

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a	:	
Ameren Illinois	:	
	:	17-0197
Rate MAP-P Modernization Action	:	
Plan-Pricing Annual Update Filing.	:	

ORDER

December 6, 2017

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PROPOSED ORDER

By the Commission:

I. PROCEDURAL HISTORY

Section 16-108.5 of the Public Utilities Act (the “Act”) provides that an electric utility or combination utility (providing electric service to more than one million customers in Illinois and gas service to at least 500,000 customers in Illinois) may elect to become a “participating utility” and voluntarily undertake an infrastructure investment program as described in the Section. 220 ILCS 5/16-108.5(b). A participating utility is allowed to recover its expenditures made under the infrastructure investment program through the ratemaking process, including, but not limited to, the performance-based formula rate and process set forth in Section 16-108.5. 220 ILCS 5/16-108.5(b). Section 16-108.5(d) of the Act requires a participating utility to file, on or before May 1 of each year, with the Chief Clerk of the Illinois Commerce Commission (“Commission”), its updated cost inputs to the performance-based formula rate for the applicable rate year and the corresponding new charges, based on final historical data reflected in the utility’s most recently filed annual Federal Energy Regulatory Commission (“FERC”) Form 1, plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the inputs are filed. 220 ILCS 5/16-108.5(d).

On January 3, 2012, the Ameren Illinois Company d/b/a Ameren Illinois (“AIC” or “Ameren”) filed with the Commission its performance-based formula rate tariff, Rate MAP-P Modernization Action Plan—Pricing Tariff (“Rate MAP-P”). That docket established the terms of the formula.

On April 13, 2017, Ameren filed its annual update of cost inputs pursuant to Section 16-108.5(d) of the Act. This docket is Ameren’s seventh filing under the Electric Infrastructure Modernization Act (“EIMA”). In this docket, the Commission will establish a new revenue requirement to take effect on January 1, 2018 based on the historical FERC Form 1 reports for 2016 and projected plant additions for 2017 and reconcile the revenue requirement for 2016 with actual costs for 2016. The reconciliation balance will be added to the new revenue requirement and collected in rates effective on January 1, 2018.

Petitions to Intervene in this proceeding were filed by the Citizens Utility Board (“CUB”), as well as by Caterpillar Inc., Cargill, Inc., Viscofan USA, Inc., Tate & Lyle Ingredients Americas, Inc., Marathon Petroleum Company, CCPS Transportation, LLC, Keystone Consolidated Industries, Inc., Illinois Cement Company and Archer-Daniels-Midland Company, collectively as the Illinois Industrial Energy Consumers (“IIEC”). A notice of appearance was filed by the Illinois Attorney General’s Office on the behalf of the People of the State of Illinois (“AG”). Staff of the Commission (“Staff”) also participated in this proceeding.

An evidentiary hearing was held in this proceeding at the offices of the Commission at 527 E. Capitol, Springfield, Illinois. At the conclusion of the hearing, the Record was marked “Heard and Taken”. Initial Briefs were filed by AIC, Staff, and IIEC-CUB. Reply Briefs were filed by AIC and IIEC-CUB. A Proposed Order was served on the parties. Briefs on Exceptions were filed by IIEC-CUB and Staff. The schedule adopted in this proceeding did not provide the parties with the opportunity to file Reply Briefs to Exceptions.

II. LEGAL STANDARD

The provisions of EIMA, specifically, Section 16-108.5(d), provides in relevant part:

Subsequent to the Commission's issuance of an order approving the utility's performance-based formula rate structure and protocols, and initial rates under subsection (c) of this Section, the utility shall file, on or before May 1 of each year, with the Chief Clerk of the Commission its updated cost inputs to the performance-based formula rate for the applicable rate year and the corresponding new charges.

220 ILCS 5/16-108.5(d).

Section 16-108.5(d) further specifies the requirements for this annual filing as follows:

Within 45 days after the utility files its annual update of cost inputs to the performance-based formula rate, the Commission shall have the authority, either upon complaint or its own initiative, but with reasonable notice, to enter upon a hearing concerning the prudence and reasonableness of the costs incurred by the utility to be recovered during the applicable rate year that are reflected in the inputs to the performance-based formula rate derived from the utility's FERC Form 1. During the course of the hearing, each objection shall be stated with particularity and evidence provided in support thereof, after which the utility shall have the opportunity to rebut the evidence. Discovery shall be allowed consistent with the Commission's Rules of Practice, which Rules shall be enforced by the Commission or the

assigned hearing examiner. The Commission shall apply the same evidentiary standards, including, but not limited to, those concerning the prudence and reasonableness of the costs incurred by the utility, in the hearing as it would apply in a hearing to review a filing for a general increase in rates under Article IX of this Act.

. . .

In a proceeding under this subsection (d), the Commission shall enter its order no later than the earlier of 240 days after the utility's filing of its annual update of cost inputs to the performance-based formula rate or December 31.

. . .

A participating utility's first filing of the updated cost inputs, and any Commission investigation of such inputs pursuant to this subsection (d) shall proceed notwithstanding the fact that the Commission's investigation under subsection (c) of this Section is still pending and notwithstanding any other law, order, rule, or Commission practice to the contrary.

Id. Section 16-108.5(d) further specifies the requirements for the reconciliation filing as follows:

The filing shall also include a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) with the actual revenue requirement for the prior rate year (determined using a year-end rate base) that uses amounts reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year. Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year, the charges for the applicable rate year. Provided, however, that the first such reconciliation shall be for the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section and shall reconcile (i) the revenue requirement or requirements established by the rate order or orders in effect from time to time during such calendar year (weighted, as applicable) with (ii) the revenue requirement determined using a year-end rate base for that calendar year calculated pursuant to the performance-based formula rate using (A) actual costs for that year as reflected in the applicable FERC Form 1, and (B) for the first such reconciliation only, the cost of equity, which shall be calculated as the sum of 590 basis points plus the average for the applicable calendar year of the

monthly average yields of 30-year U.S. Treasury bonds published by the Board of Governors of the Federal Reserve System in its weekly H.15 Statistical Release or successor publication. The first such reconciliation is not intended to provide for the recovery of costs previously excluded from rates based on a prior Commission order finding of imprudence or unreasonableness. Each reconciliation shall be certified by the participating utility in the same manner that FERC Form 1 is certified. The filing shall also include the charge or credit, if any, resulting from the calculation required by paragraph (6) of subsection (c) of this Section.

Notwithstanding anything that may be to the contrary, the intent of the reconciliation is to ultimately reconcile the revenue requirement reflected in rates for each calendar year, beginning with the calendar year in which the utility files its performance-based formula rate tariff pursuant to subsection (c) of this Section, with what the revenue requirement determined using a year-end rate base for the applicable calendar year would have been had the actual cost information for the applicable calendar year been available at the filing date.

Id.

III. AIC'S PROPOSED REVENUE REQUIREMENT

AIC proposes a net revenue requirement (after consideration of the filing year and reconciliation year revenue requirements, with interest and the return on equity collar) of \$998,448,000. Overall, AIC's proposed update to its formula rate delivery service revenue requirement results in a decrease of \$17,339,000 from the electric revenue requirement ordered by the Commission in Docket No. 16-0262. AIC's calculations use a rate of return of 7.040% for the filing year and 7.040% for the reconciliation year.

Staff agrees that AIC's proposed revenue requirement, and the costs reflected in that revenue requirement, as adjusted by Staff and agreed to by AIC, are prudent and reasonable and should be approved by the Commission.

IV. RATE BASE

A. Uncontested or Resolved Issues

1. Cash Working Capital

Staff and AIC agree on the methodology to calculate Cash Working Capital ("CWC") for the final revenue requirements ordered by the Commission in the instant case, and for all leads and lags. AIC agreed to Staff's proposed adjustment to cash working capital to reflect Staff's proposed level of operating expense.

The Commission finds that the parties are in agreement on this issue, and therefore adopts the parties' agreed amount of CWC.

2. Projected Plant Additions

In supplemental testimony, AIC identified a project in its 2017 plant additions that would not be in service by the end of 2017 as originally intended. The deferred project will be replaced by other electric distribution projects of similar cost, which will be in service by the end of 2017. Thus, the amount of projected plant additions remains the same as originally filed. However, the replacement projects have different depreciable lives than the original project, which results in derivative impacts to depreciation expense, accumulated depreciation, and accumulated deferred income tax ("ADIT"). Staff and AIC, therefore, agreed to a corresponding adjustment to projected plant additions based on AIC's supplemental testimony.

The Commission finds that the proposed adjustment to AIC's 2017 projected plant additions is uncontested, and therefore adopts the adjusted level of projected plant additions for use in this proceeding.

3. Accumulated Deferred Income Tax (ADIT)

Staff and AIC agreed to an adjustment to ADIT based on an inadvertent omission of ADIT associated with a July 2016 storm cost deferral.

The Commission finds that the proposed adjustment to ADIT is uncontested, and therefore adopts the adjusted level of ADIT for use in this proceeding.

B. Original Cost Determination

Staff and AIC agree that the Commission's Order should state the following with respect to the Original Cost Determination:

(x) the Commission, based on Ameren's proposed original cost of plant in service as of December 31, 2016, before adjustments, of \$6,582,534,000 and reflecting the Commission's determination adjusting that figure, approves \$6,582,534,000 as the composite original cost of jurisdictional distribution services plant in service as of December 31, 2016.

The Commission finds that this issue is uncontested, and that it would be reasonable to use the parties' agreed original cost determination in this Order.

