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	**)**	

STATEMENT OF POSITION AND SUGGESTED CONCLUSIONS OF THE PEOPLE OF THE STATE OF ILLINOIS

PEOPLE OF THE STATE OF ILLINOIS
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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 Statement of Position and Suggested Conclusions in the above-captioned Illinois Commerce Commission ("Commission" or "ICC") proceeding, pursuant to Section 200.810 of the Commission's Rules, 83 Ill. Admin. Code § 200.810, and the schedule set by the Administrative Law Judges.

For each contested adjustment advocated by the People in their Initial Brief filed September 17, 2015 and in their Reply Brief filed October 1, 2015, the People have set out (1) a description of their position and (2) a suggested conclusion under the appropriate heading in the outline below. The failure by the People to set out a position on other contested issues in this proceeding should not be viewed as agreement or disagreement with particular positions advocated by other parties on those issues.

I. INTRODUCTION/LEGAL STANDARD

In this case, Ameren Illinois Company ("AIC" or "Ameren" or the "Company") asks the Commission for a total rate increase for its three gas delivery rate zones of $45.3 million ($12.2 million for Rate Zone 1, $11,003,000 for Rate Zone II and $22,143,000 for Rate Zone III), which includes a requested return on equity of 9.6%. AIC Ex. 34.0 (Stafford Surrebuttal) at 2:33-37; AIC Ex. 36.0 (Hevert Surrebuttal) at 2:30-36.

Section 9-201 of the Public Utilities Act (the "Act') makes clear that the Company has the burden of proving the justness and reasonableness of its proposed rates in any hearing concerning the propriety of any proposed rate. 220 ILCS 5/9-201(c) ("In such hearing, the burden of proof to establish the justness and reasonableness of the proposed rates or other charges…, in whole and in part, shall be upon the utility.") Thus, as the Commission reviews the contested issues in this case, it must assess whether the Company has supplied substantial evidence to justify its claimed expense and rate base increases. 220 ILCS 5/10-201(e)(iv).

In this docket, Ameren proposes a future 2016 test year forecast. As a result, its request is based in large part on projected investments and expenses rather than on actual experience. When a forecasted or future test year is used, it is critical that the Company demonstrate evidence of cost control and budget management – particularly in light of the Company's obligation to provide *least cost* utility service. 220 ILCS 5/8-401. The Commission should analyze the reasonableness of forecasted expense items within the context of the Commission's obligation to set least-cost rates for what is unequivocally an essential service, keeping in mind that the customers who are paying Ameren's rates are themselves experiencing stagnant wage growth, based on economic indicators.

The numerous adjustments to the Company's requested rate increase proposed below highlight the need to hold the Company to its burden of proof under Section 9-201 of the Act. In short, the Commission has an obligation to ensure that the rates Ameren customers pay are as low as possible while still assuring safe and reliable service. All contested issues in this case must be examined through this lens.

II. RATE BASE

A. RESOLVED/UNCONTESTED ISSUES

1. **Working Capital for Gas In Storage**
2. **Gas Vehicle Plant Additions**
3. **Customer Advances**
4. **Qualifying Infrastructure Plant (QIP) Additions**
5. **Asset Retirement Obligations**
6. **Original Cost Determination**
7. **Hillsboro Used and Useful**

B. CONTESTED ISSUES

1. **Accounts Payable for Gas Stored Underground**

The AG notes that in Direct Testimony, AG witness Effron proposed an adjustment to the accounts payable related to gas stored underground. The AG states that those accounts payable are based on the lead for purchased gas expense as shown on Schedule B-8, with the so-called "service lead" component of the total lead eliminated. AG Ex. 1.0 at 9:201-203. According to Effron's testimony, Ameren starts with a payment lead for purchased gas expense of 38.62 days on its Schedule B-8, and then eliminates the service lead of 15.2 days, resulting in a net lead of 23.42 days, or 6.42% of a year; Ameren calculates its Accounts Payable related to Gas Stored Underground on its Schedule B-8.1 based on this 6.42% figure. AG Ex. 1.0 at 9-10:203-207.

The AG notes that the Company attempted to defend its removal of the service lead from the total lead by stating in a discovery response that "[u]nlike purchased gas costs, Gas Stored Underground is not paid for or withdrawn on a monthly basis. As such, it is inappropriate to include a service lead associated with the midpoint of a given month." The AG further notes that addressing a discovery request asking Ameren to describe how gas stored underground is paid for and how that differs from the payment method for flowing gas, Ameren stated that the payment for gas stored underground "is dependent on timing of gas injections into gas storage fields and receipt of invoices requesting payment," but did not clearly distinguish between the two payment methods. *Id.* at 11:227:235. But the AG observes that as the Company ultimately acknowledged, invoices for purchased gas "cover all gas purchases whether the gas flows through to customers or is injected into storage." *Id.* at 10:209 - 11:241.

The AG notes that as there is no distinction between Ameren's terms of payment for purchased gas delivered directly to customers versus the invoices for purchased gas injected into storage, Mr. Effron recommended using 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. *Id.* at 11-12:245-251. The AG notes that Ameren witness Stafford attempted to defend the Company's approach based on the premise that flowing gas delivered to customers is a service, "since the gas flows through AIC's system to its customers continuously over the course of the month," while "[g]as stored underground is considered a good, because AIC purchases the gas and stores it for future use." Ameren Ex. 17.0 at 15:302-306. The AG asserts, however, that as Mr. Effron stated in his Rebuttal Testimony, there is no "definition of the term 'service' whereby gas purchased for delivery to customers is a service." Mr. Effron went on to note that "the delivery of the gas is a service, but the gas itself is a commodity, that is to say, a good." AG Ex. 4.0 at 4:72-75. The AG argues that as both gas delivered to customers and gas stored underground are goods, the same lead should apply to both types of purchased gas – whether delivered to customers or stored underground. The AG notes that as Mr. Stafford admitted in Rebuttal Testimony, "[t]he payment lead is the same for all purchased gas." Ameren Ex. 17.0 at 17:351.

The AG states that as of Mr. Effron's Rebuttal Testimony, the effect of his proposed adjustment was to increase accounts payable and thus reduce rate base by $3.166 million. AG Ex. 4.0 at 4:83-86; AG Ex. 4.1 REV at 8. However, following the Company's Surrebuttal Testimony, the figures changed slightly, according to the AG. The "Materials and Supplies Inventory" in column d, line 7 on each of Ameren Exhibits 34.1, 34.2, and 34.3 (spanning the Company's three rate zones) totals to $74.73 million, which is also the "Total Gas Stored Underground and Materials & Supplies Net of Related Accounts Payable" figure shown on the Company's MFR Schedule B-8.1 accompanying its Surrebuttal Testimony. The AG notes that following that testimony, the Company agreed in a discovery response, following the suggestion of Staff witness Lounsberry, to use data from the July 2015 U.S. Energy Information Administration Short-Term Energy Outlook as the basis for its claim for gas stored underground – updating the "Total Gas Stored Underground and Materials & Supplies Net of Related Accounts Payable" figure to a revised value of $73.292 million. AG Cross Exhibit 6. The AG notes that in turn, Mr. Effron stated in a discovery response that this update caused his analysis on AG Exhibit 4.1 REV, page 8 to change as follows (although he did not present this revised table):

Gas Stored Underground		71,200
Accounts Payable Percentage		10.58%
Accounts Payable Related to Gas Stored Underground		7,533
Accounts Payable Related to Gas Stored Underground, per AIC		4,568
Adjustment to Accounts Payable - Gas Stored Underground		2,965
Rate Zone I Adjustment to Accounts Payable	19.45%	577
Rate Zone II Adjustment to Accounts Payable	30.72%	911
Rate Zone III Adjustment to Accounts Payable	49.84%	1,478

Ameren Cross Exhibit 2.

The AG argues that because there is no distinction between the modes of payment and thus the appropriate expense leads for gas delivered to customers and gas stored underground, the Commission should adopt Mr. Effron's proposed value of $7.533 million for accounts payable related to gas stored underground – entailing an adjustment of $2.965 million to accounts payable – outlined above.

Suggested Commission Analysis and Conclusion:

> The Commission finds that because Ameren by its own admission has the same payment terms for gas delivered to customers and gas stored underground, the appropriate expense leads for the two types of gas should be identical. Thus, the Commission adopts the AG's proposal to use an accounts payable percentage of 10.58% for Ameren's materials and supplies for gas stored underground, entailing a value of $7.533 million for the related accounts payable, an adjustment of $2.965 million from Ameren's proposed rate base.

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**

a. Ameren's Baseline Request for Charitable Contribution Recovery Is Inflated and Unreliable and Should Be Reduced

The AG notes that Section 9-227 of the Act provides for recovery of donations made "for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount." The AG observes that pursuant to this provision, the Commission has authorized recovery of such charitable donations in many of Ameren's previous gas and electric rate cases. In Docket No. 13-0192, Ameren's last gas rate case, which was based on a future test year of 2014, the Commission used a three-year backward-looking average (2010 through 2012), plus 2% annual escalations, to set a forecast of charitable giving for the future test year. The Commission found that its three-year average approach "will lend itself to more consistent estimates in the future, as the averaging methodology will smooth any outliers in AIC's charitable contribution spending" and "appears to provide a justifiable estimate of test-year expenditures."[1] The AG states that this approach resulted in an approved recovery amount

[1] Order, Docket No. 13-0192, December 18, 2013, at 61.

of $317,000 in gas rates, effective for each of the 2014 and now 2015 calendar years. Ameren Ex. 6.0 at 9:188-193.

The AG notes that in its initial filing in *this* case, Ameren forecasted $641,322 of gas-allocated charitable contributions for the 2016 test year. AIC Schedule C-7 at 15:197; Ameren Ex. 6.0 (Rev.) at 10:207. The AG notes that this represented an allocated portion of a total (gas plus electric combined) forecast of $1,613,009 of charitable spending by Ameren for the test year. AIC Schedule C-7 at 15:195; Ameren Ex. 6.0 (Rev.) at 10:214-215. The AG notes, however, the Company's total charitable contributions were $919,000 in 2012, $826,000 in 2013, and "just over" $1.0 million in 2014. Ameren Ex. 6.0 (Rev.) at 9-10:194-203.[2] Thus, the most recent three-year average of Company-wide spending is about $915,000. The AG notes that Ameren's forecast (prior to its Surrebuttal Testimony) for 2016 is around 76%[3] higher than the three-year historic average – a significant increase.

The AG states that consistent with the Commission's approach in the previous Ameren gas rate case, AG witness Effron applied the three-year average from 2012 through 2014, plus two annual escalations of 2% to get to 2016, as the basis for Ameren's recoverable test-year expense. AG Exhibit 1.0 at 18:385-390. This calculation produced a recoverable spending amount of $958,000, with approximately $381,000 allocable to Ameren's gas operations. *Id.*; AG Ex. 4.0 at 7:143-147; AG Ex. 4.1 REV at 16. The AG observes that Staff witness Tolsdorf made essentially the same recommendation in his direct testimony. ICC Staff Ex. 1.0 at 7-10.

The AG asserts that a utility's projections of future charitable spending may not come to pass – and the Commission has no recourse should the utility decline to use the identified funds for charitable purposes. The AG observes, for example, that while Mr. Kennedy notes in his testimony that Ameren's 2014 gas-allocated charitable donations were $400,000, in excess of the $317,000 authorized in Docket No. 13-0192 for annual recovery in rates (Ameren Ex. 6.0 (Rev.) at 9-10:190-199), he also admits that Ameren had *projected* 2014 gas-allocated charitable expenses of $519,000 in that 2013 rate case (*id.* at 9:191-192; *see also* Order, Docket No. 13-0192, December 18, 2013, at 61). The AG notes that similarly, as Staff witness Tolsdorf noted, over the three-year period between 2011 and 2013, the Company made charitable donations allocated to gas of $916,081 but collected from customers $1,370,000 for that same purpose. ICC Staff Ex. 7.0 at 8:171-174. The AG argues that in light of Ameren's history of over-estimating its charitable contributions budget, the Commission should continue to apply the approach it adopted in Ameren's last gas rate case to set a reasonable amount for the charitable contributions budget and not simply accept Ameren's promises of what it will do next year.

The AG also notes that Ameren's actual charitable spending since before the merger of Ameren's three legacy utilities in October 2010 has been highly volatile, dropping from around $1.3 million in 2009 to around $800,000 in 2010, then dropping again to around $600,000 in 2011, rising to around $900,000 in 2012, dropping to around $800,000 in 2013, and rising again to $1,000,000 in 2014. AIC Ex. 37.0 at 6, 10; AIC IB at 20. The AG argues that this volatility warrants use once more of the same three-year averaging approach that the Commission employed in Docket No. 13-0192

[2] In 2010, total Company contributions were $793,000, and in 2011, $575,000. Ameren Ex. 6.0 (Rev.) at 10:203.

[3] As discussed below, following Ameren's request for recovery of its Special One Million Contribution made in its Surrebuttal Testimony, Ameren is now asking for a recovery level that is ***186%*** higher than its three-year historic average.

The AG notes that Ameren witness Kennedy argues that "the test to determine whether that increased spending is a reasonable amount to recover in rates should not be based solely on the utility's prior spending" (Ameren Ex. 6.0 (Rev.) at 9:185-187), but he does not articulate an alternative test of reasonableness. Kennedy asserts that "AIC has the organizational structure, community relationships and a track record of accomplishment in deploying available resources to help meet the needs of [local] organizations" (*id.* at 11:236-238) but does not explain why this structure and relationships and resources were not deployed in prior years at the claimed $1.6 million level. Kennedy further states that "[i]t is the desire of senior leadership to continue to accelerate the pace and breadth of charitable giving." *Id.* at 11:239-240. The AG argues that good intentions are not sufficient to justify recovery of a drastically increased level of charitable contributions in light of Ameren's consistent pattern of lower charitable giving. The AG further states that ratepayers should not be asked to fund charitable giving that is more than the Company has shown it actually has given.

The AG notes that in surrebuttal testimony, Mr. Kennedy suggested that the Company has the "people, processes and funds" to support increased charitable contributions; however, he admitted during discovery that these are not *new* people and processes, but rather existing resources. Ameren Ex. 37.0 at 10:207-212; Ameren Ex. 37.3; AG Cross Exhibit 18 at 1. The AG notes that if the Company has had the same capacity to support charitable giving all along during the past several years, it is unclear why the Commission should believe that a significant increase in giving is now possible and sustainable. The AG observes that Mr. Kennedy also cited "the commitment and encouragement of senior leadership to allocate funding for charitable causes" (Ameren Ex. 37.3) as another "resource" that supports the Company's increased forecast for the test year. However, he did not mention that the funding so allocated would be provided by ratepayers, under the Company's request. The AG states that because the Company is seeking to obtain funding from ratepayers before it demonstrates a track record of increased spending, a corporate "commitment" to spending ratepayer funds does not guarantee that the money will actually be spent on Section 9-227 charitable contributions. The AG argues that further, the "commitment" of Company executives cannot by itself set the reasonable recovery level, for it admits no limiting principle. The AG wonders: if $1.6 million is reasonable, why not $16 million, if Company executives have a good-faith intention to give that amount to worthy charitable organizations within the AIC service territory and recover the amount from ratepayers?

The AG argues that because Ameren's past forecasts of future giving have proved unreliable, and because Ameren does not actually have any new resources in place now to support charitable spending, the Commission should apply the principles applied in Ameren's last gas rate case and adopt the proposal of Staff witness Tolsdorf and AG witness Effron to use a three-year average of 2012 to 2014 actual charitable giving, escalated by 2% annually, to arrive at the recoverable amount of 2016 test-year giving, exclusive of the Special One Million Contribution discussed below. The AG states that this approach is consistent with the Commission's decision on the same issue in Ameren's last gas delivery rate case, Docket No. 13-0192 and results in a charitable expense of $381,000, down from Ameren's unsupported request of $641,322.

b. While The AG Takes No Position On Ameren's Special One Million Contribution For Low-Income Energy Assistance Request,

The Commission Should Approve the Request Only With Reporting Conditions

The AG notes that during surrebuttal testimony, after two rounds of Mr. Kennedy's unavailing attempts to explain why the Commission should grant recovery of gas-allocated contributions based on a $1.613 million total Company spending level, Ameren witness Craig D. Nelson amended the Company's proposal: Beyond the $1.613 million of test-year contributions that it originally requested for recovery, it now requests recovery of an *additional* $1 million that it will donate in January of 2016 to a group of local social service organizations that usually administer the Low Income Home Energy Assistance Program ("LIHEAP") in Ameren's service territory (such additional $1 million, the "Special One Million Contribution"). Ameren Exhibit 33.0 at 1-2:18-23, 4:74-78. The AG states that in light of the ongoing Illinois state budget impasse that has disrupted the distribution of funds in the 2015-16 state fiscal year from the Supplemental Low-Income Assistance Fund ("SLIHEAP"), Ameren seeks to replace a small amount of the lost funding. Ameren Ex. 33.0 at 4:80-82.

Thus, as the AG observes, Ameren requests a total ***$2.613 million*** of Company-wide test-year charitable spending under Section 9-227, including the Special One Million Contribution. The AG states that this level is ***186***% higher than the three-year historic average using 2012-2014 data. The AG states that considering the Special One Million Contribution alone, approximately $398,000 would be allocated to gas operations and recoverable through this case's rate order – more than doubling the amount currently allocated for ratepayer-funded charitable giving.

According to the AG, Ameren points out, in support of its request for the Special One Million Contribution in ratepayer funds, that while there are funds collected for low-income energy assistance, the "State is in the midst of a financial crisis;" that "state-administered programs, agencies, and offices are facing budgetary shortfalls;" and that current of state funding for low-income energy assistance is uncertain. Ameren Ex. 33.057-63. The AG states that while there is a crisis this year, no one knows how long it will last, how the state LIHEAP money will be spent in the future, or what demands will be made on available funds in the coming years.

The AG states that while Ameren bases its request for this additional ratepayer money on the need for additional low-income assistance, it has refused to commit to make the same $1 million expenditure to the local social service organizations in 2017 and beyond until its next gas rate case, although it does promise to make the Special One Million Contribution to *some* charitable recipient. Ameren Ex. 33.0 at 6:117-124. The AG notes that Ameren's request to increase funding by its gas customers by more than 100% ($317,000 increased by another $398,000) is based on the energy assistance crisis facing Illinois consumers. The AG urges that if the Commission allows this large increase in ratepayer-funding, the Commission should require that this funding be used for the purposes Ameren has identified: assisting low-income customers pay their energy bills.

The AG asserts that instead of pledging to continue to help those Ameren customers most in need of energy assistance, Ameren has tried to leave itself a wide escape route, stating that "many factors" will determine whether the $1 million donation to local social service organizations for home energy assistance will recur in 2017 and after. The AG notes that in a discovery response, Ameren said that these "many factors" would include "many different requests from many different charitable organizations" as well as "the level of contributions utilities like ComEd and Peoples Gas are permitted to make and recover." AG Cross Exhibit 2.

The AG notes that while recognizing the crisis, Ameren declined to commit to match the Special One Million Contribution funded by ratepayers with a like $1 million donation funded by Ameren shareholders. AG Cross Exhibit 1. The AG notes that Ameren apparently is willing to use ratepayer funds to help low-income residents in need of home heating assistance, but not its own funds.

The AG states that it is 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 state budget. The AG is also aware that the Percent of Income Payment Plan ("PIPP")[4] for low-income Ameren ratepayers has been suspended, due to the absence of a 2016 budget appropriation for the Department of Commerce and Economic Opportunity and the appropriation of the ratepayer-supplied SLIHEAP funds now sitting in the coffers of the Department of Revenue. The AG states that the absence of these funds puts low-income residents at risk of being unable to afford heat throughout Ameren's gas and electric service territories.

The AG states that if the Commission chooses to approve recovery of the Special One Million Contribution (in addition to whatever decision it may make on Ameren's separate, additional request for recovery of $1.613 million of charitable contributions in 2016), it is critical that the Commission attach a set of reporting conditions, pursuant to Section 4-101[5] of the Act, to ensure that the money is used for its intended purpose of benefiting low-income ratepayers. The AG states that it takes no position in this proceeding on Ameren's request for rate recovery of the Special One Million Contribution for purposes of providing home heating assistance to those who need it most. The AG notes, however, that Ameren has based its request for the additional $1 million on the SLIHEAP crisis, but at the same time, it refuses to commit to continuing to spend this special, ratepayer-funded amount on low-income energy assistance in the future. The AG argues that if Ameren's gas ratepayers are going to more than double their charitable contributions in order to assist low-income energy customers, ratepayers have the right to know that these funds are being used for that purpose. The AG states that reporting will provide an important level of accountability and assure that the money provided for low-income assistance is used for low-income assistance.

The AG states that it is significant that Ameren charges or credits ratepayers each month to reflect the level of uncollectible expense and that low-income energy assistance can lower the uncollectible expense by making energy more affordable to those households with limited income. The AG states that to the extent that Ameren customers cannot pay their bills, actual uncollectible expense is greater, and the monthly Rider GUA charges are thereby higher. The AG observes that Ameren is projecting approximately $4.0 million of uncollectible expense in the 2016 test year.[6] The AG alleges that the Special One Million Contribution, if it truly reaches low-income gas customers in danger of not paying their Ameren gas bills this year and in future years, thus has the potential to reduce Rider GUA charges for all ratepayers. The AG states that because the Special One Million Contribution will affect ratepayers' pocketbooks as a component of both base rates and Rider GUA charges, the People of the State of Illinois have a

[4] "PIPP Phase 1 Extension – Percent Of Income Payment Plan," Ameren Illinois Company, Ill. C.C. No. 2., Original Sheet No. 35, available at: https://www.ameren.com/-/media/illinois-site/Files/Rates/AIgs35otpipp.pdf.

[5] "The Commerce Commission shall . . . keep itself informed as to the manner and method in which the business is conducted."

[6] Ameren Schedule C-1, page 12, line 116 (Account 904).

strong interest in seeing that, if approved, the Special One Million Contribution is used for the intended purpose.

The AG recommends that Ameren report to the Commission (i) the disbursement status of the Special One 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. The AG suggests that this information can be added to Ameren's electric report concerning its customer assistance programs under Section 16-108.5(b-10) of the Act. 220 ILCS 5/16-108.5(b-10).[7] Section 16-108.5(b-10) provides:

> The participating utilities whose customers benefit from the funds that are disbursed as contemplated in this Section shall file annual reports documenting the disbursement of those funds with the Commission. The Commission has the authority to audit disbursement of the funds to ensure they were disbursed consistently with this Section.

That section further provides that while payments made under Section 16-108.5(b-10) "shall not be a recoverable expense," the utility "may elect to fund either new or existing customer assistance programs, including but not limited to, those that are administered by the utility." According to the AG, therefore, there is no statutory obstacle to reporting customer assistance expenditures funded by both ratepayers and shareholders in this required report. The AG recommends that Ameren should be required to submit this information every year until a new gas rate order takes effect. The AG states that this reporting requirement will ensure that Ameren's extraordinary recovery is, in fact, tied to the emergency purposes it has cited in its Surrebuttal Testimony.

Summary

For the reasons discussed above, the AG recommends allowing recovery of $958,000 of 2016 test-year charitable contributions by the Company, solely with respect to Ameren's Direct Testimony request to recover of $1.613 million. An appropriate amount of that (39.76%, or $381,000) would be allocated to gas revenues. The AG takes no position on Ameren's separate, additional request for recovery of the Special One Million Contribution. However, the AG recommends that *if* the Commission approves recovery of the Special One Million Contribution, it impose the reporting conditions outlined above.

Suggested Commission Analysis and Conclusion:

> The Commission finds that Ameren's actual charitable spending has been volatile in recent years, and its actual charitable

[7] Section 16-108.5(b-10) provides: "The participating utilities whose customers benefit from the funds that are disbursed as contemplated in this Section shall file annual reports documenting the disbursement of those funds with the Commission. The Commission has the authority to audit disbursement of the funds to ensure they were disbursed consistently with this Section." That section further provides that while payments made under Section 16-018.5(b-10) "shall not be a recoverable expense," the utility "may elect to fund either new or existing customer assistance programs, including but not limited to, those that are administered by the utility." Therefore, there is no statutory obstacle to reporting customer assistance expenditures funded by both ratepayers and shareholders in this required report.

> spending in recent years up through 2014 was consistently less than the amount of spending Ameren had been projecting, prior to each of the years in question, in future-test-year gas rate cases. The Commission also finds that Ameren has not expanded its charitable giving infrastructure in any appreciable way since 2014 that would support a drastic expansion from around $1 million of giving to over $2.6 million. Consistent with its decision in Docket No. 13-0192, the Commission will base its approved recovery level on a three-year average of Ameren's actual charitable spending from 2012 through 2014, plus a 2% escalation factor for 2015 and 2016. This approach smoothes out outliers and volatile charitable spending in the recent past. This approach produces a recoverable spending amount of $958,000, with approximately $381,000 allocable to Ameren's gas operations.

Alternative Suggested Commission Analysis and Conclusion:

If the Commission chooses to adopt Ameren's request for an additional $1 million contribution for low-income home energy assistance, the following language can be appended to the Commission's conclusion:

> The Commission further orders that, until the next gas delivery service rate order takes effect, Ameren should annually report the following in connection with this authorization: (i) the disbursement status of this $1 million contribution for low-income home energy assistance; (ii) the local agencies or other charitable recipients that received funds through that $1 million 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 annual electric report concerning its customer assistance programs under Section 16-108.5(b-10) of the Act, or made in some other fashion that Ameren determines is appropriate.

2. **<u>Non-Union Salaries and Wages</u>**

In Schedule G-5 of its rate case filing, the Company disclosed that for the years 2015 and 2016, it had projected non-union salary and wage increases of 3% and 4%, 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%, the AG points out. 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. This rate of non-union forecast wage increases is particularly excessive 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, he testified. According to the U.S. Census Bureau, for example, 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%, the AG points out. AG Ex. 2.0 REV at 7:116-122.

Given these facts, the recommends 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. This rate of wage increase is approximately half the rate forecasted by the Company. *Id.* at 7-8:125-127. 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 AG witness 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 response to Mr. Coppola's proposed adjustment, Ameren witness Marla Langenhorst states that the historical annual increase in salaries and wages and the projected increases in 2015 and in 2016 are reasonable for inclusion in customer rates because they are based on market surveys, have been paid consistently in prior years, and help attract and retain qualified employees. AIC Ex. 31.0 at 9:167-171. But 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, the AG states.

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, according to the AG. AG Ex. 5.0 at 3:55-58.

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 witness Langenhorst 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 Ex. 31.0 at 16:319-326.

But 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, according to the AG. 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.

In response to Mr. Coppola's proposed adjustment, Ms. Langenhorst also discusses the market surveys used by AIC as a basis for it proposed non-union pay increase. AIC Ex. 31.0 at 4-5:70-77. 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, the AG points out. This hardly constitutes an excuse for non-disclosure, given the existence of a protective order in this docket, the AG states. AG Ex. 3.0 at 4-5:81-85.

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, the AG notes. 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, according to the AG. 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.

Not surprisingly, the AG notes, like its defense of its Non-Qualified Pension Costs for certain executives, the Company asserts that it was necessary to historically pay a 3% merit increase and an additional 1% in other pay adjustments in order to attract, retain and motivate talented employees. AIC Ex. 31.0 at 5-6: 90-106. But as Mr. Coppola point out, the Company provided no evidence that a lower percentage increase in base pay would undermine that objective. Indeed, the necessity to increase wages at a rate of 4% described in Ms. Langenhorst's Rebuttal Testimony seems to be the Company's own creation. No significant or unusual turnover in management or non-union ranks has been shown to warrant defining a 4% increase in base pay as "necessary" to attract, retain and motivate employees. AG Ex. 3.0 at 5:103-106.

AG Exhibit 5.2 includes data requests sent to the Company asking for evidence of such need. The Company reported that less than 20 employees since 2010 mentioned compensation as an issue. This is not out of the ordinary. It is also unlikely that employees would leave employment or be less attracted to the Company if it increased base wages at 2% in line with national wage inflation instead of the proposed 4%, in Mr. Coppola's view. Ms. Langenhorst also suggests the base pay level is necessary for employee motivation (AIC Ex. 31.0 at 13:255-258), but the Company pays generous incentive bonuses to supposedly motivate employees to increase their performance, the AG notes. In short, the Company's reasoning to justify 4% base pay increases is based on aspirational rhetoric, rather than factual data. AG Ex. 5.0 at 5-6:107-114.

The Company further argues in defense of its inflated annual non-union wage increase forecast that non-union employees are not provided with an across-the-board wage increase as occurs with the union workforce, but instead are provided merit-based pay-for-performance increases. AIC Ex. 31.0 at 6:107-120. But this proved to be untrue, the AG notes. In response to an AG data request that asked the Company to provide the percentage of non-union employees who did not receive a merit pay increase in each year from 2011 to 2015, the Company indicated that only approximately 1% to 4% of the employees do not receive a merit increase. *See* AG Ex. 5.3. In other words, 96% to 99% of all non-union employees at AIC and AMS routinely receive merit increases each year averaging 3%. This would indicate nearly an across-the-board wage increase and *not* a selective approach as implied in Ms. Langenhorst's Rebuttal Testimony. Furthermore, all of those employees also are eligible to receive an additional annual incentive pay award under the Company's compensation policies. If employees are receiving merit increases for performance and also are being rewarded with incentive pay for performance, then that performance is being rewarded twice, according to the AG. AG Ex. 5.0 at 6:121-130. A more tempered forecastedincrease in pay of 2%, consistent with wage inflation, makes more sense and is very reasonable – particularly considering the fact that incentive pay is added as another layer of compensation, the AG points out.

The Company also attempts to muddy the waters by questioning the validity of the employment cost index and the publisher, IHS, both of which are referenced in the AG-proposed adjustment. AIC Ex. 31.0 at 11-13:225-261. But Mr. Coppola pointed out that IHS is a well-known and respected publisher of historical and forecasted economic data sourced from government agencies, surveys and research. 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. AIC witness 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, the AG states. 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.

Ms. Langenhorst's protestations about the use of the index as a benchmark for base pay allowances seems to rest more on frustration with it not supporting the higher forecasted merit increases surveys she prefers to use, according to the AG. But 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 Ms. Langenhorst's position suggests. Using a reliable labor cost factor such as the Employment Cost Index is a reasonable, fact-based approach to setting base wage expense, the AG asserts. This is similar to adjusting other O&M expenses based on the Consumer Price Index or other inflation index. *Id.* at 8:154-161.

Ms. Langenhorst further disagrees with Mr. Coppola's reference to the compounded pay increase of 26% that Ameren has awarded its employees. AIC Ex. 31.0 at 15:296-305. She attempts to dissect the 4% average base pay increases that the Company has granted to deflect attention from the issue by noting that only 3% is available for annual base pay increases, and that the remaining 1% is available "to adjust an individual's pay for a promotion, job reclassification, market pay adjustment, etc." *Id.* at 14:282-288.

This argument, however, rings hollow, according to the AG. Whether base pay is increased through merit increases or other pay adjustments, it is still going up at a 4% annual rate. It is also unimportant whether some employees get more or less than the average rate within the context of setting a reasonable level of salary and wage expense in rates. Mathematically, it is also indisputable that compounding 4% annual base pay increases from 2011 to 2016 will increase base wages and salaries by more than 26% over the 5-year period. While Ms. Langenhorst quibbles with the assessment, it is nevertheless true. Requiring customers to finance a 26% increase over five years is also excessive when the average household in Illinois has seen its income stagnate and actually drop from $60,841 in 2008 to $56,210 in 2013. AG Ex. 5.0 at 9:172-178.

Lastly, it is disingenuous for Ms. Langenhorst to characterize Mr. Coppola's proposed 2% base pay increase as an "artificial pay reduction" in comparison to the Company's proposed 4% increase. That simply isn't the case, the AG points out. In fact, these forecasts are used to set rates. Nothing prevents the Company from shifting budget dollars from other O&M categories, just as any competitive business might do, or even augmenting particular salaries with shareholder dollars to support these wage increases.

Ameren's attempt to discredit the AG adjustment also includes Ms. Langenhorst's dismissal of Mr. Coppola's reliance on U.S. Census Bureau data to reflect the Illinois median average household income information. AIC Ex. 31.0 at 17:340-349. But these claims are false. The source of median household income is shown at the beginning of the U.S. Census Bureau American Community Survey (ACS) document, which was provided to the Company in response to discovery and included in the record as AG Exhibit 5.4. The Company could have easily verified the source if it were deemed questionable. Subsequent to reading Ms. Langenhorst's Rebuttal Testimony, the AG sent the Company a data request asking if it had any other information on Illinois household income that contradicted my information. The Company did not provide any other information. The Company's response to the data request is also included in AG Exhibit 5.4.

Finally, as a further challenge to the Company's inflated wage increase request, Ms. Langenhorst also stated in her rebuttal that the median household income in Illinois has increased 6.11% since 2010. *Id.* at 17:346-347. This statement is incorrect. As shown in AG Exhibit 5.4, the median household income in 2010 was $56,595 and $56,210 in 2013. The numbers during this time period show a decrease, not an increase, in median income.

In sum, 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.

Suggested Commission Analysis and Conclusion:

> 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.

The Public Utilities Act provides the legal framework for assessing this 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 the requested forecasted non-union salary amounts.

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, and is hereby adopted for purposes of setting rates.

3. **<u>Incentive Compensation Costs</u>**

a. The Commission Should Disallow Most of Ameren's Request Because Its KPIs Mostly Do Not Provide Net Benefit to Customers

The AG notes that 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. The AG states that Mr. Coppola observed that nearly all employees of AIC and AMS participate in one of four incentive compensation plans offered by the Company: an Executive Incentive Plan – Officers; an Executive Incentive Plan – Directors; an Ameren Management Incentive Plan; and an Ameren Incentive Plan. *Id.* at 11:184-188.

According to the AG, each plan is based on achievement of certain Key Performance Indicators ("KPIs"). The AG states that 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. The AG states that for 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 AG further states that 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 15-16:273-284; AG Ex. 2.6 CONFIDENTIAL at 5-12.

The AG notes that as Mr. Coppola observed, "all four incentive plans are too heavily skewed toward internal operating measures that do not directly benefit gas customers." AG Ex. 2.0 REV at 13:234-235. The AG notes that the KPIs are generally set relative to internal Ameren targets or expectations, rather than to peer companies or some independent external performance standard. *Id.* at 13-14:235-237. The AG notes that 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.) The AG notes that Mr. Coppola also observed that the Company has not shown how the tangible benefits from achieving the KPIs in the four incentive pay plans have exceeded the cost of the incentive pay that Ameren seeks to recover in rates. *Id.* at 14:243-247.

As the AG observes, Ameren also argues that it uses incentive pay to attract and retain skilled employees and reduce turnover. Ameren Ex. 14.0 at 3. Yet the AG notes that, 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. AG Cross Exhibit 16. The AG argues that 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. The AG suggests that without some sort of tracking metric, the purported talent-attracting benefits of incentive pay seem hard to discern.

The AG states that the principle animating Mr. Coppola's recommendation on this matter is that "[w]ithout a direct link to superior performance on matters that are important to AIC's gas customers, the recovery of such incentive compensation in rates is not justified." AG Ex. 2.0 REV at 17:305-306. The AG supports Mr. Coppola's view and, in fact, further agrees in principle with the opinion of Ameren witness Verbest that "if a utility's incentive compensation costs are tied to the achievement of operational metrics that benefit its customers, then the costs should be recoverable" (Ameren Ex. 42.0 (Rev.) at 3-4:66-68) assuming those metrics are the *only* predicates for the incentive pay.

The AG notes that Mr. Coppola focused his analysis on the portion of Ameren's proposed $7.9 million recoverable 2016 incentive pay that is attributable to gas-customer-focused KPIs; from this calculation, he concluded that only $2,043,015 should be recovered, based on a careful analysis of each KPI in Ameren's incentive plans, as shown in AG Exhibit 27 (CONFIDENTIAL). The proposed $2,043,015 of recoverable test-year costs is taken entirely from AIC incentive pay plans; all AMS incentive pay is disallowed under Mr. Coppola's proposal, for the reasons listed above. According to the AG, the $2,043,015 breaks down as 72.2% expenses, or $1,475,057, and 27.8% capital costs, or $567,958. AG Exhibit 2.8.

The AG urges that more generally, as Mr. Coppola recommended in testimony, the Commission should require (in this case and going forward) Ameren to clearly demonstrate that the amount of incentive compensation recoverable in rates is directly related to performance measures that improve customer service and result in competitive rates to gas customers of the utility. AG Ex. 2.0 REV at 19:348-351. The AG further advocates that the Commission should require that, beginning with the next rate case filing, the Company should 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. *Id.* at 19:351-354.

The AG notes that Ameren witness Verbest attempted to show in his Rebuttal Testimony that the KPIs in Ameren's incentive plans are aligned with customer benefits. The AG states that in theory, goals like improved worker safety, tighter budget controls, and stronger efficiency could bring down operating and maintenance ("O&M") expense. The AG notes that when asked to explain whether Ameren's O&M expenses have increased or decreased since 2011 or have increased at or below the rate of inflation, Mr. Verbest declined to answer the questions, and he also declined to compare the Company's gas distribution rates and customer service levels to that of peer companies in the Midwest. AG Ex. 5.0 at 22:440-444; AG Ex. 5.8. The AG notes that as Mr. Coppola showed in his direct testimony, Ameren's O&M expenses have increased since 2011 at a rate much higher than inflation ($163,963,000 to $206,207,000 over four years, a compound average annual growth rate of 5.9%). AG Ex. 2.0 REV at 5:85, 6:100-101. Meanwhile, inflation in recent years has been 2%. *Id.* at 6:100-101. The AG alleges that 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.

The AG states that while Mr. Verbest stated in his Surrebuttal Testimony that the KPIs in Ameren's incentive pay plans "drive improved customer service and increased operational efficiencies that reduce or control the costs ultimately recovered from customers through gas rates" (*id.* at 4:81-83), the evidence he presented does not support this assertion. The AG points to Mr. Verbest's Exhibit 28.1, which purports to show how various KPIs in the Ameren incentive plans benefit customers. The AG states that several KPIs on page 1 relate to budget controls –

but due to the structure of utility ratemaking in the ICC, actual realized costs do not necessarily increase customer rates. The AG suggests that if Ameren imprudently allowed costs to rise one year, the Commission likely would not use that as a basis to raise customer rates in the next rate case. The AG then states that several KPIs on page 2 relate to compliance with applicable regulations, but customers should not have to pay extra to motivate Ameren employees to follow existing legal requirements. The AG states that similarly, multiple KPIs on page 3 relate to "minimizing the amount of taxes that are included in [] rates," which purportedly "benefits customers," but the Commission sets customer rates simply by using prevailing state and federal tax rates to calculate the amount of revenue required to achieve a given amount of net income in a putative test-year calculation – not by looking at the actual experience of taxes paid or not paid by Ameren. The AG states that "Leadership development" on page 4 does not describe the measurable metrics that Ameren human resources employees must meet to adequately develop leaders and earn their incentive pay; nor does it specifically tie good leadership to any customer benefits. While the AG will not analyze every one of the several dozen KPIs listed on Ameren's Exhibit 28.1, the general thrust is clear: the connection to customer benefits for most of them is tenuous or nonexistent. The AG admits that to be sure, some of the KPIs directly reference customer benefits like call center response times and gas leak response times – but Mr. Coppola's disallowance proposal surgically separated those KPIs that benefit customers and preserved recovery of the associated incentive payouts.

b. The Commission's Net Benefit Standard for Recovery is Clear

The AG observes that customer benefit has historically been a necessary condition for recovery of incentive compensation expense by utilities here in Illinois. For example, in Docket No. 05-0597, an electric delivery rate case of ComEd, the Commission found that 50% of ComEd's test-year incentive compensation expense was based on the earnings per share of ComEd's parent company and thus not recoverable.[8] The AG notes that the Appellate Court upheld that disallowance by the Commission, holding that "the Commission could have reasonably concluded that the earnings-per-share portion of the plan provided only a tangential benefit to ratepayers." *Commonwealth Edison Co. v. Ill. Commerce Comm'n,* 398 Ill.App.3d 510, 552 (2d Dist. 2009). The AG further notes that in Docket Nos. 07-0241/0242 (cons.) (North Shore Gas Company / The Peoples Gas Light & Coke Company), the Commission referred to "the cost saving or other direct ratepayer benefit that we require"[9] for recovery of incentive pay expense. The AG suggests that 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. The AG notes that in Docket Nos. 09-0306 *et al.* (cons.) (Ameren Illinois Utilities), the Commission stated its standard as "[i]f no net benefit is realized by ratepayers upon the

[8] Order, Docket No. 05-0597, July 26, 2006, at 91 (available at: http://www.icc.illinois.gov/downloads/public/edocket/178278.pdf).

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

attainment of the plan goal, there is no reason for ratepayers to contribute funds encouraging [utility] employees to reach that goal."[10]

The AG notes that the requirement of customer benefit is echoed in numerous other states' utility jurisprudence, and the ICC should not be reluctant to take a cue from those other jurisdictions. The AG says that many regulatory commissions have set very high standards for inclusion of incentive compensation in rates, and often do not allow recovery of all or most of the incentive pay costs because utilities fail to demonstrate that customer benefits exceed the costs. *See, e.g.*, Michigan Public Service Commission, Docket No. U-15645, Order[11] dated November 2, 2009 at 41 (finding in a Consumers Energy Company ("CEC") electric rate case that "[f]or ratepayers to be asked to pay for an incentive compensation program under existing economic conditions, that program must, more than ever, clearly demonstrate that its benefits outweigh its costs"); Docket No. U-15245, Order[12] dated June 10, 2008 at 32-33 (disallowing recovery of CEC's incentive pay expense in an electric rate case where most performance metrics "seem to require employees to simply do what the Commission's rules already require"); Docket No. U-14347, Order[13] dated December 22, 2005 at 34-35 (disallowing recovery of CEC's incentive pay in an electric rate case because the utility "failed to make the requisite showing that its bonus payments would provide benefits to ratepayers at least commensurate with their costs"); and Docket No. U-15985, Order[14] dated June 3, 2010 at 55-56 (rejecting request by Michigan Consolidated Gas Company ("Mich Con") to include incentive compensation in rates where, *inter alia*, "Mich Con's [incentive program] goals that benefit ratepayers are already requirements imposed by the Commission's Service Quality and Reliability Standards. Thus, Mich Con's incentive compensation plan does not provide additional benefits to ratepayers commensurate with the costs of the program").

The AG notes that beyond Illinois' neighboring state of Michigan, several other states have adopted similar standards disallowing recovery of incentive pay where not tied to customer benefits. *See also* Florida Public Service Commission, Docket No. 090079-EI *et al.*, Order[15] dated March 5, 2010 at 115 (disallowing recovery of incentive compensation by Progress Energy Florida, Inc. because "incentive compensation provides no benefit to the ratepayers and constitutes nothing more than added compensation to employees"); Missouri Public Service Commission, Docket No. ER-2007-024, Order[16] dated December 6, 2007 at 50 ("if the method [Kansas City Power & Light Company] chooses to compensate employees shows no tangible benefit to Missouri ratepayers, then those costs should be borne by shareholders, and not included in cost of service"); Massachusetts Department of Public Utilities, Docket No. D.P.U.

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[10] 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)).

[11] Available at: http://efile.mpsc.state.mi.us/efile/docs/15645/0491.pdf.

[12] Available at: http://efile.mpsc.state.mi.us/efile/docs/15245/0518.pdf.

[13] Available at: http://efile.mpsc.state.mi.us/efile/docs/14347/0341.pdf.

[14] Available at: http://efile.mpsc.state.mi.us/efile/docs/15985/0206.pdf.

[15] Available at: http://www.psc.state.fl.us/library/filings/10/01530-10/01530-10.pdf.

[16] Available at: https://www.efis.psc.mo.gov/mpsc/commoncomponents/viewdocument.asp?DocId=534060497.

10-55, Order[17] dated November 2, 2010 at 254 (companies "must be prepared to demonstrate direct ratepayer benefit" to recover incentive compensation expense); New York Public Service Commission, Case No. 05-E-1222, Order[18] dated August 23, 2006 at 51 (incentive pay recoverable "to the extent that the parties have also shown that the incentives are being offset with productivity gains"); Connecticut Department of Public Utility Control, Docket No. 08-01-16, Order[19] dated December 3, 2008 at 4 ("[b]ecause of [the] variability [of annual incentive pay] and the difficulty of distinguishing goals that benefit ratepayers from those that benefit shareholders, it may be difficult to determine the portion of incentive payments that represents reasonable costs in a rate case. It is usually even more difficult to determine whether the goals can and will be achieved cost effectively and whether the value of achieving these goals is worth the additional executive compensation expense"); Arkansas Public Service Commission, Docket No. 06-101-U, Order[20] dated June 15, 2007 at 69 (disallowing recovery of incentive compensation expense made by Entergy Arkansas, Inc. where the Commission found "no direct or measurable benefit to ratepayers of these types of incentives").

In summary, the AG advocates that the Commission should apply its long-standing standards for recovery of incentive compensation expense here. Consistent with AG witness Coppola's recommendations, the AG asks the Commission to disallow all but $2.043 million of Ameren's proposed incentive compensation expense for the test year, a reduction of around $5.83 million.

Suggested Commission Analysis and Conclusion:

> The Commission's standard for recovery of incentive compensation has long been based on a showing of net benefit to customers stemming from the incentive pay programs. While the Commission has approved Ameren's very similar incentive pay programs in prior gas and electric rate cases, the objections raised by the AG are worth examining.
>
> As the AG showed, Ameren's own evidence listing its Key Performance Indicators ("KPIs") shows numerous KPIs that are not obviously linked to customer benefit, such as completing tax forms on time or reducing spending in between rate cases, or KPIs that incentivize goals that the Company should be doing anyway, such as complying with government regulations. Programs like "leadership development" seem nebulous and it is not clear from the record whether that development leads to actual improvement in Company performance in any way that benefits customers.

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[17] Available at: http://web1.env.state.ma.us/DPU/FileRoomAPI/api/Attachments/Get/?path=10-55%2f11310dpuord.pdf.

[18] Available at: http://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId={81B6E4DD-0643-4DB6-9291-CE3C7AC09722} .

[19] Available at: http://www.dpuc.state.ct.us/dockhist.nsf/8e6fc37a54110e3e852576190052b64d/5ce3123b0ee68cad8525755a00637b26?OpenDocument.

[20] Available at: http://www.apscservices.info/pdf/06/06-101-u_303_1.pdf.

> More importantly, as the AG showed, many of Ameren's incentive pay KPIs have apparently not been effective in reducing O&M spending, because that spending has risen by 5.9% annually over the past four years.
>
> The Commission urges Ameren to develop incentive pay programs, if it wants recovery for their cost, that include more KPIs clearly linked to direct customer benefits, rather than to goals that benefit shareholders in whole or in part. The Commission also urges Ameren to benchmark more of the metrics in those KPIs against the best performance in the utility industry, so that Ameren's customers will receive superior and attainable service quality. As the AG showed, very few of Ameren's KPIs are so measured against external benchmarks.
>
> For the reasons described above, the Commission adopts the disallowance proposal of the AG. Ameren will be allowed \$2.043 million of recovery in the test year in this spending category.

4. Qualified Pension and Other Post-Employment Benefit Costs

In its rate filing, the Company included approximately \$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 accuracy 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 suspect, however, according to the AG. 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.

Those amounts, which are included in the Confidential version of the AG's Initial Brief, show that pension costs for AMS employees drop significantly from \$16.1 million in 2016 through 2019. Pension costs for AIC employees also drop significantly over this same time period. OPEB costs for AIC fall even more dramatically. 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 significant *reduction* in pension and OPEB expense 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.

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," the AG states. The Company also offered, "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 AG points out that this explanation does not satisfy the Company's burden under Section 9-201 of the Act of proving the justness and reasonableness of its requested expenses. 220 ILCS 5/9-201. As AG witness Coppola notes, the significant decline in costs post-2016 raises questions on the reasonableness of the pension and OPEB costs that the Company has included in the forecasted test year. Permitting Ameren to recover the forecasted 2016 amounts, when the evidence shows these expenses will drop precipitously after the test year, suggests a form of cherry-picking of the test year level of pension and OPEB expense that should be rejected by the Commission.

Based on the limited information provided by the Company, he 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.

In response to Mr. Coppola's proposed adjustment, AIC witness Lynn challenges the proposal and describes how the Company followed consistent application of U.S. GAAP in calculating those expenses for 2016 and future years. AIC Ex. 29.0 at 4-7:87-138. But this testimony misses the point and simply discusses in general terms certain procedures and approaches utilized to calculate pension and OPEB costs and the components that are part of those calculations, according to the AG. Mr. Coppola pointed out that Mr. Lynn did not provide any specific calculations of how the 2016 pension and OPEB expense were determined, or the 2017 through 2019 forecasted expense amounts. He 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. 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, the AG states. 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, the AG states.

In their Reply Brief, the AG challenges Ameren's claim that the AG-proposed adjustment violates the test year rules. 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. Admin. Code 287.30(b).

