

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-0192

REBUTTAL TESTIMONY

OF

THOMAS B. KENNEDY, III

Submitted on Behalf

Of

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

July 10, 2013

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23 witness, Mr. Michael L. Brosch on his adjustments to charitable contribution expense, corporate
24 sponsorship expense and advertising expense.

25 **Q. Are you sponsoring any exhibits in support of your testimony?**

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

- 27 • Ameren Exhibit 21.1: AIC's response to Staff data request MHE 2.05 (with
28 Attachment)
- 29 • Ameren Exhibit 21.2: Staff's response to AIC-Staff data requests 4.26, 4.27 &
30 4.28
- 31 • Ameren Exhibit 21.3: Staff's response to AIC-Staff data request 4.10
- 32 • Ameren Exhibit 21.4: AIC's response to Staff data request MHE 10.06
- 33 • Ameren Exhibit 21.5: Staff's response to AIC-Staff data request 4.33
- 34 • Ameren Exhibit 21.6: AIC's revised response to Staff data requests KC 1.01
35 (with Attachment), and responses to KC 3.02, BAP 7.05 (with Attachment) and
36 BAP 7.06 (with Attachment).
- 37 • Ameren Exhibit 21.7: AIC's supplemental response to Staff data request BAP
38 8.01 (with Attachment).
- 39 • Ameren Exhibit 21.8: Ameren Exhibit 6.2R, ICC Docket No. 13-0301
- 40 • Ameren Exhibit 21.9: AIC's supplemental response to Staff data request MHE
41 6.09 (with Attachment).

42 **II. RESPONSE TO STAFF WITNESSES**

43 **A. Response to Ms. Everson on Charitable Contribution Expense**

44 **Q. Have you reviewed the direct testimony of Staff witness Ms. Everson (ICC Staff
45 Exhibit 1.0)?**

46 A. Yes. I reviewed lines 114-178 of Ms. Everson's direct testimony concerning her
47 adjustment to AIC's 2014 charitable contribution expense. I also reviewed Ms. Everson's

48 Schedule 1.08, which shows the calculation of her adjustment, and her Attachment 1, which is
49 AIC's Response to Staff Data Request MHE 2.05, which I sponsored.

50 **Q. What is Ms. Everson's recommendation to the Commission concerning AIC's**
51 **forecasted charitable contribution expense for 2014?**

52 A. Ms. Everson recommends the Commission adjust AIC's 2014 charitable contribution
53 expense to reduce the overall level of 2014 forecasted contributions to a three-year average of
54 actual contributions (2010-2012) plus an increase of 2% for 2013 and for 2014. Ms. Everson
55 also makes an adjustment for a donation to the Greater Missouri Leadership Foundation based on
56 her belief the organization conducts its activities outside of AIC's service territory. The result of
57 her adjustment is to remove approximately \$202,000 from the proposed revenue requirement.

58 **Q. Does AIC agree with Ms. Everson's recommended adjustment?**

59 A. No. For the reasons stated below, AIC opposes Ms. Everson's adjustments. AIC
60 believes the total amount of contributions AIC is seeking to recover in gas rates (approximately
61 \$518,500) is a reasonable amount. AIC also believes the contribution to the Greater Missouri
62 Leadership Foundation is a donation "for the public welfare or for charitable scientific, religious
63 or educational purposes" that is recoverable under Section 9-227 of the Public Utilities Act.

64 **Q. Are you familiar with AIC's efforts to make donations for "public welfare" causes**
65 **and "charitable scientific, religious or educational" activities?**

66 A. Yes. As Director of AIC's Community and Public Relations department (CPR), I
67 oversee AIC's charitable contributions.

68 **Q. As Director of the CPR department, did you review the overall level of charitable**
69 **contribution expense AIC has budgeted for 2014?**

70 A. Yes. One of my responsibilities as the department Director is to review the annual level
71 of contribution expense that AIC includes in its budget in any given year.

72 **Q. Did you previously provide direct testimony on the reasonableness of the charitable**
73 **contribution expense AIC has included in its gas revenue requirement?**

74 A. Yes. Section 9-227 allows utilities to recover “public welfare” and “charitable”
75 contributions that are “reasonable in amount.” In recent dockets (ICC Docket Nos. 12-0001 and
76 12-0293), AIC has provided evidence in support of the recoverability of its charitable
77 contribution expenses. My direct testimony in this proceeding (Ameren Exhibit 6.0, lines 69-
78 250) addresses the applicable standard for cost recovery under Section 9-227. Among other
79 things, my testimony considered prior Commission orders on AIC’s charitable contribution
80 expense and the criteria that AIC uses to determine whether to make a donation to a particular
81 organization and the types of organizations to which AIC plans to make donations in 2014.

82 **Q. Did you also provide discovery responses that support the reasonableness of the**
83 **charitable contribution expense AIC has included in its gas revenue requirement?**

84 A. Yes. In response to Staff data requests MHE 2.02, MHE 2.03, MHE 6.08 and MHE
85 6.09S, which I sponsored, AIC provided guidelines that identified the criteria AIC uses when
86 approving and funding contributions. In addition, I sponsored AIC’s responses to Staff data
87 requests MHE 2.05 and MHE 6.03. AIC’s response to MHE 2.05 compares AIC’s actual to
88 budgeted contributions for the years 2007-2014. It shows AIC’s contributions dipped in 2010
89 and 2011 below historical levels before rising in 2012. AIC’s response to MHE 6.03 explained
90 why AIC’s 2012 contributions were higher than contributions made in 2011.

91 **Q. Please explain why, in your opinion, the amount of charitable contribution expense**
92 **AIC has included in its gas revenue requirement is reasonable.**

93 A. In my opinion, the increase in charitable contribution expense is reasonable when
94 compared to the amount AIC is currently recovering in gas delivery rates and also when
95 compared to AIC's historical contributions prior to 2010.

96 **Q. Are you familiar with the amount of charitable contribution expense the**
97 **Commission allowed AIC to recover in its last gas rate case?**

98 A. Yes. As I mentioned in my direct testimony (lines 90-98), in ICC Docket No. 11-0282,
99 AIC filed a future test year case to recover its forecasted 2012 costs. As Ms. Everson recognizes
100 in her direct testimony, in its final order in that docket, the Commission accepted Staff's
101 proposal to allow AIC to recover a 2% increase over its previous year's (2011) budget. (ICC
102 Staff Ex. 1.0, lines 164-165)

103 **Q. Based on the Commission's final order in ICC Docket No. 11-0282, what is the**
104 **current level of charitable contribution expense currently recovered in rates?**

105 A. As I indicated in my direct, it is my understanding the amount of Section 9-227 donations
106 currently recovered in gas delivery rates is approximately \$482,000.

107 **Q. What is the increase in charitable contribution expense that AIC is seeking to**
108 **recover in gas delivery rates in this filing?**

109 A. AIC is requesting to recover an additional \$36,500 in charitable contribution expense.
110 That increase represents an escalation of approximately 3.75% for 2013 and 2014 from the 2012
111 level of expense approved by the Commission.

112 **Q. Has AIC made an effort to align its contribution spending with the Commission's**
113 **order in ICC Docket No. 11-0282?**

114 A. Yes. After the Commission issued its order in ICC Docket No. 11-0282, AIC reduced its
115 2012 budgeted contributions to realign spending with the amount of forecasted contributions
116 approved by the Commission. The realigned 2012 budgeted contributions then became the
117 baseline that AIC used to forecast contributions in 2013 and 2014.

118 **Q. Has Staff made a similar recommendation in this proceeding that it made in ICC**
119 **Docket No. 11-0282?**

120 A. No. Staff has not proposed to limit AIC's 2014 forecasted contribution to a 2% increase
121 over 2013 budgeted levels. Instead, Staff has reforecasted AIC's 2014 contributions using an
122 average of historical contribution spending from 2010-2012.

