Exhibit No.:	
Witness:	Greg Meyer
Type of Exhibit:	Direct Testimony
Issues:	Revenue Requirement Issues
Sponsoring Party:	Missouri Industrial Energy Consumers
Case No.:	ER-2010-0036

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Union Electric Company, d/b/a AmerenUE's Tariffs to Increase Its Annual Revenues for Electric Service	))))))	**Case No. ER-2010-0036** Tariff Nos. YE-2010-0054 and YE-2010-0055

Direct Testimony and Schedule of

Greg Meyer

Revenue Requirement

On behalf of

Missouri Industrial Energy Consumers

December 18, 2009

BAI
BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9187

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company, d/b/a AmerenUE's Tariffs to Increase Its Annual Revenues for Electric Service	)	**Case No. ER-2010-0036** Tariff Nos. YE-2010-0054 and YE-2010-0055

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Greg Meyer

Greg Meyer, being first duly sworn, on his oath states:

1. My name is Greg Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2010-0036.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

Greg Meyer
Greg Meyer

Subscribed and sworn to before me this 17th day of December 2009.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 14, 2011
Commission # 07024862

Tammy S Klossner
Notary Public

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Direct Testimony of Greg Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC"). These companies purchase substantial quantities of electricity from AmerenUE ("UE" or "Company").

Their cost of electricity would increase approximately 18% if UE were granted the full amount of the increase which it has requested. This proceeding will have a substantial impact on these companies' cost of doing business, and thus they are vitally interested in the outcome.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A I am recommending several adjustments to the Company's proposed revenue requirement. In total, they reduce UE's proposed revenue requirement by $64.5 million. Listed below is each adjustment with a short explanation discussing the adjustment and the approximate value of the issue.

1. Normalization of Steam Production Maintenance Expense. I am recommending to normalize the test year maintenance expense for the steam production units. Approximate value $27.8 million.

2. Workforce Reduction Programs. The Company has recently completed the Voluntary Separation Election and Involuntary Separation Process programs. These two Company programs reduced the workforce of UE. I am recommending the disallowance of those employees' salaries, employee benefits, and incentive compensation payments from test year levels. I am also recommending that the expenses associated with severance agreements be amortized over five years. Approximate net value $7 million.

3. Executive Compensation. I am recommending disallowance of the salaries and employee benefits payments for the top five executives of Ameren. The adjustment was proposed by Ameren in its recently filed Ameren Illinois rate cases. Approximate value $1.8 million.

4. Incentive Compensation. I am recommending adjustment of the accrued level of expense on the books of UE to reflect the actual amounts paid for incentive compensation in March 2009 relating to 2008 performance. In addition, I am recommending disallowance of the financial portion of the incentive compensation plans. Approximate value $3.6 million.

5. Vegetation Management. I am recommending disallowance of the additional expenses proposed by UE to the test year level of vegetation management expenses. In addition, I am recommending disallowance of the accumulated expenses incurred by UE from October 2008 to March 2009 for vegetation management expenses. Approximate value $5 million.

6. Infrastructure Inspections. I am recommending disallowance of the additional expenses proposed by UE to the test year level of inspections. Approximate value $4.4 million.

7. Repairs from Infrastructure Inspections. I am recommending disallowance of the additional expenses proposed by UE to the test year level of repairs. Approximate value $1.6 million.

8. Account 593 – Maintenance of Overhead Lines – Distribution. I am recommending normalization of the level of expenses reported in Account 593 for the test year. Approximate value $6.9 million.

9. Storms. I am recommending continuance of the level of storm expense proposed in the last case. Approximate value $5.2 million.

10. Cash Working Capital. I am recommending a collection lag of 20.63 days for purposes of the Company's lead lag study. I am also recommending the elimination of the payment process lag of .61 days. Approximate value $1.2 million.

The dollar figures I have provided above and throughout my testimony are UE total electric figures. The Missouri retail revenue requirement effect for those figures is approximately 95% of those values. UE serves both retail and wholesale customers in Missouri. The retail portion represents approximately 95% of the operations. MIEC witness Maurice Brubaker will summarize the revenue requirement impact for all of MIEC's adjustments.

I have included a table of contents that lists each issue and the corresponding beginning page for that issue.

The fact that I do not address an issue should not be interpreted as approval or acceptance by MIEC of any position taken by UE, unless I state otherwise in my testimony.

Normalization of Steam Production Maintenance Expense

Q PLEASE DESCRIBE THE ADJUSTMENT TO NORMALIZE STEAM PRODUCTION MAINTENANCE EXPENSE.

A I am recommending reduction of UE's steam production maintenance expense by approximately $27.8 million.

Q WHY DO YOU BELIEVE THE STEAM PRODUCTION MAINTENANCE EXPENSES SHOULD BE NORMALIZED?

A The test year level of steam production maintenance expense is substantially greater than the historical levels of expense. Listed below are the three most recent years of steam production maintenance expense as reported in the Company's FERC Form 1 and the level reported in the test year in this case.

Steam Production Maintenance Expenses
($000)

Year	**Amount**
2006	$ 92,686
2007	$ 90,940
2008	$120,223
Test Year	$118,967

A further comparison of the steam production maintenance expenses is provided below comparing the level of expenses for the 12 months ending March 31, 2006, 2007, and 2008 to the test year level of March 31, 2009.

Steam Production Maintenance Expenses
($000)

12 Months Ending March 31, 20xx	**Amount**
2006	$ 88,933
2007	$ 93,375
2008	$ 91,078
Test Year	$118,967

As can be seen from the above comparison, the test year level of expense is substantially greater than the historical levels.

