

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY)
)
Rate MAP-P Modernization Action Plan -) **Docket No. 13-0301**
Pricing Annual Update Filing)

**REBUTTAL TESTIMONY OF MICHAEL L. BROSCH
ON BEHALF OF THE
PEOPLE OF THE STATE OF ILLINOIS**

AG Exhibit 3.0

AUGUST 26, 2013

ILLINOIS COMMERCE COMMISSION
DOCKET NO. 13-0301
REBUTTAL TESTIMONY OF MICHAEL L. BROSCH

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EXHIBIT LIST

- AG Exhibit No. 3.1 Ameren’s Response to AG 7.09
- AG Exhibit No. 3.2 Ameren’s Response to AG 5.10
- AG Exhibit No. 3.3 Ameren’s Response to AG 7.10

I. INTRODUCTION / SUMMARY

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

2 A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas
3 City, Missouri 64148-1934.

4
5 **Q. Have you prepared Direct Testimony that was previously filed in this
6 proceeding?**

7 A. My Direct Testimony and related exhibits were prepared on behalf of the People of
8 the State of Illinois represented by the Attorney General, (“Attorney General” or
9 “AG”). These documents were identified as AG Exhibits 1.0 through 1.6.

10 **Q. What is the purpose of your Rebuttal Testimony in this docket?**

11 A. My testimony is responsive to the rebuttal testimony and exhibits that were
12 submitted by Messrs. Stafford, Kennedy and Heintz regarding the formula revenue
13 requirement calculations of Ameren Illinois Company (“Ameren”, “AIC” or “the
14 Company”). In addition, I explain some minor differences between certain of my
15 proposed adjustments and the corresponding adjustments being proposed by
16 Commission Staff.

17 **Q. Please summarize the recommendations that are set forth in your testimony.**

18 A. My testimony responds to AIC rebuttal positions regarding several of the
19 ratemaking adjustments to test year operating revenues and expenses that were
20 sponsored in my direct testimony. I continue to recommend inclusion of certain
21 miscellaneous revenues in determining the Company’s electric delivery service
22 revenue requirement that were excluded by AIC as non-jurisdictional. I continue to

23 sponsor an expense adjustment to eliminate certain public relations costs that are
24 not reasonable and necessary for the provision of electric delivery service and
25 respond to the Company's rebuttal in opposition to such adjustment. I also explain
26 why Mr. Stafford's arguments against reducing the amount of CWIP allowed in
27 rates to the extent such project costs were financed by Accounts Payable are
28 invalid.

29 With regard to Cash Working Capital ("CWC"), I explain why the
30 Commission's most recent findings regarding pass-through taxes in prior AIC
31 formula rate proceedings remain valid and should not be changed and why Mr.
32 Heintz' proposed revisions to payment lead days for such taxes should be rejected.

33 My testimony also responds to Mr. Stafford's arguments in favor of
34 ignoring the deferred income taxes associated with the over-recoveries of AIC's
35 revenue requirement, when applying interest through reconciliation calculations. I
36 continue to support application of interest on a net of income tax basis to account
37 for the utility's actual net investment in the reconciliation balance.

38 **Q. What information have you relied upon in formulating your**
39 **recommendations?**

40 A. I have relied upon AIC's rebuttal testimony and exhibits in this Docket, the
41 Commission Staff's direct testimony, as well as the Company's responses to data
42 requests submitted by Staff and the AG. I also rely upon my prior experience with
43 the regulation of public utilities over the past 35 years, including significant
44 experience in Illinois and other states with alternative forms of regulation for
45 telephone and energy utilities.

46 **Q. Have you prepared any accounting schedules to summarize the adjustments**
47 **being proposed in your testimony?**

48 A. Yes. I prepared AG Exhibit 1.3 as an attachment to my Direct Testimony. Because
49 I have not changed any of my recommended accounting adjustments on rebuttal, I
50 am not submitting an update to AG Exhibit 1.3.

51

52 **II. MISCELLANEOUS OPERATING REVENUE**

53

54 **Q. In your Direct Testimony and in AG Exhibit 1.3 at page 1, you recommended**
55 **three adjustments revising the amount of Miscellaneous Operating Revenue to**
56 **include certain types of revenues that AIC had improperly excluded. How did**
57 **the Company respond to these adjustments in its Rebuttal?**

58 A. Mr. Stafford has accepted two of the three adjustments proposed at AG Exhibit 1.3,
59 page 1. He acknowledges that AIC responses to data requests AG 5.05 and 5.04
60 support the inclusion of mutual assistance “Overheads Billed – Other Parties” and
61 “Miscellaneous Billings” in the amounts set forth at lines 4 through 9 of AG Exhibit
62 1.3, page 1 and states that, “The same revisions are reflected in the Company’s
63 Rebuttal Filing.”¹ Specifically, Ameren Exhibit 9.2 contains revised formula
64 workpapers and at Workpaper 10, page 6, line 22, the “Overheads Billed – Other
65 Parties” revenue of \$400,000 is now being allocated 92.06 percent as an Electric
66 Distribution Amount, as recommended in my adjustment. Similarly, at line 25 of
67 the same Workpaper 10, AIC is now allocating 69.66 percent of Miscellaneous

¹ Ameren Exhibit 9.0, page 5, lines 112-126.

68 Billings of \$359,000 as an Electric Distribution Amount, as recommended in my
69 adjustment.

70 AIC has not accepted the first component of my proposed Miscellaneous
71 Operation Revenue adjustments, seeking to allocate the revenues received by AIC
72 from cellular carriers when the Company was compensated to vacate certain radio
73 frequencies. This \$1.285 million amount is still designated as “Transmission” on
74 Workpaper 10 at line 19 and is still mis-labeled “Other Electric Revenue-ARES”
75 with a zero percent allocation to the Electric Distribution Amount column.

76 **Q. Was your adjustment for Overheads Billed and Miscellaneous Billings that the**
77 **Company has accepted also proposed by Staff?**

78 A. Yes. At Staff Exhibit 1.0, Schedule 1.12, Ms. Ebrey makes essentially the same
79 two adjustments that AIC has accepted, but her calculations reverse the allocation
80 factors, applying a General Plant Allocator to the Overheads Billed amount and a
81 T&D Labor Allocator to the Miscellaneous Billings amount. I believe these factors
82 should be reversed, to correspond with the underlying types of costs being
83 recovered through such revenues and to comport with the Company’s responses to
84 discovery in this area. If the allocation factors are reversed, I expect that Ms.
85 Ebrey’s adjustment would match the amounts I have proposed and that have been
86 accepted by AIC.

87 **Q. Turning to your other miscellaneous revenue adjustment that seeks to account**
88 **for revenue received by AIC in 2012 from cellular carriers to compensate the**
89 **Company for vacating certain radio frequencies. How has the Company**
90 **responded to your proposed adjustment?**

91 A. Mr. Stafford claims that, "...the revenues in 2012 are transmission related, as they
92 are attributed to microwave frequencies previously used to transmit electric
93 transmission data for SCADA. These frequencies are no longer being used and
94 have been sold to various cell phone companies."² However, rather than indicating
95 any instance where these one-time revenues from the sale of microwave spectrum
96 have been or actually will be affirmatively treated as transmission revenues for
97 ratemaking before the FERC, Mr. Stafford states, "AIC intends to explore whether
98 the appropriate revenues can be credited to ratepayers under the formula in the
99 Company's next FERC jurisdictional filing."³

100 **Q. What is the significance of these revenues not being affirmatively treated as**
101 **transmission revenues for ratemaking purposes before the FERC?**

102 A. AIC serves in only two regulatory jurisdictions, providing services that are either
103 regulated by the FERC or the ICC. When service related revenues are received by
104 AIC that are not accounted for in either jurisdiction, the revenues are ignored in
105 setting rates in both jurisdictions, creating a windfall benefit to AIC shareholders.

106 **Q. In your direct testimony, you expressed concern about the Company's**
107 **categorization of the data circuits being vacated as 100% jurisdictional when**
108 **some of the SCADA circuits being vacated may have been used to support**
109 **AIC's distribution as well as its transmission networks.⁴ Has the Company**
110 **provided any additional data to address this concern?**

² AIC Exhibit 9.0, Page 41, Lines 867-869.

³ AIC Exhibit 9.0, Page 42, Lines 876-877.

⁴ AG Exhibit 1.0, page 7, lines 139-147.

111 A. No. Mr. Stafford testified that the Company is not able to identify which vacated
112 SCADA circuits were related to AIC's distribution and transmission SCADA
113 systems. He merely repeats the Company's response to data request AG 5.03 that
114 was attached to my Direct Testimony⁵ and claims that,

115 "...Ameren Illinois Company confirmed that such frequencies were
116 needed to transmit transmission data for SCADA. As such, AIC did not
117 undertake further analysis to identify the specific transmission assets that
118 were previously used to transmit transmission data for SCADA. Such
119 identification is not practical given that such revenues are not directly
120 associated with one or more specific assets."⁶

121
122 Simply indicating that the data circuits were "needed to transmit transmission data
123 for SCADA" and declining to perform further analysis does not mean that none of
124 these circuits were used to support the distribution business. In the absence of
125 additional information that clearly shows that; 1) none of the circuits were used in
126 the Company's distribution operations, and 2) that the revenue in question will
127 actually be treated as FERC jurisdictional revenues to offset the transmission
128 revenue requirement, the adjustment I propose should be approved by the
129 Commission.

130 **Q. Are you recommending that all of the revenues from the sale of spectrum be**
131 **included in setting Ameren's distribution rates?**

132 A. No. I recommend that these revenues be allocated based on the Company's
133 transmission and distribution allocator, resulting in 92.06% of the revenues being
134 allocated to distribution.

⁵ See AG Exhibit 1.4, pages 4-5.

⁶ Ameren Exhibit 17.0, page 39, lines 887-891.

135 **Q. Have you modified any of your proposed adjustments to Miscellaneous**
136 **Operating Revenues that appear in AG Exhibit 1.3, page 1?**

137 **A.** No. I recommend that the additional Miscellaneous Operating Revenue amounts
138 listed on page 1 be allocated between the Company's FERC and Electric
139 Distribution jurisdictions in the manner shown therein.

