

Exhibit No.:
Issue: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: Direct Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2011-0028
Date Testimony Prepared: February 8, 2011

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

_____)
In the Matter of Union Electric)
Company, d/b/a Ameren Missouri's) **Case No. ER-2011-0028**
Tariff to Increase Its Annual) **Tariff No. YE-2011-0116**
Revenues for Electric Service)
_____)

Direct Testimony of

Greg R. Meyer

Revenue Requirement

On behalf of

Missouri Industrial Energy Consumers

February 8, 2011



Project 9371

1 have a substantial impact on these companies' cost of doing business, and thus they
2 are vitally interested in the outcome.

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

4 A I am recommending several adjustments to the Company's proposed revenue
5 requirement. In total, they reduce Ameren Missouri's proposed revenue requirement
6 by \$30.2 million. Listed below is each adjustment with a short explanation discussing
7 the adjustment and the approximate value of the issue.

- 8 1. Normalization of Steam Production Maintenance Expense. I am recommending
9 to normalize the test year maintenance expense for the steam production units.
10 Approximate value is \$2.8 million.
- 11 2. Incentive Compensation. I am recommending adjustment of the accrued level of
12 expense on the books of Ameren Missouri to reflect the actual amounts paid for
13 incentive compensation in March 2010 relating to 2009 performance.
14 Approximate value is \$1.1 million.
- 15 3. Vegetation Management. I am recommending disallowance of the additional
16 expenses proposed by Ameren Missouri to the test year level of vegetation
17 management expense. In addition, I am proposing to discontinue the tracker
18 associated with this expense. Approximate value is \$3.0 million.
- 19 4. Infrastructure Inspection. I am recommending disallowance of the additional
20 expense proposed by Ameren Missouri from the actual level of expense incurred
21 for infrastructure inspections during 2010. In addition, I am proposing to
22 discontinue the tracker associated with this expense. Approximate value is \$2.0
23 million.
- 24 5. Electric Power Research Institute ("EPRI") Dues. I am proposing to adjust
25 Ameren Missouri's cost of service to recognize the 2010 EPRI commitment.
26 Approximate value is \$1.0 million.
- 27 6. Storms. I am proposing to continue with the test year level of storm expense.
28 Approximate value is \$4.7 million.
- 29 7. Property Taxes. I am proposing to disallow the incremental property taxes
30 associated with the Sioux scrubbers and the Taum Sauk rebuild. Approximate
31 value is \$10.0 million.
- 32 8. Cash Working Capital. I am recommending a revenue collection lag of 21.01
33 days. I am also recommending the elimination of the payment lag of 1.65 days.

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1 Finally, I disagree with the Company's calculation of the expense lag for gross
2 receipts taxes. Approximate value is \$5.6 million.

3 **Normalization of Steam Production Maintenance Expense**

4 **Q WHAT LEVEL OF STEAM PRODUCTION MAINTENANCE EXPENSE HAS**
5 **AMEREN MISSOURI INCLUDED IN ITS COST OF SERVICE?**

6 A Ameren Missouri has included \$113 million in its cost of service for steam production
7 maintenance expense.

8 **Q WHAT IS THE BASIS FOR THE \$113 MILLION PROPOSED BY AMEREN**
9 **MISSOURI?**

10 A The \$113 million is Ameren Missouri's budgeted level of expense through the true-up
11 period in this case.

12 **Q WHAT LEVEL OF EXPENSE DID AMEREN MISSOURI INCUR DURING THE TEST**
13 **YEAR ENDING MARCH 31, 2010 FOR STEAM PRODUCTION MAINTENANCE**
14 **EXPENSE?**

15 A Ameren Missouri recorded \$103.5 million during the test year for steam production
16 maintenance expense.

1 Q ACCORDING TO YOUR TESTIMONY, AMEREN MISSOURI IS REQUESTING A
2 \$9.5 MILLION INCREASE TO TEST YEAR EXPENSE FOR STEAM PRODUCTION
3 MAINTENANCE. DID AMEREN MISSOURI IDENTIFY THE COMPONENTS OF
4 THE \$9.5 MILLION?

5 A Yes. Ameren Missouri segregated the \$9.5 million into labor and other (non-labor)
6 maintenance expense. Labor expense is projected to increase by \$1.5 million while
7 other maintenance expense is projected to increase by \$8.0 million.

8 Q DO YOU SUPPORT AMEREN MISSOURI'S PROPOSED ADJUSTMENT TO
9 INCREASE TEST YEAR EXPENSE BY APPROXIMATELY \$9.5 MILLION?

10 A I support the \$1.5 million increase for Ameren Missouri's labor expense. I support
11 only a \$5.2 million adjustment to the test year for other maintenance expense.

12 Q WHY ARE YOU ONLY PROPOSING TO INCREASE THE OTHER MAINTENANCE
13 EXPENSE ADJUSTMENT BY \$5.2 MILLION INSTEAD OF THE \$8.0 MILLION
14 PROPOSED BY AMEREN MISSOURI?

15 A I have adjusted the other maintenance expense level to equal the \$110.2 million the
16 Commission found as a reasonable level of steam production maintenance expense
17 in Ameren Missouri's last rate case.

18 The total labor expense proposed by Ameren Missouri for steam production
19 maintenance was \$47.2 million. During the test year, Ameren Missouri recorded
20 \$57.8 million of other maintenance expense. Adding my proposed increase of \$5.2
21 million to other maintenance expense results in the \$110.2 million total I am
22 recommending for this rate case.

1 The table below shows how the \$110.2 million is broken out between labor
2 and other maintenance expense.

<u>MIEC's Annualized Steam Production Expense</u>	
Description	Amount (\$000)
Test Year Labor Maintenance Expense	\$ 45,639
Labor Expense Annualization	<u>1,513</u>
Total Annualized Labor Maintenance Expense	\$ 47,152
Test Year Other Maintenance Expense	\$57,849
MIEC Adjustment to Other Maintenance Expense	<u>5,199</u>
Total Other Maintenance Expense	\$63,048
Total Steam Production Maintenance Expense	\$110,200

3 **Q DOES AMEREN MISSOURI PRESENT ANY TESTIMONY EXPLAINING WHY THE**
4 **LEVEL OF STEAM PRODUCTION MAINTENANCE EXPENSE SHOULD BE**
5 **INCREASED FROM THE LEVEL ORDERED BY THE COMMISSION IN AMEREN**
6 **MISSOURI'S LAST RATE CASE?**

7 **A No.** Ameren Missouri witness Gary Weiss testifies only that the increased level of
8 expense is necessary to arrive at a normalized level of expense.

9 I am recommending that the Commission continue with the level they found
10 reasonable in Ameren Missouri's last rate case. I, therefore, am proposing a \$2.8
11 million reduction to Ameren Missouri's cost of service.

1 **Incentive Compensation**

2 **Q GENERALLY WHEN ARE INCENTIVE COMPENSATION PAYMENTS GIVEN TO**
3 **AMEREN MISSOURI EMPLOYEES?**

4 A Ameren Missouri employees are paid incentive compensation in March for work
5 performance during the previous calendar year. Therefore, incentive payments made
6 in March 2010 relate to employee performance during 2009.

7 **Q ARE YOU RECOMMENDING AN ADJUSTMENT TO THE INCENTIVE EXPENSE**
8 **RECORDED BY AMEREN MISSOURI?**

9 A Yes.

10 **Q PLEASE DESCRIBE THE ADJUSTMENT YOU ARE RECOMMENDING TO**
11 **INCENTIVE COMPENSATION.**

12 A I am recommending an adjustment to reflect the actual amount of incentive
13 payments. Ameren Missouri accrues expense throughout the year in anticipation of
14 incentive payments in March. During the test year in this case, Ameren Missouri
15 accrued on its books more expense than the amount that was actually paid to
16 employees in March 2010. I, therefore, am recommending a reduction to the
17 Company's revenue requirement of \$1.1 million to reflect the actual incentive
18 payments made in March 2010.

1 **Vegetation Management**

2 **Q PLEASE DESCRIBE THE VEGETATION MANAGEMENT ADJUSTMENT AMEREN**
3 **MISSOURI IS PROPOSING.**

4 A Ameren Missouri is proposing to increase test year vegetation management expense
5 by approximately \$3.0 million to \$54.3 million.

6 **Q WHAT LEVEL OF VEGETATION MANAGEMENT EXPENSE ARE YOU**
7 **PROPOSING FOR THIS CASE?**

8 A I am proposing the test year level of vegetation management expense incurred by
9 Ameren Missouri of \$51.3 million.

10 **Q WHAT ANNUAL LEVEL OF EXPENSE DID THE COMMISSION ALLOW FOR**
11 **VEGETATION MANAGEMENT IN THE LAST CASE?**

12 A In Case No. ER-2010-0036, the Commission allowed \$50.4 million for vegetation
13 management costs.

14 **Q PLEASE DESCRIBE THE BASIS FOR THE \$3.0 MILLION INCREASE AMEREN**
15 **MISSOURI IS PROPOSING TO VEGETATION MANAGEMENT EXPENSE.**

16 A The basis for the \$3.0 million adjustment is the difference between the actual test
17 year level of expense of \$51.3 million and the forecasted level of expense for the 12
18 months ending February 28, 2011 (true-up period) of \$54.3 million.

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

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

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

8 A Yes. The level of vegetation management expense should be reviewed as part of the
9 Company's true-up audit. Any significant increase in expense over the test year level
10 should be explained and audited.

11 In addition, the actual level of vegetation management expense incurred
12 through the true-up should be compared to the annualized level allowed in Ameren
13 Missouri's last rate case to calculate the impact on the current tracker. I will not
14 propose an adjustment to the current tracker until the actual expense through the
15 true-up is known and measurable.

16 Q IS AMEREN MISSOURI REQUESTING A CONTINUATION OF THE TRACKER
17 FOR THIS EXPENSE IN THE CURRENT CASE?

18 A Yes. Ameren Missouri's President and Chief Financial Officer, Warner Baxter, filed
19 direct testimony which contained a request of this Commission to continue the
20 vegetation management expense tracker.

1 **Q DO YOU SUPPORT THE CONTINUED USE OF THIS TRACKER?**

2 A No. The Commission initially established the tracker because of the lack of historical
3 cost data for Ameren Missouri to comply with the Commission's vegetation
4 management rules enacted in July 2008.

5 Sufficient cost data now exists for this portion of Ameren Missouri's operations
6 such that the need for a tracker no longer exists. The annual expense, under the
7 2008 vegetation management rule, has shown little volatility. Therefore, I
8 recommend that the Commission not grant Ameren Missouri a vegetation
9 management tracker for future expenditures.

10 **Infrastructure Inspection**

11 **Q PLEASE DESCRIBE AMEREN MISSOURI'S ADJUSTMENT FOR**
12 **INFRASTRUCTURE INSPECTION.**

13 A Ameren Missouri is proposing to increase the test year level of expense by \$1.3
14 million.

15 **Q PLEASE DESCRIBE HOW THE \$1.3 MILLION WAS DETERMINED.**

16 A During the test year, Ameren Missouri expensed approximately \$8.2 million related to
17 infrastructure inspections. Ameren Missouri is proposing to increase that level by
18 \$1.3 million based on the Company's forecast for this expense through February 28,
19 2011.

1 Q SHOULD INFRASTRUCTURE INSPECTION EXPENSE BE ESTABLISHED BASED
2 ON FORECASTED FIGURES?

3 A No. The same arguments I presented on the vegetation management issue apply to
4 this issue. I continue to support the Commission's long standing precedent of using
5 historical test year data.

6 Q WHAT LEVEL OF EXPENSE ARE YOU PROPOSING FOR INFRASTRUCTURE
7 INSPECTIONS?

8 A I am proposing to include in cost of service \$7.5 million for infrastructure inspections.
9 This is the level of expense that Ameren Missouri has spent on inspections for
10 calendar year 2010.¹

11 Q WHAT IS YOUR PROPOSED ADJUSTMENT TO AMEREN MISSOURI'S
12 REVENUE REQUIREMENT?

13 A I am proposing to reduce Ameren Missouri's revenue requirement by \$2.0 million.
14 The \$2.0 million adjustment is detailed in the table below:

<u>MIEC's Infrastructure Inspection Adjustment</u>	
Description	Amount (\$/Million)
1. Ameren Missouri's Test Year Expense	\$8.2
2. Add: Ameren Missouri's Proposed Adjustment	<u>\$1.3</u>
3. Ameren Missouri's Total Infrastructure Inspection Expense	\$9.5
4. Less: Actual Infrastructure Inspection Expense	<u>\$7.5</u>
5. MIEC Adjustment for Calendar 2010	\$2.0

¹MIEC Data Request No. 7.16. Infrastructure Inspection costs as of December 19, 2010.

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

3 A Yes. Consistent with vegetation management expense, infrastructure inspection
4 expense should be audited as part of the true-up. In addition, the level of actual
5 expense incurred through the true-up should be compared to the annualized level
6 allowed in Ameren Missouri's last rate case to calculate the impact on the current
7 tracker. I will not propose an adjustment to the current tracker until the actual
8 expense through the true-up period is known and measurable.

9 Q IS AMEREN MISSOURI REQUESTING A TRACKER FOR THIS EXPENSE IN THE
10 CURRENT CASE?

11 A Yes. Ameren Missouri's President and Chief Financial Officer, Warner Baxter, filed
12 direct testimony which contained a request of this Commission to continue the
13 infrastructure inspection expense tracker.

14 Q DO YOU SUPPORT THE CONTINUED USE OF THIS TRACKER?

15 A No. The infrastructure inspection tracker should be discontinued because the level of
16 expense for infrastructure inspections is not a significant cost of Ameren Missouri's
17 operations and therefore should not be tracked.

18 **Electric Power Research Institute Dues**

19 Q IS AMEREN MISSOURI INCLUDING EPRI DUES IN ITS COST OF SERVICE?

20 A Yes. Ameren Missouri has included \$3.8 million in its cost of service for the payment
21 of EPRI dues.

1 Q ARE YOU PROPOSING AN ADJUSTMENT TO THE LEVEL OF EPRI DUES
2 AMEREN MISSOURI HAS INCLUDED IN THE COST OF SERVICE?

3 A Yes. I am proposing to reduce the level of dues expense by \$1 million.

4 Q WHAT IS THE BASIS FOR YOUR ADJUSTMENT?

5 A In reviewing the Company's workpapers, I discovered that the 2010 EPRI
6 commitment quarterly payments were less than the 2009 EPRI commitment quarterly
7 payments. The 2010 EPRI commitment quarterly payments are approximately
8 \$335,000 less than the 2009 EPRI commitment quarterly payments. Multiplying this
9 difference for the three quarters of the test year which occurs in 2009
10 (April - December) results in the \$1 million adjustment I am proposing. Essentially,
11 my proposed adjustment annualizes the reduced expense associated with the 2010
12 EPRI commitment.

13 **Storms**

14 Q WHAT LEVEL OF MAJOR STORM EXPENSE HAS AMEREN MISSOURI
15 INCLUDED IN ITS COST OF SERVICE?

16 A Ameren Missouri is requesting \$5.9 million for recovery of major storm expense. The
17 \$5.9 million represents the four-year average of major storm costs adjusted for two
18 rate case adjustments related to major storms.

1 Q DOES THE \$5.9 MILLION REPRESENT THE TOTAL AMOUNT OF MAJOR
2 STORM EXPENSE THAT AMEREN MISSOURI IS REQUESTING IN ITS REVENUE
3 REQUIREMENT?

4 A No. Ameren Missouri is also requesting recovery of the following amortizations
5 associated with previous major storms and rate cases.

<u>Amortizations of Previous Major Storm Expenses</u>	
Description	Amount (\$/Million)
Five-Year Amortization of January 2007 Ice Storm	\$4.9
Five-Year Amortization of Major Storms from 2007 Rate Case	0.8
Five-Year Amortization of Major Storms from 2008 Rate Case	1.0
Five-Year Amortization of Major Storms from 2009 Rate Case	<u>0.8</u>
Total Amortizations	\$7.5

6 Adding the \$7.5 million of amortization to Ameren Missouri's major current storm
7 expense request of \$5.9 million, results in a total major storm expense level of \$13.4
8 million.

9 Q WHAT LEVEL OF MAJOR STORM EXPENSE DID AMEREN MISSOURI INCUR IN
10 THE TEST YEAR?

11 A Ameren Missouri incurred \$1.2 million of expense for major storms during the test
12 year.

1 Q WHAT LEVEL OF MAJOR STORM EXPENSE DO YOU PROPOSE FOR THIS
2 RATE CASE?

3 A I recommend that the level of major storm expense allowed in this case be
4 approximately \$8.7 million. The breakdown of this figure is presented in the table
5 below.

<u>Normalized Level of Major Storm Expense</u>	
Description	Amount (\$/Million)
Five-Year Amortization of January 2007 Ice Storm	\$4.9
Five-Year Amortization of Major Storms from 2007 Rate Case	0.8
Five-Year Amortization of Major Storms from 2008 Rate Case	1.0
Five-Year Amortization of Major Storms from 2009 Rate Case	0.8
Test Year Level of Major Storm Costs	<u>1.2</u>
Total	\$8.7

6 Q PLEASE DESCRIBE YOUR UNDERSTANDING OF THE STORM
7 AMORTIZATIONS.

8 A The 2007 storm amortization (\$4.9 million) resulted from a severe ice storm in
9 Ameren Missouri's service territory on January 13, 2007.

10 The 2007 rate case major storm amortization (\$800,000) resulted from several
11 major storms which struck the Ameren Missouri service territory. On July 19 and 21,
12 2006, the Ameren Missouri service territory was struck with major storms with high
13 winds which caused severe damage to St. Louis and the surrounding area. On
14 November 30, 2006 and December 1, 2006, the Ameren Missouri service territory
15 was affected by severe ice storms.

16 The 2008 rate case major storm amortization (\$1.0 million) resulted from
17 negotiations among the Staff and Ameren Missouri. It is my understanding this

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1 amortization was the difference between the base level of major storm costs
2 calculated by the Staff and the amount incurred during the test year. This difference
3 was then amortized over five years resulting in an annual amortization of
4 approximately \$1.0 million.

5 The 2009 rate case major storm amortization (\$800,000) was developed using
6 the same methodology as described for the 2008 major storm amortization.

7 **Q PLEASE DESCRIBE THE DIFFERENCE IN THE LEVEL OF MAJOR STORM**
8 **EXPENSE BETWEEN AMEREN MISSOURI'S AND YOUR PROPOSALS.**

9 A Both Ameren Missouri and I agree that the prior amortization for major storm expense
10 should continue to be included in cost of service.

11 The only difference between the two levels of major storm expense is the
12 normalized level of major storm expense proposed by Ameren Missouri (\$5.9 million)
13 and by me (\$1.2 million). Since January 27, 2009, Ameren Missouri has only
14 experienced one major storm which resulted in an expense greater than one million
15 dollars.

16 Since I am recommending that the test year level of major storm expense be
17 used to establish the normalized level of expense, I propose that Ameren Missouri's
18 major storm expense adjustment of \$4.7 be disallowed.

19 **Property Taxes**

20 **Q WHAT LEVEL OF EXPENSE HAS AMEREN MISSOURI INCLUDED IN ITS COST**
21 **OF SERVICE FOR MISSOURI REAL ESTATE AND PERSONAL PROPERTY**
22 **TAXES ("PROPERTY TAXES")?**

23 A Ameren Missouri has included \$130.7 million of property taxes in its cost of service.

1 **Q DO YOU AGREE WITH THE TOTAL AMOUNT OF PROPERTY TAXES THAT**
2 **AMEREN MISSOURI HAS REQUESTED?**

3 A No. I propose to disallow \$10 million of property taxes associated with the Taum
4 Sauk rebuild and the addition of the Sioux scrubbers. The Taum Sauk rebuild has
5 additional estimated property taxes of \$2.5 million and the Sioux scrubbers has
6 additional estimated taxes of \$7.5 million.

7 **Q WHY ARE YOU PROPOSING TO DISALLOW THESE PROPERTY TAXES?**

8 A The Taum Sauk rebuild was completed in the first part of April 2010. The Sioux
9 scrubbers were placed into service in the last quarter of 2010. These additional plant
10 investments were included in Ameren Missouri's assessed property on January 2,
11 2011.

12 However, the taxes associated with these additional investments are not due
13 until December 31, 2011. December 31, 2011 is almost a full five months after the
14 operation of law date in this case and ten months beyond the true-up in this case.
15 These property taxes are clearly beyond any time period which would require
16 expense recognition in this case.

17 Therefore, I am proposing a \$10 million adjustment to Ameren Missouri's
18 property tax expense.

1 **Cash Working Capital**

2 **Q HAS AMEREN MISSOURI INCLUDED AN ALLOWANCE FOR CASH WORKING**
3 **CAPITAL (“CWC”) IN ITS COST OF SERVICE?**

4 A Yes. Ameren Missouri is proposing a \$19.5 million allowance (net of tax offsets) for
5 CWC in its rate base. I am proposing that the Company’s CWC allowance should be
6 reduced to a negative \$34.0 million.

7 **Q WHAT IS CWC?**

8 A CWC is the amount of cash necessary for a utility to pay the day-to-day expenses it
9 incurs in providing service to the ratepayer.

10 **Q WHAT ARE THE SOURCES OF CWC?**

11 A Ratepayers and shareholders are the sources of CWC.

12 **Q HOW DO RATEPAYERS SUPPLY CWC?**

13 A The ratepayers supply CWC when the Company receives payment for service before
14 the Company pays for the expenses it incurred to provide that service. The ratepayer
15 is compensated for the CWC provided through a reduction to rate base.

16 **Q HOW DO SHAREHOLDERS SUPPLY CWC?**

17 A When the Company must pay for an expense incurred to provide service before the
18 ratepayer has paid for the related usage, shareholders provide cash to cover that
19 expense. This cash outlay represents a portion of the shareholder’s total investment
20 in the Company. The shareholder is compensated for the CWC provided through an
21 increase in rate base.

1 **Q WHAT METHODOLOGY DID AMEREN MISSOURI APPLY IN DETERMINING THE**
2 **COMPANY'S CWC REQUIREMENT?**

3 A Ameren Missouri's CWC requirement was based upon a lead-lag study. A lead-lag
4 study analyzes the cash inflows and outflows of payments the Company receives
5 from its customers for the service it provides and the disbursements it makes to
6 vendors to provide that service. These cash flows are measured in numbers of days.
7 A lead-lag study compares the number of days the Company is allowed to take or
8 actually takes to make payments after receiving service from a vendor, with the
9 number of days it takes the Company to receive payment for the service provided to
10 customers. The lead-lag study also determines who provides CWC.

11 **Q HOW ARE THE RESULTS FROM A LEAD-LAG STUDY INTERPRETED?**

12 A A negative CWC requirement indicates that ratepayers provided the working capital in
13 the aggregate during the test year. This means that ratepayers provided the
14 necessary cash, on average, before the Company must pay for expenses incurred to
15 provide that service. A positive CWC requirement indicates, in the aggregate, that
16 shareholders provided the cash necessary during the year. This means that the
17 Company must pay, on average, for the expenses incurred in providing service
18 before ratepayers pay for that service.

19 **Q HAVE YOU REVIEWED THE LEAD-LAG STUDY PREPARED BY AMEREN**
20 **MISSOURI?**

21 A Yes. I reviewed the lead-lag schedule prepared by Ameren Missouri witness Michael
22 Adams. I reviewed the revenue lag and the various expense lags to determine if the

1 lags represented reasonable estimates for lead-lag intervals for the different cash
2 expenses of Ameren Missouri.

3 **Q DID YOU AGREE WITH ALL OF THE REVENUE AND EXPENSE LAGS THAT**
4 **AMEREN MISSOURI IS PROPOSING IN THIS CASE?**

5 A No. There are several lags which I dispute, including the following:

- 6 1. The expense lag related to the collection of Gross Receipts Tax;
- 7 2. The inclusion of the payment lag in all of the revenue lags; and
- 8 3. The collection-related component of the revenue lag.

9 **Q PLEASE DESCRIBE YOUR RECOMMENDED CHANGE TO THE COMPANY'S**
10 **EXPENSE LAG FOR GROSS RECEIPTS TAX.**

11 A I am recommending that the Company include the recognition of the time it takes to
12 collect the revenues upon which the gross receipts taxes are based. Mr. Adams' lag
13 does not take into account that the customers provide Ameren Missouri the funds to
14 pay the tax well ahead of the due date for the remittance of the tax to the municipal
15 authorities.

16 For instance, in the case of a monthly gross receipts tax, Ameren may collect
17 the tax from customers throughout the month, and then may hold and make use of
18 those funds until the 30th of the following month. If we assume that the month is 30
19 days, the average collection period is 15 days. Also, the end of the month to the day
20 when the Company must remit the funds to the municipality is 30 days. Therefore, in
21 this situation, the appropriate expense lag would be 45 days.

22 After examining Mr. Adams' workpapers, and weighting the different time
23 periods for gross receipts tax remittances, I believe that the correct expense lag for

1 gross receipts taxes should be 47.86 days rather than the 27.59 days included in the
2 Company's calculation.

3 **Q WHAT ARE THE REVENUE REQUIREMENT AND RATE BASE EFFECTS OF**
4 **YOUR RECOMMENDATION?**

5 A My gross receipts tax lag recommendation reduces the Company's proposed revenue
6 requirement by \$622,047, and reduces the Company's rate base by approximately
7 \$5.9 million.

8 **Q ARE YOU ALSO RECOMMENDING ADJUSTMENTS TO THE REVENUE LAG?**

9 A Yes. I recommend disallowance of the payment lag of 1.65 days. I am also
10 recommending that the collection lag component of the revenue lag be reduced from
11 27.44 days to 21.01 days.

12 **Q WHAT IS THE PAYMENT LAG?**

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

15 **Q WHY SHOULD THE PAYMENT LAG BE ELIMINATED?**

16 A The payment lag is predominantly weighted by payments which are processed in the
17 same day as the revenue is received by Ameren Missouri. Additional time should not
18 be added to the day the revenue is received by Ameren Missouri for same day
19 processing. It does not make sense to add a fraction of a day as lag time to the day
20 the revenues are received.

1 Also, in calculating the expense lags for operation and maintenance expense,
2 the Company has used only the check dates, rather than the date the money leaves
3 Ameren Missouri's bank accounts. It is inappropriate to demand that the customers
4 recognize the effect of bank float for revenues without taking into account the benefit
5 of bank float that Ameren Missouri experiences when paying its expenses.

6 Therefore, I recommend exclusion of the payment lag of 1.65 days.

7 **Q WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

8 A It decreases rate base by \$9.6 million, which reduces the revenue requirement by
9 \$1.02 million.

10 **Q WHAT IS THE COLLECTION LAG?**

11 A The collection lag is the time period from when a customer's bill is mailed to when the
12 payment is received.

13 **Q WHAT COLLECTION LAG DID AMEREN MISSOURI PROPOSE?**

14 A The Company proposed a 27.44 day collection lag.

15 **Q WHAT WAS THE BASIS FOR THE COMPANY'S COLLECTION LAG OF 27.44**
16 **DAYS?**

17 A Mr. Adams relied on an accounts receivable aging analysis to determine the
18 27.44-day collection lag. Mr. Adams examined 52 different weekly accounts
19 receivable balances, segregated into different age groups (i.e., 0 to 29 days, 30 to 59
20 days, and so on). In each of these age-differentiated groups of receivables, there is
21 some portion that the Company will never collect. In attempting to remove these

1 uncollectible accounts, Mr. Adams utilized a ratio of uncollectibles to total billed
2 revenues. Netting the revenues against the assumed level of uncollectibles, Mr.
3 Adams calculated the percentage of summed receivable observations attributable to
4 each age group. By multiplying these percentages by the midpoint of each age group
5 and then summing the resulting products, Mr. Adams calculated a collection lag of
6 27.44 days. I am unsure, at this point, that Mr. Adams' accounts receivable aging
7 analysis appropriately accounted for uncollectibles.

8 **Q WHAT ANALYSIS DID YOU RELY ON TO DETERMINE YOUR COLLECTION LAG**
9 **OF 21.01 DAYS?**

10 A I relied on a Company report entitled Cash Lag Study ("CURST 246"). This report
11 tracks actual customer payments over several time intervals. The report excludes the
12 effect of uncollectible accounts.

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

14 A Yes. The CURST 246 report tracked payments received by Ameren Missouri that
15 were over one year past due. I eliminated those payments from my collection lag as
16 these payments are in excess of 365 days. Lags greater than 365 days should not
17 be included in this analysis as those expenses or revenues would generate a CWC
18 factor greater than one. The entire purpose of a CWC analysis is to determine the
19 annualized level of cash requirements necessary to provide service. A CWC factor
20 greater than one implies more than an annual level of cash is being required. This is
21 not an acceptable premise.

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1 **Q** **WHAT ARE THE REVENUE REQUIREMENT AND RATE BASE EFFECTS OF**
2 **YOUR PROPOSED CHANGE IN COLLECTION LAG?**

3 A Reducing the collection lag to 21.01 days brings down the revenue requirement by
4 \$4.0 million and decreases rate base by \$37.4 million.

5 **Q** **WHAT ARE THE TOTAL REVENUE REQUIREMENT AND RATE BASE EFFECTS**
6 **OF YOUR CWC RECOMMENDATIONS?**

7 A My CWC recommendations reduce the Company's proposed rate base by \$61.1
8 million and the revenue requirement by \$6.5 million.

9 **Q** **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A Yes, it does.

Qualifications of Greg R. Meyer

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4 **Q PLEASE STATE YOUR OCCUPATION.**

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

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

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

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

17 As an Auditor V, I conducted audits and examinations of the accounts, books,
18 records and reports of jurisdictional utilities. I also aided in the planning of audits and
19 investigations, including staffing decisions, and in the development of staff positions in
20 which the Auditing Department was assigned. I served as Lead Auditor and/or Case

