STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company	**:**	
d/b/a Ameren Illinois	**:**	
	:	**13-0192**
Proposed general increase in gas rates.	**:**	
(Tariffs filed January 25, 2013)	**:**	

PROPOSED ORDER

DATED: November 14, 2013

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company	:	
d/b/a Ameren Illinois	:	
	:	**13-0192**
Proposed general increase in gas rates.	:	
(tariffs filed January 25, 2013)	:	

PROPOSED ORDER

By the Commission:

I. PROCEDURAL BACKGROUND

On January 25, 2013, Ameren Illinois Company d/b/a Ameren Illinois ("AIC," "Ameren," or the "Company") filed new or revised tariff sheets ("Proposed Tariffs") in which it proposed, among other things, a general increase in gas delivery charges pursuant to Section 9-201 of the Public Utilities Act (the "Act"), 220 ILCS 5/9-101 et seq.

Simultaneous with and in purported support of its filing of the Proposed Tariffs, IAWC filed testimony, exhibits and schedules intended to meet the requirements of 83 Ill. Adm. Code 285, 286 and 287 ("Parts 285, 286 and 287").

The Proposed Tariffs were identified in and suspended by a Commission Suspension Order entered March 6, 2013, and were subsequently resuspended to and including December 23, 2013.

Petitions for leave to intervene or appearances were filed by the following Parties: the Citizens Utility Board ("CUB"); the People of the State of Illinois through the Attorney General ("AG" or "People"); the Illinois Industrial Energy Consumers ("IIEC"); Illinois Competitive Energy Association ("ICEA"); the Retail Energy Supply Association ("RESA"), and Interstate Gas Supply of Illinois, Inc. and Dominion Retail, Inc. (collectively "Retail Gas Suppliers" or "RGS"). The Intervening Petitions were granted.

Pursuant to due notice, a prehearing conference and a status hearing were held before an Administrative Law Judge of the Commission at its offices in Springfield, Illinois. Thereafter, evidentiary hearings were held. Appearances were entered by AIC, the Commission Staff ("Staff") and the Intervenors identified above. Testimony and exhibits filed by these Parties were admitted into evidence, and are identified on e-Docket. At the conclusion of the hearings, the record was marked "Heard and Taken." Initial Briefs ("IBs") and Reply Briefs ("RBs") were filed by the Parties identified above. Suggested conclusions were filed by AIC and by IIEC, and a Statement of position was filed by the AG.

The Commission observes that the summaries of parties' "Positions" on contested issues, wherever they may be contained in this order, are not intended to reflect the opinions of or determinations by the Commission unless otherwise noted.

II. 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 gas delivery service to approximately 830,000 natural gas customers. AIC has established three separate rate zones that correspond to the former service territories.

Rate Zone I, formerly AmerenCIPS, currently serves approximately 190,000 natural gas customers in Illinois. The rate zone's service territory includes, among others, the cities of Quincy, Mattoon, Carbondale, and Marion. Rate Zone II, formerly AmerenCILCO, currently serves approximately 213,000 natural gas customers over 4,500 square miles in central and east central Illinois. Rate Zone II's service territory includes, among others, the cities of Peoria, Pekin, Lincoln, Tuscola and Springfield. Rate Zone III, formerly AmerenIP, currently serves approximately 427,000 natural gas customers across 15,000 square miles of central, east central and southern Illinois. As the largest of the rate zones, it accounts for 8,400 distribution miles of gas main and serves communities such as Decatur, Belleville, Champaign-Urbana, Centralia, East St. Louis, Galesburg, Granite City, Jacksonville, LaSalle and Mt. Vernon.

III. TEST YEAR; PROPOSED REVENUE INCREASE

AIC proposed a future test year consisting of the 12 months ending December 31, 2014. No party has contested the use of this test year.

According to AIC, the Proposed Tariffs were intended to generate an increase in delivery service revenues for gas operations of approximately $50,107,000 or 15.459%. (Schedule A-1 at 1)

AIC's most recent gas delivery service rate case was in Docket No. 11-0282.

To date, eight comments have been submitted in the Public Comments section of e-Docket in the current proceeding. In these comments, AIC's customers express strong opposition to the amount of the proposed rate increase.

IV. RATE BASE

A. Resolved Issues

AG/CUB witness Mr. Effron proposed an adjustment to AIC's calculation and allocation of bonus depreciation to properly reflect new legislation. This adjustment was not adjusted and it is approved.

Staff proposed adjustments to reduce the Company's rate base by the average over-collection associated with the budget payment plans. Staff's adjustment was not opposed and it is adopted.

AIC made a request, which was unopposed, that the Commission approve AIC's gas plant balances as of December 31, 2011 for purposes of an original cost determination. The Commission finds that AIC's plant balances as of December 31, 2011, in the amount of $407,242,000 for Rate Zone I, $566,851,000 for Rate Zone II, and $1,004,731,000 for Rate Zone III, are approved for purposes of an original cost determination.

Contested issues are addressed below. The Commission observes that the summaries of parties' positions on rate base issues, and all other issues, wherever they may be contained in this order, are not intended to reflect the opinions of or determinations by the Commission unless otherwise noted.

B. ADIT -- Step-up Basis Metro

Staff and AG/CUB propose an adjustment for each rate zone, totaling approximately $1.39 million, to remove the deferred tax asset which results from the asset transfer of certain Metro East assets from Union Electric ("UE") to CIPS ("CIPS") in 2005. (Staff Ex. 10.0 (Rev.), Schedules 10.08; AG/CUB Ex. 2.0 at 6; Staff IB, Appendices A through C) This adjustment would result in an increase to the balance of Accumulated Deferred Income Taxes ("ADIT") and, thus, would decrease AIC's rate base. (Staff Ex. 1.0 at 10; Staff IB at 4; AG Position at 6) AIC opposes this adjustment

1. Staff's Position

The transfer of assets in this transaction occurred between affiliates and should not have resulted in a higher rate base for ratepayers. (Staff Ex. 1.0 at 11) AG-CUB witness Effron asserts that utility holding companies should not be allowed to increase the net rate base value of assets by transferring the assets between affiliates. (AG/CUB Ex. 6.0 at 2) Staff demonstrates that CIPS' accounting for the transaction results in an increased rate base under CIPS' ownership for the same customers after the transaction compared to the rate base under UE's ownership prior to the transaction. (Staff Ex. 10.0 (Rev.), Attachment A; Staff IB, Appendices A through C) Staff further asserts that no change in the assets or the value to ratepayers occurred as a result of the transaction. (Staff Ex. 1.0, 11-12; Staff IB at 4)

AIC's arguments relate to the tax treatment or effects of the transaction, which are irrelevant to Staff and AG/CUB's adjustment. AIC responses relate to the cause of the ratemaking inequity, but fail to address the effect of the ratemaking inequity which is the basis of Staff and AG/CUB's adjustment. (Staff Ex. 10.0 (Rev.) at 18; Staff IB at 5)

In its reply brief, Staff states that in AIC's brief, AIC makes the claim that it has provided evidence in the record to demonstrate that "the new ADIT on AIC's books exceeds the ADIT written off Union Electric's books." (AIC IB at 8) AIC begins by asserting that "the record shows that the ADIT accrued on CIPS' books for the transferred assets since the transfer dwarfs the vintage ADIT from Union Electric." (*Id.*) In Staff's view, the evidence in the record, reflects a different story. AIC did not and could not substantiate Ameren witness Mr. Stafford's "reversal and dwarfing" theory which was presented for the first time in his surrebuttal testimony. (Ameren Ex. 31.0, 18:368-373.) The record merely contains the following: 1) a theoretical discussion with a non-factual example in Mr. Stafford's surrebuttal testimony that fails to demonstrate the post-transfer ADIT as actually dwarfing the pre-transfer ADIT; and 2) an unsubstantiated assertion made by Mr. Stafford during cross examination regarding whether the actual amounts were reversed.

Staff states, "Since his surrebuttal testimony, where Mr. Stafford introduced his reversal and dwarfing theory as a possibility, Mr. Stafford inexplicably adopts this unsubstantiated theory as a certainty on the witness stand when he stated in reference to the alleged post-transfer ADIT increase that it 'turns around, and I am saying it is more than turned around.'" (Staff RB at 3, citing AIC IB at 9) Staff argues, "Contrary to AIC's attempt in its IB to characterize Mr. Stafford's unsupported claim as firmly established in the record, AIC offers no citations in its IB to any evidence in the record beyond Mr. Stafford's unsupported comments in surrebuttal testimony and cross examination." (Staff RB at 3) In Staff's view, this "unsubstantiated assertion" lacks factual basis in the evidentiary record and should therefore be rejected.

When asked if there was a way to determine the current balance of ADIT related to the Metro East plant on Ameren Illinois' books, Mr. Stafford stated, "I could make an estimate, but it is just an estimate". (Tr. 353) According to Staff, this "admission" further highlights the lack of factual support for his reversal and dwarfing theory. Later, in response to one of the AG's cross-examination inquiries requesting mathematical evidence of the reversing and dwarfing theory advanced by AIC, Mr. Stafford commented, "We were asked data request from staff on that, and we couldn't define that because the assets on UE's books were not segregated." (Tr. 351; Staff RB at 4)

AIC's brief also mischaracterizes the meaning of its witness' testimony in paraphrasing Mr. Stafford as stating that "[w]hile the nature of the problem makes precise calculation difficult, the evidence shows that AIC's books presently contain roughly $4 million of accumulated deferred taxes in rate base." (AIC IB at 8) What AIC neglects to mention is that Mr. Stafford's complete answer on this issue contains an important qualification: "So while my number is based on estimates, you know, my estimate is that

the rate base deduction with a transfer is 4 million compared to 1.3 million if the assets were still on UE's books and still being used for Illinois jurisdictional rate base." (Tr. 346) As Mr. Stafford admitted, he did not calculate or provide the actual ADIT balance attributable to the Metro East assets. (Tr. 351) Notwithstanding that major shortcoming, AIC asks the Commission to be swayed by a single unsubstantiated statement in its IB that the balance of AIC's ADIT included in its rate base supports its reversal and dwarfing theory. (Staff RB at 5)

AIC does not substantiate its windfall to ratepayers' argument. In summary, AIC's argument supposes that the effect of ADIT has accrued since the transfer has reversed and is now reducing AIC's rate base. (AIC IB at 9) There are severe problems with this argument. First, AIC's only citation in support of its argument is to Mr. Stafford's surrebuttal testimony where he discusses that the ADIT is accrued going forward on CIPS' books, again without any demonstration of the currently accruing actual Metro East asset amounts on AIC's books. Since AIC is the party with the records for its ADIT, it should be able to produce the entries and the exact balances of the Metro East asset post-transfer ADIT to support its claim, rather than just theories and personal assertions. (Staff RB at 5)

Second, related to AIC's windfall argument, is AIC claims the record demonstrates that the ADIT impact of the Metro East transfer not only benefitted AIC ratepayers but also that it is "uncontroverted." (AIC IB at 7) This allegation strains credulity. During cross-examination, Mr. Stafford admitted that Illinois ratepayers lost the benefit of the ADIT after the transfer when the net ADIT balance on the Metro East plant was initially set to zero. Even if the Commission were to accept the Company's claim that the transfer and recording of the Metro East asset transfer were to reverse at some point in the future, which has not been shown to the be case as Mr. Stafford admitted on cross examination, "a dollar today is worth more than it will be …a year from now or two years from now." (Tr. at 357) Thus, any future benefit that could occur will only partially offset the harm that has been done to ratepayers since the transaction. (Staff RB at 5-6)

AIC attempts to advance a "new regulatory concept" in its initial brief when it also states that the Commission has specifically approved the transfer and related accounting of the Metro East assets and suggests that the issue of ratemaking treatment for ADIT, therefore, is off the table in this proceeding. (AIC IB at10) Specifically, the Company states that "it is questionable whether an appropriately accounted-for transfer should ever provide the basis for a rate penalty. . ." (*Id.*) According to Staff, AIC misses the mark here. (Staff RB at 6) While the Commission approved the Metro East asset transfer in Docket No. 03-0657, the notion that the Commission may not establish the rate treatment here is simply not true. (Central Illinois Public Service Company, Union Electric Company, ICC Docket No. 03-0657, Order at 18 (Sept. 22, 2004). AIC's initial brief selectively cites the Commission's approval of the transfer which is correct but is irrelevant to the issue.

Staff and AG are not contesting the approval of the transaction in Docket No. 03-0657, only the ratemaking effect that is included in rate base in the current case's test year. Not only was the approval made subject to conditions, no approval of ratemaking treatment for this issue was granted to apply to future rate cases. For the Commission to

do so would be contradictory to its own Uniform System of Accounts ("USOA"). 83 Ill. Adm. Code 505. Section 505.210(B) of the Commission Rules states, "The Commission does not commit itself to the approval or acceptance of any item set out in any account, for the purpose of fixing rates or in determining other matters before the Commission." 83 Ill. Adm. Code 505.210(B). (Staff RB at 6)

AIC also makes the assertion that Staff and AG are incorrect in stating that the Commission has not had the opportunity in the last two AIC electric formula rate proceedings to fully address the propriety of the increase to the asset value between affiliates. (*Id.*) As Staff has correctly pointed out on the record, in this case, there is more evidence of the ratemaking effect of the transfer than in the previous two cases. (Staff Ex. 10.0 (Rev.) at 20) One significant piece of evidence is AIC's response to Staff DR MHE 10.01 (*Id.*, Attach. A), which asked the Company: 1) to agree or disagree with the table Staff provided in the data request that showed the ratemaking effect of the Metro East transfer (i.e., the resulting higher rate base for CIPS); and 2) for each component in the table with which AIC disagreed, to provide a revised version of the table with an explanation of why a revision was necessary.

AIC's response indicated agreement with all the ratemaking effect components listed on the table provided by Staff and further, offered no additional refinements to the table. (*Id.*) That information was not elicited during either of the two prior formula rate cases which AIC now claims are definitive on this issue. To be clear, AIC argued in Docket No. 12-0293 that the Metro East transfer had a zero effect on its rate base, an argument which now has been shown to be incorrect. Ameren Illinois Company, Docket No. 12-0293, Order at 30 (December 5, 2012). This additional evidence supports a conclusion accepting Staff and the AG's adjustments. (Staff RB at 6-7)

2. AG's Position

The People propose removing an accumulated deferred income tax ("ADIT") item of approximately $1.39 million, related to AIC's Metro East plant, from AIC's rate base. This is the remaining amount of an ADIT debit item, which has fallen through amortization over time, that was recorded in 2005 to Account 190 of AIC's then-subsidiary CIPS as an equal offset to Metro East-related ADIT in Account 282 of CIPS, following CIPS's acquisition of the plant from an Ameren corporate affiliate. (AG/CUB Cross Ex.) The offset to Metro East-related ADIT allowed CIPS to immediately increase its rate base, depriving Illinois ratepayers of the ADIT benefit that had accumulated on the plant during its ownership by Union Electric. The AG/CUB and Staff adjustment would restore a portion of that benefit to Illinois ratepayers. (AG IB at 10-11)

Under FERC's standard system of accounts, Account 190 reflects amounts "by which income taxes payable for the year are higher because of the inclusion of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility's determination of annual net income until subsequent years." 18 CFR § 201. The ADIT item recorded to Account 190 of CIPS reflected CIPS's decision to step up the tax basis of the Metro East Plant. (AG IB at 10-11)

In 2005, certain electric and gas plant assets comprising the Metro East service territory were transferred from Union Electric, a corporate affiliate of Ameren Illinois, to CIPS, which is now wholly part of Ameren Illinois. CIPS acquired the asset at its net book value, defined as gross book value less accumulated depreciation reserve. Upon acquisition, CIPS stepped up the cost basis of the asset for tax purposes to reflect the net book value. (AG IB at 11)

Immediately prior to the transfer of the Metro East plant, Union Electric's Account 282 included approximately $2.684 million of ADIT associated with the Metro East plant. Union Electric's Metro East plant operated entirely within the State of Illinois prior to the transfer to CIPS. (Tr. at 343; AG IB at 11)

Thus, Illinois gas ratepayers were exclusively receiving the benefit of $2.684 million of Metro East-related ADIT immediately before the transfer, as ADIT is ordinarily deducted from a utility's rate base. Following the transfer to CIPS, $2.796 million of deferred taxes were recorded to Account 282 of CIPS, and an offsetting $2.796 million item in respect of the step-up in tax basis was recorded to Account 190 of CIPS, so that the net ADIT balance related on the books of CIPS the Metro East plant was initially set to zero, and Illinois gas ratepayers lost the ADIT benefit formerly associated with the Metro East plant. Meanwhile, the former Metro East-related ADIT entry in Union Electric's Account 282 was reversed, and a deferred tax liability in respect of Union Electric's taxable gain was recorded to the books of Union Electric. (Tr. at 340; AG Cross-Exhibit 6; AG IB at 11-12)

After the transfer, Illinois ratepayers were no longer receiving the benefit of the ADIT item with respect to Union Electric service, because Union Electric was no longer operating in Illinois. Nor was the benefit passed to ratepayers in Missouri, where Union Electric is based. During cross-examination, Company witness Stafford stated that he had no knowledge that Union Electric's deferred tax liability related to the intercompany transfer of the Metro East assets was ever deducted from Union Electric's rate base in Missouri Public Service Commission rate cases following the transfer. (AG IB at 12)

As Staff witness Everson notes in her direct testimony, the underlying value of the Metro East asset was the same in the hands of CIPS as in the hands of Union Electric, but because the net ADIT value on the books of CIPS related to Metro East was set to zero, the total net rate base of the Metro East plant was made higher, and ratepayers should not be required to support an increase in rate base for the same asset simply because the asset changed ownership. (Staff Ex. 1.0 at 11-12) Similarly, AG/CUB witness Effron stated that "utility holding companies should not be allowed to increase the net rate base value of assets by transferring the assets between affiliates." (AG/CUB Ex. 2.0 at 5-6) As shown in Staff Ex. 10.0 (Rev.), Attachment A, the Company agreed that as a result of the offsetting ADIT step-up basis entry to Account 190 of CIPS, the CIPS rate base increased by approximately $3.011 million. Mr. Stafford also admitted in his surrebuttal testimony that "Mr. Effron is correct that rate base increased when the asset transfer was made." AIC Ex. 31.0 at 16) While the step-up basis entry in Account 190 has been gradually

decreasing over time through amortization, according to Company witness Stafford (Tr. at 344, and as shown in AG Cross-Exhibit 6, it is still positive. (AG IB at 12-13)

Mr. Stafford stated in his surrebuttal testimony that ADIT on most of the Metro East assets will be increasing on AIC's books in 2014 and that "it is likely that the ADIT deduction for the transferred assets would actually be greater under AIC's proposal to maintain the step-up offset entry, than if the transfer had not taken place." (AIC Ex. 31.0 at 18) He also estimated during cross-examination, without explaining his precise method of calculation, that after five years in the hands of CIPS, the ADIT balance related to Metro East had increased (due to amortization of the Account 190 item and new deferred tax recorded to Account 282) to the point that it equaled what the ADIT balance would have counterfactually been in the hands of Union Electric. (Tr. at 353) According to the AG, that is not the relevant comparison. The relevant comparison is whether rate base with the Step-Up Basis entry in Account 190 is higher than rate base without that entry. Moreover, Staff and AG/CUB are not advocating removing the original post-merger 2005 value of the Step-Up Basis item in Account 190, but rather the value as of the test year, as Mr. Stafford acknowledged during cross-examination. The Step-Up Basis item in Account 190 was approximately $1.29 million as of the end of 2012. (AG IB at 13)

Mr. Stafford also testified in his surrebuttal that because tax depreciation on the transferred assets was reset to year zero of a 20-year schedule immediately after the transfer, a full amount of ADIT will eventually accrue on the Metro East assets and will be deducted from AIC's rate base, to also include the ADIT that was recorded on Union Electric's books just before the transfer would comprise "double counting." (AIC Ex. 31.0 at 19) In the AG's view, Illinois ratepayers should receive that benefit sooner rather than later; as Mr. Stafford admitted during cross-examination, "a dollar today is worth more than it will be … a year from now or two years from now." (Tr. at 357; AG IB at 14)

In conclusion, the proposal of AG/CUB and Staff is that ADIT should be reduced by $283,000 in Rate Zone I, $389,000 in Rate Zone II, and $718,000 in Rate Zone III. (AG IB at 14)

In its reply brief, the AG responds to the Company's statement that "the record shows that AIC's books presently contain 'roughly $4 million of accumulated deferred taxes in rate base,' which more than triples the $1.3 million adjustment proposed by Staff and AG/CUB." (AIC IB at 8, citing Tr. at 346 and AIC Ex. 31.0 at 18) According to AG, this $4 million calculation is not based on confirmed evidence, but pure speculation and erroneous calculations. (AG RB at 5)

3. CUB's Position

The debit balance included in Account 190 for "tax depreciation step-up basis Metro," an offset against the credit balances in the determination of the net ADIT balance, should be eliminated. A utility's net rate base value is measured as the plant in services minus ADIT; that is the value that ultimately goes into the revenue requirement. ADIT

decreases rate base; the effect of the offsetting credit created by the Company therefore inappropriately increases rate base. (CUB IB at 4)

This balance is related to the 2005 transfer of certain tax-depreciable assets from AIC legacy company Union Electric to CIPS. At the time the transfer took place, the book value of the assets was higher than the tax value of the assets. The transfer took place at the book value. There was no gain for tax purposes, because the two companies involved were affiliates and filed a consolidated tax return. However, CIPS "stepped up" the tax basis of the assets to be equal to their book value; with those values equal, there would be no net deferred taxes. CIPS recorded a deferred tax asset on their books to offset the related ADIT at the time of the transfer. (CUB IB at 4-5

The ultimate result of the transfer was that the value of the assets included in the rate base of CIPS was greater than the assets had been when on the books of Union Electric. In CUB's view, that is an inequitable result for ratepayers. The transfer of assets should not result in an increase to the net value of the assets included in rate base. In the Company's electric formula rate cases, the Commission allowed the Company to include the deferred tax debit balances related to tax depreciation step-up basis metro in the electric rate base. However, the issue in that case was different because it in those cases, the ADIT that had existed before the transfer were, in effect, reduced to zero. The Commission did not address the issue presented in this case -- the net-of-tax value of assets increasing as a result of the transfer. (CUB IB at 5)

Ameren witness Mr. Stafford acknowledges that prior to the transfer, there was a balance of ADIT on the books of UE. As a result of the transfer, the balance of ADIT on the UE books was, in effect, eliminated. (AG/CUB Ex. 6.0 at 2) Since ADIT decreases rate base, eliminating ADIT increased the rate base value of those assets. Ameren's choice to increase the asset's rate base value should not be accepted by the Commission. The deferred tax asset which currently decreases ADIT should be eliminated from the company's rate base. This adjustment is quantified in AG/Cub Ex. 2.1, DJE-1.1. (CUB IB at 5-6)

In its reply brief, CUB responds to arguments in AIC's initial brief. In its initial brief, AIC asserts that there is no "net" increase to rate base because AIC's books presently contain more Accumulated Deferred Income Taxes ("ADIT") on the assets than they would have before the transfer. According to CUB, AIC acknowledges that when Union Electric's assets were transferred to CIPS, the ADIT on UE's books did not follow the assets, effectively increasing the value of those assets in CIPS's rate base. However, Ameren claims that because the ADIT on the assets at Union Electric did not follow the assets to CIPS, ADIT started accumulating deferred income taxes anew on CIPS's books following the transfer -- in an amount that "dwarfs the vintage ADIT from Union Electric." In CUB's view, that argument is a red herring and has no impact on the true issue here – that the result of the transfer was that the value of the assets included in the rate base of CIPS was greater than the assets had been when on the books of Union Electric. (CUB RB at 2)

Ameren incorrectly describes the long-term ADIT impact as "turning around" the effect of the step-up of the value of the assets on CIPS's books. AIC essentially describes it as an offset to the increase in CIPS's rate base, apparently believing that the two things are linked because they both concern ADIT on these assets. (AIC IB at 9) However, AIC fails to mention that ratepayers should receive the "benefit" (nothing more than normal accounting treatment of starting over the tax depreciation) whether or not Ameren is allowed to collect for a higher rate base than is appropriate. In Ameren's scenario, the "new ADIT" is an offset to the appropriate rate base. According to CUB, for equitable ratemaking, the rate base should be appropriately set and the "new ADIT" should be counted. This is not an either/or proposition, as Ameren attempts to frame it. (CUB RB at 3)

Of additional concern to CUB is the suggestion in Ameren's brief that the AG/CUB and Staff proposal would be "Double-Counting ADIT—Giving Ratepayers an Undeserved Windfall." (AIC IB at 9) As explained above, the AG/CUB and Staff adjustment is not double-counting – it sets an appropriate rate base, and allows normal accounting procedures to continue. But more than that, the dramatic and histrionic statement that the Commission should not give ratepayers an "undeserved windfall" is telling of Ameren's position. Though it is a regulated monopoly, its primary goal is to maximize returns for investors. It must provide safe and reliable utility service, but its concern for its ratepayers apparently ends there. Ameren can rest assured that ratepayers will not, as a result of this or any adjustment, receive any "undeserved windfall." (CUB RB at 4)

4. AIC's Position

AIC first argues that the premise for the adjustment -- that there has been a net increase in rate base -- is not true. (AIC IB at 7)

No party has suggested any error occurred either in CIPS's purchase of assets from Union Electric or in accounting for the transfer. Not only has no one indicated that any such error occurred, but the Commission specifically approved both the purchase and accounting elements of the transfer. In 2004, before the transfer of assets occurred, 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." Docket 03-0657, Order at 17. Likewise, the Commission specifically reviewed and approved the accounting entries related to the transfer, therein stating that "the Commission finds the Companies' proposed journal entries to be reasonable, and those journal entries are approved". (AIC IB at 7)

The Staff and AG/CUB adjustment is premised solely on the notion that the normal operation of ADIT rules had a negative impact on ratepayers by increasing net rate base. In AIC's view, the premise of this argument is opposite reality. The uncontroverted record evidence shows that the ADIT impact of the transfer has not harmed ratepayers but benefited them. (AIC IB at 7)

AIC argues that the transfer of the assets restarted and extended the accumulation of ADIT associated with the assets. (AIC IB at 8) Staff and AG/CUB both point out that when Union Electric's assets were transferred to CIPS, the ADIT on the seller's books did not follow the assets to CIPS's books. They do not question whether this was correct accounting, which it was. But because ADIT reduces rate base, they assert that the transfer effectively increased the value of the assets in CIPS's rate base. This is actually correct, as far is it goes. But it does not go far enough, because the transfer did not end the accumulation of ADIT on the assets; rather, it continued and increased it.

Following the transfer, the transferred assets were treated as though they were placed in service on the date of the transfer. (Ameren Ex. 31.0 at 16–17) So, although Union Electric's accrued ADIT did not follow the assets to CIPS, tax depreciation on the assets started over. This is significant because tax depreciation is what generates tax-timing differences and hence ADIT. While the ADIT generated at Union Electric did not come to CIPS, ADIT started accumulating deferred income taxes all over again on CIPS' books following the transfer. (AIC IB at 8)

AIC next argues that the new ADIT on AIC's books exceeds the ADIT written off Union Electric's. (AIC IB at 8)

According to AIC, Staff and AG/CUB are incorrect to assert that there was a net increase in rate base because of the transfer. The record shows that the ADIT accrued on CIPS's books for the transferred assets since the transfer "dwarfs the vintage ADIT from Union Electric." While the nature of the problem makes precise calculation difficult, the evidence shows that AIC's books presently contain "roughly [$]4 million of accumulated deferred taxes in rate base," which more than triples the $1.3 million adjustment proposed by Staff and AG/CUB. (Tr. at 346; see also Ameren Ex. 31.0 at 18) 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 IB at 8-9)

Thus, the sole premise of the adjustment falls away as there has been no net increase in rate base. As AIC witness Stafford made clear on cross-examination, although there was an increase in rate base immediately following the transfer, "it [was] temporary." That increase "turns around, and I am saying it is more than turned around." (Tr. at 346–347) As he concluded, the ADIT "rate base deduction is much greater with the transfer than it would have been absent the transfer." (Tr. at 347)

AIC next argues that adopting the proposed adjustment would also be double-counting ADIT -- giving ratepayers an undeserved windfall. (AIC IB at 9)

Even if there were not a ratepayer benefit, forcing CIPS to recognize Union Electric's ADIT as well as its own would be to double-count ADIT. The ADIT that makes up the proposed adjustment arises from the same assets that are currently generating ADIT on AIC's books. As Mr. Stafford explained, "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 CIPS's books] …." In other words, "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." (Ameren Ex. 31.0 at 19; AIC IB at 9-10)

AIC also argues that the Commission has specifically approved the transfer and related accounting and specifically rejected this adjustment. (AIC IB at 10)

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 of the transfer, and (c) specifically held that ratepayers were not harmed by the transfer. Docket 03-0657, Order at 17. In fact, at the time of 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. (AIC IB at 10)

Further, "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 at 33–34 (Dec. 5, 2012); Ameren Ill. Co., Docket 12-0001, Order at 69 (Sept. 19, 2012). (AIC IB at 10)

In its reply brief, AIC argues that Staff and CUB do not address the double-counting problems that were explained by AIC witness Mr. Stafford both in his surrebuttal testimony and on the stand. (AIC RB at 5)

The AG does not question whether Mr. Stafford's double-counting explanation is true. It offers only a single sentence in response: "However, Illinois ratepayers should receive that benefit sooner than later…." AIC argues that the AG's position is conclusory, overbroad and implausible. (AIC RB at 6-8)

AIC also argues that the AG's argument continues to ignore the "benefit" of newly accruing ADIT on AIC's books. (AIC RB at 8)

In its reply brief, AIC quotes language in the AG brief that the AG's adjustment "would restore a portion of [the vintage ADIT] benefit to Illinois ratepayers," which, according to AIC, "presents retroactive ratemaking problems." (AIC RB at 8) The Commission observes that AIC could have simply quoted the exact language that actually appeared in the AG brief. Instead, AIC chose to insert the word "vintage" into the quotation, and then in support its argument, AIC goes on to rely on the very term that it, and not the AG, put into the quoted passage. As noted above, the AG's adjustment would apply to the "remaining amount" of the ADIT item "which has fallen through amortization over time." (AG IB at 10-11) AIC's argument that the statement by the AG quoted in AIC's reply brief "presents retroactive ratemaking problems" is not supported by the record.

5. Commission's Conclusions

As explained more fully above, certain electric and gas plant assets comprising the Metro East service territory were transferred from Union Electric to CIPS in 2005. Prior to the transaction, there was Metro East-related ADIT on the Union Electric books. Upon acquisition, CIPS "stepped up" the cost basis of the asset for tax purposes to reflect the net book value. As a result of the transaction, the ADIT on the CIPS books was set at zero. AG/CUB and Staff assert that Illinois ratepayers lost the ADIT benefit – as a rate base deduction -- formerly associated with the Metro East plant. AG/CUB and Staff propose an adjustment which removes the remaining amount of the ADIT item, $1.39 million, from rate base.

Among other things, AIC argues that "a substantially identical adjustment has already been proposed and rejected not once, but twice, in AIC's electric formula-rate cases" in Dockets 12-0001 and 12-0293. Staff argues that there is more evidence of the ratemaking effect of the transfer in the current case than in the previous two cases. The AG makes similar arguments.

In its Order in Docket 12-0001, the Commission noted on pages 67-68, "For ratemaking purposes, AG/AARP assert the ADIT associated with the assets at the time of the transfer should follow the assets, without any offset." In its conclusion on page 69, the Commission recognized that "AG/AARP recommend an additional rate-base reduction related to Account 190. According to Mr. Effron, in 2005 AmerenUE transferred certain tax depreciable assets to AmerenCIPS. That transfer occurred at the book value of the assets, which was higher than the tax basis at that time." The Commission further stated, "AG/AARP claim that AmerenCIPS 'stepped up' the tax basis of the assets to their book value at the time of the transfer. AG/AARP aver that with the book basis equal to the tax basis, there would be no net deferred taxes, and AmerenCIPS recorded a deferred tax asset that offset the related accumulated deferred taxes at the time of the asset transfer. AG/AARP argue, however, that the balance of ADIT related to 'tax depreciation step-up basis Metro' should not be includable in AIC's rate base."

On page 69 the Commission concluded, in part, that "AIC has properly accounted for these items, and ... no adjustment is necessary in this proceeding. The Commission therefore will reject the proposed adjustment of AG/AARP and CUB and find that no further adjustment is necessary to the Account 190 asset."

In the conclusion on pages 33-34 of its Order in Docket No. 12-0293, the Commission noted that AG/AARP, supported by CUB, again argued that an addition to ADIT is necessary to properly account for the transfer. The Commission observed that this issue was decided in favor of AIC in Docket No. 12-0001. The Commission" agreed with AIC and Staff that to adopt AG/AARP's proposed adjustment for a reduction to Account 190 without corresponding adjustments to other accounts would understate rate base." The Commission concluded, in part, "… the Commission rejects AG/AARP's recommendation, and finds that based on the evidence presented in this proceeding, AIC has properly accounted for this issue, and there is no need for any additional adjustment."

The Commission observes that its conclusions in Docket Nos. 12-0001 and 12-0293 involved the same basic issue as is before the Commission in the current docket -- whether an adjustment to ADIT should be made to offset the effects of the stepped-up basis in the assets associated with the Metro East asset transfer in 2005 which was approved, along with accounting treatment, in Docket No. 03-0657.

Having reviewed the record in this proceeding as well as the findings in the prior two Orders, the Commission is not persuaded that the additional evidence, which largely consists of conflicting testimony about rate base impacts resulting from the 2005 transaction over time -- i.e. to date and prospectively -- is sufficient to support a result opposite of that reached by the Commission in Docket Nos. 12-0001 and 12-0293. Accordingly, the adjustment proposed by Staff and AG/CUB will not be adopted in this Order.

C. Cash Working Capital

Staff witness Mr. Kahle and AG/CUB witness Mr. Brosch propose to use greater lead days than used by AIC for the pass-through taxes -- Energy Assistance Charges ("EAC"), Illinois Gas Use and Gas Revenue Tax ("GAS TAX") and Municipal Utility Tax ("MUT"). The expense lead-day values for the three taxes as proposed by Staff, AG/CUB and AIC are shown in a chart on page 15 of the AG's initial brief. Staff and AG/CUB propose the same lead-day periods.

The adjustments proposed by Staff and AG/CUB are approximately $850,000 for Rate Zone I, $854,000 for Rate Zone II, and $1,950,000 for Rate Zone III. (AG IB at 20)

1. Staff's Position

Staff's cash working capital ("CWC") calculation differs from AIC's in that Staff uses AIC's calculation of lead days based on when pass-through taxes are required to be remitted, while AIC calculates lead days based on when AIC bills for services. (Staff IB at 5)

AIC follows a practice of remitting pass-through taxes based on billing rather than remitting after collection as required. EAC is required to be remitted 20 days after the tax is collected. AIC remits EAC by the 20th of the month following billing rather than the 20th of the month following collection. GAS TAX is required to be remitted 15 days after the tax is collected. AIC remits GAS TAX by the 15th of the month following billing rather than the 15th of the month following collection. MUT is required to be remitted after the tax is collected; however, the number of days varies by municipality. AIC remits MUT in the month following billing rather than in the month following collection. An AIC workpaper calculates the actual lead days based on the required remittance. (Staff IB at 6)

AIC's practice of remitting pass-through taxes earlier than required increases rate base by increasing CWC. The result is that ratepayers are penalized with higher rates solely because of the Company's practice of remitting the taxes earlier than the taxes are due. (Staff Ex. 2.0 at 8; Staff Ex. 11.0 (Rev.) at 4-5; Staff IB at 6)

Lead days for EAC were addressed by the Commission in AIC's two most recent electric formula rate cases; Docket Nos. 12-0293 and 12-0001. In both dockets, the Commission adopted EAC lead days based on when the pass-through taxes were actually due; not when remitted by AIC. There is no difference in the remittance requirements for gas or electric utilities. (Staff Ex. 11.0 (Rev.) at 8-9; Staff IB at 6-7)

In Staff's view, AIC's claim that Mr. Kahle's proposal would require it to change its remittance schedule is merely a diversion. Mr. Kahle's proposal is for ratemaking purposes only. If the Commission adopts Mr. Kahle's proposal, AIC would not need to alter its remittance practices. (Staff IB at 7)

AIC's claim that Staff's proposal will likely lead AIC to institute changes in its practices to comport with Staff's interpretation of the remittance instructions is misleading. The recommendations are not based on an interpretation of the remittance instructions. Staff's proposals are based on the plain language of the instructions. (Staff Ex. 11.0 (Rev.) at 5; Staff RB at 8)

AIC contends that it would be required to make systems related changes prior to implementing any such modifications in the remittance schedule which could take substantial time and expense. (AIC IB at 12) According to Staff, AIC is free to make such changes if it wishes; however, these changes would benefit only AIC and should not be passed on to ratepayers. (Staff RB at 9)

2. AG's Position

In general, AG/CUB advocate a longer payment lead than the Company does because AG/CUB take into account the longest legally allowed time that the Company may hold pass-through tax funds, rather than any custom the Company may have of paying the taxes to authorities earlier than required. (AG IB at 15)

In AG's view, payment lead times for the three pass-through taxes should be based on the time that the Company has access to the funds, rather than the shortened time that the Company keeps the funds due to its discretionary decision to remit the tax funds earlier than required by law. (AG IB at 20)

The revenue lag day and expense lead day values approved by the Commission for the MUT and EAC taxes in recent electric formula rate case orders are shown in a chart on page 18 of the AG's initial brief.

AIC witness Mr. Heintz testified that if the Commission adopts the People's and Staff's proposed expense lead days, the Company would be required to modify its

remittance practices, and would thus incur an "incremental expense." (AIC Ex. 39.0 at 4) In the AG's view, this argument fails for two reasons. First, Mr. Heintz does not make any attempt to quantify the incremental expense of modifying the Company's remittance practices. Second, he does not explain why the Company has not already modified its practices following the Commission's decisions in Docket Nos. 12-0001 and 12-0293; his only justification is that the Commission's decision in the Company's electric formula rate proceeding is inconsistent with the Company's most recent gas rate case, which pre-dated the electric formula rate cases. (AG IB at 19)

3. CUB's Position

The Company's Cash Working Capital ("CWC") calculation of pass-through taxes, Municipal Utility Taxes and Energy Assistance Charges, should be calculated using zero lead days. However, the Company relies on the "flawed methodology" approved in its last gas rate case, rather than acknowledging the Commission's practice in the Company's more recent decisions (including the Company's last two electric formula rate cases), for calculating its CWC with respect to pass-through taxes. (CUB IB at 6)

Since the Company's last gas rate case, the Commission has made findings in several cases (ICC dockets 11-0721, 12-0001, 12-0293, and 12-0321) which support a methodology more consistent with the actual timing of cash flows associated with pass-through taxes. (AG/CUB Ex. 1.0 at 4)

In Docket 11-0721 The Commission has found that "pass-through taxes should not be assigned a revenue lag because they are payable after revenues are collected from customers." Docket 11-0721 Order at 46, May 29, 2012. The Commission held that customers should not be required to pay the increased costs associated with a utility's choice to pay taxes and charges before they are due. (CUB IB at 6)

For AIC, there has been no change in the remittance schedule for pass-through taxes that would justify a departure from the Commission's most recent decisions. (CUB IB at 6)

With respect to pass-through taxes such as the Municipal Utility Tax and Energy Assistance Charges, the Company acts only as a collection agent -- adding the taxes to customers' bills and collecting the charges for later remittance to the taxing authorities. They are not payable until after they have been received and collected from customers. The Commission's decision in this case should remain consistent with its recent findings, and should acknowledge the reality that there is in fact no revenue lag, and should assign zero lead days to pass-through taxes. This adjustment is reflected in AG/CUB Ex. 5.1, pages 7 through 9, at line 14. (CUB IB at 7)

If the Commission does adopt the Staff, AG/CUB, and Commission-approved Ameren electric methodology, AIC requests that the Commission defer implementation of its decision until AIC's next gas rate proceeding. (AIC IB at 12-13) In CUB's view,

such a deferral is unnecessary and inappropriate. No such deferral took place in Ameren's own electric formula rate cases. Regardless of the Commission's decision in this case, there is no need for the Company to alter its remittance practices. It is free to continue making actual remittance at any time it likes. The only issue here is the rate-making calculation. (CUB RB at 4-5)

4. AIC's Position

AIC proposes that the expense leads for Energy Assistance Charges, the Illinois Gas Use and Gas Revenue Tax and the Municipal Utility Tax be set consistent with the Commission's decision in AIC's last gas rate case in Docket 11-0282 -- based on the actual amount of time AIC holds the funds before remittance. Docket 11-0282, Order at 13-14 (Jan. 10, 2012). Staff witness Mr. Kahle and AG/CUB witness Mr. Brosch recommend the expense lead for EAC and Gas Tax be set at 41.84 days and at 48.54 days for MUT. Staff and AG/CUB's expense leads are imputed based on the timing of when AIC could theoretically remit the funds. The parties all propose a revenue lag of zero days for each of the pass-through taxes. (AIC IB at 10-11)

Thus, the single contested issue with respect to AIC's cash working capital calculation is whether it should reflect the amount of time that AIC could hold certain pass-through taxes under the applicable statutory requirements, or the amount of time that AIC actually does hold the pass-through taxes before remittance. AIC's cash working capital calculation reflects the latter -- as Staff admits, AIC actually has access to the EAC funds at issue for four days. (Tr. at 442) AIC's calculation is consistent with the Commission's decision in AIC's last gas rate case, Docket 11-0282, which adopted the revenue lag and expense leads for pass-through taxes that reflect AIC's actual practices. AIC's collection and remittance practices have not changed since then. The Commission should continue to utilize AIC's actual remittance practice, as it did in Docket 11-0282. (AIC IB at 11)

The expense leads recommended by Mr. Kahle and Mr. Brosch are not based on reality -- they are based solely on when AIC, theoretically, could remit the funds. But while Mr. Kahle and Mr. Brosch ignore AIC's actual collection and remittance practices, they do not argue AIC's practices are improper. In fact, Mr. Kahle testified that he has no substantive issue at all with AIC's remittance practices. (AIC IB at 11-12)

Likewise, the taxing authorities have had no issues with the Company's current remittance practices. (Ameren Ex. 39.0 at 3.) (AIC IB at 12)

Mr. Kahle claims he is not recommending any changes to AIC's remittance practices by his use of higher lead days. Rather he claims that he is only making a ratemaking adjustment that reduces the level of AIC's cash working capital. However, adoption of his position regarding the expense lead days for the EAC and Gas Tax will likely lead AIC to institute changes in its practices to comport with his interpretation of the remittance instructions. As AIC witness Mr. Heintz explained, AIC is not the only entity that will be impacted by the Commission's decision -- AIC would need to consult

with the taxing authorities to determine if and how any change in the remittance schedule could be implemented. (Ameren Ex. 25.0 at 8) Further, AIC would be required to make systems-related changes prior to implementing any such modifications in the remittance schedule. Such changes could take substantial time and expense. For example, AIC reports and pays the EAC based upon actual billings, as opposed to collections, so system changes would need to be made that will impact how the amount of tax due is calculated. (AIC IB at 12)

If the Commission does adopt the Staff and the AG/CUB adjustment over AIC's objections, AIC requests that the Commission defer the implementation of such a decision regarding a change in the remittance schedules for the EAC and Gas Tax until AIC's next gas rate proceeding. This will allow AIC an opportunity to undertake discussions with the taxing authorities regarding the timing and method by which to achieve the remittance schedule proposed by Staff and AG/CUB. If the taxing authorities are amenable to such changes, AIC will be required to modify existing information systems to implement the changes. Deferring a decision on if and how changes to the remittance schedule can be implemented will further allow a matching of any savings and costs associated with the change in the remittance schedule. (AIC IB at 12-13; RB at 13))

In its reply brief, AIC argues that the AG demonstrates its misunderstanding of the issue by stating that the payment lead time calculated by Staff and supported by AG and CUB matches the lead time calculated by AIC. (AG IB 16) This is incorrect, as the AG's reference to AIC's WPB-8 shows. The lead days on AIC's WPB-8 are clearly labeled "weighted expense lead time." The "weight" in this instance is the full revenue lag of 30 days, which was removed from the expense leads proposed by AIC in this case in accord with the Commission's decisions in Dockets 12-0001 and 12-0293. (AIC RB at 12)

5. Conclusion's Conclusions

AIC proposes that the expense leads for the three pass-through taxes at issue "be set consistent with the Commission's decision in AIC's last rate case in Docket 11-0282 -- based on the actual amount of time AIC holds the funds before remittance." (AIC IB at 10-11)

Staff and AG/CUB argue that the calculation of lead days should instead be based on when the taxes are required to be remitted, that is, when they are due, rather than when AIC chooses to remit them -- consistent with the Commission findings in AIC's two most recent electric formula rate cases in Dockets 12-0001 and 12-0293, as well as in Docket 11-0721 and 12-0321. These four Orders were entered subsequent to the Order in Docket 11-0282.

The Commission agrees with Staff and AG/CUB that their proposal is consistent with recent Commission Orders and will protect ratepayers from incrementally higher rates attributable to the utility's practice of remitting taxes earlier than they are due. As

Staff points out, AIC's practice of remitting pass-through taxes earlier than required increases rate base by increasing CWC.

The Commission also finds that the assumptions used by Staff and AG/CUB witnesses in calculating lead days are reasonable.

AIC also argues that the Staff and AG/CUB proposal would require it make system changes. The Commission agrees with the AG that AIC has not quantified any such incremental expenses in this proceeding.

For those reasons explained by Staff and AG/CUB as are summarized above, the Commission also declines to defer the implementation of its adoption of the Staff and AG/CUB proposal until AIC's next gas rate proceeding.

The Commission concludes that the adjustments advanced by Staff and CUB/AG should be adopted.

D. Other Rate Base Issues

Contested operating expenses are addressed below. Proposed adjustments for two of those items, Pension/OPEB Expense – Employee Benefits and Non-Union Wages, also affect rate base. The Commission finds that the rate base treatment for these items shall correspond to the conclusions reached with regard to the adjustments proposed to the operating expenses.

E. Approved Rate Bases

Upon giving effect to the determinations above, the Commission finds that the rate bases for AIC are hereby approved as shown in the rate base schedules contained in the Appendices to this Order.

V. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

The final Staff adjustments to Outside Professional Services are not contested and they are approved.

Staff's proposed methodology for calculating uncollectible accounts expense was accepted by AIC on rebuttal and is approved.

Staff witness Ms. Pearce proposed an adjustment to remove certain expenses which she viewed as lobbying expenses from the test year revenue requirement. AIC accepted this adjustment on rebuttal, and it is adopted.

Ms. Pearce's final adjustment to office supplies expense is not contested and it is adopted.

Ms. Pearce's final adjustment to industry dues expense is not contested and it is adopted.

Numerous income statement issues are still contested and they are addressed below.

B. Pension/OPEB

AIC's test year level of pension and OPEB expense in it initial filing was based on a Pension and OPEB Expense Forecast as of October 31, 2012. In February 2013, a new Pension and OPEB Expense Forecast was provided that reflected an updated 2012 actuarial valuation and assumptions as of December 31, 2012. (Ameren Ex. 16.0 (2d Rev.) at 4)

Staff and AG/CUB witnesses proposed an adjustment to reflect the February 2013 updated pension and OPEB expense amounts. (Staff Ex. 2.0R at 17-18, Schedule 2.05; AG/CUB Exs. 4.0 at 8-15 and 4.2)

AIC states that "in the interest of narrowing issues in this case," it has reflected the Pension/OPEB adjustment recommended by Staff and AG/CUB, "along with other related changes," in its revenue requirement." (AIC IB at 16, 18)

In its reply brief, Staff states that AIC has reflected this adjustment in its revenue requirement in the interest of narrowing issues in this case. For the purposes of this proceeding, Staff considers the issue resolved. (Staff RB at 10)

The three "other related changes" to which AIC refers are addressed elsewhere in this order below.

Given the status of the Pension/OPEB adjustment as noted above, the "update" issue raised by AIC will not be addressed in this order. The adjustment should be adopted.

C. Non-Union Wages

AIC initially forecasted an increase of 4.0% in non-union wages for the test year. Staff witness Kahle proposed an adjustment to reduce the rate of non-union wages to the actual rate of non-union wage increase of 3.59% experienced through June 30, 2013. He stated that further changes for 2013 should be minimal because non-union wages primarily become effective in April is each year. (Staff E. 11.0 Rev. at 12)

Through a Staff response to a data request received from AIC, Mr. Kahle agreed that it would be appropriate to use a rate of 3.69% rather than a rate of 3.59% based on

the most recent actual data available for 2013. (Staff IB at 11, citing AIC Cross Exhibit 5) In its response, Staff answered "Yes" to the following question: "Does Mr. Kahle agree that it would be appropriate, for this proceeding, for his adjustment to AIC's non-union wages to use a rate of 3.69% rather than 3.59%, based on the most recent actual data available for 2013?"

On surrebuttal, AIC recommends the Commission use a rate of 3.93% to reflect the overall increase AIC expects to experience over the 12 months in 2013. That is, the AIC proposal reflects the actual increase in non-union wages experienced in 2013 through the end of July, together with a" reasonable estimate" of the increase in wages AIC is likely to experience during the remainder of 2013. AIC views its proposal as more accurate than Staff's use of a rate based on an increase experienced for only seven months in 2013. (AIC IB at 19)

Staff responds that the introduction of a new rate on surrebuttal, 3.93%, did not allow sufficient opportunity for analysis of or response to the calculations. (Staff RB at 10-11) Staff continues to recommend use of a rate of 3.69%. CUB concurs in the Staff position. (CUB IB at 8)

Upon reviewing the record, the Commission finds that Staff's rationale for use of the methodology it employed in developing its recommendation, the results of which were revised consistent with the Staff response to AIC's data request, is persuasive. Staff's recommendation should be adopted.

D. Forecasted Labor Expense

1. AG Position

The Company originally proposed to fill 87 additional employee positions from the time of its filing until the end of 2014, including 66 during 2013 and 21 during the 2014 future test year. (AG Position at 11) The total of 87 was later revised to 86. The 86 new employees are a projected increase of 13.4 percent of gas-only personnel from March 2013 to January 2014.

In the AG's view, the Company failed to provide detailed support showing the need for each of these new positions. Thus, AG/CUB witness Michael Brosch proposed in his rebuttal testimony that the Commission exclude from test-year expenses the estimated revenue requirement impact of hiring half, or 43, of the proposed new employees, minus a $311,000 adjustment for filling AIC's employee vacancies, which translates in sum to a $3,611,794 adjustment, based on figures provided by the Company. (AG Position at 12, citing AG/CUB Ex. 5.1 at 1) The rate zone allocation of this adjustment is shown on AG/CUB Ex. 5.1, Page 1.

The Company stated during rebuttal that 24 positions were filled during March, April, May, and June of 2013, leaving 42 remaining positions to be filled in the final six months of 2013. (AIC Ex. 22.0 at 22; AIC Ex. 22.8) Company witness Stephen Colyer

states in his rebuttal testimony that four additional job offers had been accepted as of July 3, 2013, with starting dates yet to be determined. Mr. Brosch showed in his rebuttal testimony that based on data provided in Mr. Colyer's rebuttal testimony and in the Company's response to AG data requests, it appears that the AG/CUB position with respect to gas-only staffing results in a higher 2014 staffing level that at any time during January through June of 2013. (AG/CUB Ex. 5.0 at 24; AG IB at 21)

Mr. Brosch stated in his direct testimony that "AIC seems to be either unable or unwilling to provide supporting documentation indicating the basis or support for its test year FTE inputs to the budget system, and the resulting labor driven O&M expenses derived from such inputs." (AG/CUB Ex. 1.0 at 17) AG/CUB Ex. 1.6 shows extensive discovery requests made by the People to the Company to understand the detailed basis for the proposed increase in staffing needs during the test year. The Company's response to DR AG 1.03 supplies only generalized reasons for filling new positions, without any analysis of work requirements or labor demand. The Company's response to DR AG 1.04, which asked for "in detail the step-by-step procedures employed to develop the labor cost forecast for the test year," gave only a narrative discussion of the logistical steps and organizational process used to determine a future budget, rather than a detailed analysis of business needs with respect to each proposed new hire. The Company's response to DR AG 3.14, which asked for a comparison of historical to forecasted staffing counts and an explanation of need, referred to the Company's responses to DRs AG 1.03 and 1.04, and objected to the request for analytic work as "unduly burdensome." (AIC response to DR AG 3.14(d); AG IB at 22)

In response to DR AG 5.01(a), which asked for a more detailed description of the budgeting process used by each area of AIC, the Company stated that "AIC [does not] require analyses, calculations, work papers and/or projections for each and every labor hour/dollar budgeted." The Company also provided numerous confidential documents as a response to DR AG 5.01(b), but these documents did not contain supporting analysis used to determine the number of required staff in each budget area. A request for supporting documentation in DR AG 12.02 resulted in an objection from the Company on the grounds that the request was argumentative and for other reasons. A request for listing of "new or additional activities" (as described in Mr. Colyer's rebuttal testimony) that were driving expenses up stated that "[n]o list of specific activities determined not to be 'necessary' was formally created and tracked during the course of the preparation of the 2014 forecast." (AG/CUB Ex. 5.04 at 2, AIC response to DR AG 20.04(b))

As Mr. Brosch observed in his direct testimony, it would be feasible for a utility such as AIC to track and document levels of work such as the number and severity of leak response calls, quantities of monthly meter reading, and so forth in order to provide quantification of any work backlog that exists due to inadequate staffing levels. (AG/CUB Ex. 1.0 at 19) Mr. Brosch observed that the Company could also track data on overtime hours or outside contractor charges for supplemental labor in order to support a need for extra staff. The Company provided no information showing that its

existing levels of staffing are causing any service reliability, safety, or regulatory compliance issues. (AG IB at 23)

Staff witness Daniel G. Kahle stated during cross-examination that he did not receive any work papers from the Company that supported each of the Company's proposed new employee positions for the test year. (Tr. at 420) He stated in his rebuttal testimony that detailed forecasts with work papers are necessary to allow an objective review of cost projections. Although Kahle stated in his rebuttal testimony that Mr. Brosch did not identify any specific activities that he considered unnecessary for the company to perform, Mr. Kahle also stated on cross-examination that "whether or not you could determine [what activities are necessary for new employees to perform in the test year] would depend on whether or not you found enough information in the data request responses, whether or not they were nice and tidy and easy to go through which you might expect a work paper to be." (Tr. at 423-424) Mr. Kahle stated that "I could tell from the back and forth with data requests that [Brosch] was having a difficult time accumulating information he desired" [regarding labor forecasts] (Tr. at 425:8-10) and that the information provided by the Company to Mr. Brosch during discovery regarding labor expense "wasn't tied up like you might expect a CPA's work papers." (Tr. at 424-425) Mr. Kahle stated on cross-examination that the Company's work papers in relation to the test year labor forecast were not nice and tidy. Mr. Kahle stated that "it would be nice to have at least a schedule you can follow through as if a third person would come in without assistance and tie all the way through to the genesis of the forecast." (Tr. at 425-426; AG IB at 23)

The AG also argues that the support for the incremental positions was inadequate. The Company provided a chart at AIC Exhibit 36.2 purporting to explain the reason for the 42 positions to be filled during the remainder of 2013. However, 23 of these positions were Journeyman/Apprentice positions with the sole explanation "ATTRITION Need is based on existing and ongoing work levels." One Supervisor position under Gas Operations Support is justified as "needed to support additional gas apprentice training workload due to greater number of gas apprentices," but this begs the question, as the 23 new gas journeyman / apprentice positions were not credibly justified. Another Supervisor position under Gas Operations Support is justified as needed based on "ATTRITION Supervise gas storage to ensure safe and effective gas storage construction, operations, and maintenance," but no support for the appropriate number of gas storage supervisors is given. Six Supervisor positions under IL Construction Services are justified as: "ADDITIONAL HEADCOUNT Responsible for the inspection and oversight of construction, operations, and maintenance activates [sic] performed by contractors," but there is no detailed explanation as to why six new supervisors are needed to perform this task. (AG IB at 24-25)

AIC witness Mr. Colyer states in his surrebuttal testimony that these positions have been "deemed essential," but does not explain why they are essential. (AIC Ex. 36.0 at 8) Mr. Colyer explains the discussion process within the Company that leads to recommendations for additional staffing, but he does not provide a summary of any these discussions. He asserts that the six construction supervisor positions are essential to

perform the described job duties, but does not explain why; he also states that the journeyman / apprentice positions are essential, but does not explain why that particular number is needed. (AG IB at 25)

The Company also provided a chart at AIC Exhibit 36.3 purporting to justify the 21 positions proposed to be filled during 2014. In surrebuttal testimony, he points to the Company's forecast of six additional engineers for integrity management programs and repeats the associated job description listed on AIC Ex. 36.3; however, he does not explain why six engineers are necessary to complete projected work. Similarly, he cites the forecasted addition of three records management positions listed in AIC Ex. 36.3 and calls these positions "essential" to manage certain record and data management activities, but he does not explain why three such positions are necessary. Mr. Colyer cites the "criticality" of "continual improvement" in integrity management and records management activities under applicable pipeline safety laws, but he makes no attempt to justify the choice of six integrity management engineers and three records management personnel. (AG IB at 25-26)

Mr. Colyer states in his rebuttal testimony that although the Company is providing safe and reliable gas service as of the time of testimony (July 10, 2013), current staffing levels will not be sufficient to perform work planned in 2014, which is beyond the scope of 2013 work. (AIC Ex. 22.0 at 21) However, he does not explain the precise incremental programs, or discrete portions thereof, that the 21 new employees in 2014 will be required to support.

The AG argues that in general, it appears that the Company is taking for granted that historical staffing levels are necessarily justified, without regard for potential efficiencies. Company witness Michael Getz stated in his rebuttal testimony that if employee headcount is not expected to change, there is no need to document the need for that particular staffing level; the only assumption required for developing the cost forecast thereof would be the forecasted wage rate escalator. Additionally, the Company's response to Data Request AG 5.01(a), contained at AG/CUB Ex. 1.6, page 8, confirms that "[e]ach 'area' does not start at zero dollars when budgeting its annual costs." (AG IB at 26)

In conclusion, the AG argues that the Company's test-year forecast for employee hiring does not contain the detailed support through workpapers and analysis of work needs that would justify 86 additional employees from the filing date of this case until the end of 2014, including 21 new employees in 2014. In light of the Company's failure to adequately document its incremental staffing needs at a detailed level, the People recommend that the Commission should disallow 50% of the proposed new employees, or 43, with a revenue requirement impact of $3,611,794, after accepting an approximately $311,000 offset of an employee vacancy factor suggested by the Company. (AG IB at 26-27)

In the event that the Commission agrees with AIC that increasing gas-only staffing by only 43 positions from the February 2013 level is inadequate, the People recommend

that the Commission authorize the Company to maintain a 2014 gas-only payroll at its forecasted 2013 year-end level of 706, excluding the 21 additional employees that the Company proposes to hire during 2014. This exclusion would reduce test-year operating expenses by $1,238,253, as shown in AG/CUB Ex. 5.07, page 4 (Company's response to DR AG 20.16 Attach). (AG IB at 27)

2. CUB's Position

In CUB's view, the Commission should adjust the Company's "improbable" labor projections to reflect more realistic staffing levels. The Company proposes to include 86 new positions in O&M expense, but did not provide specific supporting justification for them. (AG/CUB Ex. 1.0 at 16) That staffing level would be significantly higher than in the 12 months prior to the test year, as shown on the table in CUB' initial brief. A more reasonable expectation is the Company may add 43 new positions – one half of its current proposal. Such an adjustment would still allow the Company to make progress toward the activities identified by the Company, while recognizing that the Company has repeatedly failed to explain what this additional staff is needed to do and how these needs differ from the Company's current level of operations. The table shows the Company's actual staffing levels December 2012 through June 2013, and shows both the AG/CUB proposed staffing level as well as the Company's proposed staffing level. (CUB IB at 8-9)

The Company currently believes that it is performing adequately across all performance measures tracked presently and is providing safe and reliable gas service. Ameren says it forecasted staffing levels on the basis not of what it needs just to "get by," but to "pursue activities and advance programs to improve the integrity" of its systems. (Ameren Ex. 22.0 (Rev.) at 21) According to CUB, the Commission should not accept these very general statements that significantly more work is needed in just six months, beginning March 2013, without any specification as to what this work is or why it cannot be adequately handled with the Company's already expanded staffing, plus the additional 43 employees proposed by AG/CUB. The Company's actual staffing only recently exceeded 640 employees; the AG/CUB proposal allows for a staffing level of 684. This more moderate increase is more than sufficient to meet the Company's unspecified needs, and the Commission should adjust the Company's proposal accordingly. (CUB IB at 9-10)

If the Commission determines that AIC has substantiated its need for substantially higher staffing levels than presently exist, the Company's 2013 year-end staffing at 706 positions could be considered. This adjustment is quantified in AG/CUB Ex. 5.1 at page 2. (CUB IB at 10)

In its reply brief, CUB responds that Mr. Brosch's adjustment is not, as the Company asserts, based on "a general dislike for the presentation of the data" that Ameren presented to support this expense. (AIC IB at 23) Rather, Mr. Brosch's adjustment is based on a thorough and meticulous review of Ameren's supporting documentation for its forecasted labor expense. (CUB RB at 7-8)

The Commission should not accept the Company's attempt to shift the burden of proof on this issue, by claiming that Mr. Brosch did not identify any particular activity or position that he considered unnecessary or overstaffed. (*Id.* at 8)

Ameren claims that half of its projected new positions were filled in the first half of 2013, but Ameren doesn't mention how many positions were vacated during that time. The Company's actual staffing only recently exceeded 640 employees; the AG/CUB proposal allows for a staffing level of 684. That is a reasonable forecast based on the Company's actual historical staffing levels and its lack of explanation of what its requested incremental staff would do that its current staff is not or cannot do. (CUB RB at 8)

3. AIC's Position

According to AIC, the record shows AIC provided supporting documentation and analysis to adequately support its forecasted test year labor expenses. The gas-only employee positions included in the test year are essential personnel for AIC's workforce that are needed to perform the specific gas activities planned in 2014 and future years. AIC has demonstrated a consistent pattern of filling positions in 2013 -- a trend that will continue as AIC fills the remaining open gas-only positions included in the 2014 budget. The labor and benefits expenses associated with these positions are reasonable expenses to include in gas delivery rates set in this proceeding. (AIC IB at 22)

The record also shows AIC was timely responsive to the "vast amount" of discovery AIC received from AG/CUB on its forecasted expenses. The documentation, analysis, narrative explanations and workpapers provided to AG/CUB witness Mr. Brosch were significant and comprehensive, as was the extent of the Mr. Brosch's methodical and meticulous review. The organization of the "large volume of information" AIC provided may not have been as "nice and tidy," as Mr. Brosch would have liked, but that is not a sufficient basis to reduce AIC's forecasted spending. To expedite the Staff and Intervenor review of forecast assumptions and inputs in future rate filings, AIC offered in surrebuttal to provide certain workpapers with its direct case. The Commission should find AIC's proposal appropriate and acceptable. (*Id.* at 22-23)

Support for Incremental Gas Positions

AIC states that AG/CUB proposes a sizable adjustment to test year labor expense to remove labor, benefits and payroll taxes associated with 43 gas-only employee positions that AIC intends to fill in 2013 and 2014. AG/CUB witness Mr. Brosch, however, has not identified any specific position that he considers unnecessary to perform the work planned in the test year. Mr. Brosch has not identified any particular test-year activity that he considers unnecessary or overstaffed. Mr. Brosch also disregards all the evidence AIC submitted in support of the open positions. In this case, the record demonstrates the gas-only positions included in the 2014 forecast are essential to perform the test year work and shows AIC's continual progress in filling the remaining open positions -- evidence that Mr. Brosch does not address in his direct or rebuttal testimony. (AIC IB at 23)

In direct, Mr. Brosch proposed to remove labor expense and related estimated benefits and payroll taxes for 43 gas-only test year positions that were unfilled as of the end of February 2013. On rebuttal, Mr. Brosch's proposed adjustment did not change, other than a minor adjustment to reflect a gas-only employee vacancy factor AIC included in its forecast. (AG/CUB Exs. 5.0 at. 30; Ex. 5.1 at 1) Mr. Brosch kept essentially the same adjustment, despite the rebuttal testimony of AIC witness Mr. Colyer confirming the need and status of the remaining open positions. In total, Mr. Brosch proposes to remove $3.61 million from AIC's revenue requirement.

Ameren Exhibit 22.3 attached AIC's response to AG 12.03, which reported on the status of AIC's progress in filling 66 of the 87 open positions as of February 2013 that were expected to be filled in 2013. Ameren Ex. 22.3 (AIC's response to data request AG 12.03) also indicated AIC's plan to begin recruitment and interviews for the 21 other positions slotted to be filled in 2014. Included with Ameren Exhibit 22.3 was AG 12.03 Attach 4, a schedule that provided the proposed date to fill each 2014 position and the reason for the position. Ameren 22.5 included AIC's responses to data requests AG 13.01 and AG 13.02, which contained additional information on historical and projected headcount by resource management center (RMC). AG 13.01 Attach and AG 13.02 Attach were schedules that provided the actual 2012 and 2013 headcount to date by RMC, incremental projected 2013 and 2014 headcount, and again, reasons for the incremental positions. (AIC IB at 24-25)

In rebuttal testimony, Mr. Brosch continued to claim that AIC "is apparently unable or unwilling to produce any documentation supportive of the large increases in staffing that are proposed for the test year." (AG/CUB Ex. 5.0 at 12) Mr. Brosch further claims that AIC "has failed to explain what additional staff is needed to do, and how these needs differ from the Company's current level of operation." (*Id.* at 26) Those assertions fail to acknowledge the information and narrative explanations AIC previously provided in discovery and attached to Mr. Colyer's rebuttal. These explanations demonstrate that although AIC is providing safe, adequate and reliable gas service at this time, staffing levels will not be sufficient to perform the additional work planned in 2014 without the incremental positions AIC plans to add in 2013 and 2014. These are not "discretionary" positions, as Mr. Brosch suggests, but are essential to perform specific, targeted work activities in the test year and beyond.

Ameren Exhibit 22.8 shows AIC's progress in filling open positions through the end of June 2013. As of July 1, 2013, AIC's headcount was at 664, with 42 budgeted and approved union and management positions to be filled by the end of 2013. (Ameren Ex. 22.8.) AIC's response to AG 20.13 and Ameren Exhibit 36.1 confirm the 32 gas positions filled in first six months of 2013 -- or 23 filled since the end of February 2013 -- are net positions that account for other positions becoming vacant and open due to attrition. (Ameren Ex. 36.0 at 6-7) The surrebuttal testimony and exhibits of AIC witness Mr. Colyer summarized the need for the open positions and updated the current status of filling the open positions for the 87 gas-only positions that have been filled as of July 1, 2013. Ameren Exhibit 36.1 identifies the gas-only positions that have been filed as of July 1, 2013. Ameren Exhibit 36.2 identifies the need and status of filling the remaining 2013 gas-

only positions approved by management that were open as of July 1, 2013. Ameren Exhibit 36.3 identifies the need and status of the 2014 gas-only positions. (AIC IB at 25-26)

According to AIC, the primary conclusion the Commission should draw from this information is that AIC has identified positions critical to serving its gas customers and performing planned work in 2014 to continue to provide safe, adequate and reliable service, improve system integrity and strengthen pipelines and facilities. The discovery responses and schedules submitted in the record make evident the description of the need for the positions and the work that AIC would not be able to perform if the positions went unfilled. Some of them are supervisors responsible for the inspection and oversight of construction, operations and maintenance activities performed by contractors in 2014 and beyond. Many of them are gas journeymen or apprentices responsible for the core functions of construction, operation and maintenance of the gas system, as well as emergency response. Some of them are engineers responsible for addressing the risks to system integrity. The evidence compiled in Ameren Exhibits 36.0 and 36.1-36.3, in particular, demonstrate AIC's commitment to filling open positions and AIC's need for the remaining unfilled 2013 and 2014 positions. (AIC IB at 26-27)

Documentation to be Provided in Future Rate Filings

AIC states that its direct filing complied with ICC filing requirements for future test years and identified the primary causes of the rate increase. Schedule G-5 disclosed the "principal" assumptions on which the test year forecast is based. Schedule G-10 provided the 2014 projected payroll expense by FERC Account. Schedule C-11.2 provided forecasted headcount data. Schedule G-2 provided the Independent Accountants Report of the certified public accountants who reviewed AIC's assumptions and financial projections. AIC witness Mr. Getz's direct testimony explained the process for developing the test year forecast -- the same process AIC had used to develop the forecast for its prior future test year gas rate case. AIC witness Mr. Nelson's direct testimony identified gas distribution, transmission and storage expenses as a driver of the rate increase. Mr. Colyer's direct testimony provided a bulleted list of incremental expenses producing the increase in gas distribution, transmission and storage O&M cost. This information was more than sufficient to disclose, even if at a high level, the factors that were the basis for AIC's requested rate increase. (AIC IB at 27)

The position expressed by AG/CUB is that AIC could not produce a "detailed" set of "supporting" "workpapers" that identified all cost "inputs." For a utility the size of AIC, where in excess of 130 employees are involved in the budget process, there is not an exhaustive set of centrally compiled, backup workpapers that provide working formulas for every cost estimate that ultimately factors into AIC's annual budget. (Ameren Ex. 32.0 (Rev.) at 3) AIC reasonably relies upon the institutional experience and expertise of individual employees, who as a function of their day-to-day responsibilities, forecast the anticipated needs of their respective business departments and enter cost estimates in corporate budget systems. The Utilities International Planner (UIP) software is a cost-effective, standardized budgeting tool that all Ameren Corporation segments must use to

centralize data storage and retention and to provide data in a consistent, sufficiently detailed format for management's review. (AIC IB at 28)

In the past, it may have been common to exchange Excel files or other electronic spreadsheets used to develop and document the predecessor utilities' budgeted costs. That is no longer the case. The central UIP system now grants multiple users the ability to update forecast information and retain the data for variance and financial reporting. This streamlines the budgeting process, allowing management to collect budget information and make decisions in less time and at a lower cost. The individual BPS or Director may decide to use an excel worksheet to formulate or support cost projections. (*Id.*) But even in that instance, there is not a central database that collects and stores backup Excel worksheets for each cost estimate. (AIC IB at 28)

The absence of a set of backup Excel files readily available, however, did not prevent AIC from providing more supporting detail for forecasted distribution expenses. In discovery, AIC supplied additional information in support of forecasted expenses and inputs. (Ameren Exs. 18.0 (Rev.) at 17-18; 18.4) A bullet list of the information AIC states that it provided during discovery is contained on page 29 of AIC's initial brief.

This information provided the starting point for Mr. Brosch or other experts to further test the reasonableness of projected expenses. For example, in AIC's response to data request AG 9.03, AIC produced an Excel workpaper (AG 9.03 Attach) that contained 2013 and 2014 forecasted gas O&M data from the budget system, along with 2011 and 2012 actual gas O&M data by FERC account and resource management center (RMC). (Ameren Ex. 32.0 (Rev.) at 5) This worksheet showed the forecasted increase (or decrease) in 2014 for each account compared to the most recent historical data for that account by resource type. (AIC IB at 29-30)

In addition, further information, often in Excel worksheet form, was compiled and provided in discovery on specific gas-only labor positions and gas distribution expenses. Over 600 AG questions were received and responded to before AG/CUB even submitted its direct testimony. When necessary and appropriate, responding to AG/CUB's requests required consulting with the individuals responsible for the operational activity. The discovery process drilled down to focus on particular estimates for volume of work to be performed, contractor bid estimates, and justifications for particular open positions. This process, although at times laborious, succeeded in compiling "workpapers" that recorded the various assumptions and inputs behind the incremental test year staffing positions and gas distribution expenses that AG/CUB now seeks to disallow. (AIC IB at 30)

The information AIC intends to compile for future rate case forecasts and provide with its direct filings will be similar in form. The major difference will be the timing of the submissions. Whereas in this case AIC identified incremental gas-only staffing and significant RMC and account variances during discovery, AIC intends to provide comparable information upfront with its direct filing. Specifically, AIC has committed to include the following information in its direct filing: Gas only headcount—actual versus monthly projections through the test year; and Gas O&M forecasted test year expense by

FERC account and resource type. This information was made available to Staff and Intervenors during discovery in this proceeding. (AIC IB at 31)

AIC also commits to produce certain forecast workpapers with future rate filings, in addition to required filing schedules, to make more transparent the underlying assumptions and inputs for forecasted labor and non-labor expense: AIC BPSs and Directors will provide a comparison of the most recent calendar year of actual gas O&M expenses with forecasted test year expenses, with written explanations and justifications of significant variances in excess of escalation factors – by resource group within an RMC or roll-up department; and AIC Directors will provide gas-only headcount staffing forecast with justification of any new employees positions projected to be filled between the filing of AIC's direct case and the end of the year.(AIC IB at 31)

Similar information was provided in this proceeding for the gas-only staffing and gas distribution expenses being contested. While providing these workpapers upfront with direct filings will require additional resources, it is AIC's hope the effort will reduce the number of, and time spent on, follow-up data requests. This list is also not intended to identify all information AIC would have available for Staff and Intervenor review, including other information produced in this proceeding. It is only intended to identify the significant information Staff and Intervenors likely will want to review. This list is also not a concession that AIC's forecasted costs in this case were not adequately supported. The goal here is to improve the documentation and discovery process to allow for an efficient, cost-effective review. (AIC IB at 31-32)

AIC Reply Brief

AIC states that in the AG's initial brief, the AG cites the cross-examination of Staff witness Mr. Kahle. (AIC RB at 19, citing AG IB at 23-24) In AIC's view, Mr. Kahle's testimony on cross does not support the AG's position. For forecasted costs that Mr. Kahle did review, he did not have any issues with the data he received and did not feel the data was lacking. (Tr. 435) What Mr. Kahle did review concerning AIC's forecasted gas-only staffing was Mr. Brosch's testimony. Based on that review, Mr. Kahle did not accept any of the labor adjustments Mr. Brosch proposed on direct. (AIC RB at 19)

AIC also takes issue with the "new analysis" presented for the first time in brief on the summary staffing schedules attached to AIC's surrebuttal testimony. (AG IB 24-25) The information presented on Ameren Exhibits 36.2 and 36.3 was presented in discovery and in rebuttal testimony much earlier in the proceeding. For example, Ameren Exhibit 36.3, which concerns the 21 gas-only positions to be filled in 2014, was adapted from AG 12.03 Attach 4, a workpaper AIC provided in discovery on May 29, 2013. (AIC Ex. 22.3.) In addition, Ameren Exhibit 36.2, which concerns the gas-only positions to be filled in 2013 that were open as of the end of June 2013, was adapted from information included in AG 13.01 Attach 1 and AG 13.02 Attach 2, workpapers AIC provided in discovery on May 30, 2013. The AG never challenged, or submitted follow-up questions on, the reasons for positions in the workpapers. (AIC RB at 19-20)

The AG complains the 24 journeyman/apprentice positions listed in Ameren Exhibit 36.2 "were not credibly justified." (AG IB at 24) The surrebuttal testimony of Mr. Colyer, AIC's Senior Direct for Gas Operations and Services, however, indicated the positions were "replacement, due to attrition, of union represented journeyman positions within the existing workforce." (Ameren Ex. 36.0 at 12) These positions are "essential for performing the core functions of construction, operation, and maintenance of the gas system as well as the critical functions of emergency response during the day and after normal working hours." (*Id.*) Mr. Colyer also indicated the employees filling these positions would begin a 27-36 month apprenticeship program, during which they would work under the direct oversight of a qualified journeyman. (Ameren Ex. 36.0 at 12; AIC RB at 20)

AIC also takes issue with the AG's complaint that AIC has not justified the need for another supervisor under Gas Operations Support to supervise gas storage activities. (AG IB at 24) AIC's response to AG 13.04 is identified on page 21 of AIC's reply brief. (AIC RB at 21, citing AIC Ex. 22.5 at 9) This response to AG 13.04 was submitted on May 30, 2013, and then attached to AIC's rebuttal testimony. In addition, this response cross-references a response to a related Staff data request, ENG 3.01 Attach Gas Storage, which explained the forecasted increase in Gas Storage Account 814 – Operations, Supervision, and Engineering. (Ameren Ex. 22.2 at 3) AIC's response to ENG 3.01 on Account 814 was submitted on March 15, 2013. (AIC RB at 21)

AIC provided similar information for the six supervisors needed for ICS – Illinois Construction Services the AG now specifically questions. (AG IB at 24-25) In its response to AG 13.13 (included in AG 13.01 Attach 1), provided on May 30, 2013, two weeks before the AG filed direct, AIC indicated the "additional 6 new positions are for inspecting gas construction work performed by contractors." (Ameren Ex. 22.5 at 4)

For the six engineering and three record management positions for 2014 the AG also now questions (AG IB at 25-26), AIC identified the need for these positions on May 29, 2013 and again on May 30, 2013. (AIC RB at 21-22)

The AG also cites data responses on pages 22-23 of its initial brief that purportedly support its claim of a lack of documentation for the proposed increase in positions. AIC responds, "But nowhere is mentioned AIC's responses to ENG 3.01, AG 9.04, AG 12.03 and AG 13.01-13.16 -- the very responses that provided that claimed missing support. Indeed, the AG's initial brief makes no mention at all of the timing and content of those data responses." (AIC RB at 23)

The AG's initial brief also complains about the "infirmity" in AIC's test year projections caused by the AG's claim of inadequate supporting workpapers. (AG IB at 6) According to AIC, this complaint is unfounded as AIC's "painstaking" review of the discovery responses provided Mr. Brosch indicated he had everything he needed: detailed schedules that identified the need for every incremental gas-only positions and a detailed workpaper. As indicated in AIC's surrebuttal testimony and confirmed in its initial brief, AIC has committed to providing similar information in future filings. (AIC RB at 23)

4. Staff's Position

Staff does not support AG/CUB witness Brosch's proposed adjustment to the Company's forecasted labor expenses. (Staff IB at 12; Staff RB at 11)

Staff witness Mr. Kahle testified that Mr. Brosch did not identify any specific activities that he considers to be unnecessary for the Company to perform; therefore, he does not associate any of the Company's proposed increases in gas only positions with unnecessary activities. Due to that lack of specifics, Staff Mr. Kahle did not agree with Mr. Brosch's adjustment. (Staff IB at 12; Staff RB at 11; Staff Ex. 11.0 (Rev.) at 18; AIC Cross Ex. 3)

Mr. Brosch testified extensively on deficiencies in the Company's responses to AG/CUB data requests, and described a lack of documentation of the Company's forecasting process. (AG/CUB Ex. 1.0 at 17-19)

Staff disagreed with AIC's position that the forecast does not need to be supported with workpapers to document projected costs. Mr. Kahle explained the need for organized, underlying documentation which allows for: the review of the forecasts by third parties; the comparison of financial forecasts with actual financial results; third parties to analyze the key factors on which assumptions are based; and the identification of changes in these factors and their anticipated effects, on a timely basis. To do this, documentation supporting the forecasts must record underlying assumptions and summarize the supporting evidence for the assumptions so third parties can conduct a thorough evaluation. The documentation should be in an organized record that can be maintained and made available for subsequent use or review by the Company or third parties. (Staff Ex. 11.0 (Rev.) at 19; Staff IB at 12)

In response, AIC committed to make information on its forecasted gas labor and non-labor expenses in connection with future gas delivery rate proceedings in which AIC uses a future test year available for Staff's review including gas-only headcount - actual versus monthly projections through the test year and Gas O&M forecasted test year expenses by FERC account and resource type. (Ameren Ex. 32.0, 8:158-166.) AIC also committed to take additional steps in the preparation of future gas forecasts "to make more transparent underlying assumptions and inputs for its forecasted labor and non labor expenses including a comparison of the most recent calendar year of actual gas O&M expenses with forecasted test year expenses; written explanations and justifications of significant variances in excess of escalation factors – by resource group within a resource management center or roll-up department; and gas-only headcount staffing forecast with justification of any new employee positions projected to be filled between the filing of AIC's direct case and the end of the test year". (Staff IB at 12-13)

In its reply brief, page 12, Staff argues that the Commission should reject the adjustments proposed by Mr. Brosch but include in the Final Order language similar to the following regarding the Company's forecasting documentation:

> Based on the extensive testimony by Mr. Brosch, it is evident to the Commission that the Company's forecast documentation was not as complete or as easy to comprehend as it should have been. The Commission also recognizes the Company's commitment to improve its documentation in the future. The Commission does not adopt the proposed adjustments to forecasted labor costs and expects that the Company will make the improvements as indicated.

5. Conclusion's Conclusions

Upon reviewing the record, the Commission agrees with the analysis and recommendation of the Commission Staff as articulated in its testimony and briefs and as described above.

While the Commission recognizes that the Company's forecast documentation was not as easy to comprehend as it could have been, as discussed below, the Commission agrees with Staff that Mr. Brosch's adjustment should not be adopted. As Staff indicated, Mr. Brosch did not identify any specific activities that he considers to be unnecessary for the Company to perform; therefore, he does not associate any of the Company's proposed increases in gas-only positions with unnecessary activities. The Commission observes that in the course of the proceeding, AIC did explain the reasons for the types and numbers of additional positions, and did provide information as to the status and accuracy of those forecasts.

The Commission also agrees with Staff that based on the testimony by Mr. Brosch, it is evident that the Company's forecast documentation, while not deficient from a standard filing requirement standpoint, was not as complete or as easy to comprehend as it could have or should have been. In that regard, the Commission also recognizes the Company's commitment to improve its documentation in the future. The Commission expects that the Company will make the improvements as indicated, and hereby directs the Company to do so.

E. Forecasted Non-Labor Expenses

Preliminarily, the AG and CUB complain that the Company did not create or retain workpapers for many of its forecast system inputs, so Staff and intervener witnesses in this case were only able to obtain workpaper support for a limited number of AIC non-labor forecast inputs. They contend that thousands of non-labor expense inputs have not, and apparently cannot, be critically reviewed. (CUB IB at 10; AG IB at 27)

According to AG and CUB, AG/CUB witness Mr. Brosch proposed a series of reductions to certain of the non-labor expense forecast amounts proposed by AIC, in the limited instances where the Company provided enough data to isolate apparently overstatement of projected costs in the test year.

AIC takes issue with these assertions by AG and CUB.

1. JULIE Locate Requests

AIC is required to receive and respond to Joint Utility Locating Information for Excavators ("JULIE") requests to identify underground facilities. (Ameren Ex. 22.0 (Rev.) at 37) The costs associated with being a member of JULIE and locating gas facilities are mandatory. The 2014 forecasted amount assumed approximately 240,000 gas locate requests -- a "modest" increase of 5,000 locates above the volume of requests performed by AIC in 2012. (*Id.*) Based on a cost of $13 per locate including ticket costs, the 2014 forecast estimated a non-labor expense for the gas portion of JULIE locates of approximately $3,100,000. (AIC IB at 40)

a. The AG's and CUB's Positions

The Company requests $3,100,000 for JULIE facilities locate request expenses. The People propose a "modest" $160,000 reduction to this forecasted amount. The People based this adjustment on acceptance of the Company's own workpaper calculations of test year costs associated with each JULIE locate and the number of locates per year. By accepting the Company's own workpaper calculations in its response to data request AG 20.25 supporting a cost of $2,938,363, AG/CUB witness Mr. Brosch rounded this value to produce his revised test year estimate of $2,940,000, which is more historically supported than the Company's forecast amount. (AG IB at 32)

In surrebuttal, AIC witness Colyer did not dispute Mr. Brosch's use of the Company's own forecast calculations in its response to AG 20.25 for this forecast element. According to the AG, Mr. Colyer instead seeks to discourage reliance upon the Company's calculations and claims that, "…a change in assumptions could cause actual expenses in 2014 or 2015 to reach current forecasted levels" and, "Based on the minimal difference, an adjustment to slightly lower the expense for this one items is not necessary." Based on the above discussion, the Commission should reject Mr. Colyer's "spurious" claims. The People urge the Commission to adopt its recommended adjustment to JULIE Locate expenses. (AG IB at 32-33)

CUB states that AIC asks the Commission to reject Mr. Brosch's adjustment because it is "minimal relative to the overall cost of the activity," and a change in cost and volume assumptions could cause actual 2014 or 2015 expense to be higher than current projections. In CUB's view, the Commission cannot base the Company's revenue requirement on an estimate that is rounded-up to account for potential future changes to the assumptions within. (CUB RB at 11-12)

b. AIC's Position

The AG proposes the Commission give AIC 95% of its requested amount for this non-labor distribution activity. (AG IB at 32-33) The remaining 5% or $160,000 is

minimal relative to the overall cost for this activity. The potential also remains that a change in the currently assumed and conservative cost and volume projections will cause actual expense for this activity to be above projected levels. Given the minimal variance, it is not appropriate to make a one-off reduction to one distribution expense. (AIC RB at 25; see also AIC IB at 40-41)

c. Commission's Conclusions

The record shows that in calculating his proposed adjustment, AG/CUB witness Mr. Brosch used AIC's own workpaper calculations of test year costs associated with each JULIE locate and the number of locates per year.

The Commission finds that the adjustment proposed by Mr. Brosch is appropriate and should be adopted.

2. Sewer Cross Bore Inspections

a. The AG's and CUB's Position

The AG proposes a "modest" $50,000 reduction to the Company's forecasted expense increases for Sewer Cross Bore inspection work. Mr. Brosch arrived at this forecast adjustment by including the lower end of AIC's estimated range of 2,000 services being inspected at an estimated cost of $250 per service. The People's allowance will be sufficient for AIC to comply with any safety regulations given the Company's awareness of the cross bores threat to the integrity of its gas distribution system for several years now. The Company has inspected and corrected cross bores at a historically modest pace. In 2011, the Company conducted 357 inspections at a total cost of $52,800. (AG/CUB Exhibit 3.12) In 2012, the Company conducted 1,596 inspections at a total cost of $417,000. Given these recent historical and actual figures, the People's recommendation of $500,000 based on AIC's own estimated volumes and unit costs is reasonable. (AG IB at 30; AG RB at 22-23)

CUB argues that Mr. Brosch's adjustment ensures that Ameren has the funds to complete its own estimated number of inspections, but uses the low end of Ameren's estimate to align the forecast more closely with the actual likely number of inspections. (CUB RB at 10-11)

b. AIC Position

AIC has identified legacy sewer cross bores as a potential threat to the integrity of the distribution system. (Ameren Ex. 7.0 (Rev.) at 14) In 2011 and 2012, AIC performed some preliminary cross bore inspections; however AIC believes the level of inspections should be increased. AIC intends to implement additional legacy cross bores inspections in 2014, and in future years, focusing on inspecting facilities installed prior to 2000. AIC intends to inspect between 2,000 and 2,500 facilities (services) in 2014. (Ameren Ex. 22.0 (Rev.) at 33) Based on historical costs in 2012 for contractors

to perform inspections, AIC projected a cost of approximately $250 per inspection. AIC's forecasted costs of $550,000 will allow AIC to inspect approximately 2,220 services. (Ameren Ex. 36.0 at 21) In AICs view, the costs proposed by AIC are reasonable given the historical costs experienced to perform inspections and the additional scope of inspections planned in 2014 and beyond. AIC believes AG/CUB's proposed adjustment to reduce test year spending by $50,000 is arbitrary. (AIC IB at 37; AIC RB at 25)

c. Commission's Conclusions

The 2,000 inspections assumed in the AG/CUB position is not below the range provided by AIC, and it significantly higher than the number of inspections actually conducted in any recent year.

The Commission agrees with AG and CUB that Mr. Brosch's adjustment utilizes a realistic and reasonable estimate for the number of 2014 inspections and should be adopted.

3. Accelerated Leak Repairs

a. AG/CUB Position

The Company requested $1.3 million in additional expenses above historical levels for funding of accelerated leak repairs. The People recognize the importance of pipeline safety and encourage the Company to continue its efforts to comply with safety regulations. Based on the Company's leak experience statistics and additional justification provided to Mr. Brosch, the People accept that a greater level of repairs (over the historical level) is required and the People also believe that the Company justified its per-repair costs. ((AG IB at 28; AG/CUB Ex. 5.0 at 35)

However, in order to ensure a reasonable forecast of expenditures, Mr. Brosch adopted the mid-point of AIC's targeted repair volumes as a reasonable and realistic expectation of the work the Company will be able to perform. The People, therefore, recommend allowing the Company to recover $1,012,500 for expenses related to the DIMP leak repairs, representing a 22% reduction in the Company's forecasted expense increase in this area. (AG IB at 28; see also AG/CUB Ex. 5.1)

The People recommended a reasonable level of 400 incremental repairs per year above and beyond what the Company has historically conducted. (AG RB at 19) Nonetheless, the Company suggests that 400 incremental repairs will not reduce the backlog of leaks that already that will remain unrepaired at the end of 2013. (AIC IB at 35)

The Company's assertion that it must catch up with its backlogs is unsupported by the data in this docket. Throughout this docket, the People have agreed that the leak identification and repair volumes indicate the need for more spending on leak repair

contractors. However, the challenges and uncertainties involved in predicting future new leak volumes argues for adopting the mid-point of the Company's estimates, as the People have recommended. The inherent uncertainties in crafting these projections do not translate into a sudden and urgent need to adopt the Company's worst case scenario "high end" projections. Rather, given the reasonableness of the People's modest adjustment to the Company's proposed forecast and given the forecasting bias faced by AIC management as described by Mr. Brosch and in the NRRI report, the People request the Commission to adopt the recommendation described herein. (AG RB at 20)

According to CUB, the Company's own forecast was to repair between 100 and 150 service tee cap leaks and between 350 to 450 mains/services repairs. Mr. Brosch's adjustment simply uses the mid-points of those targets. Since the Company itself provided ranges of their forecasted repair numbers, it is perfectly reasonable to use the mid-point of those ranges as the assumed expense. (CUB RB at 9-10)

b. AIC's Position

AIC has budgeted $1,300,000 in test year expense for additional distribution leak repairs. Accelerating the number of repairs of leaking service tee caps and leaking mains and services, two of the highest relative risks facing distribution utilities, is intended to reduce the threats from leaks. The number of added and open leaks remains significant. In 2010, there were 3059 new leaks added and 950 leaks open at year-end. In 2011, there were 2994 new leaks added and 1122 leaks open at year-end. In 2012, there were 3327 new leaks added and 1302 leaks open at year-end. Through mid-July 2013, an additional 1901 new leaks have been added, with only 1655 repaired, leaving an additional 246 open leaks already this year. If added and open leaks continue during 2013 at the current pace, there will be nearly 3800 leaks added and almost 500 additional open leaks by year-end (resulting in 1800 total open leaks at year-end 2013). That would mean AIC would have experienced, on average, close to 3300 leaks added between 2010-2013 and 850 additional open leaks between year-end 2010 (950) and year-end 2013 (1800). The reduction in projected expense for distribution leak repairs proposed by AG/CUB will reduce the number of additional leak repairs AIC could complete in the test year. (AIC IB at 34)

The incremental funding included in the test year forecast for this activity was budgeted in 2014, as part of AIC's Distribution Integrity Management Program (DIMP), to permit AIC to address the growing buildup of unrepaired leaks and repair additional leaks per year going forward. (Ameren Exs. 22.0 (Rev.) at 27; 36.0 at 17-18) The cost to fix any particular leak varies based on a number of factors, including the leaking component and the depth and location of the leak. The forecasted amount, however, includes incremental funding to repair both identified leaks on gas service tee caps (at an average estimated cost of $1500 per repair) and identified main or service leaks (at an average estimated cost of $3000 per repair). (Ameren Ex. 22.0 (Rev.) at 28) AG/CUB's estimated incremental expense ($1,012,500) would permit AIC to repair an additional volume of 125

service tee leaks ($187,500) and 275 mains or service leaks ($825,000), above historical levels.

The amount of incremental funding proposed by AG/CUB is insufficient. Although AG/CUB's proposal would still permit AIC to give more attention to future added leaks, making 400 incremental repairs a year likely would only address the incremental number of leaks that are added and remain open at year-end going forward, absent additional spending. It would not be enough to address and reduce the backlog volume of identified leaks that already will be added, open and unrepaired at year-end 2013. Even the high end of AIC's conservative volume projections would be insufficient to address both future and present open leaks. The data thus supports additional spending above AG/CUB's estimated cost. AIC's higher forecasted spending ($1,300,000) would permit AIC to conduct, on average, 200 service tee leaks ($300,000) and 325 mains or services leaks ($975,000), above historical levels. The Commission should approve the amount of forecasted expense in the test year to allow for that annual level of leak repairs. (AIC IB at 35; see also AIC RB at 24)

c. Commission's Conclusions

The parties who addressed the issue agree that repairing distribution leaks, including leaking mains and services, requires increased attention.

The AG and CUB do not dispute the importance of performing additional leak repairs or the estimated per-repair cost.

The AG and CUB do, however, take issue with the volume or number of test-year leak repairs.

Having reviewed the record, the Commission finds that repair volumes in AIC's forecasts appear reasonable. As indicated above, the evidence indicates that new leaks, and open leaks at year-end, have been increasing. The record supports AIC's argument that its projected expense will enable it to keep pace with the number of new leaks each year, and to make progress toward resolving the current backlog of open leaks; whereas the volume of repairs assumed in the CUB/AG proposal is not likely to address the backlog.

4. Right of Way Clearing

a. The AG's Position

AIC has proposed a large expansion of activity and spending on the clearing and marking of gas pipeline Rights of Way ("ROW") that would increase historical expense levels by $1.2 million annually, compared to historical spending of $50,000 in 2011 and $170,000 in 2012. The People seek to moderate the Company's $1.2 million forecast expansion for these expenses related to high-pressure right of way clearing for leak survey inspections and DIMP programs. The Company's projected forecast for ROW

clearing continues the "regrettable trend" in this docket of unrealistic projections that are not rooted in actual historical experience. (AG IB at 28)

The People presented a reasonable recommendation seeking to moderate the Company's potentially overstated forecast for expenses related to high pressure distribution right of way (HPD ROW) clearing for leak survey inspections and DIMP programs. (AG IB at 28-29; AG/CUB Ex. 5.1 at 2) In the most recent past years (2011 and 2012), the Company spent no more than $170,000 on this activity. (AG IB at 28) The Company claims that it will spend $1,200,000 in 2014 on HPD ROW clearing. This number is not only out of line with historical spending, but it exposes ratepayers to paying for an activity that will not likely be completed. Therefore, the People proposed a reasonable allowance of $600,000 for this incremental new activity. (AG IB at 28)

For wooded areas in need of clearance, the Company's estimate is unreliable because it is based on historical costs to clear wooded ROW. These costs have fluctuated greatly and were somehow lower in years with greater volumes of work. The cost per mile of clearance in 2009 was 10 times the actual cost per mile in 2010. Therefore, instead of basing the 2014 forecast on this "anomalous" year, the People propose basing the costs on those that occurred in 2010, with an escalation for inflation. Assuming, for argument's sake, that the Company is able to clear its estimated 75 miles of wooded ROW per year (which the People dispute) over the next 10 years, AIC would be in a position to negotiate favorable rates for the process. Therefore, based on the 2010 actual cost per mile of $3,589, the People recommend an inflation-escalated cost per-mile cost of $5,000 for a total of $375,000 for the estimated 75 miles. For non-wooded areas, AG accepts the Company's estimated cost of $225,000. When combined with the AG forecast of $375,000 for wooded areas, the total amount for ROW clearing is $600,000. (AG IB at 29)

AIC witness Mr. Colyer claims that if the People's adjustment is accepted, the Company will be limited to 50% of the clearing of HPD ROW for 2014, which would extend the program to 20 years. (AIC Ex. 22.0 (Rev.) at 31) According to the AG, this is a highly unlikely outcome and even if true would represent significantly higher activity and cost levels than AIC has viewed as necessary to incur in 2011 or 2012. First, as stated above, the company's estimates are overstated due to inclusion of the 2009 figures. Second, the Company has not demonstrated its historic ability to clear as much work as it is projecting. The Company seeks recovery for clearing approximately 75 miles per year over the next ten years. Historically, the Company has not come close to spending this amount of money or achieving this level of clearance. In fact, in two of its busiest recent years, the Company did not even come close to clearing half of that amount. (AG IB at 30)

AG/CUB witness Mr. Brosch testified, "When AIC mobilizes contractors to systematically commence HPD clearing at a rate of 75 miles of wooded ROW per year, over each of the next ten years, the Company should be positioned to negotiate favorable rates from vendors. With this in mind, I have included an estimated per mile cost of $5,000 per mile to escalate 2010 actual incurred costs for inflation and

recommend Commission approval of $375,000 in place of the $975,000 proposed by AIC for this element of its non-labor expenses." (AG/CUB Ex. 5.0 at 38)

The Company argues that Mr. Brosch's reliance upon the Company's own 2010 data is an unfair representation. The Company claims that in that 2010, clearing of transmission lines was nearly complete and workers encountered fewer wooded areas per mile. Therefore, the Company asks the Commission to consider the 2007, 2008, and 2009 transmission line data as being more representative of actual clearing costs. In the AG's view, the reliance upon 2010 data by Mr. Brosch is proper, as this is the most recent available data for a year when more than 25 miles of HPD ROW clearing of wooded areas occurred. AIC's insistence upon including 2009 data when only about 10 miles of clearing occurred tends to overstate costs per mile and is likely to not be indicative of unit costs when much higher volumes of work (75 miles per year) are assumed to be undertaken. (AG RB at 21-22)

Mr. Brosch explained the forecasting bias faced by utility management in preparing an expense forecast that will be used to determine rate levels and this bias is confirmed by the NRRI study cited by Mr. Brosch. When the Company does commence its newly expanded HPD ROW clearing effort, scheduled to start in the 2014 test year, the uncertainties regarding clearing conditions and unit costs argues for Commission approval of the more conservative estimated cost levels proposed by AG/CUB. The Commission will have an opportunity to review progress and unit costs actually incurred by AIC in future rate cases to verify the Company's commitment to actually commence this work and spend at targeted levels. Therefore, the People urge the Commission to adopt the proposed funding of $600,000 for ROW clearing. (AG RB at 22)

b. CUB's Position

The Company provides no justification for the "exorbitant" increases in work in claims it will do in the test year as compared to its actual historical levels. AG/CUB's proposal does not "arbitrarily" reduce the incremental increases Ameren projects – rather, it reduces those increases to a more reasonable level, based on actual historical data from 2010, escalated for inflation. In contrast, Ameren's forecast relies on an outlier year, 2009, where the per-mile cost for clearing of ROW was 10 times the actual per-mile cost in 2010. Mr. Brosch's adjustment allows for a significant increase over the Company's 2011 and 2011 ROW spending, while acknowledging that Ameren's forecast is likely inflated. (CUB RB at 10)

c. AIC's Position

AIC has budgeted $1,200,000 in test year expense to clear and maintain the right-of-way for wooded sections of high-pressure distribution (HPD) pipelines. DIMP regulations require utilities to address risks associated with gas distribution facilities, the highest risk of which is third-party excavation damage. The HPD ROW clearing program will improve AIC's ability to perform leak surveys, provide better access for emergency and Watch and Protect activities, provide better visibility of easements,

provide better marking of pipelines, mitigate excavation damage, maintain ROW clearance, reduce ROW encroachments, maintain proper pipeline signage, and provide for well-defined aerial boundaries of pipeline locations. (AIC IB at 35-36)

The forecasted amount for HPD ROW activities includes an estimated, annual cost of $225,500 for HPD ROW maintenance costs for mowing, spraying and installing line markers. That forecast is based on an average cost per mile of $4,100, based on 2011 costs (42 miles at a cost of $226,547) and 2012 costs (181 miles at a cost of $670,865) to maintain transmission ROW, times the estimated 55 miles per year of HPD pipelines requiring maintenance. This forecasted amount also includes an estimated, annual cost of $975,000 for HPD ROW clearing of wooded areas. This is based on an average cost per mile of $13,000, based on 2009 costs (9.98 miles of ROW at the cost of $358,287) and 2010 costs (25.07 miles of ROW at the cost of $89,975), times the 75 miles per year AIC plans to clear over the next 10 years. (*Id.* at 36)

AG/CUB's proposal to "arbitrarily" reduce the amount of funding for HPD ROW clearing and maintenance by $600,000 will result in the extension of AIC's 10-year clearing plan to a timeline of 20 years or longer. (Ameren Ex. 36.0 at 19) AG/CUB's basis for its adjustment is no less arbitrary: the exclusion of 2009 transmission line data that illustrates the significant and varied cost of clearing wooded areas. The 2010 data solely relied upon by Mr. Brosch represents a year when transmission line clearing was nearing completion and less wooded areas were encountered per mile. Moreover, the average cost per mile in 2007 (27.82 miles at an average cost of $16,200.27 per mile) and in 2008 (7.79 miles at an average cost of $17,873.50 per mile) reinforces the use of 2009 data as representative of clearing costs. AG/CUB's sole reliance on 2010 data, on the other hand, yields an inaccurate forecast. The Commission should approve the amount of HPD ROW clearing costs in the test year forecast. (AIC IB at 36-37)

In its reply brief, AIC states that its projection was based on an average clearing cost per mile using 2009 and 2010 cost data. This average clearing cost is significantly less than the average costs per mile seen in 2007 and 2008. The AG's projection, however, is based solely on costs in 2010, which was a year in which the average clearing cost per mile was substantially less. It is not appropriate to use one year of cost data – the lowest year – and ignore three years of data where costs were considerably higher. (AIC RB at 25) In addition, its initial brief, the AG also "attempts to now dispute" the reasonableness of the number of miles AIC intends to clear per year. AIC's clear intent, however, is to clear 75 miles per year, as part of this incremental spending initiative. (AIC RB at 25; Tr. 161)

d. Commission's Conclusions

As indicated above, AIC and AG/CUB are in disagreement over the test-year cost per mile for HPD right of way clearing of wooded areas. Although the AG and CUB take issue with AIC's use of an cost per mile based on an average of 2009 and 2010 costs, AIC has shown that the cost per mile in its proposal is significantly less than the cost per mile in both 2007 and 2008. As such, AIC has not given disproportionate

weight to 2009. The Commission finds that the cost per mile in AIC's forecast is reasonable.

In its initial brief, the AG also challenges the number of miles of wooded areas that AIC intends to clear per year. In support of its argument, the AG cites Mr. Brosch's rebuttal testimony; however, the cited testimony does not appear to take issue with the reasonableness of that element of the forecast. The Commission finds that the assumption used in AIC's forecast is reasonable.

5. Watch and Protect Damage Protection Program

a. The AG's and CUB's Position

The Company forecasts $650,000 of non-labor expenses for expansion of the "Watch and Protect" Program. The People propose a smaller expense increase, reducing the Company's forecast by of $250,000 to this request to provide an expense allowance that better reflects historical expenses and costs associated with the program.

The People accept the Company's estimated volume of work. However, CUB/AG witness Mr. Brosch, in his analysis, recommended applying a per-unit cost of $100 per transaction instead of the Company's estimate of $162.50. (AG/CUB Ex. 5.0 at 42) The People's proposed cost figure is more consistent with the Company's own historical data. The People's total recommended expense for Watch and Protect is still above historical figures and will not inhibit the Company from operating the program in a safe and reliable manner. (AIC IB at 30-31; AG RB at 23-24)

CUB observes that the only issue in dispute here is how to best estimate what the Company may spend on contractor support in 2014. AG/CUB recommend full recovery of the costs for eight full time Ameren employees to administer the costs of the program. Far from "arbitrary" (AIC IB at 38), Mr. Brosch's adjustment uses a lower cost estimate based on actual historical spending. (CUB RB at 11)

b. AIC's Position

The Watch and Project program, which began in 2011, consists of field monitoring of excavations (a "stand-by") being performed when an excavation is near or crossing high pressure gas main facilities or gas mains that are 8" or larger in diameter. (Ameren Ex. 22.0 (Rev.) at 34) The program was expanded to also include a stand-by for critical locations such as schools, hospitals and nursing homes, as well as for excavation activities related to directional boring or performed by new excavators. The Watch and Protect program has proven effective at reducing excavation damage and is a prudent mitigation measure to reduce risk related to one of the top threats to the integrity of the distribution system. AIC's forecasted cost for this activity for the test year ($650,000) is based on a projected stand-by volume of approximately 4000 and an

estimated confidential contractor cost per stand-by that includes a wage and benefit premium paid in accordance with certain labor contract requirements. (AIC IB at 38)

AG/CUB does not take issue with the staffing needed to support the program or AIC's forecasted volume for 2014. Rather, AG/CUB's proposed reduction ($250,000) is based solely on its estimated contractor cost per stand-by. AG/CUB's estimated cost, however, is arbitrary and has no basis in the more recent, actual average cost data supplied by AIC in discovery. The actual contractor costs AIC has incurred to date for stand-by invoices in 2013, the negotiated stand-by base rates, the applicable wage and benefit premium, and the actual 2013 average stand-by time, support AIC's estimated contractor cost and the projected expense for this activity for the test year. (Ameren Ex. 36.0 at 22-23) The "arbitrary" cost per stand-by used by AG/CUB is not representative of expected costs in 2014 and should not be used to support an adjustment. (AIC IB at 37-38; RB at 25)

c. Commission's Conclusions

At issue is the estimated outside contractor cost per stand-by event. Of the two competing estimates, the one proposed by AIC appears to be better supported by the record which includes the most recent contractor data from 2013, such as stand-by invoices in 2013; the negotiated stand-by base rates; the applicable wage and benefit premium; and the actual 2013 average stand-by time.

6. Corrosion Control Painting

For the test year, AIC forecasts $1,000,000 in non-labor expenses for corrosion control painting of its aboveground gas facilities.

a. Position of AG and CUB

The Company forecasts $1,000,000 in non-labor expenses for corrosion control project expenses which is much higher than the $296,446 and $684,086 amounts actually incurred by AIC in 2011 and 2012, respectively.

The AG, based on the analysis of Mr. Brosch, propose an alternative expense increase to a "more reasonable" $700,000 expense level, which is a $300,000 reduction to the Company's request. AIC witness Mr. Colyer attempts to justify this increase in future spending as a result of a backlog of facilities that require painting, and an expansion of painting in 2014 that was not present in past years. The People, however, based their recommendation on the Company's reasonable and representative historical expenses. It is "inherently unfair" to ratepayers to increase forecasted test year painting expenses simply due to a backlog of painting that the Company has failed to complete in prior years. As Mr. Brosch noted, the appropriate response to a backlog is to increase current spending in 2013 instead of adding additional costs to the test year. (AG IB at 31; AG/CUB Ex. 5.0 at 43; AG RB at 25)

Specifically, the AG argues, the amount proposed by the Company for group 2 greatly exceeds actual painting for group 2 in all recent years. (AG/CUB Ex. 5.11) The historical group 2 expense has not hindered the Company's ability to provide safe and adequate service in the past. Therefore, the People recommend allowing an expense level for group 2 of $400,000 instead of the Company's $700,000. (AIC Ex. 22.0(Rev.) at 36) The People agree with the Company's projected $300,000 amount for painting of group 1 residential and small commercial meters. The People's proposal is consistent with historical levels and allows for a reasonable amount of additional spending and therefore will be sufficient for safe and adequate service. (AG IB at 32)

According to CUB, "As Mr. Brosch explained, if there is a back log of essential painting work at the present time, the Company should elect to accelerate spending in 2013 rather than stacking up additional forecasted costs in the test year." (CUB RB at 11, citing AG/CUB Ex. 5.0 at 43) AIC provides no explanation as to why it has not taken that step for work it claims is important to ensure that corrosion does not begin before the painting to prevent it has occurred.

b. Staff Position

Staff witness Kahle analyzed Mr. Brosch's proposed adjustment to Corrosion Control and adopted Mr. Brosch's revised adjustment. (Staff IB at 13, citing Staff Ex. 11.0 (Rev.) at 20-21 and AIC Cross Ex. 2) As Mr. Brosch points out, AIC's history of expenditures for Corrosion Control does not support its forecast. (Staff RB at 13) Staff also notes that AIC reduced its $663,000 2013 budget for corrosion painting by $100,000 during this proceeding.

c. AIC Position

The planned corrosion control activity for the test year consists of painting AIC's extensive aboveground gas facilities that are subject to atmosphere corrosion. (AIC IB at 38-39; Ameren Ex. 22.0 (Rev.) at 35) The maintenance of coatings to prevent atmospheric corrosion is a prudent regulatory requirement that provides a benefit to customers by extending the useful life of the facilities. The two largest groups of aboveground facilities are group 1 residential and small commercial meter sets (approximately 900,000) and group 2 regulator stations and large customer meter sets. AIC is planning a 10-year expansion of its non-labor contractor painting work to begin in 2014, due to an identified backlog of facilities that required painting. (*Id.*) This expansion will require AIC to increase non-labor expense for this activity above recent historical spending. (*Id.*) For group 2 larger facilities, AIC plans to spend, on average, $700,000 annually in non-labor painting expense starting in 2014. For group 1 smaller facilities, AIC plans to spend an average of $300,000 annually in non-labor painting expense starting in 2014.

In the test year, for the larger group 2 facilities, AIC plans to invest $200,000 in small gas regulator station recoating, $250,000 in medium size regulator station coating improvements, $100,000 allocated for the large sites and the remaining $150,000 to be

used for industrial gas metering facilities. Depending on the size of the group 2 facility to be painted, costs for blasting, recoating and lead abatement for an individual group 2 facility can range from $2,000 to $3,500 per site for smaller regulator stations to $4,000 to $10,000 per site for medium size facilities (depending on piping conditions, configuration and footprint) and $50,000 or more for large sites such as gate stations. The costs incurred in 2013 to date on painting medium size regulatory stations ($15,000 per site) demonstrate the varied and higher expense for larger group 2 facilities. (AIC IB at 38-39, citing Staff Cross Ex. 2)

The reduction proposed by AG/CUB and joined by Staff will not allow AIC to perform the necessary painting on group 2 regulator stations and large meter sets at a pace that would prevent an ongoing backlog or gradually reduce the existing backlog over a 10-year period. (Ameren Ex. 36.0 at 24) The prioritized and tracked backlog of regulator stations in need of painting would not all occur in 2014, as implied by AG/CUB. Rather, AIC intends to begin painting the regulator stations and large meter sets on a cycle that provides better long-term and proactive maintenance of protective coatings. Reducing the forecast for this activity will result in a cycle where repainting may not occur until corrosion has already begun, which would increase backlog and result in higher painting costs over the long term. Given the above-ground facilities in need of painting, a projected annual expense of $1.0 million is reasonable for both group 1 and group 2 facilities. (AIC IB at 39-40; AIC RB at 25)

d. Commission's Conclusion

The CUB/AG adjustment was proposed by its witness, Mr. Brosch, and is supported by Staff.

Those parties contend that Mr. Brosch's adjustment, supported by Staff witness Mr. Kahle, is better supported by historical spending levels and other information in the record than is AIC's. CUB, AG and Staff have called into question AIC's reliance on a need to significantly increase spending, in part to address a backlog in 2014, as opposed to sooner, such as in 2013 when it made a downward adjustment in its 2013 budget for corrosion control.

Of the two competing proposals, the Commission finds that the one advanced by AG, CUB and Staff appears to be the more reliable estimate of test-year expenditures, and it is adopted.

F. Rate Case Expense

AIC's filings list rate case expense as $2.413 million. Staff proposed an adjustment reducing rate case expense to $2.209 million.

Section 9-229 of the Act states, "The Commission shall specifically assess the justness and reasonableness of any amount expended by a public utility to compensate

attorneys or technical experts to prepare and litigate a general rate case filing. This issue shall be expressly addressed in the Commission's final order."

1. Staff's Position

Staff reviewed AIC's proposed rate case expense. Staff agrees that the expenses are reasonable except as discussed below.

Staff adjusted the Company's requested rate case expense due to the reduction of rebuttal witnesses' estimated costs from $224,000 to $20,000 to reflect the estimated cost for one consultant regarding cash working capital issues. (Staff Ex. 12.0 at 4, Attachments A & B, Schedule 12.01) No support was provided for the remaining estimated amount of $204,000 for rebuttal witnesses. (Staff IB at 14) The Company's estimated cost for services of outside consultants retained as rebuttal witnesses was based on costs incurred for multiple consultants as rebuttal witnesses in Docket No. 12-0001, the Company's initial formula rate case. (Staff Ex. 3.0 at 3) Staff's adjustment removes the estimated and unsupported costs of such rebuttal witnesses to reflect a reasonable amount for the Company's estimated costs of services for one rebuttal consultant regarding cash working capital issues. (Staff RB at 13)

Although the Company admitted in a DR response that it had engaged one rebuttal witness up to that point in time and did not revise that response throughout the discovery phase (Staff Ex. 12.0, Attach. A), AIC claims that it should anticipate the services of additional consultants through the late stages of a rate case because one Staff witness might file supplemental rebuttal testimony. (Ameren IB at 43) In Staff's view, "AIC's rationale may explain why the original estimate contemplates additional witnesses post rebuttal, but it does not explain why the Company does not agree to remove estimated costs related to rebuttal witnesses that it now knows were not incurred because such rebuttal witnesses were unnecessary." (Staff RB at 13-14) No Staff witness filed supplemental rebuttal testimony, nor did the Company identify the need for any additional consultants in its surrebuttal testimony.

The Company opposes Staff's adjustment because "Mr. Ostrander does not consider the costs for certain rate case tasks that have exceeded the original estimates." (Ameren Ex. 31.0 at 12) Staff argues, "Contrary to the Company's assertion, Staff did consider the actual costs of certain rate case tasks that exceeded the requested budget amount. (Staff Ex. 12.0, 4:67-78.) The Company, however, failed to provide any support as to why the over budget costs are reasonable compared to the original budget amounts. (*Id.* at 4:73-78.)" (Staff IB at 14-15)

The Company, at this juncture of the rate case, proposes to offset those certain tasks that are currently over- budget with those that are presumed to be under-budget (rebuttal witnesses). (Ameren Ex. 31.0 at 12) As with any estimated costs, while actual amounts of certain components may turn out to be more than projected, other actual amounts may turn out to be less than projected and vice versa. A look back to the Company's most recent gas rate case illustrates that the actual rate case expenses

incurred of $2.733 million were less than the requested estimated rate case expenses of $3.344 million and the Order amount of $3.063 million. (Staff IB at 15)

The Company mistakenly relies upon the Commission Order in Docket No. 11-0767, whereby the Commission did not accept a similar Staff adjustment for the unsupported estimated costs of rebuttal witnesses. The Commission's conclusion in Docket No. 11-0767 reads, in pertinent part, "In its rebuttal schedule, Staff limited IAWC's to those consultants engaged at the time of the Company's rebuttal filing. No testimony was presented in support of this adjustment, and no explanation was provided in the rebuttal schedule or in Staff's Initial Brief." The Commission also noted that "IAWC provided the reasons for including these amounts in its testimony and Initial Brief," and that "that no exceptions were filed with respect to this issue." Illinois-American Water Co., Order Docket No. 11-0767 at 53 (Sept. 19, 2012) ("11-0767 Order").

Staff argues that contrary to the situation described in the above quoted order, the record in this proceeding contains ample evidence of the necessity of Staff's adjustment. As documented in this proceeding's evidentiary record, Staff's adjustment is supported by testimony, AIC responses to Staff DRs and is fully discussed in Staff's IB. The Company's reliance on the above Commission conclusion is misleading and not applicable to the facts in this proceeding because the record in this case contains evidence of the inaccuracy of AIC's estimate. Therefore, the Commission should accept Staff's recommendation to disallow the unsupported estimated costs of rebuttal witnesses.

Staff also recommends that include the following language in the rate case expense section of its order 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 such costs in the amount of $2.209 million are just and reasonable pursuant to Section 9-229 of the Act (220 ILCS 5/9-229)."

In their briefs, the AG and CUB state that they support the Staff position.

2. AIC's Position

AIC's projected rate case expense of $2.413 million includes, among other things, the cost of outside attorneys and technical experts to support and defend the filing, as well as the cost of the independent audit of AIC's test year projections required by the Commission's Part 285 rules. In support of its total projected rate case expense, AIC submitted extensive documentation and testimony. The evidentiary record contains over 300 pages of invoices, proposals, contracts, narrative discovery responses, and schedules that support both the expense actually incurred by AIC to date and that which AIC projects it will incur through the final stages of this proceeding. Based on that evidence, the Commission should find AIC's projected rate case expense of $2.413 million just and reasonable, and it should specifically and expressly find the total

expense AIC projects it will incur to compensate outside attorneys and technical experts to prepare and litigate this rate case just and reasonable pursuant to Section 9-229 of the Act. 220 ILCS 5/9-229. (AIC IB at 41-42)

The point of disagreement between AIC and Staff relates to a single component of the expense -- the projected cost for AIC to engage consultants to assist it in rebutting issues raised by Staff and Intervenors during the course of the proceeding. Staff would limit AIC's cost recovery to those consultants engaged at the time of AIC's rebuttal filing. Staff took the same position in Docket 11-0767. And, there, the Commission rejected it. Order, 11-0767, at 53 (Sept. 19, 2012). The Commission should likewise reject Staff's position here. (AIC IB at 42)

Staff's position ignores the prudency of AIC's rate case expense projection. Based on its rate case experience, AIC included in that projection the cost to obtain the consultant services necessary to counter new issues raised by another party during the rebuttal stages of the proceeding. The fact is that AIC routinely requires the services of rebuttal consultants in its rate cases. In this case, AIC did engage rebuttal consultant services. (Ameren Ex. 17.0 (Rev.) at 9-10) Also, one Staff witness suggested he might file "supplemental rebuttal testimony," breeding the potential for additional, late-stage rebuttal consultant services. Prudent planning requires that AIC anticipate the services of additional consultants through the late stages of a rate case, and that it project a level of rate case expense that sufficiently reflects the attendant cost; this case is no exception. (Ameren Ex. 17.0 (Rev.) at 10) It is unreasonable to penalize AIC for its prudency. (AIC IB at 42-43)

Staff's approach to AIC's projected rebuttal consultant expense -- permitting only that which has materialized as of AIC's rebuttal filing -- effectively precludes AIC from fully recovering a potentially necessary component of rate case expense based solely on the timing of the expense. AIC will be forever precluded from recovering for the services of a consultant engaged after Staff and Intervenors have filed their rebuttal testimony in a rate case if the Commission adopts this approach. (*Id.* at 43)

Staff's approach also fails to consider that, while one component of rate case expense may ultimately be less than projected, another may ultimately be more. In this case, for example, the actual costs associated with several completed stages of the proceeding -- i.e., preparation of the filing requirement schedules and audit of the forecasted test year -- exceed AIC's initial projections of those rate case expense components. (AIC IB at 43, citing Ameren Ex. 31.0 at 12)

In its reply brief, AIC responds to Staff's argument that "no support" was provided for the amount remaining after AIC's estimated cost for the consultant it identified as of Staff's rebuttal filing. According to AIC, Staff's position apparently is premised on its assumption that support equal invoices. But the Commission recently recognized that, in addition to invoices and other documentation, data request responses and explanations for estimations of rate case costs in testimony provide further support for the reasonableness of the expense. Docket 09-319, Order on Remand, at 17, 19-20

(May 15, 2013). In the current proceeding, AIC submitted substantial record evidence -- in the form of testimony and data request responses -- supporting its estimated rebuttal consultant expense. The Commission did not require actual invoices when it rejected Staff's similar adjustment to the utility's rebuttal consultant expense in Docket 11-0767. It should not require them here. (AIC RB at 27)

Finally, Staff notes that AIC's $2.733 million actual rate case expense in its last gas rate is less than the estimated amount in that case. But that is not a valid comparison, as the $2.733 million is based on half the cost of two combined cases, not a standalone case. Moreover, Staff misses the point. AIC's estimated expense in this case -- $2.413 million -- is less than the prior case amount. This confirms the reasonableness of the total current estimate. (AIC RB at 27-28; Ameren Ex. 37.11 at 1)

3. Commission's Conclusions

Section 9-229 of the Act states, "The Commission shall specifically assess the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing. This issue shall be expressly addressed in the Commission's final order."

Staff does not appear to take issue with AIC's forecast of rate case expense, or any element thereof, including outside consultants. Staff's adjustment would remove the cost of rebuttal consultants for whom such costs were not ultimately incurred.

Among other things, AIC relies on the Commission's Order in the rate proceeding in Docket No. 11-0767. The Commission agrees with Staff that the two cases are distinguishable. In Docket No. 11-0767, unlike the instant case, the Commission observed that no testimony was presented in support of the Staff adjustment, and no explanation was provided in the rebuttal schedule or in Staff's Initial Brief. The Commission did not reach the question of whether the adjustment would have been appropriate had it been addressed in the evidentiary record.

AIC also argues that while the expense cited by Staff may be less than projected, that amount has been more than offset by the actual costs associated with other completed stages of the proceeding that have exceeded AIC's initial projections. Those items and amounts are identified in the AIC testimony cited by AIC. Although Staff cites Staff testimony in support of its argument that AIC "failed to provide any support" as to the reasonableness of those amounts, a close reading of the cited Staff testimony does not appear to reach a conclusion on that point.

Having reviewed the record, the Commission finds that the amount cited by Staff which was less than projected has been fully offset by other reasonably incurred rate case expenses that exceeded AIC's projections.

The Commission also finds that the amounts of compensation for attorneys and technical experts to prepare and litigate this proceeding are just and reasonable pursuant to Section 9-229 of the Public Utilities Act.

Accordingly, rate case expense in the amount of $2.413 million, a ratable portion of which is included in test year operating expenses based on an amortization period, as reflected in the Appendices hereto, is approved for recovery.

In making this assessment, the Commission observes that the work performed for AIC by the attorneys and technical experts was reasonably necessary to prepare and litigate the proceeding. There were multiple parties, and numerous issues which were diverse in nature. Many of these ratemaking issues were complex, and were addressed by various parties through their respective expert witnesses. Such issues and areas included, among others, cost of capital, cost of service and rate design, operating expenses, rate base and an independent accountant review. IAWC, as the party with the burden of proof, and the party with the obligation to meet standard filing requirement under Part 285, properly relied on attorneys and technical experts to analyze these areas.

AIC also made reasonable efforts to control the costs of those services from professional service providers. As described in the DR responses, AIC selected providers based upon its review of bids and proposals received in response to requests for proposals, the providers' regulatory experience and the providers' experience with AIC specifically. The evidentiary record contains over 300 pages of invoices, proposals, contracts, narrative discovery responses, and schedules that were provided in support of AIC' rate case expense.

G. Charitable Contributions

Section 9-227 of the Act provides in part that it "shall be proper for the Commission to consider as an operating expense, … donations made by the public utility" for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount."

According to the AG, "the Company has not proven the reasonableness of the over $518,000 that it is requesting from ratepayers" for charitable contributions. (AG IB at 33) Staff and CUB also take issue with the amount of charitable contributions for the test year as proposed by AIC. AIC disputes the adjustments proposed by Staff and AG/CUB.

1. Staff's Position

Staff recommends using a three-year average of actual charitable contributions from 2010-2012, escalated by a 2% inflation factor for 2013 and 2014 since the Company's 2014 projected level is overstated. (Staff Ex. 10.0 (Rev.) at 9; Staff IB at 16)

The Illinois Supreme Court has said that in determining the reasonableness of the amount of charitable contributions made by a public utility, the Commission must determine the issue based on total contributions rather than on an individualized basis. *Business and Professional People for Public Interest v. ICC*, 146 Ill.2d 175 (1991). The public utility has the burden of proof to show that a donation is reasonable in amount; a donation made by a public utility to a qualified organization is not presumed reasonable. (*Id.*)

The Company's recent history of actual charitable contributions from 2007-2012 demonstrates no pattern of increasing contributions. Staff presented AIC's history of actual versus budgeted charitable contributions from 2007-2012 on Staff Ex. 1.0, Attachment 1. AIC's history of charitable contributions indicates that in the six years between 2007 and 2012, AIC actually only contributed the amount of its budgeted contributions in one year, 2008. Then, in 2009, the year following the year of increased contributions, AIC lowered its level of actual contributions and in subsequent years continued to lower its actual contribution amounts through 2011. After three years of declining contributions, the Company increased its contributions in 2012, yet, even considering the increase, AIC did not achieve its budgeted level of contributions. (Staff Ex. 10.0 (Rev.) at 9; Staff IB at 16-17)

The Company does not address the requirement that the recoverable amount of charitable contributions must also be found to be reasonable. In this case, AIC's projected amount of charitable contributions in the 2014 test year is 41% higher than its actual 2012 contributions. Due to AIC's recent history of actual charitable contributions from 2007-2012, that level of increase is unreasonable. (Staff IB at 17-18)

The Company posits that the requested 2014 level is reasonable given the current amount AIC is recovering in rates resulting from Docket No. 11-0282. This argument is not persuasive. As Staff explains, the current amount authorized for recovery is not definitive in the context of this case, and more importantly cannot be a reasonable alternative due to the Company's demonstrated history of contributing lower-than-budgeted amounts in the years 2007, and 2009-2012. (Staff IB at 18)

Staff disagrees with AIC's suggestion that its history of contributions prior to 2010 should carry more weight than its more current contributions. What AIC fails to acknowledge is that prior to and during the transition year of 2010, the Company did not donate both as separate entities and as a single company in the later part of the year. The earlier time period prior to 2010 that AIC states might be more appropriate is actually less determinative of the level of charitable contributions going forward due to the change in operations.

The Company suggests an inconsistency in Staff's approach to calculating a reasonable amount of forecasted contributions. Staff agrees that the methodology is different, because the facts in this case do not support using the same methodology as that used in Docket No. 11-0282. Because the facts in this case show that AIC donated more in some prior years does not mean that Staff is ignoring those years. For

example, AIC asserts that the methodology used by Staff and approved by the Commission in Docket No. 11-0282 would have achieved a higher level of contributions than the methodology used by Staff in this proceeding. Staff discredited this assertion in testimony, however, pointing out that AIC's suggested methodology would only exacerbate the over-budgeting that AIC has demonstration in the years 2007 and 2009-2012. (Staff IB at 18-19)

Further, Staff reiterates that adjustments to charitable contribution expense presented in a rate case proceeding should be based upon the record evidence in the instant case rather than using those utilized in a prior docket regardless of the specific circumstances that exist for each case. (Staff Ex. 10.0 (Rev.) at 11) To merely employ a formulaic approach as the Company suggests would improperly limit the Commission to methodologies used in prior cases, regardless of the evidence presented in any case. Even considering the Commission decision in Docket No. 11-0282 that approved a higher amount of recovery, however, the Commission should still adopt Staff's adjustment.

In that case, the Commission adopted the Staff adjustment to Ameren's estimate stating, in pertinent part, "A 65% increase in recoverable charitable contributions from ratepayers during the current economic climate is untenable. As such, the Commission finds that Staff's proposal to limit recovery of charitable contributions at the Company's 2011 budget plus a 2% increase is more reasonable. Docket 11-0282, Order at 31. This Commission statement indicates that the circumstances of that case were the relevant factors in the Commission's decision, not whether the same or a similar methodology had been utilized in past cases. (Staff IB at 19-20)

Ameren attempts to avoid its record of actual contributions that do not support its current proposal by advocating that the Commission should place more emphasis on AIC's plans for future contributions. Ameren's argument simply accentuates Staff's point that the Company's estimates often exceed actual contributions. This is demonstrated most effectively by AIC's consistent pattern of planning and budgeting for a level of contributions and falling short of actually making the donations as planned. (Staff Ex. 10.0 (Rev.) at 12) Moreover, AIC further discredits its argument by acknowledging that in response to the Commission's order in Docket No. 11-0282, it reduced its planned level of charitable contributions to the amount allowed as recoverable. The Company has demonstrated a willingness to reduce its planned charitable contributions when it was apparent that AIC would not fully recover its budgeted level of contributions from ratepayers. (Staff IB at 20)

Staff also recommends removal of the amounts donated to the Greater Missouri Leadership Foundation due to the Commission's recent decisions to not provide recovery to organizations outside of the utility's service territory. (Staff Ex. 10.0 (Rev.) at 15; Staff IB at 20)

In its reply brief, Staff contends that AIC mischaracterizes Staff's adjustment as a simple application of an inflation factor to historical amounts. Staff states that each of these AIC arguments was discredited in Staff's initial brief. (Staff RB at 15-16)

AIC now argues in its initial brief that each of the three years chosen by Staff for its representative period are "outliers." According to Staff, "This is simply not true. As Staff demonstrated in testimony, none of the total company actual contributions in the three most recent time periods that comprise the three-year average Staff proposed to use is an outlier." (Staff RB at 16)

Further, AIC's use of the description "outlier" does not comport with the generally accepted industry meaning of the term. An outlier generally connotes a value that deviates abnormally from other values in a random population sample. As such, in order to determine whether a value is an outlier, one must first determine what characterizes a normal value. In this respect, AIC's labeling of each of the three year amounts as "outliers" fails on two counts. First, AIC is incorrect in labeling Staff's use of three years of total company actual amounts as outliers since the term "outlier" is used primarily in statistical sampling of a population. In this case, however, Staff uses the population of total company amounts for each of three years selected for the average. (Staff Ex. 10.0 (Rev.) at 14) Second, there is no statistical sample involved in Staff's analysis of the charitable contributions; the amounts reviewed and used comprise the population for each of the three years selected and all of the amounts analyzed comprise the population of each year. Staff has demonstrated that AIC has planned and continues to plan to contribute to charitable organizations; however, its history of actual contributions demonstrates that its plans do not always come to fruition. (Staff RB at 16-17)

In Staff's view, AIC's argument that Staff ignored the other prior years analyzed was disproved cross examination. (Staff RB at 17, citing Tr. at 252)

2. The AG's and CUB's Position

The Company's proposed amount represents a 124% increase above the Company's actual 2011 spending and a 40% increase above its actual 2012 contributions. Based on testimony of AG/CUB witness Mr. Brosch, the People and CUB recommend allowing recovery of 2014 charitable contributions at a level no higher than an inflation-escalated allocation of the Company's actual historical spending on contributions, a reasonable recovery of over $383,000. The Company has not justified the "dramatic" increase above actual historical spending and the record evidence does not support its proposed level of recovery. (AG IB at 33-34; CUB IB at 12)

In the AG's and CUB's views, it is important to remember that spending for charitable contributions is discretionary and that it also places a greater burden on the rates to be paid by the ratepayers. AIC witness Mr. Kennedy fails to explain in his testimony why the aggregate level of donations that his company actually made in the past – and were apparently deemed reasonable in the past – are somehow not

sufficient for 2014. According to AIC witness Mr. Kennedy, the Company's proposed level of test year contributions, "…represent the aggregate amount of donations that AIC has budgeted for the relevant time periods" and "AIC does not budget recipient-by-recipient each year for all the contributions it will ultimately make in a given year." (AIC Ex. 24.0R at 33-34; AG IB at 34)

This leaves Staff and intervenors in a quandary. On one hand, the Company is saying that past historical amounts spent are not relevant. But, on the other hand, it provides no itemization for either the 2013 or 2014 forecast years despite requests for specificity. Failing to use the Company's actual 2012 contribution raises serious concerns about overstating test-year expenditure budgets and unnecessarily increasing the burden on ratepayers. (AG IB at 34-35; AG/CUB Ex. 5.0 at 51)

The People, to relieve this quandary, have presented support for using the recent actual or average historical amount of contributions as a baseline for recovery. As Mr. Brosch testified, "There is no reason to defend AIC from its own actions." (AG/CUB Ex. 5.0 at 49) The People presented a "generous" allowance for the Company to fully recover the amounts that management – in its discretion – decided were adequate levels of charitable contributions in 2012 and representative of the amounts actually spent in that year.

Specifically, the People's and CUB's adjustment is broken down as follows: In 2011, the Company spent approximately $230,000 on charitable contributions and in 2012 spent about $369,000. In this docket, that Company's proposed forecast number jumps to over $518,500. (AG/CUB Ex. 1.0 at 33) The People, based on an analysis conducted by AG/CUB witness Michael Brosch, propose setting the level of allowable charitable contributions for 2014 no higher than an inflation-escalated allocation of its historical actual contributions. Mr. Brosch then allowed for an inflationary increase of 2% in 2013 and another 2% in 2014. This calculation yields an allowance of $384,000. (AG IB at 35; CUB IB at 12)

The Company argues that their proposed increase to charitable contribution expense is reasonable when compared to the amount AIC is currently recovering in gas delivery rates, based upon prior rate case forecasts. CUB argues, "The fact that the Company is currently recovering an excessive amount has no bearing on what the Company should recover in the test year. Previous estimates by the Company in its prior rate cases were clearly excessive in comparison to actual contributions determined to be needed in later years by AIC management."(CUB IB at 12) Regardless of past forecasting errors, the proposed forecast for contributions presented by the Company is excessive when compared to actual historical contributions. (AG IB at 36)

AIC witness Kennedy seems to suggest that the low levels of spending in more recent years were anomalies that could be explained by "financial reasons." (AIC Ex. 21.0R at 13) Anecdotally, this statement does little more than demonstrate that these costs are entirely discretionary and subject to future reductions. (AG IB at 37)

Finally, the People's reasonable allowance for charitable contributions comports with the Commission's past practices on proposed recoverable amounts, where the Commission accepted Staff's proposal to limit recovery of contributions to the Company's budgeted amount for 2011 plus a 2% increase for inflation. Docket 11-0282, Final Order (Jan. 10, 2012) at 24. (AG IB at 37-38)

In its brief, the Company further criticizes the People's proposed level of funding noting that "[t]his is a rate proceeding to recover AIC's future forecasted costs, not its prior historical costs, adjusted for inflation." (AIC IB at 50) While the Company may be correct about the nature of the proceeding, the fact remains that Company has done nothing to justify its proposed level of spending. (AG RB at 28) The amounts relied on by AG witness Mr. Brosch are the amounts actually spent by management in its discretion in 2012.

3. AIC's Position

According to AIC, only AIC's proposal is representative of the charitable contributions AIC will make in 2014. Staff and AG/CUB's proposals are based solely on historical amounts that are unreasonably low and not an accurate depiction of past or future spending. Projected expenses in a future test year should not be determined simply by applying an inflation factor to historical figures, without consideration of the context in which the prior spending was made. That, however, is what both Staff and AG/CUB are asking the Commission to do. The Staff and AG/CUB proposals would remove $202,000 and $135,000 respectively from AIC's budgeted 2014 contributions of $519,000. In either case, the Commission would be approving much less than what is currently reflected in rates, $482,000. (AIC IB at 44; RB at 29)

The amount proposed by AIC, $519,000, is based directly on the amount the Commission approved in AIC's last future test year gas rate case, Docket 11-0282. As explained by AIC witness Mr. Kennedy, who is responsible for overseeing AIC's contribution spending, AIC aligned its contribution budget to the amount the Commission already deemed reasonable to recover in rates in AIC's prior gas rate case. The increase in charitable contribution expense that AIC now seeks to recover in rates is minimal: $37,000 more than what AIC is currently recovering in rates. (AIC IB at 45)

Staff wants AIC to recover a normalized amount of contributions based on a three-year average of prior spending. Staff's averaging proposal relies solely on recent years of spending, 2010-2012. (Ameren Ex. 35.0 at 6)

First, Staff's methodology is inconsistent with the methodology Staff recommended and the Commission applied in AIC's last future test year case. In Docket 11-0282, AIC sought to recover its 2012 forecasted costs. In that proceeding, the Commission accepted Staff's proposal to limit AIC's contributions to a 2% increase over the utility's previous year's (2011) budget. After that order was issued in January 2012, AIC reduced and realigned its contributions budget. (Ameren Ex. 21.0 (Rev.) at

6) The 2012 budget was revised based on the amount recovered in Docket 11-0282. The realigned 2012 budget became the baseline AIC used to forecast contributions for 2013 and 2014. (AIC IB at 46)

Staff claims this realignment shows a "willingness" by AIC "to forgo its commitment" to spend its contribution budget, when ratepayers are not funding the full amount. (Staff Ex. 10.0 (Rev.) at 13) AIC disagrees. The realignment shows AIC took guidance from the authorized amount as the baseline for future budgeted contributions and a benchmark for a reasonable amount of contributions to include in rates. If anything, Staff's proposal shows a willingness by Staff to forgo its prior methodology. If Staff had advocated the same averaging methodology for calculating a reasonable amount in Docket 11-0282 that Staff is advocating now, AIC would already be recovering $560,000 in contribution in gas delivery rates or $41,000 more than AIC is asking for in this proceeding. (AIC IB at 46-47)

Second, Staff's averaging methodology arbitrarily relies only on the three lowest years of expense (2010-2012) in a six-year period (2007-2012). In 2010, AIC's contributions dropped 35%. (Ameren Ex. 35.0 at 6) In 2011, AIC's contributions dropped another 27%. These "low-water marks" in the recent history of AIC's contribution spending are "outliers" in the context of amounts spent in 2007-2009, and even in the context of the amount spent in 2012. By excluding 2007-2009 data from its averaging calculation, Staff gives weight to only the three years with the lowest expenses. Simply including one more year of 2009 data in a four-year average would increase Staff's baseline prior to escalation more than $110,000. (AIC IB at 47; AIC RB at 29-30)

AIC has explained the financial and operational reasons for these low-water marks. The recent recession, prior rate recovery and the transition to new leadership in the new operating company temporarily curtailed discretionary spending and disrupted the pattern of higher contributions that had occurred in 2007-2009. (Ameren Ex. 21 (Rev.) at 9-10) The Commission has recognized the "economic climate" is relevant when judging a reasonable amount of contributions to include in rates. Although Staff has agreed "a prior years' economic climate can be a factor" when judging past discretionary spending, Staff's testimony and methodology gives no consideration to the context of AIC's 2010-2012 spending. Staff also gives no credible explanation why spending prior to 2010 should not be given any weight. Staff may dismiss 2007-2009 spending as pre-merger contributions. But Staff offers no explanation why the merger was a watershed moment that permanently lowered spending. (AIC IB at 47)

Third, Staff discounts AIC's renewed commitment to increase charitable contribution expenditures after experiencing historic lows in 2010 and 2011. As part of that effort, AIC increased its contributions by 60% in 2012, in part by providing more energy assistance to low-income residents. (Ameren Ex. 21.0 (Rev.) at 10) AIC intends to increase contributions in 2013 in excess of amounts spent in 2010 and 2011. AIC witness Mr. Kennedy's testimony identifies the categories of non-profit organizations AIC expects to contribute in 2014: Health and Human Services, Arts and

Culture, Environment, Youth and Education, and Civic, Community and Economic Development. Each year, AIC tries to balance contributions across these categories, and fully expects to meet its contribution budget for 2014 by supporting organizations that meet the criteria AIC uses when approving and funding contributions. That includes a concerted effort to increase contributions to areas that received fewer contributions in 2012 like the Environment. AIC acknowledges its forecasted 2014 contributions are higher than actual contributions in 2012. But that is because AIC intends to contribute in excess of amounts spent in 2012. (AIC IB at 47-48)

Lastly, Staff's proposal fails to consider the amount of contributions authorized in rates for another gas utility in Illinois. (Ameren Ex. 35.0 at 7) In its June 2013 order, the Commission approved recovery of $1.234 million in contribution expense for the Peoples and North Shore gas utilities. For those companies' 987,000 customers, that equates to approximately $1.25 per customer. That would be approximately double the customer charge AIC is requesting for 2014 for its gas delivery rates -- $519,000 divided by 813,000 customers equates to approximately .64 cents per customer. A benchmark of reasonableness for a discretionary spending item should be a comparison of the amount of contribution expense per customer approved by the Commission for other utilities. Section 9-227 allows cost recovery of public welfare and charitable contributions that are "reasonable in amount." AIC argues, "Surely, AIC's request of half the amount of contribution expense per customer awarded to the Peoples and North Shore utilities is a reasonable, if not a very conservative, amount." (AIC IB at 48-49; AIC RB at 32)

Staff also seeks to remove a minor amount for a specific contribution made in 2011 to the Greater Missouri Leadership Foundation to fund an annual leadership conference for female executives who live or work in the greater St. Louis area. This amount should be recovered. Staff's only basis for disallowance is that the conference occurred outside of Illinois and concerned Missouri policy issues. AIC argues, "That the conference has a location and focus in Missouri, however, does not mean ratepayers in Illinois do not benefit. It is a benefit to have effective leaders at Ameren Illinois." (AIC IB at 49-50) The benefits that flow from increased productivity and enhanced leadership skills are not diminished because the leadership training occurs outside of Illinois. In this case, the personnel who regularly attend this conference are provided leadership training and guidance to women on the educational and societal issues prevalent in the surrounding communities, including the East St. Louis area in AIC's service territory. The leadership education, development, training and skills that attendees acquire at this "enriching experience" can translate and apply to similar situations and issues involving Illinois personnel and customers, despite the event's location. (AIC IB at 49-50; Ameren Ex. 35.0 at 8)

According to AIC, AG/CUB's recommendation that the Commission limit AIC's recovery of contributions to the utility's 2012 actual contributions, adjusted for inflation, suffers from similar flaws. To its credit, AG/CUB does not include 2010 and 2011 spending in its calculation of a re-forecasted amount of contributions for 2014. But like Staff, AG/CUB has not adequately defended the use of an actual or average historical

amount of contributions as a baseline for recovery. This is a rate proceeding to recover AIC's future forecasted costs, not its prior historical costs adjusted for inflation. Prior historical spending can be used as a point of comparison to judge the reasonableness of future budgeted expense -- but only to a point. The appropriateness of the comparison depends on whether the historical amounts are representative of the amounts the utility expects to spend in the future period. In this case, recent contributions do not provide an accurate baseline for calculating a reasonable and representative amount of 2014 contributions. (AIC IB at 50; RB at 30)

The contribution expense made in 2010, 2011 and even 2012 must be considered within the context in which the spending was made. Staff and AG/CUB's proposals ignore that context, and in doing so, they essentially argue the Commission should approve escalated historical amounts in a vacuum. AIC has explained why contribution spending temporarily decreased in those years. AIC has also provided substantial record evidence -- such as the contributions AIC made in 2007-2009, the forecasted contributions approved for the Peoples and North Shore utilities, the contributions currently recovered by AIC in rates, the inconsistent treatment of contribution expense by Staff, and AIC's renewed commitment to increase and align its contributions with the amount already deemed reasonable to include in rates by the Commission -- that supports the amount it proposes to include in its revenue requirement. The Commission should not adopt Staff or AG/CUB's adjustment, and should approve AIC's request as a reasonable amount. (AIC IB at 50-51)

4. Commission's Conclusions

Section 9-227 of the Act provides in part that it "shall be proper for the Commission to consider as an operating expense, … donations made by the public utility" for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount."

AIC forecasts charitable contributions of $519,000 for the 2014 test year. Staff recommends an expense of $317,000 based on a three-year average of actual charitable contributions from 2010-2012, escalated by a 2% inflation factor for 2013 and 2014. The AG and CUB recommend $384,000, based on application by the AC/CUB witness of inflationary increases of 2%, for 2013 and 2014, to actual 2012 expenditures of $369,000.

Staff, AG and CUB contend, and the Commission agrees, that the amount proposed by AIC for these discretionary expenditures is not supported by actual expenditures in recent rears.

Having considered the positions of the Parties, the Commission finds that the proposal advanced by AG and CUB is the most reasonable. The method used and explained by the AG/CUB witness relies on the most recent annual results available, 2012, which, under the circumstances appears to provide a reasonable estimate of test-year expenditures. Further, the AG/CUB approach appears to be consistent with the

method proposed by Staff, and applied by the Commission, in the AIC gas rate proceeding and Order in Docket No. 11-0282.

Staff also recommends removal of the amounts donated to the Greater Missouri Leadership Foundation. AIC opposes the adjustment, but does not respond in its briefs to Staff's argument that the adjustment is consistent with recent Commission decisions that do not provide recovery to organizations outside of the utility's service territory. The Commission observes, however, that this item does not appear to be in the 2012 expenses which were relied upon in the AG/CUB proposal as described in the paragraph immediately above. Therefore, whether AIC has shown how a conference in Missouri would be consistent with recent decisions that do not allow recovery of contributions to organizations or institutions located outside of Illinois, such as the Commission's recent Order in the Peoples/North Shore rate case in Docket Nos. 12-0511/0512 (cons.), is an issue that is not reached in this Order.

H. Forecasted Advertising Expense

AIC proposed advertising expenses of $1,733,000. Staff proposes adjustments reducing AIC's request, by $795,000, to $938,000. (Staff IB at 21) Through their witness, the AG and CUB propose adjustments reducing AIC's request by $418,500.

