

*Exhibit No.:*

*Issue:*

*Administrative and General  
Costs*

*Witness:*

*James D. Schwieterman*

*Sponsoring Party:*

*MoPSC Staff*

*Type of Exhibit:*

*Rebuttal Testimony*

*Case No.:*

*EM-96-149*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**JAMES D. SCHWIETERMAN**

**UNION ELECTRIC COMPANY**

**CASE NO. EM-96-149**

**Jefferson City, Missouri  
May 1996**

Exhibit No. 13  
Date 9-5-96 Case No. EM-96-149  
Reporter XS



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James D. Schwieterman

1           A.     My principal area of responsibility is to review the impact on administrative  
2     and general expenses charged to Missouri jurisdictional UE customers due to the proposed  
3     merger of UE and CIPSCO Incorporated (CIPSCO), the parent company of Central Illinois  
4     Public Service Company (CIPS). If the merger is approved, UE and CIPSCO will combine  
5     to form a holding company to be named Ameren Corporation.

6           Q.     What is the purpose of this rebuttal testimony?

7           A.     The purpose of this testimony is to respond to the direct testimony of  
8     Company witnesses Gary L. Rainwater and Warner L. Baxter.

9           Q.     The direct testimony of Mr. Rainwater on pages 14-15 and of Mr. Baxter on  
10    pages 5-7 contains several references to a General Services Agreement between UE and  
11    CIPS. The General Services Agreement is attached to Mr. Rainwater's testimony as  
12    Schedule 5. Are you familiar with that document?

13          A.     Yes, I am.

14          Q.     What is your understanding of the intent of the General Services Agreement?

15          A.     It is my basic understanding that this contract sets out the principles by which  
16    UE, CIPS or a joint service company may charge the other affiliates for services including  
17    administrative and general services provided to those affiliates.

18          Q.     Does the General Services Agreement specifically state how those charges will  
19    be allocated to the affiliates?

20          A.     No. The General Services Agreement states that the party receiving the  
21    services shall reimburse the providing party the cost of service for all time spent in the  
22    performance of such services. The cost of service is defined as "reasonable and necessary

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1 compensation paid by the Providing Party to the personnel performing the services for the  
2 time so spent, plus an equitable proportion of the reasonable and necessary annual overhead  
3 expenses of the Providing Party” (Rainwater Schedule 5, page 2).

4 Q. What impact will the General Services Agreement have on the costs passed  
5 on to the Missouri customers of UE?

6 A. Since the agreement does not identify the specific services to be provided, nor  
7 who will provide or receive the services, nor the methodology of how the charges for those  
8 services will be calculated, it is impossible at this time to determine the impact on the Missouri  
9 customers of UE.

10 The Staff is also concerned about the potential impact of the General Services  
11 Agreement from a legal perspective. Staff counsel has advised me that the General Services  
12 Agreement must be filed with the Securities and Exchange Commission (SEC) and is subject  
13 to SEC regulation under the Public Utilities Holding Company Act of 1935 (PUHCA). As  
14 detailed in the Comments Of The General Counsel’s Office filed with this and the Staff’s other  
15 rebuttal testimony, the Staff is concerned with losing its ability to audit and make appropriate  
16 adjustments, when necessary, to UE’s expenses, revenues and rate base resulting from the  
17 General Services Agreement due to preemption by the SEC under PUHCA.

18 Q. Subsequent to the filing of the General Services Agreement, has a decision  
19 been made concerning the provision of those services?

20 A. Yes. The overall corporate organizational structure of Ameren Corporation  
21 has been announced by the current Presidents of UE and CIPS which included the formation

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1 of Ameren Services Company (Ameren Services), a new company formed to deliver support  
2 services to the operating companies of UE and CIPS.

3 Q. Does the creation of Ameren Services Company change your opinion  
4 concerning the impact of the General Services Agreement on the Missouri customers of UE?

5 A. No. Until the General Services Agreement is revised to reflect the creation  
6 and operation of Ameren Services Company, the service company will operate under the  
7 current General Services Agreement which does not contain a specific methodology to  
8 calculate the charges for the services provided to UE or CIPS under said agreement.

9 Q. What are the Staff's concerns regarding the lack of a specific methodology to  
10 calculate the charges for the services provided to UE and CIPS?

11 A. The Staff has two concerns regarding the calculation of charges to UE and  
12 CIPS. First, the Staff is concerned that the change in the Missouri allocation factors after the  
13 merger is implemented will shift more costs to the Missouri customers of UE than those  
14 customers are currently being allocated by UE on a stand alone basis. Second, the Staff is  
15 concerned about the possibility that total administrative and general costs after the merger  
16 may be greater than the total of UE and CIPS stand alone administrative and general costs,  
17 with the result that more costs will be charged to the Missouri customers of UE, unless the  
18 post merger Missouri allocation factors for administrative and general expenses are  
19 significantly lower than the current allocation factors.

20 The Staff in the past has noted that administrative and general expenses for  
21 utilities can increase in the aftermath of merger and acquisition activity (Rebuttal testimony  
22 of Steve M. Traxler, Case No. EM-91-213). The Staff's position in the past and in the

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1 present case is that administrative and general expenses after the merger should be less than  
2 the stand alone costs prior to the merger.

3 Q. What is the Staff's recommendation concerning the allocation of administrative  
4 and general costs per the service agreement?

5 A. On April 24, 1996, a Joint Motion to Extend Filing Dates was submitted to  
6 the Commission. In the Joint Motion, the Staff identified that much of the detail relating to  
7 the organization and operation of the service company, for example, the allocation of service  
8 company administrative and general expense to UE and CIPS, and responsibilities, functions,  
9 and services to be provided by the service company, is still being determined. The Staff  
10 proposed the following procedure to which no party, including UE, has objected:

11 Regarding Ameren Services [Company], UE would file its  
12 supplemental direct testimony on June 3, 1996, along with its  
13 surrebuttal testimony. If the information respecting Ameren  
14 Services Company were still not complete, UE would file that  
15 information which is available and indicate when the remaining  
16 information would be filed. Within several days of the filing  
17 of said supplemental direct testimony, the Commission Staff  
18 would be able to suggest dates for the filing of supplemental,  
19 rebuttal, and surrebuttal testimony and supplemental  
20 evidentiary hearing dates, if necessary, for this matter.

21  
22 The Staff recommends that the Commission should not make any  
23 determination as to the reasonableness of the allocation of administrative and general service  
24 costs to the customers of UE, nor should it grant approval of the merger, until the General  
25 Services Agreement is rewritten so that the services to be provided are identified and the  
26 specific methodology for calculating the costs for those services is included, and parties to  
27 this proceeding are accorded the opportunity to file testimony and participate in an evidentiary

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1 hearing respecting the General Services Agreement. Due to the ratemaking importance and  
2 potential permanence of the allocation of administrative and general costs under the General  
3 Services Agreement, the Commission should have an opportunity to review the details of the  
4 General Services Agreement prior to approving the General Services Agreement.

5 Q. Based on the limited information that you presently have regarding the General  
6 Services Agreement, do you have any further recommendations?

7 A. Yes. Based on advice of the General Counsel's Office, the Staff recommends  
8 that even when the details of the General Services Agreement are known, and even if those  
9 terms are acceptable, the Commission should condition its approval of the merger on Ameren  
10 Corporation's and UE's acceptance of the following provision:

11 All contracts, agreements or arrangements of any kind,  
12 required to be filed with and/or approved by the Securities and  
13 Exchange Commission (SEC) pursuant to the Public Utility  
14 Holding Company Act of 1935 (PUHCA) as subsequently  
15 amended, between the Union Electric Company (UE), and any  
16 affiliate, associate, holding, mutual service, or subsidiary  
17 company, within the same holding company system, as these  
18 terms are defined in 15 U.S.C. §79b as subsequently amended,  
19 shall contain and be conditioned upon the following without  
20 modification or alteration: UE and Ameren Corporation will  
21 not seek to overturn, reverse, set aside, change or enjoin,  
22 whether through appeal or the initiation or maintenance of any  
23 action in any forum, a decision or order of the Missouri Public  
24 Service Commission (MoPSC) which pertains to recovery,  
25 disallowance, allowance, deferral, or ratemaking treatment of  
26 any expense, charge, cost, or allocation incurred or accrued by  
27 UE in or as a result of a contract, agreement, arrangement, or  
28 transaction with any affiliate, associate, holding, mutual  
29 service or subsidiary company on the basis that such expense,  
30 charge, cost, or allocation has itself been filed with or  
31 approved by the SEC, or was incurred pursuant to a contract,  
32 arrangement, agreement, or allocation method which was filed  
33 with or approved by the SEC. Failure to include the above

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1 language in any such contract, agreement, or arrangement  
2 shall render the same voidable at the sole discretion of the  
3 MoPSC. Should the above language be altered or invalidated  
4 by any Court or governmental agency, such contract,  
5 agreement, or arrangements shall be voidable at the sole  
6 discretion of the MoPSC.  
7

8 Staff counsel advises that the purpose of this condition is to maintain the  
9 Commission's ability to scrutinize UE's affiliate transactions and make adjustments to UE's  
10 rate base, revenues and expenses when justified. The Staff believes that it would be  
11 detrimental to Missouri ratepayers if the Commission could not make such adjustments,  
12 because the Commission's ability to set just and reasonable rates would be impaired or  
13 lessened.

14 Q. Are there any other conditions that you would recommend that the  
15 Commission consider?

16 A. Yes, one other condition at this time. So as to maintain the Commission's  
17 ability to set appropriate rates and charges, the Staff recommends that the Commission seek  
18 Ameren's and UE's agreement to the following additional language:

19 Ameren Corporation and each of its subsidiaries and affiliates  
20 shall employ accounting and other procedures and controls  
21 related to cost allocations and transfer pricing to ensure and  
22 facilitate full review by the Commission, and to protect against  
23 cross-subsidization of non-UE businesses by UE's retail  
24 customers.  
25

26 Q. Does this conclude your rebuttal testimony?

27 A. Yes, it does.



**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the matter of the application of Union Electric )  
Company for an order authorizing: (1) certain merger )  
transactions involving Union Electric Company; (2) the )  
transfer of certain assets, real estate, leased property, )  
easements and contractual agreements to Central Illinois )  
Public Service Company; and (3) in connection therewith, )  
certain other related transactions. )

Case No. EM-96-149


AFFIDAVIT OF JAMES D. SCHWIETERMAN

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

James D. Schwieterman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.

  
JAMES D. SCHWIETERMAN

Subscribed and sworn to before me this 7<sup>th</sup> day of May, 1996.

  
J KAY NIEMEIER Notary Public  
NOTARY PUBLIC STATE OF MISSOURI  
COLE COUNTY

My Commission Expires: \_\_\_\_\_  
COMMISSION EXP. FEB. 26, 2000

RATE CASE PROCEEDINGS PARTICIPATION

JAMES D. SCHWIETERMAN

Arkansas-Missouri Power Company	ER-77-116
Associated Natural Gas Company	GR-77-117
Capital City Water Company	WR-94-297
Central Telephone Company	TR-78-258 TR-81-59
Choctaw Telephone Company	TR-91-336
Continental Telephone Company of Missouri	TR-82-223
Cuivre River Electric Service Company	EA-86-13
Empire District Electric Company	ER-79-19 ER-83-42 ER-90-138 ER-94-174
Gas Service Company	GR-78-70
Laclede Gas Company	GR-78-148 GR-83-233
Missouri-American Water Co.	WR-95-205 SR-95-206
Missouri Cities Water Company	WO-86-122
Missouri Utilities Company	GR-81-244 WR-81-248 ER-81-346
Missouri Water Company	WR-77-212
St. Louis County Water Company	WO-86-100
Sho-Me Power Corporation	ER-79-106 ER-80-83 ER-82-134 ER-83-80
Southwestern Bell Telephone Company	18,660 TR-79-213 TR-80-256
Union Electric Company	EO-86-36
Western Resources, Inc. d/b/a Gas Service	GR-93-240