123 **Q. Do you agree with the methodology used by Ms. Everson to calculate her**
124 **adjustment?**

125 A. No. In my opinion, Staff has not adequately demonstrated that the Commission has to
126 reforecast the charitable contribution expense that AIC intends to spend in 2014. I also believe
127 the methodology used by Ms. Everson to adjust AIC's forecasted charitable contribution expense
128 based on historical contributions is flawed, as it gives too much weight to the years (2010 and
129 2011) in which AIC's contribution levels were historically low.

130 **Q. In your opinion, why hasn't Staff made an adequate showing that the Commission**
131 **should reforecast AIC's planned charitable contribution expense?**

132 A. Staff has identified only one historical contribution (discussed further below) that it
133 believes should be disallowed. AIC also has recovered the overwhelming majority of its

134 historical contributions in its last two electric formula rate cases, ICC Docket No. 12-0001 and
135 12-0293. AIC's prior practice indicates that AIC funds activities and causes "for the public
136 welfare or for charitable scientific, religious or educational purposes" that are recoverable under
137 Section 9-227 of the Public Utilities Act. The guidelines provided in AIC's responses to MHE
138 2.02, MHE 2.03, MHE 6.08 and MHE 6.09S show that AIC makes a conscious effort to fund and
139 seek cost recovery for charitable and public welfare activities and causes permitted under Section
140 9-227. There is no evidence that indicates AIC will discontinue its practice of funding
141 recoverable "public welfare" and "charitable" activities and causes in 2014.

142 **Q. What is the basis for Ms. Everson's adjustment to reforecast 2014 contributions?**

143 A. Ms. Everson claims AIC's 2014 forecasted contributions are "an unreasonably high
144 increase given AIC's recent history." ICC Staff Ex. 1.0, lines 134-135. She believes a 3-year
145 average (2010-2012) of AIC's actual contributions plus a 2% increase for both 2013 and 2014 is
146 "a more reasonable amount of charitable contributions since the amount is consistent with AIC's
147 recent history of actual contributions." ICC Staff Ex. 1.0, lines 177-178.

148 **Q. If Staff had proposed to use a historical three-year average of historical data as the**
149 **baseline for recovery in ICC Docket No. 11-0282, what amount could AIC have recovered?**

150 A. Based on the data in AIC's response to MHE 2.05 (discussed further below), had Staff
151 made a recommendation in ICC Docket No. 11-0282 similar to the recommendation it makes in
152 this proceeding, using an average of 2007-2009 expense plus an increase of 2% for two years,
153 AIC could have recovered the gas allocated portion of \$1.40 million. Applying the 40%
154 allocator to that amount would result in gas contribution expense of \$560,000 – more than the
155 amount AIC is requesting for recovery in this proceeding.

156 **Q. Does Staff define what she considers to be an “unreasonably high” amount of**
157 **charitable contribution expense?**

158 A. No. Ms. Everson appears to base her opinion of what is reasonable solely on the amount
159 of actual contributions that AIC made in the distinct three-year period she selected.

160 **Q. Has Staff identified any specific historical contributions that it believes were not**
161 **“reasonable in amount”?**

162 A. No, Staff has not. Nor has the Commission disallowed any specific AIC contributions to
163 particular entities as not “reasonable in amount” in its recent orders.

164 **Q. Are you aware of any statutory caps on the amount of contributions that a utility**
165 **can seek to recover under Section 9-227?**

166 A. No. As I understand it, Section 9-227 does not impose any cap on the amount of
167 charitable contribution expense that a utility can recover. I also am not aware of any prior
168 Commission orders that interpret Section 9-227 to impose such a cap.

169 **Q. Do you believe it is reasonable to use AIC’s average contributions from 2010-2012**
170 **as the basis for AIC’s 2014 forecasted contributions?**

171 A. No. In my opinion, it is not reasonable to use average contributions from 2010-2012 as a
172 basis for reducing 2014 forecasted contributions. Attached as Ameren Exhibit 21.1 is AIC's
173 response to MHE 2.05, which shows contributions in 2010 and 2011 were historically low. The
174 use of an average contribution expense from 2010-2012 as the baseline for future expense
175 improperly gives too much weight to those historically low amounts. Ms. Everson’s
176 methodology discounts the increase in 2012 contributions from historically low levels in 2010
177 and 2011. Her methodology also overlooks higher levels of contributions that were made in

178 2007-2009. In addition, her methodology does not consider AIC's plans to increase funding
179 of "public welfare" causes and "charitable" activities in 2013 and 2014 to align spending with the
180 amount approved by the Commission in ICC Docket No. 11-0282.

181 **Q. In response to AIC-Staff data request 4.14, Staff claims the three year average**
182 **(2010-2012) of actual contributions "is representative of the donations that will be given by**
183 **AIC in the years rates are in effect." Do you agree?**

184 A. No, I do not agree. As I explain, AIC intends to increase contributions above 2010 and
185 2011 levels and align its actual spending with its pre-2010 contributions and the amount of
186 contribution expense previously approved by the Commission in Docket No. 11-0282.

187 **Q. Why were AIC's contributions in 2010 and 2011 lower than prior historical levels?**

188 A. As I understand it, financial reasons largely contributed to the lower contributions AIC
189 made in 2010 and 2011. The decrease in contribution spending came on the heels of a period of
190 declining economic activity during the 2008-2009 Recession. Like previous economic slow-
191 downs, AIC's revenues were lower than anticipated. Less investor capital was available. Fewer
192 businesses started-up or expanded. In addition to challenges caused by the recession, AIC
193 received an ICC rate order in May 2010 that further reduced AIC's expected revenues. AIC
194 realized only a modest increase in revenues after the rehearing order in that proceeding was
195 issued in December 2010. This combination of factors – the recession and Commission orders –
196 led to lower revenues and a subsequent curtailment in spending on discretionary items like
197 contributions. In addition, the merger of legacy utilities in October 2010 contributed to the
198 temporary decrease in contributions, as operations were consolidated and new leadership teams
199 were put into place. These factors resulted in the temporary dip in charitable contribution
200 expense that AIC is seeking to correct.

201 **Q. Has the Commission also recognized the relevance of the economic climate when**
202 **judging the reasonableness of a utility's requested contributions?**

203 A. Yes. As Staff acknowledged in its response to AIC-Staff data request 4.32, the
204 Commission reduced AIC's 2012 forecasted contributions "because of the overall economic
205 climate." (quoting Order, ICC Docket No. 11-0282, p. 31.) If the economic climate is relevant
206 to the reasonable amount of contributions to include in rates, it should be a relevant consideration
207 when weighing whether AIC's prior contributions represent a reasonable amount to include in
208 rates.

209 **Q. Does Staff also acknowledge a utility's prior contribution expense should be judged**
210 **in the context of the prior year's economic climate?**

211 A. Yes. In response to AIC-Staff data request 4.26, Ms. Everson agreed "a prior years'
212 economic climate can be a factor in reviewing a utility's actual spending on discretionary
213 expenses in prior years." In addition, Ms. Everson agreed a utility's actual revenues and actual
214 earned rate of return in a particular year can impact a utility's discretionary expenses, in response
215 to AIC-Staff data requests 4.27 and 4.28. I have attached those responses to my testimony as
216 Ameren Exhibit 21.2.

217 **Q. Why did AIC's contributions in 2012 increase from 2010 and 2011 levels?**

218 A. AIC believes it is important to support charitable organizations where our co-workers live
219 and work. After the historic lows in 2010 and 2011, there was renewed commitment on the part
220 of AIC to increase its charitable contribution expense. At the same time, emphasis was placed
221 on aligning spending with the amount approved by the Commission in ICC Docket No. 11-0282.
222 As part of that effort, AIC increased its 2012 contributions to provide energy assistance to low-
223 income residents. AIC's response to MHE 6.03 identified the recipients of those contributions.

224 **Q. What does the data show in AIC’s response to MHE 2.05?**

225 A. As shown below, the data in AIC’s response to MHE 2.05 shows four trends: First, AIC
226 contributions prior to 2010 were much higher than the level of contributions made in 2010 and
227 2011 and even 2012. Second, AIC’s actual contributions fell the furthest below budgeted
228 contributions in 2010 and 2011. Third, AIC’s budgeted contributions in 2011 were essentially
229 reset and lowered from prior historical levels. Fourth, AIC’s budgeted contributions in 2012-
230 2014 gradually increase from the 2011 budgeted amount after the ICC Docket 11-0282 order.

