

1 use.

2
3 **EXPERIMENTAL ALTERNATIVE REGULATION PLAN**

4
5 Q. IN THE REBUTTAL TESTIMONIES OF COMPANY WITNESSESS, MR. BRANDT
6 AND MR. BAXTER, THEY ARGUE THAT YOU HAVE NOT PROVIDED ANY
7 RATIONALE FOR PROPOSING YOUR ADJUSTMENTS, UNDER THE TERMS OF
8 THE AGREEMENT, IS THAT CORRECT?

9 A. Yes, that is their assertion.

10
11 Q. PLEASE EXPLAIN YOUR POSITION ON THIS ISSUE.

12 A. My understanding of the ER-95-411 Stipulation and Agreement is that it does not limit
13 the Public Counsel's ability to investigate the operations of the Company during the
14 EARP period nor does it prevent Public Counsel from raising issues with regard to
15 Company's calculation of its earnings during that period. Counsel for the Public Counsel
16 has informed me that specific legal interpretations are best left to the attorneys for the
17 respective parties.

18
19 I have focused my efforts on the investigation of Company's operating results for the
20 third year of the first EARP. I did not, nor did I attempt to, perform a complete audit of
21 the Company's books and records for the test period. Instead, I have attempted to audit

1 several areas of costs that the Public Counsel deemed worthy of investigation for the
2 purpose of determining the accuracy of Company's calculation of its earnings. The
3 results of my investigation show serious problems regarding the Company's calculation
4 of its Final Earnings Report.

5
6 **COMPUTER SOFTWARE PROJECTS**

7
8 Q. REGARDING THE PUBLIC COUNSEL'S RECOMMENDATION TO CAPITALIZE
9 AND AMORTIZE THE COST FOR THE COMPUTER SOFTWARE PROJECTS, MR.
10 BAXTER ASSERTS THAT PUBLIC COUNSEL HAS NOT IDENTIFIED WHAT
11 THOSE COSTS ARE, IS HIS ASSERTION CORRECT?

12 A. No. On page 10, lines 6-8 and page 21, lines 2-5, Mr. Baxter alleges that the Public
13 Counsel has not identified the costs that it recommends should be capitalized and
14 amortized. His assertion is incorrect. In my direct testimony I described the disputed costs
15 incurred by the Company for each of the computer software projects. The costs for the
16 Y2K project are described on page 5, lines 1-4. The costs for the customer service system
17 project are described on page 6, lines 16-21. The costs for the EMPRV project are
18 described on page 7, lines 24-27 and page 8, line 3-6. The costs for the AMRAPS project
19 are described on page 9, lines 2-6.
20
21

Surrebuttal Testimony of
Ted Robertson
Case No. EO-96-14

1 Q. WHAT WAS THE SOURCE OF THE COMPUTER SOFTWARE PROJECTS COSTS
2 DESCRIBED IN YOUR DIRECT TESTIMONY?

3 A. The Company's responses to various MPSC Staff data requests.
4

5 Q. IS IT THE PUBLIC COUNSEL'S RECOMMENDATION THAT THE COSTS
6 DESCRIBED IN YOUR DIRECT TESTIMONY ARE THE COSTS THAT SHOULD BE
7 CAPITALIZED AND AMORTIZED?

8 A. The Public Counsel's recommendation is that, at a minimum, the portion of the computer
9 software projects costs described in my direct testimony that are allocated to the AmerenUE
10 Missouri electric operations should be capitalized and amortized over the lives of the
11 respective projects.
12

13 Q. PLEASE EXPLAIN THE "AT A MINIMUM" QUALIFICATION IN THE PREVIOUS
14 ANSWER.

15 A. As I explained in my direct testimony, the Public Counsel has not completed its audit of
16 the costs identified by the Company. While Public Counsel has made several attempts to
17 obtain access to the supporting cost detail since September 1998, Company has until
18 recently refused to provide the information. On March 24, 1999 we were provided with
19 copies of the consulting contracts for the outside personnel who worked on the computer
20 software projects. Subsequently, we sought to obtain from the Company the timecards
21 that the outside consultants prepared to substantiate their charges to the Company. The

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1 timecard data would have been a primary source of verification of the charges the
2 Company incurred for the computer software projects. Company responded that the
3 database containing the timecard information, "experienced problems and the detail for
4 the projects was lost." (OPC Data Request No. 1058) However, on April, 8, 1999, Public
5 Counsel received a letter from the Company's managing associate general counsel, Mr.
6 James J. Cook, which stated, among other things, that the information contained in the
7 database had been intentionally deleted during January 1999.

8
9 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE COSTS IDENTIFIED BY THE
10 COMPANY ARE CORRECT AND ACCURATE?

11 A. Currently, we cannot say with any degree of verification that the costs are correct and
12 accurate, however, at the moment we cannot prove them inaccurate either. Public
13 Counsel is continuing its investigation of the costs by comparing the costs for the
14 consultants, as described in their contracts, with entries contained within the Company's
15 general ledger for the test period. If we discover any evidence of substantial differences
16 we will file supplemental surrebuttal to inform the Commission of our findings.

17
18 Q. THE MPSC STAFF HAS PROPOSED THAT THE CAPITALIZED COMPUTER
19 SOFTWARE COSTS SHOULD BE AMORTIZED OVER TEN YEARS. DOES
20 PUBLIC COUNSEL BELIEVE THAT THEIR PROPOSAL IS A REASONABLE
21 RECOMMENDATION?

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1 A. Yes. Based partly on our experiences in the recent Missouri Gas Energy rate case, Case
2 No. GR-98-140, the Public Counsel believes that a ten year amortization of the
3 capitalized costs is reasonable and we would support that Staff recommendation.
4

5 Q. WOULD CAPITALIZATION AND AMORTIZATION OF THE COMPUTER
6 SOFTWARE COSTS RESULT IN THE COMPANY RECOVERING FROM
7 RATEPAYERS ALL EXPENDITURES INCURRED BUT SIMPLY OVER A LONGER
8 PERIOD?

9 A. Yes, it would. Amortization of the capitalized costs, if allowed, would permit the Company
10 to recover all undisputed expenditures it incurred.
11

12 Q. IF THE COMMISSION ORDERS THAT THE COSTS ARE TO BE CAPITALIZED
13 WOULDN'T THEY THEN BE INCLUDED IN RATE BASE THUS ALLOWING THE
14 COMPANY TO ALSO EARN A RETURN ON THE COSTS?

15 A. Yes, that is correct. If the software projects costs are capitalized, the Company would not
16 only recover a "return of" the expenditures they would also recover a "return on" the
17 expenditures. This means that the Company would earn an extra return on the costs it
18 incurred to develop and implement the various computer projects.
19
20
21

Surrebuttal Testimony of
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1 Q. REGARDING THE CUSTOMER SERVICE SYSTEM, THE EMPRV SYSTEM AND
2 THE AMRAPS SYSTEM, ISN'T IT REASONABLE TO ASSUME THAT EACH OF
3 THESE PROJECTS WILL ENTAIL THE CREATION OF OPERATING SYTEMS
4 THAT THE COMPANY WILL UTILIZE FOR MANY YEARS TO COME?

5 A. Yes, it is. Though I cannot tell you exactly how long each system will be operating, I
6 believe that it is reasonable to assume they will be in existence and utilized by the Company
7 for many years to come.

8
9 Q. IF THE COMPUTER SYSTEMS ARE TO BE UTILIZED FOR THE BENEFIT OF THE
10 COMPANY AND RATEPAYERS FOR MANY YEARS TO COME, ISN'T IT A FAIR
11 ASSUMPTION THAT THE EXPENSES INCURRED FOR THE CREATION OF THE
12 SYSTEMS SHOULD BE MATCHED WITH THE REVENUES RECEIVED VIA THE
13 BENEFITS THEY PROVIDE TO THE COMPANY FOR EACH YEAR THAT THEY
14 ARE OPERATED?

15 A. Yes, it is. While it may not be possible to match exactly the cost of the systems with the
16 revenues achieved via the benefits the systems provide the Company, the accounting
17 matching principle does require that an attempt to do so should be made. A simple analogy
18 would be a company's purchase of a service vehicle. Once purchased it is expected that the
19 vehicle will provide a service and benefit to the company for a number of years so the
20 company capitalizes its costs and depreciates it over its expected life. The theory behind the
21 Public Counsel and Staff recommendations are no different than that provided in the simple

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1 purchased vehicle example. These computer systems are big, new and expensive, and I'm
2 sure the Company would not have embarked on their development had they not expected
3 the systems to provide an operating benefit for a significant number of years. Given that
4 they are expected to exist for a number of years, it is only reasonable that their costs should
5 be allocated to the years that they are in service.

6
7 Q. PLEASE EXPLAIN THE MATCHING PRINCIPLE AND ITS PURPOSE?

8 A. The matching principle states, that for any reporting period, consistent with the recognition
9 criteria, revenues should be determined according to the revenue principle, then the
10 expenses incurred in generating the revenue of the period should be recognized for that
11 period. The essence of the matching principle is that, as revenues are earned, certain assets
12 are consumed (e.g., supplies) or sold (e.g., inventory) and services are used (e.g., salaries).
13 The cost of those assets and services used up should be recognized and reported as expense
14 of the period during which the related revenue is recognized. If the costs incurred provide
15 future benefits they should be recorded as an asset. Public Counsel believes it likely that
16 the Company's computer software projects will provide a benefit to customers and
17 shareholders for many years beyond the third year of the first EARP. Therefore, Public
18 Counsel believes that it is appropriate, for regulatory purposes, to capitalized the costs
19 incurred and then amortize them over the expected lives of the systems.

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1 Q. BEGINNING ON PAGE 28, LINE 7, OF HIS REBUTTAL TESTIMONY, MR. BAXTER
2 APPEARS TO ACQUIESCE THAT THE COMMISSION MAY FIND IT
3 APPROPRIATE TO CAPITALIZE THE COSTS, HOWEVER, HE PROPOSES A
4 DIFFERENT AMORTIZATION PERIOD THAN THE STAFF. IS THAT CORRECT?

5 A. Mr. Baxter states on page 29 that, "Nevertheless, I reiterate that capitalizing computer
6 software development costs is inappropriate." However, beginning on page 28, line 18 he
7 states that if the Commission were to determine that capitalization of these costs is
8 appropriate then:

9
10 **I believe that a more appropriate life for these systems would be a**
11 **maximum of five years. This shorter life is consistent with predominant**
12 **practice as evidenced by survey conducted by PricewaterhouseCoopers**
13 **of Fortune 500 companies. This survey indicated that the majority of**
14 **companies that amortized computer software costs did so over a period**
15 **of 3 to 5 years. (Emphasis added by OPC)**
16
17

18 Q. DOES THE PUBLIC COUNSEL AGREE WITH MR. BAXTER'S ASSESSMENT
19 THAT A THREE TO FIVE YEAR AMORTIZATION PERIOD WOULD BE MORE
20 APPROPRIATE?

21 A. No, we do not agree with his assertion. Our experience in the recent MGE rate case, GR-
22 98-140, leads us to believe that a new customer service system is more than likely to have
23 an effective life of ten years or more. Furthermore, we believe that if the customer service
24 system will last ten years or more it is reasonable to assume that the new EMPRV power

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1 plant maintenance system and the new AMRAPs human resource system will last at least
2 that long also.

3
4 Q. MR. BAXTER ASSERTS IN HIS REBUTTAL TESTIMONY THAT THE COSTS
5 INCURRED BY THE COMPANY TO INSURE IT IS Y2K COMPLIANT WERE
6 BASICALLY A NORMAL EVERYDAY MAINTANANCE EXPENSE. DO YOU
7 AGREE WITH HIS ASSESSMENT?

8 A. No.

9
10 Q. IF THE Y2K COSTS WERE JUST A NORMAL EVERYDAY "FIXING" OF
11 SOMETHING GONE WRONG OR MINOR MAINTENANCE OF SOMETHING SUCH
12 AS A BILLING SYSTEM WOULD PUBLIC COUNSEL OPPOSE INCLUDING THE
13 ASSOCIATED COSTS AS A NORMAL EXPENSE IN THE FINAL EARNINGS
14 REPORT?

15 A. Probably not, but Public Counsel believes that the decision to accept or to oppose test year
16 expensing for maintenance expenditures should be made after a through review on a case by
17 case basis. However, the expenditures at issue, in this proceeding, were not incurred to
18 "fix" a minor problem or as an everyday normal modification (e.g., a city tax rate change)
19 of an operating system program. Public Counsel believes that the Y2K costs were incurred
20 to mitigate and/or prevent the possibility of a major malfunction of one or more of the
21 Company's computer operating systems when the next calendar year begins. As such, we

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1 believe that the lives of the respective systems have been extended because of the
2 modifications. Therefore, the costs incurred to extend the programs lives should be
3 capitalized and amortized just as we have recommended for the CSS, EMPRV and
4 AMRAPs systems.

5
6 Q. MR. BAXTER ASSERTS, ON PAGE 16 OF HIS REBUTTAL TESTIMONY, THAT
7 YOU HAVE STATED THAT THE EMERGING ISSUES TASK FORCE ISSUE NO. 96-
8 14 IS NOT GAAP. IS HIS ASSERTION CORRECT?

9 A. No, his recital of my direct testimony is incomplete. My direct testimony regarding the
10 EITF Issue No. 96-14 clearly states that while the Emerging Issues Task Force, and its
11 pronouncements, are considered an authoritative accounting body, they are lower in status,
12 in the accounting hierarchy, than the Financial Accounting Standards Board and its
13 accounting statements.

14
15 Q. WHAT IS THE SIGNIFICANCE OF THE FINANCIAL ACCOUNTING STANDARDS
16 BOARD BEING A HIGHER ACCOUNTING AUTHORITY THAN THE EMERGING
17 ISSUES TASK FORCE?

18 A. The significance is, I believe, that the Commission can order the Company to capitalize and
19 amortize the costs associated with the Y2K issue and still comply with GAAP. As long as
20 the capitalization and amortization are compliant with the language contained within FASB
21 Statement No. 71, the Company and the costs would be considered in compliance with

1 GAAP.

2
3 MERGER COST AMORTIZATION

4
5 Q. DO YOU BELIEVE THAT THE COMPANY IS STILL INTERPETING THE
6 STIPULATION AND AGREEMENT OF CASE NO. EM-96-149 INCORRECTLY?

