CUB/IIEC Exhibit 2.0

STATE OF ILLINOIS
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**

Rebuttal Testimony of

Michael P. Gorman

On behalf of

Citizens Utility Board
and Illinois Industrial Energy Consumers

August 28, 2014

BRUBAKER & ASSOCIATES, INC.

Project 9924

STATE OF ILLINOIS
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

Table of Contents to the Rebuttal Testimony of Michael P. Gorman

Page

MATERIALS AND SUPPLIES 1

RECONCILIATION BALANCE INTEREST 4

Rebuttal Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON JULY 7, 2014?

A Yes.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A The purpose of my rebuttal testimony is to address the rebuttal testimony of Ameren Illinois Company d/b/a Ameren Illinois ("Ameren Illinois" or "Company") regarding materials and supplies filed by Michael J. Getz (Ameren Ex. 14.0 (Rev.)), and the Company's rebuttal testimony regarding reconciliation balance interest filed by Ronald D. Stafford (Ameren Ex. 13.0 (Rev.)), James C. Blessing (Ameren Ex. 18.0) and James I. Warren (Ameren Ex. 15.0 (Rev.)).

MATERIALS AND SUPPLIES

Q PLEASE DISCUSS THIS SECTION OF YOUR REBUTTAL TESTIMONY.

A In this section of my rebuttal testimony, I will address Ameren Illinois witness Getz's rebuttal testimony (Ameren Illinois Ex. 14.0 (Rev.)) regarding the significant increase in the level of materials experienced by the Company since 2010.

Q IN HIS REBUTTAL TESTIMONY AT LINE 307, MR. GETZ STATES THAT THE VALUE YOU USED FOR 2010 IS INCORRECT. HAVE YOU PREPARED A REVISION TO TABLE 1, PRESENTED ON PAGE 9 OF YOUR DIRECT TESTIMONY?

A Yes. In preparing my direct testimony I relied on Ameren Ex. 2.2, Workpaper 19, page 202, which contained an incorrect materials and supplies value for 2010. In response to the Company's Data Request AIC-CUB/IIEC 1.01, I provided Ameren Illinois with a new calculation based on the corrected 2010 materials and supplies value. Shown below is Rebuttal Table 1.

REBUTTAL TABLE 1

Materials and Supplies

	2010	2011	2012	2013
Jurisdictional Balances Year-End	$35,443	$38,601	$46,415	$50,380
Yearly Percentage Change		9%	20%	9%
Cumulative Percentage Change		9%	31%	42%

Q BASED ON THE ABOVE REBUTTAL TABLE 1 DO YOU CONTINUE TO BELIEVE THAT THE GROWTH IN MATERIALS AND SUPPLIES SINCE 2010 IS SIGNIFICANT AND SHOULD BE ADEQUATELY JUSTIFIED BY AMEREN ILLINOIS?

A Yes. As shown in Rebuttal Table 1, the balance has not simply exhibited an increase from 2012 to 2013, but has significantly increased year over year. This escalation reflects a cumulative increase of 42% from 2010 to 2013. The prudence and reasonableness of this increase has not been adequately justified by Ameren Illinois,

therefore, an adjustment should be made to the level included in the formula rate calculation.

Q WHAT EXPLANATION HAS MR. GETZ PROVIDED IN HIS REBUTTAL TESTIMONY REGARDING THIS SIGNIFICANT INCREASE IN MATERIALS AND SUPPLIES?

A Mr. Getz has noted increases in Ameren Illinois' distribution line construction spending, but Mr. Getz did not specifically explain or justify the need for the significant increase in materials and supplies. He also references the testimony of Mr. Blessing regarding the level of spending for EIMA distribution infrastructure, but does not associate this increased spending with specific increases in materials and supplies. He simply states that "Additional M&S inventory is required to accommodate the increased level of construction spending that has occurred and is expected to occur under EIMA in 2014." (Ameren Ex. 14.0 (Rev.) at 17:353-354). The only specific materials and supplies cost increase Mr. Getz provides related to the 2013 year-end balance is a $0.8 million increase in the cost of composite poles compared to wood poles.

Ameren Illinois should justify its increase in materials and supplies by proving the increase is needed to support its planned construction spending, including EIMA distribution infrastructure, in the rate-effective period.

Q DOES THE INCREASE IN MATERIALS AND SUPPLIES HAVE AN ECONOMIC BENEFIT TO AMEREN ILLINOIS?

A Yes. Materials and supplies inventory is included in the Formula Rate rate base. By increasing the rate base, Ameren Illinois increases its operating income and profits on

its regulated operations in Illinois. This increased profit also increases its cash flows, and is a direct benefit to its investors. Therefore, the need for an increase in materials and supply inventory should be explained and justified as prudent and reasonable, along with all other costs included in the formula rate process, in order to ensure that the rates charged to retail customers reflect only its actual prudent and reasonable cost of service.

Q ABSENT SUCH JUSTIFICATION, DO YOU CONTINUE TO SUPPORT AN ADJUSTMENT TO THE LEVEL OF MATERIALS AND SUPPLIES INCLUDED IN THE FORMULA RATES RESULTING FROM THIS CASE?

A Yes. Without this justification, Ameren Illinois has not shown that its level of materials and supplies is prudent or reasonable. Therefore, I support an adjustment to reflect an average of the materials and supplies balances from 2010 through 2013. This adjustment reduces the materials and supplies rate base balance included in the calculation of formula rates and the resulting revenue requirement in this case by $6.6 million and $1.7 million, respectively.

RECONCILIATION BALANCE INTEREST

Q PLEASE EXPLAIN THIS PORTION OF YOUR TESTIMONY.

A This portion of my rebuttal testimony will address the issue of the appropriate level of interest associated with the reconciliation balance. I will respond to the rebuttal testimonies of Ameren Illinois witnesses Ronald D. Stafford (Ameren Ex. 13.0 (Rev.)), James C. Blessing (Ameren Ex. 18.0) and James I. Warren (Ameren Ex. 15.0 (Rev.)) regarding this issue.

Q PLEASE SUMMARIZE MR. STAFFORD'S TESTIMONY REGARDING THIS ISSUE.

A In his rebuttal testimony at lines 134 through 144, Mr. Stafford discusses my recommendation to reduce the amount of reconciliation balance interest through a modification to formula rate schedule FR Sch. A-4 and his understanding that changes to formula rate schedules and appendices cannot be made in the current proceeding, an annual formula rate update. He further opines that changes to formula rate schedules and appendices can only be made in a separate Section 9-201 proceeding before the Commission (pursuant to Section 16-108.5 of the Public Utilities Act, the "Formula Rate Law").

Q IS MR. STAFFORD'S UNDERSTANDING OF THE NEED FOR A SECTION 9-201 PROCEEDING PURSUANT TO THE FORMULA RATE LAW CORRECT?

A No. I understand that in its Final Order dated August 19, 2014 in Consolidated Docket Nos. 13-0501 and 13-0517 at page 26, the Commission stated that a Section 9-201 filing is not necessary for changes to formula rate schedules, appendices, or workpapers, other than the specific formula rate schedules FR A-1 and FR A-1 - REC.

Q ARE YOU RECOMMENDING ANY CHANGES TO FORMULA RATE SCHEDULES FR A-1 AND/OR FR A-1 - REC?

A No. My recommendation adjusts the amount of reconciliation interest on a workpaper, WP 23, which flows to line 30a of formula rate schedule FR A-4. Therefore, my adjustment is to a data input to the formula rate, and is not an adjustment to the formula rate.

As I previously stated in my direct testimony in this proceeding at page 7, the adjustment does not disturb the formula rate schedules FR A-1 or FR A-1 - REC. Therefore, based on my layperson's understanding of the Commission's Final Order in Consolidated Docket Nos. 13-0501 and 13-0517, the adjustment I am recommending to the amount of interest on the reconciliation balance can be considered in this proceeding.

Q PLEASE SUMMARIZE MR. BLESSING'S TESTIMONY REGARDING THIS ISSUE.

