISSION EXPENSE | 43 |
| XV. OTHER | 49 |
| XVI. CONCLUSION | 51 |

1 **ILLINOIS COMMERCE COMMISSION**

2 **DOCKET No. 12-0293**

3 **REBUTTAL TESTIMONY OF**

4 **RONALD D. STAFFORD**

5 **Submitted on Behalf Of**

6 **Ameren Illinois**

7 **I. INTRODUCTION**

8 **A. Witness Identification**

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

10 A. My name is Ronald D. Stafford. My business address is 1901 Chouteau Avenue, St.
11 Louis, Missouri.

12 **Q. Are you the same Ronald D. Stafford who sponsored direct testimony in this**
13 **proceeding?**

14 A. Yes, I am.

15 **B. Purpose, Scope and Identification of Exhibits**

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

17 A. The purpose of my rebuttal testimony is respond to certain proposed adjustments to the
18 formula rate revenue requirement of Ameren Illinois Company d/b/a Ameren Illinois (AIC or
19 Company) discussed in the direct testimonies of Illinois Commerce Commission (Commission)
20 Staff (Staff) witnesses, Ms. Theresa Ebrey, Mr. Daniel G. Kahle, Ms. Karen Chang, and Ms.
21 Rochelle M. Phipps; Illinois Office of the Attorney General and AARP (AG/AARP) joint

22 witnesses, Mr. Michael L. Brosch and Mr. David J. Effron; and Citizens Utility Board (CUB)
23 witness Mr. Ralph C. Smith.

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

25 A. Yes. I am sponsoring the following exhibits:

- 26 • Ameren Exhibit 11.1: Formula Template Rebuttal Revenue Requirement.
- 27 • Ameren Exhibit 11.2: Workpapers in support of changes on rebuttal to Formula
28 Template Revenue Requirement.
- 29 • Ameren Exhibit 11.3: Calculation of the 2011 Reduction in Deferred State
30 Income Tax Expense.
- 31 • Ameren Exhibit 11.4: Corrected Calculation of Athletic Events/Sporting Tickets
32 Adjustment.
- 33 • Ameren Exhibit 11.5: Staff and AG/AARP Responses to AIC Data Requests.

34 **II. REVENUE REQUIREMENT**

35 **Q. Has the Company proposed modifications to revenue requirement and rate base in**
36 **response to Staff and Intervenor direct testimony?**

37 A. Yes. As will be discussed below, on rebuttal, AIC has adopted certain proposals offered
38 by Staff and Intervenors. As a result, AIC has modified its requested revenue requirement from
39 \$799,707,000 to \$798,075,000. This reflects an overall requested decrease from Docket No. 12-
40 0001¹ of \$16,010,000 or 1.97% before gross up for uncollectibles and a decrease of \$16,128,000
41 or 1.98% after gross up for uncollectibles.

42 **Q. What are the overall conclusions of your rebuttal testimony with regard to the**
43 **requested revenue requirement?**

¹ Ameren Illinois Initial Brief Appendix A, Page 2.

44 A. The overall conclusions of my rebuttal testimony are:

- 45 • **Electric Delivery Service Revenue Requirement:** AIC's electric delivery service
46 revenue requirement, reflecting adjustments, for purposes of setting the updated
47 rates under Rate MAP-P, is \$798,075,000.
- 48 • **Electric Rate Base:** AIC's rate base, reflecting adjustments, is \$2,037,320,000
49 under AIC's proposed formula rates.
- 50 • **Electric Operating Expenses and Other Revenues:** AIC's operating expenses,
51 reflecting adjustments and before income taxes, are \$576,592,000, and after
52 income taxes, are \$681,011,000, and its Other Revenues are \$34,474,000, under
53 AIC's proposed updated formula rates.
- 54 • **Overall Weighted Average Cost of Capital:** AIC's overall weighted cost of
55 capital (rate of return) is 8.86%.

56 **III. ADJUSTMENTS ACCEPTED**

57 **Q. Ms. Ebrey has recommended the agreement reached between Staff and AIC in**
58 **Docket No. 12-0001 regarding uncollectibles expense be carried forward in this case. Do**
59 **you agree?**

60 A. Yes, but only to the extent the Commission accepts the agreed upon revisions to Schedule
61 FR A-1REC and tariff language modifying Rider EUA. Ameren witness Mr. Robert Mill
62 provides rebuttal testimony regarding plans to submit conformed formula rate revenue
63 requirement templates in this proceeding after the Commission's Order in Docket No. 12-0001
64 and the resulting compliance filings are made.

65 **Q. Were there other changes to text and tariff pages agreed to in Docket 12-0001?**

66 A. Yes. I discuss these agreed to changes in the Rate MAP-P Template/Tariff Changes
67 section of my rebuttal testimony.

68 **Q. Mr. Kahle has recommended the Company modify its calculation of Materials and**
69 **Supplies included in Rate Base from a year end balance to a 13 month average. Do you**
70 **accept his proposal?**

71 A. Yes. The electric jurisdictional Materials and Supplies balance has been recalculated
72 from a year end 2011 balance to a 13 month average balance, as shown on WP 19 provided in
73 Ameren Exhibit 11.2 in support of the Materials and Supplies balance shown on Ameren Exhibit
74 11.1, Page 17, App 1, Lines 49-51.

75 **Q. In his direct testimony, Mr. Brosch proposed an adjustment to disallow \$115,000 of**
76 **EEI Industry dues allocated to lobbying activities. Does the Company accept this**
77 **adjustment?**

78 A. Yes. Mr. Brosch has properly calculated the AIC electric jurisdictional amount of
79 lobbying fees attributable to EEI Industry dues. This adjustment is included on Ameren Exhibit
80 1.1, Page 24, App 7, at line 11.

81 **Q. Ms. Chang also recommended an adjustment to remove the portion of the EEI**
82 **Industry Association Dues allocated to lobbying activities. Have you reflected this**
83 **adjustment in Exhibit 11.1?**

84 A. No. As discussed in the prior answer, Mr. Brosch's calculation more accurately reflects
85 the lobbying portion of EEI Industry Association Dues included in AIC's jurisdictional revenue
86 requirement. In calculating her adjustment, Ms. Chang relied on an AIC Data Request response
87 that did not fully consider the portion of EEI industry dues, or lobbying portion of such dues,
88 included in jurisdictional revenue requirement, and thus overstated the adjustment.

89 **Q. Has the Company made any adjustments to its rebuttal revenue requirement for**
90 **advertising expenses?**

91 A. Yes. As discussed by AIC witness Ms. Kathleen A. Pagel, the Company has identified
92 \$48,791 of advertising expenses recorded in Account 909 that the Company is self disallowing in
93 Rebuttal.

94 **Q. Did Ms. Chang make any recommendations regarding the Company's request for**
95 **an original cost finding?**

96 A. Yes. In her direct testimony, Ms. Chang recommends the Commission approve the
97 Company's request for an original cost finding, as set forth in my direct testimony on page 19
98 and Ameren Exhibit 1.3. She recommends the Commission include the following language in
99 the Findings and Orderings paragraphs of its Order in this proceeding:

100 (#) the Commission, based on AIC's proposed original cost of plant in service
101 as of December 31, 2011, before adjustments of \$5,023,011, and reflecting the
102 Commission's determination adjusting that figure, unconditionally approves
103 \$5,023,011 as the composite original cost of jurisdictional distribution
104 services plant in service as of December 31, 2011.

105 **Q. Does the Company accept her recommendation?**

106 A. Yes.

107 **IV. RATE MAP-P TEMPLATE/TARIFF CHANGES**

108 **Q. On rebuttal, have you proposed any changes to the Rate MAP-P template?**

109 A. Yes.

110 **Q. Please explain why those changes are needed.**

111 A. As discussed also in the rebuttal testimony of AIC witness, Mr. Robert J. Mill, it is
112 necessary to make conforming changes to the Formula Rate MAP-P template that will also apply

113 to the related Rate MAP-P tariff or tariff schedules, to the extent applicable, along with any other
114 submissions of template and tariff documentation either filed with the Clerk or submitted to Staff
115 in compliance tariff filings in Docket No. 12-0001 or subsequent Rate MAP-P proceedings such
116 as the pending Docket No. 12-0293.

117 **Q. Please summarize those changes to the Rate MAP-P template presented in Ameren**
118 **Exhibit 11.1.**

119 A. There were a large number of changes agreed to by Staff and Company to the Rate MAP
120 -P template and tariff in Docket No. 12-0001. Most of these changes were presented in Ameren
121 rebuttal in Docket No. 12 -0001 (see Exhibits 12.0 and 12.1 sponsored by Mr. Mill and my
122 Exhibits 13.0 and 13.1), in my surrebuttal (Ameren Exhibit 23.0 R and 23.1) or in AIC's Initial
123 Brief (see pages 80-81and footnote at page 81 denoting an additional change to Sch FR A-3, and
124 Appendix A to the Brief).

125 In Ameren Exhibit 11.1, the changes to the template/and tariff are identified by a border
126 surrounding the area of change to identify changes from Ameren Exhibit 1.1 filed with my direct
127 testimony. Again these changes not only allow for conformance with agreed to changes in
128 Docket No. 12-0001 but also identify changes from Ameren Exhibit 1.1 filed with my direct
129 testimony in this docket.

130 **Q. Are you proposing any additional changes to the template and tariff in rebuttal not**
131 **previously identified in Docket No. 12-0001?**

132 A. Yes. On Ameren Exhibit 11.1, Page 25, App 7 between lines 28-30, there are edits to line
133 numbering, line and column descriptions, and cross references to workpapers in support of
134 changes to operating expenses for charges or credits greater than \$3.7 million under section 16-
135 108.5(c)(4)(F) of the Act. As discussed later in the Income Tax Expense Adjustments section of

136 my rebuttal, these changes were in part necessitated by the need to recognize an income tax
137 credit in excess of \$3.7 million due to the state of Illinois tax rate change from 7.3% to 9.5% in
138 2011.

139 **Q. Has Staff or other parties proposed other changes to the template and tariff?**

140 A. I am not aware of any new Rate MAP-P template or tariff changes proposed that were not
141 previously addressed in Docket No. 12-0001. To the extent there are any new proposals in this
142 Docket, my testimony is not intended to provide for an endorsement of any such changes. The
143 Company continues to oppose any other changes to the Rate MAP-P template or tariff proposed
144 by parties in Docket No. 12-0001 not incorporated in Ameren Exhibit 13.1 for the reasons stated
145 in Docket No. 12-0001.