7 A. Yes, it is. On pages 29-32 of Mr. Baxter's rebuttal testimony he makes several arguments
8 criticizing the MPSC Staff's and the Public Counsel's understanding of the Stipulation
9 and Agreement. He argues incorrectly that the Company's annual amortization of merger
10 costs is accurate and in compliance with the provisions of the Merger Agreement. In fact,
11 on page 31, lines 18-21 of his rebuttal testimony, Mr. Baxter states:

12
13 Both Mr. Gruner and Mr. Robertson ignore the specific terms of the
14 Agreement in proposing their adjustment. No where does the Agreement
15 state that the "annual amortization should be the lessor of \$7.2 million or
16 the 10-year amortization of the actual costs incurred to date,"
17
18

19 He attempts to support this statement with a quote from Section 4 of the Merger
20 Agreement (Baxter Rebuttal Testimony, page 30, lines 1-5):
21

22 The annual amortization of merger transaction and transition costs will be
23 the lessor of: (1) the Missouri jurisdictional portion of the total Ameren
24 amount of \$7.2 million; or (2) the Missouri jurisdictional portion of the
25 total Ameren unamortized amount of actual merger transaction and

1 transition costs incurred to date.
2
3

4 The above quote is from the language contained on page three of the Stipulation
5 and Agreement in Case No EM-96-149.
6

7 Q HAS MR. BAXTER PROVIDED A COMPLETE ACCOUNT OF THE
8 RELEVANT STIPULATION AND AGREEMENT LANGUAGE?

9 A. No, his recitation of the language is incomplete. Ironically, the language he quoted
10 actually supports the positions of OPC and the MPSC Staff. It is telling that, Mr. Baxter
11 neglected to quote the preceding language that is directly relevant to this issue. In its
12 entirety, Section 4 states:
13

14 **Actual prudent and reasonable merger transaction and transition**
15 **costs (estimated to be \$71.5 million, which reflects the total Ameren**
16 **Corporation ("Ameren") estimated merger costs presented to the**
17 **Commission Staff ("Staff") and Office of the Public Counsel ("OPC")**
18 **in the UE/CIPSCO, Inc. Merger Implementation Plan, less executive**
19 **severance pay of \$1.6 million, but including costs incurred in 1995)**
20 **shall be amortized over ten years beginning on date the merger closes.**

21 The annual amortization of merger transaction and transition costs will be
22 the lessor of: (1) the Missouri jurisdictional portion of the total Ameren
23 amount of \$7.2 million; or (2) the Missouri jurisdictional portion of the
24 total Ameren unamortized amount of actual merger transaction and
25 transition costs incurred to date. No rate base treatment of the
26 unamortized costs will be included in the determination of rate base for
27 any regulatory purposes in Missouri. (Emphasis added by OPC)
28
29

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1 On page 5 of the Report and Order, Case No. EM-96-149, Public Counsel's position that
2 the annual amortization comparison is to be based upon a comparison of the total
3 estimated merger cost amount (i.e., \$71.5 million) verses the actual incurred merger costs
4 amount (i.e., \$66.6 million) amortized over a ten year period is further substantiated. The
5 Report and Order states:

6
7 **Actual prudent and reasonable merger transaction and transition**
8 **costs (estimated to be \$71.5 million) shall be amortized over ten years**
9 **beginning on date the merger closes.** The annual amortization of merger
10 transaction and transition costs will be the lessor of: (1) the Missouri
11 jurisdictional portion of the total Ameren amount of \$7.2 million; or (2)
12 the Missouri jurisdictional portion of the total Ameren unamortized
13 amount of actual merger transaction and transition costs incurred to date.
14 No rate base treatment of the unamortized costs will be included in the
15 determination of rate base for any regulatory purposes in Missouri.
16 (Emphasis added by OPC)
17
18

19 Q. WHY IS THE LANGUAGE YOU HIGHLIGHTED IN THE QUOTE ABOVE
20 IMPORTANT?

21 A. The language Mr. Baxter left out of his testimony is crucial to understanding what the
22 annual amortization should be. The language states that the actual prudent and
23 reasonable merger transaction and transition costs (estimated to be \$71.5 million) shall be
24 amortized over ten years beginning on date the merger closes. This language is clear that
25 the parties desired to amortize the actual total costs over a ten-year period and that the
26 estimate, subordinated in parenthesis, was secondary since it was not known what the

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1 actual amount would ultimately be. At the time this language was prepared, it is
2 apparent, that the parties did not know for sure what the actual total merger costs would
3 be. They did, however, have an estimate that the total costs would approximate \$71.5
4 million dollars. It's my understanding that the estimate served as a **maximum** amount
5 UE could receive. Furthermore, the parties agreed that no matter what the ultimate
6 merger costs total they would be amortized over ten years. Had the Company incurred
7 actual merger costs of \$80 million UE would only be able to receive \$72 million.

8
9 We now know that the actual total merger costs approximate \$66.6 million dollars
10 (Robertson Direct Testimony page 16, lines 12-21 and page 17, lines 1-2). Because the
11 parties did not know what the actual total merger costs would be they left the door open
12 to the possibility that the actual costs would be less than the estimated amount identified
13 in the Report and Order. Thus, the proper amount to be used for the annual amortization
14 is the lesser of the ten-year amortization of: (1) the \$71.5 million estimate; or (2) the
15 unamortized actual merger transaction and transition costs incurred to-date. To use an
16 old accounting cliché, Company's comparison causes an improper matching of apples
17 and oranges.

18
19 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION.

20 A. Company's testimony on this issue fails to recount relevant section(s) pertaining to this
21 issue in their entirety, thus causing its analysis to yield an irrational and irrelevant

1 conclusion. Company's proposal is to compare an annual amortization of an estimated
2 total merger cost amount to the actual total merger cost amount (not the annual
3 amortization of the actual merger cost amount). To compare an annual amortization of an
4 estimated total merger cost amount to the actual total merger cost amount is not a rational
5 analysis, it will not yield a rational result, nor is it based on the terms of the Stipulation
6 and Agreement in Case No. EM-96-149. Using Mr. Baxter's selective quotation leads to
7 incorrect conclusions.

8
9 Public Counsel believes that the language of the Stipulation and Agreement on this issue
10 from Case No. EM-96-149 is clear regarding the methodology of its intended purpose.
11 Since the actual merger costs were not known at the time that the agreement was
12 executed, the estimate of total merger costs served not only as an example of what the
13 annual amortization would be derived from but also as a maximum amount that would be
14 amortized over ten years. The annual amortization that is derived from the estimated
15 total merger cost was to be a maximum threshold above that which the annual
16 amortization would not rise. If the actual total merger costs were lower, then the annual
17 amortization is to be based on the lower total merger cost amount. The Company has
18 offered evidence that the actual total merger costs did in fact come in lower than the
19 estimated total merger cost of \$71.5 million dollars; therefore, the annual amortization
20 should be derived from the actual total merger costs not the estimated total merger costs.
21 Public Counsel believes that the Company's position on the annual amortization is based

1 on an inaccurate interpretation of the terms of Section 4 of the Stipulation and Agreement
2 in Case EM-96-149. It appears Mr. Baxter either failed to read the relevant section(s) of
3 the document in its entirety or he chose to ignore them. Public Counsel believes that the
4 Company has overstated expenses for this issue by approximately \$231,623.

5
6 **CALLAWAY DECOMMISSIONING TRUST FUND PAYMENTS**

7
8 Q. AS YOU UNDERSTAND IT, WHAT IS THE COMPANY'S POSITION ON THIS
9 ISSUE?

10 A. The Company argues several points in the rebuttal testimony; however, the primary points
11 attempt to buttress the Company's claim that the adjustment proposed by Public Counsel
12 does not meet the requirements of the Merger Agreement, and absent that, the adjustment is
13 simply a cash working capital ("CWC") issue. Company argues that if the adjustment is
14 determined to be a cash working capital issue then it has already been accounted for by the
15 \$24 million offset described in the Final Earnings Report. Lastly, Company claims that the
16 earnings it achieved, and kept, by holding the late trust funds payments prior to deposit was
17 justified because the Commission had somehow sanctioned the arrangement.

18
19 Q. DOES PUBLIC COUNSEL AGREE WITH THE COMPANY'S POSITIONS?

20 A. No. For reasons I discussed earlier, I do not intend to elaborate on the justification,
21 pursuant the Merger Agreement, for proposing this adjustment. Public Counsel's

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1 interpretation of the Stipulation and Agreement is laid out in Public Counsel's Response to
2 Company's Request For Commission Guidance filed on December 3, 1998. I intend to
3 focus in this testimony on the regulatory accounting associated with the Public Counsel's
4 proposed adjustment.

5
6 Q. PLEASE EXPLAIN THE PUBLIC COUNSEL'S POSITION.

7 A. Public Counsel understands that the Company has had in its possession funds that were
8 intended for deposit into the Callaway nuclear power plant decommissioning trust fund.
9 Company's possession of the funds resulted in it having access to a cost-free source of
10 capital for the period from when payments were normally deposited through to the date
11 that the payments were actually made. It is Public Counsel's recommendation that the
12 Company not be allowed to keep the earnings associated with the late deposits and that
13 the Commission order the Company to make an additional deposit to the
14 decommissioning fund, or reimburse customers, for an amount equal to the expected
15 earnings of the funds. Public Counsel's adjustment is based on a calculation of expected
16 annual return of the trust fund (i.e., 9.25%) times the late payment amounts for the period
17 that the late payments were outstanding. The imputed earnings calculation produces an
18 adjustment amount equal to \$349,218.

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1 Q. DOES THE PUBLIC COUNSEL BELIEVE, AS THE COMPANY APPARENTLY
2 DOES, THAT THE INTEREST EARNINGS IS A CASH WORKING CAPITAL ITEM?

3 A. No.

4
5 Q. PLEASE EXPLAIN WHAT CASH WORKING CAPITAL CONSISTS OF?

6 A. According to the accounting reference book, Accounting for Public Utilities, Hahne &
7 Aliff, 1998, page 5-1:

8
9 For ratemaking purposes, working capital is a measure of investor funding
10 of daily operating expenditures and a variety of nonplant investments that
11 are necessary to sustain ongoing operation of the utility. The ratemaking
12 measure of working capital is designed to identify these ongoing funding
13 requirements on average over a test year.
14

15
16 Q. BY WHAT METHOD DOES THE MISSOURI COMMISSION DETERMINE THE
17 REASONABLNESS OF A COMPANY'S CASH WORKING CAPITAL?

18 A. This Commission has consistently utilized a lead/lag study to determine the cash working
19 capital of utilities operating within the state of Missouri.

20
21 Q. PLEASE EXPLAIN THE PURPOSE OF A LEAD/LAG STUDY?

22 A. The primary purpose of a lead/lag study is to accurately establish the amount of investor's
23 funds used in sustaining utility operations from the time expenditures are made in providing

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1 services to the time revenues are received as reimbursement for these services. The lead/lag
2 study requires comprehensive analysis of the test year transactions to determine the "net lag
3 days" between:

- 4
- 5 (1) The time lag between services rendered and the receipt of revenues
6 for such services; and
7
- 8 (2) The time lag between the recording of labor, materials, etc., costs
9 and the payment of such costs.
10

11

12 Q. HAVE THE COMPANY'S INVESTOR'S PROVIDED EITHER THE PAYMENTS TO
13 BE MADE TO THE DECOMMISSION TRUST FUND OR THE EARNINGS UPON
14 THOSE FUNDS?

15 A. No.

16

17 Q. IF THE INVESTOR'S HAVE NOT PROVIDED THE TRUST FUND PAYMENTS,
18 THEN IS IT CORRECT THAT NEITHER THE PAYMENTS NOR THE INTEREST
19 EARNED ON THEM SHOULD BE INCLUDED IN THE CASH WORKING CAPITAL
20 CALCULATION?

21 A. Yes, that is correct.
22
23

1 Q. IS IT THE PURPOSE OF THE DECOMMISSIONING TRUST FUNDS TO BE
2 UTILIZED AS A SOURCE OF CAPITAL TO FUND DAILY OPERATING
3 EXPENDITURES?

4 A. No. The funds targeted for the decommissioning trust fund are to be utilized to retire and
5 "clean-up" the Callaway nuclear power plant and site at the end of its useful operating life.
6 To my knowledge the funds are not to be used as a source of capital for the daily on-going
7 operations of the Company. The funds are not considered to be operating revenues or
8 operating expenses of the current period. It's my understanding that the purpose for
9 collecting the funds from current and future ratepayers is to insure that the liability that is
10 accruing for the nuclear plant removal will be adequately funded when that time comes. As
11 a matter of fact, it's my understanding that the funds will not even begin to be expended
12 until sometime in the next millennium. Under no circumstances should the funds, nor
13 interest earned on the funds, be considered as a source of current operating capital.

14
15 Q. ARE THE DECOMMISSIONING TRUST FUNDS A NON-PLANT INVESTMENT
16 NECESSARY TO SUSTAIN THE ONGOING OPERATION OF THE UTILITY?

17 A. No. For the very same reasons I illustrated above, neither the decommissioning trust fund
18 payments, nor the earnings on those funds, are to be considered as a source of capital to be
19 utilized for the current ongoing utility operation of the Company. The funds are to be
20 deposited in the trust fund for the purpose of future decommissioning of the nuclear power
21 plant. All earnings achieved on the trust funds simply reduce the total amount that will

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1 ultimately be funded by ratepayers. To allow the Company to keep any of the risk free
2 earnings almost certainly insures that future ratepayers will likely have to make-up those
3 earnings by way of increased rates in the future.

4
5 Q. IT APPEARS PARAMOUNT TO THE DEFINITION THAT THE FUNDS MUST BE
6 CONTRIBUTED BY INVESTORS IN ORDER TO BE CONSIDERED AS AN
7 ELEMENT OF A CASH WORKING CAPITAL, IS THAT CORRECT?

8 A. Yes, I believe that it is.

9
10 Q. DID THE COMPANY'S SHAREHOLDERS PROVIDE THE FUNDS FOR DEPOSIT IN
11 THE DECOMMISSIONING TRUST FUND?

12 A. No.

13
14 Q. DO RATEPAYERS OCCASSIONALLY PROVIDE COST FREE FUNDS TO THE
15 COMPANY THAT REQUIRE ADJUSTMENT VIA THE CASH WORKING CAPITAL
16 PROCESS?

17 A. Yes, on occasion ratepayers do provide revenues to the Company which arrive before the
18 payments associated with the expenses incurred to earn those revenues occurs. In these
19 instances a rate base reduction is proper so as to prevent the Company from earning a return
20 on the cost-free funds in its possession. However, both the revenues and expenses
21 associated with the CWC are incurred for the current year ongoing operation of the

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1 Company, and not for the reduction of a nuclear power plant removal liability that is
2 expected to occur many years in the future. Paramount to understanding the CWC process
3 is an understanding that the purpose of the CWC methodology and calculations is to simply
4 determine whether investors or ratepayers have funded the current year operations (i.e.,
5 revenues verses expenses and taxes) on a net basis. That is, if shareholder cash was utilized
6 to pay expenses and taxes prior to the arrival of the revenues earned via the incidence of
7 those expenses and taxes, then shareholders should earn a return on their net investment.
8 The reciprocal is appropriate for ratepayers if it is determined that they provided the cash to
9 operate the company on a net basis.

10
11 Q. WHY HAS THE COMPANY WITNESS, MR. BAXTER, PROPOSED THAT ANY
12 EARNINGS ON THE TRUST FUND LATE PAYMENTS BE CONSIDERED AS AN
13 ELEMENT OF THE CASH WORK CAPITAL CALCULATION?

14 A. I do not know or understand the rational for his proposal. His rebuttal testimony provides
15 no reasonable explanation as to why the funds should be considered as cash working
16 capital, and his logic and conclusions make absolutely no sense from a regulatory
17 standpoint. He proposes, without justification, to classify the earnings on the late trust fund
18 payments as current period income or expenses (i.e., current operating investment). As I
19 explained earlier they are neither.

Surrebuttal Testimony of
Ted Robertson
Case No. EO-96-14

1 Q. DO EARNINGS ON THE BALANCE OF THE DECOMMISSION TRUST FUND
2 REDUCE THE AMOUNT THAT IS ULTIMATELY FUNDED BY RATEPAYERS?

3 A. Yes. Had the trust fund payments been deposited on schedule the earnings on those funds
4 would now be securely included in the total balance of the trust fund. Instead the Company
5 argues that it wants to keep those earnings for its management and shareholders, and that
6 the Commission has said it can. It appears that the Company has forgotten the true purpose
7 of the payments to the trust fund – decommissioning of the nuclear power plant and not
8 current operating capital. Their proposal to keep the earnings on the trust fund late
9 payments is fundamentally unjust. The trust fund payment monies did not, and do not,
10 belong to the Company nor does it have any claim to the earnings upon which it could
11 express even a modicum argument of having capital at risk.

12
13 Q. PLEASE CONTINUE.

14 A. Public Counsel's proposal imputes interest revenue to the Company for the funds it has in
15 its possession. The funds and earnings are not a cash working capital item. It's Public
16 Counsel's position the imputed earnings should be classified as "Other Income and
17 Deductions" which include the booking of revenues associated with the non-operating
18 accounts. For example, the interest revenues could have been booked to USOA Account
19 No. 419 - Interest and Dividend Income:

20
21 A. This account shall include interest revenues on securities, loans, notes,

Surrebuttal Testimony of
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1 advances, **special deposits**, tax refunds and all other interest-bearing assets, and
2 dividends on stocks of other companies whether the securities on which the interest
3 and dividends are received are carried as investments or included to sinking or other
4 special fund accounts. (Emphasis added by Public Counsel)
5

6
7 Q. DID THE MPSC STAFF RECOMMEND THAT THE EARNINGS ON THE LATE
8 PAYEMENT FUNDS BE ACCOUNTED FOR AS A CASH WORKING CAPITAL
9 RATE BASE OFFSET?

10 A. No. Staff witness, Ms. Arlene S. Westerfield, on page 12, lines 7-9 stated:

11
12 A. The Staff has reduced expense by \$287,139 to represent the benefit
13 realized by the Company of having the use of the 1997 decommissioning
14 trust funds prior to the catch-up deposits in 1998.
15
16

17 The Staff's accounting schedules show the expense reduction as an adjustment to the
18 Income Statement account A&G - System General Adjustment No. S-9.6 - To
19 include interest for late decommissioning fund payments (\$287,000).
20

21 Q. IS IT ACCURATE TO STATE THAT THE STAFF'S PROPOSED
22 ADJUSTMENT RESULTS IN A DIRECT DOLLAR FOR DOLLAR EXPENSE
23 REDUCTION ON THE COMPANY'S INCOME STATEMENT?

24 A. Yes, it is.
25

Surrebuttal Testimony of
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1 Q. IS IT ACCURATE TO STATE THAT THE STAFF'S PROPOSED
2 ADJUSTMENT DOES NOT RESULT IN ANY CORRELATED ADJUSTMENT
3 TO THE COMPANY'S RATE BASE?

4 A. Yes, that is correct.

5
6 Q. WHAT ARE THE RESPECTIVE EARNINGS ON THE LATE TRUST FUND
7 PAYMENTS AS PROPOSED BY THE STAFF AND THE PUBLIC COUNSEL?

8 A. The earnings amount calculated by Staff on the late payments is \$287,139
9 (Westerfield Rebuttal Testimony, page 12, line 7), whereas the Public Counsel has
10 calculated an earnings amount of \$349,218.

11
12 Q. THE EARNINGS AMOUNT PROPOSED BY THE MPSC STAFF AND THE
13 PUBLIC COUNSEL DIFFER, PLEASE EXPLAIN THE DIFFERENCE.

14 A. The difference in the Staff's and the Public Counsel's proposed earnings on the late
15 payment of the trust funds (i.e., \$349,218 less \$287,139 equals \$62,079) can be
16 explained as a result of the two parties applying different interest rates to the late
17 payment balances. The Staff chose to utilize the Company's AFUDC rates
18 (Westerfield Direct Testimony, page 11, lines 17-19) whereas the Public Counsel
19 utilized the expected average rate utilized by the trust fund plan's actuaries
20 (Robertson Direct Testimony, page 25, lines 17-24 and page 26, lines 1-7). In
21 addition, the Public Counsel's adjustment includes the earnings on one more late

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1 payment than Staff's adjustment. The March 1998 payment was due to be deposited
2 on or about April 25, 1998; however, that deposit did not occur until May 27, 1998 -
3 thirty-two days later than normal. For this reason, the Public Counsel calculated
4 and included the interest earnings on this late payment in its adjustment amount.
5

6 Q. DID THE COMPANY CALCULATE AN EARNINGS AMOUNT THAT
7 CORRELATES TO THE IMPLEMENTATION OF ITS CASH WORKING CAPITAL
8 PROPOSAL SHOULD THE COMMISSION ACCEPT THEIR CWC ARGUMENT?

9 A. Yes, it's my understanding that the revenue associated with the issue, according to the
10 Company, would approximate a revenue increase in earnings of \$31,000 (Baxter Rebuttal
11 Testimony, page 50, lines 9-14).
12

13 Q. IF THE COMMISSION WERE TO ACCEPT THE COMPANY'S CASH WORKING
14 CAPITAL PROPOSAL, THE INTEREST EARNINGS BENEFIT RATEPAYERS
15 WOULD RECEIVE APPROXIMATELY \$31,000 EVEN THOUGH THE CALCULATED
16 EARNINGS ON THE LATE DEPOSITS WOULD HAVE PROVIDED THE COMPANY
17 WITH FREE FUNDS OF APPROXIMATELY \$349,218. IS THAT CORRECT?

18 A. Yes, according to Mr. Baxter, that is correct. He states in his testimony that the revenue
19 increase under his CWC proposal would be \$31,000; however, the Public Counsel has
20 calculated that the actual earnings achieved on the late payment of the decommissioning
21 funds approximates \$349,218 for a difference of \$318,218. Under Mr. Baxter's scenario,

Surrebuttal Testimony of
Ted Robertson
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1 the Company's managers and shareholders would keep the \$318,318 for themselves.

2

3 Q. HAS THIS COMMISSION SANCTIONED THE COMPANY'S TAKING OF
4 EARNINGS ON LATE PAYMENTS TO THE DECOMMISSIONING TRUST FUND?

5 A. The Company thinks that it has. Mr. Baxter states on page 45, lines 11-17:

6

7 In addition, a previous MPSC order clearly supports that no adjustment
8 should be made in this matter. In Case Nos. EO-85-17 and EO-85-160, the
9 MPSC stated that " The Commission believes UE should make payments to
10 the fund in accordance with IRS regulations and does not oppose the use of
11 the funds by UE between each payment if IRS regulation permit." This is
12 clearly the case in the instant proceeding whereby the Company was not
13 allowed to make payments to the decommissioning trust fund due to a delay
14 by the MPSC in issuing its order.

15

16

17 Note: On page 46, line 20, of Mr. Baxter's rebuttal testimony he refers, I believe
18 incorrectly, to EO-85-160 as EO-85-10.

19

20 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT MR. BAXTER'S
21 INTERPETATION OF THE REPORT AND ORDER QUOTED ABOVE IS
22 ACCURATE?

23 A. No, we do not. Attached as Schedule 1 to this testimony is Section VII.
24 Decommissioning Fund from the Report and Order in Union Electric Company
25 Case No. EO-85-17 and Case No. ER-85-160. On page 111 of the Report and

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Order it states:

The Commission believes UE should make payments to the fund in accordance with IRS regulations and does not oppose the use of the funds by UE between each payment if IRS regulations permit.

The Public Counsel believes that the intention of the Commission regarding the quoted language was to allow the Company some leeway regarding the time it took to collect the trust fund payments from customers and the time until it deposited those monies with the trustee of the trust fund. For example, Company's response to Public Counsel Data Request No. 1008 states that for all contributions collected for the quarter ending at month-end June 1995 through the quarter ending at month-end September 1996, each deposit to the trust fund was made twenty-five days after the quarter ended. Public Counsel believes that the Commission's intent was that during the calendar quarter that the trust funds were collected, and including the twenty-five day interval from the end of the respective quarter until the funds were deposited with the trustee of the trust fund, is the time period for which it does not oppose the use of the funds by UE. Public Counsel does not believe that it was the Commission's intent that the Company should keep the earnings on funds that it deposited late to the trust plan three hundred and fifty one days after its normal deposit date (i.e., contribution for quarter ending March 31, 1997).

1 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS
2 ISSUE.

3 A. It's the Public Counsel's belief that the Company has achieved in excess of
4 \$349,000 of earnings on funds that it deposited late to the nuclear power plant
5 decommissioning trust fund. Company argues, Public Counsel believes incorrectly,
6 that it should be allowed to keep any earnings achieved on the funds for itself.
7 Public Counsel believes that that is not a reasonable solution to this issue. Public
8 Counsel believes that since the earnings would now be included in the balance of
9 the total trust fund, had the deposits been placed on time, the only two options
10 available are, (1) order the Company to place an additional payment with the trust
11 fund for the full amount of the earnings, or (2) refund the earnings to ratepayers
12 since they will ultimately be responsible for any trust fund shortfalls.

13
14 **PROPERTY TAXES ON PLANT HELD FOR FUTURE USE**

15
16 Q. HAS THE COMPANY CONCEDED THAT THE PUBLIC COUNSEL'S POSITION
17 ON THIS ISSUE IS CORRECT?

18 A. Yes, it has. On page 53, line 16, of Mr. Baxter's rebuttal testimony he states, "The
19 Company agrees with Mr. Robertson's proposed adjustment in this area."
20
21

Surrebuttal Testimony of
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1 Q. DOES THE PUBLIC COUNSEL HAVE ANYTHING TO ADD REGARDING THIS
2 ISSUE?

3 A. Yes. First, the Public Counsel wants the Commission to understand that the property tax
4 adjustment amount is based solely on an estimate espoused by the Company. Public
5 Counsel has not obtained any support from the Company that would verify its accuracy.

6
7 Furthermore, on page 54, lines 2-4, of Mr. Baxter's rebuttal testimony he adds,
8 "Obviously, if an error is discovered by the Staff or OPC Staff, and verified by the
9 Company, it is appropriate under the terms of the Agreement to make the correction."
10 Public Counsel wishes only to point out that it identified the property tax problem to the
11 Company in both of the two prior EARP periods, and in both of those periods, the
12 Company deliberately chose to ignore it in its earnings reports so as to allow it to keep
13 the monies for itself and its shareholders. Now that it appears likely that the Commission
14 will hold a contested hearing regarding this issue, Mr. Baxter has suddenly chose to
15 acquiesce to the correctness of the Public Counsel's position. Public Counsel asserts that
16 had the Company truly intended to follow the terms of the Merger Agreement, this issue
17 would have been completely resolved two years ago and the Company's customers would
18 be approximately \$120,000 wealthier.

19
20 Lastly, Public Counsel wishes to remind the Commission that the first year of the second
21 EARP began in 1999 and that the parameters and terms of the second EARP are nearly

1 identical to that of the first EARP. Consequently, it is imperative that the Commission
2 put this issue to rest. Public Counsel requests that it order the Company to exclude from
3 operating expense the property taxes on plant held for future use for the third year of the
4 first EARP and all years of the second EARP.

5
6 **LOBBYING EXPENSES**
7

8 Q. WHAT IS THE CURRENT STATUS OF THIS ISSUE?

9 A. The Company has determined that it erred in its transfer of lobbying expenses to its non-
10 operating account. Some expenses (certain labor costs) booked to work orders A0387 and
11 A0393 during the period January through June 1998 should have been considered lobbying
12 activities and excluded from the Company's Final Earnings Report (Baxter Rebuttal
13 Testimony, page 52, lines 12-16). Company witness, Mr. Gary Weiss, states that of the
14 total legal department operating labor and related charges incurred for the period \$50,322
15 should have been transferred to lobbying expense (Weiss Rebuttal Testimony, page 8, lines
16 4-9).

17
18 Q. IS THE PUBLIC COUNSEL SATISFIED THAT THE COMPANY HAS IDENTIFIED
19 ALL LOBBYING EXPENSE INCORRECTLY INCLUDED IN THE FINAL
20 EARNINGS REPORT?

21 A. No. The Company still has not provided the supporting documentation that would allow

Surrebuttal Testimony of
Ted Robertson
Case No. EO-96-14

1 the Public Counsel the opportunity to verify the accuracy of the lobbying expenses
2 incurred during the test period. The Company has consistently refused, by ignoring our
3 requests for supporting documentation, to allow the Public Counsel to audit its legal
4 legislative and lobbying expenses. Because of the Company's failure to provide the
5 supporting documentation, the Public Counsel stands by its initial recommendation that
6 all costs charged to the four work orders should be excluded from the Company's Final
7 Earnings Report.

8
9 Q. PLEASE DESCRIBE THE EXPENSE ADJUSTMENT PUBLIC COUNSEL
10 PROPOSES.

11 A. Public Counsel recommends that all costs charged to the four work orders (see Schedule
12 2 attached to this testimony), and allocated to the AmerenUE Missouri electric
13 operations, should be excluded from the Company's Final Earnings Report. The Public
14 Counsel recommends a transfer of \$430,857 to the non-operating account 426. The
15 \$430,857 consists of \$394,953 booked to the Company's operating expense accounts and
16 \$35,904 booked to its miscellaneous construction overheads.

17
18 Q. DOES THE PUBLIC COUNSEL PROPOSE ANY OTHER LOBBYING EXPENSE
19 ADJUSTMENT?

20 A. Yes. The costs charged to the four work orders discussed above, and in my direct
21 testimony, were incurred during the six-month period January through June 1998. The

Surrebuttal Testimony of
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1 Company claims that for the six-month period July through December 1997 it
2 appropriately accounted for all lobbying costs incurred by transferring a portion of certain
3 employees 1997 salaries to account 426 (OPC Data Request No. 1061). However, the
4 Public Counsel, despite repeated requests, has not been provided with the supporting
5 documentation that would verify the accuracy or reliability of the Company's 1997 salary
6 expense transfer. Therefore, the Public Counsel recommends that an additional
7 \$430,857, reduced by the \$50,700 1997 salary transfer, be excluded from the Company's
8 Final Earnings Report to account for lobbying expense likely to have been incurred
9 during the first six months of the third year of the first EARP.

10
11 Q. WHAT WOULD THE TOTAL LOBBYING EXPENSE ADJUSTMENT BE IF THE
12 COMMISSION ACCEPTS THE PUBLIC COUNSEL'S RECOMMENDATION?

13 A. Commission acceptance of the Public Counsel's position on this issue would require the
14 Company to transfer an additional \$811,014 (i.e., \$430,857 times two, less \$50,700) to
15 the non-operating account 426.

16
17 Q. DOES THE PUBLIC COUNSEL ACTUALLY BELIEVE THAT THE COMPANY
18 INCURRED ADDITIONAL LOBBYING EXPENSES OF \$811,014 DURING THE
19 TEST PERIOD?

20 A. The Public Counsel understands that some of the costs we are recommending be
21 disallowed may not be lobbying expenses and should not be excluded from the

1 Company's Final Earnings Report. However, despite repeated attempts by this Office to
2 obtain the data that would verify the accuracy of the Company's claims, none has been
3 forthcoming. Given that the Company has consistently frustrated the Public Counsel's
4 ability to audit the data, the Commission must assume the worst in that all the expenses
5 incurred are unjustified lobbying expenses. If the Company, at a later date, chooses to
6 provide sufficient data to allow a proper accounting delineating between lobbying and
7 non-lobbying expenditures, we will revise our recommended adjustments where
8 appropriate. Until that occurs, if ever, the Public Counsel believes that the Commission
9 must disallow the entire amount to avoid charging lobbying expenses to ratepayers.
10 Public Counsel asks that the Commission accept our lobbying expense adjustments as
11 stated.

12
13 MISCELLANEOUS

14
15 Q. COMPANY WITNESSES INDICATED THAT THEY DO NOT HAVE ALL THE
16 DOCUMENTATION (WORKPAPERS) SUPPORTING THE PUBLIC COUNSEL'S
17 POSITIONS. DO YOU HAVE ANY COMMENTS REGARDING THAT
18 ASSERTION?

19 A. Yes, I do. The Public Counsel has provided the Company all workpapers on issues where
20 we were provided with sufficient assurance of what the actual costs were. Public Counsel
21 has not provided the Company with supporting workpapers for all proposed adjustments

Surrebuttal Testimony of
Ted Robertson
Case No. EO-96-14

1 because they do not currently exist. Due to the Company's continuing efforts to hamper
2 Public Counsel's investigation of the issues any additional workpapers that might be
3 prepared are only now being developed. For example, Company has only recently
4 provided the Public Counsel with limited auditable data supporting the costs of its
5 computer software projects. Public Counsel received Company's response to OPC Data
6 Request No. 1059 - Computer Consultant Contracts on March 24, 1999 - one day prior to
7 the March 25, 1999, data request Company submitted to the Public Counsel requesting its
8 workpapers. Furthermore, the Public Counsel only recently received the Company's
9 response (i.e., on March 30, 1999) to OPC Data Request No. 1061 for supporting
10 information on Company's lobbying expenses.

11
12 Public Counsel is in the process of reviewing the computer consultant contracts in order
13 to determine the reasonableness of the Company's claims regarding its expenditures on
14 these projects. As for the lobbying expense issue, the Public Counsel is still waiting for
15 the Company to provide the actual detail support. OPC Data Request No. 1061 was a
16 followup to earlier Public Counsel data requests that did not receive adequate answers
17 from the Company. As of the date I'm writing this testimony we still have not received
18 the supporting data for lobbying expense.

19
20 The only two issues remaining for which workpapers may be prepared are the computer
21 software projects issue and the lobbying expense issue. It's a "Catch 22" circular

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Ted Robertson
Case No. EO-96-14

1 situation. If the Company does not provide the supporting detail then the preparation of
2 workpapers may not be possible. If the Company does provide the data needed to assure
3 the accuracy of the costs then workpapers will be provided when they are finished. The
4 irony of the situation is that, given the Company's continuous efforts to stall and/or
5 frustrate the Public Counsel's investigation of its operating results, it has the gall to
6 complain about not receiving supporting documentation or workpapers from the Public
7 Counsel. This observation is particularly relevant when it is understood that the
8 Company has either not provided the information necessary to prepare the support for the
9 adjustments within a reasonable timeframe or it has not provided the supporting
10 information at all.

11
12 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

13 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the determination of)
in-service criteria for the Union Electric)
Company's Callaway Nuclear Plant and)
Callaway rate base and related issues.)

Case No. EO-85-17 ✓

In the matter of Union Electric Company of)
St. Louis, Missouri, for authority to file)
tariffs increasing rates for electric service)
provided to customers in the Missouri service)
area of the company. (Filing January 15, 1985).)

Case No. ER-85-160

APPEARANCES: Paul A. Agathen, General Attorney, James J. Cook,
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Inc.; Chrysler Corporation; Ford Motor Company; General
Motors Corporation; Mallinckrodt, Inc.; McDonnell Douglas
Corporation; Monsanto Company; National Can Corporation;
Nooter Corporation; PPG Industries, Inc.; Pea Ridge Iron Ore
Co.; River Cement Company; and St. Joe Minerals Corporation
(Industrial Intervenors).

Richard S. Brownlee, III, Attorney at Law, Post Office
Box 1069, Jefferson City, Missouri 65102, for Missouri
Limestone Producers Association and Missouri LP Gas
Association.

in service. This decommissioning process associated with the safeguarding of the plant is expensive and uncertain. The cost of decommissioning far exceeds any salvage value the plant might have. As part of the rates the ratepayers pay during the operation of the plant, UE will collect funds for the decommissioning of the plant. Staff and UE have agreed upon the amount to be collected. The remaining issue is how the funds should be handled.

UE proposes to collect the funds in a manner similar to depreciation and use them to operate the plant. This method is called net negative salvage value. This method, UE states, will reduce the operating costs of the plant. UE then proposes to borrow the funds required for decommissioning at the end of the service life of the plant.

Staff proposes the use of an external fund to collect the moneys for decommissioning. This would be an external trust fund kept by a trustee separate from other UE funds and usable only for decommissioning costs. Staff proposes this approach because this method would ensure the moneys would be available for decommissioning. Staff also proposes the fund to take advantage of the 1984 tax law which allows a utility to deduct certain deposits to the fund in the year the deposits are made.

Both UE and Staff weighed their proposals in light of similar criteria. UE chose the net negative salvage approach because of the lower cost and the availability of the funds for use during the life of the plant. Staff chose its approach because of the need for assurance that the money would be available for use when decommissioning occurs. Staff's method is approximately \$10 to \$12 million more costly, discounted to present value, than UE's, while UE's method lacks assurability that UE could borrow the money for decommissioning when the plant goes out of service.

There are several reasons which support UE's proposal. The lower cost is significant, as well as the fact that the use of the money would require UE to borrow

less externally during the life of the plant. UE also raises some concerns about the implementation of the 1984 tax law. UE states the law is uncertain and there are no guarantees the external fund would be acceptable to the IRS. UE also is concerned that only funds for decommissioning the radioactive part of the plant will be considered tax deductible.

The Commission has considered UE's proposals and concerns but agrees with Staff that the dominant requirement of the decommissioning fund is assurability. The risk and costs involved in nuclear plant operation and decommissioning far outweigh the additional costs of Staff's method. The Commission wants to ensure that the moneys paid by ratepayers during the life of the plant are available for decommissioning. UE's proposal provides no real assurance the funds will be there when they are needed. The Commission also believes that UE can meet the requirements of the 1984 tax law and that they are not as uncertain or unattainable as UE speculates.

Staff has proposed that UE (1) be required to design the fund so all deposits qualify for the tax exemption; (2) select a responsible person to act as trustee for the fund; (3) consider selecting a brokerage firm to serve as custodian of the fund to avoid the possible payment of two commissions for the same bond purchase; and (4) be required to follow the three investment criteria of Staff witness Smith.

The Commission has reviewed the Staff's recommendations for establishing the fund. The Commission has adopted Staff's recommendation that an external fund be required of UE. The Commission is of the opinion that the requirements placed on the fund in order to receive the tax deduction are sufficient guidelines to ensure proper investment of the fund. The Commission also believes that UE has sufficient expertise in dealing with trust funds to properly establish the fund to take advantage of the tax requirements. The Commission therefore will not set out specific investment guidelines for UE to follow. The Commission, though, requires

that UE establish the external fund to take the maximum advantage of the 1984 tax law and follow the requirements of the tax law in making investments for the fund.

In order to ensure the lowest cost fund, UE will solicit bids of at least five potential trustees. UE will be required to review the possibility of having a brokerage firm act as custodian of the funds to prevent the possibility of paying two commissions for the same bond purchase. UE must select an interim trustee to hold the fund until the permanent trustee is selected. The Commission believes UE should make payments to the fund in accordance with IRS regulations and does not oppose the use of the funds by UE between each payment if IRS regulations permit. The parties have agreed, and the Commission concurs, that the deferred tax balance arising from the external fund be added to rate base.

The Commission has also determined UE should have the trustee report to the Commission on an annual basis concerning the receipt of the funds, the investments made, the costs incurred and the income of the trust. The trustee must prepare the federal and state income taxes for the trust and file a copy of all documents filed with any other state or federal agency with the Commission.

VIII. Fuel Inventory

This issue is interrelated with Nuclear Fuel Costs and Total Fuel Costs. The issues set out under the topic Fuel Inventory in the hearing memorandum are all dealt with under the other two topic headings except for the treatment of the unamortized portion of the Westinghouse nuclear fuel credits. The credits are those received by UE from its settlement with Westinghouse. The amortization of the credits is discussed as a separate issue. The issue here is the treatment of the unamortized balance of the credits during the period of amortization.

Originally, UE proposed to offset the nuclear fuel inventory by the unamortized Westinghouse credits. In rebuttal testimony UE changed its position and proposed to continue to record negative AFUDC on the Westinghouse credits until the

W/O A0392 REGULATORY LEGAL WORK FOR AMERENUE AND AMEREN CIPS

		W/O	ALLOCATED	ALLOCATED	AMERENUE-MO
		AMOUNT	TO AMERENUE	TO AMERENUE	TRANSFER
ELECTRIC ACCT.	ACCT. DESCRIPTION		72.62%	MO. 94%	TO ACCT. 426
					100.00%
111	379 MISC. CONSTRUCTION OVERHEADS	10,190.00	7,399.98	6,955.98	6,955.98
111	920 A & G SALARIES	87,364.00	63,443.74	59,637.11	59,637.11
111	921001 GENERAL OFFICER/OFFICE EXPENSES	517.25	375.63	353.09	353.09
111	921002 OFFICE SUPPLIES AND EXPENSES	3,108.00	2,257.03	2,121.61	2,121.61
111	923001 OUTSIDE SERVICES SPECIAL SERVICES	26,815.54	19,473.45	18,305.04	18,305.04
111	928 REGULATORY COMMISSION EXPENSES	14,542.39	10,560.68	9,927.04	9,927.04
	SUBTOTAL	142,537.18	103,510.50	97,299.87	97,299.87
GAS					
211	329 MISC. GAS CONSTRUCTION OVERHEADS	1,125.00			
211	920 A & G SALARIES	14,894.00			
211	921002 OFFICE SUPPLIES AND EXPENSES	5.00			
	SUBTOTAL	16,024.00			
	TOTAL	158,561.18			

TOTAL EXPENSE ADJUSTMENT 198 - 698

\$430,856.93

LESS ACCT. 379 MISC. CONSTRUCTION OVERHEADS

35,904.27

TOTAL OPERATING EXPENSE ADJUSTMENT 198 - 698

\$394,952.66