A I understand that the main focus of Mr. Blessing's testimony with regard to my recommendation is that the specific language in the Formula Rate Law, either as originally passed or later amended by the legislature, does not address a reduction to the reconciliation balance.

Q WHAT IS YOUR RESPONSE?

A I believe the Commission can and should use its discretion to interpret the Formula Rate Law, when the plain meaning of the language is called into question and parties present a sound ratemaking position on an issue.

Q HAS THE COMMISSION PREVIOUSLY EXPRESSED ITS OPINION REGARDING THE CLARITY OF THE FORMULA RATE LAW LANGUAGE AND THE VALUE OF THE POSITION THAT RECONCILIATION BALANCE INTEREST SHOULD BE REDUCED TO REFLECT ASSOCIATED TAX BENEFITS?

A Yes. In its Interim Order dated November 26, 2013 in Consolidated Docket Nos. 13-0501 and 13-0517 at page 26 relating to this issue, the Commission disagreed with Ameren Illinois regarding the clarity of the language in the Formula Rate Law.

The Commission also found merit in the AG's position in this case, which conformed to Generally Accepted Accounting Principles and would capture deferred tax benefits. In addition, the Commission stated that the position is likely a more accurate accounting for all of the economic impacts caused by revenue requirement reconciliation.

Q IS THE RECOGNITION OF DEFERRED INCOME TAX BENEFITS IN FORMULA RATE PROCEEDINGS SPECIFICALLY DISCUSSED IN THE FORMULA RATE LAW?

A Not exactly. The netting of deferred tax benefits with the pension asset is the only specific reference to Accumulated Deferred Income Taxes ("ADIT") in the Formula Rate Law. As a result, other examples where ADIT in formula ratemaking is recognized, such as the reduction of rate base for ADIT, must be the result of the Commission's interpretation of the Formula Rate Law. Clearly, the Commission must make reasonable interpretations in order to effectively implement the formula rate. Not all ratemaking aspects of developing a utility revenue requirement are explicitly defined by the Formula Rate Law.

Q HAS AMEREN ILLINOIS MADE RATEMAKING ADJUSTMENTS WHICH ARE NOT SPECIFICALLY REFERENCED IN THE FORMULA RATE LAW?

A Yes. Ameren Illinois has adjusted the amount recorded in the Federal Energy Regulatory Commission ("FERC") Form 1 for 2013, to recognize cash payments for injuries and damages. Although this adjustment was not opposed by other parties to this proceeding, I do not believe this type of ratemaking adjustment is specifically contemplated by the Formula Rate Law. Recognizing cash payments for injuries and

damages increases Ameren Illinois' expenses and its formula rate revenue requirement. If the Commission can make interpretations that increase revenue requirement, it would be balanced to also allow it to make reasonable and accurate interpretations of cost of service that decrease revenue requirements.

Q PLEASE SUMMARIZE MR. WARREN'S TESTIMONY REGARDING THIS ISSUE.

A Mr. Warren describes two methods, which he refers to as models, for calculating interest on the reconciliation balance. He has labeled his two models as the "prescribed interest" model and the "cost-based" model and his testimony describes the two models according to how each model calculates the interest for the reconciliation balance.

Q HOW DOES MR. WARREN DESCRIBE EACH OF THESE MODELS?

A Mr. Warren first compares the prescribed interest model as similar to the process of a bank charging interest on a loan balance. According to this model, Mr. Warren calculates interest by multiplying a rate by the reconciliation balance.

Second, Mr. Warren compares the cost-based model to a conventional regulatory calculation. According to the cost-based model, the reconciliation balance is reduced by accumulated tax benefits before being multiplied by a carrying charge rate. However, Mr. Warren assumes the carrying charge rate is based on 100% common equity capital, and has proposed to gross-up the common equity carrying charge rate for income taxes.

Q ARE THESE TWO MODELS THE ONLY METHODS APPLICABLE TO THE CALCULATION OF INTEREST ON THE RECONCILIATION BALANCE?

A No. Mr. Warren seeks to establish that his two models are the only ones applicable to the calculation of interest on the reconciliation balance. These two models are not specifically described in the Formula Rate Law (220 ILCS 5/16-108.5), and by limiting the calculation of interest on the reconciliation balance to only these two models, Mr. Warren is able to reject any method that does not fit into the parameters he proposes to establish. The method I discuss in my direct testimony produces a level of interest on the reconciliation balance that fully recovers Ameren Illinois' cost of carrying the reconciliation balance.

Q DOES YOUR METHOD OF CALCULATING INTEREST MORE ACCURATELY MEASURE AMEREN ILLINOIS' ACTUAL INTEREST EXPENSE ON THE RECONCILIATION BALANCE?

A Yes. The Formula Rate Law clearly states that "interest" is being applied to the reconciliation balance. Although it is my understanding that the rate of interest is required by the Formula Rate Law to be equal to the weighted average cost of capital ("WACC"), it is not a rate of return, and it is my further understanding it is not referred to as such in the statute. It is simply the "interest" rate to be used as a carrying charge rate on the reconciliation balance. Interest is tax deductible, and should not be factored-up for income taxes as suggested by Mr. Warren's second model.

The reconciliation balance, to which this carrying charge rate should be applied, must be examined to establish the amount of Ameren Illinois' increased interest cost. In Ameren Illinois' case, the reconciliation balance is positive, indicating that the cost of service was higher than the level reflected in rates. As I discussed in

my direct testimony, these higher costs would result in less taxable income and a reduction in income taxes. This tax benefit results in a lower out-of-pocket income tax cost associated with the reconciliation balance. A reconciliation balance, net of tax savings, reflects the amount that Ameren Illinois must use its capital to carry and which an interest cost will be incurred it recovers the reconciliation balance from customers.

Q DO YOU BELIEVE THE COMMISSION HAS ACCEPTED THE "PRESCRIBED INTEREST" MODEL?

A No. In its Interim Order dated November 26, 2013 in Consolidated Docket Nos. 13-0501 and 13-0517 at page 26, the Commission stated the following with regard to the issue of reducing the amount of interest on the reconciliation balance:

> This approach conforms to GAAP, would capture deferred tax benefits, and is likely a more accurate accounting for all of the economic impacts caused by revenue requirement reconciliation.

Q IS YOUR PROPOSAL CONSISTENT WITH THE COMMISSION'S VIEW AS STATED ABOVE?

A Yes. My proposal reflects a reduction of the carrying charge interest expense on the reconciliation balance in recognition of the associated tax benefits on the reconciliation balance.

Q DID THE COMMISSION REJECT A REDUCTION TO THE RECONCILIATION BALANCE FOR ADIT, PRIOR TO THE CALCULATION OF INTEREST, IN THE DETERMINATION OF THE 2013 FORMULA RATE?

A The Commission said that although the Formula Rate Law did not prohibit or require such accounting treatment, it was difficult to support an interpretation that read into the statute exceptions, limitations, or conditions the legislature did not express.

As I discuss above, the specific inclusion of ADIT is only referenced in the Formula Rate Law with regard to calculating the pension asset. All other recognition of ADIT in formula ratemaking had to rely on Commission interpretation, since there was no specific wording in the Formula Rate Law that directed its recognition.

Q ON PAGE 10 OF HIS REBUTTAL, MR. WARREN STATES THAT INCOME TAXES ARE ALREADY REFLECTED IN THE AMOUNT OF THE RECONCILIATION BALANCE. IS THIS CORRECT?

A Yes. Approximately $24.7 million of income taxes are included in the approximately $60.0 million reconciliation balance, before interest. These are taxes which were not paid in 2013 and will not be incurred until the reconciliation revenue is billed to customers in 2015. This is the amount by which the reconciliation balance should be reduced prior to the application of the interest rate. Ameren Illinois should not be allowed to collect a carrying cost on taxes that have not yet been paid, and are not paid until the reconciliation balance is collected from customers.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

9225/263271