146 **V. ADJUSTMENT TO COMMON EQUITY – PURCHASE ACCOUNTING**

147 **Q. What is Staff's position with regard to adjustments to Common Equity for Purchase**
148 **Accounting?**

149 A. Staff's position is to decrease common equity related to purchase accounting as follows: (1)
150 remove balance sheet purchase accounting adjustments, including goodwill, which are collapsed
151 into Commission Account 114; and (2) remove income statement purchase accounting
152 adjustments that flowed through retained earnings because such increments are inconsistent with a
153 rate setting procedure that is based on original cost rather than fair value.

154 **Q. Does AIC agree with any portion of Staff's adjustment to common equity related to**
155 **purchase accounting?**

156 A. Yes. AIC agrees that goodwill should be eliminated from the balance sheet for the
157 purpose of determining capital structure. However, AIC believes it is necessary to remove

158 goodwill net of purchase accounting, consistent with established Commission accounting and
159 practice. AIC does not agree that any historical or current purchase accounting adjustments
160 should be added back in to the adjustment. This would negate the effects of the netted purchase
161 accounting adjustments and create a permanent incremental reduction of almost \$100 million to
162 AIC's equity without justification. Ms. Phipps fails to consider past practice of the Commission,
163 along with proper accounting, financial reporting, and ratemaking, in her recommendation to
164 make remove almost \$100 million of common equity as part of her income statement purchase
165 accounting adjustment. My testimony specifically addresses Ms. Phipps' proposal to adjust
166 common equity to remove purchase accounting².

167 **Q. Why is it improper ratemaking to further adjust the common equity balance to**
168 **deduct what Ms. Phipps calls “income statement purchase accounting adjustments”?**

169 A. Past Commission decisions, along with evidence submitted by the Company in Docket
170 No. 12-0001, support the fact that common dividends paid by the Company have eliminated
171 what Ms. Phipps calls “income statement purchase accounting adjustments”. Accordingly,
172 common equity has already been reduced for purchase accounting and to do so again, as Ms.
173 Phipps suggests, would effectively have the opposite effect from properly removing purchase
174 accounting from common equity. Rather, her adjustment would materially understate AIC's
175 common equity balance for the effects of purchase accounting.

176 In the Commission's approval of the acquisition of Illinois Power Company in Docket 04-
177 0294, the Company and Staff agreed to collapse purchase accounting adjustments against the

² For the reasons stated by the Company in Docket No. 12-0001 in my rebuttal (Ameren Exhibit 13.0, surrebuttal (Ameren Exhibit 23.0R) and Briefs, under an averaging methodology, the Company continues to oppose the use of a 12 monthly average rather than a simple average for all components of the capital structure except for Short Term Debt shown on App 12.

178 goodwill balance for regulatory reporting and ratemaking purposes. This accounting in fact
179 followed Staff's recommendations in that docket. The Commission eliminated goodwill net of
180 purchase accounting from the equity balance in all rate cases that followed. For the first time, in
181 the Company's most recent gas rate case, Docket No. 11-0282, Ms. Phipps presented several
182 theories, throughout the course of that proceeding, that purchase accounting should not be
183 collapsed or netted from the goodwill balance, and proposed a variant of her current adjustment
184 to remove from common equity all retained earnings generated from purchase accounting from
185 the 2004-2008. The Company responded citing in part to the order in Docket No, 04-0294, prior
186 orders in Commission rate proceedings, and also presented evidence from Docket No. 09-0306
187 (Cons.) to demonstrate that retained earnings that resulted from purchase accounting had been
188 removed from retained earnings via payment of common dividends in 2007-2008. The
189 Commission agreed with the Company and declined to adopt any variant of Ms. Phipps'
190 positions. As indicated, one position Ms. Phipps argued in Docket No. 11-0282 was analogous
191 to her current proposal, namely that all purchase accounting related retained earnings from 2004-
192 2008 should be removed from the common equity balance.

193 **Q. Does AIC agree with Ms. Phipps's characterization that these "income statement**
194 **purchase accounting adjustments" have "flowed through retained earnings"?**

195 A. Yes, but I do not agree that this supports her proposed adjustment. To the extent changes
196 to net income have resulted from purchase accounting transactions, then such adjustments did
197 flow through retained earnings and, prior to common dividend payments, remained in retained
198 earnings. However, the premise for Ms. Phipps adjustment is wrong. As the Commission found
199 in both Docket No. 09-0306 (Cons.) and Docket No. 11-0282, simply because retained earnings
200 are impacted by purchase accounting adjustments is not the determinative factor, but whether

201 such earnings are still in fact "retained" by the utility and included in the Company's common
202 equity balance.

203 The problem with Ms. Phipps' approach is that she reverses purchase accounting
204 adjustments that are no longer reflected in retained earnings, and thus are not included in the
205 common equity balance she is adjusting. As the Company explained at length in Docket No. 12-
206 0001, in the ordinary course, dividends paid by the Company in prior years reduced the level of
207 retained earnings, thereby eliminating the purchase accounting adjustments reflected in that
208 account. Accordingly, Ms. Phipps' adjustment does not merely remove "fair value" adjustments,
209 such as goodwill, that are currently reflected on the Company's books, but also purchase
210 accounting adjustments no longer reflected on the Company's books.

211 Ms. Phipps's unstated assumption is that the purchase accounting adjustments will be
212 reflected in the retained earnings balance in perpetuity, no matter what else happens. It would
213 seem inarguable that if the retained earnings balance went to zero at some point, the purchase
214 accounting adjustments would be eliminated, but Ms. Phipps' view, apparently, is that if retained
215 earnings are subsequently positive, the purchase accounting adjustments would be somehow
216 resurrected. How this could be so she never makes clear.

217 The Commission cannot adjust out what is not there to begin with. The purchase
218 accounting adjustments in retained earnings that Ms. Phipps references are not included, and
219 they need not be reversed in order to properly calculate a revenue requirement based on original
220 cost. Accordingly, her incremental adjustment above what the Company has removed from
221 common equity should be rejected.

222 **Q. Do you agree with Ms. Phipps’s opinion that purchase accounting adjustments are**
223 **“increments to common equity” that are “inconsistent with a rate setting procedure that is**
224 **based on original cost rather than fair value”?**

225 A. No, I believe this argument misses the point that purchase accounting adjustments are for
226 the very purpose of sustaining ratemaking based on original cost; no more, no less. The purchase
227 accounting adjustments at issue are regulatory adjustments ordered by the Commission. The
228 very purpose of these adjustments was to reverse the effects of push down accounting and the
229 restatement of assets and liabilities at the time of merger. At the time the 04-0294 Order was
230 issued, the adjustments were intended to leave the original book value of Illinois Power unaltered
231 by the transaction for regulatory purposes going forward. Accordingly, AIC has consistently
232 removed the effects of purchase accounting from its common equity balance dating back to
233 Docket No. 04-0294 and has done so in the present proceeding³. Ms. Phipps' proposal to adjust
234 common equity for income statement retained earnings based on the premise that the full balance
235 represents an "increment" to common equity is inherently inconsistent with her position (which
236 AIC agrees with) that the balance sheet purchasing effects are not incremental, but change up or
237 down for purchase accounting adjustments along with any changes to the balance of goodwill on
238 the Company's financial statements.

239 **Q. Ms. Phipps claims that income statement purchase accounting adjustments did not**
240 **result in a single dollar expenditure on utility plant or reserve, but rather represent a**
241 **reevaluation of utility assets and liability that were already in place. She claims such**

³ In response to Staff Data Request RMP 3.01, AIC identified \$9,269,645 of negative retained earnings resulting from dividend adjusted purchase accounting transactions that was not considered by AIC in its calculation of common equity. If this adjustment was considered, AIC's requested common equity would increase by \$9,269,245.

242 **increments to common equity have no place in a rate setting procedure that is based on**
243 **original cost rather than fair value. Please respond.**

244 A. Ms. Phipps' explanation and reasoning are correct but her application is materially
245 flawed, in that her calculations do just the opposite of her stated goal, which is to remove
246 purchase accounting increments that do not exist from the common equity balance used to set
247 rates. Specifically, her proposal eliminates purchase accounting related net income that is no
248 longer "retained" by the Company, which has the effect of removing from the common equity
249 balance almost \$100 million of retained earnings that were not generated by purchase accounting
250 adjustments, and thus, she misapplies the ratemaking objective she espouses in her testimony.

251 **Q. Please summarize your position on this issue.**

252 A. The Company has properly eliminated goodwill and other purchase accounting
253 adjustments from its ratemaking common equity and capital structure. Staff's attempt to resurrect
254 an issue rejected by the Commission in past proceedings should again be rejected. Staff's
255 income statement purchase accounting adjustment double counts the elimination of retained
256 earnings due to prior common dividend payments made by the Company, and is a form of
257 retroactive ratemaking as it seeks to retroactively overturn the Commission's determination with
258 regard to the appropriate balance for common equity at year end 2008 used to establish rates in
259 Docket Nos. 09-0306 (Cons.) and seeks to retroactively overturn a second time the Commission's
260 determination with regard to the appropriate balance for common equity at year end 2009 actual
261 forecasted through 2012 used to establish rates in Docket No. 11-0282. For the reasons stated
262 above and in Docket No. 12-0001, Ms. Phipps' proposed adjustment to reduce common equity
263 for income statement purchase accounting adjustments should be rejected.

264 **VI. ACCRUED LIABILITY FOR VACATION PAY**

265 **Q. What is your understanding of the rationales offered by Staff and Intervenors to**
266 **support their adjustment to rate base to deduct the amount of the accrued liability for**
267 **vacation pay?**

268 A. Both Mr. Efron and Mr. Smith recommend the accrued vacation pay be reflected in the
269 calculation of payroll expense lead days used in the calculation of cash working capital. Absent
270 a showing the Company has recognized the lag in payment of accrued vacation in the calculation
271 of cash working capital, both parties have recommended accrued vacation be deducted from rate
272 base. Ms. Ebrey proposes an adjustment to include the liability for accrued vacation pay to the
273 operating reserves that are deducted from rate base. She believes because Commission found
274 accrued vacation pay was not appropriately accounted for in Commonwealth Edison Company's
275 (ComEd) cash working capital allowance in Docket 11-0721, the Commission should reach the
276 same conclusion in this case. Also, she believes the accrued vacation liability represents a non-
277 investor source of funds to the utility⁴.

278 **Q. What does the balance for the accrued reserve for vacation pay represent?**

279 A. The balance for accrued reserve represents vacation pay that was earned by employees of
280 AIC in one year paid in the following year. Therefore, it is recognized as a current liability.

281 **Q. Please explain how the Company accrues expense for vacation pay.**

282 A. The Company accrues expense for vacation pay on a monthly basis so that costs can be
283 applied properly to the work being performed as the vacation is being earned.

⁴ In response to AIC-Staff 6.06, Ms. Ebrey clarifies her opinion that the alleged non-investor source of funds are ratepayers. See also the response to AIC-Staff 3.09 for Ms. Ebrey's explanation of rate base operating reserve adjustments. Both responses are attached here as part of Ameren Exhibit 11.5.

