STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a	**)**	
Ameren Illinois	**)**	
	)	**ICC Docket No. 15-0142**
Proposed General Increase in Gas	**)**	
Service Delivery Rates and Revisions to	**)**	
Other Terms and Conditions of Service	**)**	

REPLY BRIEF OF

THE PEOPLE OF THE STATE OF ILLINOIS

PEOPLE OF THE STATE OF ILLINOIS
By Lisa Madigan, Attorney General

Karen L. Lusson,
Assistant Bureau Chief
Sameer H. Doshi,
Assistant Attorney General
Public Utilities Bureau
Illinois Attorney General's Office
100 West Randolph Street, 11th Floor
Chicago, Illinois 60601
Telephone: (312) 814-1136 (Lusson)
(312) 814-8496 (Doshi)
Email: klusson@atg.state.il.us
sdoshi@atg.state.il.us

October 1, 2015

PUBLIC VERSION

TABLE OF CONTENTS

I. Introduction / Statement of the Case 1

II. Rate Base 2
- A. Resolved/Uncontested Issues 2
  - 1. Working Capital for Gas In Storage 2
  - 2. Gas Vehicle Plant Additions 2
  - 3. Customer Advances 2
  - 4. Qualifying Infrastructure Plant (QIP) Additions 2
  - 5. Asset Retirement Obligations 2
  - 6. Original Cost Determination 2
  - 7. Hillsboro Used and Useful 3
- B. Contested Issues 3
  - 1. Accounts Payable for Gas Stored Underground 3
  - 2. Non-Union Salaries and Wages (see III.B.2) 4
  - 3. Incentive Compensation Costs (see III.B.2) 4
  - 4. Qualified Pension and Other Post-Employment Benefit Costs (see III.B.4) 4
  - 5. Non-Qualified Pension Costs (see III.B.5) 4
  - 6. Gasoline and Diesel Fuel Costs (see III.B.6) 4
  - 7. Gas-Only Employee Headcount/Vacancy Costs (see III.B.7) 4
- C. Recommended Rate Base 5

III. Operating Revenues And Expenses 5
- A. Resolved/Uncontested Issues 5
  - 1. Ameren Services Company (AMS) Test Year Charges (see also IX.A.1) 5
  - 2. Transmission Lines Assessment and Inspection Expense 5
  - 3. Rate Case Expense 5
  - 4. Payroll Taxes 5
  - 5. Lobbying Expense 5
  - 6. Uncollectible Expense/Gross Revenue Conversion Factors 5
  - 7. Rental Revenues 5
  - 8. Asset Retirement Obligations (see II.A.5) 5
- B. Contested Issues 5
  - 1. Charitable Contributions 5
  - 2. Non-Union Salaries and Wages 9
  - 3. Incentive Compensation Costs 14
  - 4. Qualified Pension and Other Post-Employment Benefit Costs 20
  - 5. Non-Qualified Pension Costs 27
  - 6. Gasoline and Diesel Fuel Costs 30
  - 7. Gas-Only Employee Headcount/Vacancy Costs 32
  - 8. Gas Distribution and Transmission Expense 32
    - a. Sewer Cross Bore Inspections 32
    - b. Gas Records Management 33

c. Corrosion Control Painting 34
d. Damage Prevention 36
e. Gas Technology Institute Operations Technology Development 38
9. Gas Storage Expense 39
a. Well-Related Work 39
b. Compressor-Related Work 39
10. Sales Forecast – Test Year Billing Determinants 43
C. Recommended Operating Income Statements 45

IV. Cost of Capital and Rate of Return 45
A. Resolved/Uncontested Issues 45
1. Short-Term Debt 45
2. Long-Term Debt 45
3. Preferred Stock 45
4. Common Equity 45
B. Contested Issues (N/A) 45
C. Recommended Overall Rate of Return 45

V. Cost of Service 45
A. Resolved/Uncontested Issues 45
1. Use of AIC's Cost of Service Study (but for V.B.1) 45
2. Allocation of Underground Storage Assets 45
3. Rate Zone Allocation of Plant Additions after September 30, 2010 45
B. Contested Issues 45
1. Allocation of Demand-Related T&D Costs 45

VI. Revenue Allocation 46
A. Resolved/Uncontested Issues 46
1. Rate Mitigation 46
B. Contested Issues 46

VII. Rate Design 46
A. Resolved/Uncontested Issues 46
1. Rate Uniformity 46
2. Charges for GDS-3, GDS-4, and GDS-5 46
3. Space Heat Study (contingent upon VII.B.1) 46
B. Contested Issues 47
1. Use of Straight Fixed Variable (SFV) Design / Setting the Customer Charge in GDS-1 and GDS-2 47

VIII. Other Rider And Tariff Changes 57
A. Resolved/Uncontested Issues 57
1. Rider VBA 57
2. Uncollectibles - Rider GUA 57
3. Uncollectibles – Rider SF 57
B. Contested Issues 58

1. Implementation of Small Volume Transportation (SVT) Program 58
2. Enrollment Rescission for Rider T Customers 58
3. Combined Billing Practices for Electric and Gas Customersf..... 58
4. Meter Reading and Billing Practices for Rider T Customers 58

IX. Other Issues..... 58
A. Resolved/Uncontested Issues..... 58
1. General Services Agreement Allocators..... 58
B. Contested Issues 58
1. Forecasted FERC Account Data 58

X. Conclusion 60

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a	)	
Ameren Illinois	)	
	)	ICC Docket No. 15-0142
Proposed General Increase in Gas	)	
Service Delivery Rates and Revisions to	)	
Other Terms and Conditions of Service	)	

REPLY BRIEF OF THE
PEOPLE OF THE STATE OF ILLINOIS

The People of the State of Illinois, by and through Lisa Madigan, Attorney General of the State of Illinois ("AG" or "the People"), hereby file their Reply Brief in the above-captioned Illinois Commerce Commission ("Commission" or "ICC") proceeding, pursuant to Section 200.800 of the Commission's Rules, 83 Ill. Admin. Code § 200.800, and the schedule set by the Administrative Law Judges.

I. INTRODUCTION / STATEMENT OF THE CASE

The People showed in their Initial Brief that the requested $45.3 million rate increase for gas delivery service made by Ameren Illinois Company ("Ameren" or "AIC" or "the Company") under Section 9-201 of the Public Utilities Act (the "Act") is based on a number of unsupported forecasts of expenses for its 2016 future test-year, as well as one erroneous calculation of materials and supplies. AG IB at 4-7, 8-55. Ameren bears the burden under Section 9-201(c) of the Act to establish the justness and reasonableness of its rates; in a number of areas, Ameren has failed to provide satisfactory evidence showing the necessity or prudence of large projected expense increases. In total, the People recommended adjustments that would reduce Ameren's rate increase to no more than $25.7 million. The People urge the Commission to adopt these

adjustments, which are consistent with the Commission's obligation to ensure that rates are both just and reasonable *and* least cost. 220 ILCS 5/1-102; 8-401.

Ameren's Initial Brief also asks the Commission to approve a decoupling rider, "Rider VBA," that would guarantee it the revenues authorized by this proceeding through annual reconciliations of authorized revenues against revenues actually collected, and resulting riders on customer bills to collect the difference. AIC IB at 124-126. Yet at the same time, Ameren proposes to impose a very high straight fixed-variable rate design, collecting 70% of rates through fixed charges in both the GDS-1 (residential) and GDS-2 (small general) classes. AIC IB at 119-124. As the People showed in their Initial Brief, high customer charges inequitably result in the Company's smallest users subsidizing the highest users and also reduces customers' ability to control the size of their bill through conservation and energy efficiency. The People's counter-proposal, rooted squarely in the Company's own cost of service study, would recover 54% of rates in the GDS-1 and GDS-2 classes through fixed charges, alleviating the inequitable subsidies inherent in the current regime or the proposed new structure. AG IB at 59-83. It should be adopted by the Commission, as discussed further below.

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**

As the People outlined in their Initial Brief, Ameren calculates its Accounts Payable related to Gas Stored Underground on its Schedule B-8.1 by starting with an expense lead for purchased gas expense of 38.62 days on its Schedule B-8, then eliminating the service lead of 15.2 days, resulting in a net lead of 23.42 days. AG IB at 4 (citing AG Ex. 1.0 at 9:203-10:207). That Accounts Payable is deducted from the materials and supplies balance for gas stored underground, reducing rate base. AIC IB at 7-8 (citing AG Ex. 1.0 at 9:191-195). The Company has maintained that gas purchased for delivery to customers is a "service" and gas purchased for injection into underground storage is a "good," but the Company also acknowledged in a discovery response that invoices for purchased gas "cover all gas purchases whether the gas flows through to customers or is injected into storage." AG Ex. 1.0 at 10:209-11:241. As there is no distinction between invoices for purchased gas delivered directly to customers versus the invoices for purchased gas injected into storage, the People advocated following AG witness Effron's proposal to use the same expense lead for both types of purchased gas; thus, he recommended using an accounts payable percentage of 10.58% – the same as that used for purchased gas delivered to customers – for purchased gas stored underground. AG IB at 5 (citing AG Ex. 1.0 at 11:245-12:251). Mr. Effron's proposal would have the effect of increasing accounts payable related to gas stored underground to $7.533 million – an increase of $2.965 million (and an equivalent decrease to rate base) from Ameren's surrebuttal position. AG IB at 6-7 (citing AG Cross Exhibit 6; Ameren Cross AG Exhibit 2).

In its Initial Brief, Ameren defends its distinction by attempting to compare its receipt of gas purchased for delivery to customers to "services" such as employees' labor services, where a service lead is included in the expense lead related to payroll expense. AIC IB at 9, 10. On the other hand, Ameren contends that "gas stored underground is purchased and injected intermittently and thus is properly considered a good, not a service." AIC IB at 9. Based on this distinction, Ameren avers that a service lead should not apply to gas stored underground but should apply to gas purchased for delivery to customers. AIC IB at 12.

Notwithstanding this alleged distinction, the facts the Commission should consider are these, largely undisputed. In a given month, the Company purchases gas. Some of that gas is delivered directly to customers, and some is injected into storage. The Company gets one invoice from the supplier for its purchases for that month. AG Exhibit 1.0 at 11:236-240. As Ameren stated in its brief, "there is no distinction between gas in storage and flowing gas with respect to the time when AIC receives and pays for the gas." AIC IB at 11. If both the gas delivered directly to customers and the gas injected into storage are both paid for on the same terms, then the expense lead applicable to both must necessarily be the same, as AG witness Effron explained. For that reason, the Commission should adopt the adjustment advocated by the People in their Initial Brief.

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

3. **Incentive Compensation Costs (see III.B.2)**

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**

Ameren has requested recovery (before its Surrebuttal Testimony) of $1,613,009 of charitable spending (with around 40% allocated to gas operations) under Section 9-227 of the Act for the 2016 test year. AIC Schedule C-7 at 15:195; Ameren Ex. 6.0 (Rev.) at 10:214-215. In their Initial Brief, the People adopted the proposal of AG witness Effron to use the most recent three-year average (2012 to 2014) of Company-wide spending, around $915,000, as a basis for the recoverable test-year contribution amount, after applying a 2% escalation factor for each of 2015 and 2016, the 2016 recoverable amount is $958,000, with approximately $381,000 allocable to Ameren's gas operations. AG IB at 8-9 (citing AG Ex. 1.0 at 18:385-390; AG Ex. 4.0 at 7:143-147; AG Ex. 4.1 REV at 16). This was the same approach used by the Commission in Ameren's most recent gas delivery rate case, Docket No. 13-0192. The People showed that

Ameren's actual giving has historically fallen below its authorized giving, making future forecasts unreliable and actual experience a safer bet. AG IB at 10.

Moreover, the People expressed no position on Ameren's additional request for $1 million of spending on low-income energy assistance programs through local agencies in January 2016, which Ameren first stated in its Surrebuttal Testimony. Ameren Ex. 33.0. Cognizant of the difficult conditions that many low-income residents in central and southern Illinois will experience this coming winter without SLIHEAP funds in the absence of an approved 2015-16 Illinois state budget, the People took no position on the incremental $1 million request, even though that would place Ameren's total 2016 recovery of charitable expense far above historic levels. AG IB at 12-14. However, the People advocated that *if* the Commission approves recovery of the incremental $1 million, Ameren be required to report to the Commission (i) the disbursement status of the $1 million contribution; (ii) the local agencies or other charitable recipients that received funds through that contribution, broken out by amount; (iii) the formal or informal agreements that Ameren reached with those agencies for how the monies are to be used; and (iv) the amount spent to avoid disconnection for non-payment. This information can be added to Ameren's electric report concerning its customer assistance programs under Section 16-108.5(b-10) of the Ac, t. 220 ILCS 5/16-108.5(b-10).

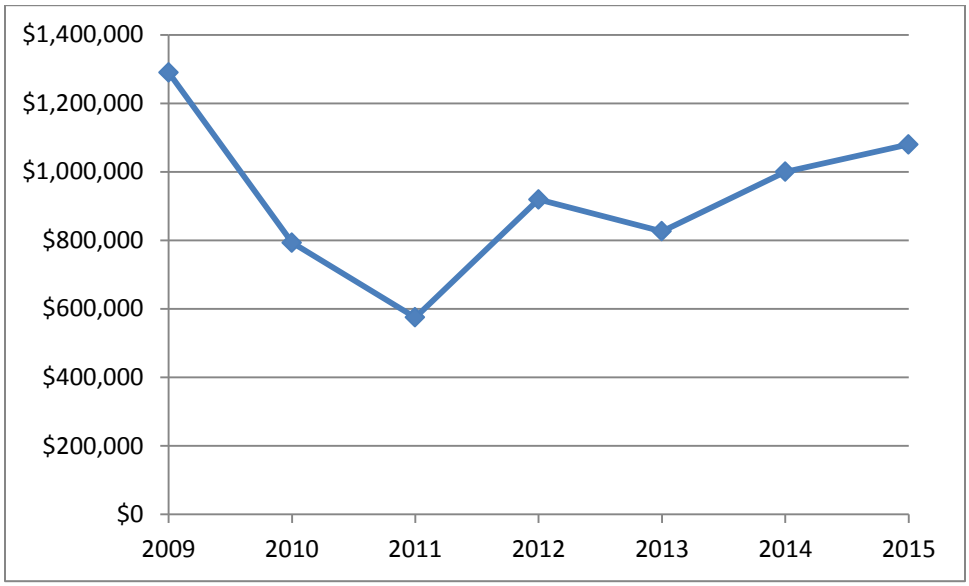
Defending its large recovery request, Ameren states in its brief that "[t]he Company regularly recovers nearly 100% of its actual electric-allocated contributions through its formula rate" (AIC IB at 15), a statement that is both legally irrelevant and factually dubious. The Energy Infrastructure and Modernization Act of 2011, enacted as Section 16-108.5 of the Act,

provides for retroactive recovery of "actual costs[1]" for a given year in electric delivery rates, but rates for gas delivery service are based on traditional test-year ratemaking under Section 9-201 of the Act. Ameren could have chosen to present a historic test year of 2014 in this proceeding to better ensure that it could recover its actual 2014 charitable contributions, but instead it chose a future test year, with all of that structure's complexity of projection. Moreover, just two years ago, in Docket No. 13-0301, the Commission disallowed sixteen of Ameren's charitable contributions from 2012 that it proposed to recover in 2014 electric delivery rates. AG Cross Exhibit 18 at 2.

Ameren engages in lengthy exposition about its charitable-related gas-allocated revenues per gas customer, compared to the equivalent figures for Commonwealth Edison Company ("ComEd") and The Peoples Gas Light & Coke Company ("PGL"). AIC IB at 18-19. The People do not necessarily oppose Ameren's one day being allowed charitable expense recovery at similar revenue-per-customer levels as that received by ComEd and PGL. However, for the reasons described in the People's Initial Brief at 10, the recovery level proposed by Ameren for the 2016 test year falls far above Ameren's actual spending in recent years and is thus not reasonable, regardless of what ComEd and PGL are recovering under Section 9-227.

Ameren suggests that "the record in this case demonstrates [that] the Company's contributions have increased steadily since the legacy utilities merged in October 2010" and that the record "does not demonstrate that AIC's contributions are fluctuating drastically." AIC IB at 19-20. Yet consider this visual depiction created for this AG Reply Brief of the actual charitable giving levels experienced by the Company, before and after the merger:

[1] 220 ILCS 5/16-108.5(d)(1) ("The filing shall also include a reconciliation of the revenue requirement that was in effect for the prior rate year . . . with the actual revenue requirement for the prior rate year . . . that uses amounts reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year").



AIC Ex. 37.0 at 6, 10; AIC IB at 20. The extent of fluctuation and volatility in recent years speaks for itself. Even looking solely at years *after* the merger, giving levels do not show a steady increase. Ameren emphasizes in its Initial Brief that "the circumstances" and "the record" should inform the Commission's approach to setting a test-year recovery level (AIC IB at 22), and in fact, the record here shows that recent levels of charitable giving have been volatile, warranting use once more of the same three-year averaging approach that the Commission employed in Docket No. 13-0192.

If Ameren continues the level of spending it has demonstrated in 2014 and 2015 through 2016, and if it initiates a new gas delivery rate case in 2017, matching its recent historic pattern of biennial gas rate cases, then the Commission's three-year average approach may be moot: either a three-year average or a future projection (assuming the 2018 test-year projection is in line with the putative 2014-16 levels) would allow Ameren to recover an amount of spending above $1,000,000 (with around 40% allocated to gas operations). However, that is a debate for a future rate case. In this matter, the Commission should adopt the three-year average approach

urged by AG witness Effron and ICC Staff witness Tolsdorf. The People take no position on Ameren's incremental $1 million recovery request for low-income energy assistance, but advocate the reporting conditions outlined above should the Commission approve recovery.

2. **Non-Union Salaries and Wages**

As noted in the AG Initial Brief, the Company proposes projections of non-union salary and wage increases of 3% and 4% for the years 2015 and 2016, respectively. In comparison, union wages were forecasted to increase at an annual rate of 2.5% based on existing labor contracts. AG Ex. 2.0 REV at 7:108-111. In response to discovery, the Company provided salary and wage information for the four years 2011 to 2014. This information shows that non-union, base salaries and wages have increased at an annual rate between 4.03% and 4.18%. These percentages reflect, primarily, annual merit increases and other base-pay adjustments, such as market pay adjustments, promotions and job reclassifications. *Id.* at 7:111-115. AG witness Coppola observed that this annual rate of increase is quite significant, amounting to an increase of more than 26% in base pay over the six-year period from 2011 to 2016.

The issue presented for the Commission is whether the recovery in monopoly service utility rates of this rate of non-union forecast wage increases is reasonable -- particularly when assessed within the lens of stagnant wage growth in the economy generally, and lower household income experienced by Illinois residents over the past few years. As noted in the AG Initial Brief, the U.S. Census Bureau reports that 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. In contrast, AIC has granted annual base pay increases in excess of 4%. AG Ex. 2.0 REV at 7:116-122.

Given these facts, AG witness Coppola recommended that a 2% increase, which is in line with historical wage increases during the past three years, as reported by IHS Economics, be assumed for purposes of the test year forecast. AG Ex. 2.0 REV at 123-135; AG Ex. 5.0 at 7: 137-161. AG Exhibit 2.4 shows the calculated, cumulative impact of the difference in salary and wage increases determined by the Company during the three-year period of 2014 to 2016 against the 2% increase Mr. Coppola proposes. The adjustment results in a reduction of approximately $1.6 million to O&M expense and $0.8 million to capitalized costs. AG Ex. 2.4.

In its Brief, Ameren once again opines about wage/benefits "that AIC expects it will need to attract and retain its skilled workforce." AIC IB at 23, 31-32. AIC asserts that it is based on both their forecasts and "the compensation offered by the companies against which AIC competes for talent." AIC IB at 23. The identity of these companies remains unknown in the record in this case, however. AIC also argues that adoption of Mr. Coppola's well-reasoned adjustment "would risk AIC's ability to attract and retain the skilled employees that it needs to meet its service obligations to Illinois customers." AIC IB at 23-24. But these vague, unsubstantiated arguments do not justify saddling ratepayers with what the evidence shows are inordinately high, and based on Census Data cited by Mr. Coppola, likely unnecessary wage increases that should not be borne by ratepayers.

AIC argues that actual wage increases for 2014 were at the 4.03% mark. AIC IB at 24-25. Ameren further points to a lack of turnover in workforce as evidence of the appropriateness of the wage increase rate forecast. *Id.* at 25. There has been no evidence presented though of any cause and effect between annual 4% raises and this alleged lack of turnover. Importantly, too, the fact that the Company actually increased base wages and salaries for its non-union employees in prior years should not be a determining factor for permitting recovery of these

costs in rates going forward. As Mr. Coppola pointed out, if the determining factor were "we paid for it, so we should recover it in rates," then there is no limit to what could be recoverable. Such criteria would put the Commission in a position of rubber-stamping any pay practices the Company deems appropriate to its self-interest. AG Ex. 5.0 at 3:55-58. The fact that the Company appears regularly before the Commission for rate increases – every two years since 2007 -- in fact, raises questions about the Company's ability to ensure least cost practices guide its monopoly utility business.

The Company further opines that its proposed non-union forecasted 2015 and 2016 salary increases are based on market surveys. AIC IB at 25-27. When the People asked the Company to provide a copy of the surveys to determine who the participating companies were, how the information was compiled, and when, the Company argued that it could not provide the information, claiming confidentiality and proprietary restrictions. This hardly constitutes an excuse for non-disclosure, given the existence of a protective order in this docket. AG Ex. 3.0 at 4-5:81-85.

Moreover, while allegedly relying on the market surveys for purposes of its wage forecast, the Company made no effort to determine whether the reported increases had actually occurred. As noted in the AG Initial Brief, for example, when asked in discovery whether it had determined what the actual salary and wage increases had been for those companies in the market surveys for each year, 2011 to 2014, Ameren reported in its response that that information was not reported in the surveys. *Id.* at 4-5:86-95; *See* AG Ex. 5.1 (Coppola Rebuttal). Mr. Coppola observed that having actual data from these companies is important since it would validate whether or not projections of what the companies might pay in the future actually came to pass. Indeed, companies often optimistically forecast what they may want merit

increases to be in future years, but realities frequently set in and those increases do not actually happen. AG Ex. 5.0 at 5:86-95. On the other hand, the Employment Cost Index-Total Compensation, which forms the basis of the AG-recommended non-union wage adjustment, reflects the actual total pay increases -- not expectations. These numbers belied Ameren's claim that the 4% annual levels are necessary to attract top talent.

In an effort to discredit the AG-proposed adjustment, the Company further complains that the historic trend of the level of non-union wages AIC actually incurs is a more accurate and reliable indicator of total future non-union wage expense requirements than historical Employment Cost Index or median household income data. AIC argues that the Employment Cost Index is a broad, aggregate measure regarding the cost of labor and "doesn't at all speak to an organization's need to effectively monitor and address pay as the business and environment changes throughout the year." AIC IB Ex. 31.0 at 16:319-326.

But Mr. Coppola disputed that assessment, noting that the Employment Cost Index-Total Compensation of 2% proposed measures total wage increases and is a good indicator of national wage inflation, both historical and prospective. While an assessment of actual AIC data for purposes of assessing the reasonableness of forecasted numbers makes sense for items such as fuel costs, which are out of the Company's control, it is reasonable for the Commission to expect the Company to manage its business within this wage inflation factor for base pay increases, particularly when the Company also pays short-term incentive pay on top of the 4% base pay increases each year. AG Ex. 5.0 at 4:71-76.

Ameren also seeks to discredit Mr. Coppola's reliance on the Employment Cost Index Data that is the basis of his proposed 2% forecasted non-union wage increase adjustment, suggesting that the entire report should be included in the record . AIC IB at 29. But the

evidence shows that these criticisms amounted to a tempest in a teapot, based on AIC's own lack of familiarity with the index, rather than uncertainty on Mr. Coppola's part. As he noted in his Rebuttal Testimony, IHS is a well-known and respected publisher of historical and forecasted economic data sourced from government agencies, surveys and research. AG Ex. 5.0 at 7:137-143. As noted in the AG Initial Brief, their clients span the globe and their published information is used by corporations, including utilities, for inclusion in internal cost and revenue projections and to guide business decisions. Ms. Langenhorst' unfamiliarity with IHS in no way mars the reputation of the firm and the usefulness of its published data, including the Employment Cost Index-Total Compensation. AG Ex. 5.0 at 7-8:137-161.

In fact, as Ms. Langenhorst herself pointed out, the Employment Cost Index is an index as a quarterly and annual tracker of changes to the cost of labor, including wages, fringe benefits and bonuses. The underlying information is published by the Bureau of Labor Statistics within the U.S. Department of Labor. AIC Ex. 31.0 at 12:233-241. It reflects changes in total compensation which, as Mr. Coppola pointed out, is more generous to the Company in the context of forming a basis for reasonable *base pay* increases because it also includes other, additional forms of compensation. Ms. Langenhorst's statement that it is not intended to be a measure directly related to or predictive of changes in employment wages is contradicted by her description of what the index represents. 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. AG Ex. 5.0 at 7-8:144-153.

Again, AIC's objection to Commission's reliance on the ECI index as a benchmark for base pay allowances seems to rest more on frustration with it not supporting the higher forecasted merit increases surveys the Company argues it must implement to attract talent. This

complaint simply is not credible. Again, the task of the Commission is to set rates that reflect a reasonable level of salary and wages expense, *keeping in mind its obligation to ensure that rates are affordable and that this essential service is least cost*. It is not to manage the Company's pay practices by blessing the use of merit increase surveys as a basis for setting forecasted wage rates, as AIC recommends. Using a reliable labor cost factor such as the Employment Cost Index is a reasonable, fact-based approach to setting base wage expense. This is similar to adjusting other O&M expenses based on the Consumer Price Index or other inflation index, and should be adopted by the Commission as a basis for setting rates. *Id.* at 8:154-161.

As noted in the AG Initial Brief, the Company asks the Commission to require ratepayers to fund 4% annual pay increases for non-union employees indefinitely – a level that is not sustainable in least cost rates and 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, as noted above. While the Company raises the specter of losing talented people or of being unable to attract new employees unless it receives the full requested 4% annual increase in base pay, Ameren cannot document such a claim. Mr. Coppola's proposed 2% base pay increase factor would adequately reflect wage inflation and keep non-union wage rates at par with others in the labor force. It should be adopted by the Commission.

3. **Incentive Compensation Costs**

a. **The Commission Should Disallow Most of Ameren's Request**

In this rate case, Ameren is seeking to recover approximately $7.9 million in total incentive compensation costs, comprised of $5.9 million for AIC employees and $2.0 million of cost for Ameren Services Company ("AMS") employees allocated to AIC. AG Ex. 2.0 REV at

10:178-180. Each plan is based on achievement of certain Key Performance Indicators ("KPIs"). Of the four plans, the Executive Incentive Plan – Officers is based only on a workplace safety metric, for both AIC and AMS employees. For AIC employees, each of the Executive Incentive Plan – Directors and the Ameren Management Incentive Plan is based on 15 KPIs, only three of which (two customer service metrics and gas leak response time) relate to goals that benefit gas delivery customers. AG Ex. 2.0 REV at 12:207-209; AG Ex. 2.6 CONFIDENTIAL at 1. AMS employees, the Executive Incentive Plan – Directors is based on budget compliance and an unspecified "internal management scorecard." AG Ex. 2.6 CONFIDENTIAL at 5. The Ameren Management Incentive Plan at AMS contains differing KPIs by the job role, but the KPIs generally refer to internal goals like budget compliance, supplier diversity, "operational excellence," safety, "insurance customer satisfaction," "leadership development," successful outcomes in regulatory proceedings, improving positive media coverage, timely completion of tax returns, and the like. AG Ex. 2.0 REV at 15:273-16:284; AG Ex. 2.6 CONFIDENTIAL at 5-12.

Because the KPIs are generally set relative to internal Ameren targets or expectations, rather than to superior performance relative to peer companies or some independent external performance standard (AG Ex. 2.0 REV at13:235-14:237), AG witness Coppola recommended[2] disallowing recovery of all but $2,043,015 of Ameren's proposed 2016 test-year incentive pay. AG Ex. 2.7 (CONFIDENTIAL) (explaining why certain KPIs are customer-focused and thus give rise to recoverable expense while some KPIs are not). The People supported Mr. Coppola's proposal in their Initial Brief. AG IB at 25-33. The People also proposed that, beginning with

[2] Ameren complains in its Initial Brief that Mr. Coppola did not engage with Ameren's list of KPIs contained at its Exhibits 14.2 and 28.1. AIC IB at 40. But Mr. Coppola stated clearly in his Rebuttal Testimony that he reviewed AIC Ex. 14.2, but found it "not necessary to mention it in [his] testimony because the response to data request AG 5.53, Attachments 3 and 4 [reproduced in AG Exhibit 5.9 (Confidential)] provided the same list of KPIs for 2016 with assigned dollar amounts and was more useful than Mr. Verbest's Exhibit 14.2." AG Ex. 5.0 at 24:491-496.

the next rate case filing, the Company should be required to provide a cost/benefit analysis providing clear evidence that financial benefits derived from achieving customer-focused performance measures overwhelmingly exceed the cost of incentive compensation requested in rates. AG IB at 29 (citing AG Ex. 2.0 REV at 19:351-354).

b. <u>The Commission's Net Benefit Standard for Recovery is Clear</u>

One major deficiency that Mr. Coppola found in Ameren's filing on these pay programs was that "no quantifiable evidence has been presented to show that added value has been created to more than offset the cost of paying incentive compensation." AG Ex. 5.0 at 25:511-512; *see also* AG Ex. 2.0 REV at 14:243-247. Indeed, Ameren correctly observes in its Initial Brief that, under longstanding Illinois law, recovery of employee incentive compensation expense "hinges on whether the costs benefit the utility's customers." AIC IB at 33 (citing several Commission orders and appellate precedents). Yet on the very next page, Ameren cites the Commission's orders in Docket Nos. 07-0241/0242 (cons.) (North Shore Gas Company / The Peoples Gas Light & Coke Company) and Docket Nos. 09-0306 *et al.* (cons.) (AmerenCILCO / AmerenCIPS / AmerenIP) for the proposition that "specifically *quantifying* financial benefits to customers of incentive compensation goals is not a prerequisite to cost recovery" (emphasis in Ameren brief). AIC IB at 34. Ameren's interpretation is misleading. A careful reading of those ICC orders shows that the Commission has consistently required that the benefits of incentive pay exceed the costs to customers. While quantified benefits have not been strictly *required* for recovery of incentive pay expense, in order to prove net benefit, presumably it is important to quantify benefits, as costs are already quantified by definition.

In reporting the Commission's findings in Docket Nos. 07-0241/0242 (cons.), Ameren somehow fails in its Initial Brief to quote the Commission's pronouncement of its own standard

for recoverability of incentive pay: "the cost saving or other direct ratepayer benefit that we require."[3] It is obvious that "cost saving" attributable to incentive pay must be net of the incentive pay expense included in rates – otherwise there would be no benefit to ratepayers at all from the incentive pay program. An incentive pay program worth $1 million that saved ratepayers $100 in operating costs would entail no "cost saving" to them, for example. It is true that the Commission concluded in that case without quantified evidence, as Ameren notes in its brief (AIC IB at 34), that a particular incentive pay program was "more likely than not" to benefit ratepayers, but that does not attenuate the value of quantified evidence of net benefit.

From the Docket Nos. 09-0306 *et al.* (cons.) final order[4], Ameren quotes out of context excerpts such as: "[w]hether one labels the benefit as a 'tangible benefit' or a 'net benefit' is immaterial. The bottom line is that ratepayers must receive an overall benefit from an incentive compensation plan if they are to be expected to pay," followed by the quotation "The difficulty is in discerning the 'net,' in other words, it is not always clear that the benefits outweigh the costs." AIC IB at 34 (quoting Order, Docket Nos. 09-306 *et al.* (cons.), April 29, 2010, at 83). Yet Ameren willfully omits the sentence that appears between those two excerpts in the Docket Nos. 09-306 *et al.* (cons.) final order: "**If no net benefit is realized by ratepayers upon the attainment of the plan goal, there is no reason for ratepayers to contribute funds encouraging [utility] employees to reach that goal"** (emphasis added). In fact, notwithstanding the "difficulty" of evaluating net benefit, the Commission disallowed recovery of several categories of incentive compensation costs in that case specifically because it was "not

[3] Order, Docket Nos. 07-0241/0241 (cons.) February 5, 2008, at 66 (available at: http://www.icc.illinois.gov/downloads/public/edocket/215220.pdf).

[4] Order, Docket Nos. 09-0306 *et al.* (cons.), April 29, 2010 (available at: http://www.icc.illinois.gov/downloads/public/edocket/267017.pdf (Part 1), http://www.icc.illinois.gov/downloads/public/edocket/267018.pdf (Part 2)).

persuaded that the benefits to ratepayers outweigh the costs" or because "the record [is] lacking sufficient evidence to conclude that the benefits to ratepayers outweigh the costs." Order, Docket Nos. 09-306 *et al.* (cons.), April 29, 2010, at 84. Clearly, Ameren, like any utility bringing a rate case under Section 9-201 of the Act, has an obligation to show the net benefit of its incentive pay plans.

Moreover, the Commission also noted in that same case:

> The Commission also questions whether [Ameren] fully appreciates that cost management/cost control efforts benefit shareholders as well as ratepayers, as Staff suggests. KPIs which appear to benefit ratepayers by reducing costs should not necessarily be allocated entirely to ratepayers for cost recovery purposes. [Ameren] should consider the benefits that accrue to shareholders as well under cost management/cost control measures and is expected to reflect such consideration in future rate cases.[5]

Despite this directive from the Commission, it is not clear that Ameren has made any effort in this proceeding to apportion the cost of budget-control KPIs for its test year among ratepayers and shareholders.

c. <u>Ameren's KPIs Do Not Provide Net Benefit to Customers</u>

Ameren argues that all of its KPIs, including operational goals related to safety, budget controls, and efficiency and productivity, "benefit AIC's customers." AIC IB at 37, 38, 41. Ameren also argues that Ameren's incentive pay plans "enable efficiencies throughout the entire organization . . . that . . . reduce or control . .. operating expenses." AIC IB at 42. It is possible in theory that improved worker safety, tighter budget controls, and stronger efficiency could bring down operating and maintenance ("O&M") expense. Yet from 2008 to the projected test year of 2016, Ameren's O&M expenses have increased by 33.1%, or a compound average annual growth rate of 3.6%; from 2012 to 2016, projected O&M expenses have increased by a

[5] Order, Docket Nos. 09-306 *et al.* (cons.), April 29, 2010, at 85.

compound average annual growth rate of 5.9%. AG Ex. 2.0 REV at 5:85. Meanwhile, inflation in recent years has been 2%. *Id.* at 6:100-101. In light of Ameren's poor cost control performance, it is hard to see how any of the KPIs that purportedly have the effect of reducing O&M costs have provided a gross benefit to customers, let alone a net benefit after considering the cost of the related incentive pay.

Mr. Coppola observed repeatedly that the KPIs in Ameren's incentive pay plans do not provide direct, visible benefit to customers. AG Ex. 2.0 REV at 16:281-284; AG Ex. 5.0 at 26:526-528. On page 36 of its brief, Ameren describes two KPIs that are, in fact, directly customer-focused: call center response time and gas leak responses. Tellingly, Ameren does not mention any KPIs beyond those two. The lack of KPIs clearly tied to goals directly benefiting customers is a principal reason for Mr. Coppola's disallowance proposal, as most of the KPIs in Ameren's incentive pay plans clearly fail to meet the Commission's standard of benefits exceeding costs.

Mr. Coppola argued in testimony that, to deliver value to customers, Ameren's KPIs should be benchmarked to external measures of O&M efficiency, customer rates, and customer service levels at peer utility companies. AG Ex. 5.0 at 26:536-539. Ameren argues in its brief that its KPIs are set in part relative to "external benchmarks" (AIC IB at 37, 42 (citing Ameren Ex. 28.0 (Rev.) at 15-18)) but Ameren's witness, Mr. Verbest, was able throughout three rounds of testimony to provide only three examples of KPIs set relative to industry performance: Preventable Motor Vehicle Incidents, Meet Gas Leak Response Objective, and Average Business Days to Review [Internal Audit] Reports. Ameren Ex. 28.0 (Rev.) at 16:347-362; Ameren Ex. 42.0 (Rev.) at 18:396-397. (The fourth example given by Mr. Verbest was set relative to certain deadlines in government regulations. AIC Ex. 28.0 (Rev.) at 16:362-17:367.)

Ameren also argues that it uses incentive pay to attract and retain skilled employees and reduce turnover. AIC IB at 35 (citing Ameren Ex. 14.0 at 3). Yet, asked in discovery, Ameren was unable, without new analysis that it was unwilling to perform, to say how many qualified applicants it received per posted job opening in 2014. If Ameren does not have that statistic readily available, it is hard to understand how Ameren knows whether incentive pay is attracting a strong pool of applicants to fill its employment positions. Without some sort of tracking metric, the purported talent-attracting benefits of incentive pay seem hard to discern.

While Mr. Coppola suggested alternative bases for Ameren's incentive pay in his testimony and Ameren attacks his ideas as insufficiently detailed (AIC IB at 42-43), it is not an intervenor's burden to propose an alternative incentive compensation program. The burden of proof to establish the justness and reasonableness of proposed rates – including the prudence of particular costs – lies with Ameren under Section 9-201(c) of the Act.

In summary, other than the $2.04 million of test-year incentive pay expense that Mr. Coppola identified as recoverable, the Company's incentive compensation plan KPIs for the test year fail to produce net benefits for customers, and the related expense should be disallowed.

4. **Qualified Pension and Other Post-Employment Benefit Costs**

In its Brief, Ameren makes several claims in response to AG witness Coppola's proposed adjustment to the Company's test year forecast of pension and other post-employment benefits ("OPEB") – an adjustment designed to normalize the forecasted amount of pension/OPEB expense that accurately reflects the level of expense likely to be incurred by Ameren for the period of time rates are in effect. The Company's argues the adjustment is: 1) speculative and not supported by record evidence; 2) contains errors; and 3) is inconsistent with the Commission's test year rules and the prohibition against single-issue ratemaking. These positions

are strawman arguments, misstate the law, are rooted in the notion that the rates set in this case will only be in effect in 2016, and if endorsed would negatively impact the Commission's ability to assess the reasonableness of future test year forecasts. AIC's arguments should be rejected, as discussed below.

a. Mr. Coppola's Adjustment is Supported By the Company's Own Forecast and Responses to Discovery.

AIC first complains, citing no record evidence, that because the Company said they were not purposely shifting pension expense into the forecasted test year, Mr. Coppola should have dropped his adjustment. AIC IB at 44-45. The Company then states that Mr. Coppola's adjustment is "based *entirely and only* on Mr. Coppola's observation that AIC's pension and OPEB costs are forecasted to decline after 2016." AIC IB at 45 (emphasis in original). Ameren then claims Mr. Coppola is implying improper accounting activity. *Id.*

The Company's arguments miss the point. In fact, however, Mr. Coppola's adjustment is not based on any claim of improper reflection of accounting activity. (He states that the Company may have chosen "to delay the timing of when historical asset gains were recognized… .") AG Ex. 2.0REV at 21. The facts are as follows. Ameren is proposing to recover in the forecasted test year, $8,422,898 of AIC and AMS pension costs and $647,915 of AIC and AMS OPEB expense, also referred as FAS 106 expense, for recovery in gas rates. These amounts represent an allocation to the gas business of the total Company's 2016 pension and OPEB costs of $32.5 million and $2.5 million, respectively. The reasonableness of the Company's 2016 forecast, *which is intended to reflect representative expense levels going forward for the period rates will be in effect*, is what is suspect – not whether the Company followed accounting rules. And the fact show that, in response to multiple data requests on this matter, the Company ultimately provided schedules derived from actuarial reports which show

that subsequent to 2016, pension and OPEB costs *decline significantly for both AIC and AMS.* AG Ex. 2.0 at 20:368-374. At issue here is whether the Commission would approve and thereby burden ratepayers with an expense level that the evidence shows, going forward, will not exist.

As noted in the AG Initial Brief, pension costs for AMS employees drop from $16.1 million in 2016 to about [redacted] in 2017 through 2019. Pension costs for AIC employees also drop significantly from [redacted] in 2016 to between [redacted] and [redacted] in 2017-2019. OPEB costs for AIC fall even more dramatically from [redacted] in 2016 to [redacted] in 2017 and [redacted] in 2018 and 2019. AG Ex. 2.0 REV at 20:375-381. The schedules showing these numbers provided in response to data requests are included in AG Exhibit 2.9 (CONFIDENTIAL). The result, as calculated in AG 2.10 REV, is an actual forecasted *reduction* in pension and OPEB expense of [redacted] and [redacted] respectively, over the 2017-2019 time period, as compared to the forecasted amounts AIC requests for the test year revenue requirement. *See* AG Ex. 2.10 REV.

Again, despite repeated requests for the Company to explain this anomaly between the test year forecast and the Company's own forecasted immediate future, the Company failed to detail the reasons for the significant decline in these costs after 2016, other than to state that "…the plan is in the process of recognizing historical asset gains into the calculation of expense. This is a factor which helps drive the 2017 expense to be lower than the 2016 expense." AG Ex. 2.0 REV at 20-21:382-385. The question arises: Why should the Commission approve a test year expense level to be incorporated into rates that does not reflect the level of expense the Company will incur for the period of time rates are in effect?

As noted in the AG Initial Brief, based on the limited information provided by the Company, Mr. Coppola proposed the following adjustments to AIC's test year pension/OPEB costs:

> 1. Reduce 2016 pension costs for AIC by 26%. This percent represents the average decline in pension cost during the 2017-2019 period versus the amount proposed by the Company for the 2016 test year.
> 2. Reduce 2016 pension costs for AMS by 52%. This percent also represents the average decline in pension cost during the 2017-2019 period versus the amount proposed by the Company for 2016.
> 3. Reduce the 2016 OPEB costs for AIC from $2.5 million to a negative amount of $7.2 million. This amount represents the average of the positive and negative OPEB costs for the four years from 2016 to 2019. AG Ex. 2.0 REV at 21-22:401-409.

AG Exhibit 2.10 REV calculates the specific adjustments to pension and OPEB O&M costs for the 2016 test year based on the changes discussed above. The result is a reduction of $4.1 million to O&M expense and $2.8 million for capital additions that more reasonable reflects actual pension/OPEB expense levels for the time rates will be in effect.

b. The Company's Adherence to GAAP Accounting Rules is Irrelevant to the Ratemaking Adjustment Proposed.

The Company also includes a section in its brief that asserts it followed GAAP accounting rules. AIC IB at 45. Again, Ameren misses the point. Mr. Coppola's adjustment does not assert GAAP accounting irregularities. It focuses on *the proper ratemaking* that follows from the Company's forecasted test year pension/OPEB expense treatment, in light of precipitously dropping expense levels forecasted by the Company. Mr. Coppola pointed out that the Company did not provide any specific calculations of how the 2016 pension and OPEB expense were determined, or the 2017 through 2019 forecasted expense amounts. The Company

further provided no explanation of why these expenses decline after 2016, and in some cases become negative, which was the key point of Mr. Coppola's Direct Testimony and proposed adjustment of these expenses. AG Ex. 5.0 at 612:618.

After the filing of Ameren's Rebuttal case, the AG *again* requested that the Company provide very specific information about the calculation of the pension and OPEB costs for 2016 through 2019 in various data requests. AG Exhibit 5.11 includes some of the data requests and Company responses. Although the Company provided some detailed components, it did not provide the specific calculations of how the 2016 pension and OPEB expense was determined. The Company also refused to provide the calculations of how these expenses were calculated for each year 2017-2019, as noted in the AG Initial Brief. AG IB at 36-37. Most importantly, the Company refused to explain why pension and OPEB costs varied each year and, in some instances, turned negative from 2016 to 2019. While the Company provided the actual asset and liabilities gain and losses from 2008 to 2014, it did not provide the amounts that it forecasted would be amortized in 2016 and future years. AG Ex. 5.0 at 30:619-629. Simply put, the Company has not adequately rebutted Mr. Coppola's recommendation, and has not conclusively demonstrated that the forecasted pension and OPEB costs included in the 2016 revenue requirement are accurate, supported by valid data and calculations, and reasonable.

c. Mr. Coppola's Adjustment Does Not Violate the Commission's Test Year Rules.

Ameren also claims that the proposed adjustment violates the test year rules. AIC IB at 47-49. Ameren claims that the adjustment to reduce the test year pension/OPEB expenses "also utilize costs incurred more than 24 months after AIC filed the tariffs that initiated this proceeding," in violation of the requirement that a test year "end no later than 24 months after the date new tariffs are filed." 83 Ill. Admn. Code 287.30(b).

These criticisms are not supported in fact or law, however. As noted in the AG Initial Brief, this argument finds no support in either Part 285 or Part 287 of the Commission's rules, which detail the requirements and expectations of utility forecasts for future test years and pro forma adjustments to those forecasts. *See* 83 Ill.Admin.Code §§285, 287. The cited provision does not prevent Commission evaluation of future information impacting expenses for the period rates will likely be in effect. AIC's position also perverts the cause of ratemaking, by suggesting that every forecasted expense item included in a future test year cannot be tested for reasonableness by examining events or circumstances we know to be true (in this instance, considerably lower pension expense amounts in the near term), in order to ensure that the expense level recorded reasonably reflects actual conditions going forward. At its heart, Ameren's argument suggests that the Commission has no means, other than historical data, to test future test year projections.

In addition, Ameren's citation to caselaw that discusses the mismatch of expenses and revenues from different time periods is inapposite here. Mr. Coppola's proposed adjustment examines the reasonableness of one expense based on limited factual data provided by the Company that suggests an inordinately high level of expense amount for a test year *forecast.* It is not, as those citations reference, an attempt to mismatch "expenses and revenues" so as to over- or under-state a utility's revenue requirement. AIC IB at 48. To the contrary, it is an attempt to normalize the expense for the period rates will be in effect – a basic accounting precept and requirement of any attempt to set just and reasonable rates.

Moreover, Ameren's disingenuous citation to a 2005 Commission order that rejected an AG-proposed adjustment to reflect the accumulated reserve for depreciation in pro forma plant additions to rate base as support for their criticisms of Mr. Coppola's adjustment should also be

dismissed out of hand. In fact, the Illinois Appellate Court ruled in a 2009 AG appeal of another ComEd case that such an adjustment was entirely consistent with test year rules and the Public Utilities Act. *See Commonwealth Edison Co. v. Illinois Commerce Comm'n,* 405 Ill. App. 3d 389. 405-407-40 (1st Dist. 2010). In doing so, the Court specifically rejected ComEd's citation to the very same case Ameren now cites to as "settled precedent" on that particular accounting issue. *ComEd,* 405 Ill. App. 3d at 408.

Ameren also cites to a cross exhibit to suggest that Mr. Coppola's use of post-test year information was selective. AIC IB at 48. But the highlighted cross exhibit simply shows that the OAG objected to confirming a wage inflation factor that Ameren clearly admitted was outside the test year without explaining the basis for that question. The OAG objected because it was unknown how the Company would use the information requested. If the Company had proposed some adjustment with the use of that factor, the answer would have specifically responded to that premise. That was not the case. The issue at hand related to pension/OPEB expense data that predicts a significant decline in cost – a fact that is entirely relevant to setting a reasonable level of pension/OPEB expense going forward.

In short, AIC's red herring arguments against an adjustment that offers a reasonable reflection of the level of pension/OPEB expense during the time rates will likely be in effect should be disregarded. The evidence shows that failure to adopt Mr. Coppola's adjustment will result in customers paying rates that do not reflect the Company's cost of business.

d. Mr. Coppola's Adjustment Does Not Constitute Single-Issue Ratemaking.

The Company further asserts that the AG-proposed pension/OPEB expense adjustment constitutes unlawful single-issue ratemaking. AIC IB at 51-52. While Ameren correctly cites the caselaw regarding this ratemaking precept, the Company misapplies it to the facts at hand.

The Company argues, for example, that Mr. Coppola failed to examine 2017-2019 occurrences for other expense items, and therefore created a single-issue ratemaking exception. AIC IB at 51.

That analogy to the single-issue ratemaking prohibition is inapt. Mr. Coppola made this adjustment because, given the extraordinary drop in pension/OPEB expense level, as presented in Company data, compared with the amount forecasted for the test year, an adjustment was in order to ensure that customers are not paying inflated rates and that this particular expense is normalized.

In sum, the Commission should reject AIC's arguments against the AG-proposed adjustment to pension/OPEB expense, which is rooted in the Company's own pension forecast, based on actual data provided by the Company, and results in an adjustment of $4.1 million to O&M expense and $2.8 million for capital additions. As noted in the AG Initial Brief, this adjustment should be viewed as conservative, given the Company's utter failure to meet its burden of justifying its forecasted test year pension and expense amounts in this record.

5. **Non-Qualified Pension Costs**

AIC offers a defense of its non-qualified pension costs for certain highly paid executives that is rooted in a claim that these expenses were not disallowed in the past. AIC IB at 53. The fact that no party may have challenged them in recent Ameren rate cases, however, is of no consequence to the proposal in this docket. The concept of public regulation requires that the Commission have power to deal freely with each situation that comes before it, regardless of how it may have dealt with a similar ovr even the same situation in a previous proceeding. *Mississippi River Fuel Corp. v. Illinois Commerce Comm'n,* 1 ILL.2d 509, 513 (1953). Illinois courts have consistently held that "decisions of the Commission are not *res judicata.*"

Commonwealth Edison Co. v. Illinois Commerce Comm'n, 405 Ill.App.3d 389, 407 (2010). Moreover, requiring intervenors (or Staff) to establish unreasonableness if no substitute for requiring proof of reasonableness. *People ex rel. Hartigan v. Illinois Commerce Comm'n,* 117 Ill.2d 120, 135-136 (1987).

As noted in the AG Initial Brief, the Public Utilities Act provides the legal framework for assessing this non-essential expense. The Act makes multiple references to the mandate that utility rates be least-cost. Section 1-102 of the Act states that "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 5-102. The General Assembly further defined "efficiency" as "the provision of reliable energy services at the least possible cost to the citizens of the State". 220 ILCS 5/1-102(a).

In addition, Section 8-401 requires every public utility subject to the Act to provide service and facilities which are in all respects adequate, efficient, reliable and environmentally safe and which, consistent with these obligations, constitute the least-cost means of meeting the utility's service obligations. 220 ILCS 5/8-401. It is with these provisions of the Act in mind that the Commission must assess the Company's request to recover in rates excessive executive compensation amounts in Ameren customer rates. AG IB at 38-39.

