

EXHIBIT

Exhibit No.:

Issue(s):

Rate Base:
Deferred Income Taxes, OPEB Liability

Operating Income:

Revenue, Outage Expense,
Nuclear S&E Expense, A&G Salaries,
Outside Services, Incentive Comp.

Witness // Type of Exhibit:

Effron/Rebuttal

Sponsoring Party:

Public Counsel

Case No.:

EC-2002-1

REBUTTAL TESTIMONY

OF

DAVID J. EFFRON

Submitted on Behalf of the Office of the Public Counsel

Staff of the Missouri Public Service Commission

v.

Union Electric Company d/b/a AmerenUE

Case No. EC-2002-1

May 10, 2002

Exhibit No. 89
Date 7/10/02 Case No. EC-2002-1
Reporter KRM

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION,
Complainant,

vs.

UNION ELECTRIC COMPANY,
d/b/a AmerenUE,
Respondent.

Case No. EC-2002-1

AFFIDAVIT OF DAVID J. EFFRON

STATE OF CONNECTICUT)

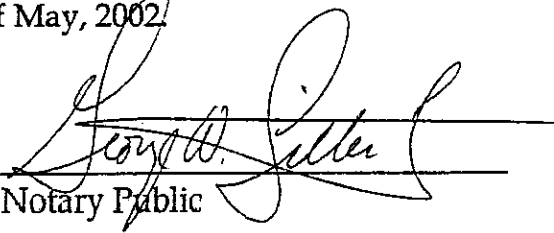
COUNTY OF Fairfield) ^{ss} Ridgefield

David J. Effron, of lawful age and being first duly sworn, deposes and states:

1. My name is David J. Effron. I am a consultant with Berkshire Consulting Services. I am presenting testimony on behalf of the Missouri Office of the Public Counsel.
2. Attached, hereto and made a part hereof for all purposes, is my rebuttal testimony consisting of pages 1 through 28 and Schedules DJE-1 through DJE-3.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


David J. Effron

Subscribed and sworn to me this 9th day of May, 2002


Notary Public

My Commission expires 3/31/07.

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REBUTTAL TESTIMONY

OF

DAVID J. EFFRON

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION

V.

UNION ELECTRIC COMPANY D/B/A AMERENUE

CASE NO. EC-2002-1

I. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David J. Effron. My business address is 386 Main Street, Ridgefield, Connecticut.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a consultant specializing in utility regulation.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. My professional career includes over twenty years as a regulatory consultant, two years as a supervisor of capital investment analysis and controls at Gulf & Western Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public Accountant, and I have served as an instructor in the business program at Western Connecticut State College.

Q. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY RATE SETTING PROCEEDINGS?

1 A. I have analyzed numerous electric, telephone, gas and water rate filings in different jurisdictions.
2 Pursuant to those analyses, I have prepared testimony, assisted attorneys in rate case preparation,
3 and provided assistance during settlement negotiations with various utility companies.

4 I have testified in approximately two hundred cases before regulatory commissions in
5 Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland,
6 Massachusetts, Missouri, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island,
7 South Carolina, Texas, Vermont, and Virginia.

8 **Q. PLEASE DESCRIBE YOUR OTHER WORK EXPERIENCE.**

9 A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was responsible for
10 reports and analyses concerning capital spending programs, including project analysis, formulation
11 of capital budgets, establishment of accounting procedures, monitoring capital spending and
12 administration of the leasing program. At Touche Ross & Co., I was an associate consultant in
13 management services for one year and a staff auditor for one year.

14 **Q. HAVE YOU EARNED ANY DISTINCTIONS AS A CERTIFIED PUBLIC**
15 **ACCOUNTANT?**

16 A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores in the
17 May 1974 certified public accounting examination in New York State.

18 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

19 A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College and a Masters
20 of Business Administration Degree from Columbia University.

