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Cash Working Capital
Advertising Rate Case
Expense and EEI Dues

Witness

Erin M Carle

Sponsoring Party

MoPSC Staff

Type of Exhibit

Surrebuttal Testimony

Case No

ER-2008-0318

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ERIN M. CARLE

UNION ELECTRIC COMPANY,

d/b/a AMERENUE

CASE NO. ER-2008-0318

*Jefferson City, Missouri
November, 2008*

Exhibit No. 219
Case No(s) ER-2008-0318
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ERIN M. CARLE
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SURREBUTTAL TESTIMONY
OF
ERIN M. CARLE
UNION ELECTRIC COMPANY,
d/b/a AMERENUE
CASE NO. ER-2008-0318

Q Please state your name and business address

A My name is Erin M Carle My business address is 9900 Page Avenue,
Suite 103, Overland, Missouri 63132

Q Are you the same Erin M Carle that is identified as participating in the
preparation of the Cost of Service Report included with Missouri Public Service
Commission (Commission) Staff's (Staff) direct filing in Case No ER-2008-0318?

A Yes, I am

PURPOSE

Q What is the purpose of your surrebuttal testimony?

A The purpose of my surrebuttal testimony is to respond to the rebuttal
testimony of Union Electric Company, d/b/a AmerenUE (AmerenUE or Company)
witnesses Michael J Adams regarding various cash working capital (CWC) issues,
Richard J Mark regarding advertising, and Gary S Weiss regarding rate case expense
and Edison Electric Institute (EEI) dues

CWC

Q What CWC issues has Company witness Adams addressed in his rebuttal
testimony?

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1 A Mr Adams addresses three issues regarding the revenue lag payment
2 processing lag, zero revenue lag for sales tax and using only the collection lag as the
3 revenue lag for gross receipts tax (GRT) He also disagrees with the Staff's inclusion of
4 a vacation expense lag for union payroll and the Staff's expense lags for federal and state
5 income taxes

6 Q What is a "payment processing lag"?

7 A The payment processing lag, as defined by Mr Adams, is the amount of
8 time associated with recording and depositing of a payment For AmerenUE's revenues
9 it is the time associated with recording and depositing a customer's payment For
10 AmerenUE's expenses, vendors who receive payment for goods and services from the
11 Company also spend time recording and depositing these payments

12 Q What is your response to Mr Adams inclusion of a payment processing
13 lag in determining the revenue lag for purposes of cash working capital in the context of
14 determining an appropriate revenue requirement?

15 A Mr Adams has determined that on average the Company spends 59 days
16 recording and depositing customer payments and has added this component to the
17 Company's revenue lag However, he fails to calculate the time it takes vendors to
18 process AmerenUE's payments While Mr Adams wants to recognize a payment
19 processing lag to lengthen the revenue lag, inconsistently, he does not propose to
20 lengthen the expense lags for payments AmerenUE makes to vendors in recognition of
21 the time vendors spend recording and depositing payments they receive from the
22 Company The Staff has consistently not recognized a payment processing component
23 for either the revenue or expense lags While it may be possible to access the Company's

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Erin M Carle

1 records to measure the time spent recording and depositing customer payments, the Staff
2 is not able to measure the processing time for the significant number of vendors utilized
3 by the Company

4 Q Is the payment processing lag a component that is typically used in
5 Missouri rate cases?

6 A No The method that has been used by Staff and adopted by the
7 Commission in numerous rate cases does not include a payment processing lag On
8 page 5 of Mr Adam's rebuttal testimony, he discusses the vacation payroll lag

9 Q What is vacation lag?

10 A The vacation lag recognizes that union employees earn vacation during a
11 prior period, but are not compensated for that service until the employee is paid for a
12 vacation day that is taken during a payroll period Union employees start earning
13 vacation from the first day of their employment, however, they are not able to use that
14 vacation for approximately a year A study the Staff prepared in the Company's last rate
15 case, ER-2007-0002, shows that, typically, employees do not use their vacation until the
16 later part of the following year

17 Q Is Mr Adams' statement that vacation payroll is a non-cash item correct?

18 A No, vacation payroll is a cash item Vacation payroll is as much of a cash
19 item as a normal payroll check and represents an operating expense which should be
20 considered in the CWC analysis The employee receives a paycheck for the vacation
21 time they have earned when it is taken

22 Q Has the Commission accepted the inclusion of a vacation payroll lag in
23 prior rate cases?

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1 A Yes. Vacation payroll has been accepted by the Commission in the past
2 In Case No. WR-92-207 the Commission, in its Report and Order stated.

3 Whether or not MCWC records an accrued liability for
4 vacation, it has incurred the obligation to pay vacation
5 expense as soon as it is earned by the employees. The
6 purpose of the lag is to show that while the Company does
7 owe the vacation pay to employees when it is earned
8 (evenly throughout the year), the Company does not
9 actually pay the employees until the following year.
10 Therefore, the Company has the use of those funds for
11 other purposes. Overall, the Commission has fully
12 considered Staff's expense/lag study and finds that the
13 calculations are correct and that the adjustments resulting to
14 rate base are appropriate.

15 Q Why has the Staff used a zero revenue lag for sales tax?

16 A Sales tax has a zero revenue lag because sales tax is remitted to the taxing
17 authority based on the amount actually received from the customer. Since the Company
18 pays the sales tax to the taxing authority when received from customers, the service,
19 billing and collection components of the revenue lag are not included. The Company is
20 not providing a service to the ratepayer, but is merely remitting the taxes received from
21 customers.

22 Q Has the Staff used a zero revenue lag for sales taxes in other rate cases?

23 A Yes. The Staff used a zero revenue lag for sales tax in AmerenUE's last
24 rate case.

25 Q In Mr. Adam's testimony, page 10, line 8, he implies that by assigning a
26 zero revenue lag Staff is implying that the funds for this expense just mysteriously
27 appear. Is this the case?

28 A No, Staff is not saying this at all. Staff is applying a revenue lag that
29 reflects the average starting date for measuring when sales taxes are due, approximately

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Ern M Carle

1 the twentieth day of the month following receipt of taxes paid by customers Since the
2 taxing authority has determined that these taxes are not due until the Company had
3 collected the taxes and has the money in hand This approach is different from other
4 situations where a revenue lag must be calculated to determine how long the Company
5 must wait from the provision of service to receive funds

6 Q Staff's use of zero revenue lag days for sales tax implies that the Company
7 has use of such funds until payment is remitted to the proper taxing authorities Is this
8 correct?

9 A Yes Since the Company receives payments throughout the month from
10 customers, the average receipt date is the middle of the month The Company must remit
11 the sales tax collected on the twentieth day of the month following collection As a
12 result, on average, the Company has use of the funds for approximately 35 days until a
13 payment to the proper taxing authorities is made (mid month 15 days + 20 days until
14 payment during the following month) If the Company were required to remit sales tax
15 payments on the same day as it is collected from customers, it would not have use of the
16 funds and both the revenue and expense lags would be zero However, this is not the
17 case

18 Q Mr Adams states his view that Staff has used an incorrect revenue lag for
19 Gross Receipts Tax (GRT) in his rebuttal testimony, page 12, line 10 What revenue lag
20 is Staff using for GRT in its CWC analysis?

21 A Staff is using 20 37 days as the gross receipts tax revenue lag This
22 represents the collection component of the Staff's revenue lag

23 Q Why is this lag appropriate?

Surrebuttal Testimony of
Erin M. Carle

1 A As it did with sales tax, the Staff is employing a revenue lag that reflects
2 the average starting date for measuring when GRT is due, which is the date customers are
3 billed for the tax

4 Q Mr. Adams implies that the staff uses both statutory due dates as well as
5 actual due dates in determining income tax lags, on page 13, line 6, of his rebuttal
6 testimony. How did the Staff determine the expense lags for federal, state and St. Louis
7 City income taxes?

8 A The Staff used expense lags for income taxes that reflect the amounts paid
9 and the dates when payments were actually made to taxing authorities. The Company is
10 required to make payments throughout the tax year and during the year following the tax
11 year, on dates that are specified by the taxing authorities. These dates are often referred
12 to as the statutory dates. However, the amount of tax liability is not spread evenly over
13 the statutory dates. The Company uses various techniques allowed by the Internal
14 Revenue Service (IRS) and the State of Missouri to determine the amounts actually paid
15 on each statutory date. By using these IRS and State allowed techniques, the Company is
16 able to pay the majority of the tax on the later dates. Weighting the statutory payment
17 dates by the actual amounts paid results in a longer lag than would be calculated if taxes
18 paid were spread evenly over the statutory dates. Mr. Adams only recommends using the
19 statutory payment dates that occur during the tax year rather than recognizing the dates
20 following the tax year when the Company also makes tax payments. In addition, he
21 generally assumes that equal payments are made on each date. These erroneous
22 assumptions result in a much shorter expense lag.

23 Q Why is this method of calculating the income tax lags appropriate?

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Erin M Carle

1 A This method is appropriate because it reflects the actual amounts and the
2 actual dates when tax payments were made, rather than just assuming that equal
3 payments were made on each statutory payment date. This method reflects the actual
4 outflow of funds to the taxing authorities rather than the theoretical method employed by
5 Mr Adams

6 ADVERTISING

7 Q Company witness Richard J Mark has clarified the amount spent for
8 advertising related to Telephone Directories, the Dollar More program, Vegetation
9 Management, Power Plant Opportunities and Project Power On advertisements. Based
10 on this additional information, has the Staff changed its disallowance?

11 A Yes. As a result of, the additional information, the Staff agrees that some
12 of the advertising expense it previously disallowed should be included in the Company's
13 revenue requirement. These ads include telephone directory, plant opportunities
14 employment advertising and pamphlets, and customer mailings that provide specific
15 useable information regarding AmerenUE's Project PowerOn Program. The approximate
16 amount of this change is \$133,000. However, the Staff continues to recommend the
17 disallowance of the majority of the ads it originally eliminated from the cost of service
18 which constitute institutional advertising designed to promote the image of the utility.
19 The approximate value of this advertising is \$1,366,000.

20 Q Does the Staff agree that the Dollar More advertising expense identified
21 by Mr Mark should be allowed?

22 A No. This advertisement was part of a St. Louis Football Rams sponsorship.
23 There was very little detail about the Dollar More program. When the Company

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1 originally supplied copies of all ads to Staff, they even described the ads as a Rams
2 Sponsorship. Therefore, Staff did not feel that the primary message of the ad was to
3 promote the Dollar More program. Rather, the ad appears designed to promote the
4 Company's image among Rams supporters in the community. These ads are attached to
5 my surrebuttal testimony as Schedule 1.

6 Q In light of the additional information provided by Mr. Mark in his rebuttal
7 testimony, has the Staff included in vegetation management advertisements in the
8 determination of revenue requirement?

9 A Yes, but only those ads that apply to AmerenUE customers. One of the
10 vegetation ads Mr. Mark refers to in his rebuttal testimony was made for Illinois residents
11 and was sponsored by various Illinois state agencies and organizations. These materials
12 do not appear to be designed for AmerenUE's Missouri customers. The other vegetation
13 management advertisement that he mentions was allowed by the Staff and was reflected
14 in its Cost of Service Report.

15 Q Has Staff modified the amount of Project PowerOn advertising expense
16 that was previously disallowed?

17 A Yes. Some of the materials that were produced and distributed to
18 customers related to Project PowerOn provide specific and useable information to
19 customers and employees and are being allowed by the Staff. However, the majority of
20 the Project PowerOn ads are institutional advertising designed to promote the Company's
21 image in the community and therefore, the Staff deemed it inappropriate for inclusion in
22 the cost of service. The Commission has defined institutional advertising as ads that are

1 intended to promote the good name of the utility in question to the general public and
2 foster an image of good corporate citizenship

3 Q Have you provided examples of the Project PowerOn ads the Staff is
4 disallowing?

5 A Yes Attached to my surrebuttal testimony as Schedule 2 are examples of
6 print media advertisements for Project PowerOn These ads are very similar in nature to
7 the television and radio Project PowerOn advertisements the Staff has disallowed As
8 can be seen from reviewing these ads no specific or useable information is being
9 conveyed to AmerenUE's customers In addition the prominent display of the
10 AmerenUE logo and statements like "investing in communities" appear to the Staff to be
11 designed to promote the Company's image in the community it serves Therefore, these
12 ads should be disallowed since they are institutional and provide no benefit to ratepayers

13 **RATE CASE EXPENSE**

14 Q How much has the Company requested for rate case expense?

15 A The Company originally requested a \$3.6 million annual level of rate case
16 expense This level far exceeds the cost of any rate cases that the Staff has processed in
17 the last couple years and many of those rate case costs were spread over a multiyear
18 period For example, the rate case expense for the most recent Empire District Electric
19 Company rate case \$768,120 and this amount was spread over two years for an annual
20 level of \$384,060 AmerenUE is requesting almost 10 times this level on an annual basis

21 Q What level does the Staff recommend?

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Erin M Carle

1 A The Staff is recommending \$1 million on an annual basis, which is
2 approximately what was expended in the test year. Even this level is approximately
3 2.5 times the amount allowed in the Empire case on an annual basis.

4 Q Has the Company adequately justified the need for the \$3.6 million annual
5 level of rate case expense it is requesting?

6 A No. Company witness Weiss offers two reasons why the Company needs
7 this level of rate case expense. These reasons are essentially AmerenUE is a big
8 company and its cases are complex. Complex issues are examined in every rate case
9 involving the large utility companies in Missouri. Also many of the same issues are
10 examined in every rate case, regardless of the size of the company. The Staff does not
11 believe Mr. Weiss' reasoning adequately justifies the need for 10 times the annual rate
12 case expense of other electric utility companies in the state.

13 Q As part of his rate case expense rebuttal testimony Mr. Weiss mentions the
14 high costs of having so many public hearings in comparison to other utility companies. Is
15 a large portion of AmerenUE's rate case expense based on the cost of public hearings?

16 A No. Staff submitted Data Request No. 329, asking the Company to provide
17 the cost of the public hearings for this rate case. The Company supplied this response
18 "There are no charges related to public hearings included in rate case expense through
19 September 28, 2008. Mr. Lowery did attend a few of the public hearings for AmerenUE.
20 However, AmerenUE has not received invoices for those charges yet." According to this
21 response, very little of the rate case requested by the Company will be incurred as a result
22 of the public hearings.

Surrebuttal Testimony of
Ern M. Carle

1 Q What is the major cause of the high rate case expense requested by the
2 Company?

3 A The majority of the cost results from AmerenUE's employment of 10 legal
4 and technical firms at an estimated cost of \$3.3 million.

5 Q Has the Company explained its need for the services of these consultants
6 to process the current rate case?

7 A No. Mr. Weiss has not provided an explanation of the services that will be
8 provided by these consultants or the specific need for their services. The Company
9 should not expect the ratepayers to fund \$3.6 million annually for rate case expense
10 without adequate justification.

11 **DUES AND DONATIONS**

12 Q What is the Staff's response to AmerenUE's rebuttal position presented on
13 pages 13 through 16 of AmerenUE witness Gary S. Weiss' that Edison Electric Institute
14 (EEI) dues should be included in AmerenUE's revenue requirement?

15 A The Staff does not feel that AmerenUE's EEI dues should be included in
16 the cost of service. Based on Mr. Weiss's rebuttal testimony, schedule GSW-RE39-2, the
17 majority of the charges does not appear to be beneficial to ratepayers. While AmerenUE
18 claims that EEI is beneficial to ratepayers, at no point in time has the Company been able
19 to provide a detailed quantification of these benefits.

20 Q Has the Commission provided a standard regarding the recovery from
21 ratepayers of dues of organizations such as EEI?

22 A Yes, and in fact, it has addressed EEI membership dues specifically. For
23 example, The Staff of the Missouri Public Service Commission v. Union Electric

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1 Company, 29 P S C (N S) 313, 332, the Commission said that dues paid to EEI do not
2 produce any direct benefit to the ratepayers because lobbying activities do not directly
3 benefit ratepayers The Report and Order goes on to state

4 This Commission has consistently excluded EEI dues from
5 cost of service for the last several years on the ground that
6 these payments have not been shown to produce any direct
7 benefit to the ratepayers As previously stated, the
8 Commission has stated that not only must a direct benefit
9 be shown but also the benefits must be quantified and
10 allocated between shareholders and ratepayers

11 Q Has AmerenUE met the Commission's standard?

12 A No AmerenUE has not quantified the benefits of its membership in EEI
13 and has not allocated these benefits between shareholders and ratepayers

14 Q Does this conclude you surrebuttal testimony?

15 A Yes, it does

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File Tariffs) Case No. ER-2008-0318
Increasing Rates for Electric Service)
Provided to Customers in the Company's)
Missouri Service Area.)

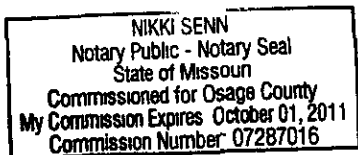
AFFIDAVIT OF ERIN M. CARLE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Erin M Carle, of lawful age, on her oath states that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 12 pages to be presented in the above case, that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief

Erin M Carle
Erin M Carle

Subscribed and sworn to before me this 5th day of November, 2008



Nikki Senn
Notary Public