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Issues: Pensions; OPEBs
Witness: C. Kenneth Vogl
Sponsoring Party: Union Electric Company
Type of Exhibit: Supplemental Direct Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: September 29, 2006

MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2007-0002

SUPPLEMENTAL DIRECT TESTIMONY

OF

C. KENNETH VOGL

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
September, 2006

TABLE OF CONTENTS

I. INTRODUCTION	1
II. PURPOSE OF TESTIMONY	1
III. MODIFICATIONS TO PROPOSED PROCEDURE	2
IV. UPDATED FAS 87 AND FAS 106 EXPENSE AMOUNTS	2

1 **SUPPLEMENTAL DIRECT TESTIMONY**

2 **OF**

3 **C. KENNETH VOGL**

4 **CASE NO. ER-2007-0002**

5 **I. INTRODUCTION**

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

7 A. My name is C. Kenneth Vogl. My business address is 101 South Hanley,
8 Suite 900, St. Louis, Missouri 63105.

9 **Q. Are you the same C. Kenneth Vogl who previously filed testimony in this**
10 **case?**

11 A. Yes.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your supplemental direct testimony in this**
14 **proceeding?**

15 A. The purpose of my testimony is to modify the proposed procedure for the
16 regulatory treatment of FAS 87 expense for pension plans and FAS 106 expense for OPEB
17 plans.

18 In addition, I will provide updated 2006 expense amounts under FAS 87 and
19 FAS 106. These amounts are shown in Section VI of my direct testimony (Proposed Levels
20 of FAS 87 and FAS 106 Expense to be Included in Rates).

1 **III. MODIFICATIONS TO PROPOSED PROCEDURE**

2 **Q. Can you briefly describe the modifications to the proposed procedure for**
3 **the regulatory treatment of FAS 87 and FAS 106 expenses?**

4 A. There are three changes to my original testimony. First, the last sentence in
5 item 3 of Schedule CKV-E1 should be deleted. Excess contributions should not be explicitly
6 amortized in future rate cases. Explicitly amortizing excess contributions would result in
7 “double reimbursement” and is not consistent with the intent of this procedure.

8 Second, I will add to a sentence in item 5 of Schedule CKV-E1 to clarify the
9 treatment of Company contributions when pension income switches back to pension expense.

10 Third, in response to proposed changes to accounting rules for pension and
11 OPEB, the procedure clarifies the future treatment of any charges that would otherwise be
12 recorded to equity (e.g., decreases to other comprehensive income) as required by FAS 87,
13 FAS 106 or any other FASB statement or procedure relative to the recognition of Pension
14 and OPEB costs and / or liabilities. Since the time my direct testimony was filed, it has
15 become apparent that these proposed changes will become effective in the near future and
16 will apply when rates set in this case will be in effect. Consequently, I have made this
17 change to the procedure.

18 **Q. Does Schedule CKV-E2 attached to this supplemental direct testimony**
19 **reflect the modifications that you are making?**

20 A. Yes, it does. For ease of reference, the changes to Schedule CKV-E1
21 attached to my direct testimony are tracked in the attached Schedule CKV-E2.

22 **IV. UPDATED FAS 87 AND FAS 106 EXPENSE AMOUNTS**

23 **Q. Please provide updated 2006 FAS 87 and FAS 106 expense amounts.**

24 A. The updated amounts are shown in the table below.

Current 2006 Annual FAS 87 and FAS 106 Expense
(in millions)

<u>AmerenUE</u>		<u>Ameren Services</u>	
<u>FAS 87</u> <u>Pension</u>	<u>FAS 106</u> <u>OPEB</u>	<u>FAS 87</u> <u>Pension</u>	<u>FAS 106</u> <u>OPEB</u>
\$ 38.2	\$ 30.4	\$ 26.8	\$ 20.1

1 **Q. What caused the 2006 FAS 87 and FAS 106 expense amounts to change?**

2 A. The amounts shown in my direct testimony were estimates provided to
3 Ameren in December, 2005. The estimates were based on assumptions consistent with the
4 economic environment at the time and assumed there were no liability gains or losses due to
5 demographic changes. Since then, updated employee data has been collected and the 2006
6 actuarial valuations have been completed.

7 Key changes from the FAS 87 and FAS 106 expense amounts shown in my
8 direct testimony to those shown above are:

- 9 • Increase in discount rate assumption by 10 basis points
- 10 • Increase in salary scale assumption by 25 basis points
- 11 • Incorporation of demographic gains and losses due to updated
12 participant data
- 13 • Incorporation of actual 2005 investment experience
- 14 • Incorporation of favorable medical claims experience
- 15 • Incorporation of lower medical claims resulting from a plan change
16 that offered lower cost options to retirees

17 **Q. Does this conclude your supplemental direct testimony?**

18 A. Yes, it does.

Schedule CKV-E2

AmerenUE Proposed Procedure

The intent of this procedure is to:

- A. ensure that the amount collected in rates is based on the FAS 87 and FAS 106 cost recognized by the Company for financial reporting purposes; ~~and~~
- B. ensure that all amounts contributed by the Company to the pension and VEBA trusts per item 3 below are recoverable in rates; and
- C. clarify the future treatment of any charges that would otherwise be recorded to equity (e.g., decreases to other comprehensive income) as required by FAS 87, FAS 106 or any other FASB statement or procedure relative to the recognition of pension and OPEB costs and / or liabilities.

To accomplish these goals, the following items are part of this procedure:

1. The Company's FAS 87 and FAS 106 costs recognized for financial reporting purposes will also be recognized in rates.
2. The Company will fund the amount of its FAS 87 and FAS 106 costs annually to the pension and VEBA trusts.
3. The Company will be allowed rate recovery for contributions made to the pension trust in excess of the FAS 87 expense for the following reasons: the minimum required contribution is greater than the FAS 87 expense level, avoidance of Pension Benefit Guaranty Corporation (PBGC) variable premiums, and avoidance of a charge

to other comprehensive income. To track any such excess contributions, a regulatory asset will be established and will be included in rate base. ~~This regulatory asset will be amortized over five years at the time of the next rate case.~~

4. A regulatory asset or liability will be established on the Company's books to track the difference between the level of FAS 87 or FAS 106 expense during the rate period and the level of expense built into rates for that period. If the FAS 87 or FAS 106 expense during the period is more than the expense built into rates for the period, the Company will establish a regulatory asset, but only to the extent that such expense is not used to reduce a regulatory liability maintained pursuant to item 5. If the FAS 87 or FAS 106 expense during the period, adjusted for any amount of such expense used to reduce a regulatory liability maintained pursuant to item 5, is less than the expense built into rates for the period, the Company will establish a regulatory liability. If the FAS 87 or FAS 106 expense becomes negative, the regulatory liability will increase by the difference between the level of expense built into rates for that period and \$0. Since this is a cash item, the regulatory asset or liability will be included in rate base and amortized over 5 years at the time of the next rate case.
5. If the FAS 87 or FAS 106 expense becomes negative, the Company will set up a regulatory liability to offset the negative expense. The regulatory liability will increase by the amount of negative expense, or decrease by the amount of positive expense, in each subsequent year. Positive expense in such subsequent year will be used to reduce this regulatory liability before being used to establish a regulatory asset pursuant to item 4. If the cost is negative at the time of the next rate case, the amount included in rates will be zero. If the cost is positive at the time of the next

rate case, the positive expense will not be included in rates and the Company will not be required to make contributions to the trust until the regulatory liability has been reduced to \$0. This regulatory liability is a non-cash item and should be excluded from rate base in future years.

6. The Company receives reimbursement in rates for its FAS 87 and FAS 106 cost, including the amortization of unrecognized amounts. Therefore, the Company will set up a regulatory asset to offset any charges that would otherwise be recorded against equity (e.g., decreases to other comprehensive income) caused by applying the provisions of FAS 87, FAS 106 or any other FASB statement or procedure that requires accounting adjustments due to the funded status or other attributes of the Pension or OPEB plan. This regulatory asset should not be amortized into rates because it is expected to be recovered in rates through future years' FAS 87 or FAS 106 expense. The regulatory asset will increase or decrease each year by the same amount that the equity charge increases or decreases.
7. Any future FAS 87 or FAS 106 prepaid asset or accrued liability will not be included in Rate Base in any future rate case. The regulatory assets/liabilities identified in this procedure will address all rate base amounts for pensions and OPEBs.

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric) Case No. ER-2007-0002
Service Provided to Customers in the)
Company's Missouri Service Area.)

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

1. My name is C. Kenneth Vogl. I work in the City of St. Louis, Missouri, and I am employed by Towers Perrin.

2. Attached hereto and made a part hereof for all purposes is my Supplemental Direct Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 3 pages plus Schedule CKV-E2, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

C. Kenneth Vogel

Subscribed and sworn to before me this 27th day of September, 2006.

Diana M. Niemeyer
Notary Public
Diana M. Niemeyer

My commission expires: 4/25/09

