

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY)	
d/b/a Ameren Illinois,)	Docket No. 13-0192
Petitioner)	
)	
General Increase in Gas Delivery Service)	
Rates)	

**DIRECT TESTIMONY OF RALPH C. SMITH
ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS
AND
THE CITIZENS UTILITIES BOARD**

AG/CUB Exhibit 4.0

June 11, 2013

**AMEREN ILLINOIS COMPANY
DOCKET NO. 13-0192
TESTIMONY OF RALPH C. SMITH
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1 **I. INTRODUCTION**

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

3 A. Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

4

5 **Q. What is your occupation?**

6 A. I am a certified public accountant and a senior regulatory utility consultant with
7 the firm Larkin & Associates, PLLC, certified public accountants and regulatory
8 consultants.

9

10 **Q. Please describe Larkin & Associates.**

11 A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory
12 Consulting Firm. The firm performs independent regulatory consulting primarily
13 for public service/utility commission staffs and consumer interest groups (public
14 counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin &
15 Associates, PLLC has extensive experience in the utility regulatory field as expert
16 witnesses in over 600 regulatory proceedings, including numerous gas, electric,
17 water and wastewater, and telephone utility cases.

18

19 **Q. Please summarize your professional experience.**

20 A. Subsequent to graduation from the University of Michigan, and after a short
21 period of installing a computerized accounting system for a Southfield, Michigan
22 realty management firm, I accepted a position as an auditor with the predecessor

23 CPA firm to Larkin & Associates in July 1979. Before becoming involved in
24 utility regulation where the majority of my time for the past 31 years has been
25 spent, I performed audit, accounting, and tax work for a wide variety of
26 businesses that were clients of the firm.

27 During my service in the regulatory section of our firm, I have been
28 involved in rate cases and other regulatory matters concerning numerous electric,
29 gas, telephone, water, and sewer utility companies. My present work consists
30 primarily of analyzing rate case and regulatory filings of public utility companies
31 before various regulatory commissions, and, where appropriate, preparing
32 testimony and schedules relating to the issues for presentation before these
33 regulatory agencies.

34 My professional career has included over 31 years in public accounting
35 and utility regulatory consulting at Larkin & Associates and its predecessor firm.
36 I have performed work in the field of utility regulation on behalf of industry, PSC
37 staffs, state attorney generals, municipalities, and consumer groups concerning
38 regulatory matters before regulatory agencies in Alabama, Alaska, Arkansas,
39 Arizona, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois,
40 Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi,
41 Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North
42 Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah,
43 Vermont, Virginia, West Virginia, Canada, Federal Energy Regulatory
44 Commission and various state and federal courts of law. I have presented expert
45 testimony in regulatory hearings on behalf of utility commission staffs and

46 intervenors on many occasions. I have also presented seminars on utility
47 accounting and ratemaking on behalf of various clients, and have taught at the
48 Institute of Public Utilities sponsored by Michigan State University.

49

50 **Q. What professional designations do you hold?**

51 A. I hold the following professional designations:

- 52 • Certified Public Accountant (licensed in the State of Michigan)
- 53 • Attorney (licensed in the State of Michigan)
- 54 • Certified Rate of Return Analyst
- 55 • Certified Financial Planner™ professional

56

57 **Q. Please summarize your educational background.**

58 A. I received a Bachelor of Science degree in Business Administration (Accounting
59 Major) with distinction from the University of Michigan - Dearborn, in April
60 1979. I passed all parts of the C.P.A. examination on my first sitting in 1979,
61 received my C.P.A. license in 1981, and received a certified financial planning
62 certificate in 1983. I also have a Master of Science in Taxation from Walsh
63 College, 1981, and a law degree (J.D.) cum laude from Wayne State University,
64 1986. I also have participated each year in a variety of continuing professional
65 education required to maintain my CPA license and CFP® certificate.

66 Since 1981, I have been a member of the Michigan Association of
67 Certified Public Accountants. I am also a member of the Michigan Bar
68 Association and the Society of Utility and Regulatory Financial Analysts

69 (SURFA)¹. I have served as an arbitrator in disputes involving financial
70 transactions as part of the National Association of Securities Dealers, Inc.
71 (NASD) Dispute Resolution program and the Financial Industry Regulatory
72 Authority, Inc. (FINRA). I have also been a member of the American Bar
73 Association (ABA), and the ABA sections on Public Utility Law and Taxation.

74

75 **Q. Have you prepared an appendix that contains additional information on**
76 **your educational background and professional experience?**

77 A. Yes. AG/CUB Exhibit 4.1, attached to this testimony also summarizes some of
78 my regulatory experience and qualifications.

79

80 **Q. On whose behalf are you appearing?**

81 A. I am testifying on behalf of the People of the State of Illinois represented by the
82 Illinois Attorney General (“AG”) and the Citizens Utilities Board (“CUB”) in
83 response to the request by Ameren Illinois Company's (“AIC,” “Ameren” or
84 “Company”) Proposed General Increase in Gas Delivery Service Rates.

85

86 **Q. Have you previously presented testimony before the Illinois Commerce**
87 **Commission?**

88 A. Yes, I have previously presented testimony before the Illinois Commerce
89 Commission (“Commission”) in a number of cases, including Ameren’s Petition
90 for Approval of Liberty Audit Rider and Associated Tariffs (Docket No. 09-0602)

¹ Formerly, the National Society of Rate of Return Analysts.

91 and Ameren's and ComEd's petitions for establishment of formula rates (Docket
92 Nos. 12-0001 and 11-0721, respectively). I testified in Docket Nos. 12-0293 and
93 12-0321, Ameren's and ComEd's respective formula rate reconciliation cases. I
94 have also testified in Illinois-American Water Company Docket Nos. 09-0319 and
95 11-0767. I also submitted testimony in North Shore Gas Company and The
96 Peoples Gas Light and Coke Company's most recent rate cases, Docket Nos. 12-
97 0511 and 12-0512.

98

99 **Q. Please describe the tasks you performed related to your testimony in this**
100 **case.**

101 A. I reviewed and analyzed data and performed other procedures as necessary to (1)
102 obtain an understanding of the General Increase in Gas Delivery Service Rates
103 proposed by Ameren Illinois Company and (2) formulate an opinion concerning
104 the reasonableness of the Company's proposed distribution revenue requirement.
105 These procedures included reviewing the Company's testimony and exhibits;
106 reviewing Ameren's responses to the data requests of CUB, the Staff of the ICC,
107 the Illinois Attorney General's Office, and other parties; issuing information
108 requests; and analyzing Ameren's responses to them.

109

110 **Q. What issues will you be addressing in your testimony?**

111 A. I am recommending certain adjustments to AIC's proposed gas service expense
112 and rate base relating to pension and other post-employment benefits ("OPEB")

113 expense and capitalized amounts for the 2014 future test year. My recommended
114 adjustments are shown in AG/CUB Exhibit 4.2.

115

116 **Q. Does your testimony comprehensively address all concerns that may exist**
117 **with respect to Ameren's Proposed General Increase in Gas Service Rates?**

118 A. No. My testimony only addresses the specific concerns that I have identified
119 within the available time and budgetary constraints. There may be other issues
120 raised by other parties that are worthy of consideration that the AG and CUB may
121 want to endorse. Failure to discuss or quantify an adjustment for a particular
122 issue should not be construed as concurrence with Ameren's position. The lack of
123 an adjustment at this point should not be construed to mean agreement with
124 inclusion in rates, and the AG and CUB reserve the right to adopt the adjustments
125 proposed by others.

126

127 **Q. How is the remainder of your testimony organized?**

128 A. My testimony is organized into the following sections:

129 II. Summary of Conclusions and Recommendations

130 III. Organization of Supporting Schedules

131 IV. Adjustments

132

133 **II. SUMMARY OF CONCLUSIONS AND**
134 **RECOMMENDATIONS**

135 **Q. Please summarize your conclusions and recommendations.**

136 A. Based on my review of the Company's testimony, on the discovery that has been
137 conducted, on publicly available information, and on my experience in the area of
138 regulatory accounting, policy, and revenue requirement determination, my
139 conclusions and recommendations to date are as follows and summarized below:

- 140 • Ameren's proposed jurisdictional expense for Pensions and Other Post
141 Employment Benefits (OPEBs) should be reduced by \$3,912,814 as shown on
142 AG/CUB Exhibit 4.2, Schedule RCS-1, sections III and IV.
- 143 • Ameren's proposed jurisdictional rate base should be reduced by \$444,165 for
144 the average 2014 impact of more accurate information for capitalized
145 Pensions and Other Post Employment Benefits (OPEBs) as shown on
146 AG/CUB Exhibit 4.2, Schedule RCS-1, sections III and V.

