STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	)	
d/b/a Ameren Illinois,	)	
Petitioner	)	**Docket No. 13-0301**
	)	
Rate MAP-P Modernization Action Plan -	)	
Pricing Annual Update Filing	)	

POSITION STATEMENT AND SUGGESTED CONCLUSIONS OF LAW OF AMEREN ILLINOIS COMPANY

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I. INTRODUCTION

A. Overview

This is Ameren Illinois Company's (AIC) first full reconciliation under the Energy Infrastructure and Modernization Act (EIMA) 220 ILCS 5/16-108.5, *et seq.* AIC explains that, under the EIMA, an electric utility that commits to undertake the extensive infrastructure investment program outlined in the statute may elect to recover its delivery services costs through a performance based formula rate. The performance based formula rate tariff for AIC, Rate Modernization Action Plan - Pricing (MAP-P), provides for recovery of a utility's actual, prudently incurred and reasonable delivery services costs, reflects the utility's actual year-end capital structure for the applicable year (excluding goodwill) and includes a cost of equity. To the extent the formula rate under- or over-recovers the cost of service, there is a reconciliation process to provide the utility or its customers "what the revenue requirement would have been had the actual cost information for the applicable calendar year been available at the filing date." 220 ILCS 5/16-108.5(c)(6). That reconciliation process is taking place in this case.

AIC argues that the requirement that, "[t]he performance-based formula rate approved by the Commission shall . . . Reflect [AIC's] *actual* year-end capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law" is of particular importance in this case. 220 ILCS 5/16-108.5(c)(2) (emphasis added). AIC says that the reason this particular requirement is important is that AIC's actual capital structure supports its investment activity. The EIMA requires AIC to invest over $600 million in upgrading its electric distribution system, facilities, and smart grid technology over a ten-year period. 220 ILCS 5/16-108.5(b)(2)(B). AIC represents that the Commission has approved AIC's plan to implement the lion's share of that investment. *See Ameren Ill. Co.*, Docket 12-0244, Order on Reh'g. (Dec. 5, 2012). As a result, AIC's capital investment over the next five years is expected to nearly double that of the last five. AIC represents that because its capital requirements are increasing significantly, consistent and reliable access to external capital is essential. AIC argues that its ability to maintain access to secure funding for this investment at a reasonable cost is dependent on the strength of its credit quality. AIC submits that the composition of AIC's capital structure, in particular its balance of common equity, is a significant factor in determining that credit quality.

AIC points out that section 16-108.5(c)(2) requires the use of AIC's actual capital structure for this determination, subject to a determination of prudence and reasonableness. In other words, AIC says the presumption in the law is that the Commission should annually reset AIC's formula rate using AIC's actual capital structure, unless the evidence demonstrates that actual structure is imprudent or unreasonable. AIC argues that the substantial weight of the evidence in the record in this case demonstrates AIC's actual 2012 capital structure is reasonable and prudent.

AIC says that it has specifically managed the 54.33% common-equity ratio to maintain the strong financial ratios evaluated by the credit rating agencies when they assess creditworthiness. AIC argues that actual common-equity balance supports AIC's current investment grade ratings. Accordingly, AIC states that it has reflected its actual capital structure in this case without any adjustment to reduce the balance of common equity.

AIC notes that Staff and IIEC, however, would have the Commission impute some other capital structure. AIC argues that their proposals are arbitrary and unsupported, and they do not demonstrate that AIC has managed its capital structure imprudently or unreasonably. As AIC explains in detail below, there is no basis in the record to impute a different capital structure and no basis to otherwise make a finding of imprudence or unreasonableness that would support something other than AIC's actual capital structure. AIC argues that to adopt Staff or IIEC's proposals, however, could cause adverse effect on AIC's credit quality. To support the investment mandated by EIMA, AIC contends that the Commission must approve AIC's actual capital structure.

B. Nature of AIC's Operations

AIC is a combination gas and electric public utility whose service area is located in central and southern Illinois and consists of the former service territories of its three predecessor companies: AmerenCILCO, AmerenCIPS, and AmerenIP. AIC was formed on October 1, 2010, when AmerenCILCO and AmerenIP were merged into AmerenCIPS. Concurrent with the merger, the newly-formed company changed its name to Ameren Illinois Company and began doing business as Ameren Illinois. AIC provides electric delivery service to approximately 1.2 million customers.

C. Legal Standard

The annual update of cost inputs and reconciliation for Rate MAP-P is governed by Section 220 ILCS 5/16-108.5(d) of the Act.

II. RATE BASE

A. Resolved Issues

1. Construction Work in Progress (CWIP)

a. Accounts Payable

AIC says that Staff witness Mr. Ostrander and AG witness Mr. Brosch proposed similar adjustments to Construction Work in Progress (CWIP). AIC notes that both Staff and the AG recommended reducing CWIP by the amount of outstanding accounts payable at the end of 2012, arguing that these amounts represent financing provided by vendors rather than shareholders. Although AIC responded in rebuttal testimony that the adjustment was unnecessary because AIC will pay vendors the outstanding amounts well in advance of collecting funds from ratepayers, AIC represents that it accepted the adjustment in order to narrow the issues in the case. As such, this adjustment is not contested.

b. Duplicate Projects

AIC says that Mr. Ostrander also proposed an adjustment to reduce the 2012 year-end amount of CWIP by the projects that are also included in projected plant additions. AIC accepted this adjustment. Thus, all issues related to CWIP have been resolved. Therefore, the Commission finds that the CWIP amount is reasonable, and is hereby accepted.

B. Contested Issues

1. Cash Working Capital

a. Pass Through Taxes

i. AIC Position

AIC proposes that the expense leads for Energy Assistance Charges (EAC) and Municipal Utility Taxes (MUT) be set at 4 days and 14 days, respectively. AIC says that its proposed expense leads are based on the results of a lead-lag study AIC conducted as part of Docket 12-0001, and updated to reflect the revenue and expenses for the calendar year at issue in this proceeding. AIC notes that its proposed expense leads reflect the amount of time AIC *actually* had access to the EAC and MUT funds in 2012. AIC argues that because one purpose of this proceeding is to perform a reconciliation based on the "actual cost information" for 2012, it is appropriate for it to utilize the expense leads for pass-through taxes that reflect its actual information.

AIC explains that, as a general matter, the lead-lag study measures the timing differences between (*a*) when AIC incurs an expense in order to provide goods or services, (*b*) when AIC receives cash from its customers, and (*c*) when AIC makes cash payments in satisfaction of its obligations. AIC notes that the purpose of a lead-lag study is to determine the amount of cash AIC has on hand at any given point to conduct its business. A lead-lag study is based on determinations of "revenue lag" and "expense leads." The term "revenue lag" refers to periods of time between when AIC incurs a cash outlay for provision of service, and when it receives payments for that service from customers. Conversely, the term "expense lead" refers to the period of time between when AIC receives cash from its customers, and when it uses that cash to make payments in satisfaction of its obligations.

With respect to the EAC and MUT (collectively, "pass-through taxes"), AIC points out that the lead-lag study set the revenue lag days at zero, since AIC does not provide services and so incur cash outlays associated specifically with the pass-through taxes.[1] To calculate the expense lead days applicable to pass-through taxes, AIC says that the lead-lag study assumed that AIC collects payments from customers, on average, on the 15th of each month. AIC represents that the lead-lag study reflected that AIC remits the EAC to the appropriate authority on the 20th of each month following billing, and the MUT to the appropriate authority on the 30th of each month after billing. Thus, AIC concludes, the lead-lag study determined that the lead days—the number of days AIC *actually* had access to the funds—associated with the pass-through taxes was 4 days and 14 days, respectively.

[1] AIC notes that the Commission found that a zero day revenue lag was appropriate in Dockets 12-0001 and 12-0293. *Ameren Ill. Co.*, Docket 12-0001, Order, p. 14 (Sept. 19, 2012); *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38 (Dec. 5, 2012).

AIC indicates that in this proceeding, Staff and the AG recommend expense lead days and recommend expense leads of 38.54 days for the EAC and 48.54 days for the MUT. AIC notes that their adjusted expense leads are not based on actual practice, however, but are simply "ratemaking" adjustments. Moreover, AIC asserts that both Staff witness Mr. Ostrander and AG witness Mr. Brosch rely entirely on previous Commission decisions to support their positions. AIC represents that Mr. Ostrander admitted that his conclusion regarding the 38-day expense lead for the pass-through taxes is based solely on the Commission decisions in Dockets 12-0001 and 12-0293. Similarly, AIC remarks, Mr. Brosch admitted that no analysis was required for his EAC and MUT lead day values, and claimed that there was no need to conduct any new analysis to support the lead day values because they have already been reviewed and approved by the Commission.

AIC argues that the parties' reliance on past Commission decisions is misplaced. AIC contends that AG, Staff and CUB fail to distinguish revenue lag from expense lead, and that this failure causes the parties to mischaracterize the Commission's findings in Dockets 12-0001 and 12-0293. AIC submits that the prior cases, Dockets 12-0001 and 12-0293, did address the question of pass-through taxes, but the Commission's findings in those cases were limited to the issue of the appropriate revenue lag for the taxes. *Ameren Ill. Co*., Docket 12-0001, Order, p. 14; *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38. AIC contends that the Commission did not, however, make any express finding on the *expense lead* in those cases, which it claims is the issue here. AIC continues that in Docket 12-0001 specifically, Staff, AG, and IIEC recommended that the revenue lag associated with pass-through taxes be set at zero since the taxes are payable only after revenues are collected from customers. *Ameren Ill. Co*., Docket 12-0001, Order, p. 14. AIC notes that the Commission concluded, "the appropriate *revenue lag* days for this issue should be zero." *Id.* (emphasis added). AIC goes on that likewise in Docket 12-0293, the parties again argued that the lag days for pass-through taxes should be set at zero. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38. AIC says that once again the Commission determined to "adopt the use of zero *lag days* for pass-through taxes." *Id.* (emphasis added). Thus, AIC explains that the Commission's conclusions in Dockets 12-0001 and 12-0293 were limited to the issue of the appropriate revenue lag, and did not consider the propriety of the *expense lead days* for pass-through taxes. AIC notes that parties in those cases advanced the argument that the additional 30 days that AIC could theoretically hold the funds associated with pass-through taxes should be imputed for cash working capital purposes, but that the Commission's conclusions did not adopt this rationale.

Instead, AIC argues, in Docket 11-0282, the Commission was presented with the issue of the appropriate expense lead for pass-through taxes, or, in the words of the Commission, "whether the additional month AIC could hold the funds should be imputed for CWC purposes." *Ameren Ill. Co.*, Docket 11-0282, Order, p. 14 (Jan. 10, 2012). In that case, AIC maintains, the Commission concluded that the adjustment to impute the additional month was unwarranted.

AIC argues that its cash working capital calculation properly accounts for the Commission's decisions in Dockets 12-0001 and 12-0293, which were based on the fact that AIC does not incur a cash outlay for pass-through taxes until after it receives the funds to cover the expense, because its proposal in this case reflects a zero-day revenue lag. AIC continues that its proposal also importantly reflects the appropriate expense leads—those that account for the actual number of days the funds associated with pass-through taxes are held by AIC. In other words, AIC explains, its proposed lead days in this case represent AIC's lead day proposals from Dockets 12-0001 and 12-0293, after subtracting the 30-day revenue lag in accordance with the Commission's determination that the "revenue lag days for this issue should be zero." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 38. AIC contends that the proposals advanced by Staff, the AG and CUB in this case, however, tack an *additional* 30 days onto the lead time for pass-through taxes, representing the additional 30 days AIC theoretically could hold the funds used to pay the taxes.

AIC notes that no party disputes that it remits the pass-through taxes to the appropriate authorities in 4 days and 14 days after receiving the funds from its customers. AIC points out that Staff and the AG instead argue that AIC theoretically could remit the funds up to 30 days later than its current practice. AIC continues that neither Staff nor the AG, however, seeks to require AIC to change its current remittance practices, and neither party claims AIC's remittance practices are improper. AIC argues, therefore, that it recommendation is the only one offered in this case that reflects the actual impact of the pass-through taxes on AIC's cash working capital. AIC says that for this reason it should be adopted.

AIC continues that it is not the only entity that will be impacted by the Commission's determination of this issue—AIC contends that adoption of the lead days recommended by Staff and the AG for the pass-through taxes would likely cause AIC to change its remittance practices to comport with the imputed expense lead days. AIC explained that it will need to consult with the taxing authorities to determine if and how any change in the remittance schedule could be implemented. AIC says that it would additionally be required to make systems-related changes prior to implementing any modifications in the remittance schedule, and such changes could require substantial time and expense. For example, AIC says that it reports and pays the EAC based upon billings, as opposed to collections, so it would be necessary to change the systems used to determine how the amount of tax due is calculated. AIC represents that requiring such changes imposes costs on it. AIC argues that the better course is for the Commission to not require AIC to bear those costs, but instead to reflect AIC's actual practice for pass-through taxes and the actual time that it has access to the funds at issue.

AIC argues, alternatively, that if the Commission determines to adopt the adjusted, imputed pass-through tax lead days, the Commission should also clearly articulate in its final order in this proceeding that all reasonable and prudently-incurred incremental costs associated with the modification of the current remittance practices should be included in and recovered by the rates established in its next electric formula rate proceeding. AIC notes that no party has disputed the fact that changes to AIC's remittance schedule will require time and expense. Nor, AIC points out, has any party disputed that if AIC is required by the Commission to alter its cash working capital calculation, the reasonable and prudently-incurred expense associated with that alteration and the consequent changes in AIC's remittance practices will be properly recoverable in the rates established in AIC's next electric formula rate proceeding.

ii. Commission Conclusion

The Commission notes that the parties agree that AIC actually holds funds associated with the EAC for four days, and the funds associated with the MUT for 14 days. The Commission understands the AG, CUB and Staff to argue that the deadline for remittance of these funds to the appropriate taxing authorities is approximately 30 days after AIC actually remits the funds. Thus, the sole issue presented to the Commission is whether the additional 30 days that AIC theoretically could hold the funds associated with the pass-through taxes should be imputed for purposes of the cash working capital calculation. The Commission finds that these additional days should not be imputed.

The Commission concurs with AIC's analysis of Dockets 11-0282, 12-0001 and 12-0293. The Commission notes that its conclusions in Dockets 12-0001 and 12-0293 did not specifically consider the propriety of expense lead days for pass-through taxes, but were based on a finding that the revenue lag days applicable to pass-through taxes should be set at zero. In Docket 11-0282, however, when presented with the question at issue in this proceeding, the Commission declined to impute an additional 30 days into AIC's expense lead times for pass-through taxes. In that case, the Commission determined that it would revisit the issue only if AIC altered its remittance schedule. The record evidence in this proceeding demonstrates that AIC has not altered its schedule.

AIC's proposal in this proceeding not only complies with the Commission's findings in each of the prior cases dealing with this issue, it is also the only proposal offered in this case that reflects the actual impact of the pass-through taxes on AIC's cash working capital. No party has requested that AIC alter its pass-through tax remittance practices, and no party has argued or produced any evidence to indicate that AIC's current practices are improper from the perspective of taxing authorities. To the contrary, the record evidence demonstrates that AIC submits the taxes in a timely manner and in the proper amounts.

The Commission adopts AIC's proposed lead days for pass-through taxes because this proposal reflects the actual cash working capital available to AIC.

b. Income Tax Expense Lead Days

i. AIC Position

AIC says that it has a long-standing practice of employing statutory tax rates and payment dates when calculating its income tax expense for revenue requirement purposes. As a result, and consistent with that practice, AIC represents that it calculated its cash working capital associated with income tax expense using the statutory tax rates and payment dates, and combined income taxes with deferred taxes. AIC asserts that this calculation method maintains consistent treatment of income tax expense for ratemaking purposes, is supported by Staff, and is consistent with the Commission's long-standing practice. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 45-46 ("The Commission agrees that it has a long-standing practice of not considering current and deferred income taxes separately."); *Ameren Ill. Co.*, Docket 12-0001, Order, p. 29; *see also* ICC Staff Ex. 7.0, p. 9 (noting that the same method was applied by AIC and approved by the Commission in Docket Nos. 11-0282, 09-0306 *et al.* (cons.), and 07-0585 *et al*. (cons.)).

AIC points out that, despite this established practice, AG witness Mr. Brosch recommends that the revenue lead and expense lag days for income taxes be set to zero in AIC's cash working capital analysis. AIC notes that Mr. Brosch contends his proposal recognizes that AIC is not currently paying income taxes, as a result of deferrals. Mr. Brosch also argues that his proposal is appropriate because it would conform AIC's treatment of income taxes for cash working capital purposes to the treatment used by Commonwealth Edison.

AIC says that the AG proffered the same arguments in AIC's most recent electric formula rate proceeding, without success. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 44-46. AIC represents that in that case, the Commission "recognize[d] that a different result was adopted in the ComEd docket, Docket 11-0271; however, the Commission recognized in its Docket No. 12-0001 Order that ComEd and AIC calculate income taxes using different methodologies." *Id.* AIC notes that the Commission concluded that, "should those methodologies align in the future, or new evidence be presented, [it would] re-visit the issue in future proceedings." *Id.* AIC points out that although Mr. Brosch cited this language in his direct testimony, he admitted that ComEd and AIC continue to use different methods to calculate income tax expense for cash working capital purposes, and failed to present any new evidence on the subject whatsoever. AIC argues that the Commission should reject the AG's proposal on its merits because it is contrary to the Commission's clear and long-standing directive on this issue.

ii. Commission Conclusion

The Commission finds that AIC, as supported by Staff, has proposed the appropriate method for determining the income tax lead and lag. The Commission agrees that it has a long-standing practice of not considering current and deferred income taxes separately. The Commission finds no evidence has been presented in this proceeding to cause it to vary from this treatment. The Commission recognizes, as it has explained in prior cases, that it has adopted a different treatment for Commonwealth Edison. However, ComEd and AIC calculate income taxes using different methodologies. The Commission reiterates that should those methodologies align in the future, or new evidence be presented, the Commission will re-visit this issue in future proceedings.

2. Accrued Vacation Reserve

a. AIC Position

AIC notes that Staff witness Mr. Ostrander and AG witness Mr. Effron have proposed an adjustment to deduct AIC's accrued vacation reserve net of ADIT from the rate base.[2] AIC opposes this adjustment and argues that it is based on the

[2] AIC points out that these parties calculated the amount of the adjustments differently. AIC says that the AG's proposed adjustment of $6,782,000 was calculated using 2012 *average balance of accrued vacation.* AIC continues, Staff, on the other hand, proposed a $7,053,000 adjustment using the 2012 *year-end balance of accrued vacation reserve*. AIC asserts that, though it disputes the adjustment, it would be more appropriate to use the year-end figure because accrued vacation reserve is a component

fundamentally flawed conclusion that this amount represents a continuous source of ratepayer-supplied funds, which, AIC contends, it does not.

AIC asserts that the amount at issue represents an accounting convention used to record the amount of employee vacation time earned by employees, but not yet taken. AIC says that each year, employees earn vacation time, and like other accrued expenses, this time is recorded when earned. AIC submits that this may be where the confusion originates because generally, accruals may be a "source of ratepayer supplied funds." AIC continues, this general rule follows from the fact that such expenses are recovered from ratepayers the year they are incurred and *before* they are actually paid, and thus these expenses represent a cash reserve that could be used to fund rate base investment. For example, accumulated depreciation is properly deductible from rate base, because this expense allows AIC to collect money from ratepayers *before* it pays for the future replacement of machinery and equipment. AIC represents that the general rule does not apply here, however, because the ratepayer pays for the expense *after* the expense has been paid by AIC. According to AIC, the lag the parties should focus on is the lag in the time between AIC's accrual of the expense and ratepayer reimbursement. Citing Mr. Stafford's rebuttal testimony, AIC notes the delay in its recovery of vacation pay expense, explaining that vacation accruals were made in 2012, paid by the Company in 2013, and will not be reimbursed by ratepayers until 2014. AIC states that the AG and Staff failed to address this timing delay in reimbursement.

AIC contends that the accrued vacation reserve represents *time* owed to employees, not dollars owed. AIC argues that it is not a cash reserve that AIC can access to fund its operations. AIC continues that it is not a "source of funds," and therefore does not present a valid basis for a rate-base deduction.

AIC acknowledges that the Commission has, in prior dockets, concluded that the accrued vacation reserve should be deducted from rate base because of the (faulty) assumption that it, like certain operating reserves, is a constant source of ratepayer-supplied funds. *Commonwealth Edison Co.,* Docket 11-0721, Order, p. 70 (May 29, 2012); *Ameren Ill. Co.*, Docket 12-0001, Order, p. 59; *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 12-13. AIC points out that each of these orders is currently being appealed, and claims that none succeeds in addressing the fundamental difference between accrued vacation pay and other operating reserves.

First, AIC points out that in Docket 11-0721, the Commission changed course from prior Commission Orders and found that ComEd had failed to satisfy its burden of proving that accrued vacation pay was not a source of capital, while finding that Staff and certain intervenors had established that this item was a "source of revenue." *Commonwealth Edison Co.,* Docket 11-0721, Order, p. 70. AIC argues that Staff and the intervenors, however, did not establish this, but merely asserted it. AIC contends that they claimed that "vacation pay expense is accrued well in advance of when it is actually paid" (*Commonwealth Edison Co.,* Docket 11-0721, AG Ex. 4.0, p. 4:79-80 (filed Feb. 24, 2012)) and that "the lag between the accruals and the cash payments creates a constant non-investor source of funds which should be deducted from rate base similar to other operating reserves." (*Commonwealth Edison Co.*, Docket 11-0721,

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of rate base and under Public Act 98-0015 the rate base components are calculated with year-end values.

ICC Staff Ex. 16.0, p. 29:622-624 (filed Feb. 24, 2012).). AIC asserts that whatever the evidence might have shown in ComEd's case, the evidence in this case demonstrates that the ratepayer payments are received well *after* AIC pays the expense. AIC argues that Staff's failure to differentiate vacation expense accruals from other operating reserves led to its faulty conclusion in Docket 11-0721. AIC continues that the Order in that case did not recognize that this type of accrual is different than other types of operating reserves, or that this accounting entry is not "funds."

Second, AIC argues that when the issue was raised again in Docket 12-0001, the Commission summarily concluded that accrued vacation pay should be deducted from rate base because it had done so in the prior Docket, stating "there [was] no discernable difference between this proceeding and Docket No. 11-0721 that would properly result in disparate rate making treatment of the same item between the two dockets." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 59. Again, AIC says that its arguments were not addressed.

Finally, AIC says that in Docket 12-0293 the Commission concluded that vacation pay should be treated as an operating reserve and deducted from rate base. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 12-13. AIC argues that the Order again lacked any acknowledgment that this type of accrued expense is not "funds" or that AIC is not compensated for this expense item before it makes payment, but after. AIC posits that what the Commission seemed to find controlling was that the liability for accrued vacation is continuing and permanent. *Id.*, p. 13. AIC contends that in focusing on the mere existence of this balance, however, the AG, Staff and the Commission have lost sight of what that balance represents: time owed to employees, not dollars. AIC represents that this balance is not a cash reserve that AIC can access to fund its operations. It does not represent a source of working capital. AIC asserts that though employees continue to earn vacation time, AIC continually pays out this time, and that its payment is not recovered from ratepayers until well after it is made. For these reasons, AIC says that Staff and the AG's reliance on prior Commission Orders is misplaced.[3] None of the Orders acknowledged that this type of accrued expense is not "funds" or that AIC is not compensated for this expense item ahead of time. AIC submits that the Orders should be revisited in this case.

AIC asserts that the proposed adjustment would withhold funds from AIC for expenses it has already paid, not offset funds that AIC has already collected. AIC implores the Commission to revisit this issue and its incorrect underlying rationale. AIC contends that the conclusion that accrued vacation expense represents a source of ratepayer-supplied funds is simply not true.

b. Commission Conclusion

Staff and the AG's proposal to disallow accrued vacation expense from the rate base ignores the difference between certain operating reserves properly deducted from rate base and accrued vacation expenses. The Commission is persuaded by the fact

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[3] AIC notes that Staff cites *Commonwealth Edison Co.,* Docket 11-0721, Order, p. 70; in addition to *Ameren Ill. Co.*, Docket 12-0001, Order, p. 59; *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 12-13, which are cited by both Staff and the AG.

that these vacation reserves are not funds, which AIC could use as working capital, but are an accounting entry designed to record time owed to employees. And because AIC, and not ratepayers, pay for these vacation expenses before ratepayer reimbursement, it would be unwise ratemaking policy to withhold the funds from AIC's rate base.

Our prior rulings on this issue did not address these key facts that differentiate vacation accrual expense from other operating reserves. In Dockets, 11-0721, 12-0001, and 12-0293, the Commission focused on a continuing, permanent balance in the accrued vacation expense account. However, when examining the composition of that balance, we find that it is properly included in rate base because it is not a source of ratepayer supplied funds, which AIC can access to fund its operations. Therefore both the AG's and Staff's proposed disallowance of accrued vacation expense is rejected.

3. ADIT for Metro East Transfer

a. AIC Position

AIC points out that both Staff and the AG presented testimony recommending that the Commission reduce AIC's rate base by approximately $5.62 million. AIC says that the adjustment is premised on the 2005 transfer of Union Electric's gas assets to AmerenCIPS. AIC continues that in accounting for that transfer, AmerenCIPS recorded a deferred tax asset that reduced accumulated deferred income taxes (ADIT). AIC acknowledges that because ADIT reduces rate base, recording this asset had the effect—if considered in isolation—of temporarily increasing rate base. AIC recognizes that the AG and Staff argue the deferred asset should be reversed and rate base reduced because a transfer of property from one regulated utility to another should not result in any increase to the net rate base value of those assets. But AIC argues that the Metro East adjustment should be rejected for a number of reasons.

AIC begins by making clear what the basis for the adjustment is *not*: namely, that any error occurred either in AmerenCIPS's purchase of assets from Union Electric or in accounting for the transfer. AIC argues that not only has no party suggested that any such error occurred, but the Commission specifically approved both elements of the transfer. AIC notes that in 2000 and 2004, the Commission twice reviewed the transfer of the Metro East assets, first pertaining to the electric assets and then later to gas. *See Cent. Ill. Pub. Serv. Co*., Dockets 00-0650/00-0655 (Cons.), Order (Dec. 20, 2000); *Cent. Ill. Pub. Serv. Co*., Docket 03-0657, Order (Sept. 22, 2004). AIC points out that in both dockets, the Commission approved the transfer. AIC continues that the most recent Order, although it concerned the gas assets, reviewed accounting that was identical in principle to the transfer of electric assets. AIC says that in that Order, the Commission specifically found that the transfer was "in the public interest" and that "neither the ratepayers of AmerenUE nor of AmerenCIPS are likely to be adversely affected in the event the proposed asset transfer and reorganization takes place." *Cent. Ill. Pub. Serv. Co*., Docket 03-0657, Order, p. 17. AIC notes that the adjustment, in short, is not premised on any imprudence or erroneous accounting by AIC, as recently confirmed by the Commission. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 34.

AIC argues that Staff's and the AG's adjustment, instead, is purely *ad hoc*, premised solely on the notion that the normal operation of ADIT rules had a negative impact on ratepayers by increasing net rate base.

AIC contends, however, that the premise of this argument is not just incorrect, it is opposite reality. AIC represents that the uncontroverted record evidence shows that the ADIT impact of the transfer has not harmed ratepayers but *benefited* them.

AIC notes that Staff and the AG both point out that when Union Electric's assets were transferred to AmerenCIPS, the ADIT on the seller's books did not follow the assets to CIPS's books. AIC points out that neither Staff nor the AG question whether this was correct accounting, which, AIC argues, it was. AIC continues that because ADIT reduces rate base, however, they assert that the transfer effectively increased the value of the assets in CIPS's rate base. AIC acknowledges that this is actually correct, as far as it goes. AIC argues, however, that it does not go far enough.

AIC asserts that the higher rate base is temporary, and notes that Staff witness Mr. Ostrander agreed. AIC argues that the Metro East transfer did not end the accumulation of ADIT on the assets, but actually extended and increased it. AIC continues that following the transfer, the transferred assets were treated as though they were placed in service on the date of the transfer. AIC contends that as a result, although Union Electric's accrued ADIT did not follow the assets to AmerenCIPS, tax depreciation on the assets *started over*. AIC represents that this fact is undisputed: AIC notes that Staff witness Mr. Ostrander agreed that tax depreciation for CIPS started over on the transferred assets as if the assets were installed and placed in service on the date of the transaction.

AIC argues that this significant because tax depreciation is what generates tax-timing differences and hence ADIT. AIC concludes that while the ADIT generated at Union Electric did not come to CIPS, ADIT started accumulating all over again on AmerenCIPS's books following the transfer.

AIC claims that this is why Staff and the AG are incorrect to assert that there was a *net* increase in rate base as a result of the transfer. Mr. Ostrander specifically agreed that the rate-base increase was temporary because over time ADIT will accrue that will *offset the amount of the increase*.

AIC argues that the record shows that it is likely that the ADIT deduction for the transferred assets would be greater under AIC's proposed treatment, than if the transfer had not taken place. AIC represents that as a result, far from harming ratepayers, the ADIT impact of the transfer *benefited* them—it effectively restarted and extended the period of tax depreciation and thus reduced rate base by millions more dollars.

AIC argues that the sole premise of the adjustment does not exist: there has been no net increase in rate base. Citing Staff witness Mr. Ostrander, AIC concludes that although there was an increase in rate base immediately following the transfer, it was temporary. AIC contends that it is likely that the newly accrued ADIT on AIC's books now *exceeds* the vintage ADIT from Union Electric's books. AIC continues that whether the new ADIT has already overtaken the old is beside the point: AIC argues that it certainly will, and Illinois ratepayers will receive the full tax benefits from accelerated depreciation with corresponding ADIT recognized as a reduction to rate base.

AIC posits that perhaps this is partly why the Commission held that "neither the ratepayers of AmerenUE nor of AmerenCIPS are likely to be adversely affected in the event the proposed asset transfer and reorganization takes place." *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17. AIC argues that the transfer essentially restarted the accrual of ADIT and gave ratepayers an extension on its rate-base reducing effect.

AIC concludes that the sole premise of the adjustment is false: ratepayers will not pay more for the assets as a result of the transfer; they will pay (and likely are paying) less.

AIC continues that ratepayer benefit is not the only reason the proposed adjustment should be rejected, however. AIC argues that even if there was not a ratepayer benefit, forcing AIC to recognize Union Electric's ADIT as well as AmerenCIPS's would double-count ADIT.

AIC contends that the ADIT that makes up the proposed adjustment arises from the same assets that are currently generating ADIT on AIC's books. Citing Mr. Stafford, AIC explained that under the Staff and AG proposals tax depreciation is counted in the ADIT balance on Union Electric's books at the time of the transfer and then counted again as ADIT accrues going forward on AmerenCIPS's books. In other words, AIC argues that ADIT accrued at the time of the transfer would be deducted from rate base. Then, ADIT accrual would start over after the transfer, and that ADIT would also be deducted from rate base.

AIC notes that neither Staff nor CUB refuted, or even addressed, the double-counting problem inherent in their position. While the AG acknowledged that the ADIT might be double-counted, AIC points out that the AG's only response to this problem was that "money has a time value . . . and Illinois ratepayers should receive that benefit sooner rather than later." AIC contends that this response is conclusory and entirely lacking in authoritative support. AIC notes that the AG provided no citation to authority for its position, despite its burden to support its own arguments. AIC continues that the question of whether an adjustment would put more money in customers' pockets is not an appropriate regulatory accounting concern, since such an approach would require adoption of every adjustment. Instead, AIC argues that the inquiry must focus on whether the accounting treatment was proper, and AIC notes that no party has suggested that the accounting was improper.

AIC concludes that double-counting is inappropriate in ratemaking, and this provides another reason to reject the adjustment proposed by Staff and the AG.

In AIC's view, it is questionable whether an appropriately accounted-for transfer should ever provide the basis for a rate penalty, particularly when the Commission: (*a*) specifically approved the transfer itself; (*b*) specifically approved the accounting for the transfer; and (*c*) specifically held that ratepayers were *not* harmed by the transfer. *Cent. Ill. Pub. Serv. Co.*, Docket 00-0650/00-0655, Order, p. 16; *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17. AIC argues that in the proceeding approving the transfer, Staff proposed a correction to the accounting for deferred taxes, so the Commission was well aware of the deferred tax issue when they determined that ratepayers would not be harmed. *Id*. AIC concludes that a substantially identical adjustment has already been proposed and rejected not once, but twice, in AIC's electric formula-rate cases. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 33-34; *Ameren Ill. Co.*, Docket 12-0001, Order, p. 69.

AIC also recognizes that the AG argued, as another basis for its proposed adjustment, that it would "restore a portion of [the vintage ADIT] benefit to Illinois ratepayers." AIC contends that an adjustment based upon this rationale would violate the prohibition against retroactive ratemaking described in *Citizens Utilities Co. v. Ill.*

Comm. Comm'n.. 124 Ill. 2d 195, 207 (1988). AIC argues that, just as in *Citizens*, the adjustment proposed here is designed to correct what the AG now perceives to be an error in a past order. AIC asserts that the purpose of this proceeding is not to fix prior rates or calculate rate base to effectively provide a refund to customers—*Citizens Utilities* makes clear that this is not a proper basis for current ratemaking.

Finally, AIC argues that none of the dispositive facts presented in the record have been questioned, much less refuted, by the parties proposing an adjustment related to the ADIT on Metro East transferred assets. AIC points to the following as uncontested, dispositive facts: (i) that any increase in rate base associated with the Metro East asset transfer is temporary; (ii) that tax depreciation for CIPS started over again on the transferred assets as if they were installed and placed in service on the date of the transaction; (iii) that the ADIT deduction for the transferred assets would be greater under AIC's proposed treatment than if the transfer had not taken place; (iv) that without the adjustment, Illinois ratepayers will receive the full tax benefits associated with ADIT recognized as a reduction to rate base; (v) that adoption of the proposed adjustment would result in double-counting of ADIT; and (vi) that double-counting is not appropriate ratemaking.

b. Commission Conclusion

The Commission finds no adjustment is necessary or appropriate. As previously determined by the Commission, AIC has properly accounted for the transferred assets. The Commission has approved the transfer itself, as well as the accounting for the transfer, and has specifically held that ratepayers were not harmed by the transfer. *Cent. Ill. Pub. Serv. Co.*, Docket 00-0650/00-0655, Order, p. 16; *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17. In addition, the Commission has considered arguments in favor of substantially identical adjustments in previous cases, and has rejected them in each instance. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 33-34; *Ameren Ill. Co.*, Docket 12-0001, Order, p. 69. The Commission notes that there is no dispute among the parties that the depreciation on the transferred assets started over after the transfer, as though the assets were installed and placed in service on the date of the transfer. The record evidence demonstrates that the re-started and extended period of tax depreciation reduces rate base. Thus, contrary to the assertions of AG, Staff and CUB, ratepayers will receive the full tax benefits from accelerate. Therefore, the Commission rejects the parties' proposals to impose an adjustment to remove the ADIT on the assets transferred to AIC from Metro East from rate base.

4. OPEB Contra Liability

a. AIC Position

AIC states that it has reflected in rate base an Other Post-Employment Benefits[4] (OPEB) Contra-Liability amount of $1.4 million, representing the balance in AIC's OPEB

[4] AIC notes that the primary benefit provided under the Trust is post-employment retirement medical benefits to employees.

liability account at year-end 2012. AIC says that this amount represents (*a*) the year-end 2011 OPEB liability, plus (*b*) the OPEB accruals for 2012 of $7.9 million (Sch. C-11.3a), less (*c*) the actual payments in 2012 into the OPEB Trust of $19.7 million (Sch. B-2.12). AIC points out that the approved formula rate schedules have a specific line item (Line 34) on Sch. FR B-1 for inclusion of the OPEB liability balance in Rate Base, even if the year-end 2012 liability balance is negative, or "contra." AIC argues that because the OPEB Contra Liability represents amounts funded into the OPEB Trust in excess of amounts recovered from customers as operating expenses in rates, inclusion in rate base is appropriate.

AIC represents that it uses accrual-based accounting for its OPEB expense, and that this accrual-based expense amount is used to set the level of the OPEB operating expense recovered in rates. AIC notes that payments into the OPEB Trust fund, however, may not be the same as the accrual amount. AIC says that the balance in the OPEB liability account represents any difference between the accruals and the payments: the difference between amounts accrued for OPEB expense, net of payments made into the Trust, is recorded as a liability if accruals exceed payments, or as a contra balance in the liability account if payments into the Trust exceed accruals. AIC notes that for 2012, the difference in actuarially-determined Medicare Part D payments and reimbursements has resulted in payments into the Trust in excess of accruals. AIC says that this results in a contra liability amount, which increases rate base.

AIC points out that Staff proposes to remove the OPEB Contra Liability amount from rate base. AIC states that Staff's position is based on its assertions that: (*i*) the OPEB Contra Liability is funded by ratepayers, not shareholders, because the monies to make the payments come from utility revenues irrespective of whether payments into the Trust exceed the accrual expense; and (*ii*) a series of Peoples/North Shore Orders establish a Commission practice that shareholders should not earn a return on ratepayer-supplied funds. AIC says that Staff's position, in short, is that AIC should earn no return on the amount by which payments exceed accrual expense.

AIC notes that this issue is one of first impression for the Commission under formula rates. AIC represents that the crux of the dispute is whether the funds paid into the OPEB Trust in excess of the accrual expense amount are funds provided by ratepayers. AIC says that Staff claims that ratepayers have supplied the difference in funds both when payments into the OPEB trust are *less* than the accrual amount in rates *and* when payments into the OPEB trust are *more* than the accrual amount in rates. AIC argues that this is a logical contradiction and should be rejected.

AIC represents that it is not disputed that, where payments into the OPEB Trust in a given year have been less than the accrual expense amount on which rates are set, the Commission has found a deduction of the difference from rate base appropriate. In other words, where AIC has been paying amounts into the Trust that are less than the amount being recovered through rates, that difference represents ratepayer supplied funds and is deducted from rate base. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 18; *Central Ill. Light Co., et al.*, Docket 09-0306 (Cons.), Order, p. 90 (April 29, 2010).

AIC argues that the situation in this case is the opposite: AIC has, in 2012, funded more into the OPEB Trust than was recovered in rates. Thus, AIC says that its *actual experience* in 2012 was that it made payments in excess of the accrual amounts and produced the contra-liability. AIC says that Staff, nevertheless, claims that ratepayers supplied the difference between the payments and the accrual amount, despite the fact that the rates those ratepayers paid included only the accrual amount. AIC argues that Staff, however, does not explain how the ratepayers supply more funds than the amount included in rates, other than to assert, without explanation, that the underlying source of monies paid to the OPEB Trust Fund is utility revenues collected from ratepayers. AIC argues that there is no segregated account for contributions into the OPEB Trust, however. AIC contends that the OPEB contra-liability balance is based on funding into the Trust that exceeds operating expenses. AIC continues that since rates are designed to recover operating expenses, a source other than operating revenues is required to fund the remainder.

AIC argues that, in essence, the OPEB contra-liability represents timing differences, a fact it claims that Staff acknowledges. AIC asserts that, in this case, AIC has funded more into the OPEB Trust than the accrual expense amount reflected in rates. AIC contends that by including this difference as an OPEB contra-liability and reflecting it in rate base, AIC earns a return on this amount and is compensated for the timing difference. In other words, inclusion of the OPEB contra-liability compensates AIC for the time value of the additional funding dollars it spent in 2012. AIC goes on to note that in years where the payments into the OPEB Trust are less than the accrual expense amount, resulting in a positive OPEB Liability balance, ratepayers would be compensated for the time value of their money by deducting the amount from rate base. AIC argues that when payment amounts are greater than the accrual amount, resulting in a negative, or contra, OPEB Liability balance, on the other hand, symmetry requires that AIC include the additional amount in rate base. AIC continues that this treatment is also appropriate because it allows AIC to recover its actual costs of delivery services, as required under the EIMA. 220 ILCS 16-108.5(c)(1).

AIC contends that the Peoples/North Shore cases cited by Staff in testimony are inapposite. AIC submits that those cases address the treatment of pension assets, not OPEB contra-liabilities, for a gas utility, not an electric utility, under traditional ratemaking, not the formula rate law.

AIC argues that Staff, however, believes that treatment of a pension asset and the OPEB contra-liability are "similar issues." AIC contends that if that is the case, then Staff's position that *no return* is warranted on the OPEB contra-liability is not supported. AIC notes that electric utilities have received a return on pension assets in the past. *See, e.g., Commonwealth Edison Co.*, Docket 10-0467, Order, pp. 50-51 (May 24, 2011) (authorizing recovery of return costs of pension funding to extent of ratepayer benefit); *Commonwealth Edison Co.*, Docket 05-0597, Order on Reh'g, p. 28 (Dec. 20, 2006) (authorizing debt return on pension asset); *Central Ill. Light Co.,* Docket 94-0040, 1994 PUC Lexis 577, Order at *10 (Dec. 12, 1994) (allowing pension asset in rate base). AIC continues that the legislature has authorized a debt return for pension assets under the formula rate law governing this proceeding. 220 ILCS 5/16-108.5(c)(4)(D). AIC points out that the legislature presumably was aware of both cases cited by Staff as well as those cited above when it adopted the pension asset return provision, and determined that pension assets should receive some return. Thus, AIC concludes, any similarity between the OPEB contra-liability and a pension asset supports the conclusion that the OPEB contra-liability should also earn some return. As

Staff proposes no return at all, AIC says that only its inclusion of the OPEB contra-liability in rate base allows the contra-liability to earn a return.

Finally, AIC argues that policy considerations demand encouraging appropriate OPEB funding. That is, the Commission should encourage OPEB contributions, not penalize utilities and their shareholders for making them and so discourage utilities from complying with their retirement funding obligations. *See, e.g., Commonwealth Edison Co.*, Docket 05-0597, Order on Reh'g, p. 28 (return on pension asset "consistent with the Commission's objective of encouraging utilities to fund pension obligations and, at the same time, allowing recovery of reasonable costs of providing funding.") For these reasons, AIC appeals to the Commission to approve inclusion of the OPEB contra-liability in rate base.

b. Commission Conclusion

The Commission agrees with AIC that the OPEB Contra-Liability amount should be included in rate base. The Commission understands that the contra-liability represents the fact that AIC made payments into its OPEB Trust in an amount greater than the accruals that were charged to the Trust in 2012. The Commission also understands that the rates paid by AIC's customers in 2012 were based on the amount of the accruals. The conclusion drawn from these facts is that the additional funds paid into the Trust were not supplied by ratepayers during 2012. Staff has argued that the funds constituting the contra-liability were supplied by ratepayers, but the Commission is not persuaded by this contention because Staff has not explained how ratepayers could have supplied more funds than the amount included in the rates they paid. Thus, Staff's adjustment is rejected.

C. Original Cost Determination

AIC requests that the Commission approve an original cost of electric plant in service as of December 31, 2012, before adjustments for projected plant additions, of $5,234,063,000. AIC says that Staff recommends the Commission approve the Company's request for an original cost finding. Staff further recommends that if the Commission makes any adjustments to plant, those adjustments should also be reflected in the original cost determination. AIC points out that Staff suggests the following form of language in the Findings and Order paragraphs in this proceeding:

> (x) the Commission, based on AIC's proposed original cost of plant in service as of December 31, 2012, before adjustments of $5,234,063,000 and reflecting the Commission's determination adjusting that figure, unconditionally approves $___________ as the composite original cost of jurisdictional distribution services plant in service as of December 31, 2012.

D. Recommended Rate Base

1. Filing Year

AIC notes that the proposed filing year rate base, without template changes, is shown on Schedule FR A-1 of Appendix A. AIC notes that the proposed filing year rate base, with template changes that AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1 of Appendix B.

2. Reconciliation Year

AIC notes that the proposed reconciliation year rate base, without template changes, is shown on Schedule FR A-1-REC of Appendix A. AIC notes that the proposed reconciliation year rate base, with template changes that AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1-REC of Appendix B.

III. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

1. Company Use of Fuels

AIC says that Staff witness Ms. Ebrey expressed concern that AIC could recover more than 100% of its common costs for Company Use of Fuels, as a result of different allocation factors being proposed in the ongoing electric and gas formula rate proceedings. Citing Mr. Ronald Stafford, AIC explained why it used different allocation factors in the gas and electric formula rate proceedings, and argues that the use of different allocators would not result in recover of more than 100% of AIC's common costs. AIC notes that Ms. Ebrey argued, on the other hand, that the labor allocator, which AIC used in the ongoing gas case, was more appropriate than the general plant allocator used in the instant case. AIC represents that, in order to narrow the scope of contested issues in this case, AIC accepted Ms. Ebrey's recommendation that the labor allocator be used to allocate Company Use of Fuels. As a result, the allocation of Company Use of Fuels is no longer contested. Therefore, the Commission finds that the labor allocator used to allocate company use of fuels is reasonable, and is hereby accepted.

2. Outside Professional Services

a. Illinois Power Payments

AIC says that Staff witness Mr. Ostrander proposed an adjustment to reduce Outside Professional Services expense by removing payments made by AIC to the surviving spouse of a former Illinois Power employee under an agreement that obligated AIC to pay monthly stipends to the former employee for the rest of his life, and then to his spouse if he preceded her in death. AIC represents that it accepted this adjustment, and the issue is therefore resolved.

b. SFIO Non-Rate Case Expense

AIC states that Staff witness Mr. Ostrander also proposed an adjustment to reduce Outside Professional Services expense by removing the cost of consulting services provided by Mr. Salvatore Fiorella. AIC continues that Mr. Ostrander claimed these costs were not related to the provision of utility services because the consulting services were duplicative of the responsibilities of AIC personnel, and sought proof that the services provided were not redundant. AIC points out that its witness Ms. Jacqueline Voiles questioned Mr. Ostrander's conclusion that the services provided by SFIO were redundant, and explained that the services did not duplicate the work of any internal AIC personnel. AIC notes that Ms. Voiles specifically objected to the fact that Mr. Ostrander had not explained which services SFIO duplicated, and thus required AIC to prove a negative. AIC represents that in order to narrow the scope of contested issues in this case, however, it agreed to withdraw its request to recover these expenses, in exchange for Staff's agreement to withdraw its proposed adjustment to fees paid to Wells Fargo Advisors. Therefore, this issue is no longer contested.

Therefore, the Commission finds that the proposed Outside Professional Services is reasonable, and is hereby accepted.

3. Incentive Compensation – Derivative Adjustment

AIC says that Staff witness Ms. Ebrey recommended that payroll taxes and pension expense amounts derived from incentive compensation costs for which AIC did not seek recovery be removed from the revenue requirement. AIC accepted this adjustment, and the issue is therefore resolved. Therefore, the Commission finds that the Derivative Adjustment is reasonable, and is hereby accepted.

4. Rate Case Expense

a. Legal Standard – Recoverability of Docket 12-0001 and 12-0293 Costs

AIC notes that Section 16-108.5(c)(4)(E) of the Act provides for the recovery of expenses associated with proceedings before the Commission under the formula rate law or EIMA as follows:

> [R]ecovery of the expenses related to the Commission proceeding under this subsection (c) to approve this performance-based formula rate and initial rates or to subsequent proceedings related to the formula, provided that the recovery shall be amortized over a 3-year period; recovery of expenses related to the annual Commission proceedings under subsection (d) of this Section to review the inputs to the performance-based formula rate shall be expensed and recovered through the performance-based formula rate.

220 ILCS 5/16-108.5(c)(4)(E). AIC represents that the "expenses related to the Commission proceeding under this subsection (c) to approve this performance-based formula rate and initial rates are the expenses related to the initial proceeding to approve the formula rate tariff and set initial rates. AIC says that in its case, this was

Docket 12-0001. Expenses for the proceedings before the Commission in Docket 12-0001 were incurred in both 2011 and 2012. Per the statute, according to AIC, the expenses related to such initial proceeding are amortized over three years.

In Docket 12-0293, AIC notes that the Commission's Order noted AIC's explanation that "in 2011, it incurred approximately $665,000 in connection with Docket No. 12-0001. AIC adds that it has (and will) further incur rate case expense in 2012 associated with Docket No. 12-0001 and the instant proceeding [12-0293]. Consistent with Section 16-108.5(c)(4)(E), AIC proposes to recover the total rate case expense for Docket No. 12-0001 (from both 2011 and 2012) over a single three-year period, beginning in 2012." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 80. AIC continues that the Commission found that "Section 16-108.5(c)(4)(E) of the Act permits a participating utility, subject to a determination of prudence and reasonableness consistent with Commission practice and law, to recover expenses related to the approval of the participating utility's initial performance based formula rate, provided that the recovery shall be amortized over a three-year period," and agreed with use of the single three-year period, beginning in 2012*. Id,* at 81. AIC represents that, as a result, consistent with Section 16-108.5(c)(4)(E) and the Docket 12-0293 Order, it has included for recovery as rate case expense in this proceeding the amortized amount for Docket 12-0001 costs incurred in 2011 and 2012. AIC represents that the amortized amount is $462,000, and is reflected on AIC's FERC Form 1 for 2012.

AIC claims that the "expenses related to the annual Commission proceedings under subsection (d) of this Section to review the inputs to the performance-based formula rate" are the expenses related to the annual update/reconciliation proceeding. These "shall be expensed and recovered through the performance-based formula rate." 220 ILCS 5/16-108.5(c)(4)(E). AIC notes that these costs are not amortized (per the statute), but instead are recovered as they are included in FERC Form 1. AIC states that in the current case, the costs that are expensed and should be recovered through the formula rate are the actual 2012 costs related to Docket 12-0293 (and reflected on FERC Form 1 for 2012). These actual 2012 costs are in the amount of $748,000. AIC submits that the costs related to the current proceeding, Docket 13-0301, would be reviewed for recovery in the next update/reconciliation proceeding that is based on actual costs in 2013.

b. Amount to Be Recovered in Rates

AIC says that Staff witness Mr. Ostrander recommended disallowance of all rate case expense included in this proceeding for compensation to attorneys and experts in connection with the litigation of Dockets 12-0001 and 12-0293. AIC represents that after it provided invoices and supporting documentation for the expenses, however, Mr. Ostrander concluded that the amounts, with the exception of the cost of SFIO services, were just and reasonable. AIC continues that Mr. Ostrander also recommended reclassifying some costs of Docket 12-0001 from miscellaneous distribution expense to rate case expense.

AIC represents that it concurred with Mr. Ostrander's revised positions (*see* Appendix C, Schedule 1), and the parties recommend the Commission conclude as follows:

"The Commission has considered the costs expended by the Company to compensate attorneys and technical experts to prepare and litigate this rate case proceeding and assesses that the amount included as rate case expense in the revenue requirement of $1.21 million is just and reasonable pursuant to Section 9-229 of the Act. 220 ILCS 5/9-229. This amount includes the following costs: $492,000 amortized rate case expense associated with the initial formula rate proceeding, Docket 12-0001 and $769,000 associated with Docket 12-0293." Therefore, the Commission finds that the Rate Case Expense is reasonable, and is hereby accepted.

5. Industry Dues Expense

AIC says that Staff witness Ms. Pearce proposed an adjustment to reduce Industry Dues Expense by removing amounts paid to St. Louis Area Business Health Coalition (BHC) and Hunton & Williams LLP. AIC points out that Ms. Pearce argued that these amounts were non-recoverable lobbying expenses. AIC explained that less than 2% of the amount paid to BHC was used for lobbying and argued that it would therefore be inappropriate to disallow the entire amount. AIC represents that Ms. Pearce modified her adjustment to remove only the 1.26% of the total cost of BHC membership that was attributable to lobbying. AIC says that it accepted this modified adjustment. AIC claims to have also accepted Ms. Pearce's adjustment to remove the amounts paid to Hunton & Williams, in order to simplify the contested issues in the case, although AIC continues to believe that the costs should be properly recovered in rates. Therefore, the Commission finds that the Industry Dues Expense is reasonable, and is hereby adopted.

6. Miscellaneous General Expense (Wells Fargo)

AIC says that Staff witness Ms. Pearce initially proposed an adjustment to Miscellaneous General Expense that would remove amounts paid to Illinois Energy Association, Bank of New York Mellon and Wells Fargo Advisors. AIC notes that in her rebuttal testimony, Ms. Pearce withdrew the portion of her adjustment for Illinois Energy Association and Bank of New York Mellon. AIC represents that in order to narrow the scope of contested issues in this case, Staff agreed to withdraw the remaining portion of this adjustment, for fees paid to Wells Fargo advisors, in exchange for AIC's agreement to withdraw its request to recover non-rate case expenses paid to SFIO. Therefore, this issue is no longer contested. Therefore, the Commission finds that the Miscellaneous General Expense is reasonable, and is hereby accepted.

7. Strategic International Group Expense (Account 909)

AIC says that Staff witness Mr. Knepler and AG witness Mr. Brosch proposed similar adjustments to remove expenses for fees paid in 2012 to Strategic International Group (SIG). AIC states that it considers these communications consulting expenses prudent and reasonable to reflect in rates, but accepted the adjustment to remove SIG expenses in order to narrow the disputed issues in this case. This issue is no longer contested. Therefore, the Commission finds that the Strategic International Group Expense is reasonable, and is hereby accepted.

8. Account 588 – Miscellaneous Distribution Expense:

a. Economic Consulting Fees

AIC says that Staff witness Ms. Ebrey proposed an adjustment to remove from Account 588 expenses paid to outside economic consultants Bates & White and the University of Illinois' Institute of Government and Public Affairs Regional Economic Applications Laboratory. AIC says that Ms. Ebrey contended that it had not provided an explanation of the services, or how they were related to the provision of utility service. Citing Mr. Ronald Pate, AIC explained the services provided by these consultants and described how the services relate to the provision of utility service. AIC states that, based on this explanation, Ms. Ebrey withdrew her proposed adjustment. Thus, AIC represents that this issue is resolved.

b. Advertising Costs

AIC says that Staff witness Ms. Ebrey also proposed an adjustment to remove from Account 588 amounts paid to AIC's outside communication agency in 2012 for time and expenses for projects designed to educate and inform customers about AIC's investments as a result of its participation in the Energy Infrastructure Modernization Act (EIMA). Citing Mr. Ronald Pate, AIC explained that these expenses and projects informed customers about how AIC would be investing ratepayer resources, and how the EIMA-related upgrades will result in improved service and more options. AIC states that Ms. Ebrey withdrew her proposed adjustment. As such, AIC represents that this issue is no longer contested.

c. Individual Expenses

AIC says that Staff witness Ms. Ebrey proposed an adjustment to remove from Account 588 the increase in Resource Type 80, Individual Expenses, on the basis that the increase had not been sufficiently explained. Citing Mr. Ronald Pate, AIC explained that a significant portion the increase in these expenses was a result of an increase in mileage and hotel expenses related to the training of new and existing employees. AIC states that Ms. Ebrey withdrew her proposed adjustment. Therefore, AIC represents that this issue is resolved.

d. Purchases - Other (AIC Self-Disallowed Expense)

AIC says that Staff witness Ms. Ebrey proposed an adjustment to remove certain costs included in the "Purchases – Other" account on the basis that these costs are of types that were disallowed by the Commission in Docket 12-0293, are unnecessary for the provision of utility service, or do not provide benefits to ratepayers. In response to a data request, AIC agreed that amounts for categories 5, 6, 9b, 10b, 10c, and 10d should be removed from recovery in this case. Thus, AIC considers this issue to be resolved.

e. Purchases – Other (Reclassified Capital)

AIC says that Staff witness Ms. Ebrey also removed several items from the

"Purchases – Other" account, noting that these items had been reclassified as capital. AIC represents that it has accepted this adjustment and considers this issue resolved.

f. Purchases – Other (Reclassified Rate Case Expense)

AIC says that Staff witness Mr. Ostrander recommended that certain court reporting costs originally classified as Miscellaneous Distribution Expense be reclassified as Rate Case Expense. AIC represents that it has agreed that the adjustment was appropriate, and therefore considers this issue uncontested.

g. Relocation Expense (AIC Self-Disallowed Expense)

AIC says that Staff witness Ms. Ebrey proposed an adjustment to reduce the amount of relocation expense included in Account 588. AIC states that in reviewing the relocation expenses charged to Account 588, it determined that expenses related to two employees should not have been charged to AIC's electric operations in 2012, and that a certain portion of expenses related to a third employee should not have been charged to AIC's electric operations. AIC represents that Ms. Ebrey agreed that removal of these costs was appropriate. In addition, AIC says it determined that certain payroll uploading amounts were associated with the self-disallowed relocation expense amounts. AIC states that it removed these payroll-uploading costs. AIC represents that, although other components of relocation expense remain contested, the parties agree that AIC's self-disallowance of approximately $24,652 in relocation expenses was appropriate.

Therefore, the Commission finds that the Miscellaneous Distribution Expense is reasonable, and is hereby approved.

9. Miscellaneous Operating Revenues – Overheads and Miscellaneous

AIC says that Staff witness Ms. Ebrey and AG witness Mr. Brosch proposed similar adjustments to use the electric transmission and distribution allocator to assign a portion of the Mutual Assistance/Overheads Billed to Other Parties to electric distribution. AIC continues that Ms. Ebrey and Mr. Brosch also proposed an adjustment to use the general plant allocator to assign a portion of the Miscellaneous Billings revenue to electric distribution. AIC states that these changes were based on AIC's responses to data requests, which indicated that the proposed allocation would be in lieu of a labor-intensive, detailed analysis of each transaction or group of transactions within the accounts. AIC agrees that the adjustments are appropriate, and considers this issue resolved. Therefore, the Commission finds that Miscellaneous Operating Revenues are reasonable, and are hereby approved.

B. Contested Issues

1. Miscellaneous Operating Revenues – ARES

a. AIC Position

AIC represents that it received certain payments in 2012 from cell phone companies for decommissioned microwave frequencies that AIC vacated and sold to the cell phone companies. AIC says that the microwave frequencies were previously used to transmit electric transmission data for SCADA. AIC argues, therefore, that the payments are transmission-related, and the related revenues in 2012 were allocated entirely to AIC's transmission function.

AIC states that AG proposed to revise AIC's treatment of these revenues so that the $1,285,000 amount is allocated between the Distribution and Transmission functions, using a 79.99% plant allocator. CUB proposes a similar adjustment. AIC submits that AG's position is based on the argument that AIC has not demonstrated that *none* of the microwave circuits were used in the Company's distribution operations, or that the revenue in question will actually be treated as FERC jurisdictional revenues.

AIC argues that AG's adjustment should be rejected. AIC represents that the record shows that the microwave frequencies at issue were needed to transmit *transmission* data for SCADA. AIC also notes that neither AG nor CUB appear to dispute that the frequencies did transmit transmission data. AIC argues that Mr. Brosch's position instead seems to be that the majority of the revenues must be allocated to distribution service unless AIC can demonstrate that not a single one of the frequencies was used for distribution purposes. AIC argues that this is backwards. AIC says that if, hypothetically, a single one of the frequencies was distribution, then some small portion of the revenues should be distribution—not 80% of them. AIC explains that it was not possible to associate the revenues with specific transmission assets. AIC contends that, however, does not render the microwave frequencies at issue in any way related to distribution service. AIC asserts that the fact remains that the frequencies were needed to transmit transmission data and so are properly considered transmission-related.

AIC points out that AG also appears to believe that any revenues not expressly addressed at FERC must then be reflected in distribution rates. AIC argues, however, that if the microwave frequencies were needed to transmit transmission data, they are FERC jurisdictional and must be addressed by FERC, not by the Commission. AIC represents that it intends to explore whether the appropriate revenues can be credited to ratepayers under the formula in the Company's next FERC jurisdictional filing.

AIC argues that, with regard to those items that are within the Commission's jurisdiction, not all revenues and expenses are included in the electric delivery service requirement. AIC submits that the purpose of this proceeding is to establish electric delivery service rates, not rates applicable to all Commission jurisdictional rates and charges. AIC contends that Mr. Brosch has not demonstrated that any of the revenues at issue are in fact related to delivery services—he just speculates they might be. AIC continues that Mr. Brosch has made no calculation that supports cost recovery of Commission-jurisdictional expenses and rate base investment associated with these microwave circuits. AIC argues that if Mr. Brosch was in fact right that the microwave circuits were distribution-related, there would be potential costs and investment associated with them in 2012 that should be reflected in delivery service rates. AIC notes that Mr. Brosch has made no such companion calculation, however.

AIC concludes that the evidence supports the Company's proposal to allocate these revenues 100% to transmission. AIC appeals to the Commission to reject Mr.

Brosch's adjustment.

b. Commission Conclusion

The Commission concurs with AIC that the revenues associated with the microwave frequencies sold to cell phone companies should be allocated entirely to transmission. The evidence put forth in this proceeding indicates that the frequencies were used by AIC to transmit data regarding electric transmission, and that it is not possible for AIC to associate the revenues with specific transmission assets. The AG has simply speculated that some of the revenues might be distribution-related. As such, the Commission rejects the AG's proposed adjustment.

2. Relocation Expense – Loss on Sale and Payroll Uploading (Account 588)

a. AIC Position

AIC says that it regularly incurs relocation expenses in support of electric delivery service. AIC notes that these are charges (and related credits) for reimbursement benefits provided to eligible new hires or internal transfers. AIC states that in 2012, it charged roughly $567,000 in relocation expense to Account 588, a miscellaneous electric distribution account. AIC represents that Staff does not contest AIC's ability to recover this type of expense in general. Nor does Staff contest the bulk of the 2012 relocation expenses charged to Account 588, according to AIC. AIC points out that Staff seeks to remove only a portion, approximately $68,000, from the revenue requirement. AIC says that it has removed part of this amount (approximately $25,000) because the costs should have been charged to AIC's gas operations. AIC notes that the remaining costs at issue ($43,000) are amounts paid for a "loss on sale" benefit—compensation provided to eligible new hires or internal transfers if they have to sell (or believe they will have to sell) their residences for less than the initial purchase price to accept or remain at the position offered. AIC says that Staff questions whether it is reasonable for ratepayers to cover the loss on property sales. AIC argues, however, that the record shows inclusion of a "loss on sale" provision in the overall package of relocation benefits offered by AIC is a prudent expense intended to assist with the recruitment and retaining of skilled, experienced employees. AIC also contends that the conditions and limitations on the amount paid for "loss on sale" ensure the reimbursement remains reasonable in amount. AIC concludes that the Commission should reject Staff's adjustment and allow rate recovery of these expenses.

AIC argues that relocation expenses are ordinary and recurring expenses AIC incurs in support of electric delivery service. AIC notes that these expenses fluctuate annually depending on the number of new hires and internal transfers and their respective eligibility for relocation benefits. AIC points out that the relocation expense for an individual employee also varies. AIC continues that the experience or "tier" level of the employee impacts the overall amount of the reimbursement; relocation expenses on average are higher for the "Experienced Professional" tier than the "New Professional" tier, for example. Or the expense for the sale of a home is impacted by the cost of living for the specific geographical region and the size of the residence.

AIC represents that Ameren Corporation's (Ameren) policies set forth criteria and conditions that determine the eligibility of an employee for relocation benefits. AIC continues that these policies also provide limitations on the amount that can be reimbursed. AIC asserts that Ameren routinely compares its benefits against programs offered by other large, local employers and utility peers. AIC argues that this provides a reasonableness check for Ameren's programs. But, AIC continues, it also allows Ameren to assess what the market may be offering. AIC contends that most large employers provide relocation benefits similar to the benefits provided by Ameren's plans. AIC submits that reimbursement of relocation expenses thus becomes a necessary investment to recruit and retain experienced and skilled employees. AIC argues that the Account 588 relocation expense in 2012 can be attributed to AIC employees hired or transferred to perform necessary electric distribution work.

AIC says that Staff generally agrees that expense incurred to relocate a new hire or internal transfer is recoverable in rates, provided the expense was prudently incurred and reasonable in amount. AIC states that Staff, however, takes issue with recovery of the portion of the relocation expense that constitutes a reimbursement to eligible employees for a "loss on sale" of their residences. AIC notes that Staff doesn't take issue with the prudence of the provision in AIC's policies, or with AIC providing the benefit as part of the employee's reimbursement. Staff simply claims that ratepayers should not be forced to cover the risk that a relocating AIC employee does not recoup their initial home investment, even if AIC is willing to do so. AIC argues that Staff's stated concern, however, is not an adequate basis upon which the Commission can exclude an actual expense from recovery under formula rates. AIC asserts that the standard is whether the expense is prudently incurred, reasonable in amount, and related to electric delivery service.

AIC argues that the record demonstrates the prudent nature of the specific relocation "loss on sale" benefit. AIC claims that the primary goal of the "loss on sale" benefit is to ensure that experienced and skilled employees, who are needed in specific Ameren locations, do not decline the opportunity—or leave AIC after accepting an offer—solely because they would have to take a loss on the sale of their homes in order to do so. AIC points out that housing values in the Midwest, for instance, experienced a 10% decline, on average, in the last recession through no fault of the homeowners. AIC says that the "loss on sale" provision is designed to help employees cover the overall decline in home values across the Midwest, to the extent the provision applies to their specific situation. AIC argues that not providing a "loss on sale" benefit would have caused hardship to the employees who relocated in 2012, and as a result, their likelihood of accepting the respective role would certainly decrease, potentially to the point of not being able to accept the roles. AIC contends that, due to the payback provisions in the event of termination or departure, this benefit additionally acts as a retention feature to incentivize the employee to remain in his or her position with AIC.

AIC argues that the record also demonstrates the "loss on sale" expenses charged to Account 588 were reasonable in amount. AIC contends that "loss on sale" expenses are only paid if the eligible new hire or transfer sells his or her home for less than the initial purchase price. AIC notes that Staff's disallowance removes the "loss on sale" expense (and related payroll taxes) for three "Experienced Professionals" who received the reimbursement benefit in 2012. AIC states, however, that for "Experienced

Professionals," the "loss on sale" benefit is limited to 10% of the original purchase price up to a maximum of $25,000, with the relocated employee contributing the first $1,000. For example, AIC says that if a home is initially purchased for $100,000 and the relocated employee sells the home for $95,000, the employee covers the first $1,000 of the loss and Ameren pays the remaining $4,000. AIC represents that Ameren would not pay a "loss on sale" benefit, however, if the relocated employee initially purchases the home for $100,000, refinances the home for $120,000 because of property value appreciation (taking the equity out of the property) and later sells the home for $105,000. AIC also points out that capital improvements that increase the value of the property (*i.e.*, additions and renovations to the home) are not considered in the final "loss on sale" calculation.

AIC states that Staff believes it is unreasonable for ratepayers to cover the loss on property sales, given certain other relocation reimbursements provided, citing three AIC employees as examples. AIC argues that the reimbursements provided to the three AIC employees in question, however, were consistent with the amounts paid to AIC employees in the "Experienced Professional" tier, who on average receive a reimbursement between $50,000 to $60,000. AIC notes that Staff also hasn't disputed the necessity of the open positions that these three employees filled in 2012. AIC says that Employee No. 5, who filled the position of "Engineer" with the primary workforce driver of the Liberty Audit, received a "loss on sale" benefit of $4,000. Employee No. 14, who filled the position of "Supv Bus Adm & CS" with the primary workforce driver of attrition, received a "loss on sale" benefit of $21,500. Employee No. 17, who filled the position of "Career Engineer" with the primary workforce driver of the Modernization Action Plan (MAP), received a "loss on sale" benefit of $14,000. AIC argues that the limitations for the "Experienced Professionals" tier ensured the amounts paid under this provision to these employees were reasonable and in line with historical averages. AIC also contends that the record demonstrates the "loss on sale" amounts that it seeks to recover relate to electric delivery service, now that AIC has removed the portions (and related payroll taxes) that should have been charged to gas operations.

AIC argues that Staff has not identified any prior Commission order in testimony in support of Staff's adjustment to remove the relocation expense associated with the "loss on sale" reimbursement. AIC continues, the record does not support the Commission making this adjustment for the first time in this proceeding. AIC says that the amounts Staff seeks to exclude (apart from the gas amounts AIC already removed) are actual electric delivery services costs incurred in 2012. AIC argues that they are prudently incurred expenses that support the recruitment and retention of skilled, experienced employees. AIC goes on to contends that they are expenses that are reasonable in amount, considering the limitations on the amount of "loss on sale" reimbursement and the average historical reimbursement for "Experienced Professionals."

AIC says that Staff's initial brief confirms that Staff doesn't take issue with AIC providing a "loss on sale" benefit to eligible relocated employees. AIC contends that Staff's complaint is that such a benefit, if offered, should be borne by shareholders, not ratepayers. AIC argues that Staff, however, hasn't made its case to remove this cost from the formula rate revenue requirement. AIC notes that the standard for recovery under formula rates is whether the cost is prudently incurred, reasonable in amount, and related to delivery service. AIC asserts that the testimony submitted and cited by Staff does not demonstrate the “loss on sale” benefits included in electric distribution expense in Account 588 are imprudent or unreasonable.

AIC says that Staff describes AIC’s relocation policy as “already generous” even without the “excessive” “loss on sale” benefits. AIC argues that this begs the question of what is Staff’s point of comparison. AIC contends that there isn’t one. AIC states that Staff hasn’t testified about relocation benefits offered by other Illinois utilities. Staff hasn’t claimed to be an expert on compensation provided to relocated employees. Staff hasn’t submitted evidence to show the “loss on sale” provision is unique to AIC. Staff hasn’t submitted evidence to show the “loss on sale” benefit produces an unreasonable total amount of benefits compared to benefits offered by other utilities. In contrast, AIC submits that it routinely compares its relocation benefits against those offered by other local employers and utilities. AIC represents that its market analysis shows those peers provide benefits similar to the benefits provided to AIC employees. Thus, AIC continues, the only party with a basis for a credible opinion on the reasonableness of the “loss on sale” benefit is AIC, not Staff.

AIC says that Staff also claims it is “akin to adding insult to injury” to ask AIC customers to pay for a “loss on sale” benefit, when ratepayers “must not only contend with paying for steadily rising electric utility costs but also face losses on the sale of their homes if their economic situation requires them to move at a time of declining home values.” AIC contends that this opinion assumes the personal finances of ratepayers are relevant to whether a utility’s actual cost is recoverable in formula rates. AIC argues that they aren’t. AIC submits that embedded in a utility’s cost of service are hundreds of different costs that a customer may also incur. AIC represents that the costs of fueling AIC vehicles are included in rates, even though customers have their own cars. The costs of maintaining AIC operating centers are included in rates, even though customers have their own homes. AIC continues, the costs of financing debt are included in rates, even though customers likely have their own interest payments. AIC asserts that the standard for recovery is not whether customers face a similar cost; the standard is whether it is actual, prudent and reasonable cost of delivery service.

Finally, AIC says that Staff argues that no evidence was provided in this case that experienced and skilled candidates would have likely turned down employment at AIC without this generous benefit. AIC argues that in order for it to prove that negative would require AIC to travel back in time to determine whether the “Experienced Professionals” would have accepted employment with AIC, absent a “loss on sale” benefit. AIC contends that that sort of retrospective on the “but for” world is not the measurement of prudence. AIC contends that its written policies set forth the criteria and conditions that determine eligibility. These policies, AIC continues, also set forth the limitations on the “loss on sale” amount that can be reimbursed. AIC represents that these policies are crafted based on benefits offered by AIC peers. And, AIC says, these policies include a “loss on sale” benefit that recognizes the economic realities of the Midwest. AIC argues that these facts demonstrate the prudence and reasonableness of including a limited “loss on sale” benefit, as part of the total package of relocation benefits, as an intended tool for the recruitment and retaining of employees.

AIC contends that the substantial weight of the evidence supports the conclusion that the “loss on sale” expenses paid to three “Experienced Professionals” and charged to Account 588 in 2012 are actual costs of delivery services that were prudently incurred and reasonable in amount. AIC appeals to the Commission to allow recovery of "loss on sale" relocation expenses.

b. Commission Conclusion

At issue is the cost recovery of "loss on sale" benefits, and payroll taxes associated with those amounts, paid to eligible AIC employees as part of the overall package of relocation benefits they received. These particular expenses were charged to Account 588 in 2012 and were reviewed by Staff in its audit of that account expense. In short, the "loss on sale" benefit is the difference between the original purchase price of the relocated employee's residence and the price the employee's residence is sold after relocation, subject to the conditions that limit the amount of "loss on sale" expenses AIC will incur for any given relocated employee. Staff acknowledges AIC's policies allow for the payment of a "loss on sale" reimbursement, but contend ratepayers should not be forced to cover the cost of this particular benefit. AIC contends the "loss on sale" benefit is consistent with comparable benefits offered by other utilities and large employers in the Midwest and reflects the economic realities in the real estate market in recent years. AIC also contends the "loss on sale" benefit is an important part of the overall package of relocation benefits AIC offers to recruit and retain skilled and experienced employees. AIC believes the restrictions that limit the eligibility for and the amount of the "loss on sale" benefit paid out ensure the expense remains reasonable in amount. The Commission agrees with AIC and finds the manifest weight of the evidence in the record supports the "loss on sale" benefit as reasonable and prudent cost of delivery service that AIC can recover in formula rates.

3. Purchases – Other (Account 588)

a. AIC Position

AIC says that Staff proposes to remove costs for a laundry list of employee "Purchases" made in 2012 and charged to Account 588 (electric). AIC represents that it has agreed to remove the costs for some purchases; other amounts it says it has agreed to reclassify. These adjustments are discussed in Sections III.A.8.d-f *supra*. AIC opposes the remainder of Staff's adjustment, however. The items contested by Staff run the gamut from electrical equipment to company picnics. They included televisions, cable TV service, wireless headsets, GPS, cell phone signal boosters, various office supplies, various meals provided at work meetings, flowers provided to employees who suffered a death or illness in the family, vehicle safety stickers, prizes for safety training exercises, giveaways for statewide safety fairs, supplies for safety meetings, and achievement awards for length of service, outstanding individual performance, or unblemished safety records. AIC argues that the substantial weight of the evidence in the record—the information on the specific charges and the sworn testimony of one of AIC's senior leaders—demonstrates the purchases are reasonable in amount, prudently incurred, and supportive of electric delivery service. AIC recognizes that Staff claims none of these costs are recoverable in formula rates, because they are not necessary for utility service and not beneficial to utility customers.

But, AIC stresses, Staff never explains the source or application of its standards, and further never explains the whys and wherefores of its disallowances: why it believes the items are not necessary, why it believes they do not benefit customers, and why the justifications AIC provided are not sufficient. AIC argues the bare opinions Staff offers are not sufficient, since the Commission, as the fact finder, is tasked with determining whether the factual evidence, not Staff's beliefs, demonstrates a purchase was a prudent and reasonable cost of delivery service. AIC contends that from the employee achievement awards to the electrical equipment, the costs for these purchases should be recoverable in rates. AIC recommends that the Commission not adopt Staff's adjustment.

AIC states that in its prior formula rate proceeding, the Commission examined whether certain corporate credit card transactions in Account 909 (electric) in 2011 were "legitimate and reasonable business expenses." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67. AIC says that the Commission declined to adopt Staff's "generic" threshold for disallowance, since it lacked the "specificity" to determine which expenses were recoverable. *Id*. "[A]s a general matter the Commission [was] reluctant to disallow costs in the absence of specific concerns with particular expenses." *Id*. AIC points out that the Commission, on its own accord, however, found "specific" corporate credit card purchases "questionable" "because the expenses at some retailers [were] arguably excessive and/or not reasonably related to the provisioning of delivery services." *Id*. "In the absence of better support for these charges," the Commission found recovery from delivery service customers of the cost for 34 different charges was "unreasonable."[5] *Id*.

AIC submits that the Commission's findings in Docket 12-0293 frame the debate for reviewing employee purchases in this docket. *First*, AIC contends that a disallowance must be grounded in a specific objection to a particular expense. The adjustment can't just be a general disallowance. AIC represents that the Commission made a similar finding in AIC's first formula rate case, when it found "the Commission is not comfortable accepting a general adjustment to a category of costs. In the absence of specific reasons behind objections to an expense, the Commission questions whether it can know if a disallowance is indeed warranted." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 92 (declining to adopt Staff's general disallowance not tied to specific invoices and particular advertising expenses). *Second*, AIC argues that an expense that is reasonable in amount (*i.e.*, not excessive) and "reasonably related to the provisioning of delivery service" is recoverable.[6] AIC says that this is similar to the standard of review for recovery of costs in formula rates: Section 16-108.5(c)(1) requires AIC's formula rates to "[p]rovide for the recovery of the utility's *actual costs of*

[5] AIC says that the Commission also required AIC to file "its internal controls on [corporate credit card] usage" within 45 days of the entry of the final order in Docket 12-0293. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 69. AIC says that its filing was required to take the form of a petition with supporting testimony on the processes, limitations and standards for the usage of corporate credit cards and the review and reporting of corporate credit card transactions. *Id*. AIC notes that it submitted that filing on January 18, 2013 (Docket 13-0075). AIC also notes that, at this point in time, after a series of extensions, Staff's direct testimony is due to be filed on October 31, 2013.

[6] AIC states that in Docket 12-0293, the Commission reviewed Account 909 corporate credit card expenses under Section 9-225 of the Act. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 62-63, 67. AIC represents that section of the Act, however, only applies to "advertising" expenses.

delivery services that are *prudently incurred* and *reasonable in amount* consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(1) (emphasis added). And *third*, AIC asserts that if "better support" is provided in a future docket for the same type of charge previously disallowed, the Commission may find the cost of that purchase recoverable. *See Ameren Ill. Co.*, Docket 12-0293, Order, p. 67. In other words, AIC continues, the Commission should not disallow a corporate credit card expense for a vendor in this proceeding just because a similar charge was disallowed in Docket 12-0293. AIC argues that the work-related justification and the context for the specific purchase must be weighed, based on the facts presented in the record in this case.

AIC says that, in direct testimony, it identified the items that caused expense in Account 588, Miscellaneous Distribution Expense, to increase in 2012. In response to AG data request 2.07, AIC states that it further elaborated on the causes of the increase in Account 588 expense and provided an initial breakdown of monthly charges to Account 588 by Resource Type and Resource Management Center (RMC), the organizational unit responsible for the resources or work involved with the charge. In subsequent discovery requests, TEE 7.06 and TEE 11.02, AIC claims that it provided detail on individual transactions for the Resource Type BX "Purchases – Other." The detail amounted to over 38,000 lines of transactions. From that detail, AIC says that Staff sent further discovery (TEE 16 series) on selected entries. AIC represents that some amounts it agreed to self-disallow or reclassify. For other amounts, AIC says Staff agreed AIC's explanation was reasonable. AIC points out that the remaining entries that Staff believed should not be recoverable in rates were identified in Staff's rebuttal filing in Attachment A to ICC Staff Exhibit 6.0. But although AIC concedes no fault can be given to the methodical and meticulous review Staff conducted on the purchases charged to Account 588, AIC argues the merits of Staff's proposals and analysis have deficiencies that cannot be cured.

Although Staff has identified the specific purchases it finds objectionable, AIC argues that its testimony and exhibits are less clear on the reasons for the individual disallowances and the standard for recovery AIC must meet. For example, AIC says that Staff argues the disallowed amounts are "charges of the types disallowed by the Commission in its order in Docket No. 12-0293, unnecessary for the provision of utility service, do not provide benefits to ratepayers, and/or primarily benefit AIC employees as a perquisite." AIC contends that no citations to prior Commission orders, Illinois statutes, or ICC administrative rules, however, are provided to support Staff's "unnecessary," ratepayer "benefit," and employee "perquisite" standards. AIC argues that Staff's testimony misses the mark entirely on the applicable standards; the inquiry should concern whether the expense is prudent, reasonable in amount and related to delivery service. Indeed, AIC goes on, notably absent is any discussion whether the expenses are "prudent" and "reasonable." The analysis supporting Staff's opinions remains lacking. AIC continues that even if Staff had pegged the proper standards, its testimony provides little analysis of the source and application of the standards; with the exception of a few items, there is no detailed discussion about how any of the individual expenses do not meet Staff's standards or why those standards should even govern cost recovery.

AIC says that the facts Staff relies upon in formulating its opinions are the types of purchases made and the specific items purchased. AIC contends that hardly any weight is given to the business justifications AIC asserted. Hardly any mention is made of the supporting surrebuttal testimony AIC submitted. And, AIC continues, no explanations are provided for the specific expenses Staff disallows. Citing *Royal Elm Nursing and Convalescent Center, Inc. v. No. Ill. Gas Co.*, AIC argues that "[r]egardless of how skilled or experienced an expert may be, he is not permitted to speculate or to state a judgment based on conjecture, i.e., a conclusion based on assumptions not in evidence or contradicted by the evidence." 173 Ill. App. 3d 74 (1st Dist. 1988) (the credibility and conclusions of utility expert witness were undermined by opinions based on circumstantial evidence and conjecture). AIC argues that that, however, is exactly what Staff has done on this issue: present speculation not based in fact that ignores the evidence AIC offered to demonstrate the prudence and reasonableness of the costs.

AIC states that Staff also claims the Commission disallowed a number of expense items in Docket 12-0293 "that are identical or very similar" to items Staff proposes to disallow in this proceeding. AIC argues that absent again from the record is application of Staff's standard and any sort of explanation why a specific expense identified in this docket should be disallowed because an "identical or very similar" expense was previously disallowed. AIC contends that the items Staff identifies—corporate store purchases, floral arrangements, engraving costs, branded clothing, and cable service—are not items that should be automatically disallowed in each case. AIC points out that the only other comments provided are given in the explanation column in Attachment A. AIC argues that these nominal explanations—the most often repeated being "safety perqs," "12-0293," "unidentified," and "perqs"—further demonstrate the perfunctory nature of Staff's adjustment. AIC submits that there is no substance underlying these opinions, however; there are just the opinions. Staff's repetition of these mantras does not result in any profound significance or wisdom. AIC asserts that whatever standard is used to evaluate corporate credit card purchases must consider the work-related justification for each expense. AIC makes clear that this doesn't mean AIC is collaterally attacking the prior Commission order; it just means AIC believes it has provided "better support" for the individual expenses in this case. *See Ameren Ill. Co.*, Docket 12-0293, Order, p. 67.

AIC represents that the "better support" in this instance can be found in the surrebuttal testimony and exhibit of AIC witness Mr. Ronald Pate. AIC notes that Ameren Exhibit 19.1 identifies the types of purchases Staff seeks to disallow from Account 588 expense. They include:

- <u>Utility Equipment</u> – AIC says that these are electrical items listed in Staff's categories 11 and 14 that do not meet the criteria for capitalization. (Ameren Ex. 19.1:125-30, 132-36, 174-74.) These items total $6,908.23 and include wireless headsets, cell phone signal boosters, GPS, digital camera and televisions.

- <u>Storm Response & Preparedness</u> – AIC states that these are charges listed in Staff's category 7 for satellite and cable television service for AIC operating centers. (*Id*. at lines 78-103.) These items total $1,232.46. An additional storm-related charge listed in Staff category 9c is the expense to install a driveway for an outlying troubleman. (*Id*. at line 108.) This charge was for $3,233.88.

- Office Supplies – AIC claims that these are minor work-related purchases listed in multiple Staff categories. (*Id*. at lines 10-11, 16, 20-21, 186.) These items total $360.68. Included in this category is also a miscellaneous $200 charge for fees for a course an employee was required to take to maintain his CDL license that AIC agreed to reimburse after it was determined the course was mistakenly required. (*Id*. at line 104.)

- Safety Fairs/Training/Education – AIC submits that these are charges mainly listed in Staff category 2 related to safety training and safety exercises for AIC employees and/or third-party contractors. (*Id*. at lines 18-19, 27-39, 41, 77.) These items total $9,862.31. Included in this category are also two charges for vehicle safety stickers totaling $308.72. (*Id*. at lines 105-06.) In addition, this category included a charge for safety fair giveaways for $863.98. (*Id*. at line 131.)

- Safety Recognition – Meal – AIC says these include two charges listed in Staff category 2 for breakfast or lunches provided at division-wide employee safety meetings. (*Id*. at lines 25-26.) These items total $2,532.61. Included in this category are also two charges listed in Staff category 2 for dinners provided to employees in recognition of safety records. (*Id*. at lines 15-17.) These items total $1,114.64.

- Safety Achievement Award – Tangible Property – AIC represents that these are purchases for tangible personal property awarded to employees during the year for achievements in safety performance and safety records. (*Id*. at lines 1-9, 12-14, 43-44, 137-40, 141-72, 175-85, 187-278.) These items total $20,632.22.

- Employee Appreciation – Recognition – AIC states that included in this category are purchases listed in Staff categories 2 and 4 for tangible items, including plaques, to show appreciation for the length of employee's tenure or recognition for completing an apprentice program. (*Id*. at lines 22-24, 40, 42, 67-69.) These items total $615.30.

- Employee Appreciation – Family Death or Sickness – AIC claims that these are flower purchases listed in Staff category 3 for the families of employees who had suffered an illness or death in the family (including the death of the employee). (*Id*. at lines 45-66.) These items total $1,254.49.

- Sponsorships – AIC says that included in Account 588 were a few miscellaneous sponsorships, some of which AIC self-disallowed as tangible benefits received. The three items for which AIC still seeks recovery total $1,853.16. (*Id*. at lines 70, 74, 124.)

AIC represents that the work-related justification that supports the recovery of these items is provided in Ameren Exhibit 19.1. AIC argues that the surrebuttal testimony of Mr. Pate further augments the record in support of charges for cable and satellite television, Ameren store purchases, floral arrangements, electronic equipment, the installation of the troubleman's driveway, and safety-related purchases. In addition, AIC says that the surrebuttal testimony of Mr. Kennedy addresses the Account 588 sponsorship costs that it still seeks to recover.

AIC argues that controls and procedures exist to ensure AIC's purchases, including the benefits provided to incentivize, recognize and engage employees, are prudent, reasonable in amount and related to delivery service. AIC says that the principal checks are the constraints that exist in the policies that govern the use and reporting of corporate credit card expenses. AIC states that the employee making the purchase must provide a work-related justification and supporting documentation and obtain supervisor approval for *any* corporate card purchase. Whether the purchase is an Ameren "logo-wear" shirt for a public event, a cake in honor of the retirement of a colleague, a bouquet of flowers for an ill or deceased employee, or just a box of donuts for a quarterly safety meeting, AIC represents that the cardholder knows his or her supervisor must approve the purchase (if verbal or e-mail approval was not already requested and provided). AIC argues that these constraints ensure transparency concerning the business purpose for the purchase and encourage dialogue between the supervisor and cardholder concerning the appropriateness of the purchase and the amount spent. In addition, AIC asserts that each department and division has to operate within the constraints of operating budgets and the guidance provided on taxable and non-taxable employee fringe benefits. AIC submits that directors cannot purchase safety awards, cakes, flowers, and donuts on a daily basis without running afoul of tax laws and reducing their own operating budgets.

AIC argues that in the limited instances where Staff raised a concern over the need for a specific expense, the evidence in the record addressed and resolved that concern—evidence, AIC continues, that Staff ignores. For example, AIC says that Staff's rebuttal questions the need for electronic utility equipment and believes a "further explanation" is needed. AIC claims that Mr. Pate's surrebuttal and Ameren Exhibit 19.1 (lines 125–36) provide the business justification for the televisions, digital cameras, GPS and cell phone signal boosters Staff seeks to disallow. AIC represents that these items are used to increase connectivity and productivity at remote substations (cell phone boosters and GPS), take pictures of faulty equipment in the field (digital cameras), and broadcast emergency response activities, training materials, weather and news information, and employee communications (televisions). AIC contends that Mr. Pate's surrebuttal testimony also provides clarity to Staff's concern for the need for hands-free wireless headsets at AIC's AMI operating center; AIC continues that these headsets increase the productivity of employees sitting in cubicles in close proximity, allowing them to multi-task and eliminate distracting background noise. And citing Mr. Pate's surrebuttal, AIC explains why installation of a gravel driveway allowed a troubleman to safely park a 41-foot, 26,000-pound bucket truck at his residence, thereby reducing his response time to outages and AIC's cost of service *without* adding any value to the employee's property. AIC argues that Staff's stated concerns do not outweigh the evidence AIC submitted or otherwise justify removal of expenses.

AIC goes on the claim that the evidence it submitted in this docket also addresses Staff's token disallowances for "identical" or "very similar" items disallowed in AIC's last formula rate case. For example, AIC says that in Docket 12-0293, the Commission removed charges for Dish Network service based on the theory AIC did not need cable or satellite television service at its office and operating centers, given the weather and news information available on the Internet. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 67-68. Citing Mr. Pate's surrebuttal, AIC explains that cable or satellite television service provides AIC with reliable, real-time information on local news stories and extreme weather events in—or coming towards—AIC's service territory. AIC argues that it is not uncommon for AIC's storm response centers to have televisions constantly tuned into local news and weather coverage, while personnel *also* monitor computer and Internet data. AIC continues that it is also not uncommon for AIC employees (including employees without access to computers at a specified location) to congregate and access storm information through televisions in operating center–common areas. AIC contends that because some news and weather information may also be available on the Internet does not make the use of cable TV as another tool to access the information an unreasonable practice. AIC asserts that this is no different than the continued use of landline telephones and pencils: cell phones and computers do not make them obsolete. AIC argues that, given the "better support," the Commission should decline to adopt disallowances for cable and satellite television service in this docket. *See Ameren Ill. Co.*, Docket 12-0293, Order, p. 67.

AIC claims that the Commission should also decline to adopt Staff's "similar" disallowances for flower purchases. AIC notes that in Docket 12-0293, the Commission did not believe the expense for flowers for "booth decorations" at community outreach events was a recoverable advertising expense. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 68. AIC argues that the flower purchases Staff seeks to disallow in this proceeding, however, are not "identical" or even "very similar." AIC again contends that the context and business justification of the purchase, and not just the description of the item or the identity of the vendor, is critical to determining whether the expense is recoverable; otherwise, without evidence of the intended or actual use of the purchase, there can be no credible, defensible basis for the disallowance. AIC asserts that in this instance, all floral arrangements Staff seeks to disallow were purchases, made in the utility's name, to honor a death in an employee's family (often times the employee) or wish an employee a speedy recovery from an illness. AIC points out that Staff calls these "thoughtful gestures," which AIC agrees that they are. AIC claims that they are "thoughtful gestures" by an employer to the employee, provided to the employee in the context of his or her employment with AIC. AIC argues that they are ordinary expenses incurred by every employer—and every public utility—that is concerned about the general health, safety and well being of its workforce and their families. AIC says that Staff may not believe they are "necessary for the provision of utility service." But AIC contends that the appreciation showed employees by these gestures gains their respect and engagement; that is important to a productive workplace, no matter who the employer is.

Lastly, AIC notes that Staff seeks to disallow an array of what it calls "safety perqs," claiming the costs are "added perqs for employees to perform their jobs in a safe manner." AIC states that these purchases range from giveaways at educational events on safe digging practices, to prizes at statewide safety meetings or mandatory employee training exercises, to employee meals at division-sponsored safety events, to safety awards for individual employees in recognition of outstanding achievements in performance or zero recordable incidents on safety records. AIC says that it is committed to build and maintain a culture of safety in the workplace and in the field. As part of its overall commitment to safety, AIC claims that it has worked to reduce and limit preventable, recordable injuries, preventable vehicular accidents and safe work practices violations. AIC argues that preventable injuries, accidents and safety violations increase AIC's cost of service, from lost time and wages for injuries to utility workers, liability for injuries, damage to utility and non-utility property, to fines and disciplinary actions. AIC posits that the goal for any employee, department or division is to have zero recordable incidents. AIC argues that to encourage employees to reach individual goals and limit the number of preventable incidents, utility-sponsored programs incentivize, recognize, and reward employees for their safety record and performance during the prior calendar year. AIC asserts that the allotted funding for AIC's safety programs is used for quarterly department or division lunches or breakfasts, group training exercises, safety banquets and fairs, and individual awards of lesser value such as gift cards or tangible, personal property.

AIC argues that these expenses are not "safety perqs." AIC submits that these are, for the most part, achievement awards, whether given for the employee's length of service, exceptional performance, or duration of time he or she avoided a preventable accident. AIC contends that the costs of safety achievement awards and other safety meals and training exercises are justified and more than offset by the avoided costs from the reduction in unsafe actions that cause damage to utility equipment, customers' property, and loss of life. AIC represents that Staff recognizes Section 16-108.5(c)(4)(A) allows recovery in formula rates of incentive compensation costs related to safety. AIC claims that these costs are no different. AIC asserts that they are just another means by which AIC encourages employees to improve safety. AIC continues that the practice of recognizing and rewarding employee safety and performance is prudent. AIC says that the purpose of the programs is to improve the reliability, adequacy and safety of the delivery services AIC provides.

AIC argues that Staff's disallowance also fails to address the obvious repercussions the disallowance of these purchase may trigger. AIC continues: Should lineman in the field not carry work cell phones or GPS in their vehicles? Should AIC's divisions no longer have company picnics or safety training exercise? Should AIC stop purchasing televisions and paying for cable TV for its storm and operating centers? Should AIC make outlying troubleman park their vehicles at the office? Should the utility no longer provide food at safety meetings? Should the utility no longer reward its workforce for performance? Should the utility stop buying flowers for employees who died? AIC argues that each purchase that Staff seeks to remove openly questions the prudence and reasonableness of the related business practice. AIC represents that Staff suggests that AIC is free to make these purchases as long as the costs are borne by shareholders, and not ratepayers. AIC claims that that suggestion, however, illustrates the basic flaw in Staff's reasoning: formula rates are supposed to recover actual costs of delivery service, prudently incurred and reasonable in amount. AIC contends that Staff's testimony fails to provide the facts that would support a finding of imprudence or unreasonableness for any of the disputed purchases. Consequently, the

Commission must decline to adopt Staff's adjustment as unsupported. AIC recommends that the amounts for these purchases should be recovered in formula rates.

b. Commission Conclusion

The record demonstrates the varied nature of the purchases charged to Account 588, the costs of which Staff proposes for disallowance. The Commission notes that AIC and Staff jointly agreed during the case on the removal of expenses for certain purchases. Those items have been identified in Staff and AIC's exhibits and already have been removed from the AIC's proposed revenue requirement. The remaining expenses for Account 588 purchases identified by Staff, however, are contested. Staff asserts the remaining contested purchases are not necessary to utility service and not beneficial to ratepayers. AIC claims Staff's necessary and beneficial standards are not well defined, not adequately sourced, and not clearly applied. AIC also claims Staff discounts, without explanation, the business justifications, context and ratepayer benefits that AIC provided in testimony in support of the prudence and reasonableness of the expenses. Consequently, AIC contends, Staff's adjustment is only supported by Staff's own conjecture and speculation, and not by factual evidence. For this and other adjustments proposed by Staff in this docket, the Commission is troubled by Staff's use of various standards that appear to have no basis in the formula law legislation or the Commission's prior decisions. The Commission is also troubled by proposed adjustments that appear not to have any factual basis in the record and appear to ignore entirely facts submitted by the utility. The Commission reminds parties that, in its role as fact finder, the Commission has to weigh the facts. Positions taken by parties that are based on unsupported conjecture or that do not address facts actually in the record do not assist the Commission with its task of weighing the facts and only serve to muddle the record and subject the Commission's findings to reversal on appeal. The Commission recognized that the formula rate legislation means annual audits of AIC's electric delivery costs – an audit that has to occur in less time than an ordinary Article IX rate proceeding. The Commission also recognizes Staff's concern that the formula rate legislation requires a dollar for dollar review of AIC's electric delivery costs. But those realities do not allow the Commission to accept adjustments that are not adequately supported. In prior cases, the Commission held that disallowances must be supported by specific objections to particular expenses, rather than general disallowances. A corollary to those prior findings is that a disallowance also must be supported by more than just conjecture.

In this instance, the Commission agrees with AIC that the manifest weight of the record evidence demonstrates the Account 588 purchases still being contested by Staff are actual costs of delivery service, prudently incurred and reasonable in amounts. The detailed justifications and benefits presented in AIC's testimonies and exhibits support the recoverability of the costs for these purchases, and need not be repeated here. Staff's reasons for disallowance lack the legal authority, factual evidence and analysis necessary for the Commission to adopt Staff's adjustment. To the extent the Commission disallowed a similar purchase in Docket 12-0293, the Commission finds AIC offered better support in this proceeding to demonstrate the prudence and reasonableness of the expense. The Commission does not foreclose Staff and other parties from pursuing similar adjustments for employee purchases in future formula rate proceedings, but cautions all parties to present positions and adjustments in testimony that are well developed and well supported by the factual record.

4. Other Credit Card Expenses

a. AIC Position

AIC says that in addition to Staff's adjustment to remove costs for Account 588 purchases, Staff proposes a separate adjustment to disallow approximately $24,000 of employee credit card charges from the revenue requirement. Like its proposed adjustment to Account 588 Purchases, AIC contends Staff's adjustment to credit card expenses seeks to disallow costs for a variety of purchases made in support of delivery service. The items include televisions and satellite TV service for storm and operating centers, employee cell phones and accessories, digital cameras, USBs, computer discs and rechargeable batteries, portable Wi-Fi hotspots, a hotel charge related to a mock storm logistics drill, a conference room DVD player, food provided employees during storm response efforts or safety meetings, food provided employees during other work meetings, food provided employees during business hours as appreciation, fire-retardant clothing, chamber dues, and new employee giveaways. Although the amount of Staff's adjustment may be minor, AIC believes its potential breadth and impact is staggering, implicating (and jeopardizing) established business practices across the utility. AIC argues that Staff's disallowance is improper because the record evidence demonstrates each of these charges is prudently incurred, reasonable in amount, and reasonably related to the provision of electric delivery service.

AIC notes that in its last electric formula rate update proceeding, the Commission found that utility employees' corporate credit card charges should not be excessive and should be reasonably related to the provision of delivery services. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67. AIC continues that the Commission allowed some charges "conceivably related" to delivery service, while disallowing other charges absent "better support." *Id.* In this proceeding, AIC argues that it has provided the "better support" for all of the charges AIC says that Staff, nevertheless, seeks to disallow by providing the work-related justification for each disputed credit card charge and the context that shows the purchases are reasonable and prudent.

Citing Ms. Jacqueline Voiles, AIC explains that each disputed corporate credit card expense is reasonable in amount, has been prudently incurred, and serves a legitimate utility purpose. AIC argues that the evidence in the record shows the disputed credit card charges were made to purchase a variety of work-related items. There are charges for items that related to AIC's efforts to respond to storms and outages: There are charges AIC made for routine utility equipment. There are charges for employee snacks and meals at safety meetings. There are charges for other business-related meals and travel. And there are charges that support employee engagement, recruitment, retention and morale. AIC represents that Staff, in its testimony, has not challenged any of the business justifications. AIC says that the disagreement between the parties boils down to whether these acknowledged work-related operating expenses should be recovered in formula rates. AIC argues that they should.

AIC asserts that it does not bear the burden of demonstrating a quantifiable ratepayer benefit, as Staff suggests,. AIC nonetheless argues that the weight of the evidence actually demonstrates each business charge does, in fact, provide a ratepayer benefit related to the provision of delivery service. AIC contends that the Storm Response and Preparedness charges benefit customers by ensuring AIC's employees and equipment meet customer expectations in the event of storm outages. Other Utility Equipment charges enable employees to efficiently serve customers in an ever increasingly high-tech digital world. Food and Beverage charges incurred in the context of Safety meetings relate to education and training intended to reduce employee injuries and property damage claims, and therefore lower ratepayer costs. Employee appreciation charges increase retention rates and morale leading to a more knowledgeable, dedicated workforce. AIC contends that because employees may have received some minimal benefits—the types of "fringe benefits" commonly provided employees by employers—from certain disputed expenses does not negate the ratepayer benefits.

AIC argues that Staff has failed to address the adequacy or inadequacy of any of AIC's business justifications or the resulting ratepayer benefits, and has instead focused on whether these disputed charges are "of the types" or "similar to those" disallowed in Docket 12-0293. For example, AIC says that since certain charges for flowers and satellite television service were disallowed in Docket 12-0293, Staff concludes flower charges should be disallowed in this proceeding. AIC contends that there are several problems with Staff's approach. *First*, AIC asserts that it misrepresents the Account 909 "advertising" credit card charges the Commission disallowed in Docket 12-0293. AIC argues that *nowhere* on the Commission's listed of disallowed charges on pages 67-68 of the December 5, 2012 Order does there appear a *single* charge for electrical utility equipment. Yet, AIC goes on, Staff's disallowed expenses in this proceeding include *18 different* pieces of storm response and other utility equipment. AIC claims that another example of the obvious disconnect between Staff's adjustment and the order in Docket 12-0293 is the list of food and beverage charges Staff seeks to disallow. AIC notes that in Docket 12-0293, the Commission identified *one* meal charge (Peoria Gridiron Dinner) that it did not consider a "legitimate advertising expense." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 68. AIC points out that, in contrast, Staff in this docket seeks to disallow *44 different* food and beverage charges. AIC argues that Staff even throws in a hotel room used for a mock storm logistics drill, even though, AIC continues, the Commission did not disallow *any* travel expenses in Docket 12-0293. AIC points out that the majority of the advertising expenses disallowed in Docket 12-0293 were clothing purchases. AIC notes that of the 34 charges disallowed in Docket 12-0293, totaling $10,266.09, purchases at clothing retailers accounted for 14 charges or $8,487.62 that the Commission deemed unreasonable. *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 67-68. These charges amounted to 83% of the Commission's disallowance in that case. AIC points out that Staff witness Ms. Pearce's list of disputed charges in the current proceeding, however, only identifies *one* clothing purchase—a $181.66 charge for fire-retardant clothing. AIC contends that to argue the charges listed on Ameren Exhibit 16.1 are "similar" or "of the types" disallowed in Docket 12-0293 is disingenuous.

