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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2014-0258

DIRECT TESTIMONY

OF

MICHAEL J. ADAMS

On Behalf

Of

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

Marlborough, Massachusetts
July, 2014

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DIRECT TESTIMONY
OF
MICHAEL J. ADAMS
FILE NO. ER-2014-0258
I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Michael J. Adams. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. By whom are you employed?

A. I am a Senior Vice President with Concentric Energy Advisors, Inc. (“Concentric”).

Q. Please describe Concentric.

A. Concentric provides regulatory, economic, market analysis and financial advisory services to a large number of energy and utility clients across North America. Our regulatory and economic services include regulatory policy, utility ratemaking (e.g., cost of service, cost of capital, rate design, and alternative forms of ratemaking), and the implications of regulatory and ratemaking policies. Our market analysis services include energy market assessments, market entry and exit analyses, and energy contract negotiations. Our financial advisory activities include merger, acquisition and divestiture assignments, due diligence and valuation assignments, project and corporate finance services, and transaction support services.

1 **Q. What are your responsibilities in your current position?**

2 A. As a consultant, my responsibilities include assisting clients in identifying, assessing and
3 addressing business issues. My primary areas of focus have been regulatory, financial and
4 accounting-related issues. My education and experience are summarized in Appendix A attached
5 hereto.

6 **Q. What is the purpose of your direct testimony?**

7 A. The purpose of my testimony is to discuss the transactions between Ameren Missouri and
8 affiliated companies, and how those transactions are priced in accordance with the
9 Commission's affiliate transactions rules.

10 **Q. Are you sponsoring any schedules?**

11 A. Yes. I am sponsoring Schedules MJA-1 through MJA-2, which I will discuss later in my
12 testimony.

13 **Q. What types of transactions or services does Ameren Missouri undertake with
14 affiliated entities?**

15 A. Ameren Missouri both receives goods and services from and provides goods and services to
16 its affiliated companies. The predominant provider of services to Ameren Missouri is
17 Ameren Services Company ("Ameren Services"), which provides administrative,
18 management, engineering, construction, and other support services (e.g., information
19 technology, legal, tax) to Ameren Missouri and its affiliates.

1 **Q. Are there Missouri regulations addressing affiliate transactions between regulated**
2 **utilities and non-regulated operations?**

3 A. Yes. Affiliated transactions between regulated utilities in Missouri and non-regulated
4 operations are subject to rules set forth in Missouri's Code of State Regulations at 4 CSR
5 240-20.015.

6 **Q. Have you reviewed the content of 4 CSR 240-20.015?**

7 A. Yes I have.

8 **Q. What is your understanding of the requirements of 4 CSR 240-20.015, as it pertains to**
9 **transactions between a regulated utility and affiliated companies?**

10 A. The standard set forth in 4 CSR 240-20.015 is that a regulated electrical corporation shall not
11 provide a financial advantage to an affiliated entity. A financial advantage to an affiliated
12 entity shall be deemed to exist if:

13 1. The regulated utility compensates an affiliated entity for goods or services above the lesser
14 of:

15 A. The fair market price; or

16 B. The fully distributed cost to the regulated utility to provide the goods or services
17 for itself; or

18 2. The regulated utility transfers information, assets, goods or services of any kind to an
19 affiliated entity below the greater of:

20 A. The fair market price; or

21 B. The fully distributed cost to the regulated utility.

1 **II. SERVICES PROVIDED BY AMEREN SERVICES**
2 **TO AMEREN MISSOURI**
3

4 **Q. What is “insourcing” and how does it compare to “outsourcing”?**

5 A. Insourcing refers to the practice of subcontracting work to another company that is under
6 the same general ownership. Dealings between companies and affiliated service providers
7 can be referred to as insourcing. Outsourcing, on the other hand, typically refers to
8 provisioning of services to a company by an unaffiliated company.

9 **Q. Do Ameren Corporation and its affiliated companies utilize both insourced and**
10 **outsourced services?**

11 A. Yes. In fact, there are three different approaches that are being used. First, the affiliated
12 companies perform the work, in some cases, that is unique to each company and for which
13 an external provider does not exist. Second, if it is a common service required by multiple
14 affiliated companies, the service is generally provided by Ameren Services (i.e., insourced).
15 Finally, some services provided to affiliates by Ameren Services are outsourced.

16 **Q. When was Ameren Services formed?**

17 A. Ameren Services was formed in 1998 as part of the merger of Union Electric Company and
18 Central Illinois Public Service Company, which was approved by the Missouri Public Service
19 Commission (“the Commission”) in Case No. EM-96-149. Ameren Services only provides
20 services to Ameren Corporation and its affiliated companies.

21 **Q. Could Ameren Services be referred to as a shared services company?**

22 A. Yes it could. A shared services company (or a “centralized service company”) provides
23 similar services to multiple affiliated organizations. Under federal regulations, a centralized

1 service company is defined as a “service company that provides services such as
2 administrative, managerial, financial, accounting, recordkeeping, legal, or engineering
3 services, which are sold, furnished, or otherwise provided (typically for a charge) to other
4 companies in the same holding company system.”¹

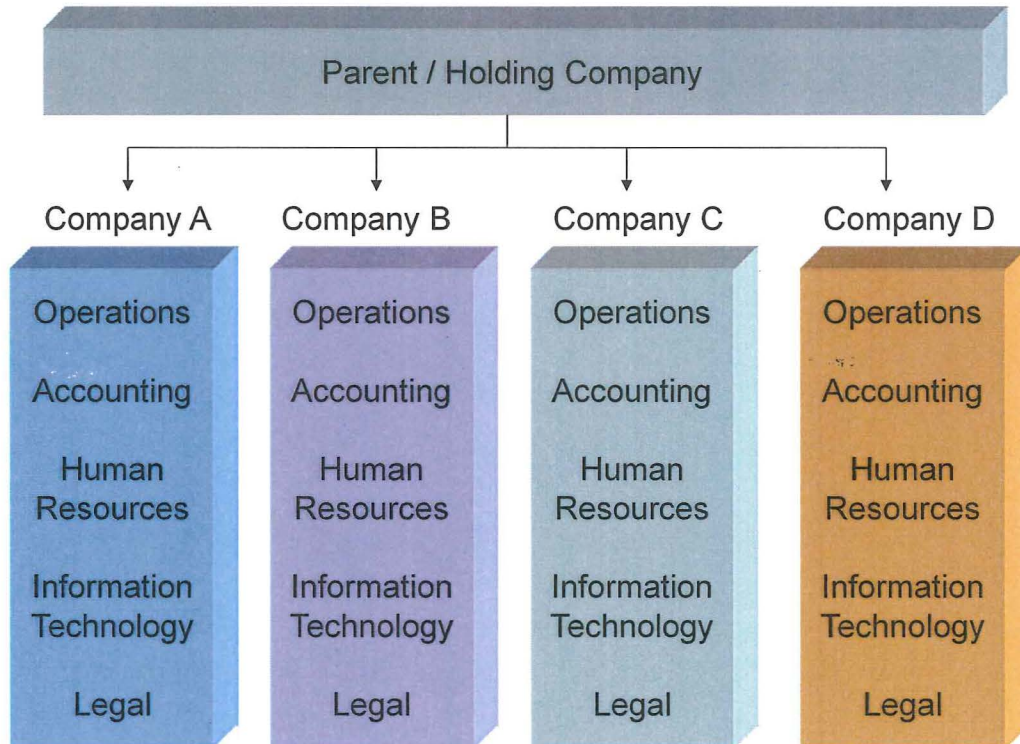
5 **Q. How does the existence of a shared services company such as Ameren Services affect
6 the organization and operations of the affiliated companies?**

7 A. Figure 1 shows a simplistic graphic of a typical organizational structure of companies under a
8 holding company in which common services have not been centralized. As the figure
9 shows, each core business retains all operational and administrative functions required to run
10 the individual businesses.

¹ Specifically, in the context of power companies, 18 CFR § 366.1 defines a service company as, “any associate company within a holding company system organized specifically for the purpose of providing non-power goods or services or the sale of goods or construction work to any public utility in the same holding company system.” 18 CFR § 367.1(a)(7) defines a centralized shared service company as “a service company that provides services such as administrative, managerial, financial, accounting, recordkeeping, legal or engineering services, which are sold, furnished, or otherwise provided (typically for a charge) to other companies in the same holding company system.”

Figure 1

Organizational Structure with No Shared Services



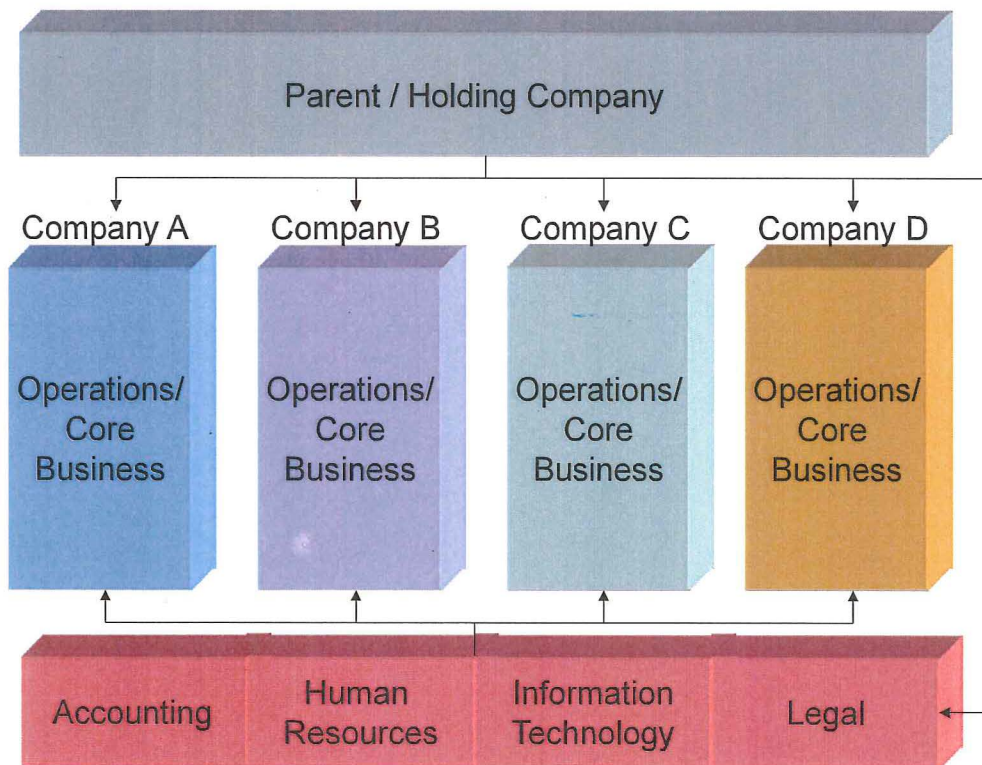
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1 In contrast, Figure 2 shows an organization within which like services or functions have
2 been centralized either at the holding company or within a shared services organization. As this
3 figure shows, the operating companies consist of only core businesses while the administrative
4 functions reside in a separate company. Such a structure is not only designed to achieve
5 efficiencies and economies of scale, but also allows the management of the operating companies
6 to focus on the core businesses or activities.

Figure 2

Organizational Structure with Shared Services



7

1 These figures are presented only as examples of the structures employed under each of the
2 presented scenarios. In fact, there are numerous manners in which the shared services functions
3 could be organized. For example, the shared services could be centralized at the holding
4 company, within different operating companies, or outsourced altogether.

5 **Q. Is the practice of insourcing services to an affiliated shared services provider a**
6 **common practice within the utility industry?**

7 A. Yes. Based upon a review of Federal Energy Regulatory Commission (“FERC”) filings,
8 there are approximately 30 service companies providing services to 124 operating utilities.²

9 **Q. What functions or services do you typically see consolidated within an overall**
10 **corporate structure?**

11 A. Functions or services that I have seen centralized include Accounting, Accounts Payable,
12 Internal Audit, Budgeting, Corporate Communications, Corporate Planning, Engineering,
13 Environmental Services, Finance, Human Resources, Information Technology, Investor
14 Relations, Legal, Procurement, Risk Management, and Tax. Many of these are services
15 provided by Ameren Services.

16 **Q. If Ameren Services did not exist, would Ameren Missouri be required to provide**
17 **services similar to those provided by Ameren Services?**

18 A. Yes. Each of the services that Ameren Services provides to Ameren Missouri are necessary
19 services that, if not provided by a service company, would need to be performed individually
20 by each of the operating companies or supplied by an alternative provider.

² Form 60 Analysis 5 30 14, Form 60 Data and SNL Data tab.

1 **Q. Does the existence of Ameren Services result in lower costs to Ameren Missouri's**
2 **customers?**

3 A. I believe that it does. If Ameren Missouri (and each of the Ameren companies) were
4 required to staff independent stand-alone organizations to provide the services that Ameren
5 Services provides to Ameren Missouri, it would likely require more full-time staff at each of
6 the affiliated companies than is required to provide common services centrally located at
7 Ameren Services. As a result, there would likely be higher staffing levels and costs
8 associated with the services. By centralizing common services at Ameren Services, the
9 affiliated companies are able to share in the economies of scale (e.g., reduced full-time
10 equivalent employees and associated labor costs) and operational efficiencies (i.e., ability to
11 leverage common systems across the organization) that result from the increased scale of
12 services provided across the Ameren organization.

13 **Q. Please describe the process by which it was determined whether a service would be**
14 **provided by Ameren Missouri personnel or by Ameren Services personnel.**

15 A. As I have previously stated, the vast majority of the services provided by Ameren Services to
16 the affiliated companies are administrative in nature. When Ameren Services was formed, it
17 was determined that it would be more efficient and cost-effective for a core group to
18 provide common administrative services to the Ameren companies than to have each
19 company provide such services on its own. Therefore, common functions (e.g., finance and
20 human resources) were consolidated at Ameren Services. Functions that were unique to the
21 individual operating companies (e.g., operating personnel, rates personnel) were left at the
22 operating companies.

1 **Q. Is there a financial impact to Ameren Missouri if a service is performed by Ameren**
2 **Services instead of by an Ameren Missouri employee?**

3 A. Only with regard to efficiencies. Wages and benefits for like positions, regardless of whether
4 they reside at Ameren Missouri or Ameren Services, are the same. The consolidation of
5 such services at the service company level, however, has produced efficiencies that reflect a
6 lower cost to the individual operating companies than if each company had performed the
7 same services individually.

8 **III. COST OF SERVICES PROVIDED BY AMEREN SERVICES**

9 **Q. How does Ameren Services determine the amount to be billed to Ameren Missouri**
10 **for the services rendered?**

11 A. When completing their timesheets, Ameren Services' employees charge their time to specific
12 Service Requests (SRs). Each SR has an assigned allocation factor that is used to allocate the
13 total charges to each Ameren subsidiary benefiting from the service.

14 **Q. Would there ever be charges from Ameren Services that would not be charged via the**
15 **SR process?**

16 A. Yes. The SR process captures the labor billed to affiliated companies associated with work
17 performed on projects. Non-labor costs are not required to be billed through the SR
18 process and can be direct billed to a specific company. Other manual entries are included as
19 manual entries on the monthly bill that would not be charged to a specific project number.

1 **Q. Are there services provided by Ameren Missouri to Ameren Services?**

2 A. Yes. The two largest items for which Ameren Services reimburses Ameren Missouri are
3 property rental (i.e., Ameren Services' use of Ameren Missouri facilities) and software rental.
4 The charges for these services are an offset to Ameren Services' charges to Ameren
5 Missouri.

6 **Q. What pre-determined allocation factors are used to allocate costs to the Ameren
7 companies via the SR process?**

8 A. Schedule MJA-1 provides a listing of the allocation factors used to allocate Ameren Services
9 costs to Ameren Missouri and the percentage of the total costs that are assigned to Ameren
10 Missouri for each of the factors.

11 **Q. How frequently are the allocation factors calculated?**

12 A. The allocation factors are calculated annually and the new factors are effective January 1 of
13 each year. The factors can be changed throughout the year, if deemed necessary, but the
14 vast majority of changes occur annually. Notably, the factors were reset in December 2013
15 to reflect the divestiture of Ameren Energy Resources and certain affiliated companies.

16 **IV. REASONABLENESS OF AMEREN SERVICES' CHARGES**

17 **Q. You earlier outlined the standard for charges between affiliates in the Commission's
18 rules, which requires that services acquired by Ameren Missouri from an affiliate be
19 provided at the lower of fully distributed cost or market. Are all of the services
20 provided by Ameren Services provided solely at the lower of fully distributed cost or
21 fair market price?**

22 A. Yes.

1

A. FULLY DISTRIBUTED COST

2 **Q. What is meant by “fully distributed cost”?**

3 A. Fully distributed cost means that all costs, not just direct labor costs, are considered in the
4 pricing of a service.

5 **Q. Besides labor costs, what other costs are considered in the fully distributed cost of
6 the services provided by Ameren Services?**

7 A. The fully distributed cost of a service provided by Ameren Services includes actual labor
8 costs, labor loadings, benefits, and any other non-payroll expense incurred to provide the
9 service. There is no mark-up or profit on Ameren Services' costs, as Ameren Services is a
10 zero profit entity. Any under/over allocated loading amount is re-classed to the balance
11 sheet and brought back the following month to be allocated to that month's labor for all
12 companies.

13

B. FAIR MARKET PRICE

14 **Q. What is a “fair market price”?**

15 A. Fair market price can be defined as the price at which a seller and a buyer are willing to strike
16 a deal. In other words, there need to be two willing parties to the transaction. Merely
17 because a service provider exists that is willing to offer a service at a lower price does not
18 mean that the offer meets the definition of fair market price.

19 **Q. Please explain.**

20 A. When considering the possible outsourcing of a service to an unaffiliated company, Ameren
21 Missouri must look at more than just the proposed price of offering such service. The

1 financial and technical viability of the service provider must also be considered. If the
2 proposed cost of providing the service is too low, the likelihood of the bidder being able to
3 provide the service for the duration of the arrangement may be in jeopardy if the bidder is
4 unable to meet his ongoing obligations as a result of the low contract price. The track
5 record of the proposing company/individual must also be considered to assess whether the
6 proposer has been able to provide such services in a consistent and timely manner.
7 Similarly, Ameren Missouri must ensure that the quality of the service to be provided meets
8 with expectations and existing standards. For example, in some instances, Ameren Missouri
9 has regulatory requirements with which it must comply. Accordingly, Ameren Missouri
10 must ensure that the service provider is able to comply with such standards.

11 **Q. Is there a fair market price for every service?**

12 A. No. If a service is unique to the Ameren companies or their respective operations, there
13 may not be a comparable service provider.

14 **Q. Please explain how Ameren Services uses competitive bids to ensure that its prices
15 are at or below fair market prices.**

16 A. Where feasible, Ameren Services will seek competitive bids to receive independent price
17 quotes from non-affiliated companies to perform services. Where the responses indicate
18 that a service could be performed most cost-effectively by a non-affiliated company, Ameren
19 Services will consider outsourcing the service.

20 **Q. Are all of the services provided by Ameren Services competitively bid?**

21 A. No. Non-affiliated service providers are not available for all services. Further, there are
22 certain services that companies do not want to outsource.

1 **Q. How does Ameren Services determine if an external service provider exists?**

2 A. A department that is considering outsourcing work will coordinate efforts with the
3 procurement department to gather and maintain information regarding firms available to
4 provide various services. When necessary, a request for proposal will be issued to firms
5 determined to be qualified to provide the work.

6 **Q. Is cost the only factor to be considered when determining whether to outsource a
7 service?**

8 A. No. The availability of the non-affiliated service providers to dedicate staff to the effort, the
9 ability of the non-affiliated service provider to meet Ameren Missouri's requirements,
10 expectations and schedule, and past performance of the provider with other clients are just a
11 few of the factors that need to be considered when evaluating the outsourcing of a service.
12 Consequently, even when competitive bids are solicited, these qualitative considerations
13 mean that the lowest bid will not always be the winning bid. In addition, Ameren Services
14 has experienced difficulties retaining external service providers, in some instances, due to the
15 complexities pertaining to benefits and union contracts.³

16 **Q. How frequently does Ameren Services evaluate the possibility of outsourcing services
17 to external providers?**

18 A. The manner in which services are provided to Ameren Missouri is reviewed annually during
19 the budgeting process.

³ Two vendors withdrew from an outsourcing effort pertaining to FMLA and Unemployment Administration.

1 **Q. Are all services provided by Ameren Services to Ameren Missouri a candidate for**
2 **outsourcing?**

3 A. No, nor should they be.

4 **Q. Please explain.**

5 A. Ameren Missouri management has responsibilities and obligations to its customers,
6 regulators, employees, and shareholders. It cannot abdicate those responsibilities and
7 obligations by outsourcing every activity. It is to be expected that key core functions would
8 be retained internally and staffed with Ameren employees. For example, I am not aware of
9 any companies that outsource all accounting and financial functions. There are services that
10 companies wish to entirely or primarily retain in-house (e.g., legal or strategic planning)
11 because of the sensitivity and confidentiality of such services. Ameren Services employees
12 have valuable knowledge about Ameren Missouri's business, culture, values, policies and
13 customers that does not exist at any potential non-affiliated service provider. Ameren
14 Services does, however, attempt to identify non-affiliated service providers, wherever
15 possible, and request bids from the external providers associated with non-core services that
16 can reasonably and practically be outsourced.

17 **Q. When does it make sense to consider the outsourcing of a service or function?**

18 A. Services or functions that are considered transactional in nature, can be measured via defined
19 measures or milestones, or which involve a skillset that is typically not a core competency
20 found in a utility are potential candidates for outsourcing.

1 **Q. When a service is considered for outsourcing, are all of Ameren Services' costs**
2 **considered in the cost comparison?**

3 A. Yes. The potential outsourcing of a service can establish a fair market price which will be
4 evaluated against the fully-distributed cost of providing the service internally.

5 **Q. Has Ameren Services outsourced services to external, non-affiliated services**
6 **providers?**

7 A. Yes. Many services that would have otherwise been provided by Ameren Services to
8 Ameren and its affiliated companies have been outsourced to non-affiliated companies.
9 Schedule MJA-2 sets forth some of the services that have been outsourced.

10 **Q. Are the costs associated with these outsourced services included in the total cost of**
11 **Ameren Services' services?**

12 A. Yes, the costs associated with the outsourced services are reflected in the overall cost of
13 services provided by Ameren Services.

14 **Q. Would it be reasonable to require Ameren Services to periodically bid out all work**
15 **that it performs for its affiliated companies?**

16 A. No. Preparing the bid documents is time consuming and costly, both for Ameren Missouri
17 and the non-affiliated companies. There are numerous transaction costs that impede the
18 ability to outsource all functions; such as bid documents, information asymmetries which
19 increase risk, legal review, counterparty risks, bargaining costs, and policing and enforcement
20 costs. Further, as I previously stated, there are not necessarily qualified bidders for all
21 services. Finally, to the extent that non-affiliated options exist, those entities will quickly tire

1 of responding to requests for proposals if, from past experience, they know that they cannot
2 compete with Ameren Services' costs.

3 **Q. Generally speaking, does the mere fact that a service has been outsourced mean that**
4 **the cost of service is lower or that the quality of the service is improved from the cost**
5 **and/or quality of service provided by an affiliated company?**

6 A. No, it does not.

7 **Q. Does the outsourcing of a service always produce positive results for the outsourcing**
8 **company and its customers?**

9 A. No. As an example, it has been well documented that NiSource entered into a 10 year
10 outsourcing arrangement for business support services with a large service provider and
11 eliminated more than five percent of its corporate-wide employees only to cancel the
12 contract two and one-half years into the arrangement. When announcing the termination of
13 the agreement, NiSource acknowledged that the originally projected cost savings would not
14 be realized.⁴

15 **Q. Does the outsourcing of shared services result in the elimination of Company jobs?**

16 A. It can. For the external service provider to earn a profit, it must perform the work more
17 efficiently and/or at a lower cost. Most outsourcing arrangements result in the elimination
18 of utility jobs and in some cases, the outsourcer offshores the replacement positions. For
19 example, Washington Gas entered into an agreement with a service provider for business

⁴ Chesterton Tribune, January 1, 2008.

1 process outsourcing. As part of the arrangement, Washington Gas' call center was
2 outsourced to the Philippines and approximately 300 utility positions were eliminated.⁵

3 **Q. How can Ameren Services' costs be determined to be the lesser of fair market price**
4 **or fully distributed cost absent competitive bids, so that they are in accord with 4**
5 **CSR 240-20.015?**

6 A. As I previously stated, there are not suppliers for every service that Ameren Services offers.
7 Further, there are services that it would not be appropriate for the Company to outsource,
8 so bids would never be sought because there are no comparable providers – certain “in-
9 house” jobs simply cannot be replicated through outsourcing. Absent competitive bids, the
10 Company relies upon 1) internal and external audits; 2) wage surveys; 3) benchmarking; and
11 4) continuous improvement initiatives. Each of the assessment techniques is discussed
12 below.

13 **1. Internal/External Audits**

14 **Q. Have audits been performed of the processes used to assign Ameren Services' costs**
15 **of providing services to affiliated companies?**

16 A. Yes. Ameren's Internal Audit group performs an annual audit of the Service Request System
17 including its policies, procedures, and controls. This has included reviewing service request
18 initiation, maintenance, and closing; factor allocations; intercompany billing; employee time
19 reporting; and the Service Request Manual and cost allocation manual. The last internal
20 audit report was issued January 24, 2014, covering calendar year 2013.

⁵ The Washington Post, June 1, 2007.

- 1 **Q. Have there been external audits of the affiliated transactions between Ameren**
2 **Services and Ameren's regulated companies?**
- 3 A. Yes. The FERC conducted an audit of Ameren Corporation's affiliate transactions in
4 Docket No. FA10-3-000 filed on October 21, 2010. The audit included a review of Ameren
5 Services' cost allocation methodologies and costs billed by Ameren Services to its affiliated
6 franchised public utilities. The audit included selective tests of Ameren Services' cost
7 allocation methodologies and billings by the service company to the associated operating
8 utilities and evaluated whether the associated operating utilities' accounting for these costs
9 complied with the Uniform System of Accounts requirements. The audit covered the period
10 January 1, 2008, through December 31, 2009. The final audit report contained 18
11 recommendations for corrective actions. Many of the recommendations called for Ameren
12 Services to strengthen or revise its procedures, correct entries⁶ or refile pages of the FERC
13 Forms 1 or 60. The Company has (or will) addressed each of the recommendations made by
14 FERC Staff and has reported quarterly to FERC Staff the Company's progress on the
15 implementation of corrective actions.
- 16 The FERC's Staff is currently conducting an audit of Ameren Missouri in Docket No. FA13-2-
17 000. While the scope of the audit does not implicitly include the services provided by Ameren
18 Services to Ameren Missouri, FERC Staff has asked for backup for utility transactions that
19 began at Ameren Services. The exact timing of the audit is not known at the time this
20 testimony was prepared.

⁶ For example, a recommendation was made to correct entries for 2008 to reclassify lobbying costs from Accounts 921 and 923 to Account 426.4.

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2. Wage Surveys

Q. Does Ameren perform surveys to assess the wages paid to its employees?

A. Yes. The Human Resources function routinely has surveys performed to assess the reasonableness of the wages paid to Ameren Services employees. While I have a general understanding of the Company’s compensation philosophy and the surveys conducted to test the market, Ameren witness Marla Langenhorst will discuss these items in greater detail in her direct testimony filed in this matter.

3. Benchmarking Studies Performed By Ameren

Q. 4 CSR 240-20.015 requires that Ameren Services’ costs be determined to be the lesser of fair market price or fully distributed cost. Does the statute allow for the use of benchmarking in lieu of competitive bids?

A. Yes, it does. The rule states that benchmarking practices can constitute compliance with the market value requirements of this section if approved by the Commission.

Q. Does Ameren Services routinely benchmark the costs of its services against those of other companies?

A. Yes. Ameren regularly participates in benchmarking studies across various business segments to assess its cost levels. I reviewed the results of the PSEG, Gartner, Global Audit Information Network (“GAIN”), and International Facility Management Association (“IFMA”) benchmarking studies.

1 **Q. Please provide a description of the PSEG Benchmarking.**

2 A. In 2012, PA Consulting worked with a group of leading utilities across the United States to
3 assist in the peer benchmarking of Corporate and Shared Services costs. The benchmarking
4 study included a group of seventeen utility companies that have electric or electric and gas
5 distribution businesses. The benchmark analysis evaluated Corporate and Shared Services
6 costs using fifteen functional categories and numerous activities within each category. The
7 objective was to identify the costs involved in those activities that are either necessary for
8 overall corporate governance or for activities which are normally shared across multiple lines
9 of business in order to achieve economies of scale or scope. The data contained in the
10 report reflect costs from calendar year 2011.

11 **Q. What were the results of the PSEG Benchmarking?**

12 A. Overall, Ameren benchmarked well in the majority of the categories examined in the study.
13 Ameren was below (i.e., better than) the median normalized cost in twelve of the fifteen
14 categories, including communication and advertising, environmental affairs, facilities, finance
15 services, government affairs, health and safety, human resources, fleet, information
16 technology, regulatory affairs, security, and corporate administrative services.

17 **Q. Please provide a description of the Gartner Benchmarking.**

18 A. In 2012, Gartner prepared a study for UNITE, Utility Benchmarking for Continuous
19 Improvement, that Ameren participated in. The study included a group of eighteen
20 companies and benchmarked specific IT infrastructure components evaluating
21 fourteen different categories. The data contained in the report reflect costs from
22 calendar year 2011.

1 **Q. What were the results of the Gartner Benchmarking?**

2 A. Overall, Ameren benchmarked well in the majority of the categories examined in the study.
3 Ameren ranked at the middle of the group or better for lowest cost per unit in ten of the
4 fourteen categories. The ten categories included Client & Peripheral, Help Desk, LAN,
5 Mainframe, PBX, Private Tandem Network, Voice Network Services, VOIP, WAN, and
6 Wintel Servers. Ameren ranked in the bottom half of four categories, which included
7 Storage, Internet Access Services, Unix Servers, and LINUX x86 Servers categories.

8 **Q. Please provide a description of the GAIN Benchmarking.**

9 A. Ameren participated in the Global Audit Information Network (“GAIN”) annual
10 benchmarking study that benchmarks internal audit costs. The study included participants
11 from seventeen different industries (including the utilities industry) and reflects data from
12 47 companies. The data contained in the report reflect costs from calendar year 2012.

13 **Q. What were the results of the GAIN Benchmarking?**

14 A. The study provided summary information by industry and further broke down the industry
15 by size. For the companies in the utilities industry with revenues between \$5 billion and
16 \$15 billion, internal audit costs made up 0.0609 percent of revenues. Ameren’s internal audit
17 costs were below the median of the group at 0.0498 percent of revenues. For the companies
18 in the utilities industry with assets between \$15 billion and \$25 billion, internal audit costs
19 made up 0.0162% of assets. Ameren’s internal audit costs were below the median of the
20 group at 0.0139% of assets.

1 **Q. Please describe the IFMA Benchmarking.**

2 A. In 2012, Ameren participated in benchmarking conducted by International Facility
3 Management Association (“IFMA”), related to facility costs. The data contained in the
4 report reflected costs from calendar year 2011. The study analyzed maintenance cost per
5 gross square feet (“GSF”), administrative cost per GSF, custodial cost per cleanable square
6 foot, custodial cost per GSF, and total cost per GSF and presented the results for thirteen
7 companies.

8 **Q. What were the results of the IFMA Benchmarking?**

9 A. Ameren was below the median and specifically in the top quartile in total cost per GSF,
10 maintenance cost per GSF, and administrative cost per GSF. Ameren was above the median
11 in custodial cost per cleanable square foot and custodial cost per GSF.

12 **Q. How were these benchmarking studies utilized?**

13 A. The benchmarking studies are a tool that Ameren uses to monitor its cost levels. If
14 the studies identify areas in which Ameren’s costs are higher than its peers, the
15 Company attempts to identify the causes of the higher costs, which can sometimes be
16 how the companies account for costs differently. When Ameren confirms that its
17 costs are disproportionately higher than its peer companies, Ameren will work to
18 reduce its costs by either streamlining work processes or outsourcing the service, if
19 possible.

1 **4. Continuous Improvement Initiatives**

2 **Q. Does Ameren Services have a continuous improvement program in place?**

3 A. Yes, Ameren Services recently initiated a continuous improvement program.

4 **Q. Please describe the scope and approach of the continuous improvement program, as**
5 **it relates to the cost of services provided by Ameren Services to the Ameren**
6 **companies.**

7 A. In November 2012, Ameren formed a new Continuous Improvement Department that
8 focuses on identifying opportunities to reduce costs, improve productivity, improve
9 reliability, improve customer satisfaction, or increase revenue across Ameren. The process is
10 based on proven industry methodologies designed to embed strong problem solving skills,
11 process-based approaches, and customer-focused thinking. It integrates strategy
12 development techniques to ensure that all improvement efforts are aligned with Ameren's
13 strategic plan and goals, and is building in a disciplined framework to ensure that
14 improvement efforts are successfully executed and are sustainable.

15 The department leverages the results of benchmarking studies as well as other
16 techniques to help identify potential improvement projects. Since its inception in November
17 2012, the department has worked with Ameren Services Information Technology in a
18 number of improvement efforts. Starting in the 3rd quarter of 2014, the department has
19 plans to conduct a structured and systematic review of the entire Ameren Services Business
20 and Corporate Services group over the next 3 years.

1 **Q. Why is the Continuous Improvement Department relevant to the discussion of the**
2 **reasonableness of the services that Ameren Services provides to the Ameren**
3 **companies and the costs associated with such services?**

4 A. The Continuous Improvement Department is another example of the steps being taken to
5 ensure the reasonableness of the costs charged by Ameren Services to the Ameren
6 companies. Any increased revenues, reduced costs, or improved productivity would reduce
7 the overall cost of such services to Ameren Missouri and the other Ameren Companies.

8 **V. CONCLUSION**

9 **Q. Please summarize your testimony.**

10 A. I found the nature of the services that are provided by Ameren Services to Ameren Missouri
11 to be consistent with those provided by other shared services companies in the utility
12 industry. I determined that the services provided by Ameren Services are done so at the
13 fully distributed cost of providing the service, which is at or below the market relating to the
14 service where a market exists. My conclusions are confirmed by benchmarking studies
15 relating to wages, salaries, benefits and overall costs. Further, Ameren Services' cost of
16 providing services does not contain a profit component in the pricing of the services.
17 Therefore, a reasonable conclusion can be drawn that if Ameren Services is providing a
18 service for which there is a non-affiliated market provider, and its wages, productivity,
19 efficiency and effectiveness associated with the provisioning of the service is comparable to
20 the market and there is no profit component in the cost, that its cost is at or below the fair
21 market cost of non-affiliated market providers.

Direct Testimony of
Michael J. Adams

1 When Ameren Services' costs are not provided in a productive, efficient, and
2 effective manner, a non-affiliated market provider is sought to provide the service. A non-
3 affiliated service provider is, however, not available for all services.

4 **Q. Does this conclude your direct testimony?**

5 **A. Yes, it does.**

Direct Testimony of
Michael J. Adams

Mr. Adams has over thirty years of direct experience in the public utility industry. He has worked for an investor-owned utility, a regulatory agency, and most recently as a consultant to the energy industry. From 1981 to 1983, he worked as an accountant for Illinois Power Company. From 1983 to 1995, he worked at the Illinois Commerce Commission. During his tenure at the Illinois Commerce Commission, he worked as an auditor and expert witness in various proceedings; he developed and managed a management audit program; and he served as the Deputy Director of the agency. From 1995 to 2007, he worked for Navigant Consulting, Inc. As a Managing Director, he was actively involved in the firm's regulatory practice. In July 2007, he joined Concentric Energy Advisors, Inc. as a Vice President. He was promoted to his current position in 2010.

Mr. Adams has provided expert testimony or reports before the Arkansas Public Service Commission; the City of El Paso, Texas; the Connecticut Public Utilities Regulatory Authority, the Federal Energy Regulatory Commission (FERC); the Hawaii Public Utility Commission; the Illinois Commerce Commission; the Maryland Public Service Commission; the Massachusetts Department of Telecommunications and Energy; the Missouri Public Service Commission; the New Hampshire Public Utilities Commission; the Oklahoma Corporation Commission; the Ontario Energy Board; the Pennsylvania Public Utility Commission; the Public Utilities Commission of Texas; and the State Corporation Commission of Virginia. His testimonies typically address issues related to shared services, cost of service/revenue requirement, accounting and/or cost allocations.

Appendix A

Ameren Missouri
Summary of SR Billings
For the Twelve Months Ended March 31, 2014

Line No.	Business Function	SR Billings by Function
1	Business Services Operations	\$ 2,527,416
2	Corporate Communications	3,293,299
3	Corporate Planning	8,704,122
4	Controllers	10,023,544
5	Transmission	11,649,932
6	Energy Delivery Technical Services	12,383,860
7	Environmental and Safety	4,359,327
8	Executive	1,785,465
9	Corporate Services Other	10,162,116
10	Gas Distribution Support	404,687
11	Energy Delivery Controller	95,738
12	General Counsel	11,353,008
13	Gas Supply	51,802
14	Human Resources	11,138,441
15	Information Technology	40,733,368
16	Metro (Missouri Operations)	1,307,771
17	Nuclear	348,251
18	Other Departments	8,004,963
19	Power Plants Function	1
20	Power Plants	580,378
21	Regional Services	135,122
22	Storerooms - AMS	9,584,714
23	Treasurer	2,040,359
24	Grand Total	2,040,359

Ameren Missouri
Allocation Factors

Line No.	Allocation Factor (A)	Description of Allocation Factor (B)	Percent Allocated Ameren Missouri - As of 4/30/13 (C)	Percent Allocated Ameren Missouri - As of 12/31/13 (D)	Percent Allocated Ameren Missouri - As of 3/31/14 (E)
1	001a	Electric/Gas Composite (T&D & Interchange MO/IL)*	39.98	44.08	43.76
2	002a	# of Customers (T&D & Interchange Electric/Gas)	39.49	39.49	39.67
3	002d	# of Gas customers (T&D in MO/IL)	13.63	13.63	13.86
4	002k	# Electric Distribution Customers (MO/IL)	49.52	49.52	49.56
5	002l	# Electric/Gas Distribution Customers (MO/IL)	39.50	39.50	39.69
6	003a	Electric/Gas Sales (T&D and Interchange in MO/IL)	27.99	35.55	36.1
7	003b	Electric Sales (T&D and interchange in MO/IL)	44.06	59.18	59.89
8	004a	# of Employees (Mgmt & Contract)	52.46	57.21	55.53
9	004b	# of Contract Employees	53.61	57.79	56.56
10	004c	# of Non-Contract Employees	50.51	56.22	53.82
11	004p	Number of Energy Delivery Employees	39.14	39.14	37.52
12	007a	Total Capitalization	35.75	41.53	42.05
13	008c	Gross Plant-in-Service plus CWIP (Absolute Value)	60.88	70.22	68.58
14	010a	Peak Load (Electric)	48.97	48.97	48.81
15	010b	Peak Load (Gas)	25.92	29.39	22.9
16	011a	Generating Capacity (All Plants)	69.49	100.00	100
17	011b	Generating Capacity (Fossil)	65.16	100.00	100
18	012a	Gas Throughput (incl. Transportation)	9.22	9.22	10.26
19	012b	Total Electric Net Output	63.88	100.00	100
20	012c	Gas Throughput with % to GEN	11.67	12.43	11.23
21	012d	Electric Net Generation	69.88	100.00	100
22	015a	Current Tax Expense	65.39	69.91	67.97
23	016a	# of Vehicles	35.79	36.74	37.34
24	017a	# of General Ledger Transactions	42.47	46.90	46.92
25	017b	# of Accounts Payable Vouchers	48.97	57.11	54.63
26	017c	# Projects (Active & Closed) All Projects	55.32	63.27	55.69
27	017e	Major projects	55.17	57.14	55.88
28	018a	Number of Managed PCs	57.34	62.93	61.83
29	018d	Purchasing Spend	44.51	52.93	46
30	018e	Comp Server Usage - Other	53.34	60.63	59.29
31	018f	Comp Server Usage - Unix	46.02	51.51	48.24
32	018g	Computer Storage	54.58	60.56	53.64
33	019a	Governmental Affairs	48.00	57.14	57.14
34	117e	Major projects	57.14	57.14	55.88

Services Outsourced by Ameren

Function	Outsourced Service
Ameren Service Center	Bid out Payroll and AP
Ameren Service Center	Certain reproductive services (printing)
Ameren Service Center	Lockbox services
Ameren Service Center	Electronic Remittance and eBill presentation
Ameren Service Center	Utility payment methods
Ameren Service Center	Off-site storage of corporate records
Banking & Accounts Receivable Services	Printing of Customer Service System Refund Checks
Controllers	Certain annual financial filing processes
Corporate Communications	Some photography, video work
Corporate Communications	Advertising
Corporate Communications	Media planning/buying
Disbursements & Credit Card Administration	Corporate card origination and the enrollment of suppliers to a virtual credit card to a financial institution
Drug & Alcohol Testing/DOT Compliance	DOT Physicals
Drug & Alcohol Testing/DOT Compliance	Drug and Alcohol (Collections, Laboratory Testing and Medical Review Officer) Services
Drug & Alcohol Testing/DOT Compliance	Driver motor vehicle records and third party driver qualification database system
Electronic Remittance and eBill Presentment	Walk-In Pay Agent Services
Electronic Remittance and eBill Presentment	On-line Bill Pay
Electronic Remittance and eBill Presentment	Payment via telephone
Electronic Remittance and eBill Presentment	Third-Party electronic bill presentment
Employee Benefits	Pension
Employee Benefits	Medical and life insurance plan administration
Employee Benefits	Transactional services, benefit enrollment, benefit calculation, record keeping, and benefit payment
Environmental Services	Spill Cleanup Contractors
Environmental Services	Remediation Contractors
Environmental Services	Remediation Oversight Contractors
Environmental Services	Air Monitoring Contractors
Environmental Services	Lab Services
Environmental Services	Emission test contractors
Environmental Services	CEMS data acquisition system software support
Environmental Services	CEMS equipment service contractor
General Counsel	CCMI and workers comp, claims
General Counsel	Security
General Counsel	Investigative services
Human Resources	All of employee benefit services

Services Outsourced by Ameren

Function	Outsourced Service
Human Resources	Relocation services
Human Resources	Employee service awards
Human Resources	Employee Testing
Human Resources	Some recruiting
Human Resources	Candidate testing and screening
Human Resources	Annual Benefit Enrollment
Human Resources	Medical Exams Services
Human Resources	Leadership Assessments
Human Resources	Training Services
Human Resources	Salary Surveys
Human Resources/Information Technology	Benchmarking services
Internal Audit	Certain Internal Audit Services
Information Technology	Application development (off shoring)
Information Technology	IT Help Desk and Call Center
Information Technology	PC and Desktop support
Information Technology	Long Term Records Management
Information Technology	Application Maintenance and Support Services
Information Technology - Core Networking Services and Operations	Installations of equipment
Information Technology - Core Networking Services and Operations	Solution design
Information Technology – IT Storage Services	Firewall protection Information Technology
Information Technology – IT Storage Services	Day-to-day support and project support of storage services
Information Technology – End User Services	New computer imaging, hardware desk-side support services, remote access infrastructure management; PC and printer repair; service desk level 1 services
Information Technology – Radio Systems Support & Services	Installations of equipment
Information Technology – SCADA and Smartgrid Services and Support	Installations of equipment
Information Technology – Telephone and Voice Services	Telephone and data circuit products
Information Technology – Telephone and Voice Services	Telecom expense management
Information Technology – Telephone and Voice Services	Telephone MAC work in GOB and some Missouri locations
Information Technology – Telecom services	Cellular services and management and support of wireless devices
Internal Audit	Professional services to supplement its internal employee expertise and time
Lockbox Processing	Processing of all customer payments

Services Outsourced by Ameren

Function	Outsourced Service
	received via the US Postal Service
Market Risk Management	Commodity Prices for Forward Curves and for Transaction Settlement
Printing Services	Printing and mailing of all customer bills and notices
Printing Services	Printing and mailing of customer refund checks
Printing Services	Printing of employee pay advices and employee W-2s
Real Estate	Title work, appraisals, surveys, easement
Real Estate	Appraisals
Real Estate	Surveys
Real Estate	Easement acquisition
Real Estate	Property Acquisition
Real Estate	Damage settlements
Real Estate	GIS services
Real Estate	Document imaging and abstracting
Real Estate	Vegetation management property owner notifications
Real Estate	Property appraisals
Real Estate	Surveying
Real Estate	Brokerage services
Records Management	Off-site storage of corporate records
Records Management	Shredding of confidential material
Security	Secure works (MSSP)
Security	Annual AIPs against ICS/SCADA networks and internet facing systems
Security	Anti-DDOC services
Supply Services	Janitorial and Yard Services
Treasurer	Shareholder services
Treasurer	Escheatment
Treasurer	Print and Mail services
Treasurer	Underwriting and issuance of long-term securities and trustee functions
Treasurer	Trust and Custody Services
Treasurer	Investment Management Services
Treasurer	Consulting services

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Increase Its Revenues) Case No. ER-2014-0258
for Electric Service.)

AFFIDAVIT OF MICHAEL J. ADAMS

STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

Michael J. Adams, being first duly sworn on his oath, states:

1. My name is Michael J. Adams and my office is located in Marlborough, Massachusetts and I am Senior Vice President with Concentric Energy Advisors, Inc.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 26 pages and Schedules MJA-1 through MJA-2, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Michael J. Adams
Michael J. Adams

Subscribed and sworn to before me this 3rd day of July, 2014.

Julie Irby
Notary Public

My commission expires:

