

Exhibit No.:

Issue(s):

Environmental Expense/
Venice Power Plant Fire Costs/
Lobbying Costs

Witness/Type of Exhibit:

Robertson/Rebuttal

Sponsoring Party:

Public Counsel

Case No.:

EC-2002-1

REBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

UNION ELECTRIC COMPANY

Case No. EC-2002-1

May 10, 2002

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

STAFF OF THE MISSOURI)
PUBLIC SERVICE COMMISSION,)
Complainant,)

Vs.) Case No. EC-2002-1

UNION ELECTRIC COMPANY,)
d/b/a AmerenUE,)
Respondent.)

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 33 and Schedule TJR-1.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 10th day of May 2002.

KATHLEEN HARRISON
Notary Public - state of Missouri
County of Cole
My Commission Expires Jan. 81, 2008

Kathleen Harrison
Notary Public

My commission expires January 31, 2006.

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REBUTTAL TESTIMONY
OF
TED ROBERTSON

UNION ELECTRIC COMPANY
d/b/a
AMERENUE

CASE NO. EC-2002-1

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P. O. Box 7800, Jefferson City, Missouri 65102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Office of the Public Counsel of the state of Missouri ("OPC" or "Public Counsel") as a Public Utility Accountant III.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November, 1988, I passed the Uniform Certified Public Accountant examination, and obtained C. P. A. certification from the state of Missouri in 1989.

1 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE
2 EMPLOY OF THE PUBLIC COUNSEL?

3 A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W.
4 Trippensee, I am responsible for performing audits and examinations of the books
5 and records of public utilities operating within the state of Missouri.
6

7 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
8 SERVICE COMMISSION?

9 A. Yes, I have. Please refer to Schedule No. TJR-1, attached to this rebuttal
10 testimony, for a listing of cases in which I have previously submitted testimony
11 before the Missouri Public Service Commission ("MPSC" or "Commission").
12

13 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14 A. The purpose of this rebuttal testimony is to address various cost adjustments
15 identified in the direct testimonies of MPSC Staff ("Staff") witnesses, John P.
16 Cassidy and Paul R. Harrison. In particular, I will address OPC's position on how
17 the costs discussed in the following testimony should be treated with regard to the
18 development of the Company's revenue requirement. In addition, I will discuss a
19 lobbying costs issue which I believe the MPSC Staff did not address because it was
20 led to believe the issue did not exist. The costs that I will discuss include;
21 Environmental Expense, Venice Power Plant Fire Costs and Lobbying Costs.

ENVIRONMENTAL EXPENSE

Q. WHAT IS THE ISSUE?

A. This issue concerns the proper level of expense for test period environmental remediation activities that should be used in the determination of the revenue requirement.

Q. WHAT DOES THE COMMISSION NEED TO DECIDE WITH RESPECT TO THIS ISSUE?

A. The Commission should determine whether it is proper to use the actual amount paid in the test year **plus** an additional accrued expense for estimated potential future liabilities that the Company also booked or is it more reasonable to use another ratemaking methodology that would be more representative of the costs that the Company has actually incurred.

Q. WHAT IS THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

A. The Public Counsel generally agrees with the position taken in the direct testimony of MPSC Staff witness, Mr. John P. Cassidy, on this issue; except that, we believe it reasonable to include actual payments made only for the remediation of Company owned electric property that is currently used and useful in providing service to ratepayers and I see no reason to adjust the actual payments incurred during the test

1 year for work performed in prior periods but paid during the update period. The
2 Public Counsel believes that using actual payments is the most reasonable
3 ratemaking method because the payments represent a more rational recognition of
4 the actual cash flow requirements that the Company has incurred on a year to year
5 basis.

6
7 Q. DOES THE PUBLIC COUNSEL'S PROPOSAL TO ALLOW ACTUAL
8 PAYMENTS INCLUDE COSTS FOR THE REMEDIATION OF
9 MANUFACTURED GAS PLANT ("MGP") SITES?

10 A. No. Public Counsel does not believe that payments incurred for the remediation of
11 MGP should be allowed in this case because they were not incurred to benefit the
12 Missouri electric operations.

13
14 Q. DOES THE PUBLIC COUNSEL'S PROPOSAL TO ALLOW ACTUAL
15 PAYMENTS INCLUDE COSTS FOR THE REMEDIATION OF PROPERTIES
16 NOT OWNED BY THE AMEREN MISSOURI ELECTRIC OPERATIONS?

17 A. No. Public Counsel does not believe that payments incurred for the remediation of
18 properties not owned by the Company should be allowed in this case because they
19 do not provide used and useful services that benefit the Missouri electric operations
20 ratepayer.

1 Q. DOES THE PUBLIC COUNSEL'S PROPOSAL TO ALLOW ONLY THE
2 ACTUAL PAYMENTS INCLUDE COSTS FOR THE REMEDIATION OF
3 PROPERTIES OWNED BY THE AMEREN MISSOURI ELECTRIC
4 OPERATIONS BUT NOT PROVIDING USED AND USEFUL ELECTRIC
5 SERVICE OPERATIONS?

6 A. No. Public Counsel does not believe that payments incurred for the remediation of
7 properties owned by the Company but not providing used and useful services
8 should be allowed in this case because they do not benefit the Missouri electric
9 operations ratepayer.
10

11 Q. WHY IS THE PUBLIC COUNSEL RECOMMENDING ITS STATED
12 POSITION?

13 A. For several years the Public Counsel has been very much involved in the
14 monitoring of the incentive plans under which the Company has been operating.
15 During the incentive plan years, we were aware that the Company was booking
16 large expense accruals, that often exceeded the actual payments being made, to a
17 liability reserve account. For example, according to the Company's Financial and
18 Statistical Report Detail, pages A 4-1 & A7-1, the total expense accruals to the
19 environmental liability reserve account for the five years ended September 30,
20 2001, on a total electric company basis, were \$13,250,000 and the total payments
21 for which the reserve account was reduced during the same period, on a total

1 electric company basis, were \$455,325. Thus, on a total electric company basis,
2 Ameren has booked \$12,794,675 more to expense than it has actually incurred
3 payments, for the costs of environmental activities, during the five year ended
4 September 30, 2001. In the Public Counsel's opinion, the estimated expense
5 accruals that the Company has been booking are completely out of synchronization
6 with the actual costs that it has been incurring and cannot be relied on as an
7 accurate estimate of costs to be expected now or in the future.

8
9 Q. WHAT WAS THE TOTAL ENVIRONMENTAL EXPENSE BOOKED BY THE
10 COMPANY DURING THE TWELVE MONTHS ENDED JUNE 2001?

11 A. Company's response to Public Counsel Data Request No. 1015, Union Electric
12 Company Case No. EM-96-149, states that it utilized two methods to record
13 expenses during the test year. The first method direct assigns actual payments for
14 environmental related activities to an expense account. The accounting entry for
15 this method would consist of simply debiting an expense account and crediting a
16 cash or accounts payable account for the payment of the services provided. The
17 Company's response to Public Counsel Data Request No. 1031, Union Electric
18 Company Case No. EM-96-149, stated that during the test year \$136,737 of
19 environmental payments were direct charged. Of that total, \$123,309 was allocated
20 to the Missouri electric operations.

1 The second method the Company utilizes involves an expense estimation process
2 which records estimates of future payments and subsequent pay-outs to a balance
3 sheet liability (reserve) account. During the test year, the Company booked
4 (according to its response to Public Counsel Data Request No. 1031, Union Electric
5 Company Case No. EM-96-149), an estimated expense accrual of \$6,000,000, of
6 which approximately \$5,410,880 was allocable to the Missouri electric operations.

7
8 Summing the direct assigned expense amount with the estimated expense accrual
9 shows that, for the twelve months ended June 30, 2001, the total environmental
10 expense booked to the Missouri election operations was \$5,534,189.

11
12 Q. IN THE PRIOR Q & A YOU CITED DATA REQUEST INFORMATION
13 OBTAINED IN UNION ELECTRIC CASE NO. EM-96-149. HAS THE
14 COMPANY AUTHORIZED PUBLIC COUNSEL TO ANALYZE, REFERENCE
15 AND OTHERWISE UTILIZE INFORMATION FROM THAT CASE IN THE
16 DEVELOPMENT OF POSITIONS TAKEN IN THE INSTANT CASE?

17 A. Yes, it has. Public Counsel sent the Company a series of data requests (i.e., OPC
18 Data Request Nos. 1017 through 1022) seeking to utilize the information obtained
19 in Case EM-96-149 because data was readily available from our ongoing
20 investigation in the case. I requested access to the information because the test year

1 for Case EM-96-149 coincides with the test year of the instant case. The
2 Company's responses to the data requests provided the authorization we requested.

3
4 Q. WHAT IS A LIABILITY RESERVE ACCOUNT?

5 A. A liability reserve account is really nothing more than a simple liability account that
6 is shown on a company's balance sheet. Accounting standards require that a
7 company book in its accounting records future costs for liabilities it expects to incur
8 if those costs can be reasonably estimated. The following is an example of
9 accounting entries that would typically occur to recognize the future expected costs:

- 10
11 1. Company develops an estimate of the future liabilities to be incurred and
12 books that estimate to the accounting records:

13
14 Debit - Expense (Income Statement Account)

15 Credit - Liability (Non-Current Balance Sheet Account (Reserve))

16
17 The accounting entry is made to recognize the estimated expense on the
18 income statement of the company in the period that the entry is made and
19 also to recognize the future liability on the balance sheet. Even though the
20 Company has not actually incurred the expenditures, it is recognizing its
21 estimate of the expense in the period that the accounting entry is booked.

- 1
- 2 2. Once the estimated liabilities or services are actually incurred (the sources
- 3 of the actual charges), the Company would then recognize their payment in
- 4 the accounting records with the following entry:

5

6 Debit - Liability (Non-Current Balance Sheet Account (Reserve))

7 Credit - Cash or Accounts Payable (Current Balance Sheet Account)

8

9 The accounting entry reduces the balance sheet reserve liability account

10 balance and recognizes the actual payment of the costs in the year that they

11 are incurred. In this example, as in Ameren's situation, the payment of the

12 estimated expense accrued will not occur, if they occur at all, until after the

13 end of the test period in this case because the expected liabilities or services

14 have not yet become a reality.

15

16 Q. WHAT WAS THE TOTAL AMOUNT OF ENVIRONMENTAL COSTS

17 ACTUALLY PAID DURING THE TWELVE MONTHS ENDED JUNE 2001?

18 A. The total costs actually paid consist of the direct charges plus reductions to the

19 liability reserve account. During the test year the Company reduced the

20 environmental liability reserve account by \$342,077 (Financial and Statistical

21 Report Detail, page A 4-1). The Missouri electric operations portion of the

1 \$342,077 is \$308,485 (90.18%) (response to MPSC Staff Data Request No. 121).

2 Summing this amount with the amount direct assigned provides a total of \$431,794
3 (i.e., \$123,309 direct + \$308,485 charged to reserve account) actually paid in the
4 test year.

5
6 Q. BY HOW MUCH DID THE BOOKED ENVIRONMENTAL EXPENSE
7 EXCEED ACTUAL PAYMENTS FOR THE TEST YEAR?

8 A. The total environmental expenses booked during the test year was \$5,534,189.
9 Subtracting the actual test year payments of \$431,794 from the actual test year
10 expense results in \$5,102,395 of excess estimated expense being booked to the
11 Missouri electric operations during the test year.

12
13 Q. DID THE COMMISSION ORDER AN UPDATE PERIOD FOR KNOWN AND
14 MEASURABLE ITEMS THROUGH SEPTEMBER 30,2001?

15 A. Yes.

16
17 Q. WHAT WAS THE TOTAL ENVIRONMENTAL EXPENSE BOOKED BY THE
18 COMPANY DURING THE TWELVE MONTHS ENDED SEPTEMBER 2001?

19 A. Company's response to MPSC Staff Data Request No. 121 states that \$137,596 of
20 environmental payments were direct charged. Of that total, \$124,084 was allocated
21 to the Missouri electric operations. While the Company's Financial and Statistical

1 Report Detail, page A 4-1, states that during the twelve months ended September
2 30, 2001, there were no expense accruals booked to the liability reserve account.
3 Thus, for the twelve months ended September 30, 2001, the total environmental
4 expense booked to the Missouri electric operations was \$124,084.

5
6 Q. WHAT WAS THE TOTAL AMOUNT OF ENVIRONMENTAL COSTS
7 ACTUALLY PAID DURING THE TWELVE MONTHS ENDED SEPTEMBER
8 2001?

9 A. The direct assignment to Missouri electric operations expense for the twelve
10 months ended September 30, 2001 was \$124,084. While the charges to the liability
11 reserve account for the same period were approximately \$410,611 (i.e., \$455,325
12 90.18% labor ratio). Summing the two amounts shows that the total environmental
13 costs actually paid during the twelve months ended September 30, 2001 was
14 \$534,695.

15
16 Q. IS THE PUBLIC COUNSEL RECOMMENDING THAT THE
17 ENVIRONMENTAL COSTS ACTUALLY PAID DURING THE TWELVE
18 MONTHS ENDED SEPTEMBER 2001 BE THE ONLY COSTS RELATED TO
19 THIS ISSUE THAT ARE INCLUDED IN THE DETERMINATION OF THE
20 COMPANY'S REVENUE REQUIREMENT?

1 A. Yes, with the exception noted earlier that certain environmental activity costs (i.e.,
2 MGP, etc.) should not be included in the determination of the Missouri electric
3 operations revenue requirement.
4

5 Q. DID THE ACTUAL PAYMENTS FOR THE TWELVE MONTHS ENDED
6 SEPTEMBER 30, 2001 INCLUDE COSTS FOR REMEDIATION ACTIVITIES
7 THAT SHOULD NOT BE ALLOWED IN THE DETERMINATION OF THE
8 COMPANY'S REVENUE REQUIREMENT?

9 A. I do not currently know. Public Counsel has several data requests outstanding
10 which seek information on payments made for the remediation of manufactured gas
11 plant sites, properties not currently owned by the Ameren Missouri electric
12 operations and properties owned by the Ameren Missouri electric operations but
13 not currently used and useful in providing electric service. If any portion of the
14 actual payments includes costs for these types of remediation activities, Public
15 Counsel believes that those specific payments should be excluded from the
16 determination of the revenue requirement.
17

18 Q. WHY DOES THE PUBLIC COUNSEL RECOMMEND THAT THE COSTS
19 DISCUSSED IN THE PREVIOUS Q & A BE DISALLOWED?

20 A. There are many reasons why such costs should not be allowed in the determination
21 of the instant case revenue requirement; however, since none of the costs have yet

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1 been identified as included in the test period, I will postpone a full explanation of
2 my reasons for their exclusion until the Company has provided me with evidence of
3 their existence. On a high level though, electric ratepayers should not be required
4 to reimburse the Company for costs incurred on gas plant properties nor, should
5 they be required to reimburse the Company for costs incurred on properties not
6 providing used and useful electric service.