Q WHAT DO THE ABOVE COMPARISONS REVEAL?

A The tables above reveal that during the period from April 2008 through December 2008, UE experienced a significant increase in costs to maintain their steam production plants.

The table below supports this statement.

Steam Production Maintenance Expenses
($000)

Period	Amount
12 months ending March 31, 2008	$ 91,078
Calendar Year 2008	120,223
Test Year – 12 months ending March 31, 2009	$118,967

The comparison above reveals that the Company experienced a substantial increase in maintenance costs from April through December 2008. The annual level of expense at March 2008 was $91.1 million which would be considered a normal level when reviewing the other historical expense levels. However, for the 2008 calendar year, the annual level of expense jumps to $120 million. This annual level of expense decreases slightly after the first quarter of 2009 when the annual level of expense decreases to $119 million. The slight decrease indicates a small reduction in costs in the first quarter of 2009 as compared to 2008. However, the dramatic increase in maintenance costs incurred during the last nine months of 2008 is still present.

Q DID THE COMPANY PROPOSE TO ADJUST STEAM PRODUCTION MAINTENANCE EXPENSE IN ITS REVENUE REQUIREMENT CALCULATION?

A No. The Company proposed no adjustments to this expense level. The Company identified several smaller increases to expenses that it included in its revenue requirement calculation, yet ignored the significant test year increase in steam production maintenance expense. As a result of no adjustment to this expense, UE is asserting that $119 million of steam production maintenance expense is a normal level of expense. As I have presented previously, this assumption is unjustified.

Q PLEASE EXPLAIN HOW YOU CALCULATED YOUR ADJUSTMENT.

A I adjusted the test year level of maintenance expense to the level incurred for 12 months, ending March 31, 2008 ($91.1 million). The annual level of maintenance expense at March 31, 2008 is the latest level of normalized maintenance expense that is consistent with the historical levels of maintenance expense. Normalizing this level of expense produces an adjustment of $27.8 million.

<u>Workforce Reduction Programs</u>

Q HAS AMEREN RECENTLY COMPLETED ANY WORKFORCE REDUCTION ACTIVITIES?

A Yes. On September 4, 2009, Ameren offered management employees the opportunity to participate in a Voluntary Separation Election ("VSE") program. Eligible employees had until October 22, 2009, to decide whether or not to participate in the VSE. Employees who decided to participate would not be employees of Ameren on October 22, 2009.

Following the VSE, Ameren instituted an Involuntary Separation Process ("ISP"). According to Ameren, employees affected by the ISP were mainly the result of workforce efficiencies or synergies. The ISP was completed in late October or early November 2009.

Q WERE SEVERANCE AGREEMENTS PART OF BOTH THE VSE AND ISP PROGRAMS?

A Yes. Employees choosing to participate in the VSE or affected by the ISP were all given severance agreements.

Q WHAT IS YOUR RECOMMENDATION FOR ADDRESSING THE VSE AND ISP IN UE'S COST OF SERVICE?

A I recommend that the salary, incentive compensation, and employee benefits for those employees affected by the VSE and ISP be eliminated from UE's cost of service. These payroll-related dollars represent non-recurring expenses of the Company. If these expenses are not eliminated, the rates would allow UE to charge customers for non-existent expenses.

Q WHAT IS YOUR RECOMMENDATION REGARDING THE SEVERANCE AGREEMENT PAYMENTS MADE TO THOSE AFFECTED EMPLOYEES?

A I recommend that the total of all severance agreement payments made to those affected employees be amortized over five years. An argument could be made that these programs represent non-recurring events, and therefore severance payments should not be considered. However, an amortization of the expense is acceptable since ratepayers will benefit from lower payroll-related expenses in cost of service.

Q IS IT YOUR TESTIMONY THAT AS A POLICY ALL SEVERANCE COSTS SHOULD BE AMORTIZED OVER A PERIOD OF TIME?

A No. Severance costs must be addressed on a case-by-case basis. There are several factors which must be considered when deciding this issue. When were the severance costs incurred? How many employees were included in the severance costs? How much of the salary savings should be offset against the severance costs? Were severance costs incurred for a few isolated employees, not part of a workforce reduction program? All of these factors and others must be considered before a ratemaking decision should be made regarding severance payments.

Q PLEASE DESCRIBE THE ADJUSTMENTS YOU ARE RECOMMENDING.

A I am recommending to reduce payroll, incentive compensation and employee benefits expense by $8.4 million to reflect the payroll savings from the VSE and ISP programs. I am also recommending to increase expense by $1.4 million to reflect the five-year amortization of severance costs associated with the VSE and ISP programs. Therefore, the net effect of these workforce reduction programs was a reduction to UE's cost of service of approximately $7 million.

Executive Compensation

Q PLEASE DESCRIBE THE EXECUTIVE COMPENSATION ADJUSTMENT YOU ARE RECOMMENDING.

A I am recommending disallowance of the compensation paid to the five highest executive officers of Ameren.

Q WHAT IS THE BASIS FOR SUCH AN ADJUSTMENT?

A I have reviewed Ameren's current filing before the Illinois Commerce Commission, Docket No. 09-0306-0309. Within that filing is an adjustment to reduce the compensation paid to Ameren Corporation's five highest-paid executive officers. Mr. Craig D. Nelson, Vice President of Regulatory Affairs and Financial Services for the Ameren Illinois Utilities, describes the rationale for the adjustment on page 3 of his direct testimony. I have included that section of his testimony below:

> "• **Incentive and executive officers' compensation** – Due to today's difficult economic climate and its impact on our customers, the AIUs will voluntarily **not** seek recovery of compensation paid to Ameren Corporation's five highest-paid executive officers, any incentive compensation paid to officers, or incentive compensation related to "earnings" goals paid to any employee."

Q IS IT YOUR POSITION THAT A SIMILAR ADJUSTMENT SHOULD BE MADE IN DETERMINING UE'S REVENUE REQUIREMENT?

A Yes, recognition of the difficult economic climate and its impact on UE's customers should also have been considered by UE and a similar adjustment proposed for this rate case.

Q WHAT ADJUSTMENT ARE YOU RECOMMENDING AND HOW WAS IT CALCULATED?

A I have calculated the adjustment based on the March 11, 2009 proxy statement of Ameren. I have made the appropriate allocations to determine the UE expense amount. This entailed allocating some individuals' salaries from Ameren Services.

The compensation was further allocated applying the Operations and Maintenance ("O&M") allocation. In addition, the compensation was allocated between the gas and electric operations of UE. It should be noted that incentive compensation was not included in this adjustment as it was removed by UE in its direct filing. I am recommending disallowance of $1.8 million of executive compensation.

Incentive Compensation

Q DOES UE HAVE INCENTIVE COMPENSATION PLANS FOR ITS EMPLOYEES?

A Yes. UE has five short-term incentive plans for its employees. The five incentive plans are:

1. Executive Incentive Plan – Officers ("EIP-O"): The **EIP-O** is designed to ensure that the AmerenUE officers are focused, as a senior leadership team for AmerenUE, on the overall success of the business. As such, the EIP-O is funded 100% based on earnings per share results.

2. Executive Incentive Plan – Managers ("EIP-M"): The **EIP-M** differs from the EIP-O in that 75% of the award is based on operational performance as measured by Key Performance Indicators ("KPIs"). Twenty-five percent of a Manager/Director's award will be based on AmerenUE's earnings.

3. Ameren Management Incentive Plan ("AMIP"). The AMIP is funded 100% based on achievement of pre-defined KPIs. These KPIs focus plan participants on key operational metrics such as safety, reliability, availability, and customer satisfaction.

4. Ameren Incentive Plan ("AIP"). The **AIP** is funded and paid 100% based on incentive KPI performance. The KPIs are designed to focus employees on important operational goals that they can influence or control. The AIP is targeted to the union employees of Ameren.

5. Exceptional Performance Bonus ("EPB"). The EPB is available to all non-Ameren leadership team management employees who are not eligible to receive overtime pay. The EPB program provides bonus payments for exhibiting superior performance, above and beyond what is expected of them.

Q GENERALLY WHEN ARE INCENTIVE COMPENSATION PAYMENTS GIVEN TO UE EMPLOYEES?

A UE employees are paid incentive compensation in March for work performance based on the previous calendar year. Therefore, incentive payments made in March 2009 would relate to employee performance during 2008.

Q DID UE PROPOSE ANY ADJUSTMENTS TO THE INCENTIVE PAYMENTS MADE IN MARCH 2009?

A Yes. UE has proposed to disallow the incentive payments related to the EIP-O plan. This adjustment decreases UE's cost of service by $1.9 million.

Q ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE INCENTIVE PAYMENTS MADE BY UE IN MARCH 2009?

A Yes. I am recommending two adjustments to the incentive compensation expense as recorded on the books of UE. In addition, MIEC witness James Selecky will also sponsor testimony which further adjusts UE's incentive compensation payments. Attached as Schedule GRM-1 is the calculation of the incentive compensation adjustments sponsored by Mr. Selecky and myself.

Q PLEASE DESCRIBE THE ADJUSTMENTS YOU ARE RECOMMENDING TO INCENTIVE COMPENSATION.

A I am recommending an adjustment to reflect the actual amount of incentive payments. UE accrues expense throughout the year in anticipation of incentive payments in March. During the test year in this case, UE accrued on its books more expenses than what was actually paid to employees in March 2009. I, therefore, am recommending an adjustment of $3.1 million to reflect the actual incentive payments made in March 2009.

The second adjustment I am recommending eliminates that portion of the incentive compensation payments which relate to achievement of financial goals. Specifically, I am recommending disallowance of the financial goals associated with the EIP-M. This adjustment decreases UE's cost of service by approximately $500,000.

Q WHY ARE YOU OPPOSED TO THE USE OF FINANCIAL TARGETS OR MEASUREMENT OF EARNINGS PER SHARE FOR AWARDING INCENTIVE PAYMENTS?

A Plans based on financial goals such as earnings per share ("EPS") and net income are aligned with shareholder value enhancement and have no direct correlation with ratepayer benefit. Indeed, increased EPS, upon which all increases in the level of this portion of the incentive plan funding are based, may actually cause a reduction in the quality of service to UE ratepayers if the Company cuts costs to achieve higher earnings. Thus, an incentive plan based on EPS has the potential to motivate performance at odds with the interests of UE ratepayers.

Moreover, EPS is influenced by many factors completely outside of the control of the Company's employees. For example, significantly warmer than normal summer temperatures can increase the level of earnings for an electric company. In addition, other items like reductions in interest rates or tax changes can significantly increase earnings. These increases in earnings do not reflect improved management performance or efficiency that should be rewarded. Therefore, it is entirely inappropriate to pass the costs of such profit-driven awards onto the ratepayers.

Additionally, by utilizing the EPS for Ameren, any change in EPS caused by another subsidiary could determine whether or not UE employees will receive an incentive. If for some reason another subsidiary's performance reduces the overall EPS to a level below the threshold, the employees of UE, even though they meet their goals, would not be awarded an incentive or may have their incentive payments reduced.

Furthermore, it is difficult, if not impossible, to ascertain the impact of any employee's performance in relation to the level of EPS for any given year. EPS is affected by the efforts of employees not involved in UE's electric operations, and any benefits from achieving a given level of earnings per share are simply too remote to UE ratepayers.

Q DO YOU HAVE ANY COMMISSION ORDERS WHICH SUPPORT YOUR POSITIONS?

A Yes. The Missouri Public Service Commission ("MPSC") has issued several orders that address incentive compensation.

In the MPSC's Report and Order in Case Nos. EC-87-114 and EC-87-115, Union Electric Company, the MPSC stated:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance, and the benefits of the plan should be ascertainable and reasonably related to the plan. (29 Mo. P.S.C. (N.S.) 313, 325)

In addition, in the 2004 Missouri Gas Energy case, GR-2004-0209, the MPSC stated:

> Those financial incentives seek to reward the company's employees for making their best efforts to improve the company's bottom line. Improvements to the company's bottom line chiefly benefit the company's shareholders, not its ratepayers. Indeed, some actions that might benefit a company's bottom line, such as a large rate increase, or the elimination of customer service personnel, might have an adverse effect on ratepayers…the shareholders that benefit from that plan should pay the costs of that plan. (12 Mo. P.S.C. 3d 581, 606-07)

Finally,

> …in the Southwestern Bell Telephone (SWB) Case No. TC-89-14, the Commission agreed with Staff that incentives based on goals related to the non-regulated subsidiaries and non-Missouri portions of SWB should not be included in the Staff's amounts stating that "achieving the goals of SBC and unregulated subsidiaries is too remote to be a justifiable cost of service for Missouri ratepayers." (29 Mo. P.S.C. (N.S.) 607, 627, June 20, 1989)

Q ARE YOU AWARE IF AMEREN REQUESTED THAT INCENTIVE COMPENSATION PAYMENTS ASSOCIATED WITH FINANCIAL GOALS WAS PROPOSED FOR RECOVERY IN AMEREN'S CURRENT ILLINOIS RATE CASE?

A Yes. It is my understanding from reviewing the testimony of Mr. Craig Nelson that Ameren Illinois Utilities did not seek recovery of such incentive payments (see quote on page 9).

Vegetation Management

Q PLEASE DESCRIBE THE VEGETATION MANAGEMENT ADJUSTMENT UE IS PROPOSING.

A UE is proposing to increase test year vegetation management expense by $4.1 million. In addition, UE is seeking recovery of the vegetation management expenses that were granted deferred accounting treatment by this Commission. Those expenses were incurred from October 1, 2008 through February 28, 2009. UE has proposed this deferred balance of expenses ($2.9 million) be amortized over three years commencing with the Operation of Law date in this current rate case.

Q WHAT IS YOUR POSITION REGARDING THESE ADJUSTMENTS?

A I am opposed to both adjustments and I am recommending disallowance of both amounts from cost of service.

Q WHAT ANNUAL LEVEL OF EXPENSE DID THE COMMISSION ALLOW FOR VEGETATION MANAGEMENT IN THE LAST CASE AND WHAT IS THE CURRENT LEVEL OF EXPENSES?

A In Case No. ER-2008-0318, the Commission allowed $54.1 million for vegetation management costs. In the test year, UE incurred $51.4 million for vegetation management.

Q IS THE $54.1 MILLION COMPRISED OF BOTH IN-HOUSE LABOR AND CONTRACT LABOR?

A Yes. The $54.1 million includes both in-house labor and outside contractors whose primary purpose is to perform the vegetation work (tree trimming). The outside contractors expense is the predominant amount of the total expense.

Q PLEASE DESCRIBE THE BASIS FOR THE $4.1 MILLION INCREASE UE IS PROPOSING TO VEGETATION MANAGEMENT EXPENSES.

A The basis for the $4.1 million adjustment is the difference between the actual test year expense level of $51.4 million and the budgeted amounts forecast for 2010 and 2011 for vegetation management. I have provided a calculation which details the $4.1 million adjustment proposed by UE.

UE Proposed Vegetation Management Adjustment		
Actual Vegetation Management Expense During Test Year		$51.4 million
Average Forecast Year 2010 and 2011 Vegetation Management Expense		<u>$55.5 million</u>
		$ 4.1 million
2010 Forecast Vegetation Management		$54.7 million
2011 Forecast Vegetation Management		<u>$56.4 million</u>
	Average	$55.5 million

Q DO YOU AGREE WITH THE USE OF FORECASTS FOR PURPOSES OF THIS CASE IN DETERMINING THE PROPER LEVEL OF VEGETATION MANAGEMENT EXPENSE?

A No. This Commission has based its findings in rate cases from the use of historical data and should continue to do so for purposes of this case.

Q DID THE COMMISSION USE FORECASTS FOR ESTABLISHING THE $54.1 MILLION INCLUDED IN UE'S LAST RATE CASE?

A Yes. I believe the Commission felt it necessary to use a forecast as the Company was continuing to make progress in meeting the Commission vegetation rules. Stated another way, the Commission felt that use of a historical level of expense in that case would not allow UE to comply with the Commission rules on vegetation management.

Q HAS UE MET THE COMMISSION RULES REGARDING VEGETATION MANAGEMENT IN THE CONTEXT OF THIS RATE CASE?

A Yes. UE witness Ron Zdellar states in his direct testimony that "AmerenUE is in compliance with the Commission's rules on vegetation management and infrastructure inspection." Mr. Zdellar further states that "As of November 21, 2008, AmerenUE's entire system had been, and continues to be, trimmed on the required four year cycle for urban areas and six year cycle for rural areas (4/6 cycle)."

