CUB/IIEC Exhibit 1.0

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. 15-0305**

Direct Testimony and Exhibits of

Michael P. Gorman

On behalf of

Citizens Utility Board and
Illinois Industrial Energy Consumers

July 13, 2015

BRUBAKER & ASSOCIATES, INC.

Project 10082

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. 15-0305**

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<u>Direct Testimony of Michael P. Gorman</u>

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 WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am testifying on behalf of the Citizens Utility Board ("CUB") and the Illinois Industrial Energy Consumers ("IIEC") (hereinafter referred to as "CI"). IIEC companies in this case have business and manufacturing facilities within the service territory of Ameren Illinois Company ("AIC or "Company") and use substantial amounts of electricity service within the AIC service territory. CUB represents residential customers in the AIC service territory.

ISSUES

Q AFTER YOUR REVIEW OF AIC'S FILING, HAVE YOU IDENTIFIED ANY PROBLEMS WITH AIC'S CALCULATION OF ITS NET REVENUE REQUIREMENT?

A Yes I have. As I will discuss further in my testimony, I am proposing adjustments to AIC's calculation of the interest expense on the reconciliation balance and cash working capital. In addition, I recommend using the current statutory Illinois corporate income tax rate, which became effective January 1, 2015, to calculate AIC's revenue requirement. The adjustments I am proposing to AIC's revenue requirement are shown on CI Exhibit 1.1.

RECONCILIATION BALANCE FOR CALCULATING INTEREST

Q WHAT ISSUE DO YOU HAVE WITH THE CALCULATION OF INTEREST ON THE RECONCILIATION BALANCE?

A Part of the annual formula rate filing includes a reconciliation of the actual revenue requirement that existed during the prior year (in this case, 2014), and the revenue requirements that were determined for that year. Any difference is credited to or collected from customers, with interest, during the following year (in this case, 2016). I believe that the reconciliation balance that AIC is using to calculate the amount of reconciliation interest is overstated.

Q PLEASE EXPLAIN THE ISSUE YOU HAVE WITH THE RECONCILIATION BALANCE AIC USED TO CALCULATE RECONCILIATION INTEREST.

A AIC calculated reconciliation interest on the reconciliation balance that has been identified by the Company in this case. The reconciliation balance is the total difference between the revenue requirement based on actual FERC Form 1 data recorded in 2014 and the revenue requirement that was estimated for 2014 using data available in 2013. This reconciliation of the 2014 revenue requirement will be recovered in 2016. However, the reconciliation balance includes cash payments due to government taxing authorities that will not actually be paid by AIC until 2016, when the reconciliation balance is recovered. Therefore, the carrying charge applied to the reconciliation balance should be based on only AIC's net of tax cash investment in the reconciliation balance.

Q HOW DO YOU DETERMINE THE ACTUAL NET CASH OUTFLOW AIC HAS INVESTED IN THE RECONCILIATION BALANCE?

A Since the reconciliation balance is a positive balance, the amount reflects additional costs that were incurred in 2014 and were deductible for income taxes, and includes income tax expense on equity returns not realized in 2014. As a result, the reconciliation balance must be reduced by the temporary income tax savings and/or deferral associated with the tax deductibility of these expenses to determine AIC's actual net cash investment in the reconciliation balance.

Q PLEASE ILLUSTRATE THIS CALCULATION.

A For example, in this case if AIC incurred $500,000 more payroll expense during 2014 than was reflected in the projected revenue requirements for 2014, AIC would be able to deduct the $500,000 higher payroll expense in its 2014 income taxes. As a result, assuming a 40% tax rate, AIC will realize $200,000 of reduced income taxes associated with the higher payroll expense ($500,000 x 40%), compared to the income tax expense calculated in the projected 2014 revenue requirements. Therefore, AIC will only have carried a net cash reconciliation balance amount of $300,000 for the additional payroll expense ($500,000 - $200,000) during the deferral carrying period.

AIC's cost of carrying the unrecovered payroll is based on its out-of-pocket net cash investment (cash expenditures less income taxes) of $300,000 through the 2016 recovery period as the higher revenue requirement expense ($500,000) is recovered. As such, AIC should only be allowed to recover a carrying charge on its out-of-pocket net cash investment of $300,000. AIC is made whole for the delayed recovery of the reconciliation balance by fully recovering the $500,000, and the carrying charges on the associated out-of-pocket net cash investment in the reconciliation balance, $300,000, during the recovery period.

Q WHY IS IT IMPORTANT TO CORRECTLY MEASURE THE CARRYING VALUE OF THE RECONCILIATION BALANCE IN DETERMINING THE INTEREST ON THE RECONCILIATION BALANCE?

A While I am not a lawyer, it is my understanding that as a result of the amendments to subsections (c) and (d) of Section 16-108.5 of The Public Utilities Act, the interest on the reconciliation balance must reflect the actual weighted average cost of capital ("WACC"). Prior to the amendment, the Illinois Commerce Commission ("Commission") ordered the calculation of reconciliation interest using the short-term debt rate. Including the cost of maintaining the borrowing credit facility, the short-term debt rate is .47% as compared to the actual WACC of 7.646%. As a result, depending on the size of the reconciliation balance, either positive or negative, the associated interest calculated at the actual WACC rate may be a substantial portion of the net revenue requirement. As can be seen in the current case, AIC seeks to recover a total reconciliation balance of approximately $112 million (AIC Ex. 1.2, Page 2, Sch FR A-1, Line 28) that includes over $15.5 million of interest (AIC Ex. 1.2, Page 6, Sch FR A-4, Line 33 minus Line 3). Based on my recommendation, the calculation of interest on only the net carrying value of the reconciliation balance reduces the amount of interest by over 40%.

Q HOW WOULD YOU PROPOSE TO REFLECT THE REDUCTION TO THE AMOUNT OF RECONCILIATION INTEREST TO REFLECT NET CASH INVESTMENT?

A Reconciliation interest should be calculated on a net of tax benefits basis. Currently, reconciliation interest is being calculated on the amount in Company witness Stafford's AIC Ex. 1.2, page 6, Sch FR A-4, Line 3, entitled "Variance With Collar." This Exhibit shows $96.301 million as the amount on which interest is calculated. This reflects the difference between the actual 2014 revenue requirement and the revenue requirement determined for 2014. This amount reflects costs that were incurred in 2014 and will be collected from customers in 2016. The amount of interest currently calculated on this schedule must be reduced to reflect the tax savings/benefits associated with the reconciliation balance. I created an additional workpaper, WP 23, to calculate the necessary reduction in the interest on the reconciliation balance. CI Exhibit 1.2 shows the calculation on WP 23 of an adjustment to the interest on the reconciliation balance. The amount of the adjustment on WP 23 is then transferred to Sch FR A-4. As shown on CI Exhibit 1.3, I have inserted line 31a to accept this adjustment to reduce the level of interest calculated on the reconciliation balance on WP 23. The amount of the reconciliation balance and the interest adjustment reflected in these exhibits already includes the effect of the reduction in the Illinois corporate income tax rate as discussed later in my testimony.[1]

Q WHAT IS THE EFFECT ON REVENUE REQUIREMENT OF YOUR RECOMMENDED ADJUSTMENT TO THE CALCULATION OF RECONCILIATION INTEREST?

A Calculating interest on only the amount of AIC's net cash investment reduces the reconciliation interest by approximately $6 million. Again, this amount already includes the effect of the reduction in the Illinois corporate income tax rate and would be a larger reduction if calculated before the tax change.

[1]The Illinois corporate income tax rate is an input in the formula rate revenue requirement model on Sch FR C-4, Line 2. CI is recommending the use of the current statutory Illinois corporate income tax rate of 7.75% for this input. On WP 23 (CI Exhibit 1.2) the current statutory Illinois corporate income tax rate of 7.75% is also a component of the combined federal and state income tax rate of 40.038% on line 2. The old Illinois corporate income tax rate used by AIC is 9.5% and results in a combined federal and state income tax rate of 41.175%.

Q WAS THE DETERMINATION OF THE APPROPRIATE RECONCILIATION BALANCE FOR CALCULATING INTEREST AN ISSUE IN PREVIOUS AIC FORMULA RATE UPDATE CASES?

A Yes, the issue was raised in Docket No. 13-0301. Subsequently, however, the Commission, on its own motion, initiated Docket No. 13-0501 by suspending a proposed tariff filing. That case was consolidated with Docket 13-0517, a complaint case initiated by the Illinois Attorney General. Both of the latter cases were initiated under Section 9-201 of the PUA to, among other items, address whether Ameren Illinois correctly reflected the appropriate tax treatment in calculating interest on the reconciliation balance in the formula rate tariff as authorized by the PUA. In that docket, the Commission stated that it found merit in the intervening parties' proposals to net Accumulated Deferred Income Tax ("ADIT") against the reconciliation balance before calculating interest on that balance, but was concerned that the language in Section 16-108.5(d)(1) of the Act does not require or reference the netting of ADIT. However, the Commission also stated that it would revisit the issue if the parties presented further arguments.

CI and the Office of the Attorney General ("AG") again raised this issue in last year's annual formula rate update filing, Docket No.14-0317. In response, the Commission again made reference to the merits of CI's and AG's proposals and that there may be some debate as to the plain meaning of the Act. However the Commission also reiterated that it was troubled by the fact that although the Act fails to prohibit the accounting treatment proposed by CI and AG, the converse is also true in that the Act does not appear to require or even reference it.

Q DO YOU BELIEVE THAT THE COMMISSION HAS THE AUTHORITY TO EXERCISE ITS JUDGMENT IN ACCEPTING YOUR PROPOSAL, EVEN THOUGH THE ACT MAY NOT INCLUDE EXPLICIT LANGUAGE REQUIRING A REDUCTION TO THE RECONCILIATION BALANCE FOR ADIT PRIOR TO THE CALCULATION OF INTEREST?

A Yes. Again I am not an attorney, however CI counsel advises that the Court of Appeals held that the Commission, when reviewing an electric utility's template formula rate filing, and even absent an express statutory reference to ADIT, had authority to prevent "a result which is neither just nor reasonable for ratepayers." *Ameren*, 2013 IL App (4th) 121008, ¶ 39.

Q DOES THE ACT SPECIFICALLY REQUIRE RECOVERY OF A UTILITY'S ACTUAL COSTS?

A Yes. I'm aware Section 16-108.5(c)(1) states that the formula rates will provide for the recovery of the utility's actual costs of delivery services that are prudently incurred and reasonable in amount consistent with Commission practice and law. As previously discussed, applying the WACC to the reconciliation balance, net of the associated deferred income taxes, reflects the actual carrying cost on AIC's out-of-pocket net cash investment. In addition, netting deferred income taxes prior to the application of a carrying charge rate is consistent with Commission practice.

Q IS THE RECOGNITION OF DEFERRED INCOME TAXES IN DETERMINING THE CARRYING VALUE OF AN ASSET A FUNDAMENTAL REGULATORY CONCEPT?

A Yes. Using the associated deferred income taxes as an offset to rate base components prior to the application of a rate of return (carrying cost) is a basic concept historically followed by the Commission. This is true not only in regard to the traditional presentation and calculation of a rate base in general rate cases, but also occurs in the current non-traditional formula ratemaking process.

Q IS THE RECOGNITION OF DEFERRED INCOME TAXES IN FORMULA RATE PROCEEDINGS GUIDED BY SPECIFIC LANGUAGE IN THE ACT IN ALL INSTANCES?

A No. I have been advised that the recognition of deferred income taxes only appears once in Section 16-108.5 of the Act. Specific language appearing in Section 16-108.5(c)(4)(D) states that a carrying cost equal to the weighted cost of long-term debt is applied to the pension asset, net of "deferred tax benefits." However, all other recognition of ADIT in formula ratemaking is not the result of reliance on specific wording in the Act. For example, the offset for ADIT is a significant component of the rate base used to determine the revenue requirement for formula rates but does not appear to be based on any specific reference to ADIT in Section 16-108.5.

Q WHAT IS YOUR ULTIMATE RECOMMENDATION?

A AIC should not be allowed to earn interest on costs it did not actually pay during the relevant time period. Allowing interest to be earned on such costs allows AIC to recover something in excess of its prudent and reasonable cost of providing service. Therefore, the Commission should make the adjustment I recommend, which reduces revenue requirement by $6 million.

CASH WORKING CAPITAL

Q PLEASE EXPLAIN THIS ISSUE.

A There are two issues I have identified with the Company's calculation of cash working capital ("CWC"). The first is the calculation of the revenue collection lag. The Company has changed its calculation from the method it used to determine the revenue collection lag in Docket No. 12-0001. As a result the revenue collection lag has increased by over six days. The second issue is the Company's calculation of the expense lead for the Electric Distribution Tax. This expense lead has changed from a positive 30.13 days to a negative 49.17 days, a total change of 79.30 days. These changes result in higher cash working capital requirements for AIC and are not appropriate.

REVENUE COLLECTION LAG

Q HOW HAS AIC DEVELOPED ITS REVENUE COLLECTION LAG?

A Shown on CI Exhibit 1.4 is a summary of AIC's calculation of its revenue collection lag. AIC's calculation stratifies its accounts receivable balance into different categories based on the type of billing arrangement, the type of customer and the length of days the accounts receivable balance is outstanding.

Q HOW HAS AIC'S CALCULATION OF ITS REVENUE COLLECTION LAG CHANGED FROM HOW IT WAS DETERMINED IN DOCKET 12-0001?

A AIC has added separate categories for budget billing, deferred payment arrangements and receivables outstanding for 120+ days. Of these items, the deferred payment arrangements have the largest effect on the calculation.

Q SHOULD DEFERRED PAYMENT ARRANGEMENTS BE INCLUDED IN THE CALCULATION OF THE REVENUE COLLECTION LAG?

A I have serious concerns with regard to including deferred payment agreements in the calculation of the revenue collection lag because of the potential for double counting of the receivables dollars in the deferred payment arrangements category. The receivables associated with customers who get behind in paying their bills fall into the 30-60 Days through 120+ Days categories. These categories contain some of the same customers who will eventually seek deferred payment agreements to avoid shut-off. The deferred payment agreements and the 30-60 Days through 120+ Days categories are included in the calculation of the revenue collection lag. As a result, it appears AIC has double counted receivables dollars in these categories. In addition, the deferred payment plans may contain current as well as deferred billings, which would not support a 143-day midpoint. Based on my concerns regarding double counting and the possible inclusion of current and deferred billings in the deferred payment arrangements category, I do not believe AIC has justified including these payment arrangements in its CWC study as a separate category.

Q DO YOU HAVE OTHER CONCERNS WITH AIC'S CALCULATION OF THE REVENUE COLLECTION LAG?

A Yes. I believe AIC's calculation is flawed in the way it determines the level of uncollectibles, which are receivables that are eventually written off. I believe AIC has understated the level of uncollectibles for the categories labeled 30-60 Days through 120+ Days shown on CI Exhibit 1.4.

Also, AIC uses the line labeled Mid Point Days to determine the Weighted Days at the bottom of CI Exhibit 1.4. For the 30-60 through 120+ Days categories, the midpoint does not reflect the days that have been accounted for in previous categories. As a result, the midpoints for these categories should not be used to determine the weighted days.

Q WHAT CORRECTION TO AIC'S CALCULATION OF THE REVENUE COLLECTION LAG IS NECESSARY TO ADDRESS YOUR CONCERN WITH THE LEVEL OF UNCOLLECTIBLES?

A As shown in CI Exhibit 1.4, on the line labeled "Bad Debt Factor," AIC applies the bad debt percentage of 1.04% to each receivable category. However, the 0-30 Days category represents the most recent billing by AIC. The uncollectibles calculated in this category are the expected level of bad debts associated with customer billings that will be written-off. As the receivables move through the successive 30-60 Days through 120+ Days categories the level of outstanding revenue declines,[2] but the level of eventual bad debts associated with these receivables remains the same. Therefore, the dollar level of uncollectibles (bad debts) that was calculated for the 0-30 Days category should stay the same and be carried through each successive category, 30-60 Days through 120+ Days. AIC's application of the 1.04% factor to each successive category understates the continuing level of bad debts in each category. Changes I propose to AIC's calculation are shown in CI Exhibit 1.6. In CI Exhibit 1.6, I have used the same level of uncollectibles calculated in the 0-30 Days category for the 30-60 through 120+ Days categories.

Q WHAT CORRECTION TO AIC'S CALCULATION OF THE REVENUE COLLECTION LAG IS NECESSARY TO ADDRESS USING THE MIDPOINTS AS THE WEIGHTING DAYS?

A In the 0-30 Days through 120+ Days categories, AIC has calculated the midpoints based on the average days receivables are outstanding. For example, in the 60-90 Days category, AIC calculates a midpoint of 75 days, (60+90)/2. However, this calculation as illustrated on CI Exhibit 1.5, significantly overstates the days assigned to the categories, which are used to calculate the weighted revenue collection lag days.

As shown on CI Exhibit 1.5, the midpoints need to be adjusted to calculate the appropriate days used for weighting to prevent double counting of the time periods from prior categories. For example, as shown on CI Exhibit 1.5, AIC calculated a

[2]The receivables level in the 120+ Day category is higher than the 90-120 Days category because the 120+ Days category reflects more than a 30-day period.

midpoint for the 30-60 Day category of 45 days. However, this period needs to be adjusted to remove the double counting of the 15 days already accounted for in the midpoint assigned to the 0-30 Day category. The double counting is shown both graphically and mathematically on CI Exhibit 1.5.

To eliminate this double counting, the midpoint for each category should be reduced by the prior categories' midpoint. This results in weighting days of 30 for each successive 0-30 through 90-120 Days category. Using this calculation for the 120+ Days category would only result in 15 weighting days. However, the midpoint for this category was actually longer than 120 days, but it was specifically set at 120 days by AIC. To be consistent with the other categories, I have also used 30 days as the weighting days for the 120+ Days category. As shown on CI Exhibit 1.5, reducing the midpoints for the days previously accounted for, reduces the number of days used for weighting.

Q HOW DOES THE DOLLAR DAY CALCULATION IN EACH CATEGORY ON CI EXHIBIT 1.5 ILLUSTRATE THE NEED TO REDUCE THE MIDPOINT FOR THE DAYS ACCOUNTED FOR IN PREVIOUS CATEGORIES?

A The Dollar Day calculation I have included in CI Exhibit 1.5 uses an example of three customers, each billed $100 and each paying at a different date. Correctly calculated, the $100 of receivables for the customer who pays on day 45, will produce $1,500 dollar days ($100 X 15 days) in the 0-30 Days category and $3,000 dollar days ($100 X 30 days) in the 30-60 Days category. The $100 outstanding for 45 days totals

$4,500 dollar days as shown in the total column. Using this same calculation for the other three customers results in a total dollar days of $22,500 and an average revenue collection lag of 75 days

Performing this same calculation employing AIC's method of using midpoints as the weighting days for the 30-60 through 120+ Days categories results in an average revenue collection lag of 145 days. By using the midpoints, rather than the weighting days that are reduced for the days accounted for in the previous category, AIC is overstating the average revenue collection lag.

Q WHAT CORRECTION TO AIC'S REVENUE COLLECTION LAG CALCULATION IS NECESSARY FOR THE WEIGHTED DAYS ASSOCIATED WITH BUDGET BILLING?

A As shown on CI Exhibit 1.6, in October through December, the receivables balances for budget billing are negative. In September, the receivables balance for budget billing is also negative for non-residential customers. Negative balances indicate that these customers have paid in advance. However, AIC's inclusion of these balances effectively assigns a positive 15-day lag to these receivables, which is indicative of customers paying in arrears. AIC's calculation incorrectly accounts for these prepaying customers as though they paid in arrears. To correct AIC's calculation, these budget billing prepayment balances should be assigned a zero midpoint, while the positive budget billing balances should continue to be weighted based on a 15-day midpoint. The weighting days shown for the budget billing weighting days on CI Exhibit 1.6 reflect this calculation.

Q WHAT IS YOUR RECOMMENDATION REGARDING THE CALCULATION OF THE REVENUE COLLECTION LAG?

A I do not believe AIC has adequately explained or justified the changes it seeks to make to the calculation of the revenue collection lag. As a result of the concerns and problems I have identified, I recommend continued use of the revenue lag that was previously calculated in Docket No. 12-0001, 49.75 days. My recommendation reduces the revenue lag by approximately six days and the revenue requirement by $1.9 million.

<u>**ELECTRIC DISTRIBUTION TAX LEAD**</u>

Q HOW HAS AIC DEVELOPED ITS ELECTRIC DISTRIBUTION TAX EXPENSE LEAD?

A AIC calculated the Electric Distribution Tax lead by including all the payments made for the 2014 tax year. In addition, AIC included a true-up payment for the 2013 tax year and a refund received for the 2012 tax year.

Q HAS AIC'S CALCULATION OF EXPENSE LEAD FOR THE ELECTRIC DISTRIBUTION TAX SIGNIFICANTLY CHANGED FROM THE CALCULATION THE COMPANY PROPOSED IN DOCKET 12-0001?

A Yes. The previous calculation resulted in an expense lead of 30.13 days, while the current calculation reflects a negative 49.17 days. AIC's new calculation suggests that the Company is now required to pay the tax, on average, 79.30 days sooner than AIC calculated in Docket 12-0001. Approximately 99% of the tax is made in four quarterly payments. The midpoint of these quarterly tax periods is 45 days. AIC's previous calculation reflected that payments were made 30 days following the midpoint of the quarterly tax period. AIC's new calculation suggests that payment is due 49 days before the midpoint, or before the quarterly tax payment even begins.

Q HAVE THE STATUTORY PAYMENT DATES CHANGED SINCE AIC'S PREVIOUS CALCULATION OF THE EXPENSE LEAD FOR ELECTRIC DISTRIBUTION TAX?

A No. The vast majority of the current year's tax continues to be paid through four quarterly payments due on approximately the 15th day of the last month of the quarter, or approximately 30 days after the midpoint. Therefore, AIC's significant change in this tax expense lead is illogical.

Q WHAT IS THE CAUSE OF THE CHANGE IN AIC'S CALCULATION OF THE EXPENSE LEAD?

A AIC has inappropriately included a refund pertaining to 2012 tax collections. This causes the expense lead to change to a prepayment.

Q WHY IS IT INAPPROPRIATE TO CONSIDER THE REFUND OF 2012 TAX IN THE CALCULATION OF THE EXPENSE LEAD?

A A CWC study is designed to calculate the amount of cash a company requires on a day-to-day basis to meet its obligations to pay vendors, employees and taxing authorities. Based on the previously calculated revenue lag of 49.75 days and expense lead of 30.13 days, AIC was required to fund the tax payments for 19.62 days prior to receiving revenue from customers. Using these parameters, AIC will require 19.62 days of CWC to fund the tax payments.