Year	Actual Contributions (000s)	Budgeted Contributions (000s)	Actual to Budget %
2007	\$1.290	\$1.402	92%
2008	\$1.543	\$1.299	119%
2009	\$1.207	\$1.745	69%
Average 2007-09	\$1.347	\$1.482	91%
2010	\$.785	\$1.816	43%
2011	\$.575	\$1.223	47%
2012	\$.919	\$1.247	74%
Average 2010-12	\$1.053	\$1.455	72%
2013	N/A	\$1.266	N/A
2014	N/A	\$1.291	N/A

231 **Q. What conclusions can be drawn from the data in AIC’s response to MHE 2.05?**

232 A. First, the data in MHE 2.05 illustrates AIC had a pattern of making higher contributions
233 prior to 2010. The average amount of total electric and gas contributions for 2007-2009 was
234 \$1.35 million and AIC spent 91% of its budget over that three year period. Second, the data also
235 confirms that 2010 and 2011 were historically low years, both in terms of the actual dollar
236 amount contributed and the actual to budget percentage spend. Third, the data shows that basis

237 for AIC's 2014 budget is the 2011 budget, which was the basis for the Commission's decision in
238 ICC Docket No, 11-0282.

239 **Q. In response to AIC-Staff data requests 4.15-4.20, which asked why Staff did not**
240 **include data prior to 2010 in its average, Ms. Everson stated that data prior to 2010 was**
241 **"not as recent" and "prior to the date that the three legacy companies comprising AIC**
242 **were combined into one company." Ms. Everson also concluded that "AIC has not**
243 **established a consistent pattern of increasing charitable contributions." Do you agree?**

244 A. Not entirely. I agree with Ms. Everson that AIC has not increased contributions over the
245 six-year period 2007-2012. The economic climate, prior rate orders and the transition to one
246 operating company all helped to disrupt that pattern, as I have explained. But for the reasons I
247 have indicated, I disagree with her conclusion that pre-merger data is not relevant to weighing
248 the reasonableness of AIC's 2014 forecasted contributions. AIC's pre-2010 contributions are
249 consistent with the contributions approved by the Commission in ICC Docket No. 11-0282 and
250 are reflective of the increased contributions AIC intends to make in 2014.

251 **Q. In response to AIC-Staff data request 4.10, Staff agreed that "if an annual cost is**
252 **considered an outlier, it could be appropriate to omit it from in an averaged or normalized**
253 **amount." Do you agree?**

254 A. Yes, I agree. The 2010 and 2011 contributions represent a low point in AIC's charitable
255 spending. But rather than omitting them, Staff has given them the greatest weight in its
256 averaging calculation. I don't believe that is appropriate, if the goal is to identify a reasonable
257 amount of contributions representative of the amount AIC will make in 2014. I have attached
258 the response to AIC-Staff data request 4.10 as Ameren Exhibit 21.3.

259 **Q. Does AIC intend to increase contribution spending in 2013 above the historic lows**
260 **seen in 2010 and 2011?**

261 A. Yes, AIC intends to make contributions in 2013 in excess of the contributions made in
262 2010 and 2011. With the goal of being engaged members of the communities we serve by
263 supporting local organizations and volunteering for worthy causes, AIC proactively seeks to
264 develop relationships with organizations with a proven track record of success in delivering
265 benefits to the community. As such, AIC will continue to seek out and provide support to
266 programs and initiatives that align with AIC's contribution priorities: Arts and Culture,
267 Environment, Youth and Education, Health and Human Services, and Civic, Community and
268 Economic Development. In particular, AIC is committed to increasing support for programs in
269 the Environmental category and geographically balancing contributions across the AIC service
270 territory. For 2013, AIC anticipates achieving its contribution targets by providing support for
271 programs in environmental impact reduction, children's health care, child abuse and domestic
272 violence prevention, youth educational prep (including Science, Technology, Engineering and
273 Math); and programs serving disadvantaged, low income, and displaced individuals.

274 **Q. Can you identify the specific types of activities and causes that you expect will be**
275 **recipients of AIC's incremental contribution spending in 2014?**

276 A. In my direct testimony, I identified the five types of organizations AIC expects to
277 contribute to in 2014: Health and Human Services, Arts and Culture, Environment, Youth and
278 Education, and Civic, Community and Economic Development. Each year, AIC attempts to
279 balance contributions across these categories. In 2012, for example, here was the breakdown of
280 contributions by category: Youth and Education (32%), Health and Human Services (47.9%),
281 Civic and Community (19.1%), Arts & Culture (0.8%), and Environment (0.3%). In 2014, a

282 concerted effort will be made to increase contributions in the Environmental category. Examples
283 of programs that will be funded in the Environmental category include educational institutions
284 focused on promoting sustainability, stewardship, and conservation of Illinois' natural resources.
285 AIC does not make multi-year funding commitments. Each proposing organization is required to
286 submit an application that demonstrates a need for funding, and clear statement of the benefits
287 that the recipient program will deliver to its constituents in that program year. Because each
288 application is reviewed separately, it is not possible to state which organizations or programs will
289 receive contributions in 2014. However, AIC has historically supported organizations that fall
290 into the contribution categories noted above and fully expects to meet its contribution budget for
291 2014.

292 **Q. Ms. Everson states AIC's budgeted contributions are "very flexible" and "likely to**
293 **be reduced if the Commission does not grant 100% of AIC's request." Do you agree?**

294 A. Not entirely. It is true the funding of charitable contributions is within the discretion of
295 AIC management. But no decision has been made to reduce actual contributions in 2014, if the
296 Commission approves a lower amount to be recovered in gas delivery rates. As Ameren witness
297 Mr. Nelson indicated in his response to MHE 11.01, "AIC believes that its projected
298 contributions for 2014 are reasonable in amount and appropriately and accurately reflects its
299 intended expenditure. If the Commission were to authorize a lower amount to collect in gas
300 rates, AIC would take that under advisement when making contributions in 2014." Any further
301 reduction in the contribution budget would have to be weighed against AIC's planned
302 expenditures for 2014 and its commitment to increase contributions above 2010 and 2011 levels.

303 **Q. Should the possibility that AIC may choose to reduce its 2014 contributions based**
304 **on approved revenues be a factor the Commission considers when judging the**
305 **reasonableness of AIC's requested level of contribution expense?**

306 A. No. The hypothetical possibility that AIC might curtail its contribution spending, if the
307 Commission approves lower than expected revenues is not relevant to the determination of
308 whether AIC's request is reasonable. Ms. Everson considers AIC's response to MHE 11.01 to be
309 a "less than definitive response" that shows a "lack of commitment" by AIC to spend its 2014
310 budgeted amount for contributions. The Commission's determination of what is a reasonable
311 requested amount of contributions, however, should not be based on what AIC might donate, if
312 the Commission were to approve a lower than expected level of revenues in its rate order in this
313 proceeding. AIC budgets contributions to a level that it believes is a reasonable amount that it
314 intends to spend. The reasonableness of the request should be judged on its face, not by the
315 actions AIC might decide to take in 2014 if revenues are lower than expected.

316 **Q. How does the amount of contributions that AIC seeks to recover in rates compare to**
317 **the amounts being recovered in rates by other utilities?**

318 A. It is my understanding, in its most recent future test year rate case (ICC Docket Nos. 12-
319 0511/0512), Peoples and North Shore sought to recover in rates \$1.250 million in contribution
320 expenses. The Commission's final order in that proceeding only disallowed approximately
321 \$7000 in contributions, allowing the utilities to recover \$1.243 million in contribution expense.
322 For its 987,000 customers, that would equate to approximately \$1.25 per customer. That would
323 be approximately double the customer charge that AIC gas is requesting for 2014 for its natural
324 gas operations (\$519,000/813,000 customers equates to approximately .64 cents per customer).

