these determinations was considered by you.

To your mind you didn't leave anything out that was a material factor in reaching the right number for the pensions and for OPEBs?

A. Again, I believe that the question is such -- in such a broad nature, I'm not sure that I can give you a definitive yes or no.

I can give you an example of why I'm having problems with that.

Q. If I rephrase it, maybe it will help.

Can you identify any factor that you think is material to reaching the right number for the pension or the OPEB issues in your testimony that you failed to consider?

A. I would probably have to say the same. I mean, merely switching the context of the question I don't think helps me to answer the question.

Q. Why don't we move on.

In your written testimony, all of the information that is material to your analysis of these issues is included in the testimony?

A. To the best of my knowledge as of the time of the filing of the testimony.

Q. Okay. So that everything that the Commission would need to make its determination of just and reasonable rates based on your adjustments would be included in the testimony?

A. I'm sorry. Could you repeat that?

Q. Everything that the Commission needs to make its determination of just and reasonable rates, to the extent that's based on pension and OPEB adjustments, is included in your written testimony?

A. Subject to the changes that we discussed earlier, I am not aware of leaving material facts out that would -- that would aid in the calculation of my adjustments in my testimony.

Q. Just to clarify, by your testimony, I also mean the schedules that are referenced in the testimony and --

A. I consider that all of the testimony --

Q. Yes.

A. -- with the caveat that the two schedules that would reconcile both the pension and OPEB will change.

Q. Okay. Is it your understanding that in setting just and reasonable rates, the Commission is required to consider gains that might be realized through increased efficiency?

A. I believe it's generally the -- I believe it's generally the Staff's position to attempt to reflect efficiencies within its cost-of-service recommendation.

Q. And in doing your work in this case, did you consider gains that might be realized through increased efficiency?

A. To the extent that they were included or reflected in the data that the Staff analyzed, yes.

Q. And could you explain how increased efficiency might be reflected in that data?

A. There is numerous examples that could be included in the data.

Q. Would be an example of, say, expenses going down because of a more efficient use of resources?

Is that the sort of example?

A. That could be an outcome.

Q. And the way that the efficiency would be reflected, then, would be in lower -- a lower cost-of-service number relative to an inefficient or less efficient company?

A. Than a less efficient company?

Q. Yes.

A. Are you --

Q. For identifying a particular efficiency.

A. Well, to capture the efficiency that you previously described would only be measured within the context of your company. It wouldn't be a comparison against another company.

Q. So that the more efficient the company would become for any particular category, the lower cost of providing service would be associated with that particular category?

Is that how the efficiency gets reflected?

A. If the efficiency generates cost savings.

Q. Can you identify any efficiencies that reflect the cost savings that you may have encountered in doing your work in this case?

A. Just so I'm clear, are you asking me if I can identify any efficiency and the dollars associated with that efficiency for purposes of my cost-of-service calculation?

Q. Not the exact dollars but the -- can you identify any instances in which inefficiency and efficiency could be identified in the financial data of the Company that was reviewed by any of the Staff members whose work you may have reviewed?

A. I'm aware of an employee reduction program that occurred in, I believe, 1999 that reduced the number of employees of the Company.

Now, that reduction in payroll, depending on your perspective, could be viewed as an efficiency perhaps.

Q. In the course of performing your work on this case, did you attempt to identify any efficiencies or any increase in efficiency in the Company's performance?

A. I'm aware that the Company maintains a coal inventory level that is significantly lower than the amount that was included in rates.

Q. And can you identify any gains that might have been realized by the Company through increased efficiency that have been reflected in some manner in the cost-of-service calculation?

A. I believe as I testified earlier, to the extent that an efficiency was realized and has been quantified and reflected in the books and records of the Company, the Staff would incorporate those in its cost-of-service calculation.

But to specifically pull it out and identify that, unless it -- unless it became apparent through the course of the Staff's audit, it would just -- it would just be included through the expense analysis or revenue analysis.

Q. Okay.

Is it your understanding that in setting just and reasonable rates, the Commission is obligated to consider rate stability?

A. The Commission is obligated?

I don't know that I agree with that.

Q. In performing your analysis for this case, did you consider rate stability?

A. You have to define a period. I'm not sure that I can answer it in general terms.

Q. Would rate -- I'm sorry.

A. The relationship of the investment, expenses and revenue that we established in our cost of service, the Staff would contend that that relationship will exist the year the rates go into effect.

If your question goes beyond, for instance, a 20-year period, I would have to say I don't know.

Q. Okay. And you mentioned earlier the EARP that UE had been under for the last six years.

Have you given any consideration in preparing your testimony to how the EARP may have affected the expenses of UE that were the subject of your testimony?

A. There was no guidelines or quantification of expenses when the EARPs were first negotiated.

So I'm having trouble answering to the expense, savings or reductions that would have occurred during that time.

MR. DOTTHEIM: Mr. Wolski, if at some time in the near future there is a natural place to break --

MR. WOLSKI: Maybe in about one minute or so.

MR. DOTTHEIM: Certainly; when it's convenient for you.

BY MR. WOLSKI:

Q. What was the goal that you sought to achieve in proposing the adjustments that will be proposed in your direct testimony?

A. Could you provide me your definition or interpretation of "goal"?

Q. Well, the adjustments are made for purposes of deriving a cost-of-service number. Correct?

A. Ultimately, correct.

Q. And the cost-of-service number is supposed to reflect what?

A. It would be the Staff's belief that the cost-of-service calculation that was filed would ultimately result in just and reasonable rates for AmerenUE.

Q. And the cost-of-service number is supposed to represent the cost of providing service for the future period that the new rates will be in effect?

A. No.

Q. What is the cost-of-service number supposed to represent?

A. The cost-of-service number, as I previously testified, establishes the relationship between investment, revenues and expenses that the Staff believes that that relationship will exist the year rates are in effect.

Q. So it's a prediction of what revenues, expenses and investments will be in the year that the rate goes into effect?

A. No.

Q. The expense number that is determined in the cost-of-service calculations is supposed to represent what to your mind?

What does that represent?

Does that represent the expected cost of providing the service to customers?

A. The expected cost of service.

Q. Yes.

Is that what the expenses are supposed to reflect that are embodied in the cost-of-service calculation?

A. You'll have to repeat it. I lost it.

Q. The cost-of-service calculation is based on a relationship, you said, between expenses, revenues and investments.

What is the expense portion of that supposed to represent?

A. You can't pull one of the components of the relationship out and ask what time -- if that -- if that component is going to be -- is reflective of the year rates are in effect. It doesn't work that way.

In a relationship between the three, that relationship we believe -- or the Staff believes will be in effect the year rates are in effect.

It's not -- it's not intended to be a prediction. It's intended of specific costs. It's intended to reflect that relationship.

MR. WOLSKI: Actually, why don't we take a break now.

(A RECESS WAS TAKEN.)

BY MR. WOLSKI:

Q. I guess if we could clarify what we were just talking about.

I believe you were describing how the relationship between revenues and expenses and investment together is what determines the cost-of-service number.

And I guess what I would like to know is, all of those three pieces aren't constantly moving, are they?

I mean, you have to start with some fixed number as your starting point in order to make any meaningful calculation.

Isn't that correct?

A. Yes.

Q. Now, in making the cost-of-service determination, is it reasonable to conclude that one would start with a determination of what the expenses related with -- related to the course of providing service are?

A. I'm sorry. Could you repeat the question?

MR. WOLSKI: Maybe we can read that one back.

(THE COURT REPORTER READ BACK THE PENDING QUESTION.)

THE WITNESS: Yes, to the extent that the relationship between the three factors that we described was -- was considered.

BY MR. WOLSKI:

Q. And what would be the proper measurement of expenses for purposes of cost-of-service ratemaking, the expense -- expenses portion of the equation?

What is the proper measurement of expenses?

A. Are you --

Q. You're not trying to predict what expenses were in 1950 to determine how much ratepayers should pay for electricity, for instance. Correct?

A. Are you asking me what the proper period would be --

Q. Yes.

A. -- for determining the level of expenses --

Q. For cost of service.

A. -- for cost of service?

Q. Yes.

A. I don't know that there is a preferable period. I don't know that there is a set period.

Q. Okay. But in cost-of-service ratemaking, you're not -- you're trying to determine what the current costs of service are, are you not?

A. The Staff's objective in the cost-of-service calculation is to make sure that the relationship between revenues, expenses and investment is such that it would be -- that that relationship will be reflected the year rates are in effect.

Now, the period that you choose, I don't know that -- that there is a stated criteria or rule that says you have to use a certain period.

Q. So you could make the determination based on figures from 1980, for instance, to do a current cost-of-service calculation?

A. If you looked at -- strike that.

For the period that we're discussing back and forth, are we in agreement that we're talking about a test year?

A. Well, what -- let me ask you.

What is a test year supposed to represent?

A. A test year generally is a 12-month period that becomes the basis for an analysis of the revenues, expenses and investment of a company.

Q. And is the purpose of the test year to determine going forward what just and reasonable rates would be?

A. And, again, the test year is the basis to establish the relationship between revenues, expenses and investment that relationship will be in effect the year rates are in effect.

Q. Okay. And are you required to select a test year to do these calculations?

A. I'm not sure of required.

I would say that generally the Staff utilizes a test year and other periods -- other update periods to establish or to quantify that relationship that we discussed.

Q. What are the criteria that would be considered in determining a proper test year?

I mean, would it be reasonable to select data that is 20 years old for purposes of making a test year?

A. You could.

Again, the -- the standard or the goal that you have to -- that you want to establish for whatever test year you choose, that the relationship that you develop between the three factors that we've discussed, that you feel comfortable with that relationship. That relationship will exist the year rates are in effect.

So if you choose 1980 and you do the analysis -- it's probably more difficult for one that's -- for a test year that was that far extended back.

But if you look at that and you're confident that with adjustments you can establish a relationship of those factors for the year rates are in effect, you can use utilize the test year that far back.

Q. And what sort of adjustments do you have to make to the test year data for purposes of a cost-of-service calculation?

A. Are we still speaking about 1980?

Q. For instance, if you use the 1980 -- if you use 1980 data for a test year, what sort of adjustments would one make in fixing up the test year to be appropriate for a cost-of-service determination?

A. If it was determined that a 1980 test year was to be adopted, the burden on a party would be to show that the relationship that was established as a result of that test year or the analysis from 1980 to whatever period of update, that that relationship would be correct and would be proper to reflect the year that rates are in effect.

Q. And the purpose of updating the 1980 numbers would be what?

Why would you update those numbers?

A. I didn't necessarily say that you would.

Q. If you were to update them.

A. If you had to update the 1980 numbers, it would be because you believed that the relationship between revenues and expenses and investments weren't realistic -- were not -- realistic is a bad word -- weren't reflective.

Q. So by relationship then -- let me make sure I understand this.

Do you mean that if in 1980 a certain kilowatt hour price of electricity would cover 100 percent of the expenses and investment needs of a company, for the utility, that you would then consider what the relationship would be between that same price today -- say it's, like, *five cents per kilowatt hour in 1980*.

If you use that same price today, would that relationship to the costs of -- to the expenses and the investment today that is needed today be the same?

Is that what you mean by "relationship"?

A. What I mean by the relationship is that you have to look at all three of them combined.

And for purposes of our discussion here in 1980, you have to be able to ascertain whether the relationship that you established -- or that was established in your test year has maintained itself or if it needs modification.

Q. Maintain itself being based on what the expenses actually are or expected to be for the year in which the rates are in effect?

A. The relationship?

I think one of the problems that we're -- we're having back and forth is, the test year that the Staff utilized is not a prediction of either the cost, the revenues or the investment that will be in effect the year rates are in effect. But that relationship between those three, we believe -- the Staff believes will be in effect the year rates are in effect.

Q. And by "relationship," do you mean the ratio of revenues to expenses or the ratio of expenses to investment, or what exactly do you mean by "relationship"?

A. Combining all three of those factors together within the cost-of-service calculation.

I hesitate to use ratio, because in my mind that would lead to. Is it 40 percent of expenses? Is that a good ratio? We don't do that type of calculation.

That relationship is monitored subsequent to a test year to see if adjustments need to be made.

Q. Is the purpose of a test year -- is the purpose of the test year to determine what the expenses of the -- is one of the purposes of the test year to determine what the expenses of the Company are going to be in providing the service during the time in which the rates are in effect, the new rates are in effect?

A. My answer is still no.

Q. So that it would be okay to look at how much it costs to generate electricity in 1960 and say, okay, we're going to hold you to 1960 expenses and just give you enough revenues to cover those and that would be fine?

A. I -- I never said that.

Q. How far back can you go in looking at expenses to determine what the revenues are going to be -- what revenue you're going to set for the company in determining the just and reasonable rates of ratepayers?

A. How far back can you go?

Q. You have to start with some number. You've got to start with some number -- some expense number to do these calculations, don't you?

A. Yes.

Q. And what is the expense number supposed to represent?

Because I imagine the revenue number is going to be based on whatever revenues you decide -- in large part it's going to be whatever revenues you decide a company can collect from the ratepayers. Correct?

A. Well, the revenues have to be -- the revenues have to be able to be collected.

Q. Okay. So it would be -- so your revenues would be a projection of what you think could be collected for the period in which the rates would be in effect?

A. No. There is no prediction of revenues or expenses for the year rates are in effect.

And I'll give you an example.

Q. Okay.

A. I am very confident that the Staff's level of payroll included in its cost of service will not be the payroll that is paid by this Company the year these rates go into effect.

But I am -- or the Staff is confident that the relationship between payroll and the other components that we've discussed earlier, that that relationship will be in effect.

Q. But if the expenses you determine for a test year were, in fact, to all rise by 10 percent during the first year that the rates are in effect -- I'm not saying this is necessarily the case.

But assume that the expenses go up by 10 percent in the first year in which the rate -- the new rates are in effect, the only way that that relationship you're positing would still hold would be if rates were allowed to go up by 10 percent during the year in which the rates are in effect.

Isn't that true?

A. Not necessarily.

Q. Well, how would the relationship hold if the expenses are actually different than in the year in which the rates are in effect compared to what the test year expenses are?

A. Well, perhaps one of the reasons for the increase in expenses was because the Company added more customers.

Q. Okay. If they didn't add more customers, if it was solely a cost -- a function of all of the input factors of production going up by 10 percent, then there would no longer be a relationship -- the same relationship between expenses and revenues as you determined in the -- in setting the rates. Correct?

A. Well, in your example are you freezing everything else? Because cost of capital --

Q. I assume the rates are frozen.

A. I'm sorry. Go ahead.

Q. I assume that if the rates are frozen, that we're not going to have some adjustable rate plan.

I'm trying to determine what you mean by the relationship between the expenses and revenues and investment.

A. Well, my problem is that -- it seems through our conversations that you're looking for a mechanism or an amount that says this is going to be the dollars or the levels the year rates are in effect, and that's not the purpose of our -- of our test year.

Q. What kind of levels are you trying to determine?

A. As I've said before, the Staff has developed -- maybe the use of "relationship" is our stumbling block, but we've developed a cost of service that has revenues, expenses and investment.

And the combination of those three and the relationship that that derives the Staff feels will be in effect the year rates are in effect.

Q. And where does the revenue calculation -- how do you determine the revenue portion of this relationship?

A. For purposes of this case the revenues were calculated at -- were annualized at December 30th, 2000, customer levels, normal usage, and then the other components that make up the revenues, interchange sales.

Q. Okay. I guess my -- if you compared -- I guess if you took a test year that was 20 years old, it's reasonable to conclude that the expenses of the Company in providing service 20 years ago were probably less than they are now.

Is that true or is that not true?

Actually, if you --

A. Probably for this Company they'd be less.

Q. If you used --

A. More. Excuse me.

Q. If you used the test year in which the expenses associated with providing the utility service were significantly less than they currently are, and you adjusted the revenues down to match that, would that be the sort of relationship that you're talking about that's determined by looking at the expenses, investments and revenues?

A. No. If I chose --

Q. What expenses are you trying to cover?

I'm sorry.

A. The expenses that I set are in relation to the revenues and the investment that's generated.

Q. So it's a circular proposition; you can't just identify one portion of it for purposes of the calculation?

They're all dependent on each other?

A. To use an extreme, I couldn't take the expenses from 20 years ago and apply the revenues to today.

Q. And when there are known and measurable -- when there are adjustments made to test-year numbers to reflect known and measurable changes, why is that done?

What is the purpose of adjusting for known and measurable changes?

A. It's generally the belief of the Staff that the known and measurable changes are pro forma adjustments, by including them provides a better relationship of the factors we've discussed to be applied the year rates are in effect.

However, there have been analysis in known and measurable periods when no adjustments have been made because the relationship wouldn't have changed.

Q. How do you measure the relationships to determine whether or not they've changed?

Is there some way to quantify that?

A. You have to -- again, you have to look at our -- or through your analysis feel comfortable that the relationship needs to be adjusted -- or that the component in those relationships needs to be adjusted. Otherwise, the relationship would be either under- or overstated or -- that's correct.

Q. And the purpose, then, is to determine what the relationship is today. Correct?

A. "Today" meaning most current?

Q. Yeah, most current.

What is the -- you can't -- I mean, the relationship between different variables can change from year to year to year to year.

How do you know what's the point at which you measure it and determine the proper relationship, as you've termed it?

A. I guess I just don't understand your question.

Q. Well, you said that you would make a known and measurable change adjustment in order to reflect a change in the relationship, as of when though?

As of what date are you measuring the relationship between expenses, revenues and investment?

A. Well, for purposes of utilizing an update period, you would have measured that for the 12 months of your test year.

Q. But if a known and measurable change will alter this relationship, the reason an adjustment is made is because the known and measurable change either exists now or you know that it will exist in the future. Correct?

A. Well, for it to be a known and measurable change, it has to be known and measured. And I know that sounds --

Q. How do you determine which ones are known and measured?

A. They have to be audited and they have had to occur. Those are known and measurable.

Q. Okay. And all known and measurable changes that would alter the relationship between the three variables that you mentioned should give rise to some adjustment in this process?

A. No.

Q. Why wouldn't one if it altered this relationship between revenues, expenses and investment?

A. Well, excuse me. I thought you said that all known and measurable changes should be put into the --

Q. All known and measurable changes that affect the relationship between revenues, expenses and investment should give rise to some adjustment in this process?

A. The reason I'm having trouble agreeing with your statement is due to the fact that you use "all." That one -- that phrase bothers me. It gives me concern.

If -- and perhaps this might help.

If a known and measurable change could be shown to affect the relationship that was established back in the test year and it was demonstrated that that change was not a one-time change or nonrecurring change, and it was demonstrated that it had not just an impact but it impacted that relationship to a -- I don't have a specific, but besides a minor impact, then you would -- I think you should at least consider including that within a cost of service.

Q. Is there any set formula that you would use to determine whether the impact was minor or major?

A. No.

Q. Okay. And is there any particular methodology that you would use once you determined that the impact was greater than a minor impact, to decide whether you're going to make the adjustment or not?

A. You'd have to repeat that one.

Q. You said that if it's more than a minor impact, then you would consider whether an adjustment should be made.

Is there some methodology you use to determine when these greater-than-minor impacts will result in an adjustment and when they won't?

A. Well, they have to be -- in the Staff's view, they would have to be looked at as a package.

Q. Okay. So you would look at all known and measurable changes that in your determination had more than a minor impact on these relationships in order to consider which, if any, adjustments to make?

A. I'd agree with that statement to the extent that those changes are identified to specific operations or circumstances.

Merely looking at an expense level at one point in time and looking at an expense level at a different point in time and saying that because of the movement in that expense level that is a major change or has a major impact without identifying the reasons for that change would not quantify.

Q. Okay. And is there some methodology or formula you use to determine if the relationships between these three variables have not changed enough to warrant an adjustment?

How do you determine whether the relationship has been -- the relationship between these three factors has been changed by a known and measurable change?

A. Is your question when do I -- or when does the Staff make a decision that known and measurable changes should be included within the cost-of-service calculation?

Q. Not exactly.

I guess my question is: We're basing this discussion on the presumption that the -- in order for it to be eligible for consideration, the known and measurable change had to have affected the relationship between expenses, revenues and investment. Correct?

A. I mean -- see if I rephrase and we agree.

That absent making a change, that relationship may not be correct?

Q. Yes.

A. Okay.

Q. How do you determine whether that relationship changes or not?

What is the method you use to determine whether that you -- how that relationship has changed so that it may no longer be correct?

A. My experience as a regulatory auditor, consultation with other senior Staff members.

Q. So it's not strictly a mathematically quantifiable thing?

A. No.

Q. Attached to your testimony was a schedule, Schedule 1-1, that lists the cases in which you've provided testimony in the past. Is that correct?

MR. DOTTHEIM: Mr. Wolski, I don't know if you happen to know Mr. Busch from the Office of Public Counsel. He joined us a while ago. I didn't know if you wanted to reflect that in the record.

MR. WOLSKI: We'll be happy to welcome you aboard.

MR. DOTTHEIM: Mr. Busch is a technical member of that Staff.

MR. WOLSKI: Welcome to our happy pow-wow.

BY MR. WOLSKI:

Q. Schedule 1-1, is this a list of the cases that you've provided testimony in in the past?

A. Yes, it is.

Q. Okay. If we could briefly go through the list.

And what I'm interested in determining is which of these cases you recall your testimony to have included the pension and OPEB items.

A. On the methodology presented today?

Q. On any consideration of pension and OPEBs.

Do you recall which cases you have testified in the past on pension and OPEB?

A. Testified or filed testimony?

Q. I mean filed testimony.

A. No, I do not.

Q. Have you testified on pension and OPEBs in the past, prior to that case?

A. Not in -- not on this methodology.

Q. But under any methodology?

A. I just don't recall.

Q. So this case might be the first time that you've ever provided written testimony on the pension and OPEBs for the Public Service Commission?

A. I don't believe that's what I said. I said that I don't recall which case I would have provided pension or OPEBs testimony on.

Q. But you have provided pension and OPEBs testimony in the past?

A. As I answered before, I said I don't recall which cases.

Q. Do you recall ever having covered that issue before in prefiled testimony?
A. I believe I have written testimony on pension and OPEBs in the past. I do not recall which cases they were.
Q. Okay. And you know that you do not follow the methodology that you've used in this current case?
A. This is the first time I've testified in this methodology.
Q. So do you believe that the methodology that you include in the past cases was incorrect?
A. At the time of their filings, no.
Q. But the events have changed since the time of the filing that would make the methodology employed in the past no longer accurate or no longer appropriate?
A. That's correct.
Q. And what would those changes be?
A. Well, as I state in my testimony on page 3, Missouri law requires us to calculate OPEBs expense according to FAS 106.
Q. And do you believe you were not calculating it according to FAS 106 in your previous testimony?
A. I'm sure I wasn't.
Q. Pardon?
A. I'm sure I wasn't.

Q. Is that because the testimony was prior to 1994?

A. Correct.

Q. Okay. So since 1994 you haven't provided any pension or OPEB testimony to your knowledge?

A. Correct.

This will make it easier.

I haven't provided testimony on pensions and OPEBs under 106 or 87 until this.

Q. So it would have been very early in your --

A. That's why I was having trouble.

Q. Okay. ANd FAS 87 was adopted -- what was it, 1987?

A. Correct.

Q. So to make sure I understand that, so you had not provided any pension or OPEB testimony since 1987?

A. Correct.

Q. Okay. Which is why you would have a hard time remembering which of the old cases --

A. Right.

Q. Okay. I got you. Understood.

So the changes in methodology that you are proposing in your testimony are based on the application of FAS 87 and FAS 106?

A. Excuse me?

Q. The methodology that you propose in your direct prefiled testimony are -- that that methodology is different than the past methodologies because now you're operating pursuant to FAS 87 and FAS 106?

A. The testimony that I would have provided earlier in my career would have been based on different assumptions than the testimony that I am providing in this current case, that's correct.

Q. Okay. Because FAS 87 and FAS 106 require companies to arrange their pensions and OPEBs in a way differently than they may have been arranged back when you had provided the prefiled testimony in the pre-1987 era?

A. That's my understanding.

Q. Okay. Do you have a copy of the Staff's responses to the first set of interrogatories?

A. What document, again, were you looking for?

Q. Staff's responses to the first set of interrogatories.

A. Yes.

Q. And you should have one that's a composite, I guess, of several responses that had been put together over time.

In these responses you're identified as having reviewed the testimony of a number of the Staff witnesses. And I imagine that that was at least in part in your role as the case coordinator?

A. Correct.

Q. So, for instance, in Interrogatory Response No. 4 you're identified as having reviewed a draft of Allen Bax's testimony. It's on page 22 of the response.

In No. 6 you're identified as having provided suggestions and revisions to words and phrases subsequently incorporated in the direct testimony.

Do you recall making any substantive changes to the testimony of Mr. Bax when you reviewed it?

By "substantive" I mean a change in methodology, a change in numbers.

A. From what he submitted to me?

Q. Yes.

A. No.

Q. Okay. And responses to 7, 8 and 9, you're also identified as having reviewed and participated in the preparation of Leon Bender's testimony.

Do you recall what role you might have played in reviewing or participating in that testimony?

A. The same as Mr. Bax.

Q. It would just be suggesting revisions to words and phrases; nothing of substance, no number changes or method changes?

A. The input I had for Mr. Bender's testimony would not have changed his positions.

Q. Okay. And the response to No. 10, 11 and 12, the participation of the people listed in response to No. 11 is described in the response to No. 12 as review for grammatical errors, misspelling, typos and other administrative items.

Would you happen to know what "other administrative items" might mean?

A. I wouldn't want to speculate to that, no.

Q. So you didn't make any administrative changes to Mr. Bible's testimony?

A. Could you repeat that? I'm sorry.

Q. Did you review Mr. Bible's testimony for administrative items?

A. Since I don't know what his interpretation of "administrative items" is, I don't know.

I would tell you --

Q. What was your review of his testimony?

A. My review of Mr. Bible's testimony would probably have encompassed the first three or four areas that he identified in response to 12.

Q. So that would be just grammatical errors, misspellings, typos?

A. Correct.

Q. No substantive changes?

A. As a result of my review of Mr. Bible's testimony, his position didn't change.
Q. Okay. By his position not changing, you mean he didn't adopt a different methodology or he didn't alter his numbers?
A. Correct.
Q. And Nos. 13 through 15, the testimony of John P. Cassidy, what was your review and participation in his testimony?
Would that be the same as the previously mentioned people?
A. In the review? I'm sorry.
Q. Yes. You reviewed Mr. Cassidy's testimony?
A. Yes.
Q. And you participated in some manner in his preparation of his testimony?
A. Correct.
Q. And what was that participation?
What did you do in reviewing his testimony?
A. I sort of look at those as two different areas.
Reviewing the testimony and then participating in the testimony are different in my mind.
For the participation, Mr. Cassidy and I would have had discussions, verbal discussions, about his testimony, and then he would have drafted the testimony.

Q. So for Mr. Cassidy you may have suggested a particular method he might use in any of his items?

A. No, no.

Generally, the Staff's positions are finalized by the time the testimony is drafted. So the drafting of the testimony is merely to support the work of the Staff to that date.

Q. And who determines those positions?

Who on the Staff would be the one who would determine those positions?

A. Generally the witness, the Staff member, can prepare the issues. To the extent that they do not deviate from past Staff precedent, many times the review process of the testimony is sufficient.

Q. So then what you're saying is that the position that's taken in each of the testimonies is determined by the person doing the -- the person filing the testimony beforehand, that they go through workpapers and make calculations and reach the position, and then the testimony is merely a formalizing of the position that they themselves have reached?

Is that how the process works?

A. That's probably too complicated.

The Staff witnesses or Staff auditors, other individuals, would develop their areas.

If those areas were developed consistent with past Commission -- excuse me -- past Staff and/or Commission precedent, the drafting of the testimony would only encompass making sure that that testimony was in conformance in describing the position of the Staff.

Q. And who has the responsibility of determining whether the position -- the tentative position reached by the auditor assigned to the area is in conformity with past Staff precedence?

A. Several individuals.

Q. Can you name which individuals would have had that responsibility in this case?

A. Jim Schweiterman as the lead auditor would have had responsibility to make sure certain areas were performed in conformance with past Commission precedent.

Q. You say "certain areas."

Are there automatically certain areas that the lead auditor usually checks?

A. Generally the lead auditor is responsible for supervising -- or for the supervision of the work performed by the Accounting Staff.

Q. And do you also have Staff members who are not accountants who work on testimony?

A. Yes.

Q. And would there be anyone who would supervise their work to ensure that it's followed -- it follows the Staff precedence?

A. Are you speaking generically?

Q. In this particular case.

A. For this particular case, I'm aware that both myself and Lena Mantle would have been responsible to hopefully provide the cost-of-service calculations consistent with past Staff precedent on Commission decisions.

If there was a variance from that, it would require additional approvals.

Q. And --

A. I'm also --

Q. I'm sorry.

A. I'm also aware that other individuals would be involved in that -- in the process of -- I don't want to say checking workpapers, but verifying that the positions were consistent with what we -- what the Staff has done in other cases.

Q. So it's important in putting together the filed testimony that the Staff not depart from past Staff precedent?

A. It's important not to?

Q. Yes.

A. No.

Q. It's important to know whether or not you're departing from past precedent?

A. I think what I was trying to say is it's important to justify why the past Staff precedent or Commission decision is not being followed, as that would ultimately need to be discussed within -- within the Staff.

Q. And for this particular case, in addition to Jim Schweiterman, yourself and Lena Mantle, would there be any other Staff members who would need to discuss and were approve a deviation from past Staff precedent?

A. I wouldn't be aware of all Staff discussions regarding either adherence to past Staff precedent or Commission decision.

Q. Do you have a formal policy in place that determines how the Staff will approve or disapprove of changes from past precedent?

A. I'm not sure if it's a formal procedure.

For purposes of this case, if I felt that a position either wasn't consistent or may be new precedent, I would keep Bob Schallenburg apprised of those movements.

Q. And would he need to sign off on any changes from past precedent?

A. I don't know that it's specifically a sign-off. If we had a discussion and he felt comfortable with the direction that the audit or the case was going, we would proceed. The Staff would proceed.

Q. Have all of the changes from past Staff precedent that have been proposed in the testimony in this case been approved by Mr. Schallenburg?

A. I can't -- I can't speak to specific approvals.

Mr. Schallenburg would have been made aware of changes through coordination meetings or discussions with either myself, Mr. Dottheim, other members of the Staff.

Q. If Mr. Schallenburg disapproved of a proposed deviation from Staff precedent, would that change from Staff precedent still be proposed in the prefiled testimony?

A. I'm not aware of any position that's filed in the Staff's cost of service that Mr. Schallenburg objected to.

Q. And are you confident that all changes in positions from past precedent would have been brought to his attention?

A. Again, I have problems with the word "all," but I feel confident that departures from past precedent, either Commission orders or Staff positions, various individuals would have been discussed with Mr. Schallenburg.

Q. So it's very likely that any change from past

Commission precedent or Staff precedent would have been discussed with him?

A. Yes. And --

Q. You said not all just because you --

A. And I need to explain, probably.

Commission precedent and Staff precedent, whichever would be the most recent. They're separate.

Q. Those are two different categories?

A. Yes.

Q. But each category would have been reviewed?

If it was a change from Staff precedent or if it was a change from Commission precedent, that would require some discussion and review probably with Mr. Schallenburg?

A. Yes.

I mean, for example, the net salvage issue would have been discussed with Mr. Schallenburg.

Q. And Mr. Schweiterman is lead auditor and yourself and Ms. Mantle, I guess, were area coordinators?

A. Project or case coordinators.

Q. You also would have been appraised of changes from past precedent?

A. We attempted to keep abreast, yes.

Q. Is there anyone else in this -- who worked on this particular case who was in a position to approve or disapprove of changes from past precedent?

A. It would be my understanding that if that situation occurred, Mr. Schallenburg would have been informed.

Q. Okay. But there is nobody else who acts as a screen or a filter below Mr. Schallenburg who would veto a change that was proposed before it would get to him?

A. When you say "veto a change," would that be moving --

Q. Retaining a prior position.

I mean, if a Staff witness reached a conclusion that constituted a change in position from the past precedent, is there somebody else between that person and Mr. Schallenburg who would review it and could say, no, this is a change from past precedent, don't do it this way, keep our earlier position?

A. Generally speaking, that would have been either through myself, Lena Mantle or Mr. Dottheim.

But I don't recall at any time an individual at the Staff saying that a change in position couldn't be explored by Mr. Schallenburg.

Q. Okay. So they all would end up going to Mr. Schallenburg?

A. Theoretically they're supposed to go through the project coordinator and the case coordinators, but that doesn't always happen.

Q. Okay. And the role of the lead auditor in one of these cases is to keep track of the work being done by the accountant witnesses?

A. Generally speaking.

Q. And does that job go throughout the case from the filing -- from the preparation of the filing of testimony, all of the way up to the hearing?

A. Generally.

Q. But in this particular case Mr. Schweiterman is no longer with the Staff. Correct?

A. That's correct.

Q. And have the lead auditor duties been passed off yet, to your knowledge?

Again, if you don't know the answer to something --

A. Not officially.

We -- the Accounting Department has not discussed who the replacement would be, or even if a replacement will be named.

Q. But informally has anyone on the Staff taken on the burden that Mr. Schweiterman would have shouldered as the lead auditor?

A. Internally I've had discussions with Mr. Rackers, Steve Rackers, to -- and in conjunction with reassigning Mr. Schweiterman's and Mr. Griggs' area. We've discussed our -- the strategy or the Accounting Department strategy to complete the case.

Those discussions haven't gone beyond Mr. Rackers and myself.

Q. Are you saying that the lead auditor function is currently being performed by yourself and Mr. Rackers, not officially but informally?

A. That would be correct.

Q. Okay. Is there any policy in place that the Staff uses to determine when it should depart -- I'm sorry -- when it should depart from past precedent?

We've talked about the process that is followed. Do you know if there is any policy that would dictate when a precedent can be departed from?

A. I'm not aware of one.

Q. Okay. So for the witnesses that you're identified in the interrogatories as having had a hand in preparing their testimony, one of the roles that you might have played would have been discussing the topics of their testimony with them beforehand.

Is that a fair --

A. That would -- excuse me. That would definitely apply to the accountants. To individuals outside of the accounting --

Q. So is Cassidy the first person of the ones that we've gone through that that applied to?
A. John Cassidy is an accountant, yes.
Q. Because we talked about Bax, Bender and Bible, but all we were talking about was typographical corrections and whatnot?
A. Right. I mean, Mr. Bible, Mr. Bax and Mr. Bender are not in the Accounting Department.
Q. And Mr. Gibbs, Doyle Gibbs, interrogatory response 16 through 18, you're identified as reviewing his testimony and participating in it.
He's one of the Accountant Staff?
A. That's correct.
Q. So your participation also would have included, I guess, discussing the topics that he would be covering before he wrote the testimony?
A. Generally.
I think just so it's clear, the interaction between myself and the accounting witnesses can vary dramatically between individuals based on their experience at the Commission.
Q. So your direction of Mr. Cassidy -- did you assign Mr. Cassidy his items that he covered?
A. Is your question, was I the one ultimately responsible to sign out the areas?

Q. Yes.
A. No.
Q. And who would that be?
A. The issues were compiled with the witnesses and approved by Mr. Schallenburg.
Q. Okay. So Mr. Schallenburg would be the person who would determine ultimately which Staff witness would handle which issue?
A. I'm not sure if it's that detailed.
I provided a list in consultation with other members of the Accounting Department of the witnesses and areas they should address. Mr. Schallenburg reviewed those, that recommendation, with an emphasis on employee development and regulatory experience.
Q. Employee development meaning is this a good opportunity for the witness to learn how to do a particular audit.
A. Yes.
Q. Okay.
A. Area.
Q. Area.
And experience would be if it was a complicated area, perhaps that you needed a witness that had experience in that area before?
A. All of those things, coupled with what is the

current workload of the individual being assigned.

The problem with it was that the Staff in the Accounting Department was fluid at the very beginning of the project. Certain individuals were moved off of the project and other individuals were moved on because of workload.

And then coupled with that was two of the Accounting witnesses left the Commission after they filed the testimony.

Q. Is that Mr. Griggs and Mr. Schweiterman?

A. Yes.

Q. Okay. Can you identify areas that the Staff would normally assign to experienced auditors due to the nature of the area?

A. Is your question, certain areas of an audit, does that lend itself to certain auditors being assigned to those areas?

Q. Essentially.

You had mentioned that the things that were considered in the assignments are the employee development and their experience, and I was wondering if there are certain areas that you would -- that would lend themselves to a witness with experience as opposed to someone who is learning it on the job.

A. Well, obviously, auditors that have just begun their jobs with the Commission would not be assigned the more difficult areas.

Q. And what would be the more difficult areas, in your opinion?

A. Fuel, revenue, pensions and OPEBs, income taxes. Those are examples.

Q. Are there any other difficult areas that you can think of that would normally be assigned to the more experienced auditor?

A. Without going through the list, I would say I just gave you some examples there. It's not exhaustive.

I can take the time and look at the whole case if you'd like. I was just giving you examples.

There wasn't a -- there wasn't a conscious decision to keep anybody from doing an area.

Q. Based on experience?

A. We looked at workload, the development of the employees. Or at least this was the final factors that Mr. Schallenburg weighted on.

Q. Is the total dollar impact of an area that's being looked at one consideration in deciding whether to assign it to a more junior or a more senior auditor?

A. Not necessarily.

Q. Okay. Did you give any particular direction to Mr. Cassidy as to how he should -- what methodology he should approach in doing his testimony, methodology he should adopt in doing his testimony?

A. Again, I would probably restate that the drafting of the testimony at that stage generally is a recounting of the position that the auditor or the Staff member has already developed.

Q. Did you help determine what the positions should be that Mr. Cassidy's testimony -- that would be taken in Mr. Cassidy's testimony?

A. I'm sure I provided suggestions through the audit. Specifically I can't remember where I said you had to do this. That was never the case.

Q. Okay. So you can't -- so to be clear, you can't recall any instance that you recall you told him that he had to do something a certain way?

A. Not that I can recall.

Q. Okay. Is the same thing for Mr. Gibbs?

A. Correct.

Generally, all of the witnesses by the filing of the testimony support the areas that they're in.

Q. But you didn't direct Mr. Gibbs to have any -- to take any particular positions on his issues?

A. Not that he didn't feel comfortable with. No witness would have -- no witness is required to file an issue that they don't either support or believe.

Q. Are there any occasions that you can recall in this particular case in which you had asked one of the Staff witnesses to change the position they were taking and they agreed and changed their position?

A. I'm not aware of any situation where discussions were held between myself and other members of the Staff who were working on the audit where a position was told that it had to be changed, that the witness didn't agree to or already had developed.

Q. Okay. And were there any instances that you recall in which you suggested that a position that had been developed, be changed and that the witness then agreed and changed it?

A. Can you repeat that?

Q. Yeah.

Are there any suggestions you might have made -- that you can recall in the course of this case that you made to a witness that the witness agreed to make?

A. I'm sure there were during the course of the audits. That's probably done -- I don't want to say all of the time, but it is not --

Q. It's fairly common?

A. Well, to have discussions between auditors and -- because of our -- the experience that our senior auditors have, making suggestions that perhaps you'd like to -- you need to look at this or did you consider this, and through that regulatory experience the auditors proceed and develop the issues.

Q. But you can't recall offhand any particular suggestions -- any particular suggestion you may have made to an auditor to change their position?

A. I mean, as an example, I recall Mr. Cassidy and I had a discussion regarding his handling of the legal expense -- accrual. Excuse me. Strike that -- the environmental expense accrual for the purposes of the rate case.

Q. Do you recall any similar suggestions made to Mr. Gibbs?

A. I can't recall.

Q. Or Mr. Griggs, Mark Griggs?

A. Well, like I said before, there is numerous discussions that occur within the context of the audit that -- that because of those discussions either new areas are looked at within the context of the audit or new avenues are pursued. There is no documentation, though, kept of those discussions.

Q. By the time that the testimony draft is reviewed by you, the positions taken have already been worked out, so that that is why in the interrogatories the review is being described as one for typos and grammatical changes and whatnot, because any discussions about methodology would have taken place prior to testimony being written?

A. I would generally agree with that. There is usually few surprises by the time the testimony is formated.

Q. So you don't recall making any substantive changes to Doyle Gibbs' testimony?

A. No.

Q. Or Mark Griggs' testimony?

A. Again, this would be in the context that because of my review the position was changed?

Q. Yes.

A. No.

Q. Okay.

Or Paul Harrison's testimony?

A. No.

Q. And you reviewed Lena Mantle's testimony.

Any substantive changes there?

A. Given --

Q. You're identified as general overview?

A. That's correct.

Q. And what would that entail?

A. I don't know what her definition of "general overview" is. I reviewed her testimony. My review didn't change her position.

Q. Okay. And also Jolie Mathis --

A. Correct.

Q. -- no changes in position?

Now, on page 17 of the interrogatory response, you're identified as being one of the people involved in the response to Interrogatory No. 73.

Could you turn to Interrogatory Response 73 on 64?

Do you recall what part you might have played in making this response?

A. What role I played in that response?

Q. In the response, yes.

A. I would have coordinated the distribution and data between Mr. Bible and Mr. Rackers to make the calculations on page 27 of the February 1 report.

The basis for the statement contained in 73 would have been done in discussions of the Staff in preparation of the February 1 report --

Q. Okay.

A. -- which I was involved.

Q. And in coordinating the data, would you have been the person who calculated what the excessive earnings would have been as alleged by the Staff on page 27 of the report?

A. No. I believe Mr. Rackers testified in his deposition that he did that calculation.

Q. So in coordinating the data, you recall merely making sure that Mr. Bible provided his number and Mr. Rackers did his calculation?

A. Yes.

Mr. Bible, I believe, gave me the information and I forwarded it to Mr. Rackers.

Q. Okay. And you didn't review Mr. Bible's return on the common equity number for purposes of determining whether that would have been the Staff's position in any given year?

A. I reviewed the numbers he provided, but I did not make a determination if those were correct.

Q. Okay. And you were also identified as having a hand in the response to No. 76, and that begins -- No. 74 is on page 67 of the Staff's response.

Do you recall what participation you would have had in making this response?

A. My role in response to 74 would have been -- again, been through discussions that the Staff had in relation to compiling the Staff's EARP report for February 1.

The specific statement I believe was drafted by

Mr. Dottheim.

Q. Okay. He's not in the hot seat. It's one seat removed.

A. That's why I blamed him.

Q. You can blame Mr. Rackers too. He's two seats down. He's already had his fun.

In No. 75 you've also been identified as having a hand in answering.

A. Yes.

Q. Do you recall what your participation would have been in this?

A. I would have provided the basis for the response directly under 75 for the targeted separation plan as mentioned.

Q. What plan? I'm sorry?

A. Targeted separation plan. It's described on page 70.

Q. Okay.

A. At this time that's all I can directly attribute to.

Q. And there were a few more auditors, I believe, whose testimony you might have reviewed or participated in.

Do you recall suggesting any changes in positions for the items that Mr. Rackers handled?

A. No.
Q. Or Mr. Schweiterman?
A. I think I informed Mr. Schweiterman that he needed to put testimony in regarding test year.
Q. Okay. That was just to fill a gap that wasn't being handled?
You weren't telling him to change your position; you were just saying to add a section on test year?
A. Correct.
Q. Okay. And Ms. Teel?
A. Ms. Teel's testimony would have had very few modifications since her areas were largely derived from past Commission precedent and Staff testimony.
Q. So there would have been no need for a change in position to be suggested; that you were confident that the positions weren't changed?
A. For a large part of her testimony, that's correct.
Q. And you can't recall any suggested changes in position for the other portions of the testimony?
A. None that aren't identified in the response.
Q. And Mr. Watkins, did you make any suggested changes in his positions that he was taking prior to his writing the testimony?

A. Nothing that would have changed his position.
Q. And you didn't suggest any substantive changes when you reviewed Mr. Rackers' testimony?
A. No.
Q. Or Mr. Schweiterman's testimony?
A. To change their positions, no.
Q. Or Ms. Teel's?
A. I don't recall in Ms. Teel's, because I'm not sure if Ms. Teel and I didn't have some discussions about the classifications of certain ads in the context of her testimony.
Q. But you can't recall any specifics of these discussions right now?
A. No.
Q. Okay. Now, your testimony was originally drafted by Mr. Traxler?
A. Correct.
Q. And does that mean that Mr. Traxler was originally assigned the role of -- assigned the responsibility of determining what the Staff's positions would be on the pension and OPEB issues?
A. I wouldn't agree with that.
Mr. Traxler possesses the most expertise in these two areas from the Accounting Department.
Q. So that when the Staff position was being

formulated for the two areas of your prefiled testimony -- by the two areas I mean pensions and OPEBs -- were you the person who was responsible for determining what the Staff position would be?

A. When I was assigned the areas of pension and OPEBs, it was my belief that the traditional OPEBs and pensions adjustments, as have been previously calculated in the most recent past, would be used for purposes of this case.

MR. DOTTHEIM: Mr. Wolski, are we approaching a good time to break for lunch? I don't mean to stop you in the middle of a line --

MR. WOLSKI: Yeah, I guess we can do it. We can break for lunch.

We can go off the record now.

(THE LUNCH RECESS WAS TAKEN.)

BY MR. WOLSKI:

Q. Okay. Mr. Meyer, you had mentioned that there was -- during the break you mentioned that there was something you wanted to clarify from your earlier testimony today.

A. Yes. I think earlier this morning we talked -- or talked about the change of position by the Staff regarding FAS 87 and 106 being tied specifically to the dates that those pronouncements were enacted.

And I just -- I misspoke this morning. The Staff moved to the adoption of 87 more so in the time frame of the requirement that Missouri law placed on the adoption of 106, FAS 106. That would have been more the time frame of when the Staff moved to adopt 87.

Q. I believe that was in 1994 when Missouri law adopted the requirement of following the 106?

A. Right.

Prior to that the Staff in many rate cases before the Commission had not adopted 87.

Q. Okay. So then rather than 1987 as the dividing line from when your prior testimony on pensions and OPEBs would have been under different methods, it actually could have been as late as '93 or '94, I suppose, before the law was --

A. Correct.

Q. Okay. Thanks for clarifying that.

Now, before we broke we were discussing the fact that Mr. Traxler had drafted the testimony on pensions and OPEBs originally.

And I would like, if you could, for you to explain what the process was by which the Staff adopted its position in this particular case on the pension and OPEB issues.

A. I'm sorry. Could you rephrase the question?

Q. Sure.

Earlier we were discussing the process that the Staff followed in determining what the Staff position would be on particular issues before testimony had been drafted.

And in this particular instance the testimony was drafted initially by Mr. Traxler, I believe.

Is that correct?

A. That's correct.

Q. Now, was Mr. Traxler the person who worked on developing what the Staff's position would be on pensions and OPEBs in this case prior to the drafting of the testimony?

A. No. I would have been responsible for gathering the information, requesting the information, to develop the Staff's adjustments as they related to these areas.

I would have consulted with either Mr. Rackers or Mr. Traxler on the issuance of data requests and the gathering of information and the development of the adjustments themselves.

Q. And this testimony, again, is the first testimony you've given on pension and OPEBs in seven years. Correct?

A. At least.

Q. Is there any particular reason why you had been assigned to do the pension and OPEBs issues since you hadn't done them in so long, considering that you hadn't done them in so long?

A. Ultimately it was Mr. Schallenburg's decision that I needed to get the exposure to this area, being one of the senior accountants in the department.

Q. Okay. Now, is it typical that a different Staff member will draft the testimony for areas that were handled by a different auditor?

A. No. This is an exception.

Q. And is it an exception because Mr. Traxler is the -- I think you said was the Staff expert on pension and OPEBs?

A. No.

I simply didn't have the time towards the end of the period to file -- to draft the testimony and get it filed with the other responsibilities I had with the case.

Q. Okay. But you had pulled together all of the numbers and made the -- and constructed the workpapers and did the calculations for these areas. Correct?

A. I was able to retrieve the numbers from the reports, set them up -- the format had previously been used by another auditor, attempt to quantify the adjustments.

I still relied on Mr. Rackers and Mr. Traxler to go through the calculations with me.

Q. Okay. But then when it came down to putting it on -- putting the position on paper, you didn't have the time given your other -- the other demands on your time at work. So that's why Mr. Traxler had stepped in and drafted the initial draft?

A. Right. I started -- I started to work on the testimony, but given the other responsibilities to get the case filed, I couldn't complete both.

Q. Okay. And did Mr. Traxler review all of the workpapers of yours relating to pensions and OPEBs when he wrote this, the draft of the testimony?

A. Mr. Traxler would have reviewed the one -- the one workpaper and then the supporting documentation.

Q. Okay. And he drafted the initial -- or he drafted the first draft of the testimony.

How much of this was changed by you prior to your filing it? Do you recall?

A. Very minimal amounts.

Q. But this is your testimony?

You stand by everything in here, given that those numbers have to be corrected, but all of the statements in the testimony are yours?

A. They're under my affidavit.

Q. Now, on page 3 of your prefiled testimony, lines 21 through 23, you're, I believe, describing the 1994 Missouri law that requires FAS 106 to be applied.

And you state that the Commission must adopt the FAS 106 method for ratemaking purposes as long as the assumptions used by the utility are considered reasonable and the amounts collected in rates are placed in an external fund by the utility.

Do you have a particular method that is used to determine whether the assumptions used by a utility are reasonable?

A. No.

Q. Does the Staff have a particular policy or methodology that it would follow to determine if the assumptions used by a utility are reasonable?

A. I'm not aware that the Staff has challenged an actuarial assumption in the context of the OPEBs and pensions area in the recent past.

Q. So this has never -- so to your memory this has never been an issue where there have been assumptions used that would be deemed unreasonable?

A. The actuarial assumptions?

Q. Yes.

A. The assumptions that are referenced in your testimony, lines 21 to 23.

A. The way that I read that testimony would be the actuarial assumptions.

And the answer would be, I didn't challenge those.

Q. Now, are you making a distinction between actuarial assumptions and financial or accounting assumptions in that answer?

A. Yes.

Q. Is there any policy or method used by the Commission Staff to determine whether the financial/ accounting assumptions, as you've identified them in your testimony, that were used by a utility would be unreasonable?

A. It's the Staff's belief that the use of the financial assumptions as contained in my adjustments are reasonable assumptions.

Q. So that if the adjustments that you propose are not followed, that would be unreasonable?

A. Are you asking me if the Commission made a determination that -- not to --

Q. Let me rephrase that. Maybe I'll make it clearer.

On page 3 of your testimony, you say that the Commission's obligation to adopt the FAS 106 method is contingent on the assumptions used by the utility being reasonable.

And on page 4 you list five assumptions that you put under the category of financial and accounting assumptions.

Does the Staff have any policy or methodology that it uses to determine whether any of these financial/ accounting assumptions that you've identified on page 4, when used by a utility, would be unreasonable?

A. I suppose I would answer to the extent a utility used financial assumptions that differed from those financial assumptions presented in my testimony, the Staff would have concern about the reasonableness in nature of those assumptions.

Q. And the basis for that conclusion is that the assumption used by the utility differed from the assumption used in your testimony?

A. No.

The difference would be the fact that the Company has used financial assumptions different than what the Staff has consistently applied to -- I hate to use the word "all" -- but most of the major utilities in the state of Missouri.

Q. Is there a range of assumptions -- is there a range of reasonableness in which assumptions may fall, or must an assumption have to be the assumption used by the

Commission and the Staff in order to be considered reasonable?

A. I'm not aware of any standard out there that says that a utility must adopt the financial assumptions proposed by the Staff as being reasonable.

Q. But if they don't, you would consider the use of a different assumption to be unreasonable?

A. I don't know that I testified to that either.

Q. Well, I'm asking you now if you would --

A. No.

Q. -- consider that.

A. I would have to look at that, at the assumptions, and then make a determination on the reasonableness.

Q. Are any of the assumptions used by UE in its pension and OPEBs unreasonable in your opinion?

A. To the extent that UE continues to calculate its pension in OPEBs using the market-related value of the assets versus the Staff's position could be considered an unreasonable assumption.

I have trouble making a quantification on what becomes unreasonable and reasonable just because of the differences of assumptions.

The Staff has studied this extensively and believes that the financial assumptions as presented in my testimony and on numerous other occasions presents the best reasonable fit for those areas.

Q. And it also follows FAS 106?

A. I'm not aware that we're -- that we were -- that the Staff's position in this area violated 106.

Q. On page 5 of your testimony, lines 9 through 10, referring to the assumptions you identified in the previous page as being financial/assumptions, you state, quote, someone with a financial and/or accounting background on the other hand could develop all of the financial assumptions.

Could you explain how much of a financial or accounting background one must have in order to be able to develop these assumptions?

A. I don't know that there is a specific measurement tool in that area.

Obviously, as an individual works with the areas and becomes more familiar, their level of expertise would increase and their ability to perform the analysis independently would increase also.

Q. So if there were an area that someone hadn't worked in in several years, that would tend to lead one to conclude that they wouldn't have the financial or accounting background to develop the financial assumptions?

A. I don't believe I said that.

Q. Would that be the case?

A. No.

I -- I believe I have the financial -- the accounting background to understand and file the adjustments that are presented in my testimony and that back up the policy of the Staff at this time regarding these areas.

Being that this is the first time I've testified -- or written the testimony in this area from several years, I had to rely on the expertise of co-workers -- co-Staff auditors.

However, I believe that if I had -- if I am given the opportunity to do again do this area in the future, my reliance on those individuals will decrease as my experience and expertise increases.

Q. Do you know how any of these financial/accounting assumptions that the Staff employed in this case were determined?

For instance, we can go down the list, I suppose.

The financial/accounting assumptions regarding income earned on plan assets.

Do you know how that assumption was determined?

Was that -- actually, first let me ask: Was that assumption determined by you?

A. No.

Q. Was that assumption determined by Mr. Traxler?

A. I believe that assumption was -- or is derived from the actuarial reports.

Q. Okay. And the next one, future salary increases, was there an assumption derived --

A. Excuse me?

A. I'm sorry.

Q. I'm sorry.

Was there an assumption regarding future salary increases that was derived by yourself or a member of the Staff for this case?

A. That assumption -- it wasn't necessary to adjust that assumption to present the Staff's position.

Q. Okay. And the third one, time value of money or discount rate. Was that assumption determined?

A. Sorry.

Q. Sorry.

A. No. It was my fault.

Again, the Staff did not attempt to change those assumptions.

Q. Okay. And the next one, amortization period for gains and losses, was that assumption determined by yourself?

A. No.
Q. Was that assumption determined by Mr. Traxler?
A. I would say that that assumption is the current Staff position.
Q. Do you know how that assumption was determined in the first instance?
A. I am aware that it's changed. I would be speculating to tell you what the first position under the amortization on gains and losses was.
Q. Well, do you know when this particular position was first adopted by the Staff, the position you take in your testimony on amortization period for gains and losses?
A. I'm sorry. I misunderstood you.
Q. On page 4 of the list of the financial/ accounting assumptions, amortization period for gains and losses.
I guess my question is, do you know when the current Staff position -- which I believe you said is the one that you employed in your testimony -- do you know when that was first adopted by the Staff?
A. And what I was attempting to do is, I think if you reference later in my testimony, you'll find that at least it's mentioned where those -- that position has been stipulated to in prior cases.

So at least that -- that would be a benchmark.

Q. And do you know how the method -- how the assumption was determined in those cases?

A. The current?

Q. Yes, how it was determined that that's the assumption you should follow.

A. The assumption regarding gains and losses, like I said previously, has evolved over years and has been refined to, you know, a couple of times at least to address concerns that parties have raised regarding that area.

So I don't know -- I cannot specifically recall at what point the Staff moved to the -- to this present position.

Q. Okay. And the final assumption is the use of the corridor approach for gain/loss recognition.

Did you determine that assumption?

A. There wasn't a need in the context of this filing to address that since the actuarial reports that I reviewed I do not believe contained the use of that assumption.

Q. Okay. Do you know what professional standards of practice would govern how the financial/accounting assumptions listed on page 4 would be developed?

A. Could you repeat that?

Q. Can you identify what the professional standards of practice would be that govern how these financial/accounting assumptions are developed?

A. Yes.

I believe there is a section in both the FAS 87 and the FAS 106 pronouncements that address the adoption of a method of annualization of gains and losses, that spells out that it has to be consistently applied.

And that's the attempt that the Staff has -- has made in the cases for this Commission.

Q. Are you familiar with the Actuarial Standards Board?

A. No.

Q. And have you heard of the Actuarial Standard of Practice No. 27?

A. No.

Q. Would you happen to know if an enrolled actuary was involved in determining the Staff's assumption regarding the financial/accounting assumptions, that list of assumptions?

A. And your question is, did we enroll an actuary --

Q. Did you use an enrolled actuary to help determine those assumptions?

A. And that would include the gains and losses to amortization?

Q. Yes.

A. I don't believe we did.

Q. Okay.

A. Nor, as I think my testimony speaks to, would I need to -- would the Staff need to. Excuse me.

Q. Are you aware of any publicly held corporations that do not use an enrolled actuary to design their ERISA plans?

A. No.

Q. Do you know any publicly held corporation that do not use an enrolled actuary to calculate the liabilities under their pension and OPEBs?

A. No.

Q. On page 5 of your testimony, lines 10 through 13 you state -- and I'll read this from the testimony -- "For example, a decision as to the number of years to use for gain/loss amortization or use of the, quote, corridor approach, unquote, for gain/loss amortization is a judgment made based upon the impact of cash flow on the financial statements and/or impact on utility rates."

Could you explain what you mean by the impact on utility rates playing a role in the decision as to the number of years to use for gain/loss amortization or use of the corridor approach?

A. Well, I believe as with any adjustment a reasonableness check -- or a check, so to speak, would have to be -- or has to be considered of the impact an adjustment might ultimately have on a utility's rates.

For instance -- for example, the -- in the theoretical reserve adjustment that the Staff is proposing, the period of amortization was discussed due to the magnitude of the dollars that were being addressed.

Q. So the proper methodology to use concerning the number of years over which gain/loss amortization will take place is based on the impact that the resulting number will have on utility rates?

A. No. If I said that, I didn't mean to convey that.

I think that the -- that the adjustments, given the consistent treatment, would need to be looked at as to their impact on a utility's rates.

For purposes of this case it's not my opinion that these adjustments would severely impact AmerenUE as these -- the methodologies utilized have been consistently applied to other utilities in the state of Missouri.

Q. You said you do not believe it would severely impact AmerenUE's rates.

Is the impact on AmerenUE's rates one consideration in determining whether this gain/loss amortization method should be adopted?

A. Is your question whether the adjustments should be offered or quantify -- after quantification, determine whether they should be included in the cost of service based on the impact that they have on the utility's rates?

A. I guess my question is: Did the impact on AmerenUE's rates -- was that any consideration in your determination of the gain/loss amortization approach?

A. No. The adjustments did not reach -- and I don't have a threshold, but they weren't of a magnitude that would cause me to -- to look at alternatives.

MR. WOLSKI: Do you want to stop here?

MR. DOTTHEIM: If it's convenient. Not that any point is convenient.

MR. WOLSKI: We can stop right at this moment if you have to go upstairs.

MR. DOTTHEIM: I'm sorry.

MR. WOLSKI: We're off the record.

(A RECESS WAS TAKEN.)

(ERIC ANDERSON SAT IN FOR STEVE DOTTHEIM FOR THE REMAINING PORTION OF THE DEPOSITION.)

BY MR. WOLSKI:

Q. We left off talking about the statement on page 5 of your testimony, and if I could revisit what you had said earlier to make sure I understand it.

I believe you said that the impact on utility rates would be relevant to a decision as to the number of years to use for gain/loss amortization inasmuch as you would look at impact on utility rates as a reasonableness check to see if the -- would that -- I believe that's what you said earlier.

Now, would that reasonableness check entail determining whether using a certain number of years would reduce rates too much or increase rates too much?

Is that how a reasonableness check would be conducted?

A. I think that the check would have -- I mean, the check would be done in a manner similar to what you described. I'm not sure if it would be exact.

And I don't know that -- I don't have with me, necessarily, a dollar trigger. But obviously you should weigh the amount of the adjustment against the total picture.

And I think you also stated earlier that after performing these adjustments, the magnitude of these adjustments didn't qualify for that.

Q. And these adjustments in our case were made using a method that had been adopted by the Commission -- by the Commission Staff in the past. Correct?

A. For other utilities, correct.

Q. And would you know if the impact on utility rates was considered when this particular method of amortizing gain or loss was adopted by the Commission Staff?

A. If you're asking me if I specifically know that an individual sat down and did a -- as we've coined the term -- a reasonable check, I don't.

However, I would suspect that some type of review or check would have been performed when those adjustments were presented.

Q. Is there any other factor that would be considered in making a judgment concerning the number of years to use for gain/loss amortization other than the two listed in your testimony, the impact of cash flow and the financial statements and/or impact on utility rates?

A. There may be others. I just don't recall any at this time.

Q. Okay. I believe you mentioned that the method you're proposing for AmerenUE in this case has been followed -- or is being followed by several other Missouri utilities?

A. If I said that, I misspoke.

The methodology has been proposed by the Staff in several other -- dealing with several other --

Q. But the other utilities didn't on their own in a rate filing that they may have made propose to adopt this particular methodology?

Or I might say change to this particular methodology, I guess is the --

A. I think if you look at the question on the bottom of page 8 and the top of page 9, that at least two utilities in specific rate cases did file using this methodology for unrecognized net gain/losses.

Q. And that would be Missouri Gas Energy and Laclede?

A. Correct.

Q. And both of those companies adopted this methodology as a part of a prior stipulated settlement?

A. I believe that the way the question and answer are worded, they actually filed those positions in their testimony, their direct.

Q. But that would be in the current -- in the rate cases?

In the prior page, page 8 your testimony says that the -- okay -- okay. Would you happen to know if the five-year average balance of -- the unrecognized net gain/loss over five years approach was adopted by either of these companies prior to their filing in the two rate cases listed on page 9?

A. I believe Laclede Gas Company did adopt the

Staff's position within the context of a stipulation and agreement in their case prior to the GR-99-315.

Q. That would be the GR-98-374 case?

A. Correct.

Q. And Laclede -- in Laclede's -- I'm sorry. You just said Laclede. Right?

A. And I have no prior knowledge of MGE.

Q. Okay. So the MGE's -- I believe the testimony says that MGE, in Case No. GR-98-140, stipulated to this method in the settlement of that case, page 8, lines 16 through 18?

A. Yes, it does.

Q. Okay. So that both of the utilities that have filed rate cases under this method had previously adopted the method in settling a prior case?

A. That's what the testimony says, yes.

Q. Okay. And I take it that since your testimony does not say that in those two previous cases, in the Missouri Gas Energy case, GR-98-140, and the Laclede Gas case, from GR-98-374, that they filed the rate case using the Staff's method, that in those cases -- those two prior cases they did not file using the Staff's method?

A. I didn't -- I did not personally review the Missouri Gas Energy testimony in 98-140; therefore, I don't know the specifics of that.

However, due to the fact that it was excluded on the answer -- the question and answer began on the bottom of page 8 and continued through page 9, I would assume that's correct.

Q. And do you know if Laclede in their most recent filing proposed use of the Staff method?

A. No, they did not.

Q. Okay. And was that filing prior to the filing of your testimony, do you recall?

A. I believe it was.

Q. It was or was not?

A. It was.

Q. Okay. And I believe you said earlier that the market-related value of assets approach used by AmerenUE was an unreasonable assumption under FAS 87. Is that --

A. I don't think I said it that way. I said I think -- I thought that the use of the fair value was a more reasonable assumption when compared to the market related.

Because I believe I quantified that sometimes it's hard to -- to get between the threshold of reasonable and unreasonable.

Q. So that you don't -- you don't contend that the market-related value approach is unreasonable then?

A. I didn't say that either. I just said --

Q. Well --
A. I said that the position we're taking presents the Staff's belief of the most reasonable approach.
Obviously, reasonable can be qualified and quantified differently between parties.
Q. Do you contend that the AmerenUE market-related approach is unreasonable?
A. Versus the fair market value, yes.
Q. Considered under FAS 87 and FAS 106 and based on the requirements of FAS 87 and FAS 106, would you state -- would you contend that the market-related value approach of the Company is unreasonable?
A. I believe I just answered that, saying that when you compare it to the other alternative, which is using fair market value, adoption of market-related value I believe is unreasonable.
Q. And what do you believe the purpose of FAS 87 to be?
A. The purpose?
Q. The purpose or purposes, if there is more than one purpose.
A. In my opinion, FAS 87 was adopted to provide consistent accounting recognition for the pension obligation that a company will have to incur.
Q. By "consistent," do you mean consistent from

year to year -- from period to period by that company or consistent between comparable companies?

A. I believe the pronouncement discussions -- well, within the pronouncement there is discussion that would require some consistent approaches -- or consistent calculations from year to year.

However, the beginning or the preface of the statement discusses the need to have a consistent methodology for reporting -- for companies reporting, so that I think it's twofold.

Q. Would the same be true for FAS 106?

A. Yes.

Q. Would you happen to know what percentage of organizations would use a smooth-market related value of assets to determine FAS 87 expense?

A. No, I do not.

Q. Okay. Would you know what percentage of organizations would use average future service to determine the amortization period for gain/loss recognition?

A. No, I do not.

Q. Or what percentage of organizations would use the 10 percent corridor for gain/loss recognition?

A. No, I do not.

Q. Are you aware of any companies other than utilities in the state of Missouri who do not use the market-related value method?

A. I personally do not.

Q. On page 8 of your testimony, lines 6 through 9, you state, quote, Since the unrecognized net gain/loss balance is amortized in calculating pension and OPEB costs under FAS 87 and FAS 106, significant volatility in the balance subject to amortization has an undesirable impact on the calculation of annual pension and OPEB expense for ratemaking purposes.

I was wondering if you could explain first what the undesirable impact is that you're referring to?

A. The undesirable impact would be either the significant increase or decrease in the gain -- gain/loss amortization balance, which would affect the amount of either pension expense or OPEB expense in one year -- in a year for a utility.

Q. But for ratemaking purposes, how does that volatility have an impact?

A. It could create a situation where either a company could realize significant expense savings or have a significant expense increase merely due to the volatility of the change of the amortization of gain/loss balance.

Q. But does that assume that the company is in a rate case before the Commission?

A. No. I'm sorry. Excuse me.

Q. Other -- because, otherwise, once the rates are set in cost of service based on the numbers in the test year, the volatility from year to year shouldn't change the amount -- should have no impact on rates that -- that ratepayers pay, should it?

A. Well, that volatility may be a factor -- a major factor in a company's decision to either file a rate case or not.

Q. And which volatility do you think would be more important to control for these purposes: volatility of the amortization of gain/loss or volatility of total expense?

A. Volatility -- excuse me -- of?

Q. Of total expense. And, again, we're talking pension/OPEB.

A. These are -- both of these volatility assumptions are based just on pensions and OPEBs?

Q. Yes.

A. I'm not sure that I could make a determination of a rank of those in importance.

Q. But they would both be important for ratemaking purposes?

A. Yes.

Q. Okay. And do you believe that the method that is proposed in your prefiled testimony is more or less volatile than Ameren's current method when one considers the volatility of total pension expense and OPEB expense?

A. I think the Staff believes that the methodology that is presented in the testimony is a better guard against the volatility and recognizes the gains or losses in a more timely manner.

Q. Would you have proposed this methodology if you believed that it was more volatile than AmerenUE's current methodology concerning total pension expenses?

A. I know the Staff has looked at the volatility issue extensively in these areas, and has through the years changed the methodology in the gain/loss to address volatility.

And at this point the Staff believes that this is the best method to control volatility and still reflect the gains and losses -- the true gains and losses of the funds in a timely manner.

Q. And would you consider those two factors to be tradeoffs, that you might accept a little more volatility in order to have a more timely recognition of the gains and losses?

A. I believe in our -- I believe the Staff's current methodology considerably reduces the volatility in the gain/loss area, while still providing timely recovery of gains and losses.

Q. And do you believe that it also reduces the volatility of total pension in OPEB expense?

A. To the extent that the gain/loss is a component of the pension expense, the volatility naturally would -- I hate to use the words "flow down," but would transcend into the bottom line of pension expense, OPEB expense.

Q. If your proposed method were determined to be 50 percent more volatile than Ameren's method with reference to total pension and OPEB expense, would that be too much increased volatility for you to accept and would you still -- and would you not make the proposal?

A. Given my experience in this area, I -- I wouldn't rely solely on my judgment given those circumstances without -- without first seeking consultation with -- with other members of the Commission Staff.

Q. Is there any magnitude of volatility in which -- is there any magnitude of volatility increase that would be in your mind too much to accept in the proposed method and would then lead you to not change from Ameren's current method?

A. I honestly don't have enough experience in the area to -- to be able to give you an estimate of a change in volatility.

Q. Okay. And one of the principal objectives of FAS 87 would be to standardize the accounting for pension plan obligations? Is that . . .

A. Could you repeat that? I'm sorry.

Q. One of the principal objectives of FAS 87 would be to standardize the accounting for pension plan obligations. Would you agree with that?

A. I would agree with that within the context of the statement -- the parameters that are outlined within the statement.

Q. Within the FAS 87 statement, you mean? Not the statement I made?

A. Correct.

With the caveat that I believe the statement also allows regulated utilities the flexibility to move outside of that statement also.

Q. And you feel that the Staff's method proposed in your testimony is consistent with this objective of FAS 87?

A. Yes.

Q. Would you still feel that way if it was shown that the percentage of gain/loss account -- the percentage -- -- I'm sorry of the gain/loss account that your method -- the Staff's proposed method would capitalize into expense was several times greater than the average of utilities of comparable -- of a similar structure, similar regulatory requirements and similar plans as Ameren's?

A. Again, I don't have the -- near the experience that other members of the Commission Staff has in this area. However, I'm confident that Mr. Traxler and Mr. Rackers would have looked at those -- those situations.

Q. So you think that if it were the case, that your method required Ameren to capitalize and to expense a percentage of their gain/loss account that is several times greater than the average of comparable utilities, that they probably would not have proposed this method?

A. I don't think that's what I said.

I think -- or at least what I meant to say was that I feel confident that that type of analysis or those comparisons were looked at and the Staff still felt that this was the proper method to proceed.

Q. On page 13 of your testimony, lines 10 through 11, you state, "All large utility companies in the State of Missouri have well-funded pension plans."

How would you define a well-funded pension plan?

A. I would -- would qualify that to say that the pension plans currently are funded to meet the necessary obligations.

Q. So that would mean that the assets -- the plan assets are about equal to the projected benefit obligation of the plan?

A. I personally don't have knowledge beyond Ameren's. But I am aware, I believe, the reports that I reviewed would -- would bear that statement out.

Q. If you were to learn that as of September 30th, 2001 Ameren's pension plan assets were more than $100 million less than their projected benefit obligation, would you still consider the plan to be well funded?

A. I would have to look at -- at that before I could make a determination.

Q. And if the deficit were 200 million, would that --

A. My answer would still be the same.

Q. But if that were the case, you would -- would you then reconsider whether Ameren's pension plan was indeed well funded?

A. I'm sorry. Could you repeat that?

Q. If that were the case, would you reconsider your position that Ameren's pension plan is well funded?

A. I don't know that I'm in a position today to tell you where that demarcation point would be.

Q. The next couple of lines on page 13 you state: "Annual investment gains are the rule rather than the exception because the expected rate of return is usually significantly lower than the actual return earned, resulting in a significant "unrecognized" gain at the end of the year."

Do you have a way that you would quantify significantly lower?

How much lower would a return have to be compared to the expected return -- or how much lower would the expected return have to be compared to the actual return for it to be significantly lower to your mind?

A. Again, I don't know that there is a threshold.

The figures I recall looking at would suggest that the earned return on AmerenUE's investments historically have been greater than 2 to 2 1/2 percent at least over the expected rate of return.

Q. And what was the expected rate of return? Do you recall?

A. I seem to recall that the assumption is 8 1/2 percent.

Q. And do you believe that 2 to 2 1/2 percent would be significantly greater than the --

A. No, I didn't make that -- I'm sorry to interrupt.

Q. That's all right.

A. I didn't make that determination that that's significant. I just provided you my recollection of where those returns were at least at.

Obviously, the significance of a difference also is impacted by the -- the portfolio or the asset base you apply it to.

Q. But we're talking about returns, so we're looking at percentage numbers. Correct?

A. That's correct.

Q. So would a 1 percentage point spread between the expected return and the actual return be significant?

A. And, I guess, although the testimony states it that way, I think that you'd have to go beyond just zeroing in on the return and also look at historically what those assets have earned and also what the impact of that -- that differential is.

Q. But one of the reasons that the Staff opposes the use of market-related value is that the expected rate of return is usually significantly lower than the actual return.

So that this particular reason in your testimony is based on the return and not other aspects of the pension plan. Correct?

A. Excuse me?

Q. This particular reason given in your testimony is based on the return and not the other aspects of the plan?

A. Well, this statement in my interpretation is generic. It's used in the context of the market-related, but it's -- it's a statement as to the historical performance of the plant.

It's included in here as -- as another support for -- for deviating -- not accepting the market-related approach.

Q. And, again, you use the term "significantly lower." The term is in the testimony.

I just would like to know what -- how you would determine whether one return is significantly lower than another.

Is a half a percent -- half a percentage point difference between the actual return and expected return a significant difference?

So would the expected return thus be significantly lower?

A. And as I think I stated earlier, I don't have a threshold between what becomes -- I mean, there is no standard that says what is significantly lower in the Staff's position.

Q. So it could be .01 percentage points?

A. Well, you can put the extremes on it if you want --

Q. Or point --

A. -- but I don't -- as I said before, I still don't have a trigger.

Q. Okay. Do you have a ballpark over which one would say that the comparison of the expected return to the actual return would be significantly lower?

A. I don't, no.

Q. So there really is no quantifiable definition of significantly lower as it's used in that particular sentence?

A. Well, I thought that the question -- the line of the questioning was whether we had a standard, and I don't know that we do.

Q. Okay.

A. And I don't know that --

Q. In your opinion --

A. Go ahead.

Q. No.

In your opinion, then, how much of a difference between an expected rate of return and an actual rate of return would constitute the expected rate of return being significantly lower?

A. I don't have a trigger.

Q. Okay. So it could be as low as a tenth of a percentage point?

A. Well, obviously I believe it's greater than a tenth of a percentage point, but we can go back and forth about is it one or is it two or is it a half?

Like I said, I don't have that trigger.

Q. Okay. Also on page 13, lines 18 through 20, you state that "The market-related approach results in a continual understatement of the value of the pension fund assets and an overstatement of pension costs under FAS 87."

By this statement do you mean that the market-related value is continually less than the fair value?

A. In the context of pensions?

Q. Yes.

A. I can only speak to your company.

I'm not aware that the reports -- the actuarial reports would not support that conclusion that the market-related value over the five-year period that was studied was lower than the fair value.

Q. I'm sorry.

You mean you're not aware if the market-related value is lower than the fair value?

A. No.

What I said was I could specifically address my recollection of the reports and the deal with Ameren, and that it's my recollection during the five years that I have actuary reports in pensions, that the market-related value is less than fair value --

Q. Okay.

A. -- for those years.

I've been involved -- or been -- heard discussions with other members of the Staff that would suggest that that situation is not uncommon for other utilities in the state in pensions.

Q. Are you aware that the market-related value for Ameren's plan is over $30 million greater than the fair value of January 1st, 2001?

A. I don't have that information.

Q. Are you aware that if Ameren established a market-related value as of September 30th, 2001, it would be approximately $190 million greater than the fair value?

A. I don't have that information either.

Q. Would that lead you to believe -- if you knew those two items, would you still conclude that the market-related approach resulted in a continual understatement of the value of the fund assets?

A. I'd have to look at the -- at the information and then provide you my analysis or decision.

Q. If Ameren were to file a rate case, and looking at the test year of the rate case the market-related value for Ameren's plan would be greater than the fair value, would you still propose the methodology that you've proposed in this case?

A. Yes. In fact, I believe that that is a situation in your OPEBs area for 2000.

I don't have information beyond 2000. But I think that's part of the workpaper that's still correct.

Q. And the fair-value approach that you recommend would move the valuation of the pension-fund assets more closely with the movements in the stock market than would the market-related approach used by Ameren, wouldn't it?

A. I believe they would both move the same way. Maybe not with as much magnitude.

Q. But your approach would move with a greater magnitude in relation to the movements of the market. Correct?

A. Correct, due to the fact that there isn't a --

Q. A smoothing?

A. Well, or an adjustment.

Q. Okay. So that if the -- under your approach, if the stock market were to drop, then the recognized value of the pension assets would be dropping along with it. Correct?

A. At the time of your study, if the market --

wherever the market was would be a consideration for us to look at to develop the pension, that's correct.

Q. So if the market were down and the pension assets value went down, when pension asset value goes down, the pension expense would go up in the calculation being done in the cost-of-service case. Correct?

A. I don't know that I can make that transition all of the way down to pension expense.

Q. So that the more -- the smaller -- the smaller the value of pension assets, all other things being equal, the greater the pension expense. Correct?

A. If you hold everything else constant, correct.

Q. And if you held all of the other things constant and the pension expense were to increase, then the cost of service would be increasing. Correct?

A. Yes.

Q. If the cost of service were to increase, then the rates would increase. Correct?

A. Not necessarily.

Q. It would not relate -- rates aren't correlated with the cost-of-service calculation?

A. There is no automatic increases.

You have to -- the company has to make the determination given the movement in the pension fund, as well as any item, whether to file for a rate increase.

Q. But if we're in a -- if we are before the Commission in a rate proceeding, whether it's a rate case or a complaint case, and the stock market has dropped, pension assets has dropped, pension expense would go up, everything else being equal, cost of service would then be going up, since you would be in the middle of a rate proceeding, at that point there is a correlation between an increased cost of service and increase of rates. Correct?

A. If it was included in the cost of service, correct.

Q. So that under the proposed methodology, a drop in the stock market would -- other things being equal -- translate into an increase in rates?

A. That -- that event would have to be analyzed and determined if it was truly something that should be recognized or if the anomaly of that dip was going to not sustain itself into the future. Those are something -- those are obviously items we'd have to look at.

Q. And how would you determine whether a stock market dip or a stock market rise would be continuing into the future and sustain itself into the future?

A. Well, what I would probably do is track the -- the change in the assets as -- as you have for purposes of your questions, you knew what the assets were valued as of

September 30th and you knew what the assets were valued as of January 1, I believe,

If the assets valued at September 30th were required to be used to perform the calculation, and that looked to be an anomaly, given the ability to track the assets, I think you would want to look at how those assets have moved since that point in time when you wanted to look at them.

Q. On page 7 of your testimony, lines 17 through 19, you recommended that, quote, the Unrecognized Net Gain Balance, subject to amortization, be calculated based upon a five-year average balance instead of the current year balance.

Now, are you aware of situations where this method would not comply with FAS 87 or FAS 106?

A. Use of the five-year average?

Q. Yes.

A. No, I'm not.

Q. Would you be surprised to learn that as of October 1st, 2001, the five-year average method that produced the result for the Ameren retirement plan, which is not in compliance with FAS 87?

A. I don't know.

Q. Is it your understanding that FAS 87 would allow a company using market value to amortize a gain for its plan when it's in a loss position?

A. Could you repeat the question?

Q. Under FAS 87 would a company be allowed -- would a company that used market value be allowed to amortize a gain when its plan was in a loss position?

A. I don't know.

Q. Would you recommend the method proposed in your testimony if that method were shown to be not in compliance with FAS 87?

A. I would have to consult with other members of the Staff to make that determination.

Q. But that wouldn't necessarily rule out the recommendation?

A. No.

As I stated earlier, I think there is -- there is a fall-out for utilities to deviate from those reporting requirements under FAS 87.

Q. You stated on page 10 of your testimony, lines 12 through 14 that, quote, Timely recognition of actual results and assumption changes is necessary for accurate pension and OPEB expense for ratemaking purposes.

The Staff considers five years to be a reasonable time period to meet this primary objective, close quote.

Is the Staff basing its choice of five years upon any actuarial or accounting guidelines that you can identify?

A. I don't know.

Excuse me. Actuarial --

Q. Actuarial or accounting guidelines.

A. When you mention "accounting guidelines," would Staff precedent fall in that area?

Q. Was the Staff precedent itself based on any guidelines external beyond what the Staff itself is doing?

A. The five-year -- well, the five-year amortization period is recognized for gains and losses.

I think if you went down lower in the testimony under bullet 2, you would find that there are counting guidelines for your IRS reasons, and the Federal government switch from 15 to 5.

Q. Do you know what period -- do you know over what period assumption changes are amortized for purposes of ERISA?

A. No, I don't.

Q. Do you know if the period over which your method would amortize assumption changes is the same as the period under ERISA?

A. My testimony would suggest that the five years is consistent.

I'm confused about the assumption changes because those would flow into the net gain and loss ultimately.

Q. But you don't know -- because you don't know what the amortization period for assumption changes is under ERISA, I guess you couldn't compare that with the amortization period of the assumption changes in yours which you said flow into the gains and losses that would be five years. Right?

The second part of my question is: Since the assumption changes flow into gains and losses, then it would be five years under your approach. Correct?

A. I'm sorry. Could you repeat the question?

Q. I could try.

A. Okay.

Q. Because, I believe, you stated that the assumption changes would flow into gains and losses, the amortization period for assumption changes under your approach then would be the same five-year period as the gains and losses. Correct?

A. The five-year amortization would encompass -- or would include assumption changes, correct.

Q. Okay. But you do not compare that with the ERISA's -- with ERISA's amortization -- you did not look to see what ERISA's amortization period was for assumption changes?

A. To the extent assumption changes flow into net gains and losses, they would be flowed back over five years also.

Q. Under ERISA?

A. Yes.

Q. Does ERISA allow the use of funding methods that spread gains and losses over average future service?

A. I don't know.

Q. Does ERISA allow companies to use an asset-smoothing approach?

A. I don't know.

Q. Are you aware of any documentation that supports the reasonableness of the five-year amortization period that the Staff is recommending in this case?

A. Is your question, am I aware of any documents that would support -- or would support saying that it's a reasonable -- it's reasonable to use the five-year assumption?

Q. Yes.

A. The stipulation -- to the extent that -- to the extent the area is delineated in the stipulation and agreements that the Commission approves, that ultimately would suggest that they are just and reasonable.

Q. Don't stipulation agreements usually have a clause that says that the methods adopted in this settlement are not to bind the parties or are not to be used outside of the context of that particular settlement?

A. That's part of it. It also says, I believe, in several instances, unless herein described.

Q. Would the rate moratorium and the sharing credits that were included in the EARP stipulation and agreements also be considered just and reasonable because they were contained in a stipulation and agreement?

A. Would the rates as a result of the EARP be considered just and reasonable?

Q. Yes.

A. No.

I believe that upon review of the stipulation -- the orders and the stipulations in the EARP, the Commission found that the beginning of the sharing grids were considered to be reasonable but did not mention the reasonableness of the rates.

Q. And the stipulation and agreements in the cases adopting the pension and OPEB method that you propose here, do they specifically mention that those methods were reasonable?

A. I don't know.

Q. Can you name any company other than a Missouri utility that uses the method that the Staff is proposing?

A. I believe I said earlier I do not know.

Q. On page 10, lines 23 to 24, you state, "Using a five-year amortization period is consistent with this Commission's longstanding precedent for amortizing abnormal, significant, expenses/losses over five years for ratemaking purposes."

Now, are you suggesting that all gains or losses that arise in the accounting for pension in OPEB are abnormal?

A. No.

Q. Well, looking at investment returns, in your opinion what range of annual return would be abnormal?

A. I'm sorry. Could you repeat that?

Q. If we look just at investment returns, what range of -- well, let me rephrase it.

If we were to look at investment returns, is there some range of annual return that you would consider to abnormal?

A. Is this in the pension?

Q. Yes, in pension.

A. Is this a return on the assets?

Q. Yes.

A. I wouldn't have -- I didn't have -- for significantly lower or higher, I don't have a range that would be a trigger between normal and abnormal.

Q. Okay. Did you make a determination in this case that AmerenUE's pension gains have been abnormal?

A. I didn't say that.

Q. That's why I asked.

A. I would say no.

Q. If AmerenUE were to have a $100 million asset loss in its pension fund during 2001, do you know what the impact for 2002 would be on expense using your method?

A. No.

Q. Do you know how that would compare to the expense under Ameren's current method?

A. On pension expense?

Q. Yes.

A. No.

MR. WOLSKI: Okay. If I were to say that we are done, would you be happy?

THE WITNESS: Unless you want to go up to agenda, yes.

MR. WOLSKI: Okay. Then I've got no more questions.

THE COURT REPORTER: Waive presentment; obtain signature?

MR. ANDERSON: Yes.

(SIGNATURE ON THE FOLLOWING PAGE.)

(THIS IS THE SIGNATURE PAGE TO THE DEPOSITION OF GREGORY R. MEYER TAKEN ON NOVEMBER 29TH, 2001.)

GREGORY R. MEYER

subscribed and sworn to before me this day of , 2001.

Notary Public in and for
County
State of Missouri

COPY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Patricia A. Stewart, RPR, CCR, CSR, Registered Merit Reporter with the firm of Associated Court Reporters, Inc. do hereby certify that pursuant to notice, there came before me,

GREGORY R. MEYER,

at the Governor Office Building, Room 810, in the City of Jefferson, County of Cole, State of Missouri, on the 29th day of November, 2001, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing pages; and the witness and counsel waived presentment of this deposition to the witness, by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

I further certify that I am neither attorney nor counsel for, nor related to, nor employed by any party to said action in which this deposition is taken; and further, that I am not a relative of employee of any attorney or counsel employed by the parties hereto, nor finally interested in this action.

Given at my office in the City of Jefferson, State of Missouri, this 29th of November, 2001.

Patricia A. Stewart

Patricia A. Stewart, RPR, CSR, CCR
Registered Merit Reporter

November 20, 2001

Public Service Commission
Governor Office Building
Jefferson City, Missouri 65101

ATTN: Steven Dottheim

In Re: Case No. EC-2002-1

Dear Mr. Dottheim:

Please find enclosed your copy of the deposition of Gregory R. Meyer taken on November 29, 2001 in the above-referenced case. Also enclosed is the original signature page and errata sheet.

Please have the witness read your copy of the transcript, indicate any changes and/or corrections desired on the errata sheet, and sign the signature page before a notary public.

Please return the errata sheet and notarized signature page to Mr. Wolski for filing prior to trial date.

Thank you for your attention to this matter.

Sincerely,

Patricia A. Stewart

Patricia A. Stewart

Encl:

CC: Victor Wolski

AmerenUE
Pensions and OPEBs
Case No. EM-96-149

PROPRIETARY

2000 REPORT

Eliminate Market Related Value of Assets	Pensions	OPEBs
Fair Market Value of Assets	$ 1,426,983,268.00	$ 133,766,144.00
Market Related Value of Assets	$ 1,336,749,108.00	$ 137,712,874.00
Difference	$ 90,234,160.00	$ (3,946,730.00)
Expected Return On Assets	8.5%	8.5%
Increase in Expected Return	$ 7,669,903.60	$ (335,472.05)
Ameren UE Allocator	68.26%	100.00%
Total Electric Allocator	96.01%	96.01%
Missouri Electric Allocator	90.11%	90.11%
Missouri Electric Portion	$ 4,529,451.87	$ (290,232.34)
O&M %	80%	80%
Adjustment	**$ (3,623,561.49)**	**$ 232,185.87**

Gain/Loss Calculation 68.26%
Pensions

Year	Amount	
2000	$ 305,308,711.00	$214,051,937.28
1999	$ 147,205,180.00	$103,205,551.70
1998	$ 188,394,155.00	$132,083,142.07
1997	$ 122,700,367.00	$122,700,367.00
1996	$ 100,280,099.00	$100,280,099.00
Avg.	$ 172,777,702.40	$134,464,219.41

1998?
100,280,099 -97
37,658,218 96

OPEBs

Year	Amount
2000	$ (15,440,344.00)
1999	$ 6,411,978.00
1998	$ 24,557,846.00
1997	$ 24,713,813.00
1996	$ 7,916,931.00
Avg.	$ 9,632,044.80

7916931

Amortize (Gain) Loss Balance	Pensions	OPEBs
Five Year Avg.(Gain) Loss Balance	$ 134,464,219.41	$ 9,632,044.80
Staff Amortization Period	5	5
(Gain) Loss Amortized to Expense	$ 26,892,843.88	$ 1,926,408.96
(Gain) Loss Amortized Per 2000 Actuarial Report @ ~~70~~.11%	$ 15,078,876.70	$ (1,149,361.00)
Additional (Gain) Loss Amortized 68.26%	$ 11,813,967.18	$ 3,075,769.96
Ameren UE Allocator	100.00%	100.00%
Total Electric Allocator	96.01%	96.01%
Missouri Electric Allocator	90.11%	90.11%
Missouri Electric Portion	$ 10,220,808	$ 2,660,990.42
O&M %	80%	80%
Adjustment	**$ (8,176,646)**	**$ (2,128,792)**

21,507,455
14,680,999

Annualize Pension/OPEB Expense	Pensions	OPEBs
Total Cost per Actuarial Report	$ 1,129,449.00	$ 51,233,488.00
Ameren UE Allocator	68.26%	100.00%
Total Electric Allocator	96.01%	96.01%
Missouri Electric Allocator	100.00%	100.00%
Missouri Electric Portion	$ 740,200.51	$ 49,189,271.83
O&M %	80.00%	80.00%
Annualized MO Electric O&M	$ 592,160.41	$ 39,351,417.46
Test Year Amount	$ 4,190,750.00	$ 29,353,919.00
Adjustment	**$ (3,598,589.59)**	**$ 9,997,498.46**

Total Co.

Meyer 1
EXHIBIT
11-29-01