

Exhibit No.:
Issues: Adjustments of OPC Witness
Effron: Nuclear Operation-
Supervision and Engineering
Cost; Administrative and
General Salaries; and Outside
Services Expense
Witness: Gary S. Weiss
Sponsoring Party: Union Electric
Type of Exhibit: Cross-Surrebuttal Testimony
Case No.: EC-2002-1
Date Testimony Prepared: June 24, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EC-2002-1

CROSS-SURREBUTTAL TESTIMONY

OF

GARY S. WEISS

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

**St. Louis, Missouri
June, 2002**

TABLE OF CONTENTS

I.	Purpose of Testimony.....	1
II.	General Overview of Adjustments.....	1
	A. Nuclear Operation - Supervision and Engineering Expense.....	4
	B. Administrative and General Salaries.....	5
	C. Outside Services Expense.....	7
	D. Background on Deferred Tax Issues	9

1 **CROSS-SURREBUTTAL TESTIMONY**

2 **OF**

3 **GARY S. WEISS**

4 **CASE NO. EC-2002-1**

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

6 A. My name is Gary S. Weiss. My business address is One Ameren Plaza,
7 1901 Chouteau Avenue, St. Louis, Missouri 63103.

8 **Q. Are you the same Gary S. Weiss who previously filed rebuttal**
9 **testimony in this proceeding?**

10 A. Yes I am.

11 **I. PURPOSE OF TESTIMONY**

12 **Q. What is the purpose of your testimony?**

13 A. The purpose of my testimony is to rebut the adjustments made to three
14 operation and maintenance expense accounts by OPC Witness David J. Effron. I will
15 also provide some background comments on three deferred tax issues raised by Mr.
16 Effron. These items are deferred compensation, NUEXCO and reserve accounts. The
17 cross-surrebuttal testimony of Company witness Warren addresses why these adjustments
18 to the deferred income taxes are inappropriate.

19 **II. GENERAL OVERVIEW OF ADJUSTMENTS**

20 **Q. Have you reviewed the rebuttal testimony of OPC witness Effron?**

21 A. Yes I have.

1 **Q. Is it appropriate to segregate and adjust a certain few operation and**
2 **maintenance expense accounts without reviewing the total operation and**
3 **maintenance expenses?**

4 A. No. The expenses charged to each individual account during a time period
5 will vary depending upon the particular circumstances of that time period. No two time
6 periods are exactly the same. Therefore, you must look at the total operation and
7 maintenance expenses for a proper comparison of one time period to another. The
8 Company and the individual departments manage their operations for the year based on
9 total expenses not each individual account.

10 **Q. How many accounts does Mr. Effron propose adjustments to?**

11 A. Mr. Effron proposed adjustments to the following three operation and
12 maintenance expense accounts: Account 517, Nuclear Operation - Supervision and
13 Engineering, Account 920, Administrative and General Salaries, and Account 923,
14 Outside Services.

15 **Q. What is the source of Mr. Effron's adjustments and what is the total**
16 **number of individual accounts?**

17 A. The FERC Form 1 Pages 220 through 223 for the Years 1997, 1998, 1999,
18 2000 and 2001 are the sources of Mr. Effron's numbers. A review of these pages shows
19 that there are over one hundred individual expense accounts reported. Thus Mr. Effron
20 has only proposed adjustments to 3% of the accounts.

21 **Q. Are the Year 2001 expenses included in the test year for this case?**

22 A. No, the Commission Orders of December 2, 2000 and January 3, 2002
23 set the test year as the twelve months ended June 30, 2001 with updates for known

1 changes through September 30, 2001. Thus Mr. Effron is using expenses outside the test
2 year to make adjustments to the test year. This is very inappropriate and inconsistent
3 with the test year concept that is fundamental to the ratemaking process.

4 **Q. What does an analysis of the total electric operation and maintenance**
5 **expenses per the FERC Form 1 pages 220 - 223 for the years 1997 through 2001**
6 **show?**

7 A. Schedule 1 attached to this cross rebuttal testimony shows that for all but
8 one year out of the five years operation and maintenance expenses have increased. The
9 one-year with a less than a 2% decrease was 1999, the first full year after the merger of
10 Union Electric Company and Central Illinois Public Service. Since 1999 the total electric
11 operation and maintenance expenses have been increasing. Thus it is inappropriate to
12 segregate three accounts out of over one hundred accounts and use a four or five-year
13 average to reduce operation and maintenance expenses when the total operating and
14 maintenance expenses are increasing.

15 **Q. Are there reasons why the three accounts segregated by Mr. Effron**
16 **for adjustment increased and why their current level of expense are appropriate?**

17 A. Yes. The Company in responses to data requests and meetings with the
18 MPSC Staff and other members of the OPC Staff explained the reasons for these
19 increases. Mr. Effron who was not involved in these meetings, chose to disregard the
20 information that was supplied to him in response to his data requests. In addition, the
21 responses to Mr. Effron's data requests were not the only data requests responded to
22 during the past two years concerning these expenses.

1 It is important to recognize that Mr. Effron has not identified any specific
2 activities associated with these three accounts as being imprudently incurred or
3 unnecessary. Instead, he relies exclusively on a comparison of 2001 expense levels to an
4 average of such expenses over a 4 or 5 year period. Interestingly, Mr. Effron proposes no
5 adjustment for accounts in which the 2001 expense levels are lower than the multiple
6 year average.

7 **Q. Can you provide an explanation for the apparent increase in cost for**
8 **the three accounts that Mr. Effron proposed be adjusted?**

9 A. Yes I can.

10 **A. NUCLEAR OPERATION –**
11 **SUPERVISION AND ENGINEERING EXPENSE**
12

13 **Q. Please explain the adjustment to Account 517, Nuclear Operation -**
14 **Supervision and Engineering on page 17 through 19 of Mr. Effron's rebuttal**
15 **testimony.**

16 A. Mr. Effron did a five-year comparison of the Account 517 expenses per
17 the FERC Form 1 for the years 1997 through 2001. This analysis showed a large
18 increase in the year 2001 compared to the other four years. Mr. Effron applied an
19 inappropriately low 2% inflation rate to the years 1997 through 2001 and then calculated
20 a five-year average. The difference between the five-year average and the test year
21 expense is his proposed adjustment.

22 **Q. Why did the expense charge to Account 517 increase in year 2001?**

23 A. Schedule DJE-3 Page 3 attached to Mr. Effron's rebuttal testimony is the
24 Company's response to Public Counsel Data Request 4055 which gives numerous reasons
25 why the expenses to Account 517 have increased and why they are going to continue at

1 that level. The major reasons include increases in wages, increased overtime, an increase
2 in the number of employees and a new activity based accounting system that was
3 implemented starting January 1, 2001.

4 The Year 2001 expenses for nuclear operations includes the Callaway
5 refueling in the spring of 2001. Mr. Effron also makes an adjustment to the Callaway
6 refueling expense. The MPSC Staff and the Company already made adjustments to
7 remove approximately 1/3 of the Callaway refueling expense. Thus, Mr. Effron is
8 adjusting Account 517 specifically and also adjusting Account 517 again as part of his
9 Callaway refuel expense adjustment. This results in a double adjustment which is not
10 appropriate. (See the Cross Surrebuttal Testimony of Company witness Randolph on the
11 Callaway refuel expense adjustment.)

12 Mr. Effron adjusted Account 517, out of the fourteen accounts that
13 comprise the total Nuclear Operation and Maintenance Expense. Page 320 Lines 22 - 33
14 of the FERC Form 1 for the Year 2001 shows a comparison for each of the fourteen
15 accounts for the years 2001 and 2000. The total Nuclear Operation and Maintenance
16 Expense actually decreased from \$104, 832,917 for the year 2000 to \$102,049,240 for the
17 year 2001. Thus to make an adjustment for the one account that increased out of fourteen
18 when in total they decreased is not appropriate and should not be made.

19 **B. ADMINISTRATIVE AND GENERAL SALARIES**

20 **Q. Please explain Mr. Effron's adjustment to Account 920,**
21 **Administrative and General Salaries on pages 19 - 21 of his rebuttal testimony.**

22 **A. Mr. Effron did a five-year comparison of the charges to Account 920,**
23 **Administrative and General Salaries for the years 1997 through 2001 per the FERC Form**

1 1. Mr. Effron saw a large increase for 2001 over 1999 and 2000, although 1998 was
2 actually being higher than 2001. He applied a 2.5% escalation factor to the years 1997
3 through 2000 and calculated a five-year average. He compared the five-year average to
4 the test year account 920 expense to calculate his adjustment.

5 **Q. Are there some major reasons why the expenses in Account 920 have**
6 **increased during the year 2001?**

7 A. Yes, Schedule DJE-3 Page 4 attached to Mr. Effron's rebuttal testimony
8 shows the Company's response to Office of Public Counsel Date Request 4052 providing
9 reasons for the increase in expenses charged to Account 920. The main reason for the
10 increase relates to the allocation of Ameren Services expenses through the various service
11 requests. Most of the charges to Account 920 are allocated to Union Electric Company
12 from the service company, Ameren Services. Ameren Services provides services for all
13 of the Ameren Companies and allocates its cost based on allocations approved by the
14 Securities and Exchange Commission. Account 920, Administrative and General
15 Salaries includes the large portion of the Ameren Services labor. The Ameren Services'
16 employee benefit cost and some other items are allocated based on a labor load percent.
17 Therefore for each dollar of labor allocated from Ameren Services there is added a
18 certain percent for the related loadings. During the year 2000 it was discovered that the
19 percent used for the labor loadings was too low. Therefore, this percentage had to be
20 increased in order to properly allocate all of the Ameren Services employee benefits and
21 other loadings properly. These higher labor loading percentages will continue in the
22 future. Thus it would be inappropriate to adjust Account 920. With the ever increasing
23 cost of employee benefits, the labor loadings for Account 920 will not be decreasing.

C. OUTSIDE SERVICES EXPENSE

Q. Please explain Mr. Effron's adjustment to Account 923, Outside Services on pages 22 through 26 of his rebuttal testimony.

A. Account 923 is the third account out of the over one hundred operations and maintenance accounts that Mr. Effron has inappropriately adjusted. Mr. Effron again compared the charges to Account 923 for 1998 through 2001 from the FERC Form 1 page 323. The expenses for 2000 and 2001 were almost exactly the same but were significantly higher than the years 1998 and 1999. Mr. Effron applied a 2.5% escalation rate to the years 1998 through 2000 and calculated a four-year average. He compared this four-year average to the test year amount after adjusting the test year amount for an adjustment to the Legal Expense Accrual.

Q. Has the Company explained the increase in Account 923, Outside Service to the MPSC Staff and the OPC Staff?

A. In numerous data request responses and meetings over the last two years in connection with the 5th and 6th Revenue Sharing Periods of the Second Experimental Alternative Regulation Plan and this case, the Company has provided the explanation to the MPSC Staff and the OPC Staff for the increase in Account 923. Schedule DJE-3 Page 5 attached to Mr. Effron's rebuttal testimony is the Company's response to Office of the Public Counsel Data Request No. 4053: "During the year 2000 with the formation of AmerenEnergy Generating Company, Ameren Services started charging Ameren Energy for transmission service. Ameren Energy then bills the transmission service charges back through its billings in account 923." Implicit in this response is the fact that Union Electric Company also receives revenues from Ameren Energy for the transmission

1 service. This was explained in the Company's response to other data requests of the
2 MPSC Staff and in meetings with the MPSC Staff. The increase in charges from Ameren
3 Energy is offset by the increase in transmission revenues from Ameren Energy. Thus the
4 Company's Cost of Service includes not only the higher charges in Account 923 but also
5 the higher transmission revenues in the Other Revenues. For the test year the
6 transmission charges from Ameren Energy billed to Union Electric Company were
7 \$32,849,478 with a comparable amount recorded as transmission revenues. Thus, there is
8 no impact on the cost of service. If Mr. Effron wants to make this adjustment to Account
9 923, he must also make a like adjustment to reduce the transmission revenues include in
10 Other Revenues. Since the Company and MPSC Staff have reflected the proper matching
11 of the expense in Account 923 and the transmission revenues in Other Revenues this
12 adjustment should not be accepted.

13 **Q. Please provide a summary of why Mr. Effron's proposed adjustments**
14 **to the three operation and maintenance expense accounts should be rejected.**

15 **A.** Mr. Effron has proposed adjustments to only three out of over one
16 hundred operating and maintenance accounts. As my Schedule 1 shows, if you look at
17 total electric operating and maintenance expenses, there is a trend of increasing expenses.
18 To reduce the test year per book expenses will result in a test year cost of service that is
19 less than the cost of service at the time the new rates become effective. In addition there
20 are reasons for the increases in each of these accounts that have been explained and
21 shown to be appropriate. In addition, the actual higher level of expense in these three
22 accounts will be continuing. They are not just one-time increases in expense.

1 **D. BACKGROUND ON DEFERRED TAX ISSUES**

2 **Q. Have you reviewed the three deferred tax items that Mr. Effron has**
3 **proposed adjusting?**

4 A. Yes, I have reviewed the testimony of Mr. Effron on the deferred tax
5 items: deferred compensation, NUEXCO and reserve accounts.

6 **Q. Please explain the impact on rate base and/or cost of service of these**
7 **items that result in the deferred income taxes.**

8 A. Deferred compensation is an actual operating expense and is reflected in
9 the cost of service. The deferred compensation liability is not reflected in rate base.
10 NUEXCO represents various activities resulting from the default on a
11 nuclear fuel contract. The activities involved with NEUXCO impact the cost of the
12 nuclear fuel in process which ultimately affects rate base when this fuel is placed in the
13 reactor. Unburned fuel in the reactor is included in rate base.

14 The reserve accounts apply to items such as the injuries and damages
15 reserve and the legal expense reserve. The Company records expenses for these items
16 using the accrual method. The accruals are charged to operating expenses and reflected
17 in the cost of service. The book liability for these reserves are not reflected in rate base.

18 **Q. Does this conclude your testimony?**

19 A. Yes.

Respondent.)

CITY OF ST. LOUIS)

DEBBY ANZALONE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: April 18, 2006

**UNION ELECTRIC COMPANY
MPSC CASE NO. EC-2002-1
TOTAL ELECTRIC OPERATION AND MAINTENANCE EXPENSES
FOR THE YEARS 2001, 2000, 1999, 1998 AND 1997
(\$000)**

<u>Line</u>	<u>Year</u>	<u>Amount</u>
1	1997	\$1,104,262
2	1998	1,192,521
3	1999	1,171,832
4	2000	1,267,522
5	2001	1,414,564

Source: FERC Form 1 Pages 320 - 323