1. Staff's Position

Staff's rebuttal testimony adjustment to reduce the 2014 forecasted advertising expense by $795,000 (Staff Ex. 13.0, Schedule 13.02) was developed using i) a calculation of a four-year average of actual advertising expenses recorded by Ameren for years 2009 through 2012; ii) a reduction of Staff's calculated four-year average for amounts paid to Strategic International Group ("SIG") because no written work product was produced during 2012 nor was any value to ratepayers evident from provision of SIG's services rendered during 2012 that AIC subsequently agreed to remove; iii) a further reduction of Staff's calculated four-year average for the cost of certain sponsorships net of tangible benefits received where Staff found no evidence that these sponsorships were either necessary for the provision of utility service or beneficial to ratepayers; iv) an application to the adjusted average a two percent inflation factor to represent increased costs for each of the years 2013 and 2014 resulting in Staff's estimate of 2014 advertising expense of $938,000; and v) the Staff estimate of $938,000 compared to the Company forecasted advertising expenses of $1,733,000 in surrebuttal testimony results in the $795,000 adjustment. (Staff IB at 21)

In Staff's view, the Company's projected amount of $1,733,000 is unreasonably high, particularly when compared with actual spending by the Company in recent years Moreover, the Company's advertising budget in any year is variable and discretionary, often fluctuating unpredictably as demonstrated by the dramatic decrease in the fourth quarter 2012 advertising budget. AIC witness Kennedy stated that actual 2012 advertising expenses were lower than budget 'in part because AIC did not execute a media program in the 4th quarter because there was (i) a reduction in advertising

inventory and higher per-ad costs caused by heavy political advertising in the fall of 2012 and (ii) AIC was in the midst of a selection process for a new ad agency. (Staff IB at 22, citing Ameren Ex. 21.0 (Rev.) at 25)

AIC witness Kennedy attempts to justify the Company's 2014 increase in advertising by stating that the fourth quarter advertising reduction to its budget was a "prudent decision not to spend dollars during the presidential campaign when broadcast air time was low and more expensive." (Ameren Ex. 35.0 at 15) This rationale ignores the obvious fact that these events were foreseeable by the Company. Further, AIC's argument does not justify AIC's requested increase in its 2014 advertising budget. Conversely, these reductions to previous budgeted amounts due to foreseeable events support Staff's contention that the forecasted advertising expense is unnecessarily inflated and highly subject to Company management's discretion. (Staff IB at 22)

Staff contends that including AIC's "unreasonably inflated" budgeted advertising expense in utility rates provides no incentive for AIC to control these costs. More importantly, if AIC were to curtail its future advertising efforts as it just did in 2012, all else being equal, the bottom line would improve to the benefit of AIC and its parent, Ameren Corporation, to the detriment of ratepayers. Staff urges the Commission to adopt the adjustment on Staff Exhibit 13.0, Schedule 13.02. (Staff IB at 22-23)

In its reply brief, Staff states that AIC disagrees with Staff's adjustment to advertising expense except for the removal of $72,720 paid to Strategic International Group ("SIG"). (Staff RB at 17)

The Company asserts that planned 2014 gas advertising initiatives must be considered, although AIC witness Kennedy provided little more than a bullet list of activities with brief descriptions of programs that add up to over $800,000 of incremental spending. AIC failed to explain why the planned 2014 advertising initiatives cited by Mr. Kennedy are reasonable and necessary as an incremental increase to AIC's average budget of $1,048,038 during the years 2009-2012. (Staff RB at 17)

The Company's 2014 budgeted advertising expense of $1,757,000 (Staff Ex. 4.0 Attach. A, line 7(d)) well exceeds both the Company's actual 2012 advertising expense of $1,243,000 (Staff Ex. 4.0 Attach. A, line 7(f)) and its four-year (2009-2012) actual average advertising expense of $1,048,000. (Staff Ex. 4.0, Attach. A, line 9)

2. The AG's and CUB's Position

The Company proposes to recover a total of $1,757,000 for forecasted advertising expenses – an amount that is 68% higher than the Company's four-year average level of actual spending. This AIC-proposed amount is broken down between Account 909 Informational and Instructional Advertising of $1,550,000 and $207,000 of Account 930.1 General Advertising expense. (AIC Schedule C-8) The People propose a "reasonable" adjustment to only the Account 909 forecasted amount that would disallow approximately 27% of AIC's proposed 2014 test year forecasted Informational

advertising expenses. (AG IB at 38) The AG's adjustment would reduce AIC's proposal by $418,500. (*Id.* at 40)

The People's adjustment focuses on the Company's forecasted spending on Informational and Instructional Advertising in FERC Account 909. (AG/CUB Exhibit 1.3) The Company has forecasted and requested recovery of $1,550,000 of forecasted spending in this account. AG/CUB witness Mr. Brosch noted that Ameren has provided no itemization for its 2014 forecast detailing each discrete advertising campaign or message that will be funded or listing the specific vendor charges or credit card costs that will be incurred next year. For this reason, Mr. Brosch applied the results of the Commission's most recent review of AIC advertising when conducting his analysis and preparing the People's adjustment. (AG/CUB Ex. 5.0 at 58)

In ICC Docket 12-0293, the Commission reviewed comparable actual expenditures of AIC and the Company's advertising expenditures in calendar year 2011. ICC Docket No. 12-0293, Final Order (December 5, 2012) at 63, 65, 69. In the Final Order, the Commission disallowed a total of $683,000 of AIC's electric jurisdictional informational advertising expense in Account 909. Mr. Brosch's analysis of that docket revealed that the Commission's ordered adjustment represents 27% of the Company's total proposed Account 909 expense. This represents the same proportional adjustment that the People now propose in the absence of any more detailed forecast breakdown of the AIC-proposed amounts. (AG IB at 38-39)

The People deem it reasonable to estimate the appropriate adjustment to forecasted test year expenses based upon the proportion of expenses recently disallowed by the Commission in the 2011 formula rate year when actual advertising costs and content were available for review. It is, in fact, the only realistic proxy that is available in this docket, particularly where the Company provided no detailed advertising programs or spending breakdown for 2014 to support its forecasted gas advertising expenses. (AG/CUB Ex. 5.0 at 58) Docket No. 12-0293 represents the most detailed and most recent Commission order providing an analysis of detailed actual AIC advertising charges within AIC's Account 909. (AG IB at 39-40; AG RB at 29-30)

In its reply brief, the AG argues that bullet listing of advertising that the Company "plans to execute in 2014" as noted in AIC witness Mr. Kennedy's rebuttal testimony is not an itemization of actual advertising copy and costs sufficient for detailed review and analysis. (AG RB at 30) However, if the Commission were to rely upon Mr. Kennedy's bullet points of planned 2014 advertising activities, it would find that the Company has justified no more than $806,000 of gas Information Advertising which would result in a requested amount less than the People's recommended level of spending for advertising expense. (*Id.*)

In CUB's view, the Company's "excessive" forecasted spending on Informational and Instructional Advertising should be adjusted based on the Commission's recently-completed analysis of comparable actual expenditures in ICC Docket 12-0293. The

Company has no detailed advertising programs or spending plans for 2014 that it has submitted for review in this docket, so the best available proxy for the advertising that may eventually be done in 2014 is the recent actual spending programs and advertising messages. According to CUB, the Company has agreed that the portfolio of 2011 actual advertising messages and programs are indicative of how the Company will advertise in 2014. In the absence of a detailed breakdown of different advertising campaigns or spending patterns for the 2014 test year, the Commission should rely on the actual 2011 data and should disallow at least 27% of the forecasted 2014 advertising expense. (CUB IB at 13)

While Ameren maintains it has provided sufficient detail on its proposed 2014 advertising expense, the list in question – a bulleted list of estimated spending categories – recognizes by its use of estimates that Ameren's advertising budget in any year is, as Staff points out, variable and discretionary. (CUB RB at 14)

3. AIC's Position

Staff seeks to reduce AIC's forecasted Account 909 and 930.1 expenses by nearly $800,000. AG/CUB's adjustment reduces forecasted Account 909 expense by $419,000. Staff's and AG/CUB's proposed adjustments to advertising expense are based on actual spending that does not accurately depict future activities AIC plans to implement in 2014. In its rebuttal testimony, AIC identified incremental gas-only advertising that it intends to execute in 2014. (Ameren Ex. 21.0 (Rev.) at 27-28) Staff and AG/CUB, however, have not given that testimony any weight. They have not even identified any incremental activities they believe are not prudent or any amounts for those activities they consider unreasonable. AIC has made discrete disallowances for communication consulting fees paid to Strategic International Group (SIG) and tangible benefits received from recipients of sponsorships. The Commission should reject the parties' further adjustments to advertising expense as arbitrary and without basis. (AIC IB at 51)

AIC is responsible for providing customers with safe, adequate and reliable gas service. Now more than ever, ratepayers and other members of the public are demanding information concerning the safety, adequacy, reliability and cost of their utility service. The advertising expense charge allows AIC to inform and educate customers on reliability measures, such as pipeline replacement and pipeline maintenance and inspections. But it also includes engagement with the public on safety measures. AIC's engagement efforts include reaching out to consumers, local government officials, contractors and emergency workers to discuss safe practices around pipelines, proper excavation techniques, procedures for responding to pipeline leaks and gas explosions, and other pipeline safety issues. (AIC IB at 51-52)

These communications may occur in-person or through the production and publication of gas advertisements, radio and television scripts, websites, press releases, brochures, booklets and other print and digital materials. Quarterly messages are distributed through mass media (radio and television), direct customer outreach, and

print/social media. (Ameren Ex. 21.0 (Rev.) at 26) Specific safety messages are placed in appropriate print media twice a year and required notices are sent to property owners along AIC owned pipeline. Various channels are utilized to inform customers and other stakeholders about what to do when gas service is interrupted, how to respond during a weather event or emergency situation, how to manage energy usage, and how to conserve energy. Various communication messages and materials are developed, designed, produced and published to promote safe digging, to provide options for managing energy usage and costs, and to describe new investments to modernize and update AIC's natural gas infrastructure. (AIC IB at 52)

The baseline for Staff's adjustment to AIC's projected advertising expenses is an average historical expense, based on an average of 2009-2012 actual expenses. From that average expense, Staff makes an adjustment for 2012 gas-allocated sponsorship expenses ($74,000) (discussed below) and an adjustment for gas-allocated consulting fees paid to SIG ($73,000) (agreed to by AIC). Staff has failed to demonstrate why it is appropriate to determine projected expenses in a future test year simply by application of an inflation factor to a historical average. Staff's position appears to be that no incremental advertising spending planned for the test year can be justified as prudent and reasonable, if the forecasted amount exceeds historical spending. In AIC's view, other information, such as planned 2014 gas advertising initiatives, must be considered. (AIC IB at 52-53)

The testimony of AIC witness Mr. Thomas Kennedy, who oversees AIC's external communications, identifies a need for AIC to intensify efforts to educate customers, first responders, contractors and other officials about the importance of working safely around natural gas pipelines. Instances of contractor dig-ins continue to occur, putting the workers and the public at risk. The Commission has recognized underground utility infrastructure and utility service is jeopardized by damage caused by those who fail to locate underground lines prior to digging. Ill. Commerce Comm'n on its Own Motion, Docket 10-0223, Resolution (March 24, 2010). Warnings, citations and penalties for instances of improper digging continue to increase, according to the Commission's own statistics. (AIC Cross Ex. 1) In 2010, 103 warnings and 55 citations were for not having a valid locate request or for not digging carefully around marked underground utility lines. In 2011, 121 warnings and 54 citations were issued. In 2012, 123 warnings and 88 citations were issued. A recent survey of homeowners planning digging work found nearly half did not intend to call their local one-call notification center, and two-thirds did not believe they would hit an underground line, even though records show an underground line is damaged every three minutes nationwide. Since AIC's natural gas distribution system is largely unseen, AIC has an obligation to tell customers and other members of the public about their shared responsibilities to ensure the system is not compromised. (AIC IB at 53; Ameren Ex. 35.0 at 16)

Staff agrees it is important to educate consumers, contractors and excavators about the location of pipelines and the importance of using safe practices when digging, and to educate first responders and municipal leaders about how to react to emergencies such as leaks and ruptures in gas pipelines. Staff agrees that its own data

shows "there are still accidents that occur" due to improper digging practices. (Tr. 225) Staff agrees with the Commission's publicly stated goals that, through education about safe digging practices, excavators and homeowners can save time and money and keep the nation safe and connected by making a call to 811 in advance of any digging project; waiting the required time for utility lines to be marked; respecting marked lines by maintaining visual definition through the course of the excavation; and digging with care around marked utility lines. (AIC IB at 53-54; Tr. 219-220)

To effectively reach and inform the public on these important issues, AIC has identified incremental and necessary gas-only advertising spending for 2014. (Tr. 127-128) Incremental expenses will be spent on communications about gas safety, customer services and energy efficiency. Outreach will occur to schools, local government officials, emergency workers and contractors to deliver educational programs on safe digging and gas safety. There are plans to revise literature for municipalities on gas safety, educate local leaders face-to-face, and increase communications to customers through mobile messaging and other social media. The rebuttal testimony of Mr. Kennedy, (Ameren Ex. 21.0 (Rev.) at 27-28), identified the incremental spending for 2014.

To reduce dig-ins and improve service, AIC will increase communications to contractors and provide improved instruction on how to prevent dig-ins. Estimated costs for this incremental activity are $100,000. AIC will increase educational outreach to first responders across the service territory to improve safety practices in emergency gas situations. Estimated costs for this incremental activity are $75,000.

A new public education program through various media will be executed to instruct customers about the need to "call before digging" to prevent gas line compromises. Estimated costs for this incremental activity are $335,000 ($85,000 for production and $250,000 for publication). AIC will develop, design, and mail a communication to educate customers about the locations of pipelines and safe practices around them. Estimated costs for this incremental activity are $100,000.

AIC will execute a program to educate municipal officials on the locations of pipelines and how government employees can operate safely around the infrastructure. Estimated costs for in-person presentations and development of materials are $73,000. AIC will execute a program to inform educators, parents and students about gas pipeline safety. Estimated costs are $50,000.

AIC will execute a program to educate construction excavation companies about location of pipelines and best practices for operating safely around infrastructure. Estimated costs are $73,000.

AIC anticipates it will incur higher gas-allocated advertising expenses in 2014 than in any year from 2009-2012 because of the increased spending identified for these activities. (Ameren Ex. 21.0 (Rev.) at 25) Using average expense from 2009-2012 as

the baseline for 2014 spending, even after adjusting for inflation, understates and removes necessary, planned expenditures.

AG/CUB's proposal to reduce AIC's forecasted advertising expenses suffers from the same "fatal flaw" as Staff's proposal -- no weight is given to AIC's stated planned incremental activities. AG/CUB's expert claims AIC has not provided any itemization of gas-only advertising that AIC plans to execute in 2014. (Ameren Ex. 35.0 at 21) As shown by the list in Mr. Kennedy's rebuttal, that simply is not true. Moreover, AG/CUB witness Mr. Brosch's approach improperly uses 2011 advertising amounts charged to AIC's electric operations and disallowed in Docket No. 12-0293 as the basis for an adjustment to AIC's gas advertising. (*Id.*) A large majority of the "potentially comparable" 2012 charges -- fees for Simantel's outside services -- were charged 100% to AIC's electric operations. Mr. Brosch's use of a disallowance percentage based on the Commission's order in Docket 12-0293 overstates his proposed adjustment to forecasted Account 909 gas expenses. The proper approach would have been for Mr. Brosch to rely on the 2012 gas-allocated SIG fees (which AIC has removed) and minor gas-allocated amounts for credit card expenses. (AIC IB at 55-56)

Staff points out that AIC did not spend its advertising budget in 2012. That actual 2012 advertising expense turned out to be lower than budgeted 2012 expense is irrelevant to AIC's budgeted spend in 2014. AIC made a prudent decision not to spend advertising dollars during the 2012 presidential campaigns, when available advertising minutes were fewer and more expensive. (Ameren Ex. 35.0 at 15) The gap between actual and budgeted spending in 2012 includes cancelled media buys scheduled for the 4th quarter and other planned expenditures that were deferred as AIC selected a new agency of record. There is no basis in the record to conclude AIC will take similar actions in 2014 to curtail its actual spending. Indeed, the opposite is true. Gas-allocated advertising spending in Account 909 was already $149,000 higher over the first six months of 2013 than the first six months of 2012. The record also shows AIC has identified specific, incremental gas-only advertising AIC intends to implement in 2014 which were not included in budgeted spending for 2012. Staff's testimony does not take issue with the prudence of the described activities or the reasonableness of the stated amounts. (AIC IB at 56-57)

In its reply brief, AIC responds to arguments in Staff's initial brief that AIC's deferral of media buys in 2012, when air time was expensive due to the 2012 elections, were "foreseeable" to AIC. (Staff IB at 22) According to AIC, even if that fact were true -- and there is not evidence in the record to support Staff's "new and unsupported" opinion presented for the first time on brief -- it would make no difference to determining a reasonable and representative amount of test year expense. There is no basis in the record to conclude AIC will take similar actions in 2014 to curtail its actual spending. Rather, the opposite is true. With regard to the specific gas-only advertising AIC intends to implement in 2014, none of these new, incremental expenses were included in budgeted spending for 2012. (AIC RB at 33-34)

With respect to the AG/CUB adjustment, the evidence shows, Mr. Brosch's approach improperly uses 2011 advertising amounts charged to AIC's electric operations and disallowed in AIC's last electric formula rate case as the basis for his adjustment to AIC's gas advertising. Not only does this approach fail to account for planned gas-only activities, it fails to use the gas-allocated amounts that correspond to the 2011 disallowed electric expenses. (AIC RB at 34)

4. Commission's Conclusions

AIC proposed advertising expenses of $1,733,000, which includes a significant increase over prior years.

Staff proposes to reduce AIC's "unreasonably inflated" request by $795,000, to $938,000, based primarily on an inflation-adjusted four-year average for years 2009 through 2012. Staff also contends that the expenditures on advertising in any year are variable and discretionary.

AG and CUB propose to reduce AIC's request by $418,000, using the percentage of Account 909 expenses disallowed by the Commission in AIC's electric formula rate case Docket 12-0293 as a proxy in the absence of a more detailed breakdown of the AIC-proposed amounts in the current docket.

In the Commission's view, assessing the competing proposals on this issue and determining which produces the most accurate result is a difficult undertaking. The methods used by the parties are different, and produce very different results.

While AIC has explained why it is has included a significant amount of incremental advertising expenses in its 2014 forecast attributed to initiatives to be executed during 2014, the record does not indicate why all of those incremental activities with a cumulative impact of that magnitude are slated to be initiated in the 2014 test year as opposed to earlier or later years. On a somewhat related point, as noted by Staff and CUB, AIC enjoys some discretion in deciding whether or to what extent to undertake specific advertising activities in any given year.

Having reviewed the recommendations, the Commission finds that the AG/CUB proposal, although not a perfect fit in this gas rate proceeding, does provide a suitable proxy and is the most reasonable for use in this proceeding. As those parties have stated, Docket No. 12-0293 represents the most detailed and most recent Commission order providing an analysis of detailed actual AIC advertising charges within AIC's Account 909. It also produces a result that should allow AIC to implement many of the initiatives described in its testimony without unduly burdening ratepayers.

I. Sponsorship Expense

AIC seeks to recover a forecasted $133,000 for 2014 sponsorship expenses. The AG and CUB propose that AIC be allowed to recover an amount of just under

$30,000. Staff proposes to disallow approximately $74,000 of costs associated with corporate sponsorships.

1. The AG's and CUB's Position

AG/CUB witness Mr. Brosch rooted his analysis on the same evaluation performed by the Commission in Docket No. 12-0293. The Final Order in AIC's 2012 electric formula rate case represents the most recently available final analysis and determination of the portion of AIC's sponsorship costs that are likely to be properly recoverable from ratepayers. ICC Docket 12-0293, Final Order (December 5, 2012) at 74. (AG IB at 41)

AIC provided no specific data upon which a detailed analysis of their forecasted 2014 test year sponsorship costs could be performed. The Company has failed to provide any itemized breakdown of its requested amount by event or payee; leaving the People in a position where they were unable to review the reasonableness of the requested costs for recovery from ratepayers. This form of detailed information was requested by the People in discovery, and the Company responded by referencing the detailed breakdown of actual 2011 sponsorships that was submitted by AIC in AIC's electric formula rate case, Docket No. 12-0293, stating that, "AIC expects to support similar types of events in 2014." (AG IB at 41-42)

This propounded itemization, however, cannot withstand scrutiny. The Commission, in Docket No. 12-0293, disallowed 77% of the event sponsorship costs incurred by the Company in 2011, based upon close examination by the Commission. (AG IB at 42; CUB IB at 14)

According to the AG, AIC argues that Mr. Brosch "inappropriately relied upon a percentage disallowance based upon the Commission's review in Docket No. 12-0293 that did not include 2012 sponsorship data, that the Commission did not have access to the Company's sponsorship guidelines issued after the Commission's order and that certain items it presented in the previous rate case were without 'discernible support.'" (AG IB at 42-43, citing Ameren Ex. 21.0 at 38) The AG argues that it was these types of responses by Ameren that led Mr. Brosch to base his recommendation on the Commission's actions in Docket 12-0293, and devise an adjustment that builds in a 22.4% recoverability rate to the Company's forecasted sponsorship expenses, similar to the Commission's Order in 12-0293. ICC Docket No. 12-0293, Final Order at 74, 76. (AG IB at 43)

The Company proposed its own level of self-disallowance of forecasted test year sponsorship costs in its rebuttal, but it is not based on the most recently available data. (AG/CUB Ex. 5.0 at 54) It is based on data provided in the Company's pending electric formula rate case, ICC docket 13-0301. (Ameren Ex. 21.0R at 32) However, the Commission has not yet made a decision in that case. (CUB IB at 15)

In its reply brief, the AG addresses "the Company's lengthy argument that the People's analysis does not account for the Commission's rejection of the recommended disallowance of certain charitable expenses in the People's Gas/North Shore rate case." The AG responds that "this situation has nothing to do with the types of organizations or events that AIC elects to sponsor." (AG RB at 31-32) Regarding the analysis that AIC has conducted and the levels of "self-disallowance," the People state that the Company's analysis nonetheless supported a higher level of sponsorship recovery in Docket 12-0293 than was ultimately approved. (AG RB at 32; AIC IB at 60)

2. Staff's Position

Staff's initial brief did not contain any content in Section III.B.8, "Sponsorship Expense."

In its reply brief, Staff states, "In conjunction with Staff's adjustment to reduce 2014 advertising expense, Staff proposes to disallow approximately $74,000 of costs associated with corporate sponsorships." (Staff RB at 19, citing Staff IB at 21) Staff is apparently referring to item iii in its list of items used in developing Staff's adjustment reducing AIC's advertising expense.

In its reply brief, Staff continues, "The Company has stated 'the overriding consideration, when weighing the recoverability of a sponsorship, should be whether the funds provided to the recipient organization resulted in benefits to ratepayers in AIC's service territory'." (Staff RB at 19-20, citing AIC IB, 59) Staff responds, "Staff disagrees. Rather, the relevant criterion should be whether such sponsorships are statutorily impermissible promotional or goodwill advertising. Sec. 9-225(2) of the Act prohibits, among other categories of spending, promotional and goodwill advertising expenditures from being recovered through rates." (Staff RB at 20) The sponsorships at issue include: dues and donation for Halloween candy to the Beardstown Chamber of Commerce; Festival of Lights float for the City of East Peoria; and a hockey team Thanksgiving run for Belleville High School. (Staff Ex. 13.0, 9.)

Staff identifies sponsorships of events that appear to Staff "to be primarily intended to bring its name before the public to improve its image, i.e., goodwill or institutional advertising expenditures that are specifically precluded from recovery by Sec. 9-225(2) of the Act." Staff concludes, "Accordingly, the Commission should adopt Staff's adjustment to reduce forecasted advertising expense for the 2014 test year, including removal of sponsorships." (Staff RB at 20)

3. AIC's Position

The testimony and exhibits submitted by AIC witness Mr. Kennedy report the analysis AIC conducted to determine the portion of 2012 sponsorship expense to recover in the gas delivery rates set in this proceeding. Ameren Exhibit 35.1 identifies, among other things, the recipient and amount of the sponsorship, the worthy event, the activity or cause sponsored, the print advertisements (if any) distributed and published

at or in connection with the event, and the tangible benefits (if any) received by AIC employees in attendance. The analysis shows the educational, charitable and public welfare benefits that flow from AIC's financial support of local communities and organizations in its service territory. The analysis calculates and self-disallows the portion of the sponsorship expense ($25,519) that reflects the fair market value of meals, tickets and entertainment received by AIC. (AIC IB at 57)

Whether the sponsorship provided AIC with cost-effective opportunities to reach consumers with safety and energy efficiency messaging, or simply permitted AIC to contribute to a meaningful endeavor, these amounts should be recoverable in rates, especially now that the tangible benefits received by AIC employees have been identified and removed. Staff and AG/CUB seek to remove a higher amount of sponsorship expense, roughly $74,000 and $103,000 respectively. (ICC Staff Ex. 13.0, Schedule 13.02; AG/CUB Ex. 5.1 at 5) Their adjustments fail to give any weight to AIC's analysis or the Commission's most recent relevant decision. (AIC IB at 57)

In Docket 12-0293, AIC's last formula rate case, the Commission allowed recovery of 2011 sponsorships that "involved useful information from AIC." Docket 12-0293, Order at 74 (Dec. 5, 2012). For other sponsorships, amounts were disallowed ($30,834) largely because AIC employees received "benefits" from meals or tickets. The largest disallowance, however, was for "catch all" amounts ($70,225) the Commission did not consider supported by AIC's exhibits. Despite those disallowances, the Commission recognized "charitable contributions and corporate sponsorships share some characteristics." The Commission's stated intent was not to disallow a charitable contribution just because it was recorded to an advertising account. (AIC IB at 58)

Subsequent to its order in Docket 12-0293, the Commission issued its rate order in Docket 12-0511/0512 (Cons.) – a 2013 future test year case filed by the Peoples and North Shore utilities. In that proceeding, Staff sought to disallow certain sponsorships the utilities argued benefited customers. Dockets 12-0511/12-0512 (Cons.), Order at 161-64 (June 18, 2013) ("People's/North Shore"). The sponsorships in question included funding for child and family services organizations, public libraries, foundations and festivals. *Id.* at 164. The Commission rejected Staff's adjustment, concluding, "the nature of these sponsorships is charitable and recoverable under Section 9-227." *Id*. In doing so, the Commission found "the nature of the expense is more important" than the account where the expense is recorded. *Id*. The Commission further noted the recipients were "charitable organizations or organizations providing public welfare or educational services" in the utilities' service territory. The Commission also rejected Staff's adjustment to remove the sponsorship expense of certain institutional events, including table sponsorships, concluding the sponsorships 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*. at 169. The Commission found the expenses were "not barred by Section 9-225 of the Act and are recoverable under Section 9-225 and 9-227." *Id*. (AIC IB at 58-59)

As the Commission found in the Peoples/North Shore docket and acknowledged in Docket 12-0293, the overriding consideration, when weighing the recoverability of a sponsorship, should be whether the funds provided to the recipient organization resulted in benefits to ratepayers in AIC's service territory. The benefit could be educational in nature, based on AIC's presence at the sponsored event and the print or media advertising materials distributed or published at or in connection with the event. Or 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, that AIC did not distribute or publish advertisements at or in connection with a sponsored event in and of itself is not a basis for disallowance, if the event otherwise benefits customers in the utility's service territory. Granted, sponsorships can serve as a cost-effective vehicle for providing educational information to consumers, often in-person. But putting aside that aspect of a sponsorship, the Commission's recent orders confirm that financial support for local organizations, whether accounted for as a contribution or sponsorship, is still recoverable in rates, if the utility funding has a "charitable" or "public welfare" purpose. (AIC IB at 59-60)

In preparing its direct filing for Docket 13-0301, AIC's current formula rate case, AIC analyzed its 2012 sponsorship expenses, considering the Commission's guidance in Docket 12-0293. (Ameren Ex. 29.0 (Rev.) at 5) Two main actions were taken. First, AIC revisited internal guidance on community and public relations expenses in general and issued new guidelines on sponsorships. Second, AIC 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. The point of the exercise AIC undertook was three-fold: (i) identify sponsorships that provided an opportunity to AIC 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 IB at 60)

The result of AIC's review was a "self-disallowance," in both pending rate proceedings, of the fair market value of tangible benefits (e.g., tickets, meals and entertainment) received by AIC employees in 2012 from sponsorship recipients. This sponsorship information was supplemented and refined in response to Staff data request BAP 23.01, in response to additional Staff inquires on advertising messages, ratepayer benefits, rationale for recovery, and relation to delivery service for each sponsorship Staff proposed to disallow. The results of this second review, which included several additional minor self-disallowances, were presented in Ameren Exhibit 35.1. In total, AIC has removed $25,519 in sponsorship expense from its proposed gas revenue requirement. (AIC IB at 60)

In its direct testimony, Staff accepted AIC's self-disallowed amount of sponsorship expense. (ICC Staff Ex. 4.0R at 7) In supplemental direct testimony however, Staff provided an "updated amount" for its sponsorship adjustment, increasing its adjustment purportedly "using information provided by the Company in Docket

13-0301, Exhibit 6.2 (Rev.)." (Staff Ex. 9.0 at 5) On rebuttal, Staff slightly revised its new adjustment to reflect an amount of "tangible benefits" AIC removed from the revenue requirement. (Staff Ex. 13.0, Schedule 13.02) Even with Staff's revision on rebuttal however, Staff's adjustment to remove additional sponsorship expense remains unsound. (AIC IB at 60-61)

First, contrary to Staff's assertion, the same exact sponsorship information was provided by AIC in both pending rate proceedings. Thus, between the filing of Staff's direct and supplemental direct, no additional information was provided to Staff, in either pending proceeding, on 2012 sponsorships that would have provided a basis for a new adjustment. (AIC IB at 61)

Second, Staff's testimony, schedules and appendices provide little to no explanation of the basis for Staff's proposal to disallow additional sponsorship expense. In Staff's supplemental direct testimony, when a new adjustment was first proposed, Staff's testimony contained one sentence that identified an "updated amount." (Staff Ex. 9.0 at 5) No further information was provided in Schedule 9.02 other than to identify the individual, additional amounts that Staff proposed to disallow. Staff's rebuttal testimony – consisting of 14 lines -- finally did identify Staff's standards, namely that Staff believes the amounts proposed for disallowance "are unnecessary for the provision of utility service" and/or "do not provide benefits to ratepayers." (Staff Ex. 13.0 at 16) There is no explanation, however, for the basis or source of Staff's standards. Nor is there any explanation how those standards should be applied or were applied to disallow the specific sponsorships in this case. (AIC IB at 61-62)

Third, Staff's application of its standards, on its face, is inconsistent. 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 displayed or distributed at the event. For several events, however, including the sponsorship of the Illinois High School Association March Madness banquet and tournament and the sponsorship of the Peoria Rivermen Hockey "Goals for Kids," Staff disallows the entire amount of the sponsorship, despite the fact that AIC identified a print advertisement. Funding for these organizations provide AIC with opportunities to reach customers through signage or booklets. For the Illinois High School Association, for example, AIC posted signage and distributed a booklet concerning the Act-On-Energy program on energy efficiency awareness. The funding for these organizations also provides the recipients with the financial resources necessary to actually hold the events. (Ameren Ex. 29.0 (Rev.) at 16-18; AIC IB at 62-63)

Fourth, Staff's application of its standards, on its face, seemingly ignores much of the information AIC provided in Ameren Exhibits 21.8 and 35.1, other than the print advertisements associated with certain sponsorships. There is no indication Staff considered whether there was informational messaging associated with the event, where there was not a traditional print advertisement. Similarly, there is no indication Staff considered whether there was a booth presence associated with the event, where there was not a traditional print advertisement. For example, Staff seeks to disallow the

full amount of the gas-allocated portion of the sponsorship of the Illinois Institute of Technology Great Lakes Symposium, even though AIC had a booth at the event and distributed brochures. (AIC IB at 63-64)

Fifth, Staff's application of its standards 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. Many of the sponsorships listed in Ameren Exhibit 35.1 simply constituted financial support to local community organizations to support an event, activity or cause that did not include traditional advertising opportunities. 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 sponsorships 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 IB at 64)

There are many, more direct, channels AIC could pursue, with broader reach, if the primary goal of these contributions was to enhance the image of the utility. Sponsorship of these local community initiatives, however, fits AIC's mission to enhance the quality of life in local communities. Whether considering the funding of the Belleville Township High School hockey team's 5K run, or Elmwood's narcotics canine program, all of these sponsorships and many others listed on Ameren Exhibit 35.1 that Staff has proposed to disallow should be recoverable under Section 227 of the Act, since AIC provides these funds to local municipalities and other local non-profit organizations for a "charitable" or "public welfare" purpose. (AIC IB at 64-65)

Staff disregards the Commission's recent findings and analysis in the Peoples and North Shore utilities 2013 future test year rate case, in which the Commission found that sponsorships given to "charitable organizations or organizations providing public welfare or educational services" and "fundraising events for local charities and communities" were recoverable expenses. Dockets 12-0511/12-0512 (Cons.), Order, at 164, 169 (June 18, 2013). It is not appropriate for Staff to claim its disallowances are based on its analysis of criteria in one Commission opinion (Docket 12-0293), but then disregard criteria in another, more recent decision that undercuts the validity of Staff's adjustment. Ameren Exhibit 35.1 lists all of the sponsorship funds that AIC provided with a "public welfare" or "charitable" purpose to municipalities and other non-profit organizations in its service territory. That the event's expense was recorded in Account 930.1 in 2012 and appears on Ameren Exhibits 21.8 and 35.1, rather than in AIC's Charitable Contribution C-7 Schedule, should not matter for determining whether the expense was prudently incurred, reasonable in amount, of benefit to ratepayers, and recoverable in rates. (AIC IB at 65)

AIC also takes issued with AG/CUB's proposed adjustment to test year sponsorship expense. Mr. Brosch proposes a reduction in forecasted sponsorship expense by applying his "ICC Percentage Recoverable Factor – 2011 Costs Allowed." According to AIC, relying solely on an analysis of disallowed 2011 electric sponsorship

expense to derive a reasonable amount of 2014 sponsorship expense for recovery in gas delivery rates, however, is inappropriate. Mr. Brosch ignores (i) the most recent data available (the 2012 sponsorship expenses); (ii) the analysis AIC has conducted to remove the value of tangible benefits received from that 2012 data; (iii) the Commission's order in Docket 12-0511/0512 (Cons.) approving the recovery of sponsorships that were charitable and public welfare in nature; and (iv) the fact that a majority of the expense disallowed from Account 930.1 in Docket 12-0293 was related to the Commission's determination there was a lack of documentary support. That the Commission has not yet decided the recoverability of 2012 sponsorship expense is not a credible concern. Both Staff witnesses and Mr. Brosch himself rely on 2012 data to justify adjustments to AIC's gas revenue requirement in this case, including an adjustment proposed by Staff and Mr. Brosch to forecasted charitable contribution expense. (AIC IB at 65-66; AIC RB at 35-36)

4. Commission's Conclusions

AIC seeks to recover a forecasted $133,000 for 2014 sponsorship expenses. This amount reflects removal by AIC of $25,519 in sponsorship expense from its proposed gas revenue requirement.

The AG and CUB propose that AIC be allowed to recover an amount of just under $30,000 based on AIC's reliance on the itemization of sponsorship costs presented in Docket No. 12-0293, and the Commission's disallowance in Docket No. 12-0293 of 77% of the event sponsorship costs incurred by the Company in 2011, based upon the Commission's examination of those costs.

Staff proposes to disallow approximately $74,000 of costs associated with corporate sponsorships. In Staff's view, the relevant criterion should be whether such sponsorships are statutorily impermissible promotional or goodwill advertising under Sec. 9-225(2) of the Act.

Section 9-225(2) of the Act provides, "In any general rate increase requested by any gas, electric, water, or sewer utility company under the provisions of this Act, the Commission shall not consider, for the purpose of determining any rate, charge or classification of costs, any direct or indirect expenditures for promotional, political, institutional or goodwill advertising, unless the Commission finds the advertising to be in the best interest of the Consumer or authorized as provided pursuant to subsection 3 of this Section."

For reasons explained in its initial brief, AIC argues that its current proposal is consistent with the Commission's analysis and findings in its recent Order in the Peoples/North Shore rate case in Docket Nos. 12-0511/0512 (Cons.), where the Commission found, in part, that that "the recipients of these sponsorships are either charitable organizations or organizations providing public welfare or educational services in the Utilities' service territory" and that these contributions were made to

support fundraising events for local charities and communities in the Utilities' service territory and not primarily to promote the Utilities or foster goodwill towards the Utilities.

In reply briefs, Staff did not respond to these arguments by AIC, and the response from other parties was very limited. The Commission finds that AIC's proposal meets the criteria described in the Order in Docket Nos. 12-0511/0512 (Cons.), and should be allowed.

J. Credit Card Expenses

1. Staff's Position

In direct, Staff proposed an adjustment removing $3,229 in charges to Ameren credit cards, formerly known as "P-cards," based on a comparison to amounts "previously disallowed" from the test year in Docket No. 12-0293. (Staff Ex. 4.0 at 6-7)

In supplemental direct, Staff witness Ms. Pearce proposed to remove from the Company's test year forecast $12,000 of "unnecessary" charges made by Ameren employees using Ameren Company credit cards. (Staff Ex. 9.0, Schedule 9.02; Staff Ex. 13.0, Schedule 13.02). Staff disallowed expenses for flowers for employee death, employee snacks, meals, parties, decorations and promotional items such as cups, coasters, pens and shirts displaying the company logo. Additionally, Ms. Pearce disallowed charges for certain electronic items including cellular phones, flat screen televisions, digital cameras, and Blackberry devices. A complete listing of the disallowed items and their related costs is included with Staff's testimony. (Staff Ex. 9.0, Schedule 9.01, 2; Staff Ex. 13.0, Attachment B, 21-23; Staff IB at 23)

In developing the adjustment, Staff considered (1) Whether the charge was necessary for the provision of utility service and, thus, a reasonable expense to be recovered from ratepayers; (2) Whether the charge provided benefits to ratepayers and not to employees in the form of perquisites for attending a meeting in the course of performing the employee's daily work, recognition of a special occasion, or enhancements to the work environment that was in addition to the adequate compensation the employees receive for performing their work; and whether the charge would be a usual expense in a for-profit business in which stockholders provide the funding, but not a usual expense that should be funded by ratepayers because ratepayers require the service provided by the Company and have no alternative but to use AIC for delivery of their gas service. (Staff Ex. 9.0 at 4)

As the Commission explained in its Order of December 5, 2012 in Docket No. 12-0293, "To the extent that AIC feels that its current P-Card policies are consistent with general corporate standards, the Commission reminds AIC that such a comparison is not appropriate when the corporate entity in question simply passes purchasing card expenses on to its captive customers. The customers of a typical corporation can choose to spend their money elsewhere if they can find better prices. AIC's customers have no choice but to accept the P-Card purchases in their delivery service rates."

As indicated on page 23 of Staff Ex. 13.0, Attachment B, most of the disallowed charges fall into categories that include: flowers; new employee pens, coffee mugs, travel cups, kudos and gift packets; lunches, snacks, decorations for parties, meetings and celebrations; lunch and drinks for attorneys; cell phones, Blackberry devices, DVD players, flat screen televisions, satellite television service, hardware and accessories; clothing including t-shirts and hooded sweatshirts with the Ameren Illinois logo; and finance charges for cash advances on the AIC credit card. (Staff IB at 24-25)

The Company has categorized perquisites like pens, cups, coasters, kudos, gift boxes, and clothing to be $1,964 of the disputed charges and even AIC categorizes these charges as "Employee Benefits." (Ameren Ex. 28.1.)

The total amount of charges in dispute is based on Staff's limited sample of four months' expenses for selected employees who have corporate credit cards with single transaction limits in excess of $30,000 per month (Ameren Ex. 28.0 at 6). Based on Staff's limited review, the disputed total equals $12,807, multiplied by three to annualize the charges disallowed from the review of four month's expenses. The resulting amount of $38,422 is allocated between gas and electric service. (Staff IB at 25)

During cross-examination, AIC witness Ms. Voiles indicated she is the Company's only witness on this matter. According to Staff, she lacked essential knowledge of the Ameren credit card program as revealed by her responses paraphrased on page 26 of Staff's initial brief.

In its reply brief, Staff disagrees with AIC's contention that charges for the disputed items "relate to education and training intended to reduce employee injuries and property damage claims, and therefore lower ratepayer costs" and to ensuring AIC employees meet customer expectations in the event of storm outages. (Staff RB at 21-22) The Commission observes that to the extent Staff's arguments first appearing on pages 21 and 22 of its reply brief rely on evidentiary assertions not in the record, they will not be considered.

AIC asserts that Staff has failed to address the adequacy of AIC's business justifications or the resulting ratepayer benefits, instead focusing on whether the disputed charges are similar to those disallowed in Docket No. 12-0293. (Staff RB at 22, citing AIC IB at 68) According to Staff, this assertion is incorrect, "as evidenced by Staff Ex. 9.0, Sch. 9.01, 2, which contains a listing of each disputed charge and the reasons for Staff's disallowance." (Staff RB at 22)

Staff provided a summary of categories that include most of the disputed charges and the reasons the charges do not qualify for rate recoverability under the Act. (Staff RB at 23)

CUB did not present testimony on this issue; in its brief CUB states its concurrence in the Staff position.

2. AIC's Position

In AIC's prior electric rate proceeding, the Commission found that utility employees' corporate credit card charges should not be excessive and should be reasonably related to the provisioning of delivery services. Docket 12-0293, Order at 67 (Dec. 5, 2012). The Commission allowed some charges "conceivably related" to delivery service, while disallowing other charges absent better support. *Id*. In the current proceeding, AIC has provided this better support by establishing the business-related justification for each of the disputed credit card charges. (AIC IB at 67)

As explained by Ms. Voiles, the disputed charges were for a variety of work-related purchases. There are charges that assist AIC with storm response and preparedness. There are charges for routine utility equipment. There are charges that promote safe practices. There are charges for business-related meals and travel. There are also charges that support employee recruitment, retention and morale. Ameren Exhibit 28.1 provides the business justification for each disputed expense. AIC claims Staff has not challenged any of the business justifications provided. (AIC IB at 67, citing Tr. 231-232, 236-237)

Each of the disputed business charges provides a benefit to ratepayers and is related to the provision of delivery services. The Storm Response and Preparedness charges benefit customers by ensuring AIC employees meet customer expectations in the event of storm outages. (Ameren Ex. 28.0 (Rev.) at 10) Other Utility Equipment charges enable employees to efficiently serve customers in an ever increasingly high-tech digital world. (*Id*.) 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. (*Id*. at 11) Employee appreciation charges increase retention rates and morale leading to a more knowledgeable, dedicated workforce. (*Id*. at 12; AIC IB at 68; RB at 37)

While Staff has failed to address the adequacy or inadequacy of any of AIC's business justifications or the resulting ratepayer benefits, they have instead focused on whether these disputed charges are of the "type" or "similar" to those disallowed in Docket 12-0293. (Staff Exs. 9.0 at 3-4; 13.0 at 15) The problem with Staff's approach is that it fails to consider the evidence provided in this proceeding, namely the business-related justifications and the ratepayer benefits for each disallowed charge. 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, flower purchases were disallowed 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. The context of the purchase must be considered to determine whether the purchase is reasonable in amount, prudently incurred and related to delivery service. (AIC IB at 68)

With respect to an individualized reason for the disallowance of each expense, Staff has created five standards for disallowing expenses. Without explaining the application of its criteria and the judgment used, Staff's schedule lists each expense and checks off one or more of five standards for disallowance. (ICC Staff Ex. 9.0, Sch. 9.01.) Staff claims two are "based on Docket 12-0293" - "Arguably Excessive" and "Unnecessary for Delivery Service." The other three fall under the title of 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 IB at 69)

As for the first rationale "Arguably Excessive," which has been checked off for almost all of the disallowed expenses, Staff did not explain why they believed AIC paid an excessive amount for any of the challenged charges. The only insight into Staff's analysis came in a discovery request response where Staff reasoned that because the expenses were not necessary, any amount over zero is "excessive." (Ameren Ex. 41.0, at 14, citing Staff response to DR AIC-Staff 12.03).) A more reasonable interpretation of "arguably excessive" would be that the disallowed charges could have been obtained at a lower cost. In this proceeding however, there is no evidence any of the expenses are excessive in amount and no party has challenged whether AIC paid too much for any of the charges "reasonably related" to the provision of delivery service. (AIC IB at 69)

As for Staff's "necessary" rationales, these standards misinform the Commission as to the required determination the Commission must make concerning the recoverability of these expenses. The Commission must determine whether a charge is "reasonably related to the provision of delivery services," not whether a charge was "necessary" for delivery service. (AIC IB at 69-70) Staff incorrectly manipulates the "reasonable" standard set forth in the language of the 12-0293 Order regarding the recoverability of credit card expenses. That Order's language requires that credit expenses must be "reasonably related to the provisioning of delivery services." Docket 12-0293, Order, p. 67. It does not say "necessary for the provisioning of delivery services." (Staff RB at 38)

Staff does not cite any Commission orders or statutory provisions that require AIC to demonstrate in hindsight that each credit charge was "necessary." Nor is such an exercise workable. It would be tantamount to second-guessing countless business 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. While AIC 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. And it would hamstring supervisors and employees into speculating whether each and every expense would be judged strictly necessary. (AIC IB at 69-70)

More importantly, Staff has not provided an explanation why each expense is not "necessary," even if that were the appropriate, after-the-fact standard to apply. 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. 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. 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 IB at 70)

As for the final two prongs of Staff's threefold rationale, AIC has provided testimony establishing the ratepayer benefit associated with each of the charges. 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." The basis for this requirement and how it should be applied is not explained in Staff's exhibits. Given the nature of the ratepayer benefits, quantifying or assigning a dollar amount impact would not be practicable, even if it were required. That does not negate the fact that ratepayers are benefitting. (AIC IB at 70-71)

In its reply brief, AIC takes issue with Staff's "attacking [of] the credibility and personal knowledge of AIC witness Ms. Voiles." (AIC RB at 40-41) AIC argues that the Staff's complaints relate more to the credit card process and accounting than to the nature, purpose and reasonableness of the activities and costs, and "may be more properly included in Docket 13-0075, where the Commission is considering credit card process related issues, rather than individual expenses." (AIC RB at 41)

3. Commission's Conclusions

In Docket No. 12-0293, the Commission noted that in 2011, AIC employees collectively charged approximately $102,225 on their P-Cards, then known as P-Cards.

The Commission allowed charges "conceivably related" to delivery service, while disallowing other charges totaling $10,266.09 absent better support.

On page 67 of its Order in Docket No. 12-0293, the Commission stated that "in light of some of the descriptions included in Attachment A to Staff Ex. 8.0R-C and given the nature of some of the retailers at which the P-Card was used, the Commission has identified some specific P-Card purchases which it finds questionable." The Commission added, "The listed P-Card charges are questionable because the expenses at some retailers are arguably excessive and/or not reasonably related to the provisioning of delivery services. In the absence of better support for these charges, the Commission finds that recovery from delivery service customers is unreasonable."

In the instant case, AIC argues that it has provided better support for the credit card charges by establishing the business-related justification for each of the disputed credit card charges. In addition to testimony, AIC presented a schedule, Exhibit 28.1, which identifies the report number, vendor and amount for each expense, and provides an explanation of and expense type or category for each item.

As indicated above, In Docket No. 12-0293, the Commission found that some charges were "questionable because the expenses at some retailers are arguably excessive and/or not reasonably related to the provisioning of delivery services."

In the instant case, Staff characterizes many disputed purchases as "arguably excessive." However, there is no allegation or indication that the items could have or should have been obtained at a lower cost.

With respect to whether the expense is "reasonably related to the provisioning of delivery services," AIC argues that Staff is using a different standard -- whether the charge is "unnecessary for the provision of utility service."

Having reviewed the record, it appears to the Commission that AIC has provided better support for the charges than it did in Docket No. 12-0293. Except as noted below, the Commission believes AIC has shown that the expense types and purposes identified in AIC's evidence -- such as Storm Response and Preparedness, and Safety Work Meetings – and the specific activities taken within those categories and the context of those activities, are reasonably related to the provision of utility service. To the extent Staff may have concerns with some of the expense categories, Staff has not really indicated why these expense types or categories are ineligible to meet that standard.

AIC has not explained why credit card payment of $701 for McLean County Chamber dues in the "Other Charges" category is reasonably related to the provision of utility service. Staff's position with regard to this expenditure should be adopted. The Commission notes, however, that amount in question is too small to affect the schedules that reflect operating expenses in revenue requirement.

The Commission wishes to emphasize that the findings on this issue in the instant order are based on the record in this proceeding, which in Staff's case may be somewhat more limited than in some other proceedings, and are not intended to create any presumptions in other dockets with different records.

With regard to the credit card issue, the Commission also notes that its "primary concern" as stated on page 69 of the Order in Docket No. 12-0293 was "the apparent lack of controls over P-Card usage." To ensure that AIC implements reasonable usage restrictions on P-Cards, the Commission required AIC "to submit for approval its internal controls on P-Card usage within 45 days of the entry of this Order. Such a filing shall take the form of a petition with the usage limitations and supporting testimony attached."

AIC filed such a petition in Docket No. 13-0075, and that proceeding is in progress. The Commission believes that the process ultimately approved in Docket 13-0075 should largely eliminate most or all of the credit card-related issues that have been debated repeatedly in recent AIC rate cases.

K. Software Rental Revenue and Expenses

AIC witness Colyer described, in his direct testimony, two new software development projects that AIC expects to complete by December 2014, called Project J01HP, Enterprise Asset Management Implementation ("EAM") and Project J01HZ, Mobile Work Management ("MWM"). (AIC Ex. 7.0 at 29) The EAM and MWM projects are expected to be owned and maintained by AIC, while AIC's corporate affiliate Ameren Missouri will also use the software and pay a rental fee to AIC, beginning in January 2015, for use thereof. (AG IB at 44)

1. Staff's Position

Staff witness Pearce initially proposed an adjustment to reflect $772,000 of rental income for the use of the Enterprise Asset Management System ("EAMS") since the costs of this system are reflected in the revenue requirement, but no offsetting revenues are included. (Staff Ex. 4.0 at 4) AG witness Brosch also proposed an adjustment to recognize rental revenue (AG/CUB Ex. 5.1, 3), based on a different calculation method. (Staff IB at 26-27)

In rebuttal testimony, Staff revised its adjustment to $358,000 reflecting the testimony of AIC which noted that the 2014 costs in the instant revenue requirement are less than the 2015 costs. (Staff Ex. 13.0 at 5) In surrebuttal testimony, the Company "accepted" Staff's adjustment (Staff Ex. 13.0, Sch. 13.01) to recognize $358,000 of revenue from Ameren Missouri (Ameren Exs. 31.1-31.3) but simultaneously sought to increase by $491,000 project-related operating and maintenance expenses that are unsupported. (Ameren Ex. 31.5.) As a result, this issue consists of two adjustments to the 2014 revenue requirement: (1) recognition of revenue to be received from Ameren Missouri for use of this software and (2) recognition of additional operating and maintenance expenses related to the software that were first proposed by AIC in its surrebuttal testimony. (Staff IB at 27, citing Ameren Ex. 31.5)

In Staff's view, the Commission should reject AIC witness Stafford's adjustment to increase the 2014 forecasted cost of EAMS/MWMS by $491,000 because Mr. Stafford provided no rationale and no calculations to support these additional costs and is merely an attempt by AIC to offset Staff and Intervenor reductions to revenue requirement. (Staff IB at 27-28; Staff RB at 24)

In its reply brief, Staff notes that AG/CUB witness Brosch also proposed an adjustment to recognize rental revenue. The amount of Mr. Brosch's adjustment was $452,000, calculated as 13.53% of the $3,338,000 investment to be supported by Ameren Missouri (AG IB at 45). Staff agrees with AG witness Brosch that it is appropriate to remove the costs of EAMS and MWMS that will not provide service to Illinois jurisdictional ratepayers. (*Id.* at 46) Therefore, Staff "would not oppose the AG's $452,000 rental revenue adjustment as an alternative to Staff's proposed $358,000 adjustment, should the Commission find Mr. Brosch's methodology more appropriate." (Staff RB at 24-25)

2. AG's Position

In his direct testimony, AG/CUB witness Mr. Brosch stated that the timing of expenditures during 2014 on the software projects is mismatched with the timing of rental revenues beginning in 2015. (AG/CUB Ex. 1.0 at 31) Thus, to recognize the support due to come from Ameren Missouri, Mr. Brosch initially proposed to include the annual software rental revenues anticipated to be received from Ameren Missouri for its use of the EAM/MWM systems as a reduction to the AIC revenue requirement. (AG/CUB Ex. 1.3 at 3) Staff witness Bonnie Pearce proposed a similar adjustment to account for rental revenues expected to be received from Ameren Missouri starting in 2015. (AG IB at 44-45)

Company witness Mr. Stafford testified in rebuttal that AIC will incur additional costs for EAM and MWM during 2015, and it is inappropriate to allocate 2015 revenues related to the software projects to the 2014 test year. (AIC Ex. 17.0 (Rev.) at 25) In acknowledgement of this argument in her rebuttal, Staff witness Ms. Pearce reduced her proposal to reflect rental income to $358,000. According to the surrebuttal testimony of Company witness Stafford, AIC has agreed to accept Ms. Pearce's adjustment of $358,000. (AG IB at 45)

In his rebuttal, Mr. Brosch proposed a "more appropriate" accounting for the test year EAM/MWM project costs AIC seeks to recover. He proposes to offset 13.53% of such costs, the share to be supported by Ameren Missouri, of AIC's $3.338 million of test-year recoverable expenses related to the projects. (AG/CUB Ex. 5.0 at 48) Mr. Brosch's calculation indicates that $451,631 should be disallowed from test-year revenue requirements for the software projects, based upon AIC's own calculation of such costs in Ameren Ex. 17.8, as outlined at AG/CUB Ex. 5.1, page 3, including the allocation among AIC's three rate zones. Alternatively, Mr. Brosch recommends that if the new software systems are not expected to be in service by the end of 2014, expenses should be adjusted downward to eliminate the capitalized cost of the systems and related depreciation and amortization expenses, along with the projected operations and maintenance expense. (AG/CUB Ex. 1.0 at 31; AG IB at 45-46)

Mr. Stafford argues in surrebuttal that although he agrees with some aspects of Mr. Brosch's adjustment, the adjustment is inappropriate because less than 50% of the system costs are included in revenue requirement in this proceeding. According to the AG, Mr. Stafford's criticism is inapposite, because Mr. Brosch is not proposing to remove 13.53% of 100% of actual EAM/MWM system costs; rather, Mr. Brosch is proposing to remove 13.53% of the EAM/MWM system costs that AIC has actually included in test-year revenue requirement, as described above. Company witness Stafford confirmed the accuracy of the $3.338 million and 13.53% figures that are used by Mr. Brosch in calculating the AG/CUB adjustment during cross-examination. (AG IB at 46; Tr. at 328-330)

In its reply brief, the AG states, "AIC claims in its Initial Brief at 75 that this amount [of $451,631 proposed by the AG] is derived from allocating 13.53% (the share of the software system intended to be borne by Ameren Missouri, per the Company's response to DR AG 18.09) of the software expenses of $3.338 million for the 2014 test year to Ameren Missouri…." In the AG's view, this is not an accurate characterization of the People's adjustment. The People's adjustment does not consider only the "expenses" arising from the new EAM/MWM software systems, but instead includes the entire test-year revenue requirement being asserted for recovery by AIC as a result of test-year inclusion of EAM/MWM system costs. (AG/CUB Ex. 5.0 at 48) Staff recommended a smaller adjustment of $358,000 based solely on the portion of the amortization expense for the EAM and MWM software systems included in the 2014 test year. (AG RB at 32; Staff Ex. 13.0, Sch. 13.01)

According to the AG, the People's revised adjustment more accurately reflects and accounts for the Ameren Missouri share of the EAM/WMW costs included by AIC in the test year than does Staff's. (AG RB at 33)

The more detailed adjustment proposed by Mr. Brosch in AG/CUB Ex. 5.1, page 3 is based entirely upon information provided by AIC in AG/CUB Ex. 5.13 and is the only adjustment that ties test-year revenue requirements arising from AIC's new EAM/MWM system with the proper level of offsetting support from Ameren Missouri for its share of such costs. (AG RB at 33)

3. CUB's Position

The Company proposes to include the test year costs of certain automated systems that will be owned by AIC. Ameren Missouri will also use the systems and will be charged a rental fee to compensate AIC for the costs of developing and maintaining the systems. Although rental income from Ameren Missouri is expected once the systems are complete, the Company did not reflect any rental revenues in the revenue requirement. (CUB IB at 17-18)

AIC's proposal burdens ratepayers with the cost of installing and amortizing new automated systems, but denies them the offsetting revenues arising from the shared use of the systems. One of two adjustments is necessary. Assuming AIC will actually complete and place into service the new systems as planned in December 2014, the last month of the test year, rental income from Ameren Missouri should be acknowledged in rates. That is, Ameren's plan for the Missouri business to support 13.53% of the overall cost of the systems should be calculated as rental income. (AG/CUB Ex. 5.0 at 48) However, if the new systems are not expected to be complete within the test year, a much larger adjustment should be made to eliminate the capitalized cost of the systems and related depreciation/amortization expenses which should not be included in the test year revenue requirement. (AG/CUB Ex. 1.0 at 31; CUB IB at 17-18)

In its reply brief, CUB argues that Staff's adjustment, to which Ameren agreed, only re-allocated a portion of the amortization expense for the systems included in the 2014 test year. (Ameren IB at 75) Mr. Brosch's adjustment, on the other hand, based his adjustment on the total software expense, allocating 13.53% of the $3.338 million cost of the software to Missouri operations. (AG/CUB Ex. 5.0 at 48)

Ms. Pearce's recommendation was intended to recognize that not all of the costs of the new software systems will provide service to Illinois jurisdictional ratepayers. Mr. Brosch's adjustment was made with the same goal, and more equitably achieves it. (CUB RB at 19-20)

4. AIC's Position

AIC will install, and begin operating, two systems, the Enterprise Asset Management System (EAMS) and the Mobile Work Management System (MWMS), in the 2014 test year. No party disputes the need for the systems or the reasonableness of the test-year costs. Starting in 2015, AIC will receive rental revenues from Ameren Missouri for its use of the two systems. (AIC IB at 74)

Staff and AG/CUB recommended an adjustment to AIC's Operating Statement to impute these rental revenues as an offset to the test year costs of the system. Initially, both parties suggested offsetting these software operating expenses with a full year of anticipated rental revenue from Ameren Missouri. However, AIC argues, this recommendation ignores the test-year rules that prohibit reflection of costs or revenues from other years (in this case, revenues from 2015) in the test year revenue requirement. Staff and AG/CUB's approach also ignores the fact that O&M costs related to the receipt of revenues are significantly greater in 2015 than in the 2014 Test Year revenue requirement. (Ameren Ex. 17.0 (Rev.) at 26) Therefore, if it is appropriate to impute 2015 revenues in the 2014 test year, then it is also appropriate to include those 2015 expenses for these systems. (AIC IB at 74-75)

On rebuttal, both Staff and AG/CUB modified their recommendations. Now Staff is recommending a reduced adjustment of $358,000, which was that portion of the amortization expense for the systems included in the 2014 test year. (ICC Staff Ex. 13.0, Sch. 13.01) Staff admitted that the "level of cost for EAMS and MWMS included in the 2014 test year were less than the 2015 projected costs that would support the level of 2015 revenue from Ameren Missouri for the use of the systems." (Staff Ex. 13.0 at 5) Staff concluded that its adjustment removes expenses for EAMS and MWMS that will not solely benefit Illinois jurisdictional ratepayers.

AG/CUB also modified its approach, and now proposes a cost allocation adjustment, which reduces operating expenses by $451,631. (AG/CUB Ex. 5.0 at 47-48) This amount is derived by allocating 13.53% of the software expenses of $3.338 million for the 2014 test year to Ameren Missouri. (AIC IB at 75)

In an effort to reduce the number of issues for consideration, AIC has agreed to support Staff's approach of a $358,000 adjustment to operating expense. This approach appropriately considers the fact that less than 50% of the expenses for the software will be incurred in the test year, and recognizes that imputation of rental revenue received in 2015 would be improper. (Ameren Ex. 31.0 (Stafford Sur.) at 14; AIC IB at 75-76)

In its reply brief, AIC argues that Staff's approach is better than the AG's because it appropriately considers the fact that less than 50% of the expenses for the software will be incurred in the test year. (AIC RB at 45)

Staff proposes a second adjustment to "remove" approximately $491,000 in operations and maintenance (O&M) expense associated with the software systems from the revenue requirement. Staff contends this adjustment is necessary because AIC has failed to adequately support the expense, and otherwise has included the amount as an improper update "merely as an attempt . . . to offset Staff and Intervener reductions to the revenue requirement." (Staff IB at 27-28) In AIC's view, Staff's position should be rejected. (AIC RB at 45)

First, AIC appropriately reflected the increase in EAMS and MWMS expense in conjunction with accepting Staff and AG/CUB's adjustment to pension/OPEB expense. (AIC IB at 45)

Next, AIC demonstrated that the increased costs were budgeted costs for training and contingency related to the EAMS and MWMS. AIC explained in response to a data request issued by Staff witness Ms. Pearce in April 2013 that its initial software O&M cost projection did not include "budgeted O&M dollars for training and contingency." (Staff Ex. 4.0 at 5 (quoting AIC's response to data request BAP 1.05) AIC says Ms. Pearce actually recommended that these training and contingency costs be included in her direct testimony adjustment. Mr. Stafford then noted in his rebuttal testimony that AIC expected to incur an additional $491,000 in expenses related to the software systems than it had originally projected -- the training and contingency costs. (AIC RB at 45; Ameren Ex. 17.0 (Rev.) at 26)

Thus, although Staff takes issue with this amount for the first time in its initial brief, Staff knew about the costs on direct and AIC had quantified them in rebuttal testimony. Staff's claim that AIC included these expenses in its proposed revenue requirement "at the surrebuttal phase of testimony, thus precluding any review of [their] prudence or reasonableness" (Staff IB at 27-28) is therefore misleading -- Staff had the opportunity to conduct discovery on the costs, address them in rebuttal testimony, and cross-examine Mr. Stafford on them. Also, Staff conducted discovery on the costs as indicated. (AIC RB at 45-46)

Staff also claims that "no rationale and no calculations" were provided to support the $491,000 in O&M expense. But an exhibit to Mr. Stafford's rebuttal testimony clearly notes that the projected expenses had increased by $491,000. (Ameren Ex.

17.8.) Staff did not take issue with the increase in O&M expense in its rebuttal testimony. AIC provided additional information regarding the increased O&M expenses in its surrebuttal testimony, including a breakdown of the expense by account and rate zone. (Ameren Ex. 31.5; AIC RB at 46)

5. Commission's Conclusions

AIC expects to complete, by December 2014, two new software projects, Enterprise Asset Management Implementation ("EAM") and Mobile Work Management ("MWM"). The EAM and MWM projects will be owned and maintained by AIC, while AIC's corporate affiliate Ameren Missouri will also use the software and pay a rental fee to AIC, beginning in January 2015, for use of it. (AG IB at 44)

The costs of the systems were included in AIC's proposed test-year revenue requirement, but no offsetting revenues from Ameren Missouri were included.

Staff and CUB/AG witnesses testified that some offsetting revenues should be included in the income statement. The Staff witness proposed $358,000. AG/CUB witness Mr. Brosch proposed $452,000 calculated as 13.53% -- which is the share of the software system to be allocated to Ameren Missouri -- of the $3,338,000 in EAM/MWM system costs that AIC has actually included in test-year revenue requirement. The Commission finds that Mr. Brosch's method best ties test-year revenue requirements arising from AIC's new EAM/MWM system to the proper level of offsetting support from Ameren Missouri for its share of such costs, and that it provides an appropriate measure of the revenue that should be reflected in the 2014 test year.

As noted above, Staff also takes issue with AIC's inclusion of an additional $491,000 in EAM/MWM expenses attributed to training and contingency. Staff argues that this amount was first proposed by AIC in its surrebuttal, and that AIC provided no rationale or calculations to support them.

As explained by AIC, however, these projected cost increases did not first appear on surrebuttal. They were described earlier in the proceeding, and were quantified on rebuttal. Further, inclusion of the more current projections for EAM/MWM expenses would appear to be in keeping with the overall approach in evaluating EAM/MWM expenses and offsetting revenues, including the approval of the CUB/AG revenue offset described above. The Staff adjustment to exclude the $491,000 from revenue requirement will not be adopted.

L. Revenue Issue

1. CUB's Position

CUB argues that AIC's forecast of 23% decreases in sales for industrial and transportation customers are unreasonable, and are not actually taking place. According to CUB, the sales revenues from the two customer classes at issue actually

increased substantially from the first four months of 2012 to the first four months of 2013. CUB says industrial system sales increased from 37,959,000 therms in the first four months of 2012 to 51,585,000 therms in the first four months of 2013. CUB also says transportation revenues increased from $12,157,000 in the first four months of 2012 to $14,174,000 in the first four months of 2013. (CUB IB at 16)

CUB believes the best measure of AIC likely 2014 industrial and transportation sales is AIC's most recent actual experience. Mr. Effron compared the actual industrial and transportation revenues for the 12 months ended June 30, 2013 to the forecasted test year revenues. CUB says he revised his analysis based on the customer classifications provided by AIC in rebuttal. According to CUB, this demonstrated that a reasonable adjustment would reduce test-year industrial system base rate revenues of $358,000 and increase test year transportation base rate revenues of $4,450,000, for a net increase to AIC's test year base rate revenues (under present rates) of $4,092,000. (CUB IB at 16)

CUB contends Mr. Effron's analysis did not "overlook" the Commercial and Public Authority classes of customers, as AIC complains. CUB asserts that he analyzed the forecasted test-year sales to those customer classes and concluded that the forecasted test year sales were reasonable. For each of those classes, CUB states he analyzed AIC's forecasts in comparison to actual weather-normalized sales in 2010-2012. In CUB's view, no adjustment was necessary to those forecasts, and Mr. Effron excluded them from his analysis. In CUB's view, that does not equate to "ignoring" those customer classes. CUB insists Mr. Effron's analysis does capture the effect of switching across all customer classes. (CUB RB at 16-17)

AIC further complains that Mr. Effron's analysis is flawed because transportation service also includes Commercial customers. CUB claims AIC's own data request responses showed all Transportation Sales as being Industrial. CUB says AIC revised its responses, but showed no split to designate what transportation volumes were industrial and what were commercial. CUB asserts that AIC was unable to identify any commercial transportation volumes and base-rate revenues for either the most recent twelve-month period available or for the test year. CUB believes there is no evidence that the commercial transportation volumes exist or have any effect on Mr. Effron's analysis. According to CUB, Mr. Effron's adjustment of a net increase to AIC's test year base-rate revenues (under present rates) of $4,092,000 is necessary and reasonable. (CUB IB at 17)

While AIC is free to continue to disagree with Mr. Effron's position, it is not free to misquote and misrepresent his testimony. AIC purports that Mr. Effron concluded forecasted test-year sales for Commercial and Public Authority revenue classes were "not reasonable." CUB says AIC goes on to pose the rhetorical question: "If they were 'not reasonable' why were they not expressly included in his actual versus forecasted revenue analysis?" (CUB Reply Brief at 17, citing AIC Initial Brief at 74) CUB claims that so-called quote from Mr. Effron does not appear in his testimony. CUB says the full quote from Mr. Effron is: "Therefore, the forecasted test-year level of Commercial sales

appears to be reasonable." (*Id*., citing AG/CUB Ex. 6.0 at 5 (emphasis added)). Later, Mr. Effron says, "Thus, the forecasted test year level of sales to Other Public Authorities *also appears to be reasonable*." (Citing *Id.* at 6 (emphasis added). According to CUB, considering AIC has spent millions of dollars on rate case expense in this case, AIC could be more diligent in ensuring that quotes from other parties' testimony are accurate. CUB believes Mr. Effron's analysis of the Commercial and Public Authority customer classes determined that AIC's forecasts are reasonable – which is why he did not recommend any adjustment to them. (CUB RB at 17-18) With respect to the quotations, it appears to the Commission that, through inadvertence, it is CUB that has misinterpreted the AIC Initial Brief rather than AIC that has misrepresented Mr. Effron's testimony. AIC's Initial Brief actually uses the term "not unreasonable" rather than "not reasonable" as CUB states in its Reply Brief.

CUB asserts that Mr. Effron's review of AIC's forecasted revenues from industrial and transportation customers found that AIC's forecast was unreasonable. While AIC predicts a 23% decrease in sales from those customers, CUB says Mr. Effron found that such decreases are not actually taking place. CUB states AIC relies on "offsets" from other categories to justify the fact that it advocates for revenues to be set at a lower level than it actually expects to receive. According to CUB, AIC states, "In fact, the shift in Commercial and Public Authority revenues is so great that the differences not only offset the anticipated decrease in Transport revenues, but when coupled with the anticipated decrease in Industrial revenues (which Mr. Effron includes in his analysis), actually results in a net anticipated increase to the total non-residential base rates..." CUB claims AIC acknowledges the anticipated decrease in Transport revenues, but asks the Commission to ignore that because it is "offset" elsewhere. (CUB RB at 18)

According to CUB, this is exactly like AIC's arguments with respect to ADIT-Step-Up Basis Metro. CUB claims there is no dispute that the decrease discussed by Mr. Effron will occur. CUB says the only issue is whether "offsets" from other sources justify overlooking that fact. CUB maintains that Mr. Effron found AIC's forecasts of Commercial and Public Authorities revenues to be reasonable and he did not recommend any adjustment to those revenues. CUB asserts aggregation of all non-residential base rate revenues is not necessary or appropriate. CUB says Mr. Effron focused on the Industrial and Transportation revenues because they increased substantially from the first four months of 2012 to the first four months of 2013. CUB says Mr. Effron therefore proposed a "reasonable adjustment" based on the actual industrial and transportation revenues for the twelve months ended June 30, 2013 to the forecasted test year revenues, and he revised his analysis based on the customer classifications provided by AIC in rebuttal. (CUB RB at 18-19)

2. The AG's Position

According to the AG, AIC witness Althoff argues in her rebuttal testimony that Mr. Effron has overlooked the Commercial and Public Authorities customer classes, thus missing a significant portion of the big picture. The AG says Ms. Althoff also argues in her surrebuttal testimony that Mr. Effron should have considered the trend of customers

switching from Rider T (Transportation) to Rider S (System gas), thus ignoring movement of revenues from Transportation to Commercial. Mr. Effron states in his rebuttal testimony that he did examine Commercial customer revenues and found that the forecasted test-year sales of approximately 200.3 million therms were higher than the weather-normalized 2012 level of Commercial sales, 187.6 million therms but slightly below the weather-normalized 2010 and 2011 levels of Commercial sales, 201.7 million and 204.2 million therms, respectively. The AG says Mr. Effron found the forecasted test-year level of Commercial sales to be reasonable. According to the AG, and using the same sources, Mr. Effron examined Public Authorities customer revenues and found that the forecasted test-year sales of approximately 4.2 million therms were higher than the weather-normalized 2012 level of Public Authorities sales, 3.1 million therms, but slightly below the weather-normalized 2010 and 2011 levels of Public Authorities sales, 4.5 million and 4.3 million therms, respectively. The AG indicates Mr. Effron concluded that no adjustment to Commercial or Public Authorities forecasted test-year sales was necessary. (AG IB at 48-49)

Ms. Althoff suggested in rebuttal testimony that Mr. Effron improperly ignored that Transportation service includes Commercial, Public Authority, and Industrial customers. According to the AG, AIC's revised response to data request AG 2.21 Attach shows that Transportation sales are only Industrial in nature; no Commercial or Public Authority sales are included in Transport sales. The AG claims AIC was also unable to identify any Commercial transportation volumes or base-rate revenues for the most recent twelve-month period available or for the test year. (AG IB at 49)

The AG indicates Ms. Althoff also raises two objections in her rebuttal testimony to Mr. Effron's analysis that have since been rendered moot by his modifications to his analysis in his own rebuttal. First, she complains that Mr. Effron failed to consider 12 months' worth of the effect of Rider TBS, which was implemented on May 1, 2012 and made effective on June 2012 bills. The AG asserts that Mr. Effron considered data from July 1, 2012 until June 30, 2013 in his rebuttal analysis. Second, Ms. Althoff argues that Mr. Effron improperly calculated an average rate, across different rate classes, to estimate Industrial base rate revenues. The AG claims Mr. Effron's rebuttal analysis relies on actual industrial base rate revenues for the twelve months ended June 30, 2013. The AG recommends adopting the revisions to operating revenues shown in AG/CUB Ex. 6.1. (AG IB at 49)

According to the AG, AIC's main criticism of the adjustment to revenues proposed by the AG is that it does not take proper account of Commercial customers switching between transportation service and system service. The AG argues that AIC fails to show any flaw in Mr. Effron's analysis, because AIC has failed to demonstrate that there are any significant commercial transportation revenues or that there has been any switching of commercial customers between transportation service and system service. The AG claims there is no evidence that "it might look like one financial category is 'losing' revenues, when in reality (and as apparent by looking at the bigger picture) those revenues may shift [to] another financial reporting classification," as AIC asserts. (AG RB at 34, citing AIC IB at 72)

AIC also argues in its Initial Brief at 73-74 that "Mr. Effron states in his rebuttal testimony that he analyzed forecasted test-year sales for these Commercial and Public Authority revenue classes and concluded they were 'not unreasonable' . . . If they were 'not unreasonable' why were they not expressly included in his actual versus forecasted revenue analysis?" According to the AG, the answer is that analyses of the Commercial and Public Authority revenue classes were included in Mr. Effron's actual versus forecasted revenue analysis. The AG states because Mr. Effron deemed the forecasts of sales volume in each of these two revenue classes to be reasonable, no adjustment was necessary, and they were not included in the AG/CUB proposed adjustment to AIC's test-year revenues. The AG says AIC cites, at page 74 of its initial brief, testimony by AIC witness Althoff stating that Mr. Effron should have "undert[aken] a complete analysis." The AG insists Mr. Effron's analysis was inclusive of all of AIC's non-residential revenue categories. (AG RB at 34-35)

AIC presents a table on page 73 of its Initial Brief, copied from page 4 of Ms. Althoff's surrebuttal testimony, showing base rate revenues in each of its four non-residential revenue classes for the twelve months ended June 30, 2013, versus AIC's 2014 test-year forecast of those revenues. The AG says AIC argues that recent Commercial revenues are much less than the test-year forecast, a discrepancy that it claims Mr. Effron should have considered when looking at the opposite discrepancy in the Industrial and Transport revenue classes. According to the AG, the data in AIC's initial brief does not reflect weather-normalized revenue for the Commercial class and does not establish that the actual Commercial revenues for the 12 ended June 30, 2013 are a reasonable representation of the Commercial revenues in the test year. (AG RB at 35)

3. AIC's Position

AIC claims it proposes a reasonable test year level of non-residential, present rate revenues of $91.5 million. AIC says an analysis it conducted of non-residential base-rate revenues for the twelve months ended ("TME") June 2013, shows that the future test year revenues vary from the recent actuals by only 0.8%. AIC says this difference, although slight, can be explained by customer switching activities, the effects of weather and regional economic conditions. (AIC IB at 71)

AIC states that AG/CUB witness Mr. Effron recommends an adjustment to forecasted Industrial and Transportation revenues based upon observation that these forecasted revenues vary somewhat from those generated by these financial classifications in a recent actual period (the 12 months ended April 2013). In his rebuttal testimony, AIC indicates Mr. Effron updated his analysis to more properly focus on base rate, as compared to non-base rate, revenues (the practical effect of which is a better "apples-to-apples" comparison of actual period revenues to the forecasted revenues presented in AIC's Schedule E-5) and shifted the focus of his historical period comparison forward to the TME ended June 2013. Based upon this analysis, Mr. Effron recommends a reduction to test-year Industrial revenues in the amount of $358,000 and

an increase in test-year Transportation revenues in the amount of $4,450,000, for a net imputation of $4,092,000. Both AIC and Staff recommend that this adjustment be rejected. (AIC IB at 71-72)

AIC states that it maintains four non-residential financial reporting categories: (1) Commercial, (2) Industrial, (3) Public Authority, and (4) Transport. According to AIC, in presenting his analysis, Mr. Effron cherry picks the Industrial and Transportation categories and ignores the effects of other revenue categories including Commercial and Public Authority. AIC argues that his analysis ignores a broader and more encompassing approach based on a comparison of all actual versus forecasted base rate non-residential revenues at present rates. AIC claims this broader analysis is required because factors such as customer switching between transport and system gas, among others, may cause variations between categories (e.g. Transportation, Commercial and Industrial), while the overall level of revenues remains essentially unchanged. (AIC IB at 72)

AIC submits that a Commercial customer's election to switch to transport service from system gas (and vice versa) can have an impact on the revenues in both the Commercial and Transportation financial reporting categories. AIC believes this is significant because Mr. Effron's analysis only expressly captures the effect of switching on Transportation revenues, but not the Commercial revenues. In AIC's view, in the context of his analysis, it might look like one financial category is “losing” revenues, when in reality (and as apparent by looking at the bigger picture) those revenues may shift another financial reporting classification. AIC argues only by examining all of these classes in the aggregate can one obtain a full picture non-residential base rate revenue movement. (AIC IB at 72-73)

AIC indicates in her surrebuttal testimony, Ms. Althoff presents a comparison of all of the non-residential financial reporting categories for the TME June 2013 to the forecasted test year. AIC says this analysis is based on the exact same data as used by Mr. Effron (and provided by AIC during discovery), but includes an analysis of all four financial reporting categories:

Thousands of Dollars	Commercial	Industrial	Public Authority	Transport	Total
Base Rate Revenues 12 Months ended 6/30/13	$58,825	$2,215	$1,342	$28,441	$90,823
Test Year Base Rate Revenues Forecasted by AIC	$63,369	$2,574	$1,592	$23,991	$91,526
Adjustment to Test Year Revenues	$ (4,544)	$ (358)	$ (250)	$ 4,450	$ (703)

(AIC IB at 73)

According to AIC, this analysis demonstrates that actual, non-residential base rate revenues totaling $90.8 million for the 12 months ended June 30, 2013, increased to $91.5 million during the forecasted test year – a difference of $703,000, or 0.8%. AIC argues that changes to individual categories are offset by changes to other categories.

