Exhibit No.:
Issues: Dues & Donations, MoPSC Assessment, Rate Case Expense, Miscellaneous Expenses, Advertising, Cash Working Capital,
Witness: Leasha S. Teel
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: EC-2002-1
Date Testimony Prepared: March 1, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

LEASHA S. TEEL

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. EC-2002-1

Exhibit No. 50NP
Date 7/10/02 Case No. EC-2002-1
Reporter KRM

Jefferson City, Missouri
March 2002

****Denotes Proprietary Information****

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UNION ELECTRIC COMPANY
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DIRECT TESTIMONY

OF

LEASHA S. TEEL

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. EC-2002-1

Q. Please state your name and business address.

A. Leasha S. Teel, 815 Charter Commons, Suite 100B, Chesterfield, Mo. 63017.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor for the Missouri Public Service Commission (MoPSC or Commission).

Q. Please describe your educational background.

A. I graduated from Webster University in December 1998 with a Bachelor's degree in Accounting.

Q. Have you previously filed testimony before this Commission?

A. Yes, I previously filed testimony in Case No. EC-2002-1, AmerenUE(Company) and GR-2001-629, Laclede Gas Company.

Q. Have you made an investigation or study of the books and records of AmerenUE (UE or Company) in Case No. EC-2002-1?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

Q. Please identify your areas of responsibility in Case No. EC-2002-1.

A. My principal areas of responsibility are: dues and donations, MoPSC assessment, rate case expense, miscellaneous expenses, advertising, and cash working capital (CWC). These areas of responsibility are the same as those addressed in the direct testimony I previously filed in this case on July 2, 2001.

Q. Please list the adjustments to the Income Statement you are sponsoring.

A. I am sponsoring the following Income Statement adjustments that can be found on Accounting Schedule 10:

Dues and Donations	S-17.5
MoPSC Assessment	S-17.20
Rate Case Expense	S-17.16
Miscellaneous Expense	S-10.4, 12.5, 13.5, 14.4, 15.3, 17.18
Advertising	S-14.3 &17.4

Q. Are you sponsoring any Accounting Schedules?

A. Yes, I am also sponsoring Accounting Schedule 8, Cash Working Capital.

DUES AND DONATIONS

Q. Please explain adjustment S-17.5.

A. Adjustment S-17.5 proposes to disallow expenses relating to various dues and donations. The Staff recommends disallowing these expenses because they are not related to the provision of electric service. They are discretionary and are not necessary for safe and adequate service, and provide no direct benefit to the ratepayers. Without these disallowances, ratepayers would be, in effect, involuntary contributors to these organizations.

Q. Please provide examples and your reasons why the dues and donations included in adjustment S-17.5 are not appropriate for inclusion in rates.

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AmerenUE also pays for Edison Electric Institute (EEI) membership and dues. The Edison Electric Institute is a national association of investor-owned electric utilities that is significantly engaged in lobbying activities. In Staff Data Request No. 9 in this case, I asked the Company to provide all direct benefits for membership in EEI for the 12 months ending June 30, 2001 for AmerenUE. I also asked the Company to: 1) provide every direct benefit listed for membership in Edison Electric Institute for the test year; 2) quantify, in dollars, the benefits received; and 3) indicate if the benefit is applicable to the shareholder or the ratepayer. The Company responded saying: "The Company does not track specific benefits as assumed by this Data Request." Lobbying activities may benefit the shareholders, but the Company has provided no evidence that such activities directly benefit ratepayers.

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** The website www.mowildlife.org states, "Your paver contribution helps the Center feed and provide medical care for the thousands of animals that come in to the Center each year."

Taxpayers' Federation of Illinois was another organization in which monies were charged to Missouri operations for a function that serves Illinois. According to the response to Staff Data Request No. 95, "The Taxpayers' Federation of Illinois is a nonprofit, nonpartisan organization that provides analysis and assistance to state, county, and local officials, the media and member companies on tax and financial issues related to state and local tax policies in Illinois."

The Staff believes that none of these test year payments provide any benefit to Missouri electric ratepayers. AmerenUE seeks to make customers involuntary contributors by booking these contributions in an above-the-line account. These types of expenses should be assigned to shareholders, not ratepayers.

Q. What is your understanding of the legal basis for making the adjustments provided for in S-17.5?

A. The Commission has consistently excluded dues like the ones recommended by the Staff for disallowance in this case. For example, in The Staff of the Missouri Public Service Commission v. Union Electric Company, 29 P.S.C. (N.S.) 313, 332, the Commission said that dues paid to EEI do not produce any direct benefit to the

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ratepayers because lobbying activities do not directly benefit ratepayers. The Report And Order goes on to state:

> This Commission has consistently excluded EEI dues from cost of service for the last several years on the ground that these payments have not been shown to produce any direct benefit to the ratepayers. As previously stated, the Commission has stated that not only must a direct benefit be shown but also the benefits must be quantified and allocated between shareholders and ratepayers.

See also *Re: Kansas City Power & Light Company*, 75 P.U.R 4th 1, 32, 28 Mo. P.S.C. (N.S.) 228, 259 (1986).

Regarding the issue of charitable contributions, the Commission also has a long-standing policy dating back to 1918, when the Commission denied inclusion of charitable contributions in the case of In re Kansas City Light & Power Co., 8 Mo. P.S.C. 223. More recently, in State ex rel. Laclede Gas Company v. Public Service Commission, 600 S.W. 2d 222, 229 (Mo. App. W.D. 1980), the Appellate Court confirmed that the Commission has the discretion to find that income tax deductions are adequate to encourage a company to make donations.

The Commission's policies do not mean that the Company is not free to exercise its own management decisions about these expenditures. It just means that the shareholders are the ones who directly benefit from the dues and donations, so they should be the ones that pay for them. The ratepayers should not have to make involuntary contributions or pay dues to charities and other organizations of the Company's choice.

MoPSC ASSESSMENT

Q. Please discuss adjustment S-17.20 to annualize the MoPSC assessment.

A. This adjustment represents the difference between the Staff's annualized MoPSC Assessment and the test year recorded assessment expense. The most recent MoPSC Assessment, in effect for the fiscal year July 1, 2001 to June 30, 2002, was used in the Staff's annualization.

RATE CASE EXPENSE

Q. Please explain adjustment S-17.16.

A. This adjustment increases administrative and general expenses to reflect the estimated cost to the Company of processing this rate case. The Staff believes a level of $300,000 is a sufficient annual allowance for rate case expense. The Staff has some concerns about the significant amount of money the Company is spending related to this case and will continue to evaluate these expenditures and their appropriateness. Staff is compiling rate case expenditures from other utilities across the state to evaluate the magnitude of the dollars for rate case expense spent by the Company.

MISCELLANEOUS EXPENSES

Q. Please explain adjustments S-10.4, 12.5, 13.5, 14.4, 15.3 and S-17.18.

A. Adjustments S-10.4, 12.5, 13.5, 14.4, 15.3 and S-17.18 eliminate all test year miscellaneous expenses related to Company Christmas parties, Christmas cards, candies and flowers. A summary of the Staff's adjustment to the Company's miscellaneous expenses is attached as Schedule 1 to my direct testimony. The Staff eliminated these items because they are unnecessary for the provision of safe and adequate service to customers.

Q. Please give specific examples of what items the Staff has disallowed in miscellaneous expenses.

A. **

** These are all examples of expenses that AmerenUE included in above-the-line expense during the test year. The Staff has disallowed these expenses because these expenses are not needed to provide safe and adequate service.

ADVERTISING

Q. Please explain adjustments S-14.3 and S-17.4.

A. Adjustments S-14.3 and S-17.4 reflect the disallowance of advertising costs as defined below.

Q. Please explain the history of such adjustments before the Commission.

A. The Commission, in its Report And Order in Case Nos. EO-85-185 and EO-85-224, involving Kansas City Power & Light Company (KCPL), adopted the

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ratemaking treatment proposed by the Staff, which separates advertisements into five categories and provides separate rate treatment for each category. The five categories of advertisements recognized by the Commission for purposes of this approach are:

(1) General – informational advertising that is useful in the provision of adequate service;

(2) Safety – advertising that conveys the ways to safely use electricity and to avoid accidents;

(3) Promotional – advertising used to encourage or promote the use of electricity;

(4) Institutional – advertising used to improve AmerenUE's public image; and

(5) Political – advertising, that is associated with political candidates or issues.

The Commission adopted these categories for advertisements because it believed that a utility's revenue requirement should: (1) always include general and safety ads, provided such costs are reasonable; (2) never include the cost of institutional or political ads; and (3) include the cost of promotional ads only to the extent that the utility can provide cost justification for the ads. [KCPL, Report And Order, 28 Mo.P.S.C. (N.S.) 228, 269-71 (1986)].

Q. Has this standard been used in more recent cases before the Commission?

A. Yes. The Commission has upheld the KCPL standard in numerous cases since 1985, most recently in Case No. GR-99-315, Laclede Gas Company.

Q. Please discuss the examination performed by the Staff of AmerenUE's advertising expenditures.

A. The Staff performed a review of each advertisement sponsored in whole or in part by AmerenUE that was expensed during the test year. Attached, as Schedule 2 to this testimony, is a listing of the Staff's classification of all AmerenUE's advertising during the test year ending July 1, 2000 to June 30, 2001. The Staff has very recently received additional advertising information from the Company that the Staff was unable to review and include in this testimony. Staff will evaluate this information and update the adjustment as necessary.

Q. How did the Staff determine each advertisement's classification under the KCPL standard?

A. Each advertisement was reviewed to determine which of the following "primary messages" the advertisement was designed to communicate: (1) the dissemination of information necessary to obtain safe and adequate service (general, safety); (2) the promotion of a particular product or service (promotional); (3) the enhancement of AmerenUE's image (institutional); or (4) the endorsement of a political candidate or issue (political).

Q. How did AmerenUE classify the advertisements?

A. AmerenUE provided classifications in its responses to Staff Data Request Nos. 26 and 48 submitted during the Staff's review of the third sharing period of the second experimental alternative regulation plan (EARP); and Data Request No. 40 in Case No. EC-2002-1, which are attached as Schedule 3 to this testimony.

Q. How has the Staff treated general and safety advertising?

A. The Staff made no adjustments to test year expense associated with the advertisements that it classified as general or safety advertising, except for those advertisements Staff classified as errors in booking.

Q. Why did the Staff disallow certain advertisements classified as errors in booking?

A. The Staff disallowed advertisements that were classified as errors in booking because they pertained to AmerenUE's natural gas operations, but were allocated by the Company to Missouri electric operations. These advertisements clearly should have been allocated in entirety to Missouri gas operations. Missouri electric customers should not have to pay for an advertisement unrelated to electric service.

Q. Please describe AmerenUE's gas safety ads.

A. **

** Please refer to Schedule 4 in my testimony to reference these two advertisements. All of the advertisements included in that amount had "What is that Smell?" in big bold print. Below the large print are tips to prevent a gas leak and phone numbers for reporting gas leaks. The advertisements describe what natural gas smells like, tell what not do if you smell gas and provide other safety tips. The advertisements also provide a number to call if the reader intends to excavate, to prevent natural gas leaks. The only difference in these advertisements is that one gives a number for Dig Rite, and the other gives a number for Joint Utility Location Information (JULIE). Both advertisements contain the text "AmerenUE," the Ameren logo, the phrase, "We're always there," and the AmerenUE website address.

Q. Why have you disallowed these gas safety advertisements?

A. The gas safety advertisements are disallowed because they were allocated to Missouri electric operations. This is also the reason the advertisements were labeled errors in booking. These two advertisements are clearly for Missouri gas operations, and

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Missouri electric customers should not have to pay for an advertisement unrelated to electric service.

Q. Why have you disallowed the Dollar More advertisement entitled "Earmuffs?"

A. The advertisement was disallowed because it was a natural gas advertisement. The advertisement was classified as an error in booking similarly to the gas safety advertisements. This particular advertisement encourages participation in the Dollar More program due to the rise in natural gas prices. Dollar More is a program to help low income customers by asking the ratepayer to pay an additional dollar on a customer's gas bill, not electric bill. This advertisement is clearly intended for Missouri gas operations. As I stated in the last paragraph, Missouri electric customers should not have to pay for an advertisement unrelated to electric service

Q. How has the Staff treated promotional advertising?

A. The Staff did not classify any advertisements by AmerenUE as promotional during the test year.

Q. How has the Staff treated institutional advertising?

A. The Staff has removed the expenses for institutional advertisements from the test year. Institutional (or goodwill) advertising is designed to enhance AmerenUE's public image. This form of advertising is not necessary for AmerenUE to provide safe and adequate service. The Staff believes that this type of image enhancement advertising only benefits the shareholders of the utility.

Q. Have you attached the advertisements that you describe in this testimony?

A. Yes, I have attached, as Schedule 4 to my direct testimony, every advertisement that AmerenUE has provided to the Staff.

Q. Please give a list of advertisements that the Staff classified as institutional.

A. Advertisements regarding SmartLights, Holiday-"Snowman," Bump in the Night, Environmental-"Yours & Ours," Jane and Fred/Direct Pay (Tree of Lights) Scholarship Awards/"We're Happy," development of the Adopt-the-Shoreline cleanup program/"Save Your Life," GreenLeaf Power plants, The Repertory Theatre, Dance St. Louis, Fox Theatre, Sheldon Concert Hall, St. Louis Symphony Opera, Edison Theatre, the St. Louis Rams, St. Louis Cardinals, St. Louis Blues, Gateway International, Family Arena, Missouri River Otters, St. Louis Art Fair, Black Repertory Theatre, The Muny and Urban League, and the Opera Theatre of St. Louis were classified as institutional and disallowed. The Staff does not believe that AmerenUE's involvement and sponsorship of these organizations justifies recovery of these advertising expenses from ratepayers.

Q. Please provide a brief description of some examples of the above-mentioned institutional programs.

A. The SmartLights program, as stated in AmerenUE's advertisements, "provides funds to help qualified not-for-profit and community groups buy energy efficient public lighting."

As listed above in their advertisement, "We're Happy"/Scholarship Awards, AmerenUE funds several college scholarships through the scholarship awards programs to needy and qualified students.

The Adopt-the-Shoreline clean-up program, as stated in AmerenUE's advertisement helps "the effort to keep the Lake of the Ozarks shoreline safe and clean." AmerenUE supplies the trash bags and up to $200 for trash disposal.

Q. Why does the Staff believe that AmerenUE's advertising, for other organizations listed previously in this testimony, should not be recovered from ratepayers as the cost of institutional (goodwill) advertising expense?

A. The Staff believes that expenditures related to the above-mentioned organizations are not required to provide safe and adequate service and, therefore, the ratepayers should not have these expenditures included in their rates. This type of image-enhancement advertising only serves to benefit the shareholders of the utility. Furthermore, this type of advertising would require the ratepayers of AmerenUE to contribute, through customer rates, to programs or activities to which the customer may be opposed.

Q. How much did AmerenUE spend on institutional advertising during the test year?

A. **

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Q. What advertising media constitute the majority of the "institutional advertising" dollars?

A. **

** Sponsorship advertisements are signs prominently displayed at the major St. Louis sporting venues: Busch Stadium, the Edward Jones Dome and the Savvis Center.

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Q. Why did the Staff classify television and sponsorship ads as institutional?

A. The Staff believes that the primary purpose of each of these advertisements was to enhance AmerenUE's image. Please refer to Schedule 4 of my direct testimony for a copy of the transcripts or advertisements used by AmerenUE in the test year.

Q. Did AmerenUE fund any political advertising in the test year?

A. No.

<u>CASH WORKING CAPITAL</u>

Q. Please identify the Accounting Schedules you are sponsoring.

A. I am sponsoring Accounting Schedule 8, Cash Working Capital (CWC).

Q. Please explain Accounting Schedule 8.

A. Accounting Schedule 8 is the Staff's calculation of CWC. Staff's CWC requirement was calculated through the use of a lead/lag study performed for the test year ending June 30, 2001.

Q. What is the purpose of a lead/lag study?

A. A lead/lag study determines the amount of cash that is necessary on a day-to-day basis in order for AmerenUE to provide service to the ratepayers. A lead/lag study also determines who supplies the cash.

Q. What are the sources of CWC?

A. The shareholder and the ratepayer are the sources of CWC.

Q. How does the shareholder supply CWC?

A. When AmerenUE spends cash to pay for an expense before the ratepayer provides the cash, then the shareholder must supply that cash. This cash represents a portion of the shareholder's total investment in AmerenUE. The shareholder is compensated for the CWC funds provided by the inclusion of these funds in rate base, thereby providing a return on the shareholder's investment.

Q. How does the ratepayer provide CWC?

A. Ratepayers supply CWC when they pay for service provided by AmerenUE before AmerenUE must pay for expenses incurred to provide that service. The ratepayer is compensated for the CWC funds by a rate base reduction of the amount of cash they provided. This allows the general body of ratepayers to be credited with the same rate of return that AmerenUE is earning on its utility investment.

Q. How are the results from a lead/lag study interpreted?

A. A negative CWC requirement indicates that the ratepayer provided the cash working capital in the aggregate during the test year. A positive requirement indicates that the shareholder provided cash working capital in the aggregate during the test year.

Q. What methodology was used to calculate Accounting Schedule 8, Cash Working Capital?

A. The CWC analysis was based upon the lead/lag study developed in AmerenUE's previous gas rate case, No. GR-2000-512, updated for material changes in the calculation of specific expense lags. The Staff also calculated addition of lags that pertain to electric operations.

Q. Please identify the expense lags that the Staff updated or added from Case No. GR-2000-512.

A. The Staff updated the following lags to reflect information from the current test year: cash vouchers, property tax and gross receipts and the revenue lag. The Staff added calculations for fuel expense lags because they were not previously necessary for the gas rate case. The Staff also added an expense lag for City Earnings Tax and PET (payroll earnings tax). The remaining expense lags were adopted from Case No. GR-2000-512.

Q. Why were the above lags updated?

A. These are the lags that were most likely to have changed since the last AmerenUE gas rate case. These lags were also updated as a result of a meeting with the Company that was held on Thursday November 30, 2000 at the Company's General Office Building. During the course of this meeting the expense lags were discussed and Staff left the meeting with the understanding that these particular lags were the only lags that needed to be updated.

Q. Is the method that you utilized to calculate AmerenUE's CWC requirement consistent with methods used in previous rate cases?

A. Yes, the method has been used by the Staff and adopted by the Commission in numerous rate cases.

Q. Please explain the components of the Staff's calculation of CWC, which appear on Accounting Schedule 8.

A. The components of the Staff's calculation are as follows:

Column A (Account Description): lists the types of cash expenses, which AmerenUE pays on a day-to-day basis.

Column B (Test Year Expenses): shows the amount of annualized expense included in the cost of service. Column B shows the dollars associated with the items listed in Column A on an adjusted Missouri jurisdictional basis. These annualized amounts are based on the Staff's test year ending June 30, 2001.

Column C (Revenue Lag): shows the number of days between the midpoint of the provision of service by AmerenUE and the payment for the service by the ratepayer. The revenue lag addressed in this case is explained in greater detail later in this direct testimony.

Column D (Expense Lag): shows the number of days between the receipt of and the payment for, the goods and services (i.e., cash expenditures) used to provide service to the ratepayer.

Column E (Net Lag): results from the subtraction of the Expense Lag (Column D) from the Revenue Lag (Column C).

Column F (Factor): expresses the CWC lag in days as a fraction of the total days in the test year. This is accomplished by dividing the Net Lags in Column E by 365.

Column G (CWC Requirement): depicts the average amount of cash necessary to provide service to the ratepayer. This is computed by multiplying the Test Year Expenses (Column B) by the CWC Factor (Column F).

Q. Please describe the revenue lag.

A. The revenue lag is defined as the amount of time between the provision of service by AmerenUE and the receipt of the payment for that service from ratepayers. The revenue lag for this case is believed to have decreased from the last gas rate case, due to the installation of more efficient meter reading equipment. The revenue lag is the sum of three subcomponent lags. They are defined as follows:

Usage Lag: the midpoint of average time elapsed from the beginning of the first day of a service period through the last day of that service period.

Billing Lag: the period of time between the end of the last day of a service period and the day the bill is placed in the mail by AmerenUE.

Collection Lag: the period of time between the day AmerenUE places the bill in the mail and the day AmerenUE receives payment from the ratepayer for services performed.

Q. Please define how you are using the term "service period" in this testimony.

A. In reference to the revenue lag, a service period is merely the amount of time, in days, in which the customer receives electric service for billing purposes. In the discussion of expense lags, this term denotes the period in which AmerenUE receives materials or services from its suppliers.

Q. Please explain the calculation of the usage lag.

A. The usage lag was computed by dividing the number of days in the test year (365) by the number of billing periods in a year, (12), and dividing the result by two to derive the average service period. The usage lag of 15.21 days is derived from the above calculation.

Q. Please explain the calculation of the billing lag.

A. The billing lag was determined by analyzing the number of days between the end of the service period and the day the bill was mailed. The billing lag was calculated from the cycle bill-reading schedule supplied by AmerenUE. The analysis revealed that the average time to process and mail the bill was 1.44 days. The billing lag of 1.44 days includes the effect of weekends and holidays during the test year.

Q. Why is the billing lag shorter than in previous AmerenUE cases?

A. The billing lag has decreased due to the installation and implementation of an automated meter reading system. The automated meter reading system was over 90% completed by June of 2000 when this lag calculation was performed.

Q. How did the Staff determine the collection lag in this case?

A. The collection lag measures the time between when the bill is mailed and when it was paid. The collection lag for the different customer types was provided in a report furnished by AmerenUE. This report, entitled Cash Lag Report, included past-due monies but not uncollectable amounts. The Cash Lag Report was broken into different segments and a lag was calculated for each segment. The segments consisted of Residential, Industrial, Commercial and other. The Cash Lag Report calculated the average lag days for the current "dollar days" and the 12 months to date dollar days for each of the above segments listed. ("Dollar days" are the revenues multiplied by the days the bill is outstanding.) I took the revenue lag from the reports provided by the Company, which I then multiplied by the test year revenues for each rate class to determine the dollar days. The collection lag was determined to be 22.22 days.

Q. Please give the summary of the total revenue lag.

A. The billing lag is 1.44 days, the collection lag is 22.22 days, and the usage lag is 15.21 days. The total revenue lag is 38.87 days.

Q. Please explain the expense lags for each item listed on Accounting Schedule 8.

A. The expense items listed on Accounting Schedule 8, lines 1 through 5, relate to payroll. Payroll has been subdivided into the following five subcomponents: (1) base payroll; (2) vacation payroll; (3) federal income tax withheld; (4) state income tax withheld; and (5) employee FICA (Social Security/Medicare) taxes.

Q. Please explain the base payroll expense lag calculation on line 2 of Accounting Schedule 8.

A. The base payroll expense lag is the time lapse between the midpoint of the period in which employees earned wages, and the date the wages were paid by AmerenUE. The Staff in this case used the base payroll expense lag of 10.61 days that was used in the last gas rate case, since the lag was calculated using total AmerenUE and Ameren Services payroll. Ameren Services Company is a subsidiary of AmerenCorporation. Ameren Services Company provides shared support services to AmerenUE.

Q. Please explain the computation of the expense lag days for vacation payroll on line 3 of Accounting Schedule 8.

A. The expense lag day computation considers the time-lapse between the average date the respective vacation is earned (i.e., the midpoint of the year) and the date when the employee took the vacation (i.e., the midpoint of the following year). For purposes of this lag calculation, the Staff assumed that all vacation was taken evenly throughout the year. Staff used the vacation expense lag of 365 days used by the Staff in the last gas rate case.

Q. What is the basis for the expense lag days assigned to payroll withholdings for federal withholding taxes, state withholding taxes and employee FICA taxes on lines 4 through 6 of Accounting Schedule 8?

A. The withholding lag days were based upon the same periods used for base payroll. The respective expense lag day computations considered the time-lapse between the average date the respective payroll was earned and the tax due dates. The federal withholding, state withholding and FICA tax lags were 12.97, 16.42 and 12.97 days, respectively. The Staff used these lags in the last gas rate case.

Q. Please explain the expense lag for coal as found on Accounting Schedule 8.

A. The coal expense lag is the time-lapse between the dates the coal and/or freight services were received and the date AmerenUE paid for these goods and/or services. The coal expense lag represents all coal and freight costs dollar-weighted together for a 22.41day coal expense lag, based on a sample of coal and freight vouchers.

Q. Please explain the expense lags for gas and oil.

A. The gas and oil expense lags were determined by the difference in days between midpoint of the period when AmerenUE receives the gas and oil from suppliers, and the date when invoices for gas and oil deliveries are paid. The gas and oil expense lags were 14.40 and 12.61 days, respectively.

Q. Please explain the lag for nuclear.

A. The nuclear expense lag was calculated using Staff's Data Request Nos. 306R and 228R. This nuclear expense lag is composed of three separate components; Uranium, conversion services and fabrication services. Staff used the dollar amounts from the Callaway Plant's eleventh refuel (April 7-May 21, 2001). This lag represents all the nuclear costs dollar-weighted together for a 34.55-day nuclear expense lag.

Q. Please explain the uncollectible expense treatment on Accounting Schedule 8.

A. The uncollectible accounts are an expense in name only. They are actually a lack of revenue collection and, therefore, do not represent a cash flow for payment of an expense. An expense and revenue lag of zero has been assigned to this item so that a zero CWC effect is produced.

Q. Please explain the cash voucher lag on Accounting Schedule 8.

A. AmerenUE created a report of Federal Energy Regulatory Commission Uniform System of Accounts (FERC) 500 and 900 account numbers, which contained invoices greater than $100,000. This report did not provide a large enough sample in which to calculate a lag, so the threshold was lowered to invoices greater than $50,000. The cash vouchers expense lag was calculated using the number of days from the invoice date (or the service period if such information was provided on the invoice) to the date the invoice was paid. The cash voucher lag was calculated to be 27 days.

Q. Please explain the employer's portion of FICA tax expense lag on line 15 of Accounting Schedule 8.

A. The employer's portion of FICA taxes is the amount of taxes paid by the Company on employee payroll. The expense lag is calculated using the same method as the lag used for the employee's portion of FICA taxes. This calculation has been discussed earlier in my direct testimony. The actual lag is 12.97 days, as used by Staff in the last gas rate case, No. GR-2000-512.

Q. Please explain the federal unemployment tax expense lag on lines 16 on Accounting Schedule 8.

A. The lags represent the length of time between the average day services are rendered by the employee and the day AmerenUE pays the tax for that service. The Staff and Company used the federal employment expense lag of 87.40 days used in the last gas rate case. AmerenUE was not required to pay unemployment taxes to the state of Missouri during the test year; therefore, no expense lag was calculated for state unemployment tax.

Q. Please explain the corporation franchise tax expense lag on line 17 of Accounting Schedule 8.

A. Corporation franchise taxes are paid annually. The lag between the midpoint of the taxable period and the date the tax is paid is calculated and multiplied by the associated amounts to compute a weighted amount. The Staff used the corporate franchise tax expense lag of 77.50 days as was used in the last gas rate case.

Q. Will you please explain the expense lag for property taxes as shown on line 18 of Accounting Schedule 8?

A. The property tax lag days were calculated using the midpoint of the service period and the payment due date for property taxes paid by AmerenUE during calendar year 2000. AmerenUE pays property taxes to Missouri, Illinois and Iowa. These lags were weighted by the amount of taxes paid in each state, to arrive at the average lag days. The property tax expense lag is 186.52 days.

Q. Please explain the payroll expense tax (PET) expense lag on line 19 of Accounting Schedule 8.

A. The PET tax expense lag was calculated using the midpoint of the service periods and the payment due dates for PET taxes paid by AmerenUE during the year. The Company pays the PET tax quarterly, which is due at the end of the month following the end of the quarter. Since the PET taxes are paid quarterly, there were four midpoint periods and due dates. The average PET tax expense lag is 76.375 days.

Q. Please explain the sales tax expense lag on line 20 of Accounting Schedule 8.

A. The lags between the midpoint of the taxable month and the due dates were calculated and weighted by the associated amounts to compute an average lag. As was used in the last gas case by the Staff, the sales tax expense lag is 6.8 days.

Q. Will you please explain the expense lag for gross receipt taxes as shown on line 21 of Accounting Schedule 8?

A. Gross receipts taxes are paid monthly, quarterly or semi-annually based upon the individual requirements of the taxing entities. The expense lag for this item is the time span between the day bills are prepared and the day the taxes collected are paid to the appropriate taxing authority. The gross receipts expense lag of 49.36 days was based on the dollar-weighted amounts of gross receipts taxes paid to the different taxing entities.

Q. Why does the revenue lag for sales and use taxes and gross receipts taxes differ from the revenue lag you discussed above?

A. AmerenUE acts solely as an agent of the taxing authority in collecting sales and use taxes and gross receipt taxes from the ratepayer and in paying the proper institution on a timely basis. AmerenUE has not provided any service to the ratepayer associated with the gross receipts and sales and use taxes until after the revenues are billed. Since the tax is due on billed revenue, the associated revenue lag begins at the start of the collection lag.

Q. Are there components of CWC that do not directly appear in the Staff's Accounting Schedule 8?

A. Yes, the federal income tax offset, state income tax offset, interest expense offset and city earnings tax offset do not appear in the Staff's Accounting Schedule 8. These items appear as separate line items in the Staff's Rate Base, Accounting Schedule 2.

Q. Why are the federal income tax offset, state income tax offset, interest expense and city earnings tax offset included in the Staff's Rate Base, Accounting Schedule 2 rather than in the Staff's CWC calculation, Accounting Schedule 8?

A. The normalized Missouri jurisdictional expense component used for these offsets is tied directly to the computation of the revenue requirement. The Staff's revenue requirement computer program has the capability to extracting these amounts from Accounting Schedule 11, Income Tax. The computer program applies the CWC factor to each component, and places the CWC requirement directly in Accounting Schedule 2, Rate Base.

Q. Please explain the federal and state income tax offsets.

A. The federal and state income tax expense offsets represent the period of time between the midpoint of the tax/calendar year and the dates the income taxes must be paid to the federal and state taxing authority. Currently, 100% of the estimated federal tax must be paid during the year in four installments, which are due by the 15^{th} day of

April, June, September and December. Each lag was calculated from the payment date to the midpoint of the tax year. The federal and state income tax lags were weighted by the total tax payments made during the test year to obtain federal and state income tax expense lags of 37 and 62.15 days, respectively. The CWC factors, 0.5123% and a negative 6.3781%, respectively, result from subtracting the expense lags from the revenue lag and then dividing by 365 days. The CWC factors are found on Accounting Schedule 2, Rate Base. The Staff's computer program calculates the CWC requirements for federal and state income taxes.

Q. Please explain the interest expense offset.

A. The expense lag for interest was computed by determining the midpoint of the interest periods of AmerenUE's long-term debt, weighted by the total interest payments made during the 12 months. The negative CWC factor of 13.7397% was calculated in the same manner as previously described for income taxes and is found in the Staff's Rate Base Accounting Schedule 2. The Staff's computer program calculates the CWC requirements for interest. The expense lag computed for interest expense was 89.02 days, which was used in the last gas rate.

Q. Please explain the St. Louis city earnings expense offset.

A. The expense lag for St. Louis city earnings offset was computed by determining the midpoint of the service period, which in this instance is the midpoint of the calendar year. The payment date is April 15^{th} of the following year. The negative CWC factor of 68.12% was used to calculate city taxes in the same manner as previously described for income taxes and is found in the Staff's Rate Base Accounting Schedule 2.

The Staff's computer program calculates the CWC requirements for St. Louis city earnings tax. The expense lag computed for city earnings tax was 287.5 days.

Q. Please explain and describe the inclusion of taxes and interest in the Staff's analysis of CWC.

A. Unlike the other cash expense line items in Accounting Schedule 8, taxes and interest are not considered to be operating and maintenance expenses. However, they are known and certain obligations of AmerenUE with payment periods and payment dates established by statute, or by the terms of the bond. Amounts collected for taxes and interest represent a source of cash to AmerenUE until passed on to the appropriate taxing authority or bondholder and, therefore, should be included in a lead/lag analysis.

Q. What was the result of the Staff's lead/lag calculation?

A. The individual calculations, when totaled, result in a total net ratepayer supplied funds and illustrate the excess of CWC supplied by the ratepayer over the amount supplied by the shareholder. The CWC component is deducted from rate base to compensate the ratepayer for the use of their funds. This is shown on Accounting Schedule 8.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

The Staff of the Missouri Public Service Commission,	)	
	)	Case No. EC-2002-1
Complainant,	)	
vs.	)	
	)	
Union Electric Company, d/b/a AmerenUE,	)	
	)	
Respondent.	)	

AFFIDAVIT OF LEASHA S. TEEL

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Leasha S. Teel, is, of lawful age, and on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 27 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Leasha S. Teel

Leasha S. Teel

Subscribed and sworn to before me this 28th day of February, 2002.

D Suzie Mankin

Notary Public

D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

SCHEDULE 1

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY

SCHEDULE 2

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY

SCHEDULE 3

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY