Exhibit No.:	
Issue(s):	Interim Rates
Witness:	Gary S. Weiss
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Surrebuttal Testimony
Case No.:	ER-2010-0036
Date Testimony Prepared:	November 24, 2009

MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2010-0036

SURREBUTTAL TESTIMONY ON INTERIM RATES

OF

GARY S. WEISS

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
November, 2009

SURREBUTTAL TESTIMONY ON INTERIM RATES

OF

GARY S. WEISS

CASE NO. ER-2010-0036

Q. Please state your name and business address.

A. My name is Gary S. Weiss. My business address is 1901 Chouteau Avenue, Saint Louis, Missouri 63103.

Q. Are you the same Gary S. Weiss who filed direct and rebuttal testimony on interim rates in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony on interim rates?

A. The purpose of my surrebuttal testimony on interim rates is to respond to the rebuttal testimony on interim rates filed by Staff witness Stephen Rackers and Office of the Public Counsel ("OPC") witness Russell Trippensee.

Q. What are your comments regarding Staff witness Stephen Rackers' rebuttal testimony?

A. First, Mr. Rackers, starting on page 2, line 14 through page 3, line 5 of his interim rebuttal testimony, discusses two adjustments he would recommend to the net plant used in the Company's calculation that provides support for the interim rate increase. Mr. Rackers recommended reducing the net plant by increases in the accumulated deferred income taxes ("ADIT") from September 30 through May 31, 2009, and not including the increase in net plant for new plant added to serve new business. Mr. Rackers justifies these proposed adjustments in part by pointing to the manner in which gas infrastructure system replacement surcharges

("ISRS") are calculated. While an ISRS adjustment would account for the increase in ADIT and would exclude plant additions for new business, the nature of an interim rate increase request is very different. In providing support for the approximately $37.3 million interim rate increase request by calculating the increase in net plant in service, the Company chose a very simple and straightforward method to calculate the net plant increase. All other items – those that may tend to decrease the revenue requirement and those that tend to increase it – will be taken into account as part of the final resolution of the full rate increase request and will be reflected in the permanent rates that are ultimately approved. This is unlike an ISRS adjustment, which is a permanent rate increase that cannot later be adjusted. To the contrary, the Company's interim rate request is, as the name implies, "interim," and if after taking all factors (including the two raised by Mr. Rackers) it needs to be adjusted to reflect the final permanent revenue requirement, it will be adjusted and any over-collection will be refunded with interest.

Q. Do these two adjustments suggested by Mr. Rackers eliminate the need for the interim increase?

A. No. Even if they were appropriate, which for the reasons noted above they are not at this stage of this case, they would reduce the amount of the interim rate increase but they would not eliminate it.

Q. Are there other adjustments that the Company believes would go the other way that will also be taken into account in the final resolution of the Company's permanent rate increase request?

A. Yes. For example, operations and maintenance expense associated with plant additions is likely to increase. Property taxes may well increase and the rate of return will undoubtedly change. All of these items will be taken into account in resolving the permanent rate increase sought in this case.

Q. Mr. Rackers on page 3, line 8 through line 13, suggests that some of the Company's net plant additions are intended to improve efficiency and thus there could be cost savings. Do you agree with this?

A. No. Mr. Rackers is just speculating that there might be efficiency gains. If there are any efficiency gains, they will be picked up as part of considering all relevant factors in setting permanent rates.

Q. Did the rate base data provided in the monthly surveillance reports change in March 2009?

A. Yes, as Mr. Rackers states on page 4, line 11 through line 20, the rate base information provided in the monthly surveillance reports for the past twenty years did change in March 2009. This change is due to the fact that the Commission approved the Company's implementation of a Fuel Adjustment Clause ("FAC") in March 2009 per the Report and Order in Case No. ER-2008-0318. The FAC rules required the filing of new and additional data in the surveillance report (on a quarterly basis).

Q. Does this new and additional data filed for the rate base in the surveillance reports change the results significantly?

A. No. The average Missouri retail electric rate base for the seven months of August 2008 through February 2009 is $6.074 billion. The average Missouri retail electric rate base for the seven months of March 2009 through September 2009 is $6.033 billion. This is a change of only .7%.

Q. Mr. Rackers states on page 5, lines 1 through 4, that the return on equity calculations in your direct testimony do not reflect the full amount of the March 2009 rate increase. How do you respond?

A. The return on equity calculation in my direct testimony did not reflect the March 2009 rate increase annualized over an entire 12-month period. However, in my rebuttal testimony on interim rates on Schedule GSW E-25, in response to Mr. Gorman's direct testimony, I did calculate a full year of the March 2009 rate increase. Reflecting the full year's revenue increase still shows a significant shortfall in the earned return compared to the allowed return. However, in my opinion, it is not appropriate to reflect a full year of the rate increase approved by the Commission in March in calculating the Company's earnings shortfall. The point we are making is that the existing regulatory framework results in long delays in reflecting costs in rates, which materially detracts from the Company's earnings. The reduced earnings that the Company experienced prior to March 2009, when rates were finally approved in the last rate case, actually occurred and should be fully considered by the Commission in assessing the impact of regulatory lag on AmerenUE. Mr. Gorman's attempt to eliminate a portion of these actual, historical earnings shortfalls by annualizing the rate increase approved in March, and Mr. Rackers' similar suggestion, are not appropriate.

Q. Do you agree with the 10.61% earned rate of return calculated by Mr. Rackers for the year 2005 on page 6, line 3, of his rebuttal testimony?