While it appears that recent historical Transport revenues are greater than forecasted for 2014, recent historical Commercial revenues are much less than forecasted and so are Public Authority revenues. AIC claims the shift in Commercial and Public Authority revenues is so great that differences not only offset the anticipated decrease in Transport revenues, but when coupled with the anticipated decrease in Industrial revenues (which Mr. Effron includes in his analysis), actually results in a net anticipated increase to the total non-residential base rate revenues for the future test year as compared to the TME June 2013. AIC says Mr. Effron states in his rebuttal testimony that he analyzed forecasted test-year sales for these Commercial and Public Authority revenue classes and concluded they were not unreasonable. AIC asks if they were not unreasonable, then why were they not expressly included in his actual versus forecasted revenue analysis. (AIC IB at 73-74)

In AIC's view, had Mr. Effron undertaken a complete analysis, and had not simply examined a snapshot of select financial reporting classifications, the complete analysis would support the reasonableness of AIC's test year billing determinants as reflected on the comparison table presented above. (AIC IB at 74)

AIC believes Mr. Effron's adjustment to forecasted revenues should be rejected by the Commission. AIC argues it ignores the broader picture in terms of the non-residential base rate revenue expectations heading into the test year. AIC notes Staff supports this conclusion and AIC's analysis, which shows that the test year billing determinants reflected on AIC Schedule E-5 do not reflect the declines in therms sales about which Mr. Effron expressed concerns based on his review of other schedules. (AIC IB at 74)

AIC notes in CUB's initial brief, CUB states that the best measure of AIC's likely 2014 industrial and transportation sales is AIC's most recent actual experience. AIC agrees that recent sales performance can be telling in evaluating future sales expectations. AIC asserts that this holds true for all financial reporting categories, not just Industrial and Transportation. CUB argues that AG/CUB witness Mr. Effron did not "overlook" the Commercial and Public Authority financial reporting categories, but rather that he reviewed the related revenues and deemed them to be reasonable expectations for the future test year. The AG offers a similar explanation. AIC argues that Mr. Effron's failure to expressly incorporate the most recent actual experience of the Commercial and Public Authority financial reporting categories appears to be inconsistent with his approach to his Transportation and Industrial adjustments. (AIC RB at 41-42)

In their initial briefs, the AG and CUB also address a discussion contained in the rebuttal testimony of AIC witness Ms. Althoff in which she criticizes Mr. Effron's use of "broad customer segments" as opposed to the actual gas delivery service ("GDS") customer rate classifications presented in AIC's Schedule E-5. In advancing this argument, AIC contends it is apparent that both CUB and the AG misunderstand Ms. Althoff's argument, as well as the distinction and interplay between customer GDS rate

classifications and the general ledger financial reporting categories used in Mr. Effron's analysis. (AIC RB at 42)

CUB and the AG complain about the AIC's inability to provide "commercial transportation volumes." AIC says this notion appears to be predicated on the belief that AIC's general ledger breaks out Transportation sales (i.e. those to Rider T customers) into Commercial and Industrial subcategories. AIC asserts that is not the case because AIC's general ledger does not classify Transportation (as recorded in FERC Account 489) volumes and base-rate revenues as commercial or industrial). AIC says although it initially inadvertently mislabeled several data request responses on this subject, those responses have been corrected and were offered into the record. (AIC RB at 42)

According to AIC, the purpose of the discussion contained in Ms. Althoff's rebuttal testimony was to highlight that financial reporting classifications are not mutually exclusive in respect to customer GDS classes. AIC says some GDS-3 customers, which are generally referred to as "Commercial" customers, could generate "Commercial" financial reporting revenues, while other GDS-3 "Commercial" customers could generate "Industrial" or "Transportation" financial reporting revenues depending on whether they are on system (Rider S) or transport (Rider T) service. AIC claims this argument is further supported by Ameren Exhibit 24.1, which contains an analysis juxtaposing GDS class revenues against the financial reporting categories comprising the general ledger entries. To the extent CUB and the AG are interested in how "Commercial" or "Industrial" contribute to the revenues contained in the general ledger categories, AIC says that information is presented in Ameren Ex. 24.1. (AIC RB at 42-43)

AIC asserts this is important because only by examining all of the financial reporting categories does one capture the "big picture" in respect to non-residential, base rate revenue expectations. AIC contends this is the level of granularity presented in the billing determinants contained in AIC's Schedule E-5, which are supported by Staff. (AIC RB at 43)

AIC also argues Mr. Effron does not provide evidence in support of the mechanism technically necessary to implement his revenue "adjustment." AIC agrees with Staff that if an adjustment were warranted, the appropriate adjustment would be to the billing determinants used to calculate rates rather than to the revenues to be recovered. AIC also agrees an adjustment to the revenues, as Mr. Effron proposes, would not change the total test year revenue requirement to be recovered. AIC complains Mr. Effron has offered no adjustment to billing determinants. (AIC RB at 44)

4. Staff's Position

Staff believes the Commission should reject Mr. Effron's proposed adjustment to AIC's 2014 test year sales and operating revenues. Staff says Mr. Effron proposed the

adjustment because he believes the reductions to industrial and transportation sales and revenues forecasted by AIC are not taking place. (Staff IB at 29)

According to the Staff witness, if an adjustment were warranted, the appropriate adjustment would be to the billing determinants used to calculate rates rather than to the revenues to be recovered. Staff states that an adjustment to the revenues, as Mr. Effron proposes, would not change the total test year revenue requirement to be recovered. Staff says it would merely produce offsetting changes in the amount of test year revenues at present rates and the amount of the increase necessary to produce test year revenues at proposed rates. (Staff IB at 29)

Staff believes the evidence demonstrates that the adjustment is not necessary. Staff indicates the billing determinants used to set the rates are reflected in AIC's Schedule E-5. Staff says Ms. Althoff provided an analysis which shows that the billing determinants on Schedule E-5 do not reflect the declines in therms sales about which Mr. Effron expressed concerns based on his review of other schedules. Ms. Althoff states that AIC's Schedule E-5 test year billing determinants and resulting base rate delivery service revenues are accurate, and she has performed a comparison of total non-residential present rate revenues for the 12-month period ended April 2013 to test year non-residential present rate revenues. According to Staff, she asserts that her comparison confirms the accuracy of the forecast and demonstrates that AIC is not under-forecasting present non-residential rate revenues as Mr. Effron suggests. For these reasons, Staff believes that Mr. Effron's adjustment is not necessary. (Staff IB at 29-30)

5. Commission's Conclusions

While the AG and CUB filed separate briefs in this proceeding, they jointly sponsored the testimony of Mr. Effron. The Commission's review of the briefs indicates their arguments on this issue are quite similar in substance. While the Commission has carefully reviewed all of those briefs, for purposes of efficiency in this conclusion, the Commission will refer to the AG and CUB jointly as AG/CUB.

AG/CUB argue that AIC's forecast of 23% decreases in sales for industrial and transportation customers are unreasonable. AG/CUB claim the significant decreases forecasted by AIC are not actually taking place. They dispute AIC's assertion that AG/CUB overlooked the Commercial and Public Authorities customer classes, thus missing a significant portion of the big picture. AG/CUB claim that because their witness deemed the forecasts of sales volume in each of these two revenue classes to be reasonable, no adjustment was necessary, and they were not included in the AG/CUB proposed adjustment to AIC's test-year revenues.

AIC and Staff recommend that the Commission reject the adjustment advanced by AG/CUB. AIC argues that changes to individual categories are offset by changes to other categories. AIC says that while it appears recent historical Transport revenues are greater than forecasted for 2014, recent historical Commercial revenues are much

less than forecasted and so are Public Authority revenues. AIC claims the shift in Commercial and Public Authority revenues is so great that differences not only offset the anticipated decrease in Transport revenues, but when coupled with the anticipated decrease in Industrial revenues, actually result in a net anticipated increase to the total non-residential base rate revenues for the future test year as compared to the 12 months ending June 2013.

The Commission has carefully reviewed the positions of the parties on this issue. As an initial matter, the Commission agrees with Staff that if an adjustment were warranted, the appropriate adjustment would be to the billing determinants used to calculate rates rather than to the revenues to be recovered. An adjustment to the revenues would not change the total test-year revenue requirement to be recovered. Instead, the Commission believes, as suggested by Staff, that it would merely produce offsetting changes in the amount of test-year revenues at present rates and the amount of the increase necessary to produce test-year revenues at proposed rates.

It is not clear to the Commission how the AG and CUB may reasonably conclude that the changes in revenues for the Industrial and Transportation rate classes are significant and that the changes for the Commercial and Public Authority rate classes are not significant. It appears to the Commission that the data used in the table in Ms. Althoff's surrebuttal testimony for the Industrial and Transportation rate classes are the same that used by Mr. Effron for his proposed adjustment. Additionally, the Commission does not find that the AG or CUB offered an adequate reason for discarding the data for Commercial and Public Authority rate classes when the data for all rate classes appears to come from the same source.

The Commission finds the arguments regarding nonresidential customers switching between transportation and sales classes to be reasonable and supported by the record. As a result, the Commission concludes that it is appropriate to review AIC revenues for all nonresidential rate classes as a whole rather limiting the review to two rate classes as the AG and CUB suggest. The Commission believes the basis for AG/CUB's proposed adjustment to nonresidential revenues is not supported by the record and their proposed adjustment should not be adopted. The Commission finds the billing determinants as reflected in AIC's Schedule E-5 are reasonable and should be used for purposes of setting rates for the test year.

M. APPROVED OPERATING STATEMENTS

Upon giving effect to the determinations above, the Commission finds that the operating statements for AIC are hereby approved as shown in the schedules contained in the Appendices to this Order.

VI. CAPITAL STRUCTURE AND RATE OF RETURN

A. Overview

A company utilizes various types of investor-supplied capital to purchase assets and operate a business. Utilities typically rely upon long-term debt and common equity, and in some instances preferred stock and short-term debt, to purchase assets and fund operations. The costs of different types of investor-supplied capital vary depending upon a multitude of factors, including the risk associated with the investment. As a result, the proportion of the different types of capital, also known as the capital structure, when combined with the costs of each different type of capital affects the overall or weighted average cost of capital, which is the ROR a utility is authorized to earn on its net original cost rate base.

The Commission relies on the cost of capital standard to determine a fair ROR. This cost, which can be determined from the overall ROR or weighted average cost of capital, should produce sufficient earnings and cash flow when applied to the respective company‘s rate base at book value to enable a company to maintain the financial integrity of its existing invested capital, maintain its creditworthiness, attract sufficient capital on competitive terms to continue to provide a source of funds for continued investment, and enable a company to continue to meet the needs of its customers.

These standards are effectively mandated by the landmark U.S. Supreme Court decisions *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*") and *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 391 (1944) ("*Hope*"). Meeting these requirements is necessary in order for a company to effectively meet the utility services requirements of its customers and provide an adequate and reasonable return to its investors, debt holders and equity holders, alike.

B. Resolved Issues and Immaterial Differences

Staff witness Ms. Phipps made certain adjustments to “Remaining CWIP accruing AFUDC Adjustments.” These adjustments were not contested and they are adopted.

Ms. Phipps recommends an average 2014 preferred stock balance of $58,757,200. This recommendation is adopted.

Staff and the Company agree, and the Commission concurs, that the Company’s embedded cost of preferred stock is 4.98%.

C. Short-Term Debt Balance

It appears that differences between AIC and Staff over short-term debt balances are attributable primarily to differences in the respective revenue requirement proposals.

The Commission finds that the short-term debt balance approved herein shall reflect the revenue requirement approved in this Order.

D. Long-Term Debt Balance

1. Staff's Position

Staff witness Ms. Phipps recommends an average 2014 long-term debt balance of $1,912,158,622, which equals the $1,976,194,120 carrying value for the Company's long-term debt, less $64,035,498, which is the amount of long-term debt already incorporated in the AFUDC calculation. Staff's long-term debt balance differs from the Company's primarily due to Staff's adjustment to remove a portion of the loss associated with the $87.1 million 9.75% bonds that AIC redeemed during August 2012, as explained in section IV.B.5 of Staff's initial brief, Embedded Cost of Long-Term Debt. (Staff IB at 33)

On page 38 of its initial brief, Staff addresses the "Amount of Recoverable Loss Associated with Redemption of 9.75% Bonds." During August 2012, AIC issued $400 million of 2.7% bonds, $87.1 million of the proceeds of which were used to redeem the same amount of 9.75% bonds. (Ameren Ex. 4.0 at 9; Staff Ex. 50R at 6-7) If all $400 million of AIC's 9.75% bonds had been found to be prudently issued, the recoverability of the cost of redeeming $87.1 million of those bonds would not be an issue in this proceeding. However, the Commission previously found that $50 million of the 9.75% bonds were issued imprudently. Central Illinois Light Co. d/b/a Ameren CILCO, Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a AmerenIP, Order, Docket Nos. 09-0306 et al. (Cons.), 143 (April 29, 2010); Ameren Illinois Co., Order, Docket No. 11-0282, 75-76 (Jan. 10, 2012). (Staff IB at 38)

Thus, in Staff's view, "the recoverability of the 9.75% bond redemption costs is directly related to how the proceeds from the 2.7% bonds are assigned." (Staff IB at 38) If AIC had chosen to assign $87.1 million of the 2.7% bond proceeds to the $350 million of 9.75% bonds that the Commission had found to be prudently issued, thereby reducing the outstanding balance of recoverable 9.75% bonds to $262.9 million, then the entire redemption cost would be recoverable. However, "AIC chose to assign $50 million of the 2.7% bond proceeds to eliminate the $50 million cost of debt the Commission imputed to neutralize the effect of that imprudently issued debt on AIC's embedded cost of debt. Ameren Illinois Co., Order, Docket No. 11-0282, 75-76 (Jan. 10, 2012)." (Staff IB at 38)

According to Staff, this left only $32.1 million of 2.7% bond proceeds to assign to the 9.75% bonds that the Commission found to be recoverable, which reduced the balance of recoverable 9.75% bonds from $350 million to $312.9 million. Since the $50 million of disallowed 9.75% bonds composes 57.41% of the $87.1 million of 9.75% bonds redeemed, 57.41% of the cost to redeem the 9.75% bonds should be disallowed. (Staff Ex. 5.0R at 7) That is, Ameren Illinois' cost to redeem the 9.75% bonds would have been lower had it not issued the $50 million of 9.75% bonds that the Commission

disallowed. (*Id.* at 6-7) The Company should not be allowed to recover redemption costs associated with bonds that the Commission found to be imprudently issued. (Staff IB at 38)

As indicated below, AIC argues in its reply brief that Staff's claim "the recoverability of the 9.75% bond redemption costs is directly related to how the proceeds from the 2.7% bonds are assigned" appeared for the first time in Staff's initial brief, and lacks any basis in the record or citation to the record. (AIC RB at 47)

In its reply brief, Staff notes that AIC addressed the issue of the redemption cost associated with the 2012 refinancing of AmerenIP's legacy 9.75% bonds in Section IV.B.2 of its initial brief, Long-Term Debt Balance; whereas, Staff addressed the same issue in Section IV.B.5. of its initial brief, Embedded Cost of Long-Term Debt. (AIC IB at 77-83; Staff IB at 37-39)

In its reply brief, Staff also states that AIC argues, in part, "AIC's position is premised on the prudency of the transaction; Staff's on a misapplication of Commission precedent… 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 further argues, "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. The issues and facts in those cases, however, are different from those at bar." (AIC IB at 78-79)

AIC argues further that the merger of the legacy companies (i.e., AmerenIP, AmerenCIPS and AmerenCILCO) negates any cross-subsidization concern. (*Id.* at 80)

According to Staff, the Company errs when it describes the Commission's concern with the original disallowance of $50 million 9.75% bonds as a cross-subsidization issue between AmerenIP and AmerenCIPS. (*Id.*) First, the Commission never described the $50 million in excess 9.75% bonds as a cross-subsidization issue; rather, it framed its concern more as a prudence issue (i.e., Did AmerenIP issue more long-term debt than was required?). The Commission stated, "The Commission notes that Staff recommends a long-term debt balance for AmerenIP of $1,307,983,675; approximately $50 million less than that recommended by AmerenIP, to reflect what Staff believes was excessive borrowing by AmerenIP to repay borrowing under bank facilities and the money pool. AmerenIP argues it was necessary to borrow $400 million because this was the amount of short-term debt outstanding at the time of the long-term borrowing."

The Commission further stated, "It appears to the Commission that AmerenIP issued more long-term debt than required for AmerenIP's utility operations, especially at a time when AmerenCIPS was relying on low cost money pool funds, contributed in part by AmerenIP, rather than resorting to the issuance of costly long-term debt. The Commission agrees with Staff that AmerenIP's proposal would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. The

Commission will, therefore, adopt Staff's proposed long-term debt balance for AmerenIP for the purposes of this proceeding." Central Illinois Light Co. d/b/a AmerenCILCO, Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a Ameren IP, ICC Order Docket Nos. 09-0306 et al. (Cons.) at 143 (April 29, 2010) ("09-0306 Order").

The Commission's Order indicates that while AmerenIP's loan to AmerenCIPS was the more important reason the Commission disallowed $50 million of long-term debt that AmerenIP did not require for utility operations, it was not the only reason. Although AmerenIP's loan to AmerenCIPS contributed to the former's $400 million balance of short-term debt, as noted in the Commission Order, AmerenIP could have reduced its $400 million long-term debt borrowing to $350 million had it not "inexplicably" taken a short-term $60 million loan from Ameren Corp. only to repay it two days later, the proceeds of which AmerenIP never used. 09-0306 Order at 142. (Staff RB at 27)

On the second level, even if one were to wrongly interpret the disallowance of $50 million of the 9.75% bond issue as arising wholly from an improper cross-subsidization of AmerenCIPS, "the ratemaking consequences of such cross-subsidization did not vanish with the merger of AmerenIP and AmerenCIPS." That is, the October 2010 merger of the Ameren Illinois utilities has no bearing on the disallowance in question because prudence determinations are based on the facts and circumstances at the time of the transaction in question and the consequences of the disallowed costs, not on subsequent events. (Staff Ex. 14.0C at 12; Staff RB at 27-28) In summary, the Company's proposal would contravene the Commission's prior determination that AIC improperly issued $50 million more of long-term debt than required for its utility operations. (*Id*. at 12)

In Docket No. 11-0282, AIC argued that AmerenIP's actions were prudent during 2008 given the circumstances in the financial markets at that time. The Commission's Order in that case rejected those arguments by the Company and concluded as follows:

> The facts here are exactly the same and the Commission believes the results should be the same. The legal standard that apparently eludes AIC was previously stated. AIC's actions, if not adjusted in the ratemaking process, would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. Under the Act, AIC is allowed to recover from ratepayers a reasonable cost of capital but if allowed to pass on the cost associated with $50 million of relatively high cost debt that was not needed, the Commission finds that AmerenIP would effectively recover from ratepayers an excessive cost of capital.
>
> In other words, if the Commission failed to make the adjustment proposed by Staff, ratepayers would be burdened with an unreasonable cost of capital. It appears to the Commission that while the mathematical calculation proposed by Staff in this case is different from that adopted in

> AIC's previous case, the result is the same. The Commission finds that Staff's proposed adjustment for the 2008 AmerenIP debt issuance is reasonable and leads to a cost of long-term debt that is reasonable and should be adopted for purposes of this proceeding.
>
> Docket 11-0282 Order at 75-76.

AIC also argues Staff's adjustment in this case is "grossly disproportionate" from the adjustment in Docket No. 11-0282 because in that case, the Commission assigned a 7.39% cost to $50 million of the 9.75% bonds, which AIC equates to a 3% disallowance of the total cost of the 9.75% debt. AIC compares this percentage to the annual revenue requirement impact of approximately $1 million resulting from Staff's proposed adjustment in this case. (AIC IB at 82-83) In Staff's view, there are two problems with AIC's argument. First, AIC never explains the calculation for its estimate of an annual revenue requirement impact. Second, AIC errs by making an improper "apples to oranges" comparison of the revenue requirement effect, in dollars, of Staff's proposed disallowance in the instant case versus the percentage effect of the interest expense disallowance in Docket No. 11-0282. According to Staff, if the Commission did apply the same type of adjustment in this case as it did in Docket No. 11-0282, the dollar effect would be greater in this case due to the lower embedded cost of debt for 2014. (Staff RB at 29)

In Docket No. 11-0282, Staff recommended assigning $350 million of the $400 million bonds the actual interest rate of 9.75% and $50 million of the $400 million bonds an interest rate that equaled the embedded cost of long-term debt because "removing $50 million in 9.75% bonds from AIC's long-term debt for the purpose of calculating the long-term debt balance would have the perverse result of a disallowance that increased AIC's ROR on rate base due to a shift in capital structure weights from lower cost debt to higher cost common equity." 11-0282 Order at 70. Thus, in Docket No. 11-0282, the Commission effectively reduced the interest rate on $50 million of the 9.75% bonds to 7.39%. This results in a disallowance of $1.18 million of interest expense (i.e., 9.75% - 7.39% = 2.36% × $50 million = $1.18 million). A similar disallowance in this case would result in $1.735 million in disallowed interest expense (i.e., 9.75% - 6.28% = 3.47% × $50 million = $1.735 million.) In contrast, in Docket No. 09-0306 et al. (Cons.), the Commission effectively disallowed interest expense totaling $4.875 million (i.e., 9.75% × $50 million). Docket 09-0306, Order at 143. (Staff RB at 29)

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 IB at 82) In Staff's view, "the Company's wildly speculative argument is based on conjecture regarding the timing and type of substitute capital AmerenCIPS may have needed in lieu of the $50 million intercompany loan from AmerenIP as well as whether AmerenCIPS would have refunded such substitute capital during August 2012 with the proceeds of the 2.70% bonds." (Staff RB at 30-32)

2. AIC's Position

The record reflects one point of disagreement on AIC's test year balance of long-term debt. According to AIC, the long-term debt balance should include the redemption cost AIC incurred in connection with a 2012 debt refinancing transaction that yielded positive net present value economics. Staff, however, believes the Commission should disallow a majority of that cost. AIC's position is premised on the prudency of the transaction, Staff's on a misapplication of Commission precedent. Staff's position is also legally untenable, and it results in a grossly disproportionate impact on AIC's test year revenue requirement. Ultimately, the question is whether AIC's redemption of the debt in 2012 was prudent. The Commission should approve full recovery of AIC's prudently incurred redemption cost. (AIC IB at 78)

In October 2008, AmerenIP issued $400 million of debt with a coupon rate of 9.75% due in 2018. (Ameren Ex. 4.0 at 9) In October 2010, AmerenIP merged with AmerenCILCO into AmerenCIPS, forming AIC. In July 2012, AIC 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 issued $400 million of 2.70% senior secured notes due in 2022. (Ameren Exs. 4.0 at 9; 19.0 (2d Rev.) at 3-4; Ameren Sch. WPD-3 - Gas (Part 4), p. 2.) AIC used the net proceeds of that refunding issue to fund the premium cost of the 9.75% bond redemption. The combined transaction yielded positive net present value economics on a matched maturity basis and resulted in annual interest savings for AIC. 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. (Ameren Exs. 4.0, at 9-10; 19.0 (2d Rev.) at 4) The combined transaction was an economically favorable one, and the associated cost to redeem the 9.75% bonds was thus prudently incurred. (Ameren Ex. 19.0 (2d Rev.) at 3-4; AIC IB at 78)

Staff, nevertheless, would disallow a majority of that cost. 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. 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. The issues and facts in those cases, however, are different from those at bar. Consequently, any adjustment to AIC's long-term debt balance premised on those dockets should be rejected. (AIC IB at 79)

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 at 143 (Apr. 29, 2010). 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.* 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 at 75-76. 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 IB at 79, citing Staff Ex. 5.0R at 6-7)

In AIC's view, the issue in this case is different than in the previous dockets. 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. (Ameren Ex. 19.0 (2d Rev.) at 4) The Commission's past disallowance of a portion of the total principal 9.75% issuance is irrelevant. It does not warrant an automatic adjustment to the premiums AIC paid in 2012 to redeem that debt. (AIC IB at 79-80)

The facts of this case also are different from the facts of Dockets 09-0306, et al. (Cons.) and 11-0282. 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. (Tr. at 555-556) 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. Dockets 09-0306, et al. (Cons.), Order at 143. 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. (Tr. at 556-557; Ameren Ex. 33.0 at 2) The concern was cross-subsidization between AmerenIP and AmerenCIPS. (AIC IB at 80)

The instant case involves AIC, however, which was formed upon merger of those entities. That merger negates any cross-subsidization concern. AIC has a capital structure that is common to all rate zones and that incorporates each of the merged entities. The $50 million in question is a necessary component of AIC's capital structure. (Ameren Ex. 33.0 at 2) At hearing, the Staff witness who sponsored Staff's adjustment to AIC's test year long-term term debt balance, Ms. Rochelle Phipps, was asked, "… Do you believe that today as we sit here Ameren Illinois Company has $50 million of capital that is not being used to provide or support utility service?" She answered, "No." (Tr. 557) According to AIC, Whether AmerenIP or AmerenCIPS ultimately required the debt is irrelevant to AIC's current capital structure; since the $50 million of long-term debt was required by AIC, any cost disallowance associated with tender of the bonds is unwarranted. (AIC IB at 80-81)

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." (AIC IB at 81)

Staff does not dispute that AIC's 2012 redemption of the 9.75% bonds was prudent. That redemption combined with the 2.70% reissuance represents an economically favorable transaction. (Ameren Ex. 19.0 (2d Rev.) at 3-4) 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. (*Id.* at 4-5) 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 IB at 81-82, citing Ameren Exs. 19.0 (2d Rev.) at 5; 33.0 at 3)

The Commission also should reject Staff's adjustment because it is "grossly disproportionate." (AIC IB at 82-83) In Docket 11-0282, AIC's last gas rate case, the Commission approved full recovery at 9.75% of $350 million of the $400 million total issuance. It allowed recovery of the remaining $50 million at the weighted average cost of debt for Ameren, 7.39%. Docket 11-0282, Order, at 70, 76. In other words, 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. (Ameren Ex. 19.0 (2d Rev.) at 6) That equates to a disallowance of approximately 3% of the total cost of the 9.75% debt. Yet here, Staff would disallow a majority -- 57.41% -- of the prudent cost to redeem the debt. (ICC Staff Ex. 5.0R at 6-7) 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. That adjustment has an annual revenue requirement impact of approximately $1 million. (Ameren Ex. 19.0 (2d Rev.) at 4) In AIC's view, it is "unquestionably inconsistent" with the Commission's prior 3% adjustment, and it unduly punishes AIC for its prudent 2012 refinancing action. The Commission should reject Staff's adjustment, and allow AIC to recover in full the costs it prudently incurred in connection with that transaction. (AIC IB at 82-83)

In its reply brief, AIC complains that Staff, "for the first time in brief," asserts a new basis for its recommendation to disallow a majority of the cost AIC prudently incurred in 2012 to refinance certain long-term debt. (AIC RB at 47) Staff claims: "in Staff's view, the recoverability of the 9.75% bond redemption costs is directly related to how the proceeds from the 2.7% bonds are assigned." (Staff IB 38-39) Staff then summarily states, "AIC chose to assign $50 million of the 2.7% bond proceeds to eliminate the $50 million cost of debt the Commission imputed to neutralize the effect of that imprudently issued debt on AIC's embedded cost of debt." (*Id.* at 39) AIC argues, "However, there is no record basis for this argument; no witness testified as to how the proceeds were 'assigned' and Staff provides no record cite for its statement. (AIC RB at 47)

According to AIC, "If this was Staff's 'view,' it should have asserted it in testimony." (AIC RB at 47) It did not. Accordingly, AIC has had no opportunity to respond or to present evidence demonstrating the manner in which it "assigned" the proceeds from the 2.7% bonds. Nevertheless, there is no record evidence to support Staff's new position. For example, there is no evidence in this proceeding that AIC

applied the $87.1 million of 9.75% bonds (that it redeemed in 2012 as part of an economically favorable and therefore prudent refinancing transaction) to other than the $350 million of 9.75% bonds for which the Commission approved full recovery. Ameren Ill. Co., Docket 11-0282, Order at 70, 76. (AIC RB at 47)

3. Commission's Conclusion

In October 2008, AmerenIP issued $400 million of debt with a coupon rate of 9.75% due in 2018.

In Docket No. 09-0306 the Commission found, in part, "It appears … that AmerenIP issued more long-term debt than required for AmerenIP's utility operations, especially at a time when AmerenCIPS was relying on low cost money pool funds, contributed in part by AmerenIP, rather than resorting to the issuance of costly long-term debt." The Commission concluded, "The Commission agrees with Staff that AmerenIP's proposal would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. The Commission will, therefore, adopt Staff's proposed long-term debt balance for AmerenIP for the purposes of this proceeding." Docket 09-0306, Order at 143.

In Docket No. 11-0282, the Commission found, in part, "AIC's actions, if not adjusted in the ratemaking process, would unnecessarily burden ratepayers with $50 million in excess debt at a relatively high interest rate of 9.75%. Under the Act, AIC is allowed to recover from ratepayers a reasonable cost of capital but if allowed to pass on the cost associated with $50 million of relatively high cost debt that was not needed, the Commission finds that AmerenIP would effectively recover from ratepayers an excessive cost of capital."

The Commission added, "In other words, if the Commission failed to make the adjustment proposed by Staff, ratepayers would be burdened with an unreasonable cost of capital." Docket 11-0282, Order at 75-76.

In 2012, AIC, issued $400 million of 2.7% bonds, $87.1 million of the proceeds of which were used to redeem the same amount of 9.75% bonds. AIC used the net proceeds of that refunding issue to fund the premium cost of the 9.75% bond redemption.

Given the Commission's findings in the earlier dockets regarding the $50 million of excess, high-cost debt, Staff's proposed adjustment would remove the portion of the redemption costs associated with $50 million of the $87.1 million redemption.

The Commission has reviewed the record and the Orders in Dockets Nos. 09-0306 and 11-0282. Of the two competing and somewhat polar recommendations before the Commission on this complicated issue, the Commission believes that Staff's adjustment is more consistent with the Commission's findings in the earlier dockets and should be adopted.

If the Commission were to pass all the costs of the 2012 redemption on to ratepayers, it would burden current customers with the effects of AmerenIP's 2008 actions which were found by the Commission to be imprudent. That is, while the actions found to be imprudent were those taken in 2008, not 2012, AIC's proposal would adversely impact current customers by imposing on them the cost of redeeming long-term debt that the Commission has previously determined should not have been issued in the first place.

Whether the adjustment could be calculated by use of a methodology that would be less "disproportionate" or more accurate than the one proposed by Staff is a question not reached in this Order, as no such proposals were specifically advanced and explained in, or supported by, the record.

In reaching its conclusions, the Commission has not given consideration to the specific "how … proceeds … are assigned" arguments in Staff's initial brief that AIC characterizes as being outside the record.

E. Common Equity Balance

1. Purchase Accounting/Goodwill

In developing its proposed future test year 2014 capital structure, the Company adjusted its common equity balance by subtracting $356,284,459. This "self-adjustment" excludes 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. (AIC IB at 83) Staff and IIEC proposed separate adjustment to remove additional amounts from AIC's common equity balance.

a. Staff's Position

Staff's recommended common equity balance differs from the Company's primarily due to Ms. Phipps' adjustment removing net income-related purchase accounting from the Company's common equity balance. Specifically, in addition to subtracting $356,284,459 of balance sheet purchase accounting adjustments that are collapsed into ICC Account 114 from the Company's common equity balance (as the Company did in its 2012 Form 21 ILCC Annual Report at page 13), Ms. Phipps also subtracted $105,536,599 income statement purchase accounting adjustments, which the Company flowed through to retained earnings component of the common equity balance, for a total adjustment of $461,821,058. (Staff Ex. 5.0R at 10; Staff IB at 34)

Ms. Phipps explained that, as a condition of approval in Docket No. 04-0294, the Commission required the Company to reverse the effects of purchase accounting for ratemaking purposes and reflect in Account 114 the impacts of all push-down accounting for all Illinois regulatory purposes. (Staff Ex. 5.0R at 10 and Staff Ex. 14.0C,

at 10, citing Illinois Power Company and Ameren Corporation, Order, Docket No. 04-0294, Appendix A, 3 (Sept. 22, 2004)). According to Staff, AIC admits that neither AIC (nor Illinois Power) ever reversed the net income-related purchase accounting adjustments for ratemaking purposes. (Staff Ex. 14.0C, Attach. A.) (Staff IB at 34-35)

Furthermore, the Company's Account 114 balance does not include $105.5 million of net income related purchase accounting adjustments, which flowed through retained earnings. (Staff Ex. 14.0C, Attach. B.) Thus, net income-related purchase accounting adjustments have not been reversed through the reversal of Account 114's effect on AIC's balance of common equity, contrary to the Commission's directive in Docket No. 04-0294. (Staff Ex. 14.0C at 10; Staff IB at 35)

In its reply brief, Staff states that in Docket No. 12-0001, Staff proposed a common equity adjustment which the Commission rejected. The Commission stated, in part, "The Commission has attempted to review the record carefully and cannot find an instance where AIC has violated any accounting rules. As the Commission understands it, accounting rules exist, in part, to protect the veracity of companies' financial statements." The Commission concluded, "Because it appears that 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 Illinois Co., Order, Docket No. 12-0001, 119 (Sept. 19, 2012). (Staff RB at 33)

In this proceeding, however, Staff is not contesting AIC's claims that: 1) IP followed accounting rules when it adjusted its financial statements for purchase accounting as a consequence of its acquisition by Ameren Corp. and 2) it followed accounting guidance in determining earnings available to common shareholders from purchase accounting net income and non-purchase accounting net income. (Staff Cross Ex. 3) Rather, Staff's proposed adjustment to subtract from AIC's common equity balance approximately $105.5 million of net income related purchase accounting adjustments is because AIC failed to follow the Commission's Order in Docket No. 04-0294 to reverse all purchase accounting for ratemaking purposes and the Company's rationale for not making Staff's proposed adjustment is flawed. (Staff RB at 33)

Specifically, the Company argues that it has eliminated income statement purchase accounting adjustments by paying cash dividends, as shown in RMP 5.04R Attach. (Staff RB at 33, citing AIC IB at 83-84) In Staff's view, this argument is incorrect. As Staff explained, income statement purchase accounting adjustments will affect retained earnings until the Company reverses them for ratemaking purposes. (Staff Ex. 14.0C at 10) That is, the end of period balance of retained earnings will always reflect net income-related purchase accounting regardless of any other increments (e.g., non-purchase accounting-related net income) or other decrements (e.g., dividends). Therefore, payment of dividends does not cancel out net income related purchase accounting. Staff RB at 33)

The Commission should not allow AIC to confuse an issue that is in the end very straightforward. In Docket No. 04-0294, the Commission ordered AmerenIP to reverse all purchase accounting for ratemaking purposes. AmerenIP failed to comply with that directive. The Commission did not limit its directive to that portion of net income related purchase accounting adjustments that had been collapsed into Account 114 (i.e., $356,284,459). It did not carve out an exception for purchase accounting adjustments that had flowed into retained earnings through the income statement. Finally, the Commission did not provide Illinois Power an alternative to reversing its purchase accounting adjustments such as through common dividend "offsets." (Staff RB at 35)

b. IIEC's Position

With respect to its "purchase accounting/goodwill" adjustment, IIEC states that the Company recorded $411 million of goodwill asset as of March 31, 2013 based on its Federal Energy Regulatory Commission ("FERC") Form 3-Q. (IIEC Ex. 1.0 at 11. However, Mr. Martin only removed $170 million related to Ameren's acquisition of AmerenIP in 2004 and $186 million for the acquisition of AmerenCILCO, totaling approximately $356 million. While the total amount removed should equal $411 million, Ameren witnesses Martin and Stafford argue $356 million is the appropriate total purchase accounting net adjustment to common equity. Mr. Stafford argues that the AIC excluded purchase accounting adjustments recorded in connection with Ameren's acquisitions of AmerenCILCO and AmerenIP are consistent with the Commission's directive in 04-0294 that such balances not be included in the common equity balance for ratemaking purposes. (IIEC IB at 5-6, citing Ameren Ex. 17.0 Rev. at 21)

Despite Ameren's contention otherwise, test year books and records should be used to measure AIC's cost of service in this rate filing. Therefore, the actual amount of goodwill recorded in the test year books and records establishes whether any component of the common equity capital recorded in the test year is, or is not, used to support AIC's investment in utility plant and equipment in the test year. (IIEC Ex. 3.0 at 17).

IIEC argues, "The amount of the test year goodwill asset should be used to reduce the common equity for developing AIC's test year capital structure." (IIEC IB at 6) Mr. Gorman asserts the test year capital structure should reflect the Company's capital actually being used to support its test year rate base. The test year amount of common equity that is supporting the test year recorded goodwill asset is not capital that is used to support AIC's test year rate base. In measuring AIC's test year cost of capital that supports its rate base, the full amount of common equity supporting the test year goodwill asset should be removed from the test year capital structure. (IIEC IB at 6)

The actual amount of capital supporting the test year rate base does not include the common equity supporting the goodwill asset recorded on the test year books and records; therefore, it is irrelevant whether or not there are other purchase accounting

adjustments recorded before the test year that may have also been related to acquisitions. (IIEC IB at 7)

IIEC also argues, "It is not appropriate to modify test year accounting records to reflect pre-test year income statements related to purchase accounting." (IIEC IB at 7)

Mr. Gorman assumes that AIC has made all accounting entries and transactions consistent with generally accepted accounting principles. No matter how Ameren tries to justify its methods, it is still attempting to restate the test year books and records to reverse accounting entries that were made in prior periods. (IIEC IB at 7)

While Mr. Gorman proposes to rely on test year books and records, Ameren is "manipulating" test year accounting data in order to modify the cost of service in the test year such that it is no longer measuring its cost of service based on test year financial statements constructed based on generally accepted accounting principles (GAAP). The Commission should find Ameren's proposal to adjust test year financial statements to reverse purchase accounting adjustments properly recorded before the test year to be inappropriate, and remove the amount of common equity supporting the test year goodwill asset. Mr. Gorman removes this amount under the premise that the common equity supporting the test year goodwill asset is not being used to support AIC's investment in test year utility plant and equipment. The concept is generally consistent with using reliable financial statements that are completed in conformance with GAAP. Relying on financial statements developed in conformance with GAAP is necessary to reliably measure the utility's cost of service during the test year. (IIEC IB at 7)

In its reply brief, IIEC continues to argue that Mr. Gorman's adjustment should be adopted. (IIEC RB at 3-5)

c. AIC's Position

In response to the Staff adjustment, AIC states that in developing its proposed future test year 2014 capital structure, the Company adjusted its common equity balance by subtracting $356,284,459. This "self-adjustment" excludes 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. (AIC IB at 83)

Staff proposes to instead subtract $461,821,058 from the common equity balance, which Staff asserts is the sum of: (1) $356,284,459 of balance sheet purchase accounting adjustments that are collapsed into ICC Account 114; and (2) $105,536,599 in income statement purchase accounting adjustments, which flowed through to retained earnings. In AIC's view, "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 IB at 83-84)

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. AIC agrees that, pursuant to the order in Docket 04-0294, all effects of purchase accounting related to that transaction should be removed for ratemaking purposes. Thus, AIC agrees with Staff that the $356 million balance of purchase accounting adjustments that are collapsed into Account 114 should be subtracted from AIC's common equity balance. But AIC has already made this adjustment: AIC adjusted its common equity balance by subtracting the $356 million related for the purpose of calculating its projected capital structure. (Ameren Ex. 4.0 at 12) Assuming Staff is not recommending a double reduction of this amount, the $356 million adjustment to account for the impact of purchase accounting on balance sheet accounts (which are netted and collapsed into Account 114) is not in contested by Staff. (AIC IB at 84)

Staff's proposal to further reduce the common equity balance by $105 million for net income related purchase accounting adjustments also remains in controversy. These adjustments impact AIC's income statement, as opposed to its balance sheet as is the case with the $356 million adjustment discussed above. Staff continues to claim that AIC has not reversed these net income related purchase accounting adjustments for ratemaking purposes. Staff further asserts AIC's Account 114 balance does not include $105 million of net income related purchase accounting adjustments that flowed through retained earnings. (Staff Ex. 14.0 at 10)

According to AIC, its Common Equity Balance Comports with the Order in Dockets 04-0294. (AIC IB at 85)

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 at 33-34 (Sept. 22, 2004). Accounting standards required that the Company "push down" any investment onto Illinois Power's books, and also required that the Company adjust both assets and liabilities to fair market value. *Id.* at 32-34. Because the Commission sets rates based upon the original book value of plant in service, altering of account balances to reflect market value gave rise to concern. *Id.* Therefore, in order to maintain accounting of the cost basis for Illinois Power in a manner neutral to the change in corporate ownership, the Commission ordered that all purchase accounting be reversed for ratemaking purposes.

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." (AIC IB at 86) The Commission added, "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 at 33-34.

As Mr. Stafford explained, this regulatory accounting has been consistently followed and applied in rate cases subsequent to the acquisition. (Ameren Ex. 17.0 (Rev.) at 18) In each rate proceeding since the Order issued in Docket 04-0294, including this one, the Company has reversed the effects of purchase accounting collapsed into Account 114. (*Id.* at 22; Ameren Exs. 31.0 at 23-27; 31.10; AIC IB at 86)

AIC next argues, "Staff's purchase accounting adjustments have now been rejected in Dockets 11-0282 and 12-0001." (AIC IB at 86-88)

Staff has now proposed purchase accounting adjustments in three Ameren Illinois dockets – 11-0282, 12-0001 and 12-0293. The Commission has rejected these adjustments each time. In Docket 11-0282, 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. Docket 11-0282, Order at 48 (Jan. 10, 2012). Staff agreed that an adjustment was necessary to comply with the Commission's order in Docket 04-0294, but proposed to remove only the goodwill balance from common equity, while leaving other purchase accounting entries in place.

AIC argued that the Commission's findings in Docket 04-0294 were intended to reverse the push-down adjustments so that the push-down accounting had a neutral effect on the cost of service. Staff's adjustment would reverse only one of the push-down adjustments, leaving the others in place, and would therefore lower the cost of service, instead of having a neutral effect on the cost of service, as the Commission had intended. (AIC IB at 86-87)

According to AIC, 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. 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. 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. The Commission believed that, in this regard, Staff's arguments were overly simplistic. *Id.* (AIC at 87)

In Docket 12-0001, AIC once again adjusted its common equity balance by excluding the effects of purchase accounting. Ameren Ill. Co., Docket 12-0001, Order at 115 (Sept. 19, 2012). Staff recommended an additional reduction in common equity, which would remove: (i) purchase accounting adjustments that had been collapsed into Account 114; and (ii) income statement purchase accounting adjustments that flowed through to retained earnings. *Id.* at 111-112. (AIC IB at 87)

According to AIC, Staff proposed an adjustment to the common equity balance raising concerns related to AIC's payment of dividends to Ameren. Staff disagreed with AIC's contention that the dividends reduced the retained earnings resulting from purchase accounting. Instead, Staff contended, amounts paid in dividends can and had been transferred from retained earnings to other common stock accounts. *Id.* at 112. 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 IB at 87-88)

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. It appeared to AIC and the Commission that Staff's discussion of transfers between Ameren and AIC was intended to indicate an improper accounting transfer. *Id*. at 119. The Commission found that there was no evidence to support such a contention. *Id*. (AIC IB at 88)

AIC states that the Commission once again rejected Staff's position on this issue. The Commission found that, despite Staff's implications, it could not find an instance where AIC had violated any accounting rules. *Id*. Because it appeared to the Commission that 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. (AIC IB at 88)

Thus, in each of the cases in which Staff has raised arguments related to the removal of purchase accounting adjustments from AIC's common equity balance, the Commission has rejected Staff's position, finding instead that AIC's treatment of the purchase accounting was proper. (AIC IB at 88)

AIC next argues, "AIC has reversed all net income related purchase accounting for ratemaking purposes." (AIC IB at 89-91)

Staff argues that AIC has not reversed $105 million of net income related purchase accounting adjustments for ratemaking purposes. (Staff Ex. 14.0 at 10) According to AIC, it has reversed all net income related purchased accounting for ratemaking purposes.

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. (Ameren Ex. 31.0 at 23-24) The order in Docket 04-0294 requires AIC 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 IB at 89)

AIC 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. (Ameren Ex. 31.0 at 23) 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 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 IB at 89)

AIC has also eliminated the derivative effects of purchase accounting related retained earnings from the retained earnings balance in this and past rate proceedings. (Ameren Ex. 31.0 at 23-27) AIC's evidence reflects a detailed analysis of the derivative effects of purchase accounting related retained earnings. For each year going back to 2005, AIC has differentiated between net income attributable to purchase accounting and net income not attributable to purchase accounting. Purchase accounting related net income, less the portion of common dividend payments attributed to purchase accounting net income, was calculated to determine if any ratemaking adjustment was needed to reverse the effects of purchase accounting for regulatory purposes. (Ameren Exs. 31.0 at 24-27; 31.10; AIC IB at 89-90)

Although AIC cannot simply reverse the derivative effects of purchase accounting net income on its books, 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. In Docket 07-0585 (cons.) AIC made such a ratemaking retained earnings adjustment, since a portion of purchase accounting related retained earnings was retained by AIC. (Ameren Ex. 31.0 at 24) Subsequently, the balance of purchase accounting related retained earnings retained by AIC has been negative, and no adjustment has been made. (AIC IB at 90)

The calculated ratemaking retained earnings adjustment is negative, in the amount of ($2,834,790). AIC 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. If any adjustment, were to be made, however, an increase to common equity would be appropriate. (AIC IB at 90)

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. (Staff Ex. 14.0 at 10) In AIC's view, there are two flaws in Staff's position. First, 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 at 33-34. 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. According to AIC, Staff improperly assumes that the two requirements are the same. (AIC IB at 91)

Second, 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. (Tr. 372-373) As a matter of accounting, these 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. Mr. Stafford explained, "114 is a balance sheet account, and the impacts on net income, separate financial statement and income statement impacts [on] retained earnings [are] part of the statement of retained earnings. They're separate financial statements. So when you look at collapsed purchase accounting [into] account 114, a balance sheet account, I'm not sure from an accounting standpoint there is really a way to do that where you would intermingle different financial statements together from a collapsing standpoint." (Tr. at 372; AIC IB at 91)

AIC next argues that 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 IB at 92)

In it reply brief, AIC responds to Staff's initial brief. AIC states that Staff proposes to subtract an additional $105,536,599 in income statement purchase accounting adjustments, which flowed through to retained earnings. (Staff IB at 34) 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. More specifically, Staff 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." (*Id*.)

According to AIC, 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. As detailed in AIC's initial brief, 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 RB at 49)

Staff continues to argue that AIC has not reversed $105 million of net income related purchase accounting adjustments for ratemaking purposes. (Staff IB at 34-35) As AIC explained in its initial brief, AIC 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 has also eliminated the derivative effects of purchase accounting related retained earnings from the retained earnings balance in this and past rate proceedings. (AIC RB at 50)

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. (Staff IB at 34-35, citing Staff Ex. 14.0C, Att. A) According to AIC, Staff mischaracterizes the referenced RMP 4.01 Response. 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 RB at 50; Staff Ex. 9.0, Attach. A) The response goes on to explain (as also explained above) that the retained earnings adjustment was effectively eliminated through the payment of common dividends. 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 RB at 50)

Response to IIEC

IIEC witness Mr. Gorman proposed, in his direct testimony, 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. In AIC's view, this adjustment contravenes the Commission's order in Docket 04-0294 -- and was expressly rejected in Docket 11-0282. (AIC IB at 84; AIC IB at 92-93)

In subtracting the entire goodwill balance of $411 million without netting all other purchase accounting adjustments, Mr. Gorman overstates the required reduction to common equity. (Ameren Ex. 9.0 (Rev.) at 41) Thus, his proposal contradicts the Commission's orders in Dockets 04-0294 and 11-0282 expressly addressing this issue. In Docket 11-0282, the Commission entertained, and rejected, a proposal identical to the one made by 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.
>
> Docket 11-0282, Order at 53-54. (AIC IB at 93)

In its reply brief, AIC responds to arguments in IIEC's initial brief. According to AIC, IIEC argues that it is irrelevant that there are purchase accounting adjustments recorded before the test year, and that the amount of the test year goodwill asset should be used to reduce the common equity balance. (IIEC IB at 6) IIEC suggests that AIC has "modif[ied] test year accounting records to reflect pre-test year income statements." (*Id.* at 7; AIC RB at 51)

In AIC's view, IIEC's position shows a misunderstanding of the application of purchase accounting to the test year. Purchase accounting will be recorded in the test year. (Ameren Ex. 31.0 at 33) In fact, purchase accounting amortizations will continue well beyond the test year in this proceeding, with some adjustments extending out 30 years past the IP acquisition. (*Id.*) AIC's adjustment for goodwill net of purchase accounting in the test year is a reasonable projection, based on the best information available. (*Id.*) The year-end 2012 balance for purchase accounting information is the most current actual reported information in Form 21 ILCC, and serves as the basis to estimate the change to account 114 for the test year, consistent with the method used to derive the ratemaking capital structure in Docket 11-0282 and approved by the Commission there. (*Id.* at 33-34; AIC RB at 51-52)

Contrary to IIEC's position, the full test-year amount of goodwill, estimated to equal the actual amount of goodwill at year-end 2012, has been removed from common equity. (Ameren Ex. 31.0 at 32) Consistent with the Commission's Order in Docket 04-0294 and reaffirmed by the Commission in Dockets 11-0282 and 12-0001, AIC also reversed the effects of purchase accounting for ratemaking purposes and reflects in Account 114 the impacts of all push down accounting for all Illinois regulatory purposes. (AIC RB at 52)

Docket 11-0282 was also a forecasted test year with historical purchase accounting adjustments used for the test year calculation. In that Docket, the Commission entertained, and rejected, a Staff proposal identical to the one made by Mr. Gorman in the instant case. On pages 53-54 of its Order, the Commission found:

> 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.

In AIC's view, IIEC's proposal to exclude an additional $54.4 million from the common equity balance thus contravenes the Commission's Order in Docket 11-0282. (AIC RB at 52-53)

According to AIC, this regulatory accounting has been consistently followed and applied in rate cases subsequent to the acquisition. (Ameren Ex. 31.0 (Stafford Sur.) at 22-26) In each rate proceeding since the Order issued in Docket 04-0294, including this one, the Company has reversed the effects of purchase accounting collapsed into Account 114. (*Id.*) Further, Staff does not oppose subtracting $356,284,459 from the common equity balance. (Staff Ex. 4.0 at 5) IIEC's position should be rejected here as well. (AIC RB at 53-54)

d. Commission's Conclusions

The positions of the Parties are summarized above and will not be repeated here.

In developing its proposed future test year 2014 capital structure, the Company adjusted its common equity balance by subtracting $356,284,459. This "self-adjustment" is intended to exclude the effects of purchase accounting related to Ameren Corporation's 2004 acquisition of the Illinois Power Company, as required by the Commission's Order in Docket No. 04-0294. (AIC IB at 83)

Staff proposed an adjusting reducing AIC's equity balance by an additional $105,536,599 in "income statement purchase accounting adjustments, which the Company flowed through to retained earnings component of the common equity balance for a total adjustment of $461,821,058." According to Staff, in Docket No. 04-0294 the Commission required the Company to reverse the effects of purchase accounting for ratemaking purposes and reflect in Account 114 the impacts of all push-down accounting for Illinois regulatory purposes; however, "net income-related purchase accounting adjustments have not been reversed through the reversal of Account 114's effect on AIC's balance of common equity, contrary to the Commission's directive in Docket No. 04-0294." (Staff IB at 34-35)

AIC disputes the Staff adjustment. AIC argues that the Commission has rejected Staff proposals on this same issue in the last AIC gas rate case, Docket 11-0282, as

well as in AIC's formula rate case, Docket 12-0001. AIC also argues that AIC's Common Equity Balance comports with Docket 04-0294.

IIEC states that AIC's "goodwill adjustment ($356 million) and the actual recorded goodwill on the March 31, 2013 Form 3-Q ($411 million) results in a disparity of $54.4 million." IIEC proposes removing the "remaining additional goodwill balance of $54.4 million." (IIEC Conclusions at 1-2)

AIC argues that this adjustment by IIEC contravenes the Commission's order in Docket 04-0294, and was proposed by Staff and expressly rejected by the Commission in Docket 11-0282.

Having reviewed the record and the prior Commission Orders cited by the Commission with respect to this complicated issue, the Commission finds that the Staff and IIEC adjustments should not be adopted.

In Docket Nos. 11-0282 and 12-0001, the Commission found, over Staff's arguments to the contrary, that the accounting entries and common equity balances proposed by AIC were in compliance with the findings in the Order in Docket No. 04-0294 with regard to the treatment of purchase accounting associated with the transaction approved in that proceeding. The purchase accounting-related adjustments proposed by Staff in Docket Nos. 11-0282 and 12-0001 were not approved.

With respect to the adjustment proposed by Staff in the instant case, AIC argues that the Commission rejected Staff proposals on this same issue in Dockets 11-0282 and 12-0001. In its briefs, Staff does not specifically discuss Docket 11-0282 with reference to these issues. Further, there is no indication that the treatment of purchase accounting reflected in AIC's current case is different from that incorporated in the filings in Docket Nos. 11-0282 and 12-0001 where the Commission found AIC's proposal to be compliant with Docket 04-0294.

With respect to the IIEC goodwill adjustment, IIEC does not really respond to AIC's argument that the same adjustment was proposed by Staff and rejected by the Commission in Docket No.11-0282. For that matter, the IIEC briefs do not actually discuss that Order at all. The issue was previously decided, and the record in the current case does not support a different conclusion.

In conclusion, the Commission finds, as it did in the earlier dockets, that AIC's treatment of cost accounting comports with the findings in the Order in Docket 04-0294.

2. Adjustment to Month-end Balances

Staff witness Ms. Phipps proposed an adjustment to the common equity balance in which she added $8,203,586 to each month-end balance of common equity, which is the amount by which the actual balance for March 2013 retained earnings exceeds the projected balance for March 2013 retained earnings.

The Commission finds that this adjustment proposed by Staff appears reasonable and it is adopted.

3. Non-Utility Investment

a. IIEC's Position

IIEC proposes removing non-utility investments of $13.8 million. According to IIEC, it is a basic tenant that capital supporting non-utility assets is not related to the cost of providing regulated utility service in Illinois. Similarly, capital supporting investments in non-regulated plant and equipment does not impact the Company's cost of utility plant and equipment. Therefore, the capital supporting these non-utility investments should be removed from the ratemaking capital structure used to estimate Ameren's cost of capital for regulated utility operations. (Gorman, IIEC 1.0 at 11; IIEC IB at 8)

Mr. Gorman's adjustment for non-utility assets is based on equity supporting these non-utility assets ($5.07 million), less the associated accumulated depreciation ($521 thousand). Mr. Gorman also removed the Company's common equity supporting its Other Investments of $8.2 million. Capital supporting non-utility investments should be removed from the ratemaking capital structure. (IIEC IB at 8)

In its reply brief, IIEC states that Ameren argues such an adjustment to the common equity balance would require a corresponding adjustment to AIC's debt to ensure the adjustment does not impact the overall rate of return. (Ameren Br. at 94). According to IIEC "Ameren may be correct and corresponding adjustments may be required but the further adjustments should not deter Ameren from presenting a proper capital structure." (IIEC RB at 5) Capital supporting investments in non-regulated plant and equipment does not impact AIC's cost of utility plant and equipment. Therefore, it stands to reason that capital supporting these non-utility investments should be removed from the ratemaking capital structure used to estimate Ameren's cost of capital for regulated utility operations. (IIEC RB at 5-6)

b. AIC's Position

In direct testimony, IIEC proposed an adjustment to remove non-utility investments of $13.8 million from AIC's common equity balance. However, these investments are not funded exclusively from AIC's equity, but rather from a mix of AIC's overall debt and equity. (Ameren Ex. 17.0 (Rev.) at 23) Any adjustment to the common equity balance would require a corresponding adjustment to AIC's debt, in order to ensure that it does not impact AIC's overall rate of return. AIC's asserts that its response was unrebutted. (AIC IB at 93-94; AIC RB at 54)

c. Commission's Conclusions

The Commission finds that IIEC's adjustment should not be adopted. As AIC has indicated, the investments at issue are not funded exclusively from AIC's equity, but rather from a mix of AIC's overall debt and equity.

Any adjustment to the common equity balance would require a corresponding adjustment to AIC's debt in order to ensure that the proportion of capital-supporting investments in rate base is not changed.

4. Forecast Equity Infusion

a. IIEC's Position

IIEC proposes the exclusion of Ameren's proposed equity infusion of $50 million projected to occur in 2014. IIEC witness Mr. Gorman removed $50 million from the Company's proposed common equity balance. Ameren asserts it plans to increase its paid-in-capital balance by $50 million in the second quarter of 2014. According to IIEC, "Mr. Gorman argues the amount of the capital contribution is not known and measurable and more importantly AIC has not provided any support to show why it is reasonable to increase the AIC common equity ratio." (IIEC IB at 9) Ameren argues inclusion of the equity infusion is appropriate because it is a future test year forecast and by definition cannot be known and measurable. Ameren witness Martin states the cost at issue must simply be just, reasonable and prudently incurred. According to IIEC, even if Mr. Gorman were to concede the known and measurable argument, Ameren has still failed to support why the capital contribution is just, reasonable and would be prudently incurred. The equity infusion produces an excessive common equity ratio and is not reasonable

In IIEC's view, the record fails to provide support showing why it is reasonable to increase the AIC common equity ratio; therefore, the forecasted equity infusion should be excluded from the Company's proposed capital structure. (IIEC IB at 9; IIEC RB at 9)

b. AIC's Position

AIC anticipates it will receive an equity infusion of $50 million from Ameren in June 2014 based on its budgeting and financial planning processes and AIC management's best judgment as to the balance of common equity in the test year. (Ameren Ex. 19.0 (2d Rev.) at 18; Ameren Sch. WPD-1 – Gas (Part 3), at 2) IIEC initially recommended disallowance of the expected equity infusion because it is not "known and measurable." (IIEC Ex. 1.0 at 12) But that is not the standard for cost recovery in this proceeding. Rather, the rates established in this proceeding, including the components of those rates, must be "just and reasonable." 220 ILCS 5/9-101, 5/9-201(c); Consumers Ill. Water Co., Docket 03-0403, Order, at 22 (Apr. 13, 2004). The ratemaking inputs in a future test year proceeding are forecasts that, by their nature,

cannot be "known and measurable." In AIC's view, the Commission should reject the IIEC adjustment. (AIC IB at 94)

While IIEC concludes, "The equity infusion produces an excessive common equity ratio . . ." (IIEC IB at 9), it provides no explanation or analysis suggesting how the infusion produces an excessive common equity ratio and no record support for its statement. (AIC RB at 55)

c. Commission's Conclusions

The Commission finds that IIEC's adjustment should not be adopted. IIEC has not explained how the equity infusion at issue produces an "excessive" common equity ratio in the context of this future test-year ratemaking proceeding. Of the two proposals, AIC's position is better supported by the record and should be accepted.

F. Cost of Short-Term Debt, Including Credit Facility Fees

1. Staff's Position

The Company's projected short-term debt balances comprise 100% bank loans, which are made on a 30-day basis. (Staff Ex. 5.0R at 13) As such, the interest rate on those bank loans will equal a 30-day LIBOR rate, plus the applicable margin, which varies based on AIC's unsecured credit ratings (or, if no such rating is in effect, such borrower's corporate credit rating or issuer rating) from Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P"). (*Id.* at 13) AIC's current issuer rating from Moody's is Baa2 and its corporate credit rating from S&P is BBB, with a positive outlook. (*Id.* at 13; Staff IB at 35)

S&P notes that the placement of AIC's ratings on CreditWatch with positive implications reflects the high probability of a further upgrade following the completion of the merchant sale, which is "expected" to close in the fourth quarter of 2013. (Staff Ex. 5.0R at 13) Thus, S&P has clearly stated that AIC's corporate credit rating absent AIC's affiliation with merchant generation operations would be at least one notch higher, or BBB+. (*Id.*) Consequently, to comply with Section 9-230 of Act, which prohibits including in a utility's allowed rate of return any increased cost of capital which is the direct or indirect result of the public utility's affiliation with unregulated or non-utility companies, the Commission must calculate the recoverable credit facility interest rate based on at least an S&P credit rating of BBB+. 220 ILCS 5/9-230. According to the terms of the AIC credit facility, with credit ratings of Baa2/BBB+, AIC would be a Level II borrower and pay a short-term borrowing rate that equals the 0.19003% one-month LIBOR rate on July 23, 2013, plus 1.075%, or 1.27%, before bank commitment fees. (Staff Ex. 5.0R at 13-14; Staff Ex. 14.0C at 2; Staff IB at 36)

AIC's credit ratings also directly affect the amount of the annual facility fee associated with AIC's credit facility. (Staff Ex. 5.0R at) As noted in the previous paragraph, Staff asserts that AIC's affiliation with unregulated or non-utility companies

has adversely affected its Standard & Poor's credit rating. If not for that affiliation, AIC would be a Level II borrower, and as such, AIC's credit facility fee rate would equal 0.175%. (AIC IB at 36)

Nevertheless, AIC argues, "it is more reasonable to calculate AIC's credit facility fee based on its current credit rating level, as the Company has done, in calculating its overall cost of capital in this proceeding." (Ameren Ex. 19.0 at 15) According to Staff, Illinois courts have specifically addressed this issue regarding the interpretation of Section 9-230 of the Act. The Appellate Court of Illinois, Second District, in the case of *Illinois Bell Telephone Co. v. Illinois Commerce Comm'n*, 283 Ill. App. 3d 188, 207 (2d Dist. 1996), held, "In section 9-230, the legislature used the word 'any' to modify its prohibition of considering incremental risk or increased cost of capital in determining a reasonable ROR. This usage removes all discretion from the Commission. Section 9-230 does not allow the Commission to consider what portion of a utility's increased risk or cost of capital caused by affiliation is 'reasonable' and therefore should be born by the utility's ratepayers; the legislature has determined that any increase whatsoever must be excluded from the ROR determination." The Court added, "It is impermissible for the Commission to substitute its reasonableness standard for the legislature's absolute standard." *Id.* at 612. (Staff IB at 36-37)

Therefore, as a matter of law, Section 9-230 of the Act limits AIC's recoverable annual facility fee to $1,400,000. This adjustment reduces the recoverable bank commitment fee rate to five basis points. (Staff IB at 37)

2. AIC's Position

AIC's short-term debt balance consists exclusively of borrowings under its credit facilities with participating banks. (Ameren Ex. 4.0 (Martin Dir.) at 6) Therefore, the cost of AIC's short-term debt is derived from the cost to AIC to establish and utilize those facilities -- certain fees and interest on AIC's borrowings. AIC and Staff disagree on the interest applicable to the Company's short-term borrowings in the test year. The interest pricing is a function of LIBOR and AIC's credit ratings provided by Moody's Investor Service, Inc. (Moody's) and Standard and Poor's Rating Services (S&P). Based on AIC's current Moody's rating of Baa2 and S&P rating of BBB-, AIC's credit facilities bear interest at an annual rate of LIBOR plus 1.275%. Economic forecasts indicate an average LIBOR of 0.6% for 2014. Accordingly, the projected interest on short-term debt for the test year is 1.875% (0.6% + 1.275%). (Ameren Exs. 4.0 at 7; 33.1; AIC IB at 94-95)

Staff proposes to adjust that pricing downward. Staff speculates that as a direct result of Ameren Corporation's divestiture of its merchant generation affiliate, anticipated in December 2013, AIC will receive a rating upgrade from S&P which will result in interest on AIC's credit facilities at a rate of LIBOR plus 1.075%. The basis for Staff's speculation is narrow. The Commission should reject it. AIC's comprehensive approach to forecasting its cost of debt in the test year is a far superior approach. (AIC IB at 95)

Staff bases its proposal on a single publication of a sole credit reporting agency, the S&P March 14, 2013 Research Update. According to Staff, that report notes the "high probability of a further upgrade [from S&P] following the completion of the merchant sale." (Staff Ex. 5.0R at 13) In AIC's view, this places too much emphasis on a single source. Indeed, the S&P report itself warns against such absolute reliance: "the content [of the report] should not be relied upon and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions." (Ameren Ex. 19.0 (2d Rev.) at 8; AIC IB at 95-96)

No one can predict with certainty the actions of the ratings agencies. (AIC IB at 96; RB at 55) Thus, it is a more reasonable approach to rely on AIC's current credit rating and resultant credit facility pricing in calculating the interest on AIC's credit facilities for the test year. The Staff witness who sponsored Staff's adjustment to AIC's test year cost of short-term term debt, Ms. Phipps, seemingly would agree with this concept. She testified: "The most accurate indicator of a future interest rate is the most recent interest rate." (Staff Ex. 5.0R at 7) The Commission should approve AIC's test year cost of short-term debt as AIC has proposed it, at the most recent rate of 1.875%. (AIC IB at 96)

AIC states that for the first time in brief, Staff takes its adjustment one step further. In brief, Staff also argues Section 9-230 of the Act is a basis for its adjustment to AIC's 2014 credit facility cost. (Staff IB at 36-37) That Section bars the Commission from including in a utility's rate of return any incremental risk or increased cost of capital resulting from its affiliation with unregulated or nonutility companies. 220 ILCS 5/9-230. (AIC RB at 56)

The S&P March 14, 2013 Research Update on which Staff relies does not justify a Section 9-230 adjustment to AIC's actual 2012 capital structure. Reliance on a single rating agency report is too narrow to predict a future cost of capital. For example, Staff's position ignores S&P's Ameren enterprise-wide view of credit quality for AIC, and that it tends to view all Ameren affiliates as one, rather than as separate and several business entities. (Ameren Ex. 19.0 (2d Rev.) at 9) The other credit reporting agencies do not take this enterprise-wide view. (AIC RB at 56)

3. Commission's Conclusions

In explaining her position, the Staff witness testified, "S&P notes that the placement of AIC's ratings on CreditWatch with positive implications reflects the high probability of a further upgrade following the completion of the merchant sale, which is expected to close in the fourth quarter of 2013. Thus, S&P has clearly stated that AIC's corporate credit rating absent AIC's affiliation with merchant generation operations would be at least one notch higher, or BBB+." (Staff Ex. 5.0R at 13)

Although AIC argues that Staff has placed too much emphasis on a single source, the Commission believes that reliance by the Staff witness on this information in formulating her expert opinion was reasonable. The Commission finds that the adjustment proposed by Staff is appropriate and it is adopted.

G. Embedded Cost of Long-term debt

AIC and Staff are in disagree over the interest rates for AIC's projected December 2013 Bond issuances.

1. Staff's Position

Staff states that in rebuttal testimony, Staff withdrew its opposition to the Company's original proposed interest rates of 3.25% and 4.60%, respectively, for the 10-year and 30-year bonds that AIC expects to issue during December 2013. (Staff Ex. 14.0C at 2 and Sch. 14.02.) Nonetheless, in surrebuttal testimony, AIC proposed interest rates of 3.77% and 4.91%, respectively, for the 10-year and 30-year bonds that AIC expects to issue during December 2013. (Staff IB at 37)

Staff opposes the Company's revised proposal because it overestimates the current coupon rate for 10-year and 30-year bonds with AIC's senior secured debt ratings of A3/A- from Moody's/S&P. (Staff Ex. 5.0R at 7) As Ms. Phipps explained, AIC's affiliation with merchant generation operations continues to constrain its S&P credit ratings at least one ratings notch. (*Id.*) Further, the most accurate indicator of a future interest rate is the most recent interest rate. (*Id.*) On Monday August 12, 2013, similarly rated 10-year and 30-year utility bonds were issued with interest rates of 3.37% and 4.60%-4.65%, respectively. (Staff Cross Ex. 7) Thus, the Commission should reject the revised interest rates that AIC presented in surrebuttal testimony and instead adopt the Company's original proposed 3.25% and 4.60% coupon rates, which Staff does not oppose. (Staff IB at 37)

In its reply brief, Staff notes that AIC did not address this issue in its initial brief. (Staff RB at 36)

2. AIC's Position

In its reply brief, AIC argues that The Commission should approve interest rates of 3.77% and 4.91%, respectively, for the 10- and 30-year bond issuances AIC anticipates for December 2013 because they align with more recent projections of fourth quarter 2013 interest rates. (Ameren Ex. 19.0 (2d Rev.) at 10; AIC RB at 57-61)

AIC's reasons for proposing these rates are explained in its reply brief. In support of its position, AIC cites, and relies upon, the rebuttal and surrebuttal testimony of AIC witness Ryan Martin. (AIC RB at 57-61) Among other things, AIC states that Staff witness Ms. Phipps "aptly acknowledged" that "the most accurate indicator of a

future interest rate is the most recent interest rate...." (AIC RB at 58, citing Staff Ex. 5.0R at 7)

3. Commission's Conclusions

Although the interest rate for the bonds that AIC expects to issue in December 2013 is a contested issue, both parties seem to agree that the most accurate indicator of a future interest rate is the most recent interest rate.

The most recent interest rates in the record appear to be those identified in Staff Cross Exhibit 7, as noted in Staff's initial brief and as identified above. For purposes of this proceeding, the Commission finds that these rates provide a reasonably accurate estimate of the rates for the bond issue.

H. Cost of Equity

1. AIC's Position

AIC is proposing to substantially increase rate base by investing in its delivery service plant, and, therefore, the return opportunity afforded to investors is critical, given that AIC will be competing for investor capital as it sets forth to execute its plans to maintain and improve is gas delivery system. As AIC witness Mr. Craig Nelson testified, AIC expects to invest $239 million in 2013-2014. (Ameren Ex. 16.0 (2d Rev.) at 3; AIC IB at 97)

The Company has presented financial analysis by its expert, Mr. Robert Hevert, to support its request that a return on equity equivalent to 10.4% be used for the purpose of setting gas rates. Mr. Hevert's analysis presents the superior position among the three parties that have proposed an ROE, those being AIC, IIEC and Staff. In contrast to Mr. Hevert's analysis, the two opposing witnesses from Staff and IIEC, Ms. Rochelle Phipps and Mr. Michael Gorman, have presented artificially low ROE recommendations of 8.81% and 9.10% respectively, which cannot support a reasonable rate of return or the financial integrity of AIC. (AIC IB at 98)

Mr. Hevert relied upon his discounted cash flow ("DCF") and Capital Asset Pricing Model ("CAPM") results of 9.68% and 10.07%, respectively, along with other considerations, to develop a reasonable range of ROE results for the gas utilities comprising his proxy group. He concluded 10.0-10.75% is a reasonable range. Within that range, Mr. Hevert recommends 10.4%. (AIC IB at 107)

Applicable Law; Commission Orders

The first category of authority concerns constitutional standards that require the Commission to include set rates inclusive of an adequate return on capital investment so as not to interfere with a utility's Fourteenth Amendment and protection against confiscatory ratemaking. There are two seminal cases that embody this protection:

Bluefield Waterworks and Improvement Co. v. Pub. Svc. Comm'n. of West Virginia, 262 U.S. 679 (1923) and *Fed. Power Comm'n. et al. v. Hope Natural Gas Co*., 320 U.S. 591 (1944).

According to AIC, *Bluefield* and *Hope* establish five principle requirements with regard to what the proper measurement of equity should include. First, investors are entitled to a fair return opportunity on capital employed to provide public utility service (*Bluefield*); second, the return permitted should be consistent with investments in businesses with corresponding risks (*Bluefield*); third, an expected return is dependent upon market and financial conditions that are subject to change from time to time (*Bluefield*). Fourth, the return should be supportive of financial integrity and supportive of the Company's credit and access to capital (*Bluefield; Hope*); and fifth, the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks (*Hope*). (AIC IB at 102)

AIC states that the three most recent Commission decisions that bear relevance to the current case are: the Commission's last gas rate order for AIC in Docket 11-0282, Order (Jan. 10, 2013); the Order in Illinois-American Water Co., Docket 11-0767 (Sept. 12, 2012) ("IAWC"); and the Commission's most recent Order issued in the N. Shore Gas Co. et al., Dockets 12-0511/12-0512 (cons.), Order (June 18, 2013) ("Peoples/NS"). In all three examples, the Commission has relied upon results from expert witness testimony derived from both the use of DCF and CAPM models to establish an ROE to be used in setting rates. (AIC IB at 102-103)

AIC states that the "unadjusted" ROE "before basis point reductions after DCF and CAPM results were averaged," was 9.22% in Docket 11-0282 and 9.33% in Dockets 12-0511/12-0522. In Docket 11-0767, where no such adjustment was made, the ROE was 9.34%. (AIC IB at 103) The Commission observes that the ROE actually approved in Dockets 12-0511/12-0522 was 9.28%, and that the ROE actually approved in the most recent AIC gas rate case in Docket 11-0282 was 9.06%.

According to AIC, by relying upon both DCF and CAPM analyses as applied to a list of proxy companies of comparable utility operations, the Commission addresses the requirements articulated in *Bluefield* and *Hope*. (AIC IB at 103)

However, AIC argues, it is unclear whether the DCF in fact incorporates an analytical embodiment of the fifth requirement, established by *Hope*, which requires that investment return be commensurate with investments in other enterprises of corresponding risk. The CAPM would "fit the bill" provided the calculation is done correctly, because the CAPM essentially approximates the value the investor places on the risk taken given two fundamental guideposts of investment, an assumed risk free investment and the overall market rate of return. (AIC IB at 103-104)

In the IAWC case, Docket 11-0767, the Commission chose a single DCF and single CAPM result from two parties to come to its conclusion. Illinois-American Water Co., Docket 11-0767, Order at 112. In the 11-0282 Docket, the Commission averaged

all party DCF results, but chose only a single party's CAPM result. Ameren Ill. Co., Docket 11-0282, Order at 127. In the Peoples/NS Docket, the Commission averaged the DFC and CAPM results of both parties addressing ROE to derive a result. Dockets 12-0511/12-0522, Order at 206-207. (AIC IB at 104-105)

AIC presents a table purporting to show the Peoples/NS calculation as applied to record facts in this docket with respect to Staff and the Company. The Commission notes that AIC did not include the IIEC recommendation in this table. (AIC IB at 105)

AIC also states that the Commission in the Peoples /NS Docket recognized as a valid benchmark a calculation of an industry average authorized ROE of 9.94% for gas utilities. (AIC IB at 106)

In AIC's view, in light of the approved returns and methodologies used in recent Commission Orders referenced above, the recommendations of Staff and IIEC are demonstrably too low and should not be approved.

Testimony of Mr. Hevert

AIC witness Mr. Hevert presented testimony in this proceeding that included both DCF and CAPM approaches reflective of the preferences expressed by the Commission in AIC's last gas rate case in Docket 11-0282. Mr. Hevert employed these models as applied to a group of proxy companies consisting of comparable gas utility operations. (AIC IB at 106-107)

All three parties use the same proxy group, with the exception of the exclusion of one company as noted by Ms. Phipps in her rebuttal testimony. (AIC IB at 107)

Using these models and also examining the results of a bond yield plus risk premium, Mr. Hevert concluded that investors expect a return on equity within the range of 10.0 and 10.75%. (Ameren Ex. 34.0 (Rev.) at 58) Taking into consideration the regulatory environment in which AIC operations, weather variability, and flotation costs associated with the issuance of equity, Mr. Hevert recommends a return on equity of 10.4%. (*Id.*) Mr. Hevert did re-run his analysis at each testimonial phase of the case to ensure the information provided to the Commission remained accurate and in order to respond the arguments of Staff and IIEC. Nonetheless, the recommended range and specific recommendation applicable to AIC remained unchanged throughout the proceeding. (AIC IB at 107)

AIC's DCF Analysis

As Mr. Hevert explains, the DCF approach posits that a stock's price is representative of the present value of its expected future cash-flows, which includes the dividend yield and the rate of growth attributable to the security. (Ameren Ex. 5.0 at 14) The model assumes that the investor's expected return is the sum of the dividend yield and the increase in the stock price.

Mr. Hevert relies upon a version of the DCF methodology known as the multi-stage DCF. The multi-stage DCF is also referred to as a non-constant DCF ("NCDCF") to differentiate it from the constant growth DCF. A constant growth DCF, as its name implies, assumes constant unchanging growth as a component of the return an investor expects. (Tr. at 568) The Commission used a multi-stage DCF approach in arriving at its ROE in the last Ameren Illinois Rate case order issued in Docket 11-0282. (AIC IB at 107)

With a three-stage model, the DCF result essentially begins with currently applicable growth rates derived from proxy company analytics, based upon earnings per share growth rates of proxy company securities. Then anticipated changes in the growth rate are modeled to reflect a regression of the growth rate from actual current experience to a long-term growth rate. (Ameren Ex. 5.0 at 16)

Mr. Hevert "established by an examination of the long-term economic real growth of 3.24% from an examination of data from 1929 to 2011." (*Id*. at 19) He then added anticipated inflation beginning in 2023 (the beginning of the third phase). The anticipated inflation is calculated based upon the spread between long-term nominal treasury securities and the long-term inflation protected securities, also known as the "TIPS" Spread. (Id.) In essence, the third stage growth rate builds into the pricing of equity an assumption that over time the Company's growth will regress toward correlation with overall mean economic growth experienced. (AIC IB at 108)

The second phase is essentially a bridge between the first stage and the long-term third stage. (See Ameren Ex. 5.0 at 18, Table 5) The benefit of using a multi-stage DCF is the long-term perspective of the investor is better captured. Equity securities are considered by investors to be long-term investments. Thus, a multi-stage DCF has the benefit of a long-term perspective that incorporates expected changes in economic conditions. Such a perspective differs significantly from one that would assume investors formulate their expectations believing that current estimates of growth would continue indefinitely forever. (Ameren Ex. 5.0 at 17-18; AIC IB at 108)

Mr. Hevert's analysis addresses the point that investors recognize the economy and growth rates change over time. In his multi-stage DCF analysis, Mr. Hevert's incorporates the use of a nominal long-term growth expectation of 5.61% recognizing that investors will consider both contemporary growth experience and future tendency for growth to correlate to overall economic growth in formulating expectations, and the market's expectations of future inflation. (Ameren Ex. 34.0 (Rev.) at 55) Mr. Hevert's reliance upon a multi-stage DCF to model the progression in growth rates from current experience to long term expectations is derived from proxy companies comparable to Ameren Illinois and historical experience that shapes investors long term market expectations. (Ameren Exs. 5.0 at 16-17; 34.0 (Rev) at 55; AIC IB at 109)

Ms. Phipps criticizes Mr. Hevert for the use of 30, 90, and 180-day average prices for the proxy company securities because such prices are affected by information

that is no longer relevant to investors. (Staff Ex. 14.0 at18) In AIC's view, this statement is not logical because Ms. Phipps herself also uses historical prices -- single historic dates -- to formulate her opinion. (Tr. 560) Mr. Hevert testified, "Stock prices tend to fluctuate from day to day based upon changes not only in investors' assessment of fundamental factors such earnings growth rates and projected interest rates bust also due to anomalous events that may affect stock prices on any given trading day." (Ameren Ex. 20.0 at 12) The Commission itself has expressed concerns over the use of spot prices because such prices are subject to volatility. (*Id.* at 14; Docket 11-0282, Order at 123; AIC IB at 109-110)

Ms. Phipps also prepared a multi-stage DCF analysis in the proceeding, but she ignored the results of that analytical model in her recommendation. Instead, Ms. Phipps claims that her constant growth rates used in the constant growth DCF are reasonably sustainable, and thus she did not need to rely upon the multi-stage DCF results. In AIC's view, the constant growth model lacks the long-term perspective of investors in contrast to the multi-stage DCF. With regard to the "disregarded" multi-stage analysis, Ms. Phipps used a long-term growth rate is 4.60%, which is significantly below the long-term average growth rate demonstrable in market history, and further it is actually less than that used in her first stage. The result is a downward progressing rate of growth into the future that leads to the disregarded result that Ms. Phipps calculated to be 8.28% in her Rebuttal Testimony. (AIC IB at 110; AIC RB at 65)

Ms. Phipps' calculation is the product of a multi-variable average that includes current projections of GDP (2.4-2.5%) plus inflation and the sum is then averaged with a long-term growth expectation of 4.60 percent. Mr. Hevert establishes that Ms. Phipps' resulting growth rate is simply inconsistent with historical growth rates actually experienced in the United States between 1929 and 2012. (Ameren Ex. 20.0 at 19-22) By looking at 10-year periods, Mr. Hevert determined that Ms. Phipps 4.60 percent growth rate has been exceeded in 68 of 74 periods. In rebuttal testimony, Mr. Hevert noted that by changing the growth rate to 5.70%, the growth rate that Mr. Hevert uses to formulate his opinion in direct testimony, the expected cost of equity rises from the 8.36% Ms. Phipps proposed in direct testimony by almost 100 basis points to 9.23%. (Ameren Ex. 20.0 at 22; AIC IB at 110-111)

In surrebuttal testimony, Mr. Hevert points out that Ms. Phipps' calculation relies upon a mixture of long term real GDP projections and also a historical spot-price (July 23, 2013) based estimate of future inflation for the period 2023-2043. In his view, the reliance upon spot prices plus future estimates simply lacks support. (Ameren Ex. 34.0 at 10; AIC IB at 111)

In general, IIEC witness Mr. Gorman makes similar criticisms to those expressed by Ms. Phipps. The most significant difference between Mr. Hevert's and Mr. Gorman's DCF concerns the calculation of growth rates. Mr. Hevert explains that while Mr. Gorman relies upon a "sustainable growth model" that incorporates what is referred to a "b times r" approach to growth calculation, the Commission has expressly rejected this calculation in the past. Additionally, Mr. Gorman solely relies upon a very low growth

rate of 4.9 percent using Blue Chip projected GDP. As Mr. Hevert notes, the end date of the Blue Chip projections are the very start of the third-stage of his DCF, thus giving rise to a mismatch of data by time period. (AIC IB at 111-112)

Mr. Gorman's low growth rate is unsupported in light of historic growth experienced in the U.S. (Ameren Ex. 20.0 at 46-47) Mr. Gorman (1) relies upon a multi-stage DCF results that include methodologies have been rejected by the Commission, and (2) uses a third-stage that relies on GDP projections that do not correspond with the third-stage period and are inconsistent with the totality of historical U.S. growth experience. (AIC IB at 112; AIC RB at 65)

At the time of surrebuttal testimony, using the most current and available data, Mr. Hevert populated a table with 19 iterations of his DCF calculation, containing a low of 9.12%, a high of 10.22%, and an average mean result of 9.68%. (Ameren Ex. 34.0 (Rev.) at 56, Table 3) He also utilized a 5.61% long-term growth rate in his analysis, which was lower than the 5.7% used on rebuttal. (*Id.* at 55; AIC IB at 112; AIC RB at 73)

In IAWC's view, Mr. Hevert's third-stage growth rates are reasonable, while those used by Staff and IIEC are not. (AIC RB at 66-67)

AIC CAPM Analysis

According to AIC, the DCF focuses solely on the type of security being considered. The CAPM risk premium model measures risk relative to a portfolio of diversified investments. (AIC IB at 112-113)

A CAPM model has three principle components, the assumed risk free rate or return, the overall market return, and the beta coefficient. The risk premium over the risk-free rate is measured against the overall market return based upon the calculation of a beta coefficient. (Ameren Ex. 5.0 at 20-24) The concept embodied in the CAPM is that an investor will frame expectations as to the return of an equity based upon where that investor places the risk on the continuum that exists along a line that includes two relative guideposts -- the risk free rate of return and the overall portfolio or market rate of return. According to AIC, the CAPM analysis performed by Mr. Hevert uses supported methods and inputs as to all three key components of the CAPM calculation. (AIC IB at 112-113)

To calculate his CAPM model results, Mr. Hevert uses both historic and prospective information including a 30-day average of the 30-year U.S. treasury yield and a consensus forecast of the average 30-year treasury yield for the coming six quarters. Thus, Mr. Hevert's analysis balances both market observation and consensus expectations for the near future. By doing so, Mr. Hevert's analysis "proficiently captures the sentiments of investors given the current state of rising interest rates." (AIC IB at 113)

Second, Mr. Hevert's calculation of the expected overall return uses a constant growth DCF model to calculate a market average ROE. From Mr. Hevert's total market expected return, he subtracted the risk free rate to derive an ex-ante market risk premium. The results of his analysis are presented in Ameren Exhibit 5.2 to Mr. Hevert's direct testimony. (Ameren Ex. 5.0 at 23-24) In other words, Mr. Hevert derives a market risk premium from the investor's prospective viewpoint that considers the current expected return assuming constant growth on the total market. (AIC IB at 113-114)

To calculate his beta coefficients, Mr. Hevert utilized reported beta coefficients from Bloomberg and Value Line for each of the proxy group companies. Raw betas for the proxy group companies were calculated using weekly returns over an 18-month period ending November 30, 2012. The resulting average beta coefficient for the proxy group was 0.789. Given that academic research demonstrates that betas can regress higher closer to 1.0, Mr. Hevert presented results for his raw and adjusted beta coefficients. (AIC IB at 114)

Mr. Hevert and Ms. Phipps agree as to the construction of the CAPM model, with an applied risk premium derived from a beta calculation to a risk free rate. (Ameren Ex. 20.0 at 27) Both witnesses are also in agreement that the overall market risk premium should be prospective (ex-ante) and not historical (ex-post). The major areas of disagreement between Mr. Hevert and Ms. Phipps are with respect to the use of a "spot" yield to establish a risk-free rate and also her calculation of the overall market return. In the past the Commission has criticized the use of a spot yield or rate as problematic and unfair to the applicant. (AIC IB at 114)

With regard to the application of the beta coefficient, AIC views Mr. Hevert's approach of taking a more current view of investor's perspectives by using an 18-month beta coefficient as superior to Ms. Phipps' use of five years of historic data. (AIC IB at 114)

Ms. Phipps also criticizes Mr. Hevert for including dividend-paying companies for the purpose of calculating the overall market return. AIC argues, “However Ms. Phipps’ criticism is unfounded as investors do view investments in the context of the entire market; dividend paying and non-dividend paying investments alike.” The exclusion of dividend paying utilities in her CAPM model is a “fatal error” in Ms. Phipps’ calculation as discussed more thoroughly in the Company's critique of Staff's approach below. (AIC IB at 114-115; see also AIC IB at 122-123; AIC RB at 69-70)

Ms. Phipps also alleges that Mr. Hevert's beta coefficients are faulty because he uses weekly rather than monthly betas. Based upon two “obscure” articles from the 1980's, Mr. Phipps alleges that weekly beta coefficients are subject to the effects of "non-synchronous trading." Mr. Hevert conducted an empirical test in response to Ms. Phipps’ claim and found his betas were not faulty or subject to "non-synchronous trading" or interval bias. (AIC IB at 115; AIC RB at 68-69)

With regard to the criticisms of IIEC, AIC states that IIEC witness Mr. Gorman does not rely upon the results of a CAPM as he believes they do not provide a fair and accurate estimate of the Company's cost of equity. (Ameren Ex. 20.0 at 48) AIC argues, "The Company agrees with Mr. Gorman's assessment of his CAPM results." (AIC IB at 115) Mr. Gorman nonetheless proceeds to criticize Mr. Hevert's CAPM as juxtaposed to his "admittedly unfair and inaccurate" CAPM results. (AIC IB at 115) Primarily, Mr. Gorman criticizes the Mr. Hevert's total market DCF growth grate as being "too high." Mr. Gorman then claims that the total Market return should be 9.90%. However, AIC argues, such a return is entirely inconsistent with historical experience. Mr. Hevert prepared extensive analysis showing a return at or near 13% is not uncommon given historical experience. Finally, the 9.9% is well below the forward-looking estimates that both Ms. Phipps and Mr. Hevert rely upon. (AIC IB at 115)

Mr. Gorman also criticizes the use of 18-month beta coefficients, arguing for a longer period of measurement. A longer term may at first glance be thought to contain more data from a statistical standpoint, but that is not true with regard to Mr. Hevert's 18-month beta coefficients. Mr. Hevert explains that his beta calculation relies on a sufficient number of observations to support a current and well supported analysis, and he further explained that to ensure validity, he prepared a regression analysis indeed affirms his analytical approach. (AIC IB at 115-116)

Mr. Hevert thoroughly supports the calculation of his CAPM results and provided 12 iterations of his CAPM risk premium model calculations. At the time of surrebuttal testimony, Mr. Hevert calculated his risk premium model results using an updated treasury rate of both 3.59% and 3.73% and a market weighted DCF of 13.00%. (Ameren Exs. 34.0 (Rev.) at 57-58; 34.2) His final results indicated CAPM results ranging from a low of 9.94% to a high of 11.23%, with a mean average CAPM result of 10.7%. (AIC IB at 116)

Response to Analysis Performed by Staff

AIC next addresses "Concerns with the Analysis Performed by Staff and IIEC ROE Witnesses." (AIC IB at 116)

With respect to Staff witness Ms. Phipps' DCF analyses, she uses a constant growth DCF and assumes constant unchanging growth based upon current observable proxy company growth rates. In AIC's view, the failure to embody long-term expectations in her recommendation leaves her analysis short-sighted and inconsistent with full measure of the expectations of equity investors. Given that current growth rates experienced are below the historical mean average growth rates Mr. Hevert identifies, a constant growth DCF fails to capture a return to historic normal market operation over time -- a return to growth that investors who are informed by history and experience would fully expect. While she testified that the growth rates in her DCF are reasonably sustainable, she fails to support this conclusion in a manner that supports the inclusion of her analysis in the Commission's final decision. (AIC IB at 117)

By using a non-constant DCF inclusive of market observed growth rates that are low, Ms. Phipps has captured recessionary conditions and locked them forever in her assessment of the investors' expected return. (AIC IB at 117-118)

Ms. Phipps also prepared a multi-stage DCF, or as she refers to it, a "non-constant" DCF analysis, but discarded that analysis because of its low output of 8.28%. (Staff Ex. 14.0 at 4) In AIC's view, Ms. Phipps should not have discarded the multi-stage DCF as analytical perspective; rather, she should have examined the assumptions and inputs in the model that created the result. According to AIC, if she had done so, she would have come to recognize that her model suffered because of her "errant" third stage long-term growth rate. (AIC IB at 118)

Ms. Phipps cites the source of her calculation as the product of a sum and averaging approach using real GDP, a spot yield treasury based "TIPS Spread," an EIA and Global Insight forecast of GDP of 4.3%. (Staff Ex. 5.0R at 23) Thus, she calculated a 4.9% growth rate and then lowered it by averaging with an analyst-projected GDP number. As Mr. Hevert points out, the assumed risk free rate of return is 5.6% which would embody current investor expectations concerning real GDP or economic growth as increased by inflation. (Ameren Ex. 20.0 at 22; AIC IB at 118)

In AIC's view, Staff cannot explain disparity between the long-term growth rate used in its DCF (4.6%) compared to the projected 30-year treasury rate in 2023 (5.6%) and historical experience. (AIC IB at 118-120; RB at 67-68)

Compounding the inaccuracy created by the use of artificially low rates of growth, Ms. Phipps also relies heavily on spot prices as inputs for her DCF analyses. In her constant and multi-stage DCF models, Ms. Phipps uses as a starting point a single day closing spot price, July 23, 2013, as the basis of her recommendation. In her multi-stage DCF, she uses that date and also uses spot treasury rates to calculate her third stage long-term growth rate, as applied through her novel sum/average approach described above. Her multi-stage analysis is therefore heavily influenced by the use of a treasury rate spot price used to calculate expected future inflation, in addition to starting from the single day stock prices for her proxy group. Ms. Phipps defends the use of spot prices in her analysis based on her inference that multi-day average prices as used by Mr. Hevert and Gorman are historic and therefore irrelevant. (See Ameren Ex. 20.15) Mr. Hevert takes the much more likely informed perspective of an investor that would be aware of more than a single day in summer of 2013 when they make an investment decisions. (AIC IB at 120-121)

In her CAPM analysis, as she did with her DCF analysis, Ms. Phipps uses a spot price, this time a single day treasury yield to establish her risk free rate of return. In AIC's view, it is not logical that an investor would take into consideration a single day price when making an investment choice. Relative to the assumed risk free rate of return, an informed investor will be cognizant of both the current treasury yield and recent trends and forward looking expectations. (Ameren Ex. 20.0 at 27-28; AIC IB at 121-122; RB at 68)

With regard to her betas, Ms. Phipps' calculation of risk betas includes market economics strongly affected by volatile conditions and thus produces an unreliable measure of the relationship of the risk facing the proxy companies relative to the market as a whole going forward. (AIC IB at 122)

AIC also argues that the Duff and Phelps Study is not relevant to this case. Staff asserts that an asset impairment study report prepared by Duff and Phelps, updating analysis from 2010 for Ameren's accounting department, should be considered as a "check of reasonableness" for the return on equity approved in this proceeding. (Staff IB at 52) The updated report, and the underlying 2010 analysis, was commissioned for a fundamentally different purpose than an analysis prepared for ratemaking purposes to value equity, and so it is not relevant here. (AIC RB at 70-71)

Staff argues that "[t]he flotation cost adjustment proposed by Mr. Hevert is contrary to long standing Commission practice." According to AIC, Mr. Hevert did not propose a flotation cost adjustment as an addition to his recommended ROE. Rather, Mr. Hevert relied upon his DCF and CAPM results, and referenced his Bond Plus Risk Premium analysis, to develop a reasonable range of ROE results for the gas utilities comprising his proxy group. (Ameren Ex. 5.0 at 59) He concluded 10.0-10.75% is a reasonable range. Within that range, Mr. Hevert recommends 10.4% based on his expert opinion of where AIC should fall within that range. As part of that opinion, he considered a measure of flotation costs, which he attributed as having relevance equivalent to approximately 14 basis points. (*Id.* at 39; Ameren Ex. 5.8 (flotation cost analysis); AIC RB at 71-72)

Response to IIEC's Analysis

Mr. Gorman's DCF is derived using three DCF models: constant growth DCF, sustainable growth DCF, and a multi-stage DCF. Mr. Gorman's model is deficient for two reasons. First, he uses the "b times r" approach in arriving at his constant growth DCF and the first two stages of growth rates used in his multi-stage DCF. (Ameren Ex. 20.0 at 44) According to AIC, that process has been previously rejected by the Commission. Second and more importantly, Mr. Gorman uses a very low third-stage growth rate that is also based upon GDP projections. (*Id.* at 46) For the same reasons stated with regard to Ms. Phipps, this approach should not be accepted. The record cannot support the use of GDP projections to formulate a third-stage growth rate that is inconsistent with both historical market experience and forward looking expectations regarding the assumed long term risk free rate of return. The record contains no explanation as to what is included in forecasted GDP, and what will be included in 2023. Without that evidence the Commission has no means of ascertaining if the GDP based projections are an accurate measure of the long-term expectations in the minds of investors. (AIC IB at 123-124)

Mr. Gorman does not rely on a CAPM analysis in this case. (IIEC Ex. 1.0 at 36) In AIC's view, given that the CAPM is traditionally used by the Commission and also is

well suited to meeting both the *Hope* and *Bluefield* cases, Mr. Gorman's reliance upon only DCF results is a "serious short-coming" in his recommendation. Further, in a rising interest rate environment, the import of rising interest rates is more demonstrable from the CAPM model, and thus Mr. Gorman's recommendation does not give proper accord to this important contemporary development in the financial market place. (AIC IB at 124)

Mr. Gorman does prepare a CAPM but then dismisses it because it produces an unreliable result. AIC argues that the CAPM should not be disregarded as an analytical model because of its proficiency in measuring the expectations of the diversified investor who has choices in the stocks he/she chooses to include in his/her portfolio. Rather than disregarding the model entirely, Mr. Gorman should have examined the cause of the "deficient result" and corrected the model. According to AIC, Mr. Gorman's CAPM result was unsupportable because he under-measured the overall market return at 9.9%, which is significantly below what has been experienced throughout the modern history of the U.S. economy. (Ameren Ex. 20.0 at 49-54; AIC IB at 124-125)

In its reply brief, AIC says IIEC's initial brief contains a statement that Mr. Hevert's risk premium analysis was based on an inverse relationship between interest rates and risk premiums. (IIEC IB at 23) According to AIC, "This statement is misleading and confusing." Mr. Hevert prepared a CAPM risk premium model that measured the risk premium for the proxy group over the risk free rate. (Ameren Ex. 5.0 at 20) Mr. Hevert also prepared a separate bond plus risk premium analysis that models an alternative ROE calculation by adding current bond rates plus a measure of risk premium derived from returns authorized by regulatory jurisdictions. (*Id.* at 29) As part of his bond plus risk premium analysis, Mr. Hevert modeled the relationship between Treasury rates and the risk premiums used in that analysis. (AIC RB at 72)

AIC says IIEC claims that Mr. Hevert relies upon a total market growth rate significantly higher than projected GDP and thus results in an inflated analysis. (IIEC IB at 26) Mr. Gorman's criticism rings hollow. Mr. Gorman did not give weight to the output of his CAPM. He should not hold it out as a standard against which to critique Mr. Hevert's analysis. Additionally, Mr. Gorman assumes a 2.85% Treasury bond yield, which is not appropriate given that actual current Treasury rates are much higher at 3.59%. (IIEC IB at 26; Ameren Ex. 34.0 (Rev.) at 57; AIC RB at 73)

Mr. Gorman's recommendation of 9.10% is well below the national average authorized gas ROE of 9.94% and also below all three of the recent Commission rate decisions. Mr. Gorman's recommendation is also below the 9.3% he recommended in a Washington state rate case addressing gas rates, and also the stipulated 9.8% supported through testimony provided earlier this year in a Montana gas utility rate case. (Tr. 603-607; AIC IB at 125)

2. Staff's Position

Ms. Phipps' analysis indicates that the cost of common equity for AIC's natural gas distribution operations is 8.81%. (Staff Ex. 14.0C at 2) She measured the investor-required rate of return on common equity for the Company's natural gas distribution operations with discounted cash flow ("DCF") and risk premium analyses. (*Id.* at 3:44-46.)

Ms. Phipps applied those models to the same sample of local gas distribution companies utilized by AIC witness Robert Hevert to estimate the cost of equity, with the exception of the removal of the Laclede Group because its pending acquisition of Missouri Gas Energy is likely influencing the Company's market data and its immediate effect on analyst growth expectations is unclear. (Staff Ex. 5.0R at 16-17; Staff Ex. 14.0C, 3) Nonetheless, Ms. Phipps also presented the cost of common equity estimates for the sample including Laclede Group should the Commission decide to retain it in the sample. (Staff Ex. 14.0C, Sch. 14.06, 14.08 and 14.09; Staff IB at 39-40)

Staff DCF Analysis

A DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments to the holders of that stock. (Staff Ex. 5.0R at 17) Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that stock prices embody. (*Id.* at 17-18) The companies in the gas sample pay dividends quarterly; therefore, Ms. Phipps applied both constant-growth and non-constant growth quarterly DCF models to measure the annual required rate of return on common equity, although her recommendation does not incorporate the latter DCF model. (Staff Ex. 5.0R at 18; Staff IB at 40)

Ms. Phipps measured expected dividend growth using market-consensus expected growth rates published by Zacks Investment Research ("Zacks") and Reuters as of July 23, 2013. (Staff Ex. 5.0R at 19-20; Staff Ex. 14.0C at 4 and Sch. 14.03) Those growth rate estimates were combined with the closing stock prices and dividend data as of July 23, 2013. (Staff Ex. 14.0C, Sch. 14.04) Based on the growth rate estimates, stock price and dividend data, Ms. Phipps' constant-growth DCF analysis estimated that the required rate of return on common equity for the gas sample averages 8.60% excluding Laclede Group, and 8.56% including Laclede Group. (Staff Ex. 14.0C at 4; Staff IB at 40-41)

Ms. Phipps initial analysis presented in direct testimony indicated that the 3-5 year growth rates for the gas sample are reasonably sustainable. The average of the Zacks and Reuters growth rates is 4.68% for the gas sample. The current expectation of growth for the economy is between 4.3% and 4.9%. (Staff Ex. 5.0R at 18) Thus, the growth rate estimates for the gas sample do not necessitate the use of a non-constant DCF model. (*Id.* at 18) Nevertheless, she performed a non-constant DCF analysis

("NCDCF"), using the same methodology Staff employed in the Company's previous gas rate case, Docket No. 11-0282. (Staff Ex. 5.0R at 18; Staff IB at 41)

For her NCDCF analysis, referred by other ROE witnesses as a "multi-stage" analysis, Ms. Phipps modeled three stages of dividend growth. (Staff Ex. 5.0R at 22) The first, a near-term growth stage, is assumed to last five years. The second stage is a transitional growth period lasting from the end of the fifth year to the end of the tenth year. Finally, the third, or "steady-state," growth stage is assumed to begin after the tenth year and continue into perpetuity. An expected stream of dividends is estimated by applying these stages of growth to the current dividend. The discount rate that equates the present value of this expected stream of cash flows to the company's current stock price equals the market-required return on common equity. (Staff IB at 41-42)

For the first stage, Ms. Phipps used the average of Zacks and Reuters growth rate estimates, which were also used in her constant growth DCF analysis. (Staff Ex. 5.0R at 22 and Staff Ex. 14.0C at 4) For the second stage, Ms. Phipps used the average of the first- and third-stage growth rates. Finally, for the third, "steady state," growth stage, Ms. Phipps calculated the nominal overall economic growth rate beginning in 2023 to estimate the long-term growth expectations of investors. (Staff Ex. 5.0R at 22-23 and Staff Ex. 14.0C at 4) That growth rate was calculated using the expected real growth rate (2.4%) based on the average of the Energy Information Administration ("EIA") and Global Insight's forecasts of real gross domestic product ("GDP"), and the expected inflation rate (2.3%) based on the difference in yields on U.S. Treasury bonds and U.S. Treasury Inflation-Protected Securities ("TIPS"). She then combined the resulting 4.8% growth estimate with the 4.3% average nominal economic growth forecasted by EIA and Global Insight. (Staff Ex. 14.0C, Sch. 14.07; Staff IB at 41)

In her rebuttal testimony, Ms. Phipps updated her NCDCF analysis and concluded that the sustainability of the growth rate for the gas sample was questionable. (Staff Ex. 14.0C at 5) Nevertheless, she explained, averaging the results of the NCDCF (8.28%, excluding Laclede Group, and 8.29% including Laclede Group) and the constant DCF (8.60%) would produce a DCF-derived cost of equity estimate of 8.44%. (*Id.* at 4-5) When averaged with her updated risk premium estimate of 9.02%, her cost of equity estimate would fall from 8.81% to 8.73%. (Id. at 5.) Given this small difference, Ms. Phipps continues to recommend a return on equity for AIC's gas operations that reflects the average of her constant growth DCF and risk premium analyses (8.81%), which was the basis for her recommendation set forth in her direct testimony. (Staff IB at 42)

Staff CAPM Model

Ms. Phipps used a one-factor risk premium model, the CAPM, to estimate the cost of equity. The CAPM requires the estimation of three parameters: the risk-free rate

of return, the expected rate of return on the market, and beta. (Staff Ex. 5.0R, 25-26:471-481.)

According to Staff, in AIC's last gas rate case, Docket No. 11-0282, the only CAPM analysis accepted by the Commission was Staff's CAPM analysis, which reflected a market risk premium calculated in the same manner as in the instant case. 11-0282 Order at 125. (Staff RB at 50)

To estimate the risk-free rate, Ms. Phipps examined the suitability of the yields on four-week U.S. Treasury bills and 30-year U.S. Treasury bonds as estimates of the risk-free rate of return. (Staff Ex. 14.0C at 6) She explained that the proxy for the nominal risk-free rate should contain no risk premium and reflect similar inflation and real risk-free rate expectations to the security being analyzed through the risk premium methodology. (Staff Ex. 5.0R at 26; Staff IB at 43)

As of July 23, 2013, four-week U.S. Treasury bills were yielding 0.02% and thirty-year U.S. Treasury bonds were currently yielding 3.61%. (Staff Ex. 14.0C at 6) Forecasts of long-term inflation and the real risk-free rate imply the long-term risk-free rate is between 4.3% and 4.7%. Thus, Ms. Phipps concluded the U.S. Treasury bond yield of 3.61% more closely approximates the long-term risk-free rate. (*Id.* at 6-7) She noted, however, that the U.S. Treasury bond yield is an upwardly-biased estimator of the long-term risk-free rate due to the inclusion of an interest rate risk premium associated with its relatively long term to maturity. (Staff Ex. 5.0R at 30; Staff IB at 43)

The expected rate of return on the market was estimated by conducting a DCF analysis on the firms composing the S&P 500 Index ("S&P 500") as of June 30, 2013. (Staff Ex. 14.0C, 7:127-129.) Firms not paying a dividend as of June 30, 2013, or for which neither Zacks nor Reuters growth rates were available, were eliminated from the analysis. That analysis estimated that the expected rate of return on the market equals 12.33%. (Staff IB at 43-44)

Ms. Phipps used Value Line's betas, Zacks betas, and regression analysis to estimate beta for the gas sample. She explained that Value Line employs 260 weekly observations of stock price data, and then adjusts its beta. (Staff Ex. 5.0R at 33) The regression analysis beta estimate for the gas sample employs 60 monthly observations of stock and the U.S. Treasury bill return data, and then the beta is adjusted. Like Staff's regression beta, Zacks employs 60 monthly observations in its beta estimation; however, the beta estimates Zacks publishes are not adjusted; that is, they are "raw" beta estimates. Thus, Ms. Phipps adjusted them using the same formula she used to adjust the regression beta. (*Id.* at 34) Ms. Phipps explained that adjusting raw beta estimates towards the market mean value of 1.0 results in a linear relationship between the beta estimate and realized return that more closely conforms to the CAPM prediction. (*Id.*; Staff IB at 44)

Since both the Zacks beta estimate and the regression beta estimate are calculated using monthly returns rather than weekly returns (as Value Line uses), Ms.

Phipps averaged the Zacks and regression betas to avoid over-weighting the monthly return-based betas. (Staff Ex. 5.0R at 35; Staff Ex. 14.0C at 7) Then, she averaged that result with the Value Line beta to obtain a single estimate of beta for the sample. For the gas sample, the regression beta estimate is 0.54 and the Value Line beta and Zacks beta average 0.68 and 0.57, respectively. (Staff Ex. 14.0C at 8) The average of the Zacks and regression betas is 0.56. Averaging this monthly beta with the weekly Value Line beta (0.68), produces a beta for the gas sample of 0.62. (*Id.* at 8) If Laclede Group is included in the gas sample, the regression beta equals 0.52, the average of the Zacks and regression betas equals 0.54 and the average of the Value Line beta with the monthly beta equals 0.60. (Staff IB at 44-45)

The risk premium model estimates a required rate of return on common equity of 9.02% for the gas sample, excluding Laclede Group, and 8.84% including Laclede Group. (Staff Ex. 14.0C at 9; Staff IB at 45)

Staff ROE Recommendation

Ms. Phipps estimated the investor-required rate of return on common equity for natural gas distribution operations equals 8.81%, which equals the simple average of the DCF-derived results (8.60%) and risk-premium-derived results (9.02%) for the gas sample. (Staff Ex. 14.0C at 9)

To assess the reasonableness of her recommendation, Ms. Phipps considered the observable 4.60% rate of return the market currently requires on less risky A-rated long-term debt. (Staff Ex. 14.0C at 9, n. 4) Ms. Phipps also compared the values for the 3-year average financial guideline ratios computed from 2010 through 2012 for each of the companies in the gas sample and AIC to Moody's guidelines for regulated gas and electric utilities. (Staff Ex. 5.0R at 38) To assess the financial strength of gas and electric utilities, Moody's focuses on four ratios: (1) funds from operations ("FFO") to interest coverage; (2) FFO to total debt; (3) retained cash flow ("RCF") to total debt coverage; and (4) debt to capitalization. Given AIC's 3-year average financial ratios are very close to the gas sample's 3-year average financial ratios, Ms. Phipps concluded no adjustment to the gas sample's cost of equity is warranted in this case. (*Id.* at 38-39)

Response to AIC's DCF Analysis

With respect to Mr. Hevert's DCF Analysis, Ms. Phipps takes issue with the long-term growth rate estimate used by Mr. Hevert. His long-term growth rate of 5.80% is based on the historical growth in real GDP of 3.24% from 1929-2011 and a 2.48% inflation rate that is a compound annual forward rate starting in 2022. (Ameren Ex. 5.0 at 19) EIA and Global Insight currently forecast real GDP growth will average 2.4% during the 2023-2040 and the 2023-2043 periods, respectively. (Staff Ex. 14.0C, Sch. 14.07) Ms. Phipps noted that those forecasts are in line with the 2.4%-2.6% annual percentage growth rates published by numerous forecasters for the 2011-2040 measurement period. (Staff Ex. 5.0R at 30, n. 34) Thus, Staff argues, these projected growth rates for real GDP from nine sources all indicate that Mr. Hevert's historical real

GDP growth estimate overstates the level of growth expected over the long-term and thereby overstates the investor-required rate of return for the companies in his gas sample. (Staff Ex. 14.0C at 22; Staff IB at 46)

In Ms. Phipps' view, the long-term growth rate that Mr. Hevert used in the final stage of his multi-stage DCF analyses for the gas samples is not sustainable. (Staff Ex. 5.0R at 41) Specifically, in order to sustain 5.80% growth given Mr. Hevert's assumed 30.21% retention rate, the companies in Mr. Hevert's gas sample would have to indefinitely sustain on average a 19.20% return on new common equity investment, which is 84.61% higher than Mr. Hevert's 10.40% cost of common equity recommendation for AIC's gas operations. (*Id.* at 41-42) The implausibility of the proxy group sustaining an average 19.20% ROE indefinitely becomes obvious when one considers the ROE for the proxy group averaged 11.07% during 2002-2012, with no single company achieving a 19.20% ROE during any single year of that measurement period. (*Id.* at 42) Furthermore, a 19.20% return on retained earnings would greatly exceed Value Line's projected 11.83% ROE for the proxy group. (*Id.* at 42; Staff IB at 46-47; Staff RB at 40)

Mr. Hevert suggests that Ms. Phipps' analysis of the sustainability of growth rates for the sample companies should not be considered because it is premised on the "b times r" approach, which has been rejected by the Commission. (Ameren Ex. 20.0 at 24) Ms. Phipps explained that the "b times r" formula is an accurate mathematical expression of the growth in earnings per share as a product of its two components. (Staff Ex. 14.0C at 22) Thus, the "b times r" formula provides insight as to what level of growth is sustainable because it can be used to estimate the expected rate of return on new common equity investment necessary to support a given growth rate. (*Id.* at 22-23) Rather, the difficulty in the "b times r" formula lies in obtaining estimates of the investor-expected rate of return on new common equity investment "r." Since Ms. Phipps did not use the "b times r" formula to directly estimate growth, she did not need an estimate of the investor-expected rate of return on new common equity investment. (*Id.* at 23; Staff IB at 47)

Mr. Hevert claims that projections of the 30-year Treasury yield do not support Ms. Phipps' 4.6% long-term growth rate. The Blue Chip Financial Forecast ("Blue Chip"), upon which Mr. Hevert relied to make his argument, projected growth of 2.5% for real GDP and 2.2% for inflation, as measured by the GDP price index for the 2020-2024 period. (Staff Ex. 14.0C at 22) Hence, these projections indicate a long-term growth projection for nominal GDP of 4.8%, which supports Staff's long-term growth estimate. (*Id.* at 22) Instead of comparing Staff's long-term growth rate to Blue Chip's GDP growth projections, Mr. Hevert compares it to the higher 30-year Treasury yield as of 2023. (Staff IB at 47)

According to Staff, Mr. Hevert's argument is based on the faulty premise that Ms. Phipps suggests the 30-year U.S. Treasury yield is an appropriate measure of the long-term nominal GDP growth rate, which is a mischaracterization of Ms. Phipps' testimony. Furthermore, Staff states, it is "nonsensical" to use a proxy for forecasted nominal GDP

growth when the same source actually provides a nominal GDP growth forecast directly. (Staff Ex. 14.0C at 22) In addition, U.S. Treasury bond yields should be higher than GDP growth because U.S. Treasury bonds contain an interest rate risk premium. Therefore, the forecast that Mr. Hevert relies upon indicates that his long-term growth rate estimates are overstated. (*Id.* at 22) Thus, the Commission should continue to rely on current, observable market interest rates rather than projected rates. Dockets 09-0306 et al. (Cons.) at 214; Illinois-American Water Co., Order, Docket 09-0319 at 112 (April 13, 2010); Illinois-American Water Co., Order, Docket 11-0767 at 108-109 (Sept. 19, 2012). (Staff IB at 47-49)

In its reply brief, Staff states that the Company opposes Ms. Phipps' decision to rely on the results of her constant DCF rather than her NCDCF analysis. (AIC IB at 117) In response, Staff notes that its NCDCF analysis estimates, which were not reflected in its recommendation, are lower than Staff's constant growth DCF estimates. Moreover, AIC states, "[s]pecifically, Staff and IIEC used very low growth rate assumptions in their DCF models that are not sustainable by record evidence." (AIC IB at 99) According to Staff, this claim is unfounded. Foremost, the 4.92% average 3-5 year earnings growth forecasts from Zacks and Reuters that Staff used is higher than the range of the forecasted long-term growth of the overall economy (4.3% - 4.8%), not lower. Further, Ms. Phipps found that the 4.92% average 3-5 year earnings growth rates implied an average 13.3% ROE for the gas sample. In comparison, Value Line forecasts a 10.8% ROE for the gas sample. Therefore, Ms. Phipps concluded that the implication investors expect those companies to sustain a 13.3% ROE indefinitely is questionable. Given the small difference that would result from incorporating the results of her NCDCF analysis into her recommendation, she continued to rely upon her constant growth DCF and risk premium analyses, which were the basis for her recommendation in direct testimony. (Staff RB at 40-41)

In prior cases, Staff has employed NCDCF analyses in those instances in which analysts' growth rates exceed the expected long-term nominal growth rate for the economy because in the long run, it is not possible for any firm to growth at a rate higher than GDP. (See, e.g., 11-0767 Order at 107; 09-0306 Order at 215; Staff RB at 42)

AIC argues that Ms. Phipps' use of a 4.6% long-term growth rate is inconsistent and unsupported based on the projected 30-year Treasury yield of 5.60% based on Blue Chip Financial Forecasts for the third-stage period. (AIC IB at 111) According to Staff, "The Company … fails to acknowledge … that the same source AIC used provides a direct forecast of nominal GDP growth of 4.8%, which supports Ms. Phipps' 4.6% long-term growth rate and which renders unnecessary its reliance on a forecasted U.S. Treasury bond yield as a substitute for a nominal long-term economic growth rate for the third stage of NCDCF analysis." (Staff RB at 42-43) Moreover, the Commission's Order in Docket No. 11-0767 states, "[a]s for the long-term growth rate, the Commission notes that it has utilized estimates of GDP as a proxy for long-term growth in some previous proceedings. The record here supports the conclusion that

estimates of future GDP are a reasonable proxy for long-term growth." Docket 11-0767 Order at 108. (Staff RB at 43)

The Company also alleges that Mr. Hevert's testimony establishes that Staff's long-term growth rate of 4.6% is inconsistent with historical growth rates actually experienced in the United States between 1929 and 2012. (AIC IB at 110) Ms. Phipps explained that Mr. Hevert's analysis calculates the growth rate for overlapping periods (i.e., 1929-1939; 1930-1940, etc.), which skews the results of his analysis given one or two years can greatly affect many observations and distort results. (Staff Ex. 14.0C, at 21; Staff RB at 43)

The Company mistakenly refers to the July 23, 2013 data used in Ms. Phipps' long-term GDP growth rate estimate as a "historical spot price." (AIC IB at 111) Similarly, the Company is mistaken when it claims Staff's criticism of Mr. Hevert's reliance on historical average stock prices is illogical because Ms. Phipps uses historical prices to formulate her opinion. (AIC IB at 109) To the contrary, Staff's analysis employed the most recent data available given the dates for filing Staff testimony in this case. (Staff RB at 44-45)

As Ms. Phipps explained, only the most recently available stock price will reflect all information that is available and relevant to the market. (Staff Ex. 14.0C at 19) The Company argues against the use of spot prices, claiming anomalous events may affect stock prices on any given trading day. Given Mr. Hevert's average dividend yield is very close to Ms. Phipps' average dividend yield – i.e., 3.61% vs. 3.51%, this appears to be another criticism for the sake of criticizing. (Staff RB at 45-46)

Response to AIC CAPM Analysis

With respect t the risk-free rate, Staff opposes the forecasted and 30-day average U.S. Treasury bond yields that Mr. Hevert uses as proxies for the risk-free rate. (Ameren Ex. 20.4; Staff Ex. 14.0C at 24) Ms. Phipps explained that interest rates are constantly adjusting, and accurately forecasting the movements of interest rates is problematic. (Staff Ex. 14.0C at 24) In contrast, current U.S. Treasury yields, which Staff used as proxies for the risk-free rate, reflect all relevant, available information, including investor expectations regarding future interest rates. (Staff Ex. 14.0C at 24) Consequently, investor appraisals of the value of forecasts are also reflected in current interest rates. (*Id.* at 24) Therefore, if investors believe that the forecasts are valuable, or not valuable, that belief would be reflected in current market interest rates. (*Id.* at 24-25) In summary, if one uses current market interest rates in a risk premium analysis, speculation of whether investor expectations of future interest rates equals those from a particular forecast reporting service is unnecessary. Further, it is important to note that U.S. Treasury bond yields reflect market forces, while forecasts do not. The true risk-free rate is reflected in the return investors are willing to accept in the market. As of July 23, 2013, investors were willing to accept 3.61% return on U.S. Treasury bonds, which includes an interest rate risk premium associated with its relatively long term to maturity. (*Id.* at 25; Staff IB at 49)

In Docket Nos. 09-0306 et al., the Commission noted that the current yield on long-term U.S. Treasury bonds is an appropriate proxy for the risk-free rate. Docket 09-0306 Order at 214. Similarly, the Commission's Order in Docket No. 11-0767 states, "With regard to the use of spot yields, the Commission believes the Staff proposal is better supported by the record and past Commission treatment of the issue." Docket 11-0767 Order at 109. Therefore, the Commission should accept Staff's spot risk-free rate, as it has in the past, since it reflects the current market forces that impact the investor-required rate of return on common equity. (Staff RB at 51)

With respect to the beta estimates, Staff identified two problems with the beta estimates Mr. Hevert used in his CAPM analyses. First, Mr. Hevert relies on beta estimates that are measured over 18 to 24 months. (Staff Ex. 5.0R at 43) Betas measured over shorter time periods are more prone to measurement error arising from short-term changes in risk and investor risk preferences, which can bias the beta estimate. A decrease in a company's systematic risk could increase its estimated beta even though generally an increasing beta would be interpreted as signaling an increase in a company's systematic risk. Conversely, an increase in a company's systematic risk could lower its calculated beta even though generally a decreasing beta would be interpreted as signaling a decrease in a company's systematic risk. (*Id.* at 43; Staff IB at 50)

Those counter-intuitive results are a consequence of the inverse relationship between risk and stock values. As the risk of a stock declines, its price rises, all else equal. In a rising stock market, the beta calculated will rise for a stock that is declining in risk, all else equal. Conversely, in a declining market, the beta calculated will decline for a stock that is increasing in risk. Consequently, a longer measurement period should be used as a more complete business cycle will include both rising and falling markets, reducing measurement error. (Staff Ex. 5.0R at 43) Ms. Phipps calculated beta using only 18 months of data for three consecutive measurement periods to demonstrate the inherent volatility in using such a short measurement period to measure beta. (*Id.* at 44; Staff IB at 50)

Second, Staff views Mr. Hevert's risk premium analysis as flawed because he relies exclusively on betas calculated using weekly return intervals, despite evidence that the major reason for observed variation among published betas is the interval effect (i.e. monthly returns versus weekly returns) due to non-synchronous trading, which is greater for weekly data than with monthly data. (Staff Ex. 5.0R at 44-45) By relying exclusively upon betas calculated using weekly data, Mr. Hevert has introduced bias into his CAPM analysis that could have been mitigated by including a beta estimate derived from monthly return intervals. (*Id.* at 45; Staff IB at 50-51)

In addition, Mr. Hevert opposes Ms. Phipps' use of five-year beta estimates because it "includes the period of the 2008-2009 credit crisis and financial market dislocation." (Ameren Ex. 20.0 at 30) In support of her use of five-year beta estimates,

Ms. Staff relies on an explanation by Ibbotson Associates. (Staff Ex. 14.0C at 25-26; Staff IB at 51)

The Commission rejected the Company's CAPM, which relied exclusively upon weekly betas, in a previous AIC rate case, Docket Nos. 09-0306 et al. (Cons.). The Commission's Order in that docket states, in pertinent part, "The Commission further finds that Staff's use of both weekly and monthly betas, is superior to the use of only one or the other. It appears from the testimony that there are weaknesses present in both monthly and weekly beta estimates; however, the use of both should ameliorate those weaknesses and assist the Commission in identifying this input which measures investor's expectations of the quantity of non-diversifiable risk inherent in a security. "09-0306 Order at 213. (Staff RB at 48)

In AIC's last gas rate case, Docket No. 11-0282, the Commission endorsed five-year beta estimates and expressed concern over Mr. Hevert's short-term beta estimates. Specifically, the Commission concluded, "The other parties take issue with the beta estimates used by Mr. Hevert, particularly the estimates he calculated using a 12-month measurement period. The Commission has traditionally relied upon betas calculated with five years of data. While Mr. Hevert explained his rationale, the Commission is not convinced that betas calculated with twelve months of data are reliable or appropriate for use in establishing the cost of common equity." Docket 11-0282 Order at 123-124. (Staff RB at 49)

Staff also took issue with the market risk premium in AIC's CAPM analysis. Mr. Hevert developed two estimates of the market risk premium by calculating the required return on the S&P 500 Index using data from Bloomberg and Capital IQ. (Ameren Ex. 5.0 at 23-24) He used a constant growth DCF on all of the companies in the index with long-term growth projections available, including non-dividend paying companies. (Staff Ex. 5.0R at 45) Staff witness Phipps explained that Mr. Hevert's inclusion of the non-dividend paying companies in a constant growth DCF analysis upwardly biases his estimate of market return. (*Id.* at 45) That is, the dividend growth rate of non-dividend paying companies cannot be both constant and equal to the earnings growth rate as Mr. Hevert's estimation process assumes. If the dividend growth rate is constant, it must remain 0%. In contrast, the average dividend growth rates of the non-dividend paying companies in Mr. Hevert's analyses equal approximately 14%. (*Id.* at 45; Staff IB at 51-52; Staff RB at 50)

Furthermore, Staff argues, Mr. Hevert's market risk premium calculation using all 1,677 companies in the Value Line universe is an inappropriate "check of reasonableness" of his Bloomberg-derived market risk premium because it suffers from the same deficiency. That is, he includes non-dividend paying companies in the Value Line market risk premium calculation. (Staff Ex. 14.0C at 30) Staff witness Phipps noted that another "check of reasonableness" that avoids those problems would be a published source, such as Duff and Phelps, which currently estimates a 9.0% required rate of return on the market (i.e., 4% risk-free rate, plus 5% market risk premium). (Staff Ex. 14.0C at 30) Duff and Phelps' 9.0% market return estimate is far below the required

rate of return on the market that Mr. Hevert estimates for the Value Line universe (i.e., 13.48%) and using Bloomberg data (i.e., 13.56%). (Staff IB at 52; RB at 50)

Response to AIC's Bond Yield Plus Risk Premium Analysis

Mr. Hevert's bond yield plus risk premium analysis suffers from the same infirmities as the risk premium model that the Commission rejected in the Company's most recent gas rate case, Docket No. 11-0282. In that case, the Commission questioned the validity of the bond yield plus risk premium approach given its reliance on utility authorized returns on equity throughout the U.S. Ameren Illinois Co., Order, Docket No. 11-0282 at 125 (Jan. 10, 2012). (Staff IB at 52-53)

Staff witness Phipps testified that Mr. Hevert's model, estimated over the period 1980-2012, "nonsensically" predicts that when the U.S. Treasury bond yield falls to 2.92% or below, which occurred 150 business days during 2012, the cost of common equity for utilities will rise. (Staff Ex. 5.0R, 46-47:831-835.) In rebuttal testimony, Mr. Hevert presented alternative bond yield plus risk premium analyses (both a linear and a non-linear model), which employ a shorter measurement period (2011 to the present) and include credit spreads as an additional independent variable. (Ameren Ex. 20.0 at 33-34) In Staff's view, the alternative models are no better than Mr. Hevert's original analysis. Mr. Hevert's linear model predicts the cost of equity is inversely related to the 30-year U.S. Treasury bond yield and the non-linear model predicts a similar, negative relationship when the U.S. Treasury bond yield is 3.58% or lower (vs. a 2.92% inflection point in his original analysis). (Staff Ex. 14.0C at 31) This is not consistent with the positive relationship that one would reasonably expect to exist between the cost of equity and U.S. Treasury bond yields – i.e., the cost of equity would increase as the 30-year Treasury bond yield increases. (*Id.*; Staff IB at 53)

Mr. Hevert's linear model suggests that risk premiums implied in authorized rates of return move in an equal and opposite direction of U.S. Treasury bond yields, as indicated by a coefficient that is very close to negative one. (Staff Ex. 14.0C at 31) Since the implied risk premium is calculated as the difference between authorized rate of return on common equity and the yield on 30-year U.S. Treasury bonds, a coefficient of negative one indicates that 30-year U.S. Treasury bond yields have no power to predict authorized rate of return on common equity. Ms. Phipps investigated this and found that U.S. Treasury bond yields explain less than 3% of the variation in authorized rates of return on common equity, (i.e., the R2 from regressing authorized rates of return against 30-year U.S. Treasury bond yields alone and in combination with credit spreads is less than 0.03). Further, the t-statistics indicate that there is no statistically significant relationship between 30-year U.S. Treasury bond yields (or credit spreads) and authorized rates of return on common equity. (Staff IB at 53-54)

Flotation Cost Adjustment

The flotation cost adjustment proposed by Mr. Hevert is contrary to long-standing Commission practice. (Staff Ex. 5.0R at 47) The Commission Order from Docket No.

94-0065 states, "The Commission has traditionally approved [flotation cost] adjustments only when the utility anticipates it will issue stock in the test year or when it has been demonstrated that costs incurred prior to the test year have not been recovered previously through rates." Commonwealth Edison Co., ICC Order Docket No. 94-0065, 93-94 (Jan. 9, 1995). That Order also states, "[the utility] has the burden of proof on this issue." Thus, the Commission should allow recovery of flotation costs only if a utility can verify both that it incurred the specific amount of flotation costs for which it seeks compensation and it has not previously recovered those costs through rates. (Staff Ex. 5.0R at 48) According to Staff, AIC has done neither. (Staff IB at 54-55)

Ms. Hevert's flotation cost calculations were based on the costs of issuing equity that were incurred by Ameren Corp. and his sample group companies in their two most recent common equity issuances. Based on those issuance costs, he calculated a flotation cost of 0.14% (14 basis points) for the gas distribution operations. (Staff Ex. 5.0R at 47; Ameren Ex. 5.0 at 39) He did not make a specific flotation cost adjustment, but claims to have considered the effect of flotation costs in determining where AIC's ROE falls within the range of results. (Staff Ex. 5.0R at 47; Ameren Ex. 5.0 at 39) Thus, Staff states, the size of the flotation cost in Mr. Hevert's rate of return on common equity remains a mystery. (Staff IB at 55)

The Commission has repeatedly rejected generalized flotation cost adjustments as an inappropriate basis for raising utility rates. In support of this argument, Staff cites numerous Commission orders. In Staff's view, since Mr. Hevert's calculation is not based on issuance costs that the Company has incurred but has not previously recovered through rates, it should not be considered in setting the investor-required rate of return on common equity. (Staff Ex. 5.0R at 47; Staff IB at 55-56)

3. IIEC's Position

According to IIEC, the *Bluefield* and *Hope* decisions identify the general standards to be considered in establishing the cost of common equity for a public utility. Those general standards provide that the authorized return should: (1) be sufficient to maintain financial integrity; (2) attract capital under reasonable terms; and (3) be commensurate with returns investors could earn by investing in other enterprises of comparable risk.

With those standards in mind, IIEC recommends a 9.10% return on equity and an overall rate of return of 7.79%. IIEC's recommended return on common equity, will provide Ameren with an opportunity to realize cash flow financial coverages and balance sheet strength that support AIC's current investment grade bond rating. In addition, IIEC's recommended 9.10% return on equity represents a fair compensation given the Company's investment risk, and will preserve the Company's financial integrity and credit standing. (IIEC IB at 9)

In its reply brief, IIEC responds to AIC's comment that it is unclear whether the DCF model in fact incorporates an analytical embodiment of the fifth requirement,

established by *Hope*, which requires that investment return be commensurate with investments in other enterprises of corresponding risk. (AIC IB at 103) In IIEC's view, the criteria established by *Bluefield* and *Hope* are the same. Therefore, contrary to AIC's arguments, if the DCF method meets all the criteria established in *Bluefield*, as Ameren correctly notes it does, then the DCF method also meets all the criteria established by Hope. (IIEC RB at 10-11)

Consistent with the Commission's regular practice of relying on DCF and CAPM estimates, IIEC witness Mr. Gorman presented DCF and CAPM analyses. Mr. Hevert presented a DCF analysis, CAPM analysis and a Bond Yield Plus Premium analysis. Ms. Phipps presented a DCF analysis and the CAPM version of a Risk Premium analysis.

IIEC witness Gorman recommended an appropriate return on common equity for Ameren gas operations of 9.10%. (IIEC Ex. 1.0 at 2) His recommendation was based on the results of a constant growth DCF model using consensus analysts' growth rate projections, a, sustainable rate growth DCF model, a multi-stage growth DCF model, and a CAPM analysis. (IIEC Ex. 10 at 14) These analyses used observable market information for a group of publicly traded gas utility companies. Those sample companies approximate the investment risk of Ameren Gas Operations. (IIEC IB at 11)

Mr. Gorman also presented reviews of relevant market conditions. He found the credit rating outlook to be strong and supportive of the industry's financial integrity. (IIEC Ex. 1.0 at 5) His review of the industry market outlook showed gas utilities' stocks exhibited strong return performance. The regulated utility industry maintains strong investment grade credit. The stable credit outlook will support the utility's access to capital, and ability to finance construction programs, in turn supporting the financial integrity of the utility and its ability to offer high quality, reliable utility service. (*Id.* at 8; IIEC IB at 12)

Ameren Illinois' investment risk is improving with the implementation of a formula rate plan for electric utility rates, which further reduces regulatory uncertainty. In addition, the decision of Ameren Corp. to divest itself of the higher operating risk merchant affiliate has been positively noted by credit rating agencies. Standard & Poor's Rating Services ("S&P") stated, "Ameren Corp.'s announced definitive agreement to sell its remaining merchant assets improves its business risk profile and credit quality by demonstrating management's commitment to its revised lower-risk strategy around its regulated operations." S&P raised Ameren Corporation's Illinois and Ameren Missouri from BBB- to BBB in March of 2013. (IIEC IB at 12-13)

The ratings agencies now look favorably upon the Company. AIC's corporate credit rating from S&P and Moody's are "BBB" and "BAA2" respectively. AIC's credit standing is "Stable" according to Moody's. S&P has placed AIC on the CreditWatch with Positive Implications. (IIEC Ex. 1.0 at 8; IIEC IB at 13)

S&P has also assessed AIC's business risk at "Excellent" and stated that its assessment "… takes into account its lower-risk, monopolistic, rate-regulated utility pure transmission and distribution (T&D) businesses that provide an essential service." (IIEC Ex. 1.0 at 8 quoting S&P) Fitch Ratings also observed that AIC's regulated business ". . . provides a predictable source of earnings" and "expects them to remain strong." (*Id.* at 9 quoting Fitch Ratings; IIEC IB at 13)

The record in this case establishes that capital markets have declined for AIC since the Company's last rate case in ICC Docket 11-0282. Ameren's own cost of money witness has proposed a rate of return on common equity for Ameren that is 35 basis points lower than his recommendation in the last case (10.75% vs. 10.40%). (IIEC Ex. 1.0 at 3) This is also illustrated by a comparison of bond yields in this case to bond yields in the last case. In the last case, "A" rated utility bond yields were 4.37% and "Baa" rated utility bond yields were 5.07%. They have declined to 4.10% and 4.61% respectively. Thus, these utility bond yields have declined by approximately 25 to 50 basis points since AIC's last case. This suggests that AIC's cost of capital is lower now than in the last case. (IIEC IB at 13-14)

After he estimated AIC's market-required return on equity, IIEC witness Gorman demonstrated that his recommended cost of equity was adequate to maintain an investment grade bond rating and financial integrity for AIC. He compared the credit rating financial ratios for AIC, at the capital structure proposed by IIEC and his recommended return on equity of 9.10%.

S&P publishes a matrix of financial ratios that correspond to its assessment of the business risk of a utility company and its related bond rating. These criteria identify credit guides based on S&P assessments of business and financial risk. (IIEC Ex. 1.0 at 37) S&P publishes ranges for the three primary financial ratios that it uses as guidance in its credit review for public utilities. The three primary S&P financial ratio benchmarks are (i) Total Debt to Total Capital; (ii) Funds From Operations ("FFO") to Total Debt; and (iii) Debt to Earnings Before Interest, Taxes, Depreciation, Amortization ("EBITDA"). Mr. Gorman calculated these ratios based on Ameren's cost of service for its gas operations (using his proposed capital structure and his return on equity). The ratios were compared to the S&P benchmarks for various credit ratings. Each of the calculated matrix criteria financial ratios for Ameren's gas operations supports an investment grade credit rating. It also supports the conclusion that IIEC's recommended cost of equity of 9.10% will maintain Ameren's financial integrity. (IIEC Ex. 1.0 at 39; IIEC IB at 14-15)

IIEC DCF Estimates

Mr. Gorman performed three DCF analyses, "distinguished primarily by the growth rate inputs". Mr. Gorman's analyses included a constant growth DCF model using analysts' forecasts, a constant growth DCF model using a sustainable growth rate, and a multi-stage growth DCF model. The three results averaged to produce Mr. Gorman's DCF estimate of 9.10%. (IIEC IB at 17)

Mr. Gorman's DCF analysis is based on the premise that the price of an individual stock is determined by the present value of all expected future cash flows discounted at the investor's required rate of return. (IIEC Ex. 1.0 at 16) That theory has been accepted in the Commission's repeated reliance on DCF estimates as a basis for its cost of equity determinations. Mr. Gorman used the constant growth version of the DCF mode which assumes that earnings and dividends will grow at a constant rate. The model requires a current stock price, expected dividend, and expected growth rate in dividends. (*Id.* at 18) For his stock price input to the model Mr. Gorman relied on the average of the weekly high and low stock prices over a 13-week period ending May 17, 2013. Mr. Gorman judged the 13-week period to provide a reasonable balance between the need to reflect current market expectations and the need for sufficient data to smooth out aberrant market movements. For the dividend input to the model, he used the most recently paid quarterly dividend reported in the Value Line Investment Survey. (IIEC IB at 17-18)

Mr. Gorman's constant Growth DCF analysis relied on security analysts' growth rate estimates as the input representing the expected dividend growth rate. Specifically, he relied on security analysts' estimates for the companies in his proxy groups, from Reuters, Zacks, and SNL Financial, as reported on-line on May 17, 2013. Mr. Gorman averaged those results to develop growth rate estimate for his proxy group of 4.99%. (IIEC Ex. 1.0 at 19-20) His constant growth DCF-analyst growth analysis indicated average and median returns on equity of 8.83% and 8.76% respectively for his proxy group. (IIEC Ex. 1.0 at 20; IIEC IB at 18)

Mr. Gorman concluded that this version of the constant growth DCF analysis produced reasonable results, because the three to five year growth rates he used were slightly above the sustainable long-term constant growth rate as required by the DCF model. (IIEC Ex. 1.0 at 20) However, in order to enhance the accuracy of the results of his analysis, Mr. Gorman also used alternative versions of the DCF model to estimate the required return on common equity for AIC. (IIEC IB at 18)

The second version of Mr. Gorman's constant growth DCF model used the same inputs as the first, with the exception of the growth rate input. (IIEC Ex. 1.4 and Ex. 1.7) In this version of the DCF, Mr. Gorman used a sustainable growth rate proxy for the expected growth rate. (IIEC Ex. 1.0 at 20-21)

A sustainable growth rate is based on the percentage of earnings a company retains and reinvests in utility plant. (*Id.* at 20. By reinvesting those earnings in plant, the Company grows rate base. Thus, it increases its earnings base and when the new plant is placed in service and earns a return, the Company's earnings grow. Based on an assessment of sustainable long-term earnings retention rates, the Company's current market to book ratio and Value Line's 3 to 5 year projections of earnings, dividends, earned returns on book value, and stock issuances, Mr. Gorman developed sustainable growth estimates of 6.13% for the gas proxy group. (*Id.* at 21; IIEC Ex. 1.6) This constant growth DCF (sustainable growth) analysis produced an average median

returns on common equity of 10.01% and 9.66% respectively for the gas group. (IIEC IB at 19)

Mr. Gorman conducted an additional DCF analysis. A constant growth DCF model cannot reflect a rational expectation that a period of high/low short-term growth can be followed by a change in growth rates that are more reflective of long-term sustainable growth. Mr. Gorman, therefore, performed a multi-stage growth DCF analysis to reflect the expectation of changing growth rates. (IIEC Ex. 1.0 at 22) His multi-stage growth DCF model reflects three growth periods: short-term (first 5 years); transition period (next 5 years); and long-term (11th year through perpetuity). (*Id.* at 24)

For the short-term growth input Mr. Gorman relied on the consensus analysts' growth projections used in his constant growth DCF (analyst growth) model. For the transition period, the growth rate was changed annually to move linearly from the analysts' growth rates to the United States Gross Domestic Product ("GDP") growth rate. For the long-term period, he used the consensus projected growth rate in the U.S. economy, represented by projected growth in the GDP. For the transition period, the growth rate was changed annually to move linearly from the analysts' growth rates to the GDP growth rate. For the other model inputs, Mr. Gorman used the same 13-week stock price and quarterly dividends used in his constant growth DCF models. (*Id.* at 27; IIEC IB at 19-20)

This multi-stage growth DCF model produced an average and median common equity cost for Mr. Gorman's gas proxy group of 8.74% and 8.75% respectively. (IIEC Ex. 1.0 at 27; IIEC Ex. 1.9; IIEC IB at 20)

Based on the results of only his Constant Growth DCF model (Analysts Growth), Constant Growth Model (Sustainable Growth) and his Multi-Stage DCF model, Mr. Gorman concluded that the DCF return on common equity for his gas proxy group was 9.06% rounded up to 9.10%.

Response to Criticisms in AIC's Brief

Ameren suggests that IIEC's witness has relied on a sustainable growth model incorporating a "b times r" growth calculation approach previously rejected by the Commission. According to IIEC, Ameren's criticism is unfounded. As Mr. Gorman explained, the sustainable growth DCF model is widely accepted in the academic world. However, its reliability is only as good as the data used in the model. Mr. Gorman used projected data by Value Line. Hence, the earnings retentions and earned returns on book equity for publicly traded parent companies reflected in his model are all based on Value Line projections of the economic parameters for those companies. The projected outlooks by Value Line are data typically used by security analysts to project growth rate estimates. (IIEC Ex. 3.0 at 4; IIEC RB at 13-14)

According to IIEC, the fundamental construct of AIC witness Mr. Hevert's multi-stage DCF is based on the principles of the sustainable growth model applied by Mr.

Gorman in his analysis. (IIEC Ex. 3.0 at 5) Thus, if Mr. Gorman's sustainable growth analysis is defective, then so is Mr. Hevert's multi-stage DCF analysis. (IIEC RB at 14-15)

Ameren objects to Mr. Gorman's multi-stage DCF growth analysis on the grounds that he uses a very low third-stage growth rate that is also based upon GDP projections. (Ameren IB at 123) Ameren objects to the use of GDP projections to formulate a third-stage growth rate. IIEC responds, "Mr. Gorman, however, used consensus analysts projected long-term GDP growth forecasts." (IIEC Ex. 1.0 at 24) Using analysts' projections is a well accepted practice by the ICC. (IIEC RB at 15)

Ameren also argues that Mr. Gorman's constant growth and multi-stage DCF are essentially the same, noting that the growth rates used for Mr. Gorman's constant growth DCF is 4.99% and the long-term growth rate for the third stage DCF was 4.9%. (Ameren IB at 124) According to IIEC, "Ameren is wrong." Mr. Gorman's DCF studies were completely independent of one another, and based on models Mr. Gorman has consistently offered to the ICC in support of his return on equity recommendations. The similar results of each of the two alternative DCF studies validate the finding of the other and produce a more robust and reliable estimate of the current cost of equity for Ameren in the current market. (IIEC RB at 16)

IIEC CAPM Estimates

Mr. Gorman also relied on a capital asset pricing model (CAPM) analysis to develop his recommended return on common equity for AIC. The underlying theoretical basis for the CAPM method is that the market requires a return on a security investment that is equal to a risk-free rate of return plus a market risk premium associated with the specific security. The relationship between risk and return is expressed mathematically as: Ri = Rf + Bi x (Rm - Rf) where Ri = required return for stock; Rf = risk-free rate; Bi = Beta-measure of risk of stock; and Rm = expected return on the market. (IIEC Ex. 1.0 at 28-29; IIEC IB at 20-21)

The CAPM requires an estimate of the market risk-free rate (Rf), the Company's beta (Bi), and a market risk premium. Because the risk-free rate is typically represented by U.S. Treasury securities, Mr. Gorman used Blue Chip Financial Forecasts' projected 30-year Treasury bond yields for his risk-free rate. (IIEC Ex. 1.0 at 30)

The Beta term in his CAPM analysis is the average Value Line Beta estimate for his gas proxy group of comparable companies. (*Id.* at 30)

The expected market return used to calculate the market risk premium was developed by Mr. Gorman using two market risk premium estimates of the return on the market. The first was a forward-looking estimate based on published estimates of the long-term historical real return on the market (proxied by the S&P 500), plus consensus analysts' inflation projection. This produced a market risk premium of 6.6%. The second estimate was based on estimates of total return and risk-free return components

of the long-term historical market risk premium published in Morningstar's Stocks, Bonds, Bills, and Inflation 2013 Yearbook ranging from 6.0% to 6.7%. (IIEC Ex. 1.0 at 32; IIEC IB at 21)

To be conservative, Mr. Gorman relied on the highest market risk premium estimate or 6.7% for use in his CAPM study.

Mr. Gorman's CAPM analyses for his proxy groups produced return on equity estimate of 8.12 rounded to 8.10% for his gas group. (IIEC Ex. 1.0 at 36; IIEC IB at 22)

In IIEC's reply brief, it responds to criticisms in AIC's initial brief. Contrary to AIC's statements, Mr. Gorman did consider his CAPM results and decided to place minimal weight on the result, because he was concerned about the data available for the CAPM in this case producing an accurate and fair return for Ameren. (IIEC Ex. 1.0 at 36) He did not "disregard" the results. Secondly, Ameren's argument that the CAPM is somehow better suited for meeting the requirements of the *Hope* and *Bluefield* cases is also misplaced. (IIEC RB at 16)

Ameren also argues that rather than disregarding his CAPM analysis, Mr. Gorman should have tried to determine the cause of the "deficient result" and then corrected his model. (Ameren IB at 125) According to IIEC, Mr. Gorman did fix Mr. Hevert's CAPM study and showed that it produces a return of about 8.35% when the CAPM model is properly and accurately applied. (IIEC Ex. 1 at 41: Table 6, Column 2) Mr. Gorman did not use the results of his CAPM study (8.10%) to form his recommended return in this case because he was concerned about authorizing Ameren a return as low as that indicated by the CAPM. Mr. Gorman did not reject his CAPM estimate as being an invalid or unreliable return based on the proper application of CAPM. (IIEC RB at 17)

Ameren also argues that Mr. Gorman's recommendation in this case is below the 9.3% he recommended in a Washington state rate case and that it is below the stipulated rate of 9.8% that he supported in his sworn testimony in a Montana gas utility case. IIEC responds that the Montana case involved a settlement of the overall case, approved by all the parties to that case, and that Mr. Gorman's testimony was designed to support the overall settlement. The point of Mr. Gorman's testimony in the Washington case was to persuade the Commission that return on common equity should be an issue, not to adopt a particular return on common equity for ratemaking purposes. (IIEC RB at 18-19)

Ameren argues that IIEC's recommendation is well below the national average on authorized gas ROE of 9.94%. , IIEC notes that Ameren's 10.40% is well above the index rate identified by Ameren of 9.94%. (IIEC RB at 19-20)

IIEC Return on Equity Recommendation

Based on Mr. Gorman's DCF analyses discussed above, IIEC recommends a cost of equity for AIC of 9.10%. Mr. Gorman placed "minimal" weight on his CAPM results because of concerns about the data available for the model producing an accurate and fair return for AIC in the current market. (IIEC Ex. 1.0 at 36) Because the recommended return on common equity is based on the cost of equity for Companies with risks similar to that of the Company, it is commensurate with returns investors could earn by investing in other enterprises of comparable risk and will allow capital to be attracted to the Company under reasonable terms.

In IIEC's view, a 9.10% return on common equity will also allow the Company to maintain its financial integrity, as represented by an investment grade bond rating. Mr. Gorman's financial integrity analysis also confirms the consistency of IIEC's recommendation with the requirements of the foundational judicial decisions cited earlier. (IIEC IB at 22)

Concerns with AIC's DCF and CAPM Analyses

With respect to Mr. Hevert's multi-stage growth DCF analyses, Mr. Hevert's analyses are based on an average short-term growth rate from Zacks, First Call and ValueLine. For the first stage he relied on a short-term growth rate of 5.04%. For the second stage (intermediate growth period), he assumed the short-term growth rate of 5.04% would scale up or down to the long-term sustainable growth by the start of the eleventh year. For the third stage, (11 years and beyond), he assumed a long-term projected GDP growth rate of 5.80%. (IIEC IB at 23)

His models also assumed that the dividend and payout ratio would decline from 61.6% in the first year after the stock is purchased, down to 54.7% approximately five years later, then increase to 69.8% into perpetuity. (IIEC Ex. 1.0 at 42; IIEC IB at 24)

In IIEC's view, Mr. Hevert's multi-stage growth DCF analyses are flawed for two primary reasons. First, he improperly relies on a long-term GDP growth rate of 5.80% as the long-term sustainable growth, which is much higher than the market GDP growth outlooks reflected in the consensus analysts' projections. Second, he has made an inconsistent assumption on his long-term steady-state growth rate, in combination with his long-term steady-state dividend payout ratio. The assumptions that underlie these two growth outlooks are contradictory and produce implausible transitional stage dividend growth rate outlook. (IIEC Ex. 1.0 at 42 at 42) Mr. Hevert's GDP growth rate estimates are excessive in comparison to those of independent market participants. Consensus economists projections of nominal GDP over the next five to 10 years are 5.0% and 4.7% respectively, based on Blue Chip Financial Forecasts for March 10, 2013. (*Id.* at 43-44) Mr. Hevert's long-term growth rate of 5.80% is well in excess of the consensus economists' forecasts. (IIEC IB at 24)

When Mr. Hevert's multi-stage DCF analyses are adjusted to include the consensus economists projected long-term GDP growth rate, as the long term sustainable growth rate, it reduces the average of his mean multi-stage DCF analyses results by approximately 110 basis points from 10.09% to 8.97%. (IIEC Ex. 1.0 at 44-45; IIEC IB at 24)

IIEC witness Mr. Gorman also took issue with Mr. Hevert's CAPM analysis. First, Mr. Hevert's calculated beta coefficient is unreasonable. Second, his market risk premium estimates are inflated. (IIEC Ex. 1.0 at 45; IIEC IB at 25)

The beta estimate is unreasonable because it is based on only 18 months of data. The use of 18 months of data reflects a reduction in the period under study relative to that provided by Value Line and Bloomberg. This reduces the number of observations of stock price movement of the gas proxy group, in relation to market price movement. Reducing the number of observations makes statistical beta estimates much less reliable. Thus, Mr. Hevert's current beta estimate is not based on reliable long-term valuations and price stability of the proxy companies in the market. His estimate reflects only a short-term market that will likely be smoothed out over longer periods of time. (IIEC Ex. 1.0 at 45-46)

Second, the beta based on short-term historical data does not produce reliable estimates of the long-term market cost of capital needed to estimate a fair return for AIC in this case. (*Id.* at 46) Reflection of such a short-term outlook is not useful to estimating the return requirements of investors providing the capital to fund AIC investments in long-term plant and equipment. (*Id.*)

In addition to basing his beta estimate on short-term data, Mr. Hevert applied a standard adjustment formula of .67 times a raw beta plus .33 times the market beta to derive an adjusted 18 month beta estimate. There is no academic support for using such a beta adjustment formula on betas calculated by only 18 months data. Normally, such adjustments are applied to raw betas based on five years of data. Such an adjustment may overstate the upward trend of the betas, moving the raw beta estimate toward the market mean beta of 1 over time. Betas calculated from short-term data may have faster or slower progressions towards this mean beta. (IIEC IB at 25-26)

Mr. Hevert's market risk premiums are also flawed. He developed two market risk premium estimates. Both are DCF-derived estimates. His market risk premiums are 10.17% (Bloomberg) and 10.14% (Capital IQ). They are based on market DCF returns of 13.01% and 12.99% respectively, less the current 30-year Treasury bond yield of 2.85%. (IIEC Ex. 1.0 at 47) The DCF market returns that underlie Mr. Hevert's risk premium estimates consist of a growth rate component of approximately 10.06% and a dividend yield of approximately 2.40%. The DCF model requires a long-term sustainable growth rate and Mr. Hevert's sustainable growth rate of 10.60% is grossly overstated. It is more than two times the growth rate of the U.S. GDP long-term growth outlook of 4.9%. (IIEC IB at 26)

A calculation of the total expected return on the market going forward, based on actual achieved capital appreciation for the market index used by Mr. Hevert, produces a result of 9.90%. This 9.90% less the 2.85% risk free estimate used by Mr. Hevert implies an expected market risk premium of 7.1%. Adjusting Mr. Hevert's CAPM analysis to reflect a market risk premium of 7.1% produces a CAPM result in the range of 8.16% to 8.46%. (IIEC IB at 27)

Other Concerns with AIC's Analysis

Mr. Hevert performed a Bond Yield Cross Rise Premium analysis. This analysis resulted in a range of equity returns from 10.11% to 10.73% with a midpoint of 10.11%. (Ameren Ex. 5.0 at 6) According to IIEC, Mr. Hevert's method is flawed. It is based on the faulty premise that equity risk premiums are inversely related to interest rates. Current academic research does not support such a simplistic premise. (IIEC IB at 27)

The relationship between equity risk premiums and interest rates changes over time. Changes in this relationship are influenced by changes in perception about the risk of bond investments relative to equity investments and not simply to interest rate changes. (IIEC Ex. 1.0 at 50; IIEC IB at 27)

While equity risk premiums were inversely related to interest rates in the early 1980s that was attributable to interest rate volatility existing at that time, such volatility is not as extreme in today's marketplace as it was during the 1980s. Today, changes in equity risk premiums are explained by the relative changes to the risk of the equity investments versus the risk of debt security investments and not simply changes in interest rates. (IIEC Ex. 1.0 at 50; IIEC IB at 27)

Mr. Hevert has ignored the investment risk differentials in his analysis, focusing exclusively on changes to nominal interest rates. When his analysis is modified to recognize this factor by using the risk premiums from 2012 alone, an average risk premium of 6.55% is the result. Using this risk premium indicates a return of 9.40% to 9.70% using Mr. Hevert's project Treasury Bond yields. The midpoint of the range would be 9.55% and represents a more reasonable estimate of the high risk premiums in today's market place. (IIEC IB at 28)

IIEC also takes issue with Mr. Hevert's testimony regarding flotation costs. The Commission allows recovery of flotation costs or a flotation cost adjustment only when the utility plans to issue common stock in the test year or it has clearly demonstrated that such costs are incurred prior to the test year and have not been previously recovered through rates. The Commission has rejected such adjustments where the utility does not anticipate issuing stock. (IIEC IB at 28)

In this case AIC witness Hevert calculated a flotation cost adjustment of "0.14 basis points (0.12 basis points)" for Ameren's gas distribution operations. (IIEC IB at 28, citing Ameren Ex. 5.0 at 39 and Ameren Ex. 20.0 at 62. While he did not make a specific adjustment to his recommended return on common equity for flotation costs, he

indicates that he considered the effect of these flotation costs in determining whether his return on equity results fall within a reasonable range. (Ameren Ex. 5.0 at 39)

According to IIEC, it is not clear whether Ameren is proposing a flotation cost adjustment for its ROE, or whether its witness has developed such an adjustment for the sole purpose of considering the reasonableness of his ROE results. To the extent Ameren is either, IIEC is opposed. (IIEC IB at 28-29)

First, such an adjustment was rejected in the Company's last gas rate case in Docket No. 11-0282. Second, the Company has not demonstrated that it plans to issue common stock in the test year or that it anticipates the possibility of such issuance costs in the near future. Indeed, AIC is an affiliate of Ameren Corporation and does not issue its own stock, rather it obtains common equity contributions from its parent and increases common equity via earnings retention. These equity sources do not involve the cost of public stock issuance. (IIEC Ex. 1.0 at 52) AIC does not issue stock to the public, Ameren Corp does, but it must prove that its stock sale proceeds were invested in AIC. (IIEC IB at 29-30)

Second, it has not been demonstrated that Ameren has incurred flotation costs and that such costs are known, measurable and reasonable. (IIEC Ex. 3.0 at 14) Ameren has failed to offer proof of the past regulatory treatment of flotation costs and failed to prove that it is treating flotation costs in this case in a manner that is consistent with the historic treatment of such costs by the Commission. Under these circumstances, the Commission has traditionally refused to make any flotation cost adjustment and it should continue to do so here. (IIEC IB at 29)

4. Commission's Cost of Equity Conclusions

AIC, Staff and IIEC each presented expert testimony addressing AIC's cost of common equity.

DCF and CAPM analyses were provided by each of the expert witnesses.

The mean average results of AIC witness Mr. Hevert's DCF and CAPM analyses were 9.68% and 10.07% for the DCF and CAPM, respectively. Relying on these results, "and also examining the results of a bond yield plus risk premium," AIC witness Mr. Hevert concluded that investors expect a return on equity within the range of 10.00% and 10.75%. AIC proposes a return on equity of 10.4%.

Staff's recommendation is 8.81%, which is the average of Staff witness Ms. Phipps' constant growth DCF results of 8.60% and CAPM results of 9.02%.

IIEC proposes 9.10%, based on an average of the results of IIEC witness Mr. Gorman's three DCF analyses.

Sample

The DCF and CAPM models were applied to a sample consisting of a group of publicly traded gas distribution companies determined by witnesses' analyses to be similar in risk to AIC.

The AIC and IIEC witnesses presented cost of equity estimates using the same sample, also referred to as a proxy group. Staff witness Ms. Phipps presented estimates for two samples. One was the same sample used by AIC and IIEC. The other was also the same, except for the removal of one of the companies.

The Commission finds that the proxy group used by AIC and IIEC, which was the same as one of the samples used by Staff, is supported by record and is appropriate for purposes of estimating AIC's cost of common equity in this proceeding.

DCF Analyses

According to the Staff witness, DCF theory holds that a security price equals the present value of the cash flow investors expect it to generate. Specifically, the market value of common stock equals the cumulative value of the expected stream of future dividends after each dividend is discounted by the investor-required rate of return. (Staff Ex. 5.0R at 17)

As explained by the AIC witness, the DCF approach posits that a stock's price is representative of the present value of its expected future cash-flows, which includes the dividend yield and the rate of growth attributable to the security. The model assumes that the investor's expected return is the sum of the dividend yield and the increase in the stock price.

As stated by the IIEC witness, the constant growth version of the model is sometimes expressed as $K = D_1/P_0 + G$, where K = Investor's required return, D_1 = Dividend in first year, P_0 = Current stock price and G = Expected constant dividend growth rate. (IIEC Ex. 1.0 at 17)

In his analysis, Mr. Hevert relies upon a version of the DCF methodology known as the multi-stage DCF. He stated that the multi-stage DCF is also referred to as a non-constant DCF ("NCDCF") to differentiate it from the constant growth DCF. In his DCF analysis, Mr. Hevert arrived at a mean average result of 9.68%.

IIEC witness Mr. Gorman performed three DCF analyses, "distinguished primarily by the growth rate inputs." Mr. Gorman's analyses included a constant growth DCF model using analysts' forecasts, a constant growth DCF model using a sustainable growth rate, and a multi-stage growth DCF model. The three results were averaged to produce Mr. Gorman's DCF estimate of 9.10%.

Staff witness Ms. Phipps performed a constant growth DCF analysis as well as a multi-stage analysis which she referred to as a non-constant analysis. When using the same sample used by AIC and IIEC witnesses, the estimates were 8.60% for the constant growth DCF model and 8.29% for the multi-stage model. In her cost of equity recommendation, Ms. Phipps used only the constant growth DCF estimate of 8.60%. Ms. Phipps explained why she believes the three to five (3-5) year growth rate estimates for the gas sample are reasonably sustainable and do not necessitate the use of a non-constant DCF model.

It is noted that the multi-stage models used by the parties contain three stages. The near-term growth stage is assumed to last five years, as is the second stage. The third, or "steady-state," growth stage is assumed to begin after the 10th year.

For purposes of estimating AIC's cost of equity in this proceeding, the Commission finds that it would be appropriate to use -- along with CAPM results discussed below – the average of the DCF recommendations made by each party. Averaging the recommendations of 9.68% by AIC, 9.10% by IIEC and 8.60% by Staff results in a DCF estimate of 9.13%.

In reaching this conclusion, the Commission wishes to emphasize that it does not endorse every input to the DCF analyses, or rationale therefor, presented by the parties.

For example, the Commission shares to a large degree the concerns expressed by Staff and IIEC witnesses that the growth rate used in by Mr. Hevert in the final stage of his multi-stage model is too high and would imply a return on new common equity investment that is implausible and unsustainable.

The Commission also believes there is some merit to Ms. Phipps' concern that Mr. Gorman's estimate of the constant growth includes an external growth rate factor which contains an assumption -- which Ms. Phipps contends does not hold true for the sample companies -- that a company raises all external capital at the market price. (Staff Ex. 14.0 at 32) The Commission also observes that it has generally not relied on Mr. Gorman's constant-sustainable growth DCF model in prior cases, including the last AIC gas rate case in Docket No. 11-0282.

Nevertheless, the Commission finds that the DCF recommendations made by each party are of sufficient value to be considered in the estimating the cost of common equity in this case. As indicated above, averaging the recommendations of 9.68% by AIC, 9.10% by IIEC and 8.60% by Staff results in a DCF estimate of 9.13%. Based on the record, the Commission believes that blending the Parties' proposals in this manner results in an average return that significantly diminishes any perceived upward or downward bias as set forth in the different positions of the parties.

The Commission finds this DCF result to be appropriate -- along with the CAPM result found appropriate below -- for use in determining AIC's cost of equity in this proceeding.

CAPM Analyses

CAPM analyses were presented by each of AIC, Staff and IIEC witnesses. The CAPM requires the estimation of three parameters, which are the risk-free rate of return, the expected rate of return on the market, and beta.

Mr. Gorman testified the underlying basis for the CAPM method is that the market requires a return on a security investment that is equal to a risk-free rate of return plus a market risk premium associated with the specific security. Mr. Hevert testified that the concept embodied in the CAPM is that an investor will frame expectations as to the return of an equity based upon where that investor places the risk on the continuum that exists along a line that includes two relative guideposts -- the risk free rate of return and the overall portfolio or market rate of return.

The relationship between risk and return may be expressed mathematically as: $R_i = R_f + B_i \times (R_m - R_f)$ where R_i = required return for stock; R_f = risk-free rate; B_i = Beta-measure of risk of stock; and R_m = expected return on the market.

Mr. Hevert's CAPM analysis indicated a mean average CAPM result of 10.07%. In her CAPM analysis, Ms. Phipps estimates a CAPM return on equity of 9.02% for the gas sample approved above. Mr. Gorman's CAPM analysis produced an equity estimate of 8.12%. The Commission notes that the return on equity recommended by IIEC is 9.10%, which is the average of Mr. Gorman's DCF analyses.

Staff indicates that its CAPM analysis in the current docket was conducted in the same manner as AIC's last gas rate Order in Docket No. 11-0282. In that Order, the Commission found that "the only CAPM analysis that is clearly free of significant problems and which can be relied upon in this case is the performed by [Staff witness] Ms. Freetly."

In its Order in Docket No. 11-0282, the Commission expressed "serious concerns" with the betas used by Mr. Hevert. The Commission noted that it has traditionally relied upon betas calculated with five years of data. In the instant case, Staff again used a period of five years. Staff again takes issue with the beta measurement period used by Mr. Hevert, which in the current proceeding was 18 to 24 months. Staff explained why betas measured over shorter time periods, such as those used by Mr. Hevert, are more prone to measurement error arising from short-term changes in risk and investor risk preferences, which can bias the beta estimate. Having reviewed the record, the Commission again finds that the beta estimates provided by Staff are more reliable.

In Docket No. 11-0282, the Commission also expressed "serious concerns" with the market risk premium relied upon by Mr. Hevert. There, as in the current case, Staff objected to Mr. Hevert's inclusion of non-dividend paying companies in the DCF analysis used in the calculation of the expected market return, from which the risk-free

rate is subtracted in the calculation of the market risk premium. Staff contends that inclusion of non-dividend paying companies upwardly biases the estimate of the market return, as does IIEC. The Commission again shares this concern, and agrees with Staff that the market risk premium calculated by Staff is more reliable.

In conclusion, the Commission finds, as it did in the Order in Docket No. 11-0282, that Staff's CAPM estimate in the instant proceeding is the most reliable and should be used, along with the DCF estimates found appropriate above, in determining the cost of equity in this proceeding.

Other Issues

Mr. Hevert also performed a Bond Yield Plus Risk Premium analysis. Staff and IIEC disagree with Mr. Hevert's position.

The Commission observes that it has not relied upon this approach in prior rate Orders, including Docket No. 11-0292.

The Commission finds that Mr. Hevert's Bond Yield Plus Risk Premium analysis should not be relied upon in the current case for the reasons explained by Staff as summarized above.

With regard to flotation costs, AIC states that Mr. Hevert "did not propose a flotation cost adjustment." Rather, as part of his ROE recommendation, Mr. Hevert "considered a measure of flotation costs, which he attributed as having relevance equivalent to approximately 14 basis points." (AIC RB at 72) His flotation cost calculations were based on the costs of issuing equity that were incurred by Ameren Corp. and the companies in his sample group.

Staff and IIEC oppose the AIC's proposal for the reasons summarized above.

The Commission observes that the AIC proposal is essentially the same as was advanced by AIC, and rejected by the Commission, on page 126 of its Order in Docket No. 11-0282. The Commission found, in part, "The Commission concludes that the record in this proceeding does not justify an upward adjustment to the cost of common equity to reflect flotation costs. In fact, it appears no witness has proposed such an adjustment." The Commission further stated, "Staff correctly points out that the Commission is open to considering the impact of flotation costs on the authorized return on equity in certain circumstances. The Commission is not, however, amenable to approving a flotation cost adjustment based upon an average of flotation costs for other utilities, as Mr. Hevert calculated in his direct testimony."

The Commission's rationale in Docket No. 11-0282 is equally applicable to the record in the current case. In the instant proceeding, the Commission finds, as it did in Docket No. 11-0282, that the record does not justify an upward adjustment to the cost of common equity to reflect flotation costs.

Approved ROE

As explained above, the Commission finds that DCF results of 9.13% and a CAPM estimate of 9.02% should be used in determining AIC's cost of equity in this proceeding.

In determining an appropriate ROE in its rate Orders in Docket Nos. 11-0282, 12-0511/12-0512, and many other rate cases, the Commission has averaged the DCF and CAPM results which were found to be appropriate. In determining AIC's cost of equity in the instant case, the Commission finds that averaging the DCF result of 9.13% and the CAPM estimate of 9.02% would be appropriate, which results in an ROE of 9.08% for AIC.

Averaging the DCF and CAPM results is supported by the record in this docket, and will reduce the effects of perceived shortcomings and biases described in the competing positions of the Parties.

There are no other adjustments to be made to AIC's cost of equity. Accordingly, the Commission finds that AIC's gas operations should be authorized an ROE of 9.08%, and that this result is supported by the record in this proceeding.

I. Authorized Return on Rate Base

Upon giving effect to the determinations made above on the balances and costs of capital, including the cost of common equity, the Commission finds, for purposes of this proceeding, that AIC's gas operations should be authorized a return on rate base of 7.86% as shown in the table below and reflected in the appendices to this Order.

Capital Component	Balance	Proportion	Cost	Weighted Cost
Short-term Debt	10,995,015	0.25%	1.27%	0.00%
Long-term Debt	1,912,158,622	42.90%	6.30%	2.70%
Preferred Stock	58,757,200	1.32%	4.98%	0.07%
Common Equity	2,475,650,877	55.54%	9.08%	5.04%
Credit Facility Fees				0.05%
Total	4,457,561,714	100.00%		**7.86%**

VII. COST OF SERVICE

A. Introduction

With respect to the rate classes proposed by AIC for purposes of cost allocation and rate design, Staff witness Mr. Boggs testified that AIC proposes to maintain its current rate classes for all three rate zones: GDS-1 Residential Delivery Service, GDS-2 Small General Delivery Service, GDS-3 Intermediate Delivery Service, GDS-4 Large General Delivery Service, GDS-5 Seasonal Gas Delivery Service and GDS-7 Special Contract. He stated that AIC has utilized these class definitions to allocate costs and design rates to recover those costs. (Staff Ex. 6.0 at 10, citing AIC Ex. 9.0 at 3-4)

The GDS-1 Residential Gas Delivery Service rate class tariff contains customer and delivery charges for residential customers. The GDS-2 Small Gas Delivery Service rate class tariff includes customer and delivery charges for non-residential customers whose highest Average Daily Usage ("ADU") is less than 200 therms per day. The GDS-3 Intermediate General Gas Delivery Service rate class tariff includes customer and delivery charges for non-residential customers whose highest ADU is equal to or greater than 200 therms per day and less than 1,000 therms per day. The GDS-4 Large General Gas Delivery Service rate class tariff includes customer, delivery, demand, and Maximum Daily Contract Quantity ("MDCQ") overrun charges for non-residential customers whose highest ADU is greater than 1,000 therms per day. (AIC Ex. 9.0 at 3-4, Ex. 9.4)

The GDS-5 Seasonal Gas Delivery Service rate class tariff includes customer, delivery, and demand charges for eligible non-residential customers willing to limit gas usage on days when the average forecast temperature is 25°F or less. The GDS-7 Special Contract Gas Delivery Service tariff is available to any existing or prospective customer located within such distance of an interstate natural gas pipeline providing gas transportation service that bypass of AIC's gas distribution system is, in AIC's judgment, economically feasible and practical. (AIC Ex. 9.0 at 3-4, Ex. 9.4)

B. Cost of Service Study

1. IIEC's Position

According to IIEC, an embedded cost of service study ("ECOSS") is used to determine the cost that each customer class imposes on the system, once the total utility cost of service, or revenue requirement is known. An appropriate ECOSS provides a basis for allocating the revenue requirement or cost responsibility among the different customer classes. IIEC claims the Commission follows the principal of cost-causation, i.e., attributing costs to the customers or the customer classes that cause them to be incurred. An appropriate ECOSS indicates the cost to serve each rate class and the rate of return from each class at the current and proposed rates. The balance between cost causation/allocation and cost recovery is shown by comparing the individual customer class rate of return to the system average rate of return. At the

approved system average rate of return, a class is paying revenue to the utility sufficient to cover the costs incurred to serve that class. IIEC says that in this case AIC is proposing to limit increases for each class to 1.5 times the system average increase. While IIEC agrees with such a limiter in order to prevent rate shock, IIEC suggests there may be customers inside the Rate Zone II GDS-4 class that will experience rate shock with increases greater than 1.5 times the system average. (IIEC IB at 30)

IIEC states that three fundamental steps are common to the preparation of a proper ECOSS -- functionalization, classification, and allocation. The first step in an ECOSS process is the functionalization of costs. This step distinguishes costs according to major functions, such as production, underground gas storage, transmission and distribution. This step is essentially completed by adhering to the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA"). (*Id.* at 31)

The second step in an ECOSS is to classify the functionalized costs based on cost-causation principles. Classification of costs is based on whether costs vary with (i) the quantity of gas consumed, (ii) the peak demand required by the system, or (iii) the number of customers served, or some combination of these. According to IIEC, the classification step focuses on cost causation using the major factors that cause the utility to incur the costs even though the costs, once incurred, may support other operations related to different classification categories.

IIEC states that the third step in the ECOSS assigns or allocated the functionalized and classified costs to each class of customers. The third step uses factors that comport with the cost causes identified in the classification step. IIEC says this step often relies upon supplemental studies of class loads, etc., to calculate the allocation ratios or factors.

In IIEC's view, a utility's selection of a particular cost allocation method should be based on whether that allocation method appropriately reflects class cost causation and results in rates that provide accurate price signals to its customers. IIEC recommends allocating the costs of the transmission and distribution ("T&D") system based on design day demand. IIEC argues that design day demand along with the number of current and future customers is consistent with how the system is engineered and designed. (*Id.* at 31-32)

IIEC claims the primary deficiency in AIC's cost of service study ("COSS") is that it allocates the fixed cost of the T&D mains (both plant and expenses) using the peak and average allocation method which allocates costs in part by using a volumetric allocation factor (average demand). IIEC asserts that the peak average method fails to recognize a customer component for any portions of its main costs. IIEC indicates that this allocation method allocates costs on both the peak or design day demand for each class and the average demand for each class. (*Id.* at 32)

In order to calculate the peak demand component of the peak and average demand allocator for a particular class, IIEC says AIC calculates that class's percent of total Company peak or design day demand multiplied by (1 minus the system load factor). In order to calculate the average demand component of the peak and average demand allocator, IIEC says AIC calculates the class's percent of total Company average demand multiplied by the system load factor. Both of these calculated percentages are then added together to establish a peak and average allocator for the class.

In IIEC's view, AIC seems to base its use of the peak and average cost allocation method not on its superiority to any other method, but simply because using the peak and average method is an established practice and is appropriate for ratemaking use in this proceeding. (*Id.*)

According to IIEC, a major issue with the peak and average demand allocator is the fact that it double counts the "average" component of demand. IIEC believes the problem centers on total usage, or average demand, which is not a valid allocation of demand costs. Average demand is counted twice in the allocation of demand costs, once in the peak allocation and again in the average demand allocation. IIEC asserts that the true impact of using the peak and average demand method to allocate T&D costs is actually the over-allocation of costs to high load factor customers such as industrial customers. (*Id.* at 33, IIEC RB at 20)

IIEC states that AIC and Staff contend IIEC has made similar arguments in the past and the Commission has dismissed them. IIEC argues that past Commission action does not negate the fact that use of the peak and average method double counts the average component of demand and therefore over-allocates costs to high load factor customers. (IIEC IB at 33, RB at 25-26)

IIEC says the parameters AIC uses to design T&D facilities for its customers includes the Maximum Daily Quantity ("MDQ") or expected peak customer demand, peak hourly demand, and operating pressure. AIC says the MDQ and peak hourly demand are the primary factors that drive the facilities required to serve customers. Annual throughput; on the other hand, is a poor indicator of cost causation. IIEC insists that AIC's system is designed based on design day demand or peak demand requirements of its customers, location of the customers, and generally the number of customers on the system. IIEC is recommending allocation of the costs of the T&D system based on how the classes impose costs on the system. IIEC argues that design day demand in addition to the number of current and future customers is consistent with how the system is engineered and designed.

AIC asserts that IIEC's recommendation would go against precedent in Illinois, but AIC fails to address the substance of the IIEC argument and recommendation. IIEC notes that AIC also concludes that such an approach would result in greater allocation of costs to residential customers, while conversely, fewer costs being allocated to larger customers. IIEC asserts that long- standing cost causation principles require costs

used in setting rates should be allocated to classes and customers based on how they cause the costs to be incurred by the Company. (IIEC IB at 34, RB at 22-26)

IIEC believes design day demand is an appropriate cost allocation method for allocating T&D related capital costs and expenses since it allocates costs based on how they are incurred, using customer demand and not annual throughput. IIEC also cites, as support for allocating costs based on how they are incurred, the NARUC Gas Distribution Rate Design Manual (June 1989). IIEC says the NARUC manual recognizes that demand or capacity costs can be allocated to classes based on two factors: peak day demands; and the number of customers. Further supporting its argument, IIEC says NARUC recognizes that T&D costs are not related to or caused by annual usage or volume but are designed to meet peak day demands and serve customers across the system. (*Id.* at 35-36)

According to IIEC, customers expect supply sufficient to meet their peak firm demand; therefore, those customers should pay for adequate T&D capacity to allow gas to be delivered every day to meet their expected demands, including days with above average demands. IIEC argues that otherwise, customers will not be allocated adequate capacity to deliver gas on days with above average usage and their service would be interrupted on all of those days.

IIEC insists it is peak demand which drives the cost incurred in order to design, implement and maintain a T&D system that is adequate to provide firm service throughout the year including the peak day to all customers that want firm service. IIEC argues that since cost causation is driven by peak demand, costs should be allocated based on peak demand. (*Id.* at 36, RB at 22)

IIEC asserts that efficient utilization of the T&D system is best accomplished by minimizing the peak day demand in relationship to annual volume. IIEC claims that minimizing the peak day demand in relation to annual volume enhances the customer load factor and reduces the per-unit of gas delivery cost. IIEC says a customer with a higher load factor moves more volume throughout the system relative to a customer's peak day demand. A low load factor customer, on the other hand moves, less gas volume through the distribution system in relationship to its peak day demand. (IIEC IB at 36-37)

It is IIEC's position that when customers are given accurate price signals, which are designed based on accurate allocation of costs between customer classes, customers can change consumption behavior to manage their costs. IIEC suggests AIC can then adjust prices to customers if their changed load profile allows it to reduce its cost of service.

IIEC believes another flaw in AIC's cost of service study is the Company's failure to allocate of a portion of its low pressure distribution mains on a customer basis. IIEC claims it is appropriate to allocate the costs of the distribution mains on a customer component. In addition to the distribution system being sized to accommodate the

design for critical peak day demands, IIEC argues that it must also be designed to physically connect each customer's service with the city gate gas receipt points. IIEC asserts that while peak requirements will influence the diameter of mains, the linear feet of mains (and total actual cost) will depend upon the number of customers and location of customers served. (IIEC IB at 37-38)

IIEC argues that all else being equal, including the customers peak-day demands, the cost to serve two customers three miles apart would be greater than the cost to serve the customers that were only a mile apart. In IIEC's view this incremental cost is not related to the demand or volume of gas required by these customers, but to the location of these customers and the length of main needed to connect them to the T&D system. IIEC insists there is a portion of the T&D main costs related to the number and location of customers on the T&D system.

While IIEC recommends a portion of the cost of low pressure distribution mains be allocated on a customer component, there is a question as to what percent should be allocated. Based on IIEC witness Collins' experience he believes approximately 40% of the cost of distribution mains is a reasonable amount of distribution main costs that should be allocated on a customer component. (*Id.*, RB at 27)

IIEC claims a significant portion of AIC's T&D system is designed to move gas to the location of all of its customers on the system, and it is only logical that a portion of the low pressure distribution main costs is driven by the number of customers on the system, and not the customers' peak day demands. IIEC believes AIC and the Commission are remiss in not allocating a portion of the cost of low pressure distribution mains on a customer component. While Mr. Collins' proposal may be debated, there is no debate that a portion of distribution main costs are directly related to the number of AIC customers and their locations. (IIEC RB at 28)

In its reply brief, IIEC says AIC states that the peak and average allocation methodology used by AIC is weighted so that the peak day demand comprises approximately 70-80% of the allocation factor, while the average demand comprises the remaining approximately 20-30%. AIC states although the peak and average allocation method takes into account both the peak and the average demand of each rate class, the method is primarily based on the peak demand component. IIEC claims AIC fails to clarify that the above percentages are for the entire Ameren system which consists of all rate classes and not simply the GDS-4 rate class. In AIC's peak and average allocation method, average demand for each class is weighted by the system load factor (20-30% depending on the rate zone). In addition, IIEC says average demand is weighted again by 1 minus the system load factor (70-80% depending on the rate zone) since it is a component of the peak day demand.

IIEC concludes that high load factor customers who more efficiently use the system have composite allocation factors under the peak and average method consisting of larger average demand components as compared to low load factor customers. AIC fails to clarify when citing the percentages that the average demand

component actually comprises 45-55% of the total peak and average allocator for the GDS-4 Transportation class. IIEC claims this is nearly three times the weighting of the average demand component (20-30%) on a total system basis cited by AIC. According to IIEC, for the GDS-4 Transportation classes in AIC's three rate zones whose load factors are greater than 60%, the allocator is not based primarily on peak demand as AIC suggests. In IIEC's view, the fact that the peak and average allocation may temper costs between high and low load factor customers does not justify its use as suggested by AIC. IIEC believes the allocation of T&D mains should not be based on cost temperament but on cost causation. IIEC continues to support the use of the peak-day demand in the allocation of T&D main costs. (IIEC RB at 20-21)

IIEC believes that a demand allocator would send more accurate price signals to customers, thereby resulting in more economically efficient outcomes. AIC attempts to counter this belief by arguing that with respect to GDS-4 customers, 95% of their bill is commodity-based, while only 5% is delivery-related costs. Thus, 95% of the GDS-4 customer's bill would be determined by commodity prices while only 5% would be impacted by the IIEC proposal, suggesting the price signals sent by such a change would be minimal at best.

IIEC claims AIC's position contradicts the testimony of its own expert. Ms. Althoff testifies that AIC's own delivery service rate design follows past Commission practice of establishing cost based rates and acknowledges and discusses the benefits of demand-based price signals for delivery service rates. IIEC insists the cost of gas has nothing to do with determining the rates for delivery service. IIEC says including the cost of gas in an analysis of delivery service rates does nothing more than understating the impact of AIC's proposal for delivery service rates and therefore should not be a consideration. (IIEC RB at 24-25)

2. AIC's Position

AIC indicates that in this case, as in previous gas rate cases, it used the peak-and-average method to allocate transmission and distribution main costs among the various rate classes. AIC also notes that, as in previous gas rate cases, IIEC contends that the peak-and-average allocation methodology is inappropriate. AIC says the Commission has rejected alternate approaches proposed in those cases and should do so again here. (AIC IB at 127)

According to AIC, the peak-and-average allocation method allocates costs based on the demand of each rate class on an average day, and on the peak demand day. AIC says the peak-and-average allocation methodology it used is weighted so that the peak day demand comprises 70-80% of the allocation factor, while the average demand comprises the remaining 20-30%. AIC contends that although its peak-and-average allocation method takes into account both the peak and the average demand of each rate class, the method is based primarily on the peak demand component. AIC says the National Association of Regulatory Utility Commissioners' Gas Distribution Design Manual ("NARUC Design Manual") notes that the peak-and-average method "allocates

cost to all classes of customers and tempers the apportionment of costs between the high and low load factor customers." (*Id.* at 127-128, RB at 75)

IIEC claims that use of peak-and-average allocation methodology is inappropriate for several reasons. First, IIEC states that the method "double-counts" the average component of demand, which it contends is not a valid allocation of demand costs at all. Second, IIEC states that the peak-and-average method results in an "over-allocation" of costs to high load factor customers. Third, IIEC argues that peak-and-average cost allocation does not properly reflect cost causation, since AIC designs its transmission and distribution systems based on peak demand, instead of annual throughput. Finally, IIEC asserts that the peak-and-average allocation method is inconsistent with current industry accepted practice. IIEC recommends allocating the costs of the transmission and distribution system based solely on the peak day demand of each rate class. IIEC's proposal eliminates any consideration of average daily demand from the allocation methodology. (AIC IB at 128)

In AIC's view, IIEC's proposal is also contrary to long-standing and well-established Commission practice. AIC says the Commission has found that, "when allocating [transmission and distribution] plant costs an emphasis on average demand is appropriate." (*Id.*, citing Docket No. 04-0476, Order at 64 (May 17, 2005)) AIC claims that in many other cases the Commission has favored use of the peak-and-average allocation methodology. (*Id.* at 128-129, citing Docket 11-0282, Order at 135; Docket 07-0585 (cons.), Order at 265-69; Docket 04-0779, Order at 101-02 (Sept. 20, 2005); Docket. 04-0476, Order at 64-65 (May 17, 2005); Docket 02-0798 (cons.), Order at 98 (Oct. 22, 2003); Docket 02-0837, Order at 90-91 (Oct. 17, 2003). AIC says the Commission's rationale for using the peak-and-average method to allocate transmission and distribution main costs is that these facilities "exist because there is a daily need for such facilities," not solely because there is a need to serve peak demand. (*Id.*, citing Docket No. 02-0798 (cons.), Order at 98 (Oct. 22, 2003)) In AIC's view, the peak-and-average method properly emphasizes the average component to reflect the role of year-round demands in shaping transmission and distribution investments. AIC contends that IIEC's proposal would achieve the opposite result – complete elimination of the average component of the calculus.

According to AIC, IIEC's argument on this point assumes that engineering criteria is the only cause of transmission and distribution cost. AIC says the Commission has previously determined that design of facilities to meet peak demand is not the only cause of transmission and distribution costs. (AIC RB at 74-75, citing Docket No. 03-0008 et al. (cons.), Order at 98 (Oct. 22, 2003) ("[A] utility cannot justify its transmission and distribution investment on demands for a single [peak] day.")) AIC asserts although the transmission and distribution systems are primarily designed to meet peak demand, investment in transmission and distribution plant is also driven by the level of daily, year-round demand of all ratepayers, as well as customer peaks which occur at times other than system peak. AIC says because some portion of its investment in transmission and distribution systems is driven by daily, year-round demand along with

customer peaks which occur at times other than the system peak, the allocation of costs to ratepayers must include consideration of that average demand. (AIC RB at 74-75)

AIC asserts that IIEC is unaware of any instance in which an Illinois utility has been ordered by the Commission to use the method it proposes. AIC claims the only evidence IIEC has provided in support of his contention that peak-and-average allocation is not industry accepted was a citation to the NARUC Design Manual which, contrary to IIEC's assertion recognizes incorporation of average demand within a demand allocator. (AIC IB at 129)

AIC states that in Docket No. 04-0476, IIEC argued that the peak-and-average method resulted in excessive allocation of transmission and distribution costs to large volume customers and makes an identical argument in the current proceeding. In Docket No. 04-0476, AIC says the Commission rejected this argument, finding that it was logically unsound. AIC indicates that the Commission noted that selection of an allocation factor is necessary because it is difficult or impossible to directly assign the costs of transmission and distribution plant among customer classes. (*Id.* at 129-130, citing Docket 04-0476, Order at 65) AIC says IIEC's argument in that case, as in the current proceeding, assumed that the cost of transmission and distribution main plant attributable to large users could be ascertained, and that IIEC was endorsing an allocation factor that was consistent with the known costs. AIC contends that because the allocation factor is essentially arbitrary (or, at least, prohibitively difficult to mathematically confirm), it cannot be said that its application results in "over-allocation." AIC says the Commission has consistently applied the peak-and-average allocation method, finding that it is most likely to be reflective of cost causation and produces fair and reasonable results. (AIC IB at 129-130; RB at 75-76)

IIEC's also argues that a demand-only allocation of transmission and distribution main costs would send more accurate price signals to customers, and, therefore result in more economically efficient outcomes. According to AIC, a customer will only receive a price signal as a result of an allocation factor if the allocation factor has a noticeable effect on the price paid by the customer. With respect to the GDS-4 customers on whose behalf IIEC advocates, AIC claims 95% of their current total bill is commodity-based, while 5% is delivery-related costs. AIC avers that 95% of a GDS-4 customer's bill would be determined only by commodity prices, while only 5% would be impacted by IIEC's proposed change in transmission and distribution allocation factors. In AIC's view, the price signals sent by such a change would be minimal at best. Moreover, for the GDS-4 class, AIC has proposed to move toward elimination of the volume component of the delivery charge and rely instead on a demand charge. AIC believes its proposal achieves IIEC's stated goal of economic efficiency while eliminating the volume component of the allocation factor. (AIC IB at 130-131)

AIC also claims IIEC's proposal results in greater allocation of costs to residential customers, with fewer costs allocated to larger customers with consistent usage throughout the year. AIC states that in contrast, the peak-and-average allocation method advocated by AIC and repeatedly adopted by the Commission tempers the

apportionment of costs between the high and low load factor customers. In AIC's view, the peak-and-average allocation method is not only consistent with long-standing Commission precedent, but it also comports with cost causation principles and produces fair and reasonable results. (*Id.* at 131)

AIC notes that IIEC witness Collins recommends that a portion of the cost of low pressure distribution mains be allocated on a customer component, and states that, based on his experience, approximately 40% of the cost of distribution mains is a reasonable amount of main costs that should be allocated on a customer component. AIC contends that Mr. Collins' recommendation is without factual support, is not based on any analysis of data regarding AIC's system or customers, is opposed by Staff and AG/CUB, and has been consistently rejected by the Commission. (*Id.*)

According to AIC, Mr. Collins acknowledged in his direct testimony that he had not performed any analysis of AIC's distribution costs prior to arriving at his recommendation that 40% of those costs be allocated on a customer component. (*Id*. at 132)

AIC also complains that Mr. Collins' recommendation would result in greater allocation of costs to residential consumers, with fewer costs being allocated to larger customers with consistent usage throughout the year. According to IIEC Exhibit 2.1, the residential customer class in Rate Zone I would bear an additional $2.8 million in costs, while Rate Zone II residential customers would bear an additional $4.5 million, and Rate Zone III residential customers would bear an additional $7.1 million. AIC believes Mr. Collins' recommendation is an effort to push costs away from his clients at the expense of residential ratepayers. (*Id*.)

AIC claims the Commission has consistently rejected similar recommendations. (Id. at 132-133, citing Dockets 07-0585 (cons.), Order at 280; 08-0363, Order at 77 (Mar. 25, 2009); 06-0070 (cons.), Order at 161 (Nov. 21, 2006); 00-0802, Order at 41-43 (Dec. 11, 2001); 01-0444, Order at 19 (Mar. 27, 2002); and 88-0277, Order at 298-99 (June 21, 1989). AIC urges the Commission to not reverse more than 10 years of practice in favor of what it views as an unsupported recommendation that would result in a significant shift in cost allocation.

AIC notes IIEC argued that allocation based solely on peak day demand will encourage economically efficient behavior by customers. AIC says Mr. Collins's proposal would, at best, result in negligible price signals to the customers on whose behalf Mr. Collins advocates. (AIC RB at 76)

According AIC, IIEC position is based almost entirely on a reference to the NARUC Design Manual. IIEC implies that the Manual favors demand day allocation over the peak-and-average method. AIC says such implication is incorrect: the NARUC Design Manual notes that, among the wide variety of formulas for allocating demand costs, "[n]o method is universally accepted, although some definitely have more merit than others." (AIC RB at 76-77, citing NARUC Design Manual at 26) According to AIC,

the Manual then lists three of the "most commonly used" (and presumably most meritorious) methods of cost apportionment, out of 29 potential options: the coincident demand method (also known as demand day), the non-coincident demand method; and the peak-and-average demand method. AIC says the NARUC Design Manual does not express a preference or opinion as to the superiority of one of these methods over the other listed options.

AIC claims the NARUC Design Manual does, however, describe the peak-and-average allocation method as having the advantage of allocating costs to all classes of customers and tempering the apportionment of costs between the high and low load factor customers. AIC asserts it is for this reason that the Commission has consistently found the peak-and-average method to be superior to other methods, and it is for this reason that the peak-and-average method should be approved once more in this case. (AIC RB at 76-77)

3. Staff's Position

Staff believes that IIEC's proposal to use a design day demand methodology to allocate the costs of T&D mains is flawed and should be rejected by the Commission. Staff notes that IIEC argues that the Company's use of the peak and average method to allocate T&D mains is inappropriate for ratemaking in this proceeding because the method does not appropriately reflect how the costs associated with the T&D mains are incurred by the Company. (Staff IB at 56-57)

According to Staff, the peak and average method is appropriate as it recognizes two key factors drive investment in transmission and distribution plant. First is the need to meet peak demands, not just for individual classes, but, for the system as a whole. Staff claims this is why coincident peak demands are used as one component of the allocator. Second, the allocator recognizes the role of year-round demands in shaping transmission and distribution investments through the average demand component. Staff claims the investments associated with a distribution system cannot be justified solely by demands on a peak day; rather, they are dictated by year-round demands by all ratepayers. In Staff's view, AIC's proposal to allocate T&D mains using the peak and average method is appropriate for use in this proceeding and should be approved by the Commission. (*Id*. at 57, RB at 53)

In Staff's view, using the peak and average demand method is consistent with general practice in Illinois. Staff says AIC has allocated T&D Mains in this proceeding and several prior proceedings using the Peak and Average allocation method. Staff also says the Commission has an established pattern of approving the peak and average method to allocate the costs associated with T&D mains. (Staff IB at 57-58)

Staff states that when asked if he was aware of any case, order or proceeding where the Commission has ruled to reject the T&D main allocation factor that the Company has proposed in this case, IIEC witness Collins replied that he was unaware of any such circumstances. Staff says he also replied that he was unaware of any

circumstance where the Commission has approved his proposed allocation method for T&D mains. (*Id*. at 58)

Staff also recommends that the Commission reject IIEC witness Collins' recommendation that a portion (40%) of the low pressure distribution main costs be allocated on a customer component. Mr. Collins argues that the Company's COSS over-allocates costs to large customers because the COSS does not first classify a portion of low pressure T&D mains on a customer component and then allocate the remaining costs on both customer and demand components. (Id. at 58-59)

Mr. Collins references the National Association of Regulatory Utility Commissioners ("NARUC") manual that he asserts recognizes that costs associated with the minimum sized distribution main are customer related. However, Staff asserts that Mr. Collins' hypothetical minimum sized distribution main, which he identifies as a customer component, is part of a distribution system that is related to customer demands. Staff says Mr. Collins' argument is akin to saying that costs associated with traditional customer-related components of the system (e.g., services and meters) should be considered demand-related because a large industrial customer would require a more costly service line and meter than a smaller customer. According to Staff, the costs of that service line and meter are properly considered customer-related because their primary purpose is to serve the individual customer. Similarly, Staff says the distribution system has the primary purpose of meeting all ratepayer demands and is appropriately considered demand-related. (Id. at 59, RB at 54)

Staff says the Commission has consistently rejected this minimum sized distribution method in prior dockets. (Staff IB at 59-60, RB at 54-55 citing Docket Nos. 07-0585, Order at 280 (Sept. 24, 2008); Docket No. 08-0363, Order at 77 (March 25, 2009); Docket No. 00-0802, Order at 41-43 (December 11, 2001); Docket No. 01-0444, Order at 19 (March 27, 2002); Docket No. 88-0277, Order at 298-299 (June 21, 1989) Staff states that previously, the Commission rejected IIEC's proposal for the Company to provide a COSS that uses the minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component. (Id., citing Docket Nos. 06-0070 et al. (Cons.), Order at 161 (Nov. 21, 2006)) Staff believes the Commission should reject IIEC's proposal to use a minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component in the current proceeding as well.

4. The AG's Position

The AG notes that IIEC witness Collins proposes a "radical" change in the methodology for allocating T&D mains in the cost of service study (COSS), in which IIEC seeks to allocate 40% of the cost of T&D mains on a per-customer basis. The AG urges the Commission to reject this proposal because it would do no more than shift millions of dollars in costs from large users (particularly the client-members of IIEC) to residential customers. The AG says the residential (GDS-1) customer class would have more than $2.8 million in costs shifted to it in Rate Zone I, $4.5 million in Rate Zone II,

and $7.1 million in Rate Zone III. The AG says the Commission should also reject this proposal because there is neither factual support nor precedent for IIEC's adjustment. (AG IB at 50)

The AG states that both it and the Company agree that IIEC provided no factual support for its proposed adjustment. The AG claims that there is no factual support for the 40% figure that Mr. Collins used. According to AG/CUB witness Mr. Rubin, after extensive analysis: "It appears that he picked this number based on what some other utility may have done somewhere else. He provides no support or documentation for that figure and he readily acknowledges that he did not perform any analysis on Ameren data." (*Id*. at 50-51, citing AG/CUB Ex. 7.0 at 2)

The AG argues that there is no precedent in Illinois for allocating T&D mains on a per-customer basis. The AG says AG/CUB witness Mr. Rubin, who has participated in a number of rate cases for Illinois utilities over the past ten years, testifies that to his memory, in almost every case, a witness for a large user proposes a per-customer allocation of distribution costs in an attempt to shift costs away from his or her client. The AG says the Commission has routinely and consistently rejected this approach as contrary to sound regulatory policies in Illinois, including the most recent AIC gas rate case. The AG recommends that the Commission reject IIEC's proposal to improperly shift more than $14 million of costs from large users to residential users through the use of an undocumented, and consistently rejected, methodology. (AG IB at 50-51)

5. Commission's Conclusions

IIEC recommends allocating the costs of the T&D system based on design day demand. IIEC argues that design day demand, along with the number of current and future customers, is consistent with how the system is engineered and designed.

This proposal is opposed by AIC, Staff, the AG and CUB, who advocate using the peak-and-average allocation method, which allocates costs based on the demand of each rate class on an average day, and on the peak-demand day. AIC says the peak-and-average allocation methodology it used is weighted so that the peak-day demand comprises 70-80% of the allocation factor, while the average demand comprises the remaining 20-30%.

The extensive arguments presented by the parties are summarized above, and the Commission believes there is no reason to repeat them here. The Commission also notes that it has reviewed similar, and in some instances identical, arguments in several previous proceedings. While the Commission appreciates IIEC's views and the effort expended on this issue, IIEC has not provided a sufficient reason for the Commission to deviate from its past practice of adopting the peak-and-average allocation methodology. Having reviewed the record in the instant proceeding, the Commission finds the positions of AIC, Staff, and the AG to be more convincing.

The Commission does not find IIEC's arguments that the peak-and-average method double-counts the average component of demand to be persuasive in the face of AIC's and Staff's responses. The Commission continues to believe that T&D facilities exist because there is a daily need for such facilities, not solely because there is a need to serve peak demand.

IIEC contends that another flaw in AIC's cost of service study is AIC's failure to allocate a portion of its low-pressure distribution mains on a customer basis. AIC believes approximately 40% of the cost of distribution mains is a reasonable amount of main costs to allocate on a customer component. IIEC claims it is appropriate to allocate the costs of the distribution mains on a customer component. In addition to the distribution system being sized to accommodate the design for critical peak day demands, IIEC argues that it must also be designed to physically connect each customer's service with the city gate gas receipt points. IIEC asserts that while peak requirements will influence the diameter of mains, the linear feet of mains, and total actual cost, will depend upon the number of customers and location of customers served.

AIC takes issue with IIEC's recommendation that a portion of the cost of low-pressure distribution mains be allocated on a customer component, and that approximately 40% of the cost of distribution mains is a reasonable amount of main costs to be allocated for that purpose. AIC contends that IIEC's recommendation is without factual support, is not based on any analysis of data regarding AIC's system or customers, is opposed by Staff and the AG, and has been consistently rejected by the Commission.

Having reviewed the record, the Commission is not convinced by IIEC's argument that the costs of low pressure distribution mains are directly a result of the number of customers. IIEC says there is no debate that a portion of distribution main costs are directly related to the number of AIC customers and their locations. In the Commission's view, even if one accepts IIEC's premise that there is a direct relationship between the number of customers and the investment in, or cost of, low pressure mains, it does not necessarily follow that the number of customers causes the investment in low pressure mains to increase.

While there is little data in the record on this issue, the Commission understands that from a mathematical or statistical perspective, there is a major difference between measuring the degree of association between two variables and determining whether variations in one variable cause variations of another. In addition to this cost causation problem with IIEC's proposal, the other parties correctly point out that there is essentially no analytical basis in the record for IIEC's proposal to allocate 40% of low pressure mains based on a customer component. Finally, IIEC has not provided an adequate basis to deviate from decisions in previous cases where the Commission has rejected proposals to allocate the cost of mains on a customer component.

VIII. RATE DESIGN

A. Resolved Issues

With regard to Straight Fixed Variable ("SFV") cost recovery in Rates GDS-1 and GDS-2, AIC witness Leonard Jones proposed to increase the percentage of its revenue requirement recovered through the Customer Charge for GDS-1 and GDS-2 customers from 80% to 85%. This proposal was opposed by Staff and AG/CUB. For purposes of this proceeding only, AIC agreed to withdraw its proposal. (Staff IB at 63-64)

With regard to Rate GDS-5, AIC proposes to eliminate the experimental expansion of the GDS-5 tariff ordered by the Commission in Docket No. 11-0282 whereby certain GDS-3 customers would take service under the GDS-5 rate. (Staff IB at 64-65) The Commission finds that AIC's proposal, which is supported by Staff and AG/CUB, should be adopted.

Contested issues relating to Rates GDS-1 and GDS-2 are addressed below.

B. Rate GDS-1

1. AIC's Position

AIC indicates that it and Staff are now in agreement that the percentage of fixed delivery service costs recovered through the Customer Charge from GDS-1 and GDS-2 customers should remain unchanged at 80%. AG/CUB witness Mr. Rubin, however, recommends that for purposes of setting rates in this case, there should be no change in AIC's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. That is, he believes the entire rate increase allocable to Residential customers, if any, should be recovered through increases in the per-therm distribution charge. (AIC IB at 135)

AIC states that Mr. Rubin's proposal results in approximately 55% increases to the Delivery Charge for Rate Zones I and III, and 92% for Rate Zone II. As a result, AIC claims this proposal will unduly impact customers who heat their homes using natural gas, especially if winter temperatures turn severe. AIC asserts that customers will be forced to pay more even though AIC's delivery costs to serve that customer did not change. AIC presumes that Mr. Rubin's proposal is intended to protect the minority of small-use customers from allegedly paying amounts greater than cost of service, but it comes at the cost of subjecting the majority of customers to greater expense for a necessary service substantially outside of their control when temperatures turn severe. Although AIC does not agree or concede that the cost to serve non-heating customers is significantly lower than the costs to serve heating customers, AIC believes Mr. Rubin's concerns may be better explored in the context of a future case, when AIC is in possession of data better demonstrating the usage characteristics of assumed heating (high use) and non-heating (low use) customers. (*Id.* at 135-136; AIC RB at 80-81)

AIC argues that at least implicitly, Mr. Rubin's proposal has the practical effect of lowering the percentage of fixed costs recovered through the customer charge from GDS-1 customers. AIC claims this is a step backwards in terms of Straight-Fixed Variable ("SFV") rate design and "flies in the face" of the Commission's rationale in approving such design in the first place. (*Id.* at 136) In Docket No. 07-0585, AIC says the Commission noted that the 80% fixed cost recovery mechanism would (1) help ensure that the Company does not over- or under-recover its Commission-approved base rate revenue requirement with changes in sales, (2) send proper price signals to customers, and (3) arguably decreases any disincentive AIC may perceive to implementing gas efficiency programs. (*Id.*, citing Docket No. 07-0585 (cons.), Order at 237 (Sept. 24, 2008)) AIC contends these findings hold true today and continue to form a sound basis for approval of continued application of the 80% fixed-cost recovery recommended by Staff and AIC for GDS-1 customers.

AG/CUB witness Rubin recommends the Commission require AIC to separate its residential class into a heating class and a non-heating class and to prepare a cost-of-service study in its next case that determines the cost to serve non-heating customers separately from the cost to serve heating customers. In AIC's view, Mr. Rubin's recommendation to separate AIC's residential class into separate heating and non-heating classes is premature. AIC believes that although his concerns are based at least in part on a perceived lack of homogeneity, and related pricing disparities, amongst heating and non-heating residential customers, this conclusion is without evidentiary support, as there is scant information available upon which to base this decision. AIC suggests this conversation is best left deferred to a future proceeding, at which time parties will be in possession of more information upon which to make a decision regarding the potential future division of the current residential customer class. (*Id*. at 136-137)

In an attempt to better understand the costs to serve residential heating as opposed to residential non-heating customers, AIC has committed to provide, at the request of the Commission, a study or report presenting the usage characteristics of its residential customers. AIC suggests this study may provide a better understanding about the usage characteristics of space heating and non-space heating customers. AIC indicates that it and AG/CUB do not agree on which customers should be the focus of the study, that is, which characteristics are likely tied to space heating versus non-space heating users, so as to serve as the "line" by which to separate the current class, should such separation ever be warranted. If the Commission desires such a study, AIC says needs clarification on the intended focus. (*Id*. at 137)

Mr. Rubin recommends that any future study focus on residential customers who do not use more than 30 therms per month. Mr. Rubin bases his recommendation on data compiled by the U.S. Department of Energy, which he considers a reasonable proxy for customers who do not heat with natural gas. AIC believes 20 therms per month to be a more appropriate cut-off. AIC states that the U.S. Energy Information Administration data relied upon as the source of Mr. Rubin's annual consumption input

overstates and misrepresents the usage characteristics of residential natural gas customers in AIC's footprint. AIC believes that while this U.S. Energy Information Administration data is provided on an Illinois statewide basis, the data does not reflect that downstate residential natural gas consumers generally use less gas on an annual basis than do customers to the north because AIC's customer base is located primarily in central and southern Illinois where temperatures are warmer. AIC asserts that applying AIC-specific test year consumption data to the same proxy consumption percentage used by Mr. Rubin yields estimated average consumption for non-space heating customers at 20 therms per month. AIC contends this cut-off is the appropriate focus of any future study of usage characteristics. (*Id*. at 137-138)

In its reply brief, AIC suggests CUB and the AG appear to be arguing against a stale position (i.e., one that no longer reflects AIC's agreement to accept the recommendation offered by Staff on this topic). AIC says CUB opens the "GDS 1 Increase" portion of its initial brief by citing AIC's alleged "quest to increase its revenue assurance by proposing to increase the percentage of fixed costs it recovers through its residential customer charge to 85% from the current level of 80%." AIC says the AG similarly opens by noting the AIC's proposal to "[increase] the percentage of fixed costs it recovers through the GDS-1 charge to 85% from the current (and already high) level of 80%." (AIC RB citing CUB IB at 18 and AG IB at 52)

AIC says it and Staff are now in agreement that for purposes of this case, the percentage of fixed costs recovered from GDS-1 and GDS-2 customers through the Customer Charge should hold steady at 80%. AIC claims this recommendation is consistent with Commission precedent and is buttressed by sound public policy. In this respect, AIC says its current 80% fixed cost recovery proposal is neither a quest to increase its revenue assurance nor a steady march toward an inequitable allocation. AIC asserts it will not result in the customer impacts cited by CUB and the AG in their initial briefs, as those impacts were predicated on an 85% request. (AIC RB at 79-80)

AIC notes the AG also continues to recommend that its current GDS-1 class be bifurcated into heating and non-heating subclasses, or, in the alternative, that the Company be ordered to conduct a study to determine the value of separating heating and non-heating customers from the class. AIC maintains it currently does not have a method that would allow it to divide the GDS-1 Heating and Non-Heating customers into separate classes. In addition, AIC says its billing system is not currently set up to facilitate this distinction. According to AIC, the AG's bifurcation recommendation must fail in favor its alternative suggestion to provide additional information on this topic in the context of a future case. AIC has committed to provide certain information at the request of the Commission. (AIC RB at 81)

AIC has committed to provide, at the request of the Commission, a "study" or "report" aimed at promoting a more thorough understanding about the usage characteristics of high-use (heating) and low-use (non-heating) customers. AIC, however, believes there is a divergence in viewpoint about what this "report" or "study" would or should be (as well as on which customers such study should focus). AIC

questions whether this “study” is a cost-of-service study or something else. (AIC RB at 81-82)

AIC agrees with Staff's recommendation on this point. Staff recommends that the Commission reject Mr. Rubin's proposal to order AIC to file a cost-of-service study in its next case focusing on costs to serve heating versus non-heating customers and instead file alternative information that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. Specifically, Staff recommends this information include a method for distinguishing between heating and non-heating customers and the estimated costs; the timeframe necessary to program AIC's billing system to distinguish between heating and non-heating customers and estimates of the cost to serve the two groups of customers. AIC agrees with this recommendation and that such information would enable AIC and the parties to that proceeding to analyze the data and determine whether creation of a Heating and Non-Heating GDS-1 customer class would better reflect the cost to serve these two distinct subclasses of customers. AIC also agrees with Staff and upon filing and review of this information, the Commission could then better determine whether to order AIC to bifurcate its GDS-1 class for purposes of preparing its next cost-of-service study. (AIC RB at 82)

AIC says it would still propose to focus this information on the therm usage levels discussed in its initial brief and its underlying testimony. AIC continues to believe that 20 therms per month is the appropriate “dividing line” upon which to focus these efforts. (AIC RB at 82)

2. The AG's Position

According to the AG, AIC in its proposed rate design for the residential customer charge, GDS-1, seeks to continue increasing the percentage of fixed costs it recovers through the GDS-1 charge to 85% from the current, and in the AG's view, already high, level of 80%. The AG urges the Commission to adopt its proposal which rejects AIC's proposed customer charge increase, maintains the level of fixed-cost recovery through the customer charge, and seeks to bifurcate the GDS-1 class into heating and non-heating customers. (AG IB at 52)

The AG asserts that record evidence and the analysis of AG/CUB witness Rubin demonstrate that AIC's proposal imposes rates that improperly discriminate among customers and, thus, are contrary to the very notions of justness and reasonableness – the fundamental bases upon which utility rates are established in Section 9-101 of the Act. The AG contends that determining whether something is just and reasonable should also include determining whether the rates improperly discriminate among customers. The AG argues that people receiving the same service should not be asked to pay different rates for that service. The AG claims AIC's proposed rate design for GDS-1 violates this principle by inconsistently charging different levels of rates to customers with different usage characteristics and should be rejected by the Commission. (*Id*. at 52-53)

AIC's existing GDS-1 rate consists of a single-block consumption charge and a customer charge that is the same for all GDS-1 customers in each rate zone. The existing rates recover, through the customer charge, 80% of what AIC alleges to be its "fixed" costs. The AG says AIC's proposed rates, however, do not allow recovery of these residential demand costs from the customers who cause them to be incurred, those customers who use more gas. Instead, AIC's proposed rates will require low-use residential customers to continue to subsidize high-use residential customers. AG states that according to Staff witness Boggs, the proposed shift to 85% of fixed cost recovery through the customer charge is little more than an endeavor to protect future revenue in anticipation of declining usage. The AG notes that Staff is not convinced that AIC provided reasonable arguments that the proposed increase in the percentage of fixed-cost recovery is necessary to provide a buffer against any revenue declines due to potential declines in usage. The AG agrees with Staff's position on AIC's proposed increase to 85% and urge the Commission to reject the Company's proposal. (*Id*. at 53)

According to the AG, the record evidence demonstrates that under AIC's proposal, lower-usage customers will unfairly subsidize higher-usage customers. AIC's COSS shows that approximately 45% of the cost of serving GDS-1 is associated with capacity (or demand) related costs. Capacity-related costs consist of various charges that include the return on rate base, depreciation expense, and operating expenses associated with former peak-day production facilities, the gas transmission system, and the distribution network. According to AG/CUB witness Rubin, it is inappropriate to recover capacity-related costs on a per-customer basis from residential customers unless the residential class is homogeneous. Mr. Rubin clarifies that his definition of homogeneous, as he uses it, means that all customers in a class use gas in similar ways, and, accordingly, make a similar contribution to system demands. The AG contends that only in situations where the class is homogenous does it become appropriate to recover demand-related costs on a per-customer basis. The AG asserts that where a customer class is comprised of customers that diverge widely in their usage characteristics, it is not appropriate to recover demand-related costs on a per-customer basis. (*Id*. at 53-54)

According to an analysis performed by Mr. Rubin in this docket, Ameren's GDS-1 customer class shows tremendous diversity, not homogeneity, including both heating and non-heating customers. The AG claims that during the winter months, consumption levels between non-heating and heating customers can range from less than 20 therms per month for the lowest users up to several hundred therms per month for the highest users. The AG suggests a non-heating customer might use less than 250 therms for an entire year; however, a larger heating customer might exceed that same level of gas in a month. The AG states that these customers, under AIC's proposal, are lumped together in the same class, causing the low users to subsidize the high users' portion of fixed costs. (*Id*. at 54)

AIC attempts to explain away this "discriminatory" practice by stating that the allocation of their revenue requirement to each customer class is based on some

combination of average daily demand, that is, the amount of gas used by the class throughout the year, and peak demand. The AG claims a billing analysis performed by Mr. Rubin revealed that a wide disparity between usage patterns results in an inequitable allocation of the revenue requirement within GDS-1. The AG suggests Mr. Rubin's analysis demonstrated that about one out of every eight residential customers in each service area uses more than 200 therms during at least one winter month. The AG believes there is no way that a non-heating customer using 200 therms per year is placing the same demands on the system as those larger heating customers using more than 200 therms in a single peak winter month. In the AG's view, the realities reflected in the widely disparate patterns of usage between heating and non-heating customers demands that the Commission authorize splitting GDS-1 into heating and non-heating classes. (*Id*. at 54-55)

The AG claims AIC's proposed rate design unfairly impacts low-usage residential customers by shifting the burden of providing revenues from higher-use customers to lower-use customers, particularly for non-heating customers. Despite what the AG views as disparate percentage increases among usage, AIC attempts to paint a picture of relatively minor impact to relatively few customers and suggests that the AG's concerns over low-usage customers are largely theoretical. The AG says Mr. Rubin's analysis of data from AIC's bill frequency analysis workpapers revealed thousands of non-heating customers. According to Mr. Rubin, in Rate Zone 1, approximately 4.7% of GDS-1 bills were for 20 therms or less. Based on his analysis, Mr. Rubin concluded that there is little doubt that these are non-heating customers. Mr. Rubin estimates that AIC has at least 10,000 non-heating customers in Rate Zone 1, about 6,000 non-heating customers in Rate Zone II, and about 14,000 customers in Rate Zone III. In the AG's view, it is a reasonable conclusion that AIC has at least 30,000 non-heating customers who use less than 20 therms per month during the winter. The AG claims there are at least 30,000 customers who are currently, and will continue to be under the proposed rate design, negatively impacted. (AG IB at 55-56, RB at 37)

Mr. Rubin also concluded that AIC's proposal does not just impose higher percentage increases on non-heating customers; it actually proposes greater dollar increases on low-use customers. Under AIC's proposal, the AG says the per-therm consumption charge would be decreased, resulting in the lowest-use customers bearing the brunt of the greatest dollar impact. The AG states that if a customer uses more gas, the customer will receive less of a rate increase. The AG contends this leads to the backwards result of the highest-use customers receiving a decrease in their bills under AIC's proposed rates. AIC suggests that these types of high-usage customers either do not exist or exist in such small numbers that it is not worth reviewing. The AG claims that not only do these impacted customers exist – but they exist in numbers too large to be written off as an anomaly. Mr. Rubin's review of the billing data show that about 2% of AIC's customers in Rate Zones I and III (about 11,000 customers) use more than 300 therms per month during January and February. In Rate Zone II, the AG says there are very few customers that use more than 600 therms per month in January and February (about 1/4 of 1%, or about 500 customers). (AG IB at 56-57)

In the AG's view, the record does not support AIC's proposal to increase the customer charge or unfairly cause lower-usage customers to subsidize other customers. In an effort to conduct the most complete analysis possible, Mr. Rubin analyzed the data made available by AIC, including reviewing those customers who are neither average nor typical. The AG complains that AIC proved unable or unwilling to present the requested data, further hampering the AG's ability to perform as complete an analysis. The AG says AIC witness Mr. Jones appears to have analyzed data for certain customers, including customers who are coded as being non-heating customers in AIC's records. Despite being requested, the AG says that data was not provided to the AG during discovery. Instead of having access to the actual data, Mr. Rubin was left with using a proxy for the actual data – a cut-off for residential customers who do not use more than 30 therms per month, which he based on data compiled by the U.S. Department of Energy. The AG says Mr. Jones provided a disclaimer that the data were unreliable and that he would not provide it. The AG claims Mr. Jones refers to that same data in his rebuttal testimony, leaving the AG unable to verify his analysis. (*Id*. at 57)

The data Mr. Jones presents in rebuttal, were it reliable, is based on an average or typical customer, not on customers who might be at the low- or high-end of the distribution of usage. According to Mr. Rubin, the importance of examining those customers outside the average is that it reveals the unusually disproportionate impact to customer when moving toward less cost-based recovery and more toward full SFV pricing. The AG claims the most unusual of these impacts occur at the extreme ends of the spectrum, such as the 20 or 30 percent of customers who use the least amount of gas. The AG says AIC's calculations, on the other hand, calculate only the impacts based on average or typical customer usage data. The AG claims this method does little more than mask the rather extreme impacts that can occur among low or high users. The AG says the Commission has recognized the importance of recognizing the impacts that can occur at the ends of the spectrum. In Mr. Rubin's experience, other utilities have collected real data about these cost differences, and this phenomenon, where up to 20 or 30 percent of customers are left out of the rate, has been recently recognized by the Commission as a growing concern. (*Id*. at 57-58)

The AG insists it is neither reasonable nor consistent with cost-based ratemaking for Ameren to increase the rates for low-use non-heating customers by more than the rates for higher-use heating customers. The AG urges the Commission to reject the increase to the fixed customer charge to 85%, retain the customer charge at the current level, and seek to bifurcate the GDS-1 class into heating and non-heating customers. (*Id*. at 58)

The AG is concerned about the impacts on low users of AIC's straight fixed variable pricing and urges the Commission to approve bifurcation of heating and non-heating customers in Rate Class GDS-1. Alternatively, the AG encourages the Commission to authorize a study of bifurcating the class. The AG says if taken as true, AIC has presented a strong argument that it may lack the capability to distinguish a heating from a non-heating customer. Throughout discovery in this docket, the AG says

AIC's inability to provide certain specific data hampered the AG's ability to conduct meaningful analysis. The AG claims AIC admits that certain of their data is unreliable. Although the AG maintains that the record in this docket demonstrates AIC's proposed rate design places an unfair emphasis on averages and typical customers, the AG also recognize the need to rectify AIC's seeming lack of data for future rate cases. (*Id.* at 58-59)

The AG states that as a result of the move toward SFV pricing for those utilities, the Commission required Peoples Gas and North Shore Gas to perform a cost-of-service study that separated the residential class into heating and non-heating customers. The AG says the results of those cost of service studies were filed in their 2012 rate cases. In the end, the AG says the Commission ordered Peoples Gas and North Shore to separate low-use customers from larger residential customers. Similarly, the AG says in 2010, the Commission asked Commonwealth Edison Company to study the effects on low-use customers of moving toward SFV pricing. The AG claims the studies in Peoples Gas and North Shore revealed that the cost to serve non-heating customers was significantly lower than the cost to serve heating customers. The AG asserts that the costs were so much lower for non-heating customers that the utilities proposed reducing rates for non-heating customers by nearly one-third compared to the SFV-type of rate that had been adopted prior to separating the customer classes. According to the AG, their COSS witness's rebuttal testimony in those cases concluded that under present (SFV-type) rates, non-heating customers provided the utilities with rates of return of 82.77% (North Shore) and 63.69% (Peoples Gas). The AG says those returns compared to the overall system return of about 4% under present rates, according to the utilities' analysis. (*Id.* at 59-60)

In this docket, the AG says AIC inaccurately relies on existing data for non-heating customers, which according to Mr. Rubin, simply strengthens any recommendation to use the same type of study that Peoples Gas and North Shore were ordered by the Commission to conduct. Mr. Rubin's analysis further showed that the result for Peoples Gas, which has thousands of non-heating customers, is that it was collecting about $32 million per year from non-heating customers, but the cost to serve those customers was only about $22 million. According to the AG, unlike AIC which has been collecting 80%, Peoples Gas and North Shore were collecting less than 70% of the residential revenue requirement through the customer charge. Mr. Rubin concluded that had the utilities been collecting 80% of costs through the customer charge, the rates for non-heating customers would have collected millions of dollars more in excess of the cost of serving those customers. For these reasons, the AG urges the Commission to conduct a study on the impact of the rate design felt by heating versus non-heating customers. (*Id.* at 60)

In its reply brief, the AG acknowledges that AIC and Staff have agreed to maintain the current level of the percentage of fixed delivery service costs recovered through the customer charge in GDS-1 at 80%. Notwithstanding this agreement, the AG stands on the arguments presented in its Initial Brief against Straight Fixed Variable pricing. (AG RB at 36)

The AG also acknowledges that AIC and Staff have come to some form of agreement regarding the customer charge in the GDS-1 rate class. Notwithstanding this agreement, the AG continues to urge the Commission to adopt its position that there should be no change to AIC's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. The AG re-affirms that any rate increase allocable to GDS-1 customers should, instead, be recovered through increases in the per-therm distribution charge. AIC continues to take issue with this approach, citing theoretical increases in the delivery charges for heating customers. Despite its disagreement, the AG says AIC approaches some level of agreement with AG/CUB witness Mr. Rubin that small-use customers will be negatively impacted by the Company's proposal. The AG complains that AIC recommends exploring the issues in a future rate case, ostensibly after a heating customer study may be performed. (AG RB at 36-37)

The AG stands on its arguments presented in its Initial Brief on the Heating/Non-heating Customer Study. Although the AG primarily argues that the heating and non-heating classes should be bifurcated in this rate case, the AG also acknowledge that the Commission may determine that AIC is not currently in possession of the available data upon which a fair and reasonable bifurcation could be conducted at this point in time. In that situation, the AG, therefore, urges the Commission to order AIC to assemble the necessary data, conduct a study, and bifurcate the residential class by the next rate case. The AG further urges the Commission to require AIC to honor its commitment to provide, at the request of the Commission, a study or report presenting the usage characteristics of its residential customers. (AG RB at 37-38)

3. CUB's Position

CUB states that in this proceeding, AIC continues to propose increasing its revenue assurance by proposing to increase the percentage of fixed costs it recovers through its residential customer charge to 85% from the current level of 80%. It also is proposing to consolidate the rates for Rate Zone I and Rate Zone III. CUB says AIC's proposal results in revenues from customer charges increasing by more than the overall increase in revenue requirement and should be rejected. Specifically, in Rate Zone I, AIC is proposing to increase base rate revenues from GDS-1 by $5.16 million (10%), but it proposes to increase customer charge revenues by $6.6 million (16%). CUB says the comparable figures for Rate Zone II are a base rate increase of $9.43 million (18%) and a customer charge increase of $10.52 million (25%). For Rate Zone III, the figures are $13.44 million (11%) (base rate revenues) and $17.07 million (18%) (customer charge revenues). (CUB IB at 18-19)

In CUB's view, AIC's proposal has a disproportionate effect on the lowest users in AIC's territory shifting the responsibility for providing revenues from higher-use customers to lower-use customers, particularly non-heating customers. CUB says a non-heating customer using 20 therms per month in Rate Zone 1 would see its base

rate bill increase from $23.31 under present rates to $26.41 under proposed rates, an increase of 13%. CUB states that in contrast, a heating customer using 100 therms in a winter month would see its bill increase from $30.22 under present rates to $32.29 under proposed rates, an increase of less than 7%. CUB finds it incredible that a high-use heating customer using 300 therms per month would actually see its bill decrease under AIC proposal: a base rate bill of $47.50 under present rates compared to $47.00 under proposed rates, a decrease of about 1%. (*Id* at 19)

CUB contends similar rate effects occur in Rate Zones II and III. In Rate Zone II the non-heating customer using 20 therms per month pays $18.87 under present rates and would pay $23.20 under proposed rates, an increase of 23%. The 100-therm heating customer would see its bill increase from $24.24 to $27.99, or by less than 16%. The 300-therm high-use customer would have its bill increase from $37.65 to $39.97, or by 6%. In Rate Zone III, the 20-therm non-heating customer's bill increases from $22.95 to $26.41, or by 15%. The 100-therm heating customer's bill increases from $29.88 to $32.29, or by 8%. The large-volume 300-therm customer's base rate bill would decrease from $47.19 to $47.00, a decrease of about 0.4%. (*Id*. at 19-20)

Mr. Rubin's analysis determined that Ameren has at least 30,000 non-heating customers who use less than 20 therms per month during the winter, with several thousand additional non-heating customers with annual usage slightly more than 20 therms, but less than 50 therms. Because AIC is proposing to decrease the per-therm consumption charge, CUB says the greatest dollar impact would be felt by the lowest-use customers. Conversely, the more gas a customer uses, the less of a rate increase – in dollars – the customer would see. According to CUB, this occurs at usage levels of about 260 therms in Rate Zone 1, 625 therms in Rate Zone II, and 285 therms in Rate Zone III. (*Id*. at 20)

CUB claims Mr. Rubin showed that AIC's capacity-related costs account for 45% or more of the cost of serving residential customers. Capacity costs are derived from an allocation of facilities based on some combination of average daily demand (the amount of gas used by the class throughout the year) and peak demand. Mr. Rubin testified that only if the class is fairly homogeneous, that is, all customers in a class use gas in similar ways so that they make a similar contribution to system demands, can these demand-related costs be fairly recovered on a per-customer basis. Where a customer class contains customers with a wide diversity in usage characteristics, CUB argues it is not appropriate to recover demand-related costs on a per-customer basis. (*Id*. at 20-21)

According to CUB, AIC's GDS-1 customer class shows tremendous diversity and thus should not be allocated such significant capacity costs. During the winter months, consumption ranges from less than 20 therms per month to several hundred therms per month, and in a few instances more than 1,000 therms per month. A non-heating customer who uses less than 250 therms for an entire year is placed in the same class as larger heating customers who might use more than that amount of gas in a single month. In CUB's view, it is not credible to assert that a non-heating customer using 200 therms per year is placing the same demands on the system as those larger heating

customers using more than 200 therms in a single peak winter month. CUB says non-heating customers have a very small contribution to utility peak demands. (*Id*. at 21)

CUB asserts that these observations regarding the diversity of AIC's residential customer class, combined with the inability of AIC to identify specific information regarding non-heating customers (number of customers, demands and costs), led Mr. Rubin to a comparison between Ameren's residential intra-class disparities and that of Peoples Gas Light and Coke Company and North Shore Gas Company ("PGL-NS"). As a result of concerns raised about the impact of moving toward SFV pricing for those utilities, CUB says the Commission required each of those utilities to perform a cost-of-service study that separated the residential class into heating and non-heating customers. In those utilities' 2012 rate cases, CUB says these studies found that the cost to serve non-heating customers was significantly lower than the cost to serve heating customers. According to CUB, the costs were so much lower for non-heating customers that the utilities proposed reducing rates for non-heating customers by nearly one-third compared to the SFV-type of rate that had been adopted prior to separating the customer classes. CUB says their COSS witness's rebuttal testimony in those cases concluded that under present (SFV-type) rates non-heating customers provided the utilities with rates of return of 82.77% (North Shore) and 63.69% (Peoples Gas). Those returns compared to the overall system return of about 4% under present rates, according to the utilities' analysis. (*Id*. at 21-22)

From the data Mr. Rubin reviewed, he testified that, like PGL-NS, it is highly likely that AIC's average cost to serve a non-heating customer is substantially lower than its average cost to serve a heating customer. CUB claims the disparity could be far greater for AIC's residential customers, because AIC already recovers 80% of the residential revenue requirement in the customer charge. CUB believes the diversity Mr. Rubin identified within the residential class supports his recommendation that the Commission require AIC to conduct a cost-of-service study for its next rate proceeding that determines the cost to serve non-heating customers separately from the cost to serve heating customers. (*Id*. at 22)

Mr. Rubin's recommendations for setting residential customer rates in this proceeding is to reject AIC's proposal to increase its SFV rate design to recover 85% of the revenue requirement in fixed charges, and instead freeze the customer charge at its existing level. CUB believes any allowed increase to the revenue requirement approved in this proceeding would then be recovered through the per-therm delivery charge. CUB claims this interim measure would prevent the subsidies within the residential class from becoming greater. (*Id.*, RB at 20-21)

In its reply brief, CUB notes that AIC takes issue with Mr. Rubin's proposal to bifurcate the residential class into heating and non-heating, because it lacks evidentiary support, as there is scant information available upon which to base this decision. CUB says Mr. Rubin testified that more dramatic effects of an 85% fixed charge cost recovery (which AIC modified to 80% in surrebuttal), also called a modified "Straight Fixed Variable" rate design, occur at the extremes (the 20 or 30 percent of customers who use

the least amount of gas, for example). CUB says the impacts on average or typical customers mask the rather extreme effects that can occur among low users. CUB claims this is precisely why this Commission ordered Peoples and North Shore to separate low-use customers from larger residential customers. CUB states that in 2010, the Commission asked Commonwealth Edison Company to study the effects on low-use customers of moving toward SFV pricing. CUB believes the same type of investigation is appropriate for AIC, considering the lack of data AIC has produced to date regarding the usage characteristics within the residential class. (CUB RB at 21)

CUB agrees with the Staff recommendation that the Commission direct AIC to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. Staff recommended that this information include a method for distinguishing between heating and non-heating customers and the estimated costs; the timeframe necessary to program AIC's billing system to distinguish between heating and non-heating customers; and estimates of the cost to serve the two groups of customers. CUB agrees that this would be prudent and would enable AIC and the parties to that proceeding to analyze the data and determine whether creation of a Heating and Non-Heating GDS-1 customer class would better reflect the cost to serve these two distinct subclasses of customers. (CUB RB at 22)

CUB notes AIC has agreed to provide, at the request of the Commission, a study or report presenting the usage characteristics of its residential customers, in order to provide a better understanding about the usage characteristics of space heating and non-space heating customers. Mr. Rubin recommends AIC use data for residential customers who do not use more than 30 therms per month. AIC witness Jones believes 20 therms per month to be a more appropriate cut-off, alleging that Mr. Rubin's proposed statewide [U.S. Energy Information Administration] data, which is provided on an Illinois statewide basis, does not reflect that downstate residential natural gas consumers generally use less gas on an annual basis than do customers to the north. According to CUB, using a slightly higher monthly consumption when conducting this analysis is the reasonably prudent course, considering it would capture more customers close to the heating/non-heating cutoff. (CUB RB at 22)

4. Staff's Position

It is Staff's position that the Commission should reject AG/CUB witness Rubin's proposal that, for purposes of setting rates in this proceeding, there should be no change in AIC's existing customer charges for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. (Staff IB at 65)

Staff says Mr. Rubin's proposal would assign the entire increase allocable to residential customers to the per-therm distribution charge. According to Staff, the evidence indicates that, for GDS-1, there should be increases to both Customer Charges and Distribution Charges in both Rate Zone I and Rate Zone III. Staff claims

its proposal would allow for consolidation of the rates for the two zones. Staff asserts it would also allow for an increase that is below the proposed overall Company average increase and is distributed more evenly between the Customer Charge and Distribution charge than is Mr. Rubin's proposal. Staff believes its proposed rate design would mitigate some of the subsidies that the GDS-1 class provides to other classes by virtue of the below-average increases proposed for the GDS-1 class. (*Id.* at 65-66)

The AG argues that for purposes of setting rates in this case, there should be no change in Ameren's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. That is, the entire rate increase allocable to Residential customers (if any) should be recovered through increases in the per-therm distribution charge. Staff believes the Commission should reject the AG's proposal. (Staff RB at 56-57)

In Staff's view, the evidence indicates that for GDS-1, there should be increases to both Customer Charges and Distribution Charges. Staff proposes small increases to GDS-1 Customer Charges and Distribution Charges in both Rate Zone I and Rate Zone III. Staff says its proposal allows for consolidation of the rates for the two zones. It also allows for an increase that is below the proposed overall AIC average increases in rates and is distributed more evenly between the Customer Charge and the Distribution Charge than is the AG's proposal. Staff notes that AIC proposes an overall rate increase of 15.46%. Staff's proposed rate design would produce a 9% increase in the Customer Charge and a 13% increase in the Distribution Charge for Rate Zone I GDS-1 customers. There would be an 11% increase in the Customer Charge and a 13% increase in the Distribution Charge for Rate Zone III customers. Staff believes its rate design will mitigate some of the subsidies that the GDS-1 class is providing to other classes by virtue of below-average increases proposed for the class and should be approved by the Commission. (Staff RB at 57)

Staff recommends that the Commission reject AG/CUB witness Rubin's proposal to require AIC to present a COSS in its next rate case that determines the cost to serve non-heating customers separately from the cost to serve heating customers. However, Staff does recommend that the Commission direct AIC to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. (Staff IB at 66, RB at 58)

Staff notes that in his direct testimony, AG/CUB witness Rubin criticizes AIC's proposed rate design arguing that AIC's proposed rate design would shift the responsibility for providing revenues from higher-use customers to lower-use customers, particularly non-heating customers. In addition, Mr. Rubin recommends that the Commission require AIC to separate its residential class into heating and non-heating classes and that AIC should be required to prepare a COSS in its next rate case that determines the cost to serve non-heating customers separately from the cost to serve heating customers. Mr. Rubin further recommends that the entire rate increase

allocable to residential Customers (if any) be recovered through increases in the per-therm distribution (usage) charge. (Staff IB at 66)

Staff believes Mr. Rubin's proposal should be rejected in this rate case because AIC currently does not have a method that would allow it to divide the GDS-1 heating and non-heating customers into separate classes. Staff claims AIC also does not have a billing system that distinguishes between different categories of customers; however, AIC indicates that its billing system could be modified to make that distinction. Staff believes that criteria and usage thresholds would have to be established before AIC's billing system could be programmed to distinguish between heating and non-heating customers. Until those criteria are established, Staff believes AIC would not be able to customize its billing system or COSS method to determine the cost to serve non-heating customers separately from the cost to serve heating customers. (*Id.* at 67, RB at 58)

In this rate case, Staff recommends that the Commission direct AIC to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. Staff says this information should include a method for distinguishing between heating and non-heating customers and the estimated costs; the timeframe necessary to program AIC's billing system to distinguish between heating and non-heating customers and estimates of the cost to serve the two groups of customers. According to Staff, this would enable AIC and the parties to that proceeding to analyze the data and determine whether creation of a heating and non-heating GDS-1 customer class would better reflect the cost to serve these two distinct subclasses of customers. At that time, Staff suggests if it is determined that bifurcation of the GDS-1 class is desirable, the Commission could order AIC to include that class bifurcation in the COSS for the following AIC gas rate filing. (Staff IB at 67-68, RB at 58)

5. Commission Conclusions

While the AG and CUB filed separate briefs in this proceeding, they jointly sponsored the testimony of Mr. Rubin. The Commission's review of the briefs indicates their arguments are quite similar in substance. While the Commission has carefully reviewed all of those briefs, for purposes of efficiency in this conclusion, the Commission will sometimes refer to the AG and CUB jointly as AG/CUB.

AIC Rate GDS-1 applies to Residential Gas Delivery Service. It appears AIC and Staff are now in agreement that the percentage of fixed delivery service costs recovered through the Customer Charge from GDS-1 customers should remain unchanged at 80%. The AG/CUB proposal is that the entire rate increase allocable to GDS-1 customers, if any, should be recovered through increases in the per-therm distribution charge. AG/CUB also believe the customers in rate class GDS-1 are diverse and should be bifurcated into heating and non-heating subclasses, and that AIC's proposal is unfair to smaller-use, non-heating customers.

One of the primary reasons AIC and Staff oppose AG/CUB's proposed rate design is its impact on customers who heat their homes using natural gas, especially if winter temperatures turn severe. The AG/CUB proposal would result in approximately a 55% increase to the Delivery Charge for Rate Zones I and III, and a 92% increase to the Delivery Charge for Rate Zone II. While the Commission understands' AG/CUB's concerns regarding small-use customers, its proposal would create too large an increase for too many customers for the Commission to adopt it. The AIC and Staff proposal will result in more reasonable rate increases for the vast majority of AIC's customers. In addition, the AIC and Staff proposal is more consistent with the Commission's decisions in recent AIC natural gas rate cases. The Commission concludes that the record in this proceeding supports adoption of the AIC and Staff proposal rather than the AG and CUB proposal.

AG/CUB also continue to recommend that AIC's current GDS-1 class be bifurcated into heating and non-heating subclasses, or, in the alternative, that the Company be ordered to conduct a study to determine the value of separating heating and non-heating customers from the class. As the Commission understands it, AIC currently does not have a method that would allow it to divide the GDS-1 heating and non-heating customers into separate classes, and its billing system is not currently set up to facilitate this distinction. As a result of the current situation, the Commission will not require a bifurcation of the GDS-1 rate class into heating and non-heating subclasses in the current proceeding.

In an attempt to better understand the costs to serve residential heating as opposed to residential non-heating customers, AIC has committed to provide a study or report presenting the usage characteristics of high-use (heating) and low-use (non-heating) customers. The Commission finds that such a study would be useful and that AIC should be required to submit such a study at the time it files its next natural gas increase request.

AG and CUB want the Commission to order AIC to file a cost of service study in its next natural gas rate case focusing on costs to serve heating versus non-heating customers. AIC and Staff oppose the recommendation and instead recommend that AIC be required to file alternative information that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes.

AIC and Staff recommend that this information include a method for distinguishing between heating and non-heating customers and the estimated costs; the timeframe necessary to program AIC's billing system to distinguish between heating and non-heating customers; and estimates of the cost to serve the two groups of customers. AIC and Staff believe this information would enable AIC and the parties in that proceeding to analyze the data and determine whether creation of heating and non-heating GDS-1 customer subclasses would better reflect the cost to serve these two distinct subclasses of customers.

In the Commission's view, the information and report proposed by AIC and Staff will allow the Commission to determine the propriety of bifurcating the GDS-1 rate class into heating and non-heating subclasses. Currently, the Commission does not sufficient information to make that decision. As in prior rate proceedings, the Commission is hesitant to require AIC, over the objections of AIC and Staff, to conduct a cost of service study when there is little certainty that such a study would provide the basis for setting rates in a future rate proceeding. As a result, the Commission directs AIC to provide, at the time of its next natural gas rate case filing, the information and report described by Staff regarding bifurcation of the GDS-1 rate class into heating and non-heating subclasses.

C. Rate GDS-4

1. AIC's Position

AIC asserts that, consistent with prior Commission direction, it is proposing in this case to apply a revenue allocation constraint that would restrict rate increases incurred by each class to 1.5 times the overall system average increase. AIC witness Althoff states that the application of revenue constraints will allow AIC to move toward price uniformity of the three rate zones gradually, while limiting impacts of customers' bills. AIC claims AG/CUB witness Rubin generally agrees with this approach. (AIC IB at 138-139)

AIC notes that Mr. Rubin is concerned that, as applied to certain classes, the allocation constraint may not be working to move rates towards class cost-of-service at a reasonable pace. As a result, Mr. Rubin proposes to maintain AIC's revenue allocation constraint except in situations where continued application would not result in rates reflecting class cost-of-service at the end of 10-year (5 assumed rate case) period. In this situation, Mr. Rubin would recommend either (a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over a span of five rate cases or (b) changing the make-up of the customer class so that its cost characteristics are substantially modified. (*Id.* at 139)

According to AIC, Mr. Rubin determines that GDS-5 customers (in all Rate Zones) and GDS-4 customers in Rate Zone III are not likely to generate revenues reflecting those classes' costs-of-service at the end of the assumed 10-year period. As a result, Mr. Rubin proposed in this case to increase Rate Zone III GDS-4 rates by 2.0 to 2.4 times in an effort to start making reasonable progress toward moving the class' revenues closer to the cost of serving the class.

AIC believes the proposed increase offered by Mr. Rubin is excessive and offends prior Commission decisions on the issue. AIC says if the Commission were to apply the upper end of Mr. Rubin's proposed range (the 2.4 times increase factor) to the overall system average by Rate Zone, the increase would be 25.75% for GDS-4 customers in Rate Zone III as opposed to the 16.09% increase proposed by AIC.

AIC also complains that Mr. Rubin fails to present any factual basis supporting his specific recommendation. AIC says he fails to explain why it is appropriate to examine movement toward class cost-of-service over a 10-year (or five rate case) period and/or why his hypothetical increase percentages over that period are in fact reasonable estimates. When asked why he chose to present his Rate Zone III, GDS-4 recommendation in the form of a range, AIC claims Mr. Rubin punted to the Commission's "substantial discretion" on rate design decisions and acknowledged that the specific increase factor adopted may ultimately depend on the overall revenue requirement increase approved in the case (with a mitigation factor toward the lower end of his range perhaps being more appropriate should the Commission grant a revenue requirement increase of the magnitude proposed by the Company). (*Id.* at 140)

AIC notes that Staff agrees with AIC in recommending that Mr. Rubin's proposal be rejected in favor of the 1.5 times revenue allocation constraint proposed by AIC. AIC states that the mitigation constraint proposed by AIC was approved for use by the Commission in prior AIC natural gas cases. AIC believes Mr. Rubin has presented no evidence that would provide a sound basis for the Commission to disturb precedent on this issue. (*Id.* at 140-141)

In response to CUB, AIC states that the sole contested here involves the appropriate percentage increase that should be allocated to the Rate Zone II GDS-4 customer class. Mr. Rubin is apparently concerned that the class is not moving toward its cost of service at a reasonable pace. As a result, he proposes an increase in excess of the [1.5 x] increase mitigation factor approved by the Commission in past cases and applied by AIC to the class at issue here. (AIC RB at 86)

AIC believes the proposed increase offered by Mr. Rubin is excessive and offends prior Commission decisions on the issue. AIC says if the Commission were to apply the upper end of Mr. Rubin's proposed range (the 2.4 times increase factor) to the overall system average by Rate Zone, the increase would be 25.75% for GDS-4 customers in Rate Zone III as opposed to the 16.09% increase proposed by AIC. According to AIC, Mr. Rubin's proposal appears to be arbitrary, or at least lacking in an articulated, factual basis. AIC says Mr. Rubin fails to explain why 10 years is the appropriate period of time over which to examine movement that will generate cost-equivalent rates. AIC claims that, as highlighted by CUB's initial brief, Mr. Rubin fails to explain exactly why the principle of cost-based pricing must trump gradualism in this instance. AIC describes his statement as conclusory and lacking in basic factual support. (AIC RB at 86-87)

AIC states that unlike Rate Zones I and III, Rate Zone II has a tiered Demand Charge based on therm usage for Rider T customers. The first tier Demand Charge applies to customers using 2 million therms or less annually, while the second tier Demand charge applies to customers using more than 2 million therms annually. The second Demand Charge tier has lower pricing than the first tier. (AIC IB at 141, RB at 83)

In this case, AIC is proposing to move toward eventual elimination of the Rider T tiered demand structure by assessing greater percentage increases to the Rate Zone II, GDS-4 tier two Demand Charge. AIC claims this movement is a "cost-based" step toward better aligning the price structure applicable to Rider T customers with that applicable to Rider S customers. (AIC IB at 141)

AIC notes that IIEC witness Collins suggests an "across-the-board" increase for both Demand Charge tiers. In AIC's view, this perpetuates the very disparities the Company is attempting to correct. (*Id.*)

AIC says Mr. Collins' concerns are apparently based on the fact that some members of the GDS-4 class would be subject to rate increases higher than system average. AIC responds that in accordance with prior Commission directives, AIC has proposed a limitation on rate increases of 1.5 times the system-average increase. AIC states that under this approach, and by definition, some customers will be above an average while others will be below. AIC asserts that as a practical matter, it is virtually impossible to ensure that each and every customer experience[s] an identical percent change in rates. AIC insists that the Commission has endorsed, and AIC has applied, a 1.5 times average constraint factor in order to avoid the undue bill impacts about which Mr. Collins complains. (*Id.* at 141-142)

AIC claims that Mr. Collins, while repeatedly citing the potential for "rate shock" under AIC's proposal, fails to consider this perceived shock in the context of a customer's total bill. AIC says that had his comparison included the cost of gas, his hypothetical customer would have seen 1% overall increase. To this end, AIC calculated individual bill impacts for Rate Zone II using present versus proposed rates and found that on a total bill basis (delivery and cost of gas), customer bills increased slightly under 3.0% on average. (*Id.* at 142, RB at 85-86)

According to AIC, Mr. Collins also fails to consider the effect the implementation of Rider TBS has had on GDS-4 pricing and the significance of this effect in the context of AIC's current proposal. AIC states that when Rider TBS became effective, rates were adjusted downward, primarily affecting GDS-4 customers. AIC says an analysis comparing present rates with those in effect prior to the implementation of Rider TBS shows that the implementation of Rider TBS drove down rates for over half of the GDS-4 customers in Rate Zone II, both in terms of delivery service charges and total bills. AIC claims that even if the Commission were to approve the level of revenue requirement contained in AIC's direct filing, some Rate Zone II, GDS-4 customers with usage over two million therms would still not be paying rates greater than those established before Rider TBS' effective date of May 1, 2012. AIC argues that given this context of Rate Zone II GDS-4 price movement over the last several years, it is difficult to see how the Company's proposal is likely to generate the "rate shock" alleged by Mr. Collins. (AIC IB at 142-143, RB at 85-86)

AIC insists it has in this case attempted to temper the impact of bill increases on Rate Zone II, GDS-4 customers. AIC says Staff witness Boggs recognizes this and agrees with AIC's proposal. (AIC IB at 143)

In its reply brief, AIC says IIEC's proposal would perpetuate the disparities that AIC's proposal attempts to correct. AIC says the primary purpose of its proposal is to move toward rate uniformity, in accordance with Commission guidance. AIC says Staff agrees that rate uniformity is an appropriate goal, and that AIC's proposal in this case represents reasonable movement towards that goal. In contrast, IIEC's proposed across-the-board increase would simply raise prices for all customers in the Rate Zone II GDS-4 class, without correcting the disparities within the class itself. (AIC RB at 83-84)

According to AIC, it appears that IIEC does not believe these disparities should ever be corrected. AIC says IIEC's position is based on two primary assertions: (i) that the three legacy systems were designed and constructed independently to meet peak demand; and (ii) that the peak demands of GDS-4 customers significantly affect the system peak, and thereby the design and construction of the transmission and distribution systems. On this basis, IIEC claims that rates for the GDS-4 class should remain zone-specific. AIC finds this conclusion problematic because the two bases for it are highly unlikely to change. AIC claims under IIEC's reasoning, there will be no set of circumstances that justify a move towards price uniformity for Rate Zone II GDS-4. AIC asserts this is an improper outcome because price uniformity is reasonable and efficient, and has consistently been endorsed as such by the Commission in other cases concerning merged utilities. (AIC RB at 84)

AIC finds IIEC's claim that the increase in rates that would result from AIC's proposal would constitute rate shock to be "incredible," especially when considered in light of the larger context of GDS-4 pricing. IIEC argues that AIC's proposal will result in significantly above average increases for a significant number of large customers in the GDS-4 class. AIC claims out of the 64 total GDS-4 Rider T customers in Rate Zone II, 40 customers will experience a below-average increase. In addition, AIC says out of the 11 Rate Zone II GDS-4 customers with usage above 2 million therms (i.e., the customers in the second pricing tier, which AIC seeks to eventually eliminate), only three will experience a greater-than-average increase. AIC says IIEC's objection to AIC's proposal hinges on the fact that some customers will experience a greater-than-average increase in price. According to AIC, this is the nature of averages; some customers will be below the average, while others will be above it. AIC believes no rate design proposal can be a perfect fit for all customers, but this imperfection is not fatal to the proposal. (AIC RB at 84-85)

AIC says the Commission has shown a preference for price uniformity among customers with similar usage and load characteristics, and AIC's proposal for the Rate Zone II GDS-4 class balances movement towards rate uniformity with mitigation of rate impacts for customers. AIC states although it is possible that some Rate Zone II GDS-4 customers may experience a greater-than-average increase in rates, AIC's proposal is

reasonable, supported by Staff and AIC, and should be adopted in this proceeding. (AIC RB at 86)

2. The AG's Position

In its initial brief, the AG states that based on agreement between the AG and AIC to make certain changes to the characteristics of rate class GDS-5, the AG no longer takes issue with AIC proposed constraints. However, the AG urges the Commission to revisit this issue in the next case where Ameren's rate design and class revenue allocation are considered, so that decisions can be made about any further modifications that may be necessary in Rate GDS-5. (AG IB at 51)

3. CUB's Position

CUB states that AIC's proposed allocation of any rate increase begins with the results of its cost-of-service studies, but then deviates from those results significantly in order to accommodate a constraint to the rate increase any class would receive. AIC proposes that that no class should receive a percentage increase that is more than 1.5 times the system-average percentage increase. AG-CUB witness Rubin does not generally take issue with AIC's proposed constraint, which can be a reasonable way to implement the rate design principles of gradualism and equity (or fairness) so that no customer class bears a disproportionate share of any rate increase. CUB says such a constraint also helps to moderate the effect that significant changes in cost allocation methodologies or internal operations may have on the allocation of the revenue requirement. CUB states that this type of constraint also ensures, in most cases, that all classes are making reasonable movement toward rates that would recover the full cost of serving the class. (CUB IB at 23)

CUB claims, with respect to three of AIC's five customer classes, this approach has the effect of exacerbating an already large discrepancy between class revenues and those classes cost of service. CUB says these three customer classes are currently paying rates that are so far below the cost of serving the class that this constraint – not the cost of service – principally governs the amount of rate increase allocated to the classes. Based on the evidence of these inter-class subsidies presented by AG-CUB witness Rubin, CUB believes the Commission should either modify the constraint, or change the make-up of certain customer classes so that each customer class is making progress toward paying cost-based rates. (*Id.*)

Mr. Rubin recommends that the constraint of 1.5 times the average percentage increase should be applied, except where doing so over a series of five cases (approximately ten years) would not result in a customer class paying rates that approximate its cost of service. CUB states that when certain customer rate classes would not generate revenues that approximate their cost of service over this presumed 10-year period, then Mr. Rubin recommends either (a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over

a span of five rate cases or (b) changing the make-up of the customer class so that its cost characteristics are substantially modified. (*Id.* at 24)

CUB says the rates for GDS-4 and GDS-5 in Rate Zone I remain substantially below the cost of service for those classes. According to CUB, the proposed rates for GDS-4 would recover $3.77 million, as compared to the cost of serving the class of $4.53 million, or only about 83% of the class's cost of service. Even worse, Ameren's proposal for GDS-5 would recover just $315,000 of the class's $1,258,000 cost of service, or just 25% of the class's cost. These figures already take into account an increase to each class that is 1.5 times the system-average percentage increase. (*Id.*)

In order to approximate the impact of the Company's proposal, Mr. Rubin conducted an analysis assuming that AIC would seek a delivery service rate increase of 14% every other year for the next eight years. CUB says Mr. Rubin's analysis demonstrates that the GDS-4 class in Rate Zone I is likely to approximate full-cost pricing by applying the 1.5 times constraint in this and the next four cases. CUB claims the same is not true, however, for rate GDS-5. If the cost of serving GDS-5 in Rate Zone I increased 14% in each of the next four cases, the cost would be approximately $2.1 million ten years from now. If the revenues from the class increased by 1.5 times the system-average increase during that same period, then the class's revenues would be only $675,000, or about one-third of the cost of service ten years from now. Under the hypothetical situation, CUB says it would require an increase in each case of approximately 52%, or more than three times the system-average increase, for GDS-5 in Rate Zone I to be paying rates that recover the class's cost of service by the end of ten years. (*Id.* at 24-25)

Mr. Rubin's recommendation regarding the treatment of this discrepancy is dependent on whether the Commission makes changes to the requirements for service under GDS-5. CUB states that while GDS-5 is supposed to include only seasonal customers who do not use gas during the winter heating season and therefore do not contribute to the system peak, Mr. Rubin identified some customers taking service under GDS-5 that are causing the system peak to increase. This disparity, concluded Mr. Rubin, is what drives at least in part the disparity between the class's revenues and the cost of serving the class. If the Commission does not change the requirements for service under GDS-5, then CUB says the rates for this class would need to increase substantially (52%) in order to move the rates toward covering the cost of service for the class over a reasonable period of time. (*Id.* at 25)

Mr. Rubin's preferred alternative for handling this discrepancy, however, is for the Commission to terminate the experiment that allowed peaking customers to take service under a non-peaking, seasonal rate. CUB says this would reduce the cost of serving the class, such that constraining the class's increase to 1.5 times the system average increase would be reasonable in this case. According to CUB, this issue then would need to be re-evaluated in AIC's next rate case to ensure that progress is being made toward charging cost-based rates to GDS-5 customers.

In Rate Zone II, Mr. Rubin concluded that the rates for GDS-3, GDS-4, and GDS-5 remain substantially below the cost of service for those classes. As was the case in Rate Zone I, CUB says AIC's proposal for GDS-5 in Rate Zone II under-recovers the costs of serving those customers, yet the results here are even worse than for Rate Zone I. Proposed rates for GDS-5 in Rate Zone II would recover just $587,000 of the class's $1,509,000 cost of service, or just 39% of the class's cost. These figures were determined after giving the class an increase that is 1.5 times the system-average percentage increase. (CUB IB at 26)

Under Mr. Rubin's hypothetical scenario where Ameren would seek a delivery service increase of 21% every other year for the next ten years, with the constraint of 1.5 times the average increase applied to each class, CUB says the GDS-3 and GDS-4 classes in Rate Zone II are likely to approximate full-cost pricing in this and the next four cases. *Id.* at 12:223-230. As with Rate Zone I, the cost of serving GDS-5 in Rate Zone II will exceed the 1.5 system average increase acceleration significantly. According to CUB, 10 years from now, if the cost of serving GDS-5 in Rate Zone II increased by 21% every two years, the class's revenues would be 55% less than that class's cost of service. Under the hypothetical situation, an increase approximately 49%, or almost 2.5 times the system-average increase, would be required for GDS-5 customers in Rate Zone II to be paying rates that recover the class's cost of service by the end of 10 years. (*Id.*)

In total dollars, CUB states that the residential class (GDS-1) in Rate Zone II is being asked to pay rates in excess of the cost of serving the class of $3.8 million, with about $800,000 of that subsidy going to the GDS-5 class of customers. Mr. Rubin concluded that a subsidy of this magnitude to what is supposed to be a non-peaking class is inappropriate. Like Rate Zone I, Mr. Rubin recommends either that the Commission change the requirements for service under GDS-5, and reassign those customers contributing to the system peak, or increase rate GDS-5 in Rate Zone II by 49% in this proceeding. CUB says this increase would move the rates toward covering the cost of service for the class over a reasonable period of time. (*Id.* at 26-27)

CUB states that like Rate Zones I and II, rates for GDS-4 and GDS-5 in Rate Zone III remain substantially below the cost of service for those classes. Unlike Rate Zones I and II, however, increasing the revenues for GDS-4 by 1.5 times the system average increase over the next four rate cases, assuming a delivery service rate increase of 11% every other year for the next 10 years, the existing rate constraint proposed by AIC is inadequate to bring the rates for GDS-4 in Rate Zone III to the cost of service within a reasonable period of time. Using Mr. Rubin's assumptions, an increase of approximately 26%, or approximately 2.4 times the system-average increase, for GDS-4 in Rate Zone III would be required to generate rates that recover the class's cost of service by the end of 10 years. Thus, Mr. Rubin recommends that the rates for GDS-4 in Rate Zone III should be increased by between 2.0 and 2.4 times the system-average increase in this case in order to make reasonable progress in moving the class cost of service to full recovery. (*Id.* at 27)

According to CUB, AIC is proposing to close this gap by only $1.17 million, leaving $6.6 million for other classes to absorb. CUB says most of that subsidy – more than $5.2 million – is being provided by residential customers in Rate Zone III. Mr. Rubin testified that a subsidy of that magnitude for such an extended period of time is not consistent with the principle of cost-based pricing. CUB claims the principle of fairness must outweigh that of gradualism in this situation, because the difference between revenues and costs is simply too great to constrain the increase to 1.5 times the average increase for GDS-4 in Rate Zone III. CUB says keeping this constraint in place for the next 10 years still would not have the class's revenues even approach the cost of service. (*Id.* at 27-28)

CUB states that similarly, increasing rate GDS-5 in Rate Zone III by only 1.5 times the system average increase would fall well short of recovering the cost of service for this class. If the revenues from the class increased by 1.5 times the system-average increase, then CUB says the class's revenues would be only $1.52 million, or about 60% of the cost of service ten years from now. Using Mr. Rubin's assumptions, (a delivery service rate increase of 11% every other year for the next 10 years), an increase in each case of approximately 28.5%, or more than 2.5 times the system-average increase, would be required for GDS-5 in Rate Zone III to be paying rates that recover the class's cost of service by the end of 10 years. Mr. Rubin would first recommend that the Commission change the requirements for service under rate GDS-5 to reassign customers who contribute to the system peak to another, more appropriate class. Alternatively, Mr. Rubin recommends that the Commission increase the rates for GDS-5 by 28% in order to move the rates toward covering the cost of service for the class over a reasonable period of time. (*Id.* at 28)

In its reply brief, CUB says Staff concedes that Mr. Rubin raises a legitimate point, which is that the movement toward full cost of service recovery should eventually achieve full cost of service recovery. (CUB RB at 22, citing Staff IB at 61) CUB continues to support Mr. Rubin's conclusion that the evidence in this proceeding supports a more aggressive rate escalation to ensure that GDS 4 and GDS 5 are paying their respective costs of service within approximately 10 years, or five rate cases. CUB nonetheless accepts Staff's recommendation that the Commission evaluate the progress of each customer class toward full cost of service recovery in future rate cases and make any changes it deems appropriate at that time. (CUB RB at 23)

4. IIEC's Position

IIEC opposes the Rate Zone III rate design proposal by AG/CUB to increase AIC's proposed impact mitigation constraint of 1.5 times the system average increase to between 2.0 and 2.4 times the system average increase for the Rate Zone III GDS-4 customers. According to IIEC, Mr. Rubin does not provide an analysis in support of his recommendation to increase Rate Zone III between 2.0 and 2.4 times the system average increase. IIEC says the 1.5 times mitigation constraint has been approved by the Commission in recent cases and should continue to be applied in this proceeding. In addition, IIEC notes that Mr. Boggs of Staff also recommends that the Commission

reject Mr. Rubin's proposal and continue the 1.5 times the system average constraint for any customer class. (IIEC IB at 38-39, RB at 28-29)

IIEC states that the GDS-4 class consists of large non-residential delivery service customers with average gas usage of at least 1,000 therms per day. Currently, the GDS-4 class rate structure is different by rate zone. In this case AIC proposes pricing that moves toward rate uniformity. In this instance, IIEC claims rate uniformity for the GDS-4 class is not appropriate and should remain zone-specific. AIC prepares separate cost of service studies for its three rate zones, CIPS, CILCO and IP legacy companies. According to IIEC, the three legacy systems, CIPS, CILCO and IP were designed and constructed independently. As a result of such design and construction, IIEC claims the three systems have separate cost structures. IIEC believes it is appropriate for each system to continue to have its own individual cost of service study and its rates developed from its individual cost of service study. (*Id.* at 39-40)

IIEC believes this is particularly true for the GDS-4 class. IIEC says the customers taking service under the GDS-4 rate have large design day peak demands. IIEC argues that since T&D systems are designed to meet the design day or peak demands of its customers, the peak demands of GDS-4 customers significantly affect the design and construction of the T&D system.

Ms. Althoff argues that AIC is not proposing to conform pricing for the GDS-4 class across rate zones in this proceeding. IIEC alleges that for AIC to propose pricing that moves toward rate uniformity and also claim it is not proposing to conform pricing across rate zones is disingenuous. IIEC claims that in essence, AIC is suggesting that since they are eating the cake one piece at a time IIEC cannot discuss the wisdom of eating the whole cake. Ms. Althoff finds Mr. Collins' concern with AIC's slow but sure movement towards rate zone conformity anti-progressive and against the Commission directive toward uniformity. IIEC finds Ms. Althoff's failure to address the issues, which she describes as "best left for another day" a disservice to the Commission and the customers whose rates are affected by the conformed pricing. (*Id*.)

AIC is proposing adjustments to the demand charges for Rate Zone II GDS-4 class to eliminate the rate provision regarding separate demand charges for usage over two million therms. IIEC says AIC argues that customer demand provides a superior price signal versus customer delivery volumes for GDS-4 customers, since demand matches the criteria used to plan and design facilities serving customers. AIC proposes to gradually eliminate the over two million therms Demand Charge, transitioned over time to avoid undue customer bill impacts. IIEC does not disagree with AIC's comments concerning the superiority of demand for price signals. However, IIEC is concerned that AIC's proposed rate design does not prevent undue customer bill impacts or rate shock and may not appropriately reflect the cost structure of the Rate Zone II system. IIEC claims that despite AIC's lack of concern in this docket, AIC was concerned with a similar scenario in Docket No. 09-0306 et al. (Cons.) ("AmerenCILCO et al."). In that proceeding, IIEC says AIC proposed to include the 2,000,000 therm price step for GDS-4 customers in Rate Zone II to provide stability for customers previously served under

AmerenCILCO's GDS-6 tariff. According to IIEC, the Final Order in that case states that "AIU states further that AmerenCILCO's special provisions for large customers are one of the few instances where other factors take precedence over the desire for tariff uniformity." (*Id.* at 41, RB at 29-31)

IIEC reports that in the same order the Commission stated, "The Commission finds AIU's proposal to eliminate AmerenCILCO's GDS-6 tariff reasonable, as well as its proposal to modify AmerenCILCO's GDS-4 tariff to mitigate any adverse rate impact for former GDS-6 customers." IIEC claims the proposal to eliminate the over two million therms Demand Charge for GDS-4 customers in Rate Zone II is not consistent with AIC's and Staff's position in Docket No. 09-0306 et al., case since AIC's proposal does not mitigate adverse impacts for the Rate Zone II customers. (IIEC IB at 41-42, RB at 29-31)

In its reply brief, IIEC says it does not accept AIC's philosophy that under AIC's approach, by definition some customers will experience above average increases and other customers will experience below average increases. AIC believes it is virtually impossible to ensure that each and every customer experiences an identical change in rates. However, IIEC claims its proposal makes a virtual impossibility a reality. (IIEC RB at 30)

IIEC says AIC dismisses IIEC's intra-class rate shock concern by arguing IIEC's claim of shock has not been considered in the context of a customer's total bill. (Ameren Br. at 142). Ameren argues that IIEC needs to consider the total bill and that includes the cost of gas. IIEC states that AIC's argument is flawed because the cost of gas has nothing to do with determining rates for delivery service. IIEC says including the cost of gas in an analysis of delivery service rates only serves to understate the impact of AIC's proposal for delivery service rates. According to IIEC some customers within the class will realize increases of 1.8 times the system average increase and greater. (IIEC RB at 30)

IIEC notes that AIC has limited the increase for the Rate Zone II to 1.5 times the system average increase; however, it claims there are customers inside the class that will experience rate shock with increases greater than 1.5 times the system average. IIEC suggests this can easily be resolved by increasing all components of the existing rate design by a uniform percentage which would result in the same percentage increase for all customers in the class. (IIEC IB at 42)

In its initial brief, IIEC discusses a hypothetical under which AIC's proposed rate design results in an increase of over 41% for this hypothetical customer, or approximately 1.9 times the system average. IIEC complains about AIC's response that it is virtually impossible to ensure that each and every customer experienced an identical percentage change in rates. IIEC says AIC also attempts to undermine its hypothetical arguing the hypothetical is based upon delivery revenues only and does not incorporate the cost of gas, implying the hypothetical does not take into account the

customer's overall bill impact. IIEC believes AIC's argument is flawed; the cost of gas has nothing to do with determining rates for delivery service. (*Id* at 42-43)

In order to avoid rate shock, IIEC recommends that the existing rate structure for Rate Zone II GDS-4 be maintained and that the individual rate components be increased uniformly by the class average percent increase. IIEC says its proposal will limit customer increases to 1.5 times the system average increase for a greater number of customers in the Rate Zone II GDS-4 class as compared to AIC's proposal. IIEC also claims its proposal limits rate shock to customers not only on an inter-class basis, but on an intra-class basis as well. IIEC states that AIC's and the Commission's previous support of a limitation on rate increases of 1.5 times the system-average increase should go hand in hand with supporting IIEC's recommendation to protect not only the GDS-4 class but the GDS-4 customers as well.

IIEC also believes the intra-class issue with GDS-4 customers indicates that the GDS-4 class may not be homogenous. IIEC asserts that a rate design that results in increases greater than 1.5 times the system average increase for a significant number of customers in the GDS-4 class indicates that the composition of customers in the GDS-4 class are not homogenous. In IIEC's view, this is an additional indication the rate design proposed by the Company is not appropriate for the class as a whole since it results in intra-class increases greater than the class average increase. (*Id*. at 44)

IIEC believes its recommendation that the existing rate structure for Rate Zone II GDS-4 be maintained and that individual rate components be increased uniformly by the class average percent increase should be adopted by the Commission. IIEC further believes that its recommendation is consistent with the Commission's order in Docket No. 09-0306 that approved special provisions for large customers greater than 2,000,000 therms in Rate Zone II GDS-4 to mitigate any adverse rate impacts. IIEC claims its proposal in this case serves to mitigate any adverse rate impact for former GDS-6 customers in Rate Zone II and is consistent with the Commission's Order in Docket No. 09-0306. (*Id.*)

IIEC says Staff focuses much of its argument on rate uniformity, or Single Tariff Pricing, finding the Commission has supported and encouraged rate uniformity in past rate cases when COS studies revealed that the charges to recover full cost of service for the class are close enough and that those uniform charges collectively will recover the costs to serve each rate zone in the class. (IIEC RB at 31-32, citing Staff IB at 70) However, IIEC argues the intra-class issue with GDS-4 customers indicates that the GDS-4 class may not be homogenous. IIEC says a rate design that results in increases greater than 1.5 times the system average increase for a number of customers in the GDS-4 class indicates that the composition of customers in the GDS-4 class are not homogenous. In IIEC's view, this is just another indication that AIC's rate design proposal, supported by the Staff, is not appropriate for the class as a whole since the admitted imperfect rate design results in intra-class increases greater than the class average increase. (IIEC RB at 31-32)

5. Staff's Position

AG/CUB witness Rubin recommends that the revenue constraint of 1.5 times the average percentage increase be applied, except where doing so over a series of five cases (approximately ten years) would not result in a customer class paying rates that approximate its cost of service. Where that condition would not be met, Mr. Rubin recommends either (a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over a span of five rate cases, or (b) changing the make-up of the customer class so that its cost characteristics are substantially modified. (Staff IB at 60)

Staff believes the Commission should not accept Mr. Rubin's recommendation at this time. Instead, Staff recommends the Commission accept AIC's proposed revenue allocation approach that constrains movement to full class cost of service for any one class to 1.5 times the overall average rate increase so as not to create adverse bill impacts. In Staff's view, this methodology mitigates the concern of adopting the full COS results and the prospect of unfavorable rate impacts that could otherwise result for some rate classes. Staff says the amount of revenue requirement which is unrecovered, because the rate increase would exceed the cap, would be allocated to the other rate classes, i.e., recovered from the rate classes that have not reached the cap. (*Id.* at 61)

According to Staff, the 1.5 times the system average increase constraint represents a reasoned judgment of how much progress can be made towards cost-based revenue allocations while addressing bill impact concerns. Staff says this methodology would follow the decision in AIC's last rate case, Docket No. 11-0282, where the Commission approved a rate cap mechanism that limited class increases to 1.5 times the overall average increase allocated to the respective Rate Zone. Staff says no parties raised concerns about the issue in Ameren's last rate proceeding.

Staff believes Mr. Rubin raises a legitimate point, which is that the movement toward full cost of service recovery should eventually achieve full cost of service recovery. Therefore, while Staff recommends that the Commission continue with the 1.5 times the system average increase constraint in this case, Staff also recommends that the Commission evaluate the progress of each customer class toward full cost of service recovery in future rate cases and make any changes it deems appropriate at that time. (*Id*. at 61-62)

Staff maintains that the Commission should reject AG/CUB witness Rubin's proposal to increase rates for GDS-4 customers in Rate Zone III by between 2.0 and 2.4 times the system average increase. Staff recommends that the Commission continue with the 1.5 times the system average constraint for any customer class, while Mr. Rubin's proposal would exceed this constraint. (Staff IB at 68)

In Staff's view, the Commission should reject IIEC witness Collins' proposal to maintain the existing rate structure for GDS-4 in Rate Zone II and increase the delivery

and demand charges by the class average percent (limited to 1.5 times the system average, if necessary) resulting from the COSS. Staff believes AIC's proposed rate design for the GDS-4 class in Rate Zone II is appropriate. AIC's facilities are designed and installed to meet customer peak demand. AIC's rate design is intended to send proper price signals on the basis of peak demand. Staff believes that AIC's proposal to eliminate the separate demand charges for customers who use less than two million therms versus those who use more than two million therms is a move toward inter- and intra-class price uniformity for the GDS-4 class. Staff says this proposal also intends to mitigate undue customer bill impacts by limiting the rate increases for the class as a whole to 1.5 times the system average. (*Id.* at 68-69, RB at 59)

According to Staff, Mr. Collins' proposal is based on the concern that some individual customers in the Rate Zone II GDS-4 class will see an increase greater than the 1.5 times the system average increase constraint that is applied to the GDS-4 class as a whole. Staff notes that Mr. Collin's testimony discusses a hypothetical situation where a customer using over 2 million therms could receive an increase of up to 1.9 times the system average. Staff says AIC has indicated that a very small percentage of customers (only 12.5% of the customers in the class according to the sample size) would even have the potential to exceed the 1.5 times the system average increase. Staff contends that no rate design proposal can be a perfect fit for all customers and, in this case, some GDS-4 customers in Rate Zone II have the potential to see their rate increase above the 1.5 times the system average increase constraint. Staff says AIC has attempted to mitigate rate shock to all customer classes in all rate zones while moving ahead with the Commission's preference to move toward price uniformity. Staff says IIEC's proposal does not allow for movement toward price uniformity and its argument that the rate increase would potentially exceed the Company's proposed rate increase constraint of 1.5 times the system average only applies to a very small percentage of customers. (Staff IB at 69; RB at 59-60)

Staff states that IIEC witness Collins argues that rate uniformity for the GDS-4 class is not appropriate, and that separate COS studies for each rate zone should continue to be performed by the Company and each zone's rate for the GDS-4 class should continue to be developed based on those COS studies. Staff believes the Commission should reject Mr. Collins' proposal. (*Id* at 69-70)

According to Staff, rate uniformity, also referred to as Single Tariff Pricing or "STP," is a rate design that the Commission has supported and encouraged in past rate cases when the COSS revealed that the charges to recover full cost of service for the class are "close enough" and that those uniform charges collectively will recover the costs to serve each rate zone in the class. (*Id.* at 70, citing Dockets 11-0282, Order at 139 (Jan. 10, 2012); 07-0507, Order at 97 (July 30, 2008); 02-0690, Order at 121 (Aug. 12, 2003); and 00-0340, Order at 29 (Feb. 15, 2001))

Staff recommends that AIC's proposed rate design be approved for rate making in this proceeding. Staff believes AIC's proposed rate design for the GDS-4 class is reasonable and reflects movement toward rate uniformity. Staff says AIC proposes

uniform Customer Charges ($600) for the GDS-4 class customers who use less than 10,000 therms/day in each rate zone. AIC proposes a $700 Customer Charge for Zone I GDS-4 customers who use more than 10,000 therms/day and a $1,200 monthly Customer Charge for Zone II and Zone III GDS-4 customers that use more than 10,000 therms/day. Staff says the proposed revenues that the GDS-4 customers will provide through the monthly Customer Charges as described above will generate revenues that will approach full recovery. Staff states, however, in this rate design proposal, revenue recovery will be approximately $60,000 short of full costs to serve the class. Staff says AIC's proposed rate design provides for uniform charges for all GDS-4 customers who use less than 10,000 therms per month in each of its rate zones and two of the three zones (Rate Zones II and III) will have uniform Customer Charges for customers who use over 10,000 therms per month. (*Id.* at 25) If the Commission approves AIC's proposed GDS-4 rate design in this proceeding, then Staff suggests AIC should target full price uniformity that recovers full cost of service for the GDS-4 customer class in its next rate case.

Staff maintains that the Commission has been moving toward price uniformity for customers that have similar usage and load characteristics. Staff believes AIC's proposals for the GDS-4 class in each rate zone reflect movement toward price uniformity while attempting to mitigate rate shock for all customers in the class. While there is the potential to exceed AIC's proposed rate increase constraints for a small percentage of customers, Staff believes AIC's proposed rate design for the GDS-4 class is reasonable and therefore it is Staff's recommendation that its proposed rate design be approved for rate making in this proceeding. (*Id.* at 71)

6. Commission Conclusions

AIC Rate GDS-4 applies to Large General Gas Delivery Service. AIC proposes to apply a revenue allocation constraint that would restrict rate increases incurred by each class to 1.5 times the overall system average increase.

AIC claims this proposal is consistent with prior Commission decisions and will allow gradual movement toward price uniformity of the three rate zones, while limiting impacts of customers' bills. While AG/CUB generally agrees with this approach, they are concerned that, as applied to certain classes, the allocation constraint may not be working to move rates towards class cost-of-service at a reasonable pace. AG/CUB propose to maintain AIC's revenue allocation constraint except in situations where continued application would not result in rates reflecting class cost-of-service at the end of 10-year period, which assumes five rate cases. In this situation, AG/CUB recommends either (a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over a span of five rate cases or, (b) changing the make-up of the customer class so that its cost characteristics are substantially modified.

In this proceeding, AG/CUB proposes to increase Rate Zone III GDS-4 rates by 2.0 to 2.4 times in an effort to start making more progress toward moving the class'

revenues closer to the cost of serving the class. Both AIC and Staff oppose AG/CUB's proposal arguing, among other things, that it would increase rates for GDS-4 customers in Rate Zone III by as much as 25.75%, rather than 16.09% proposed by AIC. IIEC also opposes the AG/CUB recommendation.

The Commission has reviewed the parties' positions and finds that continuing to restrict rate increases for each class to 1.5 times the overall system average increase is reasonable and should be adopted for purposes of rate design in this proceeding. The Commission believes this constraint properly balances the competing interests of moving rate classes to recovery of full cost of service and avoiding unreasonably high increases for customers in any given class. While the Commission appreciates, and shares, AG/CUB's desire to move rates to full cost recovery, it believes the AG/CUB proposal results in a rate increase that is unacceptably high.

Another issue still in dispute involves the tiered demand charge structure in Rate Zone II. Unlike Rate Zones I and III, Rate Zone II has a tiered Demand Charge based on therm usage for Rider T customers. The first-tier Demand Charge applies to customers using two million therms or less annually, while the second tier Demand charge applies to customers using more than two million therms annually. The second tier Demand Charge tier has lower pricing than the first tier.

In this case, AIC’s is proposing to move toward eventual elimination of the Rider T tiered demand structure in Rate Zone II by assessing greater percentage increases to the Rate Zone II, GDS-4 tier two Demand Charge. This change is intended to move toward a cost-based rates, better aligning the price structure applicable to Rider T customers with that applicable to Rider S customers.

IIEC recommends an across-the-board increase for both demand charge tiers. It appears that IIEC is concerned about the size of rate increase for certain GDS-4 customers in Rate Zone II and does not believe moving toward uniform rates across the three rate zones is justified.

In the Commission's view, IIEC is correct that the three rate zones were designed and constructed independently. That, however, is not how they being designed and constructed on a going-forward basis. The Commission believes that in the long run, the investment in and cost of operation of the three rate zones will converge. While that may not have occurred yet, the Commission endorses a gradual move toward rate uniformity for the three rate zones so that rates and cost of service converge. IIEC's proposed rate design would stifle the convergence that the Commission endorses.

From a broader prospective, IIEC suggests the intra-class issue with GDS-4 customers indicates that the GDS-4 class may not be homogenous. The Commission observes that in developing rate classes, it is necessary to balance the competing interests of not having too many rate classes against having a sufficient number of rate classes such that the members are reasonably similar in characteristics. While the

Commission is open to the possibility of bifurcation, it does not believe the record in this proceeding supports a finding that rate class GDS-4 warrants bifurcation.

The Commission also observes, consistent with the above discussion, that there is by definition some lack of homogeneity among customers in any given rate class. As a result, some customers will inevitably pay less than the cost of serving them while others will pay more than the cost of serving them. Additionally, when designing rates in the event of a rate change, the only way to avoid some customers experiencing smaller than average rate increases while others are experiencing higher than average rate increases is an across-the-board approach, such as that endorsed by IIEC for Rate Zone II GDS-4 customers. The problem with an across-the-board rate increase approach is that it is not generally consistent with establishing, or moving toward, cost-based rates.

The Commission is somewhat sympathetic to some of the concerns raised by IIEC with regard to Rate Zone II GDS-4 customers. Nevertheless, of the two proposals in the record, the Commission finds that, all things considered, AIC's is superior to IIEC's and should be adopted in this proceeding. IIEC is free to raise its concerns in future proceedings, and the Commission suggests IIEC take into consideration the views expressed by the Commission herein when developing alternative rate design proposals.

IX. PROPOSED SMALL VOLUME TRANSPORTATION PROGRAM

A. Introduction

The Commission observes that the “Agreed upon Briefing Outline” filed by the Parties identifies a number of “Resolved [SVT] Issues.” These include: (1) SVT Program Separate Proceeding; (2) Budget Billing Plan for SVT Customers; (3) Rider SVT -- Assessment of Pipeline Penalties; Utility Consolidated Billing; Stakeholder Meetings; Rescission Period, Tariff Language Changes; (4) Rider GTA -- Sunset Provision; Use of System Weighted Average Cost of Gas; Tariff Language Changes; (5) Rider GSIC -- Identification of Costs to be Recovered; Storage Inventory Transactions; Tariff Language Changes; and (6) Price to Compare.

To the extent there are issues identified as “resolved” that are actually in dispute, and are not otherwise decided below, they can be addressed in a later proceeding.

B. Positions of Parties

1. AIC's Position

In both its initial and reply briefs, AIC attempted to specifically identify the issues related to the SVT tariff, Rider GTA, and Rider GSIC that it believes have been resolved. Before addressing the contested issues related to the SVT tariff, this portion of the order summarizes what appear to be the resolved issues.

AIC says the parties agree, should the Commission approve the propriety of a SVT program, that a separate proceeding is necessary to finalize the operational and tariff design issues that remain unresolved. (AIC IB at 144-46, RB at 88) This issue is resolved, subject to the Commission's approval of the program.

AIC says the issue of how customers switching from Rider S to Rider SVT would impact its AIC's Budget Billing program has been resolved. (AIC IB at 146, RB at 88)

AIC's says its electric service experience demonstrates Utility Consolidated Billing/Purchase of Receivables ("UCB/POR") is an important aspect of a successful SVT program and has therefore included this provision in its tariffs and cost projections. Although CUB witness Mr. Martin Cohen cautions the Commission to scrutinize the tariff's POR component, AIC says no party contests the inclusion of a provision for UCB. AIC believes this issue is resolved. (AIC IB at 146, RB at 88)

AIC indicates it agreed to a provision in the SVT tariff for annual meetings with stakeholders, including third-party suppliers, to review desired changes in the SVT program, for a period of three years. AIC says thereafter, the requirement would be removed from the tariff. Further, AIC agreed to hold a collaborative meeting with stakeholders before the beginning of the next docket for the purpose of reviewing the tariff language that will be filed. AIC agrees to have one meeting with stakeholders and a second meeting, if time permits, as determined in its discretion. AIC believes this issue is resolved. (AIC IB at 146-147, RB at 88)

ICEA/RESA and RGS believe the addition of a rescission period for customers with greater than 5,000 therms consumption is unnecessary and inappropriate. AIC agrees in principle that SVT switching rules apply to customers eligible for SVT service. AIC says it will use the Commission-approved switching rules for non-SVT eligible customers at the time SVT tariffs are filed. AIC believes this issue is resolved. (AIC IB at 147, RB at 88)

AIC says Staff's initial brief notes ICEA/RESA witness Mr. Puican argued that AIC should change asset allocation for each market every month based on changes to the marketer's customer base. (AIC RB at 88-89, citing Staff IB at 76) AIC rejected Mr. Puican's recommendation because a monthly asset allocation approach creates operational risk for AIC's distribution system that could jeopardize system integrity and adds unnecessary administrative burdens and cost. Staff recommends, and AIC agrees, to maintain the proposed biannual allocations and this issue be considered later based upon AIC's experience in administering the SVT program. (AIC RB at 88-89)

AIC states that ICEA/RESA conceded the issue, and have requested AIC examine the issue particularly when there is a 20% or more level of switching. AIC, ICEA/RESA, and RGS have agreed that the frequency of asset reallocation will be a discussion topic at the annual stakeholder meeting. From AIC's perspective, no

commitment to change the asset reallocation is implied, only a commitment to discuss. (AIC RB at 89)

With regard to Rider GTA, AIC proposed a three-year sunset provision, beginning at the start of the SVT program. Assuming a start date of November 2014, Rider GTA would end in October 2017. Staff agrees that a three-year sunset provision is prudent if an SVT program is approved. (AIC IB at 148-149) AIC believes this issue is resolved. (AIC RB at 89)

Staff argues that if the Commission approves Rider GTA, it should modify how it is calculated. (AIC RB at 89, citing Staff IB at 81) Staff recommends that Rider GTA should compare the market cost to liquidate (or otherwise shed supply) to the system weighted average cost of gas ("WACOG"). AIC says Staff's initial brief, however, fails to recognize that AIC agreed system WACOG should be used provided it is properly defined. Therefore, AIC considers the use of WACOG to be resolved and the proper definition of system WACOG can be resolved in a later proceeding. (AIC RB at 89-90)

AIC also believes tariff language changes related to Rider GTA are resolved. (AIC RB at 90)

With regard to Rider GSIC and the identification of costs to be recovered, AIC says it proposed to file a list of contracts with the Commission Manager of Accounting by October 1 of each year identifying the costs that will be removed from Rider PGA and recovered through Rider GSIC during the following November 1 through October 31 time period. AIC indicates ICEA/RESA and RGS have also agreed to this recommendation. Staff's brief states "Staff is concerned that AIC make clear which assets have costs that should be recovered in Rider GSIC and which costs should be recovered in Riders PGA and GTA." (Staff IB 84) AIC says Staff's brief makes no mention of AIC's proposal; however, AIC believes it is adequate to address Staff's concerns regarding the identification of specific assets whose costs will be recovered in Rider GSIC. (AIC RB at 90-91)

AIC believes storage inventory transactions associated with Rider GSIC, as well as tariff language changes have been resolved. Finally, AIC says the parties have agreed to discuss the price to compare in future stakeholder meetings. (AIC RB at 91)

AIC indicates it is willing to implement a SVT program if the Commission orders it to do so, and approves recovery of the associated costs. AIC offered the tariffs to be considered should such a program be approved in its supplemental direct testimony. Simply stated, AIC requests the Commission's decision on whether it should implement an SVT program. (AIC IB at 151-152, RB at 91)

In the event the Commission requires Ameren Illinois to implement its SVT program, AIC has proposed, in conjunction therewith, Riders GTA and GSIC. AIC says the purpose of Rider GTA is to charge or credit Rider SVT customers an amount associated with the liquidation of contracts affected by the level of switching that occurs

when those customers switch to SVT service. AIC also says that Rider GSIC imposes a monthly charge on all customers taking delivery service, except customers receiving service under Rate GDS-7. According to AIC, the Rider GSIC charge is associated with the system integrity assets needed to balance and maintain the integrity of the gas distribution system. AIC says Rider GSIC specifically requires the system integrity assets be accounted for separately from the assets recovered for through Rider PGA. (AIC IB at 152, RB at 92)

CUB witness Mr. Cohen indicates particular scrutiny should be applied to the proposed POR due to the recent ruling in Nicor's recent case, Docket No. 12-0596. AIC believes Utility Consolidated Billing/Purchase of Receivables ("UCB/POR") is an important aspect of a successful SVT program based on its experience on the electric side of its business and has included the provision in its tariffs and cost projections. (AIC IB at 152, RB at 92)

CUB argues the issue of Purchase of Receivables should be further explored in the tariff proceeding that is filed subsequent to a Commission determination to go forward with SVT in Ameren territory. (AIC RB at 92, citing CUB IB 39) AIC says CUB admits it did not present any testimony regarding the POR component of Rider SVT in this proceeding. AIC also says the workshop participants negotiated the details of the POR tariff and no party considered the issue of POR to be unresolved in the confidential surveys submitted at the conclusion of the workshops. According to AIC, the only issue with respect to POR that has been raised by parties has been the level of the Discount Rate. AIC concurs with RGS that parties should not be forced to re-litigate this issue in another proceeding as the record supports the implementation of a POR program. AIC believes the Commission should approve the POR provisions included in Rider SVT as they reflect consensus derived from the Commission-ordered workshops. (AIC RB at 92-93)

AIC indicates it is supportive of collaborative meetings with suppliers and other stakeholders to be held in the 1st quarter of 2014, to discuss, among other issues, consumer education and awareness. (AIC IB at 152-153, RB at 93)

AIC states that it and ICEA/RESA witness Puican agreed that the initial discount rate under SVT reflect the Uncollectible Factor rate contained in Rider S. AIC says the parties also agree the amount of the discount should be revisited after the program has been in effect for at least 12 months, and participation rates reach 20%. (AIC IB at 153)

AIC believes Rider S Uncollectible Factor and SVT UCB/POR Discount Rate should be established jointly, not independently. AIC says its Purchase of Receivables ("POR") program allows a supplier to assign to AIC its rights to all amounts due (i.e., receivable) from its participating customers for the provision of gas supply service billed by the Company under the Utility Consolidated Billing program. In exchange, AIC pays the supplier for the receivable at a discount on the full face value of the receivable. AIC says the rate applied to determine this discount is also known as the Discount Rate. (*Id.*)

According to AIC, the Rider S Uncollectible Factor is needed to compensate it for its supply-related uncollectible expense, which is not recovered in its delivery service rates. AIC says it is also needed to administer Rider GUA - Gas Uncollectible Adjustment ("Rider GUA"). Rider GUA allows AIC to true-up the difference between uncollectible expense "included in rates" and actual uncollectible expense experienced in a year. AIC says Rider GUA determines separate adjustments for delivery and supply related uncollectible true-ups. The Rider S Uncollectible Factor establishes the amount of supply-related uncollectible expense that is "included in rates" by multiplying said factor by the cost of gas determined in Rider PGA - Purchased Gas Adjustment ("Rider PGA"). AIC says the Uncollectible Factor is reset in rate cases to correspond to the level of test-year uncollectible expense reflected in the overall revenue requirement. AIC proposed setting the Discount Rate equal to the Uncollectible Factor in Rider S because of (a) no apparent cost of service differential, (b) ease of administration, and (c) comparability of service between PGA and SVT (competitively neutral). (*Id.* at 153-154)

After the initial period expires, Mr. Puican argues that the Discount Rate under Rider SVT should reflect the actual uncollectible experience of Rider SVT customers after a reasonable amount of time has passed and reasonable participation levels have been achieved. On this point, AIC disagrees. This disagreement stems from the parties' beliefs of what the data will show. AIC says the payment habits of Rider SVT customers will not be substantially different than those for Rider S/PGA customers. Mr. Puican believes differently. As the SVT program matures, AIC says it will have data for both SVT and Rider S-PGA customers to compare. AIC is not opposed to examining the payment collections and billings for the two customer groupings. Therefore, when participation in Rider SVT reaches 20%, AIC has agreed with the Marketers to submit a report to the Commission for a determination on whether it is in customers' best interest to change the methodology for determining the Discount Rate. AIC stresses that no commitment to change Discount Rate methodology is implied in the submission of the report, only a commitment to evaluate and compare. AIC believes that until that time, this issue appears to be resolved. (*Id.* at 154)

Mr. Puican also recommends that there should be a true-up for Rider SVT customers based on the uncollectible experience under Rider SVT, not a true-up to the uncollectible experiences of Rider SVT and Rider S-PGA customers. Both AIC and Mr. Puican agree, however, that this issue does not need to be decided now. AIC says that deciding the appropriate true-up mechanism should be deferred until the suggested comparison study is completed and the Commission has shown interest in changing the methodology for determining the Discount Rate. AIC says that at that time, it could also be decided if any study differential is sufficient to warrant implementing a separate process and reconciliation, and the resulting effect on competition.

In the event Commission directs it to implement its SVT program, AIC believes it should also approve Rider GTA. AIC claims Rider GTA is necessary to ensure that customers who remain on sales service -- customers who have not switched to SVT --

are not disadvantaged. AIC says Rider GTA is also necessary to charge the costs caused by switching from the sales service to alternative gas supply to the appropriate customers. Rider GTA charges SVT customers for gas supply costs incurred when AIC needs to liquidate gas contracts because those customers will be served by another supplier. Without Rider GTA, AIC says the sales customers will bear the costs associated with liquidating gas supply contracts that are no longer required due to sales customers switching to SVT. AIC and Staff agree that customers who do not switch to SVT should be held harmless if AIC has excess gas supply as a result of sales customers switching to SVT. (AIC IB at 155)

AIC notes that Staff witness Rearden expressed skepticism that AIC will need Rider GTA due to the delay in the start of a SVT program until the fourth quarter of 2014. AIC claims the start date of the SVT program is irrelevant. In AIC's view, what matters is once the SVT program is in operation, AIC will need to liquidate contracts to account for customer switching; it can't predict the level of customer switching today, for obvious reasons. AIC also says Staff has agreed to the three-month sunset of Rider GTA, which seems to suggest Staff accepts the interim nature of the rider. (AIC IB at 155; AIC RB at 93, citing Staff IB at 80)

AIC says Dr. Rearden accurately states that AIC has locked in the price for less than 2% of its expected purchases in 2015, which is the first full year of SVT. AIC claims that he neglects to consider the baseload gas that is not price-hedged and the storage inventory withdrawals in AIC's portfolio. AIC says it has an obligation to flow all baseload gas and cycle storage, not just an obligation to purchase gas that is price hedged. If the planned storage withdrawals are added to the current baseload gas purchased for winter 2015/16, AIC says a total of approximately 66% of the gas is contracted under “must take” provisions. AIC asserts it has an obligation to purchase all of this supply. If a large number of customers switch to SVT, AIC contends it will not have the required level of load necessary to fulfill the obligation of purchased supply and will need a mechanism such as Rider GTA to liquidate the contracts so that the sales customers are held harmless. According to AIC, Rider GTA is designed to liquidate any baseload supply purchased but not needed due to customers switching to SVT, not just supplies that are price hedged. Therefore, if the Commission directs AIC to implement an SVT program, AIC insists it should also approve Rider GTA, and its sunset date April 30, 2017. (*Id.* at 155-156)

According to AIC, the need for Rider GTA is paramount. AIC says it has a longstanding hedging practice of purchasing physical and related financial products up to 6½ years forward. AIC states that the Commission has consistently approved this hedging practice in AIC's PGA dockets. In its simplest form, AIC claims the hedging practice serves to stabilize PGA prices the sales customers pay. However, with the advent of a SVT program and without the protections afforded by Rider GTA, AIC asserts sales customers would potentially bear the cost of liquidating the gas supply products purchased in anticipation of supplying service to all AIC customers if a significant number of customers switch to SVT. AIC says Rider GTA is the mechanism to appropriately allocate the cost of switching suppliers only to those customers who

choose to switch. AIC indicates this cost, the difference between the original purchase price and the liquidation price, is charged to the SVT customers since their switching required AIC to liquidate the contracts. AIC believes if the Commission directs AIC to implement an SVT program, it should also approve Rider GTA, and its sunset date April 30, 2017. (AIC RB at 93-94)

AIC indicates it and Staff agree that Rider GTA should compare the cost to liquidate (or shed supply) to the system weighted average cost of gas ("WACOG"). AIC says the problem remains, though, as to how system WACOG should be defined. AIC believes Factor CGC in the PGA is not the appropriate definition of system WACOG. According to AIC, Factor CGC in the PGA includes costs such as transportation variable costs and pipeline fuel use and loss to move the gas from the supply basin to the AIC citygate. AIC says that typically, gas that must be liquidated will be sold in the supply basin where it was purchased and pipeline transportation will not be necessary. AIC also says Factor CGC includes over/under collections from prior periods that are not appropriate to include in the calculation. AIC recommends the definition be: “the weighted average of supply purchases plus related price hedges at the location of the liquidation regardless of which pipeline.” While disagreement remains regarding the appropriate definition, AIC indicates both it and Staff believe this issue could be resolved in a separate tariff proceeding. (*Id.* at 156-157)

AIC proposes changes to Rider PGA that it believes are needed to ensure the PGA reconciliation statement shows the difference associated with the costs and expenses arising from the reconciliations of Riders GTA and GSIC. AIC says Staff, however, objects to some of the proposed language. (AIC IB at 157)

AIC claims the costs or charges associated with Riders GTA and GSIC only exist because of the SVT program and are by their nature interrelated with Rider PGA. AIC says the reconciliation of each of these riders will need to be consistent with each of the others. In AIC's view, that is why Rider PGA explicitly states the Rider PGA reconciliation statement should show the differences associated with Riders GTA and GSIC. AIC suggests it would be in no one’s interest to have a reconciliation of Rider GTA be in conflict with, for example the reconciliation associated with Rider PGA. AIC says its proposed language intends there be a recognition that the costs and charges associated with each of the Riders are properly accounted. AIC recommends Rider PGA contain an acknowledgement that the PGA reconciliation show the differences between the cost and revenues associated with Rider GTA and Rider GSIC. (*Id.* at 158)

AIC says that in her direct testimony, Staff witness Jones’ only explanation of her changes to the riders were that they were of a “ministerial nature”; there was no direct commentary about the Rider PGA language. In her rebuttal testimony, AIC says Ms. Jones then offered her “impression” that the language concerning reconciliation with Riders GTA and GSIC appear to indicate that a separate reconciliation will be filed for each in conjunction with Rider PGA reconciliation. In AIC's view, Staff is unduly fixated on each rider having its own reconciliation. AIC indicates that each rider will have its

own separate reconciliation, but argues that is not the point. According to AIC, Ms. Jones concludes the language she seeks to strike in Rider PGA strongly suggests that Riders GTA/GSIC are an integral part of the PGA reconciliation. AIC argues that is exactly the point and is why Rider PGA references Riders GTA and GSIC as AIC proposes.

AIC says it is uncontroverted, and agreed to by Ms. Jones, that, in the absence of an SVT program, Rider GTA and GSIC costs are a subset of Rider PGA costs, and the Rider PGA reconciliation statement needs to recognize this fact in the reconciliations. AIC also says Ms. Jones agreed the contracts that would otherwise have been subject of Rider GTA would be reconciled in Rider PGA reconciliation. AIC claims she also agreed that if there was no Rider SVT, then the costs described or to be accounted for in Rider GSIC would otherwise be accounted for in the context of Rider PGA reconciliation. (*Id*. at 159)

Given the overlapping nature of the costs associated with each of the riders, AIC proposes references to Rider GTA and GSIC costs, not the reconciliations themselves, in the context of Rider PGA to ensure a consistent application of how these riders relate to each other. In turn, a consistent relationship between the riders will ensure there is no over- or under-recovery of any costs associated with each of the reconciliations -- an outcome which AIC says Ms. Jones agreed should be avoided. AIC provides an example in its initial brief intended to clarify the issue. (AIC IB at 159)

In its Reply Brief, AIC claims Staff misses the intent regarding AIC's references to Riders GTA and GSIC in the Rider PGA. Staff asserts the references to the annual reconciliations for the Riders GTA and GSIC found in Rider PGA suggest that they must be included in the PGA reconciliation. (AIC RB at 94, citing Staff IB 89) According to AIC, the actual language is just the opposite; it explicitly requires that the Rider PGA reconciliation statement account for the differences associated with Riders GTA and GSIC, not that they be included. (AIC RB at 94-95)

AIC believes Staff's view that AIC's position is only to note a “cross reference” amongst the riders fails to (1) recognize what the actual language states; (2) fully understand the intent behind the need to ensure the Rider PGA reconciliation statement account for the differences associated with Riders GTA and GSIC; and (3) reflect a complete understanding of the record on this topic. Notably, both AIC and Staff agree each rider requires its own reconciliation. And more importantly, Staff does not take issue with the interrelationships between the costs and charges associated with each of the riders caused by the SVT program. AIC insists that without the Rider PGA language, the threat of unintended over- or under-recoveries in the Rider PGA reconciliation exists. (AIC RB at 94-95)

2. CUB's Position

In its initial brief, CUB states that after arguing strenuously against any delay in the approval of SVT tariffs beyond this proceeding, ICEA/RESA and RGS now

apparently concede to delaying approval of an SVT tariff to a future tariff proceeding. The acquiescence of RGS to litigating unresolved issues in a separate proceeding is surprising to CUB, considering that RGS introduced significant rhetoric in pleadings ascribing subversive motives to CUB for supporting the very procedure to which it now agrees. Nonetheless, CUB agrees that litigating all unresolved SVT issues in a separate tariff proceeding is the prudent course and would allow the Commission and stakeholders additional time to vet important and relevant issues related to the SVT program in sufficient detail, if the Commission determines to go forward with an SVT program. (CUB IB at 29)

CUB argues that the SVT tariff filing should not be considered a foregone conclusion, however. CUB asserts that the Commission must first find substantial evidence in this proceeding that is sufficient to support moving forward with an SVT program in AIC's territory, before it directs AIC to file proposed tariffs in a separate proceeding. If the Commission does not have sufficient evidence on which to make this determination, and declines to go forward with an SVT program, CUB says no separate tariff proceeding would obviously be necessary. CUB says it is also important to note that if the Commission decides to forge ahead with an SVT program in AIC's territory, there are important consumer protection issues that the Commission can and should decide in this docket. Mr. Cohen makes specific recommendations regarding additional consumer protections in this record, which CUB believes would enable the Commission to include requirements in its order in this docket. (*Id.* at 29-30)

CUB states that while the Commission has expressed support for retail gas competition, there is no statutory mandate for its implementation, unlike in the Illinois electric industry. CUB says the only entities actively seeking approval for the tariff are the AGS themselves. In AIC's last general rate proceeding, Docket No. 11-0282, CUB says the Retail Gas Suppliers requested that the Commission direct AIC to develop a natural gas choice program for residential and small commercial customers. Staff, CUB, the AG and AIC all recommended that the Commission adopt a slower approach and await a report from the Commission's Office of Retail Market Development ("ORMD") before proceeding. The Commission ultimately determined that it would proceed with a workshop process. CUB notes that the Commission did not intend to prejudge whether and to what extent a natural gas retail choice program may be appropriate for AIC. (*Id.* at 30-31)

CUB states that multiple workshops took place in 2012. After filing the instant rate proceeding, AIC filed a draft SVT tariff that was partially the result of discussions in the workshops. AIC did not request approval of these tariffs and they were not suspended. CUB says AIC indicated that it was willing to implement such a program provided that AIC gets clear direction from the Commission and that its SVT implementation costs are fully recovered, but does not propose its adoption in this docket. RGS and RESA and ICEA filed testimony in general support of the SVT tariff, but also addressed specific issues with various components of the SVT program tariffs, including rescission periods; assessment of pipeline penalties; and Price-To-Compare. CUB sponsored testimony regarding the need for an analysis of the costs and benefits

of SVT, necessary consumer protections, tracking of costs and benefits of retail gas choice in AIC territory and annual reports to the Commission. (*Id.* at 31-32)

In order to determine whether to go forward with an SVT program, CUB believes that, as a threshold question, the Commission should seek evidence of qualitative and quantitative benefits from SVT, how those benefits would be derived, and how the projected benefits compare to projected costs of implementation and operation of the SVT program. CUB argues that to proceed without conducting this analysis would not be consistent with the Commission's own directive in Docket No. 11-0282 to consider whether there would be any benefit to customers from such a program. CUB claims it would also disregard Illinois law requiring the Commission to analyze the impact on consumers in order to reach a determination that the program costs are just and reasonable. (Id. at 32-33, citing *Abbott Laboratories v. Illinois Commerce Comm'n*, 682 NE2d 340, 350 (Ill. App. Ct. 1st Dist. 1997; *Citizens Utility Board v. Illinois Commerce Comm'n*, 658 N.E.2d 1194, 1201 (Ill. App. Ct. 1st Dist. 1995)) Considering that the costs of the program will be recovered from all of AIC's residential customers, CUB says the Commission should conduct an analysis of the costs and benefits of the program as they relate to those customers who will be affected by it. (CUB RB at 24)

According to CUB, the notion that the Commission should consider costs of a proposed tariff in light of benefits is hardly novel. CUB says that in a recent Commission proceeding in which Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor") sought approval of a Purchase of Receivables ("POR") tariff, Docket No. 12-0569, the Commission denied the tariff, citing among several other reasons the fact that there is no evidence regarding the impact of this proposed rider on consumers other than potential benefits such as lower customer costs and increases in competition purported by RESA/IGS, benefits for which the Company does not necessarily provide support. CUB indicates that the Commission further concluded that other than stating that these are potential benefits, there is a distinct lack of evidence in the record that the Commission can rely on to support that these benefits would occur. CUB believes a similar analysis should apply in this proceeding, where the only entities actively seeking approval of Rider SVT are the very parties who stand to benefit from it. (CUB IB at 33, RB at 24)

In CUB's view, the discussions in Mr. Wright's and Mr. Puican's testimony regarding the benefits of competitive gas choice are theoretical. Mr. Wright testified that suppliers who currently offer electric service in AIC's service territory may be able to offer "multi-product" discounts for natural gas in combination with electricity offerings. CUB says that while this may occur, no RGS or ICEA/RESA witness was able to provide any specific plans or commitments to make such offerings. CUB believes it is important that there is no evidence that the mere offering of "multi-product discounts" will provide actual value – in the form of lower rates – to customers. Mr. Wright further testified that ICEA and RESA maintain that AGS can not only offer customers savings but other value-added services that include the ability to set a fixed-price for a set number of years or more innovative service offerings that could fuel a natural gas vehicle or provide free gas with installation of a fuel efficient furnace. CUB asserts no

evidence of either the specific plans or commitments to make such offerings was provided. (CUB IB at 33-34, RB at 24-25)

According to CUB, the supplier groups advocating for adoption of an SVT program for the AIC territory did not present any evidence of customer savings or innovative product offerings in the existing gas choice marketplace in Northern Illinois. Residential customers in the territories of Peoples Gas Light & Coke Company ("Peoples Gas"), North Shore Gas Company ("North Shore") and Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor") have been able to choose a gas supplier for many years. CUB states that while Mr. Puican devotes most of his testimony to a discussion of the experience in Ohio, he acknowledged that he did not perform an analysis of the retail gas supply offers in Illinois. CUB says Mr. Puican points to the Ohio auction platform as an illustration of the market to produce lower retail natural gas commodity prices than the existing regulatory system, but complains he did not even attempt to analyze the data regarding commodity prices in Illinois and whether AGS serving customers in Northern Illinois have been able to save customers money or provide desirable product offerings. (CUB IB at 34)

CUB says the unstated premise inherent in the discussions supporting SVT is that choice alone provides benefits to customers. Considering the history of misleading marketing experienced in these territories referenced, CUB argues it cannot be assumed that customers who have switched actually experienced benefits, whether real or perceived. CUB states that RGS and ICEA/RESA had every opportunity to provide such data on customer choice in Northern Illinois, but failed to do so. CUB also says RGS and ICEA/RESA failed to rebut Mr. Cohen's concerns regarding the lack of customer benefit with anything other than bare, unsupported assertions. (CUB RB at 25-26)

In its reply brief, CUB argues that other than general policy statements, the parties promoting the SVT program have not provided concrete evidence of customer benefit resulting from a gas choice program to create a record that justifies moving forward with SVT in AIC's territory. CUB says RGS argues, essentially, that the Commission cannot conduct an analysis of the SVT program's benefits until after-the-fact, and even then benefits can only be observed in the eyes of the beholder. (CUB RB at 23, citing RGS IB at 10) CUB insists RGS is wrong as a matter of policy and law. CUB maintains the Commission is obligated by law to consider the impacts of any proposed rate or service on customers. (CUB RB at 23)

CUB suggests the Commission should reference the experience within Illinois to date in determining whether to move forward with choice in the AIC territory. If substantial benefits have been experienced by customers in these Northern Illinois gas utility territories, CUB believes those benefits should be demonstrated and quantified – or at the very least reviewed – in this proceeding for the Commission to make an informed decision about whether to expand gas choice into AIC's territory. CUB says none of ICEA/RESA or RGS witnesses produced any quantification of how supplier

offers have compared to the rate charged by the utility (the Purchased Gas Adjustment charge, or PGA) in Northern Illinois. (*Id.* at 34-35)

Rather than show data from existing gas choice programs in Illinois, CUB complains that ICEA/RESA attempt to compare gas choice in AIC's territory to electric choice in Ameren territory. ICEA/RESA witness Wright argues that residential customers in AIC's territory who now have the choice to purchase electricity from an alternative supplier should be given the opportunity to choose their natural gas supplier. According to CUB, the retail electricity market and the retail gas market have markedly different dynamics due to differences in policy, law, and physics. CUB says the element that most distinguishes them in the experience of residential customers in Illinois: almost all residential electricity customers served by non-utility providers did not choose a provider but instead had the choice made for them by their local government, under the state's municipal aggregation program. CUB says the Office of Retail Market Development 2013 Annual Report pursuant to Section 20-110 of the Act reports that a total of just 173 residential electricity customers of AIC were served by non-utility providers prior to the advent of municipal aggregation.

In the SVT gas market, CUB asserts that shopping customers will indeed be making a choice, as municipal aggregation does not exist for gas supply. CUB also takes issue with Mr. Wright's claim that there is an existing customer base of knowledge and awareness regarding retail energy shopping. CUB claims this is no evidence that most residential customers have yet acquired sufficient knowledge and awareness to be smart shoppers in the natural gas market, particularly in light of the many products that Mr. Wright envisions being offered. (*Id*. at 35-36)

CUB says the costs of implementing an SVT program are significant. AIC has sought to include approximately $10.6 million in base rate investments and expenses related to the implementation of an SVT program, CUB says, which translates to approximately $2.12 million of AIC's proposed revenue increase. CUB did not have an accounting expert review the just and reasonableness of this cost and therefore does not propose a specific disallowance of these costs. CUB believes the Commission must evaluate these costs and conclude that they are just and reasonable, if those costs are to be included in any approved revenue requirement in this proceeding. (*Id.* at 36)

It is CUB's position that the Commission should order AIC to file Rider SVT at the conclusion of this docket only if evidence demonstrates that it is in the public interest, and that the benefits from the option of participating in the SVT program outweigh these costs that all customers will pay. CUB claims such "socialized" cost recovery is not just and reasonable without a showing of concomitant benefit. CUB says proponents of SVT implementation should provide evidence as to (a) why and how SVT will provide benefits to customers, (b) how quantifiable benefits compare to projected SVT costs and (c) how an SVT program would benefit non-participants. CUB maintains that RGS and ICEA/RESA witnesses' discussions of the benefits of competitive gas supply were general and theoretical, and ignored the actual experience in Illinois to date.

In order to operate profitably, CUB says a gas retailer must sell gas at prices that exceed its commodity procurement costs by an amount sufficient to cover its costs of marketing, administration, and customer service, as well as provide a profit to the firm. CUB claims there are challenges inherent in achieving retail profitability without use of false or misleading marketing or taking unfair advantage of consumers' ignorance about gas markets and pricing. These challenges, CUB says, stem from the utility pricing of the natural gas commodity, which fluctuates monthly under each gas utility's Purchased Gas Adjustment ("PGA") clause. CUB asserts that public utilities like AIC procure gas from the competitive wholesale gas market using a variety of sources and mechanisms. Subject to annual regulatory reviews, utilities execute gas procurement strategies utilizing pipeline storage, injections, and withdrawals from company-owned storage, competitively bid supply contracts, spot purchases, and financial hedges designed to provide the lowest possible price to customers consistent with sufficiency, reliability, and mitigation of price volatility. Gas supply customers are provided gas commodity by AIC at its cost per unit of energy, without a markup. (*Id.* at 37)

CUB asserts that while AGSs can and do offer different products that vary from this model, these products can be very difficult for consumers to evaluate. CUB says if an AGS offers a fixed priced product for a period of time, it is difficult for customers to assess the value of such a product because customers cannot predict future gas market prices or utility PGAs. CUB claims that at least with fixed-priced products, achieving cost savings from locking in a fixed price is essentially a matter of luck. CUB contends that in order to save money one would have to sign up for a fixed price at a time when the market price (and therefore the utility procurement cost) is above the fixed price offered or is about to go up (and stay up) for the remainder of the term of the agreement. According to CUB, another potential pricing option from a gas marketer might be an indexed price, fluctuating monthly and tied to the market price. CUB says a price indexed to the wholesale market would likely fluctuate over time to a greater degree than the utility supply price, which, as discussed above, includes hedges to reduce price volatility. In all cases, CUB says the retailer must offer prices that are sufficient to cover its costs of marketing, which a public utility does not incur. CUB argues that this makes it challenging for a gas retailer to provide long-term gas commodity savings for small volume customers. (*Id.* at 37-38)

CUB argues that without data on the benefits to customers in Northern Illinois who have chosen an AGS, and in light of the significant market barriers to providing savings, as well as the substantial costs of implementing SVT, if the Commission were to approve SVT implementation, it would do so in reliance on its past support for retail marketing and its belief in future as yet unquantified benefits. According to CUB, approval of SVT for AIC would essentially be based on the Commission's faith that effective competition will eventually emerge in the AIC retail gas market and that this emergence will bring lower gas costs and additional product offers to consumers, not evidence that such effect is likely to occur. While CUB understands the pro-competitive spirit of the PUA, it says the Commission cannot ignore the void of evidence supporting expansion of SVT in AIC's territory, especially when examined against the documented marketing abuses. (*Id.* at 38)

According to CUB, ICEA/RESA take issue with the existing gas utility procurement structure, arguing that introducing a market-based approach for pricing natural gas commodity will result in lower prices and great control of prices for customers than the current PGA mechanism. CUB believes this discussion is futile considering no such modification to the existing gas utility procurement and pricing structure are being proposed or considered in this docket. Absent legislative change, an AGS that wishes to serve customers in Illinois must compete against the relevant utility's PGA, like it or not. CUB says ICEA/RESA's attempts to extrapolate from the historical differences between the NYMEX and utility rate in Ohio cannot be reasonably considered because of the significant and undeniable differences between the respective utility gas cost rates. CUB insists the experience in Ohio is totally irrelevant to the Commission's determinations in this docket. (CUB RB at 26)

CUB claims that beating the utility PGA price is challenging, because utilities execute gas procurement strategies utilizing pipeline storage, injections, and withdrawals from company-owned storage, competitively bid supply contracts, spot purchases, and financial hedges designed to provide the lowest possible price to customers consistent with sufficiency, reliability, and mitigation of price volatility. CUB says gas supply customers are provided gas commodity by AIC at its cost per unit of energy, without a markup. CUB contends providing lower-cost gas to AIC's consumers is not likely as easy a matter as RGS and ICEA/RESA portray it, and should not be assumed without a comparison between supplier and utility gas costs in existing gas choice programs in Illinois. (CUB RB at 26)

CUB notes the draft SVT tariff presented by AIC includes a Purchase of Receivables component. CUB says it did not have the capacity to review POR in the context of the myriad issues in this rate proceeding. Thus, CUB believes the issue of POR should be further explored in the tariff proceeding that is filed subsequent to a Commission determination to go forward with SVT in Ameren territory. (CUB IB at 38-39)

If the Commission decides that SVT for AIC is lawful and in the public interest, CUB insists the Commission must address the critical issues associated with consumer protection in light of experience in other service territories prior to ordering implementation. CUB claims consumer protection has been a vexing issue in other Illinois SVT programs. CUB asserts that examples of misleading and deceptive marketing have been documented in the service territories of Northern Illinois Gas Company and Peoples Gas Light and Coke Company ("Peoples Gas"). CUB states that while no evidence of measurable customer benefits has been presented to the Commission during the decade of operation of the "Customer Select" and "Choices for You" programs, numerous complaints by customers have been received by the Commission, the AG, and by CUB. (*Id.* at 39)

CUB says it and the AG first filed a case more than a decade ago with the Commission alleging improper activities by one gas marketer. The complaint in Citizens

Utility Board v. Santanna Natural Gas Corporation, Docket No. 02-0425, was dismissed, but the issues raised were litigated in Docket No. 02-0441. CUB says the Commission was deeply troubled by Santanna's marketing practices. CUB states that more recently it was joined by Citizens Action/Illinois and AARP in another complaint regarding misleading marketing of Illinois Energy Savings Corp. d/b/a U.S. Energy Savings Corp., now known as Just Energy Illinois Corp. ("Just Energy"). In that case, Docket No. 08-0175, CUB says the Commission found violations by Just Energy including "slamming" (switching customers' service from the utility to an alternative supplier without their consent) and failure to properly disclose prices. Just Energy remains under an audit process ordered by the Commission in Docket No. 10-0398. Additionally, CUB says Mr. Cohen testified that he personally experienced false and misleading claims made during several sales calls – both telemarketing and door-to-door – by gas salespersons at his home. (*Id.* at 39-40)

In CUB's view, the Commission cannot ignore this experience in determining whether and how to go forward with gas choice in AIC's territory. CUB believes that while revisions to the Alternative Gas Supplier Law in the Act, provide additional layers of scrutiny to the AGS certification process, these provisions do not directly address the severity of the problems seen with the door-to-door sales model and its potential for customer confusion and/or misleading marketing. CUB recommends that three specific consumer protections be mandated by the Commission in its order in this proceeding, if the Commission decides to proceed with an SVT program:

1. A customer shall be absolved from paying any termination fees if, prior to the due date of their first bill, they notify the supplier that they are terminating the contract.
2. When a customer has accepted service from a supplier after solicitation by a door-to-door salesperson, there shall be no termination fees assessed if the customer terminates during the first 6 billing cycles.
3. If a supplier's marketing materials include a price comparison of the supplier rate and the gas utility rate, the depiction of such comparison shall display at least three years of data in no greater than quarterly increments and shall also display the supplier's offered price for the same or equivalent product(s) or service(s) for each of the same increments.

CUB argues that by allowing consumers to terminate service without penalty in a reasonable time after execution of an agreement, and requiring equivalent price comparisons over a reasonable period of time, these consumer protections would address what CUB sees as the well-documented problems of misleading marketing seen in Northern Illinois gas choice programs. (*Id.* at 40-41, RB at 28-29)

CUB claims neither ICEA/RESA nor RGS identified any legal or policy reason to substantiate their opposition to these consumer protections. CUB says ICEA/RESA's only relevant response to CUB's consumer protection proposals is that the amendments to Article IX of the Act regarding AGS occurred after the Commission proceedings regarding Just Energy Illinois Corp. and Santanna. (CUB RB at 29-30, citing

ICEA/RESA IB at 21) CUB asserts that while those amendments were an improvement to the oversight of AGS sales, more can and should be done to protect consumers in AIC's territory, considering these customers are novices to gas choice and will be presented with "bundled" products that are difficult to compare and understand. CUB claims the existence of municipal aggregation on the electric side does not provide the type of experience regarding retail energy shopping that ICEA/RESA allege. (*Id.*, citing ICEA/RESA IB at 8) According to CUB, municipal aggregation customers did not "shop" for an electric supplier; rather, the choice was made for them by their local government. CUB argues the existence of the pre-existing relationship certain retail electricity suppliers may have with AIC customers that could be the source of additional confusion and/or misleading marketing, considering those marketers will be eager to capture additional revenue and may be marketing difficult-to-understand offers. (CUB RB at 29-30)

CUB notes ICEA/RESA and RGS point to complaint statistics to prove their assertion that Mr. Cohen's proposals are a solution in search of a problem. (CUB RB at 30, citing ICEA/RESA IB at 22) CUB responds that neither ICEA/RESA nor RGS provided evidence demonstrating that these proposals would be overly burdensome or too costly or difficult to implement, nor did the supplier groups allege that these consumer protections would not have the intended effect, which is to reduce or eliminate marketing abuses, not to reduce customer complaints. (CUB RB at 30)

CUB also recommends that OMRD be ordered to track costs and benefits of retail gas choice in the AIC service territories and report annually on them to the Commission in a public document. CUB suggests the report should also include information about the extent and effectiveness of competition in the AIC residential gas markets, including the number of customers who have switched to alternative suppliers, the prices and terms of supplier contract offers, the relevant utility price to compare for the same period, and the number and nature of complaints to the Commission regarding each supplier, and other information deemed appropriate by the Commission.

CUB claims this information is critical to a policy decision to move forward with SVT, because the putative benefits of SVT are speculative while the costs are real and substantial, as is the potential for customer confusion and/or misleading marketing. CUB says AIC is also in a unique situation as Illinois' only large combined gas and electric utility and most of its small volume electric customers already purchase electricity from competitive suppliers through municipal aggregations. In CUB's view, the implications of these existing relationships for the dynamics of the retail gas market are unknown, particularly if AIC also becomes the only Illinois gas utility with POR in place. According to CUB, SVT would be an experimental program, and its results over time should be carefully scrutinized. In order to consider whether program changes are necessary to improve the effectiveness of competition and the benefits to customers, CUB recommends that the Order include a Commission review of SVT after 24 months of operation. (CUB IB at 41, RB at 30-31)

CUB believes the Discount Rate for SVT and UCB/POR Customers should more appropriately be addressed in any subsequent tariff proceeding regarding Rider SVT, if the Commission orders such a proceeding to commence. (CUB IB at 42, RB at 31)

In its reply brief, CUB says RGS and ICEA/RESA attempt to constrict the Commission's review of the evidence in this docket in an effort to preclude consideration of the consumer protections CUB proposed be included in the Commission's order in this docket. CUB finds it "remarkable" that RGS argues because the issue of consumer protections was not addressed in the workshops, the Commission is foreclosed from considering CUB's consumer protection proposals in this docket. (CUB RB at 28, citing RGS IB at 10) CUB says ICEA/RESA similarly suggest that Mr. Cohen's testimony regarding consumer protections should be disregarded. (*Id.*, citing ICEA/RESA IB at 20) In CUB's view, these suggestions fly in the face of the Commission's obligation to ensure only just and reasonable rates and services are approved. CUB insists Mr. Cohen's consumer protection proposals are important to protect AIC's residential customers from the very same marketing abuses documented in the Northern Illinois natural gas choice market. CUB contends attempts by ICEA/RESA and RGS to discount these concerns because they were not directly addressed in the workshops unlawfully restrict the evidentiary bases required for the Commission to conclude that Ameren's rates and services are just and reasonable. (CUB RB at 28)

3. Staff's Position

Staff does not oppose the Commission ordering Ameren to implement an SVT program. Staff believes that the Commission has already indicated that it favors retail competition. In the Order in Docket No. 11-0282, the Commission found that customers benefit from a well designed SVT program. Due to the work done in the workshops and in this docket, and the work that can occur in a potential docket to consider just the SVT tariffs, Staff believes that those tariffs will be well designed. (Staff IB at 85-86, RB at 63)

Staff says AIC makes clear that it is only requesting that the Commission decide whether it wants an SVT program. AIC is looking for the Commission's decision on whether it should go forward with a SVT program. Staff says AIC wants the Commission to approve AIC's cost recovery to implement the program. AIC provided the last draft of the SVT tariffs that workshop participants examined, and an AIC-edited version of those tariffs. AIC argues that these exhibits are not critical to any policy decision the Commission may make regarding whether AIC should provide SVT service. AIC is neutral with regard to the adoption of SVT and considers the matter a question of policy to be determined by the Commission. (*Id.* at 86)

If the Commission approves an SVT program for AIC, Staff believes it should litigate the SVT tariffs in a separate docket. Staff says the Commission has previously indicated that it favors retail competition. Staff maintains that approval of SVT tariffs in this proceeding is not necessary in making the policy determination of whether to

approve an SVT program. Staff does not oppose the Commission ordering AIC to implement an SVT program. (Id. at 87)

AIC witness Jones explains AIC's proposed POR program. He notes that AIC buys the receivables at a discount from marketers; that is, AIC acquires the rights to the marketers' revenues, but retains a percentage of actual revenues to compensate it for bills that cannot be collected. The discount is the Rider S uncollectibles factor based on supply-related uncollectible expense.

Staff notes that ICEA/RESA argues that AIC should separately track uncollectibles data for SVT and sales customers and should apply the resulting different rates to each customer group. Staff says ICEA/RESA concedes to using a single rate for both customer classes at startup, though it argues that this should be revisited after 12 months of SVT program experience and the SVT program participation is 20% of eligible customers. (*Id.* at 87-88)

Staff disagrees that SVT customers should necessarily have different discount/uncollectible percentages. Staff says that in other dockets, marketers have argued that costs should be socialized on the grounds that all customers benefit from the ability to purchase gas in the SVT market. It is unclear to Staff why marketers press for a different outcome for this issue in this docket. At a minimum, Staff believes there should be sufficient time to evaluate the experience with uncollectibles before amending the POR program. (*Id.* at 88, RB at 64)

ICEA/RESA proposes that transportation customers be subject to Rider GTA for only one month, since the PGA is adjusted monthly. AIC rejects this proposal and argues that gas contracts are not one-month contracts, so there is no correspondence between how often the PGA rate is adjusted and the term length in the portfolio's contracts. Staff agrees with AIC, and recommends that the Commission reject ICEA/RESA's proposal. (Staff IB at 88) Staff does not believe Ameren has demonstrated that Rider GTA is needed, but agrees that a sunset provision is appropriate. (Staff IB, 79-80, RB at 64)

AIC argues that system WACOG needs to be defined. Staff agrees. Staff states that in some circumstances, Factor CGC in the PGA might be used. Staff believes another more directly calculated method might be viable. Staff suggests this issue could be resolved in a separate SVT tariff docket. (*Id.* at 88-89)

In its reply brief, Staff says AIC counters Staff's proposal to use Factor CGC from the Rider PGA with the weighted average of supply purchases plus related price hedges at the location of the liquidation regardless of which pipeline. (Staff, RB at 64, citing AIC IB at 157) Staff does not agree to this proposal at this time. AIC believes this issue could be resolved in a separate tariff proceeding, and Staff concurs. (Staff RB at 89)

Staff agrees that sales customers should be held harmless if AIC unintentionally buys too much gas for them. Staff believes in this situation, customers remaining on

sales service should not be held responsible for any costs caused by switching to SVT service. Given that Rider SVT will not become operational for a year and a half, Staff suggests AIC may not need Rider GTA, since AIC may be able to adjust its portfolio to accommodate SVT service. (Staff IB at 79)

Staff proposes excluding language that AIC inserted in Rider PGA that references the annual reconciliations associated with Riders GTA and GSIC ("Riders") because the placement of the language and the language itself give the impression that the reconciliations of the Riders are part of the Rider PGA reconciliation, which Staff says has not been established. Staff also says the reconciliation language within the Riders indicates that a separate reconciliation will be filed for each in conjunction with the Rider PGA reconciliation; it does not indicate that they are to be included in the Rider PGA reconciliation. (Staff IB at 89)

Staff says AIC observes that the Riders cross-reference being part of the Rider PGA annual reconciliation. In Staff's opinion, the reference to the PGA reconciliation in the Riders simply establishes the time frame of when the individual reconciliation for each of the respective Riders will occur; i.e., at the same time and in the same docketed proceeding as the annual PGA reconciliation (with which Staff has expressed no disagreement). In contrast, Staff believes the references to the annual reconciliations for the Riders found in Rider PGA strongly suggest that they must be included in the PGA reconciliation. (*Id.*)

According to Staff, the purpose of a reconciliation is to match prudent costs incurred with revenues collected under the rider to determine if there is under or over-recovery of costs and the treatment thereof. The costs recovered and the revenues collected through the Riders are not part of Rider PGA and, thus, cannot be included in its reconciliation. Staff believes its proposed changes to Rider PGA to remove language regarding the annual reconciliations associated with the Riders are appropriate and should be approved by the Commission. (*Id.* at 89-90)

In Staff's view, the example provided in AIC's Initial Brief fails to support its position that the language at issue should be included in Rider PGA, because the example only underscores what Staff believes is obvious: some costs currently recoverable through Rider PGA will instead become recoverable through the New Riders when the SVT program is in place and, when that happens, those costs recovered through the New Riders should be the same amount as what would otherwise have been collected through Rider PGA. (Staff RB at 65, citing AIC IB at 159) Staff claims the example fails to provide any insight into why AIC is so insistent that the costs and revenues arising through the application of the New Riders should also be included in the annual reconciliation statement for Rider PGA. Staff believes this treatment is unnecessary because the costs and revenues associated with each New Rider will be considered in a separate reconciliation. (Staff RB at 65)

Staff asserts that AIC"s statement that "[g]iven the overlapping nature of the costs associated with each of the riders, the Company's references to Rider GTA and

GSIC costs (not the reconciliations themselves) in the context of Rider PGA . . ." mischaracterizes the language the Company inserted in Rider PGA that Staff proposes be removed. (Staff RB at 65, citing AIC IB at 159) Staff claims AIC's proposed language is not merely a reference to Rider GTA and GSIC costs, but a requirement that the difference between the costs and revenues arising through the application of the New Riders be part of the certified and verified Rider PGA reconciliation statement. (Staff RB 65-66)

Staff disagrees with AIC's contention that Staff is "unduly fixated on each rider having its own reconciliation" and that the separate reconciliations are beside the point. (Staff RB at 66, citing AIC IB at 158) Staff insists it is very much on point that the costs and revenues recoverable through the New Riders will be reconciled independently of Rider PGA. As the Riders are currently written, Staff claims there will be three annual reconciliations, not one. In Staff's view, AIC's implication that only through inclusion in the annual Rider PGA reconciliation statement can the costs and revenues associated with the New Riders be properly accounted for is unfounded. Staff contends that contrary to AIC's implication, the proper over- or under-recovery of costs associated with each of the three riders' reconciliations can and should be determined separately. (Staff RB at 66)

In its Reply Brief, Staff notes that RGS argues that CUB lost the ability to contest certain issues because it didn't contest them vigorously enough in the workshops. (Staff RB at 63, citing RGS IB at 4) RGS also makes the same argument with respect to POR at pages 14-15 and consumer protections on page 16 of its Initial Brief. In Staff's view, this argument entirely mischaracterizes the workshop process. Staff says workshops are explicitly designed so as to not bind participants to a particular position or lack of position. Rather, Staff claims they are designed to allow participants the freedom to express ideas and opinions that may or may not be advocated in formal proceedings. Staff believes the Commission should disregard this argument by RGS. (Staff RB at 63)

4. RGS' Position

RGS states that at the conclusion of the SVT workshops, AIC requested that parties provide it with confidential surveys indicating which, if any, issues that party believed remained unresolved. RGS says AIC witness Nelson testified that the only unresolved major issues identified by workshop participants were the following:

1. consumer protections;
2. the legality of providing consolidated billing for natural gas customers; and
3. the recoverability of expenditures for gas billing and management system improvements necessary to support an SVT program.

RGS says that although no party identified as an open issue the question of whether or not there should be a customer-choice program, CUB witness Cohen, who RGS says did not participate in the workshops, has provided testimony challenging the

appropriateness of a customer-choice program for Ameren's gas customers. (RGS IB at 9)

RGS asserts that the examination of the costs and benefits of a customer-choice program is exactly what the Commission directed the parties to address in the workshops. RGS says no party to the workshops found that discussion lacking or this issue unresolved in the confidential surveys submitted at the conclusion of the workshops. Having failed to raise this issue during the workshop process, RGS believes CUB should not be allowed to raise it now. (*Id.* at 10)

RGS contends that the record contains considerable evidence supporting a finding that the adoption of Rider SVT is in the public interest. RGS witness Crist testified that the ultimate determinant of whether a choice program benefits customers is whether customers take advantage of competitive gas supply options. RGS says each customer must perceive a benefit from a choice program, based on factors that are relevant to them. RGS suggests that the fact that numerous states have choice programs with hundreds of thousands of customers demonstrates that customers do indeed perceive a benefit from obtaining gas from an alternative supplier. (*Id.*)

According to RGS, Mr. Cohen's suggestion that the Commission require Rider SVT to be shown to meet a quantitative cost benefit analysis is unsupported by any analysis or prior case law. RGS claims the Commission itself has determined that customer benefits from such a competitive program cannot be based on a purely quantitative analysis. Citing the Commission's Order in Docket No. 00-0620 where approval of the expansion of Nicor Gas's pilot customer choice program to all Nicor customers occurred, the Commission concluded that customers would benefit from the introduction of competition in qualitative ways. The Commission found that the expansion of the revised Program will provide all of Nicor Gas' customers with the ability to choose their gas supplier, which should facilitate gas service unbundling and foster competition. Hopefully, the increased competition will result in the development of new services and lower costs for customers.

The Commission also noted that the expansion of the Program is also supported by the interest shown by the more than 100,000 customers that have exercised their option to participate in the program. Finally, RGS says the Commission also found that the expansion of Customer Select would benefit suppliers by allowing them to group additional small customers together and make a single gas supply nomination for the entire group, and to achieve economies of scale with regard to functions such as advertising and marketing. (*Id.* at 10-11)

According to RGS, ICEA/RESA witness Wright provided testimony that addressed these and other benefits that AIC's customers could experience if they are allowed to choose their own supplier. He stated that many members of ICEA and RESA are both electric and natural gas competitive suppliers and therefore may be able to offer "multi-product" discounts for natural gas in combination with electricity offerings. RGS says he noted that the consumer education conducted by this Commission and

AIC in the retail electric market has created an existing customer base of knowledge. Next, he testified that a customer choice program will result in greater and more diverse product and service innovation that may include multiple price options. RGS also says alternative gas suppliers that serve multiple states have the ability to leverage economies of scale between their customers throughout the Midwest by utilizing storage assets in the region along with local production contracts and spot market purchases. RGS contends that alternative gas suppliers can offer customers other value-added services that include the ability to set a fixed-price for a set number of years or more innovative service offerings that could fuel a natural gas vehicle or provide free gas with installation of a fuel efficient furnace. Finally, RGS says because they must compete against each other, AIC and alternative gas suppliers will have a strong incentive to provide satisfactory service to customers. (*Id.* at 11-12)

RGS also states that ICEA/RESA witness Puican provided an analysis showing how alternative gas suppliers may be able to procure gas at a price that is lower than the average price paid by public utilities. RGS alleges that the purchase gas adjustment clause used by AIC and other gas utilities in Illinois provides little incentive to minimize gas purchasing costs. Under the PGA, RGS says bad procurement decisions are penalized and good decisions are unrewarded. Mr. Puican testified that this skewed incentive structure provides the utility an incentive to make only the most conservative gas purchasing decisions. It rewards risk minimization and discourages innovation. According to RGS, alternative gas suppliers will not be subject to the disincentive of the PGA and can therefore make more efficient procurement decisions than Ameren. (*Id.* at 12)

RGS asserts that Illinois' gas customers have shown that they believe that there are benefits to customer choice programs. RGS claims the other large natural gas utilities in this state have the following participation in their residential and small commercial customer choice programs: Nicor Gas - 203,760 residential and 32,700 non-residential customers; Peoples Gas - 67,900 residential and 10,500 non-residential; North Shore - 13,500 residential and 1,200 non-residential customers

RGS contends the potential for lower prices than those available from public utilities is not the only benefit seen by these customers. Those customers have also benefitted from the ability to choose among several product offerings, instead of the single product generally available from a public utility. According to RGS, as of May 31, 2013, Nicor Gas residential customers had their choice of nine suppliers making 22 product offerings. Peoples Gas residential customers had their choice of five suppliers making 16 product offerings. North Shore residential customers had their choice of four suppliers making 12 product offerings. (*Id.* at 13)

In RGS' view, the record supports the finding that the adoption of Rider SVT will provide significant benefits to AIC's customers. RGS believes the Commission should therefore enter an order in this proceeding finding that Ameren should adopt a customer-choice program. In that way, the parties can focus their attention in the next case on addressing the mechanics of the tariff rather than re-litigating an issue that

should have been settled in the workshops and that was certainly settled in this proceeding.

According to RGS, given the importance of a properly designed POR program, workshop participants devoted a considerable amount of time to formulating tariffs. RESA says the final tariff submitted by AIC at the workshops contained a detailed plan for implementing a POR program. RGS says no party raised POR as an issue in their confidential surveys provided to AIC at the conclusion of the workshops. (RGS IB at 13-14)

In RGS's view, the only real issue in this proceeding has been the level of the Discount Rate. Nevertheless, CUB witness Cohen now argues that there is a lack of consensus whether Ameren's SVT tariff should include a POR program. Thus, he recommends that the Commission require the parties to submit a cost benefit analysis of the POR program prior to allowing its implementation. RGS says it is notable that he does not challenge any particular provision in the POR section of Rider SVT; he simply objects to any POR program.

RGS insists that it is too late for CUB to raise that argument. RGS emphasizes that the parties to the workshops negotiated the details of the POR tariff and no party considered the issue of POR to be unresolved in the confidential surveys submitted at the conclusion of the workshops. Mr. Crist testified that raising issues such as POR at this late stage ignores the process established by the Commission in its final order in Docket 11-0282. (*Id.* at 14-15. RB at 11)

RGS notes that AIC has experience with POR, having already offered it to its electric customers that have chosen alternative suppliers. RGS maintains that the POR provisions in Rider SVT were worked out by interested stakeholders during the workshops ordered by the Commission. In RGS's view, parties should not be forced to re-litigate this issue in the next proceeding for approval of Rider SVT. RGS believes the Commission should therefore find in its order in this proceeding that the record supports the implementation of a POR program. (RGS IB at 15)

RGS indicates that the first item of the Staff's agenda for the first workshop was: "What consumer protections are needed?" RGS says Dr. Rearden and other Commission staff members with expertise in consumer issues attended the workshops. During one of the workshops, AIC staff members that are involved in its electric choice program gave presentations about the education and consumer information materials that AIC provides to residential and small commercial customers regarding choice, and reviewed the training received by AIC call center customer service representatives. RGS says Mr. Cohen, nevertheless, argues that the Commission should add several "consumer protections" to Rider SVT. (*Id.* at 15-16)

RGS complains that CUB is making a proposal that it could have made during the workshops. RGS says that at no time during those workshops did a CUB representative indicate dissatisfaction with the consumer protections being proposed by

AIC, nor did any CUB representative make any consumer protection proposals. RGS states that while a party, presumably CUB, indicated in its confidential survey that it believed consumer protection was an unresolved issue, this was not an issue raised by CUB during the workshops themselves. (*Id.* at 16, RB at 11-12)

RGS also notes that alternative gas suppliers are already subject to statutory consumer protection requirements that address the concerns raised by Mr. Cohen. RGS says Section 19-115 of the Act provides an extensive list of consumer protection obligations of alternative gas suppliers. (RG IB at 16-17)

RGS claims these consumer protections were added to the Act after the Commission proceedings mentioned by Mr. Cohen in his direct testimony, CUB v. Santanna in Docket Nos. 02-0425 and 02-0441, and U.S. Energy Savings (now doing business as Just Energy) in Docket No. 08-0175. In RGS's view, the combination of those statutory provisions and this Commission's orders in those cases has had a positive effect on consumer protection in this state. RGS says the Complaint in Docket 08-0175 states that CUB received over 1500 informal complaints against Just Energy from January 2007 through March 3, 2008, the date of the Complaint, a period of approximately 14 months. RGS states that from January 2013 through July 25, 2013, a period of almost seven months, CUB has received only 16 informal complaints/inquiries regarding Just Energy. RGS also suggests there have been no formal Commission complaints against an alternative gas supplier in the past five years. (*Id.* at 17-18)

According to RGS, there is no record supporting the three CUB proposals themselves. RGS says with no analysis of the implications of adoption of these proposals, the need for them or their costs, Mr. Cohen simply suggested them as remedies to the conditions that existed more than five years ago for customers of Santanna and U.S. Energy Savings. RGS insists those proposed consumer protections should be rejected. (*Id.* at 18)

In its reply brief, RGS notes that CUB argues that an SVT program should be allowed to proceed only if there is "evidence of qualitative and quantitative benefits from SVT, how those benefits would be derived, and how the projected benefits compare to projected costs of implementation and operation of the SVT program." (RGS RB at 3, citing CUB IB at 32) RGS contends CUB's test goes far beyond the test applied by the Commission in previous proceedings examining gas utilities' requests to implement SVT programs and should therefore be rejected. (RGS RB at 3-4)

According to RGS, the Commission has never required a "qualitative and quantitative" cost benefit analysis of an SVT program. RGS states in the proceeding to approve the expansion of Nicor Gas's pilot customer choice program to all of Nicor's small commercial and residential customers, the Commission concluded that customers would benefit from the introduction of competition because it would result in the development of new services and lower costs for customers. RGS says the Commission added that the number of customers that took advantage of Nicor's pilot program was evidence of the benefits of choice. RGS also says the Commission found

that increasing the number of customers eligible for competitive services would allow competitive marketers to achieve economies of scale. RGS claims none of these tests include the "quantitative" cost benefit analysis recommended by CUB. (RGS RB at 4)

RGS states in the proceeding initiated by Peoples Light Gas and Coke Company to allow residential customers to participate in that company's existing small commercial customer choice program, the Commission made no attempt to conduct a quantitative cost benefit analysis. Instead, RGS says it found that allowing residential gas utility customers to benefit from a choice program was appropriate given the imminent residential choice for electric utility customers and the residential choice program that we have approved for Nicor Gas. Accordingly, the Commission approved the expansion of the Program to Rate 1 customers. RGS claims the Commission's belief in the benefits of competition led it to increase the enrollment limits requested by the company because a limit too low may discourage supplier participation in the Program. (RGS RB at 4-5)

In RGS' view, CUB's reliance on the Commission order in the proceeding involving Nicor's request for approval of a POR tariff is misplaced. RGS says in Nicor, the Commission was faced with the question of whether the addition of a POR program would add benefits not already inherent in Nicor's choice program. RGS claims it found that the evidence was insufficient to make that determination. More specifically, RGS says it found that the record did not support the argument that states with POR had higher participation in choice programs. According to RGS, the Commission also believed it was important that Nicor was not taking the position that POR has the potential to increase competition and lower customer costs. RGS asserts that here, the issue is far more fundamental than the benefits and costs of adding a provision to an existing choice program. Instead, RGS says the Commission is now deciding whether customers benefit when they have a choice of gas suppliers. RGS believes the evidence showing benefits of choice is extensive. RGS also notes that the Commission has repeatedly supported the introduction of competition to the industries that it regulates. (RGS RB at 5)

CUB argues that the evidence showing the benefits of competition for gas supply are speculative and based entirely on theoretical arguments. (RGS RB at 7, citing CUB IB at 33) RGS asserts that CUB proposes an unrealistic test to determine what is theoretical and what is not. ICEA/RESA witness Wright testified that competitive suppliers that offer electric and gas service will be able to offer multi-product discounts and competitive suppliers could offer fixed prices or innovative service offerings such as fuel for a natural gas vehicle or provide free gas with installation of a fuel efficient furnace. CUB argues that those benefits are not real because none of the parties in this case provided specific plans or commitments to make such offerings. According to RGS, CUB's evidentiary requirement is unrealistic. RGS says Mr. Wright provided examples of realistic programs that retail gas suppliers could offer to AIC's customers. RGS believes retail gas suppliers should not also be expected to have completely developed service products at a time when the Commission has not even decided if AIC will be allowed to have an SVT program. (RGS RB at 7)

RGS says CUB argues that any evidence of the benefits of competition occurring outside the State of Illinois is not relevant and thus the Commission should only look at the experience of Illinois utilities. RGA says CUB rejects the evidence presented by ICEA/RESA witness Mr. Puican that competitive gas supply lowered prices in the State of Ohio only on the basis that the increased competition occurred in a different state. RGS argues that the laws of economics apply across states just as universally as the laws of physics and CUB's insistence on treating non-Illinois evidence as suspect should be given no weight. (RGS RB at 7)

According to RGS, CUB believes that evidence of the benefits of competition in the electric industry is also irrelevant. CUB says that the retail electricity market and the retail gas market have markedly different dynamics due to differences in policy, law, and physics. RGS complains that Mr. Cohen has no employment experience in either industry, nor has he had any education in economics, finance or public utilities law, published any papers or testified in any natural gas proceedings before this case. According to RGS, neither CUB nor Mr. Cohen explain how gas and electric markets are different or how any alleged differences would impact on the benefits of competition. RGS says the only concrete example that CUB is able to offer is that the element that most distinguishes gas and electric service is the existence of municipal aggregation for electric service. While RGS agrees that the number of customers taking advantage of electric competition in the AIC territory increased significantly due to municipal aggregation, RGS believes that experience proves nothing about the relative benefits of competition in the electric and gas industries. (RGS RB at 8)

RGS claims that one benefit of the mature electric competition market in the AIC territory is an existing customer base of knowledge and awareness regarding retail energy shopping. According to RGS, it is undisputed that AIC, the Commission, municipal aggregators and aggregation suppliers have provided AIC's customers with information on retail energy shopping. RGS claims in the face of that undisputed consumer education, CUB cites the testimony of Mr. Cohen, who nevertheless stated that he sees no evidence that most residential customers have yet acquired sufficient knowledge and awareness to be smart shoppers in the natural gas market, particularly in light of the many products that Mr. Wright envisions being offered. RGS contends while CUB may believe that customers have not processed this information sufficiently enough to become smart shoppers, that is merely CUB's unsupported conjecture (RGS RB at 8-9)

RGS does not believe the Commission should impose a quantitative test on the adoption of a choice program. RGS asserts that Mr. Puican demonstrated that the costs that AIC has projected to implement an SVT program will be dwarfed by the savings customers will see in reduced gas costs. RGS says AIC's projected costs equate to approximately $0.00292 per therm. RGS compares that figure to the per-therm savings that customers of three Ohio utilities experienced: $0.1845, $0.1272 and $0.1718. Mr. Puican noted that while Illinois' experience may differ from that of Ohio, the magnitude of the Ohio savings relative to costs demonstrates the benefits of

providing customers with choice and the likelihood of a positive benefit to Illinois customers. (RGS RB at 9)

CUB's final argument is based on Mr. Cohen's discussion of the challenges inherent in achieving retail profitability without use of false or misleading marketing or taking unfair advantage of consumers' ignorance about gas markets and pricing. RGS claims CUB theorizes that regardless of their pricing model, alternative gas suppliers will find it difficult to compete with utility prices because they share the same commodity cost of gas, but unlike utilities the alternative gas suppliers must also incur marketing costs. RGS argues that CUB's simplistic analysis of the gas industry fails to recognize the advantage that alternative gas suppliers have over utilities: they are not saddled with a purchase gas adjustment clause that provides little incentive to minimize gas purchasing costs because it rewards risk minimization and discourages innovation. RGS also asserts the cost-plus model of utility regulation has its own inefficiencies that retail gas suppliers will not face. RGS believes these factors, along with the ability to offer innovative services and pricing packages, allow retail gas suppliers to compete with incumbent utilities. (RGS RB at 9-10)

According to RGS, CUB's suggestion that retail gas suppliers can only be profitable if they use false or misleading marketing or take unfair advantage of consumers' ignorance about gas markets and pricing is insulting to the employees of retail gas suppliers and the customers that have purchased their services. RGS believes it is also insulting to this Commission, which has now presided over Nicor and Peoples Gas Light and Coke Company customer choice programs for more than a decade without reaching the same conclusion as CUB. (RGS RB at 10)

5. ICEA/RESA's Position

ICEA/RESA witness Wright addressed why it would be good policy for the Commission to direct AIC to adopt an SVT Program. Mr. Wright testified that recent events in the competitive retail electric market and increases in gas supply have changed the retail gas market to the point where AIC customers would see benefits from multiple supplier offers. Mr. Wright pointed out that residential and small non-residential customers in northern Illinois are offered Choice Programs by Nicor Gas Company, The Peoples Gas Light and Coke Company and North Shore Gas Company. ICEA/RESA believes the time is right to provide consumers gas choice in the AIC service territory. ICEA/RESA says customers in AIC's service territory should be given the same opportunity to benefit from the choices and rate offerings that flow from a retail gas choice program as their northern Illinois counterparts. (ICEA/RESA IB at 4-5)

Mr. Wright enumerated the purported advantages, from a public policy perspective, of having an SVT Program. Many members of ICEA and RESA are both electric and natural gas competitive suppliers active not only in Illinois, but throughout the United States and Canada. Suppliers who currently offer electric service in AIC's service territory may be able to offer "multi-product" discounts for natural gas in combination with electricity offerings. In addition, the consumer education that has

been spearheaded by the Commission, as well as similar efforts conducted by AIC in the retail electric market, creates an existing customer base of knowledge and awareness to build upon for the development of a well-functioning natural gas Choice Program. (*Id.* at 5)

ICEA/RESA believes an SVT Program will result in greater and more diverse product and service innovation that may include multiple price options as a result of competition. Unlike utilities, ICEA/RESA claims AGSs have the ability to leverage economies of scale between customers throughout the Midwest by utilizing storage assets in the region along with local production contracts and spot market purchases. ICEA and RESA maintain that AGSs can not only offer customers savings but other value-added services that include the ability to set a fixed price for a set number of years or more innovative service offerings that could fuel a natural gas vehicle or provide free gas with installation of a fuel efficient furnace. (Id. at 6)

Unlike the utility's monopoly market, AGS will have to compete against other AGSs, as well as the utility itself. ICEA/RESA claims failure to provide satisfactory offers and follow up with satisfactory service to customers would result in AGSs losing customers to other AGSs or those customers switching back to the utility for their supply.

ICEA/RESA states that an Illinois gas utility, such as AIC, is constrained to offering what is basically a variable-price product, since the PGA changes each month, sometimes substantially, so customers are not afforded any fixed-price protection. In contrast, an AGS is not constrained in a similar manner. IECA/RESA suggests that in addition to a variable-price product, an AGS can offer a fixed price product or a fixed bill product for a mutually agreed upon duration. (*Id.*)

ICEA/RESA claims that a fixed price product would be one in which the AGS establishes a fixed price per therm usually for a fixed period of time. An AGS could offer a fixed price of 50 cents per therm for a term of one year. While the overall bill would change due to fluctuations in usage, ICEA/RESA says the price per therm would not change. ICEA/RESA asserts this would provide the customer with more stability in his or her bill and, in turn, the ability to budget more accurately. ICEA/RESA also says the term would not necessarily be limited to one year because an AGS can offer a multi-year product to customers.

A fixed bill product would be one in which the AGS establishes a fixed bill per month, usually for a fixed period of time. For example, an AGS could offer a fixed price of $50 per month for a term of one year, regardless of the customer's usage. Thus, the overall bill would not change due to fluctuations in usage, nor to changes in the commodity price of natural gas. ICEA/RESA claims a fixed bill product would provide even more stability to the customer and his or her ability to budget accurately. Again, ICEA/RESA says the term would not necessarily be limited to one year because an AGS can offer a multi-year fixed bill product to customers. (*Id.* at 7)

ICEA/RESA states that an AGS' variable rate product would not simply be the same as a gas utility's PGA because AGSs are not constrained by the formula established by rule for gas utilities. ICEA/RESA suggests an AGS could offer a guaranteed savings variable rate plan, one in which the customer is guaranteed a percentage discount off the utility's variable rate. As another example of a variable-price product, ICEA/RESA says an AGS could offer a seasonable product which allows customers to lock in a price per therm for the winter period, but have variable prices, floating with the market, in the non-winter period.

ICEA/RESA also says an AGS can "package" its services with other products, such as demand response or energy efficiency products. For example, an AGS could offer installation of energy efficiency appliances, such as energy efficient furnaces. Another example is that an AGS can offer a "green energy" product. An example of a green energy product is Integrys Energy Services' Ecovations program in Ohio which features a renewable gas offer in which some of the carbon dioxide emitted by burning natural gas is offset through a blend of renewable gas and carbon offsets. (*Id.* at 7-8)

ICEA/RESA asserts there is interest in offerings from AGSs in the northern part of Illinois, where SVT Programs are in existence. ICEA/RESA states that for calendar 2011 released on June 11, 2012, Nicor Gas reported that approximately 203,760 residential and 32,700 non-residential customers chose AGS through its Customer Select Program during 2011. Peoples Gas reported that approximately 67,900 residential and 10,500 non-residential customers chose AGS through its Choices for You Program. North Shore reported that approximately 13,500 residential and 1,200 non-residential customers are supplied by AGS. ICEA/RESA believes this number is constrained because while these gas utilities offer a consolidated billing component as part of their Choice Programs, they do not include a purchase of receivables component. According to ICEA/RESA, these statistics show that there is considerable interest on the part of residential and small non-residential customers in having the ability to choose from whom to purchase their natural gas supply. (*Id.* at 8)

ICEA/RESA contends the Illinois retail electric market has experienced substantial switching from electric utilities to Alternative Retail Electric Suppliers ("ARES"). According to ICEA/RESA, as of April 30, 2013 there were over 550,000 residential customers in AIC's service territory purchasing their electricity through Choice Programs. ICEA/RESA believes that AIC customers should be given the opportunity to choose their natural gas supplier similar to the opportunities that they have enjoyed for customer choice in the electric market. (*Id.* at 8-9)

In ICEA/RESA's view, introducing a market-based approach for pricing a natural gas commodity will result in lower prices and greater control of prices for customers than the current PGA mechanism. While the PGA is a reasonable approach to pricing gas within the context of a monopoly provider of natural gas, such as AIC, there is no reason to continue with that model as the only option when it has been demonstrated that there is a highly functional competitive retail natural market available to provide natural gas commodity service.

According to ICEA/RESA, the availability of multiple suppliers in a competitive natural gas market will provide the market discipline to ensure customers are protected from abuses in pricing and terms of service should they choose a market-based product in lieu of a regulated PGA. In ICEA/RESA's view, while the PGA provides consumer protection by ensuring dollar for dollar recovery of prudent gas purchasing costs with no profit, it provides little incentive for the utility to minimize its gas purchasing costs. ICEA/RESA says the incentive for the utility is to minimize its risk of any disallowance in the Commission's after the fact PGA review. As long as the utility can demonstrate its purchasing practices were not unreasonable, the utility will recover its costs. Thus, bad decisions are penalized and good decisions are unrewarded. ICEA/RESA believes this skewed incentive structure provides the utility an incentive to make only the most conservative gas purchasing decisions. In effect, it rewards risk minimization and discourages innovation. ICEA/RESA believes that an open market provides a more appropriate incentive structure for ensuring that consumers are being provided the best pricing options available. (*Id.* at 9-10)

ICEA/RESA asserts that the experience in Ohio demonstrates that competition can result in lower natural gas commodity prices. Ohio experienced a significant drop in commodity prices when the Gas Cost Recovery ("GCR") mechanism, Ohio's equivalent to the PGA, was replaced with a market based retail auction for three of Ohio's natural gas utilities. ICEA/RESA states that while an auction is not being proposed in Illinois at this time, Ohio's experience is relevant in demonstrating the inefficiencies inherent in PGA type mechanisms. In ICEA/RESA's view, the draft SVT Program outline and proposed tariffs provide a well designed structure for an SVT program, addressing all the major issues involved in implementing such a significant change in how customers purchase natural gas. (*Id.* at 10)

According to ICEA/RESA, over time the benefits of an SVT Program should easily exceed its costs. ICEA/RESA compared the historical differences between the NYMEX natural gas settlement price and Ohio's Gas Cost Recovery rate and the difference between the NYMEX and the current auction-based Retail Price Adjustments for three Ohio utilities, expressed in dollars per therm. The resulting differences were $0.1845 for Dominion East Ohio, $0.1272 for Vectren Energy Delivery of Ohio, and $0.1718 for Columbia Gas Ohio. ICEA/RESA says that comparing those historical differences with the $0.00292 per therm incremental costs of the SVT Program demonstrates a significant likelihood that the benefits of the SVT Program will exceed the costs. ICEA/RESA states that while the experience in Ohio is not directly transferrable to AIC, the order of the magnitude of the difference between the costs and the benefits illustrates a high probability that AIC's customers will benefit from the implementation of the SVT Program. (*Id.* at 15-16)

ICEA/RESA claims its historical analysis illustrates that competitive suppliers can offer prices lower than utilities, due to the "skewed" incentive structure inherent in the PGA process. ICEA/RESA maintains that the PGA incentive structure discourages risk

taking by retroactively penalizing decisions that don't work out while good decisions are unrewarded. (*Id.* at 16)

ICEA/RESA says CUB takes the position that the Commission should not necessarily direct Ameren to implement an SVT Program in its final order in this proceeding. While agreeing that the detailed tariffs for an SVT Program should be worked out in a subsequent proceeding, ICEA/RESA says CUB takes the position that the Commission should not approve the SVT Program until it determines that the benefits of the program outweigh the costs. In this regard, CUB claims that failure to conduct a cost benefit analysis of the SVT Program would not be consistent with the Commission's own directive in Docket No. 11-0282 to consider 'whether there would be any benefit to customers from such a program. (ICEA/RESA RB at 6, citing CUB IB at 29)

According to ICEA/RESA, what CUB neglects to mention is that this language from the Commission's order is directed to the workshops that the Commission ordered to be held on whether an SVT Program is appropriate for the AIC service territories. RGS maintains the examination of the costs and benefits of a customer choice program is exactly what the Commission directed the parties to address in the workshop. ICEA/RESA also says no party to the workshops found that discussion to be lacking or this issue to be unresolved in the confidential surveys submitted at the conclusion of the workshops. (*Id.*)

ICEA/RESA believes the record is full of evidence regarding the benefits of SVT Programs. Mr. Wright testified that recent events in the competitive retail electric market and increases in gas supply have changed the retail gas market to the point where AIC customers would see benefits from multiple supplier offers. Suppliers who currently offer electric service in AIC's service territory may be able to offer "multi-product" discounts for natural gas in combination with electricity offerings. ICEA/RESA adds that AGSs can not only offer customers savings but other value-added services that include the ability to set a fixed price for a set number of years or more innovative service offerings that could fuel a natural gas vehicle or provide free gas with installation of a fuel efficient furnace. Unlike AIC, AGSs are not limited to the PGA supply option, and can offer fixed price products, fixed bill products, variable rate offers, and multiple products to customers. (ICEA/RESA RB at 6-7)

In reply to Mr. Wright's explanation of the benefits of SVT Programs, ICEA/RESA says CUB's response is to claim that it is theoretical and that no RGS or ICEA/RESA witness was able to provide any specific plans or commitments to make such offers. In response, IECA/RESA claims one would hardly expect AGS to make specific offers during this proceeding when the SVT Program has not been approved and, even when approved, won't be implemented until over a year from now, in the fourth quarter of 2014. (ICEA/RESA RB at 7)

CUB also argues that the Commission should reference the experience with SVT Programs in the service territories of Northern Illinois Gas Company, Peoples Gas, and

North Shore to determine whether to approve a program in AIC's service territory, claiming that the experience in Ohio testified to by ICEA/RESA witness Mr. Puican was not relevant, nor was the experience on the electric side in the service territory of Ameren. ICEA/RESA says there is evidence regarding the experience of the northern gas utilities in the record. According to ICEA/RESA, Mr. Wright testified that based on calendar year 2011 data, Nicor Gas had approximately 203,760 residential and 32,700 non-residential customers in its Customer Select Program, Peoples Gas had approximately 67,900 residential customers and 10,500 non-residential customers in its Choices for You Program, and North Shore had approximately 13,500 residential customers and 1,200 non-residential customers in its Choices for You Program. ICEA/RESA believes this level of participation demonstrates that customers are having a positive experience with SVT Programs in the northern part of Illinois. ICEA/RESA claims CUB offers nothing of merit that suggests that customers are currently having any negative experience with such SVT Programs. (ICEA/RESA RB at 7-8)

ICEA/RESA believes PORCB is a necessary component of a workable SVT Program and that it provides crucial advantages from a public policy perspective. ICEA/RESA claims that PORCB allows for a single collection point for a customer who receives a single bill. ICEA/RESA believes AIC is better suited for collections, especially because it has greater recourse in the event that the customer does not pay, and can do so at a lower cost. (ICEA/RESA IB at 17-18)

As a vehicle through which AGS' receivables can be purchased, ICEA/RESA says PORCB programs promote retail competition by enabling competitive suppliers to offer service to all residential and small commercial customers regardless of their income level or the size of their load. This results in a broader segment of customers enjoying the benefits of retail competition, including lower prices and the ability to select from multiple energy options. In ICEA/RESA's view, PORCB programs facilitate market entry by competitive suppliers, which, in turn, creates a greater choice of rate and service options for customers and, in particular, residential customers. (*Id.* at 18)

According to ICEA/RESA, a PORCB component of the SVT Program will benefit customers, with the major benefit being a more competitive natural gas market which, in turn, will result in greater price competition and more product offerings. In addition, ICEA/RESA claims that a PORCB component will provide the following other benefits:

- Reduced customer confusion regarding collections
- Leveraging existing systems, thereby reducing overall costs
- Continuity of message and consistency in the treatment of receivables
- Expanded access to the competitive market for higher risk customers; and
- Efficient utilization of effective recovery tools.

With respect to Mr. Cohen's reference to the Commission's Order in Docket No. 12-0569, ICEA/RESA states that two of the Commission's major concerns regarding the PORCB proposal in that case are not present in Ameren's proposal in this case. First, unlike the Nicor Gas proposal, the POR component of AIC's SVT Program does not

include provision for recovery of intangible costs. Second, unlike the Nicor Gas proposal, ICEA/RESA says the Discount Rate charged to suppliers in AIC's SVT Program is tied to the specific uncollectible expense experience of AIC customers. (*Id.* at 18-19)

ICEA/RESA asserts that CUB's three proposed consumer protections are untimely. ICEA/RESA argues that they should have been brought up during the SVT Program workshops that were held after the Commission's Order in Docket No. 12-0282. ICEA/RESA also asserts that CUB's proposals ignore the fact that there are significant consumer protections contained in the Act. ICEA/RESA also allege that the problems described in Mr. Cohen's direct testimony are stale and predate the consumer protections added to the Act. (*Id.* at 20, RB at 10-11))

According to ICEA/RESA, CUB's decision to wait until Mr. Cohen's Rebuttal Testimony to offer consumer protections appears to be based on the misunderstanding that consumer protections were not to be discussed during the SVT workshops. ICEA/RESA claims the notion of Mr. Cohen that the issue of consumer protections was not considered in the workshops is incorrect. While CUB's response to ICEA/RESA Data Request No. 1.02 states that none of the agendas for the workshops included the topic of consumer protections, in fact, the first item of the Staff's agenda for the first workshop was: "What consumer protections are needed?" ICEA/RESA says CUB's responses to ICEA/RESA Data Requests Nos. 2.01 and 2.02 indicate that the only representative of CUB at the workshops was one of CUB's attorneys who called into two of the four workshops but is not certain about the other two workshops, nor about the four SVT webinars conducted by AIC in August and September 2012. (ICEA/RESA IB at 20, RB at 11)

ICEA/RESA says CUB is under the misunderstanding that the tariffs of Illinois gas utilities are the only source of consumer protections. According to ICEA/RESA, while it is true that some Illinois gas utilities have standards of conduct relating to their Choice Programs in their tariffs, those tariffs are not the only source of consumer protections. ICEA/RESA states that protections for residential and small-volume non-residential natural gas customers are set forth in Section 19-115 of the Act. ICEA/RESA insists these protections are extensive and include important provisions relating to matters such as customer switching, customer complaints, marketing, early termination fees, and rescission rights. ICEA/RESA says that unlike many states, including Ohio, where consumer protections are by rule, Illinois has placed such protections into statute, Section 19-115 of the Act, and the Commission cannot waive any requirements or lessen these protections. (ICEA/RESA IB at 21, RB at 11)

ICEA/RESA states that these consumer protections were added to the Act after the Commission proceedings mentioned by Mr. Cohen in his direct testimony - CUB v. Santanna (Docket Nos. 02-0425 and 02-0441) and U.S. Energy Savings (now doing business as Just Energy) (Docket No. 08-0175). Moreover, with respect to the latest of these three dockets, Docket No. 08-0175, the complaint against Just Energy, ICEA/RESA claims that the complaint states that CUB received over 1500 informal

complaints against Just Energy from January 2007 through March 3, 2008, the date of the Complaint, a period of approximately 14 months. ICEA/RESA says CUB's response to ICEA/RESA Data Request No. 2.06 indicates that from January 2013 through the date of the response, July 25, 2013, a period of almost 7 months, CUB has received only 16 informal complaints/inquiries regarding Just Energy. ICEA/RESA says that through August 19, 2013, CUB has received the following total number of inquiries and complaints against all alternative gas suppliers: 20 relating to Nicor Gas' Customer Select Program, 16 relating to The Peoples Gas Light and Coke Company's Choices for You Program, and 0 relating to North Shore Gas Company's Choices for You Program. In ICEA/RESA's view, CUB's proposals appear to be a solution in search of a problem. (ICEA/RESA IB at 21-22, RB at 11-12)

C. Commission Conclusions

The threshold issue to be addressed regarding the SVT tariff issue is whether the Commission should order AIC to implement an SVT program in this proceeding. AIC, Staff, ICEA/RESA, and RGS either endorse the implementation of such a program in this proceeding, or they do not oppose such action. In CUB's view, the Commission should not approve implementation of an SVT program in this proceeding.

The Commission understands that some parties have limited resources and, except for utilities and Staff, it is not the Commission's practice to order parties to participate in workshops. Nevertheless, the Commission believes that in many instances, workshops are an effective way to mitigate the costly and time-consuming litigation process for all stakeholders. As a result, the Commission must express a certain level of concern that CUB chose not participate more actively in the SVT workshop process that the Commission ordered in Docket No. 11-0282.

CUB believes the Commission should seek evidence of qualitative and quantitative benefits from SVT programs, how those benefits would be derived, and how the projected benefits compare to projected costs of implementation and operation of the SVT program. In the Commission's view, competitive markets are not perfect, and CUB has identified some of the potential problems that may be encountered in competitive markets. Regulation is, however, an imperfect substitute for competition. Generally speaking, the Commission favors competition over regulation where feasible.

In this instance, the Commission's review of the record contains a sufficient showing that the potential benefits of an SVT program in AIC's service territory, while not certain, are likely. SVT programs in Illinois have been the subject of discussion, experimentation and implementation. Arguably, the time for further debate has passed with regard to the AIC territory. The Commission concludes that it is in the public interest to order AIC to implement an SVT program at this time.

If the Commission decides that SVT for AIC is lawful and in the public interest, CUB insists the Commission must address the issues associated with consumer protection in light of experience in other service territories prior to ordering

implementation. Among other suggestions, CUB specifically recommends that the Commission mandate three consumer protections in its order in this proceeding, if the Commission decides to proceed with an SVT program:

1. A customer shall be absolved from paying any termination fees if, prior to the due date of their first bill, they notify the supplier that they are terminating the contract.
2. When a customer has accepted service from a supplier after solicitation by a door-to-door salesperson, there shall be no termination fees assessed if the customer terminates during the first 6 billing cycles.
3. If a supplier's marketing materials include a price comparison of the supplier rate and the gas utility rate, the depiction of such comparison shall display at least three years of data in no greater than quarterly increments and shall also display the supplier's offered price for the same or equivalent product(s) or service(s) for each of the same increments.

ICEA/RESA and RGS believe CUB's proposed customer protections are unnecessary in light of provisions in the Act that protect customers and the alleged decrease in customer complaints regarding existing SVT programs in Illinois. ICEA/RESA and RGS also suggest that any customer protections should have been a part of the workshop process and need not be considered in this proceeding. ICEA/RESA also complain that CUB did not offer its specific recommendations until rebuttal testimony. Neither AIC nor Staff take an explicit position regarding CUB's proposed customer protections.

The Commission appreciates the frustration expressed by ICEA/RESA and RGS over CUB's choice not participate more fully in the workshop conducted pursuant to the order in Docket No. 11-0282. The Commission believes participation by CUB on consumer protection and other issues would have been beneficial to the process. From a legal standpoint, however, CUB's failure to do so does not constitute a waiver or forfeiture by CUB of an opportunity available to other parties in this proceeding to address SVT issues.

As noted above, ICEA/RESA also complain that CUB waited until its rebuttal testimony to identify the consumer-protection measures it wants imposed, which deprived other parties of an opportunity to present testimony in response.

ICEA/RESA and RGS also contend that protections for residential and small-volume non-residential natural gas customers are now contained in Section 19-115 of the Act, and important provisions relating to matters such as customer switching, customer complaints, marketing, early termination fees, and rescission rights. They also state the events cited by CUB in support of its recommendations preceded the statutory adoption of these statutory protections.

Having reviewed the positions of the parties, the Commission finds that the record does not indicate why customers would be inadequately protected unless the

statutory protections referenced by ICEA/RESA and RGS are supplemented by the three measures proposed by CUB. With respect to CUB's argument that neither ICEA/RESA nor RGS provided evidence demonstrating that these proposals would be overly burdensome, too costly, difficult to implement or ineffective, the Commission observes that the three consumer protection measures identified above first appeared in CUB's rebuttal testimony; therefore, ICEA/RESA and RGS did not have an opportunity to file such evidence. In any event, the Commission finds that the three measures at issue are not supported by the record and will not be adopted at this time. Whether or to what extent they could be addressed in an SVT tariff proceeding is an issue not reached in this Order.

CUB also recommends that OMRD be ordered to track costs and benefits of retail gas choice in the AIC service territories and report annually on them to the Commission in a public document. CUB suggests that the report should also include information about the extent and effectiveness of competition in the AIC residential gas markets, including the number of customers who have switched to alternative suppliers, the prices and terms of supplier contract offers, the relevant utility price to compare for the same period, the number and nature of complaints to the Commission regarding each supplier, and other information deemed appropriate by the Commission. CUB claims this information is critical to a policy decision to move forward with SVT, because the putative benefits of SVT are speculative while the costs are real and substantial, as is the potential for customer confusion and/or misleading marketing. According to CUB, SVT would be an experimental program, and its results over time should be carefully scrutinized. In order to consider whether program changes are necessary to improve the effectiveness of competition and the benefits to customers, CUB recommends that the Order include a Commission review of SVT after 24 months of operation.

Finally, CUB believes the issue of POR should be further explored in the tariff proceeding that is filed subsequent to a Commission determination to go forward with SVT in Ameren territory. AIC believes a POR program is an important aspect of a successful SVT program and the only aspect of the program that needs further exploration is the discount rate to be applied. Both AIC and RGS object to CUB's suggestion that the need for a POR needs to be revisited.

ICEA/RESA argue that AIC should separately track uncollectibles data for SVT and sales customers and should apply the resulting different rates to each customer group. ICEA/RESA concede to using a single rate for both customer classes at startup, although they argue that this should be revisited after 12 months of SVT program experience and the SVT program participation is 20% of eligible customers. Staff disagrees that SVT customers should necessarily have different discount/uncollectible percentages.

The Commission concludes that the record supports a finding that a POR program should be implemented in addition to the SVT program. The Commission believes there is ample evidence that a POR program enhances the success of a successful competitive program. With respect to the discount rate, the Commission

finds that at the present time, the position of ICEA/RESA to use a single rate for both customer classes at the startup of the POR program is reasonable. To the extent that issue needs to be revisited in the future, the Commission will do so.

In reviewing CUB's recommendations, the Commission notes that it is approving the implementation of an SVT program for AIC and it is not an experimental program. Additionally, given that OMRD will be tracking and reporting to the Commission on an annual basis, the Commission believes there is no need to schedule a Commission review of the SVT program after 24 months of operation. In the event and to the extent changes in the SCT program or even termination of it are warranted, these are actions the Commission may take at any appropriate time. With regard to the remainder of CUB's recommendations for OMRD to track and report on AIC's SVT program, the Commission finds them to be reasonable and they are hereby adopted.

With respect to Rider GTA, AIC claims this rider is necessary to ensure that customers who remain on sales service -- customers who have not switched to SVT -- are not disadvantaged. AIC says Rider GTA is also necessary to charge the costs caused by switching from the sales service to alternative gas supply to the appropriate customers. Rider GTA charges SVT customers for gas supply costs incurred when AIC needs to liquidate gas contracts because those customers will be served by another supplier. Without Rider GTA, AIC states that the sales customers will bear the costs associated with liquidating gas supply contracts that are no longer required due to sales customers switching to SVT.

Given that Rider SVT will not become operational for a year and a half, Staff suggests AIC may not need Rider GTA, since AIC may be able to adjust its portfolio to accommodate SVT service. It appears to the Commission that Staff and AIC agree that the underlying purpose of Rider GTA is worthy. While Staff claims Rider GTA may not be necessary, it does not appear to actually recommend that the Commission reject it. In any event, the Commission approves the adoption of Rider GTA. In the event it becomes unnecessary, the situation can be addressed in the future.

ICEA/RESA proposes that transportation customers be subject to Rider GTA for only one month, since the PGA is adjusted monthly. AIC objects to this proposal and argues that gas contracts are not one-month contracts, so there is no correspondence between how often the PGA rate is adjusted and the term length in the portfolio's contracts. Staff agrees with AIC, and recommends that the Commission reject ICEA/RESA's proposal. While Staff does not believe that AIC has demonstrated that Rider GTA is needed, it agrees that a sunset provision is appropriate.

Having found that Rider GTA is necessary and should be implemented, the Commission rejects ICEA/RESA's proposal and adopts AIC's proposed three-year sunset provision beginning with the start of the SVT program. Again, to the extent Rider GTA needs to be revisited or becomes unnecessary, that situation can be addressed in the future.

Staff takes issue with certain language AIC proposes to include, in Rider PGA, references the annual reconciliations associated with Riders GTA and GSIC. According to Staff, the placement of the language, and the language itself, would give the impression that the reconciliations of the Riders are part of the Rider PGA reconciliation, which has not been established.

AIC claims Staff misses the intent regarding AIC's references to Riders GTA and GSIC in Rider PGA. Staff asserts the references to the annual reconciliations for the Riders GTA and GSIC found in Rider PGA suggest that they must be included in the PGA reconciliation. According to AIC, the actual language is just the opposite; it explicitly requires that the Rider PGA reconciliation statement account for the differences associated with Riders GTA and GSIC, not that they be included. AIC insists that without the Rider PGA language, the threat of unintended over- or under-recoveries in the Rider PGA reconciliation exists.

Having reviewed the arguments, it is not clear to the Commission why the two parties were unable to reach an agreement on an issue such as this. In any event, to be clear, the Commission finds that regardless of the language in the tariffs, neither costs nor revenues associated with Riders GTA and GSIC shall flow through Rider PGA. Additionally, there shall be separate reconciliations for Rider PGA, Rider GTA, and Rider PGA. Given the clarifications contained herein, the Commission finds it acceptable for AIC to include its proposed language in Rider PGA.

Another concern expressed by Staff is that under the draft tariffs, pipeline penalties are assessed only on Rider S and Rider T customers. Staff argued SVT customers should not be excluded from paying the penalties regardless of the situation or cause of the penalty. ICEA/RESA disagreed, arguing that pipeline penalties incurred by SVT suppliers that are assigned pipeline and storage assets are assessed directly to AGS by the pipeline in question. ICEA/RESA also assert the SVT Supplier Terms and Conditions already provide that any such penalty be passed through to the responsible supplier. ICEA/RESA believes whether to pass such penalties on to their customers should at that point be at the discretion of the AGS. AIC takes no position on this issue.

The Commission also notes that while Staff's briefs indicate that Staff remains concerned with how pipeline penalties are allocated between customers and how SVT customers are assessed any penalties, it does not make a specific recommendation. In any event, the Commission believes that as long as pipeline penalties are properly allocated to Rider SVT suppliers, other customers are not adversely affected. As a result, the Commission finds ICEA/RESA's position to be reasonable and it is adopted.

The Commission also observes, as indicated above, that the “Agreed upon Briefing Outline” filed by the Parties identifies a number of “Resolved [SVT] Issues.” To the extent there are issues identified as “resolved” that are actually in dispute, and are not otherwise decided above, they can be addressed in a later proceeding.

One of the "resolved issues" is identified as "SVT Program Separate Proceeding," sometimes referred to as a tariff proceeding. AIC shall file tariffs consistent with the findings of this Order.

X. OTHER RECOMMENDATIONS

Staff recommended that AIC assess the impact of the potential divestiture of the merchant generating assets in the subsequent gas rate proceeding and provide evidence in that proceeding that an effort was made to mitigate the costs of the transaction and corresponding impact on AIC and its affiliates. (Staff IB at 91) AIC did not oppose this recommendation and it is adopted.

Staff also made certain reporting recommendations regarding FERC Form 1 and FERC audits. These recommendations, which were identified on page 91 of Staff's initial brief, were not opposed by AIC and they are adopted.

With regard to QIP-Eligible Projects, Staff recommended that AIC disclose any projects eligible for cost recovery under the QIP Rider approved by the Commission in Docket 13-0458 that were included in AIC's surrebuttal revenue requirement. Staff also recommended that the Company provide assurance that any QIP-eligible projects included in the revenue requirement in this proceeding would not be included for recovery under the QIP Rider. (AIC IB at 161)

As stated in the testimony of AIC witness Mr. Nelson, AIC does not intend to seek QIP Rider recovery for any asset amounts included in rate base in the 2014 test year in this case, and commits that any asset investment amounts eligible for QIP recovery and included in the revenue requirement in this case will not also be included for recovery under the QIP Rider. (AIC IB at 161; Ameren Ex. 30.0 at 9) As such, this issue appears to be resolved.

With respect to the PGA, AIC states that the only remaining difference in the PGA across rate zones will be due to application of the uncollectible factor. Therefore, AIC proposed that a uniform uncollectible factor be adopted, to achieve full uniformity within the PGA, across rate zones. (AIC IB at 161-162) No party opposed this proposal, and it is approved.

XI. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having given due consideration to the entire record, is of the opinion and finds that:

(1) AIC is an Illinois corporation engaged in the distribution and sale of electricity and natural gas to the public in Illinois, and is a public utility as defined in Section 3-105 of the Act;

(2) the Commission has jurisdiction over the parties hereto and the subject matter herein;

(3) the findings and conclusions contained in the prefatory portion of this Order are supported by evidence of record and are hereby adopted as findings of this order; Appendices A, B and C hereto provide supporting calculations for various conclusions in this Order;

(4) the test year in this proceeding is a future test year consisting of the 12 months ending December 31, 2014, as adjusted; such test year is appropriate for purposes of this proceeding;

(5) for purposes of this proceeding, AIC's original cost rate base for gas delivery service operations for the test year is $246,908,000 for Zone 1, $245,804 for Zone 2 and $564,624,000 for Zone 3 as shown in the Appendices hereto;

(6) a just and reasonable return which AIC should be allowed to earn on its net original cost gas delivery service rate base is 7.86%; this rate of return incorporates a ROE of 9.08%;

(7) for Rate Zone 1, the ROR set forth in Finding (6) results in base rate gas delivery service operating revenues of $82,186,000 and net annual operating income of $19,425,000 for the test year;

(8) for Rate Zone 2, the ROR set forth in Finding (6) results in base rate gas delivery service operating revenues of $90,241,000 and net annual operating income of $19,342,000 based for the test year;

(9) for Rate Zone 3, the ROR set forth in Finding (6) results in base rate gas delivery service operating revenues of $183,372,000 and net annual operating income of $44,428,000 for the test year;

(10) AIC's gas delivery service rates which are presently in effect are insufficient to generate the operating income necessary to permit it the opportunity to earn a fair and reasonable return on net original cost rate base; the proposed tariffs should be permanently canceled and annulled;

(11) the rates proposed by AIC would produce a rate of return in excess of a return that is fair and reasonable; the proposed rates should be permanently canceled and annulled consistent with the findings herein;

(12) AIC should be authorized to place into effect tariff sheets designed to produce annual gas delivery service revenues as shown in Appendices A, B and C; the new tariff sheets shall reflect an effective date not less than five working days after the date of filing, with the tariff sheets to be

corrected within that time period if necessary, except as is otherwise required by Section 9-201(b) of the Act;

(13) the determinations regarding cost of service, interclass revenue allocations, rate design, and tariff terms and conditions, as are contained in the prefatory portion of this Order, are reasonable for purposes of this proceeding and are adopted, and shall be incorporated into the tariffs filed by AIC.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets presently in effect for gas delivery service rendered by Ameren Illinois Company d/b/a Ameren Illinois are hereby permanently canceled and annulled effective at such time as the new gas delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general increase in gas delivery service rates, filed by Ameren Illinois Company on February 18, 2011, are permanently canceled and annulled.

IT IS FURTHER ORDERED that Ameren Illinois Company is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (5) through (13) of this Order, applicable to gas delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that all motions, petitions and objections which have not been disposed of are hereby deemed to be disposed of in a manner consistent with the conclusions herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

DATED: November 14, 2013

Larry M. Jones
Administrative Law Judge