Exhibit No.:	
Issue(s):	Accounting Standards for Demand-Side Management Initiatives
Witness:	Stephen M. Ditman
Sponsoring Party:	Union Electric Company
Type of Exhibit:	Surrebuttal Testimony
Case No.:	EO-2012-0142
Date Testimony Prepared:	May 4, 2012

MISSOURI PUBLIC SERVICE COMMISSION

Case No. EO-2012-0142

SURREBUTTAL TESTIMONY

OF

STEPHEN M. DITMAN

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

St. Louis, Missouri
May, 2012

SURREBUTTAL TESTIMONY

OF

STEPHEN M. DITMAN

CASE NO. EO-2012-0142

Q. Please state your name and business address.

A. My name is Stephen M. Ditman. My business address is: PricewaterhouseCoopers, 800 Market Street, Suite 1900, St. Louis, MO 63101.

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

A. I am employed by PricewaterhouseCoopers as an assurance partner.

Q. Please describe your educational background and qualifications.

A. I have a Bachelor of Science degree from the University of Illinois at Champaign-Urbana, and I am a licensed Certified Public Accountant in the State of Missouri.

Q. Please describe your employment history.

A. I began my career with Price Waterhouse (PW) in St. Louis, MO, in June 1980. After nine years in the St. Louis office, I spent two years in the PW National Office Accounting Services group from 1989 - 1991. I was admitted as a partner in the assurance practice in June 1991 in St. Louis. I am currently the Missouri Market Assurance Leader for PricewaterhouseCoopers (PwC).

Q. Please describe your duties and responsibilities as assurance engagement partner for Ameren Corporation and subsidiaries, and how they pertain to services for Union Electric Company d/b/a Ameren Missouri.

A. I am the PwC engagement partner for the audits of the financial statements of Ameren Corporation and its subsidiary registrants, including Ameren Missouri.

Q. Have you previously testified in proceedings before the Missouri Public Service Commission ("MPSC" or "Commission") or before another regulatory body regarding ratemaking or accounting issues affecting public utilities?

A. No.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to explain the standards that govern a public utility's (and/or its holding company parent's) accounting and financial reporting for demand-side management initiatives. I also explain the role of an independent auditor, and the legal requirements relating to that role. In those contexts, I will evaluate the demand-side management mechanism proposed by the Company in this case, as well as the demand-side management mechanism proposed by the Commission's Staff in this case.

Q. Have you reviewed the Company's proposal and the Staff's proposal?

A. Yes, I have. I have reviewed the portions of the Company's January 20, 2012 *2012-2015 Energy Efficiency Plan* ("MEEIA Report") that pertain to the throughput disincentive, and how the sums relating to the throughput disincentive are proposed by the Company to be reflected in rates, and I have reviewed rebuttal testimony filed by Staff witness Mark Oligschlaeger, which also describes the Company's proposal and the Staff's alternate proposal. I have also reviewed the surrebuttal testimony being filed today by Company witness Lynn M. Barnes.

Q. Do you have general familiarity with the issues presented by the Company's proposal versus the Staff's proposal in the context of accounting for demand-side initiatives and financial reporting?

A. Yes. While I don't know the details of the entire MEEIA filing, from an accounting standpoint, the key issue between the two proposals relates to whether or not revenue is recognized in the Company's financial statements.

Q. Please summarize your basic conclusions.

A. As Ms. Barnes explains in her surrebuttal testimony, the mechanism proposed by the Company will allow it to record revenues for the portion of the net shared benefits the Company proposes to retain from the implementation of the demand-side programs contained in the filing made in this case necessary to remove the "throughput disincentive" caused by demand-side management programs. This is because the Company's proposal satisfies the conditions necessary to record those revenues under the applicable and binding accounting and financial reporting standards. By contrast, the Staff's proposed regulatory asset approach will not allow the Company to record such revenues because the Staff's approach does not satisfy those conditions. Consequently, the Company's earnings are not impacted by the throughput disincentive created by the demand-side programs under the Company's proposal, but under the Staff's proposal the Company's earnings are reduced by an amount equal to the throughput disincentive.

Q. Please explain the standards (legal and accounting) that govern the accounting for these programs and that govern financial reporting in that context.

A. The Securities and Exchange Commission (SEC) requires all publicly traded companies (like Ameren and its subsidiaries) to adhere to Generally Accepted Accounting Principles (GAAP) in the United States of America to insure the comparability and consistency of financial information that is relied on by investors and creditors. Accounting Standards Codifications (ASC), which are issued by the Financial Standards Accounting

Board (FASB), are the highest form of guidance in the GAAP hierarchy and must be followed. The SEC has also addressed the issues of when revenues can be recognized in the financial statements. Notably, the SEC Staff has issued Accounting Bulletin 13 (SAB 13), entitled "Revenue Recognition." SAB 13 addresses the accounting literature on revenue recognition, inclusive of both broad conceptual discussions as well as certain industry-specific guidance (i.e., guidance like a specific ASC applicable to a particular area). Specifically SAB 13 states, "*If a transaction is within the scope of specific authoritative literature that provides revenue recognition guidance, that literature should be applied. However, in the absence of authoritative literature addressing a specific arrangement or a specific industry, the [SEC] staff will consider the existing authoritative accounting standards as well as the broad revenue recognition criteria specified in the FASB's conceptual framework that contain basic guidelines for revenue recognition.*" I have attached SAB 13 to my testimony as Schedule SMD-1.

Q. Does specific authoritative literature exist for demand-side initiatives?

A. Yes. ASC 980-605-25, entitled "Alternative Revenue Programs," is the standard that must be followed for a demand-side initiative. This is because ASC 980-605-25 specifically addresses the recognition of revenues from alternative revenue programs including programs designed to adjust billings to compensate the utility for demand-side management initiatives. Consequently, it dictates the accounting for a mechanism such as the Company's proposed demand-side investment mechanism (DSIM) and for our purposes, the throughput disincentive portion of the DSIM. I have attached ASC 980-605-25 to my testimony as Schedule SMD-2.

Q. Why do such standards exist?

A. GAAP are the set of rules, methods, processes and procedures used by companies across all industries in order to prepare standardized financial statements. Such standards exist to provide accurate and consistent financial information, across companies, to investors, creditors and others who rely on reporting companies' financial statements. GAAP allows the aforementioned parties to make meaningful comparisons.

Q. What are the duties of an independent auditor regarding ensuring that a utility follows those standards?

A. As Ameren Corporation's and its subsidiaries' independent auditor (including Ameren Missouri), our duty is to issue an opinion on whether the financial statements included within the annual report (10-K) are free from material misstatement and in conformity with GAAP. Our audits of the financial statements include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Moreover, for Ameren Corporation we issue an opinion on the Company's internal control over the financial reporting process.

Q. What are the consequences if the independent auditor does not ensure that a utility follows those standards?

A. As an independent auditor, we are regulated by the Public Company Accounting Oversight Board (PCAOB) and must abide by its standards. These standards are the set of standards against which the quality of audits are performed and judged. If an independent auditor did not comply with such standards, sanctions could be imposed by the PCAOB.

Q. What are the consequences if the Company does not follow the standards?

A. The Company would not obtain an unqualified opinion on its financial statements. An unqualified opinion provides the independent auditor's (such as PwC) judgment that the Company's financial records and statements are fairly and appropriately presented in accordance with GAAP. Without such unqualified opinion there are potential consequences from the SEC, investors, and others who rely on the Company's financial statements.

Q. Please describe the standards of ASC 980-605-25, "Alternative Revenue Programs".

A. As described in Ms. Barnes' testimony, and as noted above, the applicable GAAP standard governing the recognition of revenues from alternative revenue programs, including programs designed to adjust billings to compensate the utility for demand-side management initiatives, is ASC 980-605-25. ASC 980-605-25 concludes that current revenue recognition is appropriate when all of the following conditions are met, even though cash collection will occur in the future through the billing surcharges mechanism: 1) The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment being considered automatic. 2) The amount of additional revenues for the period is objectively determinable and is probable of recovery. 3) The additional revenues will be collected within twenty-four months following the end of the annual period in which they are recognized.

Q. Please apply those standards to the Company's DSM proposal.

A. The Company's proposal satisfies all three conditions set forth in ASC 980-605-25, which would allow it recognize revenue on its statement of income. The first condition would be met upon the program being established by an order from the Company's regulatory commission (the Commission), as the recovery occurs automatically each month through its inclusion in the base rates being charged to customers as the program proceeds. Second, the amount is objectively determinable because of the deemed energy savings from the use of the Technical Resource Manual (TRM), and would be probable of recovery because recovery would be occurring through base rates based upon a Commission order. Finally, the third condition set forth in ASC 980-605-25 is also met as the throughput disincentive will be collected month-by-month. The Company's proposal would meet all three of the ASC 980-605-25 conditions necessary for revenues to be recorded in accordance with GAAP.

Q. Please apply those standards to the Staff's DSM proposal.

A. The Staff's proposal fails to satisfy the three conditions set forth in ASC 980-605-25, which would preclude the Company from recognizing revenues on its statement of income and which would preclude the Company from recognizing a regulatory asset on its balance sheet. As noted, the Company is required to abide by GAAP standards, and a departure from such standards would prevent PwC from issuing an unqualified opinion on the overall Ameren Missouri and Ameren Corporation's financial statements. The first condition of ASC 980-605-25, as previously discussed, would not meet the automatic adjustment criteria as it is my understanding that the Commission is precluded from entering an order that binds a future commission. Thus, an order that only approves a regulatory asset would not meet the automatic adjustment criteria.

The Staff’s proposal also precludes the recognition of revenues and the recordation of a regulatory asset because of the second criteria of ASC 980-605-25. The second condition requires the revenue to be objectively determinable. Mr. Oligschlaeger's proposal specifically references the benefit as an 'estimate' that is contingent upon the completion of evaluation, measurement and verification. As I understand it, this means that the deemed energy savings reflected in the TRM will not be used for the final calculations but rather are dependent on the EMV. Consequently, pursuant to the second criteria, the aforementioned 'estimate', contingent upon completion of an EMV at a later date, would not meet the authoritative guidance's objectively determinable criteria.

Finally, the last condition requires that revenues will be collected within 24 months. As described in Ms. Barnes' testimony, the Staff's proposal doesn’t allow for collection until sometime after the three-year program period is complete. This would also preclude recording any earnings.

In summary, the Staff's proposal would preclude the Company and Ameren Corporation from recognizing revenue in its GAAP financial statements.

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 Union Electric Company d/b/a Ameren)
Missouri's Filing to Implement Regulatory Changes) File No. EO-2012-0142
Furtherance of Energy Efficiency as allowed by MEEIA.)

AFFIDAVIT OF STEPHEN M. DITMAN

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

Stephen M. Ditman, being first duly sworn on his oath, states:

1. My name is Stephen M. Ditman. I am and assurance partner for PricewaterhouseCoopers.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 8 pages (and Schedules SMD-1 through SMD-2), all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

Stephen M. Ditman

Subscribed and sworn to before me this 4th day of May, 2012.

Julie Donohue
Notary Public

My commission expires: 2/17/2013

Julie Donohue - Notary Public
Notary Seal, State of
Missouri - St. Louis City
Commission #09753418
My Commission Expires 2/17/2013

Codification of Staff Accounting Bulletins

Topic 13: Revenue Recognition

A. Selected Revenue Recognition Issues
   1. Revenue recognition - general
   2. Persuasive evidence of an arrangement
   3. Delivery and performance
      a. Bill and hold arrangements
      b. Customer acceptance
      c. Inconsequential or perfunctory performance obligations
      d. License fee revenue
      e. Layaway sales arrangements
      f. Nonrefundable up-front fees
      g. Deliverables within an arrangement
   4. Fixed or determinable sales price
      a. Refundable fees for services
      b. Estimates and changes in estimates
      c. Contingent rental income
      d. Claims processing and billing services
B. Disclosures

A. Selected Revenue Recognition Issues

1. Revenue recognition — general

The accounting literature on revenue recognition includes both broad conceptual discussions as well as certain industry-specific guidance.[1] If a transaction is within the scope of specific authoritative literature that provides revenue recognition guidance, that literature should be applied. However, in the absence of authoritative literature addressing a specific arrangement or a specific industry, the staff will consider the existing authoritative accounting standards as well as the broad revenue recognition criteria specified in the FASB's conceptual framework that contain basic guidelines for revenue recognition.

Based on these guidelines, revenue should not be recognized until it is realized or realizable and earned.[2] Concepts Statement 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, paragraph 83(b) states that "an entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues" [footnote reference omitted]. Paragraph 84(a) continues "the two conditions (being realized or realizable and being earned) are usually met by the time product or merchandise is delivered or services are rendered to customers, and revenues from manufacturing and selling activities and gains and losses from sales of other assets are commonly recognized at time of sale (usually meaning delivery)" [footnote reference omitted]. In

Schedule SMD-1

addition, paragraph 84(d) states that "If services are rendered or rights to use assets extend continuously over time (for example, interest or rent), reliable measures based on contractual prices established in advance are commonly available, and revenues may be recognized as earned as time passes."

The staff believes that revenue generally is realized or realizable and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists,[3]
- Delivery has occurred or services have been rendered,[4]
- The seller's price to the buyer is fixed or determinable,[5] and
- Collectibility is reasonably assured.[6]

Some revenue arrangements contain multiple revenue-generating activities. The staff believes that the determination of the units of accounting within an arrangement should be made prior to the application of the guidance in this SAB Topic by reference to the applicable accounting literature.[7]

2. Persuasive evidence of an arrangement

Question 1

Facts: Company A has product available to ship to customers prior to the end of its current fiscal quarter. Customer Beta places an order for the product, and Company A delivers the product prior to the end of its current fiscal quarter. Company A's normal and customary business practice for this class of customer is to enter into a written sales agreement that requires the signatures of the authorized representatives of the Company and its customer to be binding. Company A prepares a written sales agreement, and its authorized representative signs the agreement before the end of the quarter. However, Customer Beta does not sign the agreement because Customer Beta is awaiting the requisite approval by its legal department. Customer Beta's purchasing department has orally agreed to the sale and stated that it is highly likely that the contract will be approved the first week of Company A's next fiscal quarter.

Question: May Company A recognize the revenue in the current fiscal quarter for the sale of the product to Customer Beta when (1) the product is delivered by the end of its current fiscal quarter and (2) the final written sales agreement is executed by Customer Beta's authorized representative within a few days after the end of the current fiscal quarter?

Interpretive Response: No. Generally the staff believes that, in view of Company A's business practice of requiring a written sales agreement for this class of customer, persuasive evidence of an arrangement would require a final agreement that has been executed by the properly authorized personnel of the customer. In the staff's view, Customer Beta's execution of the sales agreement after the end of the quarter causes the transaction to be considered a transaction of the subsequent period.[8] Further, if an arrangement is subject to subsequent approval (*e.g.*, by the management committee or board of directors) or execution of another agreement, revenue recognition would be inappropriate until that subsequent approval or agreement is complete.

980-605-25 Recognition

> Alternative Revenue Programs

25-1 Traditionally, regulated utilities whose rates are determined based on cost of service invoice their customers by applying approved base rates (designed to recover the utility's allowable costs including a return on shareholders' investment) to usage. Some regulators of utilities have also authorized the use of additional, alternative revenue programs. The major alternative revenue programs currently used can generally be segregated into two categories, Type A and Type B.

25-2 Type A programs adjust billings for the effects of weather abnormalities or broad external factors or to compensate the utility for demand-side management initiatives (for example, no-growth plans and similar conservation efforts). Type B programs provide for additional billings (incentive awards) if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or demonstratively improving customer service.

25-3 Both types of programs enable the utility to adjust rates in the future (usually as a surcharge applied to future billings) in response to past activities or completed events.

25-4 Once the specific events permitting billing of the additional revenues under Type A and Type B programs have been completed, the regulated utility shall recognize the additional revenues if all of the following conditions are met:

1. a. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.
2. b. The amount of additional revenues for the period is objectively determinable and is probable of recovery.
3. c. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.