140

141 **III. RECONCILIATION INTEREST CHARGES**

142 **Q. In your Direct Testimony, you recommended that interest at the Company's**
143 **Weighted Average Cost of Capital from Sch. FR D-1 be applied to the actual**
144 **invested capital that AIC has invested in the reconciliation balance, which is**
145 **necessarily a net of income tax balance.⁷ How has the Company responded to**
146 **this proposal?**

147 **A.** AIC does not agree that Accumulated Deferred Income Taxes ("ADIT") associated
148 with the reconciliation regulatory asset should be considered in the application of
149 interest. The Company's rebuttal consists of several arguments that include:

- 150
- 151 • An assertion by Mr. Stafford that considering ADIT when applying interest
152 to the reconciliation balance represents a change to the "formula rate
153 template"⁸, which according to Mr. Mill's testimony cannot be made
154 without a filing under Section 9-201 of the Act.
 - 155 • Mr. Stafford's, "...reading of the Act [which] expressly states that interest
156 is to be applied to the reconciliation balance, and not the reconciliation
157 balance net of deferred income taxes."⁹
- 158

⁷ AG Exhibit 1.0, page 9 line 198 to page 17 line 373.

⁸ Ameren Exhibit 9.0, page 8, lines 167-169, page 9, lines 217-219 and page 33, lines 753-756.

⁹ Id. page 34, lines 757-778.

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- Mr. Stafford’s claim that, “There is no cash received from deferred income taxes, as the deferred income taxes correspond to accounting accruals for revenues to be received. If the Company had billed and collected the revenues that corresponded to the recording of deferred income taxes, then there would be actual cash in hand. Under that scenario, the deferral of income tax payments would generate cash benefit. However, in this case, there is no source of cash to support AG’s proposed netting of income taxes against the reconciliation balance.”¹⁰
 - Mr. Stafford’s argument that, “...the question is not whether the Company can defer paying income taxes, but rather when and how the Company will get *actual* cash in hand from the reconciliation balances.”¹¹
 - Mr. Stafford’s concern that “It is not clear if the AG’s proposal is to adjust the entire reconciliation balance to be recovered from or charged to customers or just adjust the calculated interest amount.”¹² He states that, “...any proposal to net the total reconciliation balance for deferred income taxes would not provide sufficient funds to the Company to cover the revenue requirement shortfall and pay income taxes on amounts collected.”¹³
 - Mr. Mill’s opinion that applying interest to the net of tax reconciliation balances is an inappropriate matter in this Docket and, “...to implement rate template changes for purposes of the final revenue requirements in this update proceeding, tariff/template revisions must be accepted in an Order by December 1.”¹⁴

186 For these reasons, the Company recommends no consideration be given to the ADIT

187 balances associated with the reconciliation balance when calculating and applying

188 interest to such balance.

¹⁰ Id. page 35, lines 782-787.
¹¹ Id. page 36, lines 807-814.
¹² Id. page 36, lines 823-838.
¹³ Id. page 38, lines 851-853.
¹⁴ Ameren Exhibit 17.0, page 14, lines 286-301.

189 **Q. Will you be addressing the legal issues that are alleged to be raised by changes**
190 **in the method of calculating reconciliation interest to recognized related ADIT**
191 **amounts?**

192 A. No. I expect any legal issues to be addressed by counsel for the Company and other
193 parties. My testimony will instead focus upon the factual and accounting issues
194 raised by Mr. Stafford on this matter.

195 **Q. Mr. Stafford quotes from Section 16-108.5(d)(1) and offers his non-legal**
196 **opinion that the Act “expressly states that interest is to be applied to the**
197 **reconciliation balance, and not the reconciliation balance net of deferred**
198 **income taxes.”¹⁵ Does the language quoted by Mr. Stafford include any**
199 **reference to a “reconciliation balance” as you read it?**

200 A. No. Mr. Stafford adds *emphasis* to the statutory language that identifies, “[a]ny
201 over-collection or under-collection indicated by such reconciliation” and what
202 should be done with such amounts, but the quoted language is silent with regard to
203 any “reconciliation balance” and is also silent regarding “deferred income taxes”.
204 From this, I would assume that the Commission is responsible for determining the
205 specific procedures to be employed in calculating over and under-collections and
206 related interest amounts, within the framework of the Act.

207 **Q. Mr. Stafford claims that deferred taxes do not provide a source of cash, stating,**
208 **“If the Company had billed and collected the revenues that corresponded to the**
209 **recording of deferred income taxes, then there would be actual cash in hand.**

¹⁵ Ameren Exhibit 9.0, page 34, lines 757-778,

210 **Under that scenario, the deferral of income tax payments would generate cash**
211 **benefit. However, in this case, there is no source of cash to support AG's**
212 **proposed netting of income taxes against the reconciliation balance.”¹⁶ Is this**
213 **true?**

214 A. No. As I explained in my Direct Testimony, “changes in ADIT balances provide
215 incremental cash flow through the change in timing of the payment of cash income
216 taxes.” This issue can be considered from two different perspectives that are
217 aligned with the pending filings under consideration for AIC and for ComEd,
218 respectively:

- 219 • When the utility has over-recovered its overall cost of service according to
220 reconciliation calculations and has recorded a regulatory liability for the
221 amounts to later be returned to customers, or
- 222 • When the utility has under-recovered its overall cost of service according to
223 reconciliation calculations and has recorded a regulatory asset for the
224 amounts to later be collected from customers.

225 In both instances, which will be discussed in greater detail in this testimony, the
226 utility has recorded either a regulatory asset/liability as well as an offsetting ADIT
227 amount, to recognize the fact that regulatory asset/liability entries do not result in
228 immediately taxable revenues until they reverse and revenues are actually
229 charged/credited to customers in future periods.

¹⁶ Ameren Exhibit 9.0, page 35, lines 783-785.

