

Exhibit No.:  
Issue(s): Docket Overview;  
Policy; Variances  
Witness: Tom Byrne  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Union Electric Company  
File No.: EO-2017-0176  
Date Testimony Prepared: June 14, 2019

**MISSOURI PUBLIC SERVICE COMMISSION**

**FILE NO. EO-2017-0176**

**DIRECT TESTIMONY**

**OF**

**TOM BYRNE**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY**

**D/B/A AMEREN MISSOURI**

**St. Louis, Missouri  
June 14, 2019**

**DIRECT TESTIMONY**

**OF**

**TOM BYRNE**

**FILE NO. EO-2017-0176**

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

2           A.     Tom Byrne, Union Electric Company d/b/a Ameren Missouri ("Ameren  
3   Missouri" or "Company"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri  
4   63103.

5           **Q.     What is your position with Ameren Missouri?**

6           A.     I am Senior Director of Regulatory Affairs.

7           **Q.     Please describe your educational background and employment**  
8   **experience.**

9           A.     In 1980, I graduated from the University of Missouri-Columbia with  
10   Bachelor of Journalism and Bachelor of Science-Business Administration degrees. In  
11   1983, I graduated from the University of Missouri-Columbia law school. From 1983-1988,  
12   I was employed as an attorney for the Staff of the Missouri Public Service Commission  
13   ("Commission"). In that capacity, I handled rate cases and other regulatory proceedings  
14   involving all types of Missouri public utilities. In 1988, I was hired as a regulatory attorney  
15   for Mississippi River Transmission Corporation, an interstate gas pipeline company  
16   regulated by the Federal Energy Regulatory Commission ("FERC"). In that position, I  
17   handled regulatory proceedings at the FERC and participated in some cases at the Missouri  
18   Commission. From 1995-2000, I was employed as a regulatory attorney for Laclede Gas  
19   Company (now known as Spire Missouri Inc.). In that position, I handled rate cases and

1 other regulatory proceedings before the Commission. In 2000, I was hired as a regulatory  
2 attorney by Ameren Services Company and I originally handled regulatory matters  
3 involving local gas distribution companies owned by operating subsidiaries of Ameren  
4 Corporation (now Ameren Illinois Company and Ameren Missouri). In 2012, I was  
5 promoted to the position of Director and Assistant General Counsel, and I was assigned to  
6 handle both gas and electric cases in Missouri. In 2014, I was promoted to my current  
7 position, Senior Director of Regulatory Affairs.

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

9 A. The overall purpose of my direct testimony is to provide context for this  
10 docket and outline the relief being requested. In doing so, I will discuss the key terms of  
11 the agreed-upon Cost Allocation Manual ("CAM") for which approval is sought, and the  
12 terms of the waivers being sought from certain provisions of the Missouri Affiliate  
13 Transactions Rules (sometimes referred to as the "Rules").<sup>1</sup> I will also discuss how the  
14 service company model utilized within the Ameren Corporation ("Ameren") holding  
15 company structure relates to the Rules, its policies, and to the specific terms of the CAM  
16 including the waivers reflected in it. More specifically, I will provide the background of  
17 and context for the formation of the centralized service company from which Ameren  
18 Missouri and its affiliates receive a number of administrative and corporate support  
19 services that each company would have to provide for itself if each company operated on  
20 a stand-alone basis. I will also provide context for the development of the Stipulation and  
21 Agreement ("Stipulation") filed by the Company and the Staff in this case, including  
22 development of the proposed CAM. In addition, I will discuss how the CAM for which

---

<sup>1</sup> References to the Affiliate Transactions Rules are the rules applicable to electrical corporations (4 CSR 240-20.015) and to gas corporations (4 CSR 240-40.015).

1 the Company seeks approval in this docket supports the policy goals of the Affiliate  
2 Transactions Rules, and why the variances for which the Company seeks approval in this  
3 docket are also appropriate given those policies, the terms of the proposed CAM, and the  
4 agreements reflected in the Stipulation. Finally, I will address the status of various  
5 compliance-related activities the Company has committed to in the CAM for which it seeks  
6 approval.

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

8 A. Yes, I am sponsoring Schedule TMB-1 which relates to good cause for the  
9 variances requested in this docket.

10 **Q. Is the Company submitting the direct testimony of any other witnesses?**

11 A. Yes, three other Company witnesses are filing direct testimony in support  
12 of approval of the proposed CAM, including the variances reflected therein, as follows:

- 13 • Laura M. Moore, the Company's Controller, will address affiliate transactions in  
14 general and will also address some of the variances for which we seek approval.
- 15 • Benjamin Hasse, the Company's Cost Allocation Manual Manager, will outline the  
16 duties of the Company's newly-formed CAM Team, address the Joint Planning and  
17 Procurement Process used by Ameren Missouri and Ameren Services Company to  
18 ensure Ameren Missouri receives only the services it needs, and provide details on  
19 the fully distributed cost ("FDC") study agreed upon with the Staff.
- 20 • John P. Reed, the President and CEO of Concentric Energy Advisors, will provide  
21 his expertise and perspective regarding the use of the at-cost service company  
22 model and will discuss the justification for and reasonableness of the variance we  
23 seek regarding Ameren Services Company products and services.

1           **Q.     Please outline the Commission action that Ameren Missouri is**  
2           **requesting in this case.**

3           A.     Ameren Missouri is asking the Commission to take the following two  
4           actions in this case: (a) approve the CAM submitted on May 15, 2019;<sup>2</sup> and (b) approve  
5           the variances listed in Tab G of the CAM in accordance with the variance provisions of the  
6           Commission's Rules. As evidenced by the Stipulation, the Staff supports these requests  
7           having worked closely with the Company in developing the terms, conditions, and  
8           commitments reflected in the Stipulation and the CAM, all of which are designed to comply  
9           with the Rules, subject to appropriate variances. I should also note that paragraph 11.a.iii  
10          of the Stipulation contained some additional agreements on the Company's part (not  
11          specifically provided for in the CAM that would have been performed on timelines  
12          specified in that paragraph had the Stipulation not been objected to by the Office of the  
13          Public Counsel ("OPC")). Notwithstanding that objection, however, the Company remains  
14          committed to completing each item in paragraph 11.a.iii and also requests that the  
15          Commission condition its approval of the CAM and the variances reflected in it as follows:

- 16           1.     Require Ameren Missouri to implement the training provided for by the  
17                   CAM within 90 days after CAM approval;
- 18           2.     [The CAM Team is already in place];
- 19           3.     [The GOB space study is already complete];
- 20           4.     Require Ameren Missouri to perform the audit requirements provided for  
21                   in the CAM starting in 2020 (for calendar year 2019);

---

<sup>2</sup> Except for updating for 2018 data, this CAM is substantively the same as the CAM that is attached as Exhibit A to the Stipulation, which was based on 2017 data.

1           5.     Require the purchasing rate and inventory loading studies to be completed  
2                     by December 31, 2019 and implemented in 2020; and

3           6.     Require the contracts provided for in paragraph 11.a.iii to be in place  
4                     within 90 days after CAM approval, subject to Ameren Illinois Company  
5                     obtaining approval from the Illinois Commerce Commission as required  
6                     by Illinois law.

7           There is one other commitment made by the Company in the Stipulation, that is,  
8     the completion of a Fully Distributed Cost study. As discussed below, the Company has  
9     obtained agreement from the Staff on the study's parameters, issued a request for proposals,  
10    and recently hired a consultant to perform the study, with the study expected to be  
11    completed in the first quarter of 2020. The Company asks the Commission to include in  
12    its order approving the CAM and granting the variances and the requirement that the  
13    Company provide the Deliverables listed in Schedule BH-2 to the direct testimony of  
14    Ameren Missouri witness Ben Hasse when the study is completed.

