

SECOND REVISED DIRECT TESTIMONY

of

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Accounting Department

Financial Analysis Division

Illinois Commerce Commission

**Ameren Illinois Company d/b/a Ameren Illinois
Rate MAP-P Modernization Action Plan – Pricing Annual Update Filing**

Docket No. 14-0317

July 15, 2014

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Revenue Requirement Schedules

Schedule 1.01 – Statement of Operating Income with Adjustments

Schedule 1.02 – Adjustments to Operating Income

Schedule 1.03 – Rate Base

Schedule 1.04 – Adjustments to Rate Base

Schedule 1.05 – Revenue Effect of Adjustments

Schedule 1.06 – Interest Synchronization Adjustment

Schedule 1.07 – Gross Revenue Conversion Factor

Schedule 1.08FY – Reconciliation Computation (Filing Year Only)

Schedule 1.09FY – ROE Collar Computation (Filing Year Only)

Adjustment Schedule

Schedule 1.10 – Cash Working Capital Adjustment

Schedule 1.11 – ADIT Adjustment

1 **Witness Identification**

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

3 A. My name is Mary H. Everson. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 **Q. Please describe your professional background and affiliations.**

6 A. I have a Bachelor of Science in Accounting from the University of Central Florida.
7 I am a Certified Public Accountant licensed to practice in the State of Illinois. I
8 joined the Staff of the Illinois Commerce Commission (“Staff”) in February 1999.
9 Prior to joining Staff, I was employed in industry as a financial analyst and in
10 government as an internal auditor.

11 **Q. Have you previously testified before any regulatory bodies?**

12 A. Yes. I have testified on several occasions before the Illinois Commerce
13 Commission (“Commission”).

14 **Q. What is the purpose of your testimony in this proceeding?**

15 A. I have reviewed and analyzed Ameren Illinois Company’s (“AIC” or “Company”)
16 filing and the underlying data. The purpose of my testimony is to present Staff’s
17 adjusted Statements of Operating Income and Rate Base for the Company’s
18 electric utility delivery service operations and the Reconciliation Adjustment and
19 Return on Equity (“ROE”) Collar Calculation. I am proposing adjustments to Cash
20 Working Capital and Accumulated Deferred Income Taxes (“ADIT”). I am
21 responding to AIC’s request for an original cost determination, making a
22 recommendation regarding AIC’s Safety Awareness and Recognition Spending

23 Guidelines (“Guidelines”), and commenting on certain reporting commitments
24 and obligations required by Section 16-108.5 of the Public Utilities Act (“PUA” or
25 “Act”).

26 **Schedule Identification**

27 **Q. Are you sponsoring any schedules with your testimony?**

28 A. Yes. I prepared the following schedules for the Company, which show data for
29 2013:

30 **Revenue Requirement Schedules**

31 Schedule 1.01 – Statement of Operating Income with Adjustments

32 Schedule 1.02 – Adjustments to Operating Income

33 Schedule 1.03 – Rate Base

34 Schedule 1.04 – Adjustments to Rate Base

35 Schedule 1.05 – Revenue Effect of Adjustments

36 Schedule 1.06 – Interest Synchronization Adjustment

37 Schedule 1.07 – Gross Revenue Conversion Factor

38 Schedule 1.08FY – Reconciliation Computation (Filing Year Only)

39 Schedule 1.09FY – ROE Collar Computation (Filing Year Only)

40

41 **Adjustment Schedules**

42 Schedule 1.10 – Cash Working Capital Adjustment

43 Schedule 1.11 – ADIT Adjustment

44 **Q. Do you have a comment regarding your presentation of the Staff proposed**
45 **revenue requirement?**

46 A. Yes. The Staff proposed revenue requirement for the filing year (“FY”) ending
47 December 31, 2013 includes: (a) a reconciliation amount for the actual revenue
48 requirement compared to the revenue requirement that was reflected in delivery
49 service charges applied during 2013; and (b) the Return on Equity (“ROE”) collar
50 calculation.