230 **Q. How is cash “in hand” impacted when a utility has over-collected its revenue**
231 **requirement and has accrued a regulatory liability to recognize its obligation to**
232 **return such excess revenues after reconciliation calculations are approved?**

233 A. Over recoveries represent excessive cash revenues, relative to the utility’s overall
234 cost of service. To recognize the refund obligation and to not overstate current year
235 revenues and earnings, the utility records a regulatory liability for amounts owed to
236 ratepayers that corresponds with an entry reducing per book revenues in that same
237 amount. However, this book entry reducing revenues does not create any
238 corresponding reduction in taxable revenues or income. In this situation, the utility
239 has more cash revenue in hand by virtue of its over-collection of its overall costs,
240 but must use some of this extra cash to pay additional income taxes that cannot be
241 eliminated on its tax return. Thus, the net cash available to the utility in years when
242 over-collection has occurred is the gross amount of such excess revenues, reduced
243 by the income taxes payable on that excessive revenue. The excess revenues,
244 removed from the utility’s books by the recording of the regulatory liability but still
245 reported on the utility’s tax return, represent a book/tax timing difference for which
246 ADIT must be recorded under Generally Accepted Accounting Principles
247 (“GAAP”), as more fully discussed in my Direct Testimony.

248 **Q. What happens to the ADIT balance when over-recovery revenues are returned**
249 **in cash to ratepayers through the reconciliation process?**

250 A. During the period when over-recovered revenues are being refunded to customers,
251 the regulatory liability balance is ratably reversed and the offsetting ADIT debit
252 balance is also ratably reversed as the income subject to tax is reduced. The reversal

253 of the regulatory liability “puts back” into the income statement the reduced cash
254 revenues being credited during the refund period, to recognize that the full amount
255 owed to customers was previously subtracted from book revenues. The reversal of
256 the offsetting debit ADIT balance accounts for the fact that income taxes on the
257 over-collected cash revenues were already paid in the prior period, while cash
258 income taxes during the refund period will be reduced because of the lower billed
259 revenues caused by the refunds.

260 **Q. Does this entire process work in reverse for the utility that has under-recovered**
261 **its overall cost of service?**

262 A. Yes. The utility that has under-recovered has reduced cash in hand, because it has
263 not fully recovered its cost of service. As a result, the utility has reduced taxable
264 revenues that create immediate and offsetting cash income tax savings relative to the
265 taxes that will later be due when the reconciliation revenues are collected from
266 customers. This occurs because the regulatory asset that is recorded to recognize
267 additional book revenues that can be collected through the reconciliation process is
268 not includable in taxable income. During the reconciliation recovery period, the
269 accrued regulatory asset is ratably reversed to recognize that the billed revenues
270 then being recovered were actually recorded on the books in a prior period. The
271 offsetting ADIT balance is also ratably reversed during the recovery period to
272 account for the higher taxable income caused by delayed rate recovery of the
273 reconciliation revenue amounts that were not previously taxed.

274 **Q. Is Mr. Stafford correct in stating that “[t]here is no cash received from**
275 **deferred taxes”¹⁷?**

276 A. Only in the sense that all cash is received from the utility’s customers and not from
277 any particular expense until it is recovered from customers. The more valid point to
278 understand is that the reconciliation process changes both the timing of cash receipts
279 of revenues, and the timing of cash payments for income taxes. Whenever cash
280 reconciliation revenue is recovered from customers before or after the year in which
281 the related overall cost of service was incurred, a timing difference is accrued within
282 the revenue accounts and regulatory asset/liability balances, so that the utility’s
283 revenues generally “match” recoverable costs on the utility’s books. Then, when
284 the reconciliation occurs and the cash over or under-recoveries are flowed to or
285 from customers, these recorded accruals on the books are reversed.

286 On the utility’s income tax return, however, these recorded revenue
287 reconciliation accruals are not recognized. Instead, the incremental cash revenue
288 arising from any over or under-recovery of the overall cost of service is currently
289 taxable. This is why the utility’s actual amount of invested capital in the regulatory
290 asset or liability is properly quantified on a net of tax basis.

291 **Q. According to Mr. Stafford, “If the Company had billed and collected the**
292 **revenues that corresponded to the recording of deferred income taxes, then**

¹⁷ Ameren Exhibit 9.0, page 35, lines 782.

293 **there would be actual cash in hand. Under that scenario, the deferral of income**
294 **tax payments would generate cash benefit.”¹⁸ Is this true?**

295 A. I believe that Mr. Stafford is making my point. Ameren has calculated an over-
296 recovery of its 2012 revenue requirement. This means that the Company has billed
297 and collected cash revenues that correspond to its recorded regulatory liability for
298 revenues owed to ratepayers as well as recorded the negative deferred income taxes
299 associated with that regulatory liability on its books. In this instance, the recorded
300 deferred income taxes are negative (or debit) balance amounts representing taxable
301 revenues that were billed to customers and that caused the Company’s taxable
302 income and currently payable tax expenses to be temporarily larger, but that are
303 subject to reversal in future periods. As these excess cash revenues are returned to
304 customers via the reconciliation process in future years, both the regulatory liability
305 account and the related ADIT accounts will be reversed. In the meantime, the
306 incremental cash in hand arising from AIC’s over-collection has been reduced by its
307 temporarily higher current income tax expenses. Under these circumstances, AIC
308 should not be made to pay interest on the full reconciliation amount, but rather
309 should pay interest to ratepayers only upon the cash amount collected, reduced by
310 the corresponding cash required for earlier payment of income taxes.

311 **Q. Does Mr. Stafford’s individual home mortgage example have any applicability**
312 **to these circumstances?**

¹⁸Ameren Exhibit 9.0, page 35, lines 783-786.

313 A. No. His example has nothing to do with book/tax timing differences arising from
314 revenue recognition for utility revenue requirement reconciliations. In his example,
315 book accounting for any interest income prior to tax recognition of such interest
316 would result in very real cash flow benefits to the hypothetical mortgage company,
317 to the extent cash payment of income taxes can be delayed. This would be true
318 without regard to when the borrower actually makes his payments to the mortgage
319 company.

320 **Q. Mr. Stafford has included your response to AIC-AG 1.05 within Ameren**
321 **Exhibit 9.7. Does this document indicate that accumulated deferred income**
322 **taxes associated with reconciliation balances do not represent cash in hand?**

323 A My response within Mr. Stafford's exhibit correctly indicates that income taxes will
324 be payable whenever reconciliation revenues can be billed to and collected from
325 customers, causing such revenues to be included in the utility's taxable income.
326 This fact is entirely consistent with my testimony and supports my conclusion that
327 the "cash in hand" for the utility, to which interest should be applied in Schedule FR
328 A-4, is the cumulative reconciliation revenue amount at any point in time, offset by
329 the related income taxes that were either paid on prior revenue over-recoveries, or
330 deferred due to prior under-recovery of revenues.

331

332 IV. CASH WORKING CAPITAL ISSUES

333

334 **Q. At page 11 of his Rebuttal, Mr. Heintz identifies the EAC and MUT lead day**
335 **values used by you and Staff witness Mr. Ostrander and states that, "Mr.**

336 **Brosch provides no analysis to support his proposed CWC adjustments.**
337 **Instead, he merely references prior Commission decisions in AIC and**
338 **Commonwealth Edison Company (ComEd) electric formula rate proceedings**
339 **as justification for his proposed adjustment.”¹⁹ Was any analysis required for**
340 **your EAC and MUT lead day values?**

341 A. No. Mr. Stafford testified in his direct testimony that:

342 “In the direct testimony of Mr. Robert Mill in Docket No. 12-0001,
343 (Ameren Exhibit 1.0, pp. 19-20), AIC proposed to update the lead/lag
344 analysis every three years for purposes of the formula rate. As a result, for
345 this update filing, only an update of the revenue and expenses for the
346 applicable calendar year, 2012, has been reflected in the determination of
347 cash working capital on App 3.”²⁰

348 This testimony demonstrates that the Company made no changes to the EAC and
349 MUT lead day values for 2012. Because the Commission has recently reviewed
350 and ruled upon the appropriate lead and lag day values to be used in the study, there
351 was no need to conduct any new “analysis” to support the lead day values that have
352 already been reviewed and approved by the Commission.

353 **Q. Mr. Heintz observes that the Commission’s history of positions with regards to**
354 **the treatment of pass-through taxes has been inconsistent.²¹ Have all recent**
355 **Commission electric formula rate Orders involving both AIC and ComEd**
356 **consistently treated pass-through taxes in the manner advocated by you and**
357 **Staff witness Ostrander in this Docket?**

¹⁹ Ameren Exhibit 15.0, page 11, lines 203-205

²⁰ Ameren Exhibit 1.0, page 23, line 463.

²¹ Ameren Exhibit 15.0, page 11, line 207, page 12, line 231

358 A. Yes. I included Figure 1 in my Direct Testimony as a summary of the
359 Commission's most recently consistent treatment of this recurring issue.

360 **Q. According to Mr. Heintz, "...a rate decision from a ComEd rate proceeding**
361 **has no relevance to this proceeding regarding AIC's electric formula rate**
362 **plan."²² Do you agree?**

363 A. No. On the issue of lead lag study treatment of Energy Assistance Charges, the
364 regulations governing remittance timing apply equally to AIC and to ComEd and,
365 not surprisingly, the Commission-approved lead days in all four recent formula rate
366 proceedings for both utilities differ by only about 2 days, as shown in my Figure 1.
367 This is in stark contrast to Mr. Heintz' recommendation for EAC lead days that
368 differs by more than 30 days from these most recent Commission orders. With
369 regard to Municipal Utilities Taxes, where remittance regulations are more varied,
370 the payment lead days found reasonable for both ComEd and AIC in the prior
371 formula rate cases all exceed 40 days, while Mr. Heintz has proposed only a 15 day
372 lead value for MUT.

373 **Q. Mr. Heintz observes that Staff witness Mr. Ostrander supports the same 38.54**
374 **day EAC expense lead and 48.54 day MUT expense lead that you have**
375 **employed in AG Exhibit 1.3, page 2. He then opines that, if the Commission**
376 **were to adopt Mr. Ostrander's recommendation regarding the expense lead**

²² Ameren Exhibit 15.0, page 13, lines 240-241.

377 **for the EAC and MUT, the Company would be required to modify its payment**
378 **practices.²³ Is this true?**

379 A. No. The Company can continue to make payments of EAC and MUT as it has
380 historically, but ratepayers should not be asked to pay unnecessarily and
381 unreasonably high CWC costs when an Illinois utility elects to pay taxes earlier
382 than required. A Commission order quantifying cash working capital for
383 ratemaking purposes will impact the rates charged for electric delivery services, but
384 does not force any particular change upon the Company's remittance practices to its
385 vendors and taxing authorities.

386 **Q. How did Mr. Heintz respond to your proposal to disaggregate income tax**
387 **expenses between the cash-basis currently payable amounts and the non-cash**
388 **deferred income tax expense amounts?**

389 A. On this point, unlike the treatment of pass-through taxes, Mr. Heintz would prefer
390 to support recent Commission decisions regarding the lead lag study treatment of
391 AIC's income taxes and the use of statutory tax due dates, while he urges rejection
392 of my proposal to more precisely account for the timing of income tax-related cash
393 flows. He states:

394 "The Company has a long-standing practice of employing statutory tax
395 rates and payment dates when calculating its income tax expense for
396 revenue requirement purposes. As such, the Company does not distinguish
397 between current and deferred tax expense. Nor does the Company include
398 permanent tax differences in its income tax expense calculation."²⁴

²³ Ameren Exhibit 15.0, pages 7-10.

²⁴ Ameren Exhibit 15.0, page 16 , lines 310-313

399 Mr. Heintz did respond to my discussion of the Commission's past inconsistent
400 treatment of income taxes in ComEd lead lag studies²⁵, even though he dwells upon
401 the more dated inconsistencies that once existed in past Commission orders
402 involving pass through taxes.

403 **Q. Should the Commission allow AIC to pick and choose among the past lead lag**
404 **study procedures and lag day values, so as to select for updating only the**
405 **elements that increase the amount of cash working capital included in rate**
406 **base?**

407 A. No. If AIC desires to update the lead/lag analysis every three years for purposes of
408 the formula rate, as indicated by Mr. Stafford, there should be no piecemeal
409 updating of lead day values for only the pass-through tax items that Mr. Heintz has
410 selected for modification, based upon the Company's preference for the treatment
411 provided pass through taxes in an earlier Docket No. 11-0282 AIC rate order.²⁶

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413
414

V. PUBLIC RELATIONS EXPENSES

415 **Q. How has AIC responded to the adjustment you propose at AG Exhibit 1.3,**
416 **page 3, associated with test year Focused Energy for Life, Strategic**
417 **International Group fees, P-card expenses and other amounts that the**
418 **Company recorded as Public Relations Expenses?**

²⁵ AG Exhibit 1.0, page 26, line 586 to page 28, line 637.

²⁶ See Ameren Exhibit 1.0, page 23, lines 473-497 where this proposed selective modification of formula rate approved lead days is proposed by Mr. Stafford.

419 A. AIC witness Mr. Kennedy disputes most of my proposed adjustment for several
420 reasons set forth within his rebuttal testimony. He claims:

- 421 • Mr. Brosch does not provide any detailed analysis of the expenses incurred
422 by the Company in the test year.²⁷
- 423 • The “primary purpose” for the subject expenses was not to “enhance AIC’s
424 image and reputation, but rather was “for the primary purpose of educating
425 customers about important energy issues” and to “perform external
426 communications activities.”²⁸
- 427 • These outside vendor expenses are “necessary and prudently incurred,
428 whether they directly relate to an external advertising message intended for
429 mass distribution to Illinois ratepayers, a presentation to a particular,
430 narrowly-focused audience or stakeholder group, or purely internal
431 discussions and educational materials for our employees.”²⁹
- 432 • “Costs incurred for vendors that were similar of nature to costs excluded in
433 prior Commission dockets should not automatically be labeled as
434 unrecoverable in future rate proceedings.”³⁰

435 I will respond to these claims in this section of my rebuttal testimony.

436 **Q. Is Mr. Kennedy correct in noting that you did not conduct a detailed analysis**
437 **of all of the invoices behind all advertising, public relations and P-card**
438 **expenses that are addressed in your proposed adjustment?**

²⁷ Ameren Exhibit 14.0, page 42, line 871, page 44, line 909, page 45, line 926.
²⁸ Id. page 43, lines 887-890; page 44, lines 909-910 and page 45, lines 930-933.
²⁹ Id. page 43, lines 893-896.
³⁰ Id. page 45, lines 931-933.

439 A. Yes. My Direct Testimony explained that my proposed adjustment was an effort to
440 implement the ratemaking policies and adjustments that were recently applied by
441 the Commission in Docket No. 12-0293 to the costs incurred by AIC within the
442 updated 2012 test year. I described adjustments that AIC made in its own filing to
443 eliminate certain of these types of costs and I relied upon a Company-prepared
444 search for “potentially comparable expenses” incurred in the test year as the basis
445 for a portion of my adjustment. In addition, I recommended several specific vendor
446 charges that AIC has recorded not as Advertising Expense, but as Public Relations
447 Expense in its financial reporting, that appeared to be discretionary costs not
448 properly charged to ratepayers. I did not exhaustively analyze each invoice for each
449 vendor charge incurred by the Company to prepare my adjustment, but instead
450 adjusted only the obviously questionable charges and applied a 50 percent
451 disallowance factor to the Simantel public relations charges in place of a more
452 detailed review.³¹

453 **Q. Do you object to a more specific analysis of the detailed public relations invoice**
454 **charges within the 2012 test year?**

455 A. No. In response to data request AIC-AG 2.03, I explained that no independent
456 critique of the “potentially comparable expenses for FEFL/Simantel, SIG group and
457 P-card costs” was undertaken because, “Mr. Brosch did not want to invest AG
458 resources in a duplicative effort that had been already undertaken by AIC to search
459 2012 vendor charges and P-Card expenses to isolate potentially comparable

³¹ AG Exhibit 1.0, page 31, lines 703-726 and page 34, line 784 through page 40, line 925.