As Mr. Coppola pointed out in testimony, in its assessment of this issue, it is important for the Commission to note that the IRC limitations were enacted because legislators wanted to limit the cost to taxpayers of benefits which applied to only a limited number of high-income executives. Mr. Coppola noted, too, that employers understand that premise but have continued to offer these benefits since they see that they allegedly provide value to their executive

employees. AG Ex. 2.0 REV at 23:429-432. Ameren admits that the number of AIC employees who participate in the plan is small compared to AIC's total number of employees (AIC IB at 53), and that the salary that triggers participation in the plans is either $210,000 or $265,000 depending on which section of the IRC is applicable. AG Ex. 5.0 at 13:252-258. The employees that typically participate in these plans are Presidents, Senior Vice Presidents, Vice Presidents, Senior Directors, Directors and Controllers. *Id.*

Of course, Ameren argues that these expenses ensure that the company is able to "attract, retain, and motivate its management employees to achieve superior customer satisfaction and company performance." AIC IB at 54. But this vague argument never identifies *how customers* benefit from the extra pension costs. The Company presented no evidence (except broad platitudes) that *not* offering this additional compensation package would eliminate qualified executive job candidates.

Rather than support their request for rate inclusion of this expense, the above-cited information only reaffirms the point made in Mr. Coppola's Revised Direct Testimony -- that a relatively small group of highly-paid executives participate in the non-qualified benefit plans, as compared to the total AIC employee base, which the Company listed as 4,562 as of the end of September of 2014. The payment of these costs should not be recovered in rates for an essential service, as they provide no discernible benefit to ratepayers.

As noted at page 2 of the AG Initial Brief, the PUA also makes clear that the Company has the burden under Section 9-201 of the Act to prove the justness and reasonableness of the expense amounts it requests be recovered in rates. The fact that these particular benefits provide value *to the executive employees who receive them* does not mean that the cost of these benefit plans positively impact customers. AG witness Coppola pointed out, there are other examples,

such as lobbying and corporate advertising expenses, which are beneficial to the Company, but are not expenses usually fully recoverable in rates. AG Ex. 2.0 REV at 23:433-436. The bottom line is that customers should not pay for costs that benefit only a select few highly-paid employees of the Company. Consistent with this recommendation, Mr. Coppola recommended that the Commission disallow recovery of these costs and therefore remove $176,492 from the projected test year, with $104,266 deducted from test year O&M expense and $72,226 deducted from forecasted capital additions. *Id.* at 23:441-443.

The facts are that participants in the plans are receiving benefits determined by tax law to be in excess of reasonably allowed levels for inclusion in regular benefit plans. Neither Ameren's testimony or Initial Brief provide any evidence to support any discernible, tangible benefits to customers. In sum, the Company has failed its burden of proving the reasonableness of adding this expense to rates. The Commission should disallow recovery of these costs from AIC's rates, as many regulatory commissions have done in other states, and remove $176,492 from the projected test year, with $104,266 deducted from test year O&M expense and $72,226 deducted from forecasted capital additions. AG Ex. 2.0 REV at 23:441-443.

6. **Gasoline and Diesel Fuel Costs**

Ameren argues that the average 2016 price estimates in the July 2015 U.S. Energy Information Administration ("EIA") Short-Term Energy Outlook should be used to set the Company's test-year fuel expenses. AIC IB at 55. Specifically, the Company has agreed to a Staff proposal of $2.62 per gallon for gasoline and $3.03 per gallon for diesel fuel. AIC IB at 57 (citing ICC Staff Ex. 11.0 at 5:90-92, 7:123-128; AIC Ex. 35.0 at 6:124-126). On the other hand, the People advocated following the proposal of AG witness Coppola to use actual prices from the first four months of 2015 in setting the test-year forecast. AG IB at 43 (citing AG Ex. 2.0

REV at 24:458-460; AG Ex. 5.0 at 16-17:329-336; AG Ex. 5.7 REV). Specifically, Mr. Coppola recommended using a price of $2.297 per gallon for gasoline and $2.784 for diesel fuel, which entails total recoverable expense of $1,332,289, which is a reduction of $491,722 from the Company's request in its initial filing. AG Ex. 5.7 REV. Mr. Coppola argued that "it is preferable in this situation to use actual prices experienced by the Company [rather] than forecasted national average prices." AG Ex. 5.0 at 17:352-354. Mr. Coppola's proposal is also a reduction of $138,626 from the Company's request in its surrebuttal testimony (and initial brief). ICC Staff Ex. 11.0 at 5:100, 7:132; Ameren Cross AG Exhibit 1.0 at 16.

In its Initial Brief, Ameren wonders why Mr. Coppola used actual 2015 price data but not actual 2014 data in settling on his proposal. AIC IB at 58. But as Ameren's own witness, Mr. Getz, admitted during cross-examination, "all else being equal, yes," more recent historical information is a better, more reliable indicator of what future fuel prices might be than more dated information. Tr. at 75:7-12. Ameren further wonders why Mr. Coppola did not update his Direct Testimony proposal, which looked at January-April 2015 data, with more recent data when he filed his Rebuttal Testimony. AIC IB at 58. Mr. Coppola explained this decision in his Rebuttal Testimony, where he stated his view that a glut of crude oil will continue bringing down gasoline and diesel fuel prices in coming months, making any adjustments to his Direct Testimony proposal unnecessary. AG Ex. 5.0 at 17-18:354-357. Mr. Getz agreed during cross-examination with certain premises behind Mr. Coppola's analysis: first, that EIA data shows a decline in crude oil prices in 2015 compared with '14 and '13 (Tr. at 76:8-14); second, that gasoline price declines typically accompany crude oil price declines (Tr. at 76:15-19); and third, that a glut of crude oil in the market is one of the factors behind a decline in gasoline prices (Tr. at 76:20-77:2).

In summary, the Commission should adopt Mr. Coppola's proposal to use actual pricing data from the first four months of 2015 in setting the Company's test-year fuel expense, as the People recommended in their Initial Brief.

7. Gas-Only Employee Headcount/Vacancy Costs

Upon further review of the Company's arguments included in its Initial Brief, the People are withdrawing their request to adjust the Company's test year forecast for certain vacant positions and are satisfied that the vacancies at issue have been reflected in the test year.

8. Gas Distribution and Transmission Expense

a. Sewer Cross Bore Inspections

In this category of spending, Ameren asks the Commission to approve a forecasted 2016 test-year expense of $957,000, whereas the People have advocated that the Commission approve recovery at the projected 2015 spending level, $758,000, following the recommendation of AG witness Coppola. AIC IB at 66; AG IB at 47-49 (citing AG Ex. 2.0 REV at 26:494-499). Ameren recites its witness's testimony regarding its recent initiation and acceleration of its sewer cross-bore inspection program. AIC IB at 66-67. To justify its proposed 26% increase in spending from 2015 to '16, Ameren argues as follows:

> there are potentially over 200,000 gas services installed between 1980 and 2000 that eventually may need to be inspected. [citation omitted] That fact alone justifies a further acceleration in the number of inspections—to better address the magnitude of the potentially impacted facilities in the Company's service territory. The increased test year expense will allow AIC to conduct additional inspection in 2016, as many as 1200 more inspections, giving it the opportunity to "cover more ground." But in reality,

> the test year expense is not just an increase; the test year expense represents the new floor—the minimum amount of expense that AIC believes that it should incur on inspections going forward in the short-term.

AIC IB at 67. This narrative, however, leaves the reader hanging with an unfinished plot thread. Why does the large number of installed services justify an increase over the (expected) 2015 inspection level? Why is the proposed 2016 inspection level the appropriate "floor" level for providing safe and adequate service, and not the 2015 level of activity? If an "acceleration" of inspection is desirable, why not double or triple expenditure instead of increasing by 26%? Why not increase it by just 5%, say? Why does Ameren believe that $957,000 is the minimum amount of expense necessary? Ameren fails to answer any of these questions. The People do not dispute that sewer cross bores are a problem, but Ameren has not met its burden to show why the specific proposed increase in activity and spending is just and reasonable. For that reason, the Commission should adopt the People's proposed recovery level of $758,000.

b. <u>Gas Records Management</u>

In this spending category, Ameren will spend (as projected) $150,000 of expense in 2015 – the first year of the program – and then $507,000 in the test year of 2016. AG Ex. 2.0 REV at 26:505-506. The $507,000 includes around $293,000 to implemental a records governance process; $79,000 to develop a high level design of a document management system ("DMS"); and $136,000 to develop a request for proposal for the DMS and to evaluate the responses. AIC IB at 70 (citing Ameren Exhibit 22.5). Following the recommendation of AG witness Coppola, the People recommended disallowing the full requested 2016 expense from recovery, because Ameren has not yet defined the scope or ultimate cost of the program. AG IB at 49-50 (citing AG Ex. 2.0 REV at 27:507-513).

Ameren argues that the new records governance processes and the DMS are to comply with new guidelines issued by the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA"). AIC IB at 71 (citing Ameren Exhibit 38.3). Ameren further argues that the $507,000 of test-year expense will fund "necessary foundational components" for improving records management. AIC IB at 72. Ameren, though, neglects to explain why that much expense is necessary to implement a new records management process, to design the DMS, and develop a request for proposal for the DMS (and evaluate responses thereto). Ameren's only support for the stated amount of spending in its Exhibit 22.5 is a statement by its witness, Mr. Colyer, that the amounts are "based on the estimated contractor costs." AIC Ex. 22.0 (2d Rev.) at 24:492. More importantly, Ameren admits in its own brief that it is not presenting a comprehensive, long-term plan for gas records management to the Commission. AIC IB at 72 (citing AIC Ex. 38.0 at 15:317-318; *see also* AIC Ex. 38.3 at 4 ("a specific multi-year plan has not been officially developed")). Even assuming *arguendo* that Ameren needs to spend money on new programs to comply with new PHMSA record-keeping standards, Ameren is asking the Commission to walk into a parlor through a winding stair shrouded in dark webbing; the Commission should be cautious about approving the asserted first stage of this program before understanding where it leads. After the new programs are designed and bid upon, the Commission will have more information to evaluate the justness and reasonableness of the related spending. Until that time, and for that reason, the Commission should disallow Ameren's recovery request.

c. <u>Corrosion Control Painting</u>

The People proposed following AG witness Coppola's suggestion to allow recovery at the 2014 expense level for this program, $778,000, instead of the Company's forecasted 2016 test-year

expense of $1.1 million – largely because the Company's projected increase in spending for 2015 over '14 does not track the projected increase in meters to be painted. AG IB at 50-51 (citing AG Ex. 2.0 REV at 27:512-28:531). Ameren expounds at length in its Initial Brief on the importance of painting meters and facilities to reduce corrosion (AIC IB at 74, 76), but fails to rebut Mr. Coppola's analyses as to the lack of correlation between spending and activity. For example, Ameren cites Mr. Coppola's allegation from Direct Testimony that, as Ameren phrases it, the "34% increase in corrosion control painting expense in 2016 was not justified by a 12% increase in the targeted number of residential meters." AIC IB at 77 (citing AG Ex. 2.0 REV at 27:524-28:527). Ameren then purports to refute this point by breaking down the total expense increase among residential and non-residential facilities (AIC IB at 77), but fails to consider that Mr. Coppola made the same refinement in his Rebuttal Testimony and found expense-vs.-activity growth discrepancies in *both* the residential and non-residential categories. AG IB at 50 (citing AG Ex. 5.0 at 37:759-765).

Where Ameren tries to engage in its Initial Brief with Mr. Coppola's rebuttal analysis, it fails to contend with his most cogent points. Ameren states that "[t]he increase in painting expense for residential meters from 2014 actuals to 2015 projected is based on the projected increase in meters to be painted (81,000 to 90,000), and an anticipated increase, on a per unit basis, for contractor labor and travel expenses." AIC IB at 77. But the projected expense increase in the residential category is 20% while the activity increase is 11.5%, and Ameren witness Colyer admitted in cross-examination that he had no evidence for a purported increase of per-unit contractor labor and travel cost that, he had previously claimed, could resolve the discrepancy. AG IB at 50 (citing AIC Ex. 38.5; AG Ex. 5.0 at 37:759-761; Tr. at 109:20-110:5). Ameren then states that for pressure control stations and large commercial and industrial meters,

"there is not necessarily a straight-line correlation between the actual and projected costs and the units to be painted." AIC IB at 77. Yet, while the projected spending increase in 2015 is 66% and the activity increase is 16% (Ameren Ex. 38.5), Mr. Colyer admitted that he had provided no information showing that the incremental units to be painted in 2015 were larger on average than those painted in '14. AG IB at 51 (citing Tr. at 112:11-20).

Finally, Ameren complains that allowing recovery at 2014 expense levels would not give it sufficient funds to paint the 90,000 residential meters, 50 pressure control stations, and 44 large commercial and industrial meters currently identified for corrosion control painting in 2016. AIC IB at 77-78. Even putting aside the questionable variations in projected expenditure, Ameren has not provided any documentation of the leak surveys and condition assessments referenced in Mr. Colyer's testimony (AIC Ex. 22.0 (2d Rev.) at 30:628-634) that support these levels of activity, so it is not clear why Ameren's asserted levels of painting activity are the minimums required to support safe, reliable,ann adequate service .

For these reasons, the Commission should adopt Mr. Coppola's proposal to allow recovery under this program at the 2014 expense level.

d. <u>Damage Prevention</u>

Ameren spent $3.9 million on the Damage Prevention program in 2013 and $4.5 million in 2014 (a 17% rise), with further projected increases to $4.8 million (a 5% increase) in 2015 and then to $5.3 million (a 10% increase) in 2016. AG IB at 51 (citing AG Ex. 2.0 REV at 30:569-571). Noting that (1) the projected increase in JULIE locate activity in 2014 increased only 6% over '13, far less than the 17% increase in spending, and moreover that (2) the proposed 40% increase in damage prevention specialists for home visits and contact with excavators seems unnecessary, as those programs have already been in effect, AG witness Coppola suggested

allowing recovery at the 2014 expense level of $4.542 million. The People supported this proposal in their brief. AG IB at 51-52 (citing AG Ex. 2.0 REV at 30:572-31:591; AG Ex. 5.0 at 39:798-804).

In its Initial Brief, Ameren defines JULIE locates and stand-by-inspections at some length (AIC IB at 79) before attempting to explain why an $0.7 million increase in spending from 2014 to 2016 is necessary. Ameren claims a $268,000 increase in the cost of JULIE locate requests over that span, based on small increases in contractor fees (2% for 2015 and 1% for 2016) and activity level (3% per year). AIC IB at 80 (citing Ameren Ex. 38.0 at 22). But Mr. Coppola observed in his Rebuttal Testimony that these increases "seem relatively minor and could be offset by increased operating efficiencies." AG IB at 52 (citing AG Ex. 5.0 at 39:796-798).

Ameren also cites a $58,000 increase in contractor expense for stand-by inspections and a $382,000 increase in internal labor expense, including four additional damage prevention specialists. AIC IB at 80 (citing Ameren Ex. 38.0 at 22:472-474). Ameren cites its Exhibit 38.7 for certain increases in Watch and Protect activities, and purported resulting safety benefits, that it can afford with four new damage prevention specialists. AIC IB at 81-82. But Ameren witness Colyer admitted in cross-examination that he "didn't perform that calculation [of third-party damage reduction] directly [him]self" and that it was an unspecified "projection" based upon historic performance, without any other explanation. AG IB at 52 (citing Tr. at 115:18-19). Without any explication of this "projection," the Commission should not simply accept at face value the Company's optimistic take on hiring four new specialists.

Because the Company did not meet its burden to justify the increase in spending up through 2016, the Commission should adopt the People's proposal to allow recovery only at the 2014 expense level, $4.542 million.

e. <u>Gas Technology Institute Operations Technology Development</u>

The People advocated full disallowance of the Company's requested $480,000 recovery of 2016 membership fees for the Gas Technology Institute ("GTI"). AG IB at 52-53. As AG witness Coppola observed, the full benefits of GTI membership will not be known until after Ameren actually joins the organization, so Ameren should wait to ask for expense recovery until after it actually has some experience of membership. AG IB at 52-53 (citing AG Ex. 2.0 REV at 32:608-614).

Ameren's brief undertakes a vigorous public relations campaign in favor of the Gas Technology Institute, citing numerous purported benefits of membership mentioned in the Rebuttal Testimony of Ameren witness Colyer, largely relating to alleged access to new data and technologies. AIC IB at 84-85 (citing Ameren Ex. 22.0 (2d Rev.) at 46-48; Ameren Ex. 38.0 at 28-29). Ameren then leaps to the claim that such benefits are "accruing for other gas utilities, in Illinois and other states, which already are members of the GTI OTD program, including North Shore Gas Company and Peoples Gas Light and Coke Company." AIC IB at 86 (citing Ameren Ex. 22.0 (2d Rev.) at 48; Tr. at 118). Yet a check of the evidentiary hearing transcript at page 118 shows that Ameren witness Colyer actually has no direct knowledge that North Shore Gas and Peoples Gas – or any other utilities – are benefiting from GTI membership, other than the fact of their membership:

> Q: Have you done any measurement or observations or surveys or anything of that nature to understand the quantified benefits enjoyed by other utilities and other ratepayers from GTI membership?

> A: I haven't performed any personal surveys of other utilities in Illinois or outside of Illinois. However, I do know that there are around 23 utilities that are members of GTI or TD. I know Peoples Gas and North Shore Gas are members, and looking at the research and development projects that GTI has completed and the fact that these companies are members, the intent of that statement's to indicate the belief that they wouldn't be members if they weren't enjoying the benefits or accruing benefits.

Tr. at 118:11-119:2.

Absent any actual evidence in the record of specific benefits already enjoyed by actual utilities participating in GTI, the Commission should not allow recovery of any monies spent on Ameren's GTI membership.

9. Gas Storage Expense

a. Well-Related Work

As the People outlined in their Initial Brief, Ameren spent approximately $726,000 to operate and maintain storage wells in 2013. In 2014, O&M expenses increased four-fold to $3.1 million. For 2015, the level of expense in this category is forecasted to double to $6.3 million and then increase slightly to $6.4 million in 2016. AG Ex. 2.0 REV at 33:637-640. The People supported the proposal of AG witness Coppola to allow recovery at the 2014 expense level, $3.1 million, as the Company presented no evidence of a comprehensive multi-year plan for this program and did not support the large cost increase from 2014 to '15. AG IB at 53 (citing AG Ex. 2.0 REV at 34:646-653).

The People do not dispute that Ameren's injection wells, withdrawal wells, and gas storage observation wells may require increased maintenance, as the Company argues at page 88 of its Initial Brief. The People agree that the failure of a well at the Lincoln storage field in 2014 was a serious incident that may have warranted new inspection activities, as Ameren suggests.

AIC IB at 88-89. It is also true, as the Company notes at page 87 of its Initial Brief, that Ameren submitted well logging plans for 2015 and 2016 in its Exhibits 22.9 and 22.10. However, a list of planned activities is not enough to meet Ameren's burden under Section 9-201(c) of the Act. Ameren does not explain why expense must increase so much in 2015 compared to '14, particularly when the Company was already providing safe and reliable service in 2013, when it spent only $726,000 on well maintenance. AG IB at 53 (citing Tr. at 123:11-13).

Ameren witness Colyer stated in his Rebuttal Testimony that the Company is initiating a program in 2015 of doing neutron and Vertilog logging on all of its wells over an 8-year period (AIC Ex. 22.0 (2d Rev.) at 52:1123-1124), but he did not explain why 8 years is the appropriate cycle. Why should the well logging not be paced over a cycle of 12 or 16 years? Nor did Mr. Colyer explain why wellhead maintenance, well work, and reservoir modeling needed to increase so drastically in 2015 compared to 2014 activities. *See* AIC Ex. 22.0 (2d Rev.) at 53-62 and AIC Ex. 22.10, which contain lengthy descriptions of the activities planned for 2016 but no explanation for the ramping up from the 2014 level of activity. In discovery responses, Ameren witness Colyer explained the increases in each of those categories as follows: For well logging, "[t]he increase [of $1.196 million] from 2014 to 2015 is primarily due to the activities specified in Ameren Exhibit 22.9. The program described includes a new program that has not been previously implemented [the 8-year neutron log and Vertilog program]." AIC Ex. 38.9 at 1. For wellhead maintenance, "[t]he increase [of $118,000] from 2014 to 2015 is primarily due to the activities specified and planned in Ameren Exhibit 22.9 under project #J0125 Well Head." *Id.* at 3. For well work, "[t]he increase [of $1.856 million] from 2014 to 2015 is primarily due to the activities specified and planned in Ameren Exhibit 22.9 under project #J0127 Well Work." *Id.* at 5. For well testing, "[t]he decrease [of $15,000] from 2014 to 2015 is primarily due to . . .

performing an extended bottom hole pressure test at Hillsboro storage field in 2014 and not performing the same test in 2015." *Id.* at 7. For reservoir modeling, "[t]he increase [of $207,500] from 2014 to 2015 is primarily due to the activities specified and planned in Ameren Exhibit 22.9 under project #J0124 Res. Simulation." *Id.* at 9. And for other well expenses, "[t]he decrease [of $216,000] from 2014 to 2015 is primarily due to a decrease in overtime labor costs with a return to more typical winter conditions in 2015, as compared to the extreme winter conditions experienced in 2014." *Id.* at 11. It is telling that Ameren provides persuasive, common-sensical explanations for decreases but no explanation for increases, except to point in each case to a list of planned activities that is more expansive than the previous year's activities.

It is tautologically true that "[r]educing the level of well O&M expense to the level proposed by Mr. Coppola to 2014 levels, without any basis in the record, would significantly reduce the well and reservoir related activities that AIC is completing in 2015 and planning to complete in 2016. And it would impact the well and reservoir activities for future years, given that AIC will perform similar activities and incur similar expenses in 2017 and beyond." AIC IB at 89-90. However, Ameren has not established why the 2014 level of well maintenance activities was insufficient, either that year or over the long haul, to provide safe, adequate, and reliable gas delivery service.

Because Ameren has not supported the need for the sharp uptick in activity from 2014 to '15 (which will be sustained in the test year of '16), the Commission should adopt Mr. Coppola's proposal to allow recovery at the 2014 level.

b. <u>Compressor-Related Work</u>

As the People stated in their Initial Brief, the Company spent $250,000 to maintain compressor station equipment in 2013, and $903,000 in 2014. With a one-time unusual expense

to rebuild a storage field compressor removed, 2014 normalized expense was $403,000. AG IB at 54 (citing Ameren Ex. 22.0 (2d Rev.) at 1377-1378). The Company projects expense of $494,000 in 2015, and a much higher figure of $940,000 in the test year of 2016. AG Ex. 2.0 REV at 34:652-655; Ameren Ex. 22.0 (2d Rev.) at 64:1377. In light of the inadequate justification for the near-doubling of projected expense from 2015 to '16, the People supported the proposal of AG witness. Coppola to allow recovery only at the 2015 projected level of $494,000. AG IB at 54-55 (citing AG Ex. 2.0 REV at 35:670-672).

Ameren exclaims in its Initial Brief that "[t]he failure of the Hookdale compressor in 2014 led the Company to expand its compressor maintenance activities and increase its compressor maintenance spending in 2016" and also mentions other compressor failures in recent years due to older equipment. AIC IB at 92-93. Ameren attempts to explain that the large increase in compressor-related maintenance and resulting expense in 2016 is to "identify and address potential failures before they occur." AIC IB at 93. But Ameren witness Colyer never explained why the Company did not begin this work in 2015 following the 2014 Hookdale accident, if it was so urgent. As the People outlined in their Initial Brief, he never gave a clear answer to the question, either in surrebuttal testimony or cross-examination. AG IB at 55 (citing Ameren Ex. 38.0 at 37:814-819; Tr. at 131:2-133:9). Additionally, Ameren suggests in its brief that $446,000 of new incremental spending is necessary in 2016 for various compressor maintenance activities (AIC IB at 95), but fails to acknowledge that the Hillsboro unit repair done in 2015 is not projected to recur in 2016. Tr. at 136:8-15 ("We're not aware of any other repairs or operating issues at the moment"). It is thus difficult to understand why 2015 spending must continue to 2016 *and* $446,000 of new spending must be added to the agenda.

For these reasons, the Commission should adopt the People's proposal to allow recovery at the 2015 expense level, $494,000.

10. **Sales Forecast – Test Year Billing Determinants**

Ameren argues in its Initial Brief for using the ten years spanning 2004 to 2013 as the basis for the test-year billing determinants in this proceeding. AIC IB at 96 (citing AIC Ex. 39.0 at 2). By contrast, AG witness Effron proposes using usage data from the more recent 2005-2014 period, which shows somewhat higher billing units. AG IB at 56 (citing AG Ex. 1.0 at 14-15). This adjustment to billing determinants would result in slightly lower rates to achieve the test-year revenue requirement approved by the Commission.

Ameren argues that Mr. Effron's proposal somehow violates Part 287 of the Commission's Rules because the rules require that a utility provide updated information for any affected schedules and workpapers when updating data in a forecast of a future test year, as provided in 83 Ill. Adm. Code § 287.30(a). AIC IB at 97. But Ameren is not updating its forecast; in fact, it opposes any update to its forecast on this issue. It is Mr. Effron, an intervenor witness, who proposes an update to the forecasted 2016 billing determinants. Ameren cites no legal authority that an *intervenor* must provide an updated version of all company schedules and workpapers when proposing an adjustment to the test-year forecast. Mr. Effron and several other experts in this proceeding proposed numerous adjustments to Ameren's test-year forecast, but Ameren did not wave the specter of Part 287 at all of those other proposals.