15           **Q.     Are any ratemaking decisions being requested in this docket?**

16           A.     No. The impact of costs associated with affiliate transactions on the revenue  
17    requirement used to set a utility's rates (as is the case with all costs incurred by a utility in  
18    providing service to its customers) is an issue for a general rate proceeding. This includes  
19    questions relating to whether the level of such costs is prudent and reasonable, and this is  
20    true whether those costs arise from a direct charged exchange of goods or services between  
21    Ameren Missouri and an affiliate or from an allocation of shared costs among Ameren  
22    Missouri and its affiliates. Nothing the Company is asking the Commission to do in this

1 case will bind the Commission or any party with respect to the prudence or reasonableness  
2 of costs associated with affiliate transactions in a future general rate proceeding.

3 **Q. How did this docket come about?**

4 A. To fully answer this question, I believe it would be helpful to outline  
5 Affiliate Transactions Rules-related proceedings over the past approximately 20 years  
6 since the Rules were adopted. As I will explain further later in my testimony, the primary  
7 affiliate transactions engaged in by Ameren Missouri over the past 20 years are transactions  
8 where Ameren Missouri has received services from its affiliate, Ameren Services Company  
9 ("AMS"). AMS began providing services to Ameren Missouri and its affiliates on January  
10 1, 1998, following the creation of Ameren Corporation. It does so at cost; i.e., AMS makes  
11 no profit and does not in any way mark-up the cost of its services. As I will also touch on  
12 in more detail below, and as further explained in the direct testimony of Ameren Missouri  
13 witness Laura Moore, some of AMS' costs are charged directly to an affiliate and some are  
14 allocated among affiliates. In some limited circumstances, Ameren Missouri has also  
15 engaged in transactions with other affiliates, such as with Ameren Illinois Company  
16 ("AIC"), its Illinois Commerce Commission ("ICC")-regulated affiliate operating in  
17 Illinois. Its transactions with AIC typically involve exchanges of meters or similar items,  
18 or providing labor during storms or in other situations where AIC or Ameren Missouri need  
19 it. The existence of these transactions, and their costs, has been reflected in CAMs  
20 submitted by the Company to the Commission Staff and OPC under the Rules. In addition  
21 to submission of CAMs each year, the accounting details relating to the costs of affiliate  
22 transactions have been available to the parties and the Commission in each of the eight

1 electric (and four gas) general rate proceedings that have been concluded over the past  
2 approximately 20 years.

3 **Q. Aside from the annual CAM submissions, have there been any other**  
4 **filings or proceedings at the Commission involving Ameren Missouri and the Rules?**

5 A. Other than this docket, no.

6 **Q. Returning to the earlier question, how did this docket come about?**

7 A. This docket was created pursuant to a *Non-Unanimous Stipulation and*  
8 *Agreement Regarding Cost Allocation Manual and Affiliate Transactions* (the "2016  
9 Stipulation") among the Staff, OPC, and the Company filed in December 2016 in Ameren  
10 Missouri's last electric general rate proceeding, File No. ER-2016-0179. From my  
11 perspective, the 2016 Stipulation reflected a consensus among its signatories that coming  
12 to an agreement on a CAM, or even determining where we may agree or disagree, in the  
13 context of an 11-month rate case was impractical. The Company did file a CAM and in  
14 File No. ER-2016-0179 asked the Commission to approve it, but as the case proceeded it  
15 became clear that the parties would be better served taking the time needed to sit down and  
16 work through the affiliate issues a CAM is designed to address. To that end, it was agreed  
17 to create this separate docket.

18 **Q. Is it unusual to have a separate docket to work toward developing an**  
19 **agreed-upon CAM?**

20 A. Not at all. In fact, attempting to develop an agreed-upon CAM in a rate case  
21 was an unusual approach that in hindsight was probably not realistic. Let me give some  
22 context for the efforts that have been undertaken at the Commission in recent years relating



1 to Affiliate Transactions Rules and CAM issues for the other electric and gas utilities  
2 operating in Missouri.

3 Prior to 2013, Missouri utilities submitted CAMs annually to the Staff and OPC,  
4 but no Missouri utility had a CAM that had been approved by the Commission by a specific  
5 order. The first such order was issued on August 14, 2013 in File No. GC-2011-0098,  
6 approximately 14 years after the Rules were adopted. That order gave specific approval to  
7 a CAM for Laclede Gas Company (now Spire Missouri). To my knowledge, prior to that  
8 Laclede docket neither the Commission nor any party had initiated any type of formal or  
9 informal proceeding relating to affiliate transaction issues generally or CAMs specifically,  
10 nor had there been any claim that the annual CAM submissions that Ameren Missouri and  
11 other companies were making were not compliant with the Rules. I would note that while  
12 the Laclede complaint case dealt with affiliate transaction issues involving natural gas  
13 purchased by Laclede from its gas marketing affiliate, the complaint was not initiated on  
14 the basis that Laclede was out of compliance with the Commission's rules relating to a  
15 CAM. Ameren Missouri certainly has received no complaint about its annual CAM  
16 submissions to the Commission and to my knowledge, no such complaint had then (or has  
17 now) ever been brought against a utility in Missouri.

18 While I don't know all the details, around the time the Laclede docket that I just  
19 mentioned was going on, The Empire Electric District Company ("EDE") agreed as part of  
20 a complete settlement of its 2011 rate case to file a CAM and to seek a specific order  
21 approving it from the Commission. Thereafter in the latter half of 2011, EDE filed a  
22 proposed CAM in a separate docket and that company, together with the Staff and OPC,  
23 worked over an extended period of time toward coming to an agreement. Before an

1 agreement was reached, however, EDE was acquired by Algonquin (Liberty) and due to  
2 the change in corporate structure that acquisition caused, it is my understanding that the  
3 parties in many ways had to start over the work on developing a CAM for EDE.  
4 Eventually, a procedural schedule was developed and filed (just under five years after the  
5 docket started) and testimony was filed. However, because of the pending merger, in  
6 October 2016 the parties entered into a unanimous stipulation that effectively ended the  
7 2011 docket and called for the filing of another docket after the merger was consummated.  
8 EDE initiated that subsequent docket in June of 2017 and it remains ongoing.

9         While the first EDE docket was going on, Kansas City Power & Light Company  
10 ("KCPL"), through stipulations addressing its involvement in transmission line  
11 development in the Southwest Power Pool through Transource Missouri, LLC, agreed to  
12 initiate a separate docket for specific approval of a CAM. That docket was initiated in late  
13 2013. While that docket proceeded, KCPL and KCPL Greater Missouri Operations  
14 Company ("GMO") also had rate cases and in the context of partially settling those rate  
15 cases, in February, 2017, an agreement was reached on the terms of a CAM for KCPL and  
16 for GMO, making KCPL/GMO just the second utility for which the Commission has issued  
17 an order specifically approving a CAM. Since approval of the KCPL/GMO CAM, Great  
18 Plains has merged with Westar Energy and it is my understanding that some CAM changes  
19 to accommodate the new overall corporate structure may at some point be made.

20         It is also my understanding that Summit Natural Gas has had an ongoing CAM  
21 docket underway since 2012, but that the parties continue to work toward an agreement on  
22 a CAM for Summit in that docket.

1           In summary, Laclede (Spire Missouri, Inc.) obtained a specific order approving a  
2   CAM in a non-rate case docket in 2013, before the formation of Spire, Inc. and there is  
3   now a new, separate docket underway relating to Spire Missouri to examine changing that  
4   CAM to accommodate the new corporate structure; KCPL and GMO obtained a specific  
5   order approving a CAM in 2016, in partial settlement of a rate case, but the CAM arose out  
6   of a separate CAM docket that had started in 2014 and I would expect that the Westar  
7   merger will lead to some restructuring of the KCPL/GMO CAM; EDE does not yet have a  
8   specific order approving a CAM, but several years ago initiated a separate docket for that  
9   purpose but is now in a second, separate CAM docket because of its acquisition by  
10   Algonquin; and the other electric or gas utility subject to the Rules, Summit, has had a  
11   separate CAM docket underway since 2012 but as yet has not obtained a specific order  
12   approving a CAM.

13           I provide this context because as I will discuss later in my testimony, the terms of  
14   the Rules, given the practicalities of operating a public utility, create a number of issues  
15   that simply must be worked through so that the utility can *efficiently* provide safe, and  
16   adequate service at just and reasonable rates, while remaining faithful to the object of the  
17   Rules. I can confidently say Ameren Missouri and the Staff have constructively worked  
18   through those issues in order to develop the CAM submitted for 2018 on May 15, 2019,  
19   which as earlier noted is in substance the same as the CAM submitted in this docket.

20           **Q.   Against that background, please explain how this docket has**  
21   **proceeded.**

22           A.    The 2016 Stipulation contained a specific, agreed-upon schedule for this  
23   docket that originally contemplated submission by the parties of a joint recommendation

1 (if an agreement could be reached) by July 21, 2017. As the agreed-upon (and ordered)  
2 schedule required, the Company, the Staff and OPC met in April 2017, the Company  
3 provided a draft CAM to the Staff and OPC by May 16, 2017, and the parties met four  
4 times in June 2017 to discuss the draft CAM, questions the Staff and OPC had, how best  
5 to develop a CAM that would fit the Ameren corporate structure while meeting the purpose  
6 of the Rules, and related issues. On June 30, 2017, the parties jointly asked the Commission  
7 to suspend the procedural schedule. In making that joint request, the parties stated as  
8 follows:

9  
10 The development of a Cost Allocation Manual is a significant undertaking for  
11 all parties. While the parties are making good progress, all agree the best path  
12 forward toward a resolution of this docket (the goal being to develop and  
13 request Commission approval of an appropriate Cost Allocation Manual for  
14 Ameren Missouri), is to suspend the procedural schedule. This will allow the  
15 parties to continue their work together without the constraints of the imminent  
16 deadlines and milestones of the current schedule.  
17

18 The Commission granted the request, ordering the parties to file a status report by October  
19 31, 2017. That report was submitted, and it also reflected consensus among the parties that  
20 they should be allowed to continue to work together toward an agreed upon CAM. The  
21 Commission thereafter accepted status reports and extended the deadline for submission of  
22 a CAM while the parties continued their work. This process continued until the sixth (and  
23 last) of such status reports and was submitted on November 6, 2018, with that last status  
24 report indicating that the Company and the Staff had reached an agreement on a CAM and  
25 related documents. The last status report also noted that OPC had indicated that it needed  
26 additional time to review the CAM and related documents but that all agreed that the best  
27 course of action was to continue to work toward reaching an agreement and to then report  
28 back by November 30, 2018. Unfortunately, OPC was unwilling to agree to the CAM and

1 related documents and the Staff and the Company collectively agreed that an appropriate  
2 CAM and related agreements had been developed and should be filed. The Stipulation  
3 which included that a CAM was filed on November 30, 2018, and OPC objected to the  
4 Stipulation a few days later. As the Commission required, the parties then developed a  
5 procedural schedule and this testimony has been filed in compliance with that schedule.

6 **Q. Can you please give the Commission a sense of the work that went into**  
7 **this docket?**

8 A. As noted, the Company has been committed from the inception of this  
9 docket to understanding what the other parties believed was needed to have a robust CAM  
10 in place that would allow the Company to discharge its service obligations efficiently, and  
11 to satisfy the purpose of the Rules. Over the roughly 18 months that led to the filing of the  
12 Stipulation, Company representatives met with the Staff and OPC in Jefferson City in  
13 multi-hour meetings on, as I recall, eight different occasions over an approximately one-  
14 year period. The Company responded to more than 100 formal and informal data requests  
15 (many of which had multiple subparts) from the Staff, and provided at least hundreds and  
16 probably thousands of pages of materials in response to the Staff's questions. OPC  
17 participated in all of the discussions but did not actively seek information. As drafts of a  
18 CAM were developed and exchanged, the Company responded to numerous other inquiries  
19 which came almost entirely from the Staff. The Staff was actively engaged in asking data  
20 requests, posing questions in our many meetings, discussing their issues and concerns,  
21 providing suggestions and feedback on draft documents, and seeking solutions. A  
22 tremendous amount of work from multiple people at the Company and the Staff has gone  
23 into developing the CAM submitted in this docket. And as I will discuss later in my

1 testimony, a tremendous amount of work continues at the Company to ensure compliance  
2 with that CAM.

3 **Q. You noted that the Staff and the Company agree that the Commission**  
4 **should approve the proposed CAM and grant the waivers reflected in it. Can you**  
5 **please summarize the Company's agreements with the Staff and the key terms of the**  
6 **CAM?**

7 A. Yes I can. Key provisions of the CAM include that it:

- 8 a. Requires any affiliate marketing materials and advertisements that an  
9 Ameren Missouri affiliate might utilize to sell goods or services to  
10 Missouri residents to be made available to the Staff prior to their use;
- 11 b. Codifies recordkeeping and access to records requirements, including  
12 documentation of affiliate transactions, and the continued provision of  
13 detailed affiliate transaction reporting for all products and services  
14 provided by AMS not just to Ameren Missouri, but to all Ameren  
15 Missouri affiliates;
- 16 c. Codifies certain detailed reporting requirements;
- 17 d. Requires that all affiliate transactions be conducted under a written  
18 contract between Ameren Missouri and the affiliate;
- 19 e. Requires extensive training respecting Affiliate Transactions Rules  
20 compliance, and sharing of training materials with the Staff prior to their  
21 use so that they may provide their input;
- 22 f. Requires the formation and implementation of an Ameren Missouri  
23 CAM Team, including hiring a full-time CAM manager, to aid in

1 Ameren Missouri's compliance with the Affiliate Transactions Rules,  
2 subject to approved variances;

3 g. Requires annual audits by the CAM Team in conjunction with AMS'  
4 Internal Audit Department respecting compliance with the CAM and the  
5 Affiliate Transactions Rules, with the audit results to be provided to the  
6 Staff within 30 days of finalization; and

7 h. Reflects specific provisions to ensure the effective enforcement of  
8 Ameren Missouri's responsibilities under the Affiliate Transactions  
9 Rules, subject to approved variances.

10 In addition, the CAM requires completion of certain studies to improve, if possible,  
11 the allocation of shared costs. These studies include a space study for the Ameren Missouri  
12 General Office Building located on Chouteau Avenue in St. Louis and use of its results  
13 starting January 1, 2019 in a building lease among Ameren Missouri and affiliates that use  
14 the building, using that study and a purchasing rates and inventory handling load study  
15 with the results to be implemented in 2020. Ms. Moore will address these studies in more  
16 detail in her direct testimony. Another important study is an FDC study that was agreed  
17 upon in collaboration with the Staff. As Mr. Hasse explains in his direct testimony, a  
18 consultant has been engaged pursuant to a request for proposal process and its results are  
19 expected to be provided in the first quarter of 2020. The primary purpose of the FDC study  
20 is to see if improvements can be made in two main areas:

21 (a) in achieving a higher percentage of AMS costs being directly assigned to a  
22 specific consumer of AMS' services which will reduce reliance on allocation  
23 factors to allocate costs among different affiliates that receive those services, and

1 (b) in using allocation factors for those costs that cannot be directly assigned that  
2 are as reflective as reasonably possible of the cause of the costs, with the goal being  
3 to achieve the fairest allocation of costs that must be allocated as is reasonably  
4 possible. Mr. Hasse explains the study details in his direct testimony as well.

5 **Q. Among the items listed above was the implementation of a "CAM**  
6 **Team." Can you please explain what that is?**

7 A. Yes. Simply stated, the CAM Team, led by a dedicated management  
8 employee (CAM Team Manager Ben Hasse) was formed to make sure that the Company's  
9 affiliate transactions comply with the Rules as written, subject to approved variances.  
10 Among the CAM Team's responsibility is to keep abreast of any new companies or  
11 business activities that could raise affiliate transaction issues, to ensure that all  
12 recordkeeping and reporting required by the Rules and the CAM are completed properly  
13 so that the Staff and the Commission can have confidence in compliance and assess any  
14 ratemaking impacts of affiliate transactions, to participate in annual audits of Rules and  
15 CAM compliance, and to make sure that the Company's Joint Planning and Procurement  
16 Policy, which governs the Company's receipt of services from AMS, is followed and is  
17 effective. The CAM Team Manager's full-time job is Affiliate Transactions Rules and  
18 CAM compliance, and the Team itself meets on a regular basis, and more often as needed,  
19 to address issues and assist the CAM Team Manager in discharging the Team's  
20 responsibilities. Mr. Hasse discusses the day-to-day work of the Team in more detail in  
21 his direct testimony.

22 **Q. You mentioned a Joint Planning and Procurement Policy. What is it?**



1           A.     Mr. Hasse will address the policy in more detail in his direct testimony, but  
2     at a high level, the policy is specifically designed to ensure that the services AMS offers  
3     are the services Ameren Missouri needs, to ensure that Ameren Missouri is only using the  
4     services it needs in the quantity that it needs, at a reasonable cost, and to continually  
5     identify and implement improvements in AMS services and their efficiency. As Mr. Hasse  
6     discusses, a joint planning process has been utilized for some time but the Company took  
7     a closer look at how the process could be improved, enhanced, and formalized and, starting  
8     in 2018, began following the enhanced policy.

9           **Q.     You stated earlier that in addition to seeking approval of the CAM, the**  
10    **Company is also seeking approval of certain specific variances set forth in the CAM.**  
11    **Please summarize the variances the Company seeks.**

12          A.     The specific terms of the variances are set forth in Tab G of the CAM. There  
13    are two requested variances for affiliate transactions between Ameren Missouri and AMS,  
14    and five requested variances for transactions between Ameren Missouri and other affiliates.

15          The primary Ameren Missouri-AMS variance seeks relief from what literally is or  
16    may be required by the pricing, financial advantage, and "evidentiary standards" provisions  
17    of the rules so that Ameren Missouri and AMS can

18          (a) Transact at cost – not a penny more or less, and

19          (b) Utilize benchmarking to monitor the fairness and reasonableness of the costs of  
20    the goods and services exchanged instead of doing what the Rules as written might  
21    literally require: seeking competitive bids for every transaction or perhaps every  
22    good or service, documentation relating to the bids, or some kind of demonstration  
23    why bids were not necessary or appropriate.

1 As I will discuss later in my testimony and as Mr. Reed also addresses, it is not clear that  
2 this variance is necessary given that a strong case can be made that the market price of  
3 goods and services exchanged between AMS and Ameren Missouri (primarily provided to  
4 Ameren Missouri by AMS) and the cost of those goods and services are the same. And it  
5 is true that the Rules do not provide for any specific demonstration that must be made to  
6 show that obtaining bids is unnecessary or inappropriate. However, it is my view that in  
7 the "real world", where a utility has to apply the Rules as written, the only practical means  
8 of proceeding – and certainly the most prudent step – is to obtain a variance to avoid  
9 disputes about whether the literal terms of the Rules are being followed to the letter. As I  
10 discuss later, the literal terms of the Rules pose significant practical problems when applied  
11 to Ameren's corporate structure which of course has existed since Ameren was first formed  
12 and which is specifically designed to take advantage of the synergies inherent in sharing  
13 service costs across multiple organizations.

14 The other Ameren Missouri-AMS variance is straightforward: AMS will pay its  
15 proportionate share of the cost of the space it utilizes in Ameren Missouri's buildings,  
16 limited almost entirely to the Ameren Missouri GOB. That building is unique and  
17 determining what the market cost for it is would be very difficult if not impossible.  
18 Moreover, given the role of AMS as a service company created and maintained for the sole  
19 purpose of providing substantial service for Ameren Missouri and other Ameren affiliates  
20 more efficiently than if each affiliate had to have its own legal department, or accounting  
21 department, etc., charging AMS rent at cost makes the most sense and is fair to customers.

1 I should also note – and I will elaborate on this more in my testimony later – that  
2 given AMS' status as a centralized service company, applicable FERC regulations dictate  
3 that Ameren Missouri-AMS transactions be at cost.

4 **Q. Please summarize the non-AMS/Ameren Missouri variances you seek.**

5 A. The first variance can properly be summarized as a "de minimis" variance.  
6 It applies to certain specified exchanges between Ameren Missouri and its affiliates,  
7 including its sister company and ICC-regulated utility, AIC, if they are at or below  
8 \$650,000 for Ameren Missouri's electric operations or at or below \$50,000 for Ameren  
9 Missouri's gas operations—approximately .02% of the retail revenue requirement for each  
10 business. Exchanges of transformers, inventory, or software rentals are examples.<sup>3</sup>

11 The second variance is an "emergency" variance, e.g., if Ameren Missouri suffers  
12 a bad storm AIC can lend a hand at cost, or vice-versa. Storm response or an accident  
13 (such as an explosion or some other catastrophic event) where life or property damage has  
14 occurred or may occur are examples of when this variance would apply.

15 The third variance applies to the very limited occupancy of AIC employees in a few  
16 Ameren Missouri buildings. The proportionate cost of the building will be charged to AIC  
17 based on headcount.

18 The fourth and fifth variances are similar. With respect to the fourth variance,  
19 Ameren Missouri has sold and continues to sell energy and capacity to AIC as part of a  
20 competitive request for proposals ("RFP") process, including the process utilized by the

---

<sup>3</sup> As Ms. Moore explains, the net dollars that will be covered by this variance are quite small in comparison to Ameren Missouri's overall operations. Ms. Moore further explains, the sums involved for all non-AMS/Ameren Missouri transactions that would be covered by all five of the non-AMS/Ameren Missouri variances are also small and even the energy/capacity transactions have historically been only a small fraction of the Company's off-system sales.

1 Illinois Power Agency created when Illinois restructured its electric service. Such sales  
2 would always cover Ameren Missouri's marginal production cost (or Ameren Missouri  
3 would not make the sale), but there could be disagreements over whether such a sale is at  
4 the higher of market or fully distributed cost and the variance is designed to prevent those  
5 disagreements. These sales are beneficial to Ameren Missouri customers because they  
6 reflect off-system sales that flow through the Company's fuel adjustment clause for  
7 customers' benefit. The fifth variance is similar, but instead of electric capacity a variance  
8 is being sought to allow Ameren Missouri to release natural gas pipeline capacity to AIC  
9 under FERC regulations that allow excess capacity to be posted and made available through  
10 a standardized bidding process. AIC would have to acquire the capacity in the same  
11 manner as any non-affiliate, but again, without the variance there could be questions about  
12 fully distributed versus marginal cost versus market prices.

13 **Q. Would granting the variances sanction the prices at which any of these**  
14 **transactions take place?**

15 A. No. Ameren Missouri must prudently incur the costs it incurs in providing  
16 utility service. The variances will remove uncertainty and potential disputes about whether  
17 the transactions complied with the pricing, financial advantage, and bidding provisions of  
18 the Rules, but the Commission retains its full authority to decide what the Company's  
19 revenue requirement should be, including the level of AMS costs or costs involved on other  
20 affiliate transactions in that revenue requirement, in each rate case.

21 **Q. Does "good cause" for the requested variances exist?**

22 A. Yes, based on this testimony, the good cause justification included as  
23 Exhibit B to the Stipulation (which I am reproducing as Schedule TMB-D1 to my

1 testimony), and reasons either amplified or provided by Mr. Reed and Ms. Moore in their  
2 direct testimonies, it is clear that the requested variances are justified and appropriate. The  
3 variances will allow utilization of the efficient service company structure that has existed  
4 at Ameren since 1998 to continue, and will allow beneficial transactions among Ameren  
5 Missouri and other affiliates to occur without the potential for uncertainty, confusion, or  
6 outright disputes about whether literal, word-for-word compliance with the Rules as  
7 written has taken place. And the variances will do so without prejudicing any party's  
8 ability to examine or challenge the prudence of any affiliate costs, and without in any way  
9 circumscribing the Commission's authority.

10 **Q. Based on your prior answers, it appears that most of the impact of the**  
11 **Rules on Ameren Missouri's operations relate to the goods and services it receives**  
12 **from AMS. Is that an accurate assessment?**

13 A. Yes, as Ms. Moore outlines in greater detail in her direct testimony. And  
14 this makes sense. All utilities, whether they are stand-alone or part of a holding company  
15 structure like Ameren Missouri, have substantial needs for support services, such as  
16 accounting, legal, finance, IT, environmental health and safety, executive management,  
17 shareholder services, corporate governance, etc. By design, a significant number of those  
18 functions are performed as services provided by AMS because not only does Ameren  
19 Missouri need the services reflected by those functions, but so does AIC and its other  
20 affiliates.

21 **Q. You have mentioned that AMS has been providing its services to**  
22 **Ameren Missouri and other affiliates for a long time. None of the current**  
23 **Commissioners were on the Commission when that began, so can you please provide**

1    **some background on Ameren Corporation's holding company structure in general,**  
2    **and AMS in particular.**

3            A.     Yes, the Commissioners likely know some of these facts, but let me start  
4    from the beginning because I think having a complete picture of Ameren's history is  
5    important to understanding why AMS exists and why Ameren Missouri obtains services  
6    from AMS at cost.

7            Ameren Corporation was formed on December 31, 1997 following the unanimous  
8    approval by this Commission, and approval from the ICC, the FERC, and the United States  
9    Securities and Exchange Commission ("SEC"), of a merger between Ameren Missouri<sup>4</sup>  
10   and an ICC-regulated integrated public utility, Central Illinois Public Service Company  
11   ("CIPS"). Following the merger, the common stockholders of Ameren Missouri and CIPS  
12   became the stockholders in Ameren, and Ameren became the owner of 100% of the issued  
13   and outstanding stock of both Ameren Missouri and CIPS. Ameren also then owned 100%  
14   of the issued and outstanding stock of a new centralized services company, AMS. This  
15   same basic structure continues to exist today, and it is the structure that was proposed for  
16   approval by this Commission, the ICC, FERC, and the SEC when Ameren was created.

17           Under this structure, starting January 1, 1998, AMS began providing a variety of  
18   administrative and support services to Ameren Missouri and to CIPS under a General  
19   Services Agreement ("GSA") which provided for such services to be provided by AMS at  
20   cost – as I mentioned earlier AMS would operate on a non-profit basis and would simply  
21   charge the affiliates receiving services from it in an amount that equaled exactly the costs

---

<sup>4</sup> Ameren Missouri is a d/b/a (called a "fictitious name" under Missouri law) for Union Electric Company, a Missouri corporation. Union Electric Company continued to exist following the merger that created Ameren Corporation.

1 AMS incurred (e.g., for its employees' labor and benefits, for its office equipment and  
2 supplies, etc.). Ms. Moore explains the process by which AMS' costs are accounted for  
3 and charged in greater detail in her direct testimony.

4 As Mr. Reed explains, use of a centralized service company like AMS was then  
5 and remains a common means to capture economies of scale and scope from the ownership  
6 by a holding company of two or more operating companies. This is common sense when  
7 one considers the fact that before Ameren was formed, each of Ameren Missouri and CIPS  
8 had a separate legal department, accounting department, environmental health and safety  
9 department, IT department, shareholder services department, etc., but after the merger,  
10 inefficient duplication of those services could be and was eliminated.

11 **Q. Were there other drivers of the formation of AMS aside from the**  
12 **obvious economic efficiencies to be gained by forming a holding company and then**  
13 **consolidating these kinds of administrative and support services into a centralized**  
14 **services company?**

15 A. Yes, there were. At the time Ameren was formed, the Public Utility  
16 Holding Company Act of 1935 ("PUCHA 1935") required holding companies with utilities  
17 operating in multiple states to utilize a centralized services company like AMS. To obtain  
18 SEC approval of its formation, pursuant to Section 10(c)(2) of PUHCA 1935, Ameren had  
19 to demonstrate that the combination of Ameren Missouri and CIPS would serve the public  
20 interest by fostering the economic and efficient development of an integrated public utility  
21 system; i.e., combining companies and using a service company would be more efficient.  
22 And while this is more common sense, it would make no sense at all for the Boards of  
23 Directors and stockholders of Ameren Missouri and CIPS to approve the merger if those

1 efficiencies were not going to result. Put another way, it is in Ameren's (and its  
2 stockholders') financial interest to operate under the most efficient structure it can, just as  
3 it is in Ameren Missouri's customers' interest that it do so. Moreover, Ameren also had to  
4 obtain approval of the GSA from the SEC and that approval depended upon the SEC  
5 concluding that the contract would be performed "economically and efficiently for the  
6 benefit of [the companies serviced] at cost fairly and equitably allocated among such  
7 companies"; i.e., that use of a shared services company was fair and efficient for customers.  
8 PUHCA 1935, Section 13. Note that PUHCA 1935 mandated that AMS provide its services  
9 at cost, which is what it has been doing since 1998.

10 **Q. Wasn't PUHCA 1935 repealed?**

11 A. Yes, it was repealed by the Energy Policy Act of 2005 ("EP Act of 2005"),<sup>5</sup>  
12 and responsibilities that were formerly housed at the SEC relating to affiliate transactions  
13 were transferred to the FERC. There was an approximately two and one-half year delay  
14 between the time of the transfer of those responsibilities from the SEC to FERC and when  
15 the FERC adopted comprehensive rules applicable to centralized service company and  
16 utility transactions. But on February 21, 2008, the FERC issued Order No. 707 (modified  
17 and clarified in part by Order No. 707-A ((July 19, 2008)) and by that order formally  
18 continued the requirement that centralized service company charges be charged to the  
19 utilities to which the services are provided at cost.<sup>6</sup> Consequently, federal law did then,  
20 and does today, require that Ameren Missouri pay for AMS services at cost.

21 **Q. PUHCA 1935 required use of a centralized services company; was that**  
22 **true of the EP Act of 2005?**

---

<sup>5</sup> Signed into law on August 8, 2005.

<sup>6</sup> 18 CFR 35.44(b)(3).



1           A.     While the EP Act of 2005 did not *require* use of a centralized services  
2     company, it certainly allowed one and for good reason: as I noted earlier (and as Mr. Reed  
3     also addresses) utilizing a centralized services company benefits the utilities served by it  
4     and its customers alike. The FERC's rules that I just cited specifically contemplate use of  
5     a centralized services company and, as noted, charges from that services company are  
6     required to be at cost. In summary, Ameren's holding company structure was developed  
7     because it made economic sense for the (then) two operating utilities, it was required by  
8     PUHCA 1935, and it has been continued essentially unchanged over the ensuing 20-plus  
9     years because it still makes economic sense for the operating utilities that it serves.

10           **Q.     What companies does AMS serve?**

11           A.     Appendix 1 of Tab Q of the CAM<sup>7</sup> contains an Ameren organizational chart.  
12     AMS provides services to all the direct subsidiaries of Ameren. Given the relative scope  
13     of their operations, Ameren Missouri, Ameren Illinois Company ("AIC"), and Ameren  
14     Transmission Company of Illinois ("ATXI") receive by far the largest portion of AMS'  
15     services, but all subsidiaries receive an allocation of AMS costs. Ms. Moore discusses how  
16     these allocations occur in greater detail in her direct testimony.

17           **Q.     You mentioned AIC and ATXI. Please explain their operations.**

18           A.     AIC is an electric and natural gas public utility serving retail customers in  
19     the state of Illinois and owns the assets and has the service territories of three former and  
20     separate Illinois public utilities: CIPS, Illinois Power Company, and Central Illinois Light  
21     Company ("CILCO"). ATXI, as the Commission is aware due to its prior certificate of  
22     convenience and necessity ("CCN") cases before the Commission, is a FERC-regulated

---

<sup>7</sup> Both the one submitted as Exhibit A to the Stipulation and submitted on May 15, 2019.

