Exhibit No.:
Issues: Revenue, Uncollectible Expense, Gross Receipts Tax, Territorial Agreements, Allocations, Payroll, Incentive Compensation, Payroll Taxes, Injuries and Damages, Depreciation
Witness: DOYLE L. GIBBS
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

DOYLE L. GIBBS

Exhibit No. 60NP
Date 7/10/02 Case No. EC-2002-1
Reporter KEM

UNION ELECTRIC COMPANY, d/b/a AMERENUE

CASE NO. EC-2002-1

Jefferson City, Missouri
March 2002

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****Denotes Proprietary Information****

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DOYLE L. GIBBS

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DIRECT TESTIMONY

OF

DOYLE L. GIBBS

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO EC-2002-1

Q. Please state your name and business address.

A. Doyle L. Gibbs, 815 Charter Commons Drive, Suite 100B, Chesterfield, Missouri 63017.

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

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor.

Q. Please describe your educational background.

A. I attended the University of Missouri – St. Louis, where I received a Bachelor of Science degree in Business Administration with a major in Accounting in 1976. I passed the Uniform Certified Public Accountant examination in 1988. I have been licensed as a Certified Public Accountant in the state of Missouri since February 1989.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have conducted and assisted with the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before the Commission?

A. Yes, I have. Please refer to Schedule 1, attached to this direct testimony, for a list of cases in which I have previously filed testimony.

Q. With reference to Case No. EC-2002-1, have you made an investigation of the books and records of Union Electric Company, d/b/a AmerenUE (UE or Company)?

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

Q. Have you previously filed direct testimony in this case?

A. Yes, I have.

Q. Please identify the principal areas of responsibility you sponsored in your previous direct testimony.

A. My principal areas of responsibility in previously filed direct testimony in this case were revenue, uncollectible expense, Gross Receipts Tax (GRT) and Territorial Agreements.

Q. Are you still responsible for these areas in the current filing?

A. Yes, I am. For the current filing, I have also assumed responsibility for the Accounting Schedules, allocations, payroll, incentive compensation, payroll taxes, injuries and damages and depreciation and amortization expense.

Q. For those areas you sponsored in the previous filing, is the treatment substantially the same in the current filing?

A. Yes, it is. However, because of data that was received very recently from UE respecting territorial agreements, the Staff, due to time restraints, has not been able to properly analyze the data. This data is still under review.

Q. Please identify the Accounting Schedules and adjustments you are sponsoring.

A. I am sponsoring the following Accounting Schedules:

Accounting Schedule 1	Revenue Requirement
Accounting Schedule 2	Rate Base
Accounting Schedule 5	Depreciation
Accounting Schedule 9	Income Statement
Accounting Schedule 10	Adjustments To Income Statement

I am sponsoring adjustments to plant in service, depreciation reserve and the income statement which are identified as follows:

Adjustments To Plant In Service – Accounting Schedule 4

Assignment of plant to Sales For Resale	P-51.1
Territorial Agreements	P-51.2
Allocation to gas operations	P-52.1, P-53.1, P-54.1, P-57.1, P-58.1, P-59.1 and P-62.1

Adjustments To Depreciation Reserve – Accounting Schedule 7

Territorial Agreements	R-50.1
Allocation to gas operations	R-52.1, R-53.1, R-56.1, R-57.1, R-58.1 and R-61.1

Adjustments To Income Statement – Accounting Schedule 10

Revenue	S-1.1, S-1.2, S-1.3, S-1.4, S-1.5, S-1.6, S-1.7, S-1.8, S-2.1, S-3.1, S-4.1 and S-4.2
Payroll	S-6.2, S-10.1, S-11.1, S-12.1, S-13.1, S-14.1, S-15.1, S-16.1 and S-17.1
Incentive compensation	S-6.3, S-10.2, S-11.2, S-12.2, S-13.2, S-14.2, S-15.2, S-16.2 and S-17.2
Territorial Agreements (expense)	S-12.3
Uncollectible expense	S-13.4
Injuries and damages	S-17.14

Employee benefits	S-17.15
Depreciation and Amortization	S-18.1, S-18.2, S-19.1, S-20.1, S-21.1, S-21.2, S-22.1 and S-23.1
Gross Receipts Tax	S-29.1
Payroll related tax	S-32.3 and S-32.4

ACCOUNTING SCHEDULES

Q. Please explain Accounting Schedule 1, Revenue Requirement.

A. Accounting Schedule 1 is the calculation of revenue requirement for the rate of return range sponsored by Staff witness Ronald L. Bible of the Commission's Financial Analysis Department. The rates of return determined by Staff witness Bible are applied to the Company's rate base, which is presented on Accounting Schedule 2, Rate Base, to determine the net income requirement. The gross revenue requirement is then determined by adding the required income taxes, calculated on Accounting Schedule 11, Income Tax, to the net income requirement. The direct testimony of Staff Accounting witness Stephen M. Rackers explains the calculation of income taxes on Accounting Schedule 11.

Q. Please explain Accounting Schedule 2, Rate Base.

A. Accounting Schedule 2 summarizes the Company's jurisdictional investment, net of ratepayer-supplied funds, that is used in Accounting Schedule 1 to calculate revenue requirement. For all the items that make up the jurisdictional rate base that are not supported by an accompanying accounting schedule, the total electric amounts and the applicable allocation factor used to get to the jurisdictional amount have been presented. The absence of an allocation factor would indicate the amount was determined based on a direct assignment.

Q. What is meant by direct assignment?

A. Direct assignment reflects investment, revenue or expense that has been identified by UE that are specific to its Missouri jurisdiction.

Q. Were you responsible for the determination of any of the amounts presented on Accounting Schedule 2, Rate Base?

A. I did not determine any of the amounts in total. I did, however, determine the distribution of the total deferred income tax balance, sponsored by Staff witness Rackers, to the various categories listed on Accounting Schedule 2 for purposes of applying the appropriate allocation factor to arrive at the Missouri jurisdictional amount.

Q. How did you determine the distribution of the deferred tax balances to the categories for allocation purposes?

A. The amount for each of the categories was determined by using the Company's distribution of deferred tax balances for the year-ending June 30, 2001, included in the work papers provided to the Staff in support of the Company's filing for the sixth sharing credit period, i.e., the third year of the second experimental alternative regulation plan (EARP), in Case EM-96-149, which corresponds to the historical test year used for this filing. The Company's distribution of the deferred tax balance relied in part, on deferred tax balances as of December 31, 2000.

Q. Please explain Accounting Schedule 5 - Depreciation.

A. Accounting Schedule 5, Depreciation, calculates the Missouri jurisdictional depreciation expense by applying the Staff's proposed depreciation rates to the adjusted plant balances, as allocated to Missouri, found in column (H) on Accounting Schedule 3. Please refer to the direct testimony of Staff witness Jolie Mathis of the Commission's Engineering & Management Services Department for further information regarding the development of the Staff's proposed depreciation rates. The annual depreciation resulting from this calculation is compared to the test year recorded depreciation expense, as allocated to Missouri, to determine Adjustments S-18.1, S-19.1, S-20.1 and S-22.1 on Accounting Schedule 10, Adjustments To Income Statement.

Q. Please explain Accounting Schedule 9.

A. Accounting Schedule 9, Income Statement, lists in Column B the Company's electric operating revenues and expenses, as described in Column A, for the twelve months ended June 30, 2001. Columns C and E contain Staff's adjustments to total electric and jurisdictional electric operating revenues and expenses, respectively. Column D contains the Missouri jurisdictional allocation factors. Column F is the Staff's adjusted jurisdictional electric operating revenues and expenses.

Q. Do the revenues and expenses listed in Column B for the twelve months ended June 30, 2001 reflect a total electric income statement?

A. No, it does not. Certain revenues and expenses are directly assignable and recorded by UE on a jurisdictional basis. The revenues and expenses that have been directly assigned and recorded on the books of the Company to jurisdictions other than Missouri have been omitted from Column B. The absence of the directly assigned non-Missouri jurisdictional revenues and expenses from Column B, for presentation purposes, have no impact on the amounts ultimately reflected in Column G, the adjusted Missouri jurisdictional income statement. All the revenue and expense categories listed in Column A that are specifically identified as Missouri represent the categories that have corresponding directly assigned non-jurisdictional amounts that have been omitted from Column B.

Q. Please explain Accounting Schedule 10.

A. Accounting Schedule 10, Adjustments to Income Statement, lists the Staff's individual total electric and Missouri jurisdictional adjustments to the test year recorded income statement to derive Staff's adjusted net income, and are shown in Columns C and E of Accounting Schedule 9, respectively. The jurisdictional adjustments presented under the column titled "Mo Juris Adjustment" reflect the adjustments determined on a basis of direct assignment to Missouri. A brief explanation for each adjustment and the name of the Staff witness sponsoring the adjustment is included on Accounting Schedule 10.

Q. Were you responsible for any of the amounts contained in any of the Accounting Schedules you are not sponsoring?

A. Yes. As previously mentioned, I determined the distribution of the total deferred income tax balance included in rate base. I am also responsible for the amounts of payroll expense, payroll related taxes and revenue related taxes included in the determination of Cash Working Capital calculated on Accounting Schedule 8.

ALLOCATIONS

Q. Please describe the purpose of the allocation process.

A. Because UE operates in jurisdictions other than Missouri retail, it is necessary to develop allocation factors so that the appropriate Missouri retail jurisdictional level of net investment and operating expenses can be determined. Tariffs are then designed to recover the Missouri jurisdictional operating expenses and provide a reasonable rate of return on the Missouri jurisdictional investment that are dedicated to the provision of service to Missouri retail customers.

Q. What are the allocation factors that are being used by the Staff in this case?

A. For the most part, Staff is using allocation factors that have been calculated by the Staff using data for the 12 months ending September 30, 2001, the update period for this filing. The one exception is the variable allocation factor that was calculated using weather-normalized data for the test year ending June 30, 2001. Schedule 2, attached to my direct testimony, is a list of the various allocation factors that have been calculated by the Staff.

Q. Is the methodology used by the Staff to calculate the allocation factors the same as that used by the Company?

A. The methodology used by the Staff is generally the same as that used by the Company in recent filings presented before this Commission. However, the final allocation factors developed by the Staff may be different as a result of conceptual differences or adjustments affecting the input data.

Fixed Allocation Factor

Q. Referring to Schedule 2 attached to your testimony, what is the fixed allocation factor and how was it calculated?

A. The fixed allocation factor, sometimes referred to as the demand allocation factor, is used to allocate most of the power plants, transmission plant, and the expenses associated with those facilities. Additionally, the fixed allocation factor has a direct impact in the development of all the remaining allocation factors, with the exception of the "variable", "total distribution plant" and "Missouri distribution plant" factors. Staff witness Alan J. Bax of the Commission's Energy Department calculated the fixed allocation factor, which he refers to as the demand allocation factor. Please refer to his direct testimony for information regarding the development of Staff's fixed (demand) allocation factor.

Variable Allocation Factor

Q. Please explain the development of the variable allocation factor.

A. The variable allocation factor represents the ratio of Missouri kilowatt hour (kWh) usage to total UE kWh usage and is used to allocate expenses that vary with output. The variable allocation factor is sometimes referred to as the energy allocation factor and was calculated by Staff witness Bax. Please refer to his direct testimony for information regarding the development of Staff's variable allocation factor.

Callaway Post Operational Factor

Q. Please describe the calculation of the Callaway post operational jurisdictional factor.

A. The Callaway post operational jurisdictional factor is simply the fixed allocation factor reflecting the elimination of the Illinois component from the calculation, i.e., the factor is based on the loads at time of peak of just the Missouri retail and Missouri Wholesale jurisdictions instead of total UE. The determination of this allocation factor is necessary due to the write-off of the Callaway post operational costs related to Illinois.

Nuclear Allocation Factor

Q. Please explain the development of the nuclear allocation factor.

A. The nuclear allocation factor is a composite factor based on the allocation of the average nuclear plant in service for the year ending September 30, 2001, including past Commission ordered nuclear plant disallowances, at the fixed allocation factor and the direct assignment of the total nuclear plant disallowances.

Q. Why does this calculation create an allocation factor greater than the fixed allocation factor?

A. The Missouri jurisdictional nuclear plant disallowance was established in Case Nos. EO-88-17 and ER-85-160. The Missouri jurisdictional "direct assignment" of the nuclear plant disallowance was, and is, approximately 88 percent of the total disallowance. As long as the fixed allocation factor exceeds 88 percent, Missouri will be allocated a greater portion of the nuclear plant that is represented by the amount disallowed without a corresponding proportion of the disallowance as an offset.

Distribution Plant Factors

Q. Please describe the calculations to determine the allocation factors related to distribution plant.

A. The allocation factors related to distribution plant are based on direct assignment. The average distribution plant located in Missouri for the year ending September 30, 2001, reduced for the direct assignment identified by UE to serve Sales For Resale (SFR) customers, divided by the total average distribution plant located in Missouri is the calculation for the Missouri distribution plant jurisdiction factor presented on Schedule 2 attached to my direct testimony. The Missouri jurisdictional component of the total distribution plant allocation factor was determined by dividing the Missouri jurisdictional distribution plant, previously discussed, by the total UE average distribution plant for the year ending September 30, 2001.

Q. How is the assignment of Missouri distribution plant to SFR reflected in the Accounting Schedules?

A. The Missouri distribution plant assigned to SFR appears as Adjustment P-51.1 on Accounting Schedule 4. Because the Missouri plant assignment to SFR is incorporated in the determination of the Missouri distribution plant factor, which is applied to the Missouri distribution plant depreciation reserve, there is no need to make a corresponding adjustment to the depreciation reserve related to SFR.

Labor Factor

Q. Please describe how the labor allocation factor was determined.

A. The Missouri jurisdictional labor factor is a composite factor that results from the application of the fixed, variable, and the Missouri distribution plant factors to electric O&M labor expenses if they cannot be directly assigned. In response to a Staff data request, UE provided the actual electric operations and maintenance (O&M) labor expense for the year ending September 30, 2001. The Company response also provided the distribution of the total electric O&M to the various functions necessary for the application of the aforementioned allocation factors to determine the Missouri jurisdictional amount. The Missouri jurisdictional labor allocation factor is the ratio of the Missouri jurisdictional labor, determined through the application of the appropriate allocation factors and direct assignment, to total electric O&M labor.

Net Plant Factor

Q. Please explain the how the net plant factor was determined.

A. The Missouri jurisdictional net plant factor was determined by dividing the net plant, as allocated to Missouri, by the total electric net plant. The determination of the Missouri jurisdictional net plant utilized the fixed, Callaway post operational, Missouri distribution plant and labor factors previously discussed, as well as, direct assignment and the elimination of certain common facilities allocated to gas operations. The allocation of common facilities to gas operations is based on an electric to gas labor factor developed by the Company in a year-end December 2000 study. The Staff has incorporated the results of this study for the determination of the common facilities allocated to gas operations.

Q. Did the allocation of common facilities in the allocation process result in any adjustments being made by the Staff in the Accounting Schedules?

A. Yes. Adjustments P-51.1, P-52.1, P-53.1, P-56.1, P-57.1, P-58.1 and P-61.1 on Accounting Schedule 4 reflects the allocation of common general plant facilities to gas operations based on the Company year-end December 2000 study previously referenced. Corresponding adjustments were made to reflect the associated depreciation reserve as of September 30, 2001 in Accounting Schedule 7 – Adjustments To Depreciation Reserve. The adjustments to depreciation reserve are identified as R-52.1, R-53.1, R-56.1, R-57.1, R-58.1 and R-61.1.

Operating Expenses

Q. Please explain the development of the operating expense allocation factor.

A. The operating expense allocation factor reflects the allocated electric O&M expenses for the year ending September 30, 2001 and is a composite that incorporates the use of the fixed, variable, Missouri distribution plant and labor factors, and direct assignment. It was calculated in the same manner used to develop the labor allocation factor but includes the non-labor expense in addition to labor expense

General Materials and Supplies

Q. How was the allocation for general material and supplies calculated?

A. Like most of the allocations, this too, is a composite and reflects the use of the fixed and variable allocation factors and direct assignment. Similar to the discussion regarding the deferred income tax balances in rate base, the average materials and supplies balance for the year ending June 30, 2001 included in the work papers supporting UE's filing for the sixth sharing credit period, was the basis for distributing the materials and supplies balance to the allocable categories to which the appropriate allocation factors were applied. The resulting Missouri jurisdictional allocation factor was applied to the total average general materials and supplies balance determined by Staff Accounting witness Paul R. Harrison.

ITC Amortization

Q. Please explain the factor for the allocation of Investment Tax Credit (ITC) amortization.

A. The allocation factor for ITC amortization is a composite allocation factor reflecting the direct assignment and application of the fixed, total distribution plant and labor allocation factors to the ITC amortization, as distributed to allocable categories in the work papers supporting UE's filing for the third sharing period of the second EARP.

REVENUE

Rate Revenue

Q. Please identify the adjustments you are sponsoring to rate revenue.

A. The adjustments to rate revenue include Adjustment S-1.1 to adjust as-billed revenue to correct the test year amount for out-of-period postings and customer load reductions. Adjustment S-1.2 adjusts the test year revenue to reflect normal weather. Adjustment S-1.3 restates revenue to the level it would have been, absent the territorial agreements. All the adjustments related to the territorial agreements will be discussed later in this testimony. Adjustment S-1.4 adjusts the test year revenue so that all revenue-billing cycles reflect a 365-day year. Adjustment S-1.5 adjusts revenue to reflect the growth in customers through the end of the Staff's update period ending September 30, 2001.

Adjustment S-1.6 eliminates the GRT included in test year billed revenue. Adjustment S-1.7 eliminates the unbilled revenue recorded on the books during the test year. Adjustment S-1.8 reflects the impact on revenue for customers that switched to a different rate tariff during the test year.

Q. Is another Staff member responsible for the calculation of any of the adjustments to rate revenue that you are sponsoring?

A. Yes. Staff witness Janice M. Pyatte from the Energy Department calculated Adjustment S-1.1 for miscellaneous adjustments to as billed revenue, Adjustment S-1.2 to reflect normal weather, Adjustment S-1.4 to include a 365-day period and Adjustment S-1.8 for the effect of rate switching. Please refer to the direct testimony of Staff witness Pyatte for more information regarding these adjustments.

Q. How was the revenue adjustment S-1.5 for growth calculated?

A. A growth adjustment was calculated for the residential, small general service, large general service and small primary service tariff rate classes. For each of these classes, the average number of customers for each month of the test year was subtracted from the number of customers at the end of the update period, September 30, 2001. The difference between the numbers of customers at the end of the update period, compared to the monthly average each month, was multiplied by the corresponding normalized monthly revenue per customer. Normalized revenue per customer is the actual test year revenue, net of any applicable GRT, as adjusted for normal weather, a 365-day year, and rate switching, Adjustments S-1.2, S-1.4 and S-1.8, respectively, and for a portion of the miscellaneous adjustment to as-billed revenue, Adjustment S-1.1.

Q. Please explain Adjustment S-1.6 for GRT.

A. The Company acts as a collector for taxes imposed by municipalities or other taxing jurisdictions on utility services. The GRT included on a customer's bill is collected by the Company and then submitted to the appropriate taxing jurisdiction. The GRT included on a customer's bill is also included in the revenue recorded on the books of the Company with a corresponding charge to GRT expense. Theoretically, the revenue and expense offset one another and therefore have no effect on net income. However, the expense accrual for GRT does not always perfectly match the GRT included in revenue. Eliminating both the GRT recorded in revenue, Adjustment S-1.6, and the amount recorded in expense, Adjustment S-29.1, assures that GRT will have no impact on net operating income.

Q. If you have eliminated GRT from revenue and expense, why is GRT included in the calculation of Cash Working Capital (CWC) on Accounting Schedule 8?

A. As previously indicated, the Company acts as a collector for the various municipalities that choose to impose a tax on the utility service within their jurisdiction. Although the tax should not have any impact on net income, the Company does have the use of the funds until they are submitted to the taxing authority.

Q. How did you determine the level of GRT that should be included in the determination of CWC?

A. The composite Missouri GRT rate in effect during the test year ending June 30, 2001, was applied to the annualized level of billed rate revenues included in the Staff's Missouri jurisdictional income statement to determine the amount of GRT to include in the CWC calculation.

Q. Is there any other revenue related taxes that have been included in the determination of CWC?

A. Yes. Similar GRT, the Company acts as a collector for Sales tax and has the use of the taxes collected until submitted to the taxing authority. Sales tax, however, unlike GRT, is recorded as a liability and is not included in the income statement. To determine the amount of Sales tax to include in the calculation of CWC, the composite Sales tax rate was applied to the annualized level of rate revenue.

Q. Why is Adjustment S-1.7 to eliminate the test year unbilled revenue necessary?

A. Unbilled revenue on the books is an attempt to restate the actual billed revenue, determined through the use of billing cycles, to a calendar month basis. Because tariffs are applied to a billing month, revenue adjustments have to be made to billing month revenue. Removing the unbilled revenue results in billing month revenue. The 365-day adjustment by Staff then adjusts the billing month revenue to account for 365 days of usage.

Provision For Rate Refunds

Q. Please identify and discuss the adjustment to Provision For Rate Refunds.

A. The account title is somewhat of a misnomer. The amount recorded represents the test year accrual of EARP sharing credits. Adjustment S-2.1 reverses the test year revenue accrual related to the EARP sharing credits.

Q. Why is adjustment S-2.1 to revenue to reverse the accrual for anticipated EARP sharing credits necessary?

A. One of the principal purposes of the Staff audit is to determine the net earnings being generated by the current applicable tariffs on a normalized and annualized basis. Although credits may be required under the EARP, recognition of the accrued credits in the net earnings determination would understate the revenue that can be generated through the application of the current tariffs. Therefore, the accrued credits need to be reversed in order to get a valid comparison of the revenue that the current tariffs generate to the revenue that should be generated for the Company to earn a reasonable return. Furthermore, because of the conclusion of the second EARP, UE will no longer need to accrue for the possibility of sharing credits.

Other Electric Revenues

Q. Please explain your adjustment to other electric revenues?

A. Adjustment S-3.1 reduces Missouri other revenue for the reclassification of revenue from the rental of utility properties and transmission service charges to system revenue. The plant investment that is generating this revenue is allocated to jurisdictions through the application of the fixed allocation factor. Therefore, it is appropriate to reclassify this revenue to system revenue so that it can be similarly allocated.

System Revenue

Q. Please identify the adjustments you have made to system revenue.

A. Adjustment S-4.1 is the reclassification of Missouri other operating revenue to system revenue and is the companion adjustment to S-3.1. Adjustment S-4.2 is other revenue related to rental of utility property and transmission service charges recorded in other jurisdictions that have not been included in the test year recorded income statement, presented on Accounting Schedule 9, and is subject to allocation as system revenue.

PAYROLL

Q. Please explain your adjustments S-6.3, S-10.1, S-11.1, S-12.1, S-13.1, S-14.1, S-15.1, S-16.1 and S-17.1 to payroll.

A. These adjustments, in total, represent the payroll adjustment to annualize O&M payroll as distributed to the various operating functions and to the allocable category within the function. The payroll adjustments presented on Accounting Schedule 9, Income Statement are:

Non-Fuel/Purch Power (Variable)	S-6.2
Production (Fixed)	S-10.1
Transmission (Fixed)	S-11.1
Missouri Distribution	S-12.1
Missouri Customer Accounts	S-13.1
Missouri Customer Service and Information	S-14.1
Missouri Sales	S-15.1
Missouri Administrative & General – Direct	S-16.1
Administrative & General (Labor)	S-17.1

Q. How did you calculate the annualized O&M payroll adjustment?

A. To calculate the annualized O&M payroll adjustment, the test year O&M payroll was first reduced by the incremental Callaway nuclear refueling overtime and the incentive compensation expense included in the test year O&M payroll expense. The O&M payroll, reduced for these items, was then multiplied by the annual percentage wage increase effective July 31, 2001. The next step in the process was to determine an annualized level of the normalized incremental overtime related to Callaway refueling. The normalized incremental overtime for Callaway refueling was calculated by taking an average of the incremental overtime for the last three refuelings, restated at current wage rates. Two thirds of the average incremental overtime calculated for refueling was used as the annualized level of payroll for the incremental Callaway nuclear refueling. The sum of the test year O&M payroll excluding the test year Callaway nuclear refueling overtime, the annualized increase for wage rates and the annualized Callaway nuclear refueling incremental overtime represents the annualized level of payroll that was compared to the test year actual O&M payroll to determine the adjustments listed above.

Q. Why did you reduce the test year O&M payroll by the Callaway nuclear incremental refueling overtime?

A. The Callaway nuclear plant is on an 18-month refueling cycle. Any 12-month period that includes a Callaway refueling will have an inordinate level of overtime influencing the total payroll dollars for that period. Through an analysis, dating back to January 1, 1998, I found that when the Callaway incremental overtime is removed from O&M payroll, there is a more consistent pattern to the level of payroll for any 12-month period. With the Callaway incremental overtime included, the level of payroll dollars can fluctuate up and down from one year to the next. It is the Staff's opinion that removing the influence of the Callaway incremental overtime from the calculation of the general wage increase and addressing it as a separate issue will produce a more appropriate level of annualized payroll.

Q. How did you determine the current cost of the incremental overtime related to the refueling of Callaway?

A. **

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** The average of the adjusted incremental overtime costs for the three Callaway refuelings was the basis for developing the annualized cost for the incremental refueling overtime for Callaway.

Q. Why did you use an average to determine the annualized level of incremental overtime for refueling Callaway?

Q. The cost of incremental overtime incurred for the latest refueling that occurred during the Staff's test year was 60 percent greater than the prior two refueling of the Callaway nuclear plant. It is the Staff's opinion that an average, especially one that has been adjusted to current wage rates, would better reflect the normalized incremental overtime for refueling Callaway.

Q. Why did you reduce the test year O&M payroll for the test year incentive compensation expense to calculate the payroll adjustment related to wage increases?

A. The Staff has often taken the position that the Commission should not allow incentive compensation for ratemaking and has done so in this filing, as well. It would not be appropriate to include an adjustment related to an expense that the Commission has disallowed for ratemaking purposes in other ratemaking proceedings. Even if not disallowed, it would not be appropriate to include incentive compensation for purposes of calculating an annualized payroll increase because it would be speculative. Incentive compensation is not driven by contractual wage rates or approved salary levels. The base payroll may be an input in the development of the amount of incentive compensation granted, but the primary determinant for the level of incentive compensation to be awarded is based on achieving

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certain levels of earnings per share (EPS). Even if the Staff did not otherwise oppose incentive compensation programs such as this one, it would be speculative to increase payroll to reflect an increase related to an element that there is no assurance that the event, and parameters that create it and determine the amount, will occur.

Q. Please explain how you determined the annual percentage payroll increase?

A. The O&M payroll incurred subsequent to the test year ending June 30, 2001 was compared to the test year O&M payroll. The percentage increase related to the change that became effective July 1, 2001, when translated to an annual percentage increase, appeared reasonable, considering the contractual wage rate increase that became effective July 1, 2001.

Q. What was the basis for the distribution of the overall payroll adjustment to the functions and categories indicated?

A. The total adjustment was distributed based on the actual test year distribution of O&M payroll.

Q. You previously indicated that you are also responsible for the amount of payroll that has been included in the calculation of CWC on Accounting Schedule 8. How is your total annualized payroll presented in the CWC calculation?

A. The total annualized payroll, as allocated to Missouri jurisdictional operations, is represented by the total of base payroll, vacation payroll, Federal withholding taxes, State withholding taxes and employee FICA taxes. The distribution of total annualized payroll to these categories was based on the ratio of the dollars in each of these categories to total payroll dollars during the test year.

INCENTIVE COMPENSATION

Q. Please identify and explain the adjustments respecting incentive compensation.

A. Adjustments S-6.3, S-10.2, S-11.2, S-12.2, S-13.2, S-14.2, S-15.2, S-16.2 and S-17.2 remove the payments made and expensed with regards to incentive plans during the test year ending June 30, 2001. Incentive compensation is included and reported as a component of payroll on the books of UE. As such, the total adjustment to incentive compensation was distributed to the various functions in the exact manner as the total adjustment to payroll, previously discussed.

Q. Please describe the incentive plans affecting the level of expense for UE.

A. The following is a description of the incentive plan for 2000, which governed incentive payments made in 2001 that occurred during the test year for this case:

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Q. In past cases, has the Commission set minimum standards for the inclusion of incentive plan payments in a utility's cost of service?