C. Incremental Plant Investments

AIC provided the actual and projected incremental plant investment that is included in the revenue requirement in compliance with Section 16-108.5(b)(2) of the Act, as ordered by the Commission in Docket No. 12-0293, to which Staff agrees. The Commission will therefore adopt the following agreed conclusion for use in this proceeding:

The Commission is setting a revenue requirement in this proceeding for the recovery of \$102.6 million in actual 2016 plant additions and \$128.4 million of projected 2017 plant additions in compliance with Section 16-108.5. The detail of these actual and projected plant additions by categories as required by Section 16-108.5(b)(2) are as follows:

	<u>Category</u>	<u>Actual (In Millions)</u>					<u>Projected</u>	<u>Cumulative</u> <u>2016 (In</u> <u>Millions)</u>
		2012	2013	2014	2015	2016	2017	
(A)(i)	Distribution Infrastructure Improvements	\$7.3	\$3.5	\$26.1	\$54.8	\$36.9	\$49.5	\$128.6
(A)(ii)	Training Facility Construction or Upgrade Projects	\$5.8	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$7.4
(A)(iii)	Wood Pole Inspection, Treatment, and Replacement	\$0.0	\$0.0	\$0.0	\$0.0	\$0	\$0	\$0
	Total Electric System Upgrades, Modernization Projects, and Training Facilities	\$13.1	\$5.1	\$26.1	\$54.8	\$36.9	\$49.5	\$136.0
(B)(i)	Additional Smart Meters	\$0.0	\$0.4	\$51.0	\$48.4	\$37.8	\$67.8	\$137.6
(B)(ii)	Distribution Automation	\$6.5	\$5.6	\$20.1	\$19.7	\$24.8	\$10.7	\$76.7
(B)(iii)	Associated Cyber Secure Data Communications Network	\$0.0	\$2.5	\$2.8	\$2.2	\$1.1	\$0.4	\$8.6
(B)(iv)	Substation Micro-processor Relay Upgrades	\$0.3	\$0.0	\$2.5	\$1.7	\$2.0	\$0.0	\$6.5
	Total Upgrade and Modernization of Transmission and Distribution Infrastructure and Smart Grid Electric System Upgrades	\$6.8	\$8.5	\$76.4	\$72	\$65.7	\$78.9	\$229.4
	Total Plant Additions in Compliance with Section 16-108.5(b)(2) of the Act	\$19.9	\$13.6	\$102.5	\$126.8	\$102.6	\$128.4	\$365.4

D. Recommended Rate Base

1. Filing Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable rate base for the filing year is as shown on Appendix A, Schedule 2 (per Staff Ex. 4.0, Schedule 4.03 FY).

2. Reconciliation Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable rate base for the reconciliation year is shown on Appendix B, Schedule 2 (per Staff Ex. 4.0, Schedule 4.03 RY).

V. OPERATING REVENUES AND EXPENSES

A. Uncontested or Resolved Issues

1. Staff Adjustment to Ameren Services Company Costs

In discovery, AIC and Staff agreed to an adjustment of (\$3,000) to reduce administrative and general expense for office supplies costs allocated from Ameren Services Company (“AMS”), which AIC determined should not be recoverable in electric distribution rates.

The Commission finds that the adjustment is uncontested, and therefore approves it. There are no other proposed adjustments to AIC’s AMS costs.

2. Lobbying Costs

In discovery, AIC agreed that certain administrative and general expenses for lobbying costs should not be recoverable. Staff proposed an adjustment to lobbying costs, and AIC agreed that this adjustment is reasonable.

The Commission finds that AIC’s proposed adjusted level of lobbying costs is uncontested, and therefore approves it.

3. Rate Case Expense

Section 9-229 of the Act requires the Commission to assess the justness and reasonableness of AIC’s rate case expenses. 220 ILCS 5/9-229. The Commission’s Part 288 Rules are intended to guide that assessment. 83 Ill. Admin. Code, Part 288. AIC explains that consistent with that authority, it supplied for the Commission’s review extensive documentation supporting the justness and reasonableness of its 2016 formula rate case expenses. Staff and AIC agree that the Commission’s Order should state the following with respect to those expenses:

The Commission has considered the costs expended by AIC during 2016 to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the revenue

requirements of \$1,254,203 is just and reasonable. This amount includes the following costs: (1) \$624 associated with Docket No. 15-0305; (2) \$1,252,241 associated with Docket No. 16-0262; and (3) \$1,338 associated with Docket No. 17-0197.

The Commission finds that the total rate case expense that AIC incurred to litigate its formula rate cases in 2016 is supported by the evidence and is just and reasonable. The Commission, therefore, adopts Staff and AIC's suggested language in this Order.

4. Interest Synchronization

Staff proposed an adjustment to interest synchronization, reflecting the tax effect of the difference between the interest expense used by AIC to compute income tax expense and the interest expense computed based on Staff's proposed rate base. AIC agreed to this adjustment.

The Commission finds that the proposed adjustment to interest synchronization is uncontested, and therefore approves it.

5. Gross Revenue Conversion Factor

Staff proposed a gross revenue conversion factor ("GRCF"), which is used to derive the change in AIC's revenue requirement. The GRCF is based on the applicable federal tax rate, state income tax rate, and uncollectible rate. AIC does not contest Staff's proposal.

The Commission finds that Staff's proposed GRCF is uncontested, and therefore approves it for use in this proceeding.

B. Recommended Operating Revenues and Expenses

1. Filing Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable total amount of operating revenues and expenses for the filing year is shown on Appendix A, Schedule, 1 (per Staff Ex. 4.0, Schedule 4.01 FY).

2. Reconciliation Year

The Commission finds, based on the decisions presented earlier on the various uncontested issues, that a reasonable total amount of operating revenues and expenses for the reconciliation year is shown on Appendix B, Schedule 1 (per Staff Ex. 4.0, Schedule 4.01 RY).

VI. COST OF CAPITAL AND RATE OF RETURN

A. Uncontested or Resolved Issues

1. Cost of Capital and Overall Rate of Return on Rate Base

a) Filing Year

As shown in the table below, Staff and AIC agree that a capital structure comprising 48.82% long-term debt, 1.18% preferred stock, and 50.00% common equity is reasonable for setting rates for the filing year and the reconciliation year. Staff and AIC further agree that a cost of short-term debt of 0.9%, a cost of long-term debt of 5.619%, and a cost of preferred stock of 4.979% are reasonable for both the 2018 rate setting and the 2016 reconciliation. In addition, Staff agrees that AIC's bank facility costs add 3.8 basis points to AIC's weighted average cost of capital. Finally, Staff and AIC agree that the cost of equity is 8.399% for the 2018 revenue requirement and for the 2016 reconciliation year revenue requirement. The 8.399% return equals the 2.599% monthly average 30-year U.S. Treasury bond yield, plus 580 basis points, as required under Section 16-108.5 of the Act. 220 ILCS 5/16-108.5(c)(3). Staff and AIC agree that the Commission should find that a reasonable overall rate of return for the filing year is 7.040%.

The Commission finds that the overall rate of return of 7.040% for the filing year is reasonable and uncontested, and it will be adopted for use in this proceeding.

Component	Weight	Cost	Weighted Cost
Short Term Debt	0.000%	0.900%	0.000%
Long Term Debt	48.820%	5.619%	2.743%
Preferred Stock	1.180%	4.979%	0.059%
Common Stock	50.000%	8.399%	4.200%
Bank Facility Costs			0.038%
Total Capital	100.000%		7.040%

b) Reconciliation Year

Staff and AIC also agree that the Commission should find that a reasonable overall rate of return for the reconciliation year is 7.040%.

The Commission finds that the overall rate of return of 7.040% for the reconciliation year is reasonable and uncontested, and it will be adopted for use in this proceeding.

VII. RECOMMENDED REVENUE REQUIREMENT

The Commission finds, based on the determinations presented above on the various uncontested issues, that the reasonable revenue requirement for the filing year is shown on Appendix B. The Commission further finds, based on the determinations presented above on the various uncontested issues, that the reasonable revenue

requirement for the reconciliation year is shown on Ameren Exhibit 13.1, Schedule FR A-1 REC.

The Commission finds that no party contested AIC's cost of service or pricing proposals, and, therefore, adopts those proposals for purposes of this proceeding.

VIII. OTHER ISSUES

A. Uncontested Issues

1. Income Tax Rate Changes

The Illinois General Assembly enacted a change to the state income tax rate, effective July 1, 2017, that increases the rate applicable to AIC from 7.75% to 9.50%. AIC did not reflect any changes to the Formula Rate Revenue Requirement calculation as a result of the tax change. Since the first Formula Rate proceeding in Docket No. 12-0001, the Formula Rate schedules have been designed to apply the same state and federal income tax rates to both the filing year and reconciliation year calculations. Section 16-108.5(d)(1) of the Act, which authorizes use of a performance-based formula rate, states in pertinent part: "[t]he inputs to the performance-based formula rate for the applicable rate year shall be based on final historical data reflected in the utility's most recently filed annual FERC Form 1 plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the inputs are filed." 220 ILCS 5/16-108.5(d)(1). Since the most recently filed FERC Form 1, at the time of filing, was for the 2016 calendar year, the 7.75% state income tax rate in effect in 2016 is used for both the filing year and reconciliation year calculations. In next year's Formula Rate update filing, when AIC reconciles 2017 costs (and subsequent year reconciliations, to the extent applicable under the Act), the actual state income tax rate(s) in effect for the applicable calendar year will be used to reconcile actual costs, with any differences in actual costs, and costs included in rates for the reconciliation year, reflected in the reconciliation with interest adjustment.

B. Contested Issues

1. IIEC/CUB Proposed Independent Third-Party Audit of Ameren Services Company Costs

a) IIEC/CUB's Position

IIEC-CUB assert that the Commission has never had the benefit of an independent audit of total AMS service costs, or costs billed to AIC, arguing that such an audit could determine whether AMS reasonably manages its costs, and is able to provide services to AIC at just and reasonable prices. IIEC-CUB suggest that the audit would review the reasonableness of total AMS costs, and allow for a full and complete review of these costs and their allocations to AIC in future rate cases and formula rate filings. Accordingly, IIEC-CUB recommend that the Commission order AIC to perform an independent third-party audit of total AMS costs and the related allocations to AIC. IIEC-CUB note that the only Commission review of Ameren's AMS costs has been in the truncated formula rate proceedings that address all areas of revenue requirements in a period of 240 days.

IIEC-CUB note that AMS organizes the business and support services provided to AIC and other Ameren Corporation affiliates into functional areas including Ameren Services Center, Controllers, Corporate Communications, Corporate Planning & Environmental, Energy Delivery Technical, Executive, General Counsel, Human Resources, Information Technology (“IT”), Internal Audit, Supply Services & Safety, Tax, Transmission, and Treasurer. IIEC-CUB state that AMS charged total service company fees of \$386.2 million to Ameren affiliates in 2016, of which \$175.5 million, or 45.4% of the total charges, was allocated to AIC. IIEC-CUB note that in 2015, the total AMS cost was \$364.4 million, of which \$162.6 million was charged to AIC; again, approximately 45% of the total AMS charges. IIEC-CUB note that from 2015 to 2016 there was an increase in total AMS cost of \$21.9 million (6%) and an increased AIC share of \$12.9 million (8%).

IIEC-CUB note that total AMS costs have increased over 22% since 2012 — from \$316 million to \$386 million, a \$71 million increase, and that AMS costs have increased every year since 2012, including in 2013 when Ameren Corporation sold its merchant generation businesses. IIEC-CUB state that these costs increased not only in the year after the sale, which, might be attributed to the need to recover fixed costs that were borne by the merchant company, but they also increased each and every year after that, as well. In 2012, the year prior to the sale, the merchant generation affiliate had been subject to \$51 million in AMS charges, or over 16% of the total AMS charges in that year. IIEC-CUB posits that these charges to the merchant generation company were for services AMS employees provided to it, and given the size of those charges, the sale of that company should have reduced the need for a substantial number of AMS employees or services, resulting in a decrease in total AMS costs, however this has not occurred. IIEC-CUB aver that in order to maximize profits, Ameren Corporation has a financial incentive to ensure that AMS costs are passed along to its other subsidiaries, including its regulated subsidiaries - AIC, Union Electric Company, and Ameren Transmission Company of Illinois.

IIEC-CUB note that it is well recognized that the purpose of allowing a regulated utility to take services from an affiliated service company is to allow the utility to provide essential services to its customers in a least cost manner by allowing it to take advantage of economies of scale that the service company is supposed to provide, as opposed to utilizing a third-party provider or the utility itself to provide those services. IIEC-CUB believe however, that the constant, significant annual increases in both total AMS costs and costs charged to AIC raise substantial doubt that AMS is achieving its purpose as a service company in providing essential services to AIC customers in a least cost manner. IIEC-CUB state that the record in this case shows that no regulatory commission, including this Commission, has conducted an audit of total AMS “actual” costs underlying the charges for services provided to AIC and other affiliates, or whether the total cost of services provided to affiliates and AIC is prudent and reasonable.

AIC asserts that the General Services Agreement (“GSA”) and other protocols are sufficient to ensure proper charges are being assessed by AMS to AIC. Ameren claims that it employs cost controls like AIC buyers’ joint planning process, in which AIC buyers meet with AMS Business & Corporate Services providers to review certain AMS services,

discuss costs, explore outsourcing opportunities, cost containment, and savings opportunities, service reduction opportunities and other matters. IIEC-CUB suggest that these procedures provide no assurance that AMS charges or costs are reasonable, and note that the record is devoid of any specific instance in which AIC seriously disputed any significant charge from AMS or refused to pay a charge.

IIEC-CUB state that there is a fundamental difference between overseeing the allocation of AMS costs that the GSA governs, and determining whether AMS costs are reasonable and prudent, and argue that an audit is critical because AMS costs are either directly assigned or allocated to AIC based on services provided to AIC and other affiliates. While AIC does undertake internal audits to determine whether the allocation and assignment of AMS costs to AIC are reasonable and consistent with the GSA, IIEC-CUB note that AIC does not conduct a formal audit itself of AMS total costs to ensure that AMS is effectively managing its costs, via budgeting and operating assessments, and is able to provide services based on effectively managed and reasonable costs.

In Docket No. 16-0287, the GSA approval Order, the Commission rejected IIEC-CUB's proposal for an independent third-party audit of AMS costs in part because it expected that the reporting requirement of new Appendix C would provide the means to determine if the service company charges are just and reasonable. Ameren Illinois Co., Docket No. 16-0287, Order at 25 (April 7, 2017). Mr. Gorman explained that this internal audit requirement does not provide the type of independent assessment that an independent audit would.

IIEC-CUB note that AMS service charges to client companies are based on recovery of all AMS costs, and are classified as either direct costs, which are applicable to one or more affiliates and are directly charged to the affiliates; or indirect costs, which are general overhead costs that are not applicable to a single affiliate or group of affiliates. IIEC-CUB avers that evidence of what AMS actual costs are, does not establish whether those costs are just and reasonable. Without a review of total AMS costs, it is not possible to ensure that the proportion of AMS costs charged to AIC are appropriate.

While AIC suggests that audits of AMS costs are conducted by FERC, IIEC-CUB note that the audits provided by AIC do not include an audit of total AMS costs, nor do they include an assessment of whether AMS costs are reasonable based on the services provided to client companies, including AIC. It appears to IIEC-CUB that AIC witness Russi agrees with the limitations of the FERC audits, stating that they do not distinguish between direct and direct allocated AMS charges, noting that AMS direct charges to other affiliates do not affect AIC.

While Ms. Russi offers that the newly approved GSA and internal audit requirements provide AIC customers sufficient protection in the manner of a report, IIEC-CUB disagrees, asserting that there are several reasons why the internal audit requirement and its report cannot accomplish the objective of providing the Commission with independent assessments of the reasonableness of AMS total costs, and a demonstration that AMS's prices for services provided are reasonable. Those include the following:

1. Ameren internal audits will be overseen by executives of Ameren. As such, these are not independent audits, but rather the audits are controlled by Ameren executives who have an economic interest in the outcome of the audit.
2. The requirement to conduct the audit specifically states that the internal audit will review charges billed by the Service Company pursuant to the agreement during the calendar year. As such, the audit does not require an independent audit of the reasonableness of AMS total costs. Rather, the audit is limited to ensuring that AMS bills to AIC are performed consistent with the GSA. The GSA does not control AMS or direct how it manages operating costs.
3. Allocation of AMS costs will not show that AMS total costs are reasonable. In order to ensure that costs paid by AIC retail customers are reasonable, there needs to be both a demonstration that AMS total costs are reasonable, as well as the allocations of total costs are reasonable. A review of allocations would include allocation of common costs and direct assignment of AIC direct charges.

IIEC-CUB assert that the audits under the GSA do not address the reasonableness or prudence of AMS costs to AIC, but instead address allocations, time reporting, GSA training, and an investigation of whether all charges under the GSA reflect AMS's actual costs. Verifying that AMS is charging all of its "actual" costs is not the same as a determination that actual costs are just and reasonable. IIEC-CUB note that the audit is being conducted by AMS for AMS, of the AMS activities as described, and cannot be considered an independent third-party audit of AMS costs being charged to AIC.

IIEC-CUB note that when the Commission declined to order an independent audit in the Order in Docket No. 16-0287 approving the GSA, it did so in part because it "intends that the reporting requirements of Appendix C will provide the means to determine whether the service company services are provided at rates that are just and reasonable." Ameren Illinois Company, Docket No. 16-0287, Order at 25 (April 7, 2017). IIEC-CUB suggest that the record in this docket demonstrates that neither the GSA, nor the protocols relied upon by AIC, in fact test the reasonableness of total AMS costs and their allocation to AIC.

IIEC-CUB assert that an independent review of these AMS total costs is necessary in order to ensure the Commission is in a position to protect the public interest from the affiliate transactions that constitute a significant portion of AIC's cost of service. It appears to IIEC-CUB that Ameren relies on the assumption that, because the Commission has not made an explicit finding that particular AMS costs are unreasonable or imprudent, they are conversely deemed prudent and reasonable. The purpose of the audit, however, is to provide the Commission with the opportunity to review the reasonableness of total AMS costs, which review has not previously been done. IIEC-CUB suggest that the fact

that AMS costs have been recovered in AIC rates is more an indication of the lack of objection to those costs than it is to the depth and breadth of Commission review of those costs. IIEC-CUB aver that the material increases in AMS service costs to AIC in the last five years has not been fully explained or justified by AIC, and believe that these material increases in AMS allocated service costs demand more detailed and focused justifications for changes in the cost of service provided by AMS, and an explanation of the additional services provided to AIC by AMS over this time period.

IIEC-CUB note that part of the process by which AMS charges AIC is a reliance on service project requests, and while the number of service requests from AIC to AMS changes from year to year, it appears there is no clear disclosure on the number of service requests produced by AMS for all its client companies. IIEC-CUB believe that this information, along with the costs of such requests, would assist in showing that the allocation of service requests to AIC from AMS reflect reasonable rates for services.

IIEC-CUB believe that there are flaws in the allocation process, and suggest that there has also been a showing of disproportionate AMS costs being charged to other Ameren affiliates when compared to AIC. IIEC-CUB state that through direct charges, other affiliate companies do receive some AMS costs related to human resources, information technology and corporate communications, however in 2016, the other affiliate companies combined only receive 2% of all the AMS charges related to human resources and information technology; and only 6% of all the AMS charges related to corporate communications. IIEC-CUB note that little of the AMS costs associated with functions that are common to the operations of any business are being charged to any affiliate companies other than the regulated retail utilities.

IIEC-CUB note that in a comparison of allocated costs for AIC to those of Ameren Transmission Company of Illinois ("ATXI"), AIC is charged nearly \$5.4 million for human resource services as compared to ATXI, which was only charged approximately \$322,000. Additionally, ATXI was charged \$1.7 million for IT services while AIC was charged almost \$39 million. ATXI was also charged about \$144,000 for corporation communication services while AIC was charged over \$2.9 million.

IIEC-CUB state that in 2016, AIC used 33 allocation factors that applied to more than one affiliate company, however 17 of those allocation factors applied AMS costs to only the regulated retail utilities. IIEC-CUB argue that this in itself is dubious given the nature and extent of AMS services purportedly available to all Ameren affiliates, and highlights once more the financial incentives at stake.

IIEC-CUB propose a structure of an audit to review the prudence and reasonableness of AMS total cost for services provided to take a form similar to the following:

1. AMS total costs by functional area should be audited over the last five years.

2. The number of service requests from AIC to AMS, and other client companies that procure common services from AMS should be audited to determine the volume of services provided by AMS to affiliate companies. An assessment should also be made of how AMS costs are impacted by the volume of affiliate service requests.
3. AMS direct services charged to AIC should be audited and compared to the cost of similar services from non-affiliated providers.
4. AMS common service costs allocated to AIC should be compared to the cost of similar services provided by non-affiliated providers.
5. An assessment should be made of AMS's effectiveness in managing service costs. This should include a comparison of budgeted to actual AMS costs for services recognizing the volume of service requests from affiliate companies to AMS.

IIEC-CUB opine that the significance of the cost of the audit must be weighed against the magnitude of the increase in AMS costs to AIC since 2012, which amounts to a total of \$64 million, or 57%, and it appears that with this substantial increase, the cost of an audit is worthwhile and justified. IIEC-CUB aver that the cost of the audit can be overseen by the Commission and administered by Staff, and the Commission has the authority to limit audit costs to an amount it finds to be reasonable. IIEC-CUB recommend the Commission require an independent third-party audit of AMS costs.

IIEC-CUB suggest that there is ample legal authority upon which the Commission may rely in ordering the audit, noting that Section 7-101(2)(ii) of the Act provides the Commission with “. . . jurisdiction over affiliated interests having transactions, . . . with electric and gas public utilities under the jurisdiction of the Commission, to the extent of access to all accounts and records of such affiliated interests relating to such transactions, including access to accounts and records of joint and general expenses with the electric or gas public utility any portion of which is related to such transactions. . . .” 220 ILCS 5/7-101(2)(ii).

IIEC-CUB state that the Commission is also able to require a third-party management audit or investigation of any public utility or any part thereof under Section 8-102 of the Act (220 ILCS 5/8-102), which provides that the Commission may conduct or order a management audit or investigation under two circumstances. First, when “. . . it has reasonable grounds to believe the audit or investigation is necessary to assure that the utility is providing adequate, efficient, reliable, safe and least-cost service and charging only just and reasonable rates therefor.” Second, when “. . . the audit or investigation is likely to be cost-beneficial in enhancing the quality of service or the reasonableness of rates therefor.”

In addition to the above statutory provisions, IIEC-CUB state that the Commission has broad general supervisory authority – and responsibility – under Section 4-101 of the

Act to inquire into the management of the utility. Pursuant to this provision, the Commission “shall inquire into the management of the business thereof and shall keep itself informed as to the manner and method in which the business is conducted.” 220 ILCS 5/4-101.

IIEC-CUB assert that along with the substantial escalation in the AMS costs allocated and/or directly charged to AIC, and the failure to provide a clear description of the number and type of services provided by AMS, it appears that the current protocols and internal audits do not scrutinize or test the justness or reasonableness of total AMS charges or costs being passed along to AIC customers, therefore the Commission is justified in requiring a third-party audit.

IIEC-CUB argue that it is unclear from the record whether AIC is exercising due diligence to control unnecessary AMS costs from being passed along to its customers, nor does it appear that AIC has ever informed AMS that it was charging too much or that a particular cost would not be paid. IIEC-CUB also submit that there has been no showing that service company costs are routinely lower than what might be procured from outside service providers.

IIEC-CUB state that the Commission has a continuing obligation to ensure that AMS costs passed along to AIC customers are reasonable and prudent, however in the 20 years in which various iterations of the GSA have been in place, there has been no independent audit of AMS total costs or charges to AIC.

IIEC-CUB note that the Commission has previously ordered an audit of affiliate management service company costs in other utility rate cases, and thus an audit of the type and magnitude suggested by IIEC-CUB is not unprecedented. In Illinois-American Water Company’s 2007 rate case, Docket No. 07-0507, the Commission addressed the propriety of IAWC management fees being passed along to IAWC customers by the utility’s service company, much like that which is at issue here. IIEC-CUB note that the Commission ordered the utility to perform a study, including an analysis of the services provided by its Service Company to all of IAWC’s affiliates.

In IAWC’s 2009 rate case, Docket No. 09-0319, the Commission found, based on its review of the record, that IAWC had not justified the increase it requested for the Service Company fees, and that the studies IAWC submitted in compliance with the Commission’s directive in Docket No. 07-0507 were inadequate. The Commission held, “[w]ith no basis for comparison of the lower of cost or market for these services, the Commission cannot adequately determine whether the increases in management fees proposed in this case by IAWC are just and reasonable.” Illinois-American Water Co., Docket No. 09-0319, Order at 47, (April 13, 2010). IIEC-CUB note that the Commission then ordered the audit pursuant to Section 8-102 of the Act as follows;

The Commission agrees that an independent audit is of benefit and necessary in evaluating whether the Service Company fees assessed to IAWC, are in fact provided on a lower of cost or market basis as we directed in the 07-0507

Order. Therefore, pursuant to our authority under Section 8-102 of the Public Utilities Act, the Commission directs IAWC to engage outside consultants to perform a management audit of its Service Company fees to compare the cost of each service obtained from the Service Company to the costs of such services had they been obtained through competitive bidding on the open market.

Id. at 48.

IIEC-CUB state that the Commission then entered an Amendatory Order in Docket No. 09-0319, which directed Staff to conduct a management audit to evaluate whether the Service Company's fees assessed to IAWC are in fact provided on a lower of cost or market basis. If Staff was unable to perform the audit, the Commission directed Staff to select an independent firm to do so. Illinois-American Water Co., Docket No. 09-0319, Amendatory Order at 1-3 (May 5, 2010).

IIEC-CUB suggest that the 2009 IAWC rate case shows that the study by IAWC ordered by the Commission in 2007 proved to be inadequate. The Commission then required an independent third-party audit pursuant to Section 8-102 of the Act. Thus, IIEC-CUB argue that internal audits and monitoring activities – much like IAWC's study, have proven to be inadequate when independently testing for the reasonableness or prudence of AMS costs. IIEC-CUB therefore urge the Commission to order an independent audit of AIC's AMS costs.

IIEC-CUB suggest in their Reply Brief, that the purpose of the proposed audit is not necessarily to identify specific costs for the purpose of disallowance, rather the audit is needed to confirm that total AMS costs are reasonable, and the related allocation of those costs to AIC is reasonable. IIEC-CUB argue that the proposed audit will provide the Commission, and the customers who must pay for AMS services, with the confidence that AIC is doing everything possible to manage and control these costs, so that the AMS services are provided in a least cost manner and comparable to the cost for similar services had they been provided by an unaffiliated third party or by the utility itself.

IIEC-CUB assert that while the proposed audit may not ultimately result in a determination that any costs should be disallowed, it may well identify areas where AIC's procurement practices regarding necessary services could be improved, or its management and cost control practices could be enhanced, which would help hold down future costs. In the face of repeated significant increases and the other matters discussed herein, IIEC-CUB believe that ratepayers are entitled to know these answers, and, contrary to AIC's position, there is no legal authority that bars the Commission from seeking these answers.

IIEC-CUB also disagree with AIC that the scope of the proposed audit is unclear from the testimony, noting that Mr. Gorman proposed the scope of the audit set forth above.

IIEC-CUB differ with the position taken by Staff as well. IIEC-CUB aver that postponing the audit to await compulsory compliance with the requirements of the

approved amended GSA will accomplish nothing more than what the current GSA reporting requirements provide. Furthermore, as AIC acknowledged in its brief, Ameren voluntarily provided the GSA reports, of 2016 AMS cost, in this proceeding. Staff and other interested parties have already had the opportunity to evaluate the GSA reports for AIC's 2016 costs. IIEC-CUB argue that this does not now, and will not in the future, provide an assessment of whether AIC is doing everything possible to manage and control AMS costs, or that those costs are being provided in a least cost manner and comparable to the cost for similar services had they been provided by an unaffiliated third party or by the utility itself, without relying on AMS.

b) Ameren's Position

Ameren notes that the only contested issue in this proceeding is one the Commission has already decided - whether it should order an independent audit of AMS costs. Ameren states that in Docket No. 16-0287, the Commission approved an amended GSA between AIC and AMS, and the Commission "note[d] IIEC/CUB's concern about the growth of AIC's AMS costs and [IIEC/CUB's] proposal for a third-party audit of AMS costs." Ameren Ill. Co., Docket No. 16-0287, Order at 25 (Apr. 7, 2017). Ameren states that the Commission concluded in Docket No. 16-0287 that the reporting requirements of the new GSA will provide the means to determine whether service company services are provided at rates that are prudent and reasonable, and the Commission therefore declined to order an independent audit at this time.

Ameren suggests that nothing has happened in the last six months to change that conclusion. Nevertheless, IIEC/CUB witness Gorman in this proceeding again has proposed that the Commission order AIC to perform an independent third-party audit of AMS costs. In support of his proposal, Mr. Gorman offered largely the same reasons that IIEC/CUB offered in support of their independent audit proposal in Docket No. 16-0287: concern regarding an increase in historical AMS costs, and belief that the statutory formula rate case timeframe is too short to enable the Commission to assess the prudence and reasonableness of AMS costs. Ameren urges the Commission to again reject IIEC/CUB's independent audit proposal, for various reasons.

AIC notes that it obtains many of the business and corporate services that it needs to operate and provide electric distribution, electric transmission, and gas distribution services to its customers from AMS, an Ameren-affiliated centralized services company organized under the Public Utilities Holding Company Act and regulated by the FERC. AMS charges AIC, and the other Ameren affiliates that obtain its services, AMS's actual costs to provide those services.

AIC states that pursuant to the GSA recently reapproved by the Commission as amended in Docket No. 16-0287, AIC is required to submit several annual reports to the Commission regarding AMS charges. In particular, beginning in 2018, AIC must provide the Commission a report summarizing monthly AMS charges to the Ameren affiliates during the preceding year. AIC must also provide a detailed report of every prior-year AMS charge by the service description (or service request project name and number); the AMS functional area (or department) that provided the service; the affiliate(s) charged; whether the charge was a direct or indirect charge and, if a direct allocated charge, the

allocation factor used to allocate the charge among multiple affiliates; the FERC account the charge was recorded to; whether the charge represents AMS employee labor costs or non-labor costs, such as unaffiliated vendor costs; and whether the charge was attributable to AIC's gas distribution operations or its electric transmission and distribution operations. Additionally, AIC must provide, among other reports, a variance report that identifies and explains any material variance—10% or more and \$1 million or more—in any AMS functional area cost charged to AIC over the previous year's cost.

This year, before the Commission issued its Order in Docket No. 16-0287, AIC states that it voluntarily provided these reports, for 2016 AMS costs. AIC also provided the reports to the parties in this proceeding, and AIC will begin compulsory compliance with the newly-amended GSA's extensive reporting requirements in 2018.

Using the AMS cost reports, AIC identified the drivers for the 2015 to 2016 increase in its AMS costs, noting that the increase was largely attributable to investments in 30 new or upgraded software assets needed to support AIC's operations and the attendant increased need for IT services. AIC states that it provided additional information in discovery regarding the drivers of the increase, including the software investments. AIC also suggests that it explained significant variances in the Administrative and General expenses recorded to its electric FERC Accounts 920-935, which include AMS charges, noting that the total AMS charges recorded to those accounts remained flat from 2015 to 2016.

AIC notes that no witness disputed any explanation that AIC provided for the increase in total AMS costs charged to AIC in 2016, nor has any party identified a 2016 AMS service to AIC as imprudent or a 2016 AMS charge to AIC as unreasonable. Accordingly, AIC states that there is no contested adjustment in this proceeding to disallow any of AIC's 2016 AMS costs.

Despite the lack of any adjustment, IIEC/CUB witness Gorman complained that an increase in total AMS costs charged to AIC from 2012 to 2016 is unreasonable, focusing specifically on an increase in total AMS costs charged to AIC after the 2013-2014 divestiture of Ameren's merchant generation business. AIC asserts that Mr. Gorman's complaint is meritless, noting that he ignores the Commission's order in AIC's 2016 formula rate update proceeding, which found that AIC's AMS costs were reasonable and prudent. See Docket No. 16-0262, Order at 17-18.

AIC states that while Mr. Gorman proposes no adjustment to AIC's 2016 AMS charges, and those costs are not in dispute, Mr. Gorman nevertheless proposes that the Commission order an independent audit of AMS costs. Mr. Gorman believes that, without his audit—and despite AIC's rate case proceedings—the Commission cannot ensure the prudence and reasonableness of AMS costs.

AIC suggests that one of the first problems with Mr. Gorman's proposed independent audit is that its scope is unclear. For example, while Mr. Gorman has consistently maintained that the audit should review historical AMS costs, his proposal

has otherwise fluctuated from his direct testimony—where he focused on an audit comparing the cost of AMS services to the costs of unaffiliated provider services—to his rebuttal testimony—where he focused on a far broader audit of “total AMS costs” and general AMS management practices. AIC notes that Mr. Gorman leaves the “ultimate scope of the audit,” as he terms it, to the Commission to work out.

AIC submits that regardless of the indefinite scope of Mr. Gorman’s proposal, one thing is certain: his independent audit is unnecessary, unlawful, and would not be cost-beneficial to AIC’s electric distribution customers who—Mr. Gorman concedes—would have to pay for it. The Commission, therefore, should reject Mr. Gorman’s proposal.

AIC submits that an independent audit of AMS costs is unnecessary, given the extensive reporting requirements in the newly-amended GSA, noting that the amended GSA that the Commission approved in Docket No. 16-0287 is the result of a three-and-a-half-month, eight-workshop process and a year-long docketed proceeding, with AIC, Staff, and IIEC/CUB participating.

AIC states that under the newly-amended GSA, the Commission now requires AIC to annually submit AMS cost and cost allocation reports, as well as requiring AIC to annually submit an AMS Internal Audit report, which is an enhancement of the Internal Audit report of AMS’s Service Request System, Service Request policies, operating procedures, and controls that AIC has provided the Commission, every year, since AIC’s predecessors’ 2006 rate cases. Specifically, AMS Internal Audit must now test, and report to the Commission, that: (i) internal controls are adequate to ensure costs associated with transactions under the GSA are properly and consistently allocated and billed; (ii) AMS employees’ time reporting is properly charged to service request projects for allocation to AIC; (iii) allocation factors are correctly calculated; (iv) all costs charged under the GSA are determined in accordance with allocation factors; (v) all charges under the GSA reflect AMS’s actual costs; and (vi) AMS employees are trained with respect to their responsibilities under the GSA at least biennially.

AIC believes that the newly-amended GSA’s extensive reporting requirements and enhanced annual Internal Audit report render Mr. Gorman’s proposed independent audit unnecessary and submits that in Docket No. 16-0287 the Commission reached the same conclusion.

AIC states that in Docket No. 16-0287, the Commission concluded that it expects that the new and enhanced reporting requirements in the amended GSA will facilitate the prudence and reasonableness assessment of AMS costs that already occurs in AIC’s rate cases: “[t]he Commission intends that the reporting requirements of Appendix C [to the amended GSA] will provide the means to determine whether service company services are provided at rates that are prudent and reasonable.” Docket No. 16-0287, Order at 25. The Commission, therefore, found an independent audit to undertake the same assessment unnecessary.

AIC avers that Mr. Gorman's audit proposal does not afford the newly-amended GSA an opportunity to operate. Although AIC voluntarily complied with the reporting requirements this year, it will not begin compulsory compliance with GSA Appendix C's reporting requirements until 2018. While Mr. Gorman attempted to cure his failure to acknowledge newly-amended GSA Appendix C's reporting requirements by asserting that those requirements are insufficient to ensure that AIC's AMS costs are prudent and reasonable, AIC argues that Mr. Gorman fails to acknowledge the Commission's Docket No. 16-0287 conclusion.

AIC further suggests that Mr. Gorman's proposal doesn't meet the legal criteria for an independent audit under Section 8-102 of the Act, which defines the Commission's authority to order an independent audit. AIC submits that Section 8-102 of the Act provides that the Commission may order an independent audit:

only [i] when it has reasonable grounds to believe that the audit . . . is necessary to assure that the utility is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, or [ii] that the audit . . . is likely to be cost-beneficial in enhancing the quality of service or the reasonableness of rates therefor.

220 ILCS 5/8-102. AIC avers that Mr. Gorman's independent audit proposal fails these statutory prerequisites.

AIC notes that in Docket No. 16-0262, the Commission found that AIC's 2015 AMS charges were prudent and reasonable, and that AIC's Administrative and General ("A&G") expenses, which include the AMS charges, were reasonable when compared to other utilities' expenses. Docket No. 16-0262, Order at 18. While the Commission at the same time acknowledged the increase in Ameren's A&G expenses, specifically AMS expenses, AIC notes that the Commission did not order an independent audit of AMS costs, but instead concluded that AIC's rate case proceedings provide an adequate opportunity to assess AIC's AMS costs.

In this proceeding, AIC submits that it has shown that the 2016 AMS charges recorded to its A&G accounts remained flat from 2015 to 2016, and notes that there is no proposed prudence and reasonableness adjustment to AIC's 2016 AMS costs, despite the ample AMS cost data provided in AIC's direct testimony, exhibits, and discovery.

Thus, AIC submits that Section 8-102's first prerequisite is not met: there are no "reasonable grounds" to believe that an independent audit is necessary to assure that AIC is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, per Section 8-102 of the Act.

AIC opines that ratepayers must bear the cost of an independent audit, which would be recovered as an expense through normal ratemaking procedures. AIC submits that the Commission is required, therefore, to find that an independent audit is "likely to be cost-beneficial" to ratepayers before it orders the audit. AIC avers that Mr. Gorman could not say whether his audit proposal was likely to be cost-beneficial to AIC's electric

distribution customers, and Mr. Gorman admitted that “[t]he benefit or cost to customers from such an audit cannot be determined at this time.” IIEC/CUB Ex. 2.0 at 3. AIC states that Mr. Gorman also admitted that if the audit confirms that AMS charges to AIC are just and reasonable, then the audit cost will increase costs to retail customers. AIC suggests that such a speculative benefit is far short of what Section 8-102 of the Act requires.

AIC notes that under EIMA, AIC’s formula rate “shall . . . [p]rovide for the recovery of the utility’s actual costs of delivery services that are prudently incurred and reasonable in amount consistent with Commission practice and law.” 220 ILCS 5/16-108.5(c)(1). EIMA further provides that “[t]he Commission’s determinations of the prudence and reasonableness of [such] costs incurred for the applicable calendar year shall be final upon entry of the Commission’s order and shall not be subject to reopening, reexamination, or collateral attack in any other Commission proceeding, case, docket, order, rule or regulation” 220 ILCS 5/16-108.5(d).

AIC believes that Mr. Gorman’s independent audit proposal ignores these EIMA mandates, noting the Mr. Gorman’s proposed audit would review historical AMS costs over a five-year period. Mr. Gorman testified that “if the audit uncovers costs charged to AIC from AMS that the Commission finds to be unreasonable or imprudent, . . . the reduction in AMS charges to AIC that are included in retail cost of service may offset the cost of the audit.” IIEC/CUB Ex. 2.0 at 10.

Yet, insofar as historical AMS costs have been included in AIC’s historical formula rate revenue requirements, AIC suggests that they have already been approved by the Commission as prudent and reasonable, and per the EIMA, they are not subject to reexamination or attack in another Commission proceeding, including an audit proceeding, pursuant to Section 16-108.5(d) of the Act. AIC argues that the Commission cannot lawfully find historical AMS costs, which it once found prudent and reasonable, imprudent or unreasonable in a later, separate audit proceeding.

Likewise, AIC believes that future AMS costs included in future formula rate revenue requirements—which are actually incurred and shown to be prudent and reasonable—cannot lawfully be reduced by a hypothetical level of historical AMS costs that, again, the Commission once found to be prudent and reasonable, but later—in violation of EIMA—found to be imprudent and unreasonable. 220 ILCS 5/16-108.5(c)(1).

AIC states that Section 7-101 of the Act establishes the Commission’s jurisdiction over AIC’s transactions with affiliated interests, and that jurisdiction is limited to transactions that affect AIC: “The Commission shall not have access to any accounts and records of, or require any reports from, an affiliated interest that are not related to a transaction . . . with the electric or gas public utility.” 220 ILCS 5/7-101(2)(ii).

AIC submits that Mr. Gorman’s proposed independent audit ignores Section 7-101’s jurisdictional limits, noting that it would review AMS costs that do not affect AIC. AIC states that Mr. Gorman emphasized that his audit would review total AMS costs, and Mr. Gorman defined “total AMS costs” as “the total costs AMS incurs to provide services

to all client companies, and other affiliate companies, including AIC.” Ameren Ex. 14.0 at 2.

As explained, however, “total AMS costs” include AMS costs that are direct charged to affiliates other than AIC, for services that do not affect AIC. Those costs, therefore, are not related to AIC. In 2016, for example, “total AMS costs” included approximately \$39 million in direct charges to Ameren Missouri, which reflect transactions between AMS and Ameren Missouri that are not related to AIC. Yet, Mr. Gorman’s proposed audit, in reviewing “total AMS costs”—a review that he insists is necessary—would review those transactions.

AIC argues that Mr. Gorman’s proposed independent audit would increase costs to Illinois customers, without a corresponding benefit, and that the cost of Mr. Gorman’s proposed audit would be substantial. AIC asserts that Mr. Gorman’s testimony and Commission precedent suggest that the cost of the audit that Mr. Gorman proposes would be substantial. AIC notes that Mr. Gorman admits that the period of his independent audit would be lengthy—at least longer than the statutory nine-month period of this formula rate case, since Mr. Gorman contends that period is too short to assess the prudence and reasonableness of AMS costs.

AIC states that the Commission has routinely approved full recovery of independent audit costs in rates, including incremental audit costs, and notes that when the utility incurs audit costs beyond the cost of the independent auditor, like outside consultant and counsel fees, printing costs, and affiliate expenses, those costs are also recoverable by the utility. Given this Commission precedent, and Mr. Gorman’s testimony regarding the duration and complexity of his proposed independent audit, AIC is concerned that the cost of an audit of AMS costs would be substantial.

AIC does not believe that the substantial cost of the audit would result in a corresponding benefit to AIC’s customers, believing that the audit would constitute nothing more than a duplicative layer of AMS cost review, especially in light of the extensive AMS cost reporting requirements that the Commission has imposed on AIC via the newly-amended GSA.

AIC asserts in its Reply Brief that the Commission has successfully reviewed AIC’s AMS charges in every EIMA rate case to date, noting that the information to enable that review was available and even expanded for this proceeding. AIC avers that the parties with the necessary expertise to undertake the review were present in this docket, and suggest that the statutory process affords those parties and the Commission ample time to perform that review, as the Legislature has deemed.

AIC argues that because IIEC/CUB did not fully utilize the information available in this case, the discovery process, or the rate case period is not a reason to order an independent audit, or to impose the cost of an independent audit proceeding on AIC’s customers. AIC believes that this docket (and AIC’s future formula rate cases) provide

the appropriate vehicle to review AMS charges, and suggest that another layer of review is wholly unnecessary.

In its Reply Brief, AIC also opines that IIEC-CUB are incorrect in arguing that the circumstances which caused the Commission to order an audit of IAWC in Docket No. 07-0507 are at all similar to the facts in this proceeding. AIC asserts that IIEC-CUB's description of the IAWC audit is misleading, and overlooks the context of, and the impetus for, the IAWC audit.

AIC states that in IAWC's 2007 rate case, the Commission expressly "question[ed] whether IAWC [was] doing everything possible to ensure low costs for ratepayers" Illinois-American Water Co., Docket No. 07-0507, Order at 30 (July 30, 2008). Therefore, the Commission directed the utility to include a services company cost study in its next rate case filing. *Id.* at 30-31.

AIC notes that in IAWC's next rate case, Docket No. 09-0319, the Commission found that the utility had not complied with its directive. Illinois-American Water Co., Docket No. 09-0319, Order at 47 (Apr. 13, 2010). The Commission further found that the record lacked justification for the 22.5% increase in IAWC's service company expenses. *Id.* Thus, the Commission concluded, it could not find IAWC's requested cost increase just or reasonable, and the Commission adopted an adjustment proposed by the AG and intervening municipalities, capping the increase at 5% and disallowing the remainder of IAWC's test year service company expenses as unreasonable and imprudent. AIC notes that the Commission also ordered, under Section 8-102 of the Act, Staff, or at Staff's direction an independent party, to conduct the service company cost study that the Commission had directed IAWC to conduct in Docket No. 07-0507. Illinois-American Water Co., Docket No. 09-0319, Amendatory Order at 1 (May 5, 2010).

AIC notes that none of that has happened here. The Commission has not disallowed AIC's AMS charges as imprudent or unreasonable. Moreover, the Commission found that the benchmarking study that AIC provided in Docket No. 16-0262 further supported the reasonableness of AIC's AMS charges.

AIC notes that Mr. Gorman did not identify a single 2016 AMS service that is imprudent, a single 2016 AMS cost that is unreasonable, or a single 2015 to 2016 AMS cost variance that is unjustified. AIC suggests that there are no facts or valid arguments presented by the evidence that would warrant AIC, Staff or any other parties expending the time and resources demanded by a lengthy and complex independent audit.

c) Staff's Position

Staff notes that previously, IIEC proposed a third-party audit of AMS charges in Docket No. 16-0287, a proceeding in which the Commission approved a new affiliate services agreement for Ameren. In that proceeding, Staff recommended that the Commission reject the proposal for a third-party audit, and suggested that the third-party audit would duplicate the validation efforts that are already provided for in the Illinois Provisions of the proposed GSA. Staff stated that this specifically references the compliance testing in the internal audit provision.

Ameren notes in this proceeding that it will not begin compulsory compliance with the requirements of the approved amended GSA until March and April 2018. Staff asserts that Mr. Gorman's proposal for a third-party audit does not afford the amended GSA an opportunity to operate, therefore Staff believes that for the Commission to order a third-party audit prior to evaluation of Ameren's compliance with the amended GSA would be premature.

Staff recommends that the Commission reject IIEC/CUB's proposal for a third-party audit of AMS and defer consideration of a third-party audit until (1) compulsory compliance with the amended GSA has begun, and (2) Staff and other interested parties have had the opportunity to evaluate and respond to the reports required under the amended GSA.

d) Commission Analysis and Conclusion

In Docket No.16-0262, the Commission noted that in future rate case proceedings, it would continue to closely examine AIC's A&G Expenses, which include AMS charges. In this proceeding, as in that docket and AIC's other electric formula rate update proceedings, AIC suggests it has explained any significant variances from 2015 to 2016 in the expenses recorded to its electric distribution A&G expenses accounts (FERC Accounts 920-935).

The Commission further notes that, as in AIC's past electric formula rate update proceedings, AIC explained in direct testimony in this proceeding how it evaluates, processes, and controls AMS services and their costs, and how the costs for AMS services are charged to AIC under the General Services Agreement between AIC and AMS. The Commission notes that it recently re-approved the GSA, as amended, on April 7, 2017 in Docket No. 16-0287. The Commission's order in that docket requires AIC to, beginning in 2018, annually submit to the Commission extensive AMS cost data reports. Those reports include a detailed report of every prior year AMS service and AMS charge as well as an explanation of any material variances in AMS functional area charges to AIC over the prior year's functional area charges. The Commission notes that AIC voluntarily submitted the extensive AMS cost data reports for 2016 AMS services and charges as a compliance filing in Docket No. 16-0287, and AIC provided that AMS cost data in direct testimony and discovery to the parties in this proceeding.

The Commission notes that in this proceeding, there is no proposed adjustment to AIC's 2016 AMS charges, with the exception of an agreed to adjustment proposed by Staff. The Commission notes that although there is no contested adjustment in this proceeding to AIC's 2016 AMS charges, IIEC/CUB propose that the Commission order an independent third-party audit of total AMS costs over a historical five-year period. IIEC/CUB argue, namely, that the increase in AMS charges to AIC from 2012 to 2016, the truncated statutory period of AIC's formula rate update proceedings, and the need to review total AMS costs support their independent audit proposal.

In addressing IIEC/CUB's audit proposal, the Commission finds that it must start with Section 8-102 of the Act, which defines the Commission's authority to order an

independent audit of a utility's services company costs. Section 8-102 provides that the Commission may order such an audit:

only when it has reasonable grounds to believe that the audit . . . is necessary to assure that the utility is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, or [ii] that the audit . . . is likely to be cost-beneficial in enhancing the quality of service or the reasonableness of rates therefor.

220 ILCS 5/8-102.

The Commission acknowledges that it may not exercise its Section 8-102 authority lightly; Section 8-102 also provides that “[t]he cost of an independent audit shall be borne initially by the utility, *but shall be recovered as an expense through normal ratemaking procedures.*” *Id.* (emphasis added).

The Commission has determined in AIC’s past electric formula rate update proceedings, based on the record evidence in those proceedings, that AIC’s 2012 to 2015 AMS charges, including year-over-year increases in those charges, are just and reasonable. As explained, the prudence and reasonableness of AIC’s 2016 AMS charges in this proceeding are not in dispute. The Commission reminds the parties that, per the EIMA, “[t]he Commission’s determinations of the prudence and reasonableness of the costs incurred for the applicable calendar year shall be final upon entry of the Commission’s order and shall not be subject to reopening, reexamination, or collateral attack in any other Commission proceeding.” 220 ILCS 5/16-108.5(d)(3). The Commission further reminds the parties that the discovery process is available to them in AIC’s annual electric formula rate update proceedings, and, if they dispute a cost of service, the EIMA requires that “each objection shall be stated with particularity and evidence provided in support thereof.” *Id.* The Commission rejects IIEC/CUB’s suggestion that if the rate case parties do not particularly object to a cost of service, then the Commission has not reviewed the cost or determined that it is prudent and reasonable, as inconsistent with the law.

The Commission notes that the Illinois Legislature has determined in the EIMA that AIC’s annual electric formula rate update proceedings continue to provide the appropriate opportunity for the Commission and the parties to review the prudence and reasonableness of all of AIC’s costs of service, including AMS charges. 220 ILCS 5/16-108.5(d)(3). The Commission believes that those proceedings have to date provided the parties an appropriate avenue of review.

The Commission also recognizes that in Docket No. 16-0287, it found that the extensive AMS cost data reports and enhanced internal audit of AMS processes that AIC is required to annually submit per the re-approved, amended GSA “will provide the means to determine whether service company services are provided at rates that are prudent and reasonable.” Docket No. 16-0287, Order at 25 (Apr. 7, 2017).

The Commission does not believe that it is necessary, at this time, to order the independent audit as proposed by IIEC-CUB. The Commission notes that the audit ordered in Docket No. 16-0287 has not as yet occurred, and the Commission believes that it would be premature at this time to adopt IIEC-CUB's independent audit proposal in this docket without the opportunity to judge the results of the audit adopted in Docket No. 16-0287. The Commission will therefore not adopt IIEC-CUB's independent audit proposal, at this time.

Because the Commission is not adopting IIEC/CUB's proposed independent audit, the Commission does not believe it is necessary to make any findings pursuant to Section 8-102 of the Act in regards to such an audit. Should this issue be before the Commission in a future proceeding, the Commission will make any necessary findings under Section 8-102 of the Act at that time.

The Commission also finds that it is not necessary at this time to adopt any finding regarding IIEC/CUB's argument that it must review total AMS costs to ensure the prudence and reasonableness of AIC's AMS charges. The Commission notes that AIC argues that to adopt IIEC-CUB's argument would be inconsistent with Section 7-101(2)(ii) of the Act, which provides that "[t]he Commission shall not have access to any accounts and records of, or require any reports from, an affiliated interest that are not related to a transaction . . . with the electric or gas public utility."

The Commission notes that the level of A&G expenses charged to AIC has been a contested issue in several previous dockets, and the Commission has previously indicated that it will continue to observe the level of A&G expenses closely in future dockets. The Commission believes that the audit process adopted in Docket No. 16-0287 will aid the Commission in its review of those expenses, however the Commission will certainly entertain a discussion in future dockets of a more rigorous process should the audit ordered in Docket No. 16-0287 be found to be wanting.

The Commission does note that in Docket No. 16-0287, IIEC/CUB proposed that the Commission order an independent audit of AMS charges, as it did in this proceeding, arguing that historical increases in AMS charges and the truncated statutory period of AIC's formula rate update proceedings supported their independent audit proposal. The Commission notes that it rejected IIEC/CUB's independent audit proposal and the arguments supporting that proposal in its Docket No. 16-0287 order, which IIEC/CUB did not appeal.

IX. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the record herein, is of the opinion and finds that:

- (1) Ameren Illinois Company d/b/a Ameren Illinois is a corporation engaged in the distribution of electricity and natural gas to the public in the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq.;

- (2) the Commission has jurisdiction over Ameren Illinois and of the subject matter of this proceeding;
- (3) the recitals of fact and conclusions of law reached in the Commission conclusions of this Order are supported by the evidence of record, and are hereby adopted as findings of fact and conclusions of law; the Appendices attached hereto provide supporting calculations for the approved rates;
- (4) AIC's proposed update to its Rate MAP-P should be approved, subject to the conclusions contained herein;
- (5) the rates herein found to be consistent with Public Acts 97-0616, 97-0646, and 98-0015 are based on AIC's FERC Form 1 for 2016;
- (6) for purposes of this proceeding, the net original cost rate base for AIC's electric delivery service operations is \$2,608,938,000 for the 2016 reconciliation year and \$2,738,545,000 for the 2017 filing year;
- (7) the rate of return that AIC should be allowed to earn on its net original cost rate base is 7.040% for the 2016 reconciliation year; this rate of return incorporates a return on common equity of 8.399%;
- (8) the rate of return that AIC should be allowed to earn on its net original cost rate base is 7.040% for the 2017 filing year; this rate of return incorporates a return on common equity of 8.399%;
- (9) the rates of return set forth in Findings (7) and (8) result in base rate electric delivery service operating revenues of \$998,448,000 (reflecting the reconciliation and ROE Collar adjustments) and net annual operating income of \$192,784,000, as shown on Appendix A;
- (10) AIC's electric delivery service rates which are presently in effect are insufficient to generate the operating income necessary to permit AIC the opportunity to earn a fair and reasonable return on net original cost rate base consistent with Public Acts 97-0616, 97-0646, and 98-0015; these rates should be permanently canceled and annulled;
- (11) the specific rates proposed by AIC in its initial filing do not reflect various determinations made in this Order regarding revenue requirement;
- (12) AIC should be authorized to place into effect amended Rate MAP-P Informational Sheets, consistent with the findings of this Order;
- (13) AIC should be authorized to place into effect the Rate MAP-P tariff informational sheets designed to produce annual base rate electric delivery service revenues of \$998,448,000, which represents a decrease of

\$17,339,000 or (1.71%); such revenues, in addition to other tariffed revenues, will provide AIC with an opportunity to earn the rates of return set forth in Findings (7) and (8) above; based on the record in this proceeding, this return is consistent with Public Acts 97-0616, 97-0646, and 98-0015;

- (14) the new charges authorized by this Order shall take effect beginning on the first billing day of the January billing period following the date of the Final Order in this proceeding; the tariff sheets with the new charges, however, shall be filed no later than December 15, 2017, with the tariff sheets to be corrected thereafter, if necessary;
- (15) the Commission, based on AIC's proposed original cost of plant in service as of December 31, 2016, before adjustments, of \$6,582,534,000 and reflecting the Commission's determination adjusting that figure, unconditionally approves \$6,582,534,000 as the composite original jurisdictional distribution services plant in service as of December 31, 2016;
- (16) the Commission has considered the costs expended by AIC during 2016 to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the revenue requirements of \$1,254,203 is just and reasonable pursuant to Section 9-229 of the Act. This amount includes the following costs: (1) \$624 associated with Docket No. 15-0305; (2) \$1,252,241 associated with Docket No. 16-0262; and (3) \$1,338 associated with Docket No. 17-0197; and
- (17) all motions, petitions, objections, and other matters in this proceeding which remain unresolved should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets at issue and presently in effect for electric delivery service rendered by Ameren Illinois Company d/b/a Ameren Illinois are hereby permanently canceled and annulled effective at such time as the new electric delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that Ameren Illinois Company d/b/a Ameren Illinois is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (12) and (13) of this Order, applicable to electric delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Ameren Illinois Company d/b/a Ameren Illinois shall update its formula rate in accordance with this Order.

IT IS FURTHER ORDERED that all motions, petitions, objections, and other matters in this proceeding which remain unresolved are disposed of consistent with the conclusions herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 6th day of December, 2017.

(SIGNED) BRIEN SHEAHAN

Chairman

Ameren Illinois Company
Revenue Requirement Summary
For the Test Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Granted in Prior Case (16-0262)	Company Proposed Changes		Company Proposal FR A-1	Adjustments		Net Revenue Requirement Per Staff				
			(e) - (b)	(c) / (b)		(h) - (e)	(f) / (e)					
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)				
1	Base Revenue Requirement - Filing Year	\$ 944,155	(1)	\$ 29,260	\$ 973,415	(2)	\$ (639)	\$ 972,776	(8)			
2	Reconciliation Adjustment with Interest	71,632	(1)	(45,598)	26,034	(3)	(362)	25,672	(9)			
3	ROE Collar Adjustment	-	(1)	-	-	(4)	-	-	(10)			
4	Total Net Revenue Requirement	<u>\$ 1,015,787</u>	(1) & (6)	<u>\$ (16,338)</u>	(7)	-1.61%	<u>\$ 999,449</u>	(5)	<u>\$ (1,001)</u>	-0.10%	<u>\$ 998,448</u>	(11)
5	Total \$ Change - Total Net Revenue Requirement								\$ (17,339)	(12)		
6	Total % Change - Total Net Revenue Requirement								-1.71%	(13)		

Notes

- (1) Commission Order in Docket No. 16-0262, Appendix A, Summary, Column (h)
(2) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 22 + line 26
(3) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 28
(4) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 29
(5) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 30
(6) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 31
(7) Ameren Direct Testimony, Ameren Ex. 1.1, Sch FR A-1, line 32
(8) Appendix A, Schedule 1, line 1
(9) Appendix A, Schedule 1, line 3
(10) Appendix A, Schedule 1, line 4
(11) Appendix A, Schedule 1, line 5
(12) Column (h) line 4 minus Column (b) line 4
(13) Line 5 divided by Column (b), line 4.

Ameren Illinois Company
Statement of Operating Income with Adjustments
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Company Pro Forma Jurisdictional Operating Income (Ameren Ex. 13.1, p 2)	Adjustments	Pro Forma Present (Cols. b+c)	Effect of Proposed Rates Per Company (Ameren Ex. 13.1, p 2)	Gross Revenue Conversion Factor	Proposed Rates With Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Operating Statement Per Order (Cols. g+h)	Net Revenue Requirement Per Order
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Base Revenue Requirement - Filing Year	\$ 943,980	-	\$ 943,980	\$ 28,796	2	\$ 972,778	\$ (2)	\$ 972,776	\$ 972,776
2	Other Revenues	32,888	-	32,888	-	-	32,888	-	32,888	-
3	Reconciliation Adjustment	-	-	-	-	-	-	-	-	25,672
4	Return on Equity Collar Adjustment	-	-	-	-	-	-	-	-	-
5	Total	976,868	-	976,868	28,796	2	1,005,666	(2)	1,005,664	\$ 998,448
6	Uncollectibles Expense	9,084	-	9,084	241	\$ -	9,325	-	9,325	-
7	Distribution	267,200	-	267,200	-	-	267,200	-	267,200	-
8	Customer Accounts	41,317	-	41,317	-	-	41,317	-	41,317	-
9	Customer Services and Informational Services	6,834	-	6,834	-	-	6,834	-	6,834	-
10	Sales	-	-	-	-	-	-	-	-	-
11	Administrative and General	123,895	-	123,895	-	-	123,895	-	123,895	-
12	Depreciation and Amortization	241,047	-	241,047	-	-	241,047	-	241,047	-
13	Taxes Other Than Income	53,151	-	53,151	-	-	53,151	-	53,151	-
14	Regulatory Asset Amortization	2,712	-	2,712	-	-	2,712	-	2,712	-
15	Pension Asset Funding Cost	-	-	-	-	-	-	-	-	-
16	Other Expense Adjs	(9,116)	-	(9,116)	-	-	(9,116)	-	(9,116)	-
17	Total Operating Expense	736,124	-	736,124	241	-	736,365	-	736,365	-
18	Before Income Taxes									
19	State Income Tax	(7,081)	-	(7,081)	2,213	-	(4,868)	-	(4,868)	-
20	Federal Income Tax	(29,501)	-	(29,501)	9,220	-	(20,281)	(1)	(20,282)	-
21	Deferred Taxes and ITCs Net	101,665	-	101,665	-	-	101,665	-	101,665	-
22	Total Operating Expenses	801,207	-	801,207	11,674	-	812,881	(1)	812,880	-
23	NET OPERATING INCOME	\$ 175,661	-	\$ 175,661	\$ 17,122	\$ 2	\$ 192,785	\$ (1)	\$ 192,784	192,784
24	Rate Base (Appendix A, Schedule 2, column (d), line 24)								\$ 2,738,545	
25	Overall Rate of Return								7.040%	

Ameren Illinois Company
Rate Base
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Company Pro Forma Jurisdictional Rate Base (Ameren Ex. 13.1, pp. 7-8)	Adjustments	Rate Base per Order per Order (Col. b+c)
	(a)	(b)	(c)	(d)
1	Distribution Plant	\$ 6,246,643	\$ -	\$ 6,246,643
2	G & I Plant	554,113	-	554,113
3	Accumulated Depreciation on Distribution Plant	(2,925,960)	-	(2,925,960)
4	Accumulated Depreciation on G & I Plant	(199,466)	-	(199,466)
5	Net Plant	3,675,330	-	3,675,330
6	Additions to Rate Base			
7	Materials and Supplies	37,802	-	37,802
8	Construction Work in Progress	1,068	-	1,068
9	Plant Held for Future Use	411	-	411
10	OPEB Liability	3,547	-	3,547
11	Cash Working Capital	15,933	-	15,933
12	Deferred Charges Greater Than \$3.7M	15,279	-	15,279
13	Other Deductions From Rate Base	-	-	-
14	Accumulated Deferred Income Taxes	(947,416)	-	(947,416)
15	Accrued Vacation Reserve	-	-	-
16		-	-	-
17		-	-	-
18	Accumulated Misc. Operating Provisions	-	-	-
19	Asset Retirement Obligation	-	-	-
20	Other Deferred Credits	(15,880)	-	(15,880)
21	Customer Advances	(14,935)	-	(14,935)
22	Customer Deposits	(32,594)	-	(32,594)
23		-	-	-
24	Rate Base	<u>\$ 2,738,545</u>	<u>\$ -</u>	<u>\$ 2,738,545</u>

Ameren Illinois Company
Gross Revenue Conversion Factor
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Rate	With Bad Debts	Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.8450%	<u>0.008450</u>	
3	State Taxable Income		0.991550	
4	State Income Tax	7.7500%	<u>0.076845</u>	<u>0.077500</u>
5	Federal Taxable Income		0.914705	0.922500
6	Federal Income Tax	35.0000%	<u>0.320147</u>	<u>0.322875</u>
7	Operating Income		<u>0.594558</u>	<u>0.599625</u>
8	Gross Revenue Conversion Factor (Line 1 / Line 7)		<u>1.681922</u>	<u>1.667709</u>

Ameren Illinois Company
Reconciliation Computation for the Year Ending December 31, 2016
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description	Source	Amt	(d)	(e)	(f)	(g)
	(a)	(b)	(c)				
1	Actual Revenue Requirement	Appendix B, Schedule 1, col. (i), line 1	\$ 942,829				
	Revenue Requirement in effect during						
2	Reconciliation Year	Ameren Ex. 1.1, p.6 [Sch FR A-4]	920,521 (1')				
3	Variance - Reconciliation Before Collar	(Ln 1) - (Ln 2)	22,308				
4	ROE Collar Adjustment	Appendix A, Schedule 5, Col (b), Ln 43	-				
5	Variance with Collar	(Ln 3) + (Ln 4)	\$ 22,308				
6	Monthly Interest Rate	Staff Ex. 3.0, Wtd. Cost of Debt/12	0.5866%				
			<u>Variance</u>	<u>Interest Rate</u>	<u>Months</u>	<u>Interest</u>	<u>Surcharge (Refund)</u>
			(Ln 5) / 12	Ln 6		(c) * (d * (e))	(c) + (f)
	2015						
7	January		\$ 1,859	0.5866%	11.5	\$ 125	\$ 1,984
8	February		1,859	0.5866%	10.5	115	1,974
9	March		1,859	0.5866%	9.5	104	1,963
10	April		1,859	0.5866%	8.5	93	1,952
11	May		1,859	0.5866%	7.5	82	1,941
12	June		1,859	0.5866%	6.5	71	1,930
13	July		1,859	0.5866%	5.5	60	1,919
14	August		1,859	0.5866%	4.5	49	1,908
15	September		1,859	0.5866%	3.5	38	1,897
16	October		1,859	0.5866%	2.5	27	1,886
17	November		1,859	0.5866%	1.5	16	1,875
18	December		1,859	0.5866%	0.5	5	1,864
19	Total	Sum of (Ln 7) thru (Ln 18)	\$ 22,308			\$ 785	\$ 23,093
			<u>Balance</u>	<u>Interest Rate</u>	<u>Mons</u>	<u>Interest</u>	<u>Balance</u>
				Ln 6		(c) * (d * (e))	(c) + (f)
	2016						
20	January - December	Col G Ln 19	\$ 23,093	0.5866%	12	\$ 1,626	\$ 24,719
			<u>Balance</u>	<u>Interest Rate</u>		<u>Amort</u>	<u>Balance</u>
				Ln 6		(2')	(c) + (c) * (d) - (f)
	2017						
21	Jan	Col G Ln 20	\$ 24,719	0.5866%		\$ 2,139	\$ 22,725
22	Feb	Col G Ln 21	22,725	0.5866%		2,139	20,719
23	Mar	Col G Ln 22	20,719	0.5866%		2,139	18,701
24	Apr	Col G Ln 23	18,701	0.5866%		2,139	16,671
25	May	Col G Ln 24	16,671	0.5866%		2,139	14,630
26	Jun	Col G Ln 25	14,630	0.5866%		2,139	12,576
27	Jul	Col G Ln 26	12,576	0.5866%		2,139	10,511
28	Aug	Col G Ln 27	10,511	0.5866%		2,139	8,433
29	Sep	Col G Ln 28	8,433	0.5866%		2,139	6,343
30	Oct	Col G Ln 29	6,343	0.5866%		2,139	4,241
31	Nov	Col G Ln 30	4,241	0.5866%		2,139	2,127
32	Dec	Col G Ln 31	2,127	0.5866%		2,139	0
33	Variance with Interest	Sum of (Ln 21) thru (Ln 32)				\$ 25,674	
34	Remove ROE Collar Adjustment (3')	Ln 4				\$ -	
35	Reconciliation with Interest	(Ln 33) - (Ln 34)				\$ 25,672	To Sch. 4.01 FY, col. (j), line 3

Notes:

- (1') Calculated in accordance with Section 16-108.5 (d)(1) of the Act. Reconciliation for 2016 will reflect the amount shown on Sch. FR A-4 Ln 2 of the calculation used to determine revenue requirement in effect during the reconciliation year.
- (2') (-1.0) * (PMT((Ln 21 Col (d)),12,(Ln 20, Col (g)))
- (3') Remove ROE Collar Adjustment from calculation as this amount is included on Appendix A, Schedule 1, Col (j), Ln 4.

Ameren Illinois Company
ROE Collar Computation for the Year Ending December 31, 2016
For the Filing Year Ending December 31, 2017
(In Thousands)

Line No.	Description (a)	Amount (b)	Column (b) Source (c)
1	DS Rate Base	\$ 2,608,938	Appendix B, Schedule 2, Column (d), Line 24
	Capital Structure:		
2	Common Equity %	50.00%	AIC Schedule WPC-5.4, Line 4
3	Preferred Stock%	1.18%	AIC Schedule WPC-5.4, Line 3
4	Short-Term Debt %	0.00%	AIC Schedule WPC-5.4, Line 2
5	Long-Term Debt %	48.82%	AIC Schedule WPC-5.4, Line 1
6	DS Equity Balance	1,304,469	Ln 1 x Ln 2
7	DS Preferred Stock Balance	30,785	Ln 1 x Ln 3
8	DS Short-Term Debt Balance	-	Ln 1 x Ln 4
9	DS Long-Term Debt Balance	1,273,684	Ln 1 x Ln 5
10	Cost of Short-Term Debt (%)	0.00%	
11	Cost of Long-Term Debt (%)	5.62%	
12	Cost of Preferred Stock	4.98%	
13	DS Operating Revenue	\$ 950,637	FERC Form 1, p. 300, line 12 and Note (1')
14	[blank]		
	Accrued Reconciliation and Collar Revenues		
15	Included on Line 13	\$ 24,205	FERC Form 1, p. 300, line 12 and Note (1')
16	Updated Reconciliation Amount before Collar	\$ 22,308	Appendix A, Schedule 4, line 3
17	Other Revenue	\$ 32,888	Appendix A, Schedule 1 Column (i) line 2
18	DS Applicable Operating Revenue	\$ 981,628	Ln 13 - Ln 15 + Ln 16 + Ln 17
19	Total DS Operating Expenses	\$ 719,227	Appendix B, Schedule 1, Column (i), line 18
20	DS Operating Income Before Interest & Taxes	\$ 262,401	Ln 18 - Ln 19
21	DS Short-Term Interest Expense	\$ -	Ln 6 x Ln 10
22	DS Long-Term Interest Expense	\$ 71,568	Ln 9 x Ln 11
23	Credit Facilities Expense	\$ 997	Line 1 times 0.038% Credit Facility Fees
24	DS Operating Income before Taxes	\$ 189,836	Ln 20 - Ln 21 - Ln 22 - Ln 23
25	Income Tax Rate (%)	40.038%	Appendix B, Schedule 3, Column (d), Ln 4 + Ln 6
26	DS Income Taxes	\$ 76,006	Ln 24 x Ln 25
27	Impact of ITCs & Permanent Tax Differences	\$ (1,349)	Company Sch FR C-4, Ln 12
28	DS Income Taxes	\$ 74,657	Ln 26 + Ln 27
29	DS Net Income before Dividend	\$ 115,180	Ln 24 - Ln 28
30	DS Preferred Stock Dividend	\$ 1,533	Ln 7 x Ln 12
31	DS Net Income	\$ 113,647	Ln 29 - Ln 30
32	DS ROE (%)	8.71%	Ln 31 / Ln 6
33	ROE Collar		
34	Allowed ROE (%)	8.40%	Company Sch FR D-1, Col. (D), Ln 17
35	Maximum Allowed ROE (%)	8.90%	Ln 34 + .5%
36	Minimum Allowed ROE (%)	7.90%	Ln 34 - .5%
37	Percent Above Maximum Allowed ROE (%)	0.00%	
38	Amount Above Allowed ROE Collar	\$ -	Ln 6 x Ln 37
39	Percent Below Minimum Allowed ROE (%)	0.00%	Ln 36 - Ln 32
40	Amount Below Allowed ROE Collar	\$ -	Ln 6 x Ln 39
41	ROE Collar Adj After Tax	\$ -	Ln 38 + Ln 40
42	ROE Collar Tax Gross-up	\$ -	Ln 41 x Ln 25/(1- Ln 25)
43	ROE Collar Adj	\$ -	Ln 41 + Ln 42

Ameren Illinois Company
Rate Base
For the Reconciliation Year Ending December 31, 2016
(In Thousands)

Line No.	Description	Pro Forma Jurisdictional Rate Base (Ameren Ex. 13.1, pp. 7-8)	Adjustments	Rate Base per Order (Col. b+c)
	(a)	(b)	(c)	(d)
1	Distribution Plant	\$ 5,876,632	\$ -	\$ 5,876,632
2	G & I Plant	494,321	-	494,321
3	Accumulated Depreciation on Distribution Plant	(2,733,972)	-	(2,733,972)
4	Accumulated Depreciation on G & I Plant	(168,507)	-	(168,507)
5	Net Plant	3,468,474	-	3,468,474
6	Additions to Rate Base			
7	Materials and Supplies	37,802	-	37,802
8	Construction Work in Progress	1,068	-	1,068
9	Plant Held for Future Use	411	-	411
10	Deferred Debits	15,279	-	15,279
11	Cash Working Capital	16,084	-	16,084
12	OPEB Liability	3,547	-	3,547
13	Deductions From Rate Base			
14	Accumulated Deferred Income Taxes	(870,318)	-	(870,318)
15	Accrued Vacation Reserve	-	-	-
16		-	-	-
17		-	-	-
18	Accumulated Misc. Operating Provisions	-	-	-
19	Asset Retirement Obligation	-	-	-
20	Other Rate Base Adjustments	(15,880)	-	(15,880)
21	Customer Advances	(14,935)	-	(14,935)
22	Customer Deposits	(32,594)	-	(32,594)
23		-	-	-
24	Rate Base at End of Year	\$ 2,608,938	\$ -	\$ 2,608,938

Ameren Illinois Company
Gross Revenue Conversion Factor
For the Reconciliation Year Ending December 31, 2016
(In Thousands)

Line No.	Description	Rate	With Bad Debts	Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.0000%	<u>0.000000</u>	
3	State Taxable Income		1.000000	
4	State Income Tax	7.7500%	<u>0.077500</u>	<u>0.077500</u>
5	Federal Taxable Income		<u>0.922500</u>	<u>0.922500</u>
6	Federal Income Tax	35.0000%	<u>0.322875</u>	<u>0.322875</u>
7	Operating Income		<u>0.599625</u>	<u>0.599625</u>
8	Gross Revenue Conversion Factor (Line 1 / Line 7)		<u>1.667709</u>	<u>1.667709</u>