AIC claims that the larger problem, however, with Staff's approach is that it largely fails to consider the evidence provided *in this proceeding*, namely the business-related justifications and the ratepayer benefits for each disallowed charge. AIC notes that in Docket 12-0293, each charge was disallowed not because it was of a certain "type," but because the Commission did not consider it a recoverable expense based on the record. For example, AIC notes that flower purchases were disallowed in Docket 12-0293 because decorating an informational booth was not in the Commission's opinion a recoverable expense based on the evidence presented, not because flowers may never be an appropriate expense and should be categorically excluded from rates. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 68. AIC argues that, in this case, none of the flower purchases were for informational booths. Similarly, AIC continues, the Commission disallowed one charge for satellite television service in Docket 12-0293, based on its opinion the service was redundant in light of information available on the Internet. AIC contends, however, that in this proceeding, the testimony of AIC witnesses Mr. Pate and Ms. Voiles have presented "better support" for the recovery of satellite and cable television service. AIC asserts that the context of the purchase must be considered in order to determine whether the purchase is reasonable in amount, prudently incurred, and related to delivery service. AIC argues that Staff's analysis fails to do this.

AIC says that, when pressed for an individualized reason for the disallowance of each expense, Staff created (at least) five rationales for disallowance. AIC argues that, without explaining the application of its criteria or the judgment used, Staff's schedule lists each expense and checks off one or more of the rationales for disallowance. The standards applied include: "based on Docket 12-0293," "Arguably Excessive" and "Unnecessary for Delivery Service." (*Id*.) The other three standards are Staff's "Threefold Rationale": "Unnecessary for Provision of Utility Service," "Does Not Provide Benefits to Ratepayers" and "Benefit AIC Employees as a Perquisite," without any citation to prior Commission orders or statutory provisions.

AIC argues as for the first rationale, "Arguably Excessive," which has been checked off for almost all of the disallowed expenses, Staff does not explain *why* it believes AIC paid an excessive amount for any of the challenged charges. AIC contends that the only insight into Staff's analysis came in a discovery request response where Staff reasoned that an "excessive" charge is one that could have been "avoided as unnecessary." AIC posits that where Staff's "unnecessary" standard begins and the "excessive" standard ends is uncertain. AIC argues that if excessive essentially means unnecessary, it seems unnecessary to have additional standards for "Unnecessary for Delivery Service and "Unnecessary for Provision of Utility Service." AIC submits that Staff's other interpretation of excessive is the purchase could have been "potentially transacted at a lower cost." AIC argues, however, that there is nothing in the record to suggest AIC paid too much for any item.

AIC continues, as for Staff's "necessary" rationales, these standards misinform the Commission as to the proper determination the Commission must make concerning the recoverability of expenses in formula rates. AIC posits that under Section 16-108.5(c)(1), the Commission must determine whether a charge is prudent, reasonable in amount, and related to the provision of delivery service, not whether a charge was "necessary" for delivery service. 220 ILCS 5/16-108.5(c)(1). AIC points out that Staff does not cite any Commission orders or statutory provisions that require AIC to demonstrate, in hindsight, each historical credit charge was "necessary." AIC argues, moreover, that such an exercise is unworkable in the context of formula rates. AIC contends that it would be tantamount to endless second-guessing of decisions about whether a particular cell phone, a specific television, a certain safety award or a business meal was a “necessary” utility expense to maintain safe, adequate, and reliable gas service. AIC goes on that it would hamstring supervisors and employees into speculating whether each expense would later be judged to be strictly necessary.

Moreover, AIC asserts that, for the lion’s share of the items Staff seeks to disallow, whether the focus rests on the storm response and other utility equipment, the work-related meals, or the items purchased for employee appreciation, the testimony of Mr. Pate and Ms. Voiles demonstrates that the discontinuation of these and similar purchases would adversely impact AIC’s delivery service. AIC claims that while it may be able to provide some level of service in the short term without a particular expense, it would not remain, over the long term, the level of service its customers expect.

AIC contends that, more importantly however, Staff has not provided an explanation why each expense is not “necessary,” even if that were the appropriate, after-the-fact standard to apply. AIC argues that there is no indication in Staff’s testimony or schedules why the storm response and other utility equipment charges Staff seeks to disallow are not required to maintain service. AIC asserts that there is no indication why the food and beverages provided at safety meetings and other business-related meals are not a necessary expenditure for the day-to-day operation of the utility. AIC continues that there is no indication why safety awards, purchases to recognize an employee’s performance or length of service, or other items that show AIC’s appreciation for its employees are not necessary to engage its workforce. AIC says that Staff suggests there is no burden to demonstrate each individual expense is unreasonable or imprudent. AIC argues that that is precisely what the Commission did in Docket 12-0293, however. AIC contends that one cannot review pages 67–68 of the Commission’s order in that case without recognizing the Commission identified specific expenses and specific objections for each expense.

AIC states that, as for the final two prongs of Staff’s Threefold Rationale, as stated above, AIC has provided testimony establishing the ratepayer benefit associated with each of the charges. AIC represents that Staff has not disputed those ratepayer benefits exist, but rather in response to discovery requests, has suggested that AIC must demonstrate “a quantifiable ratepayer benefit” or a “measure of impact.” AIC submits that the basis for this requirement and how it should be applied is not explained in Staff’s exhibits. AIC argues that given the nature of the ratepayer benefits, quantifying or assigning a dollar amount impact would not be practicable (even if it were required). AIC contends that that does not negate the fact that ratepayers are benefitting. Again, AIC says that there is no analysis of *why* AIC’s explanation of ratepayer benefit is unpersuasive, only Staff’s subjective, unsupported conclusions.

In addition, AIC notes AG/CUB witness Mr. Brosch proposes a minor credit card adjustment ($4,843) to Account 909 expense based on potentially "comparable" credit card expenses identified by AIC in discovery. AIC contends, however, Mr. Brosch did not make any attempt to assess the business justification for the expense, or provide a reason in support of the disallowance of the individual expenses. In addition, AIC states, AG/CUB failed to include any evidence in the record identifying the individual charges AIC identified as potentially "comparable" that make up Mr. Brosch's adjustment. AIC believes costs incurred for vendors similar of nature to costs excluded in prior Commission dockets should not automatically be labeled as unrecoverable in future rate proceedings. AIC concludes the Commission thus should not adopt AG/CUB's general, unsupported disallowance.

AIC notes Staff's initial brief continues to refer to the disputed purchases as "unnecessary" and their costs as "neither prudently incurred, nor reasonable in amount." AIC believes the suggestion in Staff's adjustment seems evident: Staff doesn't just consider the purchases unnecessary; Staff considers the established business practices unnecessary. AIC respectfully disagrees. During this proceeding, AIC has presented Staff with the work-related justification and context for each purchase. AIC's senior leadership has stood up to defend the prudence and reasonableness of each purchase. AIC has done this, because it considers the purchases to be appropriate business expenses. Whether it is the charge for Walmart donuts for a storm meeting, an employee's Blackberry holster, pizza at a safety meeting or decorations for a retirement party, these are charges AIC believes represent prudent and reasonable expenses to operate the utility and engage the workforce.

AIC notes Staff's initial brief now devotes nine pages to an adjustment that previously had garnered less than 70 lines in Staff's direct and less than 90 lines in Staff's rebuttal. AIC says this is largely a function of the new, yet extraneous speculative opinions Staff seeks to improperly inject into the record. But AIC believes it also serves to demonstrate what little analysis Staff brought to the table in testimony in support of its adjustment. The standards Staff purports to apply in its brief illustrate the basic problem with Staff's adjustment. There is no mention of, or citations to, the sources of Staff's standards. There is no indication what the baseline for "necessary" is, or how Staff decides what is "necessary," and what is not. There is no clue given how Staff would or did determine whether there is (or is not) a benefit to ratepayers for a particular purchase. There is no explanation why the costs of de minimis benefits to employees, like donuts at a work meeting, are not reasonable costs of service for a utility. There is no data or references presented to demonstrate the purchases Staff selects are paid for with shareholder funds in non-regulated companies, and not the income earned from the sale of services and products. There is no proof offered that the purchases Staff selects are expenses regulated utilities usually do not recover in rates. There are no points of comparison whatsoever to support Staff's assertions. Granted, Staff cites the Commission's order in Docket 12-0293. But as demonstrated in AIC's initial brief, the charges Staff witness Ms. Pearce selected are in no way "similar" to, or the "types" of, expenses disallowed by the Commission in Docket 12-0293. The fundamental flaw with Staff's adjustment remains: it hinges entirely upon Staff's subjective opinions and speculation on what purchases are necessary and beneficial.

AIC asserts Staff's initial brief continues to discount, without explanation, the evidence AIC has submitted on the business justifications and ratepayer benefits for the contested purchases. Unable to rebut the justifications AIC provided, Staff attempts muddle the record with extraneous claims AIC witness Ms. Voiles lacked "essential knowledge of the Ameren credit card program." This *ad hominem* personal attack, however, has nothing to do with the prudence and reasonableness of the purchases Staff seeks to disallow. That Ms. Voiles did not sponsor the data request attaching the expense reports Ms. Pearce reviewed is meaningless; she analyzed each specific charge Staff seeks to disallow and reviewed the expense reports and supporting documentation. Indeed, the reason AIC's exhibit is more complete than Staff's is because Ms. Voiles added missing information and verified business justifications. That Ms. Voiles did not know, on the stand, details about the number of card holders and supervisors – details that were not within the scope of her testimony – is similarly irrelevant. Both Ms. Voiles and Mr. Pate testified on the controls in place surrounding the approval of corporate credit charges. Indeed, Ms. Voiles is the AIC witness in Docket 13-0075, the Commission proceeding concerning the policies and procedures that govern the usage of corporate credit cards and the reporting of corporate card expenses. To suggest she is not qualified to present AIC's evidence on the business justification and context of the purchases, AIC believes, is not credible.

AIC notes that Staff's initial brief also claims Ms. Voiles' cross-examination "affirmed several of Staff's concerns related to the use of Ameren credit card." AIC believes this is problematic because Staff never voiced these concerns in this docket. AIC states that nowhere in Ms. Pearce's direct or rebuttal testimony is there any mention of general concerns about the usage of corporate credit cards. Indeed, Ms. Voiles' rebuttal testimony expressly acknowledges that Staff does not offer any opinion on AIC's policies and procedures on corporate credit card usage. AIC argues the issue before the Commission in the formula rate case is whether the specific 2012 credit card charges are prudently incurred and reasonable in amount, such that they are recoverable in electric delivery service rates. AIC points out Staff fails to mention in its initial brief that there is a completely different proceeding still open, Docket 13-0075, in which Staff has requested numerous extensions for its direct testimony, that concerns generally AIC's policies and procedures. AIC believes Staff's attempt to inject these "concerns" in this docket for the first time on brief, without providing AIC the opportunity to rebut and cross-examine a Staff witness, is highly improper and unsupported.

AIC noted Staff's initial brief also "disagrees with the rationale provided by Ms. Voiles during cross examination" regarding the business justifications and ratepayer benefits of flowers, new employee giveaways, work-related meals, utility equipment, clothing and finance charges. But AIC believes post-hearing briefing is not the appropriate time for Staff to voice disagreement with responses Staff elicited from Ms. Voiles during cross-examination. AIC also contends the new opinions lack any basis in the factual record to warrant consideration and should be given no weight.

AIC argues that the substantial weight of the evidence submitted in the record in this proceeding demonstrates that each of the disputed corporate credit card expenses is prudent, reasonable in amount, and reasonably related to the provision of delivery services. AIC contends that the asserted business justifications it provided for the charges and the ratepayer benefits AIC believes are realized from the expenses remain unchallenged. AIC asserts that Staff's adjustment is speculative and without adequate support. AIC concludes by recommending that the Commission find the disputed charges are recoverable in delivery rates.

b. Commission Conclusion

The Commission finds the evidence submitted by AIC, namely the business justifications and asserted ratepayer benefits, supports a finding that the expenses Staff seeks to disallow were prudently incurred, reasonable in amount, and supportive of delivery service. For similar reasons as discussed in the Commission's findings concerning Staff's proposed adjustment to Account 588 purchases, the Commission believes Staff's other credit card expense adjustment is not sufficiently detailed and supported by the record evidence. The Commission also finds that Staff's reasons for disallowance amount to conjecture that fails to address the factual evidence AIC presented in this proceeding. Consequently, the Commission declined to adopt Staff's adjustment.

5. Sponsorship Expense (Account 930.1)

a. AIC Position

AIC states that the record contains the analysis AIC conducted to determine the portion of 2012 sponsorship expense from Account 930.1 to recover in formula rates. AIC says that this analysis identifies the educational, charitable, and public welfare benefits that flow from AIC's financial support of local communities and organizations. AIC claims that this analysis also calculates and self-disallows the electric portion of sponsorship expense ($39,301) that reflects the fair market value of meals, tickets and entertainment provided to AIC. AIC argues that the record demonstrates the sponsorships presented AIC with cost-effective opportunities to reach consumers with safety and energy efficiency messaging, or simply permitted AIC to contribute to a worthy enterprise. AIC contends that these costs should be recovered, given that any tangible benefits received have been identified and removed. AIC submits that recovery of similar sponsorships was permitted in the Commission's most recent rate order. AIC asserts that the result should be no different here.

AIC says that Staff seeks to remove a much larger amount of sponsorship expense, roughly $94,000 more than AIC has removed. AIC argues that the record, however, does not support that larger adjustment. AIC says that Staff gives little weight to AIC's analysis. AIC continues that there is little explanation of Staff's basis for individual sponsorships disallowances. And there is no consideration of the most recent, relevant Commission decision on sponsorship expense. AIC contends that these are incurable defects that make Staff's adjustment arbitrary, capricious, and unsupported. AIC asserts that the emphasis in the Commission's review of sponsorships should refocus and remain on the permissibility and recoverability of expenses actually spent on advertising, rather than the financial contributions intended to improve the quality of life in AIC's service territory. AIC concludes that the Commission should adopt AIC's self-disallowance of sponsorship costs and reject Staff's larger adjustment as unjustified.

AIC notes that in Docket 12-0293, AIC's last formula rate case, the Commission allowed recovery of 2011 sponsorships that "involved useful information from AIC." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 74. For other sponsorships, amounts were disallowed ($30,834) in part because AIC employees received "benefits" from meals or tickets. *Id*., p. 76. AIC continues, the largest disallowance, however, was for "catch all" costs ($70,225) the Commission found unsupported by AIC's exhibits. *Id*. Despite those disallowances, the Commission recognized "charitable contributions and corporate sponsorships share some characteristics." *Id*., p. 74. AIC represents that the Commission's stated intent was not to disallow a charitable contribution just because it was recorded to an advertising account. *Id*.

AIC notes that after its Order in Docket 12-0293, the Commission issued its rate Order in Dockets 12-0511/0512 (cons.)—a 2013 future test year case filed by the Peoples Gas and North Shore utilities. AIC submits that in that case, Staff sought to disallow certain sponsorships the utilities argued benefited customers. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 161-64. AIC says that the sponsorships included funding for child and family services organizations, public libraries, foundations, and festivals. *Id*., p. 164. AIC notes that the Commission rejected Staff's adjustment, concluding "the nature of these sponsorships is charitable and recoverable under Section 9-277." *Id*. AIC represents that the Commission found "the nature of the expense is more important" than the account where the expense is recorded. *Id*. And, AIC continues, the Commission noted the recipients were "charitable organizations or organizations providing public welfare or educational services" in the utilities' service territory. *Id*. AIC also points out that the Commission also rejected Staff's adjustment to remove sponsorship expense of certain institutional events, including table sponsorships, concluding they were "made to support fundraising events for local charities and communities in the Utilities' service territory and not primarily to promote the Utilities or to foster goodwill towards the Utilities." *Id*., p. 169. AIC goes on that the Commission found sponsorships expenses like these were "not barred by Section 9-225 of the Act and are recoverable under Section 9-225 and 9-227." *Id*.

AIC contends that, as the Commission found in the Peoples/NS docket and acknowledged in Docket 12-0293, the overriding consideration, when weighing the recoverability of a sponsorship, is whether the funds to the recipient organization resulted in benefits to AIC's ratepayers. AIC says that the benefit could be educational in nature, based on AIC's presence at the sponsored event and the advertising materials published at or in connection with the event. Or, AIC continues, the benefit could be charitable or public welfare in nature, if the purpose of the sponsorship was to provide financial support for the recipient's event, activity or mission. In other words, AIC says that because it did not publish advertisements at or in connection with a sponsored event is not a basis for disallowance, if the event otherwise benefits customers in the utility's service territory. AIC acknowledges that sponsorships can serve as a cost-effective vehicle for providing educational information to consumers, often in-person. AIC argues, however, putting aside that aspect of a sponsorship, the Commission's recent orders confirm financial support for local organizations, whether accounted for as a contribution or sponsorship, is recoverable in rates, if the utility funding has a "charitable" or "public welfare" purpose.

AIC says that in preparing its direct filing initiating this proceeding, it analyzed its 2012 sponsorship expenses, giving consideration to the Commission's guidance in Docket 12-0293. AIC represents that two main actions were taken. *First*, AIC states that it revisited internal guidance on community and public relations expenses in general and issued new guidelines on sponsorships. *Second*, AIC claims to have reviewed 2012 sponsored events to identify whether all, some, or none of the sponsorship expense for an event, activity, or cause should be included in AIC's updated formula rate revenue requirement. AIC represents that the point of the exercise it undertook was three-fold: (*i*) identify sponsorships that provided AIC an opportunity to leverage print or media advertising to educate and inform consumers; (*ii*) identify sponsorships that were principally financial contributions in support of the recipient's event, activity or mission; and (*iii*) identify and remove tangible benefits AIC employees in attendance received from the recipient.

AIC claims that the result of AIC's review was a self-disallowance, both in this case and AIC's pending gas rate case (Docket 13-0192), of the fair market value of tangible benefits (*e.g.*, tickets, meals and entertainment) received by AIC employees from sponsored organizations. AIC says that in both this docket and Docket 13-0192, it deducted the value of the tangible benefits (if any) from the cost of the sponsorship. AIC claims that in total, it has removed $39,301 in sponsorship costs from its proposed electric revenue requirement.

AIC asserts that, in direct testimony, Staff claimed it was disallowing sponsorships that "do not comport to the Section 9-225(3) standards or where the predominance of the messages was for activities prohibited as political, promotional, institutional goodwill." AIC represents that this was an amount in excess of what AIC had removed. AIC contends that Staff's adjustment is problematic because there wasn't any discussion to support it; there was only just Staff's statement. AIC claims that there was no analysis presented to show how Staff applied the Section 9-225(3) standards, or how Staff determined the predominance of the sponsorship's message. AIC states that Staff also claimed its adjustment was "consistent" with Commission Orders in Dockets 12-0001 and 12-0293. AIC asserts, however, that again there was no supporting explanation—there was just the statement. AIC argues that the only explanations provided were the sparse "comments" in Staff's Schedule 5.01 (column q) that implied Staff considered many expenses to constitute "goodwill." AIC claims that even those "comments," however, did not explain the analysis conducted to support the disallowances.

AIC argues that, on rebuttal, the standards and basis for Staff's adjustment became no clearer. AIC says that Staff now claims the sponsorship costs it seeks to disallow "are not necessary for the provision of electric distribution service and do not provide a quantifiable benefit to Illinois jurisdictional ratepayers." AIC points out that the "comments" and any mention of "goodwill" from Schedule 5.01 are gone; that schedule has been replaced. AIC continues that any detailed discussion of methodology and criteria used to determine which sponsorship expenses to accept and which to disallow is still missing. AIC claims that no citations to prior Commission orders are provided to support Staff's new "necessary" and "quantifiable benefit" standards. AIC argues that the only statutory provision mentioned is Section 9-225, without any indication Staff relied upon it to formulate its standards or make its disallowances. AIC asserts that although the amount of Staff's adjustment may have been further refined on rebuttal, the same deficiencies in Staff's reasoning and evidence (discussed further below) remained.

First, AIC says Staff's testimony, schedules, and data-request responses give little explanation of the basis on which additional sponsorship expenses were disallowed. AIC claims that Staff's direct testimony contained one sentence that purported to state the reasons for Staff's adjustment. AIC submits that Staff's data request responses confirm this sentence as the basis for the adjustment. AIC asserts that the only other information provided in Staff's schedules, other than the identified individual amounts Staff proposed to disallow, were Staff's "comments." AIC argues, however, that any analysis and explanation why certain sponsorships were "goodwill," why others should be disallowed for having "no ad," why others should be disallowed for "predominance of the message," and why sponsorships, without print advertisements, should even be analyzed under Section 9-225 were absent. AIC contends that Staff's data request responses failed to provide any further specific information.

AIC argues that Staff's rebuttal testimony further muddled the issue by identifying new standards, without any explanation for the basis or source of the new standards, and without any explanation of how those standards should be, or were, applied to disallow the specific sponsorships in this case. AIC submits that there remains no indication how Staff did—or anyone can—objectively apply Staff's standards. AIC contends that this makes it practically impossible to decipher the basis and reasons relied upon by Staff to support each component of Staff's larger adjustment to sponsorship expense. AIC argues that simply bluntly stating an expense is not "necessary" or does not provide "benefits" just doesn't cut it.

Second, AIC asserts that Staff's application of its standards, on its face, is inconsistent. AIC says that, for the most part, Staff appears to agree AIC can recover sponsorship expense for events where AIC provided an example of a print advertisement that was published at the event. For several events, however, including the sponsorship of the Illinois High School Association (IHSA) March Madness banquet and tournament and the sponsorship of the Peoria Rivermen Hockey "Goals for Kids" program, AIC states that Staff disallows the entire amount of the sponsorship, despite the fact AIC identified a print advertisement. AIC notes other examples of sponsorships on Ameren Exhibit 24.1 for which Staff is disallowing the full amount of funding, even though a print advertisement was identified, including: the Tate and Lyle Players Championship for the Decatur Futures Charity (line 34); Edwardsville Chamber and Rotary fundraisers (lines 42, 44); the Broadway Theater Series and other funding for the Peoria Civic Center (lines 126-29); Quincy Gems (line 137); and U.S. Cellular Coliseum (line 162). AIC argues that funding for these organizations provides AIC with opportunities to reach customers through signage or booklets. For the IHSA event, for example, AIC states that it posted signage and distributed a booklet concerning the Act-On-Energy program on energy efficiency awareness. AIC continues that the funding also helps to ensure these organizations have the resources necessary to actually hold the youth events, however. AIC says that Staff questions the reasonableness of the costs for the IHSA and Peoria Rivermen events—two of the largest sponsorships in 2012. AIC contends that the record shows, however, the costs associated with these events provided substantial opportunities for educational messages and significant financial resources for recipients to draw upon to host the events. AIC submits that Staff's testimony provides no explanation why the educational and public welfare benefits that flow from these sponsorships cannot be recovered, once the tangible benefits have been identified and removed.

Third, AIC argues that Staff's application of its standards seemingly ignores much of the information AIC provided in Ameren Exhibits 6.2 (Rev.) and 24.1, other than the example print advertisements identified with certain sponsorships. For example, AIC says that Staff seeks to disallow the full amount of the electric-allocated portion of the sponsorship of the Decatur Celebration Outdoor Festival, even though there was a safety informational banner associated with the event. AIC contends that for other events, there is no indication Staff considered whether AIC's self-disallowance was sufficient (and no explanation why it wasn't). AIC points out that, collectively, the information compiled in Ameren Exhibit 24.1 identifies: (*1*) the type and value of tangible benefits; (*2*) the channels and messaging used at some events to communicate directly with consumers; and (*3*) the other sponsored activities that were largely or entirely financial contributions. AIC says that copies of ads were provided. The subject matter of the messaging was identified. AIC continues that the recipient and event that received "charitable" or "public welfare" funding has been identified. AIC says that Staff could have taken issue with the content of an advertisement, the nature of the financial support, or the benefit of a community event. AIC argues, however, that Staff hasn't done that. AIC asserts that the absence of such analysis in the record supports the conclusion Staff's adjustment is arbitrary and capricious.

Fourth, AIC contends that Staff's adjustment does not give any consideration to the recoverability of sponsorship expense where AIC did not engage in traditional advertising at, or in connection with, an event or activity. AIC argues that the critical question Staff has not addressed is why a sponsorship, in the absence of a print advertisement, must be *per se* disallowable. Citing Mr. Thomas Kennedy, AIC claims that many of the sponsorships listed in Ameren Exhibit 24.1 simply constituted financial support to local community organizations and municipalities to support an event, activity or cause that did not include traditional advertising opportunities. AIC contends that the funding of these sponsored "public" events resembles closely the funding given to non-profit organizations to support public welfare and charitable causes under Section 9-227 of the Act. Although this type of sponsorship does not permit AIC to hang signage or distribute printed materials, AIC still considers the sponsored event, activity, or cause itself to be important, both to the local community and to any AIC co-workers who volunteer or participate.

AIC submits that there are many, more direct, channels AIC could pursue, with broader reach, if the primary goal of these financial contributions was to enhance the image of the utility. AIC claims that sponsorship of these local community initiatives, however, fits AIC's mission to enhance the quality of life in local communities. AIC says that whether you consider the funding of Belleville High School hockey team's 5K run, Elmwood's narcotics canine program, Hillsboro's sports complex lighting, or Decatur's Park Singers and First Tee programs—AIC argues that these sponsorships and many others listed on Ameren Exhibit 24.1 that Staff seeks to disallow should be recoverable under Section 9-227, since AIC provides these funds to local municipalities and other local non-profit organizations for a "charitable" or "public welfare" purpose. AIC says that Staff suggests a benefit to an attendee of a sponsored event does not correlate to a ratepayer benefit. AIC argues that is shortsighted. AIC represents that the sponsored organizers who receive AIC's support are in its service territory. The communities where the events and activities are held are in AIC's service territory. The participants, the attendees, and the people most impacted by the causes that the organizers support are residents in AIC's service territory. AIC contends that these are public ratepayer benefits.

AIC claims that the Commission has already rejected Staff's position that "public welfare" and "charitable" sponsorships are not recoverable. AIC says that the

Commission's recent findings and analysis in the Peoples/NS Docket concluded sponsorships given to "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities" are recoverable expenses. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164, 169. AIC represents that Staff, however, admitted it did not consider the decision when developing its adjustment in this case, and when asked to consider the decision, refused. AIC says that Staff's rebuttal does not even mention the decision. AIC argues that it is not appropriate for Staff to claim its adjustments are "consistent" with prior Commission Orders (Dockets 12-0001 and 12-0293), but object to considering criteria in a more recent decision that undercuts the validity of its adjustment (Peoples/NS Docket).

AIC contends that Staff attempts to muddy the waters by suggesting AIC characterized sponsorship costs in its direct filing as strictly advertising expenses. AIC says that suggestion misconstrues the intended purpose of Ameren Exhibit 6.2 (Rev.) and the analysis conducted based on the Commission's guidance in Docket 12-0293. AIC states that if its print, audio, and video presence at an event reaches a substantial number of customers, it might appropriately be considered advertising, and it would be appropriate to evaluate the recoverability of the expense under Section 9-225. But, AIC continues, if its presence is largely a financial contribution in support of an event, activity, or cause, with little to no print, audio, or video presence, then it should not be evaluated as advertising. AIC represents that Staff contends the Commission can disallow sponsorships as "goodwill" advertising, even if there is no advertising. AIC argues, however, that that is not credible. AIC contends that for an expense to be disqualified as "goodwill" advertising, there has to be actual advertising. AIC asserts that the Commission should not "accept the premise that each of the expenses should be evaluated [only] as a category of advertising expenses" under Section 9-225, as Staff has. AIC says that that the sponsorship cost was recorded in Account 930.1 and appears on Ameren Exhibit 6.2 (Rev.), rather than the Charitable Contribution C-7 Schedule, does not matter for determining whether the cost was prudently incurred, reasonable in amount, of benefit to ratepayers, and recoverable.

AIC argues that Staff's initial brief, like its testimony, merely identifies Staff's generic standards. It cites a few examples of disallowed sponsorships. And it explains which sponsorship expenses it did not disallow. AIC contends that still absent, however, is an explanation for the expenses Staff did disallow. AIC asserts that there is still no indication how Staff picked or applied its standards to disallow each component of its additional adjustment to sponsorship expense. AIC claims that it is not sufficient to simply state an expense was not "necessary" or "beneficial." AIC submits that there has to be some analysis that identifies Staff's specific objections to each expense. AIC argues that there isn't, however. AIC says that just giving examples of expenses proposed for disallowance does not justify Staff's disallowance.

AIC says it has debunked Staff's claims in its initial brief that AIC did not provide "justification" for Staff's largest disallowances: the sponsorships of youth programs hosted by the Illinois High School Association and the Peoria Rivermen hockey team. AIC argues that the opposite is true, however: Staff has not justified its inconsistent treatment and these disallowances. AIC asserts that Staff hasn't explained why the costs AIC removed for tangible benefits are not sufficient. AIC continues that Staff overlooks other sponsorships it proposes to disallow where a print advertisement was identified. AIC contends that Staff ignores the explanation AIC provided in surrebuttal testimony why these particular events receive more funding than other events AIC sponsors. AIC states that it provided more financial support to these recipients, not just because the events were more expensive to host than other smaller events AIC sponsors, but also because the organizers provided substantial opportunities for advertising. AIC argues that these particular disallowances typify the absence of analysis supporting Staff's adjustment that makes it arbitrary and capricious.

AIC also object to Staff's contention on brief that where AIC did not have a print advertisement, provide a booth, or sponsor a speaker, "then the only message that could be conveyed would be promotional or goodwill." AIC contends that it strains credulity to argue the absence of an advertisement is somehow "goodwill" advertising that must be disallowed under Section 9-225 of the Act. AIC notes that in Docket 10-0467, the Commission found the fact that a utility may receive "public recognition" for its sponsorship of civic events does not mean the associated costs are per se unrecoverable and subject to a blanket disallowance. *Commonwealth Edison Co.*, Docket 10-0467, Order, p. 109. AIC goes on that in Docket 112-0511/0512 (cons.), the Commission again rejected an adjustment to disallow sponsorships of local charities and community events as somehow promoting the utilities or fostering goodwill. AIC represents that the sponsorship costs the Commission permitted in those dockets are the same types of sponsorship costs AIC seeks to recover in this proceeding, and that Staff cannot credibly argue otherwise. AIC continues, that Staff's initial brief continues to ignore the Commission's most recent order on sponsorships speaks volumes. AIC contends that to the extent the language Staff cites from Docket 12-0001—the only prior Commission opinion Staff's initial brief bothers to cite—suggests corporate sponsorships that do not offer advertising opportunities are *per se* "goodwill advertising," that conclusion is neither consistent with the Commission's other opinions nor a proper interpretation and application of Section 9-225. AIC claims that for an expense to be disallowed as goodwill advertising, it has to be actual advertising to disallow.

AIC also disputed Staff 's claim on brief that AIC stated the advertising standard of Section 9-225 should apply to the sponsorship costs charged to Account 930.1 and identified in Ameren Exhibits 6.2 (Rev.) and 24.1 (Rev.). AIC argues that that assertion is simply not true, and ignores the analysis and arguments presented in AIC's sponsorship exhibits and the accompanying rebuttal and surrebuttal testimony of AIC witness Mr. Thomas Kennedy. AIC contends that the main point of Ameren Exhibits 6.2 (Rev.) and 24.1 (Rev.) was to support the recoverability of the expense, not justify the accounting of the expense. AIC states that in Docket 12-0293 and Docket 12-0511/0512 (cons.), the Commission declined to adopt the position that the historical accounting is determinative on the ratemaking analysis. AIC asserts that the same consideration should be applied here when judging AIC's sponsorship costs in this case.

AIC argues that Staff's reliance on Ameren Exhibit 6.3 (Rev.) to support its disallowance is misplaced. AIC says that the point of that exhibit was to identify electric production and publication advertising costs charged to Account 909 in 2012. It did not concern the sponsorships and community outreach expenses charged to Accounts 930.1 and 908 respectively. AIC contends that the one sentence in Ameren Exhibit 6.3

(Rev.) that mentions sponsorships directs Staff to Ameren Exhibit 6.2 (Rev.). AIC asserts that because it did not produce an advertisement for a sponsorship does not support the automatic disallowance of the expense.

Staff on brief claims its "comprehensive and reasonable" analysis supports its adjustment. AIC argues that any review of the record, however, illustrates Staff's analysis was far from comprehensive. AIC contends that there is no demonstration that sponsorships without advertising opportunities are disallowable goodwill. There is no explanation why sponsorships without advertisements are not necessary and do not produce ratepayer benefits. There is no examination of the appropriateness of AIC's self-disallowance. There is no analysis of the charitable and public welfare benefits that flow from AIC's financial support of local communities. There is no recognition of the Commission's on point, prior decisions that expressly allow the same sponsorship costs AIC seeks to recover here. AIC claims these deficiencies demonstrate that Staff's analysis is an inadequate basis for the Commission to make a disallowance.

b. Commission Conclusion

AIC represents that it has agreed to remove the electric-allocated portion of the tangible benefits its employees received in 2012 from sponsorship recipients. AIC argues that the remainder of the 2012 electric-allocated sponsorship expenses should be recovered in formula rates. Citing AIC witness Mr. Thomas Kennedy, AIC contends that the sponsorship provided it with a cost-effective opportunity to reach consumers with educational messages, or otherwise provided financial support, for a charitable or public welfare purpose, to local communities and organizations. AIC posits that the point of compiling schedules such as Ameren Exhibits 6.2 (Rev.) and 24.1 is to be transparent with the Commission, Staff, and ratepayers about the nature of the activities AIC supports in its service territory and to identify the portion of that expense that should be recoverable in rates as a reasonable, prudent operating expense. AIC asserts that convincing, specific reasons why additional amounts should be disallowed have not been provided. AIC concludes that the record supports Commission approval of AIC's self-disallowance, but does not support Staff's larger adjustment. AIC also contends Staff's adjustment fails to reflect the approach and direction of the Commission in its recent rate order in Dockets 12-0511/0512.

The Commission agrees with AIC that the record demonstrates the sponsorships costs (less the tangible benefits received) are recoverable in rates. The Commission acknowledges that in prior AIC formula rate cases the Commission has disallowed a larger amount of sponsorship expense that what the utility proposed for disallowance. The Commission recognizes, however that AIC has undertaken and presented a new analysis that was not part of the record in prior formula rate proceeding. The detailed review AIC conducted on 2012 sponsorships costs identified and removed the value of ancillary benefits received by AIC employees in attendance on sponsored events. The analysis also identified the recipient and event, activity or cause that received AIC's funding, as well as any advertising messages that AIC was permitted to display. The Commission finds Staff's adjustment fails to take AIC's analysis into account, and more importantly, fails to address the Commission's decision in Dockets 12-0511/0512. That decision clearly stands for the proposition that utility financial support of public events, activities and programs, like local community festivals, are recoverable amounts. Staff's position that the utility must have a print advertisement displayed at the public event, activity or program, is arbitrary and not consistent with the Commission's decision in Dockets 12-0511/0512. The Commission adopts AIC's self-disallowance as the appropriate adjustment in this proceeding and encourages AIC to submit similar analysis in future formula rate proceedings to assist the Commission with determining the appropriate amount of sponsorship expense to include in electric delivery rates.

6. Community Outreach Expense (Account 908)

a. AIC Position

Separate from its adjustment for sponsorship expense, AIC says that Staff also makes an adjustment to Community Outreach expense. AIC represents that Staff claims its rationale for disallowance is the "same." AIC argues that like its adjustment to sponsorship expense, the deficiencies with Staff's adjustment to community outreach expense are the "same." AIC contends that there is no explanation why or how Staff determined these expenses are "not necessary for the provision of electric distribution service." There is no explanation why or how Staff determined these expenses do "not provide a quantifiable benefit to Illinois jurisdictional ratepayers." AIC continues, there is no explanation why these expenses are not recoverable as financial support for "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities." *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164, 169. And there is no credible explanation why these expenses must only be evaluated under Section 9-225 of the Act, if there was no actual AIC "advertising" at the event. AIC contends that, as with sponsorships, it has removed the tangible benefits received ($300); the remaining expenses are recoverable. AIC argues that Staff's additional, larger adjustment is unsupported and should be rejected.[7]

AIC posits that the purpose of community outreach funding is twofold: to improve the quality of life in a community, and to cost-effectively educate customers and other stakeholders about available programs and current issues impacting the adequacy, safety and reliability of service. AIC says that community relations coordinators, operating center staff, and other personnel involved in the community typically represent AIC at these events to engage with customers, answer questions and provide information customers can use to make informed decisions about their energy usage. AIC contends that the event may present AIC with an opportunity to distribute an informational booklet. Or it may permit AIC to have a booth. AIC acknowledges that there may not be a specific traditional print advertisement. AIC says that the extent of its presence may consist largely of the placement of AIC's name and logo on signage in the event space or recognition as a sponsor on the event's website.

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[7] AIC also contends that there is an error in Staff's community outreach adjustment (Schedule 10.02) related to the contribution to the Family Fun Zone at the Heart of Illinois Fair. AIC says that the electric portions of the contribution and tangible benefits were $3,000 and $300. AIC states that deducting the benefit from the contribution results in an amount of $2,700—the amount AIC is seeking to recover. AIC claims that Staff's schedule, however, disallows the entire electric cost ($3,000) and also deducts the full amount of the tangible benefit ($500). AIC argues that that adjustment double counts $800.

AIC claims that, as was the case with sponsorships, it identified the recipient and amount of the community outreach funding, the date and location of the event, the content and placement of AIC's messaging, the category of attendee benefit, and the value of any tangible benefits. AIC represents that Staff concedes community outreach expense is recoverable, if associated with a print advertisement or booth display. AIC points out that Staff, however, proposes to disallow expenses where AIC's presence largely consisted of the placement of its name and logo on signage in the event space or on the event's website. AIC says that Staff claims it has failed to provide adequate justification why ratepayers should be responsible to support these events or why such expenses are necessary for the provision of utility service.

AIC argues that as with its adjustment for sponsorships, the standards and basis for Staff's disallowance of community outreach funding for individual events are not well developed and are not entirely clear. AIC points out that in direct testimony, Staff provided a one sentence explanation, claiming the expenses were predominantly goodwill and not necessary for the distribution of electricity, or do not provide a benefit to electric distribution customers. AIC states that, in addition, Staff's Schedule 5.02 (column r) provided "comments" that implied Staff was disallowing the expenses as "Goodwill, no ad." Staff did not conduct any discovery prior to filing its direct testimony on AIC's sponsorship or community outreach expenses. AIC represents that Staff based its disallowance entirely upon the information included in Ameren Exhibit 6.2 (Rev.), without asking additional questions about the purpose, messaging or benefits associated with the funding. AIC says that Staff's responses to data requests confirmed this. AIC argues that Staff also offered no evidence the expenses associated with the individual signage or website community outreach events were incurred for the primary purpose of enhancing AIC's image. AIC argues that Staff instead presumed they were unrecoverable.

AIC claims that the case for disallowance Staff presented in its rebuttal is similarly weak and muddled. AIC says that Staff argues the disallowed community outreach expenses are not necessary for the provision of electric distribution service and do not provide a quantifiable benefit to Illinois jurisdictional ratepayers. AIC states that Staff also argues Ameren Exhibit 6.2 (Rev.) does not identify a "specific benefit" or explain "how the attendees benefited through 'public welfare' or 'education.'" AIC contends that these arguments, however, widely miss their mark. AIC argues that there isn't an explanation of the source of Staff's rebuttal standards (no decision or statute requires proof or necessity or quantifiable benefit.) AIC says that there isn't a discussion of how those standards were or should be applied to the specific expenses Staff seeks to disallow (all provide educational, charitable or public welfare benefits.) AIC continues that there isn't an indication how or whether Staff is still seeking to disallow these expenses as "goodwill" under Section 9-225 (they aren't public image advertising). And AIC concludes that there isn't any justification why expenses without an associated advertisement or booth are *per se* unrecoverable (they should not be).

AIC says that in rebuttal, Staff claims AIC "characterizes" sponsorship and community outreach expenses as "advertising" expenses in direct. AIC argue that that isn't true. AIC says Ameren Exhibit 6.3 (Rev.) identified production and publication advertising costs charged to Account 909. Ameren Exhibit 6.3 (Rev.) did not concern sponsorship and community outreach expenses charged to Accounts 930.1 and 908.

Ameren Exhibit 6.2 (Rev.) discloses those expenses. AIC asserts that the portion Staff quotes from Ameren Exhibit 6.3 (Rev.) directs the reader to Ameren Exhibit 6.2 (Rev.). AIC continues, its rebuttal and surrebuttal testimony also make clear AIC is not proposing to evaluate sponsorship and community outreach expenses only as advertising expenses under Section 9-225.

AIC represents that Staff concedes community outreach costs can provide educational benefits. AIC argues that because Staff doesn't disallow the expense for events with an associated advertisement or booth display confirms this. AIC asserts that the Commission's recent decision in the Peoples/NS Docket provides the basis for recovery of the remaining expenses. AIC notes that financial support for "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities" are recoverable contributions. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164-169. Indeed, AIC continues, in that decision, the Commission rejected Staff's proposed application of the "philanthropic light" language from Docket 12-0001 to disallow the same type of sponsorship and community outreach costs at issue here. *N. Shore Gas Co. et al.*, Dockets 12-0511/0512 (cons.), Order, pp. 162-163. AIC claims that the community outreach costs Staff proposes to remove fall squarely within the purview of that decision. AIC concludes that Staff's adjustment must be rejected.

b. Commission Conclusion

AIC claims that Staff continues to allow cost recovery of sponsored outreach events that provided AIC with opportunities to advertise. But, AIC continues, Staff continues to disallow entirely the cost of any event where such opportunities did not occur. AIC argues that the relevance of that distinction is never explained. Nor does Staff explain the application of its standards. AIC goes on that there is no indication why community outreach events without advertising are not necessary for the distribution of electricity and not beneficial to ratepayers, but community outreach events with advertising are. Nor is there any indication why sponsorships with print advertisements are recoverable, and sponsorships with signage in the event space or recognition on the event's website are not. AIC says that Staff simply states that ratepayers should not be responsible for funding county fair and festivals. AIC notes, however, that assertion directly contradicts the Commission's findings in Dockets 12-0511/0512 (cons.)—a decision Staff chooses not to address in testimony or briefing. AIC contends that the Commission cannot similarly ignore its own decisions.

The Commission agrees with AIC that the decision in Dockets 12-0511/0512 (cons.) allowed recovery of similar costs for public community outreach events. The evidence submitted by AIC identifies the municipality or community organization that received AIC's financial support and the community event on which the funds were spent. The Commission does not agree with Staff's distinction that would only allow cost recovery for sponsored events at which in connection with which a print or media advertisement was distributed or published. Indeed, the Commission believes Staff's distinction improperly characterizes financial support of community events as goodwill advertising. The Commission encourages Staff and other parties to rate proceedings to focus efforts on whether the actual advertisements distributed at these events demonstrated an overriding intention or design to promote the utility. To the extent this decision is inconsistent with its decision in Docket 12-0001, the Commission finds that the evidence AIC submitted in this docket on community outreach expenses, like the evidence submitted on sponsorship expenses, better supports cost recovery of the amounts AIC has proposed to keep in the revenue requirement.

7. Advertising and Public Relations Expense

a. Potentially Comparable Simantel Expense (Account 909)

i. AIC Position

AIC says that it ordinarily charges production and publication costs for traditional print and media advertisements to FERC Account 909. Account 909 expense includes costs incurred employing agencies, selecting media and conducting negotiations in connection with the placement and subject matter of information programs. AIC represents that it utilized outside agencies for the staff, resources and capabilities they can quickly and cost-effectively mobilize to produce communication materials. AIC contends that these agencies provide a range of services that it has not internalized such as graphic design, copywriting, and video production. AIC asserts that utilizing outside agencies allows AIC to manage its operating expenses and internal labor, without jeopardizing efficiency and the quality of the customer education materials.

AIC notes that in Docket 12-0293, the Commission disallowed vendor expenses charged to Account 909 (electric) that had been collectively grouped under the umbrella of “Focused Energy For Life” (FEFL). *Ameren Ill. Co.*, Docket 12-0293, Order, pp. 63-64. AIC points out that these were charges from agencies allocated to AIC from Ameren Services Company (AMS) for various corporate communication services. AIC claims that the excluded charges related to services and work product provided by the Simantel Group, Inc. In Docket 13-0192, in response to Staff data request BAP 6.02, AIC says that it identified 2012 charges potentially “comparable” to Simantel expenses disallowed in Docket 12-0293. AIC represents that it reproduced that same analysis in this docket in response to AG 2.11.[8]

AIC says that the 2012 electric expense in Account 909 identified as potentially “comparable” to a Simantel expense disallowed in Docket 12-0293 was an invoice for $4,125 for Simantel’s services on an ActOnEnergy workshop for contractors and employees on the Energy Efficiency Team. AIC states that the workshop targeted methods to increase customer recognition and participation in energy efficiency programs by effectively integrating messaging for the ActOnEnergy programs. In response to Staff data request SRK 1.07, AIC represents that it provided additional information on this invoiced amount, including an explanation why the expense was necessary for the distribution of electricity and a description of the ratepayer benefits. AIC represents that, based on AIC’s response to SRK 1.07(b), Staff now has withdrawn its disallowance for this invoiced expense.

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[8] In response to BAP 6.02 in Docket 13-0192 and to AG 2.11 in this case, AIC states that it indicated that just because a 2012 expense was identified as potentially “comparable” to an excluded 2011 expense did not mean AIC believed the 2012 expense should be disallowed from delivery rates.

AIC says that AG witness Mr. Brosch, however, continues to contest AIC's recovery of this invoiced Simantel expense. AIC argues that the problem with Mr. Brosch's adjustment is that he has not provided any analysis of the 2012 expense that would justify the disallowance. AIC claims that he hasn't even identified an external message associated with the Simantel charge that he finds objectionable as "goodwill." AIC points out that, in his rebuttal, Mr. Brosch admits he has not conducted an "independent critique" of any of the "potentially comparable" Simantel charges identified by AIC. AIC contends that the Commission should not adopt AG's unsubstantiated adjustment to Account 909 expense. AIC argues that it has demonstrated this particular invoiced cost should be recovered in rates as prudent and reasonable, and Staff agrees.

ii. Commission Conclusion

AIC details the reasons why the Account 909 Simantel charge at issue ($4,125) should be recovered in rates as prudent and reasonable. A review of the record indicates Staff remains satisfied the information provided in discovery supports recovery of the expense. Although the AG and CUB did not separately brief this expense, the amount is included in AG/CUB witness Mr. Brosch's overall adjustment. As a result, the amount remains contested. The Commission finds the record evidence, including the subject matter of the services, supports recovery of this particular Simantel expense.

b. Potentially Comparable Simantel Expense (Account 930.2)

i. AIC Position

Besides the expense discussed above, AIC says it identified other potentially "comparable" 2012 Simantel charges in Account 930.2. These charges totaled $99,479. In direct testimony, AIC states that Staff proposed to disallow all amounts as "either goodwill or promotional in nature" because the Commission had disallowed "comparable" expenses in AIC's most recent formula rate orders. AIC represents that Staff's direct testimony, however, didn't analyze the 2012 expenses and identify a basis in the record *in this proceeding* to support disallowance of each expense. AIC argues that, without a specific objection to an invoiced expense and evidence the expense was "goodwill," it should not be removed simply because it is potentially "comparable" to an expense disallowed in a prior docket. AIC asserts that the Commission needs to decide each contested issue based on the facts presented in this docket, not just the conclusions rendered in a prior docket.

AIC contends that the invoiced information summarized in Ameren Exhibits 14.3 and 24.6 for these expenses demonstrated the wide range of work requests and billed services handled by Simantel in 2012. AIC represents that this variety is not uncommon when the vendor is the agency of record for corporate communications. AIC submits that the services provided included many ordinary expenses incurred by AIC's Community and Public Relations (CPR) group that would not be typical, traditional advertising, including expenses related to internal discussions and planning. AIC contends that the invoiced information summarized in Ameren's exhibits, including

Ameren Exhibit 24.3, allowed for a specific determination whether a particular service is recoverable. AIC asserts that this was additional detail for each invoiced cost not provided in the record in Docket 12-0293. AIC argues that this is detail Staff and Intervenors should have used to make disallowances in this docket.

AIC says that on rebuttal, Staff revised its adjustment based on its individual review of the invoiced costs and additional information AIC provided in response to SRK 1.07(c). Staff's recommended disallowance is now $68,000.[9] AIC argues that Staff's rebuttal adjustment, although lower in amount, still suffers from many of the same flaws present in Staff's adjustment on direct. AIC states that Staff claims it continues to disallow Simantel expenses that AIC has failed to demonstrate were "necessary for the provision of utility service." AIC argues that there is no discussion of prior Commission orders or Illinois statutory provisions that support Staff's "necessary" standard, however. AIC continues that nor does Staff provide a narrative that explains how its "necessary" standard was applied to identify the amounts Staff seeks to disallow. AIC acknowledges that to Staff's credit, it identifies individual expenses it finds objectionable; AIC argues, nevertheless, that Staff's testimony does nothing more than pay lip service to the costs it seeks to disallow. AIC contends that simply making a list of expenses and claiming they are not "necessary" is not sufficient to establish record evidence to support an adjustment. AIC asserts that there has to be some sort of analysis that considers the context of the expense and the Commission's prior decisions.

AIC says that Staff adapts Schedule 10.03 to include a column to check off an expense as "not necessary for utility service." AIC continues that there is also a column to check off an expense as having "no identifiable work product." But, AIC argues, Staff's rebuttal is devoid of any discussion why these standards were chosen and how they were applied. AIC claims that there is no "work product" standard promulgated by the Commission that disallows vendor charges for services that did not result in finished material. AIC posits that more importantly, for every item marked by Staff as having "no identifiable work product," AIC represents that it indicated Simantel's services involved developing messaging for internal meetings or otherwise generated content for emails, displays, PowerPoint, video, etc. AIC argues that the larger problem though is the invoice descriptions actually describe the work product and services provided. AIC says that three of the five invoices relate to internal discussions and meetings for which Simantel was asked to develop media and messaging (line 1), organize historical Human Resources material (line 5) and develop a full-blown media plan (line 6). AIC continues that the remaining two invoices relate to the design and production of word marks for internal departments (lines 9 and 10). AIC represents that the descriptions of the remaining invoiced amounts that Staff seeks to disallow for not having "identifiable work product" and not being "necessary for utility service" similarly identify the tangible product or service provided: website video (line 13), PowerPoint (lines 14-18) and magazine print advertisement (line 20-21). AIC contends that the high-level "analysis"

[9] AIC clarifies that Staff's adjustment does not reflect the two amounts (of $6,476 and $2,706) that AIC has agreed to disallow. AIC says it has removed the jurisdictional amount of $8,453 for those costs from Surrebuttal revenue requirement. After consideration of AIC's Surrebuttal adjustment, AIC says that the remaining amount at issue is $59,362.

conducted by Staff glosses over these details, which support recovery of the expenses.

AIC submits that the information presented in Ameren Exhibits 24.3 and 24.6 also demonstrates the expenses Staff checks off as “not necessary” are recoverable expenses. AIC asserts that whether an expense is “necessary” misstates the dispute for the Commission to resolve. AIC claims that the issue is not whether the expense helps to keep the lights on. AIC argues that the issue is whether the expense can be recovered through formula rates as prudent, reasonable in amount and related to delivery service. AIC represents that the majority of the expenses Staff disallows as “not necessary” are amounts incurred to develop, produce, and publish a print advertisement and PowerPoint presentation (speech) on economic development in the greater St. Louis area ($32,790). AIC represents that Staff argues the economic development expenses are “not necessary for the distribution of electricity,” while the methane and clean coal expenses relate to the generation of electricity. AIC says that as with Staff’s “work product” standard, there is no discussion of the source and application of Staff’s “necessary” standard. Nor has Staff claimed that these expenses are “goodwill advertising” or costs that shareholders should bear. AIC disagrees that the descriptions of the services “clearly” demonstrate these expenses are not reasonably related to delivery service. For example, AIC contends that the PowerPoint speeches and print advertisements on economic development—the majority of the expenses Staff deems unnecessary—communicate the role AIC plays in creating jobs for Illinois citizens by investing in delivery systems and otherwise supporting the growth of industrial and commercial customers.AIC argues that informing customers on the economic impact of AIC’s delivery service is an expense reasonably related to the provision of that service. AIC contends that Staff, on the contrary, has not explained why the amounts should be disallowed. AIC submits that the three remaining invoiced amounts ($10,120) Staff claims are “not necessary for utility service” are charges for “Methane to Megawatts” messaging and “clean coal” research. As indicated in Staff’s exhibit, AIC says the two charges for “clean coal” research relate to mandatory quarterly environmental disclosures to the ICC on AIC’s sources of electricity. AIC continues that the charge to update the “Methane to Megawatts” website messages relates to customer education on the benefits of renewable sources of electricity. AIC states that Staff has not explained why these communication costs should not be recoverable in rates.

AIC points out that, in contrast to Staff, AG witness Mr. Brosch seeks to remove all potentially “comparable” 2012 Simantel charges in Account 930.2. AIC asserts that the sole basis for Mr. Brosch’s adjustment, however, is the fact that AIC identified these amounts as potentially comparable. AIC says that in his adjustment to remove a Simantel charge from Account 909 expense, Mr. Brosch has not identified a particular invoiced expense from this subset of Simantel charges that he finds objectionable. As AIC noted above, Mr. Brosch admits he has not conducted an “independent critique” of potentially comparable Simantel charges. Comparing the AG’s approach to Staff’s, AIC contends that Staff at least attempts an-invoice-by-invoice analysis (even if it still is lacking). AIC argues that Mr. Brosch, however, attempts no such analysis to explain why any of the expenses should be disallowed. AIC argues that, given that AG’s adjustment lacks any basis whatsoever, the Commission cannot adopt it.

AIC argues that Staff, in its initial brief, attempts to resuscitate Mr. Brosch's adjustment with additional analysis of the record evidence its own expert didn't bother to conduct. AIC argues that what is still missing, however, even in this eleventh hour "review," is the sort of invoice-by-invoice analysis the Commission has required to support a disallowance. AIC contends that simply plucking out snippets from a few documents doesn't make the AG's global disallowance any less general and generic. AIC submits that there must be (*1*) a specific invoice or invoices identified that (*2*) represents the cost incurred for (*3*) a particular objectionable message that was (*4*) disseminated widely enough to constitute "goodwill" advertising under Section 9-225. AIC says that although the AG argues for the disallowance of specific vendor invoices elsewhere (e.g., Karen Foss LLC and Obata Design), AIC argues that that sort of analysis still hasn't happened here, with respect to Simantel charges. As a result, AIC asserts that the AG still paints its "comparable" and "image" adjustment with too broad a brush.

ii. Commission Conclusion

AIC says that it has self-removed the potentially comparable Simantel charges that did not relate to AIC electric delivery service or otherwise did not benefit AIC customers. AIC represents that the information contained in Ameren Exhibit 24.3 and 24.6 provides a basis for recovery of the other costs, as prudently incurred, reasonable in amount and related to electric delivery service. AIC contends that Staff and the AG/CUB's adjustments lack the critical analysis necessary to support a disallowance. AIC concludes that the Commission cannot defer to Staff and the AG/CUB's branding of these costs as unnecessary. AIC appeals to the Commission to adopt AIC's self-disallowance and decline to adopt the proposed disallowances advocated by Staff and AG/CUB.

The Commissions finds the manifest weight of the evidence in the record supports AIC's position. The invoiced amounts AIC removed for corporate holiday cards and other Ameren affiliate marketing should not be included in AIC's electric delivery rates. The remaining amounts initially identified by AIC in discovery as potentially comparable, however, are recoverable through AIC's electric formula rate. The evidence submitted by AIC demonstrates the expenses were prudently incurred, reasonable in amount, and reasonably related to AIC's delivery service. The Commission does not find that Staff has adequately explained and defended the specific disallowances it proposes. The Commission further finds that AG/CUB failed to identify specific objections to particular expenses; that deficiency alone makes their proposed adjustment unable to be adopted. The Commission appreciates supporting detail AIC has provided in this proceeding in support of their cost recovery, and encourages the parties in future proceedings to focus on whether communication costs – including communication costs allocated from a corporate parent – are reasonable and prudent costs AIC incurs in connection with the delivery service it provides.

c. Other Simantel Expenses (Account 930.2)

i. AIC Position

AIC says that in 2012, it charged $743,635 in Simantel costs to Account 930.2 (electric). AIC contends that this amount constituted a variety of corporate communication charges allocated to AIC from AMS. AIC continues that this amount also represented 88% of the approximately $845,000 in Public Relations expense charged to Account 930.2 (electric). As AIC disclosed in direct testimony, expense in Account 930.2 increased $600,000 or 20% in 2012, compared to 2011, due to the increase in outside agency costs charged to Public Relations expense. AIC asserts that the increase in Account 930.2 Public Relations expense in 2012 is in contrast with the decrease in Account 909 expense. AIC says that in 2011, it charged roughly $2.5 million to Account 909 (electric). *Ameren Ill. Co.*, Docket 12-0293, Order, p. 58. This amount included the Simantel charges the Commission disallowed. *Id*. AIC states that in 2012 however, Account 909 (electric) expense decreased to $1.5 million, as the bulk of the corporate Simantel charges were shifted from Account 909 to 930.2. AIC notes that overall, electric expense in Accounts 909 and 930.2 in the aggregate decreased in 2012.[10]

AIC says that in addition to proposing the disallowance of all potentially "comparable" Simantel expenses, AG witness Mr. Brosch proposes a staggering and substantial adjustment to the remainder of Simantel charges in Account 930.2. AIC points out that Mr. Brosch specifically recommends the Commission remove approximately 50% of the remaining Account 930.2 Simantel expenses not identified as potentially "comparable." AIC represents that this amounts to the removal of approximately $298,000 from the revenue requirement. According to AIC, Mr. Brosch contends his review of information AIC provided indicates "clearly a diverse mix of activities and costs" embedded in the overall amount of Simantel expense. AIC represents that Mr. Brosch believes his 50% disallowance represents a "reasonable apportionment" to shareholders of "discretionary" costs "not needed to provide safe and adequate utility service in Illinois." AIC notes that Staff did not join Mr. Brosch's adjustment in its rebuttal testimony. AIC appeals to the Commission not to adopt Mr. Brosch's adjustment in its final order.

Citing Mr. Brosch's direct testimony, AIC asserts that in 2012, Simantel served as Ameren Corporation's (Ameren) agency of record for communication services. AIC contends that the support Simantel provided AMS and AIC concerned a variety of internal and external communication initiatives. AIC says that the audiences were diverse: customers, other stakeholders, other contractors, AMS and AIC employees. AIC continues that the projects were diverse: design and placement of ads, development and editing of scripts, strategic planning for quarterly external communications, drafting of internal guidelines, drafting of speeches and other presentations, creating materials for town hall meetings, preparing annual reports, and other work needed for meeting preparation. AIC represents that the general purpose of these expenditures was to assist AMS and AIC personnel in implementing effective

[10] In addition, AIC says it charges Customer Assistance Expenses to Account 908. AIC represents that in 2012, expenses charged to the Customer Service and Information Expenses accounts (FERC Accounts 907-910) amounted to $58.1 million. AIC asserts that it, however, reduced electric customer service and information expense by $53.1 million to remove the expenses AIC recovers through Rider EDR – Energy Efficiency and Demand-Response.

strategies that would produce and deliver internal and external educational materials and other communications.

AIC argues that the fundamental flaw in Mr. Brosch's proposed 50% adjustment is that, although he acknowledges the diverse nature of Simantel expenses, he fails to take that diversity into account. AIC points out that Ameren Exhibit 24.6 is an eight-page Excel worksheet that identifies the voucher number and AIC allocated amount (column c) for each Simantel invoice, as well as the unique job description (column e), the particular work requirement (column f) and the specific billed services (column g) associated with each Simantel invoice. It contains 29 individual lines of data for the potentially comparable amounts, and 123 individual lines of data for the remaining Simantel charges in Account 930.2. AIC represents that it manually compiled this information from the hundreds of pages of invoices provided in discovery. AIC submits that this information and other exhibits and discovery responses AIC provided (*e.g.*, Ameren Exhibits 14.5 and 24.5) were the basis for a line-by-line review of Simantel's charges.

AIC argues that Mr. Brosch's adjustment, however, doesn't rely on this information to propose a disallowance of specific invoiced Simantel expenses. AIC represents that Mr. Brosch concedes he applied a 50 percent disallowance factor to the Simantel public relations charges in place of a more detailed review. AIC argues that the admission of the lack of specificity undermines his approach. AIC maintains that this is the case despite CUB's claims about what much of Simantel's work in 2012 was primarily intended to do, or the AG's similar claims that the Simantel expense includes extensive image advertising and parent corporate messaging. AIC argues no matter how the AG and CUB dress up Mr. Brosch's adjustment in brief however, it cannot change the fact that Mr. Brosch admitted he did not analyze each invoice for each vendor charge and applied a 50 percent disallowance factor to the Simantel public relations charges in place of a more detailed review.

AIC argues that even a cursory review of the Simantel expenses allocated in part or directly assigned to AIC shows many of the expenses included in the scope of Mr. Brosch's general adjustment concerned print and video communication materials placed and distributed in Illinois media markets. For example, AIC says that there is a $26,281 direct charge for a 30-second television spot on the education messages surrounding choice for Illinois consumers. There is a $40,490 allocated charge to produce televisions messages on equipment safety and corporate citizenship. AIC continues, there is a $15,100 allocated charge for creative direction and production of television messages, and a $10,206 allocated charge to develop an intern brochure and finalize artwork for recruiting pages. AIC goes on that there is a $41,124 charge for work done on the production of 2012 television and digital advertisements to educate customer on bill payment options. AIC states these are not the only examples of media and print advertisement work listed.

AIC points to other Simantel charges on Ameren Exhibit 24.6 (Rev.) that are allocated AMS expenses that Mr. Brosch recognizes are "needed administrative" support. AIC says that Ameren Exhibit 24.6 (Rev.) includes Simantel charges for creative strategy sessions on quarterly media plans (lines 32-35, 97, 153), graphic and art design (lines 36-37, 44, 47-53, 59), speeches and presentations (lines 40-41, 54, 60), copywriting (lines 38-39, 43, 45-46, 52, 55, 57, 126), a photo library (line 56), twitter graphics (line 58), employee training and town halls (lines 61-72, 92-93, 100-108), educational messages at Ameren offices (lines 73-82, 94096), publications on industry issues (lines 83-87, 99, 147, 156), volunteer materials (line 88), employee safety initiatives (lines 89-91), new employee education materials (lines 132, 142), and general account management (lines 115, 118, 120, 123, 129, 135, 139, 143, 146, 154). AIC argues that to the extent any party wanted to lodge specific objections to particular expenses, the invoice-level detail was compiled and produced.

AIC continues, Mr. Brosch had everything at his fingertips to argue for the disallowance of specific Simantel invoices. AIC represents that this is what both it and Staff did. AIC continues, this is what Mr. Brosch did for other vendors. AIC submits that this is what the Commission has required parties do, in AIC's first two formula rate proceedings, when it has rejected the application of generic thresholds and general disallowances.

AIC notes that in AIC's last formula rate case, the Commission stated that, "as a general matter the Commission is reluctant to disallow costs in the absence of specific concerns with particular expenses." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67 (rejecting Staff's generic threshold as lacking specificity and disallowing certain credit card expenses "in the absence of better support for these charges"). AIC also points out that in AIC's first formula rate case, the Commission similarly found "the Commission is not comfortable accepting a general adjustment to a category of costs. In the absence of specific reasons behind objections to an expense, the Commission questions whether it can know if a disallowance is indeed warranted." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 92 (declining to adopt Staff's general disallowance not tied to specific invoices and particular advertising expenses). AIC argues that the Commission must reach the same result here.

ii. Commission Conclusion

AIC posits that to the extent detailed information on invoiced costs is provided at the invoice level, as was the case here, parties to the formula rate proceeding and the Commission should undertake a line-by-line review to identify specific concerns with particular expenses. AIC says that would include reviewing the invoices provided and other discovery to test whether specific amounts billed are reasonable, whether the underlying job request was a prudent expenditure, and whether the services and work product provided reasonably relate to electric delivery service. AIC represents that is the type of review it undertook in responding to Staff discovery and AG discovery on Simantel charges, which led AIC to self-disallow certain amounts. AIC continues that is the type of review Staff undertook in reviewing the potentially "comparable" Simantel charges. AIC argues that is the type of review Mr. Brosch should have and could have undertaken in this proceeding to support his larger Simantel disallowance. AIC notes that is the type of review Mr. Brosch did undertake for other vendors like Karen Foss LLC that provided communication services. AIC contends that absent that sort of detailed review however, it is not appropriate for the Commission to make adjustments to remove expenses based on general disallowance factors that do not have a basis in the record. AIC concludes that the AG's 50% disallowance of other Simantel charges should be rejected.

The Commission agrees with AIC that the adjustment proposed by AG/CUB to remove additional Simantel expenses is based upon a general disallowance factor. The Commission finds the use of a general disallowance factor is not appropriate, especially in instances where detailed invoice support was provided by the utility. In prior formula rate proceedings, the Commission has required parties to propose disallowances that were tied to specific objections for particular expenses. The Commission recognizes the burden this imposed on Staff and Intervenors; however, in this instance, AIC provided the AG and CUB with detailed worksheets and backup invoices that could have provided the basis for a narrowly tailored disallowance. Since the proposal advocated by AG/CUB is not narrowly tailored or tied to specific objectionable expenses, the Commission declines to adopt it.

d. Other Public Relations Expense (Account 930.2)

i. AIC Position

AIC says that the AG also proposes to disallow miscellaneous communication expenses paid to three other outside vendors: Karen Foss LLC ($42,015), Obata Design, Inc. ($5,989), and St. Louis Business Journal ($13,995). AIC represents that Karen Foss LLC provided training to AMS and AIC executives, including communications and public relations personnel, on effective methods for conveying sensitive and timely information to the public. AIC says that Obata Design, Inc. provided message development and visual services for Ameren Corporation's (Ameren) Corporate Social Responsibility (CSR) Report, a publication that informed AIC customers on efforts to reduce the impact of delivery service on the environment. And AIC states that the charges for St. Louis Business Journal were for the sponsorship of the Journal's annual Women's Conference, an event that provided AIC with an exhibit area to present information on its energy efficiency programs and provided AMS and AIC personnel with leadership training and networking opportunities. AIC represents that Staff's testimony does not adopt the AG's adjustments. AIC argues that neither should the Commission.