7
8 Q. IS AMEREN CONSIDERED A CASH BASIS COMPANY?

9 A. No. Ameren is an accrual basis company, and thus, it keeps its accounting records
10 on an accrual basis for financial presentation purposes.

11
12 Q. WHY IS THE PUBLIC COUNSEL RECOMMENDING THAT AN ACCRUAL
13 BASIS COMPANY UTILIZE CASH BASIS ACCOUNTING?

14 A. Public Counsel believes that actual cash expenditures are the appropriate reflection
15 of known and measurable costs for regulatory purposes consistent with past MPSC
16 practice for similar issues of this nature. Public Counsel's position is not that the
17 Company change its current accounting methodology or its procedures for financial
18 statement presentation. Public Counsel understands that Financial Accounting
19 Standards and Generally Accepted Accounting Procedures ("GAAP") require the
20 Company, for financial reporting purposes, to recognize and book an estimate of

1 costs for liabilities it expects to incur in future period if those amounts can be
2 estimated.

3
4 However, as mentioned earlier, for the past several years the estimated expenses the
5 Company has accrued have far exceeded the actual cost payments that it has
6 incurred. The accrued estimated expenses have never been anywhere near the level
7 of payments for the actual costs incurred and they should not be considered as a
8 relevant factor in the Company operations that existed during the instant case test
9 year and update period. It's the Public Counsel's belief that the Company has
10 routinely over-estimated the annual expenses it incurs for environmental activities
11 thus, the Commission should not allow the Company to treat its accrued estimate of
12 future costs as an expense of the test period for the purpose of determining the
13 revenue requirement. The revenue requirement should be based on a reasonable
14 expectation of the Company's actual operations and not include the impact of
15 potential costs that to this point have never occurred. In fact, the accrued estimated
16 costs may never be incurred at the level the Company has estimated.

17
18 Q. WHY DO YOU OPPOSE THE MR. CASSIDY'S ADJUSTMENTS FOR WORK
19 PERFORMED IN PRIOR PERIODS BUT PAID DURING THE UPDATE
20 PERIOD?

1 A. My opposition to those adjustments is that they are reminiscent of the accrual based
2 accounting which we are proposing to disallow here. While the adjustments are
3 small, Public Counsel does not believe that they are necessary given the
4 recommendation that we are making. Since we are proposing a cash basis
5 reimbursement for this issue, we see no need to adjust the test period amounts for
6 costs incurred in a prior year but paid in the test period.

7
8 Q. YOU'VE STATED THAT YOU BELIEVE THE COMPANY IS FOLLOWING
9 GAAP ON THIS ISSUE, BUT IS THE COMMISSION REQUIRED TO ADHERE
10 TO THE PROCEDURES AND RULES OF GAAP?

11 A. No, it is not. The Commission is a statutorily authorized regulatory entity. It may
12 or may not, at its own discretion, agree or disagree with the procedures and rules of
13 GAAP while fulfilling its duties.

14
15 This Commission has often ruled on contested issues in ways that do not meet the
16 requirements of GAAP. Such rulings usually occur when the requirements of
17 GAAP are such that if the Commission were to allow them to be followed, for
18 ratemaking purposes, the goal of safe and adequate utility service at just and
19 reasonable rates would not be achieved. In this instance, accrual accounting, which
20 is the underlying basis for GAAP, has allowed the Company to book a large

estimate of excess expenses which do not accurately depict the actual cost structure that the Company is incurring.

Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION ON THIS ISSUE?

A. Public Counsel believes that the excess accrued estimated expense the Company booked during the actual test year is not relevant to the test period operations; therefore, it is the Public Counsel's recommendation that the Commission authorize allowing the \$534,695 of actual environmental costs paid during in the twelve months ended September 30, 2001 as the annual level of expense for environmental related activities. During the twelve months ended June 30, 2001 the Company's per book expense was \$5,534,189 (i.e., \$123,309 direct assigned plus \$5,410,888 expense accrual). Thus, Public Counsel's proposed adjustment to the June 30, 2001 books is an expense reduction of \$4,999,494. Furthermore, Public Counsel would like to reserve the right to increase the amount of the proposed adjustment if Company's responses to outstanding OPC data requests indicate that any of the actual payments identified were made for the benefit of inappropriate environmental remediation activities, e.g., remediation of manufactured gas plant sites.

VENICE POWER PLANT FIRE COSTS

Q. WHAT IS THE ISSUE?

A. On or about August of the year 2000, the Company suffered a catastrophic fire at its Venice Power Plant located in Venice, Illinois. The issue here is how the test period costs incurred due to the fire should be treated in the determination of the Company's revenue requirement.

Q. WHAT IS THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

A. Public Counsel believes that the test period costs incurred should be netted against the insurance recovery that the Company received for the fire. The Company booked a portion of the fire costs in the test period, but in reality the outlays were only temporary because it was reimbursed by insurance for most of the expenditures in a period subsequent to the end of the test period. If the insurance recovery is not recognized, an inappropriate imbalance occurs. Furthermore, Public Counsel believes that the fire and its consequences should be viewed as an event in its entirety. This view is based on the fact that we believe it would short-sighted to only look at the test period costs while ignoring the costs and cost recoveries that occurred after September 30, 2001.

Q. HOW DID THE MPSC STAFF ADDRESS THIS ISSUE?

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1 A. Essentially, MPSC Staff witness, Mr. Paul R. Harrison, proposes a number of
2 adjustments that allocate a pro-rata share of the insurance recoveries to offset a pro-
3 rata share of the actual costs incurred in the test period.

4
5 Q. DOES THE PUBLIC COUNSEL AGREE WITH MR. HARRISON'S PROPOSED
6 METHODOLOGY OF RECOGNIZING THE COSTS AND COST
7 RECOVERIES?

8 A. No. As I stated earlier, Public Counsel believes that a better way to recognize all
9 the costs and cost recoveries associated with the fire would be to view the event in
10 its entirety.

11
12 Q. WHAT WAS THE TOTAL COST INCURRED FOR THE VENICE FIRE?

13 A. According to the Company's response to Public Counsel Data Request No. 1039,
14 Union Electric Company Case No. EM-96-149, the total cost incurred was
15 \$34,317,274 (\$11,133,754 was expensed and \$23,183,520 was capitalized).

16
17 Q. WHAT PORTION OF THE TOTAL COST INCURRED FOR THE VENICE
18 FIRE WAS ASSIGNED TO THE MISSOURI ELECTRIC OPERATIONS?

19 A. The portion of the total fire costs assigned to the Missouri electric operations was
20 \$30,976,651 (\$9,876,537 was expensed and \$21,100,114 was capitalized) .

1 Q. WHAT WAS THE AMOUNT OF THE TEST PERIOD FIRE COSTS ASSIGNED
2 TO THE MISSOURI ELECTRIC OPERATIONS?

3 A. The Company's response to MPSC Staff Data Request No. 72 states that the total
4 Venice Power Plant fire costs incurred through the end of September 2001 were
5 \$28,427,112 (\$9,745,453 was expensed and \$18,681,659 was capitalized). Of that
6 total, the amount assigned to the Missouri electric operations approximates
7 \$25,647,818 (\$8,645,002 was expensed and \$17,002,816 was capitalized).

8
9 Q. WHAT IS THE AMOUNT OF INSURANCE RECOVERY RECEIVED?

10 A. Company's response to Public Counsel Data Request No. 1039, Union Electric
11 Company Case No. EM-96-149, states that the total insurance recovery
12 subsequently received was, \$22,179,238. In addition, a portion of the total
13 insurance recovery included payments of \$2,078,000 for plant retirement salvage
14 costs and lost revenues of \$833,098. Thus, the net insurance recovery was
15 \$19,268,140 (i.e., \$22,179,238 less \$2,078,000 + \$833,098). This information was
16 collaborated by the Company's response to MPSC Staff Data Request No. 72 which
17 identified the same amounts.

18
19 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION FOR THIS
20 ISSUE?

1 A. Public Counsel recommends that the Missouri electric portion of the insurance
2 recovery be netted against the fire costs expensed and capitalized. Approximately
3 90.27% of the total fire costs were assigned to the Missouri electric operations.
4 Therefore, I recommend that 90.27% of the insurance recovery (less the salvage
5 and revenue portions) be utilized to adjust the expense and capital costs incurred by
6 the Company. Reducing the total insurance recovery by the salvage and revenue
7 amounts yields a total insurance recovery of \$19,268,140. Multiplying the
8 \$19,268,140 by 90.27% provides the portion allocable to the Missouri electric
operations, \$17,393,350.

10
11 Public Counsel recommends that the \$17,393,350 first be utilized to reduce the
12 total fire expenses assigned to the Missouri electric operations thus, \$17,393,350
13 less \$9,876,537 leaves \$7,516,813. Further, we recommend that the remaining
14 \$7,516,813 be utilized to reduce the capital costs incurred. The total capital cost
15 allocable to the Missouri electric operations is approximately \$21,100,114 thus,
16 reducing this amount by the remaining insurance recovery of \$7,516,813 leaves
17 \$13,583,301 of capital costs not recovered by the insurance payments. Public
18 Counsel recommends that the capital costs not recovered be allowed to remain on
19 the Company's books and be recovered via tariffed rates over the approved life of
20 the associated plant.

Q. HOW WILL AMEREN RECOVER THE CAPITALIZED COSTS NOT
REIMBURSED BY THE INSURANCE PAYMENTS?

A. Ameren will ultimately obtain complete recovery of the \$13,583,301 via the inclusion of depreciation expense on said amount in the cost of service. During this time, Ameren will also receive a return on the non-depreciated balance via its inclusion in rate base.

Q. WHAT ARE THE ADJUSTMENTS THAT THE PUBLIC COUNSEL IS
ACTUALLY RECOMMENDING?

A. Public Counsel recommends two adjustments to account for the fire costs and insurance recovery, 1) I recommend reducing the expense portion of the total fire costs allocated to the Missouri electric operations by the total insurance recovery allocable to the Missouri electric operations. This recommendation allows for a total recovery of the fire expenses incurred by the Company for the Missouri electric operations. Therefore, because the expenses have been fully recovered by insurance, Public Counsel recommends that the entire \$8,645,002 of expenses booked to the Missouri electric operations during the test period be disallowed, 2) the second adjustment concerns the capital costs not recovered by the remaining insurance payments. After subtracting the expense recovery from the insurance payments there remains \$7,516,813 of insurance proceeds which we recommend be used for a partial recovery of the \$21,100,114 in total capital costs allocated to the

1 Missouri electric operations. The difference between the \$21,100,114 and the
2 \$7,516,813 is \$13,583,301. The \$13,583,301 is the remaining amount of capital
3 costs, not recovered by the insurance payments, that we recommend be left on the
4 Company's books of record and included in rate base. However, as discussed
5 previously, during the test period the Company actually booked capital costs of
6 \$17,002,816 to the Missouri electric operations. Therefore, the second adjustment
we recommend is to reduce the \$17,002,816 actually booked to the level of capital
8 costs not recovered by insurance payments or \$13,583,301. The difference, and the
9 recommended adjustment amount to reduce the capital accounts, is \$3,419,515.
10

11 Q. HOW SHOULD THE INSURANCE RECOVERY RELATED TO PLANT
12 RETIREMENT SALVAGE BE TREATED?

13 A. It is the Public Counsel's recommendation that the insurance recovery associated
14 with plant retirement salvage costs should be booked as an increase in the
15 accumulated depreciation reserve for the plant that was retired. The basis for this
16 recommendation is that the salvage costs would have reduced the balance of the
17 accumulated depreciation reserve account; therefore, since the Company has
18 recovered those expenditures, the reserve balance should be increased to account
19 for the recovery of the costs to remove the plant. Public recommends that the test
20 year and update period accumulated depreciation reserve account for the plant
21 retired be increased by the total amount of the insurance recovery applicable to the

1 Missouri electric operations. The Public Counsel's recommended increase, based
2 on the insurance recovery for salvage multiplied by the 90.27% assigned to the
3 Missouri electric operations is \$1,875,811.

4
5 Q. HOW SHOULD THE INSURANCE RECOVERY RELATED TO LOST
6 REVENUES BE TREATED?

7 A. It is the Public Counsel's recommendation that the insurance recovery associated
8 with lost revenues should be booked as an increase to revenues. The basis for this
9 recommendation is that a portion of the revenues lost have been recovered via
10 insurance thus, the Company's test period revenues should be made whole for the
11 amount of the insurance payment received. Because the Company has not
12 identified the exact amount of the recovered revenues allocable to the Missouri
13 electric operations during the test period, I have calculated what I believe is a
14 conservative amount utilizing the same basic calculations identified above for the
15 expense insurance recovery. Public recommends that test period revenues for the
16 Missouri electric operations be increased by \$752,038 to account for the test period
17 recovery of lost revenues.

LOBBYING COSTS

Q. WHAT IS THE ISSUE?

A. The issue is whether or not lobbying costs incurred during the test year and update period should be treated as an expense in the determination of the Company's revenue requirement.

Q. DID THE COMPANY REPRESENT TO THE PUBLIC COUNSEL THAT IT CHARGES ALL LOBBYING COSTS BELOW THE LINE?

A. Yes. Public Counsel Data Request No. 1017, Union Electric Company Case No. EM-96-149, requested whether all lobbying costs, expenditures and expenses incurred during the test year have been excluded from the regulated Missouri electric operations. The Company's response stated:

The Company charges its lobbying costs and expenses to a below the line account. Thus (sic) these costs and expenses are not charged to the Missouri jurisdictional electric operating expenses.

Q. HOW DID THE COMPANY RESPOND TO THE MPSC STAFF'S REQUEST FOR INFORMATION ON THIS ISSUE?

A. In its response to the MPSC Staff Data Request No. 42, Union Electric Company Case No. EM-96-149, the Company stated:

Labor on Service Requests A0387, A0388, and A0393 is charged to non-operating expense account 426. Labor on Service Request A0633 is charged to Account 920.

Expenses other than Labor on Service Requests A0387, A0388, and A0393 is charged to non-operating expense account 426. Expenses other than Labor on Service Request A0633 is charged to A&G accounts 921-001, 021-002, 923-001, and 930-239 along with non-operating expense account 426.

Q. DID THE MPSC STAFF MAKE ANY ADJUSTMENT TO EXCLUDE LOBBYING EXPENSES INCURRED BY THE COMPANY DURING THE TEST YEAR?

A. To my knowledge, the MPSC Staffs testimony does not address any adjustment to disallow lobbying costs.

Q. IN YOUR OPINION, DID THE COMPANY'S RESPONSES TO PUBLIC COUNSEL DATA REQUEST NO. 1017 AND MPSC STAFF DATA REQUEST NO. 42 INCLUDE ALL OF THE LOBBYING COSTS?

A. No. The Company's response to Public Counsel Data Request No. 1027a, Union Electric Company Case No. EM-96-149, subsequently identified that during the twelve months ended June 2001, the Company did in fact book lobbying costs totaling \$207,998.57 above the line to the Missouri electric jurisdiction. The

lobbying costs booked above the line were associated with the following Work
Orders:

1. \$8,699.41 for A0387 - Lobbying Activities for AmerenUE
2. \$8,280.84 for A0393 - Lobbying Activities Allocated
3. \$191,018.32 for A0633 -Missouri Deregulation (Elect MO)

The Company also did not identify in its response to the previously referenced Public Counsel data request or the MPSC Staff data request the lobbying costs that it booked above the line for the AmerenUE or Activities Allocated Work Orders nor did it identify in its response to the Public Counsel data request that it booked lobbying costs above the line for Missouri Deregulation activities.

Q. DOES THE COMPANY DISPUTE THE FACT THAT THE COSTS IT INCURRED TO SPONER OR PROMOTE LOBBYING IN MISSOURI FOR THE DEREGULATION OF THE ELECTRIC INDUSTRY ARE ACTUALLY LOBBYING COSTS?

A. Yes.

Q. DID THE PUBLIC COUNSEL REQUEST THAT THE COMPANY EXPLAIN WHY IT BELIEVES MISSOURI RATEPAYERS OF THE REGULATED

OPERATIONS SHOULD BE REQUIRED TO REIMBURSE IT FOR
LOBBYING/LEGISLATIVE COSTS IT INCURRED TO CHAMPION THE
MISSOURI ELECTRIC AND GENERATION "GENCO" DEREGULATION
BILLS?

A. Yes. Public Counsel Data Request No. 1038, Union Electric Company Case No.
EM-96-149, requested that information. Company's response to the data request
stated:

Lobbying and Legislative costs are very different. Legislative costs are those costs associated with the Company's need to be aware of and respond to legislation that affects the Company, its customers, employees and shareholders. While lobbying costs are recorded below the line, legislative costs should be included in the Company's cost of service because they are ordinary and necessary business expenses. Ameren, like any other company, must participate in, and respond to the legislative process.

I assume the data request is referring to SB-455 and HB-676. SB-455 was filed by Senate President Pro-Tern Peter Kinder and co-sponsored by former President Pro-Tern John Scott, Majority Floor Leader Kenney and Sen. Chuck Gross. HB-676 was filed by Rep Carol Jean Mays. Neither bill was enacted into law.

The bills would have allowed large customers to choose their energy supplier(s). Customer issue and competition typically lead to investment in generation in that market, clearly providing benefits to residential customers. Benefits from additional generation include reliability and more competitive prices. In addition, the proposed legislation provided for a five year rate freeze protecting customers from volatile energy prices like those in California.

1 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT ELECTRIC
2 DEREGULATION LOBBYING ACTIVITIES AND COSTS ARE ANY
3 DIFFERENT FROM OTHER COSTS THAT ARE NORMALLY CLASSIFIED
4 AS LOBBYING COSTS?

5 A. No. Public Counsel believes that the Company is attempting to create an artificial
6 demarcation line that would separate lobbying activities from activities incurred
7 primarily to influence proposed Missouri or Federal legislation. If Ameren has its
8 way, it would have the Commission believe that legislative activities it has
9 participated in are distinct in character and in no way resemble or represent
10 lobbying. Public Counsel on the other hand would not deny that the Company
11 needs to be aware of activities and legislation moving through government that
12 would effect its operations; however, reading legislation and becoming actively
13 involved in its passage or defeat are separate matters indeed.

14
15 Q. DID THE COMPANY MERELY READ THE LEGISLATION TO BE AWARE
16 OF ITS CONTENT OR DID IT TAKE AFFIRMATIVE STEPS TO INFLUENCE
17 THE LEGISLATION?

18 A. It's my understanding that it did much more than just read the proposed legislation.
19 For example, the Company willingly admits that it responded to and attempted to
20 influence the passage SB-455 and HB-676. Furthermore, the Company may have
21 actually had a hand in the original drafting of the proposed legislation (for more on

this issue see the rebuttal testimony of OPC witness, Mr. Ryan Kind, in the instant case).

3

4 Q. DOES THE PUBLIC COUNSEL AGREE THAT THE PASSAGE OF SB-455
5 AND HB-676, OR SIMILAR LEGISLATION, WOULD BENEFIT MISSOURI
6 RATEPAYERS?

7 A. No. These pieces of legislation would have allowed the Company to create an
8 unregulated generation company in Missouri. If passed, Company could have
9 transferred its regulated generation assets to the unregulated company and that is
10 something that the Public Counsel believes would not have been in the best
11 interests of Missouri ratepayers. Public Counsel does not agree that ratepayers
12 should be required to reimburse the Company for activities it engages in to create
13 an unregulated company that would be a detriment to the services they currently
14 receive. Company's attempt to influence the passage of the legislation was clearly a
15 lobbying activity and the Commission should resist its "Red Herring" attempt to
16 redefine lobbying.

17

18 Q. WHAT IS THE STANDARD THAT THE COMMISSION UTILIZES TO
19 DEFINE LOBBYING COSTS?

Rebuttal Testimony of
Ted Robertson
Case No. EC-2002-1

A. This Commission has defined lobbying as, "an attempt to influence the decisions of regulators and legislators in general." Re: Kansas City Power and Light Company, 24 Mo. P.S.C. (N.S.) 386,400 (1981).

Q. WERE THE ACTIVITIES AND COSTS THE COMPANY INCURRED TO SPONSER OR PROMOTE ELECTRIC AND GENERATION DEREGULATION AN ATTEMPT TO INFLUENCE THE DECISIONS OF REGULATORS AND LEGISLATORS?

A. Yes, it's my understanding that the activities and costs the Company incurred for this issue were undertaken to influence the decisions of regulators and legislators.

Q. HAS THIS COMMISSION DEFINED THE PARAMETERS FOR ALLOWING LOBBYING COSTS TO BE INCLUDED IN A PUBLIC UTILITY'S RATES?

A. Yes. Re: Kansas City Power and Light Company, the Commission stated the following:

...the mere fact that an activity might fall within the very broad general definition of lobbying as used by Public Counsel should not necessarily mean that it is an improper expense for ratemaking purposes. The question is one of benefit or lack of benefit to the ratepayers. (Id.)

Q. HAS THE COMPANY PROVIDED A REASONABLE EXPLANATION OF THE
BENEFIT TO RATEPAYERS FOR THE LOBBYING COSTS INCURRED?

A. No. The MPSC Staff, in its Data Request No. 42, Union Electric Company Case No. EM-96-149, asked, "describe specifically what AmerenUE and Missouri electric ratepayers received for each payment." The Company provided no response to the question.

However, the Company did provide the following response to the OPC Data Request No. 1038, Union Electric Company Case No. EM-96-149, discussed earlier in this section:

The bills would have allowed large customers to choose their energy supplier(s). Customer issue and competition typically lead to investment in generation in that market, clearly providing benefits to residential customers. Benefits from additional generation include reliability and more competitive prices. In addition, the proposed legislation provided for a five year rate freeze protecting customers from volatile energy prices like those in California.

Public Counsel believes that Company's explanation is not reasonable because it fails to specifically identify the benefit the regulated customers of the Missouri electric operations receive from the activities and costs of lobbying regulators and the Missouri Legislature. In addition, it is nonsensical because it does not address why the **regulated** electric customers of the Company should be required to

1 reimburse the Company for the costs it incurs to promote the passage of legislation
2 that would allow it to create or develop new **deregulated** electric companies. If it
3 is the Company's intention to develop, in the future, new unregulated electric or
4 generation companies, then the costs to develop and undertake the operation of
5 those companies should flow directly to the companies as a start-up cost and not to
6 the customers of the regulated electric operations who would have no
7 representation or stakeholder position in them. Public Counsel would also point
8 out that passage of a five year rate freeze would have made the MPSC Staffs
9 investigation into the Company's earnings a moot point. If passage of the
10 legislation had occurred, it is likely that the instant case would not exist and that
11 would clearly be viewed as detrimental by some ratepayers.

12
13 Q. HAS THE PUBLIC COUNSEL MADE ANY ATTEMPT TO IDENTIFY
14 MATERIAL LOBBYING AND LEGISLATIVE COSTS INCURRED DURING
15 THE COMMISSION ORDERED UPDATE PERIOD IN THIS CASE?

16 A. Yes. Public Counsel currently has several data requests outstanding on this issue.
17 If the Company's responses to the data requests provide information of any material
18 change to the amounts I've identified in this testimony, Public Counsel will notify
19 the Commission of the relevance of those changes in later testimony.

20
21 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION ON THIS ISSUE?

Rebuttal Testimony of
Ted Robertson
Case No. EC-2002-1

A. It's the Public Counsel recommendation that the Commission disallow as an expense all lobbying costs that the Company booked to the Missouri electric jurisdictional operations during the test year and update period. Company's response to Public Counsel Data Request No. 1027a, Union Electric Company Case No. EM-96-149, states that the total lobbying costs booked above the line during the test period is \$207,998.57. Public Counsel recommends that this amount not be allowed as an expense in the calculation of the revenue requirement because the costs should have been recorded below the line for regulatory accounting purposes.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

CASE PARTICIPATION OF TED ROBERTSON

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtihCorp United, Inc.	ER-2001-672

Schedule TJR-I