

*Exhibit No.:*

*Issues: Report on Cost of Service,  
Overview of the Staff's Filing  
and Taum Sauk Capacity Sales*

*Witness: Stephen M. Rackers*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Direct Testimony*

*Case No.: ER-2008-0318 and  
EO-2008-0315*

*Date Testimony Prepared: August 28, 2008*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**CASE NO. ER-2008-0318**

**CASE NO. EO-2008-0015**

*Jefferson City, Missouri  
August, 2008*

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13

**TABLE OF CONTENTS**

**DIRECT TESTIMONY**

**OF**

**STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY**

**d/b/a AMERENUE**

**CASE NO. ER-2008-0318**

**CASE NO. ER-2008-0015**

EXECUTIVE SUMMARY ..... 2

REPORT ON COST OF SERVICE..... 3

OVERVIEW OF STAFF’S RECOMMENDED REVENUE REQUIREMENT ..... 4

TAUM SAUK CAPACITY SALES ..... 16

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

**DIRECT TESTIMONY**

**OF**

**STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY  
d/b/a AMERENUE**

**CASE NO. ER-2008-0318**

**CASE NO. ER-2008-0015**

Q. Please state your name and business address.

A. Stephen M. Rackers, 9900 Page Avenue, Suite 103, Overland, MO 63132.

Q. Please describe your educational background and work experience.

A. I attended the University of Missouri in Columbia, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1978. I have been employed by the Missouri Public Service Commission (Commission) since June 1, 1978 within the Auditing Department.

Q. Are you a Certified Public Accountant (CPA)?

A. Yes, I am. I passed the Uniform Certified Public Accountant examination and I am licensed in the state of Missouri as a CPA. The Uniform CPA examination consisted of four parts: Accounting Practice, Accounting Theory, Auditing and Business Law.

Q. Have you previously filed testimony before this Commission?

A. Yes. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1997 to current, is attached as Schedule 1 to this direct testimony.

1 Q. What knowledge, skills, experience, training and education do you have in the  
2 areas of which you are testifying as an expert witness?

3 A. I have been employed by this Commission as a Regulatory Auditor for over  
4 30 years, and have submitted testimony on revenue, expense, and rate base ratemaking  
5 matters numerous times before the Commission. I have also been responsible for the  
6 supervision of other Commission employees in rate cases and other regulatory proceedings  
7 many times. I also participate in proceedings that involve the enforcement, interpretation and  
8 writing of the Commission's rules. I have received continuous training at in-house and  
9 outside seminars on technical ratemaking matters since I began my employment at the  
10 Commission. My responsibilities auditing the books and records of the utilities regulated by  
11 the Commission require that I review statutes applicable to the Commission or the utilities  
12 regulated by the Commission, the Commission's rules, utility tariffs, and contracts and other  
13 documents relating to the utilities regulated by the Commission.

14 Q. Have you participated in the Commission Staff's (Staff) audit of  
15 Union Electric Company, d/b/a AmerenUE (AmerenUE or Company) concerning its request  
16 for a rate increase in this proceeding?

17 A. Yes, I have, with the assistance of other members of the Staff.

18 **EXECUTIVE SUMMARY**

19 Q. Please summarize your direct testimony in this proceeding.

20 A. I am sponsoring the Staff's Cost of Service Report (Report) in this proceeding  
21 that is being filed concurrently with this direct testimony. As was done in several other recent  
22 rate case filings by the Staff, a "report" format is being used to convey the Staff's direct case  
23 findings, conclusions and recommendations to the Commission. The "report" approach to the

1 case filing is an effort to comply with the Commissions' request for a more concise Staff  
2 direct filing. The report approach results in much fewer Staff members filing direct testimony  
3 in a more concise format.

4 I will also provide in this direct testimony an overview of the Staff's revenue  
5 requirement determination. The Staff has conducted a review of all the components  
6 (capital structure, return on rate base, rate base, operating revenues and operating expenses)  
7 that determine AmerenUE's jurisdictional revenue requirement. My testimony will provide  
8 an overview of the Staff's work in each area.