460 amounts disallowed in the prior formula rate review.” I am also aware of Staff’s
461 much more detailed ongoing assessment of AIC public relations costs incurred in
462 2012³² and have elected to not apply more of my time and limited AG’s resources
463 to a duplication of this Staff effort. I recommend that the information presented by
464 AIC, the Staff and by me regarding the Company’s test year Public Relations
465 Expenses be considered cumulatively by the Commission in determining the
466 Company’s revenue requirement.

467 **Q. Has the Company now consented to the removal of any of the Public Relations**
468 **Expenses that you have included in your adjustment?**

469 A. Yes. In its response to AG 7.09, the Company indicates that it will be removing the
470 Strategic International Group fees that are identified at line 2 of AG Exhibit 1.3,
471 page 3 “to limit disputed issues amongst the parties.” A copy of this response is
472 included within AG Exhibit 3.1.

473 **Q. Have you reviewed any additional information regarding the AIC expense for**
474 **Karen Foss LLC that is removed at lines 5-7 of your proposed adjustment?**

475 A. Yes. The Company’s response to data request AG 5.10 provides an additional
476 description of Ms. Foss’ delivered work product. This document indicates that
477 “Foss consulted on several Ameren projects, served as MC of select Ameren events
478 and wrote or edited various documents. Her main responsibility was conducting

³² For example, as this testimony was being finalized, AIC responded to Staff data requests TEE 16.01, 16.01, 16.04, 16.06 through 16.10 and 16.15 through 16.17 with descriptions of costs for e-store, flowers, trophies, sponsorships, refrigerators, refreshments, clothing and electronic devices that have been included in the Company’s asserted revenue requirement.

479 media training sessions.” I have included a complete copy of this response within
480 AG Exhibit 3.2.

481 **Q. Based upon this additional information, have you revised your adjustment**
482 **disallowing these expenses?**

483 A. No. These discretionary expenditures have not been shown to be needed. Mr.
484 Kennedy’s assertion that, “It is a prudent and necessary expense to ensure that
485 front-line communicators have the most up-to-date skills for sharing important
486 information with the public”³³ does not explain why Company management is
487 unable to clearly communicate without such coaching and does not justify retaining
488 a consultant to serve as an MC of select Ameren events. Efforts to enhance the
489 Company’s image through media coaching should be considered a shareholder cost.

490 **Q. Mr. Kennedy disputes your removal of Obata Design charges, claiming, “It is a**
491 **prudent and necessary expense to contract with a qualified vendor for the**
492 **purposes of improving customer education and outreach on the utility's impact**
493 **on the environment – an issue AIC believes is important to consumers.”³⁴**
494 **Have you modified your adjustment excluding these charges?**

495 A. No. The charges from Obata were to help with “formatting” for Ameren’s
496 Corporate Social Responsibility Report which can be observed at
497 <http://csr.ameren.com/>. This document is focused upon enhancing the Company’s
498 public image, by emphasizing that the Company strives to provide clean, reliable
499 energy, while channeling innovation, caring for customers, building strong

³³ Ameren Exhibit 14.0, page 46, line 961.

³⁴ Ameren Exhibit 14.0, page 47, lines 974-976.

500 communities, encouraging safety, employing renewables, recycling and supporting
501 sustainability. My adjustment should probably be expanded to include more of the
502 costs beyond just the formatting that was done by Obata to prepare this image
503 enhancing report.

504 **Q. Mr. Kennedy states that the St. Louis Business Journal costs you have**
505 **disallowed “were incurred for the purpose of attending an important**
506 **educational conference” and “[b]y attending the event, employees acquire**
507 **instruction and skill enhancements that enable them to increase productivity**
508 **and delivery of safe, reliable service to customers.” Do you agree?**

509 A. No. In response to AG 7.10, the Company provided a “session schedule” for this
510 women’s conference where Ms. Maureen Borkowski, the President and CEO of
511 Ameren Transmission Company, was a panelist and speaker in a breakout session to
512 explain “How Great Leaders Lead”. Mr. Kennedy has made no connection between
513 these activity and expenses to any essential AIC business purpose in Illinois. I have
514 included a copy of the Company’s response to AG 7.10 within AG Exhibit 3.3.

515 Ameren Exhibit 14.5, page 7 at line 72 also appears to attribute this same
516 \$15,202 charge to Simantel, indicating it is for “8th Annual St. Louis Business
517 Journal Women’s Conference sponsorship.” If this is true, Ameren “sponsorship”
518 of this event implies costs were incurred that exceed what would be required to
519 merely attend an educational event, as referenced by Mr. Kennedy.

520 **Q. With regard to the largest and final Simantel portion of your Public Relations**
521 **Expense disallowance, Mr. Kennedy states, “I reviewed the underlying invoices**
522 **for the expenses Mr. Brosch seeks to disallow as ‘Other AG-Proposed Public**

523 **Relations Expense Disallowances’ and oversaw the preparation of Ameren**
524 **Exhibit 14.5, which summarizes their details.”³⁵ In your opinion, does Mr.**
525 **Kennedy’s summary of Simantel charges in this Exhibit support a conclusion**
526 **that all these charges are essential and non-discretionary as suggested by Mr.**
527 **Kennedy?**

528 A. No. Some of the Simantel “Job Description” and “Work Requirement” tasks listed
529 are probably more needed than others. However, without providing specimen
530 copies of the specific work products that were actually produced by Simantel for
531 each line item of summarized charges, it is difficult to understand precisely what
532 was done from the brief descriptions in Ameren Exhibit 14.5. Several of the
533 descriptions employed by Mr. Kennedy in his Exhibit 14.5 actually support my
534 conclusion that a significant portion of the incurred costs were to enhance the image
535 and public reputation of Ameren, rather than meet any specific business need. For
536 example, the descriptions of Simantel work include:

- 537 • Develop Point of View reports and power point slides to provide Ameren's
538 opinion on future trends of key industry related issues: coal use, customer
539 changes, pricing and renewables.
- 540 • Develop volunteer materials for Ameren’s Community Connections Days.
- 541 • Develop internal training messages around corporate positioning.
- 542 • Develop on-line reputation management plan.
- 543 • Ongoing strategy work for the Focused Energy for Life campaign.

³⁵ Ameren Exhibit 14.0, page 48, line 1002.

- 544 • Develop web version of sustainability report.
- 545 • Develop graphics for Twitter accounts.
- 546 • Develop Ameren Corporate Holiday Card.
- 547 • Create design for Ameren Volunteer shirt.
- 548 • President’s Performance Leadership Award Logo Design.
- 549 • Develop a photo library to use in internal education messages.

550 **Q. Was additional information regarding Simantel charges to Public Relations**
551 **Expense provided by AIC in response to AG data requests after you finalized**
552 **your Direct Testimony in this docket?**

553 A. Yes. On August 14, the Company provided its Supplemental Response to AG 5.09
554 that contained certain illustrative examples of deliverable work product produced
555 by Simantel within 16 attachments. In this response, the Company stated, “This is
556 not intended to be reflective of the extent of the number and type of deliverable
557 work products” and, “[t]o the extent the Attorney General wants to conduct further
558 reasonable inquiry concerning the deliverable work product, please reference the
559 pertinent invoiced cost or service.”³⁶

560 A review of these materials provided in this response as attachments
561 supports the conclusion reached in my Direct Testimony that Simantel’s work and
562 charges to Ameren represent a blend of reasonably needed administrative and

³⁶ Ameren’s Supplemental Response to AG 5.09 was provided on August 14, more than 8 weeks after the initial request was submitted by the Attorney General. Given the limited review time available in this docket and the apparent difficulty faced by Ameren in timely provision of representative work products for Simantel, no specific follow-up analysis of Simantel invoice work or charges was attempted by the AG.

563 advertising support, along with a number of activities and costs that are entirely
564 discretionary and not needed to provide safe and adequate utility services in Illinois.

565 **Q. Do you propose any revision to your proposed 50 percent disallowance of**
566 **Simantel charges that were captioned as a “provisional disallowance” within**
567 **AG Exhibit 1.3 at lines 14-20 of page 3?**

568 A. No. There is clearly a diverse mix of activities and costs embedded within the
569 descriptive listing of Simantel Public Relations charges that Mr. Kennedy
570 summarizes in Ameren Exhibit 14.3. I believe that the 50 percent disallowance
571 represents a reasonable apportionment of such costs between shareholders and
572 ratepayers, given the information that is available regarding such activities and
573 costs.

574

575 **VI. CONSTRUCTION WORK IN PROGRESS**

576

577 **Q. How did Mr. Stafford respond to your proposed adjustment to recognize the**
578 **portion of Construction Work in Progress (“CWIP”) project costs that are**
579 **funded by accounts payables to vendors?**

580 A. Mr. Stafford states:

581 “Mr. Brosch is also incorrect for the same reasons as discussed above in
582 response to Mr. Ostrander. Within the formula ratemaking protocols, the
583 Company will have paid vendors the outstanding amounts owed on the
584 accounts payable balances owed well in advance of collecting from
585 ratepayers under formula rates. The time lag for cash collections under the
586 formula rate supports full recovery of the CWIP balances, including the
587 accounts payable portion.”³⁷
588

³⁷ Ameren Exhibit 9.0, page 50, lines 1108-1112.

589 **Q. Is this assertion a basis for ignoring accounts payable associated with the**
590 **CWIP allowed in rate base?**

591 A. No. At any given point in time, the Company's recorded CWIP balance is likely to
592 have some related accounts payable outstanding. The fact that accounts payable for
593 the specific projects in AIC's December 31 rate base have since been paid by the
594 Company does not change the fact that utility vendors routinely provide funding for
595 construction activities when they accept delayed payments for the goods and
596 services they provide.

597

598

599 **VII. CONCLUSION AND RECOMMENDATION**

600

601 **Q. What is your recommendation regarding the revenue requirement to be**
602 **determined for Ameren in this Docket?**

603 A. I recommend that AIC's delivery service revenue requirement be adjusted to reflect
604 the recommended changes described in my testimony and in AG Exhibit 1.3. The
605 approved revenue requirement amount should be further modified for any
606 Commission-approved ratemaking adjustments proposed by the Staff and other
607 parties, that are not addressed in my or Mr. Effron's Direct Testimony.

608

609 **Q. Does this conclude your testimony at this time?**

610 A. Yes.