

Exhibit No.:

*Issues: Pensions and Other Post
Employment Benefits; Legal
Expense; Cost of Removal/Salvage;
Rate Case Expense; Corporate
Franchise Tax Expense*

Witness: Janis E. Fischer

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GR-2003-0517

Date Testimony Prepared: October 24, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JANIS E. FISCHER

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. GR-2003-0517

*Jefferson City, Missouri
October 2003*

****Denotes Proprietary Information****

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JANIS E. FISCHER
UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. GR-2003-0517

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DIRECT TESTIMONY
OF
JANIS E. FISCHER
UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. GR-2003-0517

Q. Please state your name and business address.

A. Janis E. Fischer, Governor Office Building, P. O. Box 360, Jefferson City,
Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission
(Commission or PSC).

Background of Witness

Q. Please describe your educational background.

A. I graduated from Peru State College, Peru, Nebraska, and received a
Bachelor of Science degree in Education (Basic Business) and Business Administration.
In May 1985, I completed course work and earned a Bachelor of Science degree in
Accounting. I passed the Uniform Certified Public Accountant examination in May 1994
and received my license to practice in March 1997.

Q. Please describe your work background.

A. Prior to my employment at the Commission, I worked over six years as the
office and accounting supervisor for the Falls City, Nebraska Utilities Department
(Utilities Department).

1 I also was employed as a staff accountant with the accounting firm of
2 Cuneo, Lawson, Shay and Staley, PC, in Kansas City, Missouri, for approximately two
3 years. Prior to that, I worked in the business office of the Falls City Community Hospital
4 and as the accountant for the Sac and Fox Tribe of Missouri.

5 Q. What has been the nature of your duties while employed by the
6 Commission?

7 A. Since I began employment with the Commission in 1996, I have directed
8 and assisted with various audits and examinations of the books and records of public
9 utilities operating within the state of Missouri under the jurisdiction of the Commission.
10 I assumed my present position of Regulatory Auditor IV in December 2001.

11 Q. Have you previously filed testimony before this Commission?

12 A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a list
13 of the major audits and issues on which I have assisted and filed testimony.

14 **Purpose of Testimony**

15 Q. With reference to Case No GR-2003-0517, have you examined and
16 studied the books and records of AmerenUE (Union Electric, UEC or Company) relevant
17 to the filing in this case?

18 A. Yes, with the assistance of other members of the Commission
19 Staff (Staff). I have examined the cost of service to AmerenUE Missouri gas customers
20 through analysis and review of AmerenUE's filing, Staff data request responses, Security
21 Exchange Commission (SEC) filings, documents available to the Staff through prior
22 AmerenUE case filings and prior Commission case workpapers of the Auditing
23 Department Staff. I have reviewed documents related to pension expense, other
24 post-retirement benefits (OPEBs) expense, AmerenUE's Voluntary Retirement

Direct Testimony of
Janis E. Fischer

1 Plan (VRP) costs related to pension and OPEBs, franchise tax expense, legal expense,
2 rate case expense and cost of removal and salvage related to retired plant. Throughout
3 this testimony I will refer to AmerenUE to identify Union Electric total company
4 operations. I will identify Missouri gas operations as UEC gas or AmerenUE gas.

5 Q. Did you supervise the examination and analysis of the books and records
6 of the Company in regards to matters relevant to this case?

7 A. Yes. As an Auditor IV and Lead Auditor in this case, I supervised the
8 examination and analysis of the books and records of AmerenUE completed by the other
9 Auditing Department Staff assigned to this case. Please refer to the testimony of
10 Auditing Department witnesses Sean T. DeVore, Paul R. Harrison, Leslie L. Lonergan
11 and Leasha S. Teel for a complete listing of the issues filed in this case that I supervised.
12 The supervision included attendance at meetings related to case issues. Numerous
13 meetings were held between the Staff and Company employees to gain additional
14 information to support AmerenUE's filing in this case and AmerenUE responses to Staff
15 Data Requests. I assisted Auditing Department witnesses during fieldwork at AmerenUE
16 by providing additional issue support based on my knowledge and experience with the
17 Staffs' positions.

18 Q. What matters will you address in your testimony?

19 A. My direct testimony will discuss the following items:

20 The Staff's recommendation regarding expense adjustments included in
21 Staff Accounting Schedule 10, Adjustments To Income Statement, for pension expense,
22 OPEBs expense, franchise tax expense, legal expense, rate case expense and cost of
23 removal and salvage related to retired plant.

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

3 A. My knowledge is based upon being assigned a variety of issues in a
4 number of PSC cases over the past seven years. Specifically, I filed testimony in
5 AmerenUE Case Nos. GR-97-393 and EC-2002-01. I have also filed testimony on the
6 issue of pension and OPEBs in four other cases: Missouri Gas Energy, Case No.
7 GR-2001-292; The Empire District Electric Company, Case No. ER-2001-299; Missouri
8 Public Service, Case No. ER-2001-672; and Laclede Gas Company, Case No.
9 GR-2002-356.

10 I have reviewed the Staff Auditing Department position papers, training
11 manuals and technical manuals dealing with accounting issues in this case. In addition, I
12 have reviewed Commission Report And Orders, testimony and transcripts of recent
13 Commission cases, including the AmerenUE Case, No. EC-2002-1. I have also attended
14 in-house and PSC sponsored training throughout the seven years of my employment with
15 the Commission.

16 In addition to knowledge gained while employed at the Commission, my
17 work at a municipal utility company for over six years has given me additional expertise
18 related to the daily operations of an electric and natural gas utility. A small municipal
19 utility operation provides employees the opportunity to gain knowledge in many aspects
20 of utility operations. While with the Utilities Department, I completed water and electric
21 rate reviews, developed procedures for PCB monitoring and disposal, implemented a
22 program to verify the accuracy of remote water meters, supervised office staff and
23 handled customer complaints. I assisted with the acquisition of Falls City's natural gas
24 distribution system from Kansas Power and Light Company, predecessor company of

1 Western Resources, Inc. After the acquisition, I compiled asset records for the natural
2 gas distribution system for the utility, nominated gas supplies for the municipal power
3 plant, negotiated prices for gas purchased from marketers, monitored gas transportation
4 customer loads and billed transportation customers.

5 I was appointed by the Board of Public Works (Board) to the Nebraska
6 Public Gas Agency (NPGA) Board and later was elected Secretary and then Vice
7 Chairperson of the Board. NPGA is comprised of members from municipal natural gas
8 systems who collectively purchase natural gas and acquire natural gas wells to supply gas
9 to municipal gas systems and power plants at reduced costs. As a member of the Board,
10 I reviewed annual budgets and natural gas purchases for member communities.
11 I participated in management salary negotiations and the development of incentive
12 compensation programs for management and other employee groups. In addition
13 I participated in NPGA's negotiations to purchase gas wells, reviewed terms and
14 conditions for the issuance of revenue bonds and attended meetings with NPGA's
15 lobbyist and future planning sessions.

16 While employed as a staff accountant with Cuneo, Lawson, Shay and
17 Staley, I assisted in various audits, compilations and reviews of corporations and
18 prepared individual and corporate state and federal tax returns. I researched tax issues for
19 international client business operations and interacted with various clients. I completed
20 pension plan audits, health care plan compliance audits for several unions in the Kansas
21 City area, a stock brokerage firm audit and a nursing home audit.

22 In addition, my prior work experience in the area of accounting included
23 assisting in preparing monthly financial statements, reconciling cash receipts to customer
24 payments, completing accounts payable functions and maintaining investment records for

1 a non-profit hospital. While employed as the accountant for the Sac and Fox Tribe of
2 Missouri, my responsibilities included maintenance of all accounting records of federal
3 and state governmental grants and contracts. I compiled monthly financial statements,
4 completed payroll functions and corresponded with the Bureau of Indian Affairs and the
5 United States Department of the Interior on a quarterly basis regarding the status of
6 grants and contracts administered by the Sac and Fox Tribe.

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to sponsor and discuss the following
9 Income Statement adjustments to Accounting Schedule 10:

10	S-12.13	Rate Case Expense
11	S-12.12	Legal Expense
12	S-15.2	Corporate Franchise Expense
13	S-12.14, S-15.16, S-15.17	Annualization of Pension Expense
14	S-12.11	Annualization of OPEB Expense
15	S-14.1	Cost of Removal/Salvage

16 Q. Please briefly describe Ameren's corporate structure.

17 A. Ameren is the parent company of Union Electric Company, which does
18 business in the state of Missouri and Illinois as AmerenUE. Ameren has additional
19 subsidiaries including Central Illinois Public Service Company, known as
20 AmerenCIPS (CIPS) and Central Illinois Light Company, a subsidiary of CILCORP Inc.
21 Ameren Services Company (AMS) provides shared support services to the parent
22 company, Ameren and its other subsidiaries. For a further explanation of Ameren's
23 corporate structure please see the direct testimony of Staff witness Paul R. Harrison.

1 **TEST YEAR**

2 Q. What test year and update period is the Staff using in this case?

3 A. The Commission issued an Order Setting Test Year and Canceling True-
4 up Audit and Hearing on July 8, 2003, approving the use of the year January 1, 2002,
5 through December 31, 2002, as the test year for this case. The Commission also
6 approved updates for known and measurable changes through June 30, 2003.

7 Q. Would you please describe what a test year is and how it is used?

8 A. The test year is a twelve-month period used to determine the cost of
9 providing service. The test year is the basis for the audit of a general rate increase filing
10 or an earnings/revenues investigation. This period serves as the starting point for review
11 and analysis of the utility's operations in determining the reasonableness and
12 appropriateness of the utility's rates and rate levels. The test year financial statements
13 form the basis for any adjustments necessary to remove abnormalities that have occurred
14 during the period and to reflect any increase or decrease to the accounts of the utility.
15 Adjustments are made to the test year levels of revenue, expense and investment to
16 determine the proper cost of service and level of investment on which the utility is
17 allowed to earn a return. A recommended rate of return range is determined for the
18 utility and a review of existing rates is made to determine if any additional revenues are
19 necessary or if existing revenues are excessive. If the Staff determines that the utility's
20 earnings/revenues are deficient, it may make a recommendation that rates need to be
21 increased. If existing rates generate earnings/revenues in excess of what are deemed to
22 be just and reasonable levels, this may indicate the need for rate reductions. The test year
23 is the vehicle used to evaluate and determine the proper relationship among revenue,
24 expense and investment. This relationship is essential to determine the appropriate level

1 of earnings/revenues for the utility for the setting of just and reasonable rates, which will
2 permit the utility to provide safe and adequate service.

3 Q. Why did the Staff recommend a test year of the twelve months ended
4 December 31, 2002?

5 A. The December 31, 2002, test year represents the most current period for
6 which financial statement information was available to Staff during the course of the
7 audit.

8 Q. When is the use of an update period appropriate?

9 A. The use of an update period may be advisable in some circumstances to
10 allow a test year to remain current; i.e., continue to reflect a proper matching of revenue,
11 expense and investment items. An update period beyond the test year allows for the
12 inclusion of material changes in items that are known and measurable. Such items could
13 include plant additions and retirements, pay increases, customer growth, changes in fuel
14 prices, etc. The Staff has proposed a number of adjustments to reflect UEC gas revenues
15 and expenses at June 30, 2003.

16 Q. Why did the Commission cancel a true-up audit for this case?

17 A. Neither AmerenUE, the Staff nor any other party to this case requested a
18 true-up. There are no other known material items that will materially impact the revenue
19 requirement of AmerenUE occurring within the timeline of this case after the end of the
20 update period. Therefore, there is no need for a true-up audit.

21 Q. Please explain the difference between an update and a true-up.

22 A. An update period covers a time period immediately following the test
23 year. This test year as updated, or the updated test year, includes material changes to the
24 Staff's case through a date near the conclusion of the Staff's field audit. In contrast, a

1 true-up of a test year requires a re-audit, if not of the entire case, of most ratemaking
2 items (including all significant items) through a specific time period following the Staff's
3 direct filing date. The true-up addresses all material items to ensure that the proper
4 relationship of rate base, expenses and revenues is maintained.

5 **RATE CASE EXPENSE**

6 Q. Please describe adjustment S-12.13.

7 A. This adjustment normalizes rate case expense by spreading the specific
8 costs incurred associated with AmerenUE Case No. GR-2003-0517 over a three-year
9 period. The total amount of rate case expense incurred by UEC Gas through August 22,
10 2003, is being reflected in the normalization calculation at this time. Rate case costs,
11 such as consulting fees, employee travel expenditures and legal representation, are
12 directly associated with the length of the case through the prehearing and hearing process.
13 Any additional cost that is a reasonably incurred rate case expense will be considered for
14 inclusion later in the case. The Staff will work with AmerenUE to establish an ongoing
15 normalized level of rate case expense for inclusion in rates.

16 **LEGAL EXPENSE**

17 Q. Please describe adjustment S-12.12.

18 A. This adjustment removes all legal expenses allocated to UEC gas cost of
19 service for the test year.

20 Q. Why did the Staff determine that legal expenses should not be included as
21 an expense in the calculation of AmerenUE cost of service for Missouri gas customers?

22 A. The Staff's attempt to audit legal expenses associated with UEC Missouri
23 gas operations did not provide enough support for inclusion of legal charges in the
24 Missouri gas cost of service.

1 Q. How does the Staff typically determine a normalized level of legal
2 expenses for inclusion in cost of service?

3 A. The Staff typically normalizes legal expenses based upon a multi-year
4 analysis of actual legal payments. A sample of legal expense invoices is reviewed by the
5 Staff to determine the appropriateness of the inclusion of the expenses in the cost of
6 service. The invoices should clearly identify that the activity charged is related to
7 Missouri gas operations or is related to general legal activity provided to
8 AmerenUE/Ameren Corporation necessary for the overall operation of the utility.
9 AmerenUE did not provide enough detail with the sample legal expense invoices
10 requested in Staff Data Request No. 240 to allow the Staff to determine if the costs were
11 related to Missouri gas operations or even general legal activity of AmerenUE/Ameren
12 Corporation.

13 Q. How does AmerenUE determine the amount of legal expenses to post to
14 Missouri gas operations?

15 A. AmerenUE uses Uniform System of Accounts (USOA) Account 242-009,
16 Legal Reserve, to set a provisional level of legal expenses based upon historical data,
17 actual charges and estimates of possible future legal expenses. The offsetting expense
18 account for the Legal Reserve is USOA Account 923-002, Outside Services Employed.
19 Account 923-002 is allocated between Electric, Missouri Gas and Illinois Gas using the
20 operating labor allocation factor.

21 Q. Assuming that AmerenUE is capable of providing better documentation of
22 legal expenses charged to UEC gas, does the Staff believe that AmerenUE's method to
23 determine legal expenses is appropriate for rate purposes?

1 A. No. The inclusion of estimates for legal expenses in UEC gas rates would
2 still not meet the Commission's "known and measurable" standard. In addition, an
3 allocation based upon labor of AMS employees has no direct correlation to legal costs
4 attributed to AmerenUE Missouri gas operations.

5 **CORPORATE FRANCHISE EXPENSE**

6 Q. Please describe adjustment S-15.2.

7 A. This adjustment normalizes the corporate franchise tax expense to be
8 included in cost of service for AmerenUE Missouri gas operations.

9 Q. How did the Staff determine a normalized level of corporate franchise
10 expense for inclusion in cost of service?

11 A. Based on information provided in response to Staff Data Request Nos. 72
12 and 256, the amount of corporate franchise taxes paid to the state of Missouri for the
13 years 1998 through 2002 were averaged over a five-year period because the amount of
14 tax paid fluctuated throughout the period analyzed. The Staff then applied an allocation
15 factor based upon the level of AmerenUE Missouri gas assets included in the assets used
16 to calculate the franchise tax. This information is calculated for federal income tax
17 purposes as part of Schedule L and is included as support to the Missouri Corporate
18 Franchise Tax Schedule. The difference between the results of this calculation and the
19 amount of Missouri franchise tax expense charged to AmerenUE Missouri gas during the
20 test year is the Staff's adjustment.

21 Q. How does UEC determine the Missouri franchise tax expense to be
22 charged to AmerenUE Missouri gas operations?

23 A. AmerenUE accrues an amount each month based upon actual payments
24 and estimated future costs of Missouri franchise tax. The use of an accrual spreads the

1 cost of the Missouri franchise tax throughout the year, but also allows over or under-
2 collection of the actual costs within any twelve-month period.

3 Q. How does the Staff's adjustment compensate for this over or under-
4 collection of actual franchise tax through the accrual charged to UEC Missouri gas
5 operations?

6 A. The Staff's adjustment is based entirely upon the normalized actual
7 franchise tax paid, not the accrual charged UEC Missouri gas operations.

8 **ANNUALIZATION OF PENSION EXPENSE**

9 Q. Please identify the adjustments you are sponsoring to pension expenses.

10 A. Adjustments S-12.14 and S-12.15 adjust qualified pension expense to
11 reflect the use of the Staff's minimum ERISA method for pension expense allocated from
12 AmerenUE and AMS to Missouri gas operations. Adjustment S-12.16 adjusts non-
13 qualified pension plan expense.

14 Q. How does AmerenUE allocate the costs of the employee pension plans to
15 UEC Missouri gas operations?

16 A. AmerenUE assigns pension plan costs to UEC electric and UEC gas
17 operations based upon a labor allocation factor. For example, an employee of UEC who
18 works exclusively for Missouri gas operations would have 100 percent of his/her pension
19 cost assigned to UEC Missouri gas operations. A portion of AMS employee pension
20 costs are also allocated to UEC based upon a labor allocation factor.

21 Q. What kind of pensions does AmerenUE have?

22 A. AmerenUE has both qualified and nonqualified plans. The qualified
23 pension plan of AmerenUE covers UEC, AMS and CIPS employees. In addition,
24 AmerenUE also sponsors non-qualified plans that have costs allocated to UEC Missouri

1 gas operations: Ameren Excess Plan, AmerenUE Retirement Incentive Plan and
2 AmerenUE Non-Employee Directors Plan.

3 Q. What is a qualified pension plan?

4 A. A qualified pension plan is one in which the contributions to the plan are
5 tax deductible and the earnings of the assets in the plan are tax-exempt.

6 Section 401 of the Internal Revenue Code lists requirements that a plan
7 must meet to be qualified. Two of the more prominent features of a qualified plan are:

- 8 1. That the company cannot divert assets in the trust
9 for any other purpose than the meeting of the
10 obligations of the plan; and
- 11 2. The plan must be available to a broad range of
12 employees.

13 Q. What makes a plan non-qualified and what are the implications of a plan
14 not being qualified?

15 A. In a non-qualified plan, only the amounts paid to beneficiaries are tax
16 deductible. Due to the fact that these retirement programs are designated as
17 non-qualified plans, the annual financial reporting pension costs are calculated differently
18 for these programs than for the regular retirement plans.

19 Q. Does the treatment of earnings on the assets of the qualified and non-
20 qualified pension plans differ?

21 A. Yes. For the Company's regular qualified retirement programs, the
22 earnings on the assets being accumulated to pay benefits are used as a reduction to the
23 annual cost. However, for the non-qualified plans, the earnings on the accumulated
24 assets are not included in the financial reporting calculations of annual retirement cost
25 and, therefore, are not used to reduce the actual cost of the plans. The Staff believes that

1 an "actual payments method" for rate purposes is more appropriate for the non-qualified
2 plans and has included the actual test year payments to recipients or contributions to
3 funds, as the case may be, in calculating its annual cost of non-qualified plans.

4 Q. What is the purpose of the 1974 ERISA legislation?

5 A. The Employee Retirement Income Security Act of 1974 (ERISA) funding
6 requirements are intended to ensure that defined benefit pension plans in the United
7 States are adequately funded. This required funding amount is referred to as the
8 "minimum ERISA" contribution. Pursuant to the Internal Revenue Code, a maximum
9 contribution is also calculated which sets a limit on the amount of tax deductible
10 contributions an employer may make to its pension fund during the plan year. Pursuant
11 to ERISA regulations, the minimum ERISA contribution may not go below zero.

12 Q. How does AmerenUE calculate its pension expense for financial statement
13 purposes?

14 A. Ameren pension expense in its financial statements is determined by an
15 actuary using Statement of Financial Accounting Standard (FAS) 87, Employers'
16 Accounting for Pensions. The Financial Accounting Standards Board (FASB) issued this
17 statement in 1987.

18 Q. What is the difference between the purpose for ERISA and FAS 87?

19 A. ERISA regulations are designed to ensure that defined benefit pension
20 plans are adequately funded. The Minimum ERISA contribution is intended to fund the
21 pension liability, while FAS 87 is intended to ratably charge the liability to expense over
22 the service life of the employee. Since both ERISA and FAS 87 are concerned with the
23 same pension liability, differences between contributions under ERISA and expense
24 under FAS 87 can be viewed as a timing difference caused by the fact that the actuarial

1 method used for FAS 87 is not the same method used for funding measurements under
2 ERISA regulations.

3 Q. What have been the AmerenUE pension plan Minimum ERISA, IRS
4 maximum contributions and actual voluntary contributions in recent years?

5 A. The table below provides the AmerenUE pension plan Minimum ERISA,
6 IRS maximum and actual voluntary contributions for the past ten years:

<u>Year</u>	<u>ERISA Minimum</u>	<u>IRS Maximum</u>	<u>Actual Voluntary Contributions</u>
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21 ¹Years 1998 and later reflect the addition of CIPS due to merger.
22 (Source: Response to Staff Data Request No. 166)

23 Q. Has the Staff ever recommended the use of FAS 87 to determine pension
24 expense for ratemaking?

25 A. Yes, it has. The Staff, in all major rate cases from approximately 1994
26 through 2000 recommended the use of FAS 87 with a five-year average amortization of
27 unrecognized gains and losses. However, the calculation of pension expense for
28 ratemaking purposes has been an evolving issue. The Staff had been an advocate of
29 using its minimum ERISA method for pension expense until legislation passed in 1994 in
30 Missouri (House Bill 1405 (Section 386.315, RSMo)) required the adoption of FAS 106
31 for setting rates for OPEB expense. FAS 106 is the controlling FAS for financial

1 reporting of OPEBs expense, and parallels the calculation of pension expense under
2 FAS 87 in most cases. In Commission cases following the date that House Bill 1405
3 became law, the Staff began recommending the use of the FAS 87 accrual accounting
4 method for pension costs in order to use a similar accrual accounting method for all
5 post-retirement employee benefit costs, both pensions and OPEBs. At the time when
6 Staff began recommending the use of FAS 87, most pension funds for major utilities
7 were so well funded that no minimum contribution under ERISA was required and
8 substantial unamortized gains existed. By amortizing unrecognized gains and losses over
9 a five-year period, FAS 87 expense was reduced to more closely reflect the zero
10 minimum ERISA contribution.

11 Prior to the significant devaluation of the stock market in 2001 and 2002,
12 most pension funds of Missouri's largest utility companies, like AmerenUE, were so well
13 funded that pension cost under FAS 87 was a negative expense. No Internal Revenue
14 Service (IRS) tax-deductible contribution could be made to the funds that were so well
15 funded. Except for a ** ** million IRS maximum in 1998, which AmerenUE
16 chose not to contribute, AmerenUE could not make a tax-deductible contribution for the
17 years 1997 through 2001. This occurred because the annual returns earned on the
18 pension fund assets exceeded the additional annual costs recognized for the additional
19 benefits earned and accrued interest on the accumulated benefit obligation. Actual
20 returns earned on funded assets were higher than the expected returns throughout the
21 1990s.

22 Q. What pension liability has Ameren accrued under FAS 87?

23 A. Ameren's Qualified Plan Projected Benefit Obligation (PBO) at
24 the beginning of the test year, January 1, 2002 was ** **. The PBO

1 is the actuarial present value of pension benefits earned by participants before
2 the measurement date. The benefits are based on projected salaries for plans that
3 base benefits on salary levels. The PBO at the end of the test year, December 31,
4 2002 was ** **

5 Q. How could Ameren's method of calculating pension costs affect Missouri
6 ratepayers?

7 A. Since FAS 87 is increasing while Minimum ERISA remains at zero,
8 ratepayers continue to fund an expense that far exceeds actual payments.

9 Q. What is AmerenUE's FAS 87 funding policy?

10 A. In response to Staff Data Request No. 50, AmerenUE stated,

11 Ameren's funding policy is to contribute the sum of the normal
12 cost plus an amount that will amortize the unfunded actuarial
13 accrued liability over a reasonable period. Ameren may increase
14 its contribution, if appropriate, to its tax and cash position and the
15 plan's funded status. However, the contribution will not be less
16 than the minimum required contribution nor greater than the
17 maximum tax deductible amount.

18 Q. As a result of the change in the stock market and investment earnings and
19 gains, is the Staff recommending a return to its Minimum ERISA method for calculating
20 regulatory pension expense?

21 A. Yes. Asking the ratepayer to continue to fund an expense, which far
22 exceeds the actual cash payments of AmerenUE related to pension expense, is not
23 appropriate. Therefore, the Staff recommends a return to setting pension expense based
24 upon its Minimum ERISA method of calculation of pension expense for the
25 determination of rates.

26 Q. How did the Staff calculate its adjustment to the qualified pension
27 expense?

1 A. As previously stated, the annualized pension expense was determined
2 based on the required actual cash outlay of AmerenUE Missouri gas operations. That
3 amount was compared to the test year level of pension expense recorded on the books of
4 AmerenUE Missouri gas operations to determine the amount of the adjustment.

5 Q. How did the Staff calculate its adjustment to the non-qualified pension
6 expense?

7 A. Non-qualified pension plan payouts for the last five years were analyzed.
8 The difference between the average of the payouts for the last five years and the test year
9 amount recorded for UEC gas is the adjustment proposed by the Staff.

10 Q. Has the Staff supported the Minimum ERISA method for pension expense
11 in other recent rate cases?

12 A. Yes. The Staff has proposed its Minimum ERISA method in the
13 following rate cases: Laclede Gas Company, Case No. GR-2002-356; The Empire
14 District Electric Company, Case No. ER-2002-424; and Missouri-American Water
15 Company, Case No. WR-2003-0500. The Staff also proposed its Minimum ERISA
16 method in Case No. EC-2002-01, AmerenUE.

17 Q. Why does the Staff believe its Minimum ERISA method of calculating
18 cost of service pension expense is appropriate?

19 A. Under the present circumstances, the fairest and least complicated
20 methodology in the Staff's view for ratemaking purposes is the Minimum ERISA
21 contribution methodology which is tied directly to the amount of cash contributed to the
22 fund.

1 Q. Did the Commission approve the Staff's recommendations in prior cases
2 for using the Minimum ERISA contribution for the pension cost included in cost of
3 service for setting rates?

4 A. Yes. Prior to implementing FAS 106 and FAS 87, the Commission
5 adopted the Staff's recommendation for use of the Minimum ERISA contribution as the
6 proper pension cost for setting rates. The Commission's Report And Order in Case
7 No. ER-93-41, St. Joseph Light and Power Company, states:

8 The Commission finds that the appropriate method for
9 accounting for pension expense and for funding pension expense is
10 a funding cash contribution method, which results in a \$0 cost in
11 this case for which no actuarial evidence supports the need for any
12 contribution above the ERISA minimum. This method is
13 consistent with the Commission's decision on FAS 106 in this case
14 and with other Commission cases, and over the long term will
15 ensure that the pension liability of the company will be in
16 compliance with federal guidelines.

17 **ANNUALIZATION OF OPEB EXPENSE**

18 Q. Please identify the adjustment you are sponsoring to OPEBs.

19 A. Adjustment S-12.11 adjusts OPEB expense based on FAS 106.

20 Q. Please describe the OPEBs offered by AmerenUE.

21 A. AmerenUE provides both medical and life insurance for retired employees
22 that qualify for retirement benefits. These benefits are separate and distinct from
23 AmerenUE's pension plan benefits.

24 Q. You previously testified that FAS 106 and FAS 87 are similar
25 calculations, yet the Staff is recommending deviating from FAS 87 by returning to its
26 Minimum ERISA method for pension expense. What delineates FAS 87 from FAS 106
27 that would cause different treatment for ratemaking?

1 A. As previously stated, Section 386.315 RSMo requires the use of FAS 106
2 for ratemaking. However, the use of FAS 87 is not required for ratemaking.
3 Additionally, Section 386.315 requires that any public utility using FAS 106 for rate
4 purposes must fund the OPEB expense through an independent external funding
5 mechanism. Ameren fully funds its OPEB expense. Therefore, although the funding
6 amount is based on FAS 106, the funding requirement of Section 386.315 and
7 AmerenUE's funding policy, in essence, puts OPEBs on a pay-as-you-go basis. FAS 87,
8 as previously discussed, is not representative of the contribution requirements to the
9 pension fund.

10 Q. What are unrecognized gains/losses in relation to pension and OPEB
11 expense calculations?

12 A. When the actuary changes an assumption to reflect more current
13 information based on updated actual experience data, a change in the total projected
14 liability and/or assets under FAS 87 and FAS 106 will result. This change is accounted
15 for as an unrecognized gain or loss depending upon the impact on the projected liability.
16 The impact of these changes are reflected in expense under FAS 87 and FAS 106 by
17 amortizing the Unrecognized Net Gain/Loss Balance over a period of time not to exceed
18 the remaining service period of active plan participants.

19 Q. Has AmerenUE adopted the Staffs' method in determining FAS 106 using
20 a five-year average amortization of unrecognized gains and losses for calculating OPEB
21 costs?

22 A. No. The Staff has provided direct testimony in the last two AmerenUE
23 gas Cases, Nos. GR-97-393 and GR-00-512, supporting its five-year amortization
24 method. The Stipulations And Agreements in these cases did not address the issue of

1 pension and OPEB costs and AmerenUE did not choose to adopt the Staff's
2 methodology. The Staff did propose the minimum ERISA method and continued to
3 support the five-year average amortization method for FAS 106 in Case No. EC-2002-01,
4 AmerenUE's most recent electric rate proceeding in Missouri.

5 Q. How does AmerenUE calculate its OPEB costs?

6 A. AmerenUE calculates OPEB costs similar to the way it calculates FAS 87
7 costs. AmerenUE Missouri gas operations are allocated a portion of UEC and AMS
8 OPEB costs based upon employee labor hours.

9 Q. Please provide a comparison of AmerenUE and the Staff OPEB costs
10 booked to AmerenUE Missouri gas operations based upon their respective calculation
11 methods.

12 A. Refer to Highly Confidential Schedule JEF-2 where in the Staff provides
13 the components of the OPEB costs and the differences in calculating the costs between
14 the Staff's and AmerenUE's method.

15 Q. Please describe how the Staff calculated its adjustment for OPEBs.

16 A. Adjustment S-12.11 adjusts AmerenUE's test year level of OPEB costs to
17 reflect the Staff's methodology for the amortization of a five-year average unrecognized
18 gain/loss balance.

19 Q. What is the basis for the Staff's recommendation to use a five-year
20 amortization of the average unrecognized net gain/loss balance?

21 A. The Staff bases its recommendation for using a five-year average
22 amortization of gains and losses for determining FAS 106 cost on four factors:

- 23 1) Since the funding of OPEB costs did not begin until the mid
24 1990's, the funded status is such that the annual investment return on

1 funded assets will not offset the current service cost and interest on the
2 projected liability. OPEB costs have not created a negative expense or
3 prepaid OPEB asset.

4 2) Timely recognition of actual results and assumption changes is
5 necessary for accurate OPEB expense for ratemaking purposes. The Staff
6 considers five years to be a reasonable time period to meet this goal.

7 3) In the Omnibus Budget Reconciliation Act of 1987, the federal
8 government reduced the amortization period for asset gains and losses
9 from fifteen years to five years for pension funding requirements.
10 Section 412(b)(2)(B) of the Internal Revenue Code requires that gains
11 and/or losses from pension plan assets be amortized over a five-year
12 period.

13 4) Use of a five-year amortization period is consistent with the
14 Commission's long-standing policy of amortizing abnormal, significant,
15 expenses/losses over five years for ratemaking purposes.

16 **COST OF REMOVAL AND SALVAGE**

17 Q. Please explain Income Statement adjustment S-14.1.

18 A. Adjustment S-14.1 reflects the inclusion of a five-year average of the cost
19 of removal and salvage in Staff's cost of service as an operating expense.

20 Q. What is cost of removal and salvage?

21 A. Cost of removal is incurred when utility plant in service is removed from
22 service. Removing property from service can cause the utility to incur costs to abandon,
23 physically dismantle, tear down or otherwise remove the property from its site. At times

1 these costs are commingled with the cost to build new plant. Formal procedures and
2 safeguards are needed to ensure proper accounting of cost of removal.

3 Salvage is the proceeds received for the retired plant material recovered
4 during the dismantling and/or removal process. The amount of salvage can be influenced
5 by the level of cost incurred in the removal of plant from service.

6 Typically, the cost of removal exceeds the salvage recovered resulting in a
7 positive net expense to the utility. Utilities track the amounts of cost of removal and
8 salvage received on an ongoing basis.

9 Q. Why is this adjustment necessary?

10 A. This adjustment is necessary to include an annual normalized level of cost
11 of removal and salvage proceeds in UEC's cost of service. Cost of removal expenditures,
12 like other expenses (maintenance, payroll, postage, etc.), are an ongoing cost incurred by
13 the utility to provide service to its customers. Therefore, like maintenance expense, the
14 Staff has determined a normalized level for annual cost of removal expenditures. The
15 Staff then reduced this amount by a normalized amount of annual salvage proceeds that
16 the Company can expect to receive.

17 Q. How did Staff determine a normalized level for annual cost of removal
18 expenditures and salvage proceeds?

19 A. The Staff examined the amount of cost of removal expenditures and
20 salvage proceeds that the company experienced during the period 1998 through 2002.
21 The following chart shows the amount of annual cost of removal expenditures and
22 salvage proceeds that UEC Missouri gas operations has experienced over the last 5 years.

Direct Testimony of
Janis E. Fischer

<u>Description</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>Avg.</u>
Cost of Removal	\$ 49,558	\$ 11,943	\$8,610	\$117,722	\$50,984	\$47,763
Less Salvage	(\$559,284)	(\$152,904)	(\$29,655)	(\$138,193)	(\$52,137)	(\$186,435)
Net Salvage	(\$509,726)	(\$140,961)	(\$21,045)	(\$20,471)	(\$1,153)	(\$138,671)

The above chart shows that the annual cost of removal expenditures and salvage proceeds fluctuated from year to year during the period examined. The Staff typically uses an averaging of costs to mitigate the impact of fluctuating expense levels. The averaging technique is a common ratemaking tool and has been used to determine other costs in this case. The Staff believes that an average of the last five years is the most representative of the annual normal ongoing level of expense for this case.

Q. Has the Staff treated cost of removal expenditures and salvage proceeds in this case similar to the methodologies used in other recent rate cases?

A. Yes. A list of recent cases in which the Staff has proposed the inclusion of cost of removal and salvage in expense is shown below.

Union Electric Company	GR-2000-512
Union Electric Company	EC-2002-1
Laclede Gas Company	GR-2001-621
Laclede Gas Company	GR-2002-356
St. Louis County Water Company	WR-2000-844
The Empire District Electric Company	ER-2001-299
The Empire District Electric Company	ER-2002-424
Utilicorp United, Inc.	ER-2001-672
Missouri Gas Energy	GR-2001-292

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

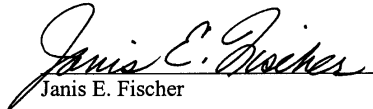
In The Matter Of Union Electric Company d/b/a)
AmerenUE, For Authority To File Tariffs Increasing)
Rates For Gas Service Provided To Customers In The)
Company's Missouri Service Area)

Case No. GR-2003-0517

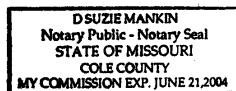
AFFIDAVIT OF JANIS E. FISCHER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Janis Fischer, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 24 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Janis E. Fischer

Subscribed and sworn to before me this 23rd day of October 2003.





CASE PROCEEDING PARTICIPATION

JANIS E. FISCHER

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Union Electric Company, d/b/a AmerenUE	EC-2002-1	Surrebuttal - Incentive Compensation
Laclede Gas Company	GR-2002-356	Direct - Pensions and OPEBs, Rate Base Asset, Incentive Compensation
Citizens Electric Company	ER-2002-217	Direct - Test Year, Accounting Schedules, Revenues, Purchased Power and Transmission, Other Revenues, Uncollectibles Expense
Missouri-American Water Company	WO-2002-273	Rebuttal - Security Costs, Accounting Authority Order Staff Criteria
Missouri Public Service, a Division of UtiliCorp United, Inc.	ER-2001-672 EC-2002-265	Direct - Pensions and OPEBs, Merger Transition/Transaction Costs, Merger Savings-SJLP, Revenues, Uncollectibles
Missouri Public Service, a Division of UtiliCorp United, Inc.	ER-2001-672 EC-2002-265	Rebuttal - Merger Transition/Transaction Costs, Merger Savings-SJLP, Revenues, Uncollectibles
Missouri Gas Energy, a Division of Southern Union Company	GR-2002-292	Direct - Pensions and OPEBs, Other Employee Benefits, SERP, COLI Amortization
The Empire District Electric Company	ER-2001-299	Direct - Payroll, Pensions and OPEBs, Payroll Related Benefits, Payroll Taxes, Outside Services, Merger Costs, Miscellaneous Expenses True-up Rebuttal – Chemicals, Property Taxes
The Empire District Electric Company	ER-2001-299	Rebuttal - Payroll Expense, Bonuses and Incentive Pay
The Empire District Electric Company	ER-2001-299	Surrebuttal - Payroll Expense, Bonuses and Incentive Pay
The Empire District Electric Company	ER-2001-299	Supplemental Surrebuttal - Incentive Awards
The Empire District Electric Company	ER-2001-299	True-up Direct - Payroll, Payroll Taxes, Payroll Related Benefits

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
KLM Telephone Company	TT-2001-120	Direct - Revenue Requirement
UtiliCorp United, Inc./ Empire District Electric Company	EM-2000-369	Rebuttal - Merger Savings, Acquisition Adjustment, Tracking of Merger Savings
UtiliCorp United, Inc./ St. Joseph Light & Power Company	EM-2000-292	Rebuttal - Merger Savings, Acquisition Adjustment, Tracking of Merger Savings
Western Resources/ Kansas City Power & Light Company	EM-97-515	Rebuttal - Merger Savings, Tracking of Merger Savings, Transaction Costs, Costs to Achieve
Osage Water Company	WA-98-236 WC-98-211	Rebuttal - Financial Viability, Organizational Costs
Union Electric Company, d/b/a AmerenUE	GR-97-393	Direct - Cash Working Capital, Materials/Supplies, Prepayments, Federal/State Income Tax Offset, Purchased Gas Offset, Interest Expense Offset
The Empire District Electric Company	ER-97-81	Direct - Dues and Donations, Advertising, Rate Case Expenses, PSC Assessment, Non-Health Insurance, Miscellaneous Expenses

SCHEDULE 2

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY