Exhibit No.: 155
Issue(s): Issues and Damages; Uncollectibles; ISP and VSE; RSG Amortization; Bank Facility Fees; Venise Plant Cost of Removal; ECRM
Witness: Gary S. Weiss
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2010-0036
Date Testimony Prepared: February 11, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2010-0036

REBUTTAL TESTIMONY

OF

GARY S. WEISS

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
February, 2010

REBUTTAL TESTIMONY

OF

GARY S. WEISS

CASE NO. ER-2010-0036

I. Introduction

Q. Please state your name and business address.

A. My name is Gary S. Weiss. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, MO 63103.

Q. Are you the same Gary S. Weiss who filed direct testimony on July 24, 2009, and who also filed direct, rebuttal, and surrebuttal testimony relating to interim rates in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address various issues contained in the Staff Revenue Requirement Cost of Service Report ("Staff Report") and Staff's Class Cost-Of-Service And Rate Design Report ("Staff Rate Design Report") filed by the Missouri Public Service Commission Staff ("Staff"), and to address other issues raised in the testimony of Missouri Industrial Energy Consumers ("MIEC") witness Maurice Brubaker.

Q. On what specific issues are you providing rebuttal testimony?

A. Specifically, my testimony addresses the following issues raised by the Staff: (1) Cash versus accrual accounting for injuries and damages expense and the normalization shown on Staff's Accounting Schedule 10 (Staff witness Lisa M. Ferguson); (2) The normalization of uncollectibles shown on Staff's Accounting Schedule 10 (Staff witness Kofi Agyenim Boateng);

(3) The amortization of the one-time severance costs related to the Company's Voluntary Separation Election ("VSE") and Involuntary Separation Program ("ISP") shown on Staff's Accounting Schedule 10 (Staff witness John P. Cassidy); (4) The extended amortization period for the Revenue Sufficiency Guarantee ("RSG") Resettlement shown on Staff's Accounting Schedule 10 (Mr. Boateng); (5) A revised proposal for collecting the bank credit facility fees through the allowance for funds used during construction ("AFUDC") charged on capital projects instead of the Company's pro forma adjustment to administrative and general expense; (6) The Company's proposal in my direct testimony to amortize the removal costs incurred at the Company's retired Venice Steam Plant which have not been recovered through its depreciation rates (this adjustment was not addressed in the Staff Report or Accounting Schedules, but was apparently excluded from the Staff's revenue requirement); and (7) The changes proposed by the Staff to the Company's filed tariff for Rider ECRM listed in the Staff's Rate Design Report. Finally, I will address MIEC witness Maurice Brubaker's testimony that accumulated deferred income taxes should be included in the Company's proposed Environmental Cost Recovery Mechanism ("ECRM").

II. <u>Injuries and Damages</u>

Q. Why is Ms. Ferguson proposing to set a normalized level of injuries and damages expense in the revenue requirement based upon cash payments instead of reflecting the test year accrual on the Company's books for injuries and damages expense?

A. There is no explanation in the Staff Report for this deviation from the level of injuries and damages expense recorded on the Company's books. However, a reduction of $2,714,208 to normalize injuries and damages accruals is shown on Staff's Accounting Schedule 10, Page 15 of 18, item 2 under adjustment E-180.

Q. How did Ms. Ferguson calculate the adjustment made to injuries and damages expense?

A. A review of workpapers provided by the Staff reveals that Ms. Ferguson calculated the five-year average of the cash payments for injuries and damages and compared it to the accrual for injuries and damages for the test year. The five-year average of the cash payments is $7,523,352 compared to the test year accrual of $10,237,560, which results in the adjustment of $2,714,208.

Q. Why is Ms. Ferguson's adjustment flawed?

A. Staff's recommendation suffers from three key flaws: (1) Ms. Ferguson provides no testimony or analysis explaining why the injuries and damages accrual for the test year, which is recorded in accordance with Generally Accepted Accounting Principles ("GAAP") and sanctioned by the Company's independent outside auditors, is not appropriate; (2) her adjustment divorces costs from the ratepayers who benefited from the services that generated them; and (3) her adjustment sets rates on a purely backward-looking basis, rather than a forward-looking basis more relevant to the period when rates will be in effect.

A utility such as AmerenUE frequently incurs costs for injuries and damages and other items for which the cash impacts will not be borne by the Company for some months or years to come. The accrual basis of accounting embodied by GAAP, and indeed required by the Commission in its reporting requirements, requires the Company to record costs associated with injuries and damages obligations at the time they become probable and estimable. By booking costs in this manner, and including them in rates on an ongoing basis, the accrual basis recovers the costs incurred to provide current services from ratepayers receiving service during the time the events occurred that gave rise to these costs. The alternative of waiting until cash is paid in satisfaction of the obligations before being included in rates requires future ratepayers taking service years after the events that gave rise to the costs to bear the costs.

The fundamental problem with the Staff proposed cash versus accrual approach is that it lacks any standards. The Uniform System of Accounts ("USOA"), which this Commission requires the Company to follow, requires accrual accounting. Accrual accounting provides systematic and rational guidelines for the recognition of costs. In summary, the USOA and GAAP standards require that a cost be recorded when an obligation has been incurred and the amount of funds required to satisfy such obligation is estimable and probable of being paid, no sooner and no later. The so-called cash basis of accounting benefits from no such standards, and has no restrictions. Rather, use of a cash basis for accounting is readily subject to manipulation.

Q. What is your recommendation for the level of injuries and damages that should be included in the revenue requirement?

A. I recommend the Commission reject the Staff's proposed adjustment to the test year injuries and damages accrual expense and allow the accrued level of test year expense recorded on the Company's books in accordance with GAAP and USOA standards.

III. <u>Uncollectible Expense</u>

Q. What adjustment is Staff witness Boateng proposing be made to the test year accrual for uncollectible expense?

A. Mr. Boateng on page 88, lines 8 and 9, in the Staff Report states that he "has included in the cost of service calculation a three-year average of adjusted electric net write-offs for uncollectible expense." The Staff Report does not provide any additional detail or support for the adjustment. A review of Mr. Boateng's workpapers reveals that the three-year average of write-offs less recoveries or net write-offs is $11,071,317. The test year accrual for uncollectible expense is $11,690,000. Thus, the Staff is proposing a reduction of $618,683 to the test year uncollectible expense.

Q. Is Mr. Boateng's calculation consistent with other adjustments proposed by Staff?

A. No. Staff witness Ms. Ferguson proposes to adjust injuries and damages using a five-year average. Mr. Boateng's work papers show that the five-year average of net write-offs is $12,090,355 or $400,355 *higher* than the test year uncollectible expense. What this means is that in normalizing two similar items the Staff has chosen a shorter period for one of the items, when it tends to reduce the revenue requirement, but then has chosen a longer period for the other item, when it tends to also reduce the revenue requirement.

Q. What is your recommendation for the level of uncollectible expense that should be included in the revenue requirement?

A. The Staff's testimony provides no explanation as to why the accrued test year level of uncollectible expense is inappropriate. In addition, if Staff had applied consistent normalizing adjustments, a five-year average would be used with the test year uncollectible expense being increased and not decreased. Regardless, for the reasons outlined earlier relating to injuries and damages expense, the Company's test year accrual on its books for uncollectible expense recorded in accordance with GAAP and the USOA should be used. However, if a cash basis is to be used, then a consistent five-year average should be used, which would increase uncollectible expense by $400,355.

IV. Severance Cost Amortization

Q. Can you provide a brief explanation of the facts that resulted in severance cost?

A. Yes. In the fall of 2009, the Company implemented a Voluntary Separation Election and an Involuntary Separation Program in order to reduce its employee levels and lower its labor costs. This resulted in a number of employees either retiring or being separated from the Company. One-time severance costs were incurred to implement these programs. Staff witness John P. Cassidy, on pages 76 and 77 of the Staff Report, provides a summary explanation of the VSE and ISP programs and the related severance cost. Since these programs were implemented after the completion of the test year in this case, they were not reflected in the Company's initial filing. The Staff has made adjustments to reduce labor and benefits expenses for these retirements and separations. The Company agrees that those adjustments are appropriate since the Company's ongoing payroll and benefits costs will be reduced due to the reduction in the number of employees.

Q. What is the Staff's proposal for the treatment of the one-time severance cost?

A. The Staff is proposing to amortize the estimated severance cost over five years, but with no rate base treatment for the unamortized balance. The actual severance cost will be provided as part of the true-up phase of this case. The five-year amortization period for these severance costs is too long. The full benefit of the reduction in labor and employee benefits costs is being reflected in the revenue requirement of this case. Consequently, effective in June of this year, ratepayers will receive the benefit of these cost reductions, yet the Staff is proposing to delay recovery of the one-time costs that made those reductions possible for up to five years, and with no carrying costs.

Q. What treatment of the severance costs is appropriate?

A. While the Company agrees that a reasonable amortization period is appropriate, a shorter, three-year amortization and inclusion of the unamortized balance in rate base is the appropriate mechanism to fully recognize these one-time costs. This treatment provides a method of fully recovering the severance costs that is fair to both ratepayers and the Company. The ratepayers receive the benefit of the cost savings from the reduced payroll and benefits immediately, while paying the one-time severance costs over three years. Including the unamortized balance in rate base allows the Company to recover its carrying costs on the severance costs until they have been fully recovered in rates. Shortening the amortization period will reduce these carrying costs, while also spreading recovery of these costs out over several years.

V. <u>Amortization of Revenue Sufficiency Guarantee Resettlement</u>

Q. What is the Staff proposing as an adjustment to the amortization of the revenue sufficiency guarantee resettlement?

A. In Case No. ER-2008-0318, the Commission determined that "AmerenUE's proposal to amortize that amount [the RSG settlement] over two years is a reasonable means to allow the recovery to take place, and that proposal is approved." The amount to be amortized over two years was $12.4 million. The Company's filing included an amortization expense of $6,119,496 or one-half of the RSG resettlement. Staff Witness Boateng is recommending this second year's amortization be extended over two more years. On page 65 of the Staff Report, Mr. Boateng is including only $2,039,832 for the amortization of the RSG resettlement which is one-third of the allowed annual amount. It appears the Staff is trying to match the amortization period for the RSG resettlement to the estimated ending date of rates set in this filing (i.e., that Staff expects another rate case to be concluded by approximately June 2012).

Q. Is the Staff's proposal just and reasonable?

A. No. The Company has several expense items that are being amortized over a period of years, but none of those amortizations have been given rate base treatment. This means that the Company is delayed in recovering the costs, and also fails to be made whole for the carrying costs associated with unamortized balances. Here, the Staff is proposing to change a Commission-approved amortization period, which creates greater delays, yet Staff proposes no mechanism to cover the carrying costs.

Q. What is the Company's recommendation for the amortization of the Revenue Sufficiency Guarantee Resettlement?

A. The Company recommends the Commission not approve the extension of the amortization period by an additional two years. The annual amortization of $6,119,495 has already been approved, and should be continued. However, if Staff's extension is to be adopted, then the unamortized balance should be included in the Company's rate base so that the carrying costs associated with the delay in recovering these costs will be fairly recovered.

VI. <u>Bank Credit Facility Fees</u>

Q. What are the bank credit facility fees and how did the Company propose to treat them in its filing?

A. AmerenUE arranged a new two-year bank line of credit in 2009. There are various up-front fees and annual or quarterly fees involved with this bank line of credit. The Company originally proposed to amortize the up-front fees over two years and add the annual or quarterly fees for a full year to its cost of service. The total of these fees was included in the operating expenses in the Company's initial filing.

Q. Does the Company now have a different proposal for the treatment of the bank credit facility fees?

A. Yes, based on Staff witness David Murray's testimony on pages 19 and 20 of the Staff Report which states "[t]herefore, AFUDC should be the mechanism for recovery of short-term debt costs (and also where the benefit of lower short-term costs will be realized). The short-term debt capitalization rate should be based on reasonable costs associated with short-term debt, including reasonable costs of credit facilities," the Company held discussions with the Staff which has resulted in a new proposal for the treatment of the bank credit facility fees. The Company is now proposing to record the bank credit facility fees to a regulatory asset account and then amortize the amounts monthly over two years into the AFUDC calculation to be capitalized. In addition, when a new bank credit facility is put into place the fees associated with the new credit facility will be booked to a regulatory asset to be amortized monthly into the AFUDC calculation and capitalized over the life of the new credit facility. The Staff agrees with this treatment of the bank credit facility fees.

VII. <u>Environmental Cost Recovery Mechanism ("Rider ECRM")</u>

Q. Has the Staff in the Staff Rate Design Report recommended modifications to the Company's filed Rider ECRM?

A. Yes. Staff witness Michael S. Scheperle, on pages 30 and 31 of the Staff Rate Design Report, lists three differences between the Rider ECRM the Company proposed and the Rider ECRM being proposed by the Staff. The first difference is that Staff recommends that the Rider ECRM rate (percentage) be applied to customers' retail base revenue, not on a cents per kilowatt-hour (kWh) basis. The Company agrees with this recommendation. Secondly, the Staff recommends that the accumulation and recovery periods all be six months in duration with two accumulation periods and two recovery periods covering twelve months. The Company proposed two accumulation periods of eight months and four months with recovery over twelve months. The Company agrees with Staff's proposal for two six-month accumulation periods and two six-month recovery periods. Finally the Staff recommends the wording on the customers' bills read "ENVIRONMENTAL COST RECOVERY ADJUSTMENT" instead of "RIDER ECRM ADJUSTMENT." Due to space limitations on the bill, the Company can agree to use "ENVIRONMENTAL COST RECOVERY ADJ" as the wording on the customers' bills. If this is not acceptable to the Staff, the Company is agreeable to working with the Staff to resolve this issue.

Q. Have you reviewed the Staff's proposed tariff for Rider ECRM and do you have any issues with that tariff?

A. Yes, I have reviewed the Staff's proposed tariff for Rider ECRM (Schedules MSS-9-1 through MSS-9-6), and I have two small corrections and one substantive issue. On Schedule MSS-9-3 in the definition for "DEFAP" the formula shown appears to be missing a "+" after (ERRB x RAP). I believe the formula should read "DEFAP is the greater of zero (0) or [ERR – (ERRB x RAP) + DEFAP-1 + I + T} – (CAP*0.5)". On Schedule MSS-9-4 for the definition of "I" on the fourth line it says "of factor R below." I believe this should read "of factor T below." Finally on Schedule MSS-9-3 in the definition of "ERR" the last sentence reads "No major capital projects shall be included until the Commission determines that the project is operational and useful for service as required by 393.135 RSMo. 2000." This last sentence is problematic and unnecessary.

Q. Please explain.

A. Staff apparently has some concern about whether projects included in the ECRM calculation will be operational and used for service. If an item is not operational and used for service, the investment in it cannot be moved from construction work in progress to plant in service on the Company's books. If the investment in the item has not been moved to plant in service, it will not be included in the ECRM calculation. Thus, by definition only projects that are operational and used for service can be included in the ECRM. In the unusual circumstance where the Staff or some other party has some issue with whether the plant should have been in plant in service when it was booked, then the prudence review process provides a mechanism to address that issue. If during the prudence review it was determined that the plant was not actually operational and used for service, the cost and related revenues collected through the ECRM could be returned with interest to customers. Plant in service is added routinely and is included in the rate base for setting rates without a pre-determination that it was operational and useful for service. With an ECRM, any rate adjustment is interim, subject to refund with interest, which protects customers. If a specific pre-determination that every item is operational and used for service must occur before it can be included in an ECRM adjustment, the process outlined in the Commission's ECRM rules for making ECRM adjustments will be rendered unworkable. Moreover, even if such a process could be implemented, it would create a recovery lag that the ECRM mechanism is designed to avoid. The Company would then be at risk to lose legitimate capital costs forever during the time necessary to obtain this pre-determination. As a consequence, the Staff's proposed addition of the last sentence in the definition of "ERR" should be rejected.

VIII. Amortization of Venice Plant Removal Cost

Q. Can you provide a brief explanation of the circumstances and facts related to the amortization of the Venice Plant removal cost?

A. Yes. The Venice Plant was a steam power plant owned and operated by AmerenUE in Venice, Illinois, which provided service to the Company's customers (including all of its Missouri customers) for approximately 60 years. There was a major fire at the plant in 2000, and the decision was made to retire the plant in 2002 (the plant was retired from the books of the Company in December 2002). At November 30, 2002, the Venice Plant in service investment was $87,356,871 and the accumulated depreciation reserve balance was $76,766,181. Thus, the Venice Plant was under-depreciated by $10,590,690 (i.e., the Company had not recovered $10,590,690 of its investment in the plant through depreciation rates). The book balance for the Venice Plant was reduced to zero and no additional depreciation expense was thereafter accrued since the plant was no longer in service. The Venice Plant had a depreciation rate of 2.08% from at least 1983 until its retirement in 2001 per the 1983 and 2001 FERC Annual Reports (Form 1). In the past few years some minor removal cost offset by some minor salvage has been incurred. At the end of the test year in this case, March 31, 2009, the accumulated depreciation reserve for the Venice Plant was a positive balance of $1,762,087. This is the result of the removal costs having exceeded any salvage received to date. The costs of removing the Venice Plant at the end of its life or final termination costs were never collected from ratepayers. The ratepayers received the benefit of the energy generated by the Venice Plant for 50 to 60 years. It is now appropriate that ratepayers pay for the cost to remove the Venice Plant.

Q. How is the Company proposing to collect the removal cost at the Venice Power Plant?

A. The Company is proposing to amortize the Venice Plant removal cost less any salvage received over five years. The Commission should approve a five-year amortization of Venice Plant removal cost.

IX. Accumulated Deferred Income Taxes in the Environmental Cost Recovery Mechanism

Q. What is MIEC witness Maurice Brubaker's recommendation concerning the accumulated deferred income taxes and the ECRM?

A. Mr. Brubaker, on page 23 lines 19 through 22 of his direct testimony, states "[i]f, despite my recommendations to the contrary, the Commission should adopt an ECRM, it should explicitly provide that accumulated deferred income taxes ('ADIT') shall be taken as an offset to rate base."

Q. Does the Company's proposed ECRM include the ADIT?

A. No. In calculating the environmental rate base currently in base rates the ADIT was not reflected. Likewise, in developing the environmental rate base for the new additions ADIT is not included.

Q. Do the Commission's ECRM rules contemplate including ADIT?

A. No, they do not. 4 CSR 240-20.091(1)(D)2 refers to "[t]he costs (i.e., the return, taxes, and depreciation) of any major capital projects whose primary purpose is to permit the electric utility to comply with any federal, state, or local environmental law, regulation, or rule." The taxes referred to are the income taxes on the return. All of the items listed are expense items. In contrast, ADIT is a rate base item.

Q. Is ADIT assigned and tracked by individual asset?

A. No, ADIT is not assigned and tracked by individual asset.

Q. **What does the lack of tracking accumulated deferred income taxes by individual item suggest?**

A. There is no way to determine the ADIT associated with the environmental investments included in the environmental rate base that will be established in this case. Thus, the base environmental revenue requirement will not take into account any offset for ADIT, meaning the environmental rate base will be larger. The operation of an ECRM requires that the increases and decreases to the environmental revenue requirement established in this case (which are based on the environmental rate base established in this case) must be updated at the end of each accumulation period. Part of that update includes accounting for new environmental investments – i.e., updating the environmental rate base. Since the accumulated deferred income taxes are not included in the base environmental revenue requirement and will not be included in the revenue requirement associated with new additions, there is no mismatch; i.e., we will be comparing apples to apples. However, if Mr. Brubaker's suggestion were adopted, there would be no reduction for ADIT to the initial environmental rate base, yet there would be a reduction for ADIT to the updated environmental rate base when ECRM adjustments are made. This would create a mismatch; an apples to oranges comparison, which would artificially understate the environmental costs being tracked in the ECRM.

Q. What is the Company's recommendation relating to ADIT and the ECRM?

A. The proposed ECRM meets the requirements of the ECRM rules and should be approved. Neither the base nor the updated environmental rate base should include an ADIT offset.

Q. Does this conclude your rebuttal 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 AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service.	) Case No. ER-2010-0036) Tracking No. YE-2010-0054) Tracking No. YE-2010-0055

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 work in the City of St. Louis, Missouri, and 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 Rebuttal Testimony on behalf of AmerenUE consisting of 14 pages, all of which have 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 11th day of February, 2010.

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