284 **Q. Does the vacation pay reserve represent a “non-investor” source of funds available**
285 **to finance Rate Base investment?**

286 A. No. Accrued vacation is a current liability on AIC’s books due and payable within one
287 year. Accordingly, accrued vacation is not a source of non-investor supplied capital available to
288 finance Rate Base investment.

289 **Q. Ms. Ebrey refers to the reserve for vacation pay as a constant balance of funds held**
290 **in reserve. Is that an accurate characterization and justification for her adjustment?**

291 A. No. Ms. Ebrey’s justification falls short due to the fact the reserve is depleted each year
292 and replaced with entirely new accruals based on new vacation pay earned by employees. Since
293 payroll expense is an ongoing annual cost of providing service to customers, each year, AIC’s
294 employees earn new vacation to be paid the following year, and each year, the Company pays
295 out accrued vacation earned in the prior year. As such, what Ms. Ebrey refers to as a constant
296 balance is in fact eliminated through payments made by AIC to its employees and replaced with
297 new accruals each year.

298 **Q. Why does AIC oppose a reduction to rate base for the amount of the accrued**
299 **liability for vacation pay?**

300 A. Accrued vacation liability has not been deducted by the Commission in past rate cases
301 and is a current liability on AIC’s books due and payable within one year. Accordingly, accrued
302 vacation is not a source of non-investor supplied capital available to finance Rate Base
303 investment. Table 1 below shows why accrued vacation is not a source of non-investor supplied
304 capital available to finance Rate Base investment, based on a review of the timeline of accruals,
305 payments, and ratepayer funding of the accruals from 2004 through 2011. The first column
306 presents the year AIC Vacation Paid was accrued in AIC’s financial statements. The second

307 column presents the year those vacation accruals were made to employees and eliminated AIC's
 308 liability balance. The third column presents the 12 month period that the vacation accruals
 309 included in payroll costs were included in rates.

310 For example, a rate case test year of 2004 was filed in 2005 with new rates received
 311 January 2007, so on the first line, calendar year 2007 is listed as the 12 month period vacation
 312 accruals were collected in rates. There was no rate case test year filed for 2005, so the 2005
 313 accruals were not recovered in rates. A similar pattern follows based on rate case filings using
 314 2006 and 2008 test years and timing of new rates, with no rate case filings using 2007 and 2009
 315 test years. Since 2010 is the first formula rate year in Docket No. 12-0001, the date of new rates
 316 is listed as October 2012. However, in the pending docket, the effective date for new rates will
 317 be January 2013, so only 3 months of the calendar year 2010 accrued vacation will collected in
 318 rates.

319 As this Table clearly illustrates, by the time the Company collected its first dime of cost
 320 recovery from ratepayers for accrued vacation, the Company had already made payments to
 321 employees that eliminated the entire liability for accrued vacation included in payroll costs.

322 TABLE 1

| AIC Vacation Paid Accrued | Payments made to Employees | Costs Recovered from Ratepayers |
|------------------------------|-------------------------------|------------------------------------|
| 2004 | 2005 | 2007 |
| 2005 | 2006 | None |
| 2006 | 2007 | Oct 2008 - Sep 2009 |
| 2007 | 2008 | None |
| 2008 | 2009 | May 2010 - Apr 2011 |
| 2009 | 2010 | None |
| 2010 | 2011 | Oct 2012 – Dec 2012 |
| 2011 | 2012 | 2013 |

323 It should be noted that although accrued vacation is expensed or capitalized on AIC's financials
324 before payments are made, these costs are not included in rates until after they are paid.
325 Therefore, these costs do not represent a source of non-investor supplied funds.

326 **Q. Why did the reserve for vacation pay increase slightly during 2011?**

327 A. The reserve for vacation pay increased slightly during 2011 as AIC has a stable number
328 of employees that tends to grow slightly. With this stability, a portion of employees annually
329 will have an increase in the amount of vacation time that is earned to be paid out the next year.
330 This increased vacation time earned will create an increase in the vacation pay accrued annually.
331 In addition, wage and salary increases over time also increase the dollar amount of earned
332 vacation pay.

333 **Q. Mr. Smith argues the matching principle requires the inclusion of the vacation pay
334 accrual in operating reserves deducted from rate base because AIC has included the
335 related accumulated deferred income tax debit balances included in rate base. Is that an
336 appropriate match for ratemaking purposes?**

337 A. No. Customers have not provided the funding for this operating reserve.

338 **Q. Why does AIC include the related accumulated deferred income tax debit balances
339 in rate base?**

340 A. The deferred tax balance is supplied by investor related funding for costs incurred in the
341 provision of service to customers. Only the electric jurisdictional accumulated deferred income
342 tax (ADIT) portion of the ADIT debit balance is included in rate base by the Company.

343 **Q. Has AIC made an adjustment to its cash working calculation on rebuttal to account
344 for the longer lag in payment of vacation pay?**

345 A. Yes. Mr. Heintz sponsors this calculation in his rebuttal testimony.

346 **Q. Do you agree with Staff and Intervenor assertions that the Commission should**
347 **reach the same conclusion on this issue as it did in Docket No. 11-0721?**

348 A. No. As stated previously, the facts in evidence do not support the same conclusion.
349 Accrued vacation does not provide a source of funds to finance Rate Base, as it is due and
350 payable within one year, prior to any receipt of funds from ratepayers. There is a cash lag from
351 recognition of vacation pay to timing of payment, and the Company has reflected the appropriate
352 adjustment in calculating cash working capital.

353 **VII. ADIT ADJUSTMENT RELATED TO 2012 PROJECTED PLANT**

354 **Q. What is your understanding of the rationales offered by Staff and Intervenors in**
355 **support of their adjustment to ADIT related to 2012 projected plant additions?**

356 A. Ms. Chang and Mr. Effron argue AIC did not account for the related growth in ADIT that
357 will occur due to the existence of the 50% bonus depreciation available in 2012. They state the
358 existence of 50% depreciation in 2012 provides the Company with a tax deduction equal to 50%
359 of the amount of additions to plant in service, which will cause ADIT to grow at a rate higher
360 than usual. Mr. Smith states Rate Base will be overstated if changes in ADIT largely driven by
361 additional bonus depreciation approved as part of the 2010 Tax Relief Act are not considered in
362 this proceeding.

363 **Q. Were any other rationales offered by Staff and Intervenors in support of their**
364 **adjustment to ADIT related to 2012 projected plant additions?**

365 A. Yes. Ms. Chang and Mr. Smith each cite to the Commission Order in Docket No. 11-
366 0721 as a basis for this adjustment. I believe the Commission in this docket, however, should

367 look at the extensive evidence submitted by AIC in direct testimony and in testimony and briefs
368 of the Company in Docket No. 12-0001, that support the Company's position on this issue.

369 **Q. Why didn't AIC adjust ADIT to estimate the change in ADIT that will occur in 2012**
370 **related to the Company's projected electric plant additions?**

371 A. Both sections 16-108.5(c)(6) and 16-108.5(d)(1) of the Public Utilities Act call for
372 adjustments to the FERC Form 1 data to reflect "projected plant additions and correspondingly
373 updated depreciation reserve and expense for the calendar year in which the tariff and data are filed."
374 While I am not an attorney, it is my belief that if the intent was to also adjust ADIT to reflect
375 projected amounts, the language would seemingly have added "and ADIT" or in the alternative, the
376 language would have substituted "rate base" for "depreciation reserve" to allow for a more broad
377 interpretation of how to implement this adjustment.

378 **Q. Do you agree with Mr. Effron that this issue will eventually be resolved by the**
379 **subsequent reconciliation filing where the actual balances of ADIT in 2012 will be used?**

380 A. Yes.

381 **Q. Why from a ratemaking perspective is it more appropriate to wait and account for**
382 **the actual change in ADIT in 2012 in the subsequent reconciliation rather than account for**
383 **the estimated change in rate base for this proceeding?**

384 A. First and foremost, the Act establishes the protocols and provides express language
385 outlining how the projected plant additions adjustment should be calculated. As discussed above,
386 ADIT is simply not in that equation, absent a change to the Act. In addition to complying with
387 the express provisions of the Act, reflecting an estimated change in ADIT is an unnecessary step

388 given the fact that actual data will be included in future true-ups and reconciliations and also
389 given the uncertainty surrounding development of a reasonable estimate.

390 **Q. Do you agree with Mr. Efron's suggestion that adjustments to rate base should be**
391 **made that tend to reduce, rather than increase, the discrepancy between the rate base**
392 **established in this proceeding and the rate base established in the subsequent reconciliation**
393 **proceeding?**

394 A. No. Mr. Efron's argument suggests that this adjustment is only needed because it
395 reduces, not increases, the discrepancy. Whether something is increasing or decreasing the rate
396 base is irrelevant, and should not be the driving force to the argument. The argument should be
397 whether or not the item in question should be included or not. As discussed above, this
398 adjustment should not be included. I doubt that if this adjustment increased, rather than
399 decreased, rate base, Mr. Efron would be supporting the adjustment given AG/AARP's entirely
400 one-sided proposals to reduce revenue requirement and limit the Company's ability to recover its
401 costs in both the initial and update formula rate proceedings.

402 **Q. Mr. Smith argues that failure to make this adjustment will overstate rate base for**
403 **the Company's formula rates and would essentially produce a loan at the ratepayers'**
404 **expense for several months. Do you agree?**

405 A. No. Mr. Smith does not take into consideration that inception rates are being trued up to
406 actual 2012 information, with interest. Whether rate base, operating expenses, and revenue
407 requirement will be higher or lower than the inception rates is a function of the reconciliation and
408 true-up process. Unlike changes to the Depreciation Reserve resulting from additional
409 depreciation expense on projected additions, ADIT is a function of the change in the
410 accumulated impact of tax vs. book depreciation on assets placed in service for a specific (or

411 vintage) year. Since tax depreciation rates are accelerated relative to book, ADIT is typically
412 positive in the earlier years of an asset. However, existing assets continue to be book depreciated
413 until they are retired while tax depreciation related to the same assets stops when the assets are
414 fully tax depreciated. As a result, the overall change in ADIT can go up or down from year to
415 year taking into consideration whether vintage year utility plant assets are continuing to be tax
416 depreciated. While in recent years, the benefits of 50% and 100% bonus depreciation have
417 resulted in sometimes substantial increases in the net ADIT balance, there is no guarantee that
418 will continue in future years.

419 As a specific example, all 2012 in service assets that qualified for 50% bonus
420 depreciation will be tax depreciated at ½ of the rate otherwise applicable, even though they will
421 continue to be depreciated at normal rates for book purposes. Accordingly, ADIT on 2012
422 vintage year assets will incrementally result in a reduction to the overall balance of ADIT for
423 each year subsequent to 2012 until the 50% qualifying assets are fully retired from service.
424 Accordingly, Mr. Smith's concern is unfounded and should be rejected. For this proceeding and
425 future update filings, the inclusion in rate base of changes in the accumulated depreciation
426 reserve corresponding to projected plant additions will reflect the net plant investment that AIC
427 expects to place in service in the year prior to the rate effective period related to that update (*e.g.*,
428 AIC's May 2013 update filing will include projected changes in plant and reserve for 2013 for
429 rates effective January 1, 2014).

430 **VIII. ADIT ADJUSTMENT RELATED TO INVESTMENT TAX CREDITS**

431 **Q. What is your understanding of the rationales offered by Staff and Intervenors**
432 **related to Investment Tax Credits?**

433 A. Staff, CUB and AG/AARP propose an adjustment to remove the deferred tax asset
434 associated with the unamortized investment tax credit (ITC) from ADIT. Ms. Ebrey states the
435 deferred tax asset arises from the deferred credit balance of ITC that represents realized tax
436 savings that have not yet been reflected in the Company's income statement. Thus, she alleges,
437 since the deferred credit balance of ITC is not deducted from the Company's rate base, the
438 directly related deferred tax debit balance should also not be included in rate base as a reduction
439 to the ADIT balance. Mr. Smith asserts there are two methods to normalize ITC: (1) reflecting it
440 as a reduction from rate base in the amount of Accumulated Deferred ITC; or (2) as a reduction
441 to income tax expense by amortization of ITC. He initially concludes that because AIC reflected
442 ITC as a reduction to income tax expense, it should not have increased rate base by the deferred
443 ITC. Later he concludes that under either method, deferred ITC should not be added to rate base.
444 Mr. Effron states that amortizing ITC as a reduction to income tax expense is one of two
445 methods allowed for normalizing ITC, and claims that because the Company has elected to
446 reduce income tax expense by amortization of ITC, there is no valid basis for adding deferred
447 ITC to Rate Base.

448 **Q. What is the deferred tax asset associated with unamortized ITCs?**

449 A. As stated by Mr. Ebrey in her direct testimony, the deferred tax asset arises from the
450 deferred credit balance of ITC that represents realized tax savings that have not yet been
451 reflected in the Company's income statement.

452 **Q. Mr. Smith argues that because AIC has chosen to reduce income tax expense, there**
453 **is no basis for either adding or deducting ITC from rate base. Do you agree?**

454 A. Contrary to Mr. Smith's claim, there is no restriction to the inclusion of the deferred tax
455 asset in Rate Base. The limitation in the Internal Revenue Code is limited to recognition of the
456 ITC benefits more rapidly than ratably over the lives of the assets giving rise to the ITC benefit.

457 **Q. Why is it appropriate to include the electric jurisdictional portion of this tax asset in**
458 **rate base?**

459 A. The deferred tax asset exists whether or not the Company has elected to reduce rate base
460 by the unamortized balance of ITCs or reduce income tax expense for amortization of ITCs.
461 Furthermore, the Internal Revenue Code limits the ratepayer benefit to no greater than a ratable
462 share of the income tax benefit or a deduction for the unamortized balance of ITCs in Rate Base
463 no more rapidly than ratably over the depreciable lives of the associated property. The
464 restriction is limited to the reduction to income tax expense or unamortized balance of ITCs from
465 Rate Base.

466 **Q. Are ratepayers benefitting from AIC's reduction to income tax expense when**
467 **compared to the rate base option?**

468 A. Yes. As indicated on FR A-1, the after tax impact of amortizing ITCs as a reduction to
469 income tax expense is \$1.652M as shown on FR A-1, line 18. In contrast, the year-end
470 2011 jurisdictional amount for unamortized ITCs shown on Part 285 Schedule C-5.5 of \$4.127M
471 has a revenue requirement impact of about \$500,000. Accordingly, ratepayers are benefitting by
472 over \$1M from the reduction to income tax expense, when contrasted to the rate base deduction,
473 before consideration of the deferred tax asset. Under Ms. Ebrey's proposal, for example, the
474 deferred tax asset of \$2.825M would be included in Rate Base as an offset to the \$4.127M of

475 unamortized ITCS, if the Company had elected the rate base option. The additional
476 approximately \$350,000 of revenue requirement of adding the deferred tax asset to rate base is
477 immaterial relative to the tax benefit of \$1.652M realized by ratepayers. Accordingly, the
478 Company's proposal to include the deferred tax asset in rate base should be accepted.

479 **Q. In its Initial Brief in Docket No. 12-0001 (footnote p. 33), the Company reduced its**
480 **request for deferred tax asset recovery. Is the Company making a similar request in its**
481 **rebuttal filing?**

482 A. Yes. The Company is removing 2/5 of the deferred tax asset for the portion offset by the
483 tax gross up effect on the regulatory liability, resulting in a reduction in the asset requested
484 amount from \$2.825M to \$1.695M.

485 **IX. CWIP NOT SUBJECT TO AFUDC ADJUSTMENT**

486 **Q. What is your understanding of AG/AARP's adjustment to reduce AIC's rate base**
487 **for construction work in progress not subject to AFUDC?**

488 A. Mr. Brosch has reflected an adjustment to remove portions of two construction work in
489 progress (CWIP) projects from Rate Base based on the premise that these projects have not yet
490 been fully funded by the Company at year end 2011 because a portion of the total investment is
491 still in accounts payable at year end 2011.

492 **Q. Has Staff proposed an adjustment similar to that proposed by Staff witness, Ms.**
493 **Dianna Hathhorn in Docket No. 12-0001?**

494 A. No. However, in data request KC 12.02, Staff inquired as to whether the Company would
495 agree to make the same type of adjustment agreed to by Staff and Company in Docket No. 12-
496 0001 and, in response, the Company committed to make the adjustment in its Rebuttal filing.

497 **Q. Please describe AIC's adjustment to rebuttal rate base related to the projects**
498 **included in the balance of CWIP not earning AFUDC as of December 31, 2011?**

499 A. AIC has removed the entire \$704,445 of CWIP for projects 27136 and 28254 because
500 these project dollars are also included in projected plant additions. This adjustment, reflected on
501 Ameren Exhibit 11.1, page 8, Sch FR B-1, removes any double counting of the same plant
502 additions in both CWIP and projected plant additions, consistent with the methodology agreed to
503 by Staff and Company in Docket No. 12.0001. This adjustment is also summarized in response
504 to Staff Data Request KC 12.01.

505 **Q. Does this adjustment fully address Mr. Brosch's concerns with regard to the**
506 **accounts payable portion of CWIP at year end 2011?**

507 A. No. There is some overlap between this adjustment and one proposed by Mr. Brosch in
508 that \$90,000 of Mr. Brosch's \$127,000 proposed adjustment for project 27136 has been removed
509 from CWIP. The remaining \$37,000 for Project 29301 remains in the Company's proposed
510 CWIP balance at year end 2011.

511 **Q. Please explain why you consider Staff and Company's agreed to approach in Docket**
512 **No. 12-0001 to be more appropriate for establishing performance-based formula rates.**

513 A. The Staff/Company method is more transparent to the reader of the tariff in that CWIP
514 may be included in Rate Base but only to the extent the projects are not also counted in projected
515 plant additions. This approach also removes any double counting in that the only the portion of
516 requested CWIP that would be included in Sch FR B-1 Rate Base is the portion that is not also
517 included with projected additions. This method also does not require the Commission to litigate
518 in future rate proceedings whether the Company's requested CWIP balance should be allowed for

519 recovery under Section 9-214(e) of the Public Utilities Act, which authorizes the Commission to
520 allow CWIP investment in rates that will be placed in service within 12 months.

521 **Q. Do you agree with Mr. Brosch's assertion that the CWIP projects he seeks to**
522 **remove were funded by vendors rather than shareholders?**

523 A. No. Of the remaining unpaid balance at year end 2011 of \$36,659 (Mr. Brosch rounds to
524 \$37,000), \$25,761 was paid by the Company on January 4, 2012, and the remaining \$10,898 was
525 paid on January 10, 2012. Accordingly, 100% of the CWIP in accounts payable at year end 2011
526 was financed by AIC by January 10, 2012, within 10 days of year end, prior to the Company
527 actually filing for rates in this proceeding, and almost 2 years prior to the Company receiving
528 one dime from ratepayers for a return on the Company investment dollars at issue.

529 **Q. Is the Commission's decision in Docket No. 10-0467 directly on point?**

530 A. No. In Docket No. 10-0467, the Commission rejected AG/AARP and CUB's proposed
531 adjustment to remove CWIP projects from rate base. The Commission found, "As long as there
532 is a preponderance of evidence that the projects that are being funded by CWIP will be placed in
533 service within 12 months from May of 2011, inclusion in rate base of CWIP-funded projects is
534 proper." Commonwealth Edison Co., Order, Docket 10-0467, May 24, 2011, p. 30. Moreover,
535 the Commission could not state that all of the projects were vendor-financed and the record did
536 not look at the lag between the time the charge was booked and payment occurred. In this
537 proceeding however, the lag has been examined and the record shows that 100% of the project
538 was paid by AIC by the beginning of 2012. The project AG/AARP seeks to disallow cannot be
539 said to be vendor-financed. As a result, AG/AARP's adjustment to remove one additional CWIP
540 project should be rejected.

541 **X. ADIT ADJUSTMENT RELATED TO STEP-UP METRO**

542 **Q. What is your understanding of AG/AARP's adjustment to eliminate the state and**
543 **federal deferred ADIT related to "tax depreciation step-up basis Metro"?**

544 A. Mr. Effron proposes an adjustment to Rate Base to remove the account 190 step-up basis
545 Metro asset. Mr. Effron asserts the balance of ADIT related to "tax depreciation step-up Metro"
546 is not properly included in the Company's rate base. He also claims that since the transfer of
547 assets from Union Electric to CIPS at book value did not result in any payment of taxes at the
548 time of transfer, it should not result in any increase to the net value of those assets included in the
549 Company's rate base. The elimination of the state and federal deferred ADIT on "tax
550 depreciation step-up basis Metro" reduces the Company's jurisdictional rate base by \$6,263,000.