325 **Q. Do you think the Commission should consider the forecasted contribution expense**
326 **received by other utilities when judging the reasonableness of AIC's request?**

327 A. Yes. Section 9-277 allows cost recovery of public welfare and charitable contributions
328 that are "reasonable in amount." The Commission should interpret and apply that language
329 consistently and not arbitrarily in reviewing each respective utility's request. A benchmark of
330 reasonableness should be a comparison of the amounts of contribution expense per customer
331 approved by the Commission for other utilities.

332 **Q. Regarding the specific contribution to the Greater Missouri Leadership Foundation,**
333 **did AIC explain to Staff the purpose of the contribution?**

334 A. Yes. In AIC's response to MHE 10.06, which I have attached as Ameren Exhibit 21.4, I
335 explained the contribution helps to fund an annual leadership conference for women who live or
336 work in the greater St. Louis area. Ameren personnel regularly attend this conference, which
337 provides leadership guidance to expose women on educational and societal issues prevalent in
338 the surrounding communities.

339 **Q. What is the benefit to Illinois ratepayers of this contribution?**

340 A. By attending the training, female executives acquire instruction that enables them to
341 increase productivity and enhance their leadership skills. When AIC realizes improved
342 operational performance, ratepayers benefit regardless of where the training takes place.

343 **Q. Does Ms. Everson agree that contributions to leadership conferences can result in**
344 **ratepayer benefits to Illinois customers?**

345 A. Yes. Ms. Everson agreed, in response to AIC-Staff data request 4.33, "leadership
346 development programs can provide non-quantifiable benefits to ratepayers. I have attached Ms.
347 Everson's response to my rebuttal testimony as Ameren Exhibit 21.5.

348 **Q. Do you believe this type of contribution should be recoverable, even though the**
349 **conference occurs outside of AIC's service territory?**

350 A. Yes. It is a benefit to AIC ratepayers to have effective leaders at Ameren Illinois. Those
351 benefits are not diminished just because the conference happens to occur outside of the state of
352 Illinois or outside AIC's service territory.

353 **Q. Are there other instances where Staff is seeking to disallow costs associated with St.**
354 **Louis organizations?**

355 A. Yes. Staff witness Ms. Pearce seeks to disallow \$1,718 in expenses paid to the St. Louis
356 Area Business Health Coalition. Ms. Pearce considers this expense to be costs related to
357 political and lobbying activities.

358 **Q. Does AIC disagree with this disallowance?**

359 A. Yes. Although minor, AIC considers the amount recoverable in rates. The Business
360 Health Coalition (BHC) is an organization that supports the region's public and private employer
361 purchasers in their pursuit of safer, higher quality and more affordable health care and improving
362 the health of employees. Through its BHC membership, Ameren is able to connect with other
363 HR and benefits teams, bring worksite wellness resources and programs to employees, leverage
364 buying power with select vendors (tobacco cessation, pharmaceuticals, flu shots), remain

365 informed of and comply with changing regulations, more efficient and effective vendor
366 relationships, and advocate for greater transparency of health care quality and cost. In addition
367 to these direct business benefits of BHC membership, the organization works to keep healthcare
368 costs affordable for Ameren, its employees and our communities. These goals are also aligned
369 with the interests of rate-payers – improving the health of Ameren employees and the value of
370 our healthcare benefits, in turn keeping our rates down for ratepayers. The group purchasing
371 initiatives and education opportunities that we participate in through the Coalition have saved
372 millions of dollars over the years. The BHC has both a 501c6 and a 501c3, and while lobbying
373 is permitted in the 501c3, it is an extremely small part of what the organization does. While
374 lobbying is permitted, it is an extremely small part of what the organization does. Total lobbying
375 dollars are less than 0.02 percent of the total revenue. The membership cost for the BHC should
376 not be disallowed, simply because lobbying is a permitted activity.

377 **Q. Are there other instances where Staff is seeking to disallow costs associated with**
378 **leadership conferences for female utility employees?**

379 A. Yes. Staff witness Pearce is also disallowing \$2,727 in expenses paid to the Midwest
380 Energy Association to support its annual Energetic Women Conference Sponsorship.

381 **Q. Does AIC also disagree with this disallowance?**

382 A. Yes. Although minor, AIC considers this amount recoverable in rates as well. AIC is a
383 utility member of the Midwest Energy Association (MEA), which is an 501c6 organization of
384 gas and electric utilities in the Midwest that focuses on operations with an emphasis on training
385 and provides extensive training products and conferences for gas and electric. This particular
386 conference presents an education and informative opportunity for female utility employees to

387 network and gain insight to the unique challenges of women in non-traditional roles in the utility
388 industry.

389 **B. Response to Ms. Pearce on Advertising Expenses**

390 **Q. Have you reviewed the direct testimony of Ms. Pearce (ICC Staff Exhibit 4.0)?**

391 A. Yes. I specifically reviewed lines 117-178 of Ms. Pearce's direct testimony concerning
392 her adjustment to AIC's 2014 advertising expense. I also reviewed Ms. Everson's Schedule
393 4.02, which shows the calculation of her adjustment, and her Attachment A, which shows
394 additional analysis she performed on AIC's historical advertising expense. In addition, I
395 reviewed the supplemental direct of Ms. Pearce, which was filed on July 5, 2013.

396 **Q. What is Ms. Pearce's recommendation to the Commission concerning AIC's**
397 **forecasted advertising expense, as presented in her direct?**

398 A. Ms. Pearce recommends the Commission adjust AIC's forecasted advertising expense
399 based on AIC's 2012 advertising expenses with an increase of 2% for 2013 and for 2014. In
400 addition, Ms. Pearce removes expenses for certain vendors that she claims were previously
401 disallowed by the Commission in ICC Docket No. 12-0293. The result of her adjustment is to
402 remove approximately \$998,000 from the proposed revenue requirement.

403 **Q. Did Ms. Pearce subsequently revised her adjustment to AIC's advertising expense?**

404 A. Yes. On July 5, 2013, Ms. Pearce filed supplemental direct, which revised her
405 advertising adjustment and identified a new adjustment for employee credit card expense.

406 **Q. What adjustments to advertising and employee credit card expenses does Ms.**
407 **Pearce now propose in her supplemental direct?**

408 A. There were three main changes. First, Ms. Pearce has increased the amount of
409 sponsorship costs that she seeks to disallow. In her direct, she sought to disallow \$24,400 in
410 sponsorship cost. Her supplemental direct has increased that disallowance to approximately
411 \$94,000. Second, she has changed the baseline for her adjustment from 2012 advertising
412 expenses to an average annual expense from 2009-2012. Third, she seeks to disallow
413 approximately \$12,000 in credit card charges based on her review of employee expense reports
414 provided in response to Staff data request BAP 20.01. This new adjustment supercedes a smaller
415 adjustment of \$3,229 for credit card expenses presented in Ms. Pearce's direct.

416 **Q. Does AIC agree with Ms. Pearce's revised adjustment to advertising expense and**
417 **her new disallowance of employee credit card expenses?**

418 A. No. AIC will not contest Staff's adjustment to remove \$24,400 in sponsorship costs
419 identified by Ms. Pearce in her direct. This adjustment is consistent with the adjustment
420 proposed by AIC in its pending electric formula update case (ICC Docket No. 13-0301), and has
421 been reflected in AIC's rebuttal revenue requirement. But for the reasons stated below, AIC
422 believes the remaining adjustments to advertising expense and credit card charges are
423 inappropriate. The expenses forecasted for Accounts 909 and 930.1 are the amounts AIC
424 reasonably believes the Company will incur to educate and inform its gas customers in 2014. In
425 addition, AIC does not believe disallowances should be made for the other vendor charges and
426 sponsorship costs identified by Ms. Pearce in her direct and supplemental direct schedules.

427 **Q. Will AIC be fully responding to Staff's supplemental direct in this filing?**

428 A. No. Given the timing of the filing, AIC will not be able to fully analyze and respond to
429 Ms. Pearce's revised advertising expense adjustment and new credit card expense adjustment in
430 this filing. Notably, Staff has filed similar testimony to disallow the electric portion of the same
431 sponsorship costs and credit card expenses in AIC's pending electric formula rate proceeding,
432 ICC Docket No. 13-0301. AIC's electric rebuttal testimony is due on July 29, 2013, at which
433 time AIC will be in a position to fully respond to Ms. Pearce's supplemental adjustments in both
434 dockets. Thus, AIC plans to file supplemental rebuttal in this proceeding to address Ms. Pearce's
435 supplemental adjustments, at or before the time it submits electric formula rate rebuttal on July
436 29, 2013. Staff has indicated it does not object to the proposed timing of supplemental rebuttal.

437 **Q. Are you familiar with AIC's efforts to educate and inform its customers?**

438 A. Yes. As Director of the CPR department, I directly oversee AIC's efforts to educate and
439 inform its customers. As I mentioned in my direct testimony (lines 321-327), the Company's
440 "fundamental mission is to provide our customers with safe, secure, adequate and reliable energy
441 services and solutions. The point of advertising is to reach and educate consumers on important
442 energy issues concerning their service through the production and publication of advertisements,
443 radio and television scripts, websites, press releases, brochures, booklets and other printed and
444 digital material. Advertising allows us to inform consumers, not just about legally required
445 notices, safety issues, and storm response efforts, but also about the various energy programs and
446 information that are made available to our customers."

447 **Q. As Director of the CPR department, did you review the overall level of advertising**
448 **expense AIC has budgeted for 2014?**

449 A. Yes. One of my responsibilities as Director of CPR is to review the annual level of
450 advertising expense that AIC includes in its budget in any given year. Prior to this gas rate
451 filing, I reviewed AIC's 2014 advertising budget and am familiar with the assumptions
452 underlying the forecasted expenses.

453 **Q. Did you previously provide direct testimony on the reasonableness of the advertising**
454 **expense AIC has included in its gas revenue requirement?**

455 A. Yes. Section 9-225(3) of the Public Utilities Act and Part 295.30 of the Commission's
456 rules identify a number of categories of advertising that "shall be considered allowable operating
457 expenses for gas, electric, water or sewer utilities." My direct testimony in this proceeding
458 (Ameren Exhibit 6.0, lines 319-417) addresses the applicable standards for reviewing a utility's
459 advertising expenses to include in rates. Among other things, my testimony identifies the
460 information AIC had provided Commission Staff in connection with its direct filing. My
461 testimony also provides, in broad terms, AIC's assumptions regarding's the Company's
462 advertising expenses for its gas customers in 2014.

463 **Q. Did your direct testimony include any discussion of AIC's assumptions regarding its**
464 **2014 gas advertising expense?**

465 A. Yes. In lines 407-418 of my direct testimony, I provided, in broad terms, a statement of
466 AIC's advertising policy and assumptions for 2014. In addition, in lines 457-475, I identified
467 specific advertising activities that AIC intends to execute in 2014 that would be charged in whole
468 or in part to AIC's gas business.

469 **Q. Did you also provide discovery responses that further support the reasonableness of**
470 **the advertising expense AIC has included in its gas revenue requirement?**

471 A. Yes. In response to Staff data request KC 1.01R, AIC submitted KC 1.01R Attach,
472 which is a detailed list of the budgeted projects and allocated amounts that form the projected
473 spending that AIC has included in the 2014 test year for Accounts 909 and 930.1. In addition, in
474 response to Staff data requests KC 3.01, BAP 7.05 and BAP 7.06, AIC provided further
475 explanation on both the derivation of CPR's budget for 2014 and the incremental advertising
476 activities planned for 2014 that will be charged to these FERC accounts. Included as Ameren
477 Exhibit 21.6 are copies of AIC's responses to KC 1.01R (with KC 1.01R Attach), KC 3.02, BAP
478 7.05 (with BAP 7.05 Attach) and BAP 7.06 (with BAP 7.06 Attach).

479 **Q. Do you believe the detailed provided in your direct and discovery responses**
480 **adequately supports the reasonableness of AIC's requested advertising expenses?**

481 A. Yes. In particular, AIC's responses to KC 3.02, BAP 7.05 and BAP 7.06 explain the
482 incremental spending included in the 2014 budget in excess of AIC's 2012 spending. In addition,
483 KC 1.01R Attach provided a list of budgeted amounts by resource, activity and project.

484 **Q. Do you believe the methodology used by Ms. Pearce to calculate her adjustment is**
485 **appropriate?**

486 A. No. I don't believe Staff has made an adequate showing that the Commission should
487 reforecast AIC's planned advertising expenses based on escalated 2012 spending or an escalated
488 average actual expense from 2009-2012. In addition, with the exception of the \$24,400 in
489 sponsorship costs identified by Ms. Pearce in her direct, I don't believe the individual vendor
490 expenses identified by Ms. Pearce should be disallowed.

491 **Q. Why is it not reasonable to use AIC’s 2012 expenses as the baseline for AIC’s 2014**
 492 **forecasted advertising expense?**

493 A. As shown below, the use of 2012 actual advertising expenses gives too much weight to a
 494 year of data in which AIC's spending was historically low.

495 **Q. What does the historical advertising data show?**

496 A. The historical data shows that, of the four years of advertising expenses that Ms. Pearce
 497 analyzed, AIC's 2012 gas expenses for Account 909 and 930.1 were the lowest year. As shown
 498 in the table below, even after reflecting Staff's specific vendor disallowances, Staff's adjusted
 499 advertising expenses would have been approximately \$120,000 higher, had Staff used a four-
 500 year average as its baseline amount in its direct case.

Year	Account 909 Gas	Account 930.1 Gas
2009	996,321	6,720
2010	854,927	100,119
2011	848,927	142,517
2012	703,460	126,278
Sum 2009-2012	3,403,257	375,634
Average	850,814	93,908
Vendor Disallowance	(75,949) (Pcard/SIG)	(24,400) (Sponsorships)
Adjusted Average	774,865	69,508
2013 (2% inflation)	790,362	70,899
2014 (2% inflation)	806,170	72,317
909/930.1 Total	878,486	
Staff Total (Direct)	758,856	

501 **Q. Why were AIC's advertising expenses lowered in 2012 than in 2009-2011?**

502 A. The advertising budget for 2012 was based on prior year spending. The actual spend in
503 2012 was lower in part because AIC did not execute a media program in the 4th quarter. The
504 estimated cost of the cancelled 4th quarter media program was \$250,000. Budgeted resources
505 were not allocated to this planned expense because of a reduction in advertising inventory (and
506 associated higher per-ad costs) caused by the heavy run of political advertising in the fall of
507 2012. Additionally, in the second half of 2012, AIC was in the midst of a selection process for a
508 new advertising agency of record. As such, AIC was unable to make some planned expenditures
509 because the new agency was not selected and operating at full capacity on AIC's behalf until
510 2013.

511 **Q. Does that also help to explain why AIC's 2012 advertising expenses were less than**
512 **budgeted amounts?**

513 A. Yes. As indicated in response to BAP 7.05, the gas allocated budget for Account 909 in
514 2012 was approximately \$1.05 million. The gap between actual and budgeted spending includes
515 the cancelled 4th quarter media spend and other planned expenditures that were deferred as AIC
516 selected a new agency of record.

517 **Q. In its supplemental direct, Staff indicated that it plans to use average actual**
518 **advertising expenses from 2009-2012 as its baseline for 2014 expenses. Does that still**
519 **understate AIC's planned advertising expenditures in 2014?**

520 A. Yes. AIC still anticipates it will incur higher gas allocated advertising expenses in 2014
521 than in any year from 2009-2012. Thus, using the average actual expense from 2009-2012 as the
522 baseline for 2014, even after escalating it for inflation, understates planned expenditures.

523 **Q. Are AIC's gas expenses for Account 909 for the six months of 2013 higher than the**
524 **first six months of 2012?**

525 A. Yes, gas allocated spending in Account 909 was \$149,000 higher over the first six
526 months of 2013 compared to the first six months of 2012.

