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Allocations
Witness: Bob Porter
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2014-0258

SURREBUTTAL TESTIMONY

OF

BOB PORTER

ON

BEHALF OF

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

**St. Louis, Missouri
February, 2015**

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1 Federal Energy Regulatory Commission ("FERC") and is periodically audited by FERC. FERC
2 completed an AMS audit in 2010, and one of the areas subject to review was the cross-
3 subsidization restrictions on affiliate transactions, which included a review of the pricing of
4 transfers of non-power goods and services between AMS and its affiliates and a review of the
5 cost allocation methodologies used by AMS. While the findings of the FERC audit identified a
6 few errors in the reporting of the particular allocation method used in the FERC Form 60 (which
7 have been corrected), the FERC audit did not find that the allocation methods themselves were
8 unfair or inappropriately weighted toward any affiliate. Moreover, Ameren Missouri and Ameren
9 Illinois are currently being audited by FERC which include AMS' allocated costs charged to
10 these affiliates.¹

11 In addition, Ameren's Internal Audit Department performs an annual audit of AMS,
12 which is required by an Illinois Commerce Commission order. The internal audit evaluates
13 Service Request policies, operating procedures and controls and the Service Request System.
14 This audit tests the compliance with procedures and controls for (1) service request initiation,
15 maintenance and closing processes; (2) allocation factor calculations; (3) intercompany billings;
16 and (4) employee time reporting process, among other steps. While these audits have identified
17 some opportunities to strengthen our processes, none of these audits has suggested that the
18 allocation factors themselves result in an unfair distribution of costs to the affiliates. Finally,

¹ The following is an excerpt describing the scope of the most recent audit of AMS by FERC:

The audit will evaluate the Companies' compliance with the Commission's: (1) cross subsidization restrictions on affiliate transactions; (2) accounting, recordkeeping, and reporting requirements; (3) Uniform System of Accounts for centralized service companies; (4) preservation of records requirements for holding companies and service companies; and (5) FERC Form No. 60 Annual Report requirements. The audit will also include **selective tests of service company cost allocation methodologies and charges billed by the service company to the associated public utilities...** (emphasis added).

1 regular reporting is provided to both the Illinois Commerce Commission and the Missouri Public
2 Service Commission Staff.

3 **Q. Ms. Hanneken proposes a disallowance of \$89,000, the cost of a study**
4 **performed by Concentric Energy Advisors, because it is a non-recurring cost that does not**
5 **benefit Ameren Missouri ratepayers. Do you agree?**

6 A. While it believes that the study did benefit Ameren Missouri ratepayers, as
7 discussed below, the Company agrees that the cost is non-recurring and, therefore, will not
8 oppose excluding this particular item from the revenue requirement in this case. However, of the
9 \$89,000 total cost of the study, only \$78,000 was included in the test year operating expenses.
10 Therefore, the Company is in agreement that the \$78,000 should be excluded from the revenue
11 requirement.

12 **Q. Finally, Ms. Hanneken continues to recommend that a Cost Allocation**
13 **Manual (“CAM”) review be conducted. Do you oppose the review of the CAM?**

14 A. Not at all. A CAM review will further ensure that the allocation methodology
15 used by AMS fairly distributes costs between the affiliates and prevents the subsidization of non-
16 regulated operations.

17 **Response to Mr. Robertson**

18 **Q. In his rebuttal testimony, Mr. Robertson addresses the impact of Ameren**
19 **Corporation's divestiture of Ameren Energy Resources Company ("AER") and states that**
20 **“since the total group of affiliates now receiving AMS cost allocations is smaller, the piece**
21 **of the total AMS costs that the Company will be responsible for supporting is now larger.”**
22 **Is that an accurate statement?**

23 A. No. As I explained in my rebuttal testimony, Mr. Robertson's statement does not
24 take into consideration the fact that the AMS costs were reduced as a result of elimination of

1 costs previously incurred to provide services to AER. Those cost eliminations have effectively
2 neutralized the impact to Ameren Missouri relating to AMS allocations post-divestiture of AER.
3 To reiterate further the point made in my rebuttal testimony, efforts were taken to eliminate the
4 costs to serve AER, and these efforts were successful, such that the increases in costs allocated to
5 Ameren Missouri for the true-up period (2014) as compared to 2013 are a result of (a) increased
6 services required by Ameren Missouri, (b) escalation of existing costs of serving Ameren
7 Missouri that would have occurred whether AER was divested or not, and (c) other changes in
8 the normal course of Ameren Missouri's business.²

