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Missouri Public Service Commission

Exhibit No.:	
Issues:	*Cash Working Capital, Depreciation Expense, Depreciation Reserve, Interest On Customer Deposits, Osage Plant Adjustments, Plant In Service, Property Taxes, Public Service Commission Assessment, Rate Base, Rate Case Expense*
Witness:	*Edward F. Began*
Sponsoring Party:	*MOPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*ER-2007-0002*
Date Testimony Prepared:	*December 15, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

EDWARD F. BEGAN CPA

UNION ELECTRIC COMPANY
d/b/a AmerenUE

CASE NO. ER-2007-0002

Jefferson City, Missouri
December 2006

Staff Exhibit No. 200
Case No(s). ER 2007 0002
Date 3/21/07 Rptr. KL

EXHIBIT
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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 Increasing Rates for Electric Service Provided to Customers in the Company's Missouri Service Area.	))))	Case No. ER-2007-0002

AFFIDAVIT OF EDWARD F. BEGAN, CPA

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Edward F. Began, 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 19 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.

Edward F. Began
Edward F. Began

Subscribed and sworn to before me this 14th day of December 2006.

Toni M. Charlton
Notary Public

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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OF

EDWARD F. BEGAN, CPA

UNION ELECTRIC COMPANY

d/b/a AMERENUE

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DIRECT TESTIMONY

OF

EDWARD F. BEGAN, CPA

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. ER-2007-0002

Q. Please state your name and business address.

A. My name is Edward F. Began. My business address is 9900 Page Avenue, Suite 103, St. Louis, Missouri.

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

A. I am a Regulatory Auditor III for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from Washington University, in St. Louis, Missouri, in January 1972, and passed the entire Uniform Certified Public Accountant (CPA) examination in May 1972. I possess a current Missouri CPA license and permit to practice.

Q. Please describe your work background.

A. I have held audit, accounting and controllership duties in public accounting and in industry, which have required progressively increasing responsibility. I have been employed by the Commission since November 2000.

Q. Please describe your duties while employed by the Commission.

A. In conjunction with other members of the Commission Staff (Staff). I have performed audits and examinations of utility companies operating within the state of Missouri with regard to rate cases and other regulatory proceedings.

Q. Have you previously filed testimony before this Commission?

A. Yes, please see Schedule 1 attached to this testimony for a list of cases in which I have filed testimony and the issues I addressed.

Q. With reference to Case No. ER-2007-0002, have you made an examination of the books and records of Union Electric Company d/b/a AmerenUE (AmerenUE or Company)?

A. Yes, in conjunction with other members of the Staff. Specifically, I reviewed responses to Staff data requests, the general ledger, trial balance reports, past Commission rulings, and prior case files.

Q. What matters will you address in your testimony?

A. I will address rate base, plant in service, depreciation reserve, depreciation expense, cash working capital, Osage plant adjustments, interest on customer deposits, rate case expense, property taxes, and, Public Service Commission assessment.

Q. What knowledge, skill, experience, training or education do you have in these matters?

A. I have reviewed the filed testimony, schedules, workpapers and data request responses regarding these issues in this case. I have also reviewed documents from previous rate cases involving issues I will be addressing. I also relied on my experience with these or similar issues in previous cases. In addition, I have relied on the accounting training I have received during college and the training I received through classes and seminars in utility regulation. I also have engaged in discussions with and received guidance and training from my supervisors with regard to these issues

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe the components of the Staff's rate base and the Staff adjustments in Accounting Schedule 10 – Adjustments to Income Statement that I am sponsoring in this case.

Q. Please identify the Accounting Schedules you are sponsoring.

A. I am sponsoring:

Accounting Schedule 2	Rate Base
Accounting Schedule 3	Plant in Service
Accounting Schedule 4	Adjustments to Plant in Service
Accounting Schedule 5	Depreciation Reserve
Accounting Schedule 6	Adjustments to Depreciation Reserve
Accounting Schedule 7	Depreciation Expense
Accounting Schedule 8	Cash Working Capital

Q. Please list the adjustments you are sponsoring.

A. I am sponsoring the following adjustments: Osage Plant Adjustments, Amortization and Depreciation Expense, Rate Case Expense, Property Taxes, and Public Service Commission assessment.

RATE BASE

Q. Please discuss Accounting Schedule 2.

A. Accounting Schedule 2, Rate Base, delineates the net capital investment recommended by the Staff to determine the Company's revenue requirement. Utility Plant in Service and the related depreciation reserve are supported by Accounting Schedules 3 and 5, Plant in Service and Depreciation Reserve, respectively, and are discussed later in this testimony. Cash working capital is the daily cash requirement necessary to fund utility operations. This component along with the offsets for interest and income taxes are supported by Accounting Schedule 8, Cash Working Capital, and will be discussed in detail later in this testimony. Prepayments and materials and supplies are increases to rate base since these components represent an investment of funds and generally present a 13-month average of the balances ending June 30, 2006. Customer advances and customer deposits, also based on a 13-month average ending June 30, 2006, are reductions to rate base because these components are customer supplied funds available for use by the company.

The following items are other components of rate base that are being sponsored by various Staff witnesses and are discussed in their testimonies. Fuel Inventories are an increase to rate base and are discussed in the testimony of Staff witness John P. Cassidy. The deferred taxes are a reduction to rate base and are discussed in the testimony of Staff witness Stephen M. Rackers.

PLANT IN SERVICE

Q. Please discuss Accounting Schedule 3, Plant in Service, and Accounting Schedule 4, Adjustments to Plant in Service.

A. The amount of electric plant the company is using to serve customers is shown in Accounting Schedule 3, Plant in Service, which provides the details for Staff's rate base component of utility Plant in Service, stated at original cost, recorded on the Company's books as of June 30, 2006. Accounting Schedule 4, Adjustments to Plant in Service, depicts the Staff's adjustments to Plant in Service and the Staff witnesses supporting each adjustment.

DEPRECIATION RESERVE

Q. What accounting schedules support depreciation reserve?

A. Accounting Schedule 5, Depreciation Reserve, provides details of the accumulated depreciation expense related to the plant balances on Accounting Schedule 3. The purpose of Accounting Schedule 6, Adjustments To Depreciation Reserve, is to provide the detail of any adjustments made to the depreciation reserve by the indicated Staff witnesses.

DEPRECIATION EXPENSE

Q. Please explain Accounting Schedule 7, Depreciation Expense.

A. This schedule shows the calculation of the annual depreciation expense on the Company's utility Plant in Service. The Plant in Service balances from Accounting Schedule 3, Plant in Service, are multiplied by depreciation rates recommended by Staff witness Jolie Mathis. The result represents the Staff's annualized depreciation expense.

CASH WORKING CAPITAL

Q. What is Cash Working Capital (CWC)?

A. CWC is the amount of cash necessary for a utility to pay the day to-day expenses it incurs in providing service to the ratepayer.

Q. What are the sources of CWC?

A. Ratepayers and shareholders are the sources of CWC.

Q. How do the ratepayers supply CWC?

A. The ratepayers supply CWC when the Company receives payment for service before the Company pays for the expenses it incurred to provide that service. The ratepayer is compensated for the CWC provided through a reduction to rate base.

Q. How do the shareholders supply CWC?

A. When the Company must pay for an expense incurred to provide service before the ratepayer has paid for the related usage, shareholders provide cash to cover that expense. This cash outlay represents a portion of the shareholder's total investment in the Company. The shareholder is compensated for the CWC provided through an increase in rate base.

Q. How did the Staff determine the Company's CWC requirement?

A. The Staff's calculation of the Company's CWC requirement was based on a lead/lag study performed by the Staff. The use of a lead/lag study to calculate a company's CWC requirement and the components included by the Staff have been adopted by the Commission in many rate cases. The Staff used some of the data accumulated and some of the analysis performed by the Company.

Q. How does Staff calculate CWC using a lead/lag study?

A. In a lead/lag study, Staff analyzes the cash inflows and outflows of payments the Company receives from its customers for the service it provides and the disbursements it makes to vendors to provide that service. These cash flows are measured in numbers of days. A lead/lag analysis compares the number of days the company is allowed to take or actually takes to make payments after receiving service from a vendor, with the number of days it takes the Company to receive payment for the service provided to customers. The lead/lag study also determines who provides CWC.

Q. How are the results from a lead/lag study interpreted?

A. A negative CWC requirement indicates that ratepayers provided the working capital in the aggregate during the test year. This means that ratepayers provided the necessary cash, on average, before the Company must pay for expenses incurred to provide that service. A positive CWC requirement indicates, in the aggregate, that shareholders provided the cash necessary during the year. This means that the Company must pay, on average, for the expenses incurred in providing service before ratepayers pay for that service.

Q. Please explain the components of the Staff's calculation of CWC, which appear on Accounting Schedule 8.

A. Column A on Accounting Schedule 8, lists the expenses that the Company pays on a day-to-day basis. Column B lists the Staff's annualized expense amounts. Column C, Revenue Lag, denotes the amount of time expressed in days, between the midpoint of the period during which the Company provides service and the payment for that service by the ratepayer. Column D, Expense Lag, denotes the amount of time, expressed in days, between the receipt of and payment for the goods and services (i.e., cash expenditures) used by the Company to provide service to the ratepayer. Column E, Net Lag, results from the subtraction of the Expense Lag from the Revenue Lag. Column F, Factor, expresses the Net Lag in days as a fraction of the total days in the year. This result is derived by dividing the net lags in Column E by 365 days. Finally, Column G, CWC Requirement, is the average amount of cash necessary, on a daily basis, to provide service to the ratepayer, which is calculated by multiplying the annualized test year expense amounts (Column B) by the CWC factor (Column F).

Q. Please explain the revenue lag.

A. The revenue lag is the amount of time between when the Company provides service and when the Company receives payment for that service from ratepayers. The revenue lag on Accounting Schedule 8 considers the Company's major sources of revenue. This revenue lag is the sum of three subcomponent lags: usage, billing and collection.

Q. Please explain the above subcomponent lags.

A. The usage, billing, and collection lags are defined as follows:

1. Usage Lag: The midpoint of the average time elapsed from the first day of a service period through the last day of that service period. The company bills monthly; therefore, this usage lag is 15.21 days, the midpoint of a month, ((365days/12months)/2 for midpoint).

2. Billing Lag: The period of time between the end of the last day of a service period and the day the bill is mailed to the customer. Electric services have a .95 billing lag day. This billing lag for Electric service and the below collection lag for electric service are weighted averages to incorporate billings under the company's Interchange Agreement with other electric utility companies.

3. Collection Lag: The collection lag measures the time between when the bill was mailed and when it was paid. The collection lag was based on the Company's Cash Lag Study (CURST 246). This report included past-due but not uncollectible amounts. Based on this report, the Electric services collection lag was determined to be 21.27 days.

Q. What is the Staff's overall revenue lag?

A. Staff's total Electric service weighted revenue lag is 37.43 days (15.21 usage, .95 billing and 21.27 collection.

Q. Please explain the calculation of the expense lags for each item on Accounting Schedule 8.

A. The expense items listed on Schedule 8, lines 2, 3, 4, 5, 6 and 7, relate to the CWC requirement for annualized payroll. Payroll has been divided into the following six components: 1) Base Payroll (net pay), 2) Vacation Pay, 3) Employee 401k withholdings 4) Federal Income Tax withholdings 5) State Income Tax withholdings, and 6) Employee FICA withholdings. These payroll lines represent different payment timing requirements for each component.

Q. Please explain the Base Payroll and expense lag calculated on line 2 of Accounting Schedule 8.

A. The Base Payroll expense is the amount of take-home pay received by employees. The lag is the time lapse between the midpoint of the period in which employees earn wages, and the date the Company pays those wages. The Company has a bi-weekly payroll period (service period of 14 days divided by two to obtain a midpoint service lag of 7.00 days plus a 3.49 day weighted average payment lag. The resulting weighted average Base Payroll lag of 10.49 days was utilized by Staff in this case.

Q. Briefly describe AmerenUE's vacation policies.

A. AmerenUE's vacation policies differ slightly between management and contract employees, primarily in that management employees with acceptable work experience from other organizations will immediately be credited with one or two weeks vacation depending upon their hire date. Most contract employees require approximately one year of service before receiving vacation. Consequently, for union employees, any year's vacation expense, for example 2006, reflects vacation that was earned during the previous year, 2005.

Q. Please explain the computation of expense lag days for Vacation Payroll on line 3 of Accounting Schedule 8.

A. The 300.70 expense lag days is based upon the total of 1) the midpoint of the weighted average service period required for the average employee to earn his vacation (i.e. 105.74 days); and 2) the weighted average date when the employee took the vacation during the year (i.e. 194.96 days). For purposes of this lag calculation, actual test year vacation data from Staff Data Requests was utilized.

Q. Please explain 401-K Withheld on line 4.

A. This is the employees' withholdings for the 401-K Plan contributions. The Company pays the combined total of the employees' withholdings and the Company's contribution, 11 days on average, after the payroll date. Adding the10.49 day payroll service lag results in an average payment lag of 21.49 days.

Q. Please explain the Federal Withholding Taxes and Employee FICA and the expense lags calculated on lines 5 and 7, respectively.

A. The Federal Income Taxes Withheld and Employee FICA Withholding (Social Security and Medicare) are due on the first banking day following pay dates. That one banking day lag plus intervening weekend/holiday days are added to the base payroll lag (10.49 lag-days) to determine total lag days for Federal withholding taxes. The resulting Federal withholding tax expense lag is 12.79 days.

Q. Please explain the State Withholding Taxes and associated lag on line 6.

A. State Income Taxes Withheld from employees' paychecks are due on the third banking day following the payroll date. The allowed three days plus intervening weekend/holiday days are added to the base payroll lag to determine total lag days for State income taxes withholding. The resulting State withholding expense lag is 14.96 days.

Q. Please explain Employee Benefits Excluding Pensions Expense on Line 8 of Schedule 8.

A. This expense is composed of the following items: 1) FAS 106, the actual payments to funds for medical expenses and life insurance premiums providing benefits for current and future retirees; 2) Health care is actual medical expenses and insurance premiums related to current employees' benefits; and 3) the Company's 401-K Plan contributions. These different expense categories were dollar weighted to yield 59.37 days expense lag.

Q. Please explain the expense lag for Fuel - Nuclear on line 9.

A. The nuclear expense lag is composed of uranium, conversion services and fabrication services. The sampled disbursements were related to the Callaway Plant's fourteenth refueling completed in the fourth quarter 2005.

Q. Please explain the expense lag for coal on line 10 of Schedule 8.

A. The coal expense lag is the time lapse between the dates the coal and freight services were received and the date AmerenUE paid for these items. The coal expense lag represents a dollar weighting of coal and freight costs yielding a 21.92 lag-day coal expense, based upon an approximate 260 invoice sample.

Q. Please explain the expense lags for gas and oil.

A. The natural gas and oil lags were determined by the difference in days between the midpoint of the billing period during which AmerenUE received the products from the suppliers and when the invoices were paid. The gas and oil expense lags were 39.73 and 30.11 days, respectively.

Q. Please explain the expense lag for Uncollectible Expense on line 14.

A. Uncollectible expense is an expense in name only. It is actually a lack of revenue collection and, therefore, does not represent a cash flow for payment of an expense. An expense lag equal to the revenue lag has been assigned to this item, so that a zero CWC effect is produced.

Q. Please explain Pension Expense on Line 15 of Schedule 8.

A. This is the actual amount paid to the Company's pension plans. The pension plan payments were for calendar year 2005 and consisted of two payments (one in February and other in September 2005). The resulting dollar weighted expense lag is 73.54 days.

Q. Please explain the Headwaters and Relicensing Costs lag on Schedule 8, line 16.

A. This expense consists of: 1) Annual expenses related to the Bagnell Dam area's public use, enjoyment and recreation agreed to as a component of this plant's relicensing; and 2) Annual assessment arising from the Federal Energy Regulatory Commission (FERC) Headwaters Study determination of benefits to the Company's hydroelectric plant at Bagnell Dam (discussed further below).

The annual service periods for these expenses (365 days divided by 2 = 182.5 days each) plus the average payment lags to July 15 and October 31, respectively, of the following year, yield a 414.28 weighted average expense lag. Staff reduced the expense lag to 402.43 to limit the net cash working capital lag to 365 days so that the resulting CWC requirement did not exceed the actual expenses.

Q. Please explain the Cash Vouchers lag on Schedule 8, line 17.

A. The Staff's analysis of the Cash Vouchers lag was based upon the Company's sample of 227 vendors' invoices to determine the lag between the date service was provided to the Company and the date the invoice was paid. Those invoices were then dollar weighted yielding an average payment lag of 45.38 days. The Staff examined this invoice sampling and believes it accurately reflects the payment lag for the cash vouchers component of CWC. The amount of test year expense associated with cash vouchers is equal to the Staff's total operation and maintenance expense, less all the preceding expense amounts listed on Schedule 8. This item includes all the O&M expense that was not specifically analyzed and assigned expense lags.

Q. Please explain the employer's portion of the FICA (Social Security and Medicare) tax expense lag on line 20 of Accounting Schedule 8.

A. The employer's and the employee's portion of FICA taxes are paid at the same time. Therefore, employer's FICA taxes have the same expense lag as the Employee FICA withholding taxes at line 7 of Schedule 8, 12.79 days.

Q. Please explain the Federal and State Unemployment Tax expense lags on line 21 of Accounting Schedule 8.

A. Both taxes are due at the end of the month following the calendar's quarter end and are based on the quarter's taxable wages. The lag represents the length of time between the average day service is rendered by the employee (quarterly midpoint of 45.63 days and the day the Company is required to make a payment for that service (end of the month following the quarter end). This results in a 76.38 day expense lag.

Q. Please explain the corporation franchise taxes expense lag on line 22, of Accounting Schedule 8.

A. Corporation franchise taxes are paid annually for the current year. The service period is the calendar year (average service period: 365 days/2 = 182.5 days average service lag). The payments are due on April 15th of the current calendar year, resulting in a negative expense lag of (77.50) days.

Q. Will you please explain the expense lag for property taxes as shown on line 23, of Accounting Schedule 8?

A. The property tax lag measures the difference between the midpoint of the calendar year service period and the payment due date. The resulting expense lag is 182.23 days. Approximately 1.6 percent of the electric taxes are due to Illinois authorities which has earlier due dates than the other taxing states. Illinois also allows these taxes to be paid in two installments.

Q. Please explain the PET taxes on line 24 of Schedule 8.

A. This is the St. Louis City Payroll Earnings Tax. It is levied upon employers at .005 of gross payrolls earned within the City of St. Louis. It is due at the end of the first month following each calendar quarter. The actual due dates were used to calculate the expense lag of 76.38 days.

Q. Why are Other Expenses included in CWC?

A. Although these items do not appear in the Staff's income Statement, cash is still collected from ratepayers to make payments for these items. In the case of taxes, the utility acts as a conduit between the customer and the taxing authority.

Q. Why do the revenue lag for gross receipts taxes and sales and use taxes on lines 27 and 28 of Accounting Schedule 8 differ from the revenue lag discussed above?

A. The Company acts solely as an agent of the taxing authority in collecting sales and use taxes from the ratepayer and in forwarding the collected taxes on a timely basis. The Company does not provide any service to the ratepayer associated with these taxes. Since the Company's liability for forwarding sales and use taxes does not begin until the taxes are collected, the disbursement lag for sales and use taxes is measured from the date these taxes are collected, and no service, billing or collection lapse time is appropriate. Therefore, sales and use taxes have revenue lags of zero. Gross receipts taxes are imposed by municipalities on billings within their municipal boundaries. Consequently, while similar to sales and use taxes in that the Company is only an agent of the taxing authorities and provides no service to the ratepayers associated with gross receipts taxes, the Company's liability for forwarding gross receipts taxes begins with its billing date to the ratepayer. Therefore, the collection component of the revenue lag (21.27 days) is appropriate as the revenue lag.

Q. Please explain the gross receipts tax payments lag on line 27, of Accounting Schedule 8.

A. The Company remits gross receipts taxes to the municipalities at varying times as their statutes specify (i.e. monthly, quarterly, etc.). Dollar weighted lags were calculated using the actual payments. The weighted average of these payments yielded 53.48 lag days.

Q. Please explain the sales and use tax payments lag on line 28, of Accounting Schedule 8.

A. Sales taxes are a composite of state and local sales taxes. The Company makes five payments each month for sales taxes - four quarter-monthly payments during each month and a final catch-up, or reconciling, payment for the preceding month's taxes. Dollar weighted lags of the five payments were calculated using the required deposit dates. Use taxes are remitted monthly. The weighted average of these two taxes yielded an 8.89 days expense lag.

Q. Please explain and describe the inclusion of income taxes and interest in the Staff's analysis of CWC.

A. Taxes and interest are known and certain obligations of the Company with payment periods and payment dates established by statute or by the terms of the debt. Amounts collected for taxes and interest represent a source of cash to the Company until paid to the appropriate taxing authority or bondholder, and, therefore, should be included in a lead/lag analysis. Interest expense is included in the cost of service though the application of the weighted cost of capital times rate base. Income taxes are included through the calculation of revenue requirement as shown on Accounting Schedules 1 and 11, Revenue Requirement and Income Taxes.

Q. How was the interest expense lag computed?

A. The interest expense lag was calculated using actual test year data provided by the Company. The lags between the midpoint of the service period and the due dates were calculated and multiplied by the associated amounts to compute a weighted average lag.

Q. Please explain how the tax expense lags were calculated for federal, state, and St. Louis City taxes as shown on lines 31, 32, and 33 on Accounting Schedule 8, CWC, and lines 17, 18, and 19 on Accounting Schedule 2 Rate Base.

A. These lags were calculated by using the taxable periods set by the respective taxing entities. Additionally, Staff used the statutory due dates in order to obtain a weighted expense lag.

Q. What was the result of the Staff's lead/lag calculation?

A. The individual calculations, when summed, results in total net ratepayer supplied funds and illustrate the excess of CWC supplied by the ratepayer over the amount supplied by the shareholders. The CWC component is deducted from rate base to compensate the ratepayers for the use of their funds.

Q. Have you included any lag associated with bank float in your calculation of revenue or expense lags?

A. No. The Commission has consistently excluded any bank float lag because it changes the definition of payment/collection lag from the time the Company takes to pay a bill or waits to receive customer payments to the time the bank takes to debit or credit the Company's bank account for the funds.

OSAGE PLANT ADJUSTMENTS

Q. Please describe the Osage Plant adjustments.

A. These adjustments consist of two components: Headwaters, and Relicensing.

HEADWATERS

1. FERC studied the effect that Federal impoundments on the Osage River basin upstream from the Company's Bagnell Dam hydroelectric generation plant had on that facility. FERC concluded that stream flow regulation from those upstream impoundments caused energy generation gain benefits at the Company's Bagnell Dam plant. An increased

annual assessment was levied upon the Company for those benefits. The Staff has included adjustments in its income statement for these cost increases.

2. FERC assessed the Company for the cost of this study and for revised annual assessments for the period 1980 through 2004. Staff proposes amortizing this total over a twenty-five year period because that is the same term that the revised assessments applied to.

RELICENSING

1. The Company's relicensing agreement for the Bagnell Dam hydroelectric generation facility has been tentatively agreed upon with FERC and other Federal and State agencies. This pending agreement requires AmerenUE to make annual expenditures for public use, recreation and enjoyment in that area. The Staff has included adjustments in its income statement for these cost increases.

2. The renewed license will be valid for forty years. Therefore, the Staff proposes to amortize the costs the Company incurred (i.e., consultants, legal fees, studies, etc.) related to the Osage plant relicensing over the forty year term of the renewed license. The Staff will review this pending agreement through the true-up period audit process.

INTEREST ON CUSTOMER DEPOSITS

Q. How did the Staff determine the interest on customer deposits?

A. The Company pays interest on customer deposits based upon the Prime bank lending rate, as published in the Wall Street Journal, at November 30. Customers having deposits for electric service (only) are paid the defined Prime interest rate plus 1.00%. Customers having both gas and electric service are paid the defined Prime interest rate plus 1-1/2%. The rate will remain fixed for a calendar year and change annually on January 1. For cost of service purposes, Staff determined the normalized level of customer deposits by calculating a thirteen month average during the test year ending June 30, 2006. The Prime interest rate applicable to these deposits was 7.00% at November 30, 2005.

RATE CASE EXPENSE

Q. Please explain the adjustment for Rate Case Expense.

A. The rate case expense adjustment increases test year expense for the amount deferred during the test year. The Staff has some concerns with the amount the Company has estimated for rate case expense and the cost of outside consultants to be charged to ratepayers. The Staff will continue to monitor this item through the true-up period audit process and will reevaluate its adjustment to recognize an appropriate normal level of rate case expense.

PROPERTY TAXES

Q. Please explain the property tax adjustment.

A. Test year property taxes were normalized to exclude a non recurring tax credit and taxes on non utility property and property being held for future use.

PUBLIC SERVICE COMMISSION ASSESSMENT

Q. Please explain the adjustment to the Missouri Public Service Commission's (PSC's) Assessment.

A. This adjustment increases the test year's level of expense to the current year's actual assessment amount.

Q. Does this conclude your direct testimony?

A. Yes.

CASE PROCEEDING PARTICIPATION

EDWARD F. BEGAN, CPA

PARTICIPATION		TESTIMONY
COMPANY	**CASE NO.**	**ISSUES**
Citizens Electric Cooperative	ER-2002-217	Direct - Advertising; Dues Donations and Memberships; Maintenance Expense including Tree Trimming; Postage; PSC Assessment; and, Rate Case Expense
Laclede Gas Company	GR-2001-629	Direct - Advertising; Property Taxes; Other Rate Base Items; Plant, and Amortizing Assets, Their Related Reserves, and Current Amortization and Depreciation Expense; PSC Assessment; and, Rate Case Expense
Northeast Missouri Rural Telephone Company	TR-2001-344	Direct - Advertising; Memberships, Dues, Donations, and Subscriptions; Payroll
Missouri - American Water Company	WR-2003-0500	Chemicals, Fuel & Power, Purchased Water Removal & Salvage, Revenue, and Uncollectibles
Laclede Gas Company	GR-2005-0284	Dental, Medical Vision Expenses, and 401K Fees, Payroll