

**ILLINOIS COMMERCE COMMISSION**

**DOCKET 16-0262**

**REBUTTAL TESTIMONY**

**OF**

**JENNIFER A. RUSSI**

**Submitted on Behalf**

**Of**

**AMEREN ILLINOIS COMPANY  
d/b/a Ameren Illinois**

**July 28, 2016**

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7   **I.     INTRODUCTION**

8       **A.     Witness Identification**

9   **Q.     Please state your name and business address.**

10 A.     My name is Jennifer A. Russi. My business address is 6 Executive Drive, Collinsville,  
11 Illinois 62234.

12 **Q.     Are you the same Jennifer A. Russi who previously sponsored direct testimony in**  
13 **this proceeding?**

14 A.     Yes, I am.

15       **B.     Purpose and Scope**

16 **Q.     What is the purpose of your rebuttal testimony?**

17 A.     The purpose of my rebuttal testimony is to respond to Illinois Industrial Electric  
18 Consumers and Citizens Utility Board (collectively IIEC/CUB) witness Michael P. Gorman's  
19 adjustment to Ameren Service Company (AMS) costs charged to Ameren Illinois Company d/b/a  
20 Ameren Illinois (AIC or the Company) in 2015 (IIEC/CUB Ex. 1.0 (Rev.)). I specifically  
21 respond to Mr. Gorman's June 30, 2016 direct testimony, as to-be revised per the Administrative  
22 Law Judge's July 21, 2016 Ruling granting AIC's Motion to Strike. Ameren witnesses Ronald D.

23 Stafford and Michael J. Adams also respond to that testimony, in Ameren Exhibits 10.0 and 13.0,  
24 respectively. AIC reserves the right to file supplemental rebuttal testimony should Mr. Gorman  
25 subsequently file revised direct testimony that is inconsistent with the Administrative Law  
26 Judge's Ruling.

27 **Q. Please summarize the conclusions of your testimony.**

28 A. The Commission should reject Mr. Gorman's adjustments. His adjustments are factually  
29 unsupported, ignore actual 2015 costs incurred by AIC, disregard the Commission-approved  
30 General Services Agreement (GSA), and flow from several incorrect assumptions. I explain  
31 these criticisms below.

32 **Q. Are you sponsoring any exhibits in support of your rebuttal testimony?**

33 A. Yes, in addition to my rebuttal testimony, I am sponsoring Ameren Exhibit 12.1 -  
34 Divestiture-Adjusted Federal Energy Regulatory Commission (FERC) Form 60 Analysis.

35 **II. RESPONSE TO IIEC/CUB WITNESS GORMAN**

36 **A. General Concerns and Criticisms**

37 **Q. Please explain Mr. Gorman's adjustment to AMS costs charged to AIC in 2015.**

38 A. Mr. Gorman proposes to remove AMS costs that AIC actually incurred in 2015, reducing  
39 AIC's revenue requirement in this proceeding \$8 million.<sup>1</sup>

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<sup>1</sup>Again, I respond strictly to Mr. Gorman's June 30, 2016 direct testimony, as to-be revised per the ALJ's July 21, 2016 Ruling. That testimony proposes a total revenue requirement adjustment of \$8 million, but does not identify the level of AMS costs charged to AIC in 2015 that Mr. Gorman would disallow to derive his \$8 million revenue requirement adjustment.

40 **Q. What is the basis for Mr. Gorman's adjustment?**

41 A. Generally, he notes an increase in total AMS costs charged to AIC from 2014 to 2015,  
42 and from this concludes that AMS costs allocated to AIC in 2015 are not shown to be prudent or  
43 reasonable. His adjustment to 2015 AMS costs charged to AIC is composed of two separate  
44 AMS cost adjustments. First, he imputes to AIC a decrease in AMS costs charged to Ameren  
45 Corporation (Ameren) from 2014 to 2015, by setting 2015 AMS costs charged to Ameren at the  
46 2013 level, and so reducing AIC's 2015 revenue requirement \$3.8 million. Second, he removes  
47 from AIC's 2015 revenue requirement AMS costs he believes should be charged to Ameren  
48 Transmission Company of Illinois (ATC) in 2015, reducing AIC's 2015 revenue requirement  
49 another \$4.2 million. He checks the reasonableness of his total adjustment by simply comparing  
50 it to the increase in total AMS costs charged to all Ameren affiliates from 2013 to 2015.

51 **Q. Why should the Commission reject Mr. Gorman's adjustment?**

52 There are many reasons. As a general matter, the approach underlying Mr. Gorman's  
53 adjustment is flawed. He would remove actual AMS costs charged to AIC in 2015 from AIC's  
54 revenue requirement: (a) without identifying any specific 2015 AMS cost charged to AIC that is  
55 inconsistent with AIC's GSA with AMS, which was approved by the Commission in Docket 09-  
56 0234; (b) without identifying any specific 2015 AMS cost charged to AIC that is unreasonable in  
57 amount; and (c) without identifying any specific 2015 AMS service provided to AIC that was  
58 imprudent. Given this, his adjustment is based on the illogical premise that a cost is, on its face,  
59 unreasonable and imprudent if it is higher than the prior year's cost. That, however, is a premise  
60 that I understand the Energy Infrastructure Modernization Act (EIMA) expressly rejects. And, to  
61 the extent Mr. Gorman suggests that 2015 AMS costs charged to AIC should be limited by prior

62 year cost levels, he's attempting to normalize AMS costs, which I also understand the  
63 Commission shall not require, per the EIMA.

64 Moreover, the 3.5% increase in AMS costs charged to AIC from 2014 to 2015 is  
65 supported and is prudent and reasonable, for all the reasons I explain below and as shown by the  
66 benchmarking analysis of AIC's expenses performed by Mr. Adams (Ameren Ex. 13.0).

67 Finally, the two AMS cost adjustments composing Mr. Gorman's total \$8 million  
68 reduction to AIC's 2015 revenue requirement are unsupported factually. I respond to each  
69 separately below.

70 **B. Overview of 2014 and 2015 AMS Costs Charged to AIC**

71 **Q. How much have total AMS costs charged to AIC increased from 2014 to 2015?**

72 A. Per the FERC Form 60, total AMS costs charged to AIC in 2015 increased by \$5.5  
73 million, or 3.5% over the 2014 level.

74 **Q. What is the reason for the 3.5% increase?**

75 A. The increase is the result of inflation, AMS employees' wages and salaries increases, and  
76 other specific business needs, such as Information Technology (IT) support for cyber security  
77 and data operations, and maintaining general books and records.

78 **Q. Does Mr. Gorman contend that any particular AMS costs charged to AIC in 2014 or  
79 2015 were not charged in accordance with the GSA?**

80 A. No.

81 **Q. Does Mr. Gorman contend that any particular AMS costs charged to AIC in 2014 or**  
82 **2015 were imprudent or unreasonable in amount?**

83 A. No. Mr. Gorman focuses on total cost levels only. But these too are reasonable in  
84 amount. As I explained in my direct testimony, the arrangement between AMS and AIC  
85 provides AIC an efficient and cost-effective means of obtaining the services that it needs to  
86 operate. (Ameren Ex. 7.0 at 2.) AIC's 2014 and 2015 AMS costs comprised a substantial  
87 portion of the Company's total electric distribution Administrative and General (A&G) expenses  
88 those years. Mr. Adams' rebuttal testimony (Ameren Ex. 13.0) shows that AIC's 2014 and 2015  
89 A&G expense levels (and AIC's total Operations and Maintenance (O&M) expense levels),  
90 compare favorably to other comparable utilities' total A&G and O&M expense levels. This  
91 supports the reasonableness of total AMS costs charged to AIC in 2015. Mr. Gorman simply  
92 focuses on the origin of AIC's costs – AMS – and ignores that they are reasonable in amount, as  
93 Mr. Adams' comparisons show.