AIC says that Mr. Brosch claims these expenses are discretionary and not properly included in the Company's revenue requirement in the absence of a showing that such amounts are in the best interest of ratepayers and are prudent, reasonable and necessary for the provision of delivery services in Illinois. AIC argues, however, that as with other adjustments he proposes, Mr. Brosch doesn't apply the proper standard: the formula rate statute provides "for the recovery of the utility's actual costs of delivery services that are prudently incurred and reasonable in amount." 220 ILCS 5/16-108.5(c)(1). AIC contends that more troubling than this, though, is the perfunctory nature of his adjustments. AIC represents that he dismisses the Karen Foss communication training as efforts to enhance the Company's image through media coaching. AIC continues that Mr. Brosch portrays the Corporate Social Responsibility report as "focused upon enhancing the Company's public image." And he claims there is "no connection" between the St. Louis Business Journal Women's Conference and "any essential AIC business purpose in Illinois." AIC argues that he is incorrect on all accounts, and his opinions are unsupported and unfounded. AIC contends that the AG hasn't offered any evidence of intention on AIC's part. And the only thing that is "apparent" is that the AG hasn't identified any specific statements in AIC's testimony or data responses to support that assertion. AIC notes that in its initial brief, the AG also claims documents on social responsibility "clearly" fall within the definition of goodwill. But again what is clearer than practically everything else is the fact the AG has not explained why this is so.

To the contrary, AIC asserts that the Karen Foss LLC training was expressly designed to provide AMS and AIC personnel with tools and techniques for communicating educational information to customers. AIC notes that the training included staged mock interviews, videotape debriefing sessions, and group discussions. Citing Mr. Kennedy, AIC claims that it is prudent to ensure that front-line communicators have the necessary training and skills for handling the sharing of information with the public. AIC submits that it must respond to inquiries from the news media about outages and other issues of importance to customers. AIC argues that this reality requires AIC's communication team to be subject matter experts on a variety of operational issues and to have the ability to succinctly share information to customers through print, broadcast, and social media channels. AIC claims that Mr. Kennedy himself benefited directly from this coaching on how to address sensitive subjects and how to quickly frame messages to educate customers. AIC contends that there is no evidence in the record to suggest this was a deliberate exercise to enhance AIC's image, other than Mr. Brosch's speculation. AIC appeals to the Commission not to engage in the same speculation. AIC argues that the AIC allocated portion of this media training should be recoverable in formula rates.

AIC contends that the same deficiency is present in Mr. Brosch's adjustment to remove the Obata Design charges for the CSR report. AIC asserts that there is no evidence in the record to suggest this expense—or the CSR report—was disallowable "goodwill" or "promotional" advertising. Citing Mr. Kennedy, AIC explains that many independent studies have concluded that customers are interested in hearing about what their regulated utilities are doing to minimize the environmental impact of their services, including their delivery services. AIC represents that the purpose of the CSR report was to improve customer education and outreach on the utility's efforts to reduce its impact on the environment; the purpose was not to improve the public image of the utility. AIC argues that expenses incurred to hire a qualified vendor to produce the CSR report are prudent, reasonable in amount and related to delivery service, and that they should be recovered in rates.

Lastly, AIC contends that Mr. Brosch's own evidence belies his claim that the allocated portion of the sponsorship of the St. Louis Business Journal Women's conference has "no connection" to AIC's electric delivery service. AIC represents that AG Exhibit 3.3, which is a copy of AIC's response to data request AG 7.10, indicates the sponsorship provided AIC with space in the exhibition area to display information on its energy efficiency programs. AIC continues that the data response also indicates the sponsorship cost included registration for 20 Ameren employees, including a number of AMS female executives. AIC contends that this conference brought together local women entrepreneurs to talk about and get feedback on career advice, leadership principles, business challenges, social media, women's health issues, and networking. AIC argues that the training and skills acquired by attendees can be leveraged to do their jobs more effectively, regardless of the location of the conference. AIC asserts that the educational opportunities and enhancement offered to Ameren personnel by this conference provides the “connection” to AIC delivery service that makes the amount recoverable in formula rates.

AIC says that the AG contends AIC’s allocated share of the sponsorship of the St. Louis Business Journal Women’s Conference constituted “corporate image or goodwill advertising.” AIC argues that this bald assertion fails to deliver an explanation why the sponsored event makes the related cost automatically goodwill. And, AIC continues, it ignores the evidence in the record, including AIC’s response to the AG’s discovery request, that indicates the event provided AIC with an opportunity to display information on energy efficiency programs, as well as leadership training. AIC argues that no evidence has been offered to show the expense was imprudent or unreasonable in amount. AIC concludes that the Commission should permit recovery of the expense.

ii. Commission Conclusion

The AG seeks to disallow costs for three specific vendor invoices (Karen Foss LLC, Obata Design, Inc., and St. Louis Business Journal) it claims are nothing more than corporate “image” campaigns. But as AIC explains, there is no evidence in the record to suggest these expenses were part of a deliberate exercise to enhance AIC’s reputation with the public. These expenses paid for media and communications training for AMS and AIC executives (Karen Foss LLC). They paid for a qualified vendor to produce the Corporate Social Responsibility (CSR) report (Obata Design, Inc.). And they paid for a sponsorship of a women’s conference that provided opportunities to advertise and leadership training and skills to personnel (St. Louis Business Journal). These invoices constitute expenses, which AIC incurred in executing prudent business decisions, and which no other party has clamed are unreasonable in amount.

The AG claims it is “apparent” the Karen Foss LLC media training was “intended to enhance [AIC’s] image in the media.” But the AG has not offered any evidence of intention in AIC’s testimony or data responses to support that assertion. Indeed, quite the opposite is true: AIC witness Mr. Kennedy, one of the employees who actually attended the training, indicated the purpose of the training was to learn how to address sensitive subjects regarding service and frame messages to accurately and quickly educate customers. The AG also claims documents on social responsibility “clearly” fall within the definition of goodwill. But again AIC has not explained why this is so. On the other hand, AIC has testified that independent studies confirm customers want to hear about the actions regulated utilities are taking to minimize the environmental impact of their services, including their delivery services. This shows the purpose of the report was to educate customers on the utility’s efforts to reduce its environmental footprint. The AG lastly contends AIC’s allocated share of the sponsorship of the St. Louis Business Journal Women’s Conference constituted “corporate image or goodwill advertising.” This assertion fails to deliver an explanation why the sponsored event makes the related cost automatically goodwill. And it ignores the evidence in the record, including AIC’s response to the AG’s discovery request, that indicates the event provided AIC with an opportunity to display information on energy efficiency programs, as well as leadership training.

The AG asks the Commission to believe AIC incurred these expenses for the intended purpose of image enhancement. But the Commission cannot base its findings on mere beliefs. They have to be based on facts, and sufficient facts have not been offered in the record to show the purpose or design of these expenses was to promote AIC's image. The Commission declines to adopt AG/CUB's adjustment to remove costs for specific invoices for Karen Foss LLC, Obata Design, Inc. and St. Louis Business Journal.

C. Recommended Operating Revenue and Expenses

1. Filing Year

AIC says that the proposed filing year operating income / revenue requirement, without template changes, is shown on Schedule FR A-1 of Appendix A. AIC represents that the total filing year revenue requirement, without template changes, is $782,303,000, and the total net change in revenues (before uncollectible gross up) is $17,427,000. AIC continues that the proposed filing year year operating income/revenue requirement, with template changes AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1 of Appendix B. AIC submits that the total filing year revenue requirement, with template changes, is $798,010,000, and the total net change in revenues (before uncollectible gross up) is $33,134,000.

2. Reconciliation Year

AIC states that the proposed reconciliation year operating income / revenue requirement, without template changes, is shown on Schedule FR A-1-REC of Appendix A. AIC represents that the total reconciliation year revenue requirement, without template changes, is $774,752,000, and the total net change in revenues with interest is ($56,619,000) (Schedule FR A-4). AIC continues, the proposed reconciliation year operating income/revenue requirement, with template changes AIC is recommending be adopted in Dockets 13-0501/13-0517 (cons.), is shown on Schedule FR A-1-REC of Appendix B. AIC says that the total reconciliation year revenue requirement, with template changes, is $776,041,000, and the total net change in revenues with interest is $55,103,000 (Schedule FR A-4).

IV. COST OF CAPITAL AND RATE OF RETURN

A. Resolved Issues

1. Rate of Return on Common Equity

AIC's rate of return on common equity is 8.72% for the Filing Year and 8.82% for the Reconciliation Year. 220 ILCS 5/16-108.5(c)(3); (Ameren Ex. 1.1, p. 13.) No party proposed an adjustment to the rate of return on common equity, and the issue is therefore uncontested. Therefore, the Commission finds that the Rate of Return on Common Equity is reasonable, and is hereby accepted.

2. CWIP Accruing AFDUC Adjustments

AIC says that Staff witness Ms. Phipps proposed an adjustment to AIC's capital structure to remove portions of long-term debt, preferred stock and common equity that were reflected in the Allowance for Funds Used During Construction (AFUDC). AIC continues that Ms. Phipps contended that this adjustment was necessary to avoid double-counting portions of long-term debt, preferred stock and common equity that the AFUDC formula assumes are used to finance Construction Work in Progress (CWIP). AIC states that its witness Mr. Martin noted that the effect of the adjustment on AIC's capital structure was nominal, and stated that, although AIC does not agree that Ms. Phipps's adjustment is necessary, it accepted the adjustment to narrow the issues in the case. Therefore, the Commission finds that the CWIP Accruing AFDUC Adjustments are reasonable, and are hereby adopted.

3. Balance and Embedded Cost of Preferred Stock

AIC says that the embedded cost of preferred stock is 4.98%. AIC represents that no party proposed an adjustment to the embedded cost of preferred stock, and the issue is therefore uncontested.

As discussed above, AIC states that Ms. Phipps proposed an adjustment to remove the portion of preferred stock balance that was reflected in AFUDC. AIC submits that as a result of this adjustment, Ms. Phipps calculated a preferred stock balance of $59,064,651. AIC says that it accepted Ms. Phipps's adjustment related to CWIP and AFUDC. Therefore, this issue has been resolved. The Commission finds that the Balance and Embedded Cos of Preferred Stock is reasonable and, hereby, accepted.

B. Contested Issues

1. Capital Structure

a. AIC Position

AIC says that its 2012 actual year-end capital structure was:

Short-Term Debt	$	0	00.000%
Long-Term Debt	$	1,594,403,746	43.995%
Preferred Stock	$	60,718,696	01.675%
Common Stock	$	1,968,951,906	54.330%
Total	$	3,624,074,348	100.000%

AIC contends that its actual capital structure is reasonable and was prudently managed to support its continued access to capital markets under all foreseeable market conditions. Thus, AIC continues, the EIMA mandates that the Commission use it to set rates in this proceeding. 220 ILCS 5/16-108.5(c)(2). AIC says that Staff and IIEC propose that the Commission approve capital structures other than AIC's 2012 year-end actual structure. AIC argues that those parties, however, have not shown (and cannot show) that the actual 2012 capital structure was imprudently incurred or unreasonable. AIC asserts that it was not. AIC claims that the bases for Staff and IIEC's proposals are not EIMA's requirements, but unsubstantiated conjecture as to what a better capital structure for AIC *might* have been in 2012. AIC argues that the EIMA requires that the Commission reject such conjecture. AIC appeals to the Commission to approve AIC's 2012 actual year-end capital structure.

AIC says that the EIMA is clear: "The performance-based formula rate approved by the Commission shall . . . [r]eflect [AIC's] *actual* year-end capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(2) (emphasis added). AIC consequently contends that there is no question EIMA mandates use of AIC's "actual" capital structure. AIC explains, EIMA sets forth in plain terms the reformed rate-setting process expressly intended by the General Assembly to entice electric utilities to make demanding investment commitments. AIC explains EIMA's purpose is to induce utilities to make large investments that benefit the State infrastructure and economy and also track costs closely to what was actually incurred on an annual basis. EIMA's provisions reflect the clear purpose of the EIMA: they require a commitment, offer an incentive in exchange, and provide for annual update. These provisions form a comprehensive scheme that includes the default requirement for use of actual year-end capital structure.

AIC continues that the reason for the mandate likewise is clear. AIC asserts that the EIMA requires AIC to invest over $600 million in upgrading its electric distribution system, facilities, and smart grid technology over a ten-year period. 220 ILCS 5/16-108.5(b)(2)(B). AIC notes that the Commission has approved that investment. *See generally, Ameren Ill. Co.*, Docket 12-0244, Order on Reh'g (Dec. 5, 2012). AIC contends that its actual capital structure will be used to support that substantial investment. Thus, AIC argues, its actual capital structure is the one that the Commission must approve. AIC represents that the only exception to the actual capital structure default is if the Commission makes "a determination" that AIC's 2012 actual year-end capital structure was imprudent or unreasonable. 220 ILCS 5/16-108.5(c)(2). AIC argues, however, that the record evidence in this proceeding provides no basis for such a determination.

AIC claims that its actual capital structure as of December 31, 2012, reflects the cost of capital actually in effect for AIC as of year-end 2012. AIC says that it specifically managed that capital structure, and particularly the 54.33% common equity ratio, to maintain strong credit metrics in order to access, at a reasonable cost and in varied economic market conditions, the funding necessary to meet its increasing capital requirements in light of and despite concern expressed by the credit rating agencies in 2012 regarding the stability of the Illinois regulatory setting.

AIC posits that its electric operations require significant annual capital investment, much of which is in replaced or upgraded infrastructure, and not in assets that will generate new business or reduce operating costs. AIC says that as an EIMA participating utility, AIC also has committed to invest substantial sums over the next ten years in electric infrastructure upgrades. 220 ILCS 5/16-108.5(b)(2)(B). As such, AIC represents that its capital investment over the next five years is expected to nearly double that of the last five. AIC argues, however, that unlike the non-regulated market, it does not have the option to delay or defer these expenses, and it recovers significantly less of the expense through depreciation cash flow. AIC contends that those realities, coupled with the phase-out of AIC's large bonus tax depreciation adjustments, require it to rely more on the strength of its credit metrics to secure funding for its infrastructure investment at a reasonable cost. AIC argues that because its capital requirements are increasing significantly, consistent and reliable access to external capital is of paramount importance.

Citing Mr. Ryan Martin, the Assistant Vice President and Treasurer of AIC and Ameren Services Corporation, AIC explains why it requires continued, strong credit metrics to maintain access to the capital funding necessary to support its near-term, capital intensive infrastructure improvements and to maintain reliable, high-quality service at all times.

AIC asserts that its credit quality must support all of the financing necessary to its operations and afford AIC continuing access to capital markets in times of varied economic conditions, which are inherently unpredictable. AIC claims that its access to that funding is, in part, a function of its credit metrics. AIC states that this is because those metrics, in addition to subjective assessment of AIC's specific business risks, factor significantly into the credit rating agencies' evaluations of AIC's credit profile and their resultant assignment of credit ratings, on which investors rely. AIC represents that if AIC maintains its current investment grade credit ratings, AIC will be reasonably assured access to the capital markets on a timely basis, at a reasonable cost, and under reasonable terms and conditions. Moreover, AIC continues, it particularly requires strong credit metrics as a safeguard against ongoing negative credit rating agency sentiment regarding the supportiveness of the Illinois regulatory framework and AIC's ability to recover its cost and earn a reasonable return within that framework, as explained below.

Citing Mr. Martin, AIC also explains that it managed its 2012 actual capital structure to maintain strong credit metrics in order to access the funding to meet its capital commitments and provide for a healthy, investment grade credit profile consistent with sound financial practice. AIC says that it specifically managed the 54.33% common equity ratio to maintain the strong financial ratios evaluated by the credit rating agencies when they assess creditworthiness and assign credit ratings. AIC claims that its common equity ratio supports AIC's current investment grade ratings and safeguards them against events that could be detrimental to AIC's creditworthiness.

AIC says that its 2012 actual capital structure takes into consideration the facts and circumstances AIC faced at that time. AIC represents that in 2010 and 2011, it targeted a capital structure between 50% and 55% because AIC's risk landscape at that time dictated an equity ratio at the high end of that range. AIC says that it was in the midst of a regulatory transition to the EIMA that was the subject of litigation and controversy during that year. AIC contends that while the credit ratings agencies were noting the potential positive implications of EIMA, they expressed concern over its implementation and the general unpredictability and volatility of the Illinois regulatory market. For example, AIC says that Moody's continues to rate the Illinois regulatory environment at the sub-investment grade Ba level. AIC represents that Moody's expressly characterizes the environment as "below average" and "challenging" due to concerns regarding the contentious relationship between the Commission and investor-owned utilities, as evinced by dispute over the application of EIMA in recent rate cases. And, AIC goes on, in a December 2012 publication assessing utility regulatory environments, Standard & Poor's (S&P) characterized the Illinois regulatory environment as “less credit supportive.” AIC notes that S&P rated only three jurisdictions as *less* supportive than Illinois.

AIC argues that, considering the rating agencies’ sentiment, its exposure to negative credit ratings or downgrade may increase to the extent EIMA is not fully implemented. AIC submits that to offset such concerns, it specifically maintained a higher equity ratio. AIC says that it did not take finance actions, such as using dividends, to intentionally lower the equity ratio and create a more leveraged capital structure. (Ameren Ex. 20.0, pp. 15-17.) Staff agrees that credit ratings agency actions are influential, and acknowledges that it was possible for AIC’s credit quality to have been impaired in 2012 if it had used dividends to reduce its actual equity to 51.00%. (Tr. 374.) AIC also left its actual capital ratio in place to preserve its credit quality, despite the Commission’s decisions in its prior formula rate cases, Dockets 12-0001 and 12-0293, to cap AIC’s equity ratio based on its parent’s capitalization. (Ameren Ex. 4.0 (Rev.), p. 7.)

In sum, AIC’s 2012 actual capital structure, and AIC management’s decision to maintain the strength of that capital structure, was prudent and reasonable given AIC’s expanding capital requirements and its current regulatory environment as evinced by the credit rating agencies’ perception of its risk. (Ameren Ex. 20.0, p. 4; Ameren Ex. 5.0, pp. 15-16.) AIC’s actual capital structure as of December 31, 2012 was consistent with sound financial practice, represents prudent business decisions, and is reasonable to use to set AIC’s formula rate requirement. (Ameren Ex. 4.0 (Rev.), p. 3.)

AIC recognizes that Staff and IIEC recommend capital structures for AIC in this case. AIC points out their proposals, however, are not AIC’s “actual” capital structure based on AIC’s actual investment and business risk in 2012, but hypothetical structures engineered from Ameren Corp.’s capital structure and those of *other* utilities. AIC maintains these proposals do not withstand muster under EIMA.

AIC notes that Staff recommends that the Commission substitute AIC’s actual 54.33% common equity ratio with that of its parent, Ameren Corp., based not on the prudency or reasonableness of AIC’s actual capital structure as EIMA would require, but on Staff’s belief that, absent imputation of Ameren Corp.’s common equity ratio, AIC’s capital structure would violate Section 9-230 of the Act. AIC notes that Section 9-230 provides: “In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any (*i*) incremental risk [or] (*ii*) increased cost of capital . . . which is the direct or indirect result of the public utility’s affiliation with unregulated or nonutility companies.” 220 ILCS 5/9-230. AIC says that Staff contends AIC’s affiliation with Ameren Corp.’s merchant generation business has affected AIC’s cost of capital. AIC argues that Staff’s support for that proposition, however, is a single report from a single rating agency—S&P—that suggests that AIC might receive a rating upgrade from S&P upon Ameren Corp.’s divestiture of its merchant generation affiliate. AIC contends that, based on this one report but without any quantitative assessment, Staff assumes that *Ameren Corp.’s* calculated common equity ratio of 51%, after disposition of the merchant generation business’s debt and assets, is sufficient for AIC in this case. AIC points out that Staff recommends that the Commission impute that ratio to AIC. AIC argues, however, that Staff’s position is contrary to EIMA and Ameren Corp.’s 51% equity ratio is *not* sufficient for AIC. AIC continues that Staff’s reliance on a lone rating agency report also is misplaced. AIC concludes that the Commission should not impute a hypothetical equity ratio in place of AIC's actual prudent and reasonable one.

AIC says that Staff's sole basis for its Section 9-230 argument is S&P's isolated comments regarding its anticipated rating upgrade resulting from an expected affiliate divestiture. AIC argues that this does not justify a Section 9-230 adjustment. AIC asserts that S&P is the only agency among the three credit reporting agencies to consider the performance of AIC affiliates in its evaluation of AIC's credit quality. That is to say, AIC contends, that unlike S&P, Moody's and Fitch do not rate AIC on the basis of Ameren's consolidated financial condition. AIC claims that those agencies rate AIC on a stand-alone basis based on actual financials, including AIC's actual equity ratio. AIC submits that, as a result of this, it is not reasonable to speculate that divestiture of Ameren Corp.'s merchant generation affiliate in December 2013 will have an affect on AIC's overall credit ratings. To this end, AIC notes that Fitch's March 15, 2013 report expressly states: "The transaction bears no impact on the credit ratings of UE and AIC."

AIC continues that its affiliation with Ameren Corp.'s merchant generation affiliate has had no direct effect on AIC's risk and cost of capital, past or present. For example, AIC argues that there is no evidence AIC's affiliation with other Ameren subsidiaries had any effect on the cost of 2.7% debt AIC issued in 2012, which was issued at a Company record-low ten-year coupon rate. AIC claims that the 2.7% coupon rate benefited AIC and its customers, and it likely would not have been attainable if there were inter-affiliate concerns that hampered AIC's credit quality. Citing Mr. Martin, AIC contends that investor sentiment regarding AIC's creditworthiness largely is a function of the perceived supportiveness of the Illinois regulatory setting and AIC's actual and forecast credit metrics. AIC asserts that its affiliation with other Ameren Corp. subsidiaries, however, has not been a cause for investor concern and an upgrade from S&P resulting from divestiture of Ameren Corp.'s merchant generation business is unlikely to significantly impact AIC's cost of debt.

AIC argues that lowering its equity ratio below its actual level just as Ameren Corp. has taken further steps to reduce its non-regulated operations makes no sense. AIC continues that it would, in fact, have the opposite effect, by reducing balance sheet strength, diluting cash flow, and signaling to investors increasing regulatory risk. AIC says that by imputing Ameren Corp.'s lower equity ratio to AIC, Staff actually incorporates affiliate credit risk into AIC's rates in a manner that directly relates to the financial activity of Ameren Missouri and unregulated generation. AIC contends that, within the context of the EIMA, the prospective effect is almost direct as rates are updated annually. AIC notes that, for example, once Ameren Corp.'s non-rate regulated generation affiliate (Genco) and its associated debt is divested, the equity ratio may increase; when Ameren Missouri borrows money, the debt ratio may increase. AIC argues that it should go without saying that financial activity at Ameren Corp., Genco, or Ameren Missouri should have no bearing on annual rates effective pursuant to EIMA.

AIC asserts that, practically speaking, Ameren Corp.'s 51% equity ratio simply is not appropriate for AIC for several reasons. *First*, citing Mr. Martin, AIC explains that its actual capital structure is designed and maintained specifically for AIC; it bears no relation to Ameren Corp.'s combined capital structure. *Second*, AIC says that Ameren Corp.'s equity ratio is affected by concerns other than AIC, and principally those related to Ameren Missouri and its unregulated merchant generation affiliate. For example, AIC states that Ameren Corp.'s capital structure includes $304 million of industrial development bonds issued by Ameren Missouri that were removed from capital structure for Missouri ratemaking purposes. AIC continues that if capital leases and merchant generation public debt are removed from Ameren Corp.'s capital structure, its equity ratio would increase to 52.5% and would align more with AIC's 2012 actual year-end capital structure. AIC argues that imputation of Ameren Corp.'s capital structure would introduce into AIC's structure financing decisions that have no bearing on the business conditions actually facing AIC.

Third, and AIC contends, perhaps most importantly, imputing Ameren Corp.'s 51% equity ratio to AIC would risk AIC's current credit rating. AIC claims that it must provide adequate service to its customers, despite fluctuations in the market. Consequently, AIC continues, it must be able to access the markets during varied economic conditions to obtain, at a reasonable cost, the funding it needs to meet its operating needs and to replace and upgrade its extensive infrastructure. AIC explains that the rating agencies' outlook on AIC's risk, on which investors rely, is key to AIC's ability to access the capital it needs, and at a reasonable cost. AIC represents that the credit ratings agencies determine AIC's risk based on a number of variables, notably including the debt and equity comprising its capital structure. AIC explains that its 2012 actual 54.33% equity ratio was prudently managed to maintain its current investment grade rating from the credit agencies. AIC argues that imputation of a lower and riskier 51% common equity ratio ignores and would subvert that goal by risking AIC's investment credit rating and, as a result, potential loss of access to capital or increased prices for capital. AIC says, citing Mr. Martin, the use of an imputed capital structure in this case would effectively lower AIC's actual return on equity by approximately 50 basis points, which could challenge its ability to attract investors and compete with other investment opportunities. AIC asserts, moreover, that use of an imputed equity ratio also would undermine the intended benefits of EIMA, namely ratemaking predictability and consistency.

AIC says that Staff disagrees that imputation of a 51% common equity ratio could weaken AIC's credit profile. AIC argues, however, that Staff's position is premised on an attempt to predict credit rating agency decisions and its selective reading of recent credit rating agency reports. AIC points to Staff's witness on this issue, Ms. Phipps, who cites statements in the rating agency reports suggesting an improved regulatory framework in Illinois. AIC contends, however, that where she highlights one statement, she simply ignores another. For example, AIC states that Ms. Phipps cites the reservation recently expressed by Moody's regarding the EIMA: "Although the utility's regulatory framework remains challenging, legislative support for the recovery of prudently incurred investments is a step in the direction toward better overall cost recovery prospects." AIC argues that Ms. Phipps inexplicably describes that statement as an "overwhelmingly positive development," despite that, as AIC noted, Moody's continues to rate the regulatory environment in Illinois as sub-investment grade.

AIC argues that, in fact, examining all three credit reporting agency reports concerning AIC demonstrates clearly and irrefutably that the principle credit risk for AIC is the perceived (lack of) support in the Illinois regulatory environment. AIC points out that Ms. Phipps indeed agrees that regulatory changes and events since 2007 have been a source of concern for credit ratings agencies regarding the stability or supportiveness of the Illinois regulatory environment. AIC continues that she agrees that AIC's financial condition should be managed in light of possible future ratings actions.

AIC concludes that reducing AIC's equity balance to that of Ameren Corp. risks AIC's current investment grade ratings (and, as a result, its capital costs). AIC argues that in order to maintain AIC's capital market access at reasonable rates, it is necessary that the key financial ratios viewed as important by rating agencies and investors—including the levels of equity and debt in the capital structure—be kept strong, and that the perception of the Illinois regulatory environment remains positive. AIC contends that the ratings agencies, however, continue to demonstrate concern regarding AIC's regulatory support, and they rely on the Commission's recent electric formula rates decisions. AIC posits that if AIC's actual capital structure is destabilized by approval of an imputed hypothetical one, the ratings agencies may react negatively, potentially harming AIC's long-term capital costs. AIC argues that acceptance of its actual, prudent, reasonable structure here, as EIMA requires, would signal the support necessary to maintain AIC's current credit ratings.

AIC offers additional reasons why Staff's Section 9-230 arguments are wrong. AIC contends that, if any violation of Section 9-230 is present in this case, it is as a result of Staff's adjustment. AIC argues that Section 9-230 requires a utility's stand-alone capital structure to be used as a starting point in determining its cost of capital. AIC continues, Section 9-230 specifically requires any incremental risk or increased cost of capital inuring to the utility due to its unregulated or non-utility affiliations must be excluded from the determination of the utility's cost of capital. Despite this clear prescription, and Staff's agreement that Ameren Corp. carries a higher operating risk, AIC argues, Staff would impute Ameren's operating risk to AIC.

AIC also believes Staff's position suggests that if a utility's equity ratio is higher than its parent's, it necessarily indicates unreasonableness due to that affiliation. AIC maintains this effectively would transform EIMA's clear default requiring "the utility's actual year-end capital structure," 220 ILCS 5/16-108.5(c)(2), to one requiring "the parent's equity ratio or lower." AIC contends such a substantive rewrite of EIMA is unlawful. Indeed, AIC contends, Staff's recognition that AIC has a lower operating risk than Ameren should *negate* its Section 9-230 adjustment because it suggests that AIC was *insulated* from Ameren's greater risk profile. AIC argues that is a far cry from finding the parent's risks or costs impacted AIC's.

AIC argues that Staff's reliance on Section 9-230 also fails because that section requires the Commission to make a specific determination of the amount of the incremental risk a utility faces as a result of its affiliation with unregulated entities. However, AIC points out, Staff has not calculated any amount of alleged incremental risk.. Instead, AIC points out, Staff has attempted to support its imputed equity ratio not by showing that AIC's actual ratio is unreasonable, as is required by EIMA, but by striving to show that Staff's hypothetical equity ratio is reasonable. AIC explains that this is contrary to EIMA. AIC explains that Staff's analysis is flawed in myriad respects. Finally, AIC notes that the sole argument proffered by Staff in support of the reasonableness of its equity ratio is that it would not result in a credit rating downgrade. However, AIC argues that this cannot be the standard of reasonableness. Instead, AIC contends, the capital structure should be tested on the basis of whether it permits the utility to access the markets under reasonable terms and during varied economic conditions so it can fund its substantial EIMA investment commitments.

AIC contends that Staff and IIEC's hypothetical capital structures are contrary to EIMA, long-standing financial theory, and recent utility ratemaking precedent. Citing Mr. John Perkins, AIC explains that both academics and federal and state regulatory commissions have regularly rejected such an approach, favoring instead reliance on utilities' actual, stand-alone structures. AIC contends that the academic literature has long recognized the flaws of an imputed capital structure. AIC claims that, notably, the use of a hypothetical capital structure is contrary to investor sentiment in that it assumes a utility's rate of return depends on the source of the capital, rather than on the risks faced by the capital. AIC argues that use of a hypothetical capital structure therefore erroneously implies that source is a key variable considered by investors. AIC asserts that considering a utility's actual, stand-alone capital structure, in contrast, aligns with the actual basis for investor decisions—the risk of the investment. AIC submits that use of a hypothetical structure also creates a fiction wherein the equity contributed by a parent to its subsidiary has one cost, while the equity contributed by public investors has another. Citing Mr. Perkins, AIC explains that this would violate the "law of one price," which holds that, in an efficient market, identical assets have the same price. In other words, AIC says that use of a hypothetical capital structure would treat a publicly-held utility differently from one that is the subsidiary of a holding company based only on the form of ownership. AIC explains that for these reasons the FERC and other state commissions have rejected in their ratemaking decisions imputation of a hypothetical approach where the utility (like AIC) issues its own debt and has its own credit ratings and where its actual equity ratio is not so removed from that of other utilities as to be unreasonable. As explained above, AIC contends that is the case for it.

In response to Staff and IIEC's arguments that AIC's equity ratio should be reduced to account for its reduced risk resulting from EIMA, AIC contends that this position ignores EIMA. First, EIMA's default is AIC's actual year-end capital structure. Second, AIC explains, in its detailed prescriptions, EIMA differs from the rate-setting laws that Illinois has long had on the books. Traditional ratemaking provided for general rate increases that lasted indefinitely and accordingly allowed for Commission discretion to strike a balance between the interests of utilities, ratepayers and other stakeholders based upon the evidence. AIC explains EIMA adjusts that dynamic; the comprehensive enactment comes with the balancing built in, achieved by means of an annual update and review process. Thus, to the extent an EIMA utility's investment risk is reduced due to its participation in EIMA, the General Assembly already accounted for such reduced risk when it established EIMA's formulaic return on equity and actual annual capital structure, while also considering EIMA's substantial incremental capital spending and performance requirements.

AIC contends Staff and IIEC simply ignore EIMA's scheme, and suggest the General Assembly didn't consider the risks associated with the sizeable investment EIMA requires or the utility's relative risk when it set EIMA's formulaic return on equity. AIC points out that IIEC, for example, argues that feature reduces AIC's investment risk. IIEC fails to mention, however, that 30-year U.S. Treasury yields currently are historically low, and the average yield in 2012 was 2.92%. Therefore, per EIMA, AIC's 2012 return is 8.72%. Clearly, the EIMA compensates shareholders for risk with a return much lower than that approved in recent Section 9-201 rate cases decided by the Commission. *See, e.g.*, *N. Shore Gas Co.* et al., Dockets 12-0511/512 (cons.), Order, p. 208 (June 18, 2013) (authorizing 9.28% return); *Ill.-Am. Water Co.*, Docket 11-0767, Order, p. (Sept. 19, 2012) (authorizing 9.34% return). Any risk-based equity adjustment, such as the one proposed by Staff and IIEC, would reduce that return even further and effectuate a *double* count of risk reduction under EIMA.

