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|---|---|
| Exhibit No.: | |
| Issues: | Dues & Donations<br>MoPSC Assessment<br>Rate Case Expense<br>Miscellaneous Expenses<br>Advertising<br>Prior Period Adjustment<br>Cash Working Capital |
| Witness: | Leasha S. Teel |
| Sponsoring Party: | MoPSC Staff |
| Type of Exhibit: | Direct Testimony |
| Case No.: | EC-2002-1 |
| Date Testimony Prepared: | July 2, 2001 |

# 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

**Jefferson City, Missouri**
**July 2001**

****Denotes Proprietary Information****

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

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

**DIRECT TESTIMONY**

**OF**

**LEASHA S. TEEL**

**UNION ELECTRIC COMPANY d/b/a Ameren UE**

**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. No.

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).

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-19.3 |
| MoPSC Assessment | S-18.3 |
| Rate Case Expense | S-19.17 |
| Miscellaneous Expense | S-15.4 & 19.20 |
| Advertising | S-16.2 &19.2 |
| Prior Period Adjustment | S-16.3 |

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-19.3.

A. Adjustment S-19.3 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 listed in S-19.3 are not appropriate for inclusion in rates.

A. **

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The Staff believes that all of these test year payments do not 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 in S-19.3?

A. The Commission has consistently excluded dues like the ones recommended by the Staff 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 the Edison Electric Institute do not produce any direct benefit to the ratepayers because lobbying activities do not directly benefit ratepayers.

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 Court confirmed that the Commission has the discretion to find that income tax deductions are adequate to encourage a company to make a donation.

This does 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



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them. The ratepayers should not have to make involuntary contributions or pay dues to charities and other organizations of the Company's choice. Id.

**MoPSC ASSESSMENT**

Q. Please discuss adjustment S-18.3 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, 2000 to June 30, 2001, was used in the Staff's annualization.

**RATE CASE EXPENSE**

Q. Please explain adjustment S-19.17.

A. This adjustment normalizes rate case expense over a three-year period. The Staff selected three years as a reasonable amortization period.

**MISCELLANEOUS EXPENSES**

Q. Please explain adjustments S-15.4 and S-19.20.

A. Adjustments S-15.4 and S-19.20 eliminate all test year miscellaneous expenses related to ** **

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 Staff has disallowed in miscellaneous expenses.

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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-16.2 and S-19.2.

A. Adjustments S-16.2 and S-19.2 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 ratemaking treatment proposed by the Staff, which separates advertisements into five



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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, involving 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 of July 1, 1999 to June 30, 2000.

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. 37 and 45, 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 AmerenUE's test year expense associated with the advertisements that the Company classified as general or safety advertising.

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 in data requests.

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

A. Advertisements relating to the Tree of Lights Campaign, SmartLights, Scholarship Awards, and development of the Adopt-the-Shoreline cleanup program, The Repertory Theatre, Dance St. Louis, Fox Theatre, Sheldon Concert Hall, St. Louis Symphony Opera, Edison Theatre, *Cherry Diamond Magazine*, Queeny Pops, the St. Louis Rams, St. Louis Cardinals, St. Louis Blues, Gateway International, Family Arena, Missouri River Otters, *St. Louis Business Journal*, St. Louis Art Fair, Black Repertory Theatre, and the Opera Theatre of St. Louis as disallowed institutional organizations and programs. The Staff does not believe that AmerenUE's involvement and sponsorship in these organizations is cause for recovery of these advertising expenses from ratepayers.

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

A. The Tree of Lights campaign is a Salvation Army program. AmerenUE donates $10 to the customer's local campaign when the customer signs up for its Direct Pay plan. This donation by AmerenUE was communicated to customers through advertising in the test year.

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."

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 has the Staff not included the Tree of Lights advertising expense in the income statement?

A. The Staff believes that expenditures related to the Tree of Lights campaign represent what is, in effect, a charitable contribution. Charging for the Tree of Lights campaign in rates by AmerenUE would represent an involuntary contribution by the ratepayer, and the Commission has traditionally disallowed such payments. For this reason, the Staff does not believe that the Tree of Lights campaign and AmerenUE's involvement in that organization is a viable advertising expense that should be allowed in the rate recovery. The Staff regards advertisements relating to charitable campaigns and similar efforts as being institutional.

Q. Why does the Staff not believe that AmerenUE's advertising, for other organizations listed previously in this testimony, should 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. ** **

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

A. ** ** The sign advertisements are signs prominently displayed at the major St. Louis sporting venues: Busch Stadium, the TransWorld Dome and the Savvis Center. These signs are displayed at various prominent locations, where they are likely to be seen on television broadcasts as well as by spectators, such as behind home plate or near scoreboards. AmerenUE's name and or logo were the only item(s) displayed.

Q. Why did the Staff classify these 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.



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Q. Please describe the institutional television advertisements.

A. There were three television advertisements classified as institutional. They were entitled: "Yours and Ours," "Lights" and Bump in the Night."

"Yours and Ours" is a 30-second commercial that shows various clips and scenes of children running and jumping and playing outside. The voiceover says, "Your [ratepayer] kids climb the same trees as ours, your kids play in the same streams as ours, and yours breathe the same air as ours [AmerenUE]. So when we tell you Ameren is doing everything we're asked --and more--to protect the environment, you don't have to look far to see the reasons why…yours and ours. AmerenUE."

"Lights" publicizes the seasonal Tree of Lights campaign. As mentioned earlier in this testimony, AmerenUE will donate $10 to the customer's local campaign for every ratepayer who signs up for its Direct Pay plan. In the advertisement, a small light appears on a black screen that grows into an outline of a Christmas tree, composed of lights by the end of the advertisement. The voice in the commercial talks about how the future can look dark for some at this holiday season, but thanks to the Salvation Army, there will be a "light at the end of the tunnel… if we all pitch in." Then the announcer asks the viewer to "please give to the Salvation Army's Tree of Lights. This message brought to you by AmerenUE."

"Bump in the Night" shows several scenes of nightlights illuminated on a wall. The voiceover lists "programs in place to help the environment…improve neighborhood safety…attract new businesses and jobs…even help students pay for college. But, of course, that's nothing compared to our ability to chase away things that go bump in the night. AmerenUE. We're Always There."

Q. Please describe the institutional radio advertisements.

A. Staff classifies one radio advertisement as institutional, called "Jane and Fred." This advertisement refers to the Tree of Lights campaign. The premise behind the advertisement is that due to the time that Jane saved by having her utility bill in the Direct Pay program, she saved enough time to go to the holiday party, where Fred noticed her lingering under the mistletoe, they kissed, they dated, married, etc,. and now twins are on the way...all thanks to AmerenUE and their Direct Pay system. The advertisement then describes how the Direct Pay program allows customers' bills to be paid directly from their checking or savings account. The last voiceover states that if you sign up for Direct Pay before January 31, 2000, AmerenUE will donate $10 to the Tree of Lights, and then a phone number is given. At the end of the advertisement, the announcer says, "AmerenUE. We're Always There."

Q. Please describe the print institutional advertisements.

A. There are several print institutional advertisements. They are: "Give/Receive," We're Happy," "Protecting," "Others Compel Us," "Save Your Life," "Adopt-the-Shoreline," "Theatre," "Music," "Curtain," "Frame" and "Sprinkler."

"Give/Receive," supports the Tree of Lights campaign. This ad simply states that when a ratepayer signs up for the Direct Pay program from AmerenUE, it will donate $10 to the local Salvation Army in the ratepayer's area. One sentence discusses the benefit of helping others. The rest of the ad explains the operation of the Direct Pay program, gives a deadline date and a phone number. The AmerenUE logo is placed at the bottom center of the advertisement.

"We're Happy" simply states that Ameren will fund 100 need-based college scholarships, each worth $2,500, to AmerenUE and AmerenCIPS customers. The ad lists requirements, restrictions and ways to receive an application. The AmerenUE logo appears at the bottom center of the ad.

The "Protecting" advertisement shows a child outside with a large tree in the background. The AmerenUE logo is in the lower, right corner of the picture, below the phrase, "It's not just the environment we're protecting."

The "Others Compel Us" ad also shows a child in focus outside in front of a mildly out-of-focus house and trees in the background. The AmerenUE logo is again in the lower, right corner of the picture, and above the logo are the words: "Some require us to protect the environment. Others compel us."

The "Save Your Life" advertisement has a life jacket in the upper, left-hand corner and a trash can in the upper, right-hand corner. Beneath the pictures appears text describing the Adopt-the-Shoreline program and a phone number to call. The AmerenUE logo is at the bottom center of the ad. Two other similar advertisements feature the Lake of the Ozarks; they were "Adopt-the-Shoreline-Thank You" and "Eliminate Water Foul." The "Adopt-the-Shoreline-Thank You" advertisement featured lists the people and organizations that helped with the Adopt-the-Shoreline program. The advertisement at the top says, "Thank you for helping to keep the lake clean for all of us. AmerenUE salutes these Adopt-the-Shoreline organizations and individuals." Below that sentence is a list of individuals. Contact information is below the list in the left-hand corner, "To join Adopt-the-Shoreline, or for more information, call…" and a number was provided. In the lower, right-hand corner are, "AmerenUE" and AmerenUE's logo. Below the logo is the phrase, "We're always there." Beneath the phrase is the Ameren website address. The "Eliminate Water Foul" advertisement shows a picture of trash at the top center. Below that picture it says, " Eliminate Water Foul. Adopt-the-shoreline and help keep the Lake of the Ozarks beautiful." A paragraph describing the Adopt-the-Shoreline program appears below with a phone number for more information. Below the paragraph are "AmerenUE" and the Ameren logo, and underneath, the phrase, "We're always there."

"Theatre" appeared in the Fox Theatre-Playbill, Dance St. Louis-Playbill and the Opera Theatre of St. Louis. The ad is very simple with a picture of a theatre. The advertisement is from the performer's perspective looking out at the audience, and all the theatre lights are brightly lit. The picture is captioned, "We don't mind if the lights are taken for granted, so long as they help the performers shine." At the bottom of the advertisement in the lower, right-hand corner are the AmerenUE logo and "AmerenUE" and below the name and logo is the phrase "We're always there." AmerenUE's website appears below the name and logo.

"Music" was published in programs at the St. Louis Symphony Queeny Pops, the St. Louis Symphony Orchestra and the Sheldon concert hall. The advertisement features sheet music in the middle of the page. Above the picture are the words, "While the music would be just as powerful in absolute darkness, the musicians might have a bit of a problem. In the lower, right-hand corner is the Ameren logo and "AmerenUE," above the phrase "We're always there." Also shown is the AmerenUE website address.

"Curtain" was used for the Black Repertory Theatre, Edison Theatre, Muny Opera Theatre and the Repertory Theatre. This advertisement features the picture of a curtain with a spotlight in the center of the curtain. Just above the picture the advertisement says, "Just before it rises, we are all transformed into the eager, excited children we used to be. Underneath the picture it says, "What else but the arts can do that?" Beneath the writing in the lower, right-hand corner is the Ameren logo and the saying, "We're Always There." with the Ameren website address.

"Frame" was placed in the St. Louis Art Fair Program Guide. The advertisement features the Ameren logo and AmerenUE in the upper, right-hand corner. In the center of the advertisement is a picture frame surrounding the image of two electrical sockets.

"Sprinkler" appeared in the *Cherry Diamond Magazine* and *St. Louis Business Journal*. The advertisement features two children playing in the sprinkler. Above the picture are the words, "May the light burn bright in every community." Below the picture in the lower, right-hand corner are AmerenUE the Ameren logo and AmerenUE website address.

Three advertisements did not have names or titles. They were designed for *Commerce Magazine*, *Small Business Journal-Book of Lists*, and Virginia Publishing. The two advertisements for *Commerce Magazine* and Virginia Publishing are plain type advertisements. Each contains several paragraphs describing how "AmerenUE works with ...other local economic development groups to attract and keep businesses in our area." Ameren also states "Our employees are involved in schools, charities, and religious, civic, and cultural organizations which help improve our quality of life. After all, this is our hometown, too. And we're committed to its future." The "AmerenUE" logo and the phrase, "We're always there." appear below the text. The advertisement for the *Small Business Journal* introduces Abacus, an Ameren product which purports to provide easier ways for companies to manage their energy usage. The print advertisement describes this service and provides a number and a website for information or a free brochure. In the lower, right-hand of the advertisement are "AmerenUE" and the Ameren logo, with the phrase, "We're always there."

Q. Please describe the gas safety ad.

A. The gas safety advertisements feature the phrase "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. Two advertisements feature these large print headings, with slightly differing paragraphs below. The second paragraph provides a number to call if the reader intends to excavate, to prevent natural gas leaks. 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 the gas safety advertisements?

A. The gas safety advertisements are disallowed because they were allocated to Missouri electric operations. These two advertisements are clearly for Missouri gas operations; and Missouri electric customers should not have to pay for an advertisement unrelated to electric service.

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

A. ** **
The Staff disallowed all of the political advertising for the reasons stated above. This amount is included in Staff adjustment S-16.2.

Q. Please describe the political television advertisements.

A. There are three political advertisements that were disallowed. They are: "Football," "Dancing" and "Walk the Dog."

"Football" shows two men. One man is announcing football plays, the other man is cheering on the team and giving commands. The announcer, in the middle of the advertisement, says: "How you use your electricity is up to you. Who you buy it from should be, too. AmerenUE. Embracing change. Encouraging choice."

"Dancing" is the second political advertisement. It simply has a record player playing in the background while a grandfather and granddaughter are dancing. The announcer again says: "How you use your electricity is up to you. Who you buy it from should be, too. AmerenUE. Embracing change. Encouraging choice."

In "Walk the Dog" a woman says "Mark, Earl wants to go for a walk." A dog barks in the background. The announcer says: "How you use your electricity is up to you. Who you buy it from should be, too. AmerenUE. Embracing change. Encouraging choice."

Q. Please describe the political radio advertisements.

A. There were two political advertisements: "Alarm Clocks" and "Plant Music."

"Alarm Clocks," resembles a documentary. The man is describing his passion for clocks. He discusses how many he has and the different kinds he has, and how many outlets and plugs he has added to accommodate his passion. Then the announcer says: "How you use your electricity is up to you. Who you buy it from should be, too. AmerenUE. Embracing change. Encouraging choice."

"Plant Music," features a woman who has different plants that listen to different types of music. She describes which type of plant likes what type of music. At the end, the announcer says: "How you use your electricity is up to you. Who you buy it from should be, too. AmerenUE. Embracing change. Encouraging choice."

Q. Does AmerenUE agree with the Staff's classifications?

A. AmerenUE does not agree with the Staff's classifications in regard to institutional advertising. AmerenUE does, however, agree with the classification of the political advertisements.

**PRIOR PERIOD ADJUSTMENT**

Q. Please explain adjustment S-16.3.

A. This adjustment is for an amount booked to advertising expense in the test year relating to prior periods. Without this adjustment, operating expenses for the test year would be understated.

**CASH WORKING CAPITAL**

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. AmerenUE's CWC requirement was calculated through the use of a lead/lag study performed for the test year ending June 30, 2000.

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. Calculation of CWC was based upon the lead/lag study developed in AmerenUE's previous gas rate case, Case No. GR-2000-512, updated for material changes in calculation of specific expense lags. These changes only pertain to electric operations (fuel) and the calculation of an electric revenue lag.

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

A. The Staff updated the following expense lags to reflect information from the current test year: cash vouchers, property tax and gross receipts. The fuel lags were calculated because they do not relate to the gas rate case. 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.

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, that AmerenUE pays on a day-to-day basis.

Column B (Test Year Expenses): 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.

Column C (Revenue Lag): 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 further later in this direct testimony.

Column D (Expense Lag): 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): 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 changed 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 the bill is placed in the mail by AmerenUE 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 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 ** ** days. The billing lag of ** ** days includes the effect of weekends and holidays during the test year.

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. **

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

A. The billing lag is ** ** days, the collection lag is ** ** days, and the usage lag is ** ** days. The total Revenue lag is ** ** 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:



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(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 1 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 agreed upon in the last gas rate case, since the lag was calculated using total AmerenUE and Ameren Services payroll.

Q. Briefly describe AmerenUE's vacation policy.

A. AmerenUE's vacation policy differs between Management and Contract employees. Differences exist in when employees start receiving vacation after beginning work at AmerenUE. Generally, the amounts of vacation granted to employees based on years of service at AmerenUE are identical. Employees with increased years of service earn additional vacation during the year. Management employees are allowed to carry over a maximum of 40 hours of vacation into the next year. However, that vacation must be taken in the next year or forfeited by the employees. The vacation time is accrued evenly during the year in which the employee earns the vacation and then expensed evenly in the year the vacation is taken.

Q. Please explain the computation of the expense lag days for vacation expense on line 2 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 agreed to by Staff and Company 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 (Social Security/Medicare) taxes on lines 5 through 7 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 12.9737, 16.4170 and 12.9737 days, respectively. The Staff and Company agreed to 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 ** **-day coal expense, 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,

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and the date when invoices for gas and oil deliveries are paid. The gas and oil expense lags were ** ** days, respectively.

Q. Please explain the lag for nuclear.

A. ** **

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. **



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Q. Please explain the employer's portion of FICA tax expense lag on line 13 of Accounting Schedule 8.

A. The employer's portion of FICA taxes is the amount of taxes paid by the employer on payroll paid to the employees. 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 agreed upon in the last gas rate case , Case No. GR-2000-512.

Q. Please explain the federal and state unemployment tax expense lags on lines 15 and 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 agreed to 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. As agreed to in the last gas rate



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case by the Staff and Company, the corporate franchise tax expense lag of 77.50 days was used.

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 multiplied by the amount of taxes paid, to arrive at the weighted lag days. The property tax expense lag is ** ** days.

Q. Please explain the sales tax expense lag on line 19 of Accounting Schedule 8.

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

Q. Will you please explain the expense lag for gross receipt taxes as shown on line 20 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 lag for this item must include the appropriate time span between the average usage period (average collection period) and the time AmerenUE pays the gross receipts taxes to the proper authorities. The gross receipts expense lag of ** ** days was based on the dollar-weighted amounts of gross receipts taxes paid to the different taxing entities.



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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 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. Therefore, in order to match the same time frames for these components, the collection lag was adopted and used as the revenue 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 and interest expense 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 and interest expense offset included in the Staff's Rate Base Accounting Schedule 2 rather than the Staff's CWC schedule, Accounting Schedule 8?

A. The normalized Missouri jurisdictional expense component used for these offsets is tied directly to the mechanical computation of the revenue requirement. The Staff's revenue requirement computer program has the capability of 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 15th 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, .139% and 7.0301%, 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 CWC factor of 14.3918% 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 agreed to in the last gas rate case by AmerenUE and Staff.

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**

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| 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 32 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 29th day of June, 2001

Toni M Charlton

Notary Public

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004