147

148 **III. ORGANIZATION OF SUPPORTING SCHEDULES**

149 **Q. Please identify the schedules that you are sponsoring in AG/CUB Exhibit 4.2.**

150 A. I am sponsoring Schedule RCS-1 in AG/CUB Exhibit 4.2.

151

152 **Q. Have you attached to your testimony any Exhibits containing additional**
153 **details concerning some of the AG/CUB adjustments that you are**
154 **sponsoring?**

155 A. Yes. Attached to my testimony is AG/CUB Exhibit 4.3, which contains selected
156 responses to discovery that are discussed in my testimony and/or referenced in the
157 exhibits and schedules I am sponsoring.
158

159 **IV. ADJUSTMENTS**

160 *RCS-1, Pension and OPEB Expense and Rate Base*

161 **Q. What amount of Pension and OPEB Expense has Ameren requested?**

162 A. Ameren has requested Pension and OPEB Expense for 2014 of approximately
163 \$21.926 million, as shown in the Company's response to AG Data Request 3.17.
164

165 **Q. What is the basis for Ameren's requested Pension and OPEB Expense in the**
166 **current rate case?**

167 A. The basis for Ameren's request was apparently a previous estimate made in
168 October 2012 that has since been updated to reflect more accurate information,
169 including actual pension and OPEB plan assets at December 31, 2012.
170

171 **Q. Please explain the adjustment to Pension and OPEB Expense.**

172 A. Pensions and OPEBs are forms of retirement benefits that Ameren provides. The
173 annual cost for defined benefit pensions and OPEBs is determined using actuarial
174 estimates. The request for such costs reflected in Ameren's direct filing is based
175 on an actuarial estimate of pension and OPEB plan costs made by the Company in

176 October 2012, which did not consider actual plan balances as of December 31,
177 2012, or other changes which are incorporated in more current estimates of these
178 costs. Updated estimates which incorporate information on actual plan assets as of
179 December 31, 2012 and changes to other key components of pension and OPEB
180 costs have become available and were provided in response to discovery. The
181 Company's request for Pension and OPEB Expense should be reduced by
182 approximately \$3.9 million and rate base should be reduced by approximately
183 \$444,000, in order to appropriately reflect the most current, most accurate
184 information available for 2014 Pension and OPEB costs, as shown on AG/CUB
185 Exhibit 2.2, Schedule RCS-1, and summarized below:

Adjustment to Pension and OPEB Expense and Rate Base Amounts										
Ameren Original Filing (AG 3.17 Attachment 2)		2014			2014 - GAS		2014 - EXPENSE		2014 - CAPITAL	
Line No.	Description	Total Excluding Purchase Accounting	% allocated to Ameren IL	Allocated to Ameren IL	% allocated to Gas	Amt Allocated to Gas	% allocated to Gas Expense	Amount to Gas Expense	% allocated to Gas Capital	Amount to Gas Capital
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	FAS 106 Expense									
2	AIC - Ameren IL	16,800,000	100.00%	16,800,000	34.23%	5,750,808	80.78%	4,645,503	19.22%	1,105,305
3	AMS - Ameren Services	3,500,000	31.27%	1,094,450	34.23%	374,641	89.72%	336,128	10.28%	38,513
4	Pension Plan Administration									
5	AIC - Ameren IL	52,400,000	100.00%	52,400,000	34.23%	17,937,044	80.78%	14,489,544	19.22%	3,447,500
6	AMS - Ameren Services	23,900,000	31.27%	7,473,530	34.23%	2,558,264	89.72%	2,295,275	10.28%	262,990
7	Non-Qualified Plan Administration									
8	AIC - Ameren IL	300,000	100.00%	300,000	34.23%	102,693	80.78%	82,955	19.22%	19,738
9	AMS - Ameren Services	800,000	31.27%	250,160	34.23%	85,632	89.72%	76,829	10.28%	8,803
10	Subtotal	<u>\$ 97,700,000</u>		<u>\$ 78,318,140</u>		<u>\$ 26,809,083</u>		<u>\$ 21,926,234</u>		<u>\$ 4,882,848</u>
Ameren Updated (AG 3.17 Attachment 3; forecast updated February 2013)										
1	FAS 106 Expense									
2	AIC - Ameren IL	11,200,000	100.00%	11,200,000	34.23%	3,833,872	80.78%	3,097,002	19.22%	736,870
3	AMS - Ameren Services	2,400,000	31.27%	750,480	34.23%	256,897	89.72%	230,488	10.28%	26,409
4	Pension Plan Administration									
5	AIC - Ameren IL	44,700,000	100.00%	44,700,000	34.23%	15,301,257	80.78%	12,360,355	19.22%	2,940,902
6	AMS - Ameren Services	21,700,000	31.27%	6,785,590	34.23%	2,322,775	89.72%	2,083,994	10.28%	238,781
7	Non-Qualified Plan Administration									
8	AIC - Ameren IL	700,000	100.00%	700,000	34.23%	239,617	80.78%	193,563	19.22%	46,054
9	AMS - Ameren Services	500,000	31.27%	156,350	34.23%	53,520	89.72%	48,018	10.28%	5,502
10	Subtotal	<u>\$ 81,200,000</u>		<u>\$ 64,292,420</u>		<u>\$ 22,007,938</u>		<u>\$ 18,013,420</u>		<u>\$ 3,994,518</u>
Differences										
1	FAS 106 Expense									
2	AIC - Ameren IL	(5,600,000)		(5,600,000)		(1,916,936)		(1,548,501)		(368,435)
3	AMS - Ameren Services	(1,100,000)		(343,970)		(117,744)		(105,640)		(12,104)
4	Pension Plan Administration									
5	AIC - Ameren IL	(7,700,000)		(7,700,000)		(2,635,787)		(2,129,189)		(506,598)
6	AMS - Ameren Services	(2,200,000)		(687,940)		(235,489)		(211,280)		(24,208)
7	Non-Qualified Plan Administration									
8	AIC - Ameren IL	400,000		400,000		136,924		110,607		26,317
9	AMS - Ameren Services	(300,000)		(93,810)		(32,112)		(28,811)		(3,301)
10	Subtotal	<u>\$ (16,500,000)</u>		<u>\$ (14,025,720)</u>		<u>\$ (4,801,144)</u>		<u>\$ (3,912,814)</u>		<u>\$ (888,330)</u>
11	Estimated test year rate base adjustment, based upon half of the reduction to capitalized pension and OPEB costs									<u>\$ (444,165)</u>

186

187

188 **Q. Has the Company confirmed that the information summarized in the table**
 189 **listed in data request CUB 3.01 (and reflected above) are accurate and**
 190 **representative of the most current and accurate information that the**
 191 **Company has for 2014 pension and OPEB costs?**

192 **A. Yes.** Ameren’s response to CUB 3.01(b) states that the Company agrees that all of
 193 the amounts on the table are accurate based on the information requested in AG
 194 3.17 and consistent with the response to AG 3.17 Attachments 2 and 3.

195 Additionally, the Company’s response to CUB 3.02 states that the February 2013

196 update of the 2013 and 2014 Pension and OPEB Expense Forecasts is the most
197 updated and accurate information the Company has for 2014 pension and OPEB
198 costs at this time. Because the cost information for test year pension and OPEB
199 costs summarized above and shown in the responses to CUB 3.01 and AG 3.17
200 Attachment 3 represents the most current and accurate information available it
201 should be used to establish the pension and OPEB costs used for ratemaking.
202

203 **Q. Has the Company confirmed that the amounts it has requested for the FY**
204 **2014 pension and OPEB costs that are reflected in Ameren’s requested**
205 **revenue increase are those shown in its response to AG 3.17 Attachment 2?**

206 A. Yes. This is confirmed by the Company in its responses to CUB 2.06(c) and (d).
207

208 **Q. Has the Company provided additional details showing how the changes in**
209 **the key assumptions that it used to develop its estimated FY 2014 pension**
210 **cost have impacted the FY 2014 pension cost?**

211 A. Yes. The impacts of changes in a number of the key assumptions on FY 2014
212 pension expense are shown on the Company’s response to CUB 3.04, which is
213 included in AG/CUB Exhibit 4.3. These changes include a significant reduction
214 associated with using actual pension assets at December 31, 2012, in place of an
215 estimate that the Company used in October 2012. As shown in the response to
216 CUB 3.04, the estimate of FY 2014 qualified pension expense for Ameren
217 Services Company (“AMS”) decreases from \$23.9 million to \$21.7 million and
218 for AIC decreases from \$52.4 million to \$44.7 million. This additional

219 information provided by the Company supports the need for a downward
220 adjustment to the amount of pension cost reflected in Ameren's direct testimony.

221

222 **Q. Has the Company provided additional details showing how the changes in**
223 **the key assumptions that it used to develop its estimated FY 2014 OPEB cost**
224 **have impacted the FY 2014 OPEB cost?**

225 A. Yes. The impacts of changes in a number of the key assumptions on FY 2014
226 OPEB cost are shown on the Company's response to CUB 3.05, which is included
227 in AG/CUB Exhibit 4.3. These changes include a significant reduction associated
228 with using actual OPEB assets at December 31, 2012, in place of an estimate that
229 the Company used in October 2012. As shown in the response to CUB 3.05, the
230 estimate of FY 2014 OPEB expense for AMS decreases from \$3.5 million to \$2.4
231 million and for AIC decreases from \$16.8 million to \$11.2 million. This
232 additional information provided by the Company supports the need for a
233 downward adjustment to the amount of OPEB cost reflected in Ameren's direct
234 testimony.

235

236 **Q. Has the Company stated how the expense and capitalized amounts of pension**
237 **and OPEB expense has been allocated among the Company's Illinois gas**
238 **distribution utility service rate zones?**

239 A. Yes. The Company's response to data request CUB 3.01(c) indicates that the
240 allocation of gas expense amounts by Ameren Illinois rate zone for pensions and
241 OPEBs are based on percentages for account 926 shown on Part 285, Schedule

242 WPC-4a RZ. A portion of pension and OPEB cost that relates to labor on
243 construction projects, such as plant additions, gets capitalized and becomes part of
244 the cost of the plant additions. The allocation among rate zones for the
245 capitalized portion of the 2014 pension and OPEB cost is estimated to be in
246 proportion to gross plant additions by function as shown on Part 285 Schedule B-
247 5 and therefore can be allocated to each Ameren Illinois gas rate zone based on
248 the percentages shown on Part 285 Schedule WPB-5 RZ.

249

250 **Q. Have you estimated the amount of adjustment to reduce Pension and OPEB**
251 **expense for each AIC gas rate zone?**

252 A. Yes. In response to data requests AG 3.17 and AG 3.18, AIC stated that the
253 majority of its expense for Pensions and OPEB is recorded in account 926,
254 employee benefits. The Company's response to data request CUB 3.01(c) also
255 indicates that the allocation of gas expense amounts by Ameren Illinois rate zone
256 for pensions and OPEBs are based on percentages for account 926 shown on Part
257 285, Schedule WPC-4a RZ. As shown on AG/CUB Exhibit 4.2, Schedule RCS-1,
258 part IV, I therefore applied the allocation factors from AIC's filing WPC-4a RZ to
259 derive the allocation of the expense adjustment to rate zones, as summarized
260 below:

IV. Adjustment to Expense 2014 Expensed Employee Benefit, AG/CUB Adjustments and Rate Zone Allocations (Allocators from Company filing WPC-4a RZ for Account 926)									
		AmerenCILCO		AmerenCIPS		AmerenIP		Total	
		Amount	Allocator	Amount	Allocator	Amount	Allocator	Amount	Allocator
1	FAS 106 Expense								
2	AIC - Ameren IL	\$ (398,120)	25.71%	\$ (366,453)	23.67%	\$ (783,929)	50.63%	\$ (1,548,501)	100%
3	AMS - Ameren Services	\$ (27,160)	25.71%	\$ (25,000)	23.67%	\$ (53,480)	50.63%	\$ (105,640)	100%
4	Pension Plan Administration								
5	AIC - Ameren IL	\$ (547,414)	25.71%	\$ (503,873)	23.67%	\$ (1,077,902)	50.63%	\$ (2,129,189)	100%
6	AMS - Ameren Services	\$ (54,320)	25.71%	\$ (50,000)	23.67%	\$ (106,961)	50.63%	\$ (211,280)	100%
7	Non-Qualified Plan Administration								
8	AIC - Ameren IL	\$ 28,437	25.71%	\$ 26,175	23.67%	\$ 55,995	50.63%	\$ 110,607	100%
9	AMS - Ameren Services	\$ (7,407)	25.71%	\$ (6,818)	23.67%	\$ (14,586)	50.63%	\$ (28,811)	100%
10	Subtotal	\$ (1,005,985)		\$ (925,967)		\$ (1,980,862)		\$ (3,912,814)	

261

262

263 **Q. Have you also estimated the amount of adjustment to reduce rate base each**
 264 **AIC gas rate zone for the adjustment to the 2014 capitalized Pension and**
 265 **OPEB costs?**

266 A. Yes. As noted above, the Company's response to data request CUB 3.01(c)
 267 indicates that the allocation by Ameren Illinois rate zone of capitalized amounts
 268 for 2014 pensions and OPEBs are estimated to be in proportion to gross plant
 269 additions by function as shown on Part 285 Schedule B-5 and therefore can be
 270 allocated to each Ameren Illinois gas rate zone based on the percentages shown
 271 on Part 285 Schedule WPB-5 RZ. Schedule RCS-1, page 3 of 3, shows the
 272 derivation of the rate zone allocation factors based on the relationship of 2014
 273 gross plant additions for each rate zone to the total. The adjustments to rate base
 274 for each rate zone, and in total, are shown on AG/CUB Exhibit 4.2, Schedule
 275 RCS-1, page 2, in section V, and are summarized below:

V. AG/CUB Adjustment to Rate Base for 2014 Capitalized Pension/OPEB Cost, Rate Zone Allocations (Allocators are from Ameren Schedule WPB-5, 2014 Gross Plant Additions)									
		AmerenCILCO		AmerenCIPS		AmerenIP		Total	
		Amount	Allocator [A]	Amount	Allocator [A]	Amount	Allocator [A]	Amount	Allocator
1	FAS 106 Expense								
2	AIC - Ameren IL	\$ (52,238)	28.36%	\$ (38,634)	20.97%	\$ (93,346)	50.67%	\$ (184,218)	100.00%
3	AMS - Ameren Services	\$ (1,716)	28.36%	\$ (1,269)	20.97%	\$ (3,067)	50.67%	\$ (6,052)	100.00%
4	Pension Plan Administration								
5	AIC - Ameren IL	\$ (71,827)	28.36%	\$ (53,121)	20.97%	\$ (128,351)	50.67%	\$ (253,299)	100.00%
6	AMS - Ameren Services	\$ (3,432)	28.36%	\$ (2,538)	20.97%	\$ (6,133)	50.67%	\$ (12,104)	100.00%
7	Non-Qualified Plan Administration								
8	AIC - Ameren IL	\$ 3,731	28.36%	\$ 2,760	20.97%	\$ 6,668	50.67%	\$ 13,158	100.00%
9	AMS - Ameren Services	\$ (468)	28.36%	\$ (346)	20.97%	\$ (836)	50.67%	\$ (1,651)	100.00%
10	Subtotal	\$ (125,951)		\$ (93,149)		\$ (225,065)		\$ (444,165)	

[A] See page 3 of Schedule RCS-1 for Derivation of Allocators based on 2014 gross plant additions

276

277

278 **Q. Does that conclude your direct testimony?**

279 **A. Yes, it does.**