551 **Q. What does the balance of ADIT related "tax depreciation step-up basis" Metro**
552 **represent?**

553 A. At the time of Central Illinois Public Service Company's (CIPS) purchase of certain tax
554 depreciable assets from Union Electric in 2005, there was no net ADIT balance on the books at
555 the time of the purchase of property by CIPS. The property was purchased by CIPS at an
556 amount equal to Union Electric Company's (UE) net book value of the assets. The initial tax
557 basis of the assets for CIPS was equal to the cost. Since tax basis was equal to book basis, there
558 was no book-tax difference and no related ADIT. For book purposes, the accounting entries
559 reflected the book value of the assets, depreciation reserve and ADIT as they were on UE's
560 records prior to the sale. Since CIPS had no difference in book and tax basis, a contra-deferred
561 tax liability was set up in the 190 account so that net deferred taxes at the date of the purchase on
562 CIPS books was zero.

563 **Q. Do you agree with Mr. Effron's assertion that the deferred tax debit balance is, in**
564 **effect, the other side of a gain booked at the time of the asset transfer?**

565 A. No. As stated above, net ADIT included in AIC rate base is zero. The debit balance of
566 ADIT in account 190 is offset by an equal amount of credit balance of ADIT in account 282. For
567 ratemaking purposes, including the ADIT account 190 balance results in a \$0 net deferred tax
568 liability in Rate Base consistent with the fact that tax basis is equal to book basis for the assets
569 purchased. Mr. Effron's proposed adjustment is asymmetrical, and ignores the evidence
570 presented by the Company in Staff Data Request DLH 12.01 in Docket No. 12-0001 that the
571 dollar amounts recorded to the account 190 asset are exactly offset by equal dollar amounts
572 recorded that increased the account 282 ADIT balance that have the effect of reducing rate base.
573 As such, Mr. Effron completely ignores compelling evidence that presents the impact of entries
574 increasing the Account 282 liability deducted in rate base related to this asset transfer. More
575 specifically, DLH 12.01 Attach shows debit entries on May 2, 2005 to account 190 that totaled
576 \$17,900,030 and credit entries to account 282 that also totaled \$17,900,030. Accordingly, the
577 impact on rate base if account 190 was included would have been \$0 at time of recording the
578 entry. Conversely, if account 190 was excluded, rate base would have been artificially
579 understated by the same \$17,900,030.

580 In response to DLH 12.01, I also explained that since the initial entries were recorded, the
581 account 190 balances has been amortized based on a 20 year MACRS tax rate schedule, with the
582 account 282 balances amortized based on the vintages of the underlying assets. Given the
583 starting point for amortization of both account 190 and 282 are the same, any differences in
584 timing of the amortization cannot be material since all distribution plant assets are subject to a 20
585 year MACRS schedule. Accordingly, the rate base impact of account 190 net of account 282 for

586 the step-up basis metro entries today is either \$0 or close to \$0. Furthermore, since the transfer,
587 the Company would have been tax depreciating the assets transferred to CIPS and on AIC's
588 books. As a result, additional ADIT from 2005 through 2011 would be recorded to account
589 282 and deducted from rate base in this proceeding.

590 **Q. Does Mr. Effron present testimony that implies only one journal entry was made to**
591 **record the transfer?**

592 A. Yes, in AG/AARP Exhibit 2.0, Page 7, beginning on line 143, he comments on Staff
593 Data Response DLH 12.01 by stating “Ameren provided *the* journal entry to record the transfer
594 of the Metro assets from UE to CIPS” (emphasis added). Mr. Effron then proceeds to use this
595 statement to support his position without consideration of the other journal entries presented in
596 this response. This data response clearly shows that there were other entries associated with the
597 metro transfer, not just to accounts 190 and 411, but to accounts 282 and 410 as well. The effect
598 of these entries, on a combined basis, show the amounts recorded to account 190 were exactly
599 offset by amounts recorded to Account 282. Accordingly, AG/AARG's adjustment to remove
600 account 190 for the step-up basis transfer would artificially lower rate base to the detriment of
601 AIC, and should be rejected.

602 **XI. TREATMENT OF LATE PAYMENT REVENUES**

603 **Q. What is your understanding of the treatment that AG/AARP proposes for electric**
604 **late payment revenue received in 2011?**

605 A. Mr. Brosch argues that the Company's 45.56% allocation of late payment revenues to
606 electric delivery service is inappropriate and recommends instead that 100% of late payment
607 revenues be treated as a revenue offset in the determination of electric delivery service rates in
608 this proceeding. He implies that AIC has “created several new fictional regulatory jurisdictions”

609 in which revenue credits for late payment charges should be recognized. Mr. Brosch also states
610 that he considers the late payment revenues to be 100% Commission jurisdictional since none of
611 the revenue credit is applied to AIC's FERC electric transmission rates.

612 **Q. Is it correct that 100% of electric late payment revenues are Commission-**
613 **jurisdictional?**

614 A. Yes.

615 **Q. Is it correct that 100% electric late payment revenues are attributable to the electric**
616 **delivery service being used to establish rates in this proceeding?**

617 A. No. AIC electric delivery service (DS) customers are also billed under other
618 Commission-approved tariffs for the Company. If, for example, a customer takes electric power
619 supply from the Company under Rider PER – Purchased Electricity Recovery (Rider PER), the
620 total customer bill for electric service from AIC will be greater, and if the customer pays the bill
621 late, the late payment charges will be greater. Accordingly, it should be very clear to Mr. Brosch
622 by now and any others that are reviewing the evidence submitted by the Company in Docket No.
623 12-0001 and in my rebuttal testimony in this docket, with regard to this issue, that only a portion
624 of the late payment revenues are generated by electric delivery service revenues and only the
625 costs related to the electric delivery service business that give rise to the Commission-
626 jurisdictional electric delivery service revenues are included in revenue requirement. Staff
627 understands this. The underlying data frankly is very transparent. The fact that AG/AARP still
628 does not get it is either due to a fundamental lack of understanding of ratemaking and tariff
629 setting in Illinois, or an attempt to create confusion and cloud the facts in evidence in an effort to

630 obtain an incorrect, asymmetrical, approach to the setting of delivery service rates in this
631 proceeding⁵.

632 **Q. Mr. Brosch claims that AIC has “created several new fictional regulatory**
633 **jurisdictions” in which revenue credits for late payment charges should be recognized.**
634 **Please respond.**

635 A. This statement is inflammatory and is unsupported by any evidence of record in this
636 proceeding or with regard to the same issue in Docket No. 12-0001. Mr. Brosch's unwillingness
637 in this proceeding and Docket No. 12-0001 to agree that there are electric "Production" costs
638 recovered separately from electric delivery service tariffs, "Transmission " costs recovered
639 separately from electric delivery service tariffs, or "Other" electric costs, such as riders or add-on
640 taxes, recovered separately from electric delivery service tariffs, is either due to Mr. Brosch's
641 fundamental lack of understanding of ratemaking and tariff setting in Illinois, or an attempt to
642 create confusion and cloud the facts in evidence, as stated previously. As discussed below,
643 simply because a source of revenues is Commission-jurisdictional does not mean that all such
644 revenues are attributable to the "Distribution" function and recoverable in electric delivery
645 service rates.

⁵ See, for example, Mr. Brosch's responses to AIC-AG/AARP 1.18 and 1.19 attached here as part of Ameren Exhibit 11.5.

646 **Q. Does the fact that 100% of the revenues are administered under Commission-**
647 **approved tariffs and Commission rules support inclusion of 100% as a revenue credit in**
648 **the calculation of AIC's electric DS revenue requirement?**

649 A. Certainly not, for a number of reasons. This Commission has a long-standing practice for
650 AIC's electric utilities, in rate orders dating back at least to the unbundling of electric service
651 rates in Docket No. 06-0070 (Cons.), to include in electric DS cost of service and revenue
652 requirement only electric distribution system costs to be recovered through electric delivery
653 service base rates revenues. Consistent with that practice, the Commission has only included as
654 an offset to electric DS base rate revenues other electric revenues assigned directly to or
655 allocated in part to electric DS service. Simply because a component of costs are billed to AIC's
656 electric customers does not mean that the Commission intends for the Company to recover all
657 costs through electric DS rates or apply all revenue credits to electric DS revenues. If that were
658 true, there would have been no need to establish separate tariffs to recover electric DS rates
659 separately from Commission jurisdictional electric power supply, Commission jurisdictional
660 transmission service, and numerous other Commission jurisdictional tariffs and riders. Absent
661 re-bundling of electric service, I have no reason to believe that the Commission will not continue
662 to establish rates to recover only electric distribution system and electric delivery service related
663 costs through electric DS rates, even though other costs are also Commission jurisdictional.

664 **Q. Mr. Brosch claims that AIC's proposed treatment of late payment revenues is**
665 **inconsistent with its treatment of customer deposits. Please respond.**

666 A. Mr. Brosch claims that the Company, by application of a revenue allocator, is
667 inconsistent in its treatment of late payment revenues when compared to recognition of 100% of
668 customer deposits as a reduction to Rate Base. Application of the revenue allocated portion of

669 late payment revenues and the full Rate Base deduction for customer deposits in electric DS
670 revenue requirement are both based on long standing Commission precedent. While there are
671 some differences in that late payment charges are recorded as revenues and customer deposits are
672 a recorded as a liability on the Company's balance sheet, they both have some commonality in
673 that the source for both is the customer taking electric delivery service from the Company and
674 the amount of revenue/deposit is also impacted by the size of a customer bill. Accordingly, a
675 customer taking electric power supply from the Company, all else equal, will be requested to pay
676 a greater deposit, than a customer that does not take power supply from the Company.
677 Accordingly, the Company does not object to assignment of the entire balance of customer
678 deposits as an offset to Rate Base, consistent with past Commission precedent, or application of
679 a revenue allocator to the Rate Base deduction. If the Commission prefers application of a
680 revenue allocator, the Company would agree to inclusion of the power supply portion of
681 Customer Deposits as an offset to other costs in its proposed modification to Rider PER, which is
682 discussed later in my rebuttal testimony.

683 **Q. Mr. Brosch cites the Commission's decision in Docket No. 10-0467 as support for**
684 **this proposal. Is the Commission's decision in that proceeding directly on point?**

685 A. A reading of the order excerpts cited by Mr. Brosch indicates that the Commission relied
686 on the fact that, in ComEd's case, almost all applicable tariffs from which the ComEd collected
687 late payment revenues were Commission jurisdictional. I agree with Mr. Brosch that all late
688 payment revenues for AIC are collected from tariffs that are Commission jurisdictional. With
689 regard to ComEd, it may have been that, based on the facts in evidence in the ComEd
690 proceeding, the Commission could only conclude that the late payment revenue credit be applied
691 to electric DS rates since the tariffs were Commission jurisdictional. However, in this AIC

692 formula rate proceeding, that is not the relevant point. The relevant point is that this proceeding
693 is intended to establish electric delivery service rates designed to recover electric delivery service
694 cost of service and revenue requirement. To that point, I believe the Commission's objective is
695 to not overstate DS revenue requirement, by including non-DS costs, such as power supply or
696 transmission costs, in revenue requirement, and conversely not understate DS revenue
697 requirement, by omitting the inclusion of DS costs from revenue requirement deemed to be just
698 and reasonable. To that end, there is extensive evidence submitted in this proceeding and in
699 Docket No. 12-0001 with regard to electric costs and the assignment and/or allocation of those
700 costs to either the electric distribution business recoverable through electric DS revenue
701 requirement, or assignment/allocation of those costs to other business lines, such as gas, electric
702 production, electric transmission, or other.

703 **Q. Mr. Brosch seems to sweep aside AIC's concerns about recovery of electric costs**
704 **under Commission-administrated non-DS rate structures that relate to the non-DS**
705 **portions of late payment revenues. Please respond.**

706 A. Mr. Brosch has not proposed to include any Commission-jurisdictional electric
707 production, transmission, or other rider related costs in revenue requirement. Mr. Brosch did not
708 add back to revenue requirement any operating expenses recorded directly to production
709 accounts and recoverable through Rider PER, or add back any operating expense recorded
710 directly to transmission accounts and recoverable through Rider TS – Transmission Service
711 (Rider TS) or add back any capital costs and functional distribution, customer accounts,
712 customer service or administrative and general (A&G) related operating expenses that AIC
713 removed from electric DS revenue requirement related to Rider EDR– Energy Efficiency and
714 Demand-Response Cost Recovery (Rider EDR) , Rider PSP – Power Smart Pricing (Rider PSP),

715 Utility Consolidated Billing/Purchase of Receivables (UCB/POR), and Rider TS from his
716 calculation of AIC electric DS jurisdictional revenue requirement.

717 **Q. What is the appropriate solution for addressing the treatment of the portions of late**
718 **payment revenues that are not related to electric delivery services?**

719 A. The vast majority of the dollars at issue are related to electric power supply service. As I
720 have testified in Docket No. 12-0001, the Company does not recover all of its electric power
721 supply related costs currently through Rider PER and also does not credit back through Rider
722 PER late payment revenues associated with electric power supply. The appropriate solution is to
723 address changes to Rider PER either at the time of the Rate Redesign proceeding or at the time of
724 the next Rider PER update filing to consider both electric power supply related costs not
725 recovered through electric DS rates and late payment revenue charges related to the electric
726 power supply portion of a customer's bill.

727 **XII. INCOME TAX EXPENSE ADJUSTMENTS**

728 **Q. What is your understanding of the rationales offered by AG/AARP and CUB for**
729 **their state income tax rate adjustments?**

730 A. Mr. Brosch argues that since the Illinois state income tax rate change from 7.3% to 9.5%
731 effective January 2011 is temporary⁶, rather than permanent, income tax deferrals taken today at
732 9.5% will reverse in future years at the lower rates scheduled to be effective at that time, citing to
733 this phenomenon as being completely ignored in AIC's filing, but is the subject of specific large
734 ratemaking adjustments in ComEd's formula rate update filing in Docket 12-0321. Mr. Smith

⁶ The Illinois state income tax rate will change in 2015 from 9.5% to 7.75% and will change in 2025 from 7.75% back to the same 7.3% rate in effect prior to 2011.

735 contends because ComEd and AIC both use the same FERC accounts, the impact of the known
736 future decreases to deferred 2011 state income tax should be reflected similarly by both utilities.
737 Both Mr. Brosch and Mr. Smith of CUB quote from ComEd witness Mr. Fruehe in Docket No.
738 12-0321 that explains: (1) the tax rate changes; (2) the re-measurement impacts; and (3) the
739 reduction in deferred income tax expense realized in 2011-2025 due to the income tax rate
740 change not being permanent. Both Mr. Brosch and Mr. Smith specifically cite to subsection (3)
741 of Mr. Fruehe's discussion and the adjustment quantified by ComEd at \$16.96M as the basis for
742 their adjustments. Mr. Brosch has quantified as a reduction to deferred state income tax expense
743 of \$6.128M and Mr. Smith has quantified as a reduction to state income tax expense of the same
744 \$6.128M offset by a derivative impact to federal income tax expense⁷ of \$2.145M, resulting in a
745 net reduction to income tax expense of \$3.983M.

746 **Q. Do you agree with Intervenors that AIC's corporate tax rate is expected to decrease**
747 **in future years after 2011?**

748 A. Yes. I agree the state income tax rate of 9.5% will be effective for 2011-2014 with an
749 additional change to 7.75% from 2015-2024 and with the rate changing back to 7.3% in 2025.

750 **Q. In AIC's direct filing in this proceeding, did AIC's submit part 285 schedules that**
751 **calculated jurisdictional state and federal income tax expense utilize the new Illinois**
752 **statutory state income tax rate of 9.5%?**

753 A. Yes. Part 285, Schedule C-5a reflected \$51,251,850 of jurisdictional income tax expense
754 based on statutory income tax rates of 9.5% for state income taxes, 35% for federal income

⁷ State income tax expense is deductible for federal tax expense. Thus, a change in state income expense is partially offset by the derivative impact on federal income tax expense due to the change in the deductible amount for state income taxes used in the calculation of federal income tax expense.

755 taxes, state income taxes deductible in the calculation of federal income taxes, and an additional
756 reduction to income tax expense for amortization of investment tax credits.

757 **Q. To assess the impact of the change 2011 state income tax rates, have you**
758 **recalculated 2011 jurisdictional income tax expense on Schedule C-5a without the tax rate**
759 **change from 7.3% to 9.5%?**

760 A. Yes. 2011 Schedule C-5a recalculated at 7.3% is \$49,438,133. Accordingly, the change
761 from 7.3% to 9.5% resulted in a net increase in state and federal income tax expense of
762 \$1,813,717.

763 **Q. Is the increase in income tax expense reflecting the 2011 state income tax rate**
764 **change reflected in revenue requirement?**

765 A. Yes. Since the 2011 state income tax rate is 9.5%, that rate has been used to calculate
766 income tax expense in the determination of revenue requirement.

767 **Q. Do you agree with AG/AARP and CUB that the increase in the state income tax rate**
768 **actually generated income tax savings for AIC?**

769 A. Yes. The anomaly, or phenomenon, referred to by Mr. Brosch and Mr. Smith, of having
770 an increase in an income tax rate that actually resulted in income tax savings is due to the fact
771 that: (1) the tax rate change was not permanent; and (2) utilities do not flow through tax benefits
772 as a reduction to income tax expense in the year realized but defer and amortize such benefits for
773 recognition as income tax expense and rates over the useful life of assets giving rise to such
774 benefits. If the tax rate change had been permanent, AIC would have re-measured the tax
775 benefits taken in prior years at the 7.3% Illinois state tax rate (but not yet fully amortized) to the
776 new 9.5% income tax rate in the balance sheet. The re-measured amounts continue to be

777 amortized over the remaining useful life of the assets to giving rise to the tax benefits at the new
778 permanent income tax rate of 9.5%. Accordingly, if the tax rate change had been permanent, the
779 2011 amortization of previous tax benefits taken at 7.3% would have been amortized as an
780 increase to deferred income tax expense at 9.5% with an offset to current income tax expense at
781 the same 9.5% in 2011, and in subsequent years, to the extent applicable.

782 **Q. Do you agree with AG/AARP and CUB that the phenomenon of having a tax rate**
783 **increase generating tax savings should be reflected in revenue requirement?**

784 A. Yes. This phenomenon is material in 2011, and with the tax rate change not being
785 permanent, is a departure from traditional ratemaking for both utilities using actual tax expense
786 and utilities using statutory tax rates, such as AIC, in determinations of revenue requirement. As
787 shown on Ameren Exhibit 11.3, the change in deferred income tax expense of calculating current
788 income tax expense at 9.5% but amortizing 2011 tax benefits at 7.75% or 7.3% results in a
789 reduction to 2011 actual jurisdictional income tax expense of \$4.137 million. The source data for
790 this calculation is AIC's Part 285 Schedule C-5.2 which provides deferred income tax support for
791 the total current and deferred income taxes on Schedule C-5a, and isolates the components of
792 deferred income tax expense that give rise to the anomaly of income tax expense below the
793 effective rate of 9.5%.

794 As also shown on Ameren Exhibit 11.3, the reduction to state income tax expense of
795 \$6.365 million is partially offset by a higher federal income tax expense of \$2.228 million. As
796 explained previously, since state income tax expense is deductible for federal, the lower state
797 income tax expense amount results in a lower deduction for the calculation of federal income tax
798 expense, and a corresponding increase in federal income taxes. This net reduction of \$4.137
799 million is close to the "placeholder" calculation of \$3.983 million submitted by CUB in their

800 direct testimony. AG/AARP's "placeholder" calculation of \$6.128 million recognized the
801 reduction in state income tax but not the offsetting increase in federal income tax expense.

802 As discussed further below, AIC is reflecting the tax rate change phenomenon in
803 calculation of rebuttal revenue requirement.

804 **Q. Is Mr. Brosch correct that AIC has not given any recognition to bonus depreciation,**
805 **repairs deduction and other property-related book/tax differences included in ComEd's**
806 **analysis?**

807 A. No. The calculations provided in the part 285 schedules recognized these components but
808 did not recognize the phenomenon of how these property related tax differences being deferred
809 and amortized would have on a jurisdictional income tax expense. With the additional analysis
810 provided by the Company discussed above, along with responses to AG/AARP Data Requests
811 5.01 through 5.05, I believe the Company has now properly taken into account the impacts of
812 bonus depreciation, repairs deductions, and other property related book/tax differences that give
813 rise to a reduction to actual deferred tax expense for AIC. While I have not conducted an analysis
814 of ComEd's schedules, the calculations and analysis discussed above with regard to AIC's actual
815 2011 actual income tax expense calculations should adequately address his concern.

816 **Q. Mr. Brosch recommends the Commission "require a complete accounting for**
817 **changing state income tax rates and deferred income tax expense savings from AIC, to**
818 **ensure ratepayers are not denied the permanent income tax savings that arise from such**
819 **changing income tax rates." Why isn't that necessary?**

820 A. I am not sure what Mr. Brosch means by "require a complete accounting" but given the
821 analysis performed by AIC and AIC's response to AG/AARP data requests, I believe the
822 Company has met its burden and properly addressed this issue. From an accounting and financial

823 reporting perspective, it should also be noted that total electric income tax expense on Part 285
824 Schedule C-5a, as presented in AIC's direct filing, can be reconciled to FERC Form 1 income tax
825 expense, and with the modifications undertaken to the jurisdictional calculation, as summarized
826 on Ameren Exhibit 11.3, I believe the Company has adequately addressed the ratemaking
827 implications discussed by both Mr. Brosch and Mr. Smith.

828 **Q. Please explain how you have reflected the reduction in income tax expense in**
829 **rebuttal revenue requirement.**

830 A. Since this tax rate change exceeds \$3.7 million, Section 16-108.5(c)(4)(F) of the Act
831 requires charges or credits "including those related to taxes" to be recognized as a deferral
832 subject to amortization, consistent with the charge for an incremental storm event that was
833 deferred in the Company's direct filing. Accordingly, Ameren Exhibit 11.1, Schedule FR B-1,
834 line 31 and App 5 have been adjusted to reflect amortization of the \$4.137 million credit due to
835 the tax rate change. Total costs of \$4.137 million are being amortized over 5 years, with 1/5 of
836 the cost included in operating expense in the amount of \$827,000 and the remaining 4/5, or
837 \$3.310 million of the credit included in Rate Base, as further detailed in AIC Exhibit 1.1, App 7,
838 line 29.

839 Consistent with treatment of the incremental storm event discussed at pages 22-23 of my
840 Direct Testimony, which no party opposed, since the tax rate change giving rise to the deferred
841 income tax expense reduction occurred in the year prior to AIC's opt-in to formula rates and
842 prior to the first calendar year reconciliation and true-up, the Company does not intend to
843 continue the deferral and amortization of this credit in subsequent formula rate proceedings.

844 **XIII. REGULATORY COMMISSION EXPENSE ADJUSTMENT**

845 **Q. What is your understanding of the rationales offered by Staff for its adjustment to**
846 **disallow the expenses incurred for outside legal and other professional services associated**
847 **with Docket No. 11-0279?**

848 A. Ms. Ebrey asserts the Company spent substantial sums of money in an attempt to obtain a
849 rate increase in Docket No. 11-0279, and then withdrew its electric rate case before a
850 Commission Order was issued. She alleges this did not improve or enhance the electric service
851 AIC provides to its customers.

852 **Q. What types of expenses are ordinarily charged to FERC Account 928?**

853 A. The uniform system of Accounts provides for the following types of expenses to be
854 charged to FERC Account 928:

855 This account shall include all expenses (except pay of regular employees
856 only incidentally engaged in such work) properly includible in utility
857 operating expenses, incurred by the utility in connection with formal cases
858 before regulatory commissions, or other regulatory bodies, or cases in which
859 such a body is a party, including payments made to a regulatory commission
860 for fees assessed against the utility for pay and expenses of such
861 commission, its officers, agents, and employees, and also including
862 payments made to the United States for the administration o f the Federal
863 Power Act.

864 **Q. Does Staff contend the expense of Docket 11-0279 was not properly booked to FERC**
865 **Account 928?**

866 A. No⁸. Staff simply believes that because AIC withdrew its electric rate case, as permitted
867 by the Energy Infrastructure Modernization Act (EIMA), all the expenses related to Docket 11-
868 0279 should be disallowed. The Illinois general assembly evidently anticipated that a utility

⁸ Staff responses to AIC-Staff 6.12 and 6.13.attached here as part of Ameren Exhibit 11.5.

869 could withdraw a pending rate case as there is language included in Section 16-108.5 that
870 requires the Commission to dismiss any pending proceeding for a general rate case, if a utility
871 elects to opt in to performance-based formula ratemaking.

872 **Q. Does the Company oppose Staff's adjustment to disallow this expense?**

873 A. Yes. AIC witness Mr. Nelson explains why it is appropriate for AIC to recover these
874 expenses in formula rates as part of the Company's Account 928 expense for 2011.

875 **Q. Was Docket No. 11-0279 a stand-alone electric rate case?**

876 A. No. The Commission consolidated AIC's electric and gas rate case filings in Docket Nos.
877 11-0279 and 11-0282, respectively.

878 **Q. What was the Commission's decision concerning the expenses AIC incurred in**
879 **connection with Docket No. 11-0282, the companion gas rate case?**

880 A. The Commission assigned 50% of the combined \$6.126 shown on Ameren Exhibit 40.8
881 and further detailed on Ameren Exhibit 40.13 in Docket Nos. 11-0279 and 11-0282 as the
882 portion allocable to gas operations in the Order issued in Docket No. 11-0282.

883 **Q. Had Staff previously reviewed and approved the expenses AIC incurred in**
884 **connection with Docket No. 11-0279, the withdrawn electric rate case?**

885 A. Yes. Staff reviewed the expenses and agreed with the requested total amount of \$6.683
886 million documented on Ameren Exhibit 40.13 and cited by the Gas Order in Docket No. 11-0282
887 at page 44. By agreement, Staff and Company agreed to reclassify \$557,000 for recovery as
888 merger costs rather than rate case costs, leaving the remainder of \$6.126 million agreed to for
889 recovery as rate case costs, with 50% assigned to electric and 50% assigned to gas.

890 **Q. Has AIC also produced supporting invoices and other documentation in this case in**
891 **response to Staff's discovery requests?**

892 A. Yes. Supporting invoices and other documentation were supplied in response to Data
893 Request TEE 3.02 and a supplemental response to TEE 3.02 that detailed actual costs for both
894 the electric and gas rate case in Docket Nos. 11-0279 and 11-0282.

895 **Q. What was the amount of outside lawyer and professional expense actually incurred**
896 **and charged to Account 928 for Docket 11-0279?**

897 A. The amount was \$2,689,932.

898 **Q. In your estimation, would AIC still have incurred a large part of the expense**
899 **charged to AIC's electric operations, even if it had only ever filed a gas rate case?**

900 A. Yes. Costs incurred to process and litigate the rate case were performed on a joint basis
901 with the exception of revenue requirement schedules. More specifically, the Company filed one
902 set of rebuttal and surrebuttal testimony, had one set of hearings, and filed one Initial Brief and
903 one Reply Brief for the electric and gas rate cases on a combined basis. One Draft Order was
904 issued by the Administrative Law Judges (ALJs) from which AIC provided comments. Many of
905 the data requests responded to by AIC applied to both electric and gas operations. Many of the
906 litigated issues applied to both electric and gas operations, including common equity and debt
907 included in the capital structure and most rate base and operating expense issues including, for
908 example, cash working capital, merger costs and savings, uncollectible expense, and charitable
909 contributions. In my opinion, over one half of the costs incurred by AIC that were charged to
910 electric operating expense in 2011 would have been incurred to process and litigate a gas only
911 rate case filing, and recovered in gas rates rather than subject of the cost recovery at issue in the
912 present proceeding.

913 **Q. Ms. Ebery points out the Proposed Order in Dockets Nos. 11-0279 and 11-0282**
914 **recommended an overall rate decrease for AIC's electric rates. Was AIC still advocating**
915 **an overall rate increase for electric operations at the time the electric rate case was**
916 **withdrawn?**

917 A. Yes. The ALJ's proposed order advocated a substantial decrease to electric operating
918 expense at a time when the Liberty Consulting group, hired by the Commission to assess AIC's
919 reliability and customer service, was supporting a substantial increase in investment. There were
920 areas, such as charitable contributions and reductions to common equity for the uncollectibles
921 Rider EUA – Electric Uncollectible Adjustment (Rider EUA), where the ALJs proposed
922 downward adjustments for costs that differed substantially from findings for other major electric
923 and gas utilities, and arguably would not have been sustained in an Order or on Appeal. Another
924 example was rate case expense where the ALJs proposed a downward adjustment not advocated
925 by any party that was overturned by the Commission in the gas order in Docket No. 11-0282.
926 Whether the final order would have sustained AIC's position on all of these issues is unclear, but
927 the Company's position supported a rate increase, rather than a rate decrease, in Docket No. 11-
928 0279.

929 **Q. Does Staff contend that the expense incurred for Docket 11-0279 that was charged**
930 **to Account 928 was not prudently incurred and reasonable in amount?**

931 A. No. Ms. Ebery has not indicated that this is the basis for her adjustment, which is the test
932 for cost recovery under Section 16-108.5 of the Act.

933 **XIV. AMORTIZATION OF FORMULA RATE COMMISSION EXPENSE**

934 **Q. What are the expenses that are specifically allowed in formula rates pursuant to 16-**
935 **108.5(c)(4)(E) of the Public Utilities Act?**

936 A. Section 16-108.5(c)(4)(E) states that the following expenses are specifically allowed in
937 the formula for rate recovery:

938 (E) recovery of the expenses related to the Commission proceeding under this
939 subsection (c) to approve this performance-based formula rate and initial rates
940 or to subsequent proceedings related to the formula, provided that the
941 recovery shall be amortized over a 3-year period; recovery of expenses related
942 to the annual Commission proceedings under subsection (d) of this Section to
943 review the inputs to the performance-based formula rate shall be expensed and
944 recovered through the performance-based formula rate;

945 **Q. What is the amount of outside legal and professional expense that was incurred in**
946 **2011 related to the initial petition filed in Docket 12-0001?**

947 A. \$664,958 was incurred in 2011 as a deferred charge in preparation of the initial
948 performance-based formula rate filing, which was filed on January 3, 2012.

949 **Q. What was AIC's position on direct concerning the appropriate amortization period**
950 **for formula rate expense incurred in 2011 for outside legal and professional services**
951 **related to the initial petition filed in Docket 12-0001?**

952 A. The Company's direct position is that the appropriate amortization period for all costs
953 incurred for the initial performance-based formula rate filing is 2012-2014 based on a reading of
954 the express provisions of the Act. The specific sections cited above from the Act specify "a 3-
955 year period" for cost recovery. The Act does not omit the word "a" and the Act does not add an
956 "s" to "period". Therefore, a one-year amortization period from 2012-2014 is the correct
957 interpretation and application of the express provisions of the Act.

958 **Q. Why does Staff want to begin the amortization period for 2011 expense in the 2011**
959 **revenue requirement?**

960 A. The basis for Staff's recommendation is to be consistent with the treatment ComEd has
961 proposed for rate case expense related to its initial formula rate tariff proceeding, Docket No. 12-
962 0321. ComEd proposed to amortize 2011 costs from 2011-2013 and 2012 costs from 2012-2014.
963 Presumably, any costs incurred after 2012 would be amortized over subsequent three year
964 periods to coincide with the year such costs were incurred by ComEd.

965 **Q. Does AIC object to Staff's proposal to begin amortization of 2011 expense in the**
966 **2011 revenue requirement?**

967 A. Yes. Under Ms. Ebrey's proposal, two or more amortization periods for AIC's incurred
968 costs is not correct for at least three reasons. First, as stated above, her proposal is not consistent
969 with the express provisions of the Act. Second, unlike ComEd, AIC did not make a similar
970 proposal to what ComEd did to amortize costs over two or more periods, so Ms. Ebrey's
971 proposal contradicts AIC's recommendation, rather than supports the Company's
972 recommendation, unlike ComEd where Staff agreed with the Company. Third, unlike ComEd,
973 which opted in to performance-based formula rates in 2011, AIC did not opt in until 2012.
974 Therefore, unlike ComEd, the first reconciliation and true-up for formula rate costs will not be
975 until 2012. Accordingly, again unlike ComEd, which is presently reconciling and truing up 2011
976 costs in a proceeding before this Commission, AIC will not perform its first reconciliation and
977 true-up until 2012. Unlike ComEd, which has the opportunity to fully recovery its initial formula
978 rate filing costs incurred in 2011 because they opted in to formula rates in 2011, under Ms.
979 Ebrey's proposal, AIC would forgo any ability to recover in rates subject to reconciliation and
980 true up 1/3 of the 2011 costs simply because Ms. Ebrey, on her own initiative, recommends

981 amortizing those costs beginning in the year prior to the reconciliation and true-up. AIC should
982 not be penalized for its decision to opt in to formula rates in 2012 for which it began incurring
983 costs in 2011. I cannot believe that the intent of the above quoted section of the Act allowing for
984 recovery of the initial costs would require the utility to forgo cost recovery in reconciled rates of
985 some portion of the costs simply because they were incurred in the year prior to opt in in
986 preparation for the initial rate filing, but that is exactly the result of Ms. Ebrey's proposal.
987 ComEd is simply not in the same position as its first reconciliation and true-up is in 2011. While
988 I understand Ms. Ebrey's proposal to follow ComEd's protocol, her proposal is incorrect and
989 inappropriate, and the Commission should follow AIC's recommendation to establish one three-
990 year amortization period beginning in 2012 for AIC's formula rate filing costs whether or not
991 such costs were incurred 2011 or 2012.

992 **Q. Ms. Ebrey testifies on direct that ComEd's proposal for recovery of its 2011 expense**
993 **more closely follows the protocols set forth in Section 16-108.5(c)(4)(E). Please respond.**

994 A. As stated above, that statement is incorrect based on the express language in 16-
995 108.5(c)(4)(E), which is controlling for cost recovery of these specific costs. Therefore, AIC's
996 proposal is consistent with this section of the Act and Ms. Ebrey's proposal is not, given the
997 express language cited above. Mr. Ebrey relies on a different section of 16-108.5 with regard to
998 Form 1 inputs as the source for performance-based formula rates as a key component of her
999 recommendation. Also, it should be noted that, under AIC's proposal to defer 2011 costs, while
1000 such costs will initially be incurred in 2011, they will not begin being amortized until 2012, and
1001 will remain in a balance sheet regulatory asset account subject to amortization from 2012-2014.
1002 Unlike utility plant subject to depreciation or amortization, or even regulatory assets established
1003 under 108.5(c)(4)(F), based on a charge or credit exceeding \$3.7 million, subject to amortization,

1004 the Act's language with regard to the initial formula rate filing costs does not provide for
1005 recovery of the un-depreciated or unamortized balance of such costs to be included in rate base,
1006 but rather only provides for recovery of the costs to expense via amortization. Therefore, since
1007 the initial formula rate filing costs are only recovered through amortization in operating
1008 expenses, rather than both rate base and operating expenses, the key Form 1 input to consider is
1009 the year such costs are expensed, which is 2012-2014, under the Company's proposal, rather than
1010 the year they are first incurred and recorded to a deferred account, which is 2011, under Ms.
1011 Ebrey's proposal.

1012 **Q. Ms. Ebrey testifies the Company did not provide support for costs incurred in 2011.**
1013 **Have you provided the support on rebuttal to demonstrate how much expense was**
1014 **incurred in 2011?**

1015 A. Yes. In a supplemental response to TEE 6.01, the Company has provided a summary of
1016 all costs along with invoices supporting the \$664,958 deferral recorded on FERC Form 1.

1017 **Q. What is Ms. Ebrey's ultimate recommendation to the Commission?**

1018 A. Ms. Ebrey recommends the Commission find that this proceeding is the appropriate
1019 forum to consider the actual costs that AIC incurred in 2011, including initial formula rate filing-
1020 related costs incurred in 2011. Her testimony implies that costs incurred during 2011 would not
1021 be eligible for recovery in AIC's next formula rate filing, which will only consider the actual
1022 costs incurred by AIC in 2012.

1023 **Q. Apart from the determination of the appropriate amortization period, is it**
1024 **reasonable for the Commission to find that AIC has waived recovery of 2011 expense in**
1025 **future annual formula rate filings?**

1026 A. No. AIC has provided support for its costs. If the Commission agrees with Ms. Ebrey
1027 rather than the Company on this issue, then the Order should expressly provide for recovery of
1028 \$664,658 over a three-year amortization period beginning 2011.

1029 **Q. You testified on direct that the amortization for incremental storm expenses**
1030 **incurred in 2011 should start in the 2011 revenue requirement. Why should regulatory**
1031 **commission expense incurred for outside legal and professional services be treated any**
1032 **differently?**

1033 A. As explained earlier, the February 2011 single storm event being amortized falls under a
1034 different section of the Act, 16-108.5(c)(4)(F), and expressly provides for the following:

1035 (F) amortization over a 5-year period of the full amount of each charge or credit that exceeds
1036 \$3,700,000 for a participating utility that is a combination utility or \$10,000,000 for a
1037 participating utility that serves more than 3 million retail customers in the applicable calendar
1038 year and that relates to a workforce reduction program's severance costs, changes in
1039 accounting rules, changes in law, compliance with any Commission-initiated audit, or a single
1040 storm or other similar expense, provided that any unamortized balance shall be reflected in
1041 rate base. For purposes of this subparagraph (F), changes in law includes any enactment,
1042 repeal, or amendment in a law, ordinance, rule, regulation, interpretation, permit, license,
1043 consent, or order, including those relating to taxes, accounting, or to environmental matters,
1044 or in the interpretation or application thereof by any governmental authority occurring after
1045 the effective date of this amendatory Act of the 97th General Assembly; (emphasis added)

1046
1047 Since this charge was incurred under a different section of the Act where the focus is on deferral
1048 and amortization with the unamortized balance of such costs included in rate base, rather than
1049 emphasis on recovery with no provision for the unamortized balance to be included in rate base,
1050 the two are clearly distinguishable. The focus of the language for initial rate filing costs is on
1051 recovery, while the focus of the above section is on the appropriate accounting and ratemaking,
1052 with treatment of the unamortized balance as an adjustment to rate base. While the two are often
1053 the same, in this example, for a cost incurred prior to AIC's opt in to a new regulatory rate
1054 structure, the focus is clearly different, and should be treated differently in the present case.

1055 **Q. If the Commission agrees with Ms. Ebrey's proposal, how do you propose the**
1056 **remainder of AIC's storm expenses for 2011 be treated?**

1057 A. If the Commission agrees with Ms. Ebrey's proposal for the initial rate filing costs, then
1058 consistency would dictate that the February 2011 storm event costs currently being deferred and
1059 amortized for only one year (2011), under AIC's proposal, would instead continue to be deferred
1060 and amortized over the full five-year period of 2011-2015. This would result in an increase in
1061 both AIC's 2012-2015 operating expenses for amortization of the storm event and also increase
1062 rate base for 2012-2015 with inclusion of the unamortized balance in rate base.

1063 **XV. OTHER**

1064 **Q. Ms. Chang, Mr. Smith, and Mr. Brosch propose adjustments to exclude expenses**
1065 **incurred by AIC for account 930.1 corporate sponsorship of community and athletic**
1066 **events. Do you accept their proposals?**

1067 A. No. These adjustments are not appropriate for the reasons discussed in the testimony of
1068 Ameren witness Ms. Pagel. Furthermore, a portion of these adjustments double count the
1069 elimination of costs the Company already removed in its direct filing for the portion related to
1070 athletic events sporting tickets recorded to Account 930.1. Since filing its direct testimony, the
1071 Company determined that the 930.1 portion of the adjustment required some minor
1072 modifications to the electric/gas allocation of such costs. Attached as Ameren Exhibit 11.4 is a
1073 recalculated adjustment for the account 930.1 portion of the athletic events sporting tickets
1074 adjustment to reflect the proper jurisdictional allocation for these costs. This correction modifies
1075 the overall reduction to revenue requirement for athletic events sporting tickets from \$140,000 to
1076 \$123,000 and is further delineated in WP 7 filed in Ameren Exhibit 11.2 in support of the
1077 adjustment shown on Ameren Exhibit 11.1, Page 24, App 7 at Line 16.

1078 **Q. Do you have other comments with regard to the adjustments calculated by Staff and**
1079 **Intervenors in their direct testimony?**

1080 A. Yes. Staff and Intervenors have incorrectly calculated a number of other adjustments by
1081 either: (1) not applying a jurisdictional allocator; (2) misapplying a jurisdictional allocator; or (3)
1082 double counting an adjustment made by the Company. The athletic events sporting tickets
1083 example was discussed above. In addition, Staff's calculation of the EEI industry dues
1084 adjustment was in error⁹, but since AG/AARP correctly calculated this adjustment, the Company
1085 accepted AG/AARP's calculation and placed this discussion in the Accepted Adjustments section
1086 of my rebuttal testimony. Also, Staff's reduction to A&G expense for Ms. Ebrey's proposed
1087 regulatory commission adjustment removes the full \$2,689,932¹⁰ from electric operating expense
1088 rather than only the electric distribution portion through application of an electric distribution
1089 allocator to the total. Staff's Account 909 uses total invoices rather the electric invoice amounts
1090 in calculation of Ms. Chang's disallowance. Staff's account 930.1 adjustment also applies a
1091 93.41% electric distribution allocator rather than the correct 93.07% allocator in calculating the
1092 adjustment to operating expense. In calculating the accrued vacation pay rate base adjustment,
1093 Staff and CUB failed to apply an electric distribution allocator to the electric amount¹¹, thus
1094 overstating the adjustment, and under Staff's methodology for calculating the accrued vacation
1095 pay rate base adjustment, did not fully credit the amount of accrued vacation pay included in
1096 Staff's CWC calculation. Under Staff's proposal, the more correct calculation is shown on Staff
1097 witness Jones Exhibit No. 12.0, Schedule 12.01, Page 2, Lines 20-24 in Docket No. 12-0001.

⁹ Staff agreed to make this correction in response to AIC-Staff 6.03 attached here as part of Ameren Exhibit 11.5.

¹⁰ Staff calculated a revised number in response to AIC-Staff 6.15 attached here as part of Ameren Exhibit 11.5.

¹¹ See Staff calculated a revised number in response response to AIC-Staff 6.08 attached here as part of Ameren Exhibit 11.5.

1098 **XVI. CONCLUSION**

1099 **Q. Does this conclude your rebuttal testimony?**

1100 **A. Yes, it does.**