Ameren then complains that adopting Mr. Effron's proposal would require updating the apportionment of costs and rates to Ameren's customer classes and rate zones. AIC IB at 97-98 (citing AIC Ex. 39.0 at 5). Ameren suggests that the proposed adjustment would be "disruptive" and would "generate[] additional work," (AIC IB at 98), apparently implying that the

Commission should never entertain proposed billing-determinant adjustments from intervening parties or Staff. Yet, in Ameren's previous gas delivery rate case, the Commission considered and ruled on extensive arguments from the People, the Citizens Utility Board, the ICC Staff, and Ameren on the issue of forecasted test-year billing determinants in non-residential rate classes. Order, Docket No. 13-0192, December 18, 2013, at 90-99. Mr. Effron's proposal entails adjustments to only six underlying numbers: the number of therms used per residential customer in each of the three rate zones, and the number of therms used per commercial customer in each of the three rate zones. AG Ex. 4.1 at 14; AG Ex. 1.0 at 15:330-335. It is implausible that Ameren would have a difficult time entering the six updated numbers into its rate design spreadsheet model and adopting the resulting changes.

Ameren also observes that the adoption of Rider VBA, if approved by the Commission in this proceeding, would mean that billing determinant forecasts will make no difference to the actual monies that customers will ultimately pay. AIC IB at 98 (citing Ameren Ex. 23.0 at 12:238-244). However, to the extent that the Company's proposed billing determinants result in excessive rates to achieve a given revenue requirement, the average Illinois customer faces challenging household budgeting and cannot finance an initial over-payment of utility bills at cheap borrowing rates the same way the Company can finance cash shortfalls.

The most important point the Commission should consider is that Ameren fails to provide any principled refutation of Mr. Effron's basic point in proposing the adjustment: that the most recent data should be used to determine the ten-year average normal heating degree days ("NHDD"). AG Ex. 1.0 at 15:318-322. If more recent actual data is available than what Ameren initially provided, the Commission should use it in setting Ameren's rates. For that and other reasons stated above, the Commission should adopt Mr. Effron's proposal.

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 (N/A)

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**

The Illinois Industrial Energy Consumers ("IIEC"), in a separate brief devoted to cost of service issues, launch their regular attack on the Commission's historical and well-reasoned adoption of the Company's peak and average method of allocating Ameren's cost of service. This methodology recognizes that customers use transmission and distribution ("T&D") mains both to meet peak demand and to provide energy throughout the year. AG Ex. 5.0 at 3: 66-68. IIEC recommends that T&D mains, as well as certain other demand-related costs, should be allocated among the customer classes based solely on design-day demand. IIEC IB at 5-10.

Both AG witness Rubin and AIC witness Schonhoff provided reasons why this methodology, which is fair to all customers because it uses a combination of peak demand (one of the primary determinants of the diameter of the main, which can increase its cost) and annual energy usage (a fair method to apportion the costs of a shared facility that is equally essential to all customers who connect to it) to allocate costs should be adopted by the Commission. *See* AG Ex. 5.0 at 3-9; AIC IB at 105-113. AG witness Rubin concurred with AIC witness Schonhoff's careful critique of the IIEC recommendation. AG Ex. 5.0 at 8-9:173-181.

IIEC presents no arguments that should alter the Commission precedent of approving the allocation of AIC gas costs based on the peak and average methodology. It should be approved once again by the Commission.

VI. REVENUE ALLOCATION

A. RESOLVED/UNCONTESTED ISSUES

1. Rate Mitigation

B. CONTESTED ISSUES

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

In its Initial Brief, AIC makes clear why its proposed rate design – a 70/30 Straight Fixed Variable SFV rate design, presented as a purported settlement with the Commission Staff – is fundamentally flawed: it is based on a contention repeatedly rejected by the Commission that all of its delivery costs are fixed. AIC IB at 119. Worse yet, it is presented as a grand compromise presuming the approval of Rider VBA, the decoupling rider that if approved *already guarantees* that the Company recovers its authorized revenue requirement. In no way can this proposal be labelled a legitimate bargain, compromise or rate design policy that is consistent with recent ICC orders and the stated goals of the General Assembly, as the People pointed out in their Initial Brief. In fact, the Commission has repeatedly endorsed the removal of all demand cost recovery from the customer charge – precisely what AG witness Scott Rubin recommends be adopted in this case. The Commission Staff agrees with the AG arguments, but inexplicably offers the 70/30 rate design proposal because claims Mr. Rubin's rate design proposal "may have considerable bill impacts for certain customers," without identifying those customers or what is meant by "considerable bill impacts." Staff IB at 44.

For the reasons discussed below, the Commission should reject these hollow arguments and adopt the AG-proposed rate design, which restores a level of cost-based rationality and customer equity to Ameren's two-part residential tariff.

a. Ameren's Claim That All Delivery Service Costs are Fixed Is Belied By Their Own Cost Study.

As noted above, the fundamental flaw in Ameren's position is that is rooted in its claim that all of its delivery service costs are fixed. AIC IB at 119. But AIC's own embedded cost of service study ("ECOSS") shows they are not. As discussed in the AG Initial Brief, the results of Ameren's own ECOSS, provided in Ameren witness Ryan Schonhoff's Direct Testimony, show capacity costs, otherwise known as demand-related costs, of approximately 46% on average for the three Rate Zones. *See* Ameren Ex. 9.1, pages 1, 2, and 3 (Page 1 [Rate Zone I – CIPS], GDS-1 column, line 5 [Capacity Components] divided by line 31 [Total Company] in the same column: 30,032 / 65,405 = 45.9%; Page 2 [Rate Zone II – CILCO], same columns & rows: 32,682 / 68,561 = 47.7%; Page 3 [Rate Zone III – IP], same calculation: 66,432 / 143,594 = 46.3%).

The three primary cost classifications in the Company's ECOSS are (1) commodity or energy costs (costs that vary with the volume of natural gas provided by the utility), (2) demand costs (costs that vary with peak demand required by the customer), and (3) customer costs (costs that vary with the number of customers served by the utility). AIC Ex. 6.0 (Schonhoff Direct) at 6:106-115. It is this second group of costs – demand-related costs – that should be recovered in per therm usage charges, not the fixed customer charge. Customers with higher demands during peak, thereby causing the residential class's cost allocation to increase, bear the responsibility for those increased costs. But when demand costs are recovered through the flat, monthly customer charge, as the Ameren/Staff 70/30 rate design proposal does, this important cost causation principle is thwarted.

The Commission has repeatedly agreed with this theory of cost causation and rate design in several recent rate orders. As discussed below, it did so by flatly rejecting the notion that all of a utility's costs are fixed, i.e., do not change with customer usage changes, the same discredited rate design concept that Ameren seeks to perpetuate in this case.

b. The Commission Has Soundly Rejected the Notion That All Costs Are Fixed and That Customer Charges Be Set To Recover Demand-Related Costs.

In several recent rate design decisions, the Commission has soundly rejected the notion that high customer charges are an appropriate means to achieving a utility's recovery of its costs. Commission adoption of the Ameren/Staff 70/30 rate design proposal would contradict that trend.

For example, recent rate design decisions in the Peoples Gas Light & Coke Company/North Shore Gas Company cases follow this trend. The Commission held:

> The Commission finds that the Companies' proposed increases in the customer charges pursuant to its SFV-based rate design are inconsistent with public policy as discussed in Section IX, B 2 (Fixed Cost Recovery) of this order. The Commission finds that Staff's and Intervenors' arguments in favor of assigning demand based costs to volumetric charges are consistent with energy efficiency and the avoidance of cross subsidies. The Commission accepts Staff's rate design proposal for this customer class, which reflects a more traditional rate design whereby customer charges recover embedded cost-of-service ("ECOS") study customer costs and distribution charges recover ECOS study demand costs. Therefore, customer's bills are more closely aligned with the ECOS study. The customer charges for the S.C. No. 1 Small Residential Service, Heating class should be set to recover the final Commission approved ECOS studies' customer costs.

ICC Docket No. 14-0224/0225 – *Peoples Gas Light & Coke Co./North Shore Gas Co. – Proposed Increase in Delivery Service Rates*, Order of January 21, 2015 at 202. In that case, the Commission, consistent with AG witness Rubin's proposal in this docket, removed demand cost recovery from the fixed monthly customer charge and transferred those revenues to the per therm

charges. This is precisely the recommendation of Mr. Rubin in this case. AG Ex. 6.0 REV at 15:313-316.

Likewise, as highlighted at page 71 in the AG Initial Brief, the Commission recently rolled back the amount of revenues recovered through the customer charge for ComEd, adopting AG witness Rubin's proposed rate design, which removed demand-related cost recovery from the customer charge – again, precisely the rate design the AG proposes in this docket. At pages 74-75 of its December 18, 2013 Order, the Commission in particular, highlighted the inequity of recovering demand-related costs, *which are not fixed costs*, through the customer charge:

> Both the City/CUB (which endorsed Mr. Rubin's rate design) and AG sponsor rate design adjustments for the residential classes based on the assumption that demand costs are proportionate to usage and more equitably allocate the cost of service than the present SFV. …These parties point out that the SFV rate design results in low use residential customers paying more than their cost of service because of the uniform class wide customer charge and lowered consumption charges. Conversely, high use customers in those classes tend to pay less than their cost of service for the same reason. … This unrebutted analysis contradicts the SFV rate structure assertion that delivery costs are fixed and not impacted by customer usage.
>
> …The AG's proposed replacement for the current SFV system gets to a more equitable allocation of costs by a simpler design which reduces customer charges within two residential subclasses and upwardly adjusts the per kilowatt usage charge to reflect what it asserts are more accurate calculations of fixed and variable costs. Similar to the City/CUB proposal, this rate design results in lower customer charges and higher per kilowatt usage charges in two customer classes.
>
> ComEd's argument that system design cannot tolerate equating low usage with low demand is really not the issue. ComEd designs its delivery system for aggregate demand within an area. It is perfectly true that a location or a customer may be low use one year and high use another. However, it is not reasonable or consistent with public policy to structure rates so that the poor, the frugal and the energy efficient are required to subsidize those who are not, when a more equitable method of allocation exists. A more reasonable policy allocates the same

> aggregate costs so that individual customer costs are reasonably proportionate to the demands that their use places on the system.
>
> …The Commission finds that the residential rate design suggested by the AG is straightforward and consistent with traditional rate design principles. It rebalances fixed and variable costs and more closely aligns customer's bills with the cost of service, especially for many low use customers. The Commission adopts the parameters put forth by the AG which decrease the fixed customer charge and increase the variable charges for customers in the SFNH and SFH classes. …
>
> In summary, the Commission adopts the AG's rate design proposal for the Residential classes.

ICC Docket No. 13-0387, Order of December 18, 2013 at 74-75. The Commission, too, in that order, noted in particular that because there is little risk of non-recovery of costs for ComEd because of its adoption of formula rates, a lowering of the percentage of revenues recovered through the customer charge was justified.[6] The same rationale applies in this case, given AIC's uncontested request for a decoupling rider. Like the guarantee of cost recovery that ComEd and Ameren Electric enjoy through the annual formula rate process[7], Ameren will face zero risk of recovering its Commission-authorized revenue requirement.

The Commission also rejected the notion that all costs are fixed in AIC (electric) Docket No. 13-0476, Ameren's most recent electric rate design case. There, as noted in the AG Initial Brief, the Commission rejected Ameren's request to increase fixed costs recovery to 50%. On Rehearing, the Commission specifically noted that "there are policy reasons for adopting a rate design with greater emphasis on traditional ratemaking principles like cost causation." *Ameren Illinois Co.* – Order on Rehearing of September 30, 2014 at 41. The Commission noted further: "This decision is supported by the arguments made by the AG in this case including more equitable cost sharing within customer classes, rates that are consistent with the General

[6] *See* ICC Docket No. 13-0387, Order of December 18, 2013 at 75.

[7] 220 ILCS 5/16-108.5(c), (d).