Q GIVEN THE COMPANY'S POSITION THAT IT IS CURRENTLY IN COMPLIANCE WITH THE COMMISSION'S RULES ON VEGETATION MANAGEMENT AND THAT UE'S ENTIRE SYSTEM IS ON A 4/6 YEAR TRIM CYCLE, IS USE OF THE 2010 AND 2011 FORECASTS WARRANTED?

A No. The actual amount spent on vegetation management during the test year should be the amount included in the Company's cost of service. Therefore, I am recommending the $4.1 million additional expense over the test year level be disallowed.

Q SHOULD VEGETATION MANAGEMENT EXPENSES BE REVIEWED AS A COMPONENT OF THE COMPANY'S TRUE-UP AUDIT?

A Yes. The level of vegetation management expense should be reviewed as part of the Company's true-up audit. Any increases in expense over the level of test year expense should be audited.

Q IS UE SEEKING RECOVERY OF ANY ADDITIONAL EXPENSES ASSOCIATED WITH VEGETATION MANAGEMENT?

A Yes. UE is seeking to recover $967,000 dollars of additional expense associated with vegetation management.

Q WHAT IS THE SOURCE FOR THIS REQUEST?

A As a result of the last rate case, the Commission allowed UE to defer the additional expenses incurred associated with vegetation management from October 1, 2008 through February 28, 2009. UE claims that the additional amount to be collected totaled $2.9 million and is proposing that amount be amortized over three years for an annual expense of approximately $967,000.

Q DO YOU SUPPORT THE COMPANY'S POSITION FOR A THREE-YEAR AMORTIZATION OF THOSE EXPENSES?

A No. The entire $2.9 million deferred should not be recognized in cost of service. These expenses were accumulated between the last day of the true-up period and the Operation of Law date. The additional expense represents an isolated adjustment which has been incurred subsequent to the test year and true-up period agreed to in the last rate case. Typically, isolated adjustments are argued in the true-up or known and measurable period. The argument against recognizing an isolated adjustment is that not all relevant factors have been considered. In this instance, the isolated adjustment is related to the period beyond the true-up period. In addition, granting recovery of the deferred expense could be argued to constitute single-issue ratemaking. For all these reasons, the deferred expense should not be recovered in the cost of service. Therefore, I recommend that the $967,000 increase in vegetation management be disallowed.

Infrastructure Inspections

Q PLEASE DESCRIBE UE'S ADJUSTMENT FOR INFRASTRUCTURE INSPECTIONS.

A UE is proposing to increase the level of test year infrastructure inspections by $4.4 million.

Q PLEASE DESCRIBE HOW THE $4.4 MILLION WAS DETERMINED.

A During the test year, UE expensed approximately $6 million related to infrastructure inspections. UE is proposing to increase that level by $4.4 million based on the 2010 and 2011 Company forecast for this expenditure.

Q SHOULD INFRASTRUCTURE INSPECTION EXPENSES BE ESTABLISHED BASED ON FORECASTED FIGURES?

A No. The same arguments I presented on the vegetation management issue apply to this issue. I continue to support the Commission's long standing precedent of using historical test year data. I believe forecast figures were relied on by the Commission in the prior rate case (ER-2008-0318) because of the lack of expense history.

Q HAS UE MET THE COMMISSION RULES REGARDING INFRASTRUCTURE INSPECTIONS IN THE CONTEXT OF THIS RATE CASE?

A Yes. UE witness Zdellar states on page 14 of his direct testimony, "AmerenUE is in compliance with the Commission's rules on vegetation management and infrastructure inspection." Mr. Zdellar further states on page 16, "In 2007, also as part of the larger *Power On* program, the Company initiated a circuit inspection program. That program has been expanded to meet the Commission's infrastructure inspection requirements and the Company is in compliance with the requirements of that rule as well."

Therefore, I recommend that the actual amount of expenses necessary to meet the Commission's rules should be the level of expense included in cost of service, and the adjustment proposed by UE should be disallowed.

Q SHOULD INFRASTRUCTURE INSPECTION BE A COMPONENT OF THE TRUE-UP AUDIT?

A Yes. Consistent with vegetation management, the expense should be audited as part of the true-up.

Repairs from Infrastructure Inspections

Q PLEASE DESCRIBE UE'S ADJUSTMENT FOR REPAIRS FROM INFRASTRUCTURE INSPECTIONS (REPAIRS).

A UE is proposing to increase the test year level of repairs ($5.7 million) by $1.6 million.

Q WHAT IS THE BASIS FOR THE $1.6 MILLION INCREASE?

A UE has forecasted that 2009 repairs will total $12.2 million. Of that figure, UE estimates that 60% of the work will be performed by external workforces. Applying the 60% external workforce assumption to the $12.2 million produces a result of $7.3 million. The $1.6 million adjustment is the difference between the test year level and the forecast ($7.3 - $5.7).

Q SHOULD THE LEVEL OF REPAIRS SHOULD BE INCREASED ABOVE THE TEST YEAR LEVEL?

A No. The level of repairs will vary from one year to the next. There should be an analysis performed to develop a normalized level of expense. I have submitted a data request to obtain historical amounts spent in this area. However, for purposes of the case, I am recommending that the test year level be adopted. I also recommend that this expense be included in the true-up portion of the rate case.

Account 593 – Maintenance of Overhead Lines – Distribution

Q PLEASE DESCRIBE THE ADJUSTMENT UE MADE IN ITS COST OF SERVICE CALCULATION WHICH AFFECTED ACCOUNT 593 – MAINTENANCE OF OVERHEAD LINES – DISTRIBUTION.

A UE increased test year expense in Account 593 by $38.6 million. The $38.6 million increased expense, reversed reductions to test year expense UE recorded to reflect the deferral of expense, for certain events. Listed below are the various adjustments which comprise the $38.6 million.

UE Account 593 Adjustment

Account	Description	Amount ($000)
593	2007 Storm AAO Costs	$24,560
593	2008 Storm Costs	4,857
593	Vegetation Management – Jan-Sept 2008	6,300
593	Vegetation Management – Oct 2008-Feb 2009	2,900
		$38,617

Q WHEN THE $38.6 MILLION IS ADDED BACK TO TEST YEAR LEVELS OF EXPENSE, WHAT TOTAL EXPENSE IS RECORDED IN ACCOUNT 593 FOR THE TEST YEAR?

A After inclusion of the $38.6 million, the test year level of expense is $89.6 million.

Q IS THE $89.6 MILLION EXCESSIVE WHEN COMPARED TO HISTORICAL LEVELS OF EXPENSE IN ACCOUNT 593?

A From a simple comparison of test year dollars ($89.6) to previous years FERC Form 1 totals, the test year level does not appear to be excessive. However, if prior years (2007 and 2008) levels of expense are adjusted to reflect the deferred accounting treatment afforded certain events, the level of expense in the test year is excessive.

Q WHAT ADJUSTMENTS SHOULD BE MADE TO TEST YEAR LEVELS OF EXPENSE?

A The 2007 level of expense ($92.3 million) should be adjusted to reflect the January ice storm which caused severe damage to the UE service territory. The adjusted level of 2007 expense after removing the storm costs ($24.6 million) results in an annual expense level for 2007 of $67.8 million.

The 2008 level of expense ($82.6 million) should be adjusted for the 2008 storm costs ($4.9 million) and the vegetation management costs ($6.3 million). Adjusting the 2008 expense levels for these adjustments ($11.2 million) results in an annual expense level for 2008 of $71.5 million.

Listed below is a table which summarizes these figures.

Analysis of Account 593 – Maintenance of Overhead Lines

Year	Total Balance	Adjustments to Reflect Amortizations	Adjusted Balance
2004[(1)]	$40,576,571		$40,576,571
2005[(1)]	$45,593,727		$45,593,727
2006[(1)]	$76,736,782		$76,736,782
2007[(1)]	$92,331,252	($24,560,000)	$67,771,252
2008[(1)]	$82,634,904	($11,157,000)	$71,477,904
Test Year Balance with UE Adjustment			$89,568,442

[(1)]Union Electric FERC Form 1: Electric Operation and Maintenance Expenses.

As can be seen from the above table, after adjusting 2007 and 2008 levels of expense for the adjustments related to separate amortization in rates, the test year level of Account 593 expenses is too high.

Q WHAT ADJUSTMENT DO YOU RECOMMEND TO THE TEST YEAR LEVEL OF EXPENSE?

A I am recommending adjusting the test year level of expense to reflect the actual level of expenses incurred in 2008 of $82.6 million. This results in a decrease to test year expenses of $6.9 million.

Q WHY DID YOU RECOMMEND LIMITING THE EXPENSES TO THE 2008 ACTUAL LEVEL INSTEAD OF THE ADJUSTED LEVELS?

A I am aware that during the 2008 timeframe, UE was increasing its spending levels to comply with the Commission's rules regarding vegetation management and infrastructure inspections. These increases in expense would have an effect on the level of expense in Account 593. I have therefore not adjusted down the test year level of expense to reflect the lower levels of expense in 2007 and 2008 after adjusting for the deferred events. The level of expense I am recommending provides the increased level of spending for these activities.

In summary, the level of test year expense in Account 593 is too high after increasing the expenses by $38.6 million. I therefore recommend normalizing this expense to the level of actual expense incurred during calendar year 2008.

Storms

Q WHAT LEVEL OF EXPENSE HAS UE INCLUDED IN THE REVENUE REQUIREMENT FOR THE RECOVERY OF STORM EXPENSE?

A UE has included approximately $17.1 million for the recovery of current and past storms.

Q PLEASE PROVIDE A BREAKDOWN OF THE $17.1 MILLION REQUESTED BY UE.

A The $17.1 million requested by the Company can be broken down in the following manner:

UE's Proposed Annual Storm Expenses

$10.4 million	–	Test year storm expense
$ 4.9 million	–	Five-year amortization of January 2007 ice storm
$ 0.8 million	–	Five-year amortization of storms from 2007 rate case
$ 1.0 million	–	Five-year amortization of test year storms from 2008 rate case.
$17.1 million	–	Total storm expenses

Q WHAT LEVEL OF STORM COSTS DO YOU RECOMMEND FOR PURPOSES OF THIS CASE? PLEASE PROVIDE THE BREAKDOWN OF THOSE EXPENSES.

A I recommend that the level of storm expense allowed in this case be approximately $11.9 million. The breakdown of this figure is presented in the table below.

Staff Normalized Level of Storm Expense Case No. ER-2008-0318		
$ 4.9 million	–	Five-year amortization of January 2007 ice storm
$ 0.8 million	–	Five-year amortization of 2006 storms from 2007 rate case
$ 1.0 million	–	Five-year amortization of test year storms from 2008 rate case.
$ 5.2 million	–	Three-year average of storm costs from Case No. ER-2008-0318
$11.9 million	–	Total storm expenses

Q PLEASE DESCRIBE YOUR UNDERSTANDING OF THE THREE AMORTIZATIONS.

A The 2006 storm amortization ($800,000) resulted from several major storms which struck the UE service territory. On July 19 and 21, 2006, the UE service territory was struck with numerous storms with high winds which caused severe damage to St. Louis and the surrounding area. On November 30, 2006 and December 1, 2006, the UE service territory was affected by severe ice storms.

The 2007 storm amortization ($4.9 million) resulted from a severe ice storm in UE's service territory on January 13, 2007.

The 2008 storm amortization ($1.0 million) resulted from negotiations among the Staff and UE. It is my understanding this amortization was the difference between the base level of storm costs calculated by the Staff and the amount incurred during the test year for storms. This difference was then amortized over five years resulting in an annual amortization of approximately $1.0 million.

Q PLEASE DESCRIBE THE DIFFERENCE IN THE LEVEL OF STORM EXPENSE BETWEEN UE AND YOU.

A Both UE and I agree that the prior amortizations for storm expense should continue in their present form and be included in the cost of service.

The main difference between the two levels of storm expense is the level of normal storm expense. UE is attempting to persuade the Commission to accept that $10.4 million per year for storms is a normal level. UE argues that a way to justify this level is through the adoption of yet another expense tracker to capture any possible over- or under-recoveries of this level of expense.

Q WHAT LEVEL OF NORMALIZED STORM EXPENSE DO YOU CONTEND IS BUILT INTO RATES?

A I contend that $6.2 million is currently included as a level of normalized expense for storms. The $6.2 million figure is comprised of the $5.2 million I listed earlier and the $1 million amortization from the 2008 rate case. The 2008 amortization reflected recovery of test year storm expenses above the normal level calculated through a multi-year average.

Q WHAT IS THE BASIS FOR LIMITING THE NORMALIZATION LEVEL OF STORM EXPENSE THAT YOU IDENTIFIED AS $6.2 MILLION FOR PURPOSES OF THIS CASE?

A Since the rates have gone into effect from Case No. ER-2008-0318 in March 2009, UE has only experienced one storm which interrupted service to customers (Staff Data Request No. 56). On May 8, 2009, UE's service territory experienced a storm which resulted in $839,000 of non-labor expense to the Company. In addition, approximately $400,000 of expense resulting from a January 27, 2009 ice storm has been recorded on the books of UE subsequent to the test year in this case. Given that $6.2 million has been built into rates to cover storms, UE has over $5.0 million to use for storms which may strike the UE service territory before March 31, 2009 (the end of the first year rates were in effect from Case No. ER-2008-0318).

Q WHAT LEVEL OF STORM EXPENSE DID UE INCUR IN THE TEST YEAR RELATED TO STORMS?

A UE incurred approximately $10.4 million non-labor related expenses related to storms which occurred in the test year.

Q HOW DO YOU RESPOND TO ARGUMENTS THAT THE $10.4 MILLION MUST BE INCLUDED IN THE EXPENSES FOR UE?

A The current level of expense has been shown to be sufficient to cover storm expenses since rates have been in effect from Case No. ER-2008-0318. In fact, if a major storm does not strike UE's service territory in the next 3.5 months, UE will have collected significantly more than the expenses incurred. These extra dollars could be offset against the test year level. However, the fact of the matter is that currently UE is adequately funded for addressing storms. Therefore, UE's cost of service should be reduced by $5.2 million.

Q SHOULD STORM EXPENSE SHOULD BE CONSIDERED AS PART OF THE TRUE-UP AUDIT?

A Yes. Given the unpredictability of storms, the storm expense issue should be a component of the true-up.

Cash Working Capital

Q DID THE COMPANY PERFORM A LEAD LAG STUDY TO DETERMINE CASH WORKING CAPITAL?

A Yes. Company witness Michael Adams of Concentric Energy Advisors, Inc. developed cash working capital ("CWC") factors which were used by UE witness Gary S. Weiss to calculate the CWC requirement for UE.

Q WHAT DOES THE TERM CASH WORKING CAPITAL MEAN?

A Cash working capital is the amount of cash required to finance (pay) the day-to-day expenses of the Company.

Q DO YOU AGREE WITH ALL OF THE CWC FACTORS DEVELOPED BY MR. ADAMS?

A No. I contend Mr. Adams' revenue lag should be adjusted.

Q WHAT IS THE REVENUE LAG?

A The revenue lag is the amount of time on average that customers take to pay their bill for use of electricity.

Q WHAT ADJUSTMENT ARE YOU RECOMMENDING TO THE REVENUE LAG CALCULATED BY MR. ADAMS?

A I am recommending a collection lag of 20.63 days. I am also recommending elimination of the payment processing lag of .61 days proposed by Mr. Adams.

Q WHAT COLLECTION LAG DID UE PROPOSE?

A UE proposed a collection lag of 21.70 days.

Q WHAT WAS THE BASIS FOR THE COMPANY'S COLLECTION LAG OF 21.70 DAYS?

A UE relied on an aged accounts receivable turnover analysis to determine the 21.70-day collection lag. An aged accounts receivable turnover analysis measures the accounts receivable balances during specified time intervals. The 21.70-day collection lag is the result of the weighting of accounts receivables during those specified intervals.

Q DO YOU BELIEVE THIS AGED ACCOUNTS RECEIVABLE BALANCE APPROACH IS FLAWED?

A Yes, the analysis is flawed because the aged accounts receivable analysis performed by UE contains uncollectibles. I can find nothing in Mr. Adams' workpapers where uncollectibles have been removed from the analysis. Uncollectibles represent a non-cash item and should not be a component of CWC.

Q WHAT ANALYSIS DID YOU RELY ON TO DETERMINE YOUR COLLECTION LAG OF 20.63 DAYS?

A I relied on a Company report entitled Cash Lag Study ("CURST 246"). This report tracks actual customer payments over several time intervals. The report does not include the effects of uncollectibles.

Q DID YOU MAKE ANY ADJUSTMENTS TO THE CURST 246 REPORT?

A Yes. The CURST 246 report tracked payments received by UE which were over one year past due. I eliminated those payments from my collection lag as these payments are in excess of 365 days. Lags greater than 365 days should not be included in this analysis as those expenses or revenues would generate a CWC factor greater than one. CWC amounts greater than one would suggest that $1 of expense or revenues on an annual basis could decrease another item of CWC by more than $1. This is not an acceptable premise. I am also concerned with the inclusion of other long payment intervals within the CURST 246 report and have submitted a data request to gain further information.

Q ARE YOU ALSO RECOMMENDING ANOTHER ADJUSTMENT TO THE REVENUE LAG?

A Yes. I recommend disallowance of the payment processing lag of .61 days.

Q WHAT IS THE PAYMENT PROCESSING LAG?

A Based on Mr. Adams' testimony, the payment processing lag is the amount of time necessary for UE to process a customer payment once it is received by the Company.

Q WHY SHOULD THE PAYMENT PROCESSING LAG BE ELIMINATED?

A The payment processing lag is predominantly weighted by payments which are processed in the same day as the revenue is received by UE. I cannot understand why additional time must be added to the day the revenue is received by UE for processing that revenue the same day. It does not make sense to add a fraction of a day to the same day as the revenues are received. Therefore, I recommend exclusion of the payment processing lag of .61 days.

Q WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?

A It decreases rate base by $10.2 million which reduces the revenue requirement by $1.2 million.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Appendix A

<u>Qualifications of Greg Meyer</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree in Business Administration, with a major in Accounting. Subsequent to graduation I was employed by the Missouri Public Service Commission. I was employed with the Commission from July 1, 1979 until May 31, 2008.

I began my employment at the Missouri Public Service Commission as a Junior Auditor. During my employment at the Commission, I was promoted to higher auditing classifications. My final position at the Commission was an Auditor V, which I held for approximately ten years.

As an Auditor V, I conducted audits and examinations of the accounts, books, records and reports of jurisdictional utilities. I also aided in the planning of audits and investigations, including staffing decisions, and in the development of staff positions in which the Auditing Department was assigned. I served as Lead Auditor and/or Case Supervisor as assigned. I assisted in the technical training of other auditors, which included the preparation of auditors' workpapers, oral and written testimony.

During my career at the Missouri Public Service Commission, I have presented testimony in nine electric rate cases, nine gas rate cases, seven telephone rate cases and several water and sewer rate cases. In addition, I have been involved in cases involving service territory transfers. In the context of those cases listed above, I have presented testimony on all conventional ratemaking principles that are related to a utility's revenue requirement. During the last three years of my employment with the Commission, I was involved in developing transmission policy for the Southwest Power Pool as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant. The firm Brubaker & Associates, Inc. provides consulting services in the field of energy procurement and public utility regulation to many clients including industrial and institutional customers, some utilities and, on occasion, state regulatory agencies.

More specifically, we provide analysis of energy procurement options based on consideration of prices and reliability as related to the needs of the client; prepare rate, feasibility, economic, and cost of service studies relating to energy and utility services; prepare depreciation and feasibility studies relating to utility service; assist in contract negotiations for utility services, and provide technical support to legislative activities.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

AmerenUE
Case No. ER-2010-0036

MIEC Adjustments to Incentive Compensation

Line	Description	Amount	Source Document	Adjustment Sponsor
1	Total Short Term Incentive Accruals	$ 20,236,396	GSW-WP-E305	
2 3	**Adjustment 1: Remove Accrual for Exceptional Performance Bonus Plan**	**$ (769,678)**	GSW-WP-E319	Jim Selecky
4	Remaining Accruals	$ 19,466,718		
5	**Adjustment 2: Accrual to Cash Basis**	**$ (3,122,204)**		Greg Meyer
6	Short Term Incentive Compensation Payments	$ 16,344,514	GSW-WP-E353 & 5-Incentive Comp 2008 Final Payout.xls	
7	Company Removal of EIP-Officers	$ (1,933,015)	GSW-WP-E353	
8	VSE/ISP Carve Out[1]	$ (597,793)	Staff DR 240	
	AIP Carve Out	$ (3,429,126)	GSW-WP-E353 & 5-Incentive Comp 2008 Final Payout.xls	
9	Subtotal	$ 10,384,579		
10	Total Payments for EIP-Directors & Managers	$ 2,003,437	GSW-WP-E353 & 5-Incentive Comp 2008 Final Payout.xls	
11	Percentage Related to EPS	25%	Staff DRs 138 & 229[2]	
12	Portion Related to EPS	$ 500,859		
13 14	**Adjustment 3: Remove EIP-Directors & Managers EPS Portion**	**$ (500,859)**		Greg Meyer
15	Remaining Short-Term Incentive Payments	$ 9,883,720		
16	**Adjustment 4: Remove Remaining Short Term Incentives**	**$ (9,883,720)**		Jim Selecky
17	Total MIEC Adjustments to Incentive Compensation	**$ (14,276,461)**		

[1]VSE/ISP payments adressed in Seperate MIEC Labor Adjustment

[2]Response to Staff DR 138 indicates plan structure for 2008, response to Staff DR 229 indicates that this structure has not subsequently changed