9 **REPORT ON COST OF SERVICE**

10 Q. Please explain the organizational format of the Staff's Cost of Service Report  
11 (Report).

12 A. The Staff's Report has been organized by topic as follows:

- 13 I. Executive Summary
- 14 II. Background of Rate Case
- 15 III. Test Year/Update Period
- 16 IV. Major Issues
- 17 V. Rate of Return
- 18 VI. Rate Base
- 19 VII. Allocations
- 20 VIII. Income Statement
- 21 IX. Fuel Adjustment Clause

22 The Rate Base and Income Statement sections have numerous subsections which  
23 explain each specific area and/or adjustment made by the Staff to the test year ending

1 March 31, 2008. The individual Staff member responsible for each area of the Staff's direct  
2 case and/or adjustment is identified in the Report following the written discussion he or she  
3 authored, and would be the witness respecting that section of the Staff's Report. The Staff  
4 may have a different or an additional witness for rebuttal or surrebuttal testimony if the case  
5 goes to hearing.

6 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

7 Q. In its audit of AmerenUE for Case No. ER-2008-0318, has the Staff examined  
8 all of cost of service components comprising the revenue requirement for AmerenUE's  
9 electric operations in Missouri?

10 A. Yes.

11 Q. What are the cost of service components that comprise the revenue  
12 requirement for a regulated utility?

13 A. The revenue requirement for a regulated utility can be defined by the following  
14 formula:

$$15 \text{ Revenue Requirement} = \text{Cost of Providing Utility Service (Cost of Service)}$$

16 or

$$17 \text{ RR} = \text{O} + (\text{V} - \text{D})\text{R} \quad \text{where,}$$

18 RR = Revenue Requirement

19 O = Operating Costs (Fuel, Payroll, Maintenance, etc.), Depreciation and Taxes

20 V = Gross Valuation of Property Required for Providing Service

21 D = Accumulated Depreciation Representing Recovery of Gross Property  
22 Investment.

23  
24 V - D = Rate Base (Gross Property Investment less Accumulated Depreciation = Net  
25 Property Investment)

26  
27 (V - D)R = Return Allowed on Net Property Investment

1           The “revenue requirement” calculated by this formula is the utility’s total revenue  
2 requirement. In rate cases, the term “revenue requirement” generally refers to the utility’s  
3 necessary incremental change in revenues based on the utility’s existing rates and total cost of  
4 service.

5           Q.     What is the objective of an audit of a regulated utility?

6           A.     The objective of an audit is to determine the appropriate level of the  
7 components identified in my last answer in order to calculate the revenue requirement for a  
8 regulated utility. All relevant factors are examined and a proper relationship of revenues  
9 expenses and rate base is maintained. The process for making that revenue requirement  
10 determination can be summarized as follows:

11                 1)     Selection of a test year. The test year income statement represents the  
12 starting point for determining a utility’s existing annual revenues, operating costs and net  
13 operating income. Net operating income represents the return on investment based upon  
14 existing rates. The test year, selected for Case No. ER-2008-0318, is the twelve months  
15 ending March 31, 2008. Adjustments are made to the test year results when the unadjusted  
16 amounts do not fairly represent the utility’s most current annual level of revenues and  
17 operating costs. Examples of annualization and normalization adjustments are explained  
18 more fully later in this direct testimony. As discussed below, additional information through  
19 September 30, 2008, will be considered for inclusion in the cost of service during the true-up  
20 audit agreed to by the Parties and authorized by the Commission.

21                 2)     Selection of a “test year update period.” A proper determination of  
22 revenue requirement is dependent upon matching the components rate base, return on  
23 investment, revenues and operating costs at the same point in time. This ratemaking principle

1 is commonly referred to as the “matching” principle. It is a standard practice in ratemaking in  
2 Missouri to utilize a period beyond the established test year for a case in which to match the  
3 major components of a utility’s revenue requirement. By updating test year financial results  
4 to reflect information beyond the established test year, rates can be set based upon more  
5 current information. Although it is a common practice to update the test year, the Parties to  
6 this case agreed to perform a true-up to reflect post test year financial results in the  
7 determination of revenue requirement.

8           3) Selection of a “true-up date” or “true-up period.” A true-up date  
9 generally is established when a significant change in a utility’s cost of service occurs after the  
10 end of the test year update period, but prior to the operation-of-law date, and the significant  
11 change in cost of service is one the parties and/or Commission has decided should be  
12 considered for cost of service recognition in the current case. In this proceeding, the  
13 Company is expecting to add a significant amount of plant following the test year.  
14 In addition, the Callaway Nuclear Generating Unit will experience a refueling in the fall of  
15 2008. The Parties to this case have recommended a true-up to consider these and other items,  
16 through September 30, 2008, for inclusion in the cost of service in this case. The Commission  
17 accepted the recommendation and has authorized a true-up audit for this case.

18           4) Determination of Rate of Return. A cost of capital analysis must be  
19 performed to determine a fair rate of return on investment to be allowed the opportunity to be  
20 earned on AmerenUE’s net investment (rate base) used in the provision of utility service. The  
21 Staff has engaged a consultant, Steven Hill, to perform a cost of capital analysis and file  
22 testimony in this case on its behalf.



1                   5)       Determination of Rate Base. Rate base represents the utility's net  
2 investment used in providing utility service, on which the utility is permitted the opportunity  
3 to be earned a return. For its direct filing, the Staff has determined UE's rate base as of  
4 March 31, 2008, consistent with the end of the test year established for this case. The rate  
5 base will be trued-up through September 30, 2008 as authorized by the Commission.  
6 Rate base includes, e.g., plant in service (fully operational and used for service), cash working  
7 capital, materials and supplies, prepayments, fuel inventories, accumulated reserve for  
8 depreciation, etc.

9                   6)       Net Operating Income from Existing Rates. The starting point for  
10 determining net income from existing rates is the unadjusted operating revenues, expenses,  
11 depreciation and taxes for the test year which is the twelve month period ending March 31,  
12 2008, for this case. All of the utility's specific revenue and expense categories are examined  
13 to determine whether the unadjusted test year results require adjustments in order to fairly  
14 represent the utility's most current level of operating revenues and expenses.  
15 Numerous changes occur during the course of any year that will impact a utility's annual level  
16 of operating revenues and expenses.

17                   7)       Determination of Net Operating Income Required. The net income  
18 required for AmerenUE is calculated by multiplying the Staff's recommended rate of return  
19 by the rate base as of March 31, 2008. Net income required is then compared to net income  
20 available from existing rates discussed in Item 6. The difference, when factored-up for  
21 income taxes, represents the incremental change in the Company's rate revenues required to  
22 cover its operating costs and provide a fair return on investment used in providing electric  
23 service. If a utility's current rates are insufficient to cover its operating costs and a fair return

1 on investment, the comparison of net operating income required (Rate Base x Recommended  
2 Rate of Return) to net income available from existing rates (Operating Revenue less  
3 Operating Costs, Depreciation and Income Taxes) will result in a positive amount. If the  
4 comparison results in a negative amount, this indicates that the utility's current rates are  
5 excessive.

6 Q. Please identify the types of adjustments which are made to unadjusted test year  
7 results in order to reflect a utility's current annual level of operating revenues and expenses.

8 A. The types of adjustments made to reflect a utility's current annual operating  
9 revenues and expenses are:

10 1) Normalization adjustments. Utility rates are intended to reflect normal  
11 ongoing operations. A normalization adjustment is required when the test year reflects the  
12 impact of an abnormal event. One example is the Staff's revenue adjustment to normalize  
13 weather. Actual weather conditions in the test year are compared to a 30-year normal. The  
14 weather normalization adjustment restates the test year sales volumes and revenue levels to  
15 reflect normal weather conditions.

16 2) Annualization adjustments. Annualization adjustments are required  
17 when changes have occurred during the test year, update and/or true-up period, which are not  
18 fully reflected in the unadjusted test year results. For example, a portion of UE's employees  
19 received an increase on January 1, 2007. As a result, only the last three months of the test  
20 year for the twelve months ending March 31, 2008, reflect the impact of this payroll increase.  
21 An annualization adjustment was made to capture the financial impact of the payroll increase  
22 for the other nine months of the test year. AmerenUE also had a payroll increase for another  
23 group of employees that was effective April 1, 2008. Since this increase occurred only

1 one day after the March 31, 2008 test year, the Staff took the approach that it was appropriate  
2 for the entire test year to be adjusted to reflect the annual cost of this payroll increase.