1 independent transmission company that constructs, owns, and operates regional  
2 transmission lines in the footprint of the Midcontinent Independent System Operator, Inc.  
3 ("MISO"), including the now-under-construction Mark Twain transmission line in  
4 northeast Missouri and the Missouri portion of the Illinois Rivers transmission line in far  
5 eastern Missouri.<sup>8</sup>

6 **Q. In addition to providing context for Ameren's corporate structure, you**  
7 **indicated at the beginning of your testimony that you would address why that**  
8 **corporate structure is consistent with the policies reflected in the Affiliate**  
9 **Transactions Rules. What are those policies?**

10 A. In answering that question I'll discuss the purpose provision of the Rules,  
11 the Staff's comments in support of the rule, and the Commission's Order of Rulemaking.  
12 The Rules provide that their purpose is "to prevent regulated utilities from subsidizing their  
13 non-regulated operations." As the purpose provision also indicates, the object of the Rules  
14 is to "provide the public ... assurance that their rates are not adversely impacted by the  
15 utilities' unregulated activities." The Staff summarized these principles when it stated that  
16 the Rules would aid the Commission in determining if a subsidy is occurring "so that  
17 ratepayers will pay only a just and reasonable amount for regulated services."<sup>9</sup> Taken  
18 together, it is clear that the spirit of the Rules is fairness; justness and reasonableness. I  
19 would suggest one can boil down what the Commission intends by the Rules this way: if a  
20 utility has affiliate transactions it should conduct them, on the whole, in a manner that is

---

<sup>8</sup> The Commission granted ATXI CCNs for both the Mark Twain and Illinois Rivers (Missouri portion).

<sup>9</sup> Comments of the Staff of the Missouri Public Service Commission Regarding Affiliate Transactions Rules for Regulated Electric Utilities, July 1, 1999, Case No. EX-99-442 (the docket in which the electric Rule was adopted. There were parallel dockets with parallel rules for gas utilities). As earlier noted, the means by which the Commission determines just and reasonable rates is a general rate proceeding.

1 fair and that does not cause the regulated utility to unreasonably incur costs or forego  
2 revenues that would benefit an affiliate to the detriment of its customers. Literal  
3 application of the Rules may be one way to do that, but as the Commission itself has  
4 recognized when it has provided for variances from the Rules, application of the Rules  
5 coupled with variances is another way, and frankly utilization of variances was  
6 contemplated when the Rules were adopted: "the rule provides a great deal of flexibility to  
7 customize CAMs and to obtain variances when circumstances merit." *Order of*  
8 *Rulemaking*, Case No. EX-88-442 (adopting the electrical corporation Rules).

9 **Q. Is it your opinion Ameren's corporate structure is consistent with the**  
10 **Rules' purposes?**

11 A. Absolutely. Ameren's corporate structure and its utilization of a centralized  
12 service company that charges for its services at cost, with no profit or markup of any kind,  
13 is fair, just, and reasonable. While it may sound simple (because it is), the service company  
14 exists because it is an efficient means of making sure that the operating companies can  
15 discharge their service obligations. And it is clear to me, as a matter of common sense and  
16 sound business, that such an approach is far more efficient than duplicating various  
17 functions or trying to acquire important functions from outside vendors. That is not to say  
18 that some activities within those functions can never be acquired in whole or in part from  
19 non-Ameren sources. For example, we have an outside attorney with specialized expertise  
20 and experience in Commission matters involved in this and other matters, but the internal  
21 Legal Department coupled with utilization of outside resources where it makes sense is  
22 still the most efficient overall means of getting the legal services that Ameren Missouri  
23 needs. AMS has an IT department and a great deal of IT-related work is performed by

1 AMS employees, but that work is supplemented and enhanced as appropriate with  
2 consultants and vendors; the same is true of numerous other departments/functions.

3 **Q. The Stipulation, including the CAM, specifies a significant number of**  
4 **compliance-related activities. Can you please update the Commission on the status**  
5 **of those activities?**

6 A. Yes. While the Company is, of course, not under any order to take the steps  
7 outlined in the Stipulation since OPC objected to it, the Company is committed to following  
8 through on the things it agreed with the Staff that it would do. To that end and as earlier  
9 noted:

- 10 1. The FDC study, incorporating the Staff's input, is underway and is slated  
11 for completion in the first quarter of 2020;
- 12 2. The GOB space study has been completed, and its results implemented  
13 (retroactive to January 1, 2019), and lease agreements are in place  
14 applicable to any affiliate occupancy in Ameren Missouri-owned  
15 buildings;<sup>10</sup>
- 16 3. Written contracts that will cover any transactions with affiliates other than  
17 AMS (whose transactions are covered by a General Services Agreement)  
18 have been prepared and agreed upon to reflect the terms of the CAM and  
19 the variances reflected in it and will formally be implemented upon  
20 conclusion of this docket.<sup>11</sup>

---

<sup>10</sup> Lease agreements have been agreed to with AIC, but remain subject to obtaining ICC approval as required by Illinois law.

<sup>11</sup> Because of an Illinois statute, the contract with AIC will not formally become effective until it is approved by the ICC.

- 1           4.     New, formal Affiliate Transaction Rule/CAM training has been developed,  
2                     the Staff's input on it has been obtained and incorporated, and that new  
3                     training is ready for formal launch, pending the conclusion of this docket;<sup>12</sup>  
4           5.     The annual audit is scheduled for 2020 as agreed upon in the Stipulation;  
5           6.     As noted, the CAM Team has been fully formed and its activities fully  
6                     implemented, including by the hiring of a full-time CAM Manager;  
7           7.     The purchasing rate costs and inventory handling loading studies are  
8                     underway and will be completed this year;  
9           8.     A CAM covering calendar year 2018 activity but otherwise having terms  
10                    identical to the CAM attached as Exhibit A to the Stipulation was filed on  
11                    May 15, 2019 in compliance with the Commission's rules and the variance  
12                    granted to the Company respecting the due date in File No. EE-2019-0241.<sup>13</sup>  
13                    The specific information required by Tab H, p. 2 of the CAM attached as  
14                    Exhibit A to the Stipulation was provided;  
15           9.     The additional (i.e., beyond the Rules' requirement) information required  
16                    by Tab H was provided when the 2018 CAM was filed;  
17           11.    The CAM Team has scheduled regular monthly CAM Team meetings to  
18                    promote Rule and CAM compliance and to ensure that its responsibilities  
19                    are discharged;  
20           12.    The CAM Team is developing the Risk Assessment contemplated by Tab  
21                    Q, Appendix 13; and

---

<sup>12</sup> The Company has engaged in Affiliate Transaction Rule training in the past, but the CAM formalized the training and called for receiving the Staff's input.

<sup>13</sup> As earlier noted, since the 2018 CAM has now been filed the Company seeks its approval in this docket.

1           13.    The Company continues to utilize and follow the joint planning and  
2                   procurement process outlined in the Joint Planning and Procurement Policy  
3                   discussed by Mr. Hasse in his direct testimony.

4           **Q.    Please summarize your testimony.**

5           A.    Ameren Missouri has engaged in active and constructive discussions with  
6   the Staff for literally years that resulted in the Stipulation and the CAM that have been filed  
7   in this proceeding. OPC was a participant in every step of the process as well. The  
8   agreement that the Staff and Ameren Missouri have reached meets the goals of the Affiliate  
9   Transaction Rules, while allowing the practical and efficient operation of Ameren  
10  Missouri. The Company has agreed to numerous substantial measures to ensure that the  
11  goals of the Rules are met, such as implementing a robust and well-documented planning  
12  process for utilizing services provided by AMS, developing a formal Affiliate Transaction  
13  Rule/CAM training process in conjunction with the Staff, initiating a CAM team with a  
14  full-time manager, conducting an exhaustive, fully distributed cost study, utilizing  
15  benchmarking, conducting a building space study, revising contracts and procedures, and  
16  other measures set forth in the Stipulation and CAM. Ameren Missouri has requested  
17  reasonable and appropriate waivers. Most significantly, the waiver for AMS services will  
18  continue to allow Ameren Missouri's customers to benefit from the efficiencies that a  
19  common service company, with no profit motive, can provide to affiliates that would  
20  otherwise duplicate services. The other waivers also help Ameren Missouri meet the spirit  
21  of the Rules in the most efficient manner. Consequently, Ameren Missouri requests that  
22  the Commission approve the CAM submitted on May 15, 2019, which is materially the

Direct Testimony of  
Tom Byrne

1 same as the CAM submitted with the Stipulation, and grant the waivers enumerated on Tab  
2 G of the CAM.

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

4 **A. Yes.**

In the Matter of a Union Electric Company d/b/a )  
Ameren Missouri's Cost Allocation Manual (CAM). ) File No. EO-2017-0176

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

**GERI A. BEST**  
**Notary Public - Notary Seal**  
**State of Missouri**  
**Commissioned for St. Louis County**  
**My Commission Expires: February 15, 2022**  
**Commission Number: 14839811**



**EXHIBIT B**  
**AMEREN MISSOURI SUPPORT**  
**FOR GOOD CAUSE FOR VARIANCES**  
**STIPULATION AND AGREEMENT**  
**File No. EO-2017-0176**

Ameren Missouri provides the following in support of its request that the Commission find that good cause exists to grant the variances outlined in Tab G of the Cost Allocation Manual for its electric and gas operations attached as Exhibit A to the Stipulation to which this Exhibit B is attached. Item B.8.iv. below is a variance from provisions of the electric Affiliate Transactions Rule only. The other variances below are variances from certain provisions of the electric and gas Affiliate Transactions Rules:

A. Variance for Transactions Between Ameren Missouri and Ameren Services

1. Since the Commission's approval of the merger of Union Electric Company (now d/b/a Ameren Missouri) and Central Illinois Public Service Company ("CIPS") in 1997, Ameren Missouri has received significant corporate and administrative support services from its affiliate, Ameren Services, which was also formed at that time. Ameren Services is a not-for-profit Missouri corporation,<sup>1</sup> which provides its services at cost, without any mark-up or profit component. It was formed to take advantage of synergies gained when Ameren Missouri and CIPS merged because there were numerous redundant functions at each of Ameren Missouri and CIPS that could more cost-effectively be combined into one service company. These include functions such as accounting, legal, environmental, building management, information technology, etc. At the time of its formation, the federal Public Utilities Holding Company Act of 1935 ("PUHCA") in fact required the utilization of such services companies and required that their services be provided at cost.

2. While initially there were only two Ameren affiliates sharing the services (and costs) obtained from Ameren Services, additional utilities in Illinois (Central Illinois Light

---

<sup>1</sup> From time-to-time Ameren Missouri employees also provide services to Ameren Services. The nature and extent of such services are small in relation to both Ameren Missouri's and Ameren Services' overall operations.

Company (“CILCO”) and Illinois Power Company (“IP”))<sup>2</sup> were acquired by Ameren Corporation, which has allowed additional elimination of redundant functions at those acquired utilities and even more sharing of the cost of such services. The elimination of redundant functions and sharing of costs has significantly benefitted all impacted Ameren Corporation affiliates, including Ameren Missouri and its customers. Ameren Services costs directly charged or otherwise allocated to Ameren Missouri have been subject to review in every Ameren Missouri general rate proceeding since 1997, and will continue to be subject to review in future general rate proceedings. This means that regardless of approval of the CAM and the requested variances, when it sets rates the Commission retains authority to review the reasonableness of Ameren Services costs and the allocation of those costs to the extent they are not directly assigned. It should be noted that the Commission has never found that Ameren Services charges to Ameren Missouri were unreasonable or that they failed to comply with the Affiliate Transactions Rules.

3. To allow Staff to monitor Ameren Services costs charged to Ameren Missouri, Ameren Missouri provides detailed reporting of all Ameren Services transactions and cost allocations to Ameren Missouri and to all its affiliates. Ameren Services books and records are available to the Commission under the provisions of the Affiliate Transactions Rules, and as specifically provided for in the agreed-upon CAM for which approval is sought in this docket.

4. In lieu of engaging in ongoing requests for proposals or other bidding activities for the corporate and administrative functions provided by Ameren Services, benchmarking is utilized (and under the CAM shall continue to be utilized) to monitor the costs of the services provided by Ameren Services. This allows Ameren Services to take steps to make sure that its costs are reasonable and aligned with the market cost of its functions. The CAM specifically provides for

---

<sup>2</sup> CILCO was acquired by Ameren Corporation in 2003 and IP was acquired by Ameren Corporation in 2004.

the continued use of benchmarking and that the benchmarking studies will be made available to Staff. Ameren Services and the affiliates to which it provides services (including Ameren Missouri), also engage in an annual joint planning and procurement process. That process is designed to ensure that the companies receiving services receive only the services they need and receive them at an appropriate cost, considering the need for and value of the services provided. (Ameren Missouri: Joint Planning and Procurement Procedure for Purchasing Ameren Services Company Products and Services.) With respect to allocated Ameren Services costs (i.e., those that cannot be directly charged to the affiliate receiving the service), Ameren Missouri must agree upon the allocation factors used to allocate such costs annually. All invoices for AMS charges must also be approved by an Ameren Missouri officer.

5. Another important aspect of Ameren Services' operations is how it incurs the costs that form the basis for its charges to Ameren Missouri and its affiliates. By design, the wages, salaries and benefits (labor costs) paid/provided to Ameren Services employees are market-based; i.e., the cost of labor and the market for acquiring labor is the same. Most of the costs that make up Ameren Services' charges are for labor and, as noted, those costs are not marked up but instead are simply passed through. Consequently, when Ameren Services charges affiliates (including Ameren Missouri) for its services, the human resource component of the cost of providing those services is being provided at a market price and at the service provider's cost because market and cost are one and the same. Similarly, when procuring the goods, materials, and services it may need to provide services (other than its labor) to its affiliates, Ameren Services is subject to, and must follow, the extensive Procurement Policy (Ameren: Procurement Policy AMN-08-04) and Procurement Procedure (Ameren: Procurement Procedure AMN-ADM-4004) (both of which have been and will be made available to Staff upon request) that are also followed by Ameren Missouri

when it procures goods, materials, or services directly. The Policy and Procedure are designed to ensure that goods, materials and services are also obtained at market rates; i.e., Ameren Services' cost and the market rate is the same. Because Ameren Services then bases its charges to affiliates on these actual costs (again, with no markup) the affiliates thereby are paying for the services Ameren Services provides at both cost and market, which like for labor are one in the same.<sup>3</sup>

6. Effectively, it can therefore be said that Ameren Missouri is following the pricing standard in the Affiliate Transactions Rules (which requires it to pay the lower of cost or market for all AMS services). However, since it is not possible to objectively establish that each individual Ameren Services expenditure is at or below market 100% of the time and to avoid potential disputes about strict compliance with the pricing-related standards in the Affiliate Transactions Rules, a variance from those provisions is warranted to allow transactions between Ameren Services and Ameren Missouri to always occur at Ameren Services' cost. Such a variance would be analogous to the Commission-approved variance for Kansas City Power & Light Company/KCPL – Greater Missouri Operations Company transactions.<sup>4</sup>

7. The foregoing facts demonstrate that there is good cause to grant the variance described in the CAM in Tab G, starting on page 2, line 10 through page 3, line 7. Granting the variance will allow Ameren Missouri to continue to take advantage of the substantial synergies that exist from Ameren Services' operations, and there is no detriment from granting the variance

---

<sup>3</sup> It should also be noted that there is no incentive for Ameren Services not to acquire labor or other resources needed to provide its services at a higher cost than necessary because the only means by which Ameren Services costs can be covered is by charging the affiliates to whom it provides services for those costs which, in turn, reflect those charges in the rates charged to their customers. If Ameren Services fails to properly control its costs and if (for example) those higher costs are passed onto Ameren Missouri between Ameren Missouri general rate proceedings, Ameren Missouri's net income will be reduced permanently for that period. Similarly, Ameren Corporation's consolidated reported earnings will likewise be reduced.

<sup>4</sup> See *Report and Order*, File No. EM-2007-0374.

because doing so does not tend to make the power supply less safe or less adequate, nor does it tend to make rates less just and less reasonable.<sup>5</sup>

B. Variances for Transactions Between Ameren Missouri and Affiliates Other Than Ameren Services

8. The prior subsection applied to requested variances applicable to Ameren Missouri/Ameren Services transactions. This section applies to five variance requests applicable to certain transactions between Ameren Missouri and its Non-Ameren Services Affiliates, as follows:<sup>6</sup>

- i. Individual transactions involving exchanges of (a) employee labor-related costs and related employee expenses for services provided, (b) inventory transfers, (c) meter and line transformer transfers, (d) facility charges under the May 2, 2005 Facility Use Agreement between Ameren Missouri and Ameren Illinois Company (“AIC”), (e) lab testing services, and (f) software rentals, so long as the fully distributed cost (“FDC”) of each of the electric transactions is less than or equal to \$650,000, and for gas transactions is less than \$60,000.<sup>7</sup>
- ii. Transactions arising from emergencies where life or property damage is threatened or has occurred, including storm response and electric and/or gas restoration efforts.

---

<sup>5</sup> This variance would also apply to the provision of services by Ameren Missouri to Ameren Services, the vast majority of which are for building rentals (addressed elsewhere) and software rentals for software owned by Ameren Missouri and used by Ameren Services to provide services to Ameren Missouri and other affiliates.

<sup>6</sup> There is one additional variance request reflected in the CAM which would allow the Company to make annual submissions required by the Rules in May of each year instead of in March. The good cause for that variance is stated in the CAM; i.e., to better align the timing with other required FERC submittals that are used in preparing reporting under the Rules.

<sup>7</sup> Categories (a) to (f) apply to electric transactions. Categories (a) to (c) and (f) apply to gas transactions (with respect to category (c), only meter transfers take place for the Company’s gas operations).

- iii. Rentals by Ameren Missouri affiliates of space in Ameren Missouri-owned buildings.<sup>8</sup>
- iv. Sales of energy or capacity to AIC at market rates set pursuant to a competitive bidding process such as, but not limited to, the process utilized by the Illinois Power Agency, even if those market rates are lower than Ameren Missouri's fully distributed costs so long as the sale of energy covers Ameren Missouri's marginal costs of providing the energy.
- v. The release or acquisition of natural gas pipeline transportation capacity done pursuant to Federal Energy Regulatory Commission ("FERC") regulations.

9. The first variance (item i) is requested to allow the continuation of many small transactions (several thousand transactions each year on average) that primarily occur between Ameren Missouri and AIC which, like Ameren Missouri, owns and operates a state-regulated electric and gas distribution utility, located in Illinois. These transactions most often involve exchanges of items such as miscellaneous inventory items, line transformers, and meters used by both utilities and held in inventory or plant by both utilities. While it varies from year-to-year, over the past four years the net exchanges that would have fallen within this variance for both gas and electric operations would have been in the range of \$1.0 million to \$(2.1 million) (and in a given year the net can go either way; i.e., a negative number would mean Ameren Missouri received less from AIC than it provided; a positive number would mean the opposite). All but a small portion of the above figures are for electric operation transactions. In the most recent year (2017), the net was \$100,000 (Ameren Missouri received \$100,000 more than it provided to AIC).

---

<sup>8</sup> The same variance applies between Ameren Missouri and Ameren Services. See CAM, Tab G, p. 3, lines 8-9.

The thresholds at or below which this variance applies are expected to allow these beneficial transactions to continue at cost. Given that Ameren Missouri's total non-fuel related operations and maintenance expenditures are approximately \$900 million per year, these net exchanges are immaterial to Ameren Missouri's overall costs. However, Ameren Missouri benefits from being able to engage in these kinds of transactions because, among other reasons, it can easily track and access items it needs or knowledge/services an affiliate's employee may possess without attempting to locate the item/knowledge/service from an unaffiliated provider. These transactions are also more efficient because they reduce order times when an item is needed. In terms of inventory and plant transfers, the items would have been acquired under common procurement policies/procedures, and they are often of the same type/specification since both Ameren Missouri and AIC are Ameren utilities. In terms of access knowledge/services from an affiliate's employee, such an employee has the same or similar training, is subject to the same or similar policies, and generally will have greater familiarity with Ameren Missouri operations and needs than a non-affiliate employee. Finally, a good example in Ameren Missouri's gas operations where use of an affiliate's services relates to control and monitoring of the Company's natural gas distribution system, which is conducted by Ameren Illinois Company ("AIC") employees located in a gas control center facility located in Springfield, Illinois. Since AIC has approximately ten times as many natural gas customers as does the Company as well as a much larger distribution system, it is far more efficient for those trained AIC employees to monitor the Company's gas system as well instead of duplicating both employees, equipment, and the physical building that houses the control center.

10. The foregoing facts constitute good cause for this variance request.

11. The propriety of the variance denominated as item “ii” seems self-evident. If Ameren Missouri has an emergency, or if its sister company does, and if they can help each other and be made whole for their costs, it is in the public interest for them to be able to do so. Similar aid to non-affiliated utilities (and from non-affiliated utilities to Ameren Missouri) is routinely provided/received when storms occur. This constitutes good cause for this variance.

12. With respect to the variance request denominated as item “iii”, it should be noted that the majority of the employees working at the GOB owned by Ameren Missouri are Ameren Services employees. There are also a significant number of Ameren Missouri employees there and a small number of AIC employees. Ameren Missouri charges cost-based rent to these other entities. It is very difficult to make an apples-to-apples comparison of the GOB to a typical office building, given the presence of secure control rooms, trading areas, data center facilities, and other features designed to protect Critical Electric Infrastructure Information. Moreover, the GOB has been specifically designed and configured to meet the needs of Ameren Missouri and Ameren Services, which provides it with substantial support. In summary, the GOB is not designed to be marketed or rented to unaffiliated third parties nor are there generally comparable facilities in the market that would suit Ameren Missouri’s needs in the same way.<sup>9</sup> For these reasons, Ameren Missouri believes literal application of the pricing-related provisions of the Affiliate Transactions Rules would be impractical and unwarranted.

13. The foregoing facts constitute good cause for this variance.

14. It should be pointed out, however, that at the Staff’s suggestion Ameren Missouri has agreed to complete a comprehensive space study of the GOB (and to update that study every

---

<sup>9</sup> This variance is being requested for rentals to affiliates for all Ameren Missouri buildings for similar reasons and for administrative convenience. There are a very limited number of non-Ameren Missouri employees who work out of other Ameren Missouri buildings.



five years) to determine the most equitable allocation of its costs of ownership among itself and its affiliates who occupy the GOB. This will further ensure that Ameren Missouri is receiving a fair and appropriate rental rate for the GOB.

15. The variance denominated as item “iv” is also straightforward: Under Illinois law, distribution utilities acquire the power they need to serve their customers through an Illinois Power Authority competitive auction process; i.e., the distribution utilities (including AIC) issue requests for proposals for the energy and capacity they need and generators submit bids. Responding to those requests for proposal and obtaining bids is a means by which Ameren Missouri can generate off-system sales (energy and capacity) margins that are then included in its fuel adjustment clause for the benefit of its customers. Ameren Missouri has been engaging in such transactions for several years and they have been reviewed in rate cases and fuel adjustment clause prudence reviews. However, the auction process may or may not comply with the letter of the Affiliate Transactions Rules; hence Ameren Missouri requests a variance from the cited provisions.

16. The last variance, denominated as item “v” is also within the spirit of the Affiliate Transactions Rules, but not within its letter. In summary, at times Ameren Missouri holds interstate gas pipeline capacity that it has procured to obtain gas for its generators or to serve its gas customers that may not, in a single hour or on a given day, be needed (e.g., because the weather turned out differently than forecasted). Or, for the same reason, Ameren Missouri may need pipeline capacity that it does not have. The FERC has implemented regulations that allow such capacity to be “posted” and then competitively bid upon and acquired by others that need it. This variance will allow Ameren Missouri to dispose of/acquire pipeline capacity when appropriate. For these reasons, good cause for this variance exists.