However, by using the annual expense in the calculation of CWC, AIC has only been provided CWC for the tax payments, net of the refund. This occurs because the amount of expense for Electric Distribution Tax included in CWC reflects payments net of refunds. AIC makes wire transfers of approximately $51 million annually for the current tax year and receives a $6 refund of taxes previously paid in a prior year. Therefore, if the refunds are considered at all in the calculation of CWC, it should only be to provide 19.62 days of funds associated with the amount of the refund. The Commission should not accept AIC's proposal to consider a prior period refund in the calculation of the expense lead, which results in changing the expense lead by over 89 days.

Q WHAT IS YOUR RECOMMENDATION FOR THE ELECTRIC DISTRIBUTION TAX LEAD?

A I believe the lead should remain the same. No changes have been made to the statutory payment dates which require AIC to change its payment schedule. However, I also propose to include an additional 19.62 days of CWC for the amount of the refund to account for the netting of this prior year payment with the payments in the current year in determining the Electric Distribution Tax expense. These adjustments to AIC's calculation decrease revenue requirement by $2.1 million.

ILLINOIS CORPORATE INCOME TAX RATE

Q PLEASE EXPLAIN THIS ISSUE.

A Effective January 1, 2015 the Illinois corporate income tax rate declined from 7% to 5.25%. There was no decline in the 2.5% Illinois Replacement Tax, hence the combined rate is now 7.75% versus the previous rate of 9.5%. AIC has not recognized this lower Illinois corporate income tax rate in the determination of the current income tax expense in its calculation of the formula rate in this docket.

Q HAS AIC STATED WHY IT IS NOT USING THE CURRENT STATUTORY RATE?

A Yes. AIC provided the following response to IIEC Data Request No. 1.04.

> Ameren Illinois bases its formula rate update calculation on 220 ILCS 5/16-108.5 subpart (d) 1 which reads as follows:
>
> (1) The inputs to the performance-based formula rate for the applicable rate year shall be based on final historical data reflected in the utility's most recently filed annual FERC Form 1 plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the inputs are filed. The filing shall also include a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) with the actual revenue requirement for the prior rate year (determined using a year-end rate base) reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year. Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest, calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year, the charges for the applicable rate year.

This provision does not provide for adjustments for single issues outside the FERC Form 1 calendar year (2014 in this update) other than for the impact of projected plant additions, and corresponding adjustments, for the year in which the update is filed. Thus, no adjustments are included in this update filing to actual 2014 costs or projected 2015 costs for the 2015 tax rate change.

Q DO YOU BELIEVE AIC'S RESPONSE PROVIDES A VALID REASON FOR NOT RECOGNIZING THE CURRENT STATUTORY ILLINOIS CORPORATE INCOME TAX RATE IN THIS DOCKET?

A No. Based on current Illinois statutes, 7.75% is the corporate income tax rate that will be in effect during 2016 when the revenues associated with the rates from this formula rate update case are collected from customers. AIC should not be permitted to recover more than its reasonable and prudent cost of service now simply because its over-recovery may be resolved by some future reconciliation of its rates.

Q WHAT IS YOUR RECOMMENDATION?

A I recommend using the current Illinois corporate income tax rate for this formula rate update. This reduces revenue requirement by $7 million.

SUMMARY

Q WHAT IS THE TOTAL EFFECT OF ALL THE ADJUSTMENTS YOU ARE SPONSORING?

A AIC's filed revenue requirement, my proposed adjustments, and the adjusted revenue requirement are shown on CI Exhibit 1.01. My proposals would decrease AIC's filed revenue requirement of $110.249 million by $17.519 million, resulting in an adjusted revenue requirement of $92.730 million.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications 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 PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission ("ICC"). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the Staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. ("BAI") was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating to industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals ("RFPs") for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have participated in rate cases on rate design and class cost of service for electric, natural gas, water and wastewater utilities. I have also analyzed commodity pricing indices and forward pricing methods for third party supply agreements, and have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the Federal Energy Regulatory Commission and numerous state regulatory commissions including: Arkansas, Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate disputes for industrial customers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of the CFA Institute's Financial Analyst Society.

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