Exhibit No.:
Issues: Injuries and Damages
Merger Costs
Advertising
Witness: Michael G. Gruner
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: EM-96-149

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL G. GRUNER

UNION ELECTRIC COMPANY

CASE NO. EM-96-149

Jefferson City, Missouri
April 1999

SURREBUTTAL TESTIMONY

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UNION ELECTRIC COMPANY

CASE NO. EM-96-149

Q. Please state your name and business address.

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

Q. Are you the same Michael G. Gruner who has previously filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of Union Electric Company (UE or Company) witnesses Warner L. Baxter and Benjamin A. McKnight regarding the proper level of merger costs, advertising expense, and injury and damages expense to reflect in the third year earnings sharing credit calculations.

MERGER & ACQUISITION COSTS

Q. Do you agree with Company witness Baxter's calculation of merger and acquisition costs?

A. No, I do not. As Mr. Baxter stated in his testimony (page 30, lines 1-5), the Stipulation and Agreement for Case No. EM-96-149 does read:

> The annual amortization of merger transaction and transition cost will be the lesser of : (1) the Missouri jurisdictional portion of the total Ameren amount of $7.2 million; or (2) the Missouri Jurisdictional portion of the total Ameren unamortized amount of actual merger transaction and transition costs incurred to date.

But the Stipulation and Agreement also states, in the sentence directly before the portion Mr. Baxter quotes:

> Actual prudent and reasonable merger transaction and transition costs (estimated to be $71.5 million) shall be amortized over ten years beginning the date the merger closes. (Emphasis added.)

This is the portion of the Stipulation and Agreement the Staff believes is controlling. The Stipulation and Agreement states that actual transaction and transition costs should be amortized over a ten-year period. By stating that the $71.5 million amount is only an estimate, the language in the Stipulation and Agreement indicates that the number is subject to change as time passes and more accurate estimates or actual amounts become available.

Q. Do you agree with Mr. Baxter that the Stipulation and Agreement intends the amount of $7.2 million as a fixed amount to be compared to the Missouri jurisdictional portion of the total Ameren unamortized amount of actual merger transaction and transition costs incurred to date?

A. No, I do not agree with Mr. Baxter's (page 31, lines 12-18) assertion with regard to the $7.2 million. The $7.2 million (or $6.2 million Missouri jurisdictional portion) Mr. Baxter uses in his calculation simply reflects a ten-year amortization of the $71.5 million of merger and acquisition costs, estimated at the time the Stipulation and

Agreement was entered into by the signatories. The Stipulation and Agreement does not state that the $7.2 million estimate is a fixed amount and will not be adjusted to reflect actual costs or new and more accurate estimates as they become known. What the Staff's adjustment accomplishes is adjusting the $7.2 million estimate to reflect a more accurate estimate of prudent and reasonable merger transaction and transition costs as of June 30, 1998, and then amortizing that amount over the agreed-upon ten-year period.

Q. Are actual and/or more current estimates of merger and acquisition costs now available?

A. Yes. The actual merger transaction costs are $25,620,950, compared to the original estimate in 1996 of $21,834,000. The original estimate of merger transition costs, approximately $50 million, has been revised to $41 million as of June 30, 1998. As a result, the Company's estimate of total merger and acquisition costs as reflected in the Stipulation and Agreement for Case No. EM-96-149 was overstated.

Q. If merger and acquisition costs remain at their current estimated level, could the Company's interpretation of the language result in an amortization period of less than ten years?

A. Yes. Using the Company's method of amortization and its June 30, 1998 estimate, merger and acquisition costs would be amortized in approximately 9.25 years.

ADVERTISING EXPENSE

Q. Does the Company agree with your classification of certain advertising expenses as merger and acquisition costs?

A. Yes, Mr. Baxter states in his rebuttal testimony (page 38, lines 12-16) that the Company did not include any of the $1,198,124 of advertising costs, associated with

UE's name change to Ameren, in its calculation of merger and acquisition costs. As a result, he now proposes to properly include these costs in the total merger and acquisition costs which are subject to amortization. Therefore, there is no longer an advertising issue, between UE and the Staff regarding the classification of advertising. This amount becomes part of the merger and acquisition cost amortization issue discussed previously.

INJURIES AND DAMAGES EXPENSE

Q. Have you read Company witnesses Baxter and McKnight's rebuttal testimony relating to injuries and damages expense?

A. Yes, I have.

Q. Do you agree that the Company has provided a reasonable explanation for the increase to injuries and damages expense in the third sharing period?

A. No, Mr. Baxter states in his rebuttal testimony (page 34, lines 19-20) the Company's accrual for injuries and damages is correct under GAAP. However, the Commission has never held itself to be bound by GAAP for ratemaking purposes. Mr. Baxter also states (pages 34-35, lines 20-21 and 1-2) the injuries and damages reserve represents management's best estimate of the ultimate amount necessary to settle all claims or damages that arose from events that occurred prior to the balance sheet date. Estimates involve subjective judgment and the Company believes that, under the terms of the Stipulation and Agreement, the Staff must unquestioningly accept the Company's estimate. The Company states the increase is caused in part by an increase in adverse court judgments which its believes will ultimately result in payouts. In his testimony (page 35, lines 8-11) Mr. Baxter also asserts that, based on the trend in the third sharing period, future payouts will also be larger than in prior years. In other words, customers

are being hit twice in the third sharing period for injuries and damages expense: once with abnormally high payments for actual claims from adverse judgments and again with an increased accrual reflecting UE's subjective expectation of higher future payments.

Q. Is there anything else you want to say at this time?

A. Yes, I reserve the right to file supplemental surrebuttal testimony based on outstanding data requests. I submitte d the data requests on April 6, 1999, relating to the injuries and damages expense testimony contained in UE's rebuttal filing of April 2, 1999. I will submit supplemental testimony as soon as possible after UE responds to the outstanding data requests.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Union Electric Company For An Order Authorizing: (1) Certain Merger Transactions Involving Union Electric Company; (2) The Transfer of Certain Assets, Real Estate, Leased Property, Easements and Contractual Agreements to Central Illinois Public Service Company; And (3) In Connection Therewith, Certain Other Related Transactions	)	EM-96-149

AFFIDAVIT OF MICHAEL G. GRUNER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael G. Gruner, is of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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 19th day of April, 1999.

Toni M. Willmeno

Toni M. Willmeno
Notary Public, State of Missouri
County of Callaway
My Commission Expires June 24, 2000