Assembly's intent to promote energy conservation, and the fact that the Company's financial risk has been reduced as a result of its participation in EIMA."[8] The Commission made clear that it "supports a rate design which encourages residential customers to reduce energy usage and increase energy efficiency" and directed Ameren to maintain the current percentage of fixed cost recovery through fixed charges – 44.8%. *Id.*

Contrast these orders with the extreme rate design Ameren's residential class now endures, with 80% of costs currently being recovered through the customer charge. As noted in the AG Initial Brief, this rate design, first set in 2008, was not intended to operate indefinitely, and was chosen rather randomly as a substitute for Ameren's first revenue decoupling proposal. *See* AG IB at 62-63. Its impact on low usage customers was profound, and never specifically analyzed in testimony in that proceeding, as shown and discussed below and in the AG Initial Brief:

2008 Rate Order Bill Impacts

Rate Zone	% Increase Lowest 20% Usage	% Increase Highest 20% Usage
1 (CIPS)	26.5%	4.3%
1 (CIPS -Metro East)	21%	7.3%
3 (Illinois Power)	43.8%	21.2%

Source: AG Cross Ex. 13. Mr. Rubin's Direct Testimony highlighted the inequities of the 80/20 rate design. A higher-use customer (300 therms in a month) saw his distribution bill decline from $53.88 per month to $31.50 per month (a 41% *decrease*), while a lower-use

[8] EIMA stands for the Energy Infrastructure Modernization Act, 220 ILCS 5/16-108.5.

customer (20 therms in a month) had her bill increase from $15.55 per month to $17.76 per month (a 14% increase). *Id.* at 11:250-256. *See* AG IB at 62.

Ameren's insistence that all of its delivery service costs are fixed should be rejected by the Commission, just as it has in other recent utility cases in the wake of identical claims.

c. Claims That the AG-Proposed, ECOSS-Based Rate Design Fails To Recognize All Fixed Costs Should Be Rejected.

Ameren complains in its Brief that the "GDS-1 customer-related costs identified in AIC's cost of service studies, and upon which Mr. Rubin's proposal is based, underrepresent the fixed costs of service that class (sic)." AIC Brief at 122. The Company offers the strawman argument that Mr. Rubin "failed to recognize additional costs associated with low pressure distribution mains" and claims that customers using "more or less natural gas from one year to the next will not change the facilities costs incurred by AIC in providing local distribution service to them." *Id.* But this argument is simply a re-phrasing of the "all costs are fixed" argument.

The fact is that the Company characterizes these mains as demand-related costs in its own ECOSS. Cost of service studies are performed not just to allocate costs among customer classes, but also to guide the design of rates. Costs that are characterized as demand costs are demand-related, so they should be collected in proportion to demand. For residential customers, that means allocating costs based on energy usage. Thus, demand-related costs – costs that change over time based on customer peak demand needs – are appropriately recovered *through per therm charges.*

It should be noted, too, that these are precisely the same arguments presented by Peoples Gas in the aforementioned 14-0224/0225 rate case, in which the Commission soundly rejected the notion that customer costs should reflect demand-related costs. *See, e.g.*, Order of January 21, 2015 at 166. ("The Companies explained that demand-classified costs [*e.g.*, storage, land,

structures and improvements, mains, compressor station equipment and measuring and regulating equipment] are fixed costs. The costs of this type of investment do not vary with customer usage or even if the customer's demand day requirements change. NS PGL Ex. 43.0 REV. at 4.") The Commission should reject those same hollow arguments here.

d. Staff's and AIC's Complaint That the AG-Proposed Rate Design "May Have Considerable Bill Impacts For Larger Use Customers" Should Be Rejected As a Basis For Retaining an SFV Rate Design.

Having embraced Staff's proposed 70/30 rate design, which leaves in place the flawed SFV rate design that requires AIC's lowest users of natural gas to subsidize the Company's highest users, Ameren embraces Staff's claim that Mr. Rubin's ECOSS-based rate design "may have considerable bill impacts for larger-use customers." AIC IB at 122; Staff IB at 44. Staff, for its part, vaguely claims that Mr. Rubin's rate design will result in an increase for larger-use customers for distribution-only rates that exceed 19.23% to 22.08%. Staff IB at 44. But the Commission must analyze this claim based on record evidence (which is severely lacking in support of Staff's concern about rate shock for large users) and within the context of the larger issue of ensuring that rates are equitable, based on cost causation and consistent with other Commission orders. On all of those grounds, this Staff/AIC claim fails.

In particular, Staff's 70/30 proposal would result in an increase in the bills of low-use residential customers in Rate Zone II, even though those customers already are paying rates that exceed their cost of service. Specifically, Staff's proposal (under Ameren's proposed revenue requirement) would increase the customer charge in that zone by 7% (from $19.97 to $21.36) even though the existing customer charge already ***exceeds*** the cost of service. *See* AG Ex. 6.02 (Rubin Rebuttal); AG Ex. 6.04 (showing 70/30 customer charge of $21.36). The existing

customer charge in Zone II is from the tariff (Ameren Ex. 10.8).Yet when it comes to customers in the residential class whose high usage requires larger meters -- customers whose existing rates do not even recover the cost of the meter, let alone all of the other costs of service -- Staff states it is "concerned" about bill impacts. With all due respect, Staff's concern would be better directed to smaller residential customers who have been unfairly subsidizing higher users in the class for the past seven years.

ECOSS-based rate design, too, supports a rate design based on cost causation. In the docket, the record evidence shows that higher-use customers impose proportionately larger costs on the AIC delivery system. *See,* AG Ex. 6.0 REV at 15-16; AG Ex. 3.0 at 5-7, 9-11; AG Ex. 3.03; AG IB at 67-69. The evidence also shows that a randomly selected 80/20 SFV pilot rate that has been in place since 2008 triggered (and continues to trigger) inequitable increases on AIC's lowest-use customers. *See* AG IB at 61-63. Commission precedent supports a rate that removes demand cost recovery from the customer charge, as noted above. A shift in rate design from an 80/20 to a 70/30 SFV design still assumes that AIC's lowest-users of natural gas who the evidence in this record shows are subsidizing Ameren's highest users, should continue to do so, and that costs that the Company has identified as being driven by demand should be recovered through the customer charge. That conclusion makes no sense in fact or law.

Worse yet, it assumes those flawed policies should remain in place, *indefinitely,* until a time in the future when Ameren decides to file a new rate case, and when, presumably, Staff might suggest that the percentage of costs recovered through the customer charge be reduced on a relatively insignificant basis once again. Low usage customers can ill-afford to wait for that day. The Commission should not either.

e. Adoption of a 70/30 Rate Design Makes Customer Efficiency Investments Less Cost-Effective Than the AG-Proposed 54/46 Rate Design.

Finally, it is imperative for the Commission to note, as public policy makers and as a body whose authority is rooted in legislative directive, that the General Assembly favors the encouragement of energy efficiency in order to achieve the requirement of gas utilities "to use cost-effective energy efficiency to reduce direct and indirect costs to consumers." 220 ILCS 5/8-104 (a), (c), (d). Under Section 8-104 of the Act, the utilities are required to achieve, through energy efficiency programs, annual reductions to natural gas usage. 220 ILCS 5/8-104(c), (d). The Commission itself has recognized the importance of ensuring that customer charges are not too high, thereby working against the cause of energy efficiency, especially when coupled with a decoupling rider in a report to the General Assembly. *See* AG IB at 75-77.

But adoption of the AIC/Staff 70/30 proposal makes that effort more difficult, relative to the AG-recommended 54/46 rate design. That's because less usage therms are available to be reduced and the cost effectiveness of those efficiency measures is *automatically*, negatively impacted in the Total Resource Cost test calculation, which is the lynchpin of evaluation of these ratepayer-funded measures. *See* 220 ILCS 5/8-104(b) ("*The total resource cost test compares the sum of avoided natural gas utility costs*, representing the benefits that accrue to the system and the participant in the delivery of those efficiency measures, as well as other quantifiable societal benefits, including avoided electric utility costs, to the sum of all incremental costs of end use measures (including both utility and participant contributions), plus costs to administer, deliver, and evaluate each demand-side measure, to quantify the net savings obtained by substituting demand-side measures for supply resources.") When fewer therms can be reduced through efficiency measures, fewer dollars are saved, thereby directly impacting the cost-

effectiveness calculation of various efficiency measures, the utilities' decision to offer certain measures and customers' willingness to engage in efficiency. This fact, too, should guide the Commission's analysis of the rate design in this case.

* * * *

In sum, AG witness Rubin's 54/46 rate design proposal reflects true cost causation principles by excluding demand-related costs from the customer charge. It is consistent with recent ICC decisions that recognize that (1) utility delivery service costs are *not* fixed; (2) the flat, monthly customer charge is not the place to recover demand-related costs; and (3) assigning demand based costs to volumetric charges is consistent with Illinois public policy goals that favor energy efficiency, least cost utility service and the avoidance of cross subsidies. Just as importantly, it corrects the rate shock that Ameren's low usage customers endured and the inequitable cross-subsidization of high users by low users of natural gas that were created with the approval of the 80/20 SFV rate design back in 2008. AG Ex. 3.0 at 11:243-262. The Staff/AIC-preferred customer charge would be approximately $4.90 per month higher than Mr. Rubin's customer charge, and would continue the inequitable practice of lower-use customers spending millions of dollars per year subsidizing the rates paid by higher-use GDS-1 customers. AG Ex. 6.0 at 10. Mr. Rubin's more equitable, ECOSS-based rate should be adopted.

VIII. OTHER RIDER AND TARIFF CHANGES

A. RESOLVED/UNCONTESTED ISSUES

1. Rider VBA
2. Uncollectibles - Rider GUA
3. Uncollectibles – Rider Sf

B. CONTESTED ISSUES

1. Implementation of Small Volume Transportation (SVT) Program
2. Enrollment Rescission for Rider T Customers
3. Combined Billing Practices for Electric and Gas Customersf
4. Meter Reading and Billing Practices for Rider T Customers

IX. OTHER ISSUES

A. RESOLVED/UNCONTESTED ISSUES

1. General Services Agreement Allocators

B. CONTESTED ISSUES

1. **Forecasted FERC Account Data**

As the People stated in their Initial Brief, AG witness Coppola found at least 20 occurrences where the Company had changed the FERC account to which it recorded a certain expense from one year to the next. Similarly, with regard to some forecasted cost items, the forecasted costs were included in certain FERC accounts, but the actual expense in prior years had been recorded in other FERC accounts. AG IB at 83 (citing AG Ex. 2.0 REV at 37:704-710). Given the resulting confusion and difficulty of analyzing cost trends, the People recommended adopting Mr. Coppola's proposal that the Company be ordered by the Commission to take additional steps to avoid the recording of costs, whether actual or forecasted, to the wrong FERC accounts from year to year, and furthermore that when these changes occur, the Company needs to present additional schedules in support of testimony or responses to data requests that present the explanation of variances on a *pro forma* basis over the years being compared so that there is a uniform presentation despite incorrect initial booking of costs. AG IB at 84 (citing AG Ex. 2.0 REV at 37:718-723). As the People stated in their Initial Brief,

consistent and comparable accounting will help ensure that the Commission is setting just and reasonable rates and that the limited time and resources of both the Commission Staff and Intervenors is not wasted. AG IB at 86.

Ameren argues in its Initial Brief that the 20 instances of inconsistent accounting were relatively small compared to Ameren's overall number of general ledger transactions. AIC IB at 146 (citing Ameren Ex. 18.0 (Rev.) at 11). However, Mr. Coppola did not state that he was certain that the 20 examples he found were in any way exhaustive of similar inconsistencies throughout Ameren's accounting. Ameren then explains various reasons for inconsistent accounting, such as "the derivation of the expenses for the forecast period, the use of a more general account rather than a specific account, or fluctuations in the activities performed." AIC IB at 146 (citing Ameren Ex. 18.0 (Rev.) at 12-13). Regardless of the validity of these reasons, they do not make it any easier for an outside analyst to understand cost trends by FERC account with any consistency. Ameren states that it "provided variance analysis by FERC account in its testimony" (AIC IB at 146 (citing Ameren Ex. 18.0 (Rev.) at 11)) – but that presentation, even if mathematically flawless, would not resolve the numerous inconsistencies found by Mr. Coppola in booking various costs to multiple FERC accounts.

The People welcome Ameren's statement that it is currently planning to implement budgeting by FERC account in 2016. AIC IB at 147 (citing Ameren Ex. 18.0 (Rev.) at 13). The People further urge the Commission to order Ameren to follow through on that promise to ensure that problems similar to those in this proceeding do not arise again.

X. CONCLUSION

For all of the reasons stated above, the People of the State of Illinois respectfully request that the Commission enter an Order consistent with the recommendations in this Reply Brief and in their Initial Brief.

Respectfully submitted,

PEOPLE OF THE STATE OF ILLINOIS
By Lisa Madigan, Attorney General

By:_____/s/_____

Karen L. Lusson,
Assistant Bureau Chief
Sameer H. Doshi,
Assistant Attorney General
Public Utilities Bureau
Illinois Attorney General's Office
100 West Randolph Street, 11th Floor
Chicago, Illinois 60601
Telephone: (312) 814-1126 (Lusson)
(312) 814-8496 (Doshi)
Email: klusson@atg.state.il.us
sdoshi@atg.state.il.us

October 1, 2015