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MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ER-2014-0258

REBUTTAL TESTIMONY

OF

BOB PORTER

ON

BEHALF OF

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

St. Louis, Missouri
January, 2015

UE Exhibit No. 37
Date 3-12-15 Reporter KF
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REBUTTAL TESTIMONY

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BOB PORTER

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

2 A. Bob Porter, One Ameren Plaza, 1901 Chouteau Avenue, St. Louis,
3 Missouri 63103.

4 **Q. By whom are you employed and in what position?**

5 A. I am employed by Ameren Services Company (“Ameren Services” or
6 “AMS”) as Director of Internal Reporting.

7 **Q. Please describe your educational background, work experience and**
8 **the duties of your position.**

9 A. I graduated from Bradley University in 1979 with a Bachelors degree in
10 Accounting. I received a Masters degree in Business Administration from the University
11 of Illinois in 1989. I am a Certified Public Accountant and a Certified Internal Auditor. I
12 began employment with Central Illinois Public Service Company (“CIPS”) in 1983. I
13 have held positions in various accounting and finance-related areas for CIPS and Ameren
14 Services, including Internal Audit, Accounting; Treasury; Investments; and Corporate
15 Planning, among others. From 1993 to 1997, I held officer positions with CIPS of
16 Assistant Treasurer, Assistant Secretary, and Treasurer. I was also Vice President of
17 CIPSCO Investment Company from 1995 to 1997. After the merger of CIPS and Union
18 Electric Company, I was Ameren’s Assistant Treasurer and then moved to start up the
19 Ameren Energy Development Company. Subsequent to that I assisted with Ameren
20 Corporation’s acquisition of Central Illinois Light Company (“CILCO”) and its

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1 acquisition of Illinois Power Company (“IP”). Finally, in 2008, I moved to Controller’s
2 organization and handled certain components of internal reporting and financial systems
3 support. In 2013, I led the transition process with the divestiture of Ameren Energy
4 Resources Company (“AER”).

5 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

6 A. As a result of questions raised by both interveners and staff, I will explain
7 the basis for Ameren Missouri’s initial pro forma adjustment in Ameren Missouri witness
8 Laura Moore's initial testimony¹ to reflect the then-expected level of Ameren Services
9 Company costs incurred by Ameren Missouri during 2014, and I will address whether the
10 divestiture of AER by Ameren Corporation resulted in a material increase in the
11 allocation of AMS costs to Ameren Missouri.

12 **Q. Are you sponsoring any schedules with this testimony?**

13 A. Yes, I am sponsoring Schedule BP-R01: Analysis of increases in AMS
14 costs allocated to Ameren Missouri, which contains three tables of information.

15 **Q. Please summarize the conclusions of your rebuttal testimony.**

16 A. The conclusions stated in my rebuttal testimony are (1) that increases in
17 the operations and maintenance (“O&M”) costs allocated to Ameren Missouri from AMS
18 are driven primarily by new and additional services required by Ameren Missouri for the
19 benefit of its customers (primarily information technology costs to enable better customer
20 service and improve reliability, and to protect its customers, systems, and networks from
21 cybersecurity threats), higher transmission expenses (which, again, are related to
22 information technology costs associated with operation of the transmission system), and

¹ See Adjustment # 4 set out in Line 7 of Schedule LMM-11-5.

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1 other cost increases that would be expected in the normal course of business, and (2) that
2 Ameren's divestiture of AER did not materially increase AMS overall costs allocated to
3 Ameren Missouri because (a) AER's portion of costs were a small portion of AMS'
4 overall costs, (b) a significant portion of AER costs were directly incurred for them and
5 easily eliminated, and (c) efforts to fully eliminate any remaining AER support costs
6 were effective in minimizing any remaining impacts on Ameren Missouri.

7 **Q. What is AMS?**

8 A. AMS, or Ameren Services Company, is the legal entity created to provide
9 shared services to Ameren Corporation and its affiliates. AMS was created at the time of
10 the merger of Union Electric Company and CIPS in 1997. It is a wholly-owned
11 subsidiary of Ameren Corporation, authorized to conduct business as a service company
12 by order of the Securities and Exchange Commission, under the rules established by the
13 Public Utilities Holding Company Act with oversight by the Federal Energy Regulatory
14 Commission. It was created for purposes of sharing the costs of corporate services,
15 leveraging economies of scale and achieving synergy savings through sharing of common
16 services among Ameren and its affiliates. Such savings, which are predominantly O&M
17 in nature, have accrued to Ameren Missouri rate payers since the creation of AMS.
18 Ameren Corporation's acquisitions of CILCO in 2002 and IP in 2004 (now, collectively,
19 Ameren Illinois) has yielded additional savings to Ameren Missouri ratepayers as well.

20 **Q. Please describe the type of shared services that AMS provides.**

21 A. AMS provides shared services through the following functions:
22 Controllers, Supply Services, Treasurers, Corporate Planning, Human Resources,
23 Information Technology, Environmental Services, General Counsel, Corporate
24 Communications, Internal Audit, Tax, Transmission, Energy Delivery Training, Gas

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1 Control Center, certain Drafting and Engineering functions, and Executive, which
2 consists of leaders of these functional areas along with Senior officers of AMS. Each of
3 these functions has some combination of fixed corporate services and demand driven
4 business services. For example, Human Resources prepares and releases Ameren's
5 various affirmative action plans and represents the company in related regulatory
6 dealings, which is a fixed corporate service, but also provides organizational
7 development support such as long-range workforce planning, which is a demand-driven
8 business service in that it is based on the needs of the particular business segment. When
9 a more significant event occurs, such as acquisitions and divestitures, even what may
10 normally be considered fixed can be impacted to some extent. In the above example, the
11 divestiture would impact the number of affirmative action plans to be filed.

12 **Q. How does AMS allocate its costs for these shared services?**

13 A. AMS employees provide service pursuant to the General Services
14 Agreement ("GSA") between AMS and its affiliates, which describes methods by which
15 costs for services are assigned or allocated from AMS to its affiliates. Basic principles
16 for assignment or allocation of costs can be summarized as: (i) costs charged to affiliates
17 reflect the actual costs incurred by AMS, with no return on any capital deployed to
18 operate AMS, (ii) costs of services performed for a single affiliate are charged only to
19 that affiliate, and (iii) when services are shared and direct charging is not feasible, costs
20 are allocated to the affiliates on some reasonable basis—called allocation factors—such as
21 number of employees, sales volumes, or other factors, as described in the GSA. These
22 allocation factors are defined and filed with FERC, and any changes in these factors must
23 also be filed with the Illinois Commerce Commission. Relevant to this proceeding,
24 Ameren Missouri provides the Missouri Public Service Commission Staff an allocation

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1 factors report each quarter. These allocation factors, or the percentage splits between
2 affiliates, are updated each January based on actual data from the prior year and updated
3 during the year if significant events occur that would impact those rates, such as an
4 acquisition or divestiture.

5 Documentation of the shared services provided by AMS to Ameren Missouri and
6 the other Ameren affiliates are found in service requests. These service requests provide
7 a convenient means for employees to assure that the right allocation factor is assigned to
8 an activity or cost so that the costs are properly attributable to the different users of these
9 services. These service requests describe the nature of the service performed and for
10 whom it is performed; where applicable, they also provide a means of allocating between
11 O&M and capital accounts. For example, the costs incurred by Human Resources to
12 manage Ameren-wide employee benefits is an O&M cost allocated based on number of
13 employees within each affiliate using a Service Request entitled "Maintain and
14 Administer Employee Benefits." The same allocation factor is used for allocating the cost
15 of maintaining the Human Resource application systems in Information Technology.

16 **Q. The Company's initial pro forma adjustment, which relied on**
17 **information available through the first quarter of 2014, estimated that the AMS**
18 **costs allocated to Ameren Missouri for the true-up period through December of**
19 **2014 would increase by \$6.288 million as compared to the level of AMS costs in the**
20 **test year. Using the information available to you at this time, please provide an**
21 **update on this estimate.**

22 A. Although information for all of 2014 is not final at the time of this filing,
23 financial information for the true-up period ending December 2014 suggests that Ameren
24 Missouri's AMS costs for the true-up period (the 12 months ending December 2014)

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1 increased by \$5.3 million over the test year level, or about \$1 million less than the
2 original estimates. This is shown in Table 2 on Schedule BR-R01. Once the books are
3 closed for 2014 and true-up data is available, this sum will be true-up.

4 **Q. How do Ameren Missouri's AMS costs for the true-up period (2014)**
5 **compare to 2013 when AER was also taking services from AMS?**

6 A. Ameren Missouri's AMS costs reflect an increase of about \$7.4 million
7 over 2014 levels. As discussed below, almost all of the increase is unrelated to Ameren
8 Corporation's divestiture of AER, which I discuss in more detail later in my testimony.

9 **Q. Please explain.**

10 A. Generally speaking, there are a number of drivers that would cause an
11 increase in AMS costs allocated to Ameren Missouri from one year to the next. These
12 include inflation of costs for labor and outside contracted service costs, the request for
13 new services by Ameren Missouri, increasing regulatory requirements, changes in the
14 location of services - within AMS versus Ameren Missouri, and changes in allocation
15 factors. An analysis of the increase in costs to Ameren Missouri demonstrates that
16 Ameren Missouri's increase came from three primary areas. Table 3 on Schedule BP-R01
17 summarizes the primary drivers of increased AMS O&M costs allocated to Ameren
18 Missouri in 2014.

19 Of the \$7.4 million increase in O&M, about \$3.8 million of the increase is
20 attributable to increases in Information Technology ("IT") costs for Ameren Missouri.
21 Ameren Missouri has increasingly looked to IT as an area of its business that can
22 contribute greatly to improved customer service, greater efficiency of office and field
23 workers, and better reporting for decision makers. Increases in IT expenditures in 2014
24 were anticipated, planned and, ultimately, in line with budgeting expectations. The

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1 primary drivers of increases in IT between those time periods are related to increases in
2 customer experience improvements, IT infrastructure expansion and escalating costs for
3 software and hardware maintenance contracts and other outside services. Specifically, i)
4 cybersecurity requirements, as well as increased threat detection efforts requiring
5 upgrades to operating systems, new software, and other services, ii) infrastructure to
6 support eCustomer application growth and usage, outage management applications and
7 rehosting of the customer billing systems on modern platforms, iii) support costs for
8 mobile devices growth, which have increased at a faster rate than had been anticipated
9 due to higher usage levels, and iv) off-site storage for record retention is also increasing
10 at a faster pace than had been expected due to increasing amounts of data and increased
11 activity. Finally, there is a growing use of “software as a service” rather than building
12 business system solutions, which resulted in higher O&M than was otherwise expected.
13 IT is a key area that enables Ameren Missouri to serve customers through the technology
14 methods they desire, as well as operate the vast majority of the rest of its business more
15 efficiently and effectively. It is not unexpected that Ameren Missouri would see this type
16 of growth in IT costs.

17 Some limited increases are also showing up in a few other areas. About \$1.1
18 million of the increased cost is related to Transmission Services for Ameren Missouri.
19 This consists of systems consulting studies and software tool review, along with new
20 software which provides better project management and reporting capabilities. There
21 was also a \$1.5 million increase in Ameren Missouri's allocations for the cost of AMS
22 function directors and officers (which are collectively called "Executive" in the payroll
23 system) over 2013 levels, but this was principally due to the increased overtime worked
24 by those employees during 2013 on issues relating to the AER divestiture. Since Ameren

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1 Service's labor costs are allocated using an average labor rate, this increased overtime
2 resulted in an artificially low hourly rate, which caused the AMS costs allocated to
3 Ameren Missouri in 2013 to be artificially low in that year.

4 **Q. The \$6.4 million of increases were items that would have occurred**
5 **regardless of whether Ameren Corporation divested AER. What about the**
6 **remaining \$1 million in Table 3 of Schedule RP-R01?**

7 A. The other \$1 million consist of various less significant increases and
8 decreases unrelated to the AER divestiture, including things such as changes in legal
9 reserves; start-up costs for our centralized Continuous Improvement program;
10 centralizing certain safety, security and oversight functions from operating affiliates to
11 AMS, normal increases in pay rates for AMS employees, decreases in employee benefit
12 costs, and shifts in the use of personnel and other activities which occur over the normal
13 course of business.

14 **Q. MIEC witness Steven Carver suggests that the original pro forma**
15 **adjustment reflects a shift of costs to Ameren Missouri as a result of divestitures of**
16 **merchant generation affiliates. Before you address whether this is the case, please**
17 **identify these divestitures.**

18 A. On March 14, 2013, Ameren Corporation announced that it had entered
19 into a definitive agreement to divest substantially all of its stock in AER or Ameren
20 Energy Resources, to an affiliate of Dynegy Inc. That transaction was completed in
21 December 2013. In a separate transaction in January 2014, Ameren Corporation sold
22 three merchant gas-fired energy centers to an affiliate of Rockland Capital, completing its
23 divestiture of its merchant generation business (non-rate regulated business).

1 **Q. Please explain how the divestiture of an affiliate creates the potential**
2 **for increased AMS cost allocations to any remaining affiliates.**

3 A. Prior to the divestiture of AER, AMS provided certain services to Ameren
4 Corporation and each of its subsidiaries, including both Ameren Missouri and AER.
5 Upon the completion of the divestiture transactions, AMS stopped providing these
6 services to AER, but continued to provide such services to each of Ameren Corporation's
7 remaining subsidiaries. While a vast majority of these services would not be affected by
8 a divestiture because they are either direct costs incurred for Ameren Missouri or services
9 that are driven by specific demands from the affiliate – that is, the affiliate requesting the
10 service directly controls the amount or level of service – other services have the potential
11 to be affected. Services that are provided enterprise-wide in a standardized manner,
12 making use of economies of scale, resulting in cost-effective service for all affiliates,
13 could be affected by the divestiture in that fewer affiliates will share these enterprise-
14 wide costs.

15 Costs for such enterprise-wide services provide a special challenge in divestiture
16 situations because the costs of the services are more fixed than variable and must be
17 allocated across fewer affiliates post-divestiture. Very few services would be considered
18 completely fixed in the circumstances of the loss of an affiliate, though. For example, the
19 cost to maintain a corporate intranet system is largely fixed, regardless of the number of
20 affiliates, but the demands on the supporting infrastructure may decrease due to a
21 decreased number of users and intranet traffic. All-in all, the services provided by AMS
22 to the affiliates in a shared system will still be quite cost-effective even with one less
23 affiliate, given the higher cost and inefficiencies of having each affiliate maintain its own

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1 separate system. Ameren Missouri witness Michael J. Adams addresses this issue in his
2 direct testimony.

3 Finally, it is important to remember that even where the percentage assigned to an
4 allocation factor may increase for an affiliate, the amount of those costs allocated to the
5 affiliate does not necessarily increase. This was the case for the generation-related
6 allocation factors where the percentage allocated to Ameren Missouri moved to 100%
7 after the divestiture of AER; however, with the elimination of work and costs associated
8 with supporting AER, the costs for the generation-related services were stable or
9 declining for Ameren Missouri during the periods after the AER divestiture compared to
10 the periods before, as shown in information Ameren Missouri produced in response to
11 MIEC Data Request 18.2.

12 **Q. Did the divestiture of Ameren's merchant generation business result**
13 **in the allocation of additional AMS costs to Ameren Missouri?**

14 A. As I outlined earlier, there was not a material impact in AMS costs
15 allocated to Ameren Missouri as a direct result of the divestiture. In addition, the direct
16 AMS costs to serve AER were eliminated as a result of the divestiture. As indicated on
17 Table 1 of Schedule BP-R01, AER received only about 8.7% of AMS costs during 2013.
18 Of those costs, about one-third were direct charged to AER and included such items as
19 specific outside legal services, software maintenance costs for AER-specific software,
20 audits of AER, state and local tax support and Environmental support. These costs were
21 easily eliminated as a result of the divestiture. Other reductions in AMS O&M costs
22 triggered by AER's divestiture were achieved through a variety of ways, including
23 position reductions, re-deployment of personnel to other needed services, streamlining
24 opportunities resulting from AER's departure and other opportunities.

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1 **Q. Was there any benefit that accrued to Ameren Missouri as a result of**
2 **the AER divestiture?**

3 A. I believe so. The intent of the AER divestiture was to allow Ameren
4 Corporation to exit the non-rate regulated business, thereby reducing the earnings
5 volatility and associated risk this business placed on Ameren Corporation. The
6 divestiture did, in fact, strengthen the financial situation of Ameren Missouri's parent
7 company, resulting in higher S&P ratings on its debt and, arguably, more marketable
8 common equity for Ameren Missouri.