These criticisms are not supported in fact or law, however, according to the AG. 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, the AG states. At its heart, Ameren's argument suggests that the Commission has no means, other than historical data, to test future test year projections, according to the AG.

In addition, Ameren's citation to caselaw that discusses the mismatch of expenses and revenues from different time periods is inapposite here, according to the AG. 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, the AG criticizes Ameren's 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. In fact, the AG points out, 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.

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, according to the AG. 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 for the period of time rates are in effect.

The Company also offers what the AG characterizes as a strawman argument that questions the accuracy of Mr. Coppola's adjustment to pension and OPEB expense that ignores the larger point at issue: Ameren has offered no supporting calculations or additional information to reconcile the forecasted test year pension and OPEB amounts with the significant decline of these same expenses beginning just one year after rates take effect. *Id.* at 22-23:475-484. Ameren's proposal invites the Commission to incorporate *indefinitely* into rates expense amounts that the Company admits will no longer exist (including expense forecasts that are *negative* in amount) one year after rates take effect.

The AG points out that AIC witness Stafford was given yet another opportunity in cross-examination to defend and reconcile the test year pension and OPEB amounts when confronted with the data showing the precipitous, forecasted drops in expense for these two cost categories, but again offered no explanation as to why AIC customers should be required to pay forecasted expense amounts indefinitely in rates that greatly exceed forecasted expense levels. Tr. at 164-165. While Mr. Stafford offers criticisms of the methodology employed by Mr. Coppola in calculating his adjustments to pension and OPEB expense, he failed to explain the larger point: how the test year forecast of these expenses could be justified in light of the dramatic drop in these costs beginning in 2017.

The Commission should disregard AIC's testimony on this matter as being in error and uninformative, and adopt the AG-recommended adjustment of $4.1 million to O&M expense and $2.8 million for capital additions associated with AIC and AMS pension and OPEB expense. 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.

Suggested Commission Analysis and Conclusion:

> 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. However, 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*, as shown at AG Ex. 2.0 at

20:368-374 and in AG Ex. 2.9. At issue is whether the AIC forecasted 2016 expense amounts are reasonable in light of the documented forecasted reductions in these expenses immediately following the 2016 test year – the period of time rates will be in effect.

The evidence shows that the AG made 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. That explanation fails to satisfy the Company's burden of proof under Section 9-201 of the Public Utilities Act. 220 ILCS 5/9-201. In short, Ameren's proposed 2016 forecast of these expenses asks ratepayers to finance expense levels that the evidence shows will not exist according to Ameren's own forecasts.

5. **<u>Non-Qualified Pension Costs</u>**

The AG notes that the Public Utilities 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 51-102. 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.

The Company's request for rate recovery of $176,492 for Non-Qualified Pension Plan Administration belies these statutory goals, according to the AG. No Company witnesses presented evidence to justify this cost or, for that matter, any of the components of the $23.2 million in employee benefits proposed by the Company for inclusion in rates, the AG points out. The non-qualified retirement plans typically include retirement costs for Company executives that receive retirement benefits in excess of the limitation imposed by the Internal Revenue Code ("IRC") for deduction of the related expense in the tax return. Non-qualified retirement plans apply to only a few highly paid executives and many regulatory commissions do not allow recovery of cost related to such plans. AG Ex. 2.0 REV at 22:418-425.

In its assessment of this issue, the AG argues, 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. Employers understand that premise but have continued to offer these benefits since they see that they allegedly provide value to their executive employees. *Id.* at 23:429-432. Despite the usual argument by Company management that these costs are legitimate business costs for retirement programs typically offered to executive management by many corporations, the payment of these costs should not be recovered in rates for an essential service, as they provide no discernible benefit to ratepayers, according to the AG.

The AG reminds the Commission 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 should be paid by customers. As 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 (like taxpayers) 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.

In response to Mr. Coppola's proposed adjustment, AIC witness Langenhorst disputes the characterization of the plans as being applicable to a small, select group of highly-paid employees and rhetorically spins these plans as benefit restoration plans for those executives. She generally states that these special plans provide benefits to customers by allowing AIC to attract, retain and motivate executives to achieve superior customer satisfaction and company performance – an argument the AG compares to Wall Street excuses for excessive compensation following the 2008 recession -- that fails to satisfy the requirements of the PUA that rates for an essential service be least cost. AIC Ex. 31.0 at 18-19:376-398; 220 ILCS 5/8-104. AIC witness Langenhorst further argues in her Rebuttal Testimony that Mr. Coppola incorrectly defined who participates in the non-qualified plans and suggests that he misunderstands the overall purpose of those plans. *Id.* at 19:386-387.

But the AG notes, as Mr. Coppola testified, there, in fact, is no misunderstanding about the purpose of these non-qualified plans and who participates in them, according to the AG. In response to AG data requests, the Company was asked to explain how he may have misunderstood the purpose of the plans. To follow up on that point, the AG asked the Company in a data request to disclose how many employees participate in the non-qualified plans, the titles of those employees, and the compensation limit in the IRC that triggers participation in the plans.

The Company responses, which are also included in AG Exhibit 5.5, provided the following information:

1. At AIC, 43 employees participate in the Ameren Corporation Deferred Compensation Plan and the Supplemental Retirement Plan. At AMS, 85 employees participate in the plan.

2. The employees that typically participate in these plans are Presidents, Senior Vice Presidents, Vice Presidents, Senior Directors, Directors and Controllers.

3. The compensation threshold 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.

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 AG states. Ms. Langenhorst's attempt to obfuscate the issue by claiming otherwise is simply not credible, the AG points out.

Whether they are called restoration plans or non-qualified plans, the result is the same. 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 and are not deductible in the Company's tax return, according to the AG. These benefits, as noted above, are very costly to the Company and unfairly burden customers with higher costs. Despite Ms. Langenhorst's general claims and platitudes that recovery of these costs will help attract, retain and motivate executives, and supposedly benefit customers, the Company has not provided 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 AG recommends that the Commission 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.

In their Reply Brief, the AG points out that AIC's defense of its non-qualified pension costs for certain highly paid executives 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).

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, the AG states.

Suggested Commission Analysis and Conclusion:

> 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 Public Utilities 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 51-102. 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.

The Company's request for rate recovery of $176,492 for Non-Qualified Pension Plan Administration belies these statutory goals. No Company witnesses presented evidence to justify this cost or, for that matter, any of the components of the $23.2 million in employee benefits proposed by the Company for inclusion in rates, the AG points out. The non-qualified retirement plans typically include retirement costs for Company executives that receive retirement benefits in excess of the limitation imposed by the Internal Revenue Code ("IRC") for deduction of the related expense in the tax return. Non-qualified retirement plans apply to only a few highly paid executives and many regulatory commissions do not allow recovery of cost related to such plans. AG Ex. 2.0 REV at 22:418-425.

The Commission notes 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. Employers understand that premise but have continued to offer these benefits since they see that they allegedly provide value to their executive employees. *Id.* at 23:429-432.

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 should be paid by customers. Despite the usual argument by Company management that these costs are legitimate business costs for retirement programs typically offered to executive management by many corporations, the payment of these costs should not be recovered in rates for an essential service, as they provide no discernible benefit to ratepayers. As the AG points out, there are other utility expense 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 (like taxpayers) should not pay for costs that benefit only a select few highly-paid employees of the Company. Mr. Coppola's proposed adjustment to remove this expense from the Company's revenue requirement is hereby adopted.

6. **Gasoline and Diesel Fuel Costs**

The AG states that incorporated within the Company's test year 2016 O&M forecast are assumptions as to what the Company will pay for gasoline and diesel fuel costs for its fleet of cars and trucks. The AG states that in response to data requests, the Company disclosed that in preparing this rate case filing in late 2014, it estimated the cost of gasoline and diesel fuel for 2016 at $3.34 and $3.71 per gallon, respectively. According to the AG, the Company stated that it developed this 2016 fuel price forecast by analyzing the price paid in 2013 and year-to-date 2014 as of that point in time, and applied an assumed 3% decline in price. AG Ex. 2.0 REV at 24:447-452.

The AG states that given the continued decline in fuel prices, the Company was asked to provide more recent information on the prices paid during year-to-date April 2015. The AG notes that the recent information shows that fuel prices have declined significantly from the level assumed for 2016, and that the Company's original forecasted price of fuel is in need of adjustment – a fact recognized by Staff and the Company as well. *Id.* at 24:453-460; Staff Ex. 11.0 at 4-7:70-137; AG Ex. 35.0 at 6;124-126.

The AG states that its witness, Mr. Coppola, based his analysis of the Company's original fuel price forecast on actual data provided by the Company of the price of gasoline paid during the first four months of 2015. AG Ex. 2.0 REV at 24:454-460. The AG states that Coppola's investigation revealed an average price of $2.30 per gallon, or $1.04 less than the original test year forecast. Similarly, the AG notes that the actual price paid for diesel fuel was significantly lower than forecasted by Ameren, averaging $2.78, or $0.93 per gallon lower than the test year forecast. *Id.* The AG notes that 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. The AG notes that in Rebuttal Testimony, Mr. Coppola explained why it was not necessary to update his Direct Testimony proposal with actual data from the next three months of 2015: he believed 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.

The AG states that based on these clear downward trends in gasoline and diesel fuel prices, Mr. Coppola recommended that recoverable expense for the test year of 2016 be reduced based on the actual prices experienced by the Company during the first four months of 2015 -- $2.297 per gallon for gasoline and $2.784 for diesel fuel. The AG states that these assumed prices entail 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. 2.0 REV at 24:458-460; AG Ex. 5.0 at 16:329-17:336; AG Ex. 5.7 REV. As the AG notes, 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. The AG states that 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.

The AG states that in his Direct Testimony, Staff witness Lounsberry adjusted the Ameren 2016 test-year forecast to incorporate a price of $2.80 per gallon for gasoline and $3.24 per gallon for diesel fuel. The source of Staff's proposed fuel prices was the U.S. Energy Administration ("EIA") Short Term Price Outlook for 2016 as of April 2015. The AG notes that Mr. Lounsberry then adjusted the EIA 2016 price to reflect the variances that existed between Ameren's historical gasoline prices and the EIA's historical gasoline prices for 2013 and 2014, which resulted in a 7 cent adder to the EIA projected 2016 price. Staff Ex. 5.0 at 19-20:385-400. The AG notes that in Rebuttal Testimony, Mr. Lounsberry revised his adjustment to test year fuel expense to incorporate the July 2015 EIA Short Term Price outlook of 2016 prices, which have dropped to $2.55 for gasoline from $2.80 in April, and to $3.03 from $3.24 for diesel fuel. His total adjustment amounted to a reduction of $313,711 in gasoline expense and $70,385 for diesel fuel expense. Staff Ex. 11.0 at 4-7:70-137.

The AG notes that in its Rebuttal case, Ameren accepted Staff's proposed use of EIA information for the calculation of fuel expense. The AG notes that although Mr. Getz criticized Mr. Coppola's use of four months of price data in Mr. Coppola's adjustment, he could not challenge the fact that fuel prices were dropping over the Company's inflated forecast. Mr. Coppola further testified that the glut of crude oil is not likely to diminish in the near future, and that the forecasted price of gasoline and diesel fuel will likely continue to decline toward current levels in the coming months (AG Ex. 5.0 at 17-18:352-357). The AG notes that 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).

The AG argues that the decision for the Commission in determining what constitutes a reasonable forecast of fuel prices rests on its assessment of whether it is preferable to rely on national, average price forecasts or *actual* prices paid by Ameren in 2015 that reflect a more localized indicator of fuel prices. The AG says that in that regard, the choice should be clear. According to the AG, as Mr. Coppola pointed out, when available, it is preferable to use actual prices experienced by the Company than forecasted *national average* prices that do not reflect local markets. The AG suggests that given the continued decline in fuel prices over the year, Mr. Coppola's adjustment, which is based on data from the first four months of 2015, is a conservative one, and should be adopted by the Commission.

Suggested Commission Analysis and Conclusion:

> Given the volatility of energy markets, the Commission finds it more reliable to use actual recent prices rather than speculative forecasts of future prices to set Ameren's fuel cost expense for the test year. For that reason, the Commission adopts the AG's proposal to calculate test-year recovery based on assumed prices of $2.297 per gallon for gasoline and $2.784 for diesel fuel, which leads to total recoverable expense of $1,332,289,

or $138,626 less than the Company's request in its surrebuttal testimony.

7. **<u>Gas-Only Employee Headcount/Vacancy Costs</u>**

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. **<u>Gas Distribution and Transmission Expense</u>**

a. <u>Sewer Cross Bore Inspections</u>

The AG notes that Ameren spent approximately $58,000 to inspect 479 sewer cross-bore laterals in mains in 2013, and $494,000 in 2014. AG Ex. 2.0 REV at 25:480-482. The Company is forecasting expense of $758,000 for 2015 and $957,000 for the 2016 test year. *Id.* at 25:482-484; Ameren Ex. 22.0 (2d Rev.) at 16:328. The AG observes that in light of a lack of evidence for the needed acceleration in spending, AG witness Coppola recommends allowing recovery based on the forecasted 2015 expense level of $758,000. *Id.* at 26:494-499; AG Ex. 5.0 at 35:726-728.

The AG notes that Ameren witness Colyer defended the acceleration of sewer cross-bore inspections in his Rebuttal Testimony, arguing that "[g]iven the findings in 2014, AIC determined that an increase in the number of inspections would be prudent for both 2015 and 2016, based upon the identified cross bores found and mitigated in 2014." Ameren Ex. 22.0 (2d Rev.) at 19:386-388. The AG states that even granting *arguendo* that the inspections are useful for public safety, it is important to note that Mr. Colyer did not explain *why* an increase in the pace of inspections is justified, or why a 26% increase from 2015 expense to 2016 is the appropriate rate of increase. The AG further notes that Colyer admitted during cross-examination that the problem of potential hazards with cross-bores has existed since before 2013. Tr. at 93:6-9.

The AG notes that their witness, Mr. Coppola, observed in his Rebuttal Testimony that, when asked to provide a plan of implementation for the program showing the locations to be inspected and repaired by year, the Company provided a spending forecast with a 1% escalation factor for each of the three years after 2016, without any explanation for this rate of increase. AG Ex. 5.0 at 35:714-715; Ameren Ex. 38.2. The AG further observes that when pressed in cross-examination, Mr. Colyer allowed only that the 1% factor is "a simple year over year escalation factor for potential increases in labor." Tr. at 96:6-10. The AG notes that the Company also stated that it plans to increase the number of inspections from 279 (2013) to 1,787 (2014) to 2,888 (2015) and then 4,089 (2016) followed by roughly zero growth in each of the subsequent three years. AG Ex. 5.0. at 35:716-719; Ameren Ex. 38.0 at 10:213. The AG also points out that Mr. Colyer represented that the Company has not presented a comprehensive plan to address this inspection program over the long term (which could be up to 50 years) with appropriate identification of priority locations and allocation of resources.

The AG states that Ameren's cross-bore inspection program appears to lack a comprehensive long-term plan or thesis. The AG states that the justness and reasonableness of a particular spending program in a test year must be assessed, in part, by whether it fits into any sort of long-term plan or is just haphazard spending for its own sake. The AG recommends, following Mr. Coppola's proposal, that the Commission should allow recovery only based on the 2015 projected expense level of $758,000, a reduction of $199,000 to the Company's request.

Suggested Commission Analysis and Conclusion:

> The Commission agrees with the AG that the Company has not presented a specific justification for its projected 26% increase of expenditure in 2016 compared to the previous year. Additionally, the Commission finds that the Company has not presented a comprehensive long-term plan for the sewer cross-bore inspection program. The justness and reasonableness of a test-year expenditure must be assessed, in part, within the context of whether it fits into any long-term plan for maintenance. For these reasons, the Commission adopts the AG proposal to allow recovery at the 2015 expenditure level, $758,000.

b. Gas Records Management

The AG observes that Ameren has introduced a new gas records management program in 2015, with $150,000 of expense forecasted for the year. AG Ex. 2.0 REV at 26:505-506. The AG further notes that the Company is further projecting to spend approximately $507,000 on the same program in the test year of 2016. *Id.* at 26:502-503. The AG states that the projected $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. Ameren Exhibit 22.5. AG witness. Coppola observed that the Company provided no explanation for the need for the program or its details; nor did Ameren justify why over half a million dollars needs to be spent in 2016. *Id.* at 27:507-510. The AG notes that in light of the lack of evidence provided by Ameren, Mr. Coppola proposed disallowing recovery of the entire 2016 projected expense. *Id.* at 27:512-513.

The AG says that Ameren witness Colyer attempted to explain the program and its long-term projections further in his Rebuttal and Surrebuttal Testimonies. According to the AG, Ameren argued 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"). Ameren Exhibit 38.3. However, notes the AG, Mr. Colyer admitted that the 2016 expense is largely to develop specifications for a Document Management System that will be included in a Request for Proposal; in other words, the program is not fully defined yet. Ameren Ex. 38.3 at 5. The AG further states that Ameren has neglected to explain why that much expense ($507,000) 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). The AG observes that 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.

The AG further notes that Mr. Colyer's evidence shows that the records management program could cost $14 to $20 million (AIC Ex. 38.3 at 4); in cross-examination, he admitted that the total long-term cost could even be above that maximum $20 million estimate. Tr. at 103:1-4. The AG observes that as Mr. Colyer stated, "AIC doesn't know the ultimate cost of the project." Tr. at 103:12-13. The AG states that Mr. Coppola in Rebuttal Testimony "[found] it difficult to accept the spending of $507,000 for the start of a program which has not yet fully defined," and he continued to advocate the disallowance of the full 2016 expense amount.

In sum, the AG urges the Commission to disallow all recovery for this spending item, as the scope of the program is undefined, making any initial steps yet imprudent.

Suggested Commission Analysis and Conclusion:

> The Commission finds that, as Ameren is still at the stage of defining the scope of this program and drafting a request for proposals, the Commission cannot yet evaluate whether the program represents a just and reasonable expenditure necessary to providing safe, reliable, and adequate service. Moreover, Ameren has not yet defined the long-term cost of the project, so it is difficult for the Commission to evaluate the justness and reasonableness of the proposed exploratory spending in the test year without knowing what level of regular spending it is meant to lead to. Ameren is invited to request recovery for expenditures toward this project in a future gas delivery service rate case when the records management program is better defined.

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

The AG notes that the Company spent approximately $616,000 and $778,000 in 2013 and 2014, respectively, to paint residential, commercial and industrial meters and pressure control stations to discourage corrosion. The AG states that for 2015, Ameren has forecasted approximately $1 million of spending on the program; for the test year of 2016, it projects $1.1 million. AG Ex. 2.0 REV at 27:512-517. The AG's expert witness, Mr. Coppola, observed that the Company's evidence does not define a long-term plan for the program. *Id.* at 27:517-520. The AG notes that Mr. Coppola observed that the number of meters targeted for painting increases by 12% from 2014 to 2015, but spending increases by 34% from 2014 to '15 under the Company's projections. *Id.* at 27-28:522-527; Ameren Ex. 38.5.

The AG observes that breaking down the projected activity increase among (i) residential and small commercial meters versus (ii) large commercial and industrial meters, the first category shows an 11.5% increase in number of meters from 2014 to '15 but a 20% increase in spending. Ameren Ex. 38.5; AG Ex. 5.0 at 37:759-761. According to the AG, Ameren's witness Mr. Colyer attempted to explain this by gesturing to increases in per-unit labor costs, (Ameren Ex. 38.0 at 19-20:420-423), but he admitted in cross-examination that he had no evidence for that claim. Tr. at 109:20-110:5. The AG states that in the second category of meters, there is a 16% increase in number of meters projected to be painted in 2015 compared to '14, but a 66% projected increase in expense. Ameren Ex. 38.5; AG Ex. 5.0 at 37:37:763-765. The AG notes that Mr. Colyer attempted to explain this discrepancy by explaining that "pressure control stations and commercial/industrial meter sets have a wide variety of sizes and configurations, therefore a linear correlation between the cost and the units painted does not exist" – apparently implying that in 2015, the average size of the units to be painted is larger than in 2014. Ameren Ex. 38.0 at 19:413-415. However, points out the AG, when asked for evidence that the 8 incremental units added in 2015 to the painting program were larger on average than the 49 painted in 2014, Mr. Colyer admitted that he never provided any such information. Tr. at 112:11-20.

The AG states that 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 its asserted levels of activity, so it is not clear why Ameren's asserted levels of painting activity are the minimums required to support safe, reliable, and adequate service.

The AG summarizes its position as follows: Because the increase in projected spending for 2015 does not appear to track the projected increase in number of meters painted, the Commission should allow cost recovery at the 2014 level, $778,000, as AG witness Coppola recommended. AG Ex. 2.0 REV at 28:527-531.

Suggested Commission Analysis and Conclusion:

> The Commission is puzzled at Ameren's requested recovery for the test year, as the increases in spending for 2015 (which largely mirrors 2016 test-year spending and activity) compared to 2014 seem disproportionate to the increases in painting *activity* in 2015 compared to 2014. For residential and small meters, Ameren's own projections show a 20% increase in spending in 2015 against an 11.5% increase in number of meters to be painted. For large commercial and industrial meters, Ameren's projections show a 16% increase in number of meters projected to be painted in 2015, compared to a 66% projected increase in expense in 2015. Ameren provided no credible information to justify these discrepancies. For these reasons, the Commission will authorize recovery at the 2014 spending level, $778,000.

d. <u>Damage Prevention</u>

The AG notes that in Ameren's Damage Prevention program, expenses rose from $3.9 million in 2013 to $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 Ex. 2.0 REV at 30:569-571. The AG states that the Company attributes the increase to additional requests for JULIE locates and new damage prevention programs. But the number of JULIE locate requests increased only 6% from 2013 to '14, far less than the 17% increase in expense over that span. *Id.* at 30:572-574. The AG says that in response to a data request seeking an explanation for part of the increase in costs, the Company described a new program to educate excavators, homeowners and the public on how to avoid damage to underground gas lines. *Id.* at 30:579-582. The AG says that its witness, Mr. Coppola, noted that there is no obvious reason why this new program should increase in cost from year to year. *Id.* at 30:582-583. According to the AG, Mr. Coppola thus recommended allowing recovery at the 2014 expense level of $4.542 million, an approximately $700,000 reduction from Ameren's forecast for the 2016 test year. *Id.* at 31:588-591.

The AG observes that Ameren witness Colyer justified the increase in expense from 2014 to 2016 as attributable to the Watch and Protect program ($326,000 of cost increase) and the hiring of four new Damage Prevention specialists ($382,000 of cost increase). Ameren Ex. 22.0 at 39:838-846. The AG says that according to Ameren, the increase in the cost of JULIE locate requests over that span is based on small increases in contractor fees (2% for 2015 and 1% for 2016) and activity level (3% per year). Ameren Ex. 38.0 at 22:468-472. The AG says that Mr. Coppola observed in Rebuttal Testimony that "[i]ncreases in contractual arrangements for the Watch and Protect program seem relatively minor and could be offset by increased operating efficiencies." AG Ex. 5.0 at 39:796-798.

Moreover, the AG notes that as to the new Damage Prevention specialists, Mr. Coppola found that the 40% increase in damage prevention specialists for home visits and contact with excavators seems unnecessary, as those programs have already been in effect. *Id.* at 39:798-804. The AG points to Mr. Colyer's statement in his Surrebuttal Testimony (Ameren Ex. 38.0 at 24:527-538) that the Company projects a 10% reduction in third-party damages attributable to the four additional Damage Prevention specialists added in 2016, juxtaposed with his admission in cross-examination that he "didn't perform that calculation directly [him]self" (Tr. at 115:18-19) and that it was an unspecified "projection" based upon historic performance, without any other explanation. The AG argues that the Company's attempts to justify its increased spending in surrebuttal testimony come as a case of too little information, too late.

The AG urges the Commission to adopt Mr. Coppola's proposal and set the recovery level for this program at the 2014 level of expense, $4.542 million. The AG notes that, as Mr. Colyer admitted, the 2014 level of expense did not hinder the Company's ability to successfully reduce third-party damage in that year. Tr. at 116:20-117:2.

Suggested Commission Analysis and Conclusion:

> The Commission agrees with the AG that the minor increases in contractor fees and activity level for locate requests over the 2014-16 period could be offset by efficiency improvements. Moreover, the Commission also finds alarming the admission of Ameren witness Colyer that purported safety benefits resulting from the hiring of new damage prevention specialists were based on unexplained projections. For these reasons, the Commission declines to adopt Ameren's requested spending increase for the test year and instead authorizes recovery at the 2014 expense level for this item, $4.542 million.

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

The AG notes that the Company has included $480,000 in 2016 forecasted expenses to recover the membership fee to join the Gas Technology Institute and its research/technology development arm ("GTI"). AG Ex. 2.0 REV at 31:592-594. The AG notes that when asked why it has waited until 2016 to join, Ameren suggested in a discovery response that it only recently learned of GTI's capabilities, which include various technology research that Ameren might benefit from. AG Ex. 2.0 REV at 31:599-603; Ameren Ex. 7.0 at 11 (Colyer Direct). The AG observes that Ameren witness Colyer cited several purported benefits of membership for Ameren related to technology and data transfer. Ameren Ex. 22.0 (2d Rev.) at 46-48; Ameren Ex. 38.0 at 28-29. The AG notes that 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." Ameren Ex. 22.0 (2d Rev.) at 48.

However, as Mr. Coppola observed and the AG notes, 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 Ex. 2.0 REV at 32:608-614. Indeed, as the AG notes, Mr. Colyer admitted in cross-examination that he has not surveyed any other utilities to learn the benefits they derived from GTI membership and has no direct knowledge of benefits they may be experiencing. Tr. at 118:11-16. Thus, Mr. Coppola recommended, and the AG agrees, without any evidence of resulting benefit, the Commission should disallow recovery of the full $480,000 requested amount for this spending program.

Suggested Commission Analysis and Conclusion:

> The Commission agrees with the AG that the benefits of GTI membership appear only speculative and have not been validated by the experience of any actual utility company, as it appears in the evidentiary record. For that reason, the Commission declines to authorizes recovery of the requested GTI membership fee.

9. **Gas Storage Expense**

a. Well-Related Work

The AG notes that the Company 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 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. AG witness Coppola observed that, in its initial filing, the Company presented no evidence about a multi-year comprehensive plan for the well maintenance program, including cost, scope, and timeline. *Id.* at 33:643-645. The AG notes that Mr. Coppola, not seeing any evidence to support the large increase in cost from 2014 to 2015, recommended that the Commission allow recovery only at the 2014 expense level, $3.1 million. *Id.* at 34:646-653.

The AG notes that Ameren witness Mr. Colyer testified for 14 pages in his Rebuttal Testimony about the importance of well maintenance; however, he did not explain why a nine-fold increase from 2013 expense levels is necessary in 2016. Ameren Ex. 22.0 (2d Rev.) at 49-63. The AG states that Mr. Colyer pointed in Surrebuttal Testimony to a well failure in 2014 and other findings of wells needing further work. Ameren Ex. 38.0 at 33:725-733. The AG further states that Mr. Colyer did not explain whether or why these discoveries during 2014's well inspections were anomalously high compared to inspections in prior years. The AG notes that Mr. Colyer further admitted in cross-examination that the Company was providing safe and reliable service in 2013, when it spent only $726,000 on well maintenance. Tr. at 123:11-13. Thus, according to the AG, 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. The AG does not dispute that Ameren's injection wells, withdrawal wells, and gas storage observation wells may require increased maintenance, and the AG also agrees that the failure of a well at the Lincoln storage field in 2014 was a serious incident that may have warranted new inspection activities. However, the AG does not see how Ameren has justified the specific level of maintenance it proposes to do in 2015 and 2016.

The AG notes that 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. The AG wonders, why should the well logging not be paced over a cycle of 12 or 16 years? The AG also ntoes that Mr. Colyer did not 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. The AG notes that 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. The AG believes 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.

In summary, the People recommend that the Commission adopt Mr. Coppola's proposal to allow recovery of $3.1 million for this program, a reduction of $3.3 million from the Company's request.

Suggested Commission Analysis and Conclusion:

> The Commission adopts the AG's proposal to authorize recovery at the 2014 spending level, $3.1 million. Ameren has not supported the need for the sharp uptick in activity from 2014 to '15 – which will be sustained, according to projections, in the test year of 2016. Ameren bore a burden under Section 9-201(c) to tie the increase in activity to particular needs, rather than making general assertions that due to recent problems an increase in well maintenance is advisable. Ameren did not meet this burden.

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

The AG notes that the Company spent $250,000 to maintain compressor station equipment in 2013, and $903,000 in 2014. According to the AG, with a one-time unusual expense to rebuild a storage field compressor removed, 2014 normalized expense was $403,000. Ameren Ex. 22.0 (2d Rev.) at 1377-1378. The AG says that Ameren 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. According to the AG, the Company explains the jump from 2015 to '16 as due to increased activities related to compressor teardown and inspections, and increased compressor motor inspections on 4Kv units. Ameren Ex. 22.0 (2d Rev.) at 66:1400-1404. The AG notes that its witness, Mr. Coppola, raised the question in his Direct Testimony of why additional maintenance expense is necessary in 2016; why did the Company not start the incremental spending sooner? AG Ex. 2.0 REV at 35:665-666. The AG notes that in light of the inadequate justification for the near-doubling of projected expense from 2015 to '16, Mr. Coppola recommended allowing recovery only at the 2015 projected level of $494,000. *Id.* at 35:670-672. The AG states that this amount is in line with 2014 normalized expense and 2015 projected expense. The AG further observes that Mr. Coppola's recommended recovery amount is nearly *twice* what the Company spent on the same type of maintenance in 2013. AG Ex. 5.0 at 42:863-864.

The AG notes that Mr. Colyer explained at length in his Rebuttal Testimony why, allegedly, the Company's gas storage compressors require additional maintenance work such as teardowns and inspections. Ameren Ex. 22.0 (2d Rev.) at 64-72. The AG acknowledges that Mr. Colyer cited, in particular, the failure of a compressor at Ameren's Hookdale storage facility in 2014 as a reason to accelerate maintenance that could identify and address potential failures before they occur. *Id.* at 66:1417-1421. The AG avers that Mr. Colyer did not explain, however, either in his Rebuttal Testimony or Surrebuttal Testimony (Ameren Ex. 38.0) why the incremental activities for 2016 were not already begun in 2015 – after the Hookdale failure made the potential danger posed by aging compressors blatant. The AG finds Mr. Colyer's attempted explanation difficult to understand:

> Q: Why has the Company waited until 2016 to perform these additional compressor O&M activities?
>
> A: I addressed the timing of the expenditures in Ameren Exhibit 22.0 lines 1513-528. The primary driver for the additional compressor maintenance in 2016 is the Hookdale compressor failure that occurred in 2014.

Ameren Ex. 38.0 at 37:814-819. [A check of Mr. Colyer's testimony at the cited lines of Ameren Exhibit 22.0 also does not yield any direct answer to the question.] The AG says that when faced with the same question in cross-examination, Mr. Colyer again did not give a direct answer. Tr. at 131:12-133:9. He also admitted that there was "never any discussion" within the Company about possibly starting the new teardown and other maintenance programs in 2015. Tr. at 137:3-8. The AG notes that Mr. Coppola speculated in direct testimony that the Company may have waited past 2015 to incur the incremental expense until it could recover the cost through a new rate case. AG Ex. 2.0 REV at 35:668-669. [Mr. Colyer denied that in cross-examination, however. Tr. at 137:3-4.]

As the AG notes, Mr. Colyer suggests that disallowing $446,000 of the Company's proposed 2016 recovery level of $940,000 would "not even provide for the cost to perform manufacturer's recommended routine maintenance" (Ameren Ex. 38.0 at 36:800-802). However, notes the AG, in cross-examination, Mr. Colyer admitted that the proposed incremental spending for 2016 is "incremental to what we've established as our manufacturer recommended maintenance." Tr. at 126:21-127:1. The AG finds it hard to understand how Mr. Coppola's proposal, then, would hinder the Company's ability to do manufacturer recommended maintenance. Additionally, the AG asserts that some of the spending done in 2015 may not need to recur in 2016; the Hillsboro unit repair done in 2015, for example, 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"). The AG believes it thus difficult to understand why 2015 spending must continue to 2016 *and* $446,000 of new spending must be added to the agenda.

In summary, the AG urges the Commission to adopt Mr. Coppola's proposal to allow recovery for compressor station maintenance only at the 2015 expense level of $494,000, a reduction of $446,000 from the Company's request.

Suggested Commission Analysis and Conclusion:

> It is not clear to the Commission why, if the Hookdale failure in 2014 created a heightened need for inspection and teardown of compressor stations, Ameren did not act in 2015 to initiate those new activities as it now seeks to do in the test year of 2016. Ameren's witness did not give a satisfactory response when asked in either written testimony or cross-examination. It is also clear that 2015 expense would provide, at minimum, for manufacturer recommended maintenance on Ameren's compressor units. For these reasons, the Commission agrees with the AG that recovery should be authorized at the 2015 expense level of $494,000.

10. <u>Sales Forecast – Test Year Billing Determinants</u>

The AG states that in addition to evaluating potential Operating Expense and Rate Base adjustments to the Company's forecasted test year, it is important to analyze whether the Company's forecast of Revenues to be received from customers once new rates are set is accurate and reasonable. That analysis, states the AG, requires a review of the billing determinants selected by the Company for purposes of calculating revenues.

The AG states that the Company determined the *pro forma* 2016 test-year base rate revenues under present rates by applying its presently authorized base rates for gas service to forecasted test-year billing determinants. The AG states that the 2016 forecasted therm sales for the weather sensitive classes of customers reflect the ten year normal heating degree days ("NHDD") for the years 2004 – 2013. AG Ex. 1.0 at 14:302-306. The AG states that as explained on AIC Schedule E-4(2)(a), the Company is seeking to use the optimal rolling period for normal weather determination, and that, based on its studies, a ten-year average is a better predictor of future near term annual HDD than other periods sometimes used to determine annual NHDD, such as a thirty-year average. *Id.* at 14:310-313.

The AG states that in response to Data Request AG 6.04, the Company provided the ten-year average HDD based on the years 2005 – 2014. Based on the justification for the use of the ten-year average on AIC Schedule E-4(2)(a), AG witness Effron concluded concurred that it is appropriate to use the most recent ten-year average to determine the NHDD. The AG thus advocates that the data for the ten-year period 2005-2014 should be used to determine the NHDD used in the forecast of test-year billing determinants. *Id.* at 15:320-322.

The AG states that Mr. Effron's calculations of the effect of updating the NHDD to reflect the ten-year average for the years 2005-2014 are displayed on Schedule DJE C-1, attached to Mr. Effron's Rebuttal Testimony (AG Ex. 4.1 at 14). Mr. Effron explained that first he calculated the difference between the NHDD based on the years 2005 – 2014 and NHDD based on the years 2004 – 2013. The AG observes that as can be seen on this schedule, the average HDD for the years 2005 – 2014 was slightly higher in each of the Rate Zones. *Id.* at 14:326-329.

The AG states that the usage per degree per customer is based on the Company's responses to Data Requests AG 6.05 and 6.06, with the monthly usage per degree per customer shown in those responses weighted by monthly sales to derive an average usage per degree per customer for the whole year. According to the AG, Mr. Effron then applied the usage per degree day per customer to the increase in the HDD to calculate in the increase in usage per customer due to the update of the NHDD. Next, he multiplied the increase in usage per customer by the number of customers to calculate the increase to the test-year therm sales. The AG explains that finally, he applied the present rate per therm to the increased sales to determine the adjustment to pro forma test-year revenues under present rates. *Id.* at 15:330-339.

The AG avers that based on these calculations, Mr. Effron proposed an adjustment to 2016 pro forma test-year base rate revenues that increases pro forma test-year revenues under present rates by $1,067,000. The AG urges that adjustments to test-year billing determinants should also be incorporated into the design of the new rates. The AG states that Mr. Effron noted that if the Company's proposal to implement Rider VBA is approved, then the increased billing determinants would also be reflected in the determination of the Rate Case Revenue to which the Actual Revenue is compared for the purpose of calculating the Volume Balancing Adjustment. *Id.* at 16:343-350.

The AG notes that in response to this well-reasoned adjustment, Ameren witness Leonard Jones suggests that such updating would not be good policy. Jones states that "over the course of several years and rate cases, one would expect any mid-proceeding adjustment to have little to no long-term impact on either the utility or our customers" and adds that "[c]hanging sales estimates mid-proceeding generates additional work for parties in the case and interjects added opportunity for misunderstanding or error." AIC Ex. 23.0 at 11:227-233.

The AG asserts that these are hardly valid criticisms of Mr. Effron's proposal to update the NHDD for the purpose of determining weather-normalized test year sales. The AG argues that Mr. Jones's criticism regarding the long-term effect of updating the NHDD is inconsistent with the basic premise for using a ten year period, rather than – say, for example, a thirty year period - to determine the NHDD. According to the AG, Mr. Effron noted that a ten-year period is employed because the most recent ten-year period is deemed to be a better predictor of near-term prospective heating degree days than a longer historic period, such as thirty years. The AG states that if the most recent ten-year period is a superior predictor of NHDD, then we should use the most recent ten-year period, not some older ten-year period to adjust billing determinants. AG Ex. 4.0 at 5-6:109-115.

The AG notes that 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. Ameren suggests that the proposed adjustment would be disruptive and would generate additional work Ameren Ex. 23.0 at 11-12; Ameren Ex. 39.0 at 5. According to the AG, Ameren's complaint seems to suggest that the Commission should never entertain proposed billing-determinant adjustments from intervening parties or Staff. Yet, notes the AG, 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. The AG also notes that in Commonwealth Edison Company's first electric formula rate case, the Commission adopted an intervenor-proposed adjustment on billing determinants.[21] The AG states that 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. The AG argues that 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. The AG also notes that Mr. Effron has already performed the required additional work. AG Ex. 4.1 at 14.

The AG notes Ameren's point that the adoption of Rider VBA is uncontested in this proceeding and likely to be adopted, meaning that billing determinant forecasts will make no difference to the actual monies that customers will ultimately pay. Ameren Ex. 23.0 at 12:238-244. However, the AG states that 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 AG asserts that 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. The AG states that if more recent actual data is available than what Ameren initially provided, the Commission should use it in setting Ameren's rates. The AG argues that for all of the reasons stated above, the Commission should adopt Mr. Effron's well-reasoned adjustment to test year billing determinants, incorporating the Company's own selected and most recent 10-year NHDD forecast, which results in an adjustment to 2016 *pro forma* test-year base rate revenues under present rates by $1,067,000.

[21] Order, Docket No. 11-0721, May 29, 2012, at 75-76.

Suggested Commission Analysis and Conclusion:

> The Commission sees no legal or practical reason why the most recent data should not be used to calculate the ten-year normal heating degree days ("NHDD"), which will set the billing determinants used to calculate Ameren's test-year rates needed to achieve the authorized revenue requirement. The Commission has frequently entertained billing determinant debates in prior rate cases and sometimes adopted Staff or intervenor proposed adjustments. For that reason, the Commission adopts the AG's proposal to use 2005-2014 as the ten-year period for calculating the NHDD, rather than Ameren's proposal to use 2004-2013.

C. <u>RECOMMENDED OPERATING INCOME STATEMENTS</u>

IV. <u>COST OF CAPITAL AND RATE OF RETURN</u>

A. <u>RESOLVED/UNCONTESTED ISSUES</u>

1. **<u>Short-Term Debt</u>**

2. **<u>Long-Term Debt</u>**

3. **<u>Preferred Stock</u>**

4. **<u>Common Equity</u>**

B. <u>CONTESTED ISSUES (N/A)</u>

C. <u>RECOMMENDED OVERALL RATE OF RETURN</u>

V. <u>COST OF SERVICE</u>

A. <u>RESOLVED/UNCONTESTED ISSUES</u>

1. **<u>Use of AIC's Cost of Service Study (but for V.B.1)</u>**

2. **<u>Allocation of Underground Storage Assets</u>**

3. **<u>Rate Zone Allocation of Plant Additions after September 30, 2010</u>**

B. <u>CONTESTED ISSUES</u>

1. **<u>Allocation of Demand-Related T&D Costs</u>**

The AG notes that IIEC's brief devoted to cost of service issues offers no arguments that support a reversal of 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.

The AG points out that 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

Suggested Commission Analysis and Conclusion:

> Both AIC witness Schonhoff and AG witness Rubin provided reasons why the Company's peak and average method of allocating Ameren's cost of service, 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. AIC points out that the adoption of IIEC's proposal would result in a shift of approximately $6 million of revenue requirement responsibility to the residential class. The method would also completely remove all demand-related T&D costs from the GDS-5 class, a class of customers who utilizes T&D mains to receive natural gas service, are seasonal, and who have significant capacity needs during a time other than the design day. (*Id.*) Mr. Collins' recommendation is contrary to the long-standing and well-established Commission preference for the peak-and-average method. The evidence shows that IIEC's recommended Design Day Demand cost allocation methodology fails to follow cost causation principles and is not supported by the record evidence. Ameren's peak and average cost allocation methodology is hereby adopted.

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

The AG notes that Ameren's customer charge for the Residential Class is among the highest in the state. Currently, Ameren's Rate Zones 1 and 3 Residential customers pay $22.31 before using a single therm of gas. Rate Zone 2 Residential customers pay a slightly lower fixed charge -- $19.97 per month[22]. As a comparison, customers in Northern Illinois Gas Company's ("Nicor's") service territory pay $13.55 per month – a considerably lower amount.[23] Ameren's latest rate design proposal, presented in its Rebuttal testimony, would set the Residential customer charge at $21.71 per month, based on their acceptance of a Commission Staff proposal to recover 70% of Ameren's gas delivery costs for the Residential class through the customer charge.

The Ameren/Staff proposal, which would perpetuate the clear inequity established in 2008 of requiring Ameren's lowest use gas customers to subsidize the gas usage of Ameren's highest use customers, should be rejected by the Commission, according to the AG. As the AG

[22] Ameren proposes in this docket to price residential service in all rate class zones uniformly. Ameren Ex. 1.0 at 7 (Allen Direct). This will result in the customer charge in Rate Zone 2 increasing by a much greater amount than the customer charge in Rate Zones 1 and 3. In fact, under the Ameren/Staff proposal discussed in this section, the customer charge in Rate Zones 1 and 3 would decrease compared to existing rates, but the charge in Rate Zone 2 would increase, moving the Rate Zone 2 charge further away from cost.

[23] *See* https://www.nicorgas.com/rates-and-costs/-/media/Files/Nicorgas/PDF/Nicor_Rate_1.pdf

While customers of Peoples Gas Light & Coke Company pay higher customer charges than Ameren residential customers, the Residential class is bifurcated into Heating and Non-Heating classes. PGL Heating customers paying $30.84 per month. PGL's Non-Heating customers pay less than Ameren, with customer charges at $16.37 per month.

discusses, the Ameren/Staff rate design proposal fails to reflect Ameren's actual costs of service, based on the Company's own embedded cost of service study ("ECOSS"), ignores the fact that the costs to serve high-use customers within the class are much higher than the typical cost to serve a residential customer, and continues the clear inequity of low usage residential customers paying millions of dollars per year subsidizing the rates of Ameren's higher usage customers. By reducing customers' ability to control their bills with 70% of revenues recovered through the customer charge, the Ameren/Staff proposal also thwarts both the General Assembly's and the ICC's stated public policy goal of promoting energy efficiency and conservation.

AG witness Rubin's rate design proposal, which recovers 54% of AIC gas delivery service costs through the customer charge and 46% through usage charges, reflects true cost causation principles by excluding demand-related costs from the customer charge, according to the AG. 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.

Such a rate design is consistent with both the Commission's recent electric and gas rate design orders, which have consistently and significantly lowered existing customer charges by removing demand cost recovery from the customer charge, as well as the State of Illinois' stated policy of requiring the promotion of conservation and energy efficiency to lower customer bills, as discussed further below. The Ameren/Staff 70/30 proposal, which is antithetical to recent Commission precedent and Illinois public policy that encourages lower utility bills through engagement in energy efficiency, should be rejected in favor of AG witness Scott Rubin's ECOSS-based proposal to recover 54% of delivery service costs through the customer charge.

a. The Ameren 2008 Rate Order That Established the Current 80/20 SFV Customer Charge Inequitably Punished Low-Usage Customers.

The AG notes that Ameren's current rate design was established by the Commission in 2008 in response to Ameren's request at the time for a decoupling rider. The Commission in Docket Nos. 07-0588 rejected the rider, but instead randomly implemented an alternative type of revenue decoupling rate design that permits Ameren to collect an astonishing 80% of revenues through the customer charge, compared to then-existing rates that collected approximately 43% of revenues through the customer charge. The remaining 20% of costs are collected through a volume-based per therm charge. ICC Docket No. 07-0588, et al. (cons.), -- *Ameren Illinois Gas Company – Proposed Increase in Gas Service Rates,* Order of September 24, 2008 at 215, 236-237 ("2008 Rate Order"). As the AG explains, the Commission's decision allowing Ameren to recover 80% of its revenues through its customer charges was random, as no party had proposed such a dramatic increase to the fixed charges.

As revealed in AG Cross Exhibits 9-13, the inequities and cross-subsidies that were created by these inordinately high customer charges were and remain profound. For example, for Rate Zone 3 (formerly known as the Illinois Power service territory), the 2008 drastic shift in cost recovery to the customer charge resulted in a 43.8% average annual increase in delivery service rates for the lowest 20% of customers based on annual usage, while the highest 20% of customers based on annual usage received an average annual increases less than half of their low-use counterparts -- 21.2%. For Rate Zone 1 (formerly known as the CIPS and CIPS Metro East territories), the switch from 43% to 80% of revenues recovered through the customer charge resulted in average annual increases of 26.5% and 21% for customers in the lower 20% usage category. High-use customers, in sharp contrast, received rate increases that were many multiples lower – 4.3% and 7.3%, respectively. These inequitable results are shown in the table below.

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.

The inequitable impacts of the approved 80/20 SFV rate design are exacerbated when examined on a monthly basis, according to the AG. When the 2007 case was filed, Ameren's residential rates in Rate Zone 2 (formerly known as CILCO service territory), for example, consisted of a customer charge of $11.80 and distribution charges of 18.750¢ per therm (for the first 90 therms per month) and 12.000¢ per therm for usage above 90 therms in a month. AG Ex. 3.0 at 11:245-250. The effect of the Commission's order was to increase the customer charge to $16.42 per month (a 39% increase) while decreasing the distribution charges to 6.718¢ and 4.300¢ for the two consumption blocks. As a consequence, 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 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.

In fact, no party to the case had proposed such a radical rate design and there was no analysis in the record of that case that evaluated the effects on a range of customers' bills of adopting such an extreme proposal, the AG states. The 2008 Rate Order makes clear, too, that the Commission considered this rate design a type of test or pilot program (similar to the decoupling pilot program involving Rider VBA for Peoples Gas that was in effect at that time), and invited Ameren to propose alternatives in its next case. The Order stated:

> In order to gain sufficient experience to evaluate this method of recovering fixed delivery costs, the Commission anticipates that the approved ratio of fixed costs recovered from the customer charge and the volumetric rate must remain in place until at least December 31, 2012. AIU may propose revisions to this ratio in its next rate case or rate design case thereafter. By this time the Commission should also have the benefit of Peoples' and North Shore's experience with Rider VBA.

See 2008 Rate Order at 238.

Much has been learned since 2008 about the inequities of an 80/20 SFV rate design, according to the AG. The record evidence in this docket makes clear several facts:

> (1) Ameren's own COSS supports, at a maximum, shows that 54% of costs are customer-related – not the 70% or 80% that Ameren proffers in this case. As such, no more than 54% of revenues should be recovered through the customer charge.
>
> (2) Low usage customers end up paying a greater percentage of any increase in delivery service charges as compared to higher usage customers, both on average annually and particularly during the winter time, when overall customer usage is highest. *See* AG Cross Ex. 13.
>
> (3) Higher customer charges results in less ability for customers to control the size of their bills.
>
> (4) Higher customer charges reduce customers' ability to engage in cost-effective energy efficiency. (If less of your bill is usage-related, the incentive and payback in energy efficiency investments is reduced.)

Yet, the Company continues to resist rate design proposals that significantly alter the 80/20 SFV rate first established in the 2007 case – notwithstanding the evidence of inequities triggered by such a high customer charge and the fact that recovery of their residential revenue requirement is guaranteed under its uncontested decoupling proposal, according to the AG. Ameren's insistence on these high customer charges is rooted in its contention that the distribution system costs incurred in serving small use customer groups are fixed and do not change with changes in customer therm usage. AIC Ex. 8.0 at 4:77-79 (Jones Direct). The Company's own ECOSS belies this notion, the AG points out, and the Commission has in recent years in both electric and gas orders soundly rejected that supposition. These facts point to the need for the Commission to approach its rate design decision with a clean slate – without giving the existing 80/20 customer charge ratio any type of legitimacy as a benchmark or starting point for reasonableness.

b. Ameren's Own Cost of Service Study Supports Rejection of the Ameren/Staff Residential Rate Design Proposal.

In order to understand the inequities in the Ameren/Staff 70/30 customer charge rate design proposal, it is important to study both the diversity in costs to provide a meter to customers in the residential class, which includes a wide variety of dwelling and meter sizes, as well as the issue of whether costs that vary with demand are appropriately assigned to per therm charges, according to the AG. The evidence shows that Ameren's proposed rate design collects too much money from low-use customers and fails to collect enough money from larger customers. In addition, the Ameren/Staff proposal continues the recovery of costs that vary with demand for natural gas service through the flat, monthly customer charge – a fact that triggers the inequitable cross-subsidies highlighted above.

i. Adoption of the Ameren/Staff-Proposed 70/30 SFV Rate Design Results in Lower-Use Customers Subsidizing the Rates of Higher-Use Customers.

Ameren's GDS-1 class does not have the characteristics one would typically find in a residential class, as it includes agricultural use on family farms. Thus, Ameren's GDS-1 Residential tariff permits customers whose usage varies widely to pay the same customer charge. The GDS-1 tariff defines Residential customers as follows:

> a. Single-family dwelling or building containing two or more single-family units, where each unit is separately metered and used as a residence.
>
> b. Homes that are served by a single meter where usage is a combination of home and farm use. Usage shall be limited to service within the residence on the farm and that required for all general farming and agricultural purposes conducted on the premises served. Where separate meters are required to supply other operations, each additional meter shall be billed under the applicable Non-Residential rate.
>
> c. Recreation facilities consisting of summer cottages, homes, trailers or boat slips where service is individually metered and intended for continuous use by the same single family.

AG Ex. 3.0 at 4:89-102; AIC Tariff Ill. C.C. No. 2, Original Sheet No. 11 (effective Nov. 19, 2010). In response to data request AG 3.06, Ameren provided consumption data for each of its GDS-1 customers for each month from January through December 2014. AG Exhibit 3.01 summarizes the data. During 2014, these customers used an average of 910 therms per year. But there are many customers whose usage is very different from the class average. One percent of customers (approximately 7,000 customers) used 78 therms or less during the year. This level of <u>annual</u> usage is less than an average customer would use during just <u>one month</u> of the winter heating season. At the other extreme, another 7,000 customers used 2,360 therms or more during the year -- usage that is almost 2.5 times the usage of the average customer. *Id.* at 5-6:119-125.

The data also show the effect of including family farms in the customer class, the AG reports. There were 187 customers who used more than 5,000 therms during the year (more than five times the average residential usage). Of those 187, 31 customers used more than 9,000 therms (about 10 times the average domestic usage). The largest customer used 58,375 therms during the year -- enough gas to heat 64 typical homes for an entire year. *Id.* at 6:126-130. A graphic depiction of this diversity in annual usage in the Ameren Residential customer class is depicted in the following graph from AG Ex. 3.01.

The relevance of this diverse usage data becomes clear when looking at the additional costs Ameren incurs to serve such large customers, according to the AG. In addition to needing a larger gas main and other facilities to serve such large customers, Ameren also incurs additional costs for large customers' meters and regulators. Ameren summarized the cost differential in a data request response (entered in the record as AG Exhibit 3.02). In that exhibit, Ameren explained that, for GDS-2 customers, "[t]he cost of meters and regulators increase based on the meter and regulator required to meet the customer's load." AG Ex. 3.02. While AG Ex. 3.02 addressed GDS-2 customers, Ameren admitted that, *in general*, higher load requirements require larger and more expensive meters and regulators. AG Exhibit 3.03, consisting of the Company's workpapers, shows the different types of meters; the cost for the meter, installation, and regulator; and the number of GDS-1 customers with each type of meter. The AG notes that this exhibit confirms that Ameren's statement in AG Exhibit 3.02 for the GDS-2 class is equally true for the GDS-1 class; that is, Ameren incurs significant additional costs to serve larger customers, regardless of the customer class in which the customer is placed. AG Ex. 3.0 at 6-7: 132-152.

While most GDS-1 customers are served by a small meter and regulator (typical for a residential or small commercial installation) with an installed cost of about $210, the GDS-1 Residential class has some much higher-use customers who require larger meters and regulators that are both more costly to purchase and more expensive to install than a typical residential installation. AG Exhibit 3.03 shows that more than 5,000 meters have an installed cost of approximately $399, or almost twice the cost of a typical installation. Another 676 meters have a cost of $688, which is more than three times the typical cost. Finally, 485 customers are served by meters with an installed cost of $3,500 or more, or more than 16 times the cost of a typical residential installation. The most expensive meter installation within the GDS-1 class costs more than $16,000, equivalent to the cost of meter installations for more than 75 typical homes. *Id.* at 7: 154-166, according to the AG. .

Yet, Ameren's existing rate design and the Ameren/Staff-proposed rate design for the GDS-1 customer class in this case fail to reflect the diversity within the class or the true cost of serving different-sized customers. The current rate design that collects 80% of the class's cost of service through a customer charge that is the same for all customers has the effect of assuming that metering costs, service line costs, as well as other costs that can vary with the gas demands of the customer are essentially the same for all customers. As discussed above, this assumption is patently false. There is, in fact, a significant difference in the cost of serving a low-use GDS-1 customer and a high-use GDS-1 customer, but the existing and Ameren-proposed rate designs do not reflect this difference in cost.

As noted by AG witness Rubin, the purpose of distribution rates is to fairly collect the costs of providing a customer with a meter and service line, reading the meter and sending monthly bills, providing other customer service and support functions, and supporting the essential costs of having the distribution network in place (gate stations, transmission and distribution mains, and so on). The Ameren data request responses and workpapers (included in the AG exhibits described above) that reveal the vast differences in metering costs among customers of different sizes also show that there are differences in the costs of installing a customer service line depending on the size of the customer. For example, AG witness Rubin presented evidence revealed by Ameren showing that a typical residential-sized service line has an installed cost of $1,479, while a typical commercial-sized service line costs $1,738 to install. As discussed above, there are hundreds of GDS-1 customers whose consumption is so high that they require meters and service line installations that would typically be associated with commercial customers. *Id.* at 9:192-205.

AG Exhibit 3.04 compared just two components of the cost of serving GDS-1 customers of different sizes to the rates Ameren proposes to charge. Those two components show that the revenue requirement under Ameren's proposed rates associated with only the meter and service line is $252 per year for small (400 therms per year) and typical (900 therms per year) residential customers. For a large GDS-1 customer (4,000 therms per year), however, the cost to support the investment in only the meter and service line is $795 per year.

Under Ameren's original 80/20 proposal, the Company would collect more than the $252 meter and service line revenue requirement from small and typical GDS-1 customers ($339 and $390, respectively). That proposed rate design, however, would not collect enough money from a large GDS-1 customer to even cover of the cost of the meter and service line; collecting only $706 per year compared to the meter and service line revenue requirement of $795 per year. These comparisons are displayed in AG Ex. 3.04.

AG Exhibit 6.04 presents a similar comparison using the 70/30 Ameren/Staff rate design proposal and the cost of capital stipulation presented in the Rebuttal phase of the case. The exhibit shows that a large GDS-1 customer (one using 4,000 therms per year) would cover the cost of its meter, regulator, and service line -- providing revenues of $859 per year compared to the cost of supporting the meter, regulator, and service line of $766 per year. The difference of $93 per year (about $7.75 per month), however, would be all that the large customer would pay to support all other costs of the gas distribution system -- billing, meter reading, transmission and distribution mains, and all of the other equipment, workers, and overheads involved in providing service. In contrast, a typical residential customer (using 900 therms per year) would provide about 60% more revenue in excess of the cost of its meter, regulator, and service line -- $149 per year (more than $12 per month) – than that paid by higher use customers. That inequity, created by the proposed 70/30 rate design, should not be endorsed by the Commission.

The AG notes that the bottom line is that neither Ameren's original 80/20 proposal nor the Ameren/Staff 70/30 proposal is consistent with the cost of serving the diverse types of customers that exist within the customer class. The customer charge under the Ameren/Staff 70/30 proposal would be $4.90 per month higher than Mr. Rubin’s proposed customer charge that fully recovers all customer-related costs in Ameren’s ECOSS. AG Ex. 6.0 REV at 10:210-214. The 70/30 rate design perpetuates the inequity of having the Company’s lower-usage customers subsidize its larger-use customers by millions of dollars in distribution system payments, and ignores the fact that such a customer charge level would include demand-related costs that should be recovered in usage charges, the AG states.

ii. **Ameren’s COSS Shows Significant Demand-Related Charges Which Should Be Recovered in Usage (Per Therm) Charges – Not the Flat Customer Charge**.

The AG further points out that Ameren's customer charge proposal is rooted in its contention that the distribution system costs incurred in serving small use customer groups are fixed and do not change with changes in customer therm usage. AIC Ex. 8.0 at 4:77-79 (Jones Direct). But 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, according to the AG. Customers with higher demands during peak, thereby causing the residential class's cost allocation to increase bears 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, the AG notes. 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.

c. 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, according to the AG.

For example, in the most recent *Commonwealth Edison Company* rate design proceeding, the Commission rolled back the amount of revenues recovered through the customer charge for ComEd, noting 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.[24] There, the Commission adopted 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:

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

> 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.[25] The same rationale applies in this case, given AIC's uncontested request for a decoupling rider, the AG notes. Like the guarantee of cost recovery that ComEd and Ameren Electric enjoy through the annual formula rate process[26], Ameren will face zero risk of recovering its Commission-authorized revenue requirement.

In Docket 13-0476, Ameren's most recent electric rate design case, 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 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."[27] 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.* 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.

In their Reply Brief, the AG notes 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

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

[26] 220 ILCS 5/16-108.5(c), (d).

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

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, according to the AG.

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*, the AG states.

The AG points out that 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, according to the AG.

d. A 70/30 SFV Customer Charge Is Not Needed For the Utility To Recover its Residential Class Costs and is Inconsistent With Illinois Public Policy.

Just as important, such a customer charge level is not needed in order for the Company to recover its costs – the original premise for Ameren's SFV rate, according to the AG. As noted above, Ameren's request for Commission approval of a decoupling rider is not being challenged in this proceeding. Under Ameren's proposed decoupling rider, the Company's Residential revenue requirement approved in this proceeding will be guaranteed each year through an annual reconciliation. As the Company described in Ameren witness Jones's testimony, in essence, under its proposed Volume Balancing Adjustment Rider ("Rider VBA"), the Commission establishes a fixed revenue requirement and Ameren then uses a VBA mechanism to compute and apply going-forward volumetric adjustments "to ensure a more consistent opportunity to earn its approved revenue requirement." AIC Ex. 8.0 at 7:143-147.

The AG challenges the notion that the decoupling rider should be approved by the Commission based on Ameren's claim that its revenues are declining. Importantly, it should be noted that the Company claims the decoupling rider is necessary because its "weather-normalized revenues per customer" are declining. *See* AIC Ex. 8.0 at 9:176-181. But data regarding alleged declines in weather-adjusted per-customer revenue collection says nothing about what is happening with overall Residential class revenues and gas usage in the real world, the AG states. In fact, Ameren's revenues for the Residential class are *growing*, as is gas usage of that class. As reported in data filed with the ICC, while there are year-to-year fluctuations (presumably because of weather), the Company's Residential class revenues show significant steady growth during the past five years:

Ameren Annual Residential Sales Revenues and Therms

	2014	2013	2012	2011	2010
Revenues	$674,941,463	$ 611,201,513	$546,600,475	$588,200,449	$649,341,579
Therms	664,248,554	624,763,734	485,213,809	559,692,561	605,346,723

Source: ICC -- Illinois Gas Utilities Comparison of Gas Sales Statistics For Calendar Years 2014 and 2013, 2013 and 2012, 2012 and 2011.[28] Thus, the Commission should be clear in any order approving Ameren's decoupling request that decoupling is *not* being adopted to fix an alleged revenue-recovery or usage-reduction problem. As shown above, no such problem exists. It is being presented by Ameren to minimize the Company's risk of recovering revenues – not because it faces some crisis of declining revenues or residential gas consumption, the AG states.

Given the Illinois Supreme Court's recent affirmation of the lawfulness of decoupling riders, the People are not challenging Ameren's request for a decoupling rider in this docket. What the People *do* object to, however, is approval of the proposed Rider VBA *and* the perpetuation of the inordinately high and inequitable customer charges that the Ameren/Staff proposal ensures. The Commission has specifically recognized that a Rider VBA decoupling mechanism and high fixed charges are redundant ways to address the issue of revenue stability. In an August 30, 2013 report to the General Assembly entitled, *Report to the Illinois General Assembly Concerning Coordination Between Gas and Electric Utility Energy Efficiency Programs and Spending Limits for Gas Utility Energy Efficiency Programs* ("ICC Report"), the Commission stated that because of Rider VBA, "the Commission can provide a mechanism for revenue stability that lowers the monthly customer charges and increases the volumetric charges. Such a change can decrease energy use by providing a greater price signal" to customers. ICC Report, p. 23. In other words, because of the various adjustment riders in Ameren's tariff, it is no longer necessary (assuming for the sake of argument that it ever was necessary) for Ameren to have high customer charges. The issue of revenue stability is addressed through the riders; it need not be addressed again through the rate design, the AG states.

Indeed, the AG points out, Ameren enjoys unquestionable revenue stability as a result of other rider mechanisms that guarantee revenue streams between rate cases. For example, Ameren recovers a return of and on new incremental infrastructure investment through its Rider QIP. Also, the Company receives a steady stream of revenues through its uncollectibles rider, Rider Gas Uncollectibles Adjustment ("Rider GUA"), and direct recovery of its energy efficiency program costs through Rider Gas Energy Efficiency Cost Recovery Adjustment ("Rider GER"), among other riders.[29] With the seemingly inevitable Commission approval of Ameren's decoupling rider, the Company's ability to recover its Commission-approved revenue requirement is guaranteed. Coupled with its ability to file rate cases at any time under Section 9-201 of the Act, Ameren's financial risk is virtually non-existent.

The point is, the need (if it ever existed) for a high Ameren Residential class customer charge no longer exists. More pointedly for the Commission's consideration, the record

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[28] *See* [*http://www.icc.illinois.gov/reports/report.aspx?rt=24*](http://www.icc.illinois.gov/reports/report.aspx?rt=24). The People request that the Commission take administrative notice of its reports detailing this data, pursuant to 83 Ill.Admin.Code §640(a)(3) (The Commission and ALJ may take administrative notice of "[A]nnual reports, tariffs, classifications and schedules regularly established by or filed with the Commission as required or authorized by law or by an order or rule of the Commission.")

[29] *See* https://www.ameren.com/-/media/illinois-site/Files/Rates/AIgs1ottoc.pdf.

evidence simply does not support adoption of either the 80/20 or the 70/30 SFV proposals, according to the AG.

Other policy implications must be considered by the Commission as it examines the customer charge issue in this case. Specifically, the Illinois General Assembly, in its passage of Section 8-104 of the Public Utilities Act, made clear its interest in reducing the amount of natural gas delivered to utility customers and reducing the cost of utility bills that customers pay. To that end, Section 8-104(c) requires specific reductions in the use of natural gas on an annual basis. As noted by AG witness Rubin, high fixed charges undermine this public policy objective by reducing the amount of the customer bill that can be reduced through conservation and energy efficiency. AG Ex. 3.0 at 18:376-384. Giving the Company's customers more control over their natural gas bills by reducing the customer charge gives customers an important incentive to reduce energy usage, the AG states.

The Commission, too, has recognized that moving away from high customer charges could help the State meet its energy efficiency goals. In the aforementioned ICC Report, the Commission recognized that reducing the customer charge while increasing variable charges could reduce overall natural gas usage and assist in the achievement of statutory natural gas use reduction goals in a cost-effective manner. *See* ICC Report at 24. The Commission agreed that enabling customers to have more control over their natural gas bills serves the statutory goal of reducing natural gas consumption in a cost-effective manner.

The AG points out, too, that 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.

e. AG Witness Rubin’s Proposal to Remove Demand Costs From the Customer Charge is Supported By Ameren’s Own Cost Study, Consistent With Public Policy Goals Supporting Energy Efficiency and Should Be Adopted By the Commission.

AG witness Rubin’s rate design proposal reflects true cost causation principles by excluding demand-related costs from the customer charge. It also 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 are consistent with energy efficiency and the avoidance of cross subsidies, according to the AG. 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. AG Ex. 3.0 at 11:243-262.

Finally, it should be noted that the AG-recommended 54/46 rate design recommendation is conservative when the true cost of connecting customers to the natural gas delivery system -- what the customer charge should reflect -- is examined. As noted by Mr. Rubin, the Direct Customer Cost methodology of setting customer charges, used in some jurisdictions throughout the country, includes meter and service line installation, meter reading, billing and customer service costs. AG Ex. 3.0 at 23:478-481. Most overhead costs (such as officers' salaries, office buildings, legal and accounting expenses, and so on) are excluded from the customer charge calculation and recovered through per therm charges under this methodology. Mr. Rubin examined Ameren's ECOSS and used it to perform a direct customer cost analysis, and presented the data in AG Ex. 3.07. Under the rates created using this cost allocation methodology, 35.5% of GDS-1 Residential revenues would be collected through the customer charge – another rate design option the Commission can consider in this case. While Mr. Rubin cautions against making the shift to this rate design given the existing 80/20 customer charge/per-therms charge ratio, the Commission should consider this rate design option if presented in future cases, as a true and rational reflection of customer-related cost recovery through the fixed customer charge, the AG states.

A comparison of the bill impacts of this rate design, Mr. Rubin's preferred 54/46 rate design and the Company's existing 80/20 rate design is presented in AG Ex. 3.09, which graphs the distribution of annual percentage increases in the distribution portion of the bill, and in AG Ex. 3.10, which reflects the *total bill* (including natural gas supply costs).

These graphical depictions of the various rate design proposals highlight the reasonableness of the AG-recommended 54/46 rate design. Using Ameren's original Direct Testimony revenue increase request (which will be adjusted downward in the Commission's final order and thereby reduce the bill impacts pictured above), the maximum total bill increase under the 54/46 methodology is 19% compared to Ameren's original proposal, which has a maximum total bill increase of 15.5%.

f. **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**.

Both Staff witness Alicia Allen and Ameren witness Karen Althoff, advocating for a 70/30 SFV rate design, advise against Commission approval Mr. Rubin's rate design. Staff witness Allen, for example, alleges that "higher use customers will have much higher bills compared to lower use customers, and that such action "can result in rate shock for higher use customers." Staff Ex. 4.0 at 20:462-464. These criticisms should be rejected, however, the AG argues.

Staff 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.

The AG points out, too that Staff witness Allen never defines what she means by "higher use" customers. Second, she also never defines what amount of gas usage would trigger her belief that "rate shock" had occurred. Third, she never defines what she believes "rate shock" constitutes. In fact, on cross-examination, Staff witness Allen admitted that she had not examined the rate impacts that had occurred when the Commission adopted the experimental 80/20 SFV rate design in 2008, wherein a higher use GDS-1 customer would have seen his bill decline by 40% or more and a low use customer would have received a double-digit increase. Tr. at 219-220; AG Ex. 6.0 at 13:276-278. That oversight is critical in assessing Ms. Allen's hesitancy to endorse Mr. Rubin's rate design recommendation – particularly in light of the clear inequities that were created with the 80/20 SFV rate design, as highlighted in Mr. Rubin's testimony. *See*, e.g., AG Ex. 3.0 at 10:212-233; 10-11:243-262. Ms. Allen's assessment of the AG-proposed 54/46 rate design (and her embrace of a 70/30 rate design), provide no comment on these inequities or the need to correct the clear cross-subsidization of high usage customers by low usage customers.

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, the AG notes. 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. The AG argues that 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.

Ameren's witness Althoff's criticism of the 54/46 AG-recommended rate design is even more specious, according to the AG, according to the AG. First, her Exhibit 25.3, which purports to compare the rate impacts of the proposed rate designs, display billing scenarios for *the winter months only*. Tr. at 208. When asked which months were employed in her winter-only analysis, Ms. Althoff stated she could not remember, but that they might likely be the months of November through March. Tr. at 208. Ms. Althoff admitted that if the Commission incorporated data from the non-winter months in the data set used in Ms. Althoff's Exhibit 25.3, the numbers would change for the majority of Ameren's customers. Tr. at 211. Ms. Althoff admitted, too, that the Commission should consider annual bill impacts when it is assessing proposed rate design. Tr. at 210-211. Ms. Althoff acknowledged, too, that typically, when companies file bill impact data with the Commission after the issuance of a proposed order, the Company reports impact data for the full year, and not just the winter months. Tr. at 209. Yet another defect in her exhibits and assessments is revealed in the y-axis of these exhibits, which are not consistent and thereby create a distorted, apples-to-oranges visualization of the rate impacts of the displayed rate designs, the AG states. AIC Ex. 25.3.

The AG points out that in further support of her inequitable 70/30 SFV proposal, Ms. Althoff claims that this rate design, "would almost entirely avoid any total bill impacts of over 10%." AIC Ex. 25.0 at 18:274-275. But as noted above, this claim is misleading, given her use of winter-only data. In addition, the claim ignores the fact that the 70/30 SFV rate design merely perpetuates, to a slightly lesser degree, the inequities of the 80/20 SFV rate design currently in place, and does little to correct the gross inequities created by that rate design. Mr. Rubin's 54/46 customer charge proposal effectively and reasonably reverses the tremendous rate reduction that higher-use customers received when the 80/20 rate design was implemented a few years ago, according to the AG. AG Ex. 6.0 at 13:279-283.

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, the AG states.

In sum, Mr. Rubin's ECOSS-based, reasonable 54/46 rate design (1) corrects the gross inequities created when the experimental 80/20 rate design experiment was first established in 2008; (2) reflects the Company's customer-related costs based on the Company's own ECOSS, and (3) is consistent with stated Commission precedent and Illinois policy goals promoting energy efficiency. It should be adopted by the Commission.

Suggested Commission Analysis and Conclusion:

> 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 the Commission's 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. But a shift in rate design from an 80/20 to a 70/30 SFV design, as Ameren and Staff propose, 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 is not

supported by the evidence in the record, recent Commission precedent or Illinois 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. Moreover, the evidence shows that Ameren does not need such high fixed charge cost recovery. The Commission has specifically recognized that a Rider VBA decoupling mechanism and high fixed charges are redundant ways to address the issue of revenue stability. In an August 30, 2013 report to the General Assembly entitled, *Report to the Illinois General Assembly Concerning Coordination Between Gas and Electric Utility Energy Efficiency Programs and Spending Limits for Gas Utility Energy Efficiency Programs* ("ICC Report"), the Commission stated that because of Rider VBA, "the Commission can provide a mechanism for revenue stability that lowers the monthly customer charges and increases the volumetric charges. Such a change can decrease energy use by providing a greater price signal" to customers. ICC Report, p. 23. This reasoning is applicable to Ameren in this instance. Ameren enjoys unquestionable revenue stability as a result of several rider mechanisms that guarantee revenue streams between rate cases. For example, Ameren recovers a return of and on new incremental infrastructure investment through its Rider QIP. Also, the Company receives a steady stream of revenues through its uncollectibles rider, Rider Gas Uncollectibles Adjustment ("Rider GUA"), and direct recovery of its energy efficiency program costs through Rider Gas Energy Efficiency Cost Recovery Adjustment ("Rider GER"), among other riders.[30] With the Commission's approval of Ameren's proposed Rider VBA decoupling mechanism, the Company's ability to recover its Commission-approved revenue requirement is guaranteed. Coupled with its ability to file rate cases at any time under Section 9-201 of the Act, Ameren's financial risk is virtually non-existent.

Other policy implications must be considered by the Commission as it examines the customer charge issue in this case. Specifically, the Illinois General Assembly, in its passage of Section 8-104 of the Public Utilities Act, made clear its interest in reducing the amount of natural gas delivered to utility customers and reducing the cost of utility bills that customers pay. To that end, Section 8-104(c) requires specific reductions in the use of natural gas on an annual basis. As noted by AG witness Rubin, high fixed charges undermine this public policy objective by reducing the amount of the customer bill that can be reduced through conservation and energy efficiency. AG Ex. 3.0 at

[30] *See* https://www.ameren.com/-/media/illinois-site/Files/Rates/AIgs1ottoc.pdf.

18:376-384. Giving the Company's customers more control over their natural gas bills by reducing the customer charge gives customers an important incentive to reduce energy usage.

The Commission, too, has recognized that moving away from high customer charges could help the State meet its energy efficiency goals, both in its recent report to the General Assembly on energy efficiency and in recent Commission orders in Docket Nos. 13-0387, 13-0476 and 14-0224/0225 (cons.). In the aforementioned ICC Report, the Commission recognized that reducing the customer charge while increasing variable charges could reduce overall natural gas usage and assist in the achievement of statutory natural gas use reduction goals in a cost-effective manner. *See* ICC Report at 24. The Commission agreed that enabling customers to have more control over their natural gas bills serves the statutory goal of reducing natural gas consumption in a cost-effective manner.

AG witness Rubin's rate design proposal, which recovers 54% of AIC gas delivery service costs through the customer charge and 46% through usage charges, 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 resulted from the 2008 approval of the 80/20 SFV rate design pilot. AG Ex. 3.0 at 11:243-262. The Staff/AIC-preferred customer charge 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. Mr. Rubin's more equitable, ECOSS-based rate is hereby adopted.

VIII. OTHER RIDER AND TARIFF CHANGES

A. RESOLVED/UNCONTESTED ISSUES

1. Rider VBA

The AG notes given the Illinois Supreme Court's recent affirmation of the lawfulness of decoupling riders, the People are not challenging Ameren's request for a decoupling rider in this docket. Under Ameren's proposed decoupling rider, the Company's Residential revenue requirement approved in this proceeding will be guaranteed each year through an annual reconciliation. As the Company described in Ameren witness Jones's testimony, in essence, under its proposed Volume Balancing Adjustment Rider ("Rider VBA"), the Commission establishes a fixed revenue requirement and Ameren then uses a VBA mechanism to compute and apply going-forward volumetric adjustments "to ensure a more consistent opportunity to earn its approved revenue requirement." AIC Ex. 8.0 at 7:143-147.

As noted in the AG's Initial Brief, however, the People do object to a Commission conclusion adopting a decoupling rider based on the Company's claims that its "weather-normalized revenues per customer" are declining. *See* AIC Ex. 8.0 at 9:176-181. The AG points out that data regarding alleged declines in weather-adjusted per-customer revenue collection says nothing about what is happening with overall Residential class revenues. In fact, Ameren's revenues for the Residential class are *growing*, as is gas usage of that class. As reported in data filed with the ICC, while there are year-to-year fluctuations (presumably because of weather), the Company's Residential class revenues show significant steady growth during the past five years:

Ameren Annual Residential Sales Revenues and Therms

	2014	2013	2012	2011	2010
Revenues	$674,941,463	$ 611,201,513	$546,600,475	$588,200,449	$649,341,579
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Source: ICC -- Illinois Gas Utilities Comparison of Gas Sales Statistics For Calendar Years 2014 and 2013, 2013 and 2012, 2012 and 2011.[31] The AG asks the Commission to take administrative notice of that reported information, pursuant to 83 Ill.Admin.Code §640(a)(3).

Thus, the Commission should be clear in any order approving Ameren's decoupling request that decoupling is *not* being adopted to fix an alleged revenue-recovery or usage-reduction problem. As shown above, no such problem exists. It is being presented by Ameren to minimize the Company's risk of recovering revenues – not because it faces some crisis of declining revenues or residential gas consumption.

Suggested Commission Analysis and Conclusion:

[31] *See* http://www.icc.illinois.gov/reports/report.aspx?rt=24. The People request that the Commission take administrative notice of its reports detailing this data, pursuant to 83 Ill.Admin.Code §640(a)(3) (The Commission and ALJ may take administrative notice of "[A]nnual reports, tariffs, classifications and schedules regularly established by or filed with the Commission as required or authorized by law or by an order or rule of the Commission.")

No party objected to Ameren's proposal to implement a decoupling rider, Rider VBA. Staff recommended that the Commission approve Rider VBA if it adopts Staff's recommended SFV target percentages, a proposal with which the Company has since agreed. (ICC Staff Ex. 4.0 at 23; Ameren Ex. 23.0 at 5.) Staff also proposed several revisions to the rider: (1) modifying the date by which the annual internal audit is submitted to the Commission's Manager of Accounting, and (2) addition of an email address for the Manager of Accounting to be used in submitting the internal audit report. (ICC Staff Ex. 2.0 at 12.) The Company accepted these proposed modifications. As such, this modified decoupling rider is hereby adopted.

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**

The AG states that in reviewing the testimony filed by Company witness Colyer on various O&M expense items and certain responses to data requests, 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. AG Ex. 2.0 REV at 37:704-707. The AG states that in some cases, the change in FERC accounts booked occurred in multiple successive years for the same item. The AG also states that 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. *Id.* at 37:707-710. AG Exhibit 2.14 provides a few samples of these frequent account changes.

The AG asserts that the problem with the large volume and frequency of costs misapplied to FERC accounts is that it makes the task of cost analysis much harder, Mr. Coppola explained. Sometimes, according to the AG, it is nearly impossible to reconcile and explain cost changes over multiple years and discern cost trends over time. The AG claims that more importantly, this frequent practice of recording costs to different FERC accounts from one year to the next raises the question of whether there are weaknesses in the Company internal cost controls. *Id.* at 37:712-717.

The AG states that given these FERC account recording errors, Mr. Coppola recommended that the Commission instruct the Company to take additional steps to avoid the recording of costs, whether actual or forecasted, to the wrong FERC accounts from year to year. The AG notes that Coppola further recommended 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. *Id.* at 37:718-723.

The AG notes that in his response to Mr. Coppola's recommendation, AIC witness Getz defends the Company's FERC account assignment practices, yet acknowledges instances when costs have been misapplied. AIC Ex. 18.0 at 11:218-225. The AG notes that Mr. Getz dismisses these occurrences as being problematic. *Id.* The AG notes that Mr. Getz further defends the Company's internal cost controls and transparency in rate case filings. *Id.* at 11-12:230-242.

The AG points out that Mr. Coppola noted that he expected a more constructive response from Ameren, indicating that the Company was working on corrective actions to limit the number of misapplied charges by implementing new procedures, controls and training of employees. The AG observes that here again is an example of the Company not adhering to the Commission's directive in Docket No. 13-0192 to improve its accounting systems to make its forecast documentation more transparent and understandable. ICC Docket No. 13-0192, Order of December 18, 2013 at 34. ("The Commission also agrees with Staff that based on the testimony by Mr. Brosch, it is evident that the Company's forecast documentation, while not deficient from a standard filing requirement standpoint, was not as complete, detailed or easy to comprehend as it could have or should have been.")

The AG notes that Mr. Getz also seems baffled by Mr. Coppola's suggestion that the Company needs to present information in support of testimony and discovery responses that present the explanation of variances on a *pro forma* basis on a comparable basis year-to-year. AIC Ex. 18.0 at 14:279-290. The AG observes that Mr. Getz further mentions the number of pages of schedules and workpapers filed by the Company in this case, confusing quantity with quality of information. *Id.*

The AG avers that as Mr. Coppola explained, good analysis can only be performed with financial information that is consistently accounted for year over year so that underlying trends and unusual cost variances can be identified, explained and corrective action taken. The AG asserts that currently, the Company has shifted the burden of dealing with misapplied charges to Staff and intervenors, who are forced to analyze financial information to determine why the Company's forecasted test year numbers vary from historical levels. The AG submits that it is critical in order to establish fair and reasonable rates that cost data be presented and analyzed in a consistent manner. AG Ex. 5.0 at 19:386-394. The AG urges the Commission to order the Company to file a report within six months detailing how these processes have been improved.

In other words, says the AG, Ameren should be ordered to present the information in a form that is consistent and comparable for all of the periods presented, and for each of the FERC accounts where charges were misapplied from one year to the next. The AG requests that next to the *pro-forma* information, the Company should still detail the information as it was actually booked. The AG asks that this form of presentation should be done until the Company has significantly resolved the problem and there are no material misapplied charges from year to year. The AG observes, as an example, that similar pro-forma presentations are done frequently when a company buys another company or divests itself of a division and restates historical numbers to make the presentation of comparative financial information consistent and useful, according to Mr. Coppola. AG Ex. 5.0 at 20:395-406.

The AG believes that clearly, given the Commission's prior order and the persistent problem, the Company should be ordered to ensure that processes are corrected to create consistent and comparable accounting, which 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.

Suggested Commission Analysis and Conclusion:

> The Commission takes note of the numerous incorrect accounting bookings made by the Company in presenting its information in this proceeding. The Commission directs Ameren to implement processes to ensure that transactions are booked to correct FERC accounts and to ensure that cost items are presented consistently and comparably from year to year. Ameren should present *pro forma* presentation of comparative information over time with annotations of how the information was actually booked, if necessary. The Commission also hereby directs Ameren to report on the implementation of these processes within six months.

X. CONCLUSION

The People of the State of Illinois respectfully request that the Commission enter an Order consistent with this Statement of Position and Suggested Conclusions.

Respectfully submitted,

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