A. Yes. In the Report And Order in Case Nos. EC-87-114 and EC-87-115, Union Electric Company, the Commission stated:

> At a minimum, an acceptable management performance plan should contain goals that improve existing performance, and the benefits of the plan should be ascertainable and reasonably related to the plan.

Q. Has the Commission upheld and expanded upon these standards in later cases?

A. Yes. The Commission applied the standards in Case Nos. EC-87-114 and EC-87-115 to disallow incentive compensation payments in Case No. WR-88-5 involving St. Louis County Water Company. The Commission also applied these standards in its Report

And Order for Case Nos. TC-89-14, TC-89-21, TO-89-29, and TO-89-10, as well as in Case Nos. TC-93-224 and TO-93-192, involving Southwestern Bell Telephone Company (SWB) and its Report And Order in Case No. GR-96-285 respecting Missouri Gas Energy (MGE). In its Report And Order for Case Nos. TC-93-224 and TO-93-192, the Commission stated the following regarding long-term incentive plans in that case, some of which applied to SWB's General Headquarters (GHQ):

> . . . provide, at best, benefits that are too remote to be included in the cost of service for Missouri ratepayers. Particularly in the case of SWB-MO and GHQ, the long term incentive may reward managers for results they did not achieve, based on results for which they are not directly responsible and over which they have limited control. Because the plan does not focus on Missouri-specific results and does not include service-oriented goals, the Commission concludes that it is not appropriate to include the cost of the plan in the cost of service.

In its Report And Order for Case Nos. TC-89-14, et al., the Commission stated:

> In the Commission's opinion, the results of the parent corporation, unregulated subsidiaries, and non-Missouri portions of SWB, are only remotely related to the quality of service or the performance of SWB in the state of Missouri. Achieving the goals of SBC and unregulated subsidiaries is too remote to be a justifiable cost of service for Missouri ratepayers. Accordingly, the Staff's proposed disallowances in the senior management's long term and short term incentive plans . . . should be adopted.

Finally, in its Report And Order in Case No. GR-96-285, Missouri Gas Energy (MGE), the Commission stated:

> . . . the costs of MGE's incentive compensation program should not be included in MGE's revenue requirement because the incentive compensation program is driven at least primarily, if not solely, by the goal of shareholder wealth maximization, and it is not significantly driven by the interests of ratepayers.

Q. **

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A. **

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Q. Do factors other than employee performance influence EPS?

A. **

**

Q. Does the Staff believe the incentive plans for the year 2000, payable in 2001, affecting UE's level of expenses meet the Commission's criteria for allowance for recovery in rates?

A. **

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INJURIES AND DAMAGES

Q. Please explain injuries and damages expense.

A. **

**

Q. Please explain how you calculated adjustment S-17.14.

A. Adjustment S-17.14 adjusts injuries and damages expense to a five-year average of actual charges for the 12 months ending September 30, 2001.

Q. Why is the Staff advocating the use of a five-year average of actual charges?

A. The Company's estimate and actual charges fluctuate from year-to-year. **

** With this type of fluctuation, reliance on any one year would not be acceptable for determination of an annual level of expense to be included in the cost of service for setting rates. It is the Staff's opinion that on-oing rates should be based on an average reflecting actual payments, rather than based on estimates of future costs with unknown payment dates.

EMPLOYEE BENEFITS

Q. Please explain your adjustment S-17.15 to employee benefits.

A. Adjustment S-17.15 adjusts employee benefits for the Company's savings plan.

Q. Why have you adjusted only the employee benefit related to the Company's savings plan?

A. All the various components that make up the employee benefit package provided by the Company, excluding pensions and employee benefits other than pensions covered under Financial Accounting Standards 87 and 106, respectively, were examined. Each component exhibited fluctuation from month-to-month and year-to-year with the exception of the savings plan, which has consistently increased. The savings plan includes a 401k plan, and since the increase in expense subsequent to the test year ending June 30, 2001 appears to parallel the increase in payroll during that time frame, an adjustment to the savings plan would appear to be appropriate.

Q. How did you calculate the adjustment to the savings plan?

A. The actual amount recorded for the 3-month period ending September 30, 2001, before it was distributed to O&M expense, was multiplied by four to get an annualized level for UE and Ameren Services Company (AMS). The calculated amount was then compared to the actual test year cost. The difference between the calculated annual amount and the actual test year is the total adjustment. The adjustment related to AMS was multiplied by the test year AMS labor percent that was charged to UE. The total attributable to UE, the UE direct and the AMS allocated portion, was multiplied by the Total Company UE O&M percent and was then multiplied by the electric O&M percent to determine Adjustment S-17.15.

DEPRECIATION AND AMORTIZATION EXPENSE

Q. Please identify the adjustments you are sponsoring to depreciation and amortization expense.

A. Adjustments S-18.1, S-18.2, S-19.1, S-20.1, S-21.1, S-21.2 adjust depreciation expense to an annualized level based on the Staff's proposed depreciation rates. Adjustment S-22.1 and S-23.1 adjusts amortization expense.

Q. Please explain the adjustments to depreciation expense.

A. Adjustment S-18.1 calculates the depreciation expense associated with production and transmission plant, exclusive of nuclear plant, by comparing the depreciation expense calculated on the Missouri jurisdictional plant on Accounting Schedule 5 with the test year depreciation expense allocated to Missouri. The test year allocated depreciation expense on Accounting Schedule 9, Income Statement, is the sum of columns B and C, multiplied by the allocation factor in column D. The same mechanics are applied in the calculation of Adjustments S-19.1, S-20.1 and S-21.1 for nuclear, Missouri distribution and general plant, respectively. General plant is allocated on the basis of the labor factor and is designated as "Plant Depreciation (Labor)" on the income statement. Adjustment S-18.2 reduces depreciation expense for the Missouri jurisdictional depreciation calculated on coal cars. Depreciation on coal cars is expensed as a component of fuel cost as the coal is burned. Adjustment S-21.2 removes the depreciation calculated on transportation and power operated equipment included in the annualized depreciation on general plant. The depreciation related to vehicles and power-operated equipment is typically charged to transportation clearing accounts rather than depreciation expense.

Q. How are the adjustments to amortization expense calculated?

A. Adjustments S-22.1 and S-23.1 annualizes amortization expense for total electric operations. The annualized level was determined by multiplying the amortization expense recorded for the month of September 2001 by twelve.

PAYROLL RELATED TAXES

Q. Briefly describe your adjustments to taxes other than income taxes related to payroll.

A. Adjustment S-32.3 adjusts FICA taxes and Adjustment S-32.4 adjusts payroll earnings tax (PET).

Q. How did you calculate your adjustment to FICA taxes?

A. A composite FICA rate was calculated by dividing the test year FICA tax expense by the test year O&M labor expense. This composite FICA rate was applied to the Staff's annualized level of electric payroll and then this was compared to the test year recorded FICA expense charged to electric operations. The difference is adjustment S-32.3.

Q. What is PET?

A. PET is a tax imposed by the City of St. Louis on the wages paid to employees within the city limits. A statutory rate of one-half of one percent is applied to a payroll level that is determined through an allocation procedure prescribed by the City of St. Louis.

Q. Did you use the City-prescribed allocation procedure to determine Adjustment S-32.4 to PET?

A. No. An effective composite rate was calculated similar to the development of the FICA rate previously discussed. The test year level of PET charged to electric operations was divided by the electric O&M payroll expense. That rate was then applied to the annualized level of payroll to determine the annualized level of PET.

TERRITORIAL AGREEMENTS

Q. Please identify all the adjustments you are sponsoring related to territorial agreements.

A. I am sponsoring Adjustment P-51.2 to Plant-in-Service contained in Accounting Schedule 4, Adjustments to Total Plant; Adjustment R-50.1 to Depreciation Reserve on Accounting Schedule 7, Adjustments to Depreciation Reserve; and the Income Statement Adjustments S-1.3 and S-12.3 on Accounting Schedule 10, Adjustments to Income Statement.

Q. What is the purpose of the adjustments related to the territorial agreements?

A. The Staff adjustments for territorial agreements are designed to reverse the effect on earnings related to five territorial agreements by restoring the net investment (Adjustment P-51.2 to Plant in Service less Adjustment R-50.1 to Depreciation Reserve), revenue and expenses as if the territorial agreements did not exist. The territorial agreements considered in the determination of the adjustment were between UE and the following cooperatives or municipal utility; the associated Commission case numbers also follow below:

Black River Cooperative	EO-95-400
Macon Electric Cooperative	EO-97-6, et al.
Farmers' Electric Cooperative	EO-98-511, et al.
City of Kennett	EM-99-106, et al.
Ozark Border Electric Cooperative	EO-99-599

In the above referenced cases involving Macon River Cooperative, Ozark Border Electric Cooperative and the City of Kennett, Case Nos. EO-97-6, et al., EO-99-599 and EM-99-106, et al., respectively, the Report And Orders, either expressly or by reference to the applicable Stipulation And Agreement, provided that no party had acquiesced to any ratemaking principle. No such language existed in the Report And Orders for Case Nos. EO-95-400 and EO-98-511, concerning Black River Cooperative and Farmers' Electric Cooperative, respectively. However, the absence of such language did not prevent the Staff from making an adjustment that the Commission accepted in Case No. EO-96-14 for the third year sharing credit period of the first EARP. The Staff made similar adjustments in the first and second year sharing credit periods of the second EARP, Case No. EM-96-149.

Although the Staff recommended approval of these territorial agreements, it was with the intention that the Staff would subsequently examine and address the effect of the agreements on earnings for ratemaking purposes.

Q. Why was this condition necessary?

A. It is my understanding that the standard that must be met for approval of a territorial agreement, according to Missouri statute, Section 394.312.4 RSMo. 2000, is that the agreement in total is not detrimental to the public interest. The Commission rule, 4 CSR 240-2.060(13), requires that the applicant explain why the territorial agreement is in the public interest. As a result of these territorial agreements, the Company's earnings were less than they would have been without the agreements. The decline in earnings resulted from UE realizing a net loss of customers and associated revenue from the exchange of portions of its service area for portions of the service areas of the affected cooperatives and municipal utility. In the Staff's opinion, this situation would constitute detriment to the public interest, if the loss of earnings were reflected in customer rates.

Q. How do the Staff's proposed adjustments prevent public detriment?

A. The adjustments reverse the net reduction in earnings realized during the test year by restoring the net investment, revenue and expense levels as if the territorial agreements had not taken place. Adjustments P-51.2 and R-50.1, respectively, restore the plant and depreciation reserve. Adjustment S-1.3 restores the lost revenue and Adjustment S-12.3 includes the maintenance expense that would have been incurred. Depreciation expense related to the territorial agreements plant addition is incorporated in the depreciation Adjustment S-20.1, and the associated fuel expense is included in the adjustment to fuel expense, Adjustment S-7.1, based on the kWh associated with the territorial agreements revenue adjustment S-1.3. By restoring the net reductions in earnings, the Staff has eliminated any detrimental impacts on the public interest.

UNCOLLECTIBLE EXPENSE

Q. Please explain your adjustment, S-13.4, to uncollectible expense.

A. Adjustment S-13.4 adjusts uncollectible expense to reflect the level of actual net write-offs for the year ending September 30, 2001, Staff's update period.

Q. Please explain what is meant by the term "net write-offs".

A. When the Company determines that the collection of revenue billed to a customer will not be received, that revenue is "written off". Subsequently, there may be a recovery of the revenue or a portion of the revenue that was written off. Net write-offs are the revenues written off less any subsequent recovery.

Q. Is there a difference between uncollectible expense and net write-offs?

A. Yes. Uncollectible expense is recorded in the income statement through the use of an accrual with a corresponding liability (reserve) recorded on the balance sheet. All activity regarding write-offs, or subsequent collections, is charged to the reserve and does not affect the level of expense recorded on the income statement.

Q. Why did the Staff choose to use net write-offs as the determining factor for the development of uncollectible expense?

A. It is the Staff's opinion that net write-offs, since they reflect actual activity, are a better indicator of this cost than the accruals, which are based on estimates. The use of net write offs, rather than estimated uncollectible expense, follows a long-standing Commission policy for establishing rates in Missouri.

Q. Why did the Staff choose the actual write-offs for the year ending September 30, 2001 as the annualized level?

A. Generally, because of fluctuations from year-to-year, the Staff will often determine uncollectible expense through the use of an average level of net write-offs. The average may incorporate anywhere from two years to five years depending on the circumstances. **

** However, the Company began experiencing substantial increases in net write-

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offs beginning in 2001. The Company has attributed the recent increase to delayed disconnections related to the Cold Weather Rule and other extraordinary events that led to larger balances to be written off and a slower economy that saw an increase in bankruptcies and smaller recovery of dollars from accounts written off. Although the Staff is concerned with the current upward trend in 2001, the Staff believes the actual net write-offs it is more indicative of the expected on-going level.

GROSS RECEIPTS TAX EXPENSE

Q. Please explain adjustment S-29.1 to GRT.

A. Adjustment S-29.1 eliminates the GRT included in expense for the test year ending June 30, 2001. This is the companion adjustment to the revenue Adjustment S-1.6 previously discussed. This adjustment, in conjunction with Adjustment S-1.6, assures that GRT will be revenue neutral with regards to net operating income. Although the revenue and expense related to GRT has been removed from the income statement, an annualized level of GRT has been included in the determination of CWC on Accounting Schedule 8. As previously discussed with regards to Adjustment S-1.6, the annualized level of GRT was determined by applying the test year composite GRT rate to the annualized level of rate revenue.

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 DOYLE L. GIBBS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Doyle L. Gibbs, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 35 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Doyle L. Gibbs

Doyle L. Gibbs

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

RATE CASE PROCEEDINGS
DOYLE L. GIBBS

Company	Case Number
Arkansas Power & Light Company	ER-85-20
Arkansas Power & Light Company	ER-85-265
Associated Natural Gas Company	GR-79-126
Atmos Energy Corporation/United Cities Gas Company	GM-97-70
Capital City Water Company	WR-82-117
Citizens Electric Cooperative	ER-79-102
Citizens Electric Cooperative	ER-81-79
Empire District Electric Company	ER-95-279
Laclede Gas Company	GR-77-33
Laclede Gas Company	GR-78-148
Laclede Gas Company	GR-80-210
Laclede Gas Company	GR-81-245
Laclede Gas Company	GR-82-200
Laclede Gas Company	GR-96-193
Laclede Gas Company	GR-98-374
Laclede Gas Company	GR-99-315
Lake St. Louis Sewer Company	SR-80-189
Missouri-American Water Company	WR-89-265
Missouri-American Water Company	WM-93-255
Missouri-American Water Company	WR-93-212
Missouri-American Water Company	WR-97-237
Missouri-American Water Company	SR-97-238
Missouri-American Water Company	WO-98-204
Missouri-American Water Company	SR-2000-282
Missouri-American Water Company	WR-2000-281
Missouri Cities Water Company	WR-78-107
Missouri Cities Water Company	SR-78-108
Missouri Cities Water Company	WR-83-14
Missouri Cities Water Company	SR-83-15
Missouri Cities Water Company	WR-85-157
Missouri Cities Water Company	SR-85-158
Missouri Cities Water Company	WR-86-111
Missouri Cities Water Company	SR-86-112
Missouri Cities Water Company	WR-89-178
Missouri Cities Water Company	SR-89-179
St. Joseph Water Company	WR-77-226
St. Louis County Water Company	WR-78-276
St. Louis County Water Company	WR-83-264
St. Louis County Water Company	WR-87-2
St. Louis County Water Company	WR-88-5
St. Louis County Water Company	WR-94-166

RATE CASE PROCEEDINGS
DOYLE L. GIBBS

Company	Case Number
St. Louis County Water Company	WR-2000-844
Southwestern Bell Telephone Company	TR-79-213
Southwestern Bell Telephone Company	TR-80-256
Southwestern Bell Telephone Company	TR-86-84
Union Electric Company	ER-77-154
Union Electric Company	ER-80-17
Union Electric Company	ER-81-180
Union Electric Company	HR-81-259
Union Electric Company	ER-82-52
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Union Electric Company d/b/a AmerenUE	EC-2002-1

Union Electric Company d/b/a AmerenUE
Case No. EC-2002-1

Electric Allocation Factors Updated Through September 30, 2001

	Total	Missouri	Illinois	Sales For Resale	Gas Operations
Fixed	100%	90.2135%	7.6571%	2.1294%	
Varible	100%	87.5384%	10.5588%	1.9029%	
Callaway Post Operational	100%	97.6940%	0.0000%	2.3060%	
Nuclear	100%	90.5516%	7.7176%	1.7308%	
Missouri Distribution Plant	100%	99.4821%	0.0000%	0.5179%	
Total Distribution Plant	100%	94.4890%	5.0191%	0.4919%	
Labor	100%	90.0999%	8.3846%	1.5156%	
Net Plant	100%	92.2500%	6.2923%	1.4576%	
Operating Expenses	100%	89.0292%	9.3583%	1.6126%	
General Materials and Supplies	100%	87.1633%	9.2063%	1.5488%	2.0817%
ITC Amortization	100%	90.8753%	7.3544%	1.7703%	