9 **Q. Is the question in this case whether or not there was a benefit to**
10 **Ameren Missouri from the divestiture?**

11 A. No, that is not the question. The question is whether or not Ameren
12 Missouri is incurring prudently incurred costs for the myriad of necessary services AMS
13 provides. Those costs went down relative to what they otherwise would have been when
14 Ameren Corporation bought the CILCO companies and IP. No party in any of those
15 cases ever suggested that the AMS cost savings that Ameren Missouri realized when
16 those costs were shared by more affiliates should not be reflected as a reduction to
17 Ameren Missouri's revenue requirement, and other parties simply accepted the lower
18 AMS costs those acquisitions led to. Ameren Missouri has completed five rate cases
19 since the CILCO and IP acquisitions, meaning that the impact of those acquisitions
20 (spreading AMS costs among more affiliates) has been reflected in all of those rate cases
21 starting in 2007 when the 2006-2007 rate case was decided. Even if some AMS costs are
22 higher post-the AER divestiture than they would have been had Ameren Corporation not
23 divested its stock in AER, if the AMS costs that Ameren Missouri are incurring are
24 reasonable, prudently incurred costs, then Ameren Missouri is entitled to include them in

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1 its rates. Mr. Adam's discusses the reasonableness of those costs in his direct testimony.
2 The fact that the increases in overall AMS costs allocated to Ameren Missouri can be
3 attributed to increases that would have occurred even if the divestiture did not occur, is
4 evidence of the fact that AMS has worked very hard post-divestiture to go beyond
5 eliminating costs supporting AER, mitigating any remaining impact of the divestiture on
6 its allocations.

7 **Q. Please summarize your conclusions related to the higher AMS costs**
8 **allocated to Ameren Missouri in 2014.**

9 A. Although AMS costs allocated to Ameren Missouri in 2014 are greater
10 than those in 2013 (just as, I might add, the 2013 costs were greater than 2012 and so on),
11 it is clear that the increased 2014 costs over those experienced in 2013 are almost entirely
12 attributable to the increased costs needed to meet customer demands, improve customer
13 service and other changes driven by Ameren Missouri's changing business and not as a
14 result of any residual impact from Ameren Corporation's divestiture of AER. Because
15 Ameren Missouri bore a higher percentage of AMS costs when AMS was first formed,
16 that percentage became smaller as the CILCO and IP acquisitions occurred, and Ameren
17 Missouri therefore bore a lower percentage of the AMS costs. Any remaining residual
18 impacts of the AER divestiture still leaves Ameren Missouri in a better position than if
19 AMS did not exist and Ameren Missouri had to procure these services by itself.
20 Therefore, the AMS costs Ameren Missouri incurs are reasonable and prudent and
21 necessary to obtain services that Ameren Missouri would have to supply for itself, or
22 obtain elsewhere, if it could not obtain them at-cost (as noted, with no mark-up) from
23 AMS.

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1 **Q. MIEC witness Carver suggests in his direct testimony that Ameren**
2 **Missouri has withheld the information necessary to allow him to analyze AMS**
3 **allocated costs. Has Ameren Missouri withheld that information?**

4 A. At the time intervenors filed their direct testimony on December 5, 2014,
5 objections made by Ameren Missouri to some of the data requests were being discussed
6 by the parties but had not yet been resolved. It is my understanding that the Ameren
7 Missouri responders provided all the requested information to intervenors in December
8 2014.

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

10 A. Yes, it does.

Summary of AMS allocated O&M costs
\$ millions

Table 1

Total O&M Costs Allocated to Affiliates (Gas and Electric)

Calendar Year 2013 Compared to Calendar Year 2014

		Calendar Year 2013	Reduction of AER Costs	Net Increases in Service Costs	2014 Actual Preliminary
AMS O&M Costs by Affiliate	Costs to Ameren Missouri	116.1		7.8	123.9
	Costs to Ameren Energy Resources	21.6	(21.4)		0.2
	Costs to All Other Affiliates*	108.3		18.5	126.8
	Total AMS costs	246.0	(21.4)	26.3	250.9

* Excludes AER transaction and transition costs.

Table 2

Total True up Adjustment

		Test Year Ending 3/14	Net Increase in Service Costs	2014 Actual Preliminary
Electric Only	AMS Allocated Electric Costs to Ameren Missouri	113.7	5.3	119.0

Table 3

Analysis of 2014 Increase in AMS Services and Costs to Ameren Missouri by Function

		Calendar Year 2013	2014 Actual Preliminary	Total Increase
AMS Organization	Information Technology	28.4	32.2	3.8
	Transmission Ops Planning, Policy and Regulatory	7.0	8.1	1.1
	Department and Function leaders (F17)	12.1	13.6	1.5
	All other AMS functions	64.1	65.1	1.0
	Total AMS costs to Ameren Missouri	111.6	119.0	7.4