9 **Q. To demonstrate this point in your rebuttal testimony, you provided some**
10 **preliminary calculations for increases in AMS costs allocated to Ameren Missouri for 2014**
11 **in Schedule BR-R01. Have those numbers now been finalized?**

12 A. Yes. I have attached to my testimony the final numbers in Schedule BP-SR01F.
13 Table 2 shows that Ameren Missouri's AMS costs for the true-up period ending December 2014
14 increased by \$5.7 million over the test year level rather than the \$6.3 million reflected in the
15 preliminary figures included with my rebuttal testimony. As Schedule BP-SR01F points out, \$9
16 million of this increase is attributed to labor, while \$4.7 million is attributable to changes in
17 AMS O & M expenses.³ In Table 3 of Schedule BP-SR01F, which focused on the two primary
18 areas driving the increase (IT and Transmission) in a comparison of calendar year 2013 with
19 calendar year 2014, the final numbers show an overall increase of \$7.1 million,⁴ comprised of

² As also indicated in my rebuttal testimony, even if the effective neutralization of the impact had not occurred, it must be recognized that Ameren Missouri reaped significant benefits in the form of lower AMS cost allocations for many years after Ameren Corporation purchased the utilities now operated by Ameren Missouri's Illinois affiliate, AIC.

³ Ameren Missouri originally requested an increase in O & M expense (Adjustment 4 in Schedule LMM-11, Direct Testimony of Laura M. Moore) of \$6.288 million; now that the numbers have been finalized, the adjustment requested by Ameren Missouri is \$4.7 million.

⁴ The \$7.1 million increase in 2014 compared to 2014 is a bit lower (\$300,000) than the preliminary numbers had shown.

1 AMS O & M cost increases in 2014 related to IT (\$3.8 million) and Transmission (\$1.5 million),
2 and labor cost increases for Department and Function leaders (\$1.3 million) and "all other AMS
3 functions" (\$0.5 million). I should mention that there was no change in preliminary numbers
4 shown in Table 1.

5 **Q. Are you able to provide any further detail to support your testimony that the**
6 **primary reason for the increased O & M costs allocated to Ameren Missouri is due to**
7 **increased services required in the areas of IT and Transmission?**

8 A. Yes. An additional analysis that I performed comparing the 12 months ending
9 March 31, 2014 (the test year in this case), and the year 2014 provides further detail regarding
10 the nature of the increases in AMS costs to Ameren Missouri, principally additional IT costs and
11 additional Transmission Services costs—both of which I discussed in my rebuttal testimony. I
12 have also provided similar detail comparing calendar year 2013 with calendar year 2014 of those
13 same costs. Specifically, Schedule BP-SR02 provides these comparisons for IT costs and
14 Schedule BP-SR03 provides these comparisons for Transmission Services costs.

15 Each schedule provides the primary categories of increases with a brief description of the
16 nature of the service as well as the primary vendors providing the software, maintenance support,
17 etc. I have provided the specific Service Requests and budget areas where these costs can be
18 located along with the resource type (software, hardware, technical support) and the activity
19 (Help Desk Services, Computer Storage Management, etc.). Finally, for the IT costs, shown on
20 Schedule BP-SR02, I have provided the allocation factor rates for both before and after the AER
21 divestiture which I use to calculate the impact of any increase in allocated costs. Although some
22 did go up during that time, several also declined. I adjusted the total on Schedule BP-SR02 to
23 remove the impact of any allocation factor increases even though the increase may not have been
24 AER-related. I did not provide the allocation factor rates both before and after the AER

1 divestiture on Schedule BP-SR03 (Transmission Services) because the transmission function
2 within AMS did not provide any material services to AER since AER operated few transmission
3 facilities and the transmission facilities it did operate were not supported by AMS.

4 **Q. Please explain how these schedules support the conclusion that the increase**
5 **in AMS costs allocated to Ameren Missouri are not due to the AER divestiture.**

6 A. The "annual" comparison of IT costs (calendar year 2014 compared with calendar
7 year 2013), shown in Schedule BP-SR02, identifies major IT projects totaling \$3.859 million in
8 additional O & M costs. These projects include additional services and infrastructure
9 requirements needed to support services to Ameren Missouri customers, efficiency enablers for
10 operations and contractual increases in licenses and software maintenance. Similarly, the
11 "annual" comparison of Transmission costs, shown in Schedule BP-SR03, identifies \$1.234
12 million of increased O & M costs attributable to Transmission-specific costs. Combined, we can
13 see from Schedules BP-SR02 and BP-SR03 that a significant increase from 2013 to 2014 in IT
14 and Transmission O & M is attributable to the items on these schedules. My analysis
15 demonstrates that the primary reason for the increase in AMS O & M costs allocated to Ameren
16 Missouri was not related to the AER divestiture but to additional services required by Ameren
17 Missouri to serve its customers.

18 My conclusion is also supported by the "true-up" analysis for both Transmission and IT
19 costs. The "true-up" comparison for IT costs shown in Schedule BP-SR02 includes the major
20 areas of increase with the cost associated with the particular projects I have identified. These IT
21 projects total \$3.105 million (again, a number that removes from consideration amounts
22 attributable to increased allocation factors, regardless of the reason) in increased Ameren
23 Missouri expenses. The "true-up" comparison of Transmission costs shown in Schedule BP-
24 SR03 identifies an additional \$0.974 million in Transmission-specific IT related costs unrelated

1 to the AER divestiture. These projects, both IT and Transmission, total \$4.079 million in
2 increased O & M between the true-up and 2014. This "true-up" comparison, as did the calendar
3 year comparison, demonstrates my basic point—that the increase in AMS costs allocated to
4 Ameren Missouri was primarily driven by the additional services it required in the areas of IT
5 and Transmission. Of course, my workpapers will provide the back up information for the data
6 shown in Schedule BP-SR01F, as well as Schedules BP-SR02 and BP-SR03.

7 **Q. Mr. Robertson also uses the example of the hiring by AMS of former AER**
8 **employees and raises the question of whether “AMS’ current costs are over-sized or**
9 **bloated and out of line with the needs of the remaining entities it now serves.” Is there any**
10 **validity to this statement?**

11 A. Ameren Missouri witness Krista Bauer will address the hiring of the former AER
12 personnel in her surrebuttal testimony, but I address here his claims about "over-sized or bloated"
13 costs. Mr. Robertson does not provide any facts to support the suggestion inherent in the
14 question he raised. Nor did he ask the Company a single data request that would be pertinent to
15 the question. Notwithstanding this lack of supporting data, Mr. Robertson implies that AMS
16 costs were inflated in the short term simply to increase the Company’s revenue requirement for
17 this rate case. This is categorically untrue. In addition to the information provided in Ms.
18 Bauer’s surrebuttal testimony, the facts are that AMS regularly examines the “size” of its
19 operations to match the needs of the companies to which it provides services, including Ameren
20 Missouri. AMS has no incentive to do otherwise insofar as AMS is purely an “at-cost”
21 organization. Having more employees at AMS than those that are needed benefits no one – not
22 Ameren Corporation, not AMS, not Ameren Missouri and not any other affiliate. In addition to a
23 continuous improvement effort, we also go through a joint planning process with each affiliate
24 we serve, including Ameren Missouri, which allows Ameren Missouri leaders to adjust the level

1 of services they require, to review the nature and allocation methodology for the cost of those
2 services, and discuss ways in which they can contribute to reducing costs.

3 **Q. Is there other information that demonstrates that AMS is a "right-sized"**
4 **organization?**

5 A. Yes. As Ameren Missouri witness Michael Adams discusses in his direct
6 testimony, we regularly benchmark our services to other similarly situated utilities as well as
7 others in industry to compare best practices and benchmarking results to determine if we are
8 delivering services the most efficient way possible. AMS' costs compare favorably to other
9 companies in those benchmarking studies.

10 Furthermore, when Ameren Corporation divested AER, AMS undertook a specific effort
11 to eliminate as many costs as possible. As part of that effort, AMS engaged Concentric Energy
12 Advisors to independently review our process and efforts to eliminate costs so that Concentric
13 could assist us in making sure that we left no stone unturned in finding ways to eliminate costs
14 that were formerly incurred to provide service to AER and that minimized any possible impact of
15 the AER divestiture on the other affiliates. Concentric's review concluded that the AMS
16 allocations were appropriate based upon the services provided and that the cost reductions
17 identified were greater than the amounts reallocated from AER to the other business segments
18 such that the increases in costs were primarily the result of new or expanded services and
19 inflationary increases of existing services—both of which were required by the affiliates—
20 including Ameren Missouri—on a going-forward basis. In fact, the Concentric study anticipated
21 that a significant driver of the increase in Ameren Missouri's AMS costs would be due to new
22 and expanded IT services.

23 **Q. You testified earlier that you do not object to Ms. Hanneken's suggestion of a**
24 **CAM review. At page 8, lines 7-10, of Mr. Robertson's rebuttal testimony, he suggests that**

1 **a CAM review is not enough and instead proposes that AMS submit to a regulatory audit**
2 **by PSC Staff. Do you agree that a separate audit of AMS is necessary in order for the**
3 **Commission to determine whether Ameren Missouri's AMS costs are reasonable and were**
4 **prudently incurred?**

5 A. While our books are always open and the Commission can open a docket at any
6 time to review these costs, I do not agree that a separate audit of AMS is necessary here. AMS
7 allocated costs are costs within the entire pool of costs in Ameren Missouri's financial statements
8 and are included in the overall audits and regulatory review of Ameren Missouri's costs. These
9 are not a separate set of costs outside of the normal review in a rate case. Data regarding all AMS
10 labor and IT support costs allocated to Ameren Missouri, for example, is subject to Staff audit in
11 every rate case, including this one.

12 **Q. I take it then that you disagree with Mr. Robertson's suggestion that the data**
13 **necessary to evaluate the question he raises has not been provided?**

14 A. Yes, I do. Apart from the fact that Mr. Robertson has never requested any
15 information whatsoever regarding this topic, Mr. Adams' extensive direct testimony, including
16 his presentation of benchmarking information, the Concentric report I referenced earlier,
17 discovery responses to other parties, and my rebuttal testimony all provide information
18 demonstrating that AMS is "right-sized" and that the costs allocated to Ameren Missouri are
19 fairly and reasonably apportioned. As I have previously testified, given that the increased costs
20 to Ameren Missouri arise from new and expanded services and not the result of an increase in
21 the allocation factors, Mr. Robertson has all the information he needs to confirm whether that is
22 correct.

1 **Q. Is it true, as Mr. Robertson suggests, that appropriate data and information**
2 **regarding AMS has not been provided to Staff and interveners who have sought to examine**
3 **AMS allocated costs?**

4 A. No. Ameren Missouri and AMS have provided cost data in a variety of ways to
5 allow an examination of the allocated costs. This includes volumes of data in the form of 19650
6 monthly reports⁵ for the period of January 1, 2012, through November 30, 2014, and totaling
7 1,761 pages, excel spreadsheets and pivot table data on cost categories and resource analysis,
8 comparative data of AMS costs by allocation factors, service requests, resource types, budget
9 groupings, products and services and other presentations of the data. In addition, my workpapers
10 will not only provide the detail behind the information contained in the schedules attached to my
11 testimony, but will also provide much of the information sought by recent data requests.

12 **Q. Does this conclude your surrebuttal testimony?**

13 A. Yes, it does.

14

⁵ The 19650 report is a monthly report that contains the monthly billing service request allocations for AMS to all Ameren business segments. Initially, Ameren Missouri produced in discovery only those reports and data containing the AMS allocations to Ameren Missouri and objected to those allocations relating to non-Ameren Missouri organizations. Once the attorneys for Ameren Missouri resolved the discovery dispute MIEC's attorneys, it is my understanding that the complete reports, referenced above, were produced on December 29, 2014.

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

		<u>Calendar Year 2013</u>	<u>Reduction of AER Costs</u>	<u>Net Increases in Service Costs</u>	<u>2014 Actual</u>
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

Electric Only

		<u>Test Year Ending 3/14</u>	<u>Net Increase in Service Costs</u>	<u>2014 Actual</u>
	AMS Allocated Electric Costs to Ameren Missouri	113.0	5.7*	118.7

* \$5.7 is comprised of \$.9 labor and \$4.7 other O&M expenses

Table 3

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

Electric Only

		<u>Calendar Year 2013</u>	<u>2014 Actual</u>	<u>Total Increase</u>
AMS Organization	Information Technology	28.4	32.2	3.8
	Transmission Ops Planning, Policy and Regulatory	7.0	8.5	1.5
	Department and Function leaders (F17)	12.1	13.4	1.3
	All other AMS functions	64.1	64.6	0.5
	Total AMS costs to Ameren Missouri	111.6	118.7	7.1

Schedules BP-SR02

AND

BP-SR03

HAVE BEEN DEEMED HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY