STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company **d/b/a Ameren Illinois** **Proposed General Increase in Gas Rates (Tariffs Filed January 25, 2013).**	: : : : :	**Docket No. 13-0192**

BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

CHRISTINE F. ERICSON
JAMES V. OLIVERO
JOHN L. SAGONE
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
cericson@icc.illinois.gov
jolivero@icc.illinois.gov
jsagone@icc.illinois.gov

Counsel for the Staff of the Illinois Commerce Commission

November 22, 2013

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NOW COME the Staff witnesses of the Illinois Commerce Commission ("Staff"), by and through their undersigned counsel, pursuant to Section 200.830 of the Illinois Commerce Commission's Rules of Practice (83 Ill. Adm. Code 200.830), and respectfully submit this Brief on Exceptions to the Proposed Order ("PO") issued by the Administrative Law Judge ("ALJ") on November 14, 2013.

I. PROCEDURAL BACKGROUND

On January 25, 2013, the Ameren Illinois Company d/b/a Ameren Illinois ("Ameren," "AIC," or "Company") filed with the Illinois Commerce Commission ("Commission") revised tariff sheets in which they proposed a general increase in gas rates pursuant to Article IX of the Illinois Public Utilities Act ("Act" or "PUA"), 220 ILCS 5/9, to become effective March 11, 2013.

Initial Briefs ("IB") were filed on September 20, 2013 by the Illinois Competitive Energy Association ("ICEA") and the Retail Energy Supply Association ("RESA"); the

Retail Gas Suppliers ("RGS"); the Illinois Industrial Energy Consumers ("IIEC"); the Citizens Utility Board ("CUB"); the People of the State of Illinois ("People"); Staff; and Ameren. Reply Briefs ("RBs") were filed by the respective parties on October 4, 2013. In general, the PO reviews the issues presented in this proceeding in a clear and concise manner, is well written, and reflects the positions taken by Staff, the Company, and the intervening parties. This Brief on Exceptions ("BOE") does not take issue with every decision of the PO even if Staff's recommendation was not fully adopted. Further, although Staff supports many of the PO's conclusions, there are items to which Staff takes exception as set forth below. Staff herein provides its exceptions taken to the ALJ's PO in the order of the PO outline. Where the section is left blank, no exception is taken to the PO on that issue.

II. NATURE OF AIC'S OPERATIONS

III. TEST YEAR

IV. RATE BASE

A. Resolved Issues

B. ADIT – Step-up Basis Metro

The PO errs in deciding this issue. This issue simply boils down to whether Ameren should be allowed to artificially inflate its total rate base by merely transferring the assets of one of its operating utilities to another of its wholly-owned utilities? Reason and common sense dictate that the answer should be "no." Furniture that is moved from one house to another house by the same owner would not change the value of that furniture simply on account of the transfer. Moving money from one's left hand to one's right hand does not make the value of that asset greater. The issue before the Commission in this case is as simple as the two analogies above. If the

Commission did agree with Ameren here, utilities would have the incentive to transfer their assets internally in order to artificially raise the value of such assets to which the authorized rate of return is applied. Clearly, that would be an unjust and unreasonable outcome that would hurt ratepayers while unjustly enriching shareholders.

The PO's conclusion regarding the adjustment for ADIT-Step-up Basis Metro states: "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…". (PO, 14.) This conclusion errs in two ways by stating that the additional evidence "largely consists of conflicting testimony…" and in giving no weight to the additional evidence in this case.

First, the testimony presented in this case is not conflicting; the issue is contested. Therefore, each party advances a different position. In this proceeding, it is undisputed that Ameren agreed in a DR response that the impact at the time of the transaction inflated the rate base. (Staff Ex. 10.0 (Rev.), Attach. A.) This new evidence is instrumental and strongly supports Staff's position in this case that the amount at issue should not be allowed in rate base. Along with the testimony of witnesses from Staff and AG/CUB, it shows that the proposed adjustment is the <u>only position</u> supported by the evidence in the record – evidence that was not provided in earlier dockets. The position advanced by Ameren here was testimony that relied upon <u>unproven theories</u> without actual facts or supporting data, such as journal entries, showing the continuing accrual of ADIT. (Staff RB, 3, 5; Ameren Ex. 31.0, 18:368-373.)

The second error in the PO's decision is that no weight was given to the new evidence that was presented in this case that was not presented in Ameren's two prior formula rate cases. In those two prior cases, Ameren stated unequivocally that the Metro East transfer had a zero effect on its rate base. This statement has now been shown to be false through Ameren's own admission in response to Staff's discovery. (Staff RB, 6-7; <u>Ameren Illinois Co.</u>, ICC Order Docket No. 12-0293, 30 (December 5, 2012); Staff Ex. 10.0 (Rev.), Attach. A).

The record is clear on both of these points. Therefore, Staff recommends that the conclusion and the related language on page 14 of Section IV.B.5 of the PO be changed as follows:

> **<u>5. Commission's Conclusions</u>**
>
> 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~~.~~<u>, however, in this proceeding additional evidence that is undisputed by Ameren has been provided for the Commission's consideration.</u>
>
> 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 <u>previously undisclosed and the undisputed rate base impact at the time of the transaction and the additional</u> ~~conflicting~~ testimony <u>from Staff and AG/CUB witnesses</u> ~~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. <u>The undisputed rate base impact at the time of the transaction and the lack of evidence by Ameren in refuting the new evidence is substantially different from the decisions in Docket Nos. 12-0001 and 12-0293 where Ameren stated unequivocally that there was no rate base impact. Here, Ameren failed to provide any evidence beyond offering an unproven theory to support its</u>

position. Accordingly, the adjustment proposed by Staff and AG/CUB will ~~not~~ be adopted in this Order.

If the Commission maintains the conclusion in the PO, which Staff contends it should not, then Staff additionally recommends that the Commission direct the Company to timely provide the necessary data to Staff related to future internal asset transfers. Such information would avoid the confusion brought about in this proceeding that led the PO to incorrectly conclude that testimony was in conflict when, in fact, the culprit was the dearth of data based upon actual amounts from the books and records of the entities involved in the internal asset transfer. Accordingly, Staff recommends adding this language to the end of its conclusion on page 14 of Section IV.B.5 on this issue:

5. Commission's Conclusions

If a party wants to propose a similar adjustment in future proceedings, the information should be requested by that party and Ameren shall provide the requested information to demonstrate with actual amounts or calculated amounts based upon actual amounts from the books and records of the involved entities that Ameren ratepayers were not and will not be harmed by the regulatory treatment of the internal transfer of assets from one Ameren operating utility to another Ameren operating utility.

C. Cash Working Capital

D. Other Rate Base Issues

E. Approved Rate Bases

V. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

The PO sets forth the resolved issues related to operating revenues and expenses but does not provide the basis for the following adjustments: (1) Outside

Professional Services; (2) uncollectible accounts expense; (3) lobbying expense; (4) office supplies expense, and; (5) industry dues expense. Therefore, Staff offers the following clarifying language to pages 19-20 of Section V.A. of the PO:

> The final Staff adjustments to Outside Professional Services for insufficient documentation are not contested and they are approved. (Staff IB, 7-8; Ameren IB, 13-14.)
>
> Staff's proposed methodology for calculating uncollectible accounts expense was accepted by AIC on rebuttal and is approved. Staff proposed that uncollectibles accounts expense should be calculated using a percentage derived from a three-year average of net write-offs of accounts receivable. (Staff IB, 8; Ameren IB, 14.)
>
> Staff witness Ms. Pearce proposed an adjustment to remove ~~certain expenses which she viewed as~~ a portion of the salaries of two employees that perform lobbying functions ~~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 related to employee recognition is not contested and it is adopted.
>
> Ms. Pearce's final adjustment to industry dues expense because the costs were either unrelated to the provision of gas service or related to lobbying is not contested and it is adopted.

B. Pension/OPEB Expense - Employee Benefits Adjustment

C. Non-Union Wages

D. Forecasted Labor Expenses

E. Forecasted Non-Labor Expenses

1. JULIE Locate Requests

2. Sewer Cross Bore Inspections

3. Accelerated Leak Repairs

4. Right of Way Clearing

5. Watch and Protect Damage Protection Program

6. Corrosion Control Painting

F. Rate Case Expense

G. Charitable Contributions

The PO errs in four aspects in its conclusion on charitable contributions. The PO found that the test year level of contributions should be based upon the AG/CUB proposal to inflate the 2012 *actual* level of charitable contributions by 2% for 2013 and 2% for 2014 as had been done in the prior Ameren gas rate case, Docket No. 11-0282. (PO, 18-19.) First, the Order in Docket No. 11-0282 applied an inflation factor to a prior year's *budgeted* level of contributions, not a prior year's *actual* level of contributions. Second, the AG/CUB proposal here does not use the same methodology that the Commission adopted in its Order in Docket No. 11-0282. Third, the PO ignores the evidence Staff presented in this case that AIC's historical level of charitable contributions is not consistent and thus, it is not appropriate to base a level of charitable contributions on the actual expenditures for a single year. Fourth, the PO appears to indicate a preference for a consistent methodology in calculating adjustments but does not consider that the evidence in each case may necessitate a different methodology.

The method adopted in the PO errs by stating that the Order follows the methodology that was approved in Ameren's prior gas rate case, Docket No. 11-0282. (PO, 58-59.) In that case, the Commission applied an inflation factor to a prior year's *budgeted* level of contributions and not to a prior year's *actual* level of contributions as the PO adopts in this proceeding. The Commission, in Docket No. 11-0282, allowed a 2% inflation factor to be applied to AIC's 2011 *budgeted* charitable contributions, not the *actual* 2011 level of charitable contributions. Ameren Illinois Co., ICC Order Docket No. 11-0282, 31 (January 10, 2012).

In this proceeding, AG/CUB recommends inflating *actual* 2012 contributions by 2%. (AG/CUB Ex. 1.0, 34:811-814; AG/CUB Ex. 5.0, 49-53:1200-1317.) As stated, this proposal is not the same methodology that the Commission adopted in its Order in Docket No. 11-0282 that applied an inflation factor to AIC's *budgeted* level of charitable contributions. Moreover, the AG/CUB position does not consider AIC's recent history of six years of budgeting for higher amounts than it ultimately contributes. (AG/CUB Ex. 1.0, 34:811-814; AG/CUB Ex. 5.0, 49-53:1200-1317.)

The PO's adopted methodology disregards the evidence Staff presented in this case that demonstrates that AIC does not spend consistent amounts towards charitable contributions from year to year and has consistently donated amounts less than it has budgeted for charitable contributions. This evidence is apparent when reviewing the charitable contributions expensed for each year 2007 through 2012 and comparing the *actual* amount to the *budgeted* amount for each year as is seen in the table below: (ICC Staff Ex. 10.0 (Rev.) 8-9:126-127.)

AIC Charitable Contributions - Budgeted & Actual for 2007-2012				
Year	**Budget**	**Actual**	**Deviation from Budget**	**Change from Prior Year Actual**
2007	**$1,402,088**	**$1,290,383**	**-8%**	**N/A**
2008	**$1,299,358**	**$1,542,836**	**19%**	**20%**
2009	**$1,745,247**	**$1,206,894**	**-31%**	**-22%**
2010	**$1,816,421**	**$785,322**	**-57%**	**-35%**
2011	**$1,222,958**	**$574,902**	**-53%**	**-27%**
2012	**$1,247,417**	**$918,517**	**-26%**	**60%**
2013	**$1,265,911**	**N/A**	**N/A**	**N/A**
2014	**$1,291,156**	**N/A**	**N/A**	**N/A**

Further, the evidence in this case demonstrates that when AIC was allowed less than its requested amount in Docket No. 11-0282, AIC limited its budget to only the ratepayer-provided contribution amount. (Staff Ex. 10.0 (Rev.), 9; Staff IB, 16-17, 20.) If Ameren had donated a consistent level of contributions each year, then it might be appropriate to inflate a historical amount to represent a test year level of charitable contributions. However, it is not appropriate to base the level of charitable contributions on the actual expenditures for a single year when a company has not donated on a consistent basis. Since AIC's history of charitable contributions is inconsistent, it is also not appropriate to rely upon an inflated budgeted amount to represent a test year level of charitable contributions when the Company historically does not expend the budgeted amount.

In conclusion, Staff avers that in this case, it is necessary to use a different approach than that used in the prior case or that used by the AG/CUB. In this case, Staff's approach for determining charitable contributions is different because the evidence in this case does not support using the same methodology as that used in Docket No. 11-0282 or that proposed by AG/CUB. (Staff IB, 18-19.) Moreover, Staff notes the Commission's past practice is to adopt adjustments to expense amounts in rate case proceedings that are based on the record evidence in the particular case rather than merely using the methodology from a prior docket. (Staff Ex. 10.0 (Rev.), 11.) To employ a formulaic approach regardless of the evidence in each particular case would thwart the Commission in performing its duty to ensure the protection of the public interest. (Staff IB, 19.) Thus, Staff recommends the following language changes to pages 58 -59 of the PO:

> Having considered the positions of the Parties and reviewed the evidence in the record, the Commission finds that the proposal advanced by Staff ~~AG and CUB~~ is the most reasonable, given the circumstances of this case, in particular, AIC's recent history of donating at inconsistent levels for the past six years from 2007 through 2012, while at the same time, consistently donating **less** than its budgeted amounts during that same timeframe. The methodology used and explained by the Staff ~~AG/CUB~~ witness ~~relies on~~ uses the most recent three years of actual annual results available, 2010 through 2012, and is based upon an analysis of the years 2007 through 2012. This approach~~, which, under the circumstances appears to~~ provides ~~a~~ the only reasonable estimate of test-year expenditures that recognizes AIC's recent history of contributions. AIC's proposed level of charitable contributions is not reasonable based on its recent history. Further, to base the adjustment on only 2012, the most recent annual period of actual costs, as the AG/CUB proposes, fails to recognize AIC's recent inconsistent history of contributions. ~~Further, while 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.~~

Alternative

If the Commission does not accept the language changes proposed by Staff, in the alternative, Staff supports adopting the AG/CUB adjustment, which is to inflate 2012 actual amounts by 2% as stated above in Staff's comments as it provides a more reasonable level than the level proposed by AIC.

H. Forecasted Advertising Expenses

The PO errs in basing the level of forecasted advertising expense to be included in the test year revenue requirement upon the AG/CUB proposal because: 1) it is based on the Company's *electric* operations; 2) it improperly applies the percentage of disallowed *2011 actual* advertising expenses from AIC's prior gas rate case to the 2014 future test year's *projected* advertising expense; and 3) it relies on observations from *a single year*, thus, failing to consider multiple year trends and differences between budget and actual spending, as considered by Staff in its analysis.

First, AG/CUB's method relied upon the outcome of Docket No. 12-0293, AIC's first update to its electric formula rate (not gas), which was filed pursuant to Section 16-108.5 of the Act (220 ILCS 5/16-108.5) and which is not applicable to the instant proceeding. The current proceeding is a traditional rate case filed pursuant to Section 9-102 (220 ILCS 5/9-102) of the Act. In Docket No. 12-0293, Section 16-108.5 permitted dollar for dollar recovery of actual costs in the 2011 historical reporting year unless the earned rate of return on common equity related to electric delivery services exceeded the ROE collar as defined in Section 16-108.5(c)(5). In contrast, the instant proceeding concerns a 2014 future test year for gas, not electric rates, and the basis for the projected 2014 test year was the actual 2012 advertising costs related to gas operations, not the 2011 advertising costs related to electric operations.

Second, AG/CUB simply applied the percentage of disallowed advertising expenses from the 2011 reporting year's *actual* expenses for *electric* service as determined by the Commission in its order in Docket No. 12-0293 to the 2014 future test year's *projected* advertising expense for *gas* service. There is no evidence of any correlation between these two different test year methodologies (historical reporting year under MAP-P vs. future test year under Section 9-102); thus, there is no basis to assume that the application of the disallowed 2011 actual electric advertising expense percentage applied to AIC's projected 2014 gas advertising expense is reasonable or appropriate. Therefore, AG/CUB's method wrongly assumes that the Commission ordered disallowance percentage pertaining to a different year and a different utility operation under a different regulatory framework would provide a reasonable proxy for AIC's projected 2014 advertising expense.

Third, AG/CUB's reliance on a single year's disallowance as a percentage of total expense fails to consider multiple year trends and differences between budget and actual spending, as considered by Staff in its analysis. Staff's analysis utilized actual advertising expenses for the years 2009 through 2012 to develop an average baseline expense level. Staff also compared the future test year's advertising expense projection to both the four-year average (2009-2012) expense and the actual 2012 expense. Staff then proposed an adjustment for the amount by which the Company's projection exceeds the *greater* of these two amounts, after escalation for 2013 and 2014 inflation factors. (Staff Ex. 4.0, 6-8:117-173.)

The primary basis for Staff's adjustment is to disallow the unreasonably inflated amount of the projected 2014 advertising expense, not an analysis of individual test year expenses (since a detailed after-the-fact analysis is precluded in a future test year). Staff did review AIC witness Kennedy's testimony (Ameren Exs 6.0; 21.0; 35.0) describing the various 2014 advertising projects; however, it is not clear to Staff that these incremental expenditures are necessary. Finally, Staff emphasizes that budgets are subject to modification, as the Company demonstrated with its advertising budget in the most recent fiscal year ended December 31, 2012. (Ameren Ex. 21.0, 25:501-510.) In that year, the Company chose to abandon its fourth quarter media campaign for reasons that Staff believes were foreseeable. (Staff IB, 22) Accordingly, the Company has every incentive to inflate this highly discretionary expense in its test year revenue requirement because every dollar that is not spent will accrue to the benefit of shareholders.

Accordingly, Staff proposes the following replacement language to page 66 of Section V.H.4 of the PO:

> AIC proposed advertising expenses of $1,733,000, which ~~includes~~ represents a 65% ($1,733,000 compared to $1,048,000)~~significant~~ increase over the average spend during the prior four years, 2009 through 2012 (ICC Staff Exhibit 13.0, Schedule 13.02)~~-~~.
>
> 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 minus corporate sponsorships and payments to Strategic International Group. Staff also contends that the expenditures on advertising in any year are variable and highly discretionary, as exemplified in 2012.
>
> 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 generally 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~~ Staff proposal is the most reasonable estimate of 2014 advertising expense because it considers both AIC's historical advertising spend and allows for inflation in the future test year. Accordingly, it permits modest increases in advertising expense, while protecting ratepayers from unnecessary expenditures and the risk of a highly discretionary forecast that is subject to change. ~~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

The PO incorrectly states that Staff did not address sponsorships in its IB and incorrectly implies that Staff did not respond to AIC arguments on this issue because it was not addressed in Staff's RB. To the contrary, Staff responded to AIC's arguments involving sponsorships inSection III.B. 7, Forecasted Advertising Expenses, of its IB and RB (Staff IB, 21, subpart (iii); Staff RB, 19-20.) because: 1) sponsorships are included as part of Staff's advertising adjustment, and more importantly; 2) the Company initially claimed its sponsorship expense as part of its advertising expense. Staff recognizes that there is a separate section for Sponsorship Expense (III.B.8.) in the Agreed Upon Briefing Outline approved for use in this docket (Notice of Administrative Law Judge's Ruling, Sept. 17, 2013.) where Staff could have either referred to Section III.B.7. of its IB and RB for the discussion of sponsorships, or addressed this portion of the advertising adjustment separately. Nonetheless, this does not detract from Staff's main argument that such expenses should be rejected because they constitute promotional/goodwill advertising prohibited under Section 9-225 of the Act.

The PO's conclusion that AIC's promotional/goodwill advertising costs that are classified as sponsorship expenses should be considered recoverable as charitable contributions renders Section 9-225 of the Act meaningless. The legislature surely did not prohibit recovery of promotional/goodwill advertising expenses under Section 9-225 only to permit recovery of the same expenses as charitable contributions under Section 9-227 of the Act. The overall problem with AIC's changed justification for recovery of its sponsorship expenses is that it gives no meaning to the prohibition in Section 9-225 for ratepayer recovery of promotional, goodwill, and/or institutional advertising. 220 ILCS 5/9-225. The Company should not be permitted to classify sponsorship expenses as General Advertising Expenses and then later claim in the same proceeding that these expenses should be recoverable as charitable contributions. When the only discernible purpose behind the expenditures is promotional, goodwill, and/or institutional advertising, and there is no evidence of any educational or other permissible messaging present, the nature of the expenditure must be the deciding factor in determining eligibility for ratepayer recovery.