94 **C. Adjustment related to AMS Costs Charged to Ameren**

95 **Q. Please explain Mr. Gorman's adjustment regarding AMS costs charged to Ameren.**

96 A. Mr. Gorman proposes to increase the 2015 AMS costs charged to Ameren to the 2013  
97 cost level. The effect of this recommendation is to reduce the amount of AMS costs allocated to  
98 AIC in 2015, and thus AIC's revenue requirement in this case by \$3.8 million.

99 **Q. What is the basis for this adjustment?**

100 A. Mr. Gorman notes a 27% decrease in AMS costs directly charged to Ameren 2014 to  
101 2015, when overall AMS costs charged to AIC increased 3.5%. He characterizes this as a “shift”  
102 in AMS costs away from Ameren. His adjustment sets Ameren's AMS charges at their 2013  
103 level to “reverse this shift.” Again, the effect of this is to reduce the charges to AIC.

104 **Q. Does Mr. Gorman identify any particular AMS service or cost that “shifted” from**  
105 **Ameren to AIC 2014 to 2015?**

106 A. No.

107 **Q. Did AMS costs directly charged to Ameren “shift” from Ameren 2014 to 2015?**

108 A. No. A decline in services that are directly charged to Ameren, or another affiliate, would  
109 not necessarily affect AMS costs to AIC. Moreover, the reasons AMS costs charged to Ameren  
110 decreased, and AMS costs charged to AIC increased, from 2014 to 2015 are not dependent.

111 **Q. Does Mr. Gorman identify any particular AMS service provided or cost charged to**  
112 **AIC in 2015 that is imprudent or unreasonable?**

113 A. Again, no.

114 **Q. Does Mr. Gorman identify any particular AMS service provided or cost charged to**  
115 **AIC in 2015 that was not charged in accordance with the Commission-approved GSA?**

116 A. No.

117 **Q. Does Mr. Gorman's position account for the Commission-approved GSA?**

118 A. No. As I explained in my direct testimony, AMS provides AIC (and other affiliate  
119 companies) services pursuant to the GSA. Under the GSA, AMS costs charged to affiliated  
120 companies, including AIC, reflect AMS's actual costs to provide those services. AMS's actual  
121 costs are classified as either direct or indirect costs. Direct costs are defined as costs that can be  
122 identified as being applicable to services performed for a single affiliate or group of affiliates.  
123 Direct costs applicable to a single affiliate are directly charged to only that affiliate (direct costs).  
124 Direct costs applicable to two or more affiliates are distributed to those affiliates based on direct  
125 allocation factors listed in the GSA (direct allocated costs). Indirect costs are those costs of a

126 general overhead basis, which cannot be identified to a single affiliate or group of affiliates, and  
127 so are charged to each affiliate using formulas set forth in the GSA.

128 Mr. Gorman's direct testimony simply refers to "direct costs" charged to Ameren and  
129 AIC in 2014 and 2015 per FERC Form 60, without distinguishing between "direct costs" and  
130 "direct allocated costs." FERC Form 60 does not split the direct costs (charged to only one  
131 affiliate) and the direct allocated costs (charged to two or more affiliates). It only distinguishes  
132 between total direct (direct plus direct allocated) and indirect charges.

133 **Q. Why is the distinction between direct costs and direct allocated costs important?**

134 A. It's important because, when the need for services that result in direct costs goes away,  
135 such as when the company requiring the services is sold, the related costs go away. Direct  
136 allocated costs for services to more than one company, however, may remain regardless of  
137 whether one company stopped receiving the services. The decrease in AMS direct costs charged  
138 to Ameren 2014 to 2015 relate to direct costs, not direct allocated costs. The majority of these  
139 direct costs, therefore, "went away" in 2015.

140 **Q. Please explain further.**

141 A. Ameren sold its merchant generation business in 2013 and completed the sale of  
142 remaining merchant plants in early 2014, and it continued to incur significant AMS costs in 2014  
143 related to those divestitures. As shown on Ameren Exhibit 12.1, AMS costs charged to Ameren  
144 in 2014 related to the divestitures were \$7.3 million. These divestiture-specific costs were  
145 directly charged to Ameren in 2014, and did not recur in 2015. Stated another way, comparing  
146 2014 to 2015, Ameren had over \$7 million in costs direct charged by AMS that simply "went  
147 away" – the costs were not shifted to AIC, or any other Ameren affiliate.

148 Further, as I've explained, total AMS costs charged to AIC 2014 to 2015 increased 3.5%  
149 due to inflation, wages and salaries increases, and specific business needs. AMS costs direct  
150 charged to Ameren 2014 to 2015 had no bearing on that increase.

151 **Q. What were Ameren's non-divestiture related AMS costs over the same period?**

152 A. AMS costs charged to Ameren and not specifically related to the merchant generation  
153 business divestiture increased by nearly \$2 million, or 16%, in 2015:

Year & Company	Direct Costs Charged		Direct Costs Charged Sum	Indirect Costs Charged	Grand Total per FERC Form 60	AER Divestiture & Transition	Total Excluding AER Divestiture
	Direct	Direct Allocated					
<b>2015</b>							
AMC - Ameren Corporation	1,331,469	10,869,812	12,201,281	2,117,549	14,318,830	143,462	14,175,367
<b>2014</b>							
AMC - Ameren Corporation	8,605,393	9,176,250	17,781,643	1,762,368	19,544,011	7,304,908	12,239,103

154  
155 Similar to AIC, the services charged to Ameren also vary from year to year based on specific  
156 business needs.

157 **Q. Does Mr. Gorman explain why he believes it is appropriate to reverse the "shift" he**  
158 **sees in AMS costs away from Ameren 2014 to 2015, by setting 2015 AMS costs charged to**  
159 **Ameren at their 2013 level?**

160 A. No.

161 **Q. What do you conclude regarding Mr. Gorman's adjustment?**

162 A. The Commission should reject it. Mr. Gorman tries to impute Ameren's 2014 divestiture  
163 costs to AIC in this case, by setting the level of AMS costs charged to Ameren in 2015 at their  
164 2013 cost level, and "shifting" the difference to AIC. That is not appropriate, for two reasons.  
165 First, he does not address the basis for the actual 2014 and 2015 AMS costs charged to either  
166 Ameren or AIC. So he overlooks the explanation for the decrease in AMS costs direct charged  
167 to Ameren 2014 to 2015: Ameren's merchant generation business divestiture. The facts simply

168 do not support his adjustment. Second, his adjustment improperly attempts to normalize AMS  
169 costs charged to Ameren to the 2013 cost level. Put simply, the decrease in AMS costs charged  
170 to Ameren 2014 to 2015 have no bearing on the prudence and reasonableness of AIC's actual  
171 2015 AMS costs.

172 **D. Adjustment Related to AMS Costs Charged to Ameren Transmission**  
173 **Company**

174 **Q. Please explain Mr. Gorman's adjustment related to AMS costs charged to ATC.**

175 A. Mr. Gorman proposes to shift AMS costs charged to AIC in 2015 to Ameren  
176 Transmission Company of Illinois (ATC, now Ameren Illinois Transmission Company or  
177 ATXI), which would reduce AIC's revenue requirement in this case \$4.2 million.

178 **Q. What is the basis for this adjustment?**

179 A. Mr. Gorman thinks that the percentage of total AMS costs charged to ATC in 2015 for  
180 certain functions – Controllers, Supply Services, Corporate Planning, Executive, (IT, General  
181 Counsel and Federal Regulatory Legal Policy – is “not sufficient.”

182 **Q. Why does Mr. Gorman think that AMS costs allocated to ATC are “not sufficient”?**

183 A. It is not clear. For the IT function, he simply says that “[i]t is unreasonable to assume  
184 that a transmission company can operate without a significant information technology function.”  
185 He does not explain his rationale regarding the percentage of total AMS costs charged to ATC  
186 for the remaining functions I note above.

187 **Q. What is Mr. Gorman's proposed remedy?**

188 A. He increases ATC's allocation of IT AMS costs to 10%, which he believes is reasonable  
189 unless AIC can show it's not. He also increases ATC's allocation for AMS costs from the other  
190 remaining functions noted above to the same 10%, again without explanation.

191 **Q. Does Mr. Gorman provide any analysis to suggest that ATC's actual allocation of**  
192 **total AMS IT costs in 2015 is unreasonable?**

193 A. No.

194 **Q. Does Mr. Gorman provide any analysis to suggest that ATC's actual allocation of**  
195 **total AMS costs for the other functions he identifies in 2015 is unreasonable?**

196 A. No.

197 **Q. Does Mr. Gorman provide any analysis to suggest that 10% is a more reasonable**  
198 **allocation percentage for any of these AMS functional services?**

199 A. No. His percentage allocation is arbitrary.

200 **Q. Does Mr. Gorman identify any particular AMS service provided or cost charged to**  
201 **AIC in 2015 for any of the functional services he identifies that he contends AIC did not**  
202 **require?**

203 A. No.

204 **Q. Does Mr. Gorman identify any particular AMS service provided or cost charged to**  
205 **AIC in 2015 for any of the functional services he identifies that he contends was**  
206 **inconsistent with the Commission-approved GSA?**

207 A. No.

208 **Q. Does Mr. Gorman acknowledge the increase in total AMS costs charged to ATC**  
209 **2014 to 2015?**

210 A. No. Mr. Gorman ignores the fact that AMS costs charged to ATC increased over this  
211 period by \$6.8 million, or 56%:

Year & Company	2014	2015	2015 vs 2014	
<b>Direct Costs Charged</b>	<b>11,009,089</b>	<b>16,958,323</b>	<b>5,949,235</b>	<b>54%</b>
Direct (One Company)	10,208,406	14,699,421	4,491,014	44%
Direct Allocated (Two or More Companies)	800,682	2,258,903	1,458,220	182%
<b>Indirect Costs Charged</b>	<b>1,266,918</b>	<b>2,143,467</b>	<b>876,549</b>	<b>69%</b>
<b>ITC - Ameren Transmission Company of Illinois</b>	<b>12,276,006</b>	<b>19,101,790</b>	<b>6,825,783</b>	<b>56%</b>

212  
213 **Q. Were the AMS costs charged to ATC in 2015 consistent with the Commission-**  
214 **approved GSA?**

215 A. Yes. The AMS costs charged to ATC in 2015 were charged in accordance with the  
216 Commission-approved GSA - again, a point Mr. Gorman doesn't address, let alone dispute. But  
217 it's an important point. Specifically, the amount of charges to ATC for each of the functional  
218 services Mr. Gorman identifies was determined in accordance with the GSA, and charged using  
219 an approved allocation factor per the GSA. In other words, the charges to ATC follow the GSA.

220 **Q. Could the AMS functional areas that Mr. Gorman identifies just charge ATC the**  
221 **10% allocation he suggests?**

222 A. No, that would not be consistent with the Commission-approved GSA. Approved  
223 allocation factors, per the GSA, are assigned to services performed by AMS functional areas,  
224 such as IT. Most functional areas use a variety of allocation factors based on the variety of  
225 services provided. For instance, the IT functional area uses a combination of direct (charged to  
226 one company), allocated direct (charged to two or more companies) and functional indirect  
227 allocations. Mr. Gorman attempts to simplify the allocation process by assigning a set

228 percentage for all IT charges to ATC. In so doing, he overlooks that the IT function provides  
229 services that are wholly dedicated to one company, such as AIC Customer Service System  
230 billing software support, support for AIC's gas operations projects and support for software used  
231 by Ameren Missouri generating plants.

232 **Q. Are there other examples of IT services provided to AIC that would not be shared**  
233 **with ATC?**

234 A. Yes, there are IT services provided to AIC that are not shared with ATC. For example,  
235 AIC, unlike ATC, has customer billing and support needs that require IT services. AMS services  
236 directly related to the new bill format and meter reading changes required by the Commission's  
237 new Part 280 Rules increased in cost from \$500,000 in 2014 to \$800,000 in 2015. Also, AIC has  
238 mass market customers, and recently installed hundreds of thousands of electric and gas smart  
239 meters. IT services provided by AMS and charged to AIC for AMI support were \$5.5 million in  
240 2014 and \$5.8 million in 2015. Mr. Gorman ignores all of this. As he admitted in discovery, he  
241 did not analyze any of the IT systems used by AIC and ATC. (AIC-IIEC/CUB 1.19.)

242 **Q. Why were AMS costs for the other functional (non-IT) services that Mr. Gorman**  
243 **identifies charged to AIC in 2015 greater than AMS costs charged to ATC for those**  
244 **functional services?**

245 A. For similar reasons as for the IT services costs - AIC has different business needs than  
246 ATC. Since Mr. Gorman did not identify any particular cost charged to AIC as unreasonable or  
247 that should have been charged to ATC, however, it is difficult to respond to his allegations here.

248 **Q. Do you have other concerns about Mr. Gorman's ATC AMS cost adjustment?**

249 A. Yes. AIC also has a transmission business. Mr. Gorman's discussion of transmission  
250 costs allocation does not consider AIC's transmission business.

251 **Q. What do you conclude regarding Mr. Gorman's adjustment to AMS costs charged**  
252 **to ATC in 2015 ?**

253 A. For the reasons I've explained, Mr. Gorman's adjustment to shift these costs to AIC is  
254 arbitrary and factually unsupported, and should be rejected.

255 **E. Check on Total AMS Costs Charged to AIC**

256 **Q. Please explain Mr. Gorman's check on this reduction to AMS costs charged to AIC**  
257 **in 2015.**

258 A. Mr. Gorman notes that total AMS costs charged to all affiliates have increased 6.7% from  
259 2013 to 2015. He applies this percentage to AIC's 2013 AMS costs, and derives a normalized  
260 2015 AMS cost level of \$137.6 million. He argues that this supports the reasonableness of his  
261 adjustment.

262 **Q. Did the Commission approve the level of AMS costs charged to AIC in 2014?**

263 A. Yes. And that approval necessarily reflects the increase in AMS costs 2013 to 2014.

264 **Q. Mr. Gorman thinks that "the services provided to AIC by AMS have not materially**  
265 **changed since 2013." Is that correct?**

266 A. No. The services provided by AMS may fluctuate from year to year based on AIC's  
267 business needs. For instance, as I've explained, services directly related to AMI support that  
268 were provided by AMS increased from \$2.6 million in 2013 to \$5.8 million in 2015. And as also  
269 discussed above, AMS services directly related to the new bill format required by the

270 Commission's new Part 280 Rules increased in 2015. So, Mr. Gorman's assumption that services  
271 provided to AIC by AMS have not materially changed since 2013 is wrong.

272 **Q. How would you characterize Mr. Gorman's reasonableness check?**

273 A. It's baseless, and again, like his other AMS cost adjustments, appears to be an attempt to  
274 normalize AIC's costs.

275 **III. CONCLUSION**

276 **Q. What do you conclude regarding Mr. Gorman's adjustment to AIC's 2015 AMS**  
277 **costs in this case?**

278 A. The Commission should reject his adjustments. They are factually unsupported and  
279 arbitrary and they ignore the Commission-approved GSA. The 2015 AMS costs charged to AIC  
280 and included in the revenue requirement in this case were actual costs incurred by AIC in 2015.  
281 As I've explained, they are prudent and reasonable, and the Commission should approve them.

282 **Q. Does this conclude your rebuttal testimony?**

283 A. Yes, it does.