STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY d/b/a Ameren Illinois, Proposed general increase in gas rates.	))))	Docket No. 15-0142

AMEREN ILLINOIS COMPANY'S REPLY BRIEF

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TABLE OF CONTENTS

PAGE NO.

I. INTRODUCTION

As Ameren Illinois Company (AIC or the Company) explained in its initial brief, the majority of contested issues remaining in this case are adjustments proposed by the Attorney General (AG) (many of which are now supported by CUB/IIEC as well). Although AIC disputes certain adjustments and proposals by Staff and other Intervenors, as this brief will explain, the Commission should consider the AG's adjustments with particular caution. The AG misunderstands where the burden of proof for its proposals lies, and, without record support for its adjustments, relies instead on unfounded statements and legal positions in arguing its case.

The AG, for example, emphasizes that AIC "has the burden of proving the justness and reasonableness of its proposed rates," and so the Commission must "assess whether the Company has supplied substantial evidence to justify its claimed expenses and rate base increases." (AG Corr. Init. Br. at 2.) AIC certainly bears the burden of proof in supporting its proposed rate increase. However, the AG's take on this burden ignores that the burden shifts to other parties to support adjustments that they propose. *Ill. Commerce Comm'n on Its Own Mtn. v. Ill. Consol. Tel. Co.*, Docket 94-0042, 1995 Ill. PUC LEXIS 828, at *103 (Dec. 6, 1995); *Bell v. School Dist. No. 84*, 407 Ill. 406, 416 (1950). In other words, intervening parties like the AG cannot simply offer arbitrary adjustments to utility cost levels, without support, and then fault the utility for not validating those adjustments with its own evidence. What's more, this burden on the AG to support its proposed cost disallowances is great: the Commission can disallow costs only if the record evidence establishes *unreasonableness* or *imprudence* in the Company's business decisions. *See, e.g.*, *Bus. & Prof'l People for Pub. Interest v. Ill. Commerce Comm'n*, 279 Ill. App. 3d 824, 829-30 (1st Dist. 1996); *Chicago v. Ill. Commerce Comm'n*, 133 Ill. App. 3d 435, 442-43 (1st Dist. 1985) (dismissing "the erroneous assumption that a utility has the burden of going forward on any and all issues which are conceivably relevant to the reasonableness of its proposed rates").

The AG's adjustments cannot meet this burden. So, instead, the AG relies on numerous unsupported assertions or mischaracterizations as the bases for its positions—confirmation that there is no record basis to adopt the adjustments the AG proposes. Key statements in its initial brief lack citation to the record or any apparent basis in witness testimony or the evidence, even though the Commission's Rules provide that, "Statements of fact in briefs and reply briefs *should be supported by citation to the record*." 83 Ill. Admin. Code 200. 800(a). Arguments are made without reference to legal authority, or with highly selective reference. And the AG frequently (and improperly) accuses AIC of "refusing" to provide information in discovery, when AIC had made proper legal objections to data requests (and the AG never sought to compel the responses or otherwise utilize available procedures to resolve discovery disputes). For example:

- On non-union wages, the AG asserts that AIC's forecasted increase is "out of step with the wage adjustments that Ameren's customers as a whole are experiencing. Ameren's customers are the same families who have not seen their household income keep up with inflationary increases in their cost of living." (AG Corr. Init. Br. at 25.) The record, however, is devoid of any evidence regarding "wage adjustments that Ameren's customers as a whole are experiencing," and the AG cites none.

- On non-union wages, the AG asserts that "[n]othing prevents the Company from shifting budget dollars from other O&M categories, just as any competitive business might do, or even augmenting particular salaries with shareholder dollars to support these wage increases." (*Id*. at 24.) The AG provides no cite for this statement, no witness testified that this was the case, and there is no other record basis for it.

- On non-qualified pension expense, the AG states that "[n]o Company witnesses presented evidence to justify this cost." (*Id.* at 39.) This is wrong. Ameren witnesses Langenhorst, Stafford, and Lynn each provided testimony and sponsored exhibits demonstrating the value of post-employment benefits, including specific testimony on non-qualified pension plans. (*See, e.g.*, Ameren Exs. 17.0, 29.0, 31.0, 34.0, 43.0, 44.0.)

- On non-qualified pension expense, the AG relies on the assertion that non-qualified plan costs are "not deductible in the Company's tax return." (AG Corr. Init. Br. at 42.) This is wrong also. Expenses paid into a non-qualified pension plan are ordinary, deductible expenses when paid. (*See* Ameren Ex. 44.0 (*Confidential and Proprietary*) at 20.) *See also, e.g., Albertson's Inc. v. Comm'r*, 42 F.3d 537, 543 (9th Cir. 1994).

- For its pension and OPEB adjustment, the AG contends that AIC "refused to provide" information, even though AIC's legal counsel properly objected to the AG's data requests seeking post-test year data as irrelevant. (*See* AG Ex. 5.11.) If the AG disagreed with AIC's position that the post-test year data is irrelevant (although the AG made the same objection itself), or otherwise disagreed with an objection, Commission Rules provide a process to resolve discovery disputes. 83 Ill. Admin. Code 200.350; 200.370; 200.420. The AG did not file any motions seeking production of post-test year data, or to compel formal discovery of that data. As a result, the AG cannot claim that AIC "refused" to provide information. *See Ill.-Am. Water Co.*, Docket 11-0767, Order at 183 (Sept. 19, 2012) (rejecting Staff complaint about utility's alleged failure to provide information, where Staff had not followed established procedures to compel discovery).

- Likewise, in briefing on incentive compensation, the AG improperly characterizes proper legal objections as "evidence" where AIC's witness failed to respond to certain inquiries: "Mr. Verbest *declined to answer the questions*, and he also *declined* to compare the Company's gas distribution rates and customer service levels to that of peer companies in the Midwest." (AG Corr. Init. Br. at 29 (emphasis added).)

- Regarding incentive compensation the AG also says that "[t]he KPIs are generally set relative to internal Ameren targets or expectations, rather than to peer companies or *some* independent external performance standard." (*Id.* at 26 (emphasis added).) But as AIC has explained repeatedly, the specific parameters for each KPI are established relative to *both* external benchmarks and AIC's historical performance.

- On this issue, the AG cites an Arkansas commission order as "disallowing recovery of incentive compensation expense made by Energy Arkansas, Inc. where the Commission found 'no direct or measurable benefit to ratepayers of these types of incentives.'" (AG Corr. Init. Br. at 33.) The order actually found that "incentives tied to operating performance do increase efficiency, safety, and reliability and provide direct benefits to ratepayers in the form of better and more reliable service and should be included in rates." *Energy Ark., Inc.*, Docket No. 06-101-U, 2007 Ark. PUC LEXIS 239, *103-04 (June 15, 2007). But, it found that the utility's "Long-Term Incentive Plan, the Equity Awards, and the Restricted Share Awards[, and] Stock Option Incentive Program 'are based entirely on stock price of the parent company.' Having found no direct or measurable benefit to ratepayers of *these* types of incentives, the Commission directs that these costs not be included in rates." *Id.* at *105 (emphasis added) (internal citations omitted).

- The AG cites a Massachusetts commission order as stating: "companies 'must be prepared to demonstrate direct ratepayer benefit' to recover incentive compensation expense." (AG Corr. Init. Br. at 32.) What the Massachusetts order actually found was that "companies must be prepared to demonstrate direct ratepayer benefit *from the use of financial metrics* as a direct component of an incentive compensation award." *W. Mass. Elec. Co.*, D.P.U. 10-70, 2011 Mass. PUC LEXIS 10, *141, 154-55 (Jan. 31, 2011) (emphasis added).

- The AG continues to claim that it is "not possible to validate" that AIC removed negative vacancy dollars included in the test year forecast from AIC's proposed revenue requirement. (AG Corr. Init. Br. at 47.) But the Company told the AG that these negative vacancy amounts had been reflected in the forecast prior to the filing of Mr. Coppola's direct testimony. (AIC Init. Br. at 63.) It repeated that disclosure in rebuttal testimony. (*Id.* at 64.) It provided the AG with the calculation of the negative vacancy dollars, after rebuttal. (*Id.*) It verified again in surrebuttal testimony that the costs had been removed. (*Id.*) And it provided additional evidence that reconciled the negative vacancy dollars with the Company's filing requirement schedules. (*Id.* at 64-65.)

Given these numerous unsupported positions and mischaracterizations of the record (and others discussed below), the Commission should conclude that the AG has not established a basis for its adjustments, that the AG has not met its burden of proof to support its disallowances, and that all of the AG's adjustments should be rejected.

II. RATE BASE

A. Resolved/Uncontested Issues

1. Working Capital for Gas in Storage

2. Gas Vehicle Plant Additions

3. Customer Advances

4. Qualifying Infrastructure Plant (QIP) Additions

5. Asset Retirement Obligations

6. Original Cost Determination

7. Hillsboro Used and Useful

B. Contested Issues

1. Accounts Payable for Gas Stored Underground

The AG and CUB/IIEC argue that AIC has improperly calculated the accounts payable percentage applied to gas stored underground. Their argument, however, fails to account for the difference between purchased gas that is delivered to customers (a service) and purchased gas that is stored underground (a good) and confuses the elements of a cash working capital expense lead. Applying the AG's logic would suggest that a piece of equipment sitting in inventory should be treated as a service, because one day it will be installed for customer use. This is wrong from both a cash working capital and common sense perspective, and the AG's adjustment should be rejected.

As discussed in AIC's initial brief, gas stored underground is a component of AIC's materials and supplies balance. (AIC Init. Br. at 7.) All components of materials and supplies, including gas stored underground, are reduced by an accounts payable percentage to reflect the fact that, at any point in time, AIC will be holding a portion of its inventory for which it has not yet made payment to its suppliers. (*Id.*) Since the accounts payable percentage is a function of AIC's cash flows, it is calculated using the expense leads from AIC's lead-lag study. Gas stored underground, like any materials and supplies item, is treated as a good; thus, when applying the lead-lag study's expense leads, the service lead component is not applied. The accounts payable percentage applicable to gas in storage was calculated in this same manner in recent future test year rate cases, and AIC did not face any challenge to its methodology in those cases. *See, e.g., Ameren Ill. Co.*, Docket 13-0192, Ameren Sch. B-8.1 (filed Jan. 25, 2013); *Ameren Ill. Co.*, Docket 11-0282, Ameren Sch. B-8.1 (filed Feb. 18, 2011).

The adjustment AG and CUB/IIEC advocate would apply the same accounts payable percentage to gas in storage and flowing gas. This adjustment would increase the accounts payable percentage applied to gas in storage, and thereby decrease AIC's rate base. But the parties' criticisms of AIC's calculation of the accounts payable percentage for gas in storage are based on the parties' misunderstanding of the components of a lead-lag study.

a. To understand the calculation of accounts payable for gas in storage, one must understand and accurately reference the components of a lead-lag study.

AIC explained the components of a lead-lag study in testimony, and again in brief. But the AG and CUB/IIEC briefs continue to conflate these components. In particular, the AG continues to confuse the concept of expense lead with one of the elements of the expense lead—the payment lead.

A lead-lag study has two components: the revenue lag, and the expense lead. The controversy in this case concerns the expense lead, as it applies to gas in storage. The expense lead represents the total elapsed time between when a good or service is provided to the Company and when the Company pays for that good or service. (Ameren Ex. 17.0 at 16.) The expense lead has three components: the service lead, the payment lead, and the bank float lead. The following equation represents the calculation of the expense lead:

expense lead = service lead + payment lead + bank float lead

Each component of the expense lead represents a distinct period of time. The service lead represents the period of time during which a service is in the process of being provided to the Company. (Ameren Ex. 11.0 at 11.) The payment lead represents the period of time between the Company's receipt of a good or service, and the time the Company issues payment for that good or service. (*Id.* at 12.) The bank float lead represents the period of time between when the Company issues a check, and when the funds are withdrawn from its account. (*Id.*)

b. AIC's calculation of the accounts payable percentage for gas in storage properly includes a service lead of zero.

AIC applied one expense lead applicable to flowing gas, and a different expense lead to gas stored underground. AIC's expense lead for flowing gas includes a service lead of 15.2 days, while the expense lead for gas stored underground includes a service lead equal to 0. The following equation represents the expense lead AIC applied to flowing gas:

expense lead	=	service lead	+	payment lead	+	bank float lead
38.62		15.2 days		23.42 days		0

The following equation represents the expense lead AIC applied to gas stored underground:

expense lead	=	service lead	+	payment lead	+	bank float lead
23.42		0		23.42		0

It is appropriate to include a service lead in the calculation of the expense lead applicable to flowing gas because AIC receives the *service* of flowing gas ratably over the course of each month, as the gas flows through AIC's pipes every day. (Ameren Ex. 17.0 at 14.) Because gas is flowing through AIC's pipes each day, there is no distinct point in time at which the flowing gas AIC receives during a month can be considered fully delivered. In this way, flowing gas is akin to other services AIC receives over a period of time, such as the services of its employees. (Ameren Ex. 11.0 at 11.) AIC receives those services ratably during each pay period, and there is not a distinct point in time at which the service an employee provides to AIC can be considered complete. (*Id.*)

The purpose of a service lead is to account for this phenomenon of ratable delivery of services over time. As discussed above, the service lead is the period of time during which a service is in the process of being provided to the Company. Service leads are typically calculated at the midpoint of the delivery period. For flowing gas, AIC used a 15.2-day service lead, calculated as the midpoint of the monthly period over which flowing gas is provided to the Company. (AG Ex. 1.0 at 10.)

But gas in storage is different—as Mr. Effron admits, gas in storage is a good or commodity in inventory. (AG Ex. 4.0 at 4.) A service lead of 0 days for gas in storage is appropriate because AIC does not receive gas for storage ratably over the course of a month. Instead, AIC injects gas into its storage fields at a particular point in time. Thus, there is no period over which the gas is being ratably delivered to the Company. (Ameren Ex. 34.0 at 6.) In this way, gas in storage is more akin to a good than a service. Gas for storage is delivered to the Company at the moment it is injected into AIC's storage fields; likewise, other inventory items are delivered to the Company at the moment AIC takes possession of them. (Ameren Ex. 17.0 at 15.)

For both gas in storage and flowing gas, AIC used a payment lead of 23.42 days. (AG Ex. 1.0 at 10.) This payment lead represents the period of time between when the Company receives invoices for its purchased gas and the time AIC issues payment for that gas.

AG and CUB/IIEC confuse the elements of the expense lead and ignore the fact that gas in storage is a good.

The AG and CUB/IIEC argue that the same 15.2-day service lead should apply to both flowing gas and gas stored underground, in addition to the 23.42-day payment lead. This proposal is based on AG witness Effron's confusion of the payment lead, service lead, and overall expense lead, and his belief that the service lead would somehow appear on the face of the invoices for purchased gas. The same general confusion of concepts and terms that pervaded Mr. Effron's testimony on this issue encumbers the parties' briefs.

For example, the AG's initial brief states that AIC calculated its expense lead for gas stored underground by "start[ing] with a payment lead for purchased gas expense of 38.62 days … and then eliminat[ing] the service lead of 15.2 days." (AG Corr. Init. Br. at 4.) This statement reveals the AG's misunderstanding of the relationship between the components of the expense lead, particularly the concept of "payment lead" and "expense lead." AIC's payment lead was *not* 38.62 days, as the AG states; AIC's payment lead was 23.42 days. The *total* expense lead was 38.62 days. And AIC did not eliminate the service lead from the payment lead, AIC *added* a service lead of 0 to the payment lead of 23.42 days.

The AG's initial brief next states that, since "both gas delivered to customers and gas stored underground are goods, the same [expense] lead should apply to both types of purchased gas." (AG Corr. Init. Br. at 6.) As discussed above and in AIC's initial brief, the concept of service lead applies *only to services and does not apply to goods*. If the AG believes that both gas stored underground and flowing gas are goods, then *no service lead applies* to flowing gas, and the expense lead for flowing gas is 23.42 days. This would have the opposite of the AG's intended effect; it would reduce the accounts payable percentage for flowing gas, and increase rate base.

The AG's final point is that its adjustment is appropriate "[b]ecause there is no distinction between the payment leads for gas delivered to customers and gas stored underground." (AG Corr. Init. Br. at 7.) As discussed above, it is true that there is no distinction between the *payment* leads for flowing gas and gas stored underground. But the issue is the *service lead*, not the payment lead.

CUB/IIEC similarly relies on Mr. Effron's mistaken understanding of the components of the lead-lag study. For example, CUB/IIEC summarizes Mr. Effron's testimony that the service lead “is a component of the total lag in revenues that the Company collects from customers, that component being the average lag from the time that the service is provided until the customer’s meter is read.” (CUB/IIEC Init. Br. at 3.) This is incorrect. It appears that CUB/IIEC and Mr. Effron have confused the concept of a service *lag* with a service *lead*—Mr. Effron is describing the service lag, but calling it the service lead. (*See* Ameren Ex. 11.0 at 7 (defining “service lag” as the “number of days from the mid-point of the service period to the meter reading date for that service period”).

All of this confusion in terms undermines the credibility of Mr. Effron’s proposal, and the arguments of the AG and CUB/IIEC. Because their arguments garble the terms, the AG and CUB/IIEC have not articulated any reasoned basis for their proposal.

Leaving aside the parties’ inexact discussion of the issue, one thing is clear. Neither the AG nor CUB/IIEC has addressed AIC’s fundamental point on this issue. The only reason to apply a service lead to gas stored underground is if AIC fills its storage fields ratably over the course of each month. AIC does *not* fill its storage fields ratably, and neither the AG nor CUB/IIEC has argued that it does. The parties’ arguments focus on the invoices and payment dates, rather than the method or timing of injections into storage.

The timing of invoices relative to payment dates is accounted for in the *payment lead* of 23.42 days, while the timing of delivery of gas is accounted for in the *service lead*. Although the parties’ discussion is devoted entirely to invoices and payment dates, the parties’ proposal is to require that a service lead be applied to gas in storage. Thus, the parties’ discussion provides no support for the adjustment they propose.

2. **Non-Union Salaries and Wages (see III.B.2)**

3. **Incentive Compensation Costs (see III.B.3)**

4. **Qualified Pension and Other Post-Employment Benefit Costs (see III.B.4)**

5. **Non-Qualified Pension Costs (see III.B.5)**

6. **Gasoline and Diesel Fuel Costs (see III.B.6)**

7. **Gas-Only Employee Headcount/Vacancy Costs (see III.B.7)**

C. Recommended Rate Base

III. OPERATING REVENUES AND EXPENSES

A. Resolved/Uncontested Issues

1. **Ameren Services Company (AMS) Test Year Charges (see also IX.A.1)**

2. **Transmission Lines Assessment and Inspection Expense**

3. **Rate Case Expense**

4. **Payroll Taxes**

5. **Lobbying Expense**

6. **Uncollectible Expense/Gross Revenue Conversion Factors**

7. **Rental Revenues**

8. **Asset Retirement Obligations (see II.A.5)**

B. Contested Issues

1. Charitable Contributions

In this case, the Company proposes to recover approximately $1.04 million in forecasted gas-allocated contributions that AIC is committed to make in 2016. (AIC Init. Br. at 15.) This amount includes a sizable donation ($398,000) to local organizations that administer funds for Illinois's Low Income Home Energy Assistance Program (LIHEAP). (*Id.*) The record shows that the Company's requested contributions will fund charitable causes and are reasonable in amount. The record also shows that the amount requested is a justifiable and reliable estimate of the contributions that AIC will make in 2016. No party disputes that the Company's requested contributions will fund charitable causes in its service territory, to the benefit of its customers, including its low-income customers.

Staff, the AG, and CUB/IIEC, however, propose that the Commission rely on an outdated historical average to cap AIC's recovery of future contribution expense. This adjustment would limit AIC's recovery to 36.3% of its request, or $378,000. Section 9-227 of the Public Utilities Act (Act)—the statute governing the recovery of charitable donations in rates—does not authorize their proposed cap. The Commission's rules on the use of a future test year do not require it. And most importantly, the evidence in the record does not support it.

The record contains evidence of (1) AIC's higher spending in 2015 and (2) the contribution amounts recovered in rates by other large Illinois electric and gas utilities. This evidence has not been rebutted. For the most part, it hasn't even been addressed. This evidence, along with the other evidence in the record, prove the reliability and reasonableness of the Company's forecasted amount, and refute the appropriateness of the parties' reliance on a historical average. Staff, the AG, and CUB/IIEC have unfairly ignored the Company's evidence, throughout the proceeding, and still give it no weight in their initial briefs. The Commission cannot make the same omission. As outlined in AIC's testimony, its initial brief, and in this reply brief, the weight of the evidence in the record, once properly considered, warrants the approval of the Company's requested amount.

a. Staff, the AG, and CUB/IIEC ignore and give no weight to evidence that supports the reasonableness of the Company's requested test year contributions—the amounts recovered in rates by other Illinois utilities.

Section 9-227 of the Act permits the cost recovery of a utility's donations as part of its operating expense, if they are "for the public welfare or for charitable scientific, religious or educational purposes" and "reasonable in amount." There is no debate amongst the parties whether AIC will support charitable or public welfare purposes in 2016 with its requested amount of test year contribution expense. The debate is whether AIC's forecasted gas-allocated contributions can be considered "reasonable in amount."

The Company repeatedly has pointed to the objective evidence of contributions recovered in rates by other large Illinois electric and gas utilities as a benchmark of reasonableness. The record contains the per-customer contributions that Commonwealth Edison Company (ComEd) is recovering in rates ($1.90) from the Commission's Order in Docket 14-0317. (Ameren Exs. 6.1; 33.1.) It also contains the per-customer contributions that Peoples Gas Light and Coke Company (Peoples) is recovering in rates ($1.39) from the Commission's Order in Docket 14-0225. (*Id.*) Those amounts are both higher than the per-customer contributions that AIC is requesting to recover ($1.28) in this proceeding, and considerably higher than the per-customer amounts that the Company is currently recovering in its electric ($0.49) and gas ($0.39) rates. (AIC Init. Br. at 18-19.)

The Company has defended the reasonableness of its requested contributions, based on the amounts recovered by ComEd and Peoples, since the filing of its case. (Ameren Exs. 6.0 (Rev.) at 12; 6.1.) This evidence, however, has *never* been rebutted. Indeed, Staff and the AG have never even addressed or mentioned this evidence. The Staff and AG witnesses did not analyze this evidence in their direct testimony, after the Company first introduced it. (Ameren

Ex. 21.0 at 9, 12.) They ignored this evidence again entirely in their rebuttal testimony. (Ameren Ex. 37.0 at 11, 13.) And again, Staff, the AG and now CUB/IIEC have disregarded this evidence in their initial briefs. The parties' continued omission of relevant, objective evidence of the reasonableness of AIC's request is indefensible, and illustrates why the weight of the evidence in the record cannot support their adjustments.

b. The evidence in the record does not support the Staff, the AG, and CUB/IIEC's proposal to use a historical average to establish a reliable, justifiable estimate of future contributions.

Staff, the AG, and now CUB/IIEC argue that AIC's "actual charitable giving should be the bench mark by which the Commission sets a reasonable level of contribution to be collected from ratepayers." (Staff Corr. Init. Br. at 14; *see also* AG Corr. Init. Br. at 10; CUB/IIEC Init. Br. at 7.) But all three parties, as well as the Staff and AG witnesses, ignore or give no weight to the higher "actual charitable giving" occurring in 2015. The Company has submitted other evidence to justify the reliability of its forecast, including its higher contributions prior to 2010. (AIC Init. Br. at 17, 19-20; Ameren Ex. 37.0 at 5-6.) The parties' disregard for the Company's 2015 spending, in particular however, demonstrates the unreliability of their methodology and the unfairness of their adjustment.

The AG claims that AIC's past forecasts of future giving are "unreliable." (AG Corr. Init. Br. at 11.) The Company, however, approved a contribution budget for 2015 of $1.5 million—a target that AIC is well on its way to meeting and potentially exceeding. (Ameren Exs. 21.0 at 6-7; 37.0 at 10.) Through mid-August 2015, the Company already had made $1.08 million in total contributions. (AIC Init. Br. at 20.) The gas-allocation portion of the Company's 2015 charitable giving to date ($432,000) is more than what Staff, the AG and CUB/IIEC recommend for recovery in this proceeding ($378,000). (*Id.*)

Like the evidence of the contribution amounts recovered by other utilities, the Company has offered the relevance of the 2015 spending, since it filed the case. (Ameren Ex. 6.0 (Rev.) at 10-11.) Staff, however, never mentions this higher spending in its testimony. (AIC Init. Br. at 21.) Staff does not use the higher spending in its historical average. (*Id.*) And Staff again does not address this evidence in its initial brief. The AG also does not use the 2015 contributions in its average. (*Id.*) Like Staff, the AG does not mention this evidence of higher 2015 spending in its initial brief. And although the higher 2015 spending receives a brief mention in the AG's testimony, it is dismissed outright; absolutely no weight is given to it. (AG Ex. 4.0 at 7; *see also* CUB/IIEC Init. Br. at 8.)

The AG argues that the Company's "good intentions are not sufficient." (AG Corr. Init. Br. at 10.) This premise does not represent reality. The evidence in the record in support of the Company's request is more than just a commitment. AIC spent more on contributions in 2014 than what the Commission authorized in rates in Docket 13-0192. (AIC Init. Br. at 20.) And to date in 2015, the Company already has surpassed that mark. (*Id*. at 20-21.) The AG claims that AIC does not have "any new resources in place" to support an increase in charitable giving. (AG Corr. Init. Br. at 11.) More contributions, however, already are finding their way to charitable organizations. AIC is executing its funding commitment in 2015, outside of the test year. That effort shows more than just the Company's "good intentions."

Staff argues that the Company's request is an "aberration" that "bears no relation to the Company's past practices." (Staff Corr. Init. Br. at 14.) This claim is also incorrect. More contributions were made prior to the merger. The legacy utilities' contributions prior to 2010 were: $1.33 million in 2007, $1.57 million in 2008, and $1.29 million in 2009. (Ameren Exs. 6.0 (Rev.) at 11; 21.0 at 9; 37.0 at 6.) AIC has a "past practice," prior to the merger, of a level of charitable giving much higher than in recent years. It is disingenuous to claim that the Company is asking ratepayers to fund charitable giving "more than the Company has shown it actually has given." (AG Corr. Init. Br. at 11.)

Staff, the AG, and CUB/IIEC also point to the Commission's use of a historical averaging methodology in AIC's last gas rate case, Docket 13-0192. (Staff Corr. Init. Br. at 12; AG Corr. Init. Br. at 8-9; CUB/IIEC Init. Br. at 8.) That case, however, is an anomaly. The record does not contain any evidence that the Commission has typically relied on a historical average to cap a utility's forecasted contributions. (AIC Init. Br. at 22.) And the other prior instances where the Commission normalized a test year expense, which was volatile and out of the Company's control (*e.g.*, uncollectible expense, transportation fuel expense, injuries and damages expense, and working capital allowance for gas in storage), are not comparable to this discretionary expense. (*Id.*) Staff, the AG and CUB/IIEC have not explained why the Commission should treat AIC different from any other utility recovering contributions.

Even if the methodology used in Docket 13-0192 still held some persuasive value however, the record in this proceeding does not support the same approach. The Company's contributions have increased steadily since the merger in October 2010. Contributions in 2014 ($1.0 million) were higher than contributions made in 2013 ($826,000) and 2012 ($919,000), and significantly higher than contributions made in 2010 ($793,000) and 2011 ($575,000). (Ameren Exs. 6.0 (Rev.) at 10; 21.0 at 6; 37.0 at 6.) Contributions to date in 2015 ($1.08 million as of August 14, 2015) exceeded 2014 contributions. (Ameren Ex. 37.0 at 10.) There has been a gradual trend of increased charitable giving, not a trend of giving fluctuating drastically (up or down). There are no "outliers" to smooth out.

In Docket 13-0192, the Commission acknowledged that the three-year averaging methodology had not been used in the Company's prior gas rate case, Docket 11-0282. *Ameren Ill. Co.*, Docket 13-0192, Order at 61 (Dec. 18, 2013). Instead, the Commission found that "the circumstances of that case were the relevant factors in the decision and do not dictate that the Commission must utilize the same methodology in this proceeding...." *Id*. "[T]he circumstances" of this case, *i.e.*, the record, do not dictate that the Commission must utilize the same methodology used in Docket 13-0192. Indeed, given AIC's charitable giving in 2015, the same method does not provide a reliable, "justifiable estimate" of the Company's 2016 forecasted contributions. *Id*.

c. The AG's proposed reporting conditions on AIC's planned funding of LIHEAP agencies are not legally required and are not supported by the record as necessary.

The AG claims that it "take[s] no position" on the Company's request for charitable contribution funding for LIHEAP agencies. (AG Corr. Init. Br. at 14.) The AG, however, asks the Commission to "attach a set of reporting conditions." (*Id*.) Specifically, the AG requests that AIC report to the Commission: (1) the "disbursement status" of the funds for LIHEAP agencies; (2) the breakdown by amount of the funding to local LIHEAP agencies and other charitable recipients; (3) "formal or informal agreements" between AIC and LIHEAP agencies on the use of the funding; and (4) the amounts spend to avoid disconnection for non-payment. (*Id*. at 15-16.) The AG claims that these conditions are necessary to ensure that the funding actually goes to LIHEAP agencies for low-income assistance. (*Id*. at 16.)

The additional reporting conditions are unnecessary. The Company already has agreed, if the Commission so chooses, to send a report the Commission indicating that the contributions have been made. (Ameren Ex. 33.0 at 6.)

There also are a number of other problems with the AG's proposal. For starters, there is a not a current statute or Commission rule that requires these reporting conditions. Section 9-227 of the Act certainly does not require them. And the Commission has not yet enacted any rule that would require these conditions. The AG cites AIC's reporting obligation under Section 16-108.5(b-10) of the Act. But that statutory obligation pertains to non-recoverable contributions for low-income assistance programs that AIC must make, as a condition of participating in the State's *electric* infrastructure investment program. The AG claims that this provision is not a "statutory obstacle" to imposing these conditions on the Company. That the provision doesn't expressly prohibit the conditions, however, is of no relevance. The provision doesn't provide the statutory authorization for the conditions.

The record also doesn't demonstrate that the AG's proposed reporting conditions are necessary. AIC has pledged to donate the $1 million in contributions in January 2016 to LIHEAP organizations within the Company's service territory. (Ameren Ex. 33.0 at 4.) The Company has stated that the funds would be earmarked for the provision of home energy financial assistance of the type that LIHEAP agencies typically provide. (*Id.*) The Company has promised that it will still make the contributions, even if the State restores the full level of LIHEAP funding. (*Id.* at 6.) The representations in AIC's testimony should assure the Commission that the Company will make these contributions, if its funding request is approved. (*Id.*) And as stated above, the Company has offered to submit a report to the Commission indicating that the contributions have been made, if requested. (*Id.*) The AG has not made a sufficient showing that its additional reporting conditions should be attached to the funding.

The AG suggests that AIC hasn't fully committed to spending this funding on low-income energy assistance "in the future." (AG Corr. Init. Br. at 15.) As AIC stated in its testimony, the Company intends to maintain its charitable giving, after 2016, at or above the level requested for the test year. (Ameren Ex. 33.0 at 6.) Whether the Company's future giving in 2017 and beyond will include the same donation to LIHEAP organizations, however, will depend on a number of factors, including the organizations that make requests for 2017 funds, the level of need that they demonstrate, and the amount of their requests. (*Id.*; AG Cross Ex. 2.0.) Thus, the Company has not made a specific 2017 funding commitment to LIHEAP organizations in 2017. (AG Cross Ex. 2.0.) Whether the AG is indirectly asking the Commission to require this commitment from AIC is unclear. The record, however, does not support the imposition of such a mandate on AIC to continue making a $1 million donation to LIHEAP organization indefinitely beyond the test year. The Commission can be assured though that AIC's contributions, in 2017 and beyond, still will support worthwhile charitable causes within the Company's service territory.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's and Staff's adjustment to test year charitable contribution expense, and the AG's proposed reporting obligations for funds earmarked for LIHEAP organizations.

2. Non-Union Salaries and Wages

The AG asks the Commission to cut AIC's test year non-union wages increase *in half*, based not on AIC's actual experience or even what the market pays (those facts support AIC's 4% test year increase), but based on an arbitrary cap proposed by its witness, Mr. Coppola. The AG does not really dispute AIC's historical experience or even what the market pays; rather, the AG contends its cap is appropriate given Mr. Coppola's notion that AIC employees should "share the pain" with utility customers. (AG Ex. 2.0 REV at 7:123.) What should concern the Commission, however, is the impact of Mr. Coppola's arbitrary cap on service to those customers if AIC were not able to attract, retain, and motivate the talented employees that it needs. Beyond this, the problem with the AG's position (and Mr. Coppola's testimony) is that it is riddled with flaws: it advocates an imprudent approach to employee compensation; it is arbitrary and even contradicted by the AG's own evidence; and it ignores or mischaracterizes the record of this proceeding. The Commission should reject it.

CUB and IIEC pick-up on this issue in brief, although neither party submitted its own evidence on it. But these parties add nothing to the discussion; they simply recite the problematic testimony of Mr. Coppola. (CUB/IIEC Init. Br. at 9-11.)

There is nothing in the evidentiary record or in legal brief—simply no lawful basis—to adopt Mr. Coppola's arbitrary 2% cap on test year non-union wages.

a. The AG's brief highlights the imprudence of Mr. Coppola's 2% cap.

i. The AG wants employees to leave the Company.

The record evidence shows that the purpose of AIC's forecasted 4%[1] increase in test year non-union wages is to attract, retain, and motivate its talented workforce. (AIC Init. Br. at 23-26.) That workforce enables AIC to provide adequate, efficient, reliable, safe, and least-cost gas service to Illinois customers. (*Id*. at 24.) The AG's position, by contrast, is to suggest that AIC should lower its pay increases until it begins to lose employees. What the AG thinks should happen at this point is unclear: once turnover occurs, raise pay again until the turnover stops?

The AG claims that there is "no evidence that a lower percentage increase in base pay would undermine" AIC's ability to attract and retain employees. (AG Corr. Init. Br. at 20.) That is wrong. AIC's actual non-union wage increase experience and the resulting absence of

[1]The forecasted 2015 increase is 3.0%, which includes a 2.25% merit pay increase that reflects that merit pay adjustments were awarded in January, rather than April, in 2015. (2.25% is 3.0% spread over 12 months, rather than 9 months.) (Ameren Exs. 31.0 at 3; 18.0 (Rev.) at 7.)

significant turnover in its workforce *is exactly that evidence*. (AIC Init. Br. at 25; Ameren Ex. 44.0 at 5.) That is, the absence of a turnover shows that AIC's historical merit and other pay adjustments—on which its test year forecast is based—have functioned as intended: they have permitted AIC to retain its workforce. (Ameren Ex. 44.0 at 5.) Further, it is elementary that, if AIC paid less than the market, it would not be able to compete for the talented employees that it needs. (AIC Init. Br. at 26-27.) Indeed, the Commission has recently recognized the importance of paying market competitive pay. *See Commonwealth Edison Co.*, Docket 14-0312, Order at 49-50 (Dec. 10, 2014) (approving incentive compensation level that "insures that ComEd recovers the market-based salary for their employees").

Still, the AG tells us the evidence the AG would like to see: the AG says that "[n]o *significant turnover* in management or non-union ranks has been shown to warrant defining a 4% increase in base pay as 'necessary' to attract, retain and motivate employees." (AG Corr. Init. Br. at 20 (emphasis added).) In other words, before the AG will accept AIC's forecasted increase, the AG apparently wants to see the Company lose employees.

This is puzzling, for several reasons. Most glaring, it would be imprudent for AIC to reduce non-union wages below what its experience and the market have shown to be reasonable, and risk a significant workforce turnover. (Ameren Ex. 44.0 at 5-6.) For operational reasons, significant personnel turnover should be avoided; a steady workforce is obviously preferable. (*Id.* at 6.) The reactive approach to wage setting that the AG advocates would risk AIC's ability to attract and retain the workforce it needs to meet its service obligations to Illinois customers. (*Id.*)

Second, by wanting evidence of a "significant turnover in management or non-union ranks," the AG wants AIC to prove a negative. (AG Corr. Init. Br. at 20.) But the Commission should not. The practical reality is that disproving certain propositions or proving negatives can be impractical and expensive—or outright impossible. *See, e.g., Antioch Milling Co. v. Pub. Serv. Co.*, 4 Ill. 2d 200, 209 (1954) ("Certainly as a practical matter a utility should not . . . be required to embark upon a full dress justification of its rate structure every time an individual customer files a complaint"); *see also, e.g., Ethyl Corp. v. EPA*, 51 F.3d 1053, 1064 (D.C. Cir. 1995) (upholding agency decision rejecting interpretation of "burden of proof [that] would be virtually impossible for an applicant to meet, as it requires the proof of a negative proposition"). And, certainly, the AG hasn't presented any evidence that a *decrease* in AIC's non-union wages *wouldn't* cause it to lose valuable employees to market competitors (Ameren Ex. 44.0 at 5), although that proof is the AG's burden. *See, e.g.*, *Ill. Commerce Comm'n v. Ill. Consol. Tel. Co.*, Docket 94-0042, 1995 Ill. PUC LEXIS 828, at *103 (Dec. 6, 1995) ("[E]ach party proposing a result should bear the burden of adducing evidence in support of that proposal.").

Put simply, a "significant turnover in management or non-union ranks" would be concerning. (AG Corr. Init. Br. at 20.) So it's a *good* thing that there's not been a large-scale employee exodus from AIC.

ii. The AG wants employees to perform poorly.

Equally puzzling, the AG makes much of the fact that the majority of employees receive an annual merit pay increase. (AG Corr. Init. Br. at 21.) That a majority of employees are regularly recognized for their performance with merit pay increases, however, is a *good* thing. If the majority of employees didn't perform well, and thus didn't deserve a merit pay increase, this would be a concern. Poor employee performance would impact customer service. (Ameren Ex. 44.0 at 16.) Moreover, that a majority of employees are regularly recognized for performance with merit pay increases is *wholly expected*: non-performers, who do not receive merit pay increases, typically leave the Company or are counseled out. (*Id.*) The AG never says what percentage of employees *should* receive a merit pay increase.[2] But, unquestionably, the ideal is 100%.

The AG also makes much of the fact that AIC employees are eligible for both merit pay increases and incentive compensation. (AG Corr. Init. Br. at 21.) But this too is not surprising. Merit pay and incentive pay reward different things: the latter is earned based on an individual employee's knowledge, skills, and abilities; the former is earned based on departmental or Company-wide performance of defined operational goals. (Ameren Ex. 44.0 at 15.) So, the Commission regularly approves recovery of both. *See, e.g.*, *North Shore Gas Co.*, Dockets 07-0241/0242 (Cons.), Order at 66 (Feb. 5, 2008) ("Being a large utility means that management depends on the dutiful work performance of its employees. To motivate and maintain high standards, a utility may reasonably offer incentive compensation as the best way to match both employer and employee interests and to ensure quality work performance."). And in total, AIC's base wages plus incentive compensation are targeted to the market median (Ameren Exs. 14.0 at 3-4; 31.0 at 7; 28.0 (Rev.) at 8; 44.0 at 4.)—hardly unreasonable.

b. The AG's own brief demonstrates that Mr. Coppola's 2% cap is arbitrary and baseless.

i. The AG confirms that Mr. Coppola inexplicably ignored his own Employment Cost Index data, when it doesn't help him.

AIC has explained why Mr. Coppola's 2% cap on non-union wages increases is arbitrary and therefore unlawful. (AIC Init. Br. at 28-30.) The AG underscores this in brief. The AG claims that the cap is "in line with *historical* wage increases during the past three years, as

[2] And the AG's numbers are off. Compare the 96-99% figures in the AG's initial brief to the estimated 93.6-96.7% total company employees who did not receive a merit increase 2011-2015, as reported to the AG in discovery. (AG Corr. Init. Br. at 21; AG Ex. 5.3 (AIC's response to AG 9.14).)

reported by IHS Economics." (AG Corr. Init. Br. at 17.) But then the AG claims that the Employment Cost Index "is a good indicator of national wage inflation, both historical *and prospective*," and that "IHS reports the information provided by the Bureau of Labor Statistics and then performs economic analysis *to project where the index may move in future years*." (*Id.* at 19, 22 (emphasis added).) What then, of the *prospective* index figures reported on Mr. Coppola's single page from the IHS report, Attachment AIC-AG 1.05? (Ameren AG Cross Ex. 1.0 at 2; Ameren Ex. 44.0 at 12.) Like its witness Mr. Coppola, the AG simply ignores these figures—which show percentage wage increases *higher* than the historical numbers that Mr. Coppola and, consequently, the AG rely on for their 2% cap.

This is not to say that even the prospective "Employment Cost Index – Total Comp." figures on Mr. Coppola's single page should be used to set AIC's test year non-union wages. That would be unsound, for all of the reasons explained in AIC's initial brief. (*See* AIC Init. Br. at 23-32.) Further, clearly, the historical "Employment Cost Index – Total Comp." figures on Mr. Coppola's single page are not a good indicator of *AIC's* historical non-union wages increase. A comparison of those figures to AIC's actual non-union wages increase experience for 2012-2014 shows that the index has consistently trailed AIC's experience. (Ameren Ex. 31.1; Ameren AG Cross Ex. 1.0 at 2.) The prospective figures on Mr. Coppola's single page, therefore, (whatever they actually represent) likely understate AIC's future experience. (Ameren Ex. 44.0 at 14.)

ii. The AG's household income data doesn't support its claims.

The AG wants the Commission to believe that Mr. Coppola's 2% cap aligns with household income patterns in Illinois. The AG claims, for example, that, "[a]ccording to the U.S. Census Bureau, . . . median household income in Illinois has been relatively stagnant at about

$56,000 during the 2010 to 2013 period and is down from over $60,000 in 2008." (AG Corr. Init. Br. at 17.) But to accept the AG's claim here, you have to accept the AG's selectivity.

To begin, the AG never actually produced "U.S. Census Bureau" information in this case. Given that census information is reported by the Bureau in myriad ways, AIC asked Mr. Coppola in discovery—twice—to provide the documents supporting the income numbers in his direct testimony. (Ameren Ex. 44.0 at 17.) The first time, he provided the (seemingly cut-and-paste) document attached to his rebuttal testimony as AG Exhibit 5.4. The second time, he admitted that the source of that information was a website called "DepartmentofNumbers.com," and that he never obtained a copy of the U.S. Census Bureau American Community Survey that he says his numbers come from. (*Id.*)

The "DepartmentofNumbers.com" numbers don't even support the AG's stagnant or declining income numbers—unless you only look at the numbers arbitrarily relied on by the AG. (AG Corr. Init. Br. at 17, 25.) For example, the information appears to show that, since, 2011, there has been an increasing trend for household income in Illinois. (AG Ex. 5.4; Ameren Ex. 44.0 at 17.) Further highlighting the selectiveness of the AG's approach, when you look at the projected "Personal Income" index on Mr. Coppola's single IHS Economics report page, the upward trend appears to continue. (Ameren AG Cross Ex. 1.0 at 2.)

Finally, putting aside the questionable source of the AG's household income numbers and the AG's selective reliance on them, it is simply not best practice to rely on household income data to set wages. (Ameren Ex. 31.0 at 15.) Median household income can fluctuate for many reasons. (*Id.*) And, since some of the factors that influence median household income also influence market pay, these economic conditions are already factored into AIC's comprehensive approach to wage setting, which, as explained, relies on extensive market data. (Ameren Ex.

31.0 at 15.) The AG claims it is "misguided" to say this, but never explains why. (AG Corr. Init. Br. at 24.) It's not. In 2010, for example, during the national economic crisis, there were *no* merit pay increases for non-union employees Company-wide due to the external economic conditions at the time. (Ameren Ex. 44.0 at 17-18.)

c. The AG ignores or misstates the record.

The Commission cannot rely on unsupported assertions. *See* 220 ILCS 5/10-103; 220 ILCS 5/10-201(e)(iv) (Commission decisions must be based on the record evidence); *Universal Telecom Review*, Docket 95-0170, 1997 Ill. PUC LEXIS 132, *11 (Mar. 12, 1997) (rejecting as unpersuasive "evidence" presented as unsupported conclusory statements).

The only way that the AG can support Mr. Coppola's arbitrary 2% cap, however, is to simply ignore—or take considerable liberty with—the record evidence. That is precisely what the AG does in brief. For example:

- The AG claims that "it is reasonable for the Commission to expect [AIC] to manage its business within this wage inflation factor for base pay increases." (AG Corr. Init. Br. at 19.) The AG never explains *why* this would be reasonable. The record evidence shows it wouldn't.

- The AG asserts that "[n]othing prevents the Company from shifting budget dollars from other O&M categories, just as any competitive business might do, or even augmenting particular salaries with shareholder dollars to support these wage increases." (*Id.* at 24.) The AG provides no cite for this statement, no witness testified that this was the case, and there is no other record basis for it. Here, moreover, the AG reveals a fundamental misunderstanding of ratemaking. AIC's test year level of O&M expense is set to meet AIC's obligation to provide adequate, efficient, reliable, safe, and least-cost service to customers. 220 ILCS 5/1-102. If the AG believes that there should be dollars available for "shifting," then AIC's O&M expense needs to be adjusted *higher* to allow AIC to both meet its service obligations and undertake the budget dollar shifting the AG suggests is appropriate.

- The AG says, "[i]n sum, the Company asks the Commission to require ratepayers to fund 4% annual pay increase for non-union employees *indefinitely*." (*Id.* at 25 (emphasis).) Again, no witness testified this was the case, and there so there is no record support for it. And, again, this shows a fundamental misunderstanding of ratemaking. There is nothing "indefinite" about AIC's request in this case, which establishes proposed rates based on a finite test year.

- The AG accuses AIC of "ma[king] no effort to determine whether the reported [market merit pay] increases had actually occurred." (*Id*. at 19.) Here, the AG at best misunderstands what a legal objection to a discovery request is and, at worse, mischaracterizes the discovery in this case. The AG's own Exhibit 5.1, AIC's response to AG 9.11, shows that AIC objected to the AG's request for this information because it was something outside AIC's possession and control—the information simply is not provided to AIC. (AG Ex. 5.1 at 2.) Moreover, although the AG claims in brief that this information is "important" (AG Corr. Init. Br. at 20), in discovery, Mr. Coppola said it wasn't: "[i]n [his] view, [comparison of the historical and projected non-union wage increases of other companies] was not necessary for purposes of analyzing AIC's forecasted level of employee wage increases." (Ameren AG Cross Ex. 1.0 at 4-5 (AG responses to AIC-AG 1.13, 1.14); Ameren Ex. 44.0 at 7.)

- The AG argues that reliance on the (apparently, historical only) "Employment Cost Index – Total Comp." figures on Mr. Coppola's single page to set wages "is similar to adjusting other O&M expenses based on the Consumer Price Index or other inflation index." (AG Corr. Init. Br. at 22-23.) But the AG never explains why this is similar, or even appropriate. (To the contrary, when considering historical test years, the Commission's rules say that "inflation factors shall not be substituted for a specific study of individual capital, revenue, and expense components." 83 Ill. Admin. Code 287.40.) Anyway, O&M expenses aren't routinely determined based on inflation alone. Finally, the AG simply ignores that in AIC's last gas rate case, the Staff witness *abandoned* an adjustment to set non-union wages on the Consumer Price Index. *Ameren Ill. Co.*, Docket 13-0192, Order at 21 (Dec. 18, 2013); (Ameren Ex. 18.0 (Rev.) at 7).

- The AG accuses AIC of not providing certain market compensation data due to "confidentiality and proprietary restrictions." (AG Corr. Init. Br. at 19.) The AG then concludes that "[t]his hardly constitutes an excuse for non-disclosure, given the existence of a protective order." (*Id.*) But the AG never explains its legal theory for how the protective order in this proceeding permits disclosure of *other companies'* confidential employee compensation data, or made any effort to make AIC aware of and attempt to resolve its apparent discovery dispute. Regardless, Mr. Coppola thinks that this information doesn't matter: he testified that it is not the Commission's task "to manage the Company's pay practices by delving into merit increase surveys." (AG Ex. 5.0 at 8:156-57.)

- The AG asserts that AIC's forecasted increase is "out of step with the wage adjustments that Ameren's customers as a whole are experiencing. Ameren's customers are the same families who have not seen their household income keep up with inflationary increases in their cost of living." (AG Corr. Init. Br. at 25.) The record is devoid of any such evidence, and so the AG cites none.

Perhaps most egregious, the AG says that the Commission should ignore AIC's actual non-union wages experience, or it "would put the Commission in a position of rubber-stamping any pay practices the Company deems appropriate to its self-interest" and "there is no limit to what could be recoverable." (*Id.* at 18.) Respectfully, there is no evidence that the Commission "rubber-stamps" any costs in a rate case. It is audacious for the AG to imply that the Commission ever does, or that the Commission rubber-stamped AIC's non-union wages increase in its last rate case, when it approved an increase based on the Company's actual experience. (AIC Init. Br. at 25, n.2); *Ameren Ill. Co.*, Docket 13-0192, Order at 21-22 (Dec. 18, 2013).

Further, the record evidence makes abundantly clear that the pay increases that AIC offers its employees for their performance and their willingness to accept changes in employment position are not in AIC's "self-interest" (AG Corr. Init. Br. at 18); they are in the best interest of AIC's *customers*, because they allow AIC to attract and retain the workforce it needs to best serve gas customers—a workforce that may be increasingly challenging to attract. As Ameren witness Colyer explained at hearing, when AIC recruits experienced gas journeymen (to reduce training time), "[t]hey're very competitive, very difficult to find so you have to recruit pretty hard to find individuals." (Tr. at 92, 93:3-4; *see also* Ameren Ex. 42.0 (Rev.) at 5-6.)

Finally, there necessarily *is* a limit to the pay increases that are recoverable, due to the nature of a future test year rate case. For example, the AG plainly recognizes that AIC's actual non-union wages increase in 2014 was 4.03%. (AG Corr. Init. Br. at 17.) But only a 4% increase was included in the 2014 test year in AIC's last gas rate case. (Ameren Ex. 44.0 at 3-4.) The same 4% forecast was included in the 2012 test year in AIC's 2011 rate case, although the Company's actual's 2012 increase was 4.18%. *See Ameren Ill. Co.*, Docket 11-0282, 285 Filing (Part 21), Sch. G-5 at 9 (filed Feb. 18, 2011); (Ameren Ex. 31.1). In other words, AIC has historically spent slightly more, and so recovered slightly *less* in rates, than the Commission has authorized.

The AG simply offers no lawful basis for the Commission to adopt an arbitrary 2% cap on AIC's test year non-union wages increase. The AG ignores the impact on customer service and customer rates that would occur if AIC offered wages below what its actual experience has proven to be necessary and what the market pays, such that AIC could not attract, retain, and motivate the talented employees that it needs to best serve Illinois customers. The Commission should not dismiss this important point. It should reject the AG's arbitrary adjustment, and approve AIC's well-grounded forecasted test year increase in non-union wages.

3. Incentive Compensation Costs

AIC's evidence and brief explain how AIC's incentive compensation plan metrics provide customer benefits, and why AIC's incentive compensation costs are properly recoverable under the Commission's established standard. The AG nevertheless proposes to disallow most of those costs. In so doing, the AG ignores both Commission precedent on incentive compensation cost recovery and the record evidence of AIC's incentive compensation program. It also mischaracterizes (or misunderstands) the discovery on this issue and, particularly what a legal objection is. This is the only way the AG can support its near wholesale disallowance of AIC's incentive compensation costs which is otherwise based solely on AG witness Coppola's mere preference for a different cost recovery standard and a different program design.

But despite the liberties the AG takes with the record, there is an obstacle the AG cannot overcome: the Commission must base its decision on the evidence and the law. 220 ILCS 5/10-201(e)(iv)(A), (C). And the ample record evidence shows that AIC's incentive compensation costs are tied to the achievement of operational goals that—as the Commission has found in past

AIC rate cases—benefit customers and so are recoverable under the Commission's well-established incentive compensation cost recovery standard.

The Commission should approve those costs, and reject the AG's baseless adjustment.

a. The Commission should refuse the AG's invitation to abandon its well-established incentive compensation cost recovery standard.

The AG spends much of its brief ignoring the Commission's incentive compensation cost recovery standard, and advocating something else. (*See* AG Corr. Init. Br. at 29, 31-33.) As AIC explained, the Commission's standard is: costs tied to operational goals that benefit customers are recoverable; costs tied to financial goals generally are not. (AIC Init. Br. at 33-34.) The Appellate Court upheld this standard. *People ex rel. Madigan v. Ill. Commerce Comm'n*, 2011 IL App (1st) 100654, ¶¶ 51, 55. The AG vaguely alludes to—but never actually articulates—the standard (AG Corr. Init. Br. at 27, 30-31), and then promptly dismisses it.

i. The AG can't explain what standard it proposes to use or why that standard would be better.

Why the AG believes the Commission should abandon its well-established incentive compensation cost recovery standard is not clear. The AG never explains what's wrong with the Appellate Court-approved standard, under which incentive compensation costs in Illinois have been reviewed for over a decade. (*See* AIC Init. Br. at 33-34.)

Likewise unclear is what the AG calls for instead: a showing "that the amount of incentive compensation in rates is directly related to performance measures that improve customer service and *result in competitive rates to gas customers of the utility*." (AG Corr. Init. Br. at 29 (emphasis added).) The AG hasn't explained what its "competitive rates" metric means (what rates? what competitors? what performance?), or why that vague metric is superior to the ones the Commission and the legislature have found benefit utility customers—safety, reliability, budget controls, and efficiency and productivity. (AIC Init. Br. at 37.) And AIC *has* shown that its costs are tied to operational goals that "improve customer service" (AG Corr. Init. Br. at 29), among other these other benefits, as required by the Commission's established cost recovery standard. (*See, e.g.*, Ameren Exs. 28.1; 42.1.)

The AG also asks the Commission to require AIC, in its next rate case, to "provide a cost/benefit analysis providing clear evidence that financial benefits derived from achieving customer-focused performance measures *overwhelming exceed* the cost of incentive compensation required in rates." (AG Corr. Init. Br. at 29 (emphasis added).) This standard, too, is unexplained. In discovery Mr. Coppola did elaborate that "overwhelmingly exceed" means "by a factor of 25%." (Ameren Ex. 42.0 (Rev.) at 10 (*citing* AG response to AIC-AG 1.74).) Yet, he never explained *how* one could quantify the financial benefits of incentive pay metrics, let alone show that they exceed incentive pay costs by a factor of 25%. (Ameren Ex. 42.0 (Rev.) at 11.) He also never explained the basis for his 25% factor. How, for example, would one quantify the financial benefits to customers of the Meet Gas Leak Response Objectives metric (a metric that Mr. Coppola approves of (AG Corr. Init. Br. at 28))? The AG also never explains whether the cost of its "by a factor of 25%" cost/benefit analysis should be borne by ratepayers. (Ameren Ex. 28.0 (Rev.) at 28.)

Moreover, the AG never explains why its "by a factor of 25%" standard would be better than the Commission's well-established cost recovery standard, or even appropriate. As AIC explained in brief, the Commission has already recognized the difficulty in quantifying financial benefits of incentive compensation goals, and it has rejected that as a prerequisite to cost recovery. (AIC Init. Br. at 34.) Further, the AG's "by a factor of 25%" standard would apply a standard to incentive compensation costs far different than that applied to almost all other costs.

(Ameren Ex. 28.0 (Rev.) at 28.) If imposed now, such a drastic departure from the Commission's established standard could trigger the rulemaking requirements of the Public Utilities Act (unless it were unfairly imposed on AIC alone). 220 ILCS 5/10-101.

ii. The Commission should not defer to (select) other jurisdictions.

The AG also spends much of its brief arguing that "[t]he requirement of a customer benefit[3] is echoed in numerous other states' utility jurisprudence, and the ICC should not be reluctant to take a cue from those other jurisdictions." (AG Corr. Init. Br. at 31, 31-33.) It never articulates precisely what those other jurisdictions' cost recovery standards are. But it doesn't matter; the extra-jurisdictional orders the AG cites are irrelevant, misinterpreted, and selectively cited.

The Illinois Commission "is completely uninformed as to the decisions from . . . other jurisdictions where [it has] no evidence that circumstances are comparable. Such comparisons are not relevant." *North Shore Gas Co.*, Dockets 11-0280/0281 (Cons.), Order at 137 (Jan. 10, 2012). Here, the AG does not show that the orders it cites are comparable to this case in any respect—whether in terms of utility operations, ratemaking policy, compensation, or employment practices or cost structure. (AG Corr. Init. Br. at 31-33.) They are not. In each of the four cited orders from Michigan (Mr. Coppola's home base (AG Exs. 2.0 REV at 1; 2.1)), to use one obvious example, the regulator authorized a return on equity for the utility of at least

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[3] This statement underscores the confused nature of the AG's position: the Illinois Commission *does* use a "customer benefit" standard, and it has been upheld by the Appellate Court. (AIC Init. Br. at 33-34.)

10.70%.[4] AIC assumes that the AG is not advocating that the Illinois Commission "take a cue" from the Michigan regulator in this regard. The AG has not (and simply cannot) show that the cases are alike, so the orders it cites are not relevant.

The AG also mis-cites the orders. The incentive compensation cost recovery standard the orders actually pronounce appears to *align* with the Illinois Commission's standard. For example, what the Arkansas order actually found was that "incentives tied to operating performance do increase efficiency, safety, and reliability and provide direct benefits to ratepayers in the form of better and more reliable service and should be included in rates." *Energy Ark., Inc.*, Docket No. 06-101-U, 2007 Ark. PUC LEXIS 239, *103-04 (June 15, 2007). But, it found that the utility's "Long-Term Incentive Plan, the Equity Awards, and the Restricted Share Awards[, and] Stock Option Incentive Program 'are based entirely on stock price of the parent company. Having found no direct or measurable benefit to ratepayers of *these* types of incentives, the Commission directs that these costs not be included in rates." *Id*. at *105 (emphasis added) (internal citations omitted).[5] And what the Massachusetts order actually found was that "companies must be prepared to demonstrate direct ratepayer benefit *from the use of financial metrics* as a direct component of an incentive compensation award." *W. Mass. Elec.*

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[4] *See Consumers Energy Co.*, Case No. U-15645, 2009 Mich. PSC LEXIS 422, *38 (Nov. 2, 2009) ("The Commission therefore approves an ROE of 10.7% . . . ."); *Consumers Energy Co.*, Case No. U-15245, 2008 Mich. PSC LEXIS 130, *41 (June 10, 2008) ("The Commission has determined that, for the reasons set forth below, the authorized ROE should be 10.70%."); *Consumers Energy Co.,* Case No. U-14347, 2005 Mich. PSC LEXIS 460, *37 (Dec. 22, 2005) ("The Commission concludes that Consumers' return on common equity should be set at 11.15%."); *Mich. Cons. Gas Co.*, Case No. U-15985, 2010 Mich. PSC LEXIS 162, *59 (June 3, 2010) ("The Commission finds that the ROE for Mich Con should be kept at its current authorized rate of 11.00%.").

[5] Compare this to the AG's Arkansas order cite: "disallowing recovery of incentive compensation expense made by Energy Arkansas, Inc. where the Commission found 'no direct or measurable benefit to ratepayers of these types of incentives.'" (AG Corr. Init. Br. at 33.)

Co., D.P.U. 10-70, 2011 Mass. PUC LEXIS 10, *141, 154-55 (Jan. 31, 2011) (emphasis added).[6] In both cases, the standard actually appears similar to Illinois'.

Finally, the AG selectively chooses the extra-jurisdictional orders it relies on. It is just as easy to cite orders that do not support the AG. For example, there are state regulators who view employee compensation as a whole, and allow cost recovery as long as total compensation—base pay plus incentive pay—is reasonable, regardless of whether the incentive pay portion is tied to financial metrics.[7] Mr. Coppola knows this. (Ameren Ex. 28.0 (Rev.) at 29 (*citing* AIC-AG 1.72).) But the AG doesn't ask the Illinois Commission to "take a cue" from those jurisdictions. (*Id*. (*citing* AIC-AG 1.71).)

There is simply no basis—in the record or the law—for the Commission to abandon its well-established incentive compensation cost recovery standard.

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[6] Compare this to the AG's Massachusetts order cite: "companies 'must be prepared to demonstrate direct ratepayer benefit' to recover incentive compensation expense." (*Id.* at 32.)

[7] *See, e.g.*, *San Diego Gas & Elec. Co.*, Decision 08-07-046, 2008 Cal. PUC LEXIS 281, *31-32 (July 31, 2008) ("Because total compensation is reasonable, (defined as prevailing market rates for comparable skills) the ratepayers should reasonably fund a revenue requirement that includes the full market-based employee compensation for the adopted levels of staff. Thus, there is no basis to exclude the incentive component and force shareholders to assume a portion of the reasonable cost of employee compensation. We find no merit in DRA's argument that shareholders should fund any portion of the incentive portion of market-based employee compensation. We do not agree that incentives solely benefit the company: if employees work harder or smarter to earn incentives (even just to achieve the target incentives) then ratepayers should benefit too."); *Pacific Power & Light Co.*, Dockets UE-050684 (Cons.), 2006 Wash. UTC LEXIS 156, *84 (Apr. 17, 2006) ("Generally, we require that an incentive payment plan provide benefits to ratepayers. Under some circumstances, we have allowed in rates payments under plans that have a dual benefit – to shareholders and ratepayers. We also will permit payments in stock, depending on the overall nature of the plan and whether there are benefits to ratepayers in terms of attracting good management for the company. The ultimate issue is whether total compensation is reasonable and provides benefits to ratepayers, not whether incentive compensation is paid in stock or whether compensation, particularly for executives, is similar to that of other comparable companies."); *Hope Gas Inc.*, Case Nos. 08-1761-G-PC (Cons.), 2009 W. Va. PUC LEXIS 3347, *85-87 (Nov. 20, 2009) (authorizing recovery of incentive compensation plan that included operational as well as earnings per share goals).

b. The AG ignores or takes liberties with the record evidence that AIC's KPIs provide customer benefits.

As indicated, AIC has provided substantial evidence that its incentive compensation plan provides customer benefits, consistent with the Commission's standard. Like its approach to other issues in this case, the AG discounts this record to support its otherwise unsupportable position here. Its brief is plagued with omissions or misrepresentations regarding AIC's key performance indicators (KPIs) and its incentive pay program.

The AG asserts, for example, that "the connection to customer benefits for most of [the KPIs] is tenuous or nonexistent." (AG Init. Corr. Br. at 30.) But this is nothing more than the AG's conclusory assertion. It comes at the end of page 30 of the AG's brief, which attempts to dispel the many customer benefits of AIC's KPIs, but which does not include a single record cite. (*Id*.) And in fact, there are no cites that would support the AG's recitation here because Mr. Coppola never engaged with any of AIC's customer benefit evidence. (Ameren Exs. 42.0 (Rev.) at 7; 14.2; 28.1; 42.1. *See generally* AG Exs. 2.0 REV & 5.0.)

The record evidence shows, to the contrary, that the customer benefits provided by AIC's KPIs are neither "tenuous [nor] nonexistent." The KPIs and their customer benefits are described on Ameren Exhibits 14.2 and 28.1. The specific threshold, target, and maximum performance metrics used to determine the incentive payout under each KPI, including AIC's actual performance in 2014, are the AG's own Exhibit 2.6 (Confidential). And Ameren Exhibit 42.1 shows AIC's performance under each AIC KPI in 2014, over the 2013 performance. (AIC Init. Br. at 36-39.) In 2014, for example, under the FOCUS (customer service) KPI, AIC attained an 88% customer satisfaction score, an improvement over the 2013 score. (Ameren Ex. 42.1.) Also, in 2014, AIC exceeded its Gas Storage Forced Outage Rate KPI goal, and reduced the time gas storage fields are forced off line due to forced outages by 0.12% relative to the 2013 level. (*Id*.) Both of these are clear customer benefits.

The evidence also shows that the AMS KPIs similarly benefit customers through increased operational efficiencies throughout the entire organization that ultimately reduce or control AIC's operating costs and mitigate risks. (Ameren Ex. 42.0 (Rev.) at 9, 12.) An example is the Operational Excellence - IT Project Delivery Index KPI, which monitors the successful implementation of large IT projects that impact AMS's customers, like AIC, based on project timelines and error rate. On time completion and low error rates help reduce project costs. In 2014, there was a 12.5% increase in on time project delivery and a 9.6% increase in project quality relative to 2013 performance. (*Id.* at 9.)

The AG next claims that AIC's KPIs don't tie to "matters that are important to AIC's gas customers." (AG Corr. Init. Br. at 26.) The AG never defines in brief what "matters that are important to AIC's gas customers." But Mr. Coppola did in discovery. And despite his general dislike of AIC's incentive pay program, he admitted that: (1) cost is not the only matter of importance; (2) a readily available workforce is important; (3) timely service is important; (4) reliable service is important; and (5) safety is important. (Ameren Exs. 42.2 (AIC-AG 1.42, 1.43, 1.44); 42.0 (Rev.) at 16; AG Ex. 5.0 at 28.) AIC's KPIs incentivize all of these goals.

Further, Mr. Coppola thinks that "customer service levels" are important. (AG Ex. 2.0 REV at 14.) By this he means "'call wait time, customer satisfaction surveys, number of actual meter reads each month, billing accuracy/errors, response time to customers['] request for service, such as leaks, meter changes, start and termination of service, etc.'"—all which require a readily available workforce, and all which, again AIC's KPIs incentivize. (Ameren Ex. 28.0

(Rev.) at 22:493-96 (*quoting* AG response to AIC-AG 3.03(a)).) So here the AG ignores not only the record, but also the admissions of its own witness.

And, while the AG claims to know—though never articulates in brief—what is "important to AIC's gas customers," AIC actually does know. In AIC's experience, the cost of service is important to customers, but it is not the only thing they care about. (Ameren Ex. 28.0 (Rev.) at 25.) AIC relies on research and focus groups, published reports, and information from gas trade associations to keep abreast of what interests gas customers. This information shows that customers also care about reliability, superior customer service and satisfaction, and safety. So, they wouldn't accept unsafe gas lines, poor customer service, or unreliable service in exchange for lower gas rates. (*Id*.) AIC's incentive pay program, therefore, focuses on a variety of operational goals to ensure that all of AIC's gas customers' service needs are met. (*Id*.)

The AG also claims that incentive pay metrics aren't working because O&M costs increase over time. (Ameren Ex. 42.0 (Rev.), at 16.) That position is far too simplistic, and has been rejected by the Commission. There are many reasons why O&M budgets fluctuate. Incentive pay metrics, and particularly cost control metrics, reduce or control the costs of service that must be recovered from customers in future rate cases, despite inevitable cost fluctuations. (Ameren Ex. 28.0 (Rev.) at 23; AIC Init. Br. at 38.) The Commission has previously rejected the same simplistic position the AG takes here. *See, North Shore Gas Co.*, Dockets 12-0511/0512 (Cons.), Order at 129, 130 (June 18, 2013) (rejecting intervenor argument that incentive pay costs should be disallowed because the utilities' "O&M expenses are, in fact, increasing significantly," and finding, "[o]ne of the goals that the Commission encourages public utilities to incentivize through [incentive compensation] plans is the control and reduction of operating costs since . . . this should have the effect, all else being equal, of lowering the costs to be recovered in future rate cases.").

Finally, the AG's descriptions in brief of AIC's incentive pay program are often inaccurate. (AG Corr. Init. Br. at 25-26.) For example:

- The AG states that only three out of 15 (there are actually 10)[8] of the AIC Executive Incentive Plan – Director KPIs "relate to goals that benefit gas delivery customers." (AG Corr. Init. Br. at 26.) Here, like Mr. Coppola did in his direct testimony, the AG seems to only count KPIs with "gas" in their name. (AG Ex. 2.0 REV at 12; Ameren Ex. 28.0 (Rev.) at 20.) But the QIP (Qualified Infrastructure Plant) In-Service Plant Addition Costs KPI, for example, specifically benefits gas customers, although "gas" isn't in the name. (Ameren Exs. 28.0 (Rev.) at 20; 14.0 at 7-8.) So, all of the Executive Incentive Plan KPIs on Ameren Exhibits 14.2 and 28.1 benefit gas customers (as the Commission has found in past rate cases). (AIC Init. Br. at 36-39.)

- The AG also claims that the AMS EIP-D "is based on budget compliance and an unspecified 'internal management scorecard.'" (AG Corr. Init. Br. at 26.) What the evidence the AG cites—its own Exhibit 2.6—actually says, however, is that the plan is based on budget compliance and the "*Applicable* Management Scorecard." (AG Ex. 2.6 (Conf.) at 5 (emphasis added).) In other words, the scorecard for that director's function (Human Resources, Tax, General Counsel, and the like), all of which are included in the same AG exhibit. If the AG found this point confusing, it should have asked for clarification. It never did.

- The AG states that the Executive Incentive Plan – Officers "is based only on a workplace safety metric." (AG Corr. Init. Br. at 26.) That's also wrong. Ten percent of the EIP-O—the amount AIC requests recovery for in this case—is tied to safety performance, since safety is critical to AIC's success. (Ameren Ex. 28.0 (Rev.) at 21-22.) AIC has not requested recovery of the remaining 90% tied to financial performance and non-gas distribution operations, consistent with the Commission's incentive compensation cost recovery standard. (Ameren Ex. 42.0 (Rev.) at 19.)

- The AG "agrees in principle" with AIC that "'if a utility's incentive compensation costs are tied to the achievement of operational metrics that benefit its customers, then the costs should be recoverable' . . . ." (AG Corr. Init. Br. at 27 (*quoting* Ameren Ex. 42.0 (Rev.) at 3:66-4:68).) But then the AG adds an unsupported, albeit curious, qualifier: "assuming those metrics are the *only* predicates for the incentive pay." (*Id.* (emphasis sic).) It's unclear what the AG means here; the

[8] This misunderstanding stems from Mr. Coppola's failure to rely on the pertinent gas operations, test year information. (*See* Ameren Ex. 28.0 (Rev.) at 4-5.)

AG hasn't explained itself. And there is no record evidence of any predicate for AIC's incentive costs in this case, other than the operational metrics described in Ameren Exhibits 14.2 and 28.1. To the extent, however, the AG is suggesting there is some other trigger for the incentive pay costs in this case, such as a financial trigger, there is not. AIC has made clear that, consistent with the Commission's well-established cost recovery standard, it has only included costs in this case tied to the achievement of operational goals that benefit customers; incentive pay tied to financial metrics is not included. (Ameren Ex. 28.0 (Rev.) at 6.)

- The AG continues to refer to incentive compensation (as Mr. Coppola repeatedly testified) as "extra" pay. (AG Corr. Init. Br. at 30 (emphasis added).) The record evidence makes plain, however, that customers are not paying "extra" for any incentive compensation: it is part of AIC's total cash compensation package, which is designed to near the market median. (Ameren Exs. 14.0 at 3-4; 28.0 (Rev.) at 8-9; 42.0 (Rev.) at 4-5.) *See also North Shore Gas Co.*, Dockets 07-0241/0242 (Cons.), Order at 66 (Feb. 5, 2008) ("Being a large utility means that management depends on the dutiful work performance of its employees. To motivate and maintain high standards, a utility may reasonably offer incentive compensation as the best way to match both employer and employee interests and to ensure quality work performance."); *Commonwealth Edison Co.*, Docket 14-0312, Order at 49-50 (Dec. 10, 2014) (recognizing that recovery of incentive pay "insures that ComEd recovers the market-based salary for their employees plus a reasonable bonus which further serves to encourage employees' continued achievement of the operational goals to the benefit of ratepayers . . . .").

- The AG says that "[t]he KPIs are generally set relative to internal Ameren targets or expectations, rather than to peer companies or *some* independent external performance standard." (AG Corr. Init. Br. at 26 (emphasis added).) This not only is vague, but also again ignores the record evidence. As AIC has explained repeatedly, the specific parameters for each KPI are established relative to *both* external benchmarks and AIC's historical performance, and what a meaningful improvement over that performance would be. (Ameren Ex. 28.0 (Rev.) at 16-18; Ameren Ex. 42.0 (Rev). at 12, 18.)

Given all of the omissions and mischaracterizations of the record in brief, the Commission should consider the AG's arguments with caution.

c. The AG's argument that AIC failed to provide information mischaracterizes (or at least fundamentally misunderstands) what a legal objection is.

The Commission's rules include procedures for obtaining information that is subject to a legal objection. *See, e.g.*, 83 Ill. Admin. Code 200.350 (parties must use "reasonable attempts to resolve differences" regarding discovery). Ultimately a party can seek to compel production. 83 Ill. Admin. Code 200.370. And, absent such effort, a party cannot claim another failed to provide requested information. *Ill.-Am. Water Co.*, Docket 11-0767, Order at 183 (Sept. 19, 2012) (noting, although Staff complained of the utility's failure to provide information, Staff had not followed established procedures to compel discovery, rejecting Staff's position).

Mr. Coppola testified that AIC's O&M costs have increased 2011-2016. (AG Ex. 2.0 REV at 5.) As explained, he thinks this means that AIC's incentive pay program isn't working. (AG Ex. 5.0 at 22.) The AG asked AIC in discovery to validate Mr. Coppola's testimony and agree with his summary conclusion. (AG Ex. 5.8 (AG 10.02(b)-(d)).) AIC's counsel objected to these requests: they were argumentative, outside the scope of the witness's testimony, irrelevant, vague, overly broad, and unduly burdensome. (*Id*. at 2; Ameren Ex. 42.0 (Rev.) at 17.) The AG never questioned these objections, and never revised the data requests.

Instead, in brief, the AG improperly characterizes the objections as Ameren's witness's failure to respond: "Mr. Verbest *declined to answer the questions*, and he also *declined* to compare the Company's gas distribution rates and customer service levels to that of peer companies in the Midwest." (AG Corr. Init. Br. at 29 (emphasis added).) In the testimony cited by the AG in support of this statement, Mr. Coppola actually testified that the witness "refused" to respond: "Mr. Verbest *refused* to answer the questions. He also *refused* to provide any information . . . ." (AG Ex. 5.0 at 22:441-42 (emphasis added); *see also* AG Corr. Init. Br. at 29 (citing same).) Again, there are proper ways to oppose a legal objection. Mischaracterizing it as a witness's refusal to respond, however, is not one of them. The AG's mischaracterizations should not be condoned.

In sum, there is no lawful reason to disallow AIC's incentive compensation costs. The record shows that, consistent with the Commission's well-established standard, those costs are tied to the achievement of operational goals that benefit customers and that the Commission has approved cost recovery for in AIC's past rate cases. The mere preference of AG witness Coppola for something different—a different cost recovery standard and a different incentive pay plan design (albeit both undefined)—is not enough. And the AG's creative means of supporting his otherwise unsupportable opinion doesn't convert that preference to a lawful basis for a rate disallowance. The Commission should reject the AG's incentive compensation cost adjustment.

4. Qualified Pension and Other Post-Employment Benefit Costs

The AG proposes to adjust the amount of pension and other post-employment benefits (OPEB) expense included in rates because "the significant decline in costs post-2016 raises questions on the reasonableness of the pension and OPEB costs the Company has included in the forecasted test year." (AG Corr. Init. Br. at 35.) The AG's assertion in brief that the test year 2016 pension and OPEB expense may be unreasonable is not based on any testimony that the expense amount is actually unreasonable. Instead it is based on: (i) AG witness Coppola's observation that pension and OPEB costs are forecasted to decline after 2016; and (ii) AIC's alleged "refus[al] to provide" calculations of expense in years after the 2016 test year. In short, the AG is now making a reasonableness argument in its briefs that its witnesses never expressly made. In addition, neither of the AG's proffered bases are supported: reaching forward past 2016 to capture declines to test year expenses violates the Commission's test year rules, and the AG's allegations that AIC "refused" to provide information are mischaracterizations (or a misunderstanding of the Commission's rules of procedure), since AIC provided appropriate legal objections to the cited data requests, and the AG never sought to compel production of the information.

a. The AG's adjustment violates the test year rules, and the AG fails to explain otherwise.

The AG's proposal cannot be adopted because it violates the test year rules—a point that the AG's initial brief never satisfactorily addresses. AIC mentioned this violation in testimony, and the concept of a test year should in any event be fundamental—rates cannot be based on costs that occur outside the test year. The AG does not explain why, legally, its adjustment for post-test year expense levels is appropriate.

The purpose of the Commission's test year rules is to prevent the mismatching of revenues from one period to expenses in another. *A. Finkl & Sons v. Ill. Commerce Comm'n*, 250 Ill. App. 3d 317, 330 (1st Dist. 1993); *see also Bus. & Prof'l People for Pub. Int. v. Ill. Commerce Comm'n*, 136 Ill. 2d 192, 219 (1989) (discussing the basis and appropriateness of a one-year test year); *Bus. & Prof'l People for Pub. Int. v. Ill. Commerce Comm'n*, 146 Ill. 2d 175, 238 (1991) (holding the Commission committed reversible error by failing to abide by its own test year rules). Yet that is exactly what the AG proposes to do. Mr. Coppola stated repeatedly and without reservation that his proposal was intended to reduce test year expense to reflect the fact that pension and OPEB expenses are forecasted to be lower in 2017, 2018, and 2019, years *after the test year*. (AG Ex. 2.0 REV at 21-22.) Thus, there is no dispute that the AG's proposal would match the lower post-test year expense against test year revenues. This is a clear instance of mismatching revenues and expenses from different periods to achieve a desired result. It should be rejected.

The AG's initial brief characterizes AIC's position as "the Commission may not examine data beyond the test year," and states, "[t]his argument finds no support in either Part 285 or Part 287 of the Commission's rules, which detail the requirements and expectations of forecasts for future test years." (AG Corr. Init. Br. at 37.) This is simply wrong, as Part 287 strictly limits future test years to periods "ending no later than 24 months after the date new tariffs are filed." 83 Ill. Admin. Code 287.20(b). The Commission must either "abide by [a 12-month] test-year standard or set an articulable alternative standard which the parties and intervenors [can] follow and on which the parties and intervenors [can] present evidence." *Bus. & Prof'l People for Pub. Int*, 136 Ill. 2d 192, 226. The AG's proposal matches some post-test year data (regarding pension and OPEB expense) against test year revenues while excluding all other post-test year data. This violates the test year rules.

The AG also does not address AIC's argument that the proposed adjustment violates the rule against single-issue ratemaking. Again, in failing to respond to the argument, the AG concedes that its proposal does not comport with the rule.

b. The AG's proposed adjustment remains unsupported by the record.

As AIC explained in its initial brief, although AIC bears the burden of proof to support its proposed rate increase, parties proposing adjustments bear the burden of supporting their recommendations. (AIC Init. Br. at 2-3); *see also Chicago v. Ill. Commerce Comm'n*, 133 Ill. App. 3d 435, 442-43 (1st Dist. 1985). Parties cannot simply propose arbitrary adjustments without supporting them. But here the AG has not supported its position.

Underlying the AG's argument is the implication of impropriety in AIC's calculation of pension and OPEB expense. (*See, e.g.*, AG Ex. 2.0 REV at 21; AG Ex. 5.0 at 31.) This implication lacks any record support. As AIC explained, AIC abides by accounting standards and rules that govern the recognition of asset gains and losses in calculating pension and OPEB costs, and has used these methods consistently in all years since its predecessors were acquired by Ameren. (Ameren Ex. 29.0 at 4, 6.) AIC has not altered its accounting methods or made any other change in its calculations (not even following the 2008 financial crisis), nor did it delay the recognition of asset gains experienced in 2014 in any way. (*Id.* at 9.) Mr. Coppola did not challenge or take issue with AIC's method of accounting; he did not even address AIC's procedures for recognition of asset gains and losses. (*See generally* AG Ex. 5.0 at 30-31.)

That the AG's adjustment is unsupported can be seen from the fact that many of the statements the AG relies on in brief lack citation, were not the testimony of any witness, and otherwise have no apparent basis in the record. For example, the AG argues that the undisputed decline in post-2016 pension and OPEB expense is relevant to the determination of test year 2016 expense because the decline—in and of itself—indicates that AIC has "cherry-pick[ed] the level of pension and OPEB" expense to include in the test year. (AG Corr. Init. Br. at 35.) There is absolutely no basis in the record for this assertion, and the AG does not cite to anything in the record that would suggest "cherry-picking."

Where the AG does provide citation to the record, the AG mischaracterizes AIC witnesses' testimony. For example, the AG states that Ameren witness Stafford "was given yet another opportunity in cross-examination to defend and reconcile the test year pension and OPEB amounts … but again offered no explanation as to why AIC customers should be required to pay forecasted expense amounts indefinitely in rates that greatly exceed forecasted expense levels." (AG Corr. Init. Br. at 37-38.) In the portion of the transcript cited by the AG, Mr. Stafford was asked only to confirm that the expense amounts presented on an AG exhibit were accurate, and that the expense amounts decline by certain percentages. (Tr. at 164-65.) Mr. Stafford was never asked "why AIC customers should be require to pay" any amount or to "defend and reconcile" these expenses. (*Id.*) But Mr. Stafford did explain how Mr. Coppola's proposal was unreasonable, in that it is inconsistently calculated, and overstated by approximately 40%. (Tr. at 166.)

As also discussed in AIC's initial brief, the AG's calculation of its adjustment is riddled with this type of errors and irregularities. The AG does not respond to AIC's testimony regarding the inconsistencies and errors in the calculation of the AG's adjustment. Instead of offering a corrected calculation, or explaining why no correction is necessary, the AG describes AIC's testimony regarding the errors as a "strawman argument." (AG Corr. Init. Br. at 37.) But, in the absence of a correction or explanation, this appears to be a concession that the AG's calculations are inconsistent.

c. AIC has explained why its pension expense declines.

The AG argues AIC failed to explain the decline in pension and OPEB cost after 2016. AIC explained, however, that the decline results from the process of recognizing historical asset gains. (AG Ex. 2.0 REV at 21.) AIC also explained how historical asset gains are recognized through amortization into pension expense (Ameren Ex. 29.0 at 7-8), and explained that the recognition and amortization AIC applied to the historical asset gains at issue in this case is consistent with its treatment of historical asset gains and losses in all prior years. (*Id.* at 8-10.) Mr. Coppola never testified that AIC's amortization and recognition processes were in error.

d. That one expense—pension and OPEB—is forecasted to decline does not make it unreasonable.

AIC's test-year level of pension and OPEB expense is reasonable, and the AG has not shown otherwise. As discussed at length above, in AIC's initial brief, and in testimony, AIC's has forecasted its pension and OPEB expense based in an actuarial study undertaken in accordance with GAAP and consistent with prior practice before the Commission. The forecast accounts for factors including the performance of the financial markets, rates of employee retirement and mortality, and healthcare costs. (Ameren Ex. 29.0 at 6.) These factors fluctuate, and in turn cause pension and OPEB expense levels to fluctuate year-to-year. But these factors are not within the Company's control, and fluctuation caused by these factors does not indicate any imprudence on the Company's part, or unreasonableness in the level of expense in any given year. Therefore, as the Commission's prior approval of pension and OPEB expense set based on the actuarial forecast shows, the 2016 forecast represents the most reasonable estimate of the expenses in that year.

The AG's criticism seems to be that AIC's forecasted 2016 expense levels will exceed the expense levels forecasted in 2017, 2018 and 2019, so rates in those years would be somehow unreasonable. (*See* AG Corr. Init. Br. at 38.) However, the fact that AIC's pension and OPEB expenses are forecasted to decline *after* the test year has no bearing whatsoever on the reasonableness of the forecasted expense *during* the test year, which is the question for the Commission in this case. Pension expense was significantly higher in 2014 and 2015 than in the test year, yet the AG makes no effort to account for this. (AG Ex. 2.9.)

The AG cannot anyway show that AIC's rates would be unreasonable after the 2016 test year, because the AG ignores all other expenses in the 2017-2019 period, some of which will increase significantly. For example, wages and salaries expense is forecasted to increase during the 2017-2019 period, as the AG must acknowledge. (*See* AG Corr. Init. Br. at 18-25 (proposing a 2% annual increase in non-union wages and salaries).) In order to show that AIC's rates in 2017-2019 would be unreasonable if AIC's proposed pension and OPEB expense was adopted, the AG would have to capture changes in *all* of AIC's expenses and revenues in that period to show that revenues exceed expenses. In short, some other test year would be required. But the AG focuses only on pension and OPEB expenses, and has not proposed to match those expenses against any other components of expense or revenue in the 2017-2019 period. And as AIC explained in its initial brief, the 2017-2019 period used by the AG goes beyond the allowable forecast period under the test year rules.

Finally, it would be unreasonable to normalize or average AIC's pension and OPEB expenses in the way the AG has proposed. Leaving aside the calculation errors and test year violations discussed above, the AG's proposal would not allow AIC to recover its forecasted 2016 pension and OPEB expense during 2016. For this reason, the Commission should reject the adjustment. The Commission has rejected a similar proposal to normalize or average pension and OPEB expenses over time, because it would not allow the utility to recover its actual expense in the test year. *See Cent. Ill. Pub. Serv. Co., et al.*, Dockets 06-0070-0072 (Cons.), Order at 77-78 (Nov. 21, 2006).

e. The AG's claims that AIC has "refused" to provide information are disingenuous and ignore the rules of procedure.

As an excuse for the lack of record basis for its position, the AG claims that AIC has "refused to provide the specific calculations" of pension and OPEB expense in years after the test year. (AG Corr. Init. Br. at 36.) The implication is that the AG would somehow be able to prove "cherry-picking" had occurred if the "specific calculations" AIC "refused to provide" had been turned over. (*Id.*) The AG's contentions in this regard are disingenuous and should be disregarded entirely.

First, the AG complains that AIC did not provide "calculations of how these expenses were calculated for each year 2017-2019." (AG Corr. Init. Br. at 36.) But AIC and the AG *agree* that information related to periods after the close of the 2016 test year are *irrelevant*. In response to data requests issued by AIC on another topic, the AG stated, "information after the 2016 test year … is irrelevant and inadmissible." (Ameren Cross AG Ex. 1.0 at 10-11.) The AG has not explained, in testimony or in brief, why post-test year data is relevant to the pension and

OPEB expense issue but not to other issues. It is disingenuous for the AG to argue that post-test year data is relevant when sought by the AG, but irrelevant when sought by AIC.

Second, the data requests the AG cites in support of its contention that AIC "refused to provide" information contain proper legal objections to the relevancy of the data. (*See* AG Ex. 5.11.) If the AG disagreed with AIC's position that the post-test year data is irrelevant (although the AG made the same objection itself), or otherwise disagreed with an objection, Commission Rules provide a process to resolve discovery disputes. *See* 83 Ill. Admin. Code 200.350 (requiring consultation among parties and "reasonable attempts to resolve differences" regarding discovery); 200.370 (permitting hearing examiners to supervise discovery); 200.420 (outlining remedies for failure to comply with discovery orders). The AG did not file any motions seeking production of post-test year data, or to compel formal discovery of that data. Absent an effort to follow the established discovery procedure or compel the production of information, the AG cannot claim that AIC "refused" to provide information. *See Ill.-Am. Water Co.*, Docket 11-0767, Order at 183 (Sept. 19, 2012) (rejecting Staff complaint about the utility's failure to provide information, where Staff had not followed established procedures to compel discovery). It is disingenuous for the AG to argue that AIC refused to provide information when AIC provided a legal objection, not only because the AG offered the *same* legal objection to a similar data request, but because the AG failed to utilize available procedures to challenge the appropriateness of AIC's objection.

Third, the AG's initial brief ignores the significant data that AIC *did* provide. AIC provided:

- The forecast of AIC's 2016 pension and OPEB expense, with summary reports from AIC's actuary, updating expense and contribution forecasts for the pension and OPEB plans to reflect recent data, and summarizing the changes that gave rise to the updated forecast;

- The forecast of AIC's 2017-2019 pension and OPEB expenses;

- The 2014 actuarial reports, including the determination of pension costs, amortization amounts and the assumptions the reports were based on (no future year ones have been prepared);

- Calculations, in an Excel file with functioning formulas, of the capital, expense and other portions of the updates to pension and benefit costs for AIC and AMS;

- Data on the historical asset and liability gains and losses in 2008-2014 that would be amortized in future years;

- Data regarding participant headcount in 2014-2016;

- Data regarding the expected and actual return on pension and OPEB assets 2008-2014, and as estimated 2015-2019;

- Data regarding the actual discount rate for 2008-2014 and the estimated discount rate 2015-2019; and

- Copies of ASC rules describing the amortization of gains and losses.

(Ameren Ex. 34.0 at 12.)

Further, AIC explained that:

- The OPEB expense forecast is based on market conditions, employee census data, and plan provisions as of December 31, 2014;

- The forecast does not assume plans to modify or restructure the OPEB plan or benefits;

- There are no plans to defer negative OPEB expense, and AIC did not defer higher 2015 expense into the 2016 test year; and

- Contribution amounts will vary based on actual investment performance, changes in interest rates, any pertinent change in government regulations, and other assumption changes.

(*Id.* at 13.) The AG also ignores AIC's testimony that the information AIC provided to the AG is the same information AIC provided to third-party auditors charged with determining AIC's compliance with accounting standards. (Ameren Ex. 29.0 at 6.) In light of AIC's extensive provision of information related to its test year pension and OPEB expense, there is no basis for the AG to argue that AIC refused to provide information, or explain its test year expense. (*See* AG Corr. Init. Br. at 36.)

In sum, the AG has cited *nothing* in support of its contention that AIC "cherry-picked" pension and OPEB expense, apart from the fact that AIC's expense will decline after the test year, and AIC's objection to the relevance of post-test year data. The Commission should see the AG's contentions regarding AIC's "refus[al] to provide" post-test year information for what they are: attempts to obscure the fact that the AG's position has no basis in the record.

5. Non-Qualified Pension Costs

AIC has, as it has routinely over many rate cases, included in its revenue requirement costs associated with non-qualified pension benefits provided to certain of its employees. As explained in AIC's initial brief, these plans operate to restore the level of retirement benefits that would have been earned under a qualified retirement plan, but for Internal Revenue Code limitations, and so help AIC attract and retain management employees. (AIC Init. Br. at 52.)

The AG and CUB/IIEC have argued that allowing recovery for these costs violates the requirement that utility rates be "least-cost," and therefore should be disallowed. (AG Corr. Init. Br. at 38-42; CUB/IIEC Init. Br. at 11-12.) As a threshold matter, the AG's emphasis on the words "least cost" glosses over the statutory requirement that least cost must be "consistent with [service] obligations." 220 ILC 5/8-401. In other words, the question for the Commission is not what is the least dollar cost way to operate a utility, but rather what is the least cost means of meeting service obligations. This service obligation is part and parcel of the very section of the Act cited by the AG: "the General Assembly finds that the health, welfare, and prosperity of all Illinois citizens require the provision of ***adequate, efficient, reliable,*** environmentally safe and least-cost public utility services ***at prices which accurately reflect the long-term cost of such services*** and which are equitable to all citizens." 220 ILCS 51-102 (emphasis added). By emphasizing the term “least-cost” above all other obligations under the statute, the AG misses the bigger picture: the quality of service provided to customers is significantly impacted by the quality of personnel AIC employs, and benefits like the non-qualified pension plans allow AIC to bring on high-quality individuals to help the Company achieve superior performance and customer satisfaction. (Ameren Ex. 44.0 at 20.)

The AG’s arguments are also based on statements that are not supported by the record. For example, the AG states that “[n]o Company witnesses presented evidence to justify this cost.” (AG Corr. Init. Br. at 39.) This is wrong. Ameren witnesses Langenhorst, Stafford, and Lynn have each provided testimony and sponsored exhibits demonstrating the value of post-employment benefits, including specific testimony on non-qualified pension plans. (*See, e.g.*, Ameren Exs. 17.0, 29.0, 31.0, 34.0, 43.0, 44.0.) The AG also, without citation or any apparent basis in witness testimony or the evidence, compares AIC’s position to “Wall Street excuses for excessive compensation following the 2008 recession.” (AG Corr. Init. Br. at 40.) This comparison is not only inflammatory but has no basis in reality, as the pension plans offered by AIC operate under the same terms and conditions for all eligible employees—there is no different standard for “executives”.

The AG makes two main points in support of its adjustment: that the non-qualified plans are utilized by only a small number of select executives, and the plan costs are “not deductible in the Company’s tax return.” (AG Corr. Init. Br. at 42.) Neither has merit.

The AG’s main argument, that “only a few highly paid executives benefit” from the non-qualified pension plan, mischaracterizes the record. (CUB/IIEC Init. Br. at 11.) Any AIC or AMS employee whose normal pension benefit is curtailed by the IRS limitations is eligible for the non-qualified pension plan. (Ameren Ex. 44.0 at 19.) Further, these plans are not value-added plans, they simply replace the benefits that eligible employees would have received under AIC's general benefit plan, but for the IRS limitations. (Ameren Ex. 44.0 at 20-21.) While the number of employees who participate may be small relative to AIC's total number of employees, these employees are not specially selected based on their rank in the company or any other factor. (*See* Ameren Ex. 44.0 (*Confidential and Proprietary*) at 19.) All employees whose pension benefits are limited by the IRS standards are able to participate in the non-qualified plan and have those benefits restored to the level they would otherwise have received under AIC's normal pension plan. (*See id.*)

The AG also relies on the assertion that non-qualified plan costs are "not deductible in the Company's tax return." (AG Corr. Init. Br. at 42.) This is also wrong. Expenses paid into a non-qualified pension plan are ordinary, deductible expenses when paid. (*See* Ameren Ex. 44.0 (*Confidential and Proprietary*) at 20.) *See also, e.g., Albertson's Inc. v. Comm'r*, 42 F.3d 537, 543 (9th Cir. 1994).

The arguments made by the AG and CUB/IIEC are not supported by any legal authority or record basis. The AG has failed to demonstrate why Internal Revenue Code limitations should have any bearing on whether or not AIC or any utility should be permitted to recover plan costs through rates. As the Commission has found, s*ee The Peoples Gas Light and Coke Company: Proposed general increase for rates for gas service*, Docket No. 91-0586, Order (Oct. 6, 1992), 1992 Ill. PUC LEXIS 376, at 67, cost recovery is a wholly different consideration than tax deductibility. The ability of AIC to incentivize talented individuals for employment through these non-qualified retirement plans has a direct impact on the ability of AIC to adequately serve its customers, and therefore it is reasonable to recover the cost.

6. Gasoline and Diesel Fuel Costs

The Commission can accept Staff's adjustment to test year costs for gasoline and diesel fuel—an adjustment based on average projected 2016 prices published by a recognized governmental authority. Or it could adopt Mr. Coppola's alternative, higher adjustment based on four months of 2015 costs, which Staff and AIC oppose in principle. Staff's adjustment relies on a full year of fuel prices projected for 2016, updated as of July 2015, adjusted for the historical prices that AIC paid, and issued by a credible, independent federal agency. And Staff's adjustment relies on a methodology that the Commission has accepted previously. In contrast, Mr. Coppola's adjustment relies on a snapshot of four months of actual costs from early 2015—an adjustment that wasn't updated, doesn't use test year projections, and doesn't rely on an impartial source. The choice is easy, and clear. Staff's methodology is more reliable. And Staff's recommendation should be accepted.

a. Staff proposes to adjust test year costs based on the 2016 fuel price estimates in the July 2015 U.S. EIA Short-Term Energy Outlook—and the Company agrees.

As outlined in AIC's initial brief, Staff recommended that the Company adjust its forecasted test year costs for gasoline and diesel fuel, based on the average 2016 price estimates in the July 2015 U.S. Energy Information Administration (EIA) Short –Term Energy Outlook. (AIC Init. Br. at 55-59.) AIC agreed with Staff's recommendation and reflected the adjustments in its surrebuttal schedules. (*Id*. at 57.) As noted in AIC's initial brief, the basis for Staff's adjustment was Staff's opinion that the average 2016 estimates in the EIA forecast were "superior" to the Company's forecasted costs, which were based on actual historical prices from 2013 and 2014, even with the downward adjustment of 3% that AIC reflected for the decreasing price trend. (*Id*. at 56-57.) Staff noted that the average 2016 estimates were "based on an independent government projection." (*Id*. at 56.) Staff confirmed this recommendation in its initial brief. (Staff Corr. Init. Br. at 15.) Given that AIC already has reflected Staff's recommendation, no further adjustment is needed.

b. Staff argues that the AG's use of four months of early 2015 fuel costs is not a more reliable and accurate forecast of 2016 fuel costs—and the Company agrees.

The AG continues to support Mr. Coppola's alternative, larger adjustment to test year fuel costs, based only on the fuel prices that AIC paid during the first four months of 2015. (AG Corr. Init. Br. at 42-44.) AIC's initial brief details why Mr. Coppola's adjustment uses an inferior, less reliable methodology, compared to Staff's proposal. (AIC Init. Br. at 57-59.) The four-month period of data relied upon by Mr. Coppola to calculate his average expense is far too short, and too outdated. (*Id*. at 58.) He could have used a full year of actual data; he didn't. (*Id*.) He could have updated his prices with more recent 2015 data; he didn't—and the difference in actual prices paid in the second four months of 2015 shows the volatility of fuel prices. (*Id*.) The Commission has relied on average projected fuel prices published in the EIA forecast—a recognized authority. (*Id*. at 59.) The Commission hasn't relied on Mr. Coppola or his methodology. For these reasons, AIC recommends that the Commission not accept the AG's proposal.

And the Company is not alone in its position. Staff also "disagrees with the AG's request" and recommends that the Commission "reject the AG's methodology and its proposed adjustment." (Staff Corr. Init. Br. at 15-16.) Staff notes that its proposal relies on "price projections" from "a [f]ederal entity that collects, analyzes, and disseminates independent and impartial energy information." (*Id*. at 15.) In contrast, the AG's proposal, the Staff finds, "simply relies on a snap shot of prices at a set point in time that may or may not bear any resemblance to Ameren's 2016 gasoline and diesel fuel prices." (*Id*. at 16.)

The AG repeats Mr. Coppola's opinion that the future price of gasoline and diesel fuel "will likely continue to decline" because of the "glut of crude oil." (AG Corr. Init. Br. at 44.). But Mr. Coppola doesn't provide any credible support for his opinion. (AIC Init. Br. at 59.) And he isn't a recognized expert in projecting fuel prices. (*Id.*) The EIA, on the other hand, is an impartial authority. (*Id.*) And even if projected 2016 fuel prices did continue to drop, that doesn't make Mr. Coppola's use of only four months (Jan.-Apr.) of early 2015 data any more reliable. As the record shows, the average price that AIC paid for gasoline fuel in the second four months (May-Aug.) of 2015 actually *increased* $0.35, compared to the first four months. (*Id*. at 58.)

The AG claims that the Commission's decision on what constitutes a reasonable forecast is between national, average price forecasts that "do not reflect local markets" or actual prices paid by AIC in 2015. (AG Corr. Init. Br at 44.) But this claim merely parrots Mr. Coppola's mistaken assertion about Staff's proposal. (AIC Init. Br. at 58.) Staff adjusted the average projected 2016 price of gasoline fuel published by EIA, based on variances in actual prices that AIC historically paid—and found that the average projected 2016 price of diesel required no adjustment. (*Id.*) The AG is simply wrong in its claim that Mr. Coppola's approach is "a more localized indicator of fuel prices." (AG Corr. Init. Br. at 44.)

The AG, however, is not the only party who attempts to prop up Mr. Coppola's proposal with inaccurate assertions. CUB and the IIEC, although they offered no witness on this topic, support Mr. Coppola's adjustment, alleging that his methodology uses "the most recent data available in the present record." (CUB/IIEC Init. Br. at 13.) That is not true. The "most recent data available in the present record" is the July 2015 EIA forecast of 2016 prices, not the actual prices paid by AIC in January-April 2015. Mr. Coppola's data isn't even the most recent actual price data in the record; the Company provided actual prices for the second four months of 2015 that Mr. Coppola did not use to update his adjustment. The Commission should give their support of Mr. Coppola's adjustment very little weight.

For the reasons provided here and in AIC's initial brief, the Commission should adopt the adjustment to test year fuel costs agreed to by Staff and the Company and reject the AG's flawed, alternative adjustment.

7. Gas-Only Employee Headcount/Vacancy Costs

The Company has demonstrated that the gas-only positions included in the test year forecast are necessary and that the Company remains on track to fill them. This evidence has satisfied Staff. The AG, however, continues to press for an adjustment to remove negative vacancy dollars from test year costs. The problem with the AG's proposal is that these costs already were removed. No further adjustment to test year costs is justified.

a. Staff agrees that the record supports the Company's forecasted levels of gas-only employees—and has not raised any concerns with the adequacy and transparency of the documentation of forecasted test year assumptions.

As outlined in AIC's initial brief, Staff no longer has concerns with the Company's forecasted test year levels of gas-only employees. (AIC Init. Br. at 60-61.) The information provided to Staff and included in the record—including the status, expected fill date and need for each open position—demonstrates that AIC is effectively filling positions included in the forecast that are necessary to provide adequate, safe and reliable gas service in 2016. (*Id.*) Staff's initial brief recounts this evidence and confirms that the record has resolved Staff's concerns with the Company's assumed test year levels of gas-only employees. (Staff Corr. Init. Br. at 16-17.) Staff and AIC thus agree that the record supports the prudence and reasonableness of the labor expense associated with the planned 2016 gas-only headcount.

b. The evidence in the record justifies the forecasted levels of gas-only employees—and it is the same type and quality of evidence that supported the Commission's approval of the test year gas-only employee levels in Docket 13-0192.

The AG alleges that the Company's "proposed expansion of the employee base does not appear to be justified." (AG Corr. Init. Br. at 45.) That simply isn't the case. The record has justified the projected gas-only positions included in the test year forecast. (AIC Init. Br. at 60-63.) Specifically, AIC has provided testimony and schedules, which showed the need for the open 2015 and 2016 gas-only positions and the Company's progress in filling them. (Ameren Exs. 18.0 (Rev.) at 4, 9; 18.1 (Rev.), 22.0 (2d Rev.) at 4-7, 12-15; 22.1 (2d Rev.); 35.0 at 3-6; 38.0 at 4-7; 38.1 (Rev.).) The headcount schedules—Ameren Exhibits 22.1 (2d Rev.) and 38.1 (Rev.)—identify the forecasted test year gas-only headcount by department, and then identify, for each unfilled position, the type of position, the status of filing the position, the expected fill date, whether it is an incremental position or a position being filled for attrition, and the reason for the position. Mr. Coppola *never* addressed these schedules in his testimony. (AIC Init. Br. at 63.) And the AG does *not* mention these schedules in its initial brief. Instead, the AG repeats Mr. Coppola's criticism from his direct testimony about the staffing justification forms, which AIC addressed on rebuttal. (The staffing justification form is just one aspect of the staffing process; other complementary processes are in place to justify and approve new positions. (Ameren Ex. 22.0 (2d Rev.) at 13-14.).) To ignore entirely all of the evidence submitted in the Company's rebuttal and surrebuttal testimony, yet claim that the record is somehow insufficient, is not credible.

The AG also repeats Mr. Coppola's criticism from his direct testimony that "there has been a lag in filling some of the vacant positions." (AG Corr. Init. Br. at 46.) But incredibly, again the AG ignores all evidence that the Company provided in rebuttal and surrebuttal. Instead, the AG relies on the actual-to-budget gas-only headcount data as of April 2015 included in Mr. Coppola's direct testimony. (*Id.*) The evidence provided in the Company's rebuttal and surrebuttal testimony paints the truer or more accurate picture. (AIC Init. Br. at 60-61.) The actual gas-only headcount for June 2015 (782) compared to the forecasted gas-only headcount for June 2015 (789) showed a difference of only 0.9%. (*Id.*) The gap between June 2015 actuals (782) and December 2015 forecasted (784) was even smaller. (*Id.*) The gap between July 2015 actuals (778) and the year-end December forecast (784) remained small. And, as Staff's initial brief notes, the Company explained the factors that could lead to an actual-to-budget variance during the year. (*Id*. at 61; Staff Corr. Init. Br. at 16.)

The AG complains that the Company "provided no explanation that suggested new hires were on hand for these vacant positions." (AG Corr. Init. Br. at 46.) The Company's evidence, however, shows that the Company was continuing to fill many open positions in July and August 2015 at a rapid pace—indeed, the record shows that an additional 18 open positions were filled during the first three of weeks of August 2015. (AIC Init. Br. at 61.) The AG has not rebutted (or even discussed) the Company's evidence—the same evidence that resolved Staff's concerns. And this evidence demonstrates that the AG's allegations about the accuracy and necessity of AIC's assumed test year gas-only positions are not true.

c. The AG's claim that it is not possible to validate exclusion of the negative vacancy dollars from the revenue requirement is incorrect and disingenuous—the Company's testimony and exhibits provide that validation.

The AG argues that the Company's "lag" in hiring—again based on the outdated April 2015 data—justifies the removal of O&M expense and capital expenditures that AIC included in the test year forecasted for expected vacant positions. (AG Corr. Init. Br. at 46.) But as the Company has told and showed the AG repeatedly, the negative vacancy dollars included in the test year forecast already have been deducted from AIC's proposed revenue requirement. (AIC Init. Br. at 63-65.) The Company told the AG that these negative vacancy amounts had been reflected in the forecast prior to the filing of Mr. Coppola's direct testimony. (*Id*. at 63.) It repeated that disclosure in rebuttal testimony. (*Id*. at 64.) It provided the AG with the calculation of the negative vacancy dollars, after rebuttal. (*Id*.) It verified again in surrebuttal testimony that the costs had been removed. (*Id*.) And it provided additional evidence that reconciled the negative vacancy dollars with the Company's filing requirement schedules. (*Id*. at 64-65.) The AG continues to claim that it is "not possible to validate" that AIC removed the costs. (AG Corr. Init. Br. at 47.) That claim is not credible, and it is borderline irresponsible. The Company has been diligent to—and patient with—the AG's repeated requests for validation. There is nothing left to "validate."

The AG, however, doesn't just misstate the Company's evidence. It claims that the Company has not been transparent in the documentation of its forecasted test year assumptions. (AG Corr. Init. Br. at 47.) That claim is also not credible. The Company's filing requirement schedules identified assumed 2016 vacant positions. (Ameren Ex. 35.1.) The Company explained why the vacancy deduction was not identified as a ratemaking adjustment or included in a filing requirement schedule. (Ameren Ex. 35.0 at 4-5.) And when asked, the Company timely disclosed in discovery that the negative vacancy dollars were removed from the revenue requirement, and then repeated this assertion and supplied additional evidence, throughout the case. (AIC Init. Br. at 63-65.) The Company has been candid and transparent about the assumptions in the forecast. In any event, the Company has stated that in future rate cases, in which a future test year is used, the Company will disclose the negative vacancy adjustment included in the forecast in the G-5 Schedule, for additional transparency. (Ameren Ex. 35.0 at

4.) This improvement will avoid any future misunderstanding about the Company's removal of vacancy dollars.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's adjustment to deduct negative vacancy dollars from test year costs. The costs included in the AG's proposed adjustment already have been removed.

8. Gas Distribution and Transmission Expense

a. Sewer Cross Bore Inspections

The record details the bases for the increase in expense for sewer cross bores inspection that AIC projects for the test year. The number of inspections has been identified. The average cost of inspection has been disclosed. The area of the service territory has been targeted. And the necessity of the incremental expense has been shown—AIC already has discovered and repaired 17 cross bores in the past 18 months and there are tens of thousands of facilities that may be potentially impacted.

The AG proposes to cap test year expense at 2015 levels. But Mr. Coppola hasn't provided a sufficient basis for that adjustment. At times, Mr. Coppola claims that there isn't a need to accelerate the number of inspections, despite the evidence to the contrary of threats to the integrity of the gas distribution system. At other times, he seems to suggest that the problem is so pervasive that the Company needs to explain its plan to complete all inspections, before the test year costs can be recovered. The record does not support either allegation, or his adjustment.

i. The gas facilities potentially impacted by cross bores and the corrective actions taken so far justify the acceleration of inspections—and the AG offers no explanation why inspections should remain flat.

The AG's initial brief continues to endorse Mr. Coppola's claim that there is "a lack of evidence for the needed acceleration" in sewer cross bore inspections. (AG Corr. Init. Br. at 48.)

Indeed, the AG claims that the Company has not "explain[ed] why an increase in the pace of inspections is justified." (*Id.*) Based on Mr. Coppola's assertion, the AG propose that the Commission make an adjustment ($199,000) to test year expense to cap AIC's cost recovery for sewer cross bore inspections at projected 2015 expenses.

The record, however, provides the bases for increasing the number of inspections and the associated expense. Everyone agrees that sewer cross bores are a threat to the integrity of the gas distribution system. (AIC Init. Br. at 66.) A cleanout to unclog sewer pipes can penetrate a pipe, release natural gas, and ultimately cause explosions, injuries, and property damage. (*Id.*) And the record shows that sewer cross bores can be found in AIC's service territory. Already in the short time that the inspection program has been in existence, the Company has discovered and fixed 17 instances of cross bores in the past year and a half. (*Id.* at 66-67.) Not even the AG and Mr. Coppola dispute this threat.

The record also shows the potential breadth of the threat. There are potentially over 200,000 gas facilities installed between 1980 and 2000 that may be impacted by sewer cross bores. (AIC Init. Br. at 67.) This fact alone justifies a further acceleration in the number of inspections. The increased test year expenses will allow AIC to conduct additional inspections in 2016, as many as 1200 more inspections. (*Id.*) The benefits of identifying, repairing and eliminating the threat of sewer cross bores at a slightly quicker pace justify a modest increase in the number of inspections and associated costs.

The AG points out that Mr. Colyer admitted during cross-examination that the potential hazards with sewer cross bores has existed since before 2013. (AG Corr. Init. Br. at 48.) That admission is irrelevant on its face, however, and does not justify the Company taking a less aggressive approach to dealing with the problem, as suggested by the AG's adjustment. The record demonstrates that the Company's planned increase in inspections and expense for 2016 is more reasonable than the AG and Mr. Coppola's proposed cap on expense at 2015 levels.

ii. A comprehensive, long-term plan to complete all inspections is not necessary for the Commission to approve the test year expense—the activity is prudent and the forecasted amount is reasonable.

The AG's other claim is that the Company's inspections program "appears to lack a comprehensive long-term plan." (AG Corr. Init. Br. at 49.) This assertion again was one first espoused by Mr. Coppola, who was concerned with the potential breadth of the program, given the number of potentially effected gas facilities. (AG Ex. 5.0 at 35.) And here lies the paradox of the AG's adjustment. On the one hand, the AG claims that there is no evidence to warrant an increase in inspections. But on the other hand, they say that the problem is potentially so large that the utility must present the Commission with a comprehensive, long-term plan to complete all inspections, before the Company can recover the incremental 2016 expense. (As discussed below, the AG makes the same duplicitous arguments in support of Mr. Coppola's adjustment to remove all expense associate with the Gas Records Management program.)

As explained in AIC's initial brief, the record contains the relevant work plan, scheduling and costs for the planned test year inspections. (AIC Init. Br. at 68.) In response to AG data request 11.07, AIC provided the following data for 2013-2019: actual or forecasted spend, proposed division (town) survey area, actual or estimated number of laterals inspected, and actual or estimated cumulative number of laterals inspected. (*Id.*; Ameren Ex. 38.2.) The estimated number of inspections that the Company plans to do in the test year (4089) have been identified. (*Id.*) The proposed area of the service territory in which the 2016 inspections will be conducted, Division 2 (Quincy) has been identified. (*Id.*) And the average cost of inspection reflected in the 2016 forecast ($234 per lateral), to which Mr. Coppola did not object, has been identified—and is slightly lower than the average cost that AIC is presently experiencing ($250-260 per lateral). (AIC Init. Br. at 68.)

A plan that identifies all inspections is not what AIC is asking the Commission to approve. And the costs of all inspections are not what AIC is asking to recover in rates. Instead, AIC has provided ample evidence of a "defined" inspection program for the test year. The Commission can judge the prudence and reasonableness of those costs, on the basis of the test year plan as outlined in the record.

The AG notes that the Company's inspection plan, after the 2016 test year, assumes a 1% escalation factor for 2017-2019. (AG Corr. Init. Br. at 48.) The AG claims that this escalation will result in "roughly zero growth" in inspections. (*Id.*) This admission though doesn't help the AG's adjustment; it hurts it. It shows that the Company projects that its future inspection expense will remain at or above test year levels. Indeed, AIC made clear that the test year expense represents the new floor—the minimum amount of expenses that AIC believes that it should incur on inspections in the short-term. (AIC Init. Br. at 67.) In contrast, Mr. Coppola and the AG have not stated what they believe should be the level of inspections performed in the test year. If anything, as Mr. Coppola suggests, AIC could justify a higher level of expense, based on the number of potentially impacted facilities.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's ($199,000) adjustment to cap the test year expenses for sewer cross bore inspections at 2015 levels.

b. Gas Records Management

The record contains the details of the planned test year activities that AIC wants to execute to improve its pipeline records governance and document management. And the record shows why the incremental expense is necessary: the incident and fatalities at the San Bruno explosion caused in part by gaps in the utility's pipeline records, the Company's internal assessment of the weaknesses of its own current processes and systems, and the new regulatory standards that pipeline records be traceable, verifiable and complete.

The AG wants the Commission to disallow all test year expense associated with this project, effectively delaying the project indefinitely, until the utility presents a long-term, comprehensive plan for all costs of the initiative beyond the test year. That proposal is unsound and irresponsible. Maintaining the status quo, even in the short term, is not a viable alternative, given the recognized risks and regulatory requirements. And the Commission does not require an exact determination of the program's long-term costs, before ruling on the recoverability of the specific test year costs. The manifest weight of the evidence in the record supports the prudence and reasonableness of the test year expense. The Commission should not defund these foundational, necessary activities.

i. The Company's internal DOT recommendations and PHMSA regulatory standards justify the test year activities and expenditures for the GRM program—and Mr. Coppola and the AG ignore this necessity.

As the AG's initial brief confirms, Mr. Coppola's adjustment seeks to "disallow all recovery" of AIC's test year funding ($507,000) for the Gas Records Management (GRM) program. (AG Corr. Init. Br. at 50.) The GRM expense includes funds to develop a new records governance process and train AIC personnel, design a new document management system (DMS), and prepare a request for proposal for the DMS. (AIC Init. Br. at 70.) The record details the spending: $292,730 to implement a records governance process, including training and change management; $78,520 to develop a high level design of the DMS, processes and functionality; and $135,640 to develop the DMS request for proposal, evaluation of the responses, and selection of the vendor and software for the DMS. (*Id*.) The AG and Mr. Coppola's disallowance would eliminate the entirety of this funding.

The AG claims that these "initial steps" are "imprudent." (AG Corr. Init. Br. at 50.) The record, however, explains the necessity of the expense—and the immediacy of the causes triggering the planned test year activities. The genesis of the GRM program was the Pacific Gas & Electric pipeline incident—and fatalities—at San Bruno in late 2010. (AIC Init. Br. at 70-71.) The National Transportation Safety Board concluded that the utility's pipeline records were a contributing cause. (*Id*.) The Pipeline and Hazardous Materials Safety Administration (PHMSA) issued an advisory bulletin requiring records to be traceable, verifiable, and complete. (*Id*. at 71.) In 2014, AIC completed an internal Department of Transportation (DOT) review that identified gaps in the Company's records, weaknesses in its record governance and document management, and an overall need to improve the processes for the preservation and accessibility of pipelines records. (*Id*.) And in May 2015, PHMSA incorporated the bulletin's criteria into a proposed rule. (*Id*.)

The internal DOT review shows that there are limitations in AIC's current processes and systems for records governance and document management. (AIC Init. Br. at 71.) The record identifies these limitations. (Ameren Ex. 38.3 at 1-2, 6-7.) They are hurdles to collecting and recording pipeline data electronically, consistently, and accurately. And they are barriers to comply with the new regulatory requirements. Without improved processes and systems and more stringent controls, AIC cannot ensure that its records accurately reflect the characteristics of the pipeline and are traceable, verifiable, and complete. (AIC Init. Br. at 71-72.) It is "imprudent" for AIC sit on its hands. The test year activities detailed in Ameren Exhibit 22.5 will allow AIC to develop better controls and methods and identify the technology to execute the improvements recommended by the DOT review and comply with PHSMA standards. (*Id*.) These "initial steps" must be taken.

ii. The total long-term costs for each prospective GRM initiative do not have to be known for the Company to recover the test year expense for the specific, preliminary GRM activities planned for 2016.

In his direct, Mr. Coppola based his disallowance on his claim that the Company hadn't provided an "explanation for the need for the programs or its details." (AG Corr. Init. Br. at 49.) When the Company addressed this criticism and explained the necessity of the GRM expense and activities, Mr. Coppola changed the basis for his adjustment (yet again). His claim on rebuttal was that the GRM program—beyond the test year—was "not fully defined yet." (*Id*.) The AG's initial brief clings to this assertion, arguing that Mr. Colyer admitted during cross-examination that AIC doesn't know the "ultimate," "long-term" cost of implementing the DOT recommendations and complying with PHSMA requirements. (*Id*.)

That AIC doesn't know exactly what it will have to spend, beyond 2016, to fully implement new records controls, processes and systems, however, is not a bar to recovery of the expense for the program's "foundational" test year activities (AIC Init. Br. at 72-73; Tr. at 104.) Indeed, the RFP process itself will impact the program's overall, long-term costs; the exact "ultimate" cost cannot be known until that process occurs. (Tr. at 104.) What is relevant and significant is that the detailed plan for the test year activities has been presented. And that documentation and analysis are sufficient for the Commission to judge the prudence, accuracy, and reasonableness of the costs actually included in the revenue requirement. (*Id*.) AIC is not asking the Commission to approve a comprehensive, long-term plan. It is asking the Commission to approve a level of expenses that includes funding for the planned 2016 expenditures.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's ($507,000) adjustment to remove entirely the test year expenses for the GRD program.

c. Corrosion Control Painting

The Company has detailed the types and numbers of aboveground facilities to be painted in 2016. It has provided the same projected information for 2015. And it has quantified the projected costs for each category of facility. This data shows that AIC projects the majority of the increase in painting expense from 2014 levels to occur in 2015, and that the $30,000 difference in 2016 expense is a function of the additional large commercial and industrial meter sets to be painted in 2016. And the record shows that the majority of the increase is actually occurring in 2015. Through the beginning of August 2015, the Company had already spent the same amount on painting as it spent in 2014.

The AG and Mr. Coppola continue to press for a cap on painting expense at 2014 levels, which would cut $300,000 from test year expense for this activity. As explained below and in AIC's initial brief, the record does not support that adjustment. The Company has presented the detailed data explaining the increase, and it has resolved Mr. Coppola's concerns with his alleged "inconsistencies" in the data. The AG is left trying to suggest that the Company didn't have or withheld information in support of its case. That assertion, as shown below, also isn't true. The Commission should reject the AG and Mr. Coppola's cap.

i. The AG's claimed "discrepancies" in projected 2015 expenses have been explained—and do not support an adjustment to cap 2016 expense at 2014 levels.

In direct, Mr. Coppola proposed that 2016 O&M expense for corrosion control painting "be set at the same amount as incurred in 2014." (AG Ex. 2.0 REV. at 28:531.) It would mean a reduction in test year expense of $300,000. (*Id.*) And his primary basis, at the time, was the fact he hadn't seen "a plan" and he didn't know "how many meters or facilities should be targeted each year." (*Id.* at 27:520-23.) So AIC gave him the plan, gave him the number of residential meters, pressure control stations, and large commercial and industrial meter sets to be painted in 2015 and 2016, and explained how those amounts dictated the forecasted expense. (Ameren Exs. 22.0 (Rev.) at 27-28; 22.6; 22.7; 38.5.)

But on rebuttal, Mr. Coppola stuck with the same proposal to cap costs at 2014 levels. But his basis now was three claimed "inconsistencies" in the data. (AIC Init. Br. at 74.) In sum, Mr. Coppola didn't understand why the percentage increase in 2015 dollars didn't track linearly with the percentage increase in facilities to be painted.

The evidence in the record resolves Mr. Coppola's "inconsistencies." (AIC Init. Br. at 77.) The short answer is that there is not a straight-line correlation between 2014 actual and 2015 projected costs and the facilities to be painted. (*Id.*) For the larger facilities, the size and configuration matter. (*Id.*) And for all of the units, estimates for contractor labor and travel expenses increase from year to year. (*Id.*) Mr. Colyer explained again at the hearing the flaw in Mr. Coppola's linear cost assumption. (Tr. at 111:10-112:10.) These "inconsistencies" alone would not warrant a cap on costs at 2014 levels. (*Id.*) But they have been explained regardless and that explanation is included in the record.

The AG, however, continues to press Mr. Coppola's adjustment in its initial brief, and pushes the same theory: "the increase in projected spending for 2015 does not appear to track the projected increase in number of meters." (AG Corr. Init. Br. at 51.) And now the AG attempts to prop up its case by claiming that Mr. Colyer admitted during cross-examination that "he had no evidence" and "he never provided any such information" in support of his explanations for why the projected percentage increase in 2015 expense was higher than the projected percentage increase in facilities to be painted. (*Id*. at 50-51.)

Mr. Colyer, however, made no such admissions. He stated that he didn't recall if he answered any discovery on the 2015 estimates for per unit contractor labor and travel expense for residential and small commercial meters. (Tr. at 110:4-7.) And he stated that he didn't recall any data requests from the AG to provide the size and configuration of the larger commercial and industrial meter sets. (Tr. at 112:15-20.) To suggest that the Mr. Colyer admitted that the Company didn't have or withheld information is disingenuous.

ii. The record shows that forecasted and actual expense for corrosion control painting in 2015 is already higher than 2014 levels—and the record explains the nominal increase projected for 2016.

The AG's focus on Mr. Coppola's claimed "inconsistencies" in the 2015 projected costs ignores one crucial fact—the Company's actual 2015 spending. Through August 7, 2015, AIC already incurred \$772,000 on corrosion control painting expense—or roughly the same amount that the Company incurred in all of 2014 (\$778,000). (AIC Init. Br. at 75; Ameren Ex. 38.0 at 20.) Thus, by the beginning of August, AIC already had spent in 2015 what Mr. Coppola proposes that the Company recover for all of 2016. (*Id.*) And AIC still had additional painting work planned through the end of September 2015. (*Id.*) The AG, however, hasn't disputed the prudence or reasonableness of the ongoing 2015 painting activities. It hasn't explained why AIC should paint less facilities in 2016 than it is actually painting in 2015. It didn't even send discovery on actual 2015 expenses. Yet, the AG proposes that the Company recover fewer painting dollars than it will spend in 2015.

The other point that the AG largely ignores is that AIC's projected 2016 expense is in line with its projected 2015 expense. The Company plans to paint the same number of residential meters (90,000) in 2015 and 2016, and to spend roughly the same amount. (AIC Init. Br. at 75-77; Ameren Ex. 38.5.) The Company plans to paint the same number of pressure control stations (50) in 2015 and 2016. (*Id.*) And the $30,000 difference between 2015 and 2016 expense is largely a function of the higher number of large commercial or industrial meter sets to be painted. (*Id.*) This evidence quantifies and isolates the portions of AIC's aboveground facilities that need to be painted in 2015 and 2016. And this evidence demonstrates the accuracy, reliability and reasonableness of the 2016 forecast.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's ($300,000) adjustment to cap test year corrosion control painting expense at 2014 levels.

d. Damage Prevention

AIC considers third party damage to be the greatest threat to the integrity of gas distribution facilities. (AIC Init. Br. at 79.) And the industry agrees. (*Id.*) But evidently the AG and Mr. Coppola do not. For they (and they alone) continue to recommend that the Commission slash future funding for the Company's damage prevention programs—the very programs put in place to lessen the risk that excavators and homeowners damage an underground gas line and cause an uncontrollable, dangerous release of natural gas.

The AG's support for its proposal to cap test year expense for damage prevention activities at 2014 levels hasn't changed. The *two* allegations of Mr. Coppola, with which the AG tries to prop up his adjustment, are conclusory and untrue. The record shows that the amounts forecasted for test year contractor expense and internal labor expense for damage prevention activities are prudent and reasonable. The test year funding will allow AIC to perform required locates of gas facilities, increase the number of stand-by inspections of excavations of high profile facilities, increase contact with excavators, institute a new program to meet with new homeowners, and reduce the geography that other personnel must cover to enable the additional activities. Mr. Coppola's speculation and unverified assertions do not justify a cut to that funding.

i. The record justifies the increase in test year expense for contractor work and internal damage prevention specialists—Mr. Coppola and the AG just choose to ignore or largely discount the evidence.

As the AG's initial brief confirms, Mr. Coppola's adjustment to the Company's test year expense for damage prevention activities rests upon two unproven allegations: (1) the increase in test year contractor costs is "minor and could be offset by increased operating efficiencies"; and (2) the planned four additional damage prevention specialist positions to be filled in 2016 "seem[] unnecessary." (AG Corr. Init. Br. at 52.) Neither allegation is true. And the only "evidence" that supports the allegations is Mr. Coppola's unsubstantiated opinions.

The increase in contractor fees is nearly half of Mr. Coppola's $700,000 reduction; that is not minor. And he hasn't identified any offsetting operating efficiencies, much less explain why the forecast would not have reflected them. (AIC Init. Br. at 80.) The record explains the basis for the increase in contractor costs. (*Id.*) There is a projected increase of $268,000 from 2014 levels for gas facility locates—an activity that AIC is *obligated* to perform and a projection based on conservative increases in contractor fees and the volume of locates. (*Id.*) The remaining projected increase of $58,000 from 2014 levels is for Watch and Protect contractor stand-by inspections—an activity that has reduced third party damage. (*Id.*) To disallow these amounts, based solely on Mr. Coppola's speculative opinions, would be against the manifest weight of the evidence in the record.

The record also debunks Mr. Coppola's other claim that the increase in labor expense ($382,000) to hire additional damage prevention specialists is unnecessary. AIC's initial brief lists the Watch and Protect activities that the additional hires will allow the Company to perform. (AIC Init. Br. at 81.) The list of high profile gas facilities for stand-by inspections will be expanded to include facilities near schools, hospitals, assisted living facilities, and nursing homes.

(*Id.*) The number of excavator safety meetings will be increased. (*Id.*) More attention will be given to excavators with a history of higher damage rates or who will be performing boring projects. (*Id.*) More internal resources will allow for increased auditing of contractor activities and reduced geographic responsibility for existing staff. (*Id.*) And a new initiative will be used—visits to new home construction sites to improve education of homeowners (who accounts for approximately 15% of third party damage). (*Id.*)

The record just doesn't contain a qualitative description of the new activities. It also contains the Company's quantitative analysis of the impact of the additional staff. Ameren Exhibit 38.7 provides the projected increases for certain Watch and Protect activities that the Company assumes it can perform annually with the additional personnel: a 10% increase in stand-by inspections to 4,500, a 57% increase in excavator safety meetings to 1,100, and 5,490 homeowner site visits (the new AIC initiative for 2016 to address the 15% of third party damages caused by homeowners). Ameren Exhibit 38.7 also provides the projected decrease in third party damage from the test year activities and additional staff: an 8% decrease in total gas damages and a 10% decrease in third party gas damages.

The AG attempts to muddy the waters by claiming that Mr. Colyer "admitted" during cross-examination that the expected reduction in damages is a "projection" and a "calculation" that he didn't directly perform. (AG Init. Br. at 52.) That admission is of no value. Mr. Colyer made clear at the hearing that AIC's estimate in the reduction in damages is based upon the Company's historically high success rate in reducing damages and the expectation that the additional activities will help to further lower damages in its service territory. (Tr. at 115-17.) The AG could have sent discovery if it had any concerns with Mr. Coyler's testimony, but it didn't. That Mr. Colyer didn't have the details of the calculation at his fingertips during the

AG's cross-examination doesn't mean that AIC provided "too little information, too late." (AG Corr. Init. Br. at 52.)

ii. Mr. Coppola's proposal to set recovery for damage prevention activities at 2014 levels is arbitrary and conclusory—it is not supported by any independent analysis and is dismissive of the Company's forecast.

The Company and the AG agree that the 2016 test year forecast has incremental expense for contractor costs and internal staffing for damage prevention programs, when compared to 2014 levels. The AG, however, proposes that the Commission not permit AIC to recover a single dollar of that incremental expense. The AG offers the Commission an untenable choice: cap the Company's damage prevention expense at 2014 levels or permit the Company to recover its test year expense for contractor activities and internal labor. The AG, however, offers no persuasive evidence in support of its proposal. To agree with the AG, the Commission would have to find that the substantial weight of the evidence supports the proposition that AIC's future 2016 expenses for damage prevention activities will remain stagnant. That is an unsound assumption, without record support.

Mr. Coppola doesn't question the prudence of the planned damage prevention activities for the test year. His adjustment, however, suggests that AIC should perform them all, without all of the funding that the Company included in the forecast. Mr. Coppola doesn't explain why the Company's expense should—or can—be capped at 2014 levels. And he hasn't provided any independent analysis to justify his position that the Company's expense should—or can—remain stagnant. The lack of evidence to support his adjustment and his allegations makes his adjustment arbitrary—and thus not sustainable on appeal.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's ($700,000) adjustment to cap test year damage prevention expense at 2014 levels.

e. Gas Technology Institute Operations Technology Development

In but a few lines, the AG's initial brief repeats the unsubstantiated claims of its witness Mr. Coppola—the benefits of joining the Gas Technology Institute (GTI) Operations Technology Development (OTD) program will not be known until after AIC joins, and thus, the Commission should wait until the Company has that "experience" before permitting it to recover the cost of the membership in rates. (AG Init. Br. at 52.) The record exposes the AG's claim as untrue—the research and development benefits of the GTI OTD program are real, immediate and not redundant. And the Commission's rules permit the recovery of the future test year expense of membership. There is no justification to delay cost recovery.

i. The record identifies specific near-term, concrete ratepayer benefits of joining GTI OTD; the AG and Mr. Coppola's continued claims that the benefits are unknown and marginal are disingenuous.

The AG's initial brief repeats Mr. Coppola's claim that benefits of GTI OTD "will not be known" until after AIC joins. That claim simply isn't true, and ignores the specific, near-term benefits that the Company identified in its rebuttal and surrebuttal testimony. (The claim also ignores reality; for example, the regulatory Commissioners would have expectations about the benefits of NARUC, before joining the organization.) AIC's initial brief identifies the examples of ongoing GTI OTD projects that are immediately available and would offer AIC—and its ratepayers—real, tangible benefits, once the Company joins. (AIC Init. Br. at 84-85.) There is no need to summarize those technical details again here on reply. What is important to note again is that the record shows that the research and development benefits of membership in GTI OTD are neither marginal nor redundant, as Mr. Coppola has guessed. (AIC Init. Br. at 83-87.) Exemplary benefits have been identified and described in detail. The Company's existing resources—and the resources available from other industry membership—cannot provide these benefits. And other utilities, including North Shore Gas Company and Peoples Gas Light and Coke Company, are enjoying these benefits. The Company doesn't need to conduct a "survey" of other utilities to know this reality. (AG Corr. Init. Br. at 53.) The Company knows the available benefits, and it is aware of the 23 other utilities benefiting. (Tr. at 118.) The record does not support the AG's request that the test year funding for this membership be withheld.

ii. The Company does not need to join GTI OTD before it can recover the expense—the record and the Commission's rules support recovery of the future test year membership expense in this rate case.

The AG and Mr. Coppola don't just argue that the membership benefits are not yet known. They also argue that the Company must wait, until after it joins, to recover the expense in the next gas rate case, after there is "some experience of membership." (AG Init. Br. at 53.) As mentioned above and described in more detail in AIC's initial brief, the real and immediate benefits of joining GTI OTD are known now. These benefits demonstrate that the test year expense for membership will be prudently incurred. And the record also explains the reasonable basis for the forecasted expense—a per meter charge for membership plus AIC's estimated costs to participate and evaluate GTI OTD's research projects. (Ameren Ex. 22.0 (2d Rev.) at 47.) This evidence supports recovery of the 2016 expense. And that is the point of using a forecasted test year—so that the utility can recover its prudent and reasonable future expenses. The utility does not have to incur the actual cost, before it can recover the cost in rates, when filing a future test year case. The membership fee for GTI OTD—or any membership fee—should not be treated differently.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's adjustment to reduce test year expense to exclude the $480,000 included in the 2016 forecast for the GTI OTD membership.

9. Gas Storage Expense

a. Well-Related Work

The Company has provided the Commission with a detailed account of its well maintenance activities for 2015 and 2016. The lists of the 50 different projects that AIC has planned for each year identify the storage field, describe the activity, and provide the cost estimate and timetable. The Company has explained what prompted this maintenance program—the recent well failure at Lincoln storage field and the other issues with well integrity and well materials identified during the 2014 maintenance activities. And the Company has justified the necessity for the additional, preventive measures—to ensure the ongoing integrity, performance, reliability and safety of its storage assets. The AG offers only sparse, conclusory and mistaken remarks to justify its expert's large disallowance. These few unsupported allegations are insufficient. The AG's adjustment must be rejected.

i. The record contains the Company's detailed plan to conduct additional, preventive well maintenance activities, starting in 2015 and continuing in 2016—evidence that Mr. Coppola and the AG still ignore.

The AG's initial brief repeats Mr. Coppola's familiar refrain that AIC did not present any evidence of the "cost, scope and timeline" of the additional well maintenance activities. (AG Corr. Init. Br. at 53.) The record, however, provides those details, for both the 2016 test year, and for the current year, since the Company will perform incremental well maintenance activities and spend roughly the same amount on well maintenance expense in 2015. (AIC Init. Br. at 89, 91.) The planned activities, for 2016 and 2015, have been identified and described, in detail. (*Id.* at 90.) The annual changes in costs for these activities for 2013-2016 have been explained. (*Id.* at 91.) And the Company has shown that O&M expense for these activities is expected to remain at—or above—test year levels in 2017. (*Id.*) These facts are not rebutted or challenged by any credible evidence.

The nucleus of the Company's well maintenance plan for 2015 and 2016, however, is the lists of planned activities. Ameren Exhibits 22.9 and 22.10 contain the specific details on the type of work, locations, quantities, and cost estimates for the 2015 and 2016 activities. Ameren Exhibit 22.9 shows the planned well and reservoir activities for 2015, and, for over 50 different projects, provides the field, project number, project title, comments on the activity, the cost estimate, and the planned month or months for the activity. For example, the exhibit identifies the timing and costs of the well cleanout work, value replacement, reservoir simulation, and logging planned for the Sciota field in 2015. Ameren Exhibit 22.10 provides the same level of detail for the over 50 different activities planned for 2016. These exhibits are the Company's roadmap for the well and reservoir maintenance activities, and they demonstrate that AIC will spend as much on well maintenance in 2015 as it will spend in 2016. (AIC Init. Br. at 88, 91.) And that point is lost on Mr. Coppola and the AG—that the Company is already performing these activities.

Mr. Coppola does not mention these exhibits in his rebuttal testimony. And the AG doesn't mention them in its initial brief. They haven't stated that AIC should not perform these planned projects. And they haven't identified which projects, from the over 50 on each list, that AIC should scale back or eliminate to reflect their adjustment. They don't grapple with the prudence of the projects or the reasonableness of the estimates. They don't even acknowledge their existence. And that failure alone—the failure to rebut or even address this evidence—is enough to reject their adjustment.

ii. The additional well-related maintenance activities are needed to ensure the future integrity, reliability and safety of AIC's gas storage wells—and neither Mr. Coppola nor the AG contest this point.

The AG's initial brief also continues to assert that the Company has not explained why the increase in well-related maintenance expense is "necessary." (AG Corr. Init. Br. at 53.) The record, however, says otherwise. There has been a well failure, and uncontrolled release of natural gas, at the Lincoln storage field. (AIC Init. Br. at 88-89.) The limited well logging and other incremental maintenance activities in 2014 identified additional issues with well integrity and well casing material for more than a dozen other wells. (*Id*. at 89.) There has not been a systematic logging or testing of the Company's storage wells in some time. (*Id*.) These factors show that the current conditions of AIC's wells are unknown, and therefore the continued and future integrity and reliability of the wells needs to be verified. And these factors signal the need for a comprehensive, proactive maintenance plan, which includes the logging of the Company's 315 injection or withdrawal wells and 97 gas storage observation wells over an eight-year period. (*Id*.) As Mr. Colyer avowed in his cross-examination, these factors were the evidence that AIC needed to increase its logging to ensure the integrity and safety of its wells. (Tr. at 121-22.)

The AG claims that the Company hasn't explained whether the issues with well materials and integrity identified during the well maintenance performed in 2014 were "anomalously high" compared to issues identified in prior years. (AG Corr. Init. Br. at 53.) But the AG seemingly forgets that there hasn't been a systematic testing and logging of AIC's wells in recent years. (Ameren Ex. 38.0 at 33; Tr. at 122-23.) It is expected that the well cleanouts, valve replacements, well testing, well logging, and other maintenance work conducted in 2015 and 2016 will identify other corrective actions that need to be taken to ensure the *ongoing* integrity and performance of the assets. (Ameren Ex. 22.8 at 1-2.)

The AG points out that Mr. Colyer admitted in cross-examination that the Company was providing safe and reliable service in 2013, when it spent less on maintenance activities. (AG Corr. Init. Br. at 53.) But that was 2013, not 2016. The Company hadn't identified the issues with well integrity and well materials in 2013. And the Company hadn't developed its comprehensive maintenance plan and the detailed projects in Ameren Exhibits 22.9 and 22.10 in 2013. The planned test year activities are proactive, preventive maintenance to safeguard against *future* well failures. The fact that AIC spent less on well maintenance in 2013 or 2014 does not mean that it can continue to spend those lower amounts, without the reliability and performance of the Company's storage assets deteriorating.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's adjustment to reduce test year expense for well-related maintenance activities by $3.1 million.

b. Compressor-Related Work

The Company's initial brief identified the necessity and basis for the test year expense for compressor-related maintenance. Additional preventive maintenance, requiring an incremental amount of expense, is essential to avoiding future equipment failures. The additional activities have been identified—activities that will allow AIC to ascertain problems with the compressors, while the equipment is not in operation. And the estimated costs have been provided—costs that are in excess of the amount that the Company historically has spent in recent years on routine maintenance of these assets.

The AG's initial brief offers no viable alternative to the Company's plan to perform additional preventive maintenance. The AG doesn't dispute the prudence of the activities. And it doesn't quibble with the estimated costs. But the AG proposes an adjustment that removes all funding for the program, based solely on Mr. Coppola's fuzzy math about what he claims is a "base amount" of maintenance expense. This adjustment should be rejected.

i. The record identifies the additional compressor-related maintenance, the costs to perform that work, and the need for the incremental expense—and the AG hasn't rebutted this evidence.

The AG states that AIC's gas storage compressors "allegedly" require additional maintenance work. (AG Corr. Init. Br. at 54.) The record contains more than mere allegations, however. The record identifies the need for additional preventive maintenance: the recent failure of the compressor at the Hookdale storage facility in 2014, the overall increase in compressor failures, and the factors (*e.g.*, age, operating hours and schedule, etc.) that make future failures likely to occur. (AIC Init. Br. at 92-93.) The record identifies the specific additional maintenance activities that AIC plans to perform: the new annual compressors teardowns and inspections (two per year) and expanded inspection of 4 Kv motors. (*Id*. at 93.) The record explains that these activities are required to prevent equipment failures. (*Id*.) The record identifies the estimated costs for the activities. (*Id*. at 94-95.) And the record debunks Mr. Coppola's unfounded opinion that the Company's 2013 spending is somehow indicative of the "base amount" of maintenance expense required to keep AIC's fleet of compressors safe, reliable and in good working condition.

Mr. Coppola hasn't rebutted the need for the additional preventive measures. The equipment has failed, while in operation. And the assets are aging. He doesn't state that the incremental activities are imprudent. His testimony indeed is silent on their prudence. And he hasn't claimed that the cost estimates for the activities are unreasonable. His testimony doesn't even discuss these estimates. His adjustment is supported solely by his opinion that the $250,000 spent in 2013 is the normal, necessary amount, even though the record shows that

AIC's compressor-related expenses have averaged $400,000 - $500,000 per year in other years. (*Id*. at 95.) And this fuzzy math is really the crux of the matter. For once this flawed opinion is discounted, since the facts show that the base amount of maintenance expense is actually much higher, his adjustment is unsupported.

ii. The forecasted expense for compressor-related activities will allow the Company to complete both the routine and the additional maintenance activities—and the AG adjustment will not.

The AG suggests that Mr. Coppola's adjustment would not "hinder the Company's ability to do manufacturer recommended maintenance." (AG Corr. Init. Br. at 55.) That part is true. But the AG's adjustment would not leave AIC with sufficient funds to complete *both* the routine manufacturer recommended maintenance *and* the planned additional activities. (AIC Init. Br. at 94.) And there lies the problem. Mr. Coppola's proposed reduction to test year expense of $450,000 would result in AIC recovering only $490,000 in compressor-related maintenance expense. (*Id*. at 95.) And as the record shows, AIC considers this amount, which is in line with 2015 expense, to be the actual "base amount" of maintenance spending. (*Id*.) Capping recovery at 2015 levels would leave no additional funds for the two compressor teardowns and inspections and the 4 Kv motor inspections. (*Id*.)

Mr. Coppola's proposal—to maintain the *status quo* and not perform any additional maintenance —is not a viable alternative. If the Commission were to accept his proposal, it would be endorsing the proposition that AIC's compressors do not require any added preventive maintenance. The record says otherwise. The routine maintenance has not—and will not—prevent future equipment failures from occurring while the compressors are in operation. (AIC Init. Br. at 93.) The additional maintenance activities seek to identify and prevent these potential failures, while the equipment is not in operation and before the failures occur, thereby reducing the risk of a reoccurrence of a failure similar to the Hookdale incident. (*Id.*) The AG's suggestion that the Commission should defund AIC's preventive maintenance program is not the prudent way forward to maintain the compressors in good working condition and ensure that customers are fully benefiting from the assets. Without that funding, the Company would be left to wait until a compressor fails during operation, creating risks to life and property, and then rebuild it, as happened in 2014.

iii. The AG's complaint that the Company did not begin the additional maintenance work in 2015 is a red herring—the test year activities are still prudent and the expense is still reasonable.

The AG's principal complaint is that the Company has not started the additional maintenance "sooner." (AG Corr. Init. Br. at 54.) The AG complains that AIC's explanation is "difficult to understand" and not "a direct answer." (*Id.* at 55.) And the AG admits that its own witness "speculated" that the Company "may have waited past 2015 to incur the incremental expense until it could recover the cost through a new rate case." (*Id.*)

The answer, however, is simple and not shrouded in mystery. The median age of the equipment (1967), the number of operating hours that the compressors have been in service, their operating schedules (*e.g.*, the frequent starting and stopping, and the fact that they operate only half the year)—these factors have led to an increase in compressor failures in the past four years. (AIC Init. Br. at 93-94.) But the failure of the Hookdale compressor in 2014, while in operation, was the primary impetus. (*Id.*) After that incident, AIC included the additional maintenance activities in its 2016 operating budget.

The record is silent on whether the Company could have begun performing additional maintenance in 2015. But the AG's criticism is inconsequential. The issue ripe for the Commission's review is whether the test year expense for compressor-related maintenance is accurate, reliable and reasonable. Whether AIC could have performed some or all of the activities in 2015 does not demonstrate that the 2016 forecast is unreliable, inaccurate or unreasonable. Even if AIC had performed the additional maintenance activities in 2015, the incremental expense would still be included in the test year.

The AG's criticism is also disingenuous. The AG wants to give significance to the fact that the Company does not perform the incremental activity in 2015. But when the Company actually performs the incremental activity in 2015 (*e.g.*, charitable contributions, corrosion control painting, and well-related maintenance), the AG refuses to give any weight to or even expressly recognize that spending trend. This inconsistency alone demonstrates that Mr. Coppola's O&M adjustments are arbitrary and results-driven.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's adjustment to reduce test year expense for compressor-related maintenance activities by $450,000.

10. Sales Forecast – Test Year Billing Determinants

In its brief, the AG advocates replacing the 2014-2013 normalization period on which the Company based its 2016 test year gas sales and billing determinants with a 2005-2014 normalization period. (AG Corr. Init. Br. at 57-58.)

As AIC explained in its initial brief, this contravenes the Commission's Part 287 test year update rules. The AG fails to address how its proposal would comply with the test year update rules.

AIC also explained that, if the AG's position were adopted, it would set a precedent for having to make similar updates, affecting numerous other items, in every future rate case. The AG suggests that criticisms regarding the long-term effect of updating the normalization period is inconsistent with the basic premise for using a 10-year period. This is not the case—a 10-year normalization period is the correct period to use. The problem is not the use of a 10-year period, but changing the period used in mid-case, every case. As AIC explained in its initial brief, for example, if the AG's proposal were adopted allocation factors would have to be updated mid-case, resulting in changes to class cost responsibility, as well as the constrained revenue requirements allocated to various classes. (Ameren Ex. 39.0 at 5.)

The AG argues that any "'additional work' has already been performed in this case." (AG Corr. Init. Br at 58.) But this misses the point. Changing sales estimates mid- proceeding creates a precedent for additional work for parties in any future case as well, and interjects added opportunity for misunderstanding or error concerning the utility revenue estimates, and ultimately the rate increases need. (Ameren Ex 23.0 at.11-12.) This disruption should be avoided (and ultimately is unnecessary, as the adoption of Rider VBA, which is not opposed by any party, would mean GDS-1 and GDS-2 customers would ultimately pay the same amount of variable delivery service revenue, with or without Mr. Effron's proposal. (*Id.*)

C. Recommended Operating Income Statements

IV. COST OF CAPITAL AND RATE OF RETURN

A. Resolved/Uncontested Issues

1. Short-Term Debt

2. Long-Term Debt

3. Preferred Stock

4. Common Equity

B. Contested Issues (NA)

C. Recommended Overall Rate of Return

V. COST OF SERVICE

A. Resolved/Uncontested Issues

1. Use of AIC's Cost of Service Study (but for V.B.1.)

2. Allocation of Underground Storage Assets

3. Rate Zone Allocation of Plant Additions after September 30, 2010

B. Contested Issues

1. Allocation of Demand-Related T&D Costs

In this case, as in the last several gas rate cases, AIC used the peak-and-average method to allocate transmission and distribution (T&D) mains costs among the various rate classes. And, as in previous gas rate cases, IIEC contends that the peak-and-average methodology is inappropriate, advocating instead an allocation method based solely on design day peak demand. The Commission rejected IIEC's position in those cases and should do so again here.

IIEC continues to overlook several key factors which demonstrate that Design Day Demand is not a superior allocation method for allocating AIC's natural gas T&D plant:

- undisputed evidence showing that the Design Day Demand method, when applied as presented by IIEC's expert Mr. Collins, will remove all T&D costs from the GDS-5 class, a class of customers that utilizes T&D mains to receive natural gas service, are seasonal, and have significant capacity needs during a time other than the design day;

- the Commission's longstanding preference for the allocation of T&D mains cost by using the peak-and-average method;

- the fact that IIEC's proposal would result in a shift of approximately $6 million of revenue requirement responsibility to the Residential class while removing approximately $5.5 million of revenue requirement responsibility from the GDS-4 class. (Ameren Ex. 40.0 at 8.); and,

- the fact that the peak-and-average method as used by AIC in its embedded cost-of-service studies (COSS) already gives significant consideration to the design day demand in that it relies primarily on customer peak demands.

AIC's design and construction of, as well as customers' use of, the T&D system is properly reflected by the peak-and-average method. IIEC argues in its initial brief that it is undisputed that AIC's T&D system is designed and constructed to meet the design day peak demands of its customers. (IIEC Init. Br. at 5.) This argument was addressed in-depth in AIC's initial brief. (*See* AIC Init. Br. at 105.) However, IIEC conveniently leaves out of this statement the fact that Ameren witness Mr. Schonhoff very clearly qualifies his agreement with Mr. Collins on this fact by recognizing at least two additional factors—peak hourly demand and operating pressure—which play a role in the development of the design criteria and are used to evaluate service adequacy for the T&D system. (Ameren Ex. 24.0 at 7:106-10.)

IIEC goes on in its initial brief to argue that it is the maximum coincident peak demand that drives the costs incurred by a utility in order to design, construct, implement and maintain a T&D system that is adequate to provide firm service throughout the year, including the system peak day, to all customers that want firm service. Therefore IIEC argues the Design Day Demand method best reflects cost causation because it reflects how the system is designed and how costs are incurred. (IIEC Init. Br. at 5, 10.) AIC agrees that the T&D system is ***primarily*** based on design day demand, but Mr. Collins' proposal extrapolates this agreement into an allocation method that is based ***exclusively*** on this principle. Conversely, the peak-and-average method used by AIC appropriately reflects the design, construction, investment and use of the T&D system since the peak-and-average method ***primarily*** relies on the peak demands of the customer classes. (Ameren Ex. 24.0 at 12:217-21). Clearly, the peak-and-average method is the superior single allocation method to be used to allocate T&D plant.

In its initial brief IIEC contends that "[w]hile it is true that the daily needs of Ameren customers must be met, the only way this can occur is through a system that is designed to meet the design day peak day demand, the day of maximum demand on the T&D system." (IIEC Init. Br. at 6.) But IIEC incorrectly assumes that the maximum demand on all localized portions of the T&D system is during the design day. Certain classes and the local systems serving those customers in fact peak during days other than system design day. (Ameren Ex. 40.0 at 4.) IIEC's argument also ignores the fact that the system is designed and constructed one pipe at a time, rather than as one single T&D system. Therefore, each pipe is individually sized to meet peak demand regardless of temperature and load. In some cases, AIC serves customer classes that cause the local system to peak during times other than design day, therefore invalidating IIEC's argument. (*Id.*)

IIEC next argues that the Commission decisions on T&D systems cost allocation methods vary. (IIEC Init. Br. at 10.) This argument was addressed and comprehensively refuted in AIC's initial brief. (*See* AIC Init. Br. at 110-11.) AIC's initial brief demonstrates how the proposal made by IIEC for the design day demand allocation method is contrary to long-standing and well-established Commission practice in favor of the peak-and-average method. (*Id.*) IIEC has made the same or similar arguments in several Commission proceedings and time and time again over the past ten years their arguments on this point have been denied and the peak-and-average method has been favored by the Commission as "properly emphasiz[ing] the average component to reflect the role of year-round demands in shaping transmission and distribution investments." *Cent. Ill. Pub. Serv. Co.,* Dockets 02-0798/03-008/0009 (Cons.), Order at 98 (Oct. 22, 2003).

IIEC also argues that prior commission decisions do not constitute binding precedent and the Commission may modify its prior determinations on the basis of new information or reconsideration of evidence. (IIEC Init. Br. at 11.) But IIEC has not introduced material new facts in this proceeding upon which a modification in the Commission's preference would be based. When asked to "identify with specificity those facts that were not apparent or available to Mr. Collins in Docket 13-0192 that are now relied upon him in this docket in support for any conclusions he makes in this proceeding" Mr. Collins responded that "there are no facts that were not apparent or available to Mr. Collins in Docket 13-0192 that are now relied upon by him in this docket to support his conclusion that T&D mains should be allocated using Design Day Demands". (Ameren Cross Ex. 6.0 at 2 (response to AIC-IIEC 1.09).) IIEC's arguments against the peak-and-average method have been recycled for ten years and denied by the Commission for ten years.

AIC does recognize that the Commission's prior orders are generally not *res judicata*. *City of Chicago v. Ill. Commerce Comm'n*, 133 Ill. App. 3d 435, 440 (1985). But that does not mean that the Commission is prohibited from looking at or acknowledging rulings and long standing preference when passing judgment on contested issues. The Commission may adhere to the spirit of its prior decisions, when it deems fit. The Commission can rely on principles adopted in prior decisions and the Commission errs if it departs arbitrarily or capriciously from its past practices and principles. *City of Chicago v. Ill. Commerce Comm'n*, at 440. IIEC admits that there are no new facts to support its proposal for the allocation of T&D main costs. (Ameren Cross Ex. 6.0 at 2 (response to AIC-IIEC 1.09).)

Finally, among the recycled and previously rejected arguments made by IIEC in its initial brief is the argument that the peak-and-average method double-counts average demand. (IIEC Init. Br. at 12-13.) Regardless of how the peak-and-average method treats the average demand component, the peak-and-average method is still superior to the IIEC's design day demand allocation proposal. The IIEC proposal would eliminate any average component. But the Commission has explicitly held that the peak-and-average method properly emphasizes the average component to reflect the role of year-round demands in shaping transmission and distribution investments. *Cent. Ill. Pub. Serv. Co.,* Dockets 02-0798/03-008/0009 (Cons.), Order at 98 (Oct. 22, 2003). Furthermore, the peak-and-average method is superior because the IIEC proposal cannot be reconciled with the ratemaking principle of cost causation. IIEC's proposal would remove all demand-related T&D costs from the GDS-5 rate class, but cost causation would require GDS-5 rate class customers to pay something more than zero for their use of the T&D mains. (Ameren Ex. 40.1.)

Additionally, as presented in AIC's initial brief the peak-and-average method is superior to IIEC's proposal, which would shift approximately $6 million of revenue requirement responsibility to the Residential class, while removing approximately $5.5 million of revenue requirement responsibility from the GDS-4 customer class. This shift would have a compounding impact on Residential customers year after year if IIEC's proposal were adopted. (AIC Init. Br. at 113.)

The peak-and-average method is the superior allocation method for T&D plant. IIEC's proposal should be rejected in favor of the peak-and-average allocation methodology.

VI. REVENUE ALLOCATION

A. Resolved/Uncontested Issues

1. Rate Mitigation.

B. Contested Issues (NA)

VII. RATE DESIGN

A. Resolved/Uncontested Issues

1. Rate Uniformity

2. Charges for GDS-3, GDS-4, and GDS-5

3. Space Heat Study (contingent upon VII.B.1)

B. Contested Issues

1. Use of Straight Fixed Variable (SFV) Design/Setting the Customer Charge in GDS-1 and GDS-2

a. AIC's GDS-1 Class is not as diverse as CUB and the AG allege, and any subsidies that may exist are *de minimus* when compared to class revenues.

In their initial briefs CUB and the AG continue to advocate for the adoption of Mr. Rubin's COSS-Based Rates Method for the customer charge, citing certain inequities created by virtue of GDS-1 class "diversity" and the metering costs accompanying different types and sizes of customers. (*See* CUB Init. Br. at 2; *see also* AG Corr. Init. Br. at 67-71.) These arguments overstate the alleged diversity in the class and overemphasize the effects of any potential "outliers" on the costs paid by other customers.

As explained in AIC's initial brief and in underlying testimony, over 99 percent of Residential meters are based on the current standard meter installation or what was considered standard historically. (AIC Init. Br. at 121 (citing Ameren Ex. 25.0 at 9).) Of the nearly 760,000 meters installed amongst the Residential class, there are only 19 meters of the three largest sizes installed at the residential level. And one of the related accounts—the token account cited by both CUB and the AG as having a current meter cost equal to that of "75 typical homes" (CUB Init. Br. at 3; AG Corr. Init. Br. at 68)—has since been reclassified to a Commercial class. (Ameren Ex. 25.0 at 10.) Although much of the AG's arguments and concerns regarding diversity appear to be predicated on the inclusion of family farms in the GDS-1 class, the AG has made no proposal to adjust the tariff classification terms or to developed separate metering charges specific to these types of applications. (*See e.g.*, AG Corr. Init. Br. at 66.) Rather, they propose to "cure" the problem by imposing rate design changes that will affect the entirety of the class. This type of change is not warranted or necessary.

With respect to cost, if every residential meter with a current installed cost of $3,000 or more (485 in total) were removed from the class, the current average installed costs of the remaining meters would be about $2 less. (Ameren Ex. 25.0 at 9.) And, given depreciation and other factors, only a fraction of the $2 difference would directly impact the annual residential revenue requirement, amounting to pennies per month, at most, for the typical customer. (*Id.* at 10-11.)

To be clear, the evidence of record on this topic focuses almost exclusively on the meters, regulators and service lines required to serve customers with different types of needs. The AG's initial brief is therefore misleading when it references larger customers "needing a larger gas main and other facilities" in addition to meters and regulators. (AG Corr. Init. Br. at 67.) Although this statement was based on a comment made by Mr. Rubin in his direct testimony, the record has not been developed around this concept. It gives no consideration to farm taps and/or individual customer use (or not) of the low pressure distribution system. The AG should not at this point summarily "lump in" potentially higher-cost assets with the facts or perceptions related to customer metering requirements.

In sum, the class does not exhibit the drastic amount of diversity CUB and the AG allege, and the few metering "outliers" have little if any noticeable impact on the typical residential customer. CUB and the AG's arguments should be dismissed.

b. The AG's COSS-based rate design, endorsed by CUB, is inconsistent with cost-causation in that it would mistreat fixed costs associated with the GDS-1 Class.

The AG argues that their witness's rate design proposal reflects true cost causation principles by excluding "demand-related costs" from the customer charge. (AG Corr. Init. Br. at 77.) By "demand-related" the AG means those costs classified as such in the Company's Cost-of-Service Studies. (*See id.* at 71.) The argument appears to be that no costs classified in this manner in a Cost-of-Service Study can be fixed, and eligible to be recovered though a fixed component—the Customer Charge. (*See id*.) AIC fundamentally disagrees.

As explained by Mr. Jones, this argument places form over function. It does not differentiate between a ratemaking methodology used to allocate common costs between the various rate classes for the purpose of a cost-of-service study and the pragmatic side of examining the facilities used and in place to serve the customers within a class. (Ameren Ex. 8.0 at 6.) When looking at the pragmatic side of low pressure distribution mains—facilities traditionally allocated in AIC's COSS using a demand-based allocator—it is clear that these costs are in fact fixed at the local distribution level and should thus be recovered through a fixed component. (*Id*.) Individual customers within a class using more or less natural gas from one month to the next, or one year to the next, *will not change the local distribution facility costs incurred to serve them*. (*Id*. (emphasis added).) Taking Mr. Rubin's driveway hypothetical for example (*see* AG Ex. 6.0 at 5), the cost of a driveway wouldn't vary according to the number of times someone drives over it.

As discussed by Mr. Jones, low pressure distribution mains costs represent about 27% of the total cost assigned to the GDS-1 class and 34% of the costs assigned to the GDS-2 class. (*Id.*) When added to the 54% of customer-related components identified in AIC's COSS for the GDS-1 class and the 41% of customer-related components identified in AIC's COSS for the GDS-2 class, it becomes clear that at least 70% of class costs are fixed in nature. In this respect, the Company-Staff proposal is reasonable, supported by the evidence in the case, and consistent with the fundamental principles of cost-causation. The Commission should reject the AG's proposal, which misrepresents the nature of distribution main costs and places form over function in tying fixed charges to customer-related costs.

c. The Company's proposal would not "contradict" recent Commission trends.

AIC acknowledges the AG's point that "in the most recent *Commonwealth Edison Company* rate design proceeding, the Commission rolled back the amount of revenues recovered through the customer charge for ComEd…." (AG Corr. Init. Br. at 72 (citing Docket 13-0387, Order at 75 (Dec. 18, 2013).) The AG also cites similar directional outcomes in AIC's electric "rate redesign" case, Docket 13-0476 (in which the Commission elected to temper movement somewhat in an effort to be mindful of high-use customer impacts), and Peoples/North Shore's most recent rate proceeding, Dockets 14-0224/0225 (Cons.).

But the AG fails to appreciate that the Company-Staff 70/30 proposal is directionally consistent with those recent cases and outcomes. Is AIC moving to full COSS-based pricing? No. And such movement is not appropriate for the reasons discussed herein. But compare this case to the last. In its last natural gas rate increase proceeding AIC originally argued to "ratchet up" then (and still) current 80/20 design to one that recovered GDS-1 revenues based on an 85/15 split. (*See* Ameren Ex. 8.0 at 4.) In the current proceeding, the Company has, in an attempt to limit the contested issues, agreed to head the other direction and "dial down" SFV recovery to level based on a 70/30 target. Staff and the AG both appear to want more costs pushed through volumetric components. And recent Commission decisions are indicative of the same direction. That's what Staff and the Company are proposing—to reduce the proportional amount of revenues recovered from Residential customers through the Customer Charge. This outcome is a reasonable compromise, is consistent with cost-causation, avoids undue customer impacts and should be approved by the Commission in this proceeding.

d. The rate design proposed by Staff and the Company is not inconsistent with the General Assembly's intent as CUB and the AG allege.

Both CUB and the AG suggest that AIC's proposed rate design is not consistent with the General Assembly's desire to encourage a reduction in natural gas consumption. (CUB Init. Br. at 5; AG Corr. Init. Br. at 73.) The AG goes further by arguing that higher customer charges result in less ability for customers to control the size of their bills and reduce customers' ability to engage in cost-effective energy efficiency. (AG Corr. Init. Br. at 64.) But these statements are completely conclusory. As discussed by Mr. Jones in his direct testimony, true variable costs (the cost of gas commodity and other associated charges) provide customers a very strong price signal to conserve. (Ameren Ex. 8.0 at 5.) The residential class paid approximately 70% of total annual natural gas bills through variable charges in 2014. (*Id.*) And approximately 85% of residential charges were variable in nature in January 2014, a peak usage month. (*Id.*) As this information indicates, "customer price signal incentives to conserve are quite strong, meaning that if customers use less, they will pay less." (*Id.* at 5:97-98.)

Perhaps the more appropriate question to be asked is what net effect would the AG's proposal have on natural gas conservation? As Mr. Jones indicates, the answer isn't clear. Higher use customers who would otherwise bear more costs may use less gas because their bills will be greater, all else equal. (Ameren Ex. 39.0 at 8.) Lower use customers may use more because their bills will be lower, all else equal. (*Id.* at 8-9.) As stated by Mr. Jones, "to believe that a larger variable delivery charge, and a corresponding decrease to the fixed charge, will result in a net conservation effect requires one to believe that residential customers are acutely aware of the marginal price they pay for natural gas. I believe residential customers are generally aware of the total bill paid but not their marginal price for the next therm of usage."

(*Id.* at 9:174-78.) Clearly CUB and the AG cannot support the notion that AIC's recommended rate design is inconsistent with state policy or legislative intent.

e. The AG's focus on total AIC revenues is misleading.

Beginning on page 74 of its initial brief the AG presents certain residential sales information in an attempt to challenge the need for continued use of an SFV design. (*See* AG Corr. Init. Br. at 74.) In doing so, sidestep AIC's contention that weather-normalized revenues per customer are declining. (*See* Ameren Ex. 8.0 at 9.) The data presented by the AG in its initial brief shows nothing more than the fact that *total revenues* and *total therm sales* have fluctuated over the period examined. But the SFV rate design does not apply to total revenues, but rather *only to gas delivery service revenues*. Those delivery service revenues are the subject of this rate case. One cannot determine, track, or otherwise discern what delivery service revenues were in each year included in the AG's table. The total revenue values they cite are influenced by the cost of gas, other riders producing revenues that are excluded when establishing base delivery services rates, and rate increases granted between 2010 and 2014. And they are also influenced by weather. It's axiomatic that weather is a substantial driver of natural gas sales. Thus, the focus on weather normalized characteristics in rate cases. In sum, the information presented by the AG beginning on page 74 of its initial brief lacks any detail about trends in residential delivery service revenues and cannot be relied upon to form any decision regarding residential rate design.

f. The AG's commentary on the 2008-era rate increases is misplaced and its conclusion is internally conflicting—if the 2008 increases represented too "radical" a change, unwinding that decision in one fell swoop should also be deemed too "radical".

In its initial brief, as in underlying testimony, the AG devotes a substantial amount of discussion to the alleged "inequities" created by the rate design approved in Dockets 07-0585-

0590 (Cons.). (*See* AG Corr. Init. Br. at 61-64.) But the purpose of the current docket, Docket 15-0142, is not to re-litigate that decision. That was 7 years ago. Customers have been paying rates based on an 80/20 SFV split since that time. Any departure from that design—to which customers are now presumably accustomed—should be gradual and conscious to avoid undue customer impacts.

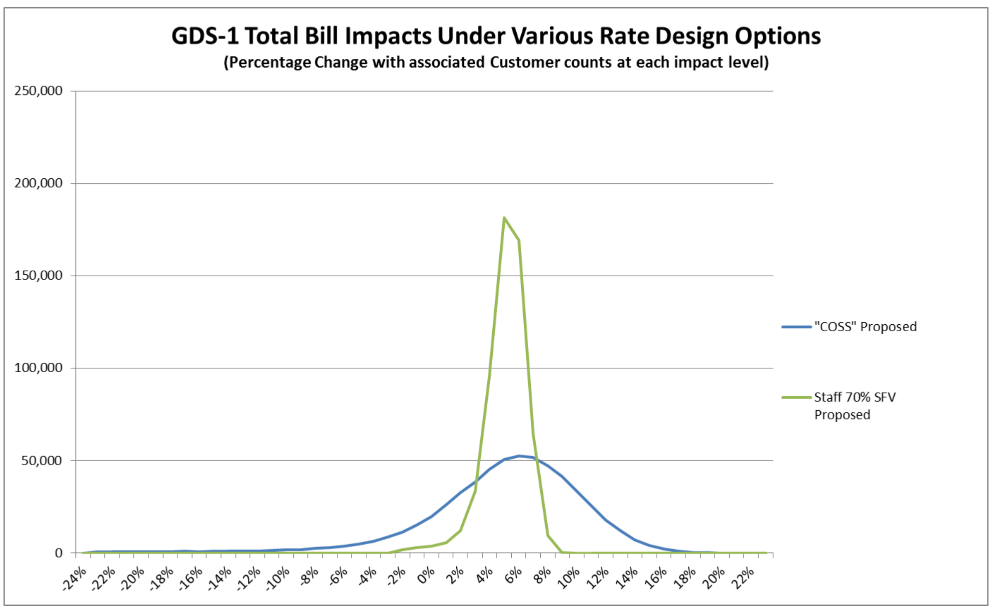
It is ironic that Mr. Rubin and the AG again in brief describe the 2008-era change as "radical" given the magnitude of the reversal they now under Mr. Rubin's COSS-Based Rates Approach. Prior to 2008, Ameren Illinois (or its predecessors) recovered some 43% of GDS-1 revenues through fixed charges. (Ameren Ex. 23.0 at 15.) As a result of Dockets 07-0585-0590 (Cons.) that percentage increased to its present level of 80%. Mr. Rubin suggests the percentage now be reduced to back 54% (with Staff and the Company having agreed to 70%). As stated by Mr. Jones, "[i]f the previous increase represented too steep of a climb, [the AG's] proposed decrease should be too drastic a fall." (*Id.*) As indicated above, AIC has committed to decrease the percentage of GDS-1 and GDS-2 revenues recovered through fixed charges from 80% to 70%. "But the 54% now suggested by Mr. Rubin is too drastic." Staff witness Allen agrees. (*See* ICC Staff Ex. 10.0 at 5.)

In attempting to demonstrate the "inequities" created by the 2008 increases, the AG includes in its initial brief a table depicting the resulting percentage increases on GDS-1 customers at the high and low ends of the residential usage spectrum. This table shows increases for lower-use customers ranging from 21% to 43.8 % and increases for higher use customer ranging from 4.3% to 21.2%. In response to discovery, Mr. Rubin agreed that in Dockets 07-0585-0590 (Cons.) the Commission authorized an increase in annual base rate gas delivery service revenues of 11.74% for AmerenCIPS and 30.01% for AmerenIP and a decrease in annual base rate gas delivery service revenues of 11.19% (negative 11.19%) for AmerenCILCO, with said increases distributed evenly amongst the rate classes. (Ameren Cross Ex. 3.0 (response to AIC-AG 8.01).) These would have been the increases seen by customers using an average amount of gas in each rate zone. But as Mr. Rubin noted in the above-cited DR response and as the AG attempts to highlight in its initial brief, the 07-0585 Order resulted in varying impacts for customers in the GDS-1 class in each legacy company, depending on gas usage. (*Id*.; AG Corr. Init. Br. at 62.) While AIC agrees with this characterization, it is important to place these customer impacts in the context of the overall rate increase. To be clear, regardless of the increased fixed component on customer bills, even average use customers were going to see a fairly substantial increase in two legacy jurisdictions.

How do those 2008-era impacts compare to those expected to result from this case? On the whole, the impacts resulting from the current case will not be quite as drastic as those seen in 2008, but the relative magnitude of the impacts will largely depend on the rate design chosen by the Commission, which has recently recognized the potential impacts on higher-use customers of collecting more revenues through a volumetric component. *See Ameren Illinois Co.*, Docket 13-0476, Order on Reh'g at 42 (Sept. 30, 2014) ("A shift to a rate design that decreases the fixed customer charge and increases the variable charges, as the AG proposes, would have a disproportionate effect on the largest use space heat customers.") The impacts of the Company-Staff 70/30 SFV proposal are "clustered tighter" and demonstrate heating season, total bill increases in the 5-6% range for most residential customers. The impacts of the AG's proposal are much more disbursed and demonstrate heating season, total bill impacts ranging from a decrease of over 20% to an increase of over 20% for various customers.

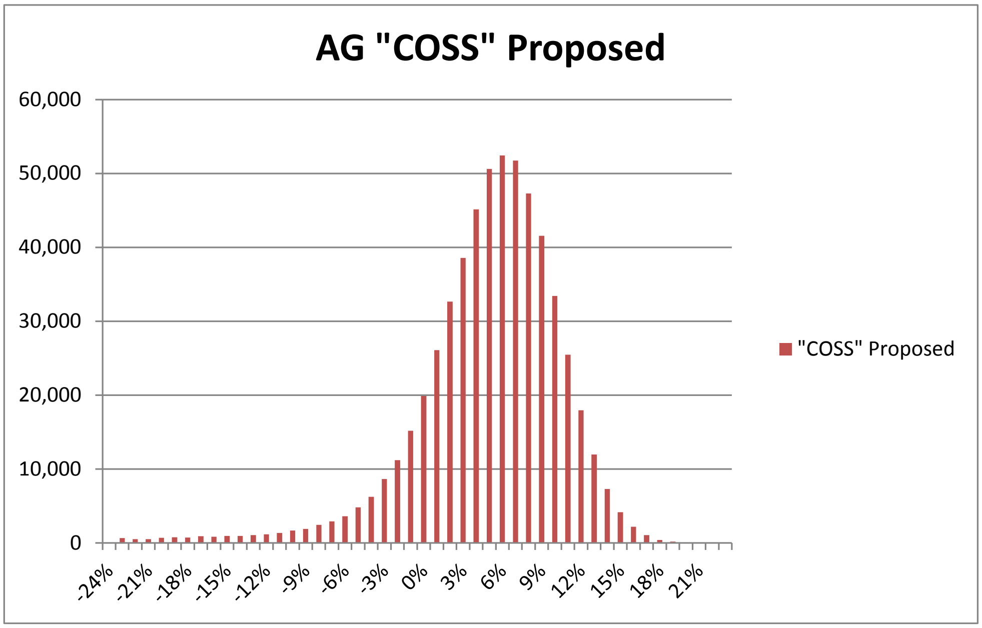
On AG Exhibit 3.12, Mr. Rubin provided GDS-1 bill impacts for the winter heating season under the various rate design options that had been presented by the parties at that time. (*See* AG Ex. 3.12.) As part of her rebuttal testimony, Ms. Althoff updated Mr. Rubin's chart to reflect the 70/30 SFV split and reorganized the information to show a frequency distribution of the customer bill impacts under each scenario. (*See* Ameren Ex. 25.3.)

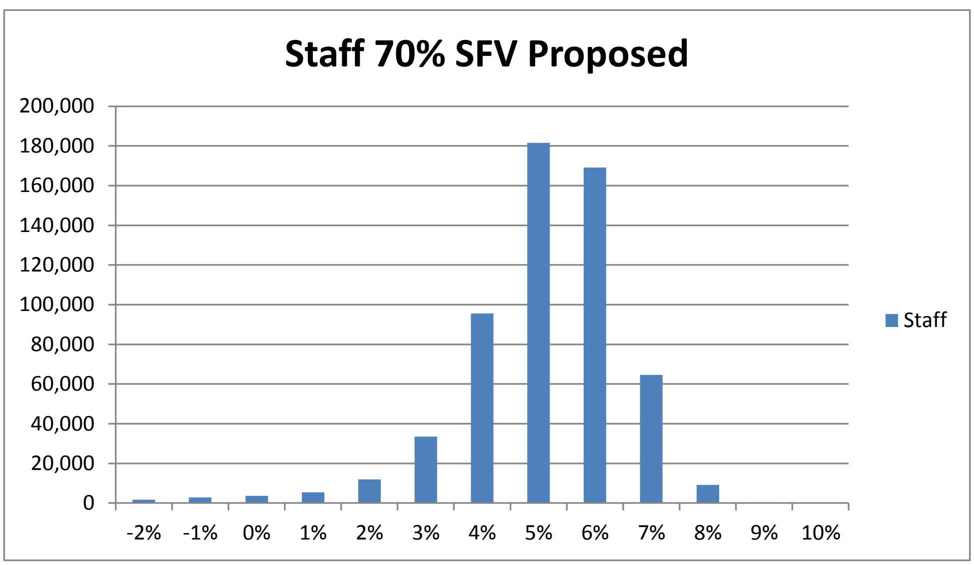
Ameren Exhibit 25.3 depicts a distribution of customer outcomes substantially wider under Mr. Rubin's COSS-Based Rates approach than under the 70/30 SFV proposal:



Ameren Ex. 25.3 (80/20 SFV target removed and changes expressed in percentages).

As shown by Ameren Ex. 25.3, the rate design shift proposed by Mr. Rubin results in total heating season bill impacts ranging from a decrease of over 20% to an increase of over 20% for various customers. (Ameren Ex. 25.0 at 18.) Almost 70,000 customers would realize rate decreases under the AG's proposal; whereas, *100,000 residential customers would see their total winter bills climb by over 10%.* (*Id*. (emphasis added).) Ms. Althoff describes this as a step "far too big to…take in this case. (*Id*. at 19.) The 70/30 SFV proposal, by contrast, would almost entirely avoid any heating season total bill impacts of over 10%. (*Id.*) The 70% SFV rate design results in a heating season total bill increase of 5% or 6% for the majority of Residential customers. Under the AG's COSS-Based Rates proposal, the total bill impacts range from 24% decreases to increases of 23% during the winter heating season.





The AG describes Ms. Althoff's criticism of the bill impacts resulting from Mr. Rubin's proposal as "specious" because it is based on an analysis of the winter months only. (AG Corr.

Init. Br. at 79.) But, as Ms. Althoff clearly indicated on cross-examination (a point omitted by the AG), Ms. Althoff based her analysis and related Ameren Exhibit 25.3 *on the winter period selected by Mr. Rubin* and presented in AG Exhibit 3.12. (*See* Tr. at 211.)

In sum, many of the heating season increases highlighted by the AG's proposal are of a similar magnitude as those described by the AG as "radical" in discussions pertaining to the 2008 increase. Both Staff and AIC express concerns over the magnitude of the changes resulting from the AG's recommendation. As stated by Ms. Allen, "Mr. Rubin's rate design proposal may have considerable bill impacts for certain customers…These customers could see large bill impacts as a result of [the AG's] rate design proposal, while facing an increase in their rates due to an overall increase to the revenue requirement." (ICC Staff Ex. 10.0 at 5:103-07.) The AG's COSS-Based Rates approach should be rejected.

VIII. OTHER RIDER AND TARIFF CHANGES

A. Resolved/Uncontested Issues

1. Rider VBA

2. Uncollectibles - Rider GUA

3. Uncollectibles – Rider S

B. Contested Issues

1. Implementation of Small Volume Transportation (SVT) Program

ICEA/RESA assert in their initial brief that AIC has not demonstrated that any costs it has incurred in connection with the SVT Program are either prudent or necessary. Consequently, ICEA and RESA request that the Commission make clear in its order that it is not making any determination regarding the prudence of any related costs. To be clear, the Phase 1 SVT costs were approved by the Commission in Docket 13-0192 and are currently being collected in AIC's base rates. (*See* Docket 13-0192, Ameren Ex. 7.1 (Project No. 3) (the cost of which was revised in Ameren Ex. 26.0 (Secker Rebuttal)).) The Commission, in that proceeding, determined that the costs were appropriate to be included in rates and recovered from customers. Additional costs associated with the SVT Program, including costs associated with what AIC has styled as Phase 2 of the project, were not included in Docket 13-0192 and AIC has not sought recovery of those costs in this case. Given the ongoing Program design discussions, it is uncertain what, if any, additional costs will be incurred. No party challenged the prudency of SVT-related related costs in either Docket 13-0192 or this docket. And, given the lack of such a challenge, there is no need for the Commission to issue a finding on this topic. Such a finding cannot, in any event, be used as an independent basis to support a party's legal right to challenge any costs in the future, as any review of SVT costs in future cases would be based on the facts and circumstances of those cases. In addition, a "negative" finding such as the one recommended by ICEA/RSEA is not necessary as a practical matter; the Commission need not declare what it is *not* doing in its order. It does not take this approach with other topics and should not do so here.

2. Enrollment Rescission for Rider T Customers

ICEA/RESA want to do away with AIC's rescission provisions. As gas suppliers, this is a theoretical advantage to them, because it would make it harder for customers to rescind contracts. But they fail to show that any real problem with rescission provisions. Meanwhile, the rescission provisions protect customers, and under the current statutory scheme for gas operations, help avoid customer confusion.

a. ICEA/RESA have not demonstrated that AIC's rescission practices create "problems" for gas suppliers or that "problems" have translated into higher market prices.

In their initial brief, like in testimony, ICEA/RESA argue that AIC's rescission practices create "problems" for suppliers and may translate into higher market prices. (*See* ICEA/RESA Init. Br. at 3.) These assertions are unsupported and should be rejected.

As noted in AIC's initial brief, ICEA/RESA cannot provide a single, specific instance of any alleged price or contract "gaming" despite the 1,100+ Rider T enrollments that have taken place since the rescission capability at issue was made available to customers in late 2013. (AIC Init. Br. at 134 (*citing* Ameren Ex. 45.0 at 3:51-56 (internal citation omitted).) To be clear, ICEA/RESA were *unable to provide a single example* of a Rider T customer with annual usage over 5,000 therms rescinding a contract based on a decrease in market price during the rescission period. (Ameren Cross Ex. 4.0 (response to AIC-ICEA/RESA 1.02 (emphasis added)).) The lack of a market-based example highlighting ICEA/RESA's concern is telling and undercuts their position.

Dr. Rearden's testimony is similarly devoid of any factual support backing his agreement with the suppliers. In response to discovery, Dr. Rearden admitted that he had performed no quantitative analysis in support of his statement that AIC's current practice "is likely to lead to higher offers to customer[s]." (Ameren Cross Ex. 5.0 (response to AIC-ICC-6.02).) He further admitted that he, like ICEA/RESA, could not provide an example of a Rider T customer having rescinded under AIC's current practice based on change in price during the rescission window (*Id*. (response to AIC-ICC 6.03).) Finally, Dr. Rearden admitted that he had not performed a quantitative analysis of elevated supply costs arising from AIC's current practices. (*Id*. (response to AIC-ICC 6.04).) ICEA/RESA's arguments, which are supported by Dr. Rearden, are speculative at best. And fundamentally wrong at worst.

Recognizing the lack of market-based evidence in support of their concerns, ICEA/RESA attempt to distance themselves from the lack of quantitative evidence by arguing that "[t]he fact that a customer *could* game the system in this way harms the market." (ICEA/RESA Init. Br. at 8 (emphasis added).) In short, ICEA/RESA's position now is that they are concerned about hypotheticals. But their hypothetical may not even be correct from a theoretical standpoint. Ameren witness Millburg argued that rescission, in and of itself, creates *downward* pressure on prices. (Ameren Ex. 45.0 at 15 (emphasis added).) He explained that "the availability of the rescission capability can reduce customers' concern with entering into gas supply agreements, which increases the number of third-party supply agreements that are consummated, which increases market liquidity, which decreases the risk that suppliers will be unable to sell any 'rescinded' gas, which reduces suppliers' risk and therefore lowers market prices." (*Id.* at 15:325-31.) Simply put, the accuracy of ICEA/RESA's underlying hypothesis is questionable, and the suppliers have offered no market-based evidence supporting the validity of their argument.

Likewise, ICEA/RESA's arguments regarding potential damages resulting from AIC's practices are unsupported. They state in their initial brief that in the case of very large transportation customers, AIC's practices could potentially result in stranded gas costs of "millions of dollars" associated with a single rescission. (ICEA/RESA Init. Br. at 8.) But AIC explored this concept in discovery and, consistent with ICEA/RESA's above-noted failure to cite specific instances of "gaming," they were likewise unable to cite a single (non-hypothetical) instance where AIC's practices have resulted in that level of damages or stranded gas. (Ameren Cross Ex. 4.0 (response to AIC-ICEA/RESA 1.12).) To the contrary, Mr. Clark admitted that suppliers *might actually benefit* from AIC's current practices, noting that, hypothetically speaking, they may be able to sell any "bought forward" gas for a profit. (*Id*. (response to AIC-ICEA/RESA 1.09 (emphasis added)).)

Finally, it is important to note that suppliers, and not AIC, are in control of the underlying supply contracts, which could be used to address or mitigate their concerns. ICEA/RESA admit that "whether a rescission of an enrollment triggers the rescission of a supply contract is a function of the terms of the supply contract and [that] Ameren Illinois has no control, direct or indirect, of the contract between the supplier and customer." (Ameren Cross Ex. 4.0 (response to AIC-ICEA/RESA 1.07).) That contract, which is completely outside of AIC's control, could presumably contain language addressing the concerns expressed by ICEA/RESA. Although ICEA/RESA argue in their initial brief that seeking to enforce liquidated damage provisions or early termination clauses "simply adds risk that increase prices," as explained above, they have failed to introduce any market-based evidence demonstrating or confirming that increased prices have in fact resulted from AIC's practices. In addition, their position with respect to contractual protections is internally conflicting. As discussed below, if the suppliers argue that customers have a right to rescind regardless of motivation, why not position the supply contracts to better protect supplier interests in the event a customer makes that election?

b. AIC's rescission practices are not "unnecessary" given the current statutory framework and ICEA/RESA have failed to identify a solution that addresses AIC's concerns.

In their initial brief, ICEA/RESA argue that AIC's current rescission practices are unnecessary. (ICEA/RESA Init. Br. at 3.) But the current statutory framework and AIC's actual practical experience show the opposite. Ameren witness Mr. Millburg explained that it is difficult in practice to apply the statutory rescission trigger: while the annual threshold (5,000 therms) is clear, the process by which a non-residential customer would meet that threshold is anything but. (Ameren Ex. 19.0 at 8.)

Section 19-115 of the Act (against the backdrop of the definitions in Section 19-105) provides that non-residential customers with annual usage levels of ≤5,000 therms are covered by the supply rescission provisions, *unless* they are part of a common ownership group and their owner decides to group them together for supply purposes. (*Id.*) But, notably, Section 19-105 of the Act does not define a common ownership group or indicate how entities, accounts, or service points should be properly be grouped together for supply purposes. (*See id.*) This lack of clarity results in a situation where it is "virtually impossible" for the Company to determine whether a non-residential account is eligible for supply and enrollment rescission until after the account has been switched to a new supply source. (*Id.*) As a result, non-uniform practices will require a substantial amount of manual intervention, a substantial amount of retroactive correction, and may ultimately result in customer confusion. (*Id.*; Ameren Cross Ex. 5.0 (response to AIC-ICC 6.01).)

ICEA/RESA's solution to this is unworkable. Although they recommend adoption of a ComEd-style letter (*see* ICEA/RESA Init. Br. at 7), this "solution" does not work for gas operations. As explained by Mr. Millburg, "[a]s an electric utility, the Company is familiar with the 'hard' 15,000 kWh annual usage threshold established by Illinois law as the cut-off for defining small non-residential electric operations." (Ameren Ex. 45.0 at 6:120-23.) That "hard" cap is why parties can more clearly articulate rescission capabilities to electric customers. (*Id.* at 6:125-27.) On the gas side, given the statutory interpretation issues discussed above, the best guidance the Company could provide would be that a customer "might" be eligible for a rescission, depending on its ownership structure and annual usage at other locations. (*Id.* at 6:129-32.) As Mr. Millburg concludes, "[t]hose statements are hardly a model of clarity and are likely to contribute to customer confusion." (*Id.* at 6:132-33.) ICEA/RESA's lone solution will not work and should be rejected.

c. Mr. Clark and ICEA/RESA fail to distinguish between "mistaken," "errant," and "unauthorized" switches.

ICEA/RESA, based on the testimony of Mr. Clark, argue that "if an enrollment is mistaken, errant or unauthorized, *the switch can always be reversed*, even beyond Ameren's ten-day period." (ICEA/RESA Init. Br. at 6 (emphasis added).) In support of this proposition, ICEA/RESA cite the Section 2DDD of the Consumer Fraud Act, 815 ILCS 501 *et seq*., and Section 19-115(C) of the Public Utilities Act[9] in arguing that any switch that does not comply with those requirements is invalid and does not bind the customer. (*Id*.) But, like Section 19-115 of the Act, Section 2DDD of the Consumer Fraud Act only applies to residential and small commercial customers: "The provisions of this Section shall apply only to alternative gas suppliers serving or seeking to serve residential and small commercial customers and only to the extent such alternative gas suppliers provide services to residential and small commercial customers." 815 ILCS 505/2DDD(G). Thus, the protections afforded by that Section are similar in scope to those extended under Section 19-115 of the PUA, and, as explained by Mr. Millburg, may leave larger transportation customers without an ability to rescind in some situations.

Even assuming *arguendo* that the Consumer Fraud Act creates additional rights for some customers in some circumstances, those circumstances are likely limited, and would not protect all customers in all situations. Even if the Consumer Fraud Act envisions or creates a right to rescind for all customers subject to instances of "unauthorized" switching, for example, ICEA/RESA's position fails to properly address or account for instances of customer mistake,

[9] ICEA/RESA acknowledge that Mr. Clark incorrectly cited electric-related authority in his testimony. (ICEA/RESA Init. Br. at 6.)

error, or confusion. Mr. Clark fails to explain how those situations should be treated absent the protections in AIC's tariffs.[10]

ICEA/RESA seem to imply in their initial brief that no consideration need be given customers in these circumstances: "the legislature declined to protect commercial customers using more than 5,000 therms with the ability to rescind a supply contract." (ICEA/RESA Init. Br. at 10.) But again, these customers include churches, bowling alleys, and day care centers. (Ameren Ex. 19.0 at 9.) AIC questions whether they are sophisticated enough to "game" the system as ICEA/RESA allege. (*Id.*) And as recognized by Staff, utility tariffs are not restricted to features mandated by the legislature (*see* Ameren Cross Ex. 5.0 (response to AIC-ICC 6.08)), meaning the Company may lawfully offer protections to customers over and above those mandated by statute. In this regard, the Company has chosen operational clarity and customer protection over confusion and customer exposure to a lack of an ability to rescind. The Commission should likewise endorse this approach and the related protections.

3. Combined Bill Practices for Electric and Gas Customers

ICEA/RESA recommend that AIC's practice of sending combined bills to electric suppliers and gas suppliers be stopped and that the Company be ordered to send separate bills to electric suppliers about electric usage and gas suppliers about gas usage. (ICEA/RESA Init. Br. at 10.) ICEA/RESA ask the Commission to order AIC to re-institute an outdated, costly, and needless practice to prevent the disclosure of sensitive pricing information to competitors via the

[10] In an attempt to sidestep the issue, Mr. Clark stated in response to discovery that he did not draw a distinction between "mistaken," "errant," or "unauthorized" switches. (Ameren Cross Ex. 4.0 (response to AIC-ICEA/RESA 1.01).) But where the legislature has use distinct words in a statute, they must be accorded distinct meanings, so as not to render any one term superfluous. *Collins v. Bd. of Trs. of Firemen's Annuity & Benefit Fund*, 155 Ill. 2d 103 (1993); *see also Collinsville Comm. Unit Sch. Dist. v. Regional Bd. of Sch. Trustees of St. Clair Cty.*, 218 Ill. 2d 175, 187 (2006) ("We must construe the statute so that each word, clause or sentence is given reasonable meaning and not deemed superfluous or void.").

Company's bills. What ICEA/RESA neglect to mention is that suppliers' charges never appear on an AIC gas bill and suppliers' charges appear on electric bills only if the supplier *chooses* the related billing option. (Ameren Ex. 19.0 at 13 (emphasis added).) Additionally, the solution ICEA/RESA ultimately seek erodes the customer's ability to select a billing agent and the right of customers to determine who reviews their energy charges.

The ICEA/RESA example given in their initial brief demonstrates an ignorance of the source of confidential gas commodity pricing information. (ICEA/RESA Init. Br. at 11.) The example states that an electric supplier (hypothetically, Direct Energy) will gain insight into the contract pricing of a competitor (hypothetically, Constellation) because the combination customer agrees to have Direct Energy serve as billing agent for their energy. (*Id.*) Their argument that the Company needs to alter its billing practices to prevent this from happening falls flat, since the Company never places gas suppliers' charges on its bills. (Ameren Ex. 19.0 at 13:258-64.) Mr. Millburg testified that the Company "does not include third party gas supply charges on any of its bills for gas service, regardless of whether service is rendered to a combination customer or a gas delivery-service-only customer." (*Id.*) If, in the ICEA/RESA example, Direct Energy gains insight about Constellation's pricing, it is because Direct Energy is provided access to Constellation's bills from a source other than AIC. Additionally, ICEA/RESA's example shows that it is the suppliers' billing election that creates the issues they complain of—the suppliers can ultimate choose to send their pricing and charging information directly to the customer.

ICEA/RESA further demonstrate their lack of understanding regarding the tariff provisions they seek to have the Commission change with their request regarding gas SBO. They argue in their initial brief that the Company receives a greater assurance of payment for delivery service charges under the gas SBO option because suppliers assume the responsibility for payment of those charges. (ICEA/RESA Init. Br. at 11.) This assertion is simply incorrect. Unlike electric operations, the Company's gas tariffs do not provide an option whereby a supplier acts as a "guarantor" of amounts billed, but not received from customers. *See* Ill.C.C. No.2 1st Revised Sheet No. 5.009. In the gas world, the supplier simply acts as a processor for payments they receive from the customer. ICEA/RESA confuse "billing agent" (*i.e.* a party who takes responsibility for issuing bills to a customer) with "payment agent" (a party who takes responsibility for paying bills on behalf of a customer).

Additionally, absent a directive from a customer reading billing agency, ICEA/RESA members have complete control over the communication of pricing information to a combination customer. (AIC Init. Br. at 139-40.) The Company's tariffs default to dual billing for gas delivery service and third party supply charges. (Ameren Ex. 19.0 at 13:169-273.) Under dual billing, the supplier sends its charges and pricing information directly to the customer, while the Company sends its delivery service charges either to the customer or the electric SBO supplier. In either ICEA/RESA's proposed "solution" or the default dual bill provision, a combination customer will still receive two bills. The only way a combination customer will receive a single bill, and thus enjoy the benefits of a single bill for their energy service, is to leave in place the tariffs that the Commission approved in 2013.

In their initial brief, ICEA/RESA mischaracterize the testimony of Staff witness Dr. Rearden to attempt to demonstrate the uniformity of positions among Intervenors. They state that Dr. Rearden observed that the Company was not being responsive to ICEA/RESA's concern about the change in its billing practice. (ICEA/RESA Init. Br. at 13.) Dr. Rearden's rebuttal testimony is it "appears that Ameren Illinois is not engaging with Mr. Clark's complaint" because Ameren addressed this issue with information about which entity is a customer's Billing Agent. (ICC Staff Ex. 13.0 at 7:144-51.) It is a stretch, however, for ICEA/RESA to say that Staff ultimately sides with ICEA/RESA. Staff simply states that a customer should be able to choose the number of bills he receives. (*Id*. at 3:52-53.)

Staff concludes in their initial brief that "as long as the cost is not excessive, if customers want a separate bill for gas and electric service from each supplier, then customers should be able to receive two separate bills." (Staff Corr. Init. Br. at 48.) ICEA/RESA somewhat disingenuously claim that no evidence was submitted that the cost of splitting accounts (two separate bills) would be termed "excessive." (ICEA/RESA Init. Br. at 13.) AIC was not requested to provide this data by ICEA/RESA or Staff. The Company, however, provided an overview of the cumbersome and time-consuming work required to create multiple accounts for the sole benefit of the customer's gas suppliers. (AIC Init. Br. at 138; Ameren Ex. 19.0 at 11.) Neither ICEA/RESA nor Staff offer any evidence in the record to address the concerns about who should pay for the costs associated with splitting accounts, whether "excessive" or not. These costs should not fall squarely on AIC's customers, given that the related changes would benefit primarily suppliers. This result would be unreasonable and is not supported by the substantial evidence in this proceeding.

The substantial evidence in this proceeding demonstrates that ICEA/RESA's proposal to return to splitting combined customer bills is unreasonable and should be rejected. This splitting process is a complicated, 75-step process and will prevent AIC from providing these customers with one cohesive, combined bill. Further, the ICEA/RESA proposal will substantially eliminate the efficiencies and customer benefits gained from AIC's current cost-saving initiative of providing a combined bill. And the split billing process will consume a significant amount of

AIC personnel time, involves numerous manual processes, is resource intensive and has been shown to frustrate consumers. (Ameren Ex. 45.0 at 8.) Importantly, there is no evidence in the record demonstrating that AIC customers desire or would benefit from the change proposed by ICEA/RESA. Finally, the ICEA/RESA proposal is entirely self-serving, yet ICEA/RESA have not committed to foot the bill. This is inequitable and not aligned with the key principles of the Act. *See* 220 ILCS 5/1-102(d)(iii). Simply put, ICEA/RESA's proposal does not promote equity and the fair treatment of utility consumers in setting rates. It therefore should be rejected. Consistent with the record evidence, the Commission should uphold AIC's current, combined customer billing process.

4. Meter Reading and Billing Practices for Rider T Customers

In their initial brief, ICEA/RESA continue to request that the Commission order the Company to make changes to resolve problems of the suppliers' own making. Yet, ICEA/RESA do not present any new arguments or evidence supporting either their request to the Commission or allegations that the Company's meter reading and billing for Rider T customers is deteriorating. (ICEA/RESA Init. Br. at 13.) AIC agrees with Staff's conclusion that ICEA/RESA does not allege that the Company has violated its tariffs, contracts with suppliers, Commission rules or Illinois law and, therefore, this dispute is not ripe for a Commission ruling. (Staff Corr. Init. Br. at 49.)

a. Billing delay and establishment of firm date on final usage.

Billing delays are the focal point of ICEA/RESA's initial brief. ICEA/RESA allege that AIC's transfer of responsibility for meter reading and billing from AIC's End User Transportation Groups to AIC's Customer Account Department has been the cause of what ICEA/RESA believe to be a trend in billing delays. (*Id*. at 14.) Any perceived delay is not due to the transfer of responsibilities by AIC, however, but is instead related to group balancing. As

Ameren witness Millburg testified, a supplier's decision to participate in the group balancing service and determine the number of customers in each group can affect the ability of the Company to gather actual usage data and issue associated bills in a timely manner. (AIC Init. Br. at 141; Ameren Ex. 19.0 at 15.) ICEA/RESA ignore the evidence regarding the impact of the size of supplier-created gas balancing or pool groups and the impact that these groups have on the ability of the Company to collect actual usage data and issue timely bills, especially in the winter months.

The collection of usage data is based on numerous factors, many of which are beyond the control of the Company; this process can extend well beyond the fifth business day target for issuing bills. (AIC Init. Br. at 142; Ameren Ex. 19.0 at 15-16.) ICEA/RESA's brief highlights a continued misunderstanding of the meter reading process, ignores the factors and reasons that might lead to delays, and disregards AIC's testimony in claiming that their members have not found a consistent reason why AIC is consistently late or a discernable pattern in said delays. (ICEA/RESA Init. Br. at 14.) Yet, in their brief ICEA/RESA acknowledge that there is a difference between the issuance of bills for daily balanced customers and monthly balanced customers. (*Id*. at 15.) Mr. Millburg addressed this issue and testified that there are "two easily observable patterns: (1) Performance is better for daily balanced customers than for monthly balanced customers (the Company consistently produces bills within the five business day target for daily balances customers), and (2) in the case of monthly balanced customers, performance is associated with the time of the year (the Company demonstrating better performance in the non-winter months)." (Ameren Ex. 45.0 at 10-11:223-28.) These points undermine ICEA/RESA's arguments.

As demonstrated in Ameren Exhibit 45.1, bills for daily balanced Rider T customers are almost always issued by the fifth business day of the month. Mr. Millburg explains that the reason for the difference in performance between daily balanced customers and monthly balanced customers is the use of telemetry, a fact which is not addressed by ICEA/RESA in their testimony or initial brief. (*Id*. at 11.) Daily balanced customers are required to have telemetry equipment linking their meters with the Company's billing system, which virtually eliminates the impact of Acts of God, acts of customers, and emergent issues, such as illnesses of meter reading personnel on securing timely meter reads. (*Id*.) Currently, AIC is allowed to require telemetry equipment only at its daily-balanced customers, and uses price signals associated with the cost of meter reading to incentivize large customers to install and maintain that equipment. (AIC Init. Br. at 142; Ameren Ex. 19.0 at 17:345-51.) The monthly balanced customers do not have the same equipment requirements and, for the most part, must have their meter read manually. (Ameren Ex. 45.0 at 11.) Without requiring the installation of telemetry equipment, AIC will continue to review its metering and billing practices and continue to make significant investments in the meter system to mitigate the ability of external, uncontrollable factors to delay its meter reading and billing. (AIC Init. Br. at 142; Ameren Ex. 45.0 at 13.) The Commission should reject ICEA/RESA's request to establish a firm date related to AIC's meter reading and billing practices.

b. Standard Notice.

ICEA/RESA request that the Commission require AIC to provide standard notice to suppliers reflecting usage revisions in some manner other than on the invoice itself. However, ICEA/RESA in their initial brief admit that AIC already provides all of the requested information by virtue of its Electronic Data Interchange (EDI) system. (ICEA/RESA Init. Br. at 15.) It would seem that ICEA/RESA are asking the Commission to place the Company in a position of ensuring that suppliers appropriately distribute billing information within the suppliers' own organizations after AIC has provided the information to them through EDI protocols. This is an unreasonable attempt to shift responsibility to AIC, and it should be rejected.

As explained in its initial brief, AIC already provides suppliers with this service, and provides additional access to meter data for daily balanced customers even before it is used for billing purposes. (AIC Init. Br. at 143.) These items are addressed in AIC's Retail Gas Suppliers' Handbook, and any gas supplier serving AIC customers, including members of ICEA/RESA, must attest that they have read and understand this document. (*Id.*; Ameren Ex. 19.0 at 18.) ICEA/RESA again have failed to address the fact that suppliers for natural gas often have electric supplier counterparts, and that AIC has not received complaints about similar electric practices. (Ameren Ex. 45.0 at 12.) This, coupled with the fact that suppliers have attested to reading and understanding the Handbook, means that they should be familiar with this service.

Mr. Clark asserts that the suppliers obtain the usage from one source and then compare to that information to secondary reports from a different source that identifies revised usage in order to identify "revised" usage. (ICEA/RESA Init. Br. at 15; ICEA/RESA Ex. 2.0 at 11.) This, however, would mean that they are relying on information reports instead of the source data sent in an EDI transaction, which is billing quality data and intended to be used for billing purposes. (Ameren Ex. 45.0. at 13.) Further, it seems that they are calculating the revised usage when AIC already provides suppliers with the revised usage data in billing format. Mr. Millburg testified that in certain instances, such as inaccurate equipment or a forced usage estimate, AIC will provide the revised and corrected data to customers and suppliers for billing purposes. (Ameren Ex. 45.0 at 11.) Prior to issuing the revised usage data, AIC sends an "EDI cancel" transaction to the supplier indicating that a usage transaction is being cancelled and after this a new EDI transaction is sent to the supplier containing the revised data. (*Id*. at 11-12.) Suppliers can reduce confusion and frustration by simply following the processes identified both in the Handbook and available on Company webpages devoted to supplier support. (*Id*. at 13.) So, the Commission should reject ICEA/RESA's request for a standard notice regarding billing information.

IX. OTHER ISSUES

A. Resolved/Uncontested

1. General Services Agreement Allocators

B. Contested Issues

1. Forecasted FERC Account Data

The AG wants the Commission to order AIC to create additional rate case schedules, at the ratepayers' expense, and make other unspecified changes to how the Company presents financial information in rate filings. (AG Corr. Init. Br. at 83-86.) The record does not contain sufficient detail on Mr. Coppola's proposals for the Commission to order anything definitive. More importantly however, the record does not support Mr. Coppola's claim of a systematic problem. The few, isolated instances of similar expenses being charged to different FERC accounts, which he cites, were explained. And no party, including the AG, took issue with AIC's explanations on year-to-year changes in expense by FERC account.

The Company's reporting of forecasted costs is not deficient. AIC provided variance analysis in the direct filing, and answered the many Staff and AG data requests on account variances. The Company also provided additional cost schedules in the direct filing, at the request of the AG's last expert—schedules that evidently went largely unused. Staff has not complained about the quality of the Company's documentation. And the AG hasn't been precluded from testing the accuracy of the forecast and proposing adjustments to test year expense (even if the adjustments do not have merit). Moreover, the process of forecasting expenses will be further improved for AIC's next future test year rate case, when the Company will prepare its forecast using cost data budgeted by FERC account. This record does not support the AG's request that the Commission impose upon the Company a new requirement to create additional rate case schedules, at the ratepayers' expense.

a. The cases of similar expenses being charged to a different FERC account from one year to the next are rare and explainable—there have not been a "large volume" or "frequency" of "recording errors" or "costs misapplied."

The AG's initial brief repeats Mr. Coppola's claim that there has been a "large volume and frequency of costs misapplied to FERC accounts." (AG Corr. Init. Br. at 83.) The record, however, does not support the assertion. Even if each of Mr. Coppola's 20 examples were associated with 1,000 transactional rows of charges, they would still constitute less than 1% of the Company's annual total transactions. (Ameren Ex. 18.0 (Rev.) at 11.) That percentage does not constitute a large amount. (AIC Init. Br. at 145-46.) Nor does that percentage prove that there have been frequent "recording errors." (AG Init. Br. at 83.)

As AIC's initial brief also notes, the Company's response to AG data request 7.33 identified the factors that could cause a change in the FERC account to which an expense was booked. For example, in preparing the rate case schedules, AIC mapped forecasted 2015 and 2016 expenses to FERC accounts that may change when the expenses are actually incurred. (Ameren Ex. 18.3.) An expense historically may have been charged to a general expense account (*e.g.*, 824 or 837), whereas now it is charged to a more specific account for that activity. (*Id.*) Or an expense could have been charged to a maintenance account one year, and an operations account the following year. (*Id.*) The Company's response to AG data request 7.33

also noted that the training of AIC personnel on the usage of FERC accounts has resulted in some expenses shifting between accounts "to improve the accuracy of AIC's reporting and better reflect the work being performed." (*Id.*) In addition, the Company's rebuttal testimony noted that AIC's financial records and internal controls are subject to periodic review by internal and external auditors. (Ameren Ex. 18.0 (Rev.) at 12.) And as mentioned below, the Company is taking another step to improve its expense reporting by transitioning to budgeting by FERC account. There simply is not a widespread, unchecked pandemic of "misapplied charges," as the AG and Mr. Coppola suggest.

b. The Company provided schedules, testimony, responses to data requests and workpapers that reconciled annual cost changes by FERC account and by activity—and no party, including the AG, took issue with those explanations.

The AG's initial brief also repeats Mr. Coppola's suggestion that it was "nearly impossible to reconcile and explain cost changes over multiple years and discern cost trends over time." (AG Corr. Init. Br. at 84.) As AIC's initial brief described, that claim simply isn't true. All required schedules were prepared, without deficiencies, including the Schedule C-4, which showed expense trends by FERC account for 2013-2016. (AIC Init. Br. at 146.) The testimony identified the FERC accounts that showed a significant variance between forecasted 2016 O&M expense to 2014 O&M expense. (*Id.*) The Company provided additional schedules with its direct case, at the request of the AG witness in the last gas rate case, which compared actual 2013 expenses to forecasted 2016 expenses, with written justifications of variances. (*Id.*) And the Company further explained year-to-year account variances in its responses to Staff and AG data requests. (*Id.*) Indeed, AG data request 7.33 (Ameren Ex. 18.3) identified 28 different Staff data requests that concerned an account variance for two different years.

No party, including the AG, questioned the accuracy of the Company's explanations of FERC account variances. The changes in costs over multiple years were "reconcile[d] and "explain[ed]." The cost trends from year-to-year for activities have been "discern[ed]." And no other party, including Staff, is suggesting that the Company "shifted the burden" of proving that its test year forecast is accurate, reliable and reasonable. (AG Corr. Init. Br. at 85.) Indeed, the examples of similar expenses being charged to different accounts cited by Mr. Coppola were identified in response to Staff, not AG, data requests. The Company can—and did—provide explanations for variances in expense by FERC account to test the accuracy of the test year data. Inquiries on the accounting of specific expenses, including changes to the accounting of a specific expense, were—and can be—addressed during the discovery period of the rate case. The AG's claim that the Company failed in this regard rings hollow.

c. The Company already is taking a constructive step to increase the consistency in reporting costs by budgeting by FERC account—and the AG does not mention this improvement in accounting processes in its Initial Brief.

As the Company's testimony and initial brief pointed out, AIC is working on a further improvement in its reporting of expenses—a transition to budgeting expenses by FERC Account in 2016. (AIC Init. Br. at 147.) But *nowhere* in the AG's initial brief is this transition even mentioned. Instead, the AG's initial brief laments that it "expected a more constructive response" about the "corrective actions" that the Company was taking. (AG Corr. Init. Br. at 85.) And it claims that AIC's response is "again an example of the Company not adhering to the Commission's directive in Docket 13-0192 to improve its accounting systems to make its forecast documentation more transparent and understandable." (*Id.*)

The AG's complaint is nonsense. Budgeting by FERC account is a clear example of an improvement. It will eliminate the need to map or derive forecasted expenses in future rate filings. (AIC Init. Br. at 147.) It will improve the consistency in reporting by allowing for the comparison of budget to actual variances by FERC account, from year to year and throughout the year. (*Id.*) And it will make the personnel charged with budgeting and recording expenses more familiar with the FERC accounts. (*Id.*) This transition is a "constructive" and "corrective" step. Mr. Coppola may largely discount it. And the AG may entirely ignore it. But the Commission should not. It is further evidence that AIC is not asleep at the wheel, as the AG and Mr. Coppola allege. Mr. Coppola's complaint is just another "example" of the AG making a recommendation that is not supported by the record.

d. The AG did not fully utilize the additional workpapers that AIC agreed to provide in its last gas rate case at the AG's request—the Commission should not order the Company to prepare additional, unnecessary "pro forma" schedules.

The AG wants the Company to present its explanations of cost variances "on a comparable basis year-to-year." (AG Corr. Init. Br. at 85.) It wants the Company to present financial information "that is consistently accounted for year over year so that underlying trends and unusual cost variances can be identified [and] explained." (*Id.*) It wants cost data that is "presented and analyzed in a consistent manner." (*Id.*) It wants cost data "in a form that is consistent and comparable for all of the periods presented." (*Id.* at 86.) It wants AIC's processes "corrected to create consistent and comparable accounting." (*Id.*) And it wants AIC to "file a report" with the Commission on any improvements. (*Id.*)

There is just one problem with what the AG wants—the AG already has it. The Company already presents its forecasted costs in a comparable and consistent format. In fact, the Company presented its forecasted costs in multiple comparable and consistent formats. The Company derived forecasted costs by FERC account for 2015 and 2016 from its budgets. (Ameren Ex. 3.0 at 5-6.) The Company identified and explained significant cost variances by

FERC account in its direct case. (Ameren Exs. 3.0 at 18-24; 7.0 (4th Rev.) at 46-60; 7.2.) And the Company answered numerous Staff and AG data requests on variances in expense from 2013-2016, again by FERC account. (AIC Init. Br. at 146.) But AIC also provided an additional excel workbook in its direct filing that showed cost variances by the resource groups within the Company's departments and resource management center. (Ameren Ex. 3.0 at 12-14; AIC Init. Br. at 146-48.) This workpaper was another tool that the parties could use to compare historical (2013) expenses with the test year expense, and like the variance analysis by FERC account, this workpaper provided explanations and justifications for variances, in this instance variances that exceeded escalation factors. (*Id.*) Indeed, the workbook had over 30 tabs, thousands of rows of data, and hundreds of written explanations on cost variances between the 2016 test year and 2013. (AIC Init. Br. at 148.)

The record shows that the AG had sufficient "consistent and comparable" cost data to analyze. Indeed, it is not even clear that the AG fully utilized all of the data that AIC provided, since the Company received zero data requests on the additional excel workbook, despite the fact that the workbook was prepared in response to the AG's complaints in the Company's last gas rate case. There is not support for the AG's request for more schedules.

For the reasons provided here and in AIC's initial brief, the Commission should reject the AG's recommendation that the Company prepare additional "pro forma" rate case schedules and file a report with the Commission on its accounting processes. The record shows that the Company has presented comparable and consistent cost data, and it already identifies the improvement that the Company plans to make by budgeting O&M expense by FERC account.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on October 1, 2015, I caused a copy of the foregoing *Ameren Illinois Company's Reply Brief* to be served by electronic mail to the individuals on the Commission's Service List for Docket 15-0142.

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