The Commission should find that the Company’s sponsorship expenses are promotional/goodwill advertising and are not recoverable under Section 9-225 of the Act. Accordingly, Staff proposes the following replacement language to page 68 of Section V.I.2, and pages 73-74 of Section V.I.4. of the PO:

2. Staff's Position

Staff’s initial brief did not contain any content in Section III.B.8, “Sponsorship Expense~~.~~”; however, Staff’s proposed disallowance of Sponsorship Expense was included in Section III., 7., Advertising Expense because sponsorships are part of Staff’s advertising adjustment. Staff’s calculated four-year average advertising expense was further reduced for the cost of certain sponsorships net of tangible benefits received because Staff found no evidence that these sponsorships were either necessary for the provision of utility service or beneficial to ratepayers. (Staff IB at 21)

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, as described above.

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)

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. Nevertheless, the~~ <u>The Commission is not persuaded that the facts of the instant proceeding support a conclusion similar to that in Docket Nos. 12-0511/-0512 (Cons.). The Commission finds that the Company classified the disputed expenses as general advertising expenses, not charitable contributions for a reason. AIC cannot now claim that the expenses</u>

> <u>disallowed by Staff as promotional or goodwill advertising prohibited by Section 9-225 are actually charitable contributions recoverable under Section 9-227.</u>

J. Credit Card Expenses

The central question before the Commission regarding credit card expenses is whether the Commission should deem an expense recoverable as long as it is merely "business-related," as the PO would have it. The plain language of the Act disagrees with the PO.

The Commission is required to set rates which are "*just and reasonable*" not only to ratepayers but to the utility's shareholders. 220 ILCS 5/1-102(a)(iv); 220 ILCS 5/9-101. As the Commission rightly observed in a prior Order, "one component of justness and reasonableness . . . is *necessity*." <u>Commonwealth Edison Co.</u>, ICC Order Docket No. 10-0467, 76 (May 24, 2011) ("10-0467 Order") (emphasis added). The Company failed to establish that the so-called "business-related" expenses at issue here are just and reasonable or necessary. As will be explained in greater detail below, the standard of justness and reasonableness is an important protection afforded to both ratepayers and shareholders and should not now be summarily ignored.

Staff respectfully opposes the PO's conclusion that provides:

> 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*.

(PO, at 79) (emphasis added).Staff disagrees that “reasonably related to the provision of utility service” is sufficient to meet the just and reasonable standard under the Act. Staff is particularly concerned with the phrase “reasonably related to the provision of utility service” as applied in the PO in this case. (PO, 79.) First, while informative, this purported “standard” is not sufficient and is not the correct standard to utilize for evaluating these types of business expenses. In addition, this “standard” is so broad as to include practically anything purchased, consumed, or provided during or in connection with AIC’s business operations. It is difficult to envision any type of expense that could not be characterized as reasonably related to the provision of utility service. Only under such a low threshold could one justify forcing ratepayers to pay for items of questionable necessity in providing utility services, e.g., flowers, party decorations, meals and snacks at various AIC meetings and functions, electronic devices given as prizes to employees, non-uniform clothing, gift boxes, etc. The Company has not shown that the cost of these discretionary niceties are just and reasonable.

Staff, in contrast, applied more appropriate criteria based on the following:

- Commission conclusions stated in the prior formula rate case Order in Docket No. 12-0293 regarding certain types of purchases that are not recoverable from ratepayers (<u>Ameren Illinois Co.</u>, ICC Order Docket No. 12-0293, 67-69 (Dec. 5, 2012) (“12-0293 Order”);
- Prior Commission orders that indicate that to be recoverable in utility rates the utility’s expenses:

(a) <u>must be necessary</u> for the provision of utility service (as described in the 12-0293 Order at 67;

(b) must provide benefit to ratepayers to be just and reasonable (220 ILCS 5/9-101); and,

(c) must not constitute AIC employee perquisites (in addition to the adequate compensation that ratepayers already provide in utility rates in order to be just and reasonable (220 ILCS 5/9-101)

The Act supports Staff's more stringent criteria for recovery of business related expenses where it states:

> Every unjust or unreasonable charge made, demanded or received for such product or commodity or service is hereby prohibited and declared unlawful. All rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable.

220 ILCS 5/9-101.

The PO clearly errs in disregarding consideration of the necessity of any business-related expense in determining recoverability. It contradicts longstanding Commission practice and deep rooted protections in the Act that require a determination of justness and reasonableness of costs recovered from ratepayers. 220 ILCS 5/1-102(a)(iv); 220 ILCS 5/9-101; **(**see also 12-0293 Order at, 69. As previously cited above, the Commission correctly observed in a prior rate case Order, "one component of justness and reasonableness…is necessity." 10-0467 Order at 76. Thus, the proper standard for evaluating expenses must include a determination of the necessity of an expense for the provision of public utility service.

Further, as the petitioning party, the Company has the burden of proof to demonstrate that the costs it seeks to recover from ratepayers satisfy these criteria. Scott v. Dept. of Commerce and Community Affairs, 84 Ill. 2d 42, 53 (1981). Where a statute does not specifically place any burden of proof, courts have uniformly imposed on administrative agencies the common-law rule that the party seeking relief has the burden of proof. Id. The term “burden of proof” includes the burden of going forward with the evidence, and the burden of persuading the trier of fact. People v. Ziltz, 98 Ill. 2d 38, 43 (1983). The burden of persuading the trier of fact does not shift throughout the proceeding, but remains with the party seeking relief. Ambrose v. Thornton Twp. School Trustees, 274 Ill. App. 3d 676, 680 (1st Dist 1995), *app. den.*, 164 Ill. 2d 557 (1995). Ameren’s contention that these are “business related” expenses, without evidence that they are necessary and just and reasonable, does not satisfy the Company’s burden of proof.

Finally, Staff takes exception to the PO’s conclusion that:

> 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.

(PO, 79.) The instant proceeding demonstrates in even greater detail the magnitude of questionable charges that AIC is attempting to pass through to ratepayers and the low level of controls that are actually applied to AIC’s scrutiny of these credit card charges. Staff takes no comfort in the fact that Docket No. 13-0075 is in progress. Docket No. 13-0075 concerns a review of AIC controls over its employee’s credit card use; it is not a review of specific charges to determine recoverability. Docket No. 13-0075 has no bearing on the fact that Staff has already identified numerous questionable charges in this proceeding that provide no discernible benefit to ratepayers and cannot possibly be thought necessary for the provision of gas service. Until a Commission order is entered in Docket No. 13-0075, <u>this Commission must apply its own resources to provide oversight to the costs charged on company credit cards which will be recovered from ratepayers.</u>

Accordingly, Staff proposes the following replacement language to the Commission's Conclusion's on pages 78 – 79 of the PO regarding this matter:

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~~ the disputed purchases as "arguably excessive, and/or unnecessary for delivery service, based on the Order in Docket No. 12-0293. Additionally, as detailed on Staff Ex. 13.0, Att. B, pp. 21-23, Staff classified each disputed charge based on whether it is "unnecessary for provision of utility service"; "does not provide benefits to ratepayers"; and/or "benefits AIC Employees as a perquisite." ~~However, there is no allegation or indication~~ Staff explained that it is not Staff's opinion the items could have or should have been obtained at a lower cost, but that they should not be reflected in utility rates at all, given the fact that these charges are unnecessary for the provision of utility service, do not provide ratepayer benefits, and/or benefit AIC employees in the form of perquisites in addition to their adequate compensation. Staff further explained that the Company may choose to approve such purchases, however, it is incumbent on shareholders, not ratepayers to bear these costs. Therefore, they do not belong in utility rates.

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." This complaint is specious and constitutes little more than hair-splitting. The Final Order in Docket No. 12-0293 made clear the Commission's intent that charges unrelated to the provision of service are not recoverable in rates. This assertion is further supported by 220 ILCS 9/201 discussed previously.

Having reviewed the record, it appears to the Commission that AIC has not provided better support for the charges than it did in Docket No. 12-0293. ~~Except as noted below~~Moreover, the Commission believes AIC has not shown that the expense types and purposes identified in AIC's evidence -- ~~such as~~ although classified 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 disallowed ~~may have concerns with~~ ~~some of~~ these expenses ~~categories~~, Staff has ~~not really indicated~~ demonstrated why these expenses ~~types or categories~~ are ineligible to meet th~~at~~e standards for recovery.

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~~,~~; nevertheless, the standards by which the disputed charges were evaluated are consistent with the provisions of the Act, the Final Order in Docket No. 12-0293, and well-established rate-making theory and Commission practices. ~~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.~~ Accordingly, Staff's credit card adjustment is proper and it is hereby adopted.

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~~.~~ —and should establish internal controls concerning the usage of company credit cards by AIC employees that will minimize the need for the scrutiny of these expenses in the future. However, until the Commission issues a final order in Docket No. 13-0075 and thus can be confident that AIC has strong and effective internal controls over the company credit cards used by employees and that AIC is exerting the proper due diligence in its review of the costs being charged on the company credit cards, this Commission must apply its own limited resources to provide oversight to the costs charged on company credit cards which will be recovered from ratepayers.

K. Software Rental Revenues

It is axiomatic that the Commission can not and should not allow unsupported costs to be recovered from ratepayers. Yet, the PO permits AIC to do exactly that by adopting AIC's adjustment to increase the O&M expenses of the EAM/MWM software project by $491,000. (PO, 85.) The PO errs by allowing AIC to offset Staff and Intervener adjustments with unsupported alleged cost increases to unrelated costs proposed for the first time in the surrebuttal phase.

Specifically, the PO errs in its acceptance of AIC's assertion that these expenses were supported in AIC's rebuttal. (PO, 85.) This is false. Neither Mr. Stafford nor any other AIC witness provided any support or detail for these alleged extra costs. Instead, Mr. Stafford merely stated in his revised rebuttal testimony that a more recent forecast showed an O&M shortfall of $491,000 Ameren Ex. 17.0 (Rev.), 26:555-559.) More importantly, he testified "AIC has not formally sought" recovery of the $491,000. (Id.,, 26:560-564.) In what appears to be an apparent bid to negotiate a better outcome for the Company should the Commission adopt a *completely unrelated* adjustment to the EAM/MWM project by Staff witness Mr. Kahle and AG/CUB witness Mr. Smith, Mr. Stafford suggests that, in that eventuality, "the additional $491,000 should also be recognized." (Id., 564-565.) This is not evidence; it is a proposal to minimize AIC's potential "loss."

In his surrebuttal testimony, Mr. Stafford accepted Staff's proposed $358,000 rental revenue adjustment for the EAM/MWM project but made no mention of the alleged additional $491,000 expense. (Ameren Ex. 31.0, 13:253-265.-) Nevertheless, consistent with the one-way bargain Mr. Stafford proposed in his revised rebuttal in which only AIC could benefit, AIC reflected the additional $491,000 of EAM/MWM-related expense in the Company's surrebuttal revenue requirement, only providing a one-page schedule without any workpapers, contracts, or invoices to support the alleged increase in costs. (Ameren Ex. 31.5.) The Commission should not countenance the game that the Company appears to be attempting here. A rate case is not a negotiation intended to maximize utility shareholder wealth by maximizing the size of its approved revenue requirement. See State Public Utilities Comm'n v. Springfield Gas &

Elec. Co., 291 Ill. 209, 217 (1919). Rather, it is a proceeding in which the interests of both utility shareholders and ratepayers are balanced so that adequate utility services can be provided in a safe, efficient, reliable manner at least cost. 220 ILCS 5/1-102; Camelot Utilities, Inc. v. Illinois Commerce Comm'n, 51 Ill.App.3d 5, 10 (3rd Dist. 1977). That balance is struck when the Commission allows recovery of the utility's just and reasonable costs from ratepayers. Citizens Utility Bd. v. Illinois Commerce Comm'n, 276 Ill.App.3d 730, 737 (1st Dist. 1995). But the finding of the justness and reasonableness of such costs is not possible unless the utility, who incurs such costs, provides the necessary support for such a finding. That clearly has not happened here. Therefore, the Commission must reject the Company's 11th hour attempt to increase its O&M expenses by $491,000.

Accordingly, Staff proposes the following replacement language to the Commission's Conclusions on page 85, Section V.K.5 of the PO:

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)
>
> Certain~~The~~ costs of the systems were included in AIC's direct test-year revenue requirement, but no offsetting revenues from Ameren Missouri were included. In rebuttal, AIC witness Stafford mentioned $491,000 of additional O & M expenses related to these projects, but indicated AIC would not seek recovery of those costs unless the Commission accepted certain other unrelated Staff and Intervenor adjustments that reduce the revenue requirement. In surrebuttal testimony, AIC reflected the $491,000 of additional costs as an increase to the revenue requirement despite providing only a one-page schedule to support for such costs.

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,~~ On the matter of O & M costs, the Commission 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 reflected by AIC ~~proposed by AIC~~ in its surrebuttal revenue requirement, and that AIC provided no rationale or calculations to support these projected costs. The Commission agrees that it is wholly improper for AIC to increase its cost projections in surrebuttal to offset adjustments of other parties.

~~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.~~ Accordingly, ~~The~~ Staff's adjustment to exclude the $491,000 from revenue requirement is hereby ~~will not be~~ adopted.

L. Revenue Issue

M. Approved Operating Statements

VI. CAPITAL STRUCTURE AND RATE OF RETURN

A. Overview

B. Resolved Issues and Immaterial Differences

C. Short-Term Debt Balance

D. Long-Term Debt Balance

E. Common Equity Balance

1. Purchase Accounting/Goodwill

Technical Corrections to Section VI.E.1. and VI.E.1.c.

As a technical matter, Staff recommends replacing the phrase "This 'self-adjustment' excludes" with "to remove" because it could be wrongly interpreted to mean that the $356,284,459 balance does not reflect purchase accounting adjustments. To the contrary, the $356,284,459 represents the amount the Company claims should be subtracted from its balance of common equity to eliminate the effect of purchase accounting on its ratemaking capital structure. (PO, 104.) Thus, Staff recommends the following technical corrections to page 104 of Section VI.E.1 of the PO and page 107 of Section VI.E.1.c. of the PO:

> **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~~ to remove 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.
>
> **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~~ to remove 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)

Substantive Change to Section VI.E.1.d. – Common Equity Balance (Purchase Accounting / Goodwill)

The PO rejects Staff's proposed adjustment to remove purchase accounting, including goodwill, from AIC's common equity balance. The PO states, "With respect to the adjustment proposed by Staff in the instant case, AIC argues that the Commission rejected Staff's proposals on this same issue in Dockets 11-0282 and 12-0001. In its briefs, Staff does not specifically discuss Docket No. 11-0282 with reference to these issues." (PO, 116.) Foremost, Staff did not propose the same adjustment to AIC's common equity balance in Docket No. 11-0282 as it did in 12-0001 and the instant case. Rather, in Docket No. 11-0282, the Commission rejected Staff's proposal to remove goodwill from the common equity balance in lieu of purchase accounting adjustments. In that case, the Commission concluded, "[T]he 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." Ameren Illinois Co., ICC Order Docket No. 11-0282, 54 (Jan. 10, 2012).

In Docket No. 12-0001, the Commission rejected Staff's proposal to remove net income purchase accounting adjustments. In that case, the Commission concluded, "Because it appears that AIC has followed all accounting rules and Commission Orders relating to accounting for purchase accounting, or push down accounting, the Commission rejects Staff's proposed adjustment to common equity balance." Ameren Illinois Co., ICC Order Docket No. 12-0001, 119 (Sept. 19, 2012). In part, due to Staff's presentation of evidence on this issue in that docket, the Commission's Order in Docket No. 12-0001 unfortunately focused on whether AIC is following accounting rules. In reality, the crux of the issue is not whether AIC is following accounting rules, in some places it might be,[1] in others it does not,[2] but whether AIC is making all of the necessary ratemaking adjustments required pursuant to the Commission's Order in Docket No. 04-0294. In Docket No. 12-0001, Staff neglected to distinguish accounting rules from ratemaking adjustments, making it impossible to address directly the Commission's conclusion to reject income statement purchase accounting adjustments on the basis that AIC did not violate any accounting rules. However, in this case, Staff presented evidence that made that important distinction possible. Towards that end, in this case, the Company acknowledges that, "All elimination of purchase accounting is for ratemaking purposes." (Staff RB, 34) (citing Staff Cross Ex. 3) (emphasis added). Similarly, the Company agreed that the Commission's requirement that AmerenIP collapse all purchase accounting adjustments into ICC Account 114 is also a ratemaking adjustment that is not based on accounting rules. Id.

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. Specifically, as a condition of approval in Docket No. 04-0294, the Commission stated, "IP shall reverse the effects of push-down accounting for ratemaking purposes, and shall not reflect push-down adjustments for debt or preferred stock in its annual reports to the Commission. IP will reflect in Account 114, plant acquisition adjustments, the impacts of all push down accounting for all Illinois regulatory purposes." Illinois Power Co., ICC Order Docket No.

[1] Staff takes no position in this case regarding whether the Company's adjustments to its financial statements to allocate the purchase price of Illinois Power to various balance sheet and income statement accounts, follow purchase accounting rules.

[2] For example, the Company agrees that it did not follow accounting rules when it allocated common dividends between purchase-accounting net income and non-purchase accounting net income. (Staff Cross Ex. 3.)

04-0294, App. A (Sept. 22, 2004). AmerenIP failed to comply with the Commission's 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." That is, the first four conditions of approval for Ameren's acquisition of Illinois Power address dividends. Not one of those four conditions ties common dividend payments to the balance of retained earnings, net income related purchase accounting specifically, or even purchase accounting generally. Id. To the contrary, in adopting the four conditions that address the resumption of dividend payments, the Commission cited cash flow, not retained earnings, as the important consideration: "The revised conditions proposed by Ameren and accepted by Staff provide a reasonable opportunity for IP to pay dividends, but protects the public interest in maintaining IP's financial integrity and insuring that it retains or has access to sufficient cash to meet its operating and capital requirements." Id. at 38 (emphasis added). The Company's arguments would have the Commission believe, however, that such fictional exceptions or carve outs were part of that directive. Such unfounded and unsubstantiated claims should be categorically rejected. Only the adoption of Staff's adjustment to AIC's common equity balance will finally result in compliance with the Commission's Order in Docket No. 04-0294.

In summary, the Commission should adopt Staff's proposed common equity balance, which is nothing more than the complete implementation of the Commission's 04-0294 Order regarding ratemaking adjustments that are distinguishable from accounting rules. For all the foregoing reasons, Staff's adjustment to remove an additional $105,536,599 of net income related purchase accounting adjustments from AIC's common equity balance should be adopted, per the language presented hereafter for pages 115-116 of Section VI.E.1.d. of the PO:

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~~which ~~"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~~ adjustment~~s~~ should ~~not~~ be adopted.

In Docket No~~s~~. ~~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 adjustment~~s~~ proposed by Staff in Docket No~~s~~. ~~11-0282 and~~ 12-0001 ~~were~~ was not approved.

With respect to the adjustment proposed by Staff in the instant case, Staff notes that the crux of the issue is whether AIC's purchase accounting ratemaking adjustment follows the Commission's directive in Docket No. 04-0294, rather than whether AIC's treatment of purchase accounting follows accounting rules. Given the Commission did not limit its condition to reverse all purchase accounting for ratemaking purposes in Docket No. 04-0294, the Commission rejects AIC's claim that it removed the effects of purchase accounting on its balance of retained earnings through common dividend payments and, therefore, is in compliance with the Commission Order in Docket No. 04-0294. ~~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~~ net income purchase accounting fails to comport~~s~~ with the findings in the Order in Docket 04-0294 to reverse all purchase accounting for ratemaking purposes. Therefore, the Commission finds Staff's adjustment is appropriate and hereby adopted.

2. Adjustment to Month-end Balances

3. Non-Utility Investment

4. Forecast Equity Infusion

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

G. Embedded Cost of Long-term debt

Technical Correction to Section VI.G.3.

Staff recommends a clarifying change to the PO that would expressly state the approved costs for the 10-year and 30-year bond issuances the Company projects during December 2013 in order to remove any ambiguity regarding the approved costs of those bonds. Thus, Staff recommends the following clarifying change to page 123 of Section VI.G.3. of the PO:

> **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 <u>(i.e., 3.37% for similarly rated 10-year utility bonds and 4.65% for similarly rated 30-year utility bonds)</u>. 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

Technical Correction to Section VI.H.4.

Staff estimated the cost of equity for AIC's gas delivery services by applying DCF analysis and risk premium analysis to a sample that includes Laclede Group (also used by AIC and IIEC) as well as a sample that excludes Laclede Group. (PO, 134.) Staff's 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.

(PO, 134.) Staff's risk premium model estimated a required rate of return on common equity of 9.02% excluding Laclede Group, and 8.84% including Laclede Group. (PO, 137.)

The PO expressly finds that the proxy group that was used by AIC, IIEC and Staff, which includes Laclede Group, is appropriate for estimating AIC's cost of common equity in this proceeding. (PO, 155.) However, the PO also adopts Staff's DCF and CAPM estimates for the sample that excludes Laclede Group. (PO, 156, 159.) Authorizing a cost of equity that reflects Staff's DCF and CAPM estimates for the sample that includes Laclede Group would result in an authorized cost of equity of 8.98% (i.e., by averaging the equally weighted DCF results of AIC (9.68%), IIEC (9.10%) and Staff (8.56%), or 9.11%, with Staff's CAPM estimate of 8.84%). Staff offers the replacement language below for making this technical correction to pages 154-159 of Section VI.H.4. of the PO should the Commission wish to retain Laclede Group in the sample in accordance with the PO's recommendation:

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%<u>, after removing Laclede Group from Staff's sample of comparable companies</u>. <u>Including Laclede Group resulted in an 8.70% estimate of the cost of equity,</u>

which is the average of Ms. Phipps' constant growth DCF results of 8.56% and CAPM results of 8.84%

IIEC proposes 9.10%, based on an average of the results of IIEC witness Mr. Gorman's three DCF analyses.

Sample

[No changes]

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 = D1/P0 + G, where K = Investor's required return, D1 = Dividend in first year, P0 = 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~~8.56% 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~~8.56% by Staff results in a DCF estimate of ~~9.13~~9.11%.

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~~8.56% by Staff results in a DCF estimate of ~~9.13~~9.11%. 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: 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.

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~~8.84% 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

[No changes]

Approved ROE

As explained above, the Commission finds that DCF results of ~~9.13~~<u>9.11</u>% and a CAPM estimate of ~~9.02~~<u>8.84</u>% 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~~<u>9.11</u>% and the CAPM estimate of ~~9.02~~<u>8.84</u>% would be appropriate, which results in an ROE of ~~9.08~~<u>8.98</u>% 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~~<u>8.98</u>%, and that this result is supported by the record in this proceeding.

Substantive Change to Section VI.H.4 - Cost of Equity

The PO equally weights the DCF results of Staff, AIC and IIEC, and averages that result with the results of Staff's CAPM analysis to arrive at the authorized rate of return on rate base. The PO states, “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.” (PO, 156.) The PO identifies problems with the DCF analyses presented by AIC witness Mr. Hevert (i.e., using an unsustainable growth rate in the final stage of his non-constant DCF analysis) and IIEC witness Mr. Gorman (i.e., an underlying assumption in his growth rate estimate that does not hold true for the sample companies). (PO, 156.) In contrast, the PO’s conclusion does not identify any concerns or shortcomings regarding Staff’s DCF analysis.

The PO states further, “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.” (PO, 156.) Foremost, the problems the PO identifies in the AIC and IIEC DCF analyses bias the results upward; the PO’s conclusions do not identify any downward bias in Staff’s or the other parties’ estimates. Consequently, averaging Staff’s DCF results with the upwardly biased DCF estimates of AIC and IIEC only serves to raise the authorized rate of return on rate base. Such an outcome provides utilities an incentive to present upwardly biased cost of equity estimates in future rate case since including them in any average result will raise the authorized rate of return on rate base. While Staff strongly believes the Company’s and IIEC’s DCF analyses merit no weight whatsoever, at the very least, the Commission should consider assigning less weight to the proposals of the Company and IIEC, given the Commission has identified flaws in those analyses as a source of concern.

In summary, Staff recommends the Commission reject the DCF analyses of AIC and IIEC and rely exclusively on Staff's DCF estimate of 8.60%, which produces a return on equity of 8.81% when averaged with Staff's CAPM estimate. Accordingly, Staff recommends that the Commission adopt the language below to implement this change to pages 155-159 of Section VI.H.4. of the PO:

4. Commission's Cost of Equity Conclusions

[No changes]

~~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 = D1/P0 + G, where K = Investor's required return, D1 = Dividend in first year, P0 = 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's ~~results in a~~ DCF estimate of ~~9.13~~8.60%.

~~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, t~~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.~~

~~T~~the Commission finds ~~this~~ Staff's 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

[No changes]

Other Issues

[No changes]

Approved ROE

As explained above, the Commission finds that Staff's DCF result~~s~~ of ~~9.13~~8.60% 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~~8.60% and the CAPM estimate of 9.02% would be appropriate, which results in an ROE of ~~9.08~~8.81% 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~~8.81%, and that this result is supported by the record in this proceeding.

I. Authorized Return on Rate Base

Technical Correction to Section VI.I. - Common Equity Balance

Staff recommends a technical correction to Section VI.I. of the PO. The necessary technical correction is a mathematical error that must be corrected in Section VI.I. of the PO to avoid providing AIC a windfall due to overstating the Company's common equity balance, and the resulting rate of return on rate base.

The Company subtracted $356,284,459 from its common equity balance in order to remove the effects of the portion of purchase accounting, including goodwill, that it has recorded in Account 114. (PO, 104.) In addition to subtracting $356,284,459 from AIC's common equity balance, Staff also subtracted $105,536,599 income statement purchase accounting adjustments, which the Company has not included in Account 114, for a total adjustment of $461,821,058. (PO, 104.) The PO authorizes a common equity balance of $2,475,650,877, which does not reflect any adjustments to remove purchase accounting, including goodwill. (PO, 159.)

The Company agrees that purchase accounting adjustments, including goodwill, require removing at least $356,284,459 (i.e., the portion of purchase accounting adjustments the Company has recorded in Account 114) from the common equity balance. (PO, 104.) Consequently, the PO reflects an authorized common equity balance, and resulting common equity ratio, that exceeds even the Company's recommendation. (AIC IB, 83.) Although Staff does not agree that the purchase accounting adjustment should be limited to the portion recorded in Account 114, the record indicates that $356,284,459 is the minimum amount of that adjustment.

Should the Commission's Final Order conclude, as the PO does, that purchase accounting adjustments, including goodwill, equal $356,284,459 (i.e., the portion recorded in Account 114), then Staff recommends a technical correction to the common equity balance and capitalization ratios in Section VI.I. on page 159 of the PO to correctly reflect that conclusion. This technical correction, shown in the replacement language immediately following, would cause the Company's common equity balance to fall to $2,119,366,418, and the resulting common equity ratio would fall to 51.68%:

VI. CAPITAL STRUCTURE AND RATE OF RETURN

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~~7.75% 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~~27%	1.27%	0.00%
Long-term Debt	1,912,158,622	~~42.90~~46.62%	6.30%	~~2.70~~2.94%
Preferred Stock	58,757,200	~~1.32~~1.43%	4.98%	0.07%
Common Equity	~~2,475,650,877~~ 2,119,366,418	~~55.54~~51.68%	9.08%	~~5.04~~4.69%
Credit Facility Fees				0.05%
Total	~~4,457,561,714~~ 4,101,277,255	100.00%		**~~7.86~~7.75%**

Substantive Correction to Section VI.I.

Adopting Staff's return on equity recommendation of 8.81% exclusively, in addition to making the technical correction to the common equity balance described previously, would result in a 7.61% weighted average cost of capital. Staff proposes the following language for making those changes to page 159 of Section VI.I. of the PO:

VI. CAPITAL STRUCTURE AND RATE OF RETURN

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~~7.61% 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~~27%	1.27%	0.00%
Long-term Debt	1,912,158,622	~~42.90~~46.62%	6.30%	~~2.70~~2.94%
Preferred Stock	58,757,200	~~1.32~~1.43%	4.98%	0.07%
Common Equity	~~2,475,650,877~~ 2,119,366,418	~~55.54~~51.68%	~~9.08~~8.81%	~~5.04~~4.55%
Credit Facility Fees				0.05%
Total	~~4,457,561,714~~ 4,101,277,255	100.00%		**~~7.86~~7.61%**

Should the Commission's Final Order adopt Staff's common equity balance, which removes an additional $105,536,599 of net income related purchase accounting adjustments, in addition to Staff's 8.81% return on equity recommendation, would result in a 7.58% weighted average cost of capital for AIC's gas operations. In the event the Commission finds this appropriate, Staff proposes the following language for making those changes to page 159 of Section VI.I. of the PO:

VI. CAPITAL STRUCTURE AND RATE OF RETURN

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~~7.58% 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~~28%	1.27%	0.00%
Long-term Debt	1,912,158,622	~~42.90~~47.85%	6.30%	~~2.70~~3.02%
Preferred Stock	58,757,200	~~1.32~~1.47%	4.98%	0.07%
Common Equity	~~2,475,650,877~~ 2,013,829,819	~~55.54~~50.40%	~~9.08~~8.81%	~~5.04~~4.44%
Credit Facility Fees				0.05%
Total	~~4,457,561,714~~ 3,995,740,656	100.00%		**~~7.86~~7.58%**

VII. COST OF SERVICE

A. Introduction

B. Cost of Service Study

VIII. RATE DESIGN

A. Resolved Issues

B. Rate GDS-1

C. Rate GDS-4

IX. PROPOSED SMALL VOLUME TRANSPORTATION PROGRAM

A. Introduction

B. Positions of Parties

Technical Correction to Section IX.B.

Page 208 of the PO inadvertently describes Staff as agreeing to a three-month sunset provision of Rider GTA, whereas Staff agreed with AIC that a three year limit would be sufficient to determine whether the rider will be needed going forward. (Staff IB, 80.) Accordingly, Staff recommends the following technical correction to page 208 of Section IX.B.1. of the PO:

> 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~~year 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)

C. Commission Conclusions

The PO errs in allowing AIC to include language in Rider PGA that requires the annual PGA reconciliation statement to show the difference between the costs and revenues arising through the application of Rider GTA and Rider GSIC ("New Riders") during the reconciliation period. (PO, 240.) This treatment is unnecessary because the costs and revenues associated with each New Rider will be considered in its own separate reconciliation. (Staff RB, 65.)

Contrary to AIC's claim that Staff misses the intent regarding AIC's references to Riders GTA and GSIC in Rider PGA, Staff does understand that some costs currently recoverable through Rider PGA will instead become recoverable through the New Riders when the SVT program is in place. (Id.) However, since each New Rider includes language that provides for its own separate reconciliation that will be conducted in conjunction with the Rider PGA reconciliation, it is not necessary to also add language to Rider PGA requiring that the costs and revenues associated with the New Riders be included in the Rider PGA statement of reconciliation in order to make sure there is no under- or over- recovery of the total amount of costs. (Id.) That is the purpose of the reconciliations – to make sure that the Company neither under- or over- recovers all prudent costs. (Tr., Aug. 27, 2013, 317.) The Company has not provided a convincing rationale to support its claim that the threat of unintended over- or under-recoveries in the Rider PGA reconciliation exists without the Company's proposed Rider PGA language. (Staff RB, 66.)

Staff recommends the third paragraph of the PO on page 240 be modified, as follows:

> 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~~ 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~~GSIC. ~~Given the clarifications contained herein,~~ Therefore, the Commission finds ~~it acceptable~~no reason for AIC to include its proposed language in Rider PGA.

In addition, the PO orders AIC to file an SVT tariff. (PO, 236.) The PO also notes, "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." Id. at 241. However, the PO does not definitively indicate whether the Commission is ordering a separate proceeding as resolved among the parties or a timeframe for that proceeding. Therefore, Staff suggests the following language to page 241 of Section IX.C. of the PO that clarifies that AIC must file a petition to approve SVT tariffs in a separate proceeding as described in AIC witness Nelson's rebuttal testimony. (Ameren Ex. 16.0 (2d. Rev.), 14:302-304.)

> One of the "resolved issues" is identified as "SVT Program Separate Proceeding," sometimes referred to as a tariff proceeding. AIC pledged "to file a petition, supporting testimony and exhibits, including tariffs in support of the SVT program, within 45 days after the date of the order in this docket." (Ameren Ex. 16.0 (2d. Rev.), 14:302-304.) The Commission accepts this pledge. AIC shall file a petition, supporting testimony and exhibits, including tariffs in support of the SVT program and consistent with the findings of this Order within 45 days after the date of the order in this docket.

X. OTHER RECOMMENDATIONS

The PO refers to the recommendations in Staff's IB concerning the reporting of FERC Form 60 and notifying the Manager of the Accounting Department of the Commission for significant changes to the allocations from the Ameren service company to AIC. Those recommendations should be reflected in the language of the order. Staff avers that the Final Order should include these detailed recommendations for purposes of clarity and completeness. Accordingly, Staff proposes the following modifications to page 241 of Section X., Other Recommendations of the PO:

> X. OTHER RECOMMENDATIONS
>
> Staff also made certain reporting recommendations regarding FERC Form ~~1~~60 and ~~FERC audits~~ significant changes to the allocations from the Ameren service company to AIC:
>
> 1) for AIC to provide an electronic copy of its FERC Form 60 with the Manager of Accounting of the Commission on the day the FERC Form 60 is filed with FERC and

2) for AIC to notify the Manager of Accounting of the Commission within 30 days of implementation of substantial changes to service company allocation factors defined as change in the calculation of the factor that results in an increase or decrease in costs allocated form the Ameren service company to AIC by more than 5% or $5 million, whichever is greater, relative to the prior calendar year.

These recommendations~~, which were identified on page 91 of Staff's initial brief,~~ were not opposed by AIC and they are adopted.

XI. FINDINGS AND ORDERING PARAGRAPHS

XII. CONCLUSION

WHEREFORE, for all of the reasons set forth in Staff's Initial Brief, Reply Brief, and this Brief on Exceptions, Staff respectfully requests that the Commission's order in this proceeding reflect all of Staff's recommendations regarding the Company's request for a general increase in gas rates.

Respectfully submitted,

____
CHRISTINE F. ERICSON
JAMES V. OLIVERO
JOHN L. SAGONE
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
cericson@icc.illinois.gov
jolivero@icc.illinois.gov
jsagone@icc.illinois.gov

Counsel for the Staff of the
Illinois Commerce Commission

November 22, 2013