527 **Q. Does AIC expect its gas advertising spending in 2013 to exceed average actual**
528 **expense incurred in 2009-2012?**

529 A. Yes. AIC intends to allocate budget resources to educate customers about how to be safe
530 consumers of natural gas energy. A mix of communication channels will be utilized, including
531 quarterly messages distributed through the mass media (radio and tv), direct customer outreach,
532 and print/social media. Further, AIC will utilize various channels to inform customers about
533 what to do when gas service is interrupted, how to respond during a weather event, how to
534 manage their energy usage, and how to conserve energy. Specific safety messages are placed in
535 appropriate print media twice per year, and required notices are sent to property owners along
536 AIC owned pipeline. AIC develops and publishes communication materials and advertisements
537 to promote safe digging, and shares options for managing energy usage and costs.

538 **Q. Can you identify specific types of incremental gas advertising expenses that you**
539 **expect AIC to incur in 2014?**

540 A. In addition to the activities noted above, incremental expenses will be incurred to
541 communicate about gas safety, customer services and energy efficiency. Further, AIC will
542 increase outreach to schools to deliver educational programs on safe digging and gas safety. AIC
543 plans to revise its municipal guide and increase deployment of channels to reach customers
544 through mobile platforms and social media. As new investments are made in modernizing and
545 updating the natural gas infrastructure, AIC will initiate communications to inform customers

546 about how these improvements are providing more options for customers to manage their energy
547 usage and save money.

548 **Q. Has Staff identified any particular advertising initiatives that it believes are or**
549 **would not be allowable operating expenses?**

550 A. No. The only specific advertising costs that Staff earmarks for disallowance are the
551 “comparable” vendor costs that Ms. Pearce believes are disallowable based on the Commission’s
552 order in ICC Docket No. 12-0293.

553 **Q. The chart above indicates the average annual gas expense from 2009-2012 for**
554 **Account 909, escalated for inflation, is \$806,000. AIC, however, has forecasted gas expense**
555 **for Account 909 to be \$1.55 million. Please identify the planned advertising initiatives for**
556 **2014 that will require AIC to incur incremental spending above historical levels.**

557 A. Below is a list of advertising activities that AIC currently plans to implement in 2014:

- 558 • Contractor Communications- Contractors continue to inadvertently compromise gas
559 service delivery by digging in to AIC pipelines. In order to reduce the number of dig-ins
560 and improve service to customers, AIC will increase communications to contractors and
561 provide improved instruction on how to prevent dig-ins. A priority area for contractor
562 communications will be in Division 4. Costs for this component is estimated at \$100,000.
- 563 • First Responder Training- AIC will increase educational outreach to first-responders to
564 improve safety practices in gas emergency situations. Additional first-responders will be
565 educated throughout the service territory. Costs for this component is estimated at
566 \$75,000.
- 567 • Call Before You Dig- A new public education program will be executed to instruct
568 customers about the need to “call before digging” to prevent gas line compromises. The
569 campaign will be deployed through various media. Costs for this component will be
570 \$335,000 (\$85,000 to develop messaging and production and \$250,000 to publish and
571 place media).
- 572 • Pipeline Awareness Mailer- AIC will develop, design, print and mail communication to
573 educate customers about the location of new pipelines and how to be safe around them.
574 Costs for component is estimated at \$100,000.
- 575 • Pipeline Awareness Communication for Municipal Leaders- AIC will execute a program
576 to educate municipal officials on the location of new pipelines, and how government

577 employees can operate safely around this new infrastructure. This program will involve
578 first-person presentations to key to municipalities and development of educational
579 material. Estimated costs are \$73,000.

580 • Pipeline Awareness Communication for School Leaders- AIC will execute a program to
581 educate local educators about gas and pipeline safety. The goal is to reach and influence
582 school leaders, parents, and students. Estimated costs are \$50,000.

583 • Gas Pipeline Safety Training for Excavators- AIC will execute a program to educate
584 construction excavation companies about the location of new pipelines and the best
585 practices for operating safely around this infrastructure. Estimated costs for new program
586 are \$73,000.

587 **Q. Does AIC's planned advertising initiatives for 2014 justify the increase in AIC's**
588 **forecasted advertising expense above 2012 amounts?**

589 A. Yes. Ameren Illinois is planning to execute communications initiatives to reach and
590 educate more customers about programs and services that can enable them to take control of
591 their energy usage and safely consume natural gas energy. With a population of 813,000 natural
592 gas customers, AIC must utilize available channels to ensure that these consumers are receiving
593 information they can use. As such, AIC will increase expenditures in mass media advertising,
594 digital promotion, and direct communication.

595 **Q. Regarding Ms. Pearce's specific vendor adjustments, please indicate why AIC**
596 **opposes her adjustment to remove outside expenses for Strategy International Group.**

597 A. Strategic International Group offers consulting services regarding customer service and
598 communications for a diverse population reflecting a part of the Ameren Illinois customer
599 population. In my response to BAP 8.01, I stated, " The Services provided by SIG included
600 consulting and management advice toward specific communications issues facing AIC. SIG
601 advised on communications to diverse audiences for various customer related programs: energy
602 efficiency, energy assistance and communication for natural gas delivery service modernization
603 planning. Because this consultation assists in the messaging for advertisements, mainly in the

604 customer service category, the costs are included in rate recovery." In addition, in my
605 supplemental response to Staff data request BAP 8.01S, I attached the executed Scope of Work,
606 which establishes that SIG consults on AIC's energy efficiency, energy usage, customer service
607 and customer segment messaging. Attached as Ameren Exhibit 21.7 is a copy of AIC's response
608 to BAP 8.01S.

609 **Q. In ICC Docket No. 12-0293, the Commission disallowed the electric portion of the**
610 **fees paid to SIG in 2011. Why should the Commission reach a different decision here?**

611 A. The Commission should decide each contested issue based on the facts presented in this
612 proceeding, not simply based on the conclusions rendered in a prior Commission docket. The
613 executed Scope of Work, which was not part of the record in ICC Docket No. 12-0293,
614 demonstrates the purpose of the consulting services is to weigh in on recoverable customer
615 education messaging. Staff has not cited any evidence to the contrary.

616 **Q. Please also indicate why AIC opposes (in theory) her direct adjustment to employee**
617 **credit card expenses.**

618 A. In response to Staff data request BAP 6.02, AIC objected to Staff's request that AIC
619 identify 2012 advertising expenses in accounts 909 and 930.1 "comparable to the types
620 disallowed" by the Commission in its order in ICC Docket No. 12-0293. In BAP 6.02 Attach,
621 AIC identified 2012 advertising charges from the same or similar vendors for which 2011
622 charges were disallowed in ICC Docket No. 12-0293. In disallowing these expenses (\$3229),
623 Staff made no attempt to assess the business justification for the expense, and gave no reason in
624 support of the disallowance of the individual expenses.

625 **Q. Do you believe the Commission should automatically disallow "comparable" costs**
626 **for the same or similar vendors in annual formula ratemaking proceeding?**

627 A. No. As I indicated in my response to BAP 6.02, the use of "comparable" by Staff was
628 vague and undefined. That an advertising expense was identified as "comparable" to an electric
629 expense disallowed by the ICC in its Final Order in Docket No. 12-0293 does not mean the
630 expense is "disallowable" from gas rates in this proceeding. Costs from the same vendor should
631 not be automatically disallowed in subsequent proceedings. The same standards of prudence and
632 justness should determine the recoverability of each expenses, and the same requirement remains
633 that the record for this proceeding must support disallowance.

634 **Q. Have you reviewed the alternative list of individual credit card charges Ms. Pearce**
635 **included for disallowance in her supplemental direct?**

636 A. Yes. Although AIC has not fully reviewed and analyzed the alternative list of credit card
637 charges included in Ms. Pearce's supplemental direct, I was able to give it a cursory glance
638 before the filing of rebuttal. As I mentioned above, AIC plans to respond to Staff's supplemental
639 adjustments in supplemental rebuttal to be filed later this month.

