Exhibit No.:
Issues: Merger Costs, Injuries and Damages Expense, Advertising
Witness: Michael G. Gruner
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: E0-96-14

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MICHAEL G. GRUNER

UNION ELECTRIC COMPANY

CASE NO. EO-96-14

Exhibit No. 7
Date 6-1-99 Case No. EO-96-14
Reporter TL

Jefferson City, Missouri
February 1999

DIRECT TESTIMONY

OF

MICHAEL G. GRUNER

CASE NO. EO-96-14

UNION ELECTRIC COMPANY

Q. Please state your name and business address.

A. Michael G. Gruner, 815 Charter Commons Dr., Suite 100B, Chesterfield, Missouri 63017

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (MPSC or Commission) as a Regulatory Auditor.

Q. Please describe your educational background.

A. I graduated from the University of Missouri-Columbia, receiving a Bachelor of Science degree in Marketing in May of 1982. I have also completed 27 hours of Accounting courses from the University of Missouri-St. Louis and in May of 1989 passed the Uniform Certified Public Accountant Examination.

Q. Please describe your employment background.

A. Prior to my employment with the Commission I was employed as an internal auditor for the Lutheran Church Missouri Synod from 1989-91, First Banks, Inc. from 1991-92 and from 1993-97 I was employed with several temporary Accounting Agencies performing various accounting assignments.

Q. What has been the nature of your duties while in the employ of the Commission?

A. I have assisted with audits and examinations of the books and records of public utility companies operating within the State of Missouri. I participated in Case No. WR-97-382, St. Louis County Water Company, and five informal water rate proceedings.

Q. With reference to Case No. EO-96-14, have you reviewed the books and records of Union Electric Company (UE or Company)?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

Q. What are your principal areas of responsibility in this case?

A. I am principally responsible for the adjustment to UE's third period earnings sharing credit calculation involving merger and acquisition costs, advertising expense, and injuries and damages expense.

Q. What adjustments to the Income Statement are you sponsoring?

A. I am sponsoring the following Income Statement adjustments:

Merger and Acquisition costs

Advertising expense

Injuries and Damages expense

MERGER & ACQUISITION COSTS

Q. Please explain the term "merger and acquisition costs".

A. Merger and acquisition costs for this case can be divided into two categories: transaction costs or transition costs. Transaction costs are costs directly related to bringing about the merger of UE and CIPSCO Inc., for example: underwriting costs, legal fees, accounting fees, and filing fees. Transition costs are costs incurred as a result of the merger to achieve merger savings, for example: record keeping integration and operations integration.

Q. Please explain how merger and acquisition costs relate to this case.

A. In Case No. EM-96-149, UE filed an application before the Commission for an order requesting authorization of the merger of UE and CIPSCO Inc. As part of the Stipulation and Agreement in that case it was determined that actual prudent and reasonable merger transaction and transition costs, then estimated to be $72 million, would be amortized over ten years beginning the date the merger closes. The annual amortization costs was to be the lesser of (1) the Missouri jurisdictional portion of the total UE amount of $7.2 million; or (2) the Missouri jurisdictional portion of the total UE unamortized amount of actual merger transaction and transition costs incurred to date.

Q. Please explain Staff's adjustment to this level of merger and acquisition cost.

A. Based on the Company's responses to Staff's Data Request Nos. 23 and 55 in this proceeding, actual transaction costs as of June 30, 1998 were $25,620,950 and a new estimate for transition costs was determined to be

$41,000,000. Staff totaled these costs, multiplied that amount by the Company's Missouri jurisdictional allocation factor of 86.13%, the allocation factor for merger and acquisition costs is based on the Company's response to Staff Data Request No. 31. Staff then divided the result by ten to calculate the annual amortization of merger and acquisition cost of $5,738,062. This amount was then compared to the Company's booked amortization of $6,201,307, based on the 1996 estimate of transition and transaction costs of $72 million, and an adjustment was made to reduce the expense by the amount of the difference. This difference was then divided in half to reflect the fact that only six months of expense was included from the merger closing date, January 1, 1998 to the end of the third sharing period on June 30, 1998. This calculation appears on Schedule 1, attached to this testimony.

Q. Why is this adjustment appropriate?

A. This adjustment is appropriate because use of the actual transaction costs incurred and the Company's most current estimate of transition costs more accurately reflects an appropriate level of amortization costs than a level based on outdated estimates from 1996. Also, this adjustment is consistent with the Stipulation and Agreement in Case No. EM-96-149.

ADVERTISING EXPENSE

Q. Please explain your adjustment to advertising costs.

A. The Staff's adjustment relates to advertising costs associated with the Company's name change to AmerenUE. Although these costs were not included in the Company's estimate of transition costs, they were incurred as a direct result of the merger. If there had been no merger there would be no need for the Company to promote a new corporate name. Therefore, these costs should be treated in the same manner as other transition costs, and amortized over ten years.

Q. How did you determine which advertising costs were merger related and should be amortized?

A. In response to Staff Data Request No. 50, the Company indicated it had incurred $206,837 of direct costs associated with the name change. Staff also reviewed all television, radio and print advertisements produced for or during the third sharing period and identified seven advertisements, which were directly related to the merger. These advertisements are attached to this testimony as Schedule 2. The costs associated with these advertisements, and the direct costs identified in response to Staff Data Request No. 50 totaled $1,198,124. Staff multiplied this cost by the Company's Missouri jurisdictional electric allocation factor of 88.38% to calculate its adjustment of $1,005,957. Consistent with the treatment of other transition costs this amount will be included in expense over a ten-year period beginning January 1, 1998. This adjustment only reflects six months of amortization costs during the third sharing period from the merger closing date, January 1, 1998, to the end of the period, June 30, 1998.

INJURIES AND DAMAGES EXPENSE

Q. Please explain injuries and damages expense.

A. The Company maintains a reserve to pay claims for injuries and damages which occur during the year and for possible future claims against the Company. The reserve represents funds accumulated and set aside to pay claims for medical costs, workmen compensation costs and lawsuits relating to injuries and damages. UE is self-insured for these costs.

Accruals to increase the reserve are expensed and actual claims are charged against the reserve balance when paid. During the first two sharing periods the Company incurred approximately $5,950,000 and $6,670,000 in injuries and damages expense, respectively. However, in the third sharing period the expense increased to $20,270,000. When Staff questioned the Company as to the nature of this dramatic increase to the amount, having tripled in just over two years, the Company explained that an exceptionally high number of large claims had been settled during the third sharing period. Also, the Staff was told that because of this increasing trend in litigation, the reserve balance was increased to offset possible future claims.

Q. Please explain Staff's adjustment to injuries and damages expense.

A. The Staff's adjustment can be best examined in two separate segments. The first portion is designed to bring the reserve to an appropriate level. Staff calculated the average reserve balance for the first two sharing periods, $13,111,697, and adjusted the third sharing period's beginning reserve balance, $12,576,986, to reflect this level. This adjustment increases the injuries and damages expense by $534,711. In the second segment of the Staff's adjustment, injuries and damages expense is limited to the amount of actual claims paid for the sharing period by comparing the payments, $17,160,897, to the provision for the third sharing period of $20,270,000. This part of the adjustment reduces the reserve balance by $3,109,103. The net result of combining these two segments is a reduction in injuries and damages expense of $2,574,392. This amount is multiplied by the Company's Missouri jurisdictional allocation factor of 88.38%, which results in an adjustment of $2,275,248. This calculation appears on Schedule 3, attached to this testimony.

Q. What is the Staff's justification for proposing this adjustment?

A. In Case No. ER-95-411, the Stipulation and Agreement states in section 3.f.vii:

> UE, Staff, OPC and other signatories reserve the right to bring issues which cannot be resolved by them, and which are related to the operation or implementation of the Plan, to the Commission for resolution. Examples include disagreements as to the mechanics of calculating the monitoring report, alleged violations of the Stipulation and Agreement, alleged manipulations of earnings results, or requests for information not previously maintained by UE. An allegation of manipulation could include significant variations in the level of expenses associated with any category of cost, where no reasonable explanation has been provided.

This adjustment is appropriate for several reasons. It allows the Company recovery of its actual injuries and damages payments in the third sharing period and also allows an additional amount to maintain an adequate reserve balance. Although the reserve declined during much of the third sharing period, UE made a large accrual at the end of the sharing period designed to restore the balance and cover possible future payments, which brought the reserve to its highest level ever. The Staff believes it would be inappropriate to reflect both the unusually high injuries and damages claims paid by or assessed against UE in this period and an increase in the additional accrual which brings the reserve to its highest level ever. Even considering the Staff's proposed adjustment, the level of injuries and damages expense allowed by the Staff's proposed adjustment, the level of injuries and damages expense allowed by the Staff in the third sharing period is 272% above the average annual expense booked during the first two sharing periods. To be conservative, the Staff chose to adjust the additional accrual from the third sharing period expense.

Q. Has the Commission previously addressed this item?

A. Yes, there is precedent in past proceedings for normalization of injuries and damages expense when there are increases/fluctuations in these cost form year-to-year. Such an adjustment was presented and adopted by the Commission in Case No. EC-87-114.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Monitoring of the Experimental Alternative Regulation Plan of Union Electric Company	)))	Case No. EO-96-14

AFFIDAVIT OF MICHAEL G. GRUNER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Michael G. Gruner, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Michael G. Gruner

Michael G. Gruner

Subscribed and sworn to before me this 22nd day of February 1999.

Toni M Willmeno

Notary Public

My Commission Expires 6/24/00

TONI M. WILLMENO NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

AMEREN UE
CASE NO. EO-96-14
MERGER & ACQUISITION COSTS

Original Estimate	Allocation Factor %	Annual Amortization Merger Cost	Missouri Annual Amortization Merger Cost	Missouri Electric
Missouri Electric	86.13%	6,201,360	6,201,307	6,201,307
Illinois Electric	7.52%	541,440		
FERC Electric	3.43%	246,960		
Total Electric	97.08%	6,989,760		
Missouri Gas	2.88%	207,360	207,453	
Illinois Gas	0.04%	2,880		
Total Gas	2.92%	210,240		
TOTAL	100.00%	7,200,000	6,408,760	

Actual Transaction Costs thru 6/98 (DR # 55)	25,620,950		
Revised Estimated Transition Costs (DR # 23)	41,000,000		
Revised Total	66,620,950		
Missouri Electric Allocation Factor	86.13%		
Missouri Electric Portion	57,380,624	/10 =	5,738,062
Adjustment to Reduce Expense		(a)	(5,738,062) / 2 = (2,869,031)

(a) amortization began 1/98 therefore only 6 months of Amort. as of the end of the third Sharing Period.

TBWA Chiat/Day

AmerenUE :60 Radio

"Just Another Day" Revised 11/24/97

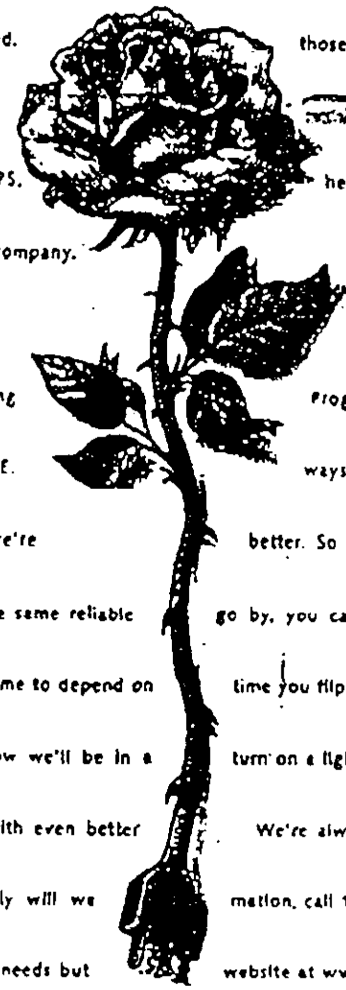
AVO: On Jan. 13, 1998 Union Electric changed its name to AmerenUE. And that's all that changed. The earth still rotated at a speed of 29.79 kilometers per second at a distance of 93.2 million miles from the sun. The gravitational pull of the moon caused the tides to come in and go out, twice. The sun rose in the east. And here at home 254,000 bagels were toasted. 4.4 million numbers were crunched. 365,000 cheeseburgers were consumed along with 20,808 gallons of diet soda.

And AmerenUE is still the same reliable power company you've come to depend on over the years. We've always been there when you needed us and we're not about to change now. Our focus is still on you, the customer. And it always will be. The atmosphere is still composed mainly of nitrogen and oxygen. Dogs will still chase cats, cats will still chase mice and the sun will still set in the west.

Ameren UE. We're always there.

"A rose by any other name would smell as sweet."

WHAT DOES THAT HAVE TO DO WITH YOUR ENERGY COMPANY?



We're glad you asked. Because Union Electric recently merged with CIPS, an Illinois-based energy company. And as of January 13, we're officially changing from UE to AmerenUE. Fortunately, that's all we're changing. We'll still be the same reliable energy company you've come to depend on over the years. Except now we'll be in a position to provide you with even better customer service. Not only will we continue to focus on your needs but those of the community as well. Services for speech- and hearing-impaired customers, Braille billing and our Customer Assistance Program are just a few of the ways we're trying to serve you better. So no matter what name we go by, you can rest assured that every time you flip a switch, push a button or turn on a light, it will work. AmerenUE. We're always there. For more information, call 1-800-552-7583 or visit our website at www.ameren.com.

AmerenUE

OUR NEW NAME MIGHT NOT AFFECT YOUR BUSINESS. BUT THE SERVICES WE OFFER WILL.

Union Electric is now AmerenUE. And part of our new commitment is providing an expanded range of energy services for your business. Such as our Energy Savings Partnership (ESP). Designed for large commercial customers, ESP can help you lower your company's energy costs, while improving your productivity and ability to meet environmental regulations. For more information about how our ESP program can help you, call Bob Keller at 314-554-4500. And for even more cost-cutting ideas in the future, look to AmerenUE.

AmerenUE

We're always there.

YOUR UTILITY COMPANY IS PROUD

TO ANNOUNCE OUR NEW NAME.

AND OUR NEW COMMITMENT.

Union Electric has merged with Central Illinois Public Service to become AmerenUE. You'll still get the same responsive service. Competitive rates. And an expanded range of energy services for your business, like electrical efficiency audit programs, assistance in productivity, end-product quality consultation and more. With the new name, you'll also find renewed dedication to always provide reliable service at fair prices. So get to know the AmerenUE name. And expect more from us in the future.

AmerenUE

We're always there.

Schedule 2-5

Here's a stock tip.
If you're looking for

UNION ELECTRIC OR CIPSCO,

Check under "A."

That's "A" for Ameren. Which, as you probably already know, is the name of the company formed by the merger between Union Electric and CIPSCO Incorporated. A merger that was finalized December 31, 1997. And the result is a bigger, stronger energy company that is better prepared to meet the challenges of a changing world. If you're interested in learning more about the merger, you can call 1-800-255-2237 or visit our home page at www.ameren.com. To find out more about Ameren on electronic databases, use our new ticker symbol AEE.

Ameren

AMEREN - UE
CASE NO. EO-96-14
INJURIES & DAMAGES

Expense	12 Mos. Total - 6/96	12 Mos. Total - 6/97	12 Mos. Total - 6/98
Injuries & Damages Expense	$5,950,000	$6,670,000	$20,270,000

AMEREN - UE
CASE NO. EO-96-14
INJURIES AND DAMAGES

Average Balance 7/1/95 to 6/30/97	13,111,697
Add: Payments	17,160,897
Less: Balance Beginning of the 3rd Sharing Period	(12,576,986)
Less: Provisions	(20,270,000)
Adjustment to Injuries & Damages for 3rd Year of Sharing Period	(2,574,392)
Missouri Jurisdictional Allocational Factor	X 88.38%
Total adjustment	(2,275,248)