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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. ER-2011-0028**

**REBUTTAL TESTIMONY**

**OF**

**MICHAEL J. ADAMS**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY  
d/b/a Ameren Missouri**

St. Louis, Missouri  
March 2011

*Ameren* Exhibit No. 139  
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **MICHAEL J. ADAMS**

4  
5 **CASE NO. ER-2011-0028**

6  
7 **I. INTRODUCTION**

8 **Q. Please state your name and business address.**

9 A. My name is Michael J. Adams. My business address is 293 Boston Post  
10 Road West, Suite 500, Marlborough, Massachusetts 01752.

11 **Q. Are you the same Michael J. Adams who filed direct testimony in this**  
12 **case?**

13 A. Yes, I am.

14 **II. PURPOSE AND SUMMARY OF TESTIMONY**

15 **Q. What is the purpose of your testimony in this proceeding?**

16 A. The purpose of my rebuttal testimony is to respond to certain adjustments  
17 to the requested level of cash working capital ("CWC") for Ameren Missouri's electric  
18 business proposed by Missouri Public Service Commission (the "Commission") Staff  
19 witness Lisa Ferguson and Missouri Industrial Energy Consumers ("MIEC") witness  
20 Greg Meyer.

21 **III. SUMMARY OF POSITIONS**

22 **Q. What level of CWC requirement did the Company request in its**  
23 **direct case?**

Rebuttal Testimony of  
Michael J. Adams

1           A.     As shown on Schedule GSW-E5, attached to the direct testimony of  
2 Company witness Gary Weiss, the Company requested a CWC requirement (excluding  
3 offsets) of \$42,806,000.

4           **Q.     What level of CWC requirement is Staff recommending in its direct**  
5 **case?**

6           A.     Staff witness Ferguson has recommended a negative CWC requirement  
7 (excluding offsets) of \$20,271,241.<sup>1</sup>

8           **Q.     To what do you attribute the differences in the level of CWC**  
9 **requirement requested by the Company and that proposed by Staff?**

10          A.     The primary drivers of the differences between the Company's requested  
11 level of CWC and that proposed by Staff are a result of the following proposed changes  
12 presented in Staff's analysis:

- 13           1. An alternative method of calculating the Collections Lag portion of the  
14           overall Revenue Lag;
- 15           2. Elimination of the Payment Processing Lag portion of the Revenue Lag;
- 16           3. Inclusion of an expense lead for Sales Taxes and Gross Receipts Taxes;
- 17           4. The inclusion of accrued dollars associated with earned vacation time for  
18           Ameren Missouri employees in the calculation of the payroll expense lead;
- 19           5. A different expense lead for Other Post Employment Benefit ("OPEB")  
20           expenses;
- 21           6. Unique treatment of incentive compensation expenses;
- 22           7. The inclusion of an expense lead for decommissioning expenses;
- 23           8. A revised expense lead for federal income tax expenses; and

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<sup>1</sup> Accounting Schedule 8, Column G, Line 27.

1           9. Use of Staff's proposed expense levels in the determination of the CWC  
2           requirement.

3           **Q. Does the Company agree with the expense levels included in Staff**  
4 **witness Ferguson's CWC analysis?**

5           A. No. Staff's expense levels reflect all of Staff's proposed adjustments to  
6 the Company's requested levels. The expense levels ultimately included in the CWC  
7 analyses should reflect the Commission's final position on overall expenses. To the  
8 extent that the differences in Staff's expense levels are materially different than those  
9 presented by the Company, various Company witnesses will address those differences in  
10 their respective rebuttal testimonies.

11           **Q. Are there adjustments made by Staff witness Ferguson that the**  
12 **Company accepts?**

13           A. Yes. The Company accepts Staff's proposed elimination of the Payment  
14 Processing Lag; the expense lead applied to Sales and Gross Receipts Taxes; the  
15 treatment of incentive compensation; the revised payroll expense lead, adjusted for a  
16 vacation accrual; and treatment of decommissioning fees.

17           **Q. What issues did MIEC witness Meyer raise pertaining to the**  
18 **Company's CWC requirement?**

19           A. Mr. Meyer also proposed an alternative Collections Lag, to eliminate the  
20 payment processing lag, and a revised expense lead attributable to Gross Receipts Taxes.

21           **Q. Are there adjustments made by MIEC witness Meyer that the**  
22 **Company accepts?**

23           A. There are not.



1 with the services that were provided by the Company). The Company monitors these  
2 accounts receivable via a weekly aging report to determine which customers pay their  
3 bills on time and which accounts receivables are delinquent. The aging report reflects, in  
4 aggregate, data summarizing those receivables that are: 1) "Current" or within 30 days  
5 outstanding; 2) 30 -59 days outstanding; 3) 60 – 89 days outstanding; and 4) 90 or more  
6 days outstanding.

7 **Q. What is the name of the report that the Company uses to monitor the**  
8 **aging of the customers' accounts receivables?**

9 A. The report is known as the Accounts Receivable Analysis Report.

10 **Q. Is this the same report that you relied upon to determine the**  
11 **Collections Lag?**

12 A. Yes, it is.

13 **Q. Based upon the Accounts Receivables Analysis Report, adjusted for**  
14 **an uncollectible provision, what was the Collections Lag for the test year**  
15 **determined to be?**

16 A. The Collections Lag was determined to be 27.44 days based upon the 52  
17 weekly reports from the test year and adjusted for an uncollectible provision.

18 **Q. Is the use of an accounts receivable aging analysis a widely accepted**  
19 **methodology by which to calculate the Collections Lag?**

20 A. Yes it is. I have personally testified in a number of jurisdictions on the  
21 results of a CWC analysis. I have also reviewed CWC analyses performed in various  
22 jurisdictions. Based upon my experience and review, the accounts receivable aging

1 analysis is the predominantly accepted methodology by which to calculate a company's  
2 Collections Lag.

3 **Q. What Collections Lag does Staff propose in this proceeding?**

4 A. Staff proposes a Collections Lag of 21.11 days.<sup>4</sup>

5 **Q. What Collections Lag does MIEC witness Meyer propose be used?**

6 A. Mr. Meyer proposes a Collections Lag of 21.01 days.<sup>5</sup>

7 **Q. Did the Staff or MIEC witnesses use the same Accounts Receivables  
8 Analysis Report that you used to calculate the Collections Lag?**

9 A. No.

10 **Q. What information did Staff and the MIEC use to arrive at their  
11 proposed Collections Lags?**

12 A. Both Staff and the MIEC utilized a report referred to as the CURST246  
13 report to calculate their Collections Lags.

14 **Q. What information is provided in the CURST246 report?**

15 A. The CURST246 report purportedly shows the cash receipts on a daily  
16 basis collected by the Company.

17 **Q. Why do you say that cash receipts is what is "purportedly" shown in  
18 the CURST246 report?**

19 A. The report has been in existence for over 25 years. The only recipient of  
20 the report was an individual in the Regulatory Accounting Department.

21 **Q. How has the CURST246 report been used by the Company  
22 historically?**

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<sup>4</sup> Workpapers of Staff witness Ferguson, "Revenue Lag Summary".

<sup>5</sup> Meyer Direct Testimony, p. 20, line 11.



1           A.     The report had been used by the Company to calculate the Collections  
2 Lag. Once better information became available, however, the report was no longer used  
3 by anyone within the Company.

4           **Q.     Did the Company's Credit and Collections Group use the CURST246**  
5 **report to manage accounts receivables?**

6           A.     No. The CURST246 report has never been used by the Company's Credit  
7 and Collections Group to manage accounts receivables.

8           **Q.     Has the Company verified the accuracy of the CURST246 report?**

9           A.     No. While the accuracy of the report has long been questioned, given that  
10 other reports existed within the Company that were actually used to manage accounts  
11 receivables activities, there was no reason to expend resources in an attempt to verify the  
12 accuracy of a report that had limited usefulness.

13          **Q.     To the extent that customers paid their monthly utility bills during a**  
14 **given twelve month period (i.e., the test year), shouldn't the Accounts Receivables**  
15 **Analysis Report and the CURST246 report produce similar results?**

16          A.     In theory, yes. That is precisely the reason that the accuracy of the  
17 CURST246 report has been questioned by the Company. The Accounts Receivables  
18 Analysis Report is actively managed and employed to monitor customer payment  
19 activities. Therefore, there exists a high level of confidence that the report produces an  
20 accurate Collections Lag. No such confidence exists when the CURST246 report is used  
21 to calculate the Collections Lag.

1           **Q.    Will the report continue to be produced in the future?**

2           A.    No. A task force within the Company is focused on identifying and  
3 terminating reports that have exceeded their useful lives. The CURST246 report was  
4 identified as a report that no one in the Company utilized and thus has been terminated.

5           **Q.    Do you believe that the CURST246 report is an appropriate tool on  
6 which to determine the Collections Lag for the CWC study?**

7           A.    I do not.

8           **Q.    Please explain.**

9           A.    The CURST246 report would obviously produce a lower Collections Lag  
10 because it does not measure the payment of all customer bills. The report measures only  
11 bills actually paid. Those receivables that remain unpaid would not be reflected in the  
12 CURST246 report. Therefore, to the extent that certain accounts receivables remain  
13 uncollected by the Company and they progress to the 30+, 60+ or 90+ days outstanding,  
14 such receivables would be excluded from Staff's calculation of the Collections Lag.

15           **Q.    Does Staff or the MIEC adjust its calculation of the Collections Lag to  
16 account for the accounts receivables not captured by the CURST246 report?**

17           A.    No. Neither Staff nor the MIEC makes an adjustment to its calculation to  
18 reflect the accounts receivables not captured by the CURST246 report.

19           **Q.    Did Staff witness Ferguson or MIEC witness Meyer provide any  
20 specific criticisms of the Accounts Receivable Analysis Report that would warrant  
21 discarding the report?**

22           A.    Neither Staff witness Ferguson nor MIEC witness Meyer provided any  
23 criticisms of the Accounts Receivable Analysis Report.

1           **Q.     What justification does Staff provide for utilizing the CURST246**  
2 **report to determine Ameren Missouri's Collections Lag?**

3           A.     In its Report, Staff states it "used a report specifically maintained for rate  
4 cases that calculates the actual period of time the customers take to pay their bills. This  
5 report has been used by both Staff and the Company to determine the revenue collection  
6 lag in previous rate cases."<sup>6</sup>

7           **Q.     Was the CURST246 report "specifically maintained for rate cases"?**

8           A.     Yes. Unfortunately, the CURST246 report was not monitored or  
9 improved as other reports that are used by the Company to manage customer payments  
10 were enhanced. That said, if better information is available to analyze data (e.g.,  
11 collections data) used in the ratemaking process, I contend the better information should  
12 be relied upon in lieu of another report simply because that report was "maintained for  
13 rate cases".

14           As previously mentioned, the CURST246 report has never been used by the  
15 Company to monitor customer payments. The Accounts Receivables Aging Report is the  
16 report that the Company's Credit and Collections Group uses to monitor customer  
17 payment patterns.

18           **Q.     Is it true that the Company previously used the CURST246 report to**  
19 **calculate the Collections Lag?**

20           A.     Yes. As I previously mentioned, the report had been in existence for over  
21 25 years and the accuracy of the report had been questioned internally to the Company.  
22 As the Company improved its reports to allow a complete snapshot of its collections

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<sup>6</sup> Missouri Public Service Commission Staff Report Revenue Requirement Cost of Service, February 8, 2011, p. 33, lines 21-23.

1 activities, the new reports that provided a complete view of customer payment patterns  
2 were used in place of the older report.

3 **Q. What justification does MIEC witness Meyer provide for choosing to**  
4 **use the CURST246 report in place of the aged accounts receivable report used by**  
5 **the Company?**

6 A. Mr. Meyer was unsure that the accounts receivable aging analysis  
7 appropriately accounted for uncollectibles, so he relied upon the CURST246 report  
8 instead. The adjustment for uncollectibles was made to the summarized results of the  
9 Accounts Receivable Analysis Report and in no way justified ignoring the report.

10 **Q. How do you respond to Mr. Meyer's comment regarding the**  
11 **adjustment for uncollectibles?**

12 A. I am unaware of any attempts made by Mr. Meyer to validate the  
13 Company's treatment of uncollectibles in the accounts receivable aging analysis. I do not  
14 believe that Mr. Meyer issued any data requests regarding the subject. I am further  
15 unaware of any conversations that Mr. Meyer had with Company personnel in an effort to  
16 understand the adjustment. It appears that Mr. Meyer never seriously considered the  
17 aged accounts receivable analysis.

18 **Q. Is there any foundation for Mr. Meyer's alleged concerns regarding**  
19 **how the Company accounted for uncollectibles in the analysis of aged receivables?**

20 A. No. I believe the Company has more than adequately adjusted aged  
21 receivables for potential uncollectibles. While the Company makes efforts to collect all  
22 amounts due from customers, ultimately some percentage of the accounts receivables will  
23 never be collected.

1           **Q. Did you adjust the data provided in the Accounts Receivables**  
2 **Analysis Report to reflect that some portion of the accounts receivables will not be**  
3 **collected?**

4           A. Yes. When calculating the Collections Lag, an adjustment was made to  
5 each aged "bucket" of receivables to reflect an allowance for receivables that the  
6 Company may never collect.

7           **Q. Please explain how the uncollectible provision percentages were**  
8 **determined.**

9           A. The level of uncollectibles was forecasted by the Company to establish a  
10 reserve for bad debt. A 0.40 percent provision for uncollectibles was applied to the 0-30  
11 days, 30-60 days, and 60-90 days buckets. A 10 percent provision for uncollectibles was  
12 applied to the 90+ days bucket. The uncollectible percentages were developed by the  
13 General Accounting and Credit and Collections functions and reflect customers' current  
14 payment habits. The Company uses historical data to develop the bad debt estimate, and  
15 also takes into account current economic and load forecasts to adjust the estimates  
16 accordingly. The weighted average bad debt percentage for the test year, applying 0.40%  
17 to each of the aged buckets other than the 90+ days bucket and 10% to the 90+ days  
18 bucket, was 1.23%. This amount reflects the bad debt percentage removed from the  
19 accounts receivable balances in the Company's Collections Lag calculation.

20           The actual bad debt percentage for Ameren Missouri Electric during 2010,  
21 dividing FERC Account 904 by total electric operating revenues, was 0.4 percent.  
22 Therefore, the Company has excluded a conservative estimate (i.e., a higher percentage)

1 of uncollectible expenses from the test year accounts receivables than was actually  
2 experienced during the test year.

3 **Q. Is Mr. Meyer's uncertainty regarding the Company's treatment of**  
4 **uncollectibles in the aged receivables analysis sufficient grounds for dismissing the**  
5 **use of the aged receivables report to determine the Collections Lag?**

6 A. Certainly not. Mr. Meyer has provided no analysis or other support to  
7 substantiate his expressed concern.

8 **Q. Aside from the question of which report to use to determine the**  
9 **Collections Lag, can you offer an opinion as to the reasonableness of the 21 day**  
10 **Collections Lags supported by Staff and the MIEC?**

11 A. Yes. As I previously mentioned, I have provided testimony on the topic of  
12 cash working capital in a number of jurisdictions. Some non-Ameren examples of  
13 Collections Lags to which I have testified are as follows:

Docket No.	Jurisdiction	Company	Collections Lag (in days)
08-0363	Illinois	NiGas	35.35 <sup>7</sup>
07-0242	Illinois	Peoples Gas	31.91 <sup>8</sup>
07-0241	Illinois	North Shore Gas	23.46 <sup>9</sup>
GR-2006-0422	Missouri	Missouri Gas	27.17 <sup>10</sup>
N.A.	Ontario, Canada	Toronto Hydro	27.06 <sup>11</sup>
RP-2005-0020/EB- 2005-0378	Ontario, Canada	Hydro One	30.22 <sup>12</sup>
R-00051178	Pennsylvania	T.W. Phillips Gas	54.90 <sup>13</sup>

<sup>7</sup> Nicor Gas Ex. 8.0, pp. 7-8. The Company's collection lag was determined to be 45.35 days, however there was a corporate goal to reduce the collection lag by 10 days.

<sup>8</sup> Peoples Gas Ex. MJA-1.0, p. 6, line 126.

<sup>9</sup> North Shore Ex. MJA-1.0, p. 6, line 126.

<sup>10</sup> MJA Testimony, p. 7, line 9.

<sup>11</sup> Final Report, p. 8, Table II-2.

<sup>12</sup> Company Report.

Docket No.	Jurisdiction	Company	Collections Lag (in days)
		and Oil Co.	
PUE-2010-00142	Virginia	VNG	28.19 <sup>14</sup>

1

2           Based upon a review of other recent dockets, information was found pertaining to  
3 other companies' Collections Lags.

Docket No.	Jurisdiction	Company	Collections Lag (in days)
10-0467	Illinois	Commonwealth Edison	39.16 <sup>15</sup>
09-0312	Illinois	MidAmerican Energy	25.68 <sup>16</sup>
09-0166	Illinois	North Shore Gas Company	23.24 <sup>17</sup>
09-0167	Illinois	Peoples Gas	32.72 <sup>18</sup>
D-10-EPDE-314- RTS	Kansas	Empire District Electric Co.	29.46 <sup>19</sup>
ER-2010-0130	Missouri	Empire District Electric Co.	29.46 <sup>20</sup>
GR-2010-0172	Missouri	Laclede Gas Co.	32.74 <sup>21</sup>

4

5           Therefore, based upon my direct experience and the research performed, Ameren  
6 Missouri's Collections Lag of 27.44 days is very reasonable. I believe that the Staff and  
7 the MIEC have relied upon the results of an outdated and unverifiable report for so long  
8 that their views about what a reasonable Collections Lag is have become distorted.

9           **Q,    Is there further evidence that Staff's and the MIEC's Collections Lag**  
10 **is unrealistic?**

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<sup>13</sup> T.W. Phillips Gas and Oil Co. Statement No. 8, p. 6, line 127.

<sup>14</sup> MJA Testimony, p. 5, line 2. Filed February 2011.

<sup>15</sup> ComEd Ex. 7.0, p. 15, line 298.

<sup>16</sup> WPB-8.2.

<sup>17</sup> WPB-8.

<sup>18</sup> WPB-8.

<sup>19</sup> KAE-1, p. 4.

<sup>20</sup> KAE-1, p. 4.

<sup>21</sup> Testimony of Company witness Buck, pp. 5-8.

1           A.     Yes. The Commission's billing rules state that a monthly-billed customer  
2     has at least twenty-one days from the rendition of the bill to pay the utility charge.<sup>22</sup>  
3     Staff's and the MIEC's Collections Lag implies that all customers pay their electric bills  
4     in accordance with the due date. The empirical evidence in this proceeding belies such a  
5     position. If all customers paid their electric bills on time, the Company would have no  
6     bad debt expense.

7           **Q.     What is the impact of using Staff's or the MIEC's proposed**  
8     **Collections Lag?**

9           A.     Employing Staff's or the MIEC's Collections Lag artificially understates  
10    the Company's CWC requirement by approximately \$31 million.

11          **Q.     What Collections Lag do you recommend that the Commission adopt**  
12    **in this proceeding?**

13          A.     I recommend that the Commission adopt the Company's proposed  
14    Collections Lag of 27.44 days, which is based upon an analysis of all accounts  
15    receivables during the test year. The report used to calculate the Collections Lag is the  
16    same report routinely used by the Company to monitor its actual collection performance.  
17    Staff's and the MIEC's proposed Collections Lags are based upon an antiquated report  
18    that cannot be verified, does not reflect the aging of all accounts receivables, and is no  
19    longer produced. Therefore, the Company's Collections Lag of 27.44 days is the figure  
20    that the Commission should utilize to determine the Company's CWC requirements.

21                   **VI.     OTHER POST-EMPLOYMENT BENEFITS LEAD**

22          **Q.     Did the Company include an expense lead in its CWC analysis to be**  
23    **applied to Other Post-Employment Benefits expenses?**

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<sup>22</sup> 4 CSR 240-13.020(7).



1           A.     Yes. The Company's CWC analysis reflected an expense lead of 83.25  
2 days associated with Other Post-Employment Benefits expenses.

3           **Q.     What expense lead did Staff include in its CWC analysis associated**  
4 **with Other Post-Employment Benefits expenses?**

5           A.     Staff's CWC requirement calculation reflects an expense lead of 90.50  
6 days for OPEB expenses. Neither the Staff Report nor Staff's workpapers provide a  
7 discussion of or support for the calculation of the revised expense lead. Staff's  
8 workpapers merely show a calculation of the expense lead for Employee Benefits  
9 employing the alternative expense lead for OPEB expenses. No annotations or other  
10 form of explanation is provided in the workpapers for the revised expense lead. Staff has  
11 failed to validate its proposed adjustment and, therefore, the revised expense lead for  
12 OPEB expenses should be rejected.

13                           **VII. FEDERAL INCOME TAX EXPENSE LEAD**

14           **Q.     Did the Company include an expense lead in its CWC analysis to be**  
15 **applied to Federal Income Tax expenses?**

16           A.     Yes. The Company's CWC analysis reflected an expense lead of 37.88  
17 days associated with Federal Income Tax expense.

18           **Q.     What expense lead did Staff include in its CWC analysis associated**  
19 **with Federal Income Tax expense?**

20           A.     Staff's CWC requirement calculation reflects an expense lead of 38.39  
21 days for Federal Income Tax expense.<sup>23</sup> Neither the Staff Report nor Staff's workpapers  
22 support the calculation of the revised expense lead. Accounting Schedule 8, line 29,  
23 shows the expense lead for Federal Income Taxes of 38.39 days. The lead is inconsistent

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<sup>23</sup> Accounting Schedule 8, Column D, Line 29.

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1 with Staff's workpapers which show the same lead as proposed by the Company of 37.88  
2 days. No annotations or other form of explanation is provided on Accounting Schedule 8  
3 to support the revised expense lead. Staff has failed to validate its proposed adjustment  
4 and, therefore, the revised expense lead for Federal Income Tax expense should be  
5 rejected.

6 **Q. Does this conclude your rebuttal testimony?**

7 **A. Yes, it does.**

