

EXHIBIT

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Generation/Corporate Strategy

and Acquisition Project

Robertson/Direct

Public Counsel

GR-2000-512

DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

UNION ELECTRIC COMPANY
d/b/a AmerenUE

Case No. GR-2000-512

Exhibit No. 16
Date 10-11-00 Case No. GR-2000-512
Reporter KF

August 8, 2000

NP

**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 Increasing Rates for Gas Service)
Provided to Customers in the Company's)
Missouri Service Area)

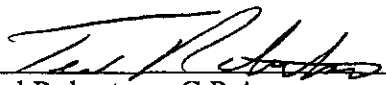
Case No. GR-2000-512

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

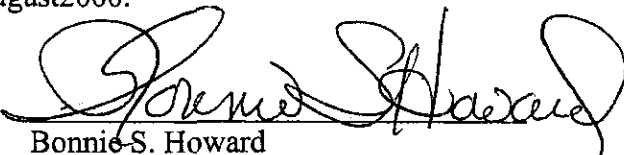
Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through, 10 Schedules TJR-1 and TJR-2.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 8th day of August 2000.



Bonnie S. Howard
Notary Public

My commission expires May 3, 2001.

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CASE PARTICIPATION
OF
TED ROBERTSON

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United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
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UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512

Schedule TJR-1

AmerenUE's Response to
Office of Public Counsel Data Request
Case No. EM-96-149
4th Sharing Period (1st Year EARP II)
No. 1046

FILED

Information Requested: Regarding Work Order A0141, the documents list total test year costs of \$1,719,899.38, please provide a breakdown of the costs allocation according to the following:

<u>Allocation</u>	<u>\$Expense</u>	<u>\$Capitalized</u>
Total		
AmerenUE Amount		
AmerenUE Electric		
AmerenUE Mo. Electric		
AmerenUE Ill. Electric		
AmerenUE FERC Electric		
AmerenUE Gas		
AmerenUE Mo. Gas		
AmerenUE Ill. Gas		
AmerenUE Other Gas (Name)		

Response Provided: See the attached schedule. For Work Order A0141 there were no Capitalized charges.

Signed By: Gary S. Weiss
Prepared By: Gary S. Weiss
Supervisor, Regulatory Reporting

MAY 19 2000

AmerenUE 5 REPLY TO
OFFICE OF PUBLIC COUNSEL DATA REQUEST
CASE NO. EM-96-149
4TH SHARING PERIOD (1ST YEAR OF EARP II)
DR NO 1046

	<u>TOTAL AMS AMOUNT</u>	<u>TOTAL AmerenUE AMOUNT</u>	<u>AmerenUE ELECTRIC AMOUNT</u>	<u>AmerenUE MO ELECTRIC AMOUNT</u>	<u>AmerenUE ILL ELECTRIC AMOUNT</u>	<u>AmerenUE FERC ELECTRIC AMOUNT</u>	<u>AmerenUE GAS AMOUNT</u>	<u>AmerenUE MO GAS AMOUNT</u>	<u>AmerenUE ILL GAS AMOUNT</u>	<u>AmerenUE STEAM AMOUNT</u>
<u>JULY - DECEMBER 1998 EXPENSES</u>										
<u>ELECTRIC</u>										
ACCT 920	169,976	116,943	116,943	103,565	9,087	4,292	0	0	0	0
ACCT 921-001	8,681	5,973	5,763	5,104	448	212	207	170	38	2
ACCT 921-002	19,600	13,485	13,013	11,524	1,011	478	468	384	65	4
ACCT 923-001	864,503	594,778	573,955	508,294	44,596	21,064	20,663	16,915	3,747	161
TOTAL	<u>1,062,760</u>	<u>731,179</u>	<u>709,674</u>	<u>628,488</u>	<u>55,142</u>	<u>26,045</u>	<u>21,339</u>	<u>17,469</u>	<u>3,870</u>	<u>166</u>
<u>GAS</u>										
ACCT 920	30,030	20,661	0	0	0	0	20,661	16,942	3,719	0
ACCT 921-002	15	10	0	0	0	0	10	8	2	0
TOTAL	<u>30,045</u>	<u>20,671</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,671</u>	<u>16,950</u>	<u>3,721</u>	<u>0</u>
<u>JANUARY - JUNE 1999 EXPENSES</u>										
<u>ELECTRIC</u>										
ACCT 920	191,303	130,239	130,239	115,340	10,120	4,780	0	0	0	0
ACCT 921-001	7,716	5,253	5,094	4,511	396	187	157	134	23	2
ACCT 921-002	20,913	14,238	13,807	12,227	1,073	507	426	363	63	5
ACCT 923-001	373,452	254,246	246,553	218,347	19,157	9,048	7,607	6,486	1,121	86
TOTAL	<u>593,384</u>	<u>403,976</u>	<u>395,633</u>	<u>350,425</u>	<u>30,745</u>	<u>14,522</u>	<u>8,190</u>	<u>6,983</u>	<u>1,207</u>	<u>93</u>
<u>GAS</u>										
ACCT 920	33,672	22,924	0	0	0	0	22,924	18,798	4,126	0
ACCT 921-002	38	26	0	0	0	0	26	21	5	0
TOTAL	<u>33,710</u>	<u>22,950</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,950</u>	<u>18,819</u>	<u>4,131</u>	<u>0</u>
TOTAL	<u>1,719,899</u>	<u>1,178,775</u>	<u>1,105,357</u>	<u>978,913</u>	<u>85,887</u>	<u>40,567</u>	<u>73,149</u>	<u>60,221</u>	<u>12,929</u>	<u>259</u>

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DIRECT TESTIMONY

OF

TED ROBERTSON

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. GR-2000-512

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P.O. Box 7800, Jefferson City, Missouri 65102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Office of the Public Counsel of the State of Missouri ("Public Counsel" or "OPC") as a Public Utility Accountant III.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November 1988, I passed the Uniform Certified Public Accountant Examination, and obtained a C. P. A. Certification from the State of Missouri in 1989.

1 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE EMPLOY OF THE
2 PUBLIC COUNSEL?

3 A. Under the direction of the Public Counsel Chief Public Utility Accountant, Mr. Russell W.
4 Trippensee, I am responsible for performing audits and examinations of the books and records of
5 public utilities operating within the State of Missouri.

6
7 Q. HAVE YOU EVER TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE
8 COMMISSION?

9 A. Yes, I have. On Schedule 1 (attached to this Direct Testimony), I have included a listing of the
10 cases in which I have presented testimony before the Missouri Public Service Commission
11 ("MPSC" or "Commission").

12
13 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

14 A. The purpose of my Direct Testimony is to support the Public Counsel's recommendations regarding
15 the cost of service reported by AmerenUE ("Ameren" or "Company") for the twelve months ended
16 June 1999. Specifically, the Company has incurred costs which Public Counsel believes should
17 not have been treated as an expense during the test period. This Direct Testimony compares the
18 Company's actual accounting treatment to the Public Counsel's recommended accounting treatment
19 for the costs at issue. The costs contested were incurred for the topics Generation Strategy,
20 Corporate Strategy and an Acquisition Project.

CORPORATE STRATEGY, GENERATION STRATEGY
& ACQUISITION PROJECT

Q. WHAT IS THE CORPORATE STRATEGY, GENERATION STRATEGY AND
ACQUISITION PROJECT ISSUE?

A. The Company was involved in several projects during the test year which addressed the development of future corporate and generation strategy as well as efforts associated with analyzing a possible acquisition target. The Company incurred costs for a consultant it hired to assist it with these projects. Because the charges for the work performed on the three projects appear to have been recorded to a single work order (i.e., W/O A0141), I have grouped them as a single issue. Work Order A0141 was provided by the Company in its response to OPC Data Request No. 1036 in Case No. EM-96-149. During the test year in this case, the Company expensed the costs for these projects to the income statement.

Q. WHAT WAS THE COMPANY'S EXPLANATION FOR INCLUDING THE COSTS AS AN
EXPENSE IN THE TEST YEAR?

A. In response to OPC No. 1036, which requested a brief discussion of how the consulting costs for the Corporate Strategy Project, Generation Strategy Project and Auction Response Phase I Project benefited the regulated Missouri electric operations, the Company stated:

Metzler & Associates consulting services benefit the regulated Missouri electric operations of AmerenUE in the following ways:

1 **Corporate Strategy Project.** The primary objective of the Corporate Strategy
2 Project was to develop an overall corporate direction or strategy. Previous
3 planning efforts were more operationally focused than they were strategically
4 focused and provided somewhat less of a clear articulation of strategic direction
5 for the various business lines. Metzler assisted Ameren in focusing strategic
6 planning efforts more on developing a strategic direction rather than focusing on
7 operational decisions. The objective was to develop plans that focus on long-term
8 value creation rather than simply on cost reductions. However, these efforts
9 augmented, not replicated, previous business line planning efforts and provided a
10 common tie between all business lines, including those within the regulated
11 Missouri electric operations of AmerenUE. The future benefits of these efforts
12 will flow through to AmerenUE's Missouri customers as well.

13
14 **Generation Strategy Project.** The primary objective of the Generation Strategy
15 Project was to identify and evaluate potential strategic options related to
16 Ameren's generation portfolio. This project was particularly important to Ameren
17 since, while it dispatches its generation fleet as a single system, it operates part of
18 the system in a deregulated environment (Illinois), while operating the remainder
19 of the system in a fully regulated environment (Missouri). Metzler assisted
20 Ameren in, among other things, identifying the relevant issues surrounding the
21 generation business, assessing Ameren's internal capabilities valuing Ameren-
22 owned generation and developing an appropriate generation strategy for the
23 Company. Specifically, through analysis performed by Metzler & Associates,
24 Ameren was able to demonstrate that by transferring approximately 300 MW of
25 wholesale load from Missouri to the recently formed Illinois Genco, the average
26 fuel cost to Missouri customers would be reduced.

27
28 **Auction Response Phase I Project.** One of the strategies developed, as part of
29 the Generation Strategy Project, was that Ameren would pursue a regional growth
30 strategy. Part of that strategy was to consider selective acquisitions to support the
31 growth strategy and the Auction Response Phase I Project was in support of that
32 strategy. Metzler assisted Ameren in analyzing and valuing the ComEd assets
33 that were included as part of that company's auction process to sell off its non-
34 nuclear generation assets. AmerenUE's Missouri electric customers would have
35 benefited from the acquisition of these assets through an increase in the
36 economies of scale in the procurement of fuel and other material and supplies,
37 sharing in the operational experience gained by owning and operating
38 competitive, unregulated generation and from potential benefits resulting from
39 increased marketing and trading opportunities resulting from such an acquisition.
40
41

1 Q. PLEASE DESCRIBE THE TOTAL COSTS ASSOCIATED WITH THESE PROJECTS.

2 A. According to the Company's response to OPC Data Request No. 1046 in Case No. EM-96-149,
3 the Company has recorded total costs for these projects of \$1,719,899. (OPC 1046 is attached as
4 Schedule 2 to this Direct Testimony.)

5
6 Q. PLEASE DESCRIBE THE COSTS ASSIGNED TO AMEREN MISSOURI GAS
7 CUSTOMERS?

8 A. As shown on Schedule 2, of the total \$1,719,899 incurred, \$60,221 (approximately 3.5%) was
9 allocated to AmerenUE Missouri gas operations. The costs were expensed to Accounts 920,
10 921-001, 921-002 and 923-001 of the Uniform System of Accounts.

11
12 Q. DOES THE PUBLIC COUNSEL BELIEVE IT APPROPRIATE THAT THE COSTS THE
13 COMPANY INCURRED FOR THESE PROJECTS SHOULD BE TREATED AS AN
14 EXPENSE IN THE DETERMINATION OF THE GAS COMPANY COST OF SERVICE?

15 A. No. Public Counsel believes that the costs the Company incurred for these projects should not
16 be included as an expense in the calculation of the current cost of service. The costs were
17 incurred, we believe, in order to assist the Company's management develop strategy and policy
18 for operations in a future deregulated energy industry environment and as such have nothing to
19 do with the provision of regulated gas service to Missouri ratepayers. The costs were incurred
20 because the Company is attempting to define the strategy and direction in which it will move
21 towards its future business operating model. The probable outcome of which suggests

1 anticipation of a deregulation of the energy industry and the employment of a GENCO (i.e.,
2 deregulated generation plant company) and/or acquisition of other utility companies generation
3 assets.

4
5 Q. DOES THE CORPORATE STRATEGY PROJECT ACTUALLY PROVIDE ANY BENEFIT
6 TO SAFE AND ADEQUATE SERVICE FOR CURRENT GAS CUSTOMERS?

7 A. The Public Counsel does not believe that it does. The purpose of this project was to assist
8 management in focusing its direction or strategy for the future operation of the electric Company
9 in a deregulated environment. The focus of the project did not pertain to the continuation or
10 enhancement of safe and adequate services currently received by gas customers. Public Counsel
11 believes that the costs associated with this project would be better treated as a deferred cost and
12 recorded on the books of any non-regulated companies created or purchased once they are
13 operational.

14
15 Q. DOES THE GENERATION STRATEGY PROJECT ACTUALLY PROVIDE ANY BENEFIT
16 TO SAFE AND ADEQUATE SERVICE FOR CURRENT GAS CUSTOMERS?

17 A. No. In its response to MPSC Staff Data Request No. 150, which requested what benefit MO Gas
18 customers receive from the Generation Strategy Project, Company admitted no benefits relate to
19 gas customers stating:

20
21 **
22

** (Emphasis added by OPC)

Q. SHOULD RATEPAYERS BE REQUIRED TO REIMBURSE THE COMPANY FOR COSTS THAT RESULT IN NO BENEFIT TO THEM?

A. No. Ratepayers should not be required to reimburse the Company for costs that by its own admission have no direct benefit to gas customers. Furthermore, the costs associated with the investigation and development of its future business strategy for entering into a deregulated energy industry environment would be better treated as a deferred cost and recorded on the books of any non-regulated companies created or purchased once they are operational. In Public Counsel's opinion, these costs should not be included as an expense in the determination of the Company's current cost of service for ratemaking.

Q. DID THE COMPANY ALSO INCUR COSTS ASSOCIATED WITH MERGER AND ACQUISITION ("M&A") ACTIVITIES?

A. Yes. The Company's response to MPSC Staff Data Request No. 100 in Case No. EM-96-149, which requested information regarding activities related to the acquisition of other utility property and/or companies, stated:

...Specifically, on 11/19/98, the Company submitted a non-binding bid for a portion of the non-nuclear generation assets being auctioned by ComEd. The Company was not successful in that bidding process.

1 Q. IS IT THE PUBLIC COUNSEL'S OPINION THAT MERGER AND ACQUISITION COSTS
2 ASSOCIATED WITH THE FAILED BID NOT BE RECOVERED FROM RATEPAYERS?

3 A. Yes. The costs are directly related to merger and acquisition related activities and as such they
4 have no place in the determination of the Company's current gas operation cost of service.
5

6 Q. WHY SHOULD COSTS ASSOCIATED WITH THE COMPANY'S M&A ACTIVITIES BE
7 ELIMINATED FROM THE COST OF SERVICE?

8 A. Unless utility acquisitions are necessary for the provision of safe and adequate service to existing
9 customers, a regulated utility should not be allowed to recover any direct or indirect costs of a
10 diversification or expansion program through the ratemaking process. All M&A costs including
11 support efforts should either be absorbed by the acquiring entity as an ownership cost or deferred
12 as part of the purchase price of the newly acquired entity. While a strategy of growth through
13 acquisition might result in certain economies, such growth could also result in greater corporate
14 responsibilities, a larger staff, increased regulatory resource requirements, higher budgets, and
15 increased overhead costs. Unless acquisitions can be clearly demonstrated as essential to the
16 continued provision of safe and adequate service to existing customers, Company should not
17 expect those customers to be captive financiers of speculative acquisition efforts, regardless of
18 whether the acquisition is successfully completed.
19
20
21

1 Q. ARE YOU AWARE OF ANY OCCURRENCE WHERE A MISSOURI UTILITY COMPANY
2 HAS WRITTEN-OFF M&A COSTS ASSOCIATED WITH A FAILED BID TO ACQUIRE A
3 POTENTIAL ACQUISITION CANDIDATE?

4 A. Yes. In Missouri Public Service, Case Nos. ER-90-101, et al., Company's updated Adjustment
5 No. 29 (expense) eliminated certain payroll and benefit costs associated with M&A activities
6 including, a test year expense write-off of an unsuccessful acquisition attempt.

7
8 Q. HOW DID THE COMMISSION RULE ON THE COMPANY'S M&A COSTS IN CASE NOS.
9 ER-90-101, ET. AL.?

10 A. The Commission ordered that the M&A costs should be excluded from the determination of the
11 Company's cost of service. On page 46 and 47 of the Report and Order (dated October 5, 1990)
12 the Commission stated:

13
14 The evidence indicates that Company has removed from its A&G costs most of
15 the known expenses associated with M&A activities. The Commission believes
16 that UtiliCorp's expenses for M&A activities should be removed from the
17 expenses reflected in MPS's rates. When UtiliCorp was formed Company assured
18 the Commission that the ratepayers would suffer no detriment from UtiliCorp's
19 activities but would experience the benefits associated with UtiliCorp's activities.
20 The Commission believes that it is inconsistent with this pledge to include M&A
21 costs in the expenses reflected in MPS's rates. The Commission is of the opinion
22 that it is inappropriate for MPS's ratepayers to pay for these activities which have
23 little to do with MPS's goal of providing safe and adequate electric service in
24 Missouri. Therefore, the Commission finds that the \$70,280 of additional costs
25 for M&A activities should be excluded from the cost of service. Finally, the
26 Commission is concerned that Company has not been accounting for these costs
27 separately. Accordingly, the Commission will direct Company to account for
28 M&A costs separately so that they can be readily excluded in future rate cases
29 from A&G costs reflected in MPS's rates.

SUMMARY

Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THESE ISSUES.

A. It is the Public Counsel's opinion that the costs allocated to the Missouri gas operations of AmerenUE related to the Corporate & Generation Strategy and failed acquisition discussed above be excluded from the determination of the Company's cost of service in this case. Commission acceptance of OPC's adjustments would result in a \$60,221 reduction in the Company's test year expenses.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.