51 **Q. Please explain the differences between the two proposed revenue**
52 **requirements you are presenting.**

53 A. The Statement of Operating Income with Adjustments for the filing year ending
54 December 31, 2013, Schedule 1.01FY, presents the revenue requirement that is
55 the basis for delivery service charges beginning in January 2015. The schedule
56 has an additional column (j) entitled “Staff Proposed Net Revenue Requirement.”
57 The column is necessary to show the inputs for the amount representing the
58 Reconciliation Adjustment from Schedule 1.08FY and the amount representing
59 the ROE Collar Adjustment from Schedule 1.09FY.

60 The letters that follow the schedule numbers indicate to which revenue
61 requirement the respective schedule pertains. The letters FY indicate the filing

62 year revenue requirement on which delivery service rates effective January 2015
63 will be based. The letters RY indicate the reconciliation year revenue
64 requirement, which is the actual revenue requirement for 2013, as adjusted by
65 Staff.

66 **Revenue Requirement Schedules**

67 **Q. Please describe ICC Staff Ex. 1.0 (2nd Revised), Schedule 1.01, Statement of**
68 **Operating Income with Adjustments.**

69 A. Schedule 1.01 derives the required revenue at the Staff proposed rate of return
70 with Staff's adjustments. Column (b) presents the Company's jurisdictional
71 operating statement for 2013 as reflected on its corresponding Schedule C-1.
72 Column (c) reflects the total of all Staff adjustments shown on the corresponding
73 Schedule 1.02. Column (d) reflects the pro forma operating statement at present
74 rates per Staff's recommendation. Column (e) presents the Company's
75 proposed increase to revenue. Column (f) adjusts revenue to reflect Staff's gross
76 revenue conversion factor. Column (g) is Staff's pro forma operating statement
77 inclusive of the Company's proposed revenues, adjusted for Staff's gross
78 revenue conversion factor, to arrive at Staff's computed revenue requirement
79 reflected in column (i). Line 24 is the difference between Company revenues and
80 revenues as determined by Staff. Line 25 is Staff's calculated percentage change
81 in revenues. Net Operating Income in column (i), line 21, is the product of rate
82 base, line 22, and rate of return, line 23.

83 **Q. Please describe Schedule 1.02, Adjustments to Operating Income.**

84 A. Schedule 1.02 identifies Staff's adjustments to Operating Income. The source of
85 each adjustment is shown in the heading of each column. The final column of
86 Schedule 1.02 is carried forward to Schedule 1.01, column (c).

87 **Q. Please describe Schedule 1.03, Rate Base.**

88 A. Schedule 1.03 compiles Staff's proposed rate base. Column (b) reflects the
89 Company's proposed rate base. Column (c) summarizes Staff's adjustments to
90 rate base. Column (d) is the net of columns (b) and (c), and reflects Staff's
91 computed rate base.

92 **Q. Please describe Schedule 1.04, Adjustments to Rate Base.**

93 A. Schedule 1.04 identifies Staff's adjustments to rate base. The source of each
94 adjustment is shown in the heading of each column. The final column of each
95 Schedule is carried forward to the corresponding Schedule 1.03, column (c).

96 **Revenue Effect of Adjustments**

97 **Q. Please describe Schedule 1.05, Revenue Effect of Adjustments.**

98 A. Schedule 1.05 identifies the approximate effect of each proposed Staff
99 adjustment on the Company's revenue requirement. Schedule 1.05 is not the
100 development of Staff's revenue requirement. Rather, it is an analysis designed
101 to assist in identifying the relative monetary significance of each Staff adjustment.

102 **Interest Synchronization**

103 **Q. Please explain Schedule 1.06, Interest Synchronization Adjustment.**

104 A. Schedule 1.06 computes the interest component of the revenue requirement.
105 The interest expense (component) is computed by multiplying the rate base by
106 the weighted cost of debt. The calculated interest expense is then compared
107 against the interest expense used by the Company in its computation of 2013
108 income tax expense. The tax effect of the difference in interest expense is the
109 adjustment for interest synchronization. The effect of this adjustment is to ensure
110 that the revenue requirement reflects the tax savings generated by the interest
111 component of the revenue requirement.

112 **Gross Revenue Conversion Factor**

113 **Q. What is the purpose of Schedule 1.07, Gross Revenue Conversion Factor?**

114 A. Schedule 1.07 presents Staff's proposed gross revenue conversion factor
115 ("GRCF"). The GRCF is applied to the operating income deficiency to derive the
116 change in revenue requirement. It is based upon the applicable federal tax rate,
117 state income tax rate, and uncollectible rate. The GRCF is used in the
118 calculation of the revenue requirement in columns (f) through (h) of the
119 corresponding Schedule 1.01.

120 **Reconciliation Computation (Filing Year Only)**

121 **Q. Please describe Schedule 1.08FY, Reconciliation Computation.**

122 A. Schedule 1.08FY computes the variance between the actual revenue
123 requirement for 2013 and the revenue requirement that was reflected in delivery
124 services charges applied during 2013. Interest for the period January 2013
125 through December 2015 is added to the variance, and the total amount is
126 incorporated into the revenue requirement which provides the basis for the 2015
127 delivery service rates.

128 **Q. How does your Reconciliation Computation on Schedule 1.08FY differ from**
129 **the Company Schedule FR A-4 as presented in Ameren Exhibit 2.1, page 6?**

130 A. My Reconciliation Computation provides different inputs for the Actual Revenue
131 Requirement since it includes all of Staff's adjustments to the 2013 actual
132 operating statement and rate base presented by the Company. These
133 adjustments are addressed in the testimony of the Staff witness proposing the
134 adjustments.

135 **ROE Collar Calculation**

136 Q. Please describe Schedule 1.09FY, ROE Collar Computation (Filing Year Only).

137 A. Schedule 1.09FY computes the adjustment when the Company's earned return
138 on common equity falls outside of the parameters of the earnings collar
139 established by Section 16-108.5 of the Act. The calculation utilizes the actual
140 operating expenses, rate base, and capital structure for 2013, inclusive of
141 ratemaking adjustments and Commission disallowances as proposed by Staff.
142 The delivery service revenues reflect actual revenues reported by the Company

143 on FERC Form 1. The resulting adjustment is incorporated into the filing year
144 revenue requirement on Schedule 1.01 FY which is the basis for the 2015
145 delivery service rates.

146 **Q. How does your ROE Collar Computation on Schedule 1.09FY differ from the**
147 **Company Schedule FR A-3 as presented in Ameren Exhibit 2.1, page 5?**

148 A. My schedule utilizes the Staff recommended rate base, operating expenses, and
149 capital structure for the reconciliation year as presented on the reconciliation year
150 schedules of my testimony, indicated by a “RY” after the schedule number. Any
151 adjustments to the Company’s position proposed in its filing are addressed
152 individually in the testimony of the Staff witness sponsoring those adjustments.

153 **Cash Working Capital Adjustment**

154 **Q. Please describe Schedule 1.10, Cash Working Capital Adjustment.**

155 A. Schedule 1.10 presents the adjustment to Cash Working Capital (“CWC”) to
156 reflect Staff’s proposed level of operating expenses and to reflect the treatment
157 that resulted from the Order in Docket No. 13-0301 regarding deferred income
158 taxes.

159 My calculation of CWC does not include a provision for federal income taxes
160 because the revenue requirements presented in my Schedules 1.01 FY and RY
161 do not reflect positive current income tax expense. This treatment in the CWC

162 calculation is consistent with the Order in Docket No. 13-0301 which did not
163 include the provision for federal income tax in the CWC calculation:

164 The Commission finds that AIC, as supported by Staff, has proposed to
165 continue handling this issue as it has been handled in past dockets. The
166 Commission agrees that it has a long-standing practice of not considering
167 current and deferred income taxes separately; however, the question is
168 whether it is time to revisit this practice.

169
170 The AG and CUB both urge the Commission to modify the way it has been
171 handling the issue of deferred income taxes in calculating CWC, *noting that*
172 *AIC presently has no income taxes currently payable in 2012, and therefore*
173 *should have no cash outflows or CWC requirements associated with income*
174 *taxes. The AG notes that deferred income taxes are not paid out in cash,*
175 *but are instead deferred for expected payment in future tax years.*

176
177 The Commission also notes that under similar income tax circumstances,
178 ComEd ratepayers do not contribute to CWC. Although AIC argues that it
179 and ComEd calculate income taxes differently, there appears to the
180 Commission to be no justifiable reason presented to continue this disparate
181 treatment between the two utilities. *The Commission therefore finds that is*
182 *appropriate, based on the evidence presented in this proceeding, to adopt*
183 *the AG's proposed adjustment on this issue.*

184 Ameren Illinois Co., ICC Order Docket No. 13-0301, 16 (Dec. 9, 2013) (emphasis
185 added) (“13-0301 Order”).

186 **ADIT Adjustment**

187 **Q. Please explain Schedule 1.11, ADIT Adjustment.**

188 A. Schedule 1.11 presents the adjustment to remove certain deferred tax assets
189 included within AIC’s ADIT calculation, since the corresponding liability or
190 reserve is not included in AIC’s rate base. In the Company’s responses to AG
191 DRs 4.02-4.06, AIC acknowledged that the corresponding reserve or liability was

192 not included in rate base. Thus, the associated tax liabilities and/or reserves
193 should not be included in ADIT.

194 **AIC's Safety Awareness and Recognition Guidelines**

195 **Q. Has AIC made an adjustment to remove safety-related expenses from its**
196 **filing and reconciliation year revenue requirements?**

197 A. Yes. I concur with the removal of safety awards expenses that are reflected in
198 Ameren Exhibit 2.2¹ in this proceeding.

199 **Q. Although you have no proposed safety-related expense adjustments, do**
200 **you have any comments regarding AIC's Safety Awareness and**
201 **Recognition Guidelines ("Guidelines") provided as Ameren Exhibit 10.1**
202 **and as discussed by AIC witness Barud in Ameren Ex. 10.0 ?**

203 A. Yes, I do. In the 13-0301 Order, the Commission expressed two areas of concern
204 regarding AIC expenses for safety recognition awards. The Commission's first
205 stated area of concern was that the safety recognition awards represented an
206 additional or duplicative layer of compensation beyond normal wages and the
207 safety-related incentive compensation already allowed under Section 16-
208 108.5(c)(4)(A). In the 13-0301 Order, the Commission, in discussing safety
209 recognition-related purchases, stated:

¹ See also, AIC WPC 2.16a.

210 Generally, AIC believes such purchases are reasonable and
211 prudent because they supposedly encourage employees
212 and contractors to work safely and recognize them for their
213 efforts when they do so. *Such incentives and rewards,*
214 *however, serve the same purpose as safety related incentive*
215 *compensation programs. AIC already recovers safety*
216 *related incentive compensation expenses under Section 16-*
217 *108.5(c)(4)(A) of the Act.*

218 13-0301 Order, 59-60 (Emphasis added).

219 The second area of concern expressed by the Commission in the 13-0301 Order
220 regarded the apparent lack of Company-wide spending guidelines for safety
221 recognition awards as well as for other credit card purchases. The Commission
222 stated:

223 As was the case in Docket No. 12-0293, the Commission is
224 troubled by AIC's view of its employees' credit card use.
225 *Like before, there do not appear to be any definitive*
226 *company standards for reviewing and evaluating employee*
227 *credit card purchases. Nor does there appear to be any per*
228 *diem limitation concerning travel expenses. An unknown*
229 *number of managers have authority to review credit card*
230 *purchases using unknown standards. Even the standards*
231 *that Ms. Voiles uses are not clear from the record. So long*
232 *as some aspect of the charge is arguably related to*
233 *something the utility does, AIC seems to believe that*
234 *recovery of the expense from ratepayers is appropriate.*
235 AIC's main concern, however, does not appear to be the
236 \$22,000 currently at issue, but rather the impact that an
237 adverse ruling may have on its business practices. (See AIC
238 Initial Brief at 24)

239 *The underlying issue appears to stem from a*
240 *corporate culture where employee perquisites and broad*
241 *discretion on what is reasonable and necessary for business*
242 *are the norm. As was pointed out by the Commission in*
243 *Docket No. 12-0293, although such expenses may be*
244 *permissible in an unregulated business that competes with*
245 *other unregulated businesses for customers, the expenses*
246 *are not appropriate for regulated rate recovery since AIC*

247 customers have no choice but to obtain delivery services
248 from AIC.

249 13-0301 Order, 69 (Emphasis added).

250 AIC has partly addressed the Commission's second concern regarding the lack
251 of a centralized policy regarding safety recognition awards in that AIC now has
252 Guidelines that became effective throughout AIC on January 1, 2014. However,
253 the Guidelines are not complete and have not been finalized. For example, on
254 page 3 of the Guidelines is a heading, "Departmental Recognition for Long Term
255 Accomplishments for No Recordable Accidents," but no criteria are listed.

256 The Guidelines are expected to be completed sometime in 2014. According to
257 Mr. Barud: "During 2014, the Senior Directors and Safety Department will
258 establish a program to provide safety recognition awards to employees who do
259 not experience a recordable accident over longer timeframes (beyond 1 year, 5-
260 years, 15-years, and 25-years)."² Mr. Barud also stated: "AIC currently is
261 determining whether to recognize safety with safety recognition awards on a
262 rolling, rather than annual, basis."³

263 However, AIC did not address the Commission's first area of concern regarding
264 the additional or duplicative layer of incentive compensation that safety
265 recognition awards provide. The Guidelines, as currently written, allow each
266 department to budget \$100 per employee annually for safety meetings,
267 programs, presenters, etc. for departmental safety awards recognition. This

² Ameren Ex. 10.0, p. 11:233-235.

³ Ameren Ex. 10.0, p.11:227-229.

268 recognition may include a departmental breakfast, luncheon or dinner and that
269 meal includes spouses or other guests. If recipients are unable to attend the
270 departmental function, reimbursement for a similar meal on his/her own is
271 allowed. The individual departments may choose to provide safety-related items
272 at safety meetings including, but not limited to, weather radios, first aid kits,
273 smoke detectors, fire extinguishers, carbon monoxide monitors, AAA severe
274 weather car kits, jumper cables, flashlights or lanterns and pedometers, with
275 other items permitted upon pre-approval by an approval body consisting of two
276 Senior Directors and the Director of the Safety Department.⁴

277 For individual short term accomplishments, each bargaining unit employee
278 working the entire year is eligible for \$100 recognition for zero recordable⁵
279 injuries or preventable vehicular accidents for the year. The Safety Department
280 will budget \$100 per field operations bargaining unit employee.

281 **Q. Do you have a recommendation with regard to AIC's Guidelines?**

282 A. Yes. I recommend that the Commission require AIC to complete its Guidelines
283 prior to AIC's next formula rate or general rate filing if AIC intends to use the
284 Guidelines as a basis for recovering safety recognition awards. It is not clear that

⁴ Ameren Ex. 10.1, pp. 1-2.

⁵ "Recordable" refers to OSHA Recordable incidents, per Ameren Exhibit 10.0, p. 6:128-129.

285 AIC is currently seeking approval of its Guidelines but even if it were, it would be
286 premature given the Guidelines' current incomplete, unfinished state.⁶

287 **Original Cost Determination**

288 **Q. Do you have a recommendation regarding the Company's request for an**
289 **original cost determination?**

290 A. Yes. I recommend the Commission approve the Company's request for an
291 original cost determination.⁷ If the Commission makes any adjustments to plant,
292 excluding projected additions, those adjustments should be reflected in the
293 original cost determination. Therefore, I recommend the Commission include the
294 following language in the Findings and Ordering paragraphs of its Order in this
295 proceeding:

296 (x) the Commission, based on AIC's proposed original cost of
297 plant in service as of December 31, 2013, before adjustments, of
298 \$5,481,627,000 and reflecting the Commission's determination
299 adjusting that figure, unconditionally approves \$5,481,627,000 as
300 the composite original jurisdictional distribution services plant in
301 service as of December 31, 2013.

302 **Commitments and Obligations under Subsections 16-108.5(b)(2) of the Act**

303 **Q. Did the Company provide the actual and projected incremental plant**
304 **investment that is included in the revenue requirement in compliance with**
305 **Section 16-108.5(b)(2) of the Act as ordered by the Commission in Docket**
306 **No. 12-0293?**

⁶ Ameren Ex. 10.1.

⁷ AIC's proposed original cost of plant in service as of December 31, 2013 is \$5,481,627,000. Ameren Ex. 2.0R, p.21:408-412.

307 A. Yes. AIC placed \$19.9 million and \$13.6 million of actual incremental plant
308 additions in service in 2012 and 2013, respectively, and the FY revenue
309 requirement includes \$100.3 million of projected plant additions to be placed into
310 service in 2014.

311 The *cumulative plant additions* of \$133.8 million projected to be in service by
312 December 31, 2014 compares to the *cumulative capital investment expenditures*
313 through 2014 of \$151.3 million in AIC's Modernization Action Plan Infrastructure
314 Investment Program filed with the Commission on April 7, 2014.⁸ AIC witness
315 Blessing addresses the difference of \$17.3 million in his direct testimony.

316 **Q. Do you have a recommendation regarding the need for the Commission to**
317 **identify in its order the amount of incremental plant investment that is**
318 **included in the revenue requirement in compliance with Section 16-**
319 **108.5(b)(2) of the Act?**

320 A. Yes. To increase transparency, I recommend the Commission include in its order
321 in this proceeding the following conclusion:

322 The Commission is setting a revenue requirement in this
323 proceeding for the recovery of \$13.6 million in actual 2013 plant
324 additions and \$100.3 million of projected 2014 plant additions in
325 compliance with Section 16-108.5. The detail of these actual and
326 projected plant additions by categories as required by Section
327 108.5(b)(2) are as follows:

⁸ Ameren Ex. 11.0 and Ameren Illinois Modernization Action Plan Infrastructure Investment Program 2012-2021 Attachment 2: 2014 Plan, p. 6.

	<u>CATEGORY</u>	<u>ACTUAL 2012 (In Millions)</u>	<u>ACTUAL 2013 (In Millions)</u>	<u>PROJECTED 2014 (In Millions)</u>	<u>CUMULATIVE (In Millions)</u>
(A) (i)	Distribution Infrastructure Improvements	\$7.3	\$3.5	\$27.3	\$38.1
(A) (ii)	Training Facility Construction or Upgrade Projects	\$5.8	\$1.6	\$0.0	\$7.4
(A) (iii)	Wood Pole Inspection, Treatment, and Replacement	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
	Total Electric System Upgrades, Modernization Projects, and Training Facilities	<u>\$13.1</u>	<u>\$5.1</u>	<u>\$27.3</u>	<u>\$45.5</u>
(B) (i)	Additional Smart Meters	\$0.0	\$0.4	\$50.0	\$50.4
(B) (ii)	Distribution Automation	\$6.5	\$5.6	\$18.3	\$30.4
(B) (iii)	Associated Cyber Secure Data Communications Network	\$0.0	\$2.5	2.0	\$4.5
(B) (iv)	Substation Micro-processor Relay Upgrades	<u>\$0.3</u>	<u>\$0.0</u>	<u>\$2.7</u>	<u>\$3.0</u>
	Total Upgrade and Modernization of Transmission and Distribution Infrastructure and Smart Grid Electric System Upgrades	<u>\$6.8</u>	<u>\$8.5</u>	<u>\$73.0</u>	<u>\$88.3</u>
	Total Plant Additions in Compliance with Section 16-108.5(b)(2) of the Act	<u>\$19.9</u>	<u>\$13.6</u>	<u>\$100.3</u>	<u>\$133.8</u>

328

329 **Recommendations**

330 **Q. Do you have any recommendations for the Commission?**

331 A. Yes. I recommend the Commission:

332 1) Approve the revenue requirements in Staff Ex. 1.0 (2nd Revised) for both
 333 the filing year and the reconciliation year that incorporate my adjustments to
 334 Cash Working Capital and ADIT;

- 335 2) Include a finding regarding the approval of AIC's original cost; and
- 336 3) Require AIC to complete its Safety Awards Recognition Guidelines prior to
- 337 the filing of any rate proceeding in which AIC intends to request recovery for such
- 338 expenditures.

339 **Conclusion**

340 **Q. Does this question end your prepared direct testimony?**

341 A. Yes.