3 3) Disallowance adjustments. Disallowance adjustments are made to  
4 eliminate costs in the test year results that are not considered appropriate for recovery from  
5 ratepayers. An example in this case is certain executive incentive compensation costs. In the  
6 Staff's view, these costs are incurred to primarily benefit shareholder interests, and it is not  
7 appropriate policy to pass these costs onto customers in rates. Therefore, these costs should  
8 be eliminated from the cost of service borne by ratepayers, and the Staff has proposed to  
9 disallow them from recovery in rates.

10 4) Proforma adjustments. Proforma adjustments reflect the impact of  
11 items and events that occur subsequent to the test year. These items or events significantly  
12 impact the revenue, expense and rate base relationship and should be recognized to address the  
13 forward-looking objective of the test year. Caution must be taken when recognizing proforma  
14 adjustments to ensure that all items and events subsequent to the test year are examined to  
15 avoid not recognizing offsetting adjustments. In addition, some post test year items and  
16 events may not have occurred yet and/or may not have been sufficiently measured. As a  
17 result, quantification of some proforma adjustments may be more difficult than the  
18 quantification of other adjustments. A true-up audit that considers a full range of items and  
19 events that occur subsequent to the test year attempts to address the maintenance of the proper  
20 relationship among revenues, expenses and investment as well as address the difficulty in  
21 quantification associated with making proforma adjustments.

22  
23

1 Q. What rate increase amount, based on what return on equity (ROE) percentage,  
2 did the Company request from the Commission in this case?

3 A. AmerenUE requested that its annual revenues be increased by approximately  
4 \$251,000,000, based on an ROE of 10.90%

5 Q. Please describe the Staff's direct case revenue requirement filing in this  
6 proceeding.

7 A. The results of the Staff's audit of UE's rate case request can be found in the  
8 Staff's filed Accounting Schedules, and is summarized on Accounting Schedule 1,  
9 Revenue Requirement. This Accounting Schedule shows that the Staff's recommended  
10 revenue requirement for UE in this proceeding ranges from approximately \$28,100,000 to  
11 \$63,000,000, based upon a recommended rate of return range of 7.39% to 7.77%. The Staff's  
12 recommended revenue requirement is \$51,395,678 at its recommended rate of return of 7.64%  
13 within that recommended range.

14 Q. What ROE range is the Staff recommending for UE in this case?

15 A. The Staff is recommending a return on equity range of 9.00% to 9.75%, with a  
16 specific recommendation of 9.50%, as calculated by Staff witness Steven Hill. To develop  
17 the weighted cost of capital, Staff witness Hill has used the Company's capital structure and  
18 embedded costs.

19 Q. What items are included in the Staff's recommended rate base in this case?

20 A. All rate base items were determined as of the test year period ending date of  
21 March 31, 2008, AmerenUE having updated its forecasted test year data with actual data,  
22 either through a balance on UE's books as of that date or a 13-month average balance ending  
23 on March 31, 2008. These rate base items include: Plant in Service, Accumulated Reserve

1 for Depreciation, Materials and Supplies, Prepayments, Fuel Inventories, Customer Advances  
2 for Construction, Customer Deposits, FAS 87-Pension and FAS 106-OPEBs Tracking  
3 Liability and Accumulated Deferred Tax Reserve.

4 Q. What are the significant income statement adjustments the Staff made in  
5 determining AmerenUE's revenue requirement for this case?

6 A. A summary of the Staff's significant income statement adjustments follows:

7 **Operating Revenues**

8 Retail revenues were adjusted for the additional leap-year day in the test year, the  
9 elimination of unbilled revenue and gross receipts taxes, customer growth, weather and the  
10 increase ordered by the Commission in AmerenUE's last general rate increase case effective  
11 June 1, 2007, Case No. ER-2007-0002. Other electric revenues were adjusted for off-system  
12 sales, capacity sales, transmission revenue and rent revenue.

13 **Depreciation and Amortization Expense**

14 Depreciation expense was annualized based upon the plant in service as of March 31,  
15 2008.

16 **Payroll, Payroll Taxes and Employee Benefit Costs**

- 17
- Payroll expense annualized for wage increases through April 1, 2008.
  - 18 • Payroll taxes consistent with the wage annualization.
  - 19 • Incentive compensation and restricted stock awards disallowance.
  - 20 • Overtime normalization.
  - 21 • Employee benefits including pensions and OPEBs

1           **Other Non-Labor Expenses**

- 2           • Property taxes based on the most recent assessments and tax rates.
- 3           • Fuel, purchased power and off-system sales annualization to reflect current
- 4           prices, SO<sub>2</sub> costs, and the dispatch of power sources to meet the Staff's
- 5           determination of AmerenUE's generation requirements.
- 6           • Rate case expense annualization.
- 7           • Disallowance of certain advertising, dues and donations.
- 8           • Insurance premiums adjustment.
- 9           • Storm cost amortization and normalization.
- 10          • Elimination of Taum Sauk expenses.

11          Q.     What reliance did you place on the work or conclusions of other Staff members

12          or consultants working on Staff's behalf?

13          A.     I and the other assigned Staff Auditors relied on the work from numerous other

14          Staff members in calculating a revenue requirement for AmerenUE in this case.

15          Weather normalized sales and the recommended rate of return are some examples of data and

16          analysis supplied to the Auditing Department as inputs into the Staff's revenue requirement

17          cost of service calculation. Affidavits and the qualifications for all Staff members not filing

18          direct testimony, but who participated in the rate case and are responsible for a section of the

19          Staff's Revenue Requirement Cost of Service Report, and Staff consultant Michael L. Rahrer

20          are attached as an appendix to the Report. Further, each Staff member who is responsible for

21          a section of the Staff's Revenue Requirement Cost of Service Report is identified at the

22          conclusion of the section he or she authored as being the Staff expert and witness responsible

23          for that section.

1 Q. What are the biggest differences between the rate increase request filed by the  
2 Company and the Staff revenue requirement recommendations being filed in this proceeding?

3 A. From the Staff's perspective, there are four primary revenue requirement  
4 differences.

- 5 • Return On Equity (ROE).

6 As previously stated, AmerenUE's return on equity recommendation is 10.9%,  
7 while the Staff's recommendation is 9.5%. The dollar difference between the  
8 Company and the Staff on this issue is approximately \$70 million.

- 9 • Incentive Compensation and Restrictive Stock Programs.

10 The Staff's elimination of these items from the cost of service represents a  
11 difference from the Company of \$14 million.

- 12 • Payroll and Benefits Cost.

13 The Staff's normalization and annualization of payroll, payroll taxes and  
14 benefits, including pensions and OPEBs, results in a difference from the  
15 Company of \$14 million.

- 16 • Tree Trimming, PowerOn and Other Distribution Costs.

17 The Staff's recognition of test year rather than budgeted levels of these costs  
18 represents a difference of \$20 million.

- 19 • Fuel, Purchased Power and Off-System Sales (OSS).

20 The majority of this difference relates to the level of off-system sales  
21 recommended to be reflected in rates by AmerenUE and the Staff. The total  
22 difference between Company and the Staff in this area is approximately  
23 \$12 million.

- MISO Day 2 Revenues

The Staff's recognition of a portion of the Revenue Sufficiency Guarantee (RSG) payments received from its participation in the Midwest Independent Transmission System Operator (MISO) energy market results in a difference of \$12 million.

As a result of its audit of other areas of the Company's operations, the Staff has proposed other adjustments, which also contribute to the different rate increase recommendations between AmerenUE and the Staff. However, these adjustments are not of the same magnitude as the adjustments discussed above.

Q. Is it possible that significant differences exist between the Staff's revenue requirement positions and those of other parties besides AmerenUE in this proceeding?

A. Yes. However, the other parties are filing their direct testimony, if any, concurrent in timing with the Staff's direct filing. Until the Staff has a chance to examine the direct testimony of other parties, it is impossible to determine what differences exist and how material they may be.

Q. Are there any significant differences that exist between the Staff and AmerenUE in their direct filings that are not specifically quantified on the Accounting Schedules?

A. Yes. The Company recommends that the Commission implement an FAC in this proceeding to recover 95% of the changes in its fuel and purchased power costs without AmerenUE filing a general rate proceeding. The Staff opposes the implementation of a FAC. The Staff's position is addressed in its report.



1 Q. Please identify the Staff witnesses responsible for addressing each area where  
2 there is a known and significant difference between the Staff and the Company that is  
3 addressed in this direct testimony, the direct testimony of Staff consultant Steven Hill, or in  
4 the Staff Report in Section III, Major Issues.

5 A. The Staff experts/witnesses for each listed issue are as follows:

<u>Issue</u>	<u>Staff Witness</u>
Return on Equity/Rate of Return	Steven Hill
Incentive Compensation and Restrictive Stock	Jeremy Hagemeyer
Payroll, Payroll Taxes and Benefits	Roberta Grissum
Tree Trimming, PowerOn and Other Distribution Costs	Jeremy Hagemeyer
Fuel, Purchased Power and Off-System Sales	Alan Bax John Cassidy Shawn Lange Erin Maloney Michael Rahrer
MISO Day 2 Revenues	Jeremy Hagemeyer
Fuel Adjustment Clause	Lena Mantle

6 Q. When will the Staff be filing its customer class cost of service/rate design  
7 direct testimony and report in this proceeding?

8 A. The Staff's direct testimony and customer class cost of service/rate design  
9 report will be filed on September 11, 2008.

1 **TAUM SAUK CAPACITY SALES**

2 Q. What are “Taum Sauk Capacity Sales”?

3 A. In December of 2005, a breach of the upper reservoir was experienced at the  
4 Taum Sauk Generating Facility (Taum Sauk). Taum Sauk is being rebuilt, but is currently  
5 unavailable for electric generation. AmerenUE has agreed to hold ratepayers harmless for  
6 this event. Under this “hold harmless” commitment, Taum Sauk is treated as though its  
7 capacity is available to meet the generation needs of the Company in the determination of  
8 revenue requirement.

9 During some summer months, AmerenUE was able to sell all of its excess capacity.  
10 This occurred during July and August in 2007 and June through September 2008.  
11 If Taum Sauk were available during these periods, additional AmerenUE generating capacity  
12 would be available allowing the Company to make more capacity sales. Under the hold  
13 harmless commitment, an imputed level of capacity sales revenue that would be realized if  
14 Taum Sauk were available has been included in the calculation of AmerenUE’s cost of  
15 service.

16 Q. How was this imputed level of Taum Sauk capacity sales determined?

17 A. Since AmerenUE sold all of its excess capacity for the period of  
18 June 1 through September 30, 2008, the Company estimated that an additional 440 MW, the  
19 capacity of Taum Sauk, could have also been sold during that period, if the facility had been  
20 available. On March 31, 2008, Ameren’s Illinois subsidiaries issued a capacity request for  
21 proposal. The Company used the average prices received in response to the capacity request  
22 for proposal to value the Taum Sauk capacity. The Staff believes that this is an appropriate  
23 price to use, since it reflects a market price.

1 Q. Has the Staff examined the level of capacity sales that could have been realized  
2 from Taum Sauk, prior to 2008, had the facility been available?

3 A. Yes. The Commission established Case No. ER-2008-0015, to examine the  
4 issue of Taum Sauk capacity sales. That case was consolidated with the current rate case,  
5 Case No. ER-2008-0318. The Staff has examined documentation that was available to  
6 AmerenUE and has met with Company officials regarding this matter.

7 Q. What are the Staff's conclusions?

8 A. At the time of the Staff's January 1, 2007, true-up cut-off in the last rate case,  
9 Case No. ER-2007-0002, AmerenUE stated that it did not know that it would be able to sell  
10 all of its excess capacity during any period in 2007. The Company was not able to sell all of  
11 its excess capacity in any period in 2006 and the capacity sales documentation available on  
12 January 1, 2007, did not indicate that AmerenUE would be able to sell all of its excess  
13 capacity during any period in 2007. Therefore, had this item been examined as part of the  
14 true-up in Case No. ER-2008-0002, I do not believe the Staff would have proposed an  
15 adjustment to impute Taum Sauk capacity sales in the last case and the Staff is not  
16 recommending an adjustment to capture these prior period sales from the last case for  
17 inclusion in the cost of service in this case.

18 Q. Did AmerenUE actually sell all of its excess capacity in any period during  
19 2007?

20 A. Yes. AmerenUE sold all of its excess capacity during July and August 2007.  
21 Using the same estimation process as has been proposed for 2008, had Taum Sauk been  
22 available during July and August 2007, the Company could have made additional capacity  
23 sales of 440 MW during that period.

1 Q. What value would Staff place on such 2007 imputed capacity sales?

2 A. Ameren's Illinois subsidiaries did not issue a capacity request for proposal in  
3 2007. Therefore, the Staff would propose the use of the average price actually received for  
4 other capacity sales experienced by AmerenUE during July and August 2007. The use of  
5 these prices results in approximately \$1,000,000 of imputed capacity sales. Since the  
6 accumulation of historical imputed Taum Sauk capacity sales does not represent an annual  
7 ongoing level, if the Commission believes these sales should be included in the revenue  
8 requirement determination in the current case, the Staff recommends that this amount be  
9 spread over more than one annual period.

10 Q. Does this conclude your direct testimony in this proceeding?

11 A. Yes, it does.

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

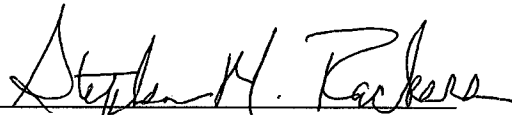
In the Matter of Union Electric Company d/b/a )  
 AmerenUE for Authority to File Tariffs ) Case No. ER-2008-0318  
 Increasing Rates for Electric Service Provided )  
 to Customers in the Company's Missouri )  
 Service Area. )

AFFIDAVIT OF STEPHEN M. RACKERS


STATE OF Missouri )  
 )  
 COUNTY OF Cole )

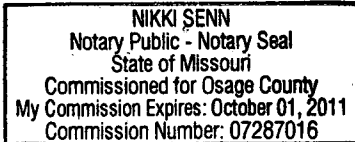
ss.

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 18 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.

  
 \_\_\_\_\_  
 Stephen M. Rackers

Subscribed and sworn to before me this 28<sup>th</sup> day of August, 2008.

  
 \_\_\_\_\_  
 Notary Public



## **CREDENTIALS AND BACKGROUND OF**

### **STEPHEN M. RACKERS**

I attended the University of Missouri in Columbia, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1978. I have been employed by the Missouri Public Service Commission (Commission) since June 1, 1978 within the Auditing Department.

I passed the Uniform Certified Public Accountant examination and, I am licensed in the state of Missouri as a CPA. The Uniform CPA examination consisted of four parts: Accounting Practice, Accounting Theory, Auditing and Business Law.

I have been employed by this Commission as a Regulatory Auditor for over 30 years, and have submitted testimony on revenue, expense, and rate base ratemaking matters numerous times before the Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings many times. I also participate in proceedings that involve the enforcement, interpretation and writing of the Commission's rules. I have received continuous training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission. My responsibilities auditing the books and records of the utilities regulated by the Commission require that I review statutes applicable to the Commission or the utilities regulated by the Commission, the Commission's rules, utility tariffs, and contracts and other documents relating to the utilities regulated by the Commission. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1997 to current, is attached as Schedule SMR 1.

Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
Pension Liability, Income Tax Expense, Deferred Income Taxes, Income Tax Expense, Deferred Income Taxes – Rate Base Offset, Pension Liability, Income Taxes, Territorial Agreements	EC-2002-1	Direct, Surrebuttal	Union Electric Company d/b/a AmerenUE
Income Taxes, Pension Liability	EC-2002-1025	Direct	Union Electric Company d/b/a AmerenUE
Income Tax, Territorial Agreement, Overview, Income Taxes, Alternative Regulation Plan and Agreements, Pension Liability	EM-96-149	Direct, Surrebuttal	Union Electric Company
Overview, Income Tax, Territorial Agreements, Alternative Regulation Plan and Agreement	EO-96-14	Direct, Surrebuttal	Union Electric Company
Territorial Agreements	EO-99-599	Rebuttal	Union Electric Company / Ozark Border Electric Cooperative
Purchase Power	ER-2002-217	Direct	Citizens Electric Corporation
Application Recommendation	GM-2001-342	Rebuttal	Laclede Gas Company
ISRS Income Taxes	GO-2004-0443	Direct	Laclede Gas Company
Incentive Compensation, Post-Retirement Benefits Other than Pensions, Prepaid Pension Assets, Pensions	GR-2001-629	Direct	Laclede Gas Company
Copper Surveys, Net Salvage Expense, Environmental Cost, Test Year & True-Up, Accounting Authority Orders, Laclede Pipeline, Safety and Copper Service Replacement Program	GR-2002-356	Direct, Rebuttal, Surrebuttal	Laclede Gas Company
True-Up, Other Rate Base Items, MGP Sites, Income Taxes	GR-2006-0387	Direct	Atmos Energy Corporation
Safety Deferral, FAS 87, FAS 88, FAS 106, Prepaid Pension Asset, Environmental Cost, Computer Cost, Supplemental Pension, Accounting Authority Orders	GR-99-315	Direct, Rebuttal, Surrebuttal	Laclede Gas Company
Financial Aspects	GT-2003-0117	Direct	Laclede Gas Company
Staff's Explanation and Rationale for Supporting the Stipulation Agreement	SR-2000-282	Direct in Support of Stipulation Agreement	Missouri-American Water Company

Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
Pension Liability, AFUDC, Deferred OPEB Asset, Pension Expense – FAS 87, New St. Joseph Treatment Plant Phase-In, OPEBS – FAS 106, Phase-In, Accounting Authority Order, Phase-In	SR-2000-282	Direct, Rebuttal, Surrebuttal	Missouri-American Water Company
Lease Classification & Terms	WA-97-46	Rebuttal	Missouri-American Water Company
St. Joseph Treatment Plant, AAOs, Depreciation, Transaction Costs, Old St. Joseph Treatment Plant, Security Accounting Authority Order, Acquisition Adjustments	WC-2004-0168	Direct, Surrebuttal	Missouri-American Water Company
Lease Classification & Terms	WF-97-241	Rebuttal	Missouri-American Water Company
Merger Recommendation, Cost Allocation Manual	WM-2001-309	Rebuttal, Surrebuttal	Missouri-American Water Company, et al
Main Replacement Program, Order-Infrastructure, Accounting Authority, Main Replacement Programs	WO-98-223	Direct	St. Louis County Water Company
Staff's Explanation and Rationale for Supporting the Stipulation Agreement	WR-2000-281	Direct in Support of Stipulation Agreement	Missouri-American Water Company
Pension Expense-FAS 87, Pension Liability, AFUDC, Deferred OPEB Asset, New St. Joseph Treatment Plant Phase-In, OPEBS-FAS 106, Accounting Authority Order, Phase-In, St. Joseph Treatment Plant	WR-2000-281	Direct, Rebuttal, Surrebuttal	Missouri-American Water Company
Merger Cost and Savings, Infrastructure Replacement Deferrals, Income Taxes, Net Salvage Expense, Revenue Requirement, Merger Costs and Savings, Accounting Authority Orders (AAO's), Infrastructure Replacement, Depreciation	WR-2000-844	Direct, Rebuttal, Surrebuttal	St. Louis County Water Company
Transaction Costs, Depreciation, AAO's, Acquisition Adjustment, Security Accounting Authority Order, Old St. Joseph Treatment Plant	WR-2003-0500	Direct, Surrebuttal	Missouri-American Water Company



Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
Amortization of Depreciation Reserve Deficiency, Appointment Meter Reading, Main Incident Expense, Income Tax, Infrastructure Replacement Deferral, Property Tax	WR-97-382	Direct	St. Louis County Water Company
Affidavit in Support of the Stipulation and Agreement on various issues.	GR-2005-0284	Affidavit	Laclede Gas Company
True-Up, Income Taxes, MGP Sites, Other Rates Base Items, Revenue Requirement and OPEB	GR-2007-0387	Direct, Rebuttal	ATMOS Energy Company
Income Taxes, Accumulated Deferred Income Taxes in Rate Base, Taum Sauk Generating Plant, Pinckneyville and Kinmundy Generating Plants, Accumulated Income Deferred Income Tax Balance, Income Tax Expense	ER-2007-0002	Direct, Rebuttal	Union Electric Company d/b/a AmerenUE
True-up, Security AAO, Joplin Surcharge	WR-2007-0216	Direct, Rebuttal, Supplemental True-up Direct	Missouri-American Water Company