640 **Q. Based on your limited review of Ms. Pearce's supplemental schedules, have you**
641 **identified legitimate business expenses that you consider recoverable in rates?**

642 A. Yes. I consider business expenses directly related to storm response, safety and work
643 productivity improvements to be prudent and recoverable costs. Ms. Pearce's supplemental
644 direct, however, disallows many items that were purchased to directly support AIC's storm
645 response effort (e.g., digital cameras, USBs, discs & rechargable batteries). Notably, Ms.
646 Pearce's schedule does not contain the business justification for each expense, and does not
647 identify the specific reasons why each expense should be disallowed.

648 **Q. Have you also reviewed Ms. Pearce's alternative sponsorship adjustment presented**
649 **in her supplemental direct?**

650 A. Yes. At this time, a consistent, underlying basis for Staff's adjustment is not evident.
651 Further analysis and discovery will be necessary to determine the rationale for Staff's adjustment
652 and the specific concerns Staff has with each sponsorship. As with the adjustment for credit card
653 expenses, Staff does not identify the specific reasons why it believes the costs associated with
654 each individual event are not prudent and recoverable.

655 **Q. What was the apparent basis of Staff's original sponsorship disallowance?**

656 A. As mentioned above, AIC has made an adjustment to remove \$24,400 in sponsorships
657 costs based on its self-disallowance of 2012 electric sponsorship costs in ICC Docket No. 13-
658 0301. In response to Staff data request BAP 6.02, I stated, " AIC was directed by the Illinois
659 Commerce Commission's in its Final Order in Docket No. 12-0293, at page 74 'to provide its
660 internal definition of "corporate sponsorship" and "charitable contribution".' AIC provided that
661 information in a supplemental response to data request MHE 6.09. In the current update to its
662 electric formula rate revenue requirement, AIC has removed the value of tangible personal
663 benefits (i.e. meals and tickets). See BAP 6.02 Attach 2 (same as Ameren Exhibit 6.2 of Docket
664 No. 13-0301) for details. The disallowed costs for 2012 sponsorships are \$61,000: \$24,400 of
665 that total was charged to gas and \$36,600 to electric." I have included Ameren Exhibit 6.2R
666 submitted in ICC Docket No. 13-0301 as Ameren Exhibit 21.8 to my rebuttal testimony in this
667 procedin. Ameren 21.8 (Ameren Exhibit 6.2R) contains the following information: the
668 recipient of the sponsorship, the amount of the sponsorship (with electric and gas portions), the
669 description of the cause or activity that benefited from the sponsorship, the date of the sponsored
670 event, the location of the sponsored event, the benefit of the sponsorship, the advertising

671 message category, the forms (channels) of the advertisements, AIC's presence at the sponsored
672 event (if there was a booth), and a description and value of any ancillary benefits that AIC
673 received for being a sponsor. Ameren Exhibit 21.8 (Ameren Exhibit 6.2) also indicates that AIC
674 identified certain costs for exclusion from the revenue requirement that reflect the value of
675 ancillary benefits that AIC employees received from the sponsor in the form of tickets, meals and
676 other entertainment.

677 **Q. Based on your limited review of Ms. Pearce's supplemental schedules, do you**
678 **consider the additional sponsorship costs disallowed by Ms. Pearce to be recoverable in**
679 **rates?**

680 A. Absolutely. In preparing AIC's electric formula rate update concerning 2012, AIC
681 underwent extensive analysis of its sponsorship costs in the wake of the Commission's order in
682 ICC Docket No. 12-0293. Ameren Ex. 6.2 compiles information on the description of the
683 sponsorship, the benefit to attendees, the informational messaging, the presence of AIC at the
684 event, and the advertising channels – information that was not readily available and apparent to
685 the Commission in ICC Docket No. 12-0293. In addition, AIC calculated and carved out the
686 ancillary benefits accrued by AIC employees who attended the event – again, information not
687 readily available and apparent to the Commission in ICC Docket No. 13-0301. This evidence
688 shows the correct disallowance of sponsorship costs in this proceeding is the \$24,400 initially
689 disallowed by Staff.

690 **III. RESPONSE TO INTERVENORS**

691 **A. Response to Mr. Brosch on Charitable Contribution Expense**

692 **Q. Have you reviewed Mr. Brosch's direct testimony on charitable contributions?**

693 A. Yes. I reviewed the portions of Mr. Brosch's direct testimony (AG/CUB Ex. 1.0, lines
694 765-818) that discusses his adjustment to charitable contribution expense. I also reviewed his
695 schedule AG/CUB Exhibit 1.3 (page 4 of 9), which shows the calculation of his adjustment.

696 **Q. What is Mr. Brosch's recommendation to the Commission concerning AIC's**
697 **charitable contribution expense?**

698 A. Mr. Brosch recommends the Commission limit AIC's recovery of contribution expense to
699 AIC's 2012 contributions, adjusted for inflation using a 2% escalator for 2013 and 2014. The
700 result of his adjustment is to remove approximately \$135,000 in expense from AIC's requested
701 revenue requirement.

702 **Q. How does Mr. Brosch's adjustment differ from the adjustment proposed by Staff**
703 **witness Ms. Everson?**

704 A. Rather than using an escalated average amount of expense based on AIC's 2010-2012
705 contributions, Mr. Brosch simply escalates 2012 contributions to reforecast 2014 contributions.

706 **Q. Does AIC agree with Mr. Brosch's recommendation to the Commission concerning**
707 **AIC's charitable contribution expense?**

708 A. No. For the reasons stated in my response to Staff witness Everson and for the reasons
709 stated here, AIC does not agree with Mr. Brosch's recommendation to reduce AIC's forecasted
710 2014 contributions. In my opinion, Staff and the AG have not adequately defended the use of an
711 actual or average historical amount of contributions as a baseline for recovery. In my opinion,
712 the amount requested in this filing is reasonable based on AIC's prior recovery of this expense in
713 ICC Docket No. 11-0282, the amount of forecasted contributions the Commission allowed the

714 Peoples and North Shore utilities to recover in ICC Docket Nos. 12-0511/0512, and the amount
715 of contribution expense AIC incurred prior to 2010.

716 **Q. What is the basis for Mr. Brosch's recommendation to adjust AIC's forecasted 2014**
717 **charitable contribution expense?**

718 A. He believes 2014 contributions "should be set no higher than an inflation-escalated
719 allocation to represent the gas utility share of the total contributions made by AIC in 2012."
720 AG/CUB Ex. 1.0, lines 796-798.

721 **Q. In your opinion, should a utility's historical spending necessarily be used to cap the**
722 **utility's recovery of future forecasted expenses?**

723 A. No. Not necessarily. As I understand, this is a rate proceeding to recover AIC's future
724 forecasted 2014 costs, not its prior historical costs, adjusted for inflation. In general, prior
725 historical spending can be used as a point of comparison to judge the reasonableness of the
726 budgeted expense. But the appropriateness of the comparison depends on whether the historical
727 amounts are representative of the amounts the utility expects to spend in the future period. In
728 this instance, as I explained in my response to Ms. Everson, the contributions made in 2010,
729 2011 and even 2012 are not representative of the contributions that AIC intends to make in 2014.

730 **Q. Mr. Brosch states AIC has not provided an "explanation in testimony why the**
731 **aggregate level of donations that were actually made and apparently viewed as reasonable**
732 **by AIC in 2011 and 2012 would not also be sufficient in 2014." Have you explained why**
733 **contributions made in 2011 and 2012 do not represent the aggregate amount AIC intends**
734 **to contribute in 2014?**

735 A. Yes. My response to Ms. Everson provides this explanation.

736 **Q. In your opinion, do AIC's 2012 contributions, adjusted for inflation, represent a**
737 **"reasonable" and "sufficient" amount to recover in rates, as implied by Mr. Brosch?**

738 A. No. 2012 actual contributions, even after adjusted for inflation, remain below the level of
739 contribution expense AIC incurred prior to 2010 and remain below the level of contribution
740 expense authorized by the Commission in ICC Docket No. 11-0282. For the reasons stated in
741 my responses to Ms. Everson, Mr. Brosch's adjustment does not produce a reasonable and
742 sufficient amount of contributions.

743 **Q. Mr. Brosch states his adjustment "removes from this calculus any concern about**
744 **overstatement of test year expenditure budgets." Do you believe AIC's contribution**
745 **budget for 2014 is overstated?**

746 A. No. As I stated, AIC's 2014 budget for contribution is consistent with the level of
747 contribution expense authorized by the Commission in ICC Docket No. 11-0282 and the level of
748 expense incurred by AIC prior to 2010.

749 **B. Response to Mr. Brosch on Sponsorship Expense**

750 **Q. Have you also reviewed Mr. Brosch's direct testimony on sponsorship expense?**

751 A. Yes. I reviewed the portions of Mr. Brosch's direct testimony (AG/CUB Ex. 1.0, lines
752 822-857) that discusses his adjustment to charitable contribution expense. I also reviewed his
753 schedule AG/CUB Exhibit 1.3 (page 5 of 9), which shows the calculation of his adjustment.

754 **Q. What does Mr. Brosch recommend to the Commission regarding sponsorships**
755 **expense?**

756 A. Mr. Brosch recommends the Commission reduce AIC's forecasted sponsorship costs
757 (\$133,000) by the his calculated "ICC Percentage Recoverable Factor – 2011 Costs Allowed" of

758 22.4% percentage. AG/CUB Exhibit 1.3 (page 5) shows his adjustment results in a disallowance
759 of approximately \$103,000.

760 **Q. How does Mr. Brosch calculate his "ICC Percentage Recoverable Factor – 2011**
761 **Costs Allowed"?**

762 A. He calculates a total disallowance of 2011 sponsorship costs based on the Commission's
763 order in AIC's most recent electric formula rate docket, ICC Docket No. 12-0293. He then
764 subtracts that amount from his calculated total electric utility sponsorships incurred in 2011 to
765 arrive at a net recoverable electric utility sponsorships in 2011. Dividing his calculated total
766 electric utility sponsorships incurred by his net recoverable electric utility sponsorship amount
767 results in his "ICC Percentage Recoverable Factor – 2011 Costs Allowed" of 22.4%.

768 **Q. How does Mr. Brosch's adjustment differ from the adjustment proposed by Staff**
769 **witness Ms. Pearce in her direct?**

770 A. As I stated above, Ms. Pearce's recommended disallowance in her direct (\$24,400) was
771 based on AIC's analysis and self-disallowance of 2012 electric sponsorships in its direct case
772 filing in its formula rate update in Docket No. 13-0301, which AIC produced in this proceeding
773 in response to Staff data request BAP 6.02. As noted above, Ms. Pearce has since increased that
774 disallowance in her supplemental direct based on her further review of 2012 sponsorship costs in
775 Docket No. 13-0301.

776 **Q. Does AIC agree with Mr. Brosch's recommendation regarding sponsorship**
777 **expense?**

778 A. No. AIC does not believe it is appropriate to rely on the Commission's disallowance of
779 2011 sponsorship costs in ICC Docket No. 12-0293 to calculate a disallowed amount for
780 purposes of this gas rate proceeding.

781 **Q. Has AIC agreed to remove an amount of sponsorship expense from the revenue**
782 **requirement in response to Staff witness Pearce's proposed adjustment?**

783 A. Yes. As noted above, AIC has agreed to remove \$24,400 in sponsorship costs based on
784 its self-disallowance of sponsorship costs in ICC Docket No. 13-0301. Ameren Exhibit 21.8,
785 which as I note is a copy of my electric direct exhibit, Ameren Exhibit 6.2R, which was filed in
786 ICC Docket No. 13-0301, calculates AIC's self-disallowance of 2012 electric sponsorships costs.
787 My testimony in response to Staff witness Pearce explains the additional analysis that AIC
788 undertook after the Commission issued its order in ICC Docket No. 12-0293 and the additional
789 evidence that AIC has compiled to calculate a recoverable amount of sponsorship expense.
790 However, as noted above, AIC is contesting Ms. Pearce's additional disallowance of
791 sponsorships costs presented in her supplemental direct.

792 **Q. What was the basis for AIC's self-disallowance of sponsorship expense in ICC**
793 **Docket No. 13-0301?**

794 A. As I explained above in my response to Staff witness Pearce, AIC calculated a self
795 disallowed sponsorship expense amount that assigned a value of tangible personal benefits to
796 those sponsorships where AIC employees received tickets, meals and entertainment.

797 **Q. Why is it more appropriate to rely on the 2012 sponsorship data included in**
798 **Ameren Exhibit 21.8 than 2011 sponsorship data relied upon by the Commission in ICC**
799 **Docket No. 12-0293?**

800 A. As I explained, the analysis AIC performed on the 2012 sponsorship data was not
801 available for the Commission's review in ICC Docket No. 12-0293.

802 **Q. What other evidence was not available for the Commission's review in ICC Docket**
803 **No. 12-0293?**

804 A. The Commission did not have the sponsorship guidelines that AIC issued after the
805 Commission's order in ICC Docket No. 12-0293. Attached as Ameren Exhibit 21.9 is AIC's
806 response to Staff data request MHE 6.09S, which contains the guidelines.

807 **Q. Why else would it not be appropriate to rely on the ICC's order in Docket No. 12-**
808 **0393 when calculating a net recoverable percentage of sponsorships?**

809 A. As noted on pages 76-77 of the Commission's order in ICC Docket No. 12-0293, a large
810 portion of the Commission disallowed expense from Account 930.1 was other expenses that the
811 Commission found did not have "discernable support" in AIC's exhibits. That in effect
812 overstates Mr. Brosch's nonrecoverable sponsorship percentage.

813 **C. Response to Mr. Brosch on Advertising Expense**

814 **Q. Have you also reviewed Mr. Brosch's direct testimony on advertising expense?**

815 A. Yes. I reviewed the portions of Mr. Brosch's direct testimony (AG/CUB Ex. 1.0, lines
816 861-893) that discusses his adjustment to charitable contribution expense. I also reviewed his
817 schedule AG/CUB Exhibit 1.3 (page 6 of 9), which shows the calculation of his adjustment.

818 **Q. What does Mr. Brosch recommend to the Commission regarding advertising**
819 **expenses?**

820 A. Mr. Brosch recommends the Commission reduce AIC's forecasted 2014 gas expense for
821 FERC Account 909 by an "Advertising Disallowance Percentage" of 27% based on his analysis
822 of the Commission's disallowance of electric advertising costs in ICC Docket No. 12-0293.
823 AG/CUB Exhibit 1.3 (page 6) shows his adjustment removes \$418,500 in forecasted Account
824 909 expense.

825 **Q. How does Mr. Brosch's adjustment differ from the adjustment proposed by Staff**
826 **witness Ms. Pearce?**

827 A. As explained above, rather than calculate a recoverable percentage of Account 909 gas
828 expense based on the Commission's review of 2011 electric advertising costs, Ms Pearce deducts
829 certain expenses from AIC's actual 2012 Account 909 and Account 930.1 gas expenses, and then
830 escalates that adjusted 2012 expense by 2% for 2013 and 2014 to arrive at her reforecasted test
831 year amount.

832 **Q. Does AIC agree with Mr. Brosch's recommendation regarding advertising expense?**

833 A. No. For the reasons states in response to Staff witness Pearce, AIC believes the amount
834 of forecasted gas advertising expense included in Account 909 has been supported and is
835 appropriate for the advertising activities planned in 2014.

836 **Q. If the Commission wanted to use adjustments to 2011 actual electric advertising**
837 **expenses in ICC Docket No. 12-0293 as a "proxy" for an adjustment to 2014 forecasted gas**
838 **advertising expense, do you believe Mr. Brosch's adjustment is correct?**

839 A. No. Based on AIC's response to BAP 6.01, the gas allocated portions of the expenses
840 disallowed in ICC Docket No. 12-0293 is approximately \$56,000: \$801 for Focused Energy for
841 Life expenses, \$48,310 for Strategic International fees, and \$6,844 for credit card expenses. Mr.
842 Brosch's adjustment would have to be corrected to reflect this lower amount of gas expense.

843 **IV. CONCLUSION**

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

845 A. Yes, it does.