AIC says that IIEC argues AIC's actual capital structure is unreasonable because it is not consistent with AIC's reduced risk resulting from implementation of EIMA. AIC notes that IIEC instead would impute a hypothetical common equity ratio "cap" of 50% that reflects an average of the ratios authorized by other regulatory jurisdictions. AIC states that in suggesting that IIEC's average 50% cap is reasonable, IIEC points to Commonwealth Edison (ComEd), which it argues proposes less than 50% common equity in its capital structure. Because ComEd and AIC have identical current senior unsecured credit ratings, IIEC believes imputing ComEd's equity balance to AIC will preserve AIC's credit standing. (*Id.*, p. 8.) AIC asserts that, initially, IIEC seems to have lost sight of EIMA's requirement that AIC's actual 2012 year-end capital structure should be used to set rates in this proceeding. AIC argues that in advocating an optimal structure with a hypothetical common equity cap, IIEC ignores that, unlike a traditional rate case where rates are set for an indefinite future period, EIMA's formula rate structure requires rates to be set based on the utility's actual experience and, consequently, mandates annual update filings. Thus, AIC asserts, proxies, averages, and forecast capital structures are not appropriate. AIC contends that IIEC's hypothetical cap is an attempt to normalize values used in a formula rate when the point of EIMA's rate structure is for rates to track actual per-period costs more accurately than the method afforded by test year-based ratemaking.

AIC claims that IIEC's contention that the advent of EIMA eliminated a substantial and material risk to AIC can only be true if EIMA operates as the formulaic ratemaking paradigm it was designed to be. But, AIC argues that the potential benefits of the formula rate framework may be offset by the market's concerns regarding the constructiveness of the ratemaking decisions that an improved regulatory framework is intended to yield. Thus, AIC asserts that while the EIMA presents AIC the opportunity to earn a fair return, it does not guarantee that outcome. And, AIC explains, whether EIMA is properly implemented poses a risk to AIC's operations; the credit rating agencies have highlighted that risk.

AIC says that in arguing that EIMA has reduced AIC's risk, IIEC does not present the whole story regarding credit ratings agency perception of risk in light of EIMA. AIC argues that the rating agencies still have concerns related to AIC's regulatory environment. For example, AIC notes that in its June 13, 2013 AIC credit report, Moody's cautions that "the ICC has a history of authorizing punitive rates of return and disallowances that led to contentious relationships with the utilities. The poor regulatory treatment has been a key negative credit factor for utilities operating in Illinois."

AIC notes that the IIEC also claims that a lower equity ratio is warranted because EIMA lowers risk for AIC. AIC argues that this, however, fails to explain the broader context of the EIMA, and specifically that the law provides a formulaic return on equity that is relatively low. For example, AIC states that in the Peoples/NS Docket, the Commission noted the average authorized return on equity for gas utilities is 9.94% (*N.*

Shore Gas Co. et al., Dockets 12-0511/12-0512 (cons.), Order, p. 205); AIC notes that Mr. Gorman recommends a lower one—9.10%—in AIC's pending gas rate case. AIC points out that the rate of return required for 2012 for EIMA participating utilities, in contrast, is only 8.72%.

AIC contends that IIEC's argument AIC's equity ratio should be closer to the average of equity ratios authorized by other state commissions and that of ComEd also is without merit. AIC notes that evidence on which IIEC bases its average equity ratio cap indicates that utilities typically maintain equity ratios of 40-60%. AIC notes its actual 2012 year-end equity ratio falls within that range. AIC also points out numerous other flaws in IIEC's data and explains, when the data is adjusted for those flaws, it supports the reasonableness of AIC's 2012 actual capital structure.

AIC argues that the significant difference between the equity ratios proposed by ComEd, on which Staff also relies, and AIC in their respective rate case proceedings (45.8% for ComEd, and 54.33% for AIC) primarily is attributable to the relative size of purchase accounting balances that must be deducted from equity for ratemaking purposes. Further, AIC contends that although IIEC and Staff argue ComEd's equity ratio is lower than AIC's, the opposite is true, at least as viewed by the ratings agencies and, consequently, investors. AIC notes that Moody's most recently published credit opinion indicates ComEd's debt to capital ratio as of December 31, 2012, was 37.0%, while AIC's as of March 31, 2013 was 39.2%. (*Id.*) Thus, AIC continues, ComEd's equity ratio, as computed by Moody's and used to evaluate creditworthiness and establish ratings, is more than 200 basis points *higher* than AIC's.

AIC asserts that ComEd also is a different Company than AIC. Citing Mr. Martin, AIC explains that ComEd has a capitalization that includes much more equity than is recognized for ratemaking related to the PECO-ComEd merger. Moreover, AIC continues, ComEd faces business fundamentals different from those facing AIC. For example, AIC says that ComEd is a very large utility company in a major metropolitan area, and its parent is a large holding company that owns other large utility companies

Put simply, AIC argues that its equity ratio should be adjudicated based on the merits of the credit and business decisions facing *AIC*, not some other utility or Ameren Corp.

AIC concludes that the plain language of EIMA and the weight of the record evidence overwhelmingly supports the use of AIC's 2012 actual capital structure. AIC contends that, with the adoption of Senate Bill 9, there should exist no further questions regarding the intent of the EIMA. AIC asserts that the express intent is to use actual year-end capital structure, and AIC has fully supported the adoption of its 2012 actual year-end capital structure in this proceeding.

AIC argues that there is a paradoxical effect to Staff's imputed, hypothetical capital structure adjustment. AIC says that disparity between AIC's filed position and the Commission's authorized rates heightens concerns of credit ratings agencies concerning the implementation of EIMA, which they otherwise view as a positive framework. AIC continues that it then maintains higher credit metrics to off-set the concerns about the regulated environment, thereby perpetuating the issue annually in a manner that further denigrates the perception of the Illinois regulatory environment, and with it, AIC's credit quality. AIC claims that, moreover, by accepting some measure of capitalization other than year-end actual experience, AIC will be required to endure effects of negative comments that weigh on its perceived credit quality as it proceeds to finance the capital expenditure requirements imposed by the EIMA, which are substantial. AIC says, however, that none of this need be. AIC contends that its 2012 actual year-end capital structure was prudently incurred and it is reasonable. AIC points out that both Staff and IIEC agree that it is important for AIC to nurture its credit quality. AIC concludes that, as EIMA requires, AIC's actual capital structure should be approved for the purpose of setting rates in this docket.

Finally, AIC proposes that the best way to address Staff's concerns regarding AIC's actual capital structure is not through repeated litigation, but through continued discussions between Staff's cost of capital expert and AIC's. As it explains in testimony, AIC has provided Staff with a financial model, and it proposes that it meet with Staff's expert to discuss that model and to reach agreement on AIC's 2013 and 2014 capital structures. AIC believes in this way, AIC and Staff can work together to narrow the issues before the Commission in AIC's future formula rate proceedings.

b. Commission Conclusion

Section 16-108.5(c)(2) provides that the formula rate approved by the Commission shall "[r]eflect the utility's actual capital structure for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(2). The Commission finds that, based on the record, AIC's actual 2012 capital structure is prudent and reasonable. The evidence submitted indicates that AIC's actual capital structure during 2012 enabled AIC to maintain access to the capital markets at reasonable rates. There is no evidence in the record to support a conclusion that AIC's capital structure was imprudent or unreasonable. In the absence of evidence demonstrating the imprudence or unreasonableness of AIC's capital structure, Section 16-108.5 forecloses the Commission from adopting a capital structure other than a utility's actual capital structure during the relevant year. As such, the Commission adopts AIC's proposal to use its 2012 actual year-end capital structure.

The Commission recognizes Staff's proposal to impute the equity ratio of AIC's parent, Ameren Corporation. As the Commission understands it, Staff's proposal is premised on its belief EIMA has reduced AIC's operating risk relative to Ameren Corp. and on Section 9-230 of the Act. The Commission recognizes, as it must, that EIMA is a comprehensive legislative enactment. EIMA's detailed provisions clearly demonstrate that the General Assembly already balanced the interest of all stakeholders, and accounted for reduced risk, in enacting EIMA. It is unlawful for the Commission to perform any rebalancing. As to Staff's Section 9-230 arguments, the Commission cannot agree with them for the reasons explained by AIC. Notably, imputing to AIC the risk of its parent, as Staff suggests the Commission do, would itself be a violation of that statute. The Commission rejects Staff's imputed equity ratio.

The Commission also recognizes IIEC's proposal to impose a common equity ratio cap of 50%, but does not find IIEC's reasoning persuasive. IIEC calculated its proposed 50% cap by averaging the equity ratios authorized by other state commissions, and authorized by this Commission for Commonwealth Edison. However, this approach does not appropriately consider differences among the utilities considered, or the substantial body of evidence before the Commission in this proceeding regarding the actual risks and business decisions facing AIC. Moreover, AIC's actual equity ratio falls within the range of the ratios analyzed by IIEC in support of its proposal.

In light of the evidence presented, the Commission concludes that AIC's 2012 year-end actual capital structure should be approved, consistent with EIMA.

2. Common Equity Balance

AIC says that its capital structure for 2012 is calculated using year-end balances for preferred stock, common equity, long-term debt, and short-term debt. The Company represents that it adjusted its common equity balance by subtracting $356,284,459 (for goodwill net of purchase accounting) to exclude the effects of purchase accounting related to Ameren Corporation's 2004 acquisition of the Illinois Power Company (Illinois Power or IP) as required by the Commission's Order in Docket 04-0294 and consistent with the Commission's Order in Docket 12-0001.

AIC notes that, as the Commission is well aware, in Docket 04-0294, the Commission approved Ameren Corporation's acquisition of Illinois Power, and also approved the accounting for all regulatory purposes that followed. *Illinois Power Co.,* Docket 04-0294, Order, pp. 33-34 (Sept. 22, 2004). AIC claims that accounting standards required that the Company "push down"[11] any investment onto Illinois Power's books, and also required that the Company adjust both assets and liabilities to fair market value. *See id.*, pp. 32-34. AIC points out that the Commission, therefore, ordered that all purchase accounting be reversed for ratemaking purposes. AIC notes that the Commission concluded:

> Based on the record, and subject to the Applicant's agreement to reverse the effect of push down accounting for state regulatory purposes, the Commission concludes that IP's proposed accounting entries for elimination of the Intercompany Note . . . are reasonable and in accordance with applicable accounting requirements, and should be approved. The Commission also adopts the recommendation of Staff witness Ms. Pearce that the impact of push down accounting should be collapsed into Account 114, plant acquisition adjustments, for all Illinois regulatory purposes such as reporting in Form 21 ILCC.

Illinois Power Co., Docket 04-0294, Order, pp. 33-34.

Citing Mr. Stafford, AIC explains, this regulatory accounting has been consistently followed and applied in rate cases subsequent to the acquisition. AIC represents that in each rate proceeding since the Order issued in Docket 04-0294,

[11] AIC says that "Purchase accounting" is a term that, as to these controverted issues, relates to the accounting entries that were made pursuant to applicable accounting standards at the time of IP's acquisition.

including this one, the Company has reversed the effects of purchase accounting collapsed into Account 114. AIC represents that Staff does not oppose subtracting $356,284,459 from the common equity balance. AIC states that there are two contested issues related to its common equity balance and purchase accounting.

a. Purchase Accounting/Goodwill

i. AIC Position

AIC says that IIEC proposed to exclude an additional $54.4 million from the common equity balance to reflect the difference between AIC's $356 million self-adjustment and AIC's $411 million of goodwill assets. AIC argues that this adjustment, however, contravenes the Commission's Order in Docket 04-0294—and was expressly rejected in Docket 11-0282. AIC contends that in subtracting the entire goodwill balance of $411 million without netting all other purchase accounting adjustments, IIEC overstates the required reduction to common equity. AIC contends that his proposal directly contradicts the Commission's Orders in Dockets 04-0294 and 11-0282 expressly addressing this issue. AIC notes that in Docket 11-0282, the Commission entertained, and rejected, a proposal identical to the one made by IIEC witness Mr. Gorman in the instant case:

> Staff recommends removing from the common equity balance the balance of goodwill on AIC's books. AIC argues that Staff's proposal reduces the common equity balance by too much because a portion of the goodwill balance on its books is offset by purchase accounting transactions . . . . As previously discussed, the Commission understands purchase accounting to be technical and complex. It appears to the Commission that while easy to understand, Staff's recommendation on this issue is overly simplistic. The Commission concludes that the record supports AIC's position that purchase accounting and goodwill are intertwined. It is clear to the Commission that Staff's recommendation does not reflect this fact. The record supports AIC's position that the common equity balance should be reduced by $350,833,351. This adjustment reflects a netting of accounting adjustments against the goodwill balance which is supported by the record of this proceeding. Substituting this value into Staff Ex. 24.0, Schedule 24.03 in place of the value used by Staff, $411,000,000, produces an average common equity balance of $1,889,251,000, which the Commission believes should be used for purposes of setting rates in this proceeding.

Ameren Ill. Co., Docket 11-0282, Order, pp. 53-54.

AIC also notes that, although IIEC conceded that its proposal "is contrary" to the

Commission's orders in Dockets 04-0294 and 11-0282, IIEC contends that it is not contrary to EIMA's requirement that the formula rate template reflect utilities' actual year-end capital structure. *See* 220 ILCS 5/16-108.5(c)(2). AIC understands IIEC to argue that purchase accounting adjustments to actual year-end capital structure are not permitted under the formula rate because doing so would alter the year-end capital structure. AIC disagrees, pointing out that its "actual year-end capital structure" reflects the adjustments to goodwill for purchase accounting ordered by the Commission in Docket 04-0294. AIC argues that purchase accounting and goodwill are intertwined, and AIC has eliminated all goodwill from the capital structure, because the effect of the Docket 04-0294 directive is that the elimination of goodwill from the common equity balance must be netted or collapsed against all other purchase accounting entries. AIC contends that it is IIEC's adjustment that would result in an alteration of AIC's year-end capital structure by *not* adjusting for purchase accounting and thereby overstating common equity balance.

AIC explains that its "actual year end capital structure" reflects purchase accounting. The adjustments to goodwill for purchase accounting are made annually in Account 114, and are properly included in the actual capital structure. AIC excluded purchase accounting adjustments recorded in connection with Ameren's acquisitions of AmerenCILCO and AmerenIP consistent with the Commission's Docket 04-0294 directive that such balances not be included in the common equity balance for

Moreover, AIC contends that IIEC ignores the fact that EIMA qualifies the requirement that the formula rate reflect actual capital structure by also requiring that the capital structure be prudent, reasonable, and "consistent with Commission practice and law." *See id.* AIC notes that Commission practice, as IIEC admits, is to adjust the balance of goodwill to reflect purchase accounting, and argues that this practice produces a reasonable and prudent capital structure.

AIC notes that IIEC also states that the requirement to adjust the goodwill balance for purchase accounting pre-dates the formula rate process, suggesting these requirements do not apply here. But AIC's adjustment of the common equity balance to exclude the effects of purchase accounting has already been reviewed by the Commission in two formula rate proceedings, Dockets 12-0001 and 12-0293. *Ameren Ill. Co.*, Docket 12-0001, Order (Sept. 19, 2012), *Ameren Ill. Co.*, Docket 12-0293, Order (Dec. 5, 2012). In Docket 12-0001, the Commission approved AIC's purchase accounting and found that "AIC has followed all accounting rules and Commission Orders relating to its accounting for purchase accounting, or push down accounting." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 119. In that case, as here, AIC adjusted its common equity balance by excluding the effects of purchase accounting. *Ameren Ill. Co.*, Docket 12-0001, Order, p. 115

ii. Commission Conclusion

The Commission agrees with AIC that IIEC's proposed exclusion of the entire goodwill balance, without netting other purchase accounting adjustments, is not appropriate. The Commission notes that IIEC's proposal contravenes the Commission's order in Docket 04-0294 and was expressly rejected in Docket 11-0282. In addition, the Commission has approved AIC's approach in Dockets 12-0001 and 12-0293.

b. Purchase Accounting/Income Statement

i. AIC Position

AIC says that Staff proposes to subtract an additional $105,536,599, in income statement purchase accounting adjustments, which flowed through to retained earnings. AIC notes that Staff claims, as its basis for this recommendation, that in Docket 04-0294 the Commission ordered AIC to reverse purchase accounting adjustments associated with the acquisition of IP for ratemaking purposes. AIC states that Staff specifically asserts: (*1*) that AIC admits that it never reversed the net income-related purchase accounting adjustments for ratemaking purposes, nor did Illinois Power; and (*2*) the Company's Account 114 balance does not include $105.5 million of net income-related purchase accounting adjustments, which flowed through retained earnings.

AIC argues that Staff's adjustment should be rejected, as it has been by the Commission in two dockets before, because income statement purchase accounting adjustments which flowed through to retained earnings have been eliminated through dividends, so that Staff's proposal does not fully eliminate the effects of purchase accounting. AIC argues:

- The Commission has rejected Staff proposals on this same issue in AIC's initial formula rate case, Docket 12-0001, as well as in the last AIC gas rate case, Docket 11-0282.

- AIC has reversed all net income related purchase accounting for ratemaking purposes by removing the effects of purchase accounting from the income statement balances of revenues and expenses and eliminating the derivative effects of purchase accounting related retained earnings from the retained earnings balance through the payment of dividends.

- Staff's adjustment contravenes the Commission's Order in Docket 04-0294 because it does not remove all purchase accounting associated with the acquisitions at issue.

AIC submits that Staff has now proposed purchase accounting adjustments in three Ameren Illinois dockets—Dockets 11-0282, 12-0001 and 12-0293. *Ameren Ill. Co.*, Docket 11-0282, Order (Jan. 10, 2012), *Ameren Ill. Co.*, Docket 12-0001, Order (Sept. 19, 2012), *Ameren Ill. Co.*, Docket 12-0293, Order (Dec. 5, 2012). AIC says that the Commission has not adopted these adjustments in any of these cases. AIC notes that in particular, in Docket 12-0001, Staff made a similar proposal to add back income statement purchase accounting adjustments that flowed through retained earnings. AIC points out that the Commission did not accept the proposal, concluding that since "AIC has followed all accounting rules and Commission Orders relating to its accounting for purchase accounting, or push down accounting, the Commission rejects Staff's proposed adjustment to common equity balance." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 119.

AIC claims that in that case, as here, AIC adjusted its common equity balance by excluding the effects of purchase accounting. *Ameren Ill. Co.*, Docket 12-0001, Order, p. 115. AIC states that regarding income statement purchase accounting adjustments that flowed through to retained earnings, Staff disagreed with AIC's contention that the dividends reduced the retained earnings resulting from purchase accounting. AIC countered that dividends are clearly paid in cash, but the payment of dividends reduces retained earnings (a component of equity), and was contingent upon the Company having retained earnings from which to pay the dividends. *Id.*, at 118. AIC argued that Staff's approach would reverse the collapsing of the purchase accounting entries, without considering whether the earnings were actually still retained by AIC, and while leaving the effects of push-down accounting partially in place. *Id.*, at 116. AIC notes that the Commission found that, despite Staff's implications, it could not find an instance where AIC had violated any accounting rules. *Id.* AIC represents that because AIC had followed all accounting rules and Commission orders related to purchase accounting, the Commission rejected Staff's proposed adjustment to the common equity balance. *Id.*

Likewise, in Docket 11-0282, AIC continues, AIC proposed to remove from its common equity balance all effects of the accounting entries related to purchase accounting, in a manner consistent with the Commission's Order in Docket 04-0294. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 48. AIC says that Staff expressed concern that AIC had not made an adjustment to reflect the absence of common dividends paid from the retained earnings associated with the purchase accounting. *Id.*, at 52. Staff argued that dividends do not represent a reversal of purchase accounting adjustments to net income, because dividends are not paid specifically from a particular type of earnings. *Id.*

AIC notes that the Commission found that Staff had failed to respond to AIC's evidence showing that the purchase accounting adjustments were netted against goodwill, or to the evidence that the two items were intertwined in a manner that one element could not be extracted. *Id.*, at 54. AIC continues, the Commission believed that, in this regard, Staff's arguments were overly simplistic. *Id.*

AIC contends that Staff also raised these same issues in Docket 12-0293. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 107. AIC notes that the Commission adopted Staff's imputed capital structure proposal, and therefore took no action on Staff's purchase accounting adjustment. *Id.*

AIC notes that Staff argues that (notwithstanding the adjustment to common equity to reflect the balance sheet adjustments collapsed in Account 114) AIC has not reversed $105 million of net income related purchase accounting adjustments for ratemaking purposes. AIC argues that it has, in fact, reversed all net income related purchased accounting for ratemaking purposes.

AIC states that net income purchase accounting takes two forms—the first is an impact on revenue and expense balances on the income statement, and the second is the derivative effect of purchase accounting retained earnings. AIC represents that the Order in Docket 04-0294 requires it to reverse the effect of push down accounting for state regulatory purposes, and AIC has done so consistently with respect to both forms of net income purchase accounting.

AIC claims that it has removed the effects of purchase accounting from the income statement balances of revenues and expenses in this case, including adjustments made to Account 926 to remove purchase accounting. AIC says that the elimination of purchase accounting within income tax expenses is accomplished through transition to the test year calculation that excludes purchase accounting on Part 285 Schedule 5a. The Company asserts that it has consistently eliminated purchase accounting from revenues and operating expenses in this manner in each rate proceeding since the Order issued in Docket 04-0294.

AIC contends that it has also eliminated the derivative effects of purchase accounting related retained earnings from the retained earnings balance in this and past rate proceedings. AIC argues that the evidence reflects a detailed analysis of the derivative effects of purchase accounting related retained earnings. AIC claims that for each year going back to 2004, it has differentiated between net income attributable to purchase accounting and net income *not* attributable to purchase accounting. AIC continues that purchase accounting related net income, less the portion of common dividend payments attributed to purchase accounting net income,[12] was calculated to determine if any ratemaking adjustment was needed to reverse the effects of purchase accounting for regulatory purposes.

AIC contends that although it cannot simply reverse the derivative effects of purchase accounting net income on its books, as Staff implies, AIC has reduced retained earnings with a ratemaking adjustment when the purchase accounting related to net income retained by AIC has a positive balance for the test year or reporting year for Form 21 ILCC. AIC represents that in Docket 07-0585 (cons.) it made such a ratemaking retained earnings adjustment, since a portion of purchase accounting related retained earnings was retained by AIC. Subsequently, AIC goes on, the balance of purchase accounting related retained earnings retained by AIC has been negative, and no adjustment has been made.

AIC argues that, in this case, the calculated ratemaking retained earnings adjustment is negative, in the amount of ($2,834,790). AIC claims that it has not made an adjustment to add an amount to retained earnings (and thus to the common equity balance) to eliminate or reverse the negative balance. AIC argues that if any adjustment were to be made, however, an increase to common equity would be appropriate.

In summary, AIC says net income related to purchase accounting is no longer retained by AIC, as the balance recorded to retained earnings has been paid out in common dividends, consistent with the Commission's finding in Docket 12-0001. Thus, AIC argues that Staff's proposed adjustment to the common equity balance for net income purchase accounting is not appropriate.

AIC says that Staff claims as the basis for its position that AIC "admitted" that it never reversed the effects of net income related to purchase accounting for ratemaking purposes. AIC argues that Staff mischaracterizes the referenced RMP 4.01 Response, however. AIC notes that, to begin with, the question asked, "Has Ameren subsequently reversed or written-off the $63.7 million for financial reporting purposes in any financial reports…" not *ratemaking* purposes. AIC says that the response goes on to explain (as

[12] AIC claims that, as a matter of financial accounting, payment of dividends has the effect of reducing retained earnings, which is a component part of shareholders' equity on the balance sheet.

also explained above) that the retained earnings adjustment was effectively eliminated through the payment of common dividends. AIC asserts that while a ratemaking retained earnings adjustment was made in Docket 07-0585 (cons.), none has been made since because the balance of purchase accounting related retained earnings has been $0, due to payment of dividends, or negative ratemaking retained earnings adjustment balances, as discussed above.

AIC says that Staff also suggests that AIC's Account 114 balance does not include $105 million of net income-related purchase accounting adjustments that flowed through retained earnings, and this is contrary to the requirement of Docket 04-0294. AIC argues that there are two flaws in Staff's position, however. *First*, AIC contends that it conflates the requirement from Docket 04-0294 that AIC "reverse the effect of push down accounting for state regulatory purposes" with the Commission's decision to "adopt[] the recommendation of Staff witness Ms. Pearce that the impact of push down accounting should be collapsed into Account 114, plant acquisition adjustments, for all Illinois regulatory purposes." *Illinois Power Co.*, Docket 04-0294, Order, pp. 33-34. AIC claims that the first requirement is broader, since it speaks to "effects of push down accounting" generally, while the second requirement refers more narrowly to Account 114. AIC argues that Staff improperly assumes that the two requirements are one and the same. *Second*, AIC continues, Staff's position is flawed because it confuses Account 114, a balance sheet account, with AIC's income statement and other financial statements, which are separate and distinct. AIC explains that, as a matter of accounting, these financial statements cannot be intermingled, as would have to happen for the $105 million of income statement purchase accounting to be reflected in Account 114 as Staff suggests. Citing Mr. Ronald D. Stafford, AIC explains that one cannot, as a matter of accounting, collapse income statement balances into a balance sheet account, as Staff proposes.

AIC argues that, in fact, it is Staff's proposal that violates the Order in Docket 04-0294. AIC says that Staff's proposal to remove $105 million in net income purchase accounting fails to account for the fact that net income purchase accounting has been removed by AIC for ratemaking purposes, and in particular that the effect of net income purchase accounting on retained earnings has been eliminated through dividends. AIC contends that Staff's proposal, then, would have the effect of *not* reversing the effects of purchase accounting, in contravention of the order in Docket 04-0294.

ii. Commission Conclusion

The Commission understands that Staff seeks to reduce AIC's common equity balance by approximately $105 million in income statement purchase accounting adjustments which flowed through to retained earnings. However, the Commission finds that this proposed adjustment is unnecessary and inappropriate because AIC has, consistent with the Commission's order in Docket 04-0294, reversed all net income related purchase accounting from the income statement balances of revenues and expenses in this case, and has eliminated the derivative effects of purchase accounting-related retained earnings from the retained earnings balance. As a result, net income related to purchase accounting is not retained by AIC. The Commission notes that Staff has proposed similar purchase accounting adjustments in three Ameren Illinois dockets, and that the Commission has rejected the adjustment in each case. Staff has not offered any new or additional evidence that would support any different outcome, and the Commission rejects Staff's proposal once again.

3. Balance and Embedded Cost of Long-Term Debt

a. AIC Position

AIC asserts that, for the reasons discussed above, the Commission should reject Staff's hypothetical and imputed capital structure and approve AIC's prudently managed, actual capital structure for year-end 2012. AIC continues that, consequently, it should approve AIC's long-term debt balance of $1.595 million, which comprises 44.00% of that actual capital structure. AIC represents that debt balance includes the redemption cost it actually incurred in 2012 in connection with a debt refinancing transaction that yielded positive net present value economics. AIC says that Staff, however, would disallow a majority of that cost. AIC argues that apart from its proposed hypothetical capital structure—which is neither supported by the law nor the record evidence—Staff believes the Commission should approve a long-term debt balance less than that actually held by AIC in 2012. AIC contends that while its position is premised on the prudency of the transaction, Staff's, on the other hand, is premised on a misapplication of Commission precedent. AIC asserts that Staff's position is also legally untenable, and it results in a grossly disproportionate impact on AIC's revenue requirement. AIC posits that ultimately the question is whether AIC's redemption of the debt in 2012 was prudent. AIC says it was. AIC appeals to the Commission to approve full recovery of AIC's prudently incurred redemption cost and, consequently, its actual 2012 long-term debt balance.

AIC says that in October 2008, during the height of the financial crisis, AmerenIP issued $400 million of debt with a coupon rate of 9.75% due in 2018. AIC notes that in October 2010, AmerenIP merged with AmerenCILCO into AmerenCIPS, forming AIC. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 1. AIC explains that in July 2012, it announced a tender offer to repurchase the 9.75% notes, and in August 2012, it redeemed $87.1 million of the notes upon the payment of premiums totaling $33.4 million. The same month, AIC continues, it issued $400 million of 2.70% senior secured notes due in 2022. AIC says that it used the net proceeds of that refunding issue to fund the premium cost of the 9.75% bond redemption. AIC claims that the combined transaction yielded positive net present value economics on a matched maturity basis and resulted in annual interest savings for AIC. AIC states that it lowered the average cost and extended the average maturity of AIC's long-term debt portfolio, and mitigated the refinancing risk associated with AIC's 2018 debt tower. Put simply, AIC says that the combined transaction was an economically favorable one, and the associated cost to redeem the 9.75% bonds was thus prudently incurred.

AIC claims that Staff, nevertheless, would disallow a majority of that cost. AIC represents that Staff recommends that the Commission disallow 57.41% of the premiums paid by AIC to redeem the 9.75% bonds, which equates to zero recovery on the first $50 million of the $87.1 million of bonds redeemed. AIC submits that Staff bases its proposal on the Commission's orders in AIC's last two gas rate cases: Dockets 09-0306, et al. (cons.) and 11-0282. AIC argues that the issues and facts in those cases, however, are different from those at bar. AIC continues that, consequently, any adjustment to AIC's long-term debt balance premised on those dockets is misplaced and should be rejected.

AIC notes that in Docket 09-0306, the Commission addressed the issue of whether the principal amount of the October 2008 AmerenIP debt issuance should be included in that utility's test year capital structure. *Cent. Ill. Light Co.*, Dockets 09-0306, et al. (cons.), Order, p. 143 (Apr. 29, 2010). AIC points out that the Commission found AmerenIP had issued $50 million more long-term debt than it required for utility operations and, as such, $50 million of the principal amount of the 9.75% debt issuance should not be included in AmerenIP's long-term debt balance. *Id*. AIC points out that in Docket 11-0282, the Commission again addressed the propriety of, and disallowed, $50 million of the $400 million principal of the 9.75% bond issuance, this time for the purpose of calculating the now-merged utilities' embedded cost of long-term debt. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 75-76. AIC claims that Staff relies on these orders to propose here that AIC not recover the cost it incurred to redeem the first $50 million of the $87.1 million in 9.75% bonds that it redeemed in 2012.

AIC asserts that the issue in this case is different than in the previous dockets. AIC contends that the issue here is the cost AIC incurred in 2012 to redeem a portion of the October 2008 9.75% bond issuance in connection with a transaction that secured for AIC a lower rate and extended the maturity of its long-term debt. AIC posits that the Commission's past disallowance of a portion of the total principal 9.75% issuance is irrelevant. AIC submits that it does not warrant an automatic adjustment to the premiums AIC paid in 2012 to redeem that debt.

AIC continues that the facts of this case also are different from the facts of Dockets 09-0306, et al. (cons.) and 11-0282. AIC notes that when the Commission reviewed the AmerenIP October 2008 debt issuance in Dockets 09-0306, et al. (cons.), AmerenIP, AmerenCIPS, and AmerenCILCO were separate legal entities with separate capital structures and separate rates. AIC represents that the Commission premised its adjustment in that case on the propriety of an intercompany loan among those separate legal entities—specifically from AmerenIP to AmerenCIPS. *Central Ill. Light Co.*, Dockets 09-0306, et al. (cons.), Order, p. 143. AIC says that the view proffered by Staff in those dockets, and accepted by the Commission, was that AmerenIP should have called back the $50 million money pool loan made to AmerenCIPS in October 2008 instead of issuing all $400 million in long-term debt. AIC states that the concern was cross-subsidization between AmerenIP and AmerenCIPS.

AIC argues that this case involves *AIC*, however, which was formed upon merger of those entities. AIC contends that that merger negates any cross-subsidization concern. AIC states that it has a capital structure that is common to all rate zones and that incorporates each of the merged entities. AIC asserts that the $50 million in question is a necessary component of *AIC's* capital structure. AIC continues that whether AmerenIP or AmerenCIPS ultimately required the debt is irrelevant to *AIC's* current capital structure. AIC goes on that since the $50 million of long-term debt was required by AIC, any cost disallowance associated with tender of the bonds is unwarranted.

AIC argues that the Commission should premise recovery of the redemption cost at issue on the law, and the law here is clear: AIC is entitled to recover its prudently incurred costs in providing service. *Citizens Util. Bd. v. Ill. Commerce Comm'n*, 166 Ill.

2d 111, 126 (1995); *Bus. & Prof'l People for the Pub. Interest vs. Ill. Commerce Comm'n*, 279 Ill. App. 3d 824, 831-32 (1996). AIC notes that EIMA specifically mandates "recovery of the utility's actual costs of delivery services that are *prudently incurred* and reasonable in amount consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(1) (emphasis added). AIC continues, with regard to capital structure, the plain language of Section 16-108.5(c)(2) requires formula rates that "[r]eflect the utility's *actual year-end capital structure* for the applicable calendar year, excluding goodwill, subject to a determination of prudence and reasonableness consistent with Commission practice and law." 220 ILCS 5/16-108.5(c)(2) (emphasis added). AIC points out that the Commission defines prudence as "'that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made.'" *Ill. Commerce Comm'n v. Peoples Gas Light & Coke Co.*, Docket 00-0720, Order, p. 6 (Jan. 24, 2002) (*quoting Ill. Commerce Comm'n v. Commonwealth Edison Co.*, Docket 84-0395, Order, p. 17, 1987 Ill. PUC LEXIS 68, *34 (Oct. 7, 1987)). In evaluating the prudency of a management decision, AIC represents, "'[h]indsight review is impermissible.'" *Id.* The Commission has cautioned, "'[i]mprudence cannot be sustained by substituting one's judgment for that of another.'" *Id.*

AIC represents that Staff does not dispute that AIC's 2012 redemption of the 9.75% bonds was prudent. AIC maintains that that redemption combined with the 2.70% reissuance represents an economically favorable transaction. AIC explains that when utility bonds near or reach their maturity, generally, they are refinanced or replaced with a bond that matures at a time farther into the future, to mitigate the utility's financing risk. Also, when the opportunity exists, AIC submits that the utility will replace a bond with a high coupon rate with a bond with a lower coupon rate to reduce the utility's costs, which ultimately benefits its customers. AIC states that is precisely what happened here. AIC says that the combined 2012 transaction resulted in positive net present value economics on a matched-maturity basis, reduced AIC's average cost of debt, and extended the average duration of the AIC's long-term debt portfolio. AIC argues that even if AmerenCIPS had paid back the $50 million loan in 2008 and replaced it with its own long-term debt, AIC likely would have redeemed that debt in 2012 as well, given the new rate of 2.70%, which is much lower than the relatively high interest rates experienced during the 2008 credit crisis. AIC asserts that the combined 2012 transaction was financially sound, and it benefited both AIC and its customers. AIC contends that it reflects AIC management's prudent judgment. AIC contends that to suggest that AIC should not have redeemed the bonds in 2012 and incurred the attendant cost would be to substitute hindsight review for that prudent judgment. AIC submits that that is not a legally sustainable basis on which to disallow any portion of the cost of the 2012 transaction, including the premiums paid by AIC to redeem the bonds. *See Ill. Comm. Comm'n. v. Peoples Gas Light and Coke Co.,* Docket 00-0720, Order, p. 6.

AIC also appeals to the Commission to reject Staff's adjustment because it is grossly disproportionate. AIC notes that in Docket 11-0282, the Commission approved full recovery at 9.75% of $350 million of the $400 million total issuance. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 70, 76. It allowed recovery of the remaining $50 million at the weighted average cost of debt for Ameren, 7.39%. *Id.* In other words, AIC represents, the Commission approved 100% recovery of the actual cost of debt on $350 million of the issuance, and approximately 75% recovery on the remaining $50 million. AIC posits that equates to a disallowance of approximately 3% of the total cost of the 9.75% debt. AIC states that, for this reason, in accordance with Docket 11-0282, AIC's 2012 actual capital structure reflects a cost for the first $50 million of the debt issuance at 7.31%, rather than the coupon rate of 9.75%. AIC points out that here, Staff would nevertheless disallow a majority—57.41%—of the prudent cost to redeem the debt. AIC says that Staff's proposal effectively disallows entirely the redemption cost associated with the first $50 million of the $87.1 million of the bonds AIC redeemed.[13] AIC argues that it is unquestionably inconsistent with the Commission's prior 3% adjustment, and it unduly punishes AIC for its prudent 2012 refinancing action. AIC asserts that the Commission should reject Staff's adjustment, and allow AIC to recover in full the costs it prudently incurred in connection with that transaction.

Finally, AIC takes issue with what it perceives as a "new" argument offered by Staff in brief. Staff argues the recoverability of the 9.75% bond redemption costs is directly related to how the proceeds from the 2.7% bonds are *assigned*. In Staff's view, if the proceeds had been assigned to the $350 million of 9.75% bonds that the Commission found prudently issued, rather than the $50 million it did not, then the entire redemption cost would be recoverable. AIC claims if this were Staff's view, it should have asserted it in testimony, but it did not. Since Staff waited until brief to raise the theory, AIC points out, AIC has been denied the opportunity to submit evidence responsive to Staff's "assignment" argument. AIC notes, likewise, that no witness testified about the "assignment" of redemption costs and Staff cites to no evidence in its brief to support its argument. Regardless, AIC concludes, the order in which AIC "assigned" the proceeds of its 2012 bond redemption is beside the point. The point is that the transaction was prudent and reflects AIC management's prudent judgment.

AIC maintains that if the Commission adopts Staff's position and disallows *any* of the cost actually incurred by AIC in connection with that prudent transaction, it will penalize AIC for its prudency and could discourage AIC (and other utilities) from undertaking debt refinancing transactions that ultimately benefit both the utility and its customers. AIC concludes that the Commission should reject Staff's adjustment and allow AIC to recover in full the costs it prudently incurred in connection with its 2012 debt refinancing transaction.

AIC says that its 2012 embedded cost of long-term debt is 7.31%. AIC notes that Staff proposes a reduced cost of long-term debt of 7.10%. AIC submits that the difference is largely attributable to the rebalancing implications of Staff's adjustment to remove a majority of AIC's 2012 prudent refinancing transaction. AIC concludes that, for the reasons it details above, the Commission should not approve Staff's adjustment; likewise, AIC requests that the Commission not approve a reduction to AIC's 2012 cost of long-term debt.

b. Commission Conclusion

[13] $50,000,000 / 87,100,000 = 0.5741.

As the Commission understands it, AIC used the proceeds from a 2.70% debt issuance in 2012 to pay off a portion of 9.75% debt existing on its books as a result of consolidation of the Ameren utilities into AIC in 2010. While AIC incurred a cost to redeem the 9.75% bonds, the combined transaction was financially advantageous. Staff's position, as the Commission understands it, focuses only on the 9.75% bond redemption element of the transaction and the related cost. The Commission believes that approach loses sight of the forest for the trees. The Commission agrees with AIC that the focus should be on whether the combined refinancing transaction was prudent and reasonable. The Commission finds that it was. AIC's evidence demonstrates that the transaction lowered the average cost and extended the average maturity of AIC's long-term debt portfolio and mitigated the refinancing risk associated with AIC's 2018 debt tower.

The Commission also agrees with AIC that Staff's reliance on Dockets 09-306, et al. (cons.) and 11-0282 is misplaced. There appears to be no dispute in the record that the $50 million of 9.75% capital at issue in those dockets is currently required by AIC as a combined entity. Even if the Commission believed the adjustments in those dockets were relevant to the issue here (and it does not), they would not support Staff's present adjustment. As AIC's evidence demonstrates, Staff's wholesale disallowance of the cost to redeem $50 million is grossly disproportionate to the disallowances approved in those prior dockets. Finally, the Commission will not accept Staff's "assignment" argument because there is no evidence in the record to support it. The Commission reminds the parties that the bases for adjustments should be articulated in testimony; they should not be asserted for the first time in brief.

In summary, the Commission will not impose a disallowance that could discourage AIC and other utilities from undertaking debt refinancing transactions that ultimately benefit both the utility and its customers. Staff's position is rejected. The Commission approves a long-term debt balance that includes the full 9.75% debt redemption cost associated with AIC's 2012 debt refinancing transaction.

4. Balance and Embedded Cost of Short-Term Debt, including Cost of Credit Facilities

a. AIC Position

AIC represents that the parties agree that the balance and cost of AIC's short-term debt, excluding credit facility fees, should be 0.00%. AIC says that the only dispute concerns the cost of AIC's credit facilities to incorporate into its 2012 capital structure. AIC argues that its overall cost of capital should reflect the actual cost AIC incurred to use its credit facilities that year. AIC asserts that Staff, however, would adjust AIC's credit facilities fees to a conjectural level based on a misapplication of Section 9-230 of the Act and speculation as to what a third-party—S&P—might do in the future. AIC contends that, for the reasons above, the Commission should approve AIC's prudently managed 2012 capital structure, and not a hypothetical one. Likewise, AIC continues, it should approve AIC's actual credit facility fees in 2012.

AIC proposes a cost of 0.07% for its credit facilities fees, which reflects the fees AIC actually incurred in 2012 to use its credit facilities. AIC argues that those fees are fair, reasonable, and consistent with the market. AIC says that one of the credit facility fees AIC incurred in 2012 is an annual interest rate that varies with AIC's credit ratings from Moody's and S&P. AIC claims that, based on AIC's 2012 ratings of Baa2 and BBB from Moody's and S&P, respectively, in 2012, this annual fee was calculated at LIBOR plus 2.25% and applied to the balance of AIC's credit facilities. Accordingly, AIC continues, that is the rate it used to calculate the cost of its credit facilities in this proceeding.

AIC says that Staff proposes to recalculate that actual 2012 rate to reflect what the rate *would* be if a single rating agency, S&P, upgrades AIC's credit rating in the fourth quarter of 2013. AIC says that if S&P upgrades AIC to BBB+, it will reduce the subject fee to LIBOR plus 1.75%. AIC continues that from this, Staff derives its proposed cost of credit facility fees of 0.06%. AIC asserts that Staff bases its speculation on a single S&P publication, its March 14, 2013 Research Update for Ameren Corp. AIC says the report suggests S&P might upgrade AIC upon the divestiture of Ameren Corp.'s merchant generation affiliate in December 2013. AIC continues, from this Staff concludes, absent its affiliation with that entity, AIC's senior unsecured credit rating from S&P would be higher, and its annual credit facility pricing rate would be lower.

AIC argues that Staff's position is problematic for three reasons. First, as explained in Section IV.B.1. *supra*, AIC's prudently managed actual 2012 year-end capital structure should not be substituted with a hypothetical one based on conjecture as to its association with an unregulated affiliate. Second, the S&P report on which Staff relies is forward-looking; it is not applicable to the 2012 period at issue in this proceeding. And third, Staff's position ignores it is just as easy to speculate as to occurrences that would drive AIC's credit rating down, such as continued, successive counter-constructive rate proceedings.

AIC reiterates that Staff ignores that S&P repeatedly and expressly qualifies the anticipated upgrade. S&P's March 2013 report states an upgrade will depend on Ameren Corp.'s achievement of forecast financial measures, rate case outcomes, and the timing of the divestiture. AIC explains that S&P's June 2013 report echoes that an upgrade will depend on those variables:

> The ratings on Ameren are on CreditWatch with positive implications, reflecting the high probability of another upgrade following the completion of the merchant sale to Dynegy Inc. The CreditWatch status also reflects our base-case forecast following the transaction's completion, and includes funds from operations (FFO) to debt of about 20% and debt to EBITDA of about 4x. These financial measures are consistent with the 'significant' financial risk profile category and when viewed together with Ameren Corp.'s 'excellent' business risk profile, *could* support a modestly higher rating. *Key risks to our forecast include the outcomes of future rate cases and our expectations for continued weak economic growth within the company's regulated service territories.* We *could* upgrade Ameren and its regulated subsidiaries *if* the company closes the transaction in a timely manner *while meeting our expected financial measures*.

(ICC Staff Ex. 9.0, Attach. F, p. 2 (emphasis added).) AIC explains the June 2013 report adds another qualifier: "Important to the company's credit rating is its ability to demonstrate improved effective management of regulatory risk within Illinois, which we assess as less credit supportive." (*Id.*, p. 3 (emphasis added).) AIC maintains that Staff disregards the context of S&P's upgrade prediction, but the Commission's decision on this issue should not be so narrowly focused.

AIC believes Staff considers an upgrade a certainty because it must to maintain its reliance on Section 9-230 of the Act. That Section bars the Commission from approving any increased cost of capital "which *is* the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies." 220 ILCS 5/9-230 (emphasis added). AIC points out that Staff has not shown AIC's 2012 credit facilities costs *were* the result of its affiliation with Ameren Corp.'s merchant generation operations. Nor can it, AIC believes. AIC notes there is no record evidence that AIC's affiliation with any other Ameren Corp. subsidiary affected its 2012 cost of debt, including its credit facilities fees. In fact, AIC explains, the evidence demonstrates the opposite: in 2012 AIC issued debt at 2.70%, a record-low 10-year coupon rate for the Company. AIC maintains the only record evidence Staff has (and can) point to is qualified speculation in an S&P report. AIC argues that referring to that conjecture as if it were fact cannot sustain a Section 9-230 adjustment, and the Commission should not impose one.

AIC concludes that the problem with Staff's position is that no one can predict with certainty the actions of the ratings agencies. AIC says that, as such, it is more reasonable to calculate AIC's credit facility fee based on its actual credit rating in effect as of December 31, 2012, as AIC has done, in calculating its overall cost of capital in this proceeding.

b. Commission Conclusion

The Commission agrees with AIC that Staff's position on this issue is premised on too much speculation. Staff discusses the S&P report at issue as if an upgrade were a foregone conclusion when, for the reasons acknowledged by AIC, that is not the case. The Commission rejects Staff's position and approves the actual 2012 cost of AIC's credit facilities as proposed by AIC.

C. Recommended Overall Rate of Return on Rate Base

1. Filing Year

AIC recommends an 8.11% pre-tax weighted average cost of capital be approved, as shown in Schedule FR A-1 of Appendices A and B.

2. Reconciliation Year

AIC recommends an 8.16% pre-tax weighted average cost of capital be approved, as shown in Schedule FR A-1 REC of Appendices A and B.

V. COST OF SERVICE AND RATE DESIGN

AIC notes that Section 16-108.5(c)(6) of the PUA states that "[u]ntil such time as the Commission approves a different rate design and cost allocation pursuant to subsection (e) of this Section, rate design and cost allocation across customer classes shall be consistent with the Commission's most recent order regarding the participating utility's request for a general increase in its delivery services rates." 220 ILCS 5/16-108.5(c)(6). Citing Mr. Ryan K. Schonhoff, AIC says that it has filed in this proceeding rate design and cost allocation methodologies that are consistent with those relied upon in Dockets 09-0306/9-0311 (cons.) and confirmed by recent orders issued in Dockets 12-0001 and 12-0293. AIC asserts that this consistency results in Rate MAP-P pricing that (*1*) is based on AIC's updated net revenue requirement (including the 2012 true-up reconciliation); (*2*) appropriately relies on separate Rate Zone net revenue requirements and embedded class cost of service study results; and, (*3*) will flow through the Rate MAP-P tariffs as approved by the Commission in Dockets 12-0001 and 12-0293.

AIC argues that, pursuant to Section 16-108.5(g) of the PUA, the Company has also provided the average amount paid per kWh for residential eligible retail customers, exclusive of the effects of energy efficiency, for the 12-month period ending May 31, 2012, and determined such amount to be 10.593¢/kWh.

AIC represents that no party filed testimony in opposition to the Company's proposed rate design or cost of service methodologies and no party has challenged the Company's calculation of price per kWh required by Section 16-108(g) of the Act. The Company views rate design and cost-of-service issues to be "non-contested" and requests the Commission approve the methodologies reflected in the direct and supplemental direct testimonies and accompanying exhibits of AIC witness Mr. Schonhoff, respectively labeled as Ameren Exhibits 7.0-7.6, 7.0S-7.6S, 7.7, 7.8, and 7.9.

A. Resolved Issues

VI. FORMULA RATE TARIFF

A. Separate Proceeding in Docket Nos. 13-0501/13-0517 to Litigate Merits of Proposed Template Changes

B. Process for Implementation of Formula Rate Template Changes in Docket No. 13-0301, if Approved in Docket Nos. 13-0501/13-0517

C. Proposed Template Changes in Docket Nos. 13-0501/13-0517 (for Purpose of Identification of Revenue Requirement Impact if Approved)

1. Uncollectible Expenses in the Reconciliation Year

2. Gross-up of Reconciliation with Interest and/or Collar revenue requirement adjustments for Uncollectible Expense

3. Year-end balances for Materials & Supplies and Customer Deposits

4. Depreciation Expense

5. Separate Cash Working Capital Calculation for Filing and Reconciliation Year

6. Return on Equity Collar Calculation

7. Reconciliation Interest Calculation

D. Recommended Revenue Requirement

1. Filing Year

2. Reconciliation Year

VII. OTHER ISSUES

A. Resolved Issues

1. UCB/POR Program Costs

AIC says that in Staff witness Mr. Ostrander direct testimony, he questioned whether all costs related to the UCB/POR Program had been removed from the revenue requirements proposed by AIC. Citing Mr. Stafford, AIC clarifies that all costs related to UCB/POR had been removed from the revenue requirements, and stated that no further adjustments were necessary for uncollectibles or administrative costs. AIC represents that Staff did not propose any adjustments related to the UCB/POR Program in rebuttal testimony, and AIC therefore considers this issue resolved. Therefore, the Commission finds that the UCB/POR Program costs to be reasonable, and is hereby accepted.

2. FERC Order – Docket No. AC 11-46-000

AIC says that Staff witness Mr. Ostrander also requested that AIC address the impact of a June 20, 2013 FERC Order entitled "Order Rejecting Refund Report and Providing Guidance" on AIC's revenue requirements in its rebuttal testimony. Citing Mr. Stafford, AIC explains in his rebuttal testimony that the FERC Order did not impact the revenue requirement in this case, because the refund report applied to transmission rates. AIC represents that Staff did not propose any adjustments related to the FERC Order in rebuttal testimony, and AIC therefore considers this issue resolved.

3. Reporting Requirement – FERC Form 60

AIC says that Staff witness Ms. Pearce recommended that the Commission order AIC to provide the Manager of Accounting of the Commission with an electronic copy of AIC's FERC Form 60 on the day it is filed with FERC. AIC asserts that Ms. Pearce stated that FERC Form 60 contains summary financial information that is used by Staff in their analysis of intercompany transactions pursuant to Commission-approved affiliated interest agreements, but AIC is not required to file the report with the Commission. AIC represents that it accepted this recommendation, and therefore considers this issue resolved.

4. Reporting Requirement – Service Company Allocations

AIC states that Staff witness Ms. Pearce also recommended that the Commission order AIC to notice the Manage of Accounting of the Commission within 30 days of implementing any substantial changes to service company allocation factors. AIC represents that Ms. Pearce stated that Staff reviews the allocation factors to ensure their reasonableness, and must therefore have access to the most current allocation factors. AIC represents that it accepted this recommendation (Ameren Ex. 9.0 (Rev.) (Stafford Reb.), p. 7), and therefore considers this issue resolved.

5. Reporting Requirement – FERC Orders

AIC says that Staff witness Ms. Pearce additionally recommended that the Commission order AIC to provide electronic copies of all FERC orders resulting from a FERC audit of costs or procedures that are subject to allocation or assignment to AIC and any responses to FERC by AIC, to the Manager of Accounting of the Commission. AIC continues, Ms. Pearce stated that these FERC orders could impact transactions between Ameren Services and its affiliates, including AIC, and are used by Staff in their analysis of intercompany transactions, but the forms are not required to be filed with the Commission. AIC claims that it accepted this recommendation, and therefore considers this issue resolved.

6. Supply Cost Adjustments Under Rider PER

AIC says that Staff witness Ms. Ebrey proposed that AIC work with Staff to develop revised tariff language for Rider PER that would allow for updates to the Supply Cost Adjustment factors, and file a revised tariff with the Commission within 60 days of the date of Staff's Direct Testimony in this proceeding. AIC submits that it agreed with Ms. Ebrey that the Rider PER language should be modified, but proposed to share revisions with Staff no later than September 30, 2013 and make a tariff filing by October 15, 2013. AIC represents that Ms. Ebrey accepted this proposal, and AIC therefore considers this issue resolved for purposes of this proceeding.

7. Categorization EIMA Plant Additions – Formula Rate Proceedings

AIC states that Staff witness Mr. Ostrander recommended that the Commission include language in its order in this proceeding identifying the details of the actual and projected plant additions by categories, and stated that categorization of the plant additions related to EIMA is required by Section 16-108.5(b)(2). AIC submits that it did not object to the categorization of the plant additions, but objected to the inclusion of the phrase "as required by Section 16-108.5(b)(2)" in Mr. Ostrander's proposed conclusion. AIC says that Staff in rebuttal testimony acknowledged that the categorization of the plant investments was flexible, and revised its proposed conclusion accordingly. AIC represents that it accepted this revised language, and therefore considers this issue resolved.

8. Reporting of EIMA Costs – Formula Rate Proceedings

AIC says that Staff witness Ms. Ebrey sought information regarding the "incremental amounts of [operations and maintenance] costs that the Company has incurred due to EIMA." Pointing to AIC witness Mr. Getz, AIC detailed exhibits identifying the operation and maintenance costs associated with the project numbers AIC established to track EIMA-related capital projects. AIC says that Mr. Getz noted that these exhibits did not quantify every dollar incurred throughout AIC that might be indirectly related to EIMA. Citing Mr. Getz, AIC explains that it does not separately track every expense related to EIMA because of the difficulty in parsing out internal, non-labor overhead costs.

AIC states that Ms. Ebrey also requested that the Commission order AIC to include a discussion and quantification of amounts of incremental costs associated with EIMA, but not specifically quantified in the law, in the annual EIMA report AIC provides to the Commission each March. AIC believes that the annual update and reconciliation proceeding would be a more appropriate venue for discussion of these costs, since it would provide the parties an opportunity to test the reasonableness and prudency of the actual electric delivery costs. AIC represents that, in order to resolve the issue, it committed to providing the following information as part of its direct filing in its future update and reconciliation proceedings: (*i*) the operations and maintenance expenses directly charged to specific EIMA capital projects, categorized by project and FERC account number; and (*ii*) the operations and maintenance expenses directly charged to identified trackers, categorized by project and FERC account number. AIC says that this information will be presented in the aggregate in AIC's direct testimony, and will be supported by workpapers similar in form to Ameren Exhibits 10.2 and 10.3, filed in the current proceeding. AIC contends that, when presented with this proposal, Ms. Ebrey agreed to withdraw her recommendation that the information be included in AIC's annual EIMA report. As a result of this proposed compromise, AIC considers this issue resolved.

B. Contested Issues

1. Use of Traditional Ratemaking Schedules in Formula Rate Proceedings

a. AIC Position

AIC states the purpose of this proceeding is to update the cost inputs to the Commission-approved formula rate template. AIC argues that Staff's reliance on traditional ratemaking schedules for presentation of Staff's cost input adjustments and revenue requirement that include cost inputs are inconsistent with the approved formula rate template and formulae. AIC contends that in particular, the traditional schedules present difficulty where an adjustment would require a change to the formula template, as any changes to the approved formula rate template that would be necessary to accommodate Staff's cost inputs cannot be made within the context of this or any other future update proceeding. No changes to the approved formula rate template that would be necessary to accommodate Staff's cost inputs can be made within the context of this or any other future update proceeding.

AIC contends that in defending its reliance on traditional ratemaking schedules, Staff's initial brief claims AIC's position is "that the mechanics of a formula model should be the deciding factor for any proposals made in this case . . ." AIC argues this misrepresents AIC's position. AIC argues that the EIMA establishes a formula rate whose structure and protocols are reflected in the template or model. The EIMA prohibits changes to the performance-based formula rate structure or protocols unless such changes are filed in accordance with Section 9-201 of the Act. 220 ILCS 5/16-108.5(c)-(d)(3). In other words, according to AIC, the legal requirement espoused in the EIMA's formula rate is the deciding factor. Until such time the Commission authorizes changes to the Rate MAP-P formula rate tariff and underlying formulae in a Section 9-201 filing, AIC states that the formula rate template version approved as in Docket 13-0385 must be populated with cost inputs without alteration to the template or formula.

According to AIC, Staff argues "the law itself requires the Commission to analyze the data inputs and to make adjustments it deems appropriate," and cites to Sections 16-108.5(c)(5) and 16-108.5(d) of the EIMA. But AIC contends Staff's argument is incomplete and ignores Section 16-108.5 (d)(3), which reads in part: "The Commission shall not, however, have the authority in a proceeding under this subsection (d) to consider or order any changes to the structure or protocols of the performance-based formula rate approved pursuant to subsection (c) of this Section." 220 ILCS 5/16-108.5(c), (d)(3). AIC contends Staff fails to explain how "adjustments [the ICC] deems appropriate" can be reflected in traditional schedules if the require changes to the template that have to happen in a different docket. Accordingly, AIC posits this language makes clear that changes to the formula rate structure and protocols within the update proceedings are prohibited.

AIC notes that this is the first reconciliation proceeding for AIC. AIC believes that, based on experience with the formula rate structure and protocols through this first reconciliation, the Commission should include a populated formulae template in its appendices to a final order in an update/reconciliation proceeding. AIC says that Staff would prefer that the final order appendices include only the "traditional" revenue requirement schedules. AIC claims that it does not necessarily oppose use of such traditional schedules as appendices to a final order, but if they are used, the appendices should also include a populated formula rate template.

Otherwise, AIC argues it will be difficult to determine if Staff's (or anyone's) recommended cost input adjustments are compatible with the approved formula rate template. AIC contends that this is particularly true, where, as in this case, there were proposed adjustments that did not align between traditional ratemaking schedules and the formula template and in fact will require template changes. AIC states that Staff witnesses have not incorporated their adjustments within the formula rate template: Staff's cost inputs and revenue requirement summary schedules result in different revenue requirements than the currently effective formula rate template and formulae.

AIC asserts that Staff's calculated revenue would be different, for example, if Staff had used the authorized formulaic rate template sponsored by AIC and populated such template with Staff's proposed cost inputs. AIC argues that this type of competing rate schedules can only lead to confusion and possible inconsistencies. AIC claims that if Staff-proposed cost inputs and revenue requirement, as represented in their schedules, cannot be replicated using the authorized formula rate template and formulae, then Staff's revenue requirement calculations must be synchronized to the amount calculated by the formula rate template. AIC argues that for this reason—to avoid confusion and inconsistency—the Commission's final order should include a populated formula template.

AIC represents that Staff claims in testimony that this issue was decided in ComEd's recent Docket 12-0321. AIC argues that in that case, however, no calculation alignment issues had been identified between the traditional revenue requirement schedules and the formula rate. *Commonwealth Edison,* Docket 12-0321, Order, p. 105 (Dec. 19, 2012). AIC continues that, consequently, there was no reason to attach the *ComEd* populated formula rate template to the Final Order. AIC also points out that the Docket 12-0321 order referenced a new rulemaking that would permit ComEd and other parties to address this issue, which has not been initiated to date. AIC contends that Docket 12-0321 is not dispositive of AIC's position that the Final Order should also include a populated formula template and summary schedules with the approved update inputs.

b. Commission Conclusion

The purpose of this proceeding is to update the cost inputs to AIC's formula rate template. Until such time that the Commission authorizes changes to the Rate MAP-P formula rate tariff and underlying formulae in a Section 9-201 filing, the formula rate template version approved as in Docket 13-0385 must be populated with cost inputs without alteration to the template or formulae. Section 16-108.5 (d)(3), reads: "The Commission shall not, however, have the authority in a proceeding under this subsection (d) to consider or order any changes to the structure or protocols of the performance-based formula rate approved pursuant to subsection (c) of this Section." 220 ILCS 5/16-108.5(c), (d)(3). Thus, the legislature has made clear that changes to the formula rate structure and protocols within the update proceedings are prohibited. Staff's proposal to continue to rely on traditional schedules presents the concern that proposed adjustments will require changes to the formula template that cannot be addressed in the same proceeding as the adjustment.

AIC argues the Commission's final order should include a populated formula template to avoid confusion and inconsistency. The Commission agrees. Given the new rate paradigm, rate schedules that are in accord with that paradigm are in order. Staff's reliance on ComEd's first update proceeding (Docket 12-0321) is not dispositive. As the Docket 12-0321 order noted, no calculation alignment issued had been identified in that case between the traditional revenue requirement schedules and the formula rate template. *Commonwealth Edison Co.*, Docket 12-0321, Order, p. 105 (Dec. 19, 2012). Further, the Commission also referenced a new rulemaking that would permit ComEd and other parties to address this issue. And, as AIC points out, the referenced rulemaking has not been initiated.

2. Preparation of Exhibits, Schedules, and Workpapers in

Formula Rate Proceedings

a. AIC Position

AIC says that Staff witnesses Ms. Ebrey and Mr. Knepler expressed concern that Staff spent significant time "unraveling" the information provided by AIC in its filing. AIC claims that Ms. Ebrey recommended that AIC respond with a proposal to improve the quality of information provided in support of future formula rate filings. AIC states that Ms. Ebrey on rebuttal noted that AIC had provided sufficiently transparent information in its rebuttal testimony, but recommended that the Commission adopt rulings concerning the quality of information to be submitted in future formula rate cases. AIC continues, Mr. Knepler provided a list of recommended improvements to the Part 285 filing, exhibits and supporting workpapers. AIC points out that Mr. Knepler's list included requirements that the amounts discussed in testimony should not differ, even slightly, from the amounts listed on supporting schedules; pagination of multi-page spreadsheets should be easier to understand; and data provided on certain workpapers should be combined into the relevant schedule.

AIC argues including in the Commission's order a directive concerning the presentation of its evidence is unnecessary. AIC represents that it has committed to making certain improvements in its subsequent filings, in response to several of the concerns raised by Staff. For example, AIC says that it will attempt to ensure that amounts presented on schedules are not rounded when inserted into relevant testimony. AIC represents that it will also attempt to improve the pagination of multi-page spreadsheets in future filings. In addition, AIC submits that it routinely provides Staff with working versions of the Part 285 filings, including all schedules and workpapers, with working formulae intact. AIC contends that, in this proceeding, working versions of the Formula Rate Template and related workpapers were also provided to Staff. AIC asserts that these working spreadsheets enable Staff to trace all schedules, workpapers and exhibits back to other documents containing the same information.

AIC argues that the remaining concerns expressed by Staff do not warrant a specific Commission directive as Staff recommends. AIC posits that, first and most importantly, the type of concerns expressed by Staff should be (and typically are) addressed by parties through discovery. During the course of a typical rate case proceeding, AIC says that it receives numerous data requests seeking reconciliation of numbers presented on different schedules or explanation of the differences between certain items. AIC submits that the instant proceeding is AIC's third electric formula rate proceeding, and Staff has not voiced any previous concerns regarding problems with AIC's schedules, exhibits, or workpapers, or issues in the discovery process, in previous proceedings. AIC says that this suggests to it that discovery has been appropriate and useful in resolving any questions. AIC avers Staff's citation to the Commission's order in Docket 12-0001 highlights this point. In its initial brief, Staff complains it has had difficulty with AIC's presentation in prior cases, specifically with Account 909 expenses in Docket 12-0001. In that case, Staff proposed a general disallowance of Account 909 expenses "because it has not been able to tie specific invoices to particular advertising expenses that AIC seeks to recover from customers." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 92 (Sept. 12, 2012.) However, the problem was not with AIC's presentation.

Rather, the Commission stated, "the underlying problem for Staff is one of limited resources to devote to work that must be done under a shortened deadline." *Id.* Regardless of the source of Staff's concerns, the Commission noted that AIC provided the information to Staff in discovery. *Id.*

Moreover, AIC continues, it appears in the instant proceeding, when the discovery process was used, it was instrumental in addressing Staff's concerns. AIC says that Ms. Ebrey, for example, issued 80 data requests, to which AIC provided timely responses that contained the information sought by Ms. Ebrey.

On the other hand, AIC points out that Mr. Knepler did not issue any data requests in this proceeding, despite his list of concerns. In fact, AIC continues, Mr. Knepler's recommendations appear to be based only on his review of the unrevised schedules provided by AIC witness Mr. Kennedy in its initial filing. AIC says that these schedules were subsequently updated, clarifying items about which Mr. Knepler expressed concern. AIC submits that in a case of this complexity and magnitude, some clarification through discovery will undoubtedly be necessary, regardless of the care and effort expended in compiling exhibits and workpapers. AIC represents that the parties cannot foresee all potential relationships between the data presented on these documents, and the Commission should not endeavor to create rules governing the presentation of data that will change on a yearly basis. Instead, AIC states that the parties and the Commission should rely on discovery as the proper means by which to address the questions that will surely arise.

Second, although AIC acknowledges Staff's recommendation that certain workpapers be combined into the relevant schedules, AIC believes the current format for workpapers and schedules is more compatible with the requirements of Part 285 of the Commission's Rules of Practice and Procedure. Generally speaking, Part 285 provides instructions that require summary data to be presented on Schedules, while Workpapers should be used to present supporting details. *See* 83 Ill. Admin. Code § 285.400 (describing Schedules), § 285.410 (describing Workpapers); *see also, e.g.* § 285.1025 (describing information to be presented on Schedule A-5, and, separately, the information to be presented on the supporting Workpaper). AIC says that it welcomes any Commission guidance on the combination of Schedules and Workpapers.

Finally, AIC requests that, if the Commission does include directives in its order regarding the information in exhibits and workpapers, the findings be made applicable to AIC, Staff, and any intervenors in future formula rate proceedings. AIC submits that the concerns voiced by Staff are not one-sided, and could apply to any party's schedules and workpapers. In fact, AIC notes that it too had concerns with some Staff schedules and exhibits, though it sought to address these through discovery.

b. Commission Conclusion

Staff recommends the Commission's order in this proceeding direct AIC to file its future formula rate update filings and responses to discovery in a manner that clearly identifies the source(s) for all information provided that would trace back to other referenced supporting documentation. AIC argues that such a directive is unnecessary. The Commission agrees. The Commission notes AIC routinely provides Staff with working versions of the Part 285 filings, including all schedules and workpapers, with working formulae intact. In this proceeding, AIC also provided working versions of the

Formula Rate Template and related workpapers to Staff. These working spreadsheets enable Staff to trace all schedules, workpapers and exhibits back to other documents containing the same information. In addition, AIC has committed to making certain improvements in its subsequent filings. In light of these commitments, formal Commission is not needed.

The Commission also believes including a specific directive in an order is not warranted. Concerns regarding the presentation of information are typically addressed—as they should be—by parties through discovery. The Commission's order in Docket 12-0001 highlights this point. In that case, Staff proposed a general disallowance of Account 909 expenses "because it has not been able to tie specific invoices to particular advertising expenses that AIC seeks to recover from customers." *Ameren Ill. Co.*, Docket 12-0001, Order, p. 92 (Sept. 12, 2012.) However, the Commission did not find the problem to be with AIC's presentation. Rather, the Commission stated, "the underlying problem for Staff is one of limited resources to devote to work that must be done under a shortened deadline." Id. Regardless of the source of Staff's concerns, the Commission noted that AIC provided the information to Staff in discovery. Id. While the Commission is sensitive to Staff's concerns, the proper means by which to address the questions that will surely arise in future proceedings is through the discovery process.

VIII. CONCLUSION

For all of the above reasons, Ameren Illinois Company d/b/a Ameren Illinois requests that the Commission adopt the revenue requirement as proposed by Ameren Illinois Company and reflected in Appendices A-C.

Dated: October 11, 2013

Respectfully submitted,

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d/b/a Ameren Illinois

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CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on October 11, 2013, I caused a copy of the foregoing *Position Statement and Suggested Conclusions of Law of Ameren Illinois Company* to be served by electronic mail to the individuals on the Commission's Service List for Docket 13-0301.

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