A. No, the Company's earned return on equity for the 12 months ended December 31, 2005 was only 9.01% - 160 basis points less than claimed by Mr. Rackers (which equates to a more than $73 million shortfall). Once the final rate decrease became effective on April 1, 2004, from Case No. EC-2002-1 and was fully reflected in revenues, the Company has consistently been earning an average return on equity below that authorized by the Commission.

Q. Do you agree that the fact that the Company earned a positive return on equity (albeit far below its authorized return) shows the Company is not failing to recover the cost of its plant additions since the true-up date of September 2008?

A. No, I disagree with Mr. Rackers' testimony on page 8, line 13 through line 17, regarding this point. First, the rates that the Company is currently collecting only reflect plant additions through September 2008. Therefore, the revenue requirement on the net plant additions from September 2008 through May 2009 is not reflected in rates, and is not being collected by the Company. While it is true the Company is earning *a* return on equity, it is also true that this earned return on equity is significantly less than the authorized return. The issue is not whether there is a "positive" return on equity—a .5% earned return on equity is positive. The issue is that items like the increase in net plant, and the associated return requirement, taxes and depreciation, are not reflected in current rates and this causes the Company to be unable to recover its cost of equity. That cost of equity was most recently determined by the Commission to be 10.76%, but the Company is only earning an average return on equity of 6.16% for the 12-month period ending September 2009. This is 460 basis points (or over $200 million) that was not recovered over that period due to regulatory lag. In other words, the Company failed to recover over $200 million of its cost of equity during this period.

Q. What are your comments concerning OPC witness Russell Trippensee's similar argument made in his rebuttal testimony?

A. On page 9, line 5 through line 23, Mr. Trippensee states that he, like Mr. Rackers, believes a positive earned return on equity eliminates the lost revenue requirement on the net plant additions placed in service since the true-up in the last rate case. I disagree with Mr. Trippensee for the same reasons given above regarding Mr. Rackers.

Q. Is Mr. Trippensee's claim at page 8, lines 10 through 11, of his rebuttal testimony to the effect that an interim rate increase would transfer wealth to shareholders without a consideration of all relevant factors true?

A. No. Mr. Trippensee completely ignores that interim rates are just that, interim subject to refund. All relevant factors will be taken into account with regard to the permanent rates to be set in this case.

Q. Do you agree with Mr. Trippensee's testimony on page 11 of his rebuttal testimony that implies the true-up process and annualization process eliminate regulatory lag?

A. No, the true-up process does mean that a *more* current level of investment and expenses will be used to *set* rates *prospectively*. However, the true-up date is typically some five months before the new rates become effective. Therefore, there is still regulatory lag between the true-up date and the effective date of the new rates. Moreover, even though the true-up allows more current (albeit still out-of-date) information to be used to set prospective rates, the true-up does not address the lost earnings between the time rates were last set and when new rates take effect, as evidenced by the substantial historical earnings shortfalls we have shown. In our last case, the true-up date was September 2008 and new rates from this case will likely not be effective until June 2010. There is no way the true-up process and the annualization process can eliminate this real regulatory lag and lost revenue requirement.

Q. Does the example shown by Mr. Trippensee on page 12, line 1 through line 7, where he claims that his hypothetical higher $350 payroll cost will be included in rates

prospectively because of the true-up mean that the true-up eliminates regulatory lag regarding the increase in payroll costs from $200 to $350?

A. No. Mr. Trippensee's example overlooks or ignores the fact that the hypothetical utility in his example will actually start paying this higher labor cost five months before it starts collecting it in rates. Consequently, the utility's earnings will be impacted five months before new rates take effect, and this impact will be caused by regulatory lag.

Q. Does the use of Allowance for Funds Used During Construction ("AFUDC") on Construction Work in Progress ("CWIP") projects until they are placed in service compensate the Company's shareholders and eliminate regulatory lag?

A. Absolutely not. On page 12, line 11 through line 13, Mr. Trippensee states correctly that the AFUDC on CWIP projects does compensate shareholders for the cost of money to finance these projects *until they are placed in-service*. However, once the project is placed in-service the AFUDC stops and at that point shareholders are no longer compensated in any way for the money to finance the project; they will not earn a return on this investment until it is included in rates. Consequently, the cost of equity associated with this additional plant in service is simply not covered by current rates. Moreover, AFUDC is a non-cash item and is recovered over the life of the asset placed in-service and thus it does not eliminate cash flow problems caused by regulatory lag. For these reasons, AFUDC does not eliminate the regulatory lag.

Q. Does this conclude your surrebuttal testimony on interim rates?

A. Yes, it does

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company	)	Case No. ER-2010-0036
d/b/a AmerenUE's Tariffs to Increase its	)	
Annual Revenues for Electric Service.	)	

AFFIDAVIT OF GARY S. WEISS

STATE OF MISSOURI)
) **ss**
CITY OF ST. LOUIS)

Gary S. Weiss, being first duly sworn on his oath, states:

1. My name is Gary S. Weiss. I am employed by Union Electric Company d/b/a AmerenUE as Manager, Regulatory Accounting.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on Interim Rates on behalf of AmerenUE, consisting of 7 pages, which has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Gary S. Weiss
Gary S. Weiss

Subscribed and sworn to before me this 24th day of November, 2009.

Mary Hoyt
Notary Public

My commission expires: 4-1-2010

Mary Hoyt - Notary Public
Notary Seal, State of
Missouri - Jefferson County
Commission #06397820
My Commission Expires 4/1/2010