II. PURPOSE OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Missouri Office of the Public Counsel.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On March 1, 2002, the Public Service Commission Staff ("Staff") presented testimony and exhibits on the excess revenue presently being produced by the rates charged by Union Electric Company d/b/a AmerenUE ("UE" or "the Company"). The calculation of the revenue excess was calculated based on a test year consisting of the twelve months ended June 30, 2001, adjusted for known and measurable changes through September 30, 2001. The purpose of this testimony is to address certain issues in the determination of the rate base and operating income components of the appropriate revenue requirement.

Q. WHAT ISSUES DO YOU ADDRESS IN THIS TESTIMONY?

A. In the area of rate base, I address accumulated deferred income taxes and the postretirement benefits ("OPEB") liability. In the area of operating income, I address revenue, nuclear outage expense, nuclear operation supervision and engineering expense, administrative and general salaries, outside services expense, and incentive compensation. At the time of the preparation of this testimony, there were still outstanding data requests for which responses had not been received. I reserve the right to modify or amend this testimony based on responses to those requests.

III. RATE BASE

A. ACCUMULATED DEFERRED INCOME TAXES

Q. HOW ARE ACCUMULATED DEFERRED INCOME TAXES TREATED IN THE DETERMINATION OF THE TEST YEAR RATE BASE?

A. Accumulated deferred income taxes (or "ADIT") are deducted from plant in service in the determination of rate base. Certain items of ADIT are credit balances, representing the cumulative effect of timing differences where deductions are taken for tax purposes in advance of when the expenses are recognized for book purposes, and certain items are debit balances, representing the cumulative effect of timing differences where deductions are taken for tax purposes in arrears of when the expenses are recognized for book purposes. The debit balances have the effect of reducing the net rate base deduction for ADIT, thereby increasing rate base.

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE ADIT DEDUCTED FROM PLANT IN SERVICE IN STAFF'S DETERMINATION OF RATE BASE?

A. Yes. I am proposing to eliminate certain deferred tax debit balances from the ADIT deducted from plant in service.

Q. HAVE YOU SUMMARIZED THE DEFERRED TAX DEBIT BALANCES THAT ARE YOU PROPOSING TO REMOVE FROM THE ADIT DEDUCTED FROM PLANT IN SERVICE?

1 A. Yes. On Schedule DJE-1, Page 1, I have identified three items of deferred tax debit balances that
2 should be eliminated from the calculation of the net ADIT deducted from plant in service in the
3 determination of rate base.

4 **Q. PLEASE DESCRIBE THE FIRST ITEM, AND EXPLAIN WHY IT SHOULD BE**
5 **REMOVED FROM THE ADIT THAT GO INTO THE DETERMINATION OF THE**
6 **COMPANY'S RATE BASE.**

7 A. The first item is the net deferred tax balance related to the accrual for deferred compensation. The
8 Company accrues a liability for deferred compensation based on expected future payments. When
9 the actual deferred compensation is paid, the accrued liability is charged. For income tax purposes,
10 the Company can only deduct the deferred compensation when it is actually paid. The ADIT on
11 this item represent the taxes on the cumulative deferred compensation accruals in excess of
12 deferred compensation costs that have been deducted for income tax purposes. Staff has not
13 deducted the accrued provision for deferred compensation itself from rate base. Therefore, the
14 deferred tax debit balance related to the accrued deferred compensation costs should be eliminated
15 from the ADIT that goes into the calculation of rate base.

16 **Q. WHAT IS THE NEXT ITEM THAT YOU ARE PROPOSING TO REMOVE FROM**
17 **THE NET BALANCE OF ADIT?**

18 A. The next item is the deferred tax balance related to the Nuexco Sale of Collateral. As explained by
19 UE, this item relates to sales of collateral received from bankruptcy proceedings that were subject
20 to income taxes but not included in book income (response to OPC Data Request 4036, attached as
21 Schedule DJE-3, Page 1). From the description in that response, it does not appear that the tax

1 effect of this item should be included in the utility cost of service. Therefore, I am proposing to
2 eliminate this item from the ADIT balance that goes into the determination of rate base.

3 **Q. WHAT IS THE THIRD ITEM OF ADIT THAT YOU ARE PROPOSING TO**
4 **ELIMINATE?**

5 A. The third item is deferred tax debit balance related to certain reserve accounts, such as the injuries
6 and damages reserve and accrued legal reserve. Again, this deferred tax debit balance relates to
7 expenses that the Company accrues on its books of account before the actual expenditures are
8 deducted for income tax purposes. The ADIT on this item represent the taxes on the cumulative
9 accruals in excess of costs that have been deducted for income tax purposes. Staff has not deducted
10 the accrued reserves themselves from rate base. Therefore, the deferred tax debit balance related to
11 the accrued reserves should be eliminated from the ADIT that go into the calculation of rate base.

12 **Q. PLEASE SUMMARIZE THE EFFECT OF YOUR PROPOSES ADJUSTMENTS TO**
13 **ADIT.**

14 A. As can be seen on my Schedule DJE-1, Page 1, I am proposing to remove \$27,947,000 of deferred
15 tax debit balances from the determination of the ADIT deducted from plant in service in the
16 determination of rate base. This adjustment has the effect of increasing the net deduction for ADIT
17 by \$27,947,000 and reducing rate base by the same amount. On Missouri jurisdictional basis, the
18 effect is to reduce rate base by \$25,321,000.

19 **B. POSTRETIREMENT BENEFIT LIABILITY**

20 **Q. WHAT ARE POSTRETIREMENT BENEFIT COSTS?**

1 A. Postretirement benefits costs, other than pensions, are costs of employee benefits, such as medical
2 insurance, that the Company is obligated to pay for employees after the employees retire. Pursuant
3 to relevant accounting standards, the Company is required to accrue this obligation while the
4 employees are still working and to treat the obligation to continue these payments after retirement
5 as an expense of current employee service.

6 **Q. HOW IS THE POSTRETIREMENT BENEFITS EXPENSE INCLUDED IN THE UE**
7 **COST OF SERVICE DETERMINED?**

8 A. The postretirement benefits expense (or "OPEB") is based on Statement of Financial Accounting
9 Standards 106 ("FAS 106"). Staff makes certain adjustments to normalize this cost, but the
10 expense included in the cost of service is derived from the periodic cost pursuant to FAS 106.

11 **Q. DOES UE FUND THE FAS 106 OBLIGATION?**

12 A. Yes. It is my understanding that the recovery of OPEB in rates is allowed only to the extent that
13 such costs are funded.

14 **Q. IF UE FUNDS THE OPEB COSTS TO THE EXTENT THAT THE OPEB ARE**
15 **RECOVERED IN RATES AND IF THE OPEB COST IS BASED ON FAS 106,**
16 **SHOULD A LIABILITY FOR THIS OBLIGATION ACCUMULATE ON THE COMPANY'S**
17 **BOOKS?**

18 A. No. While there might be a short-term liability on the Company's books from time to time based
19 on a lag between when the expense is recorded and when the contributions are actually made, the
20 accrued liability should be relatively modest in relation to the annual expense and should not

1 accumulate and grow over time. By definition, if the costs are funded based on the amount
2 recovered, there should not be a large liability for unfunded costs. Only if the amount funded is
3 less than the amount recognized as an expense would a significant liability accumulate.

4 **Q. IS THERE, IN FACT, A LIABILITY FOR UNFUNDED OPEB ON THE**
5 **COMPANY'S BOOKS OF ACCOUNT?**

6 A. Yes. As of June 30, 2000 the accrued OPEB liability was \$69.2 million. By June 30, 2001, the
7 liability had grown to \$87.7 million, and as September 30, 2001, the liability was \$97.7 million
8 (Response to OPC Data Request 4041 – attached as Schedule DJE-3, Page 2). By definition, this
9 liability represents the OPEB costs recognized on the Company's books of account in excess of
10 amounts actually disbursed to fund the OPEB costs.

11 **Q. IF THE ACCRUED LIABILITY REPRESENTS COSTS INCLUDED IN THE**
12 **REVENUE REQUIREMENT IN EXCESS OF ACTUAL EXPENDITURES TO FUND OPEB**
13 **COSTS, WHAT DO YOU RECOMMEND?**

14 A. As, I explained above, this should not happen if the Company is only allowed to recover OPEB
15 costs to the extent that such costs are actually funded. There is still a data request outstanding
16 requesting an explanation of this accrued liability. However, if the accrued liability does represent
17 costs included in the revenue requirement in excess of actual expenditures, then there should be a
18 rate base deduction for the accrued liability, as the liability would then represent customer supplied
19 funds. I have calculated that on a Missouri jurisdictional basis, the rate base deduction would be
20 \$88,008,000 (Schedule DJE-1, Page 2) as of September 30, 2001.

IV. OPERATING INCOME

A. REVENUE

**Q. HAVE YOU REVIEWED STAFF'S DETERMINATION OF PRO FORMA
OPERATING REVENUE UNDER PRESENT RATES?**

A. Yes. Among other adjustments, Staff has annualized sales based on the number of customers as of September 30, 2001 and has adjusted sales to reflect normal weather for the test year.

**Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO STAFF'S CALCULATION OF
PRO FORMA OPERATING REVENUE UNDER PRESENT RATES?**

A. Yes. I am proposing an adjustment to Staff's annualization of sales based on the number of customers as of September 30, 2001. In addition, I address one element of Staff's weather normalization adjustment to revenue, although I have not quantified a specific adjustment at this time.

**Q. PLEASE DESCRIBE HOW STAFF ANNUALIZED SALES BASED ON THE
NUMBER OF CUSTOMERS AS OF SEPTEMBER 30, 2001.**

A. For the residential, small general, large general, and small primary service classes, Staff subtracted the number of customers in each month of the test year from the actual number of customers as of September 30, 2001 and multiplied the difference by the average revenue per customer for each month.

**Q. IS IT POSSIBLE FOR SEASONAL DISTORTIONS OR OTHER TEMPORARY
FLUCTUATIONS TO AFFECT THIS METHOD OF ANNUALIZING CUSTOMER GROWTH?**

1 A. Yes. If the number of customers fluctuates seasonally, and if the point at which the customer
2 growth is annualized (in this case September 30) is at or near a seasonal low or high, then the
3 annualization will be seasonally distorted and will not be representative of the normal level of
4 customers being served. Similarly, if the number of customers in a class fluctuates, by annualizing
5 the sales based on one month, there is a possibility of distortion from using a month that might not
6 be representative of the normal number of customers.

7 **Q. IS THE NUMBER OF CUSTOMERS FOR ANY OF THE CLASSES FOR WHICH**
8 **STAFF ANNUALIZED SALES AFFECTED BY SEASONAL PATTERNS?**

9 A. Yes. The residential class appears to have a seasonal pattern to it. For example, in 2001 the number
10 of customers was higher in March than in September. The same thing is true for 2000. This is the
11 result of seasonal patterns, rather than any real downward trend in the number of customers. In
12 most of the other years from 1995 – 2000, there were also months in the spring when the number of
13 residential customers was higher than the number as of September 30. By annualizing sales to the
14 number of residential customers as of September 30, Staff appears to have used the number of
15 customers at or near a seasonal low point. This has the effect of understating the normal number of
16 residential customers.

17 **Q. SHOULD THE NUMBER OF CUSTOMERS USED BY STAFF BE ADJUSTED TO**
18 **REFLECT NORMAL CONDITIONS?**

19 A. Yes. The number of customers as of September 30 appears to be affected by seasonal conditions
20 that will not continue through the year. Thus, the number of customers as of that date appears to

1 understate the normal number of customers. The number of customers used by Staff to annualize
2 sales should be adjusted.

3 **Q. AS A GENERAL MATTER, IF REVENUES OR EXPENSES ARE AFFECTED BY**
4 **ABNORMALITIES, IS IT APPROPRIATE TO ADJUST THOSE REVENUES OR**
5 **EXPENSES TO REFLECT NORMAL CONDITIONS?**

6 A. Yes. The determination of the Company's revenue and expenses for the purpose of calculating the
7 revenue deficiency or excess and the prospective rates for electric service should reflect normal
8 conditions. For example, Staff adjusts sales and revenue to reflect normal weather conditions. In
9 the area of expenses, Staff adjusts tree trimming expense to reflect the normal level of expense that
10 the Company can be expected to incur on an ongoing basis prospectively under normal conditions.
11 Similarly, later in this testimony, I address certain adjustments to normalize what appear to be
12 certain abnormal expenses incurred in the twelve months ended June 30, 2001.

13 The underlying theory for these adjustments is that the determination of the Company's
14 revenue requirement and rates should reflect normal conditions. If there are abnormalities in
15 revenues or expenses in the chosen test year, the development of the revenue requirement should
16 not incorporate those abnormalities into the development of rates. By definition, the abnormalities
17 will not continue prospectively, and the prospective rates should not be based on abnormal
18 conditions. Rather, any identified abnormalities should be adjusted so that the development of rates
19 reflects normal conditions. It is my understanding that it is the usual Commission practice to
20 normalize revenues and expenses to eliminate the effect of abnormalities that may have existed in
21 the test year used to determine a utility company's revenue requirements.

1 **Q. HOW CAN THE NUMBER OF CUSTOMERS AS OF SEPTEMBER 30 BE**
2 **ADJUSTED TO ELIMINATE THE EFFECT OF ANY SEASONAL DISTORTIONS?**

3 A. Over the five-year period 1995-2000, the average annual growth rate in the number of residential
4 customers has been 0.768%. Customer growth through September 30 can be annualized by
5 multiplying the actual number of customers for each month in the test year by 1 plus 0.768% times
6 the years, or fraction of a year, from that month until September 30, 2001. For example, for July
7 2000 the actual number of customers should be multiplied by 1 plus 0.768% * 14.5/12. For March
8 2001, the actual number of customers should be multiplied by 1 plus 0.768% * 6.5/12. The result
9 will capture the growth in the number of residential customers through September 30, 2001 on a
10 normal, "deseasonalized" basis.

11 **Q. HAVE YOU PERFORMED SUCH A CALCULATION?**

12 A. Yes. My adjustment to Staff's annualization of sales and revenue is shown on Schedule DJE-2,
13 Page 1. My proposed modification to the number of residential customers as of September 30,
14 2001 results in an increase to adjusted test year revenue of \$1,495,000. Fuel expense must also be
15 adjusted, consistent with the increase to kWh sales.

16 **Q. DOES THE NUMBER OF CUSTOMERS IN ANY OF THE CUSTOMER CLASSES**
17 **FLUCTUATE FROM MONTH TO MONTH?**

18 A. Yes. The numbers of customers in the large general and small primary classes fluctuated during the
19 months of the test year. For example, in the large general class, in the months November 2000
20 through May 2001, there was a pattern of a monthly increase in the number of customers followed

1 by a monthly decrease. The number of small primary customers also fluctuated from month to
2 month. There did not appear to be a seasonal pattern to these fluctuations.

3 **Q. SHOULD THE NUMBER OF CUSTOMERS USED TO ANNUALIZE THE SALES TO**
4 **THESE CUSTOMER CLASSES BE MODIFIED?**

5 A. Yes. Staff used the number of customers as of September 30, 2001. If this one month is not
6 representative of the normal number of customers as of that time, then the annualization is
7 distorted. I recommend that the average number of customers for the six months ended December
8 2001 be used for the purpose of annualizing sales to the large general and small primary classes.
9 The mid-point of this six-month period is September 30, 2001. Thus use of this six-month average
10 recognizes growth in the number of customers through September 30, 2001, consistent with Staff's
11 adjustments to rate base and certain expenses through that date, without relying on a single month
12 to quantify the necessary annualization adjustments.

13 On Schedule DJE-2, Page 1, I show that annualizing sales to the large general class based
14 on the average number of customers for the last six months of 2001 would increase revenue by
15 \$2,416,000 compared to the revenue calculated by Staff. Annualizing sales to the small primary
16 class based on the average number of customers for the last six months of 2001 would decrease
17 revenue by \$678,000 compared to the revenue calculated by Staff. This schedule also shows the
18 adjustments to kWh sales associated with each of these adjustments.

1 **Q. HAVE YOU REVIEWED STAFF'S WEATHER NORMALIZATION TO REVENUE?**

2 A. Yes. I believe that certain modifications to the method by which Staff prices out its weather
3 normalization adjustment should be considered.

4 **Q. WHY SHOULD MODIFICATIONS TO THE METHOD OF PRICING OUT THE**
5 **WEATHER NORMALIZATION ADJUSTMENT BE CONSIDERED?**

6 A. As explained in the testimony of Staff Witness Pyatte, the revenue adjustment was calculated by
7 applying a single seasonal energy rate to the monthly kWh weather adjustment for each customer
8 class. For example to calculate the revenue adjustment for the residential class in December 2000,
9 the kWh weather adjustment was multiplied by \$0.0577 per kWh, even though some of the sales in
10 December are billed at a rate of \$0.0577 per kWh and some are billed at a rate of \$0.0389 per kWh.

11 This method appears to overstate the revenue adjustment. In December 2000, the average
12 charge per kWh in the residential class was \$0.0488 per kWh. If that rate were used to calculate the
13 revenue adjustment in December 2000, the adjustment would be approximately \$0.9 million less.
14 Because the weather normalization in that month was a decrease, reducing the adjustment by that
15 much would increase the pro forma revenue under present rates by the same amount. For the test
16 year as a whole, the adjustment for the residential class would be less by about \$2.3 million, and the
17 pro forma revenue would be greater by that amount, if the average rate, rather than single season
18 energy rate, were used in those months when the declining block rates were in effect. (It should be
19 noted that even use of the average rate might produce an adjustment that is too great. If weather
20 caused usage to be greater than normal in a given month, then it is likely that a disproportionate
21 share of the incremental abnormal usage would be in the tail block.)

1 Based on my analysis, the weather adjustment to revenue for the small general class would
2 also be somewhat less if the revenue adjustments were priced out at the average rate per kWh rather
3 than the single season energy rate. The weather adjustments to revenue for the large general, small
4 primary, and large primary classes would be somewhat greater, because Staff priced out the
5 adjustments for those customer classes using the tail block rates, which are lower than the average
6 rates.

7 I am not able to calculate a precise adjustment at this time because I do not have the
8 capability to price out the weather adjustments for each customer class based on the appropriate
9 rate per kWh for each month. However, I recommend that an alternative to the use of the single
10 season energy rate, based on the appropriate rate per kWh for each customer class for each month,
11 be used to price out the weather adjustment to kWh in Staff's computer model.

12 **B. OPERATING EXPENSES**

13 **1. CALLAWAY REFUELING OUTAGE**

14 **Q. HAS STAFF NORMALIZED EXPENSES ASSOCIATED WITH EXPENSES**
15 **INCURRED DURING THE REFUELING AND MAINTENANCE OUTAGE AT THE**
16 **CALLAWAY NUCLEAR POWER PLANT IN THE SPRING OF 2001?**

17 **A.** Yes. The Company refueled the Callaway nuclear power plant in April and May of 2001.
18 Therefore, the expenses associated with the refueling of the plant and the maintenance projects
19 performed during the refueling outage were incurred entirely within the test year in this case, the
20 twelve months ended June 30, 2001. However, the plant does not experience a refueling and
21 maintenance outage every twelve months. The plant is refueled on an eighteen-month cycle. Thus,

1 there will be a refueling and maintenance outage every eighteen months, or year and a half. The
2 "average" twelve-month period will contain two-thirds of a refueling and maintenance outage. To
3 normalize the expected frequency of the outages, Staff removed one-third of expense incurred in
4 the test year.

5 **Q. SHOULD THE REFUELING AND MAINTENANCE OUTAGE EXPENSE BE**
6 **FURTHER ADJUSTED?**

7 A. Yes. The actual expense incurred in the refueling and maintenance outage in April and May of
8 2001 was higher than the normal expense. This can be seen by reference to my Schedule DJE-2,
9 Page 2, where I show the expenses incurred in each of the last five outages, including the outage in
10 2001. The total expense incurred in the 2001 outage was \$31.1 million; the next highest was \$27.0
11 million in 1999. The higher expense incurred in 2001 appears to be associated with the generally
12 longer length of the outage – 45 days in 2001 as compared to 35 days in 1999, 31 days in 1998, 30
13 days in 1996, and 48 days in 1995. The outage expense should be further adjusted to normalize the
14 level of expense, as well as to reflect the normalized frequency of the outages.

15 **Q. HOW DO YOU RECOMMEND THE OUTAGE EXPENSE BE NORMALIZED?**

16 A. The outage expense can be normalized by taking the average of the expenses associated with the
17 last five refueling outages. On Schedule DJE-1, Page 2, I have calculated the average of the
18 expenses of the last five refueling outages, including the outage in 2001, with the actual expenses
19 for the outages prior to the test year escalated by 2% per year to state the expenses in test year
20 dollars. I have used an escalation rate of 2% to approximate the average rate of inflation over the
21 years during which the last five refueling outages were experienced.

1 Using the five-outage average, as escalated, I have calculated an adjustment of \$1,479,000 to
2 maintenance projects and \$1,672,000 to incremental overtime wages. These adjustments are
3 incremental to the adjustments calculated by Staff. On a Missouri jurisdictional basis, the
4 incremental adjustments are \$1,294,000 to maintenance projects and \$1,509,000 to overtime wages.

5 **2. NUCLEAR OPERATION - SUPERVISION AND ENGINEERING**
6 **EXPENSE**
7

8 **Q. WHAT WAS THE EXPENSE CHARGED TO ACCOUNT 517, NUCLEAR**
9 **OPERATION - SUPERVISION AND ENGINEERING IN THE TWELVE MONTHS ENDED**
10 **JUNE 30, 2001?**

11 A. The expense charged to this account in the test year was \$37,545,000.

12 **Q. WHAT DOES THIS EXPENSE REPRESENT?**

13 A. This account includes labor and expenses for the general supervision and direction of the operation
14 of the Company's nuclear power plant.

15 **Q. HOW DOES THE EXPENSE CHARGED TO THIS ACCOUNT IN THE TEST YEAR**
16 **COMPARE TO THE EXPENSE CHARGED TO THIS ACCOUNT IN OTHER RECENT**
17 **YEARS?**

18 A. It is generally higher. For example, in 2000 the expense for nuclear operation supervision and
19 engineering expense was \$20,795,000. In 1999, the expense was \$19,909,000.

1 **Q. HAS THE COMPANY EXPLAINED WHY THE NUCLEAR OPERATION**
2 **SUPERVISION AND ENGINEERING EXPENSE WAS HIGHER IN THE TEST YEAR?**

3 A. OPC Data Request 4055 (attached as Schedule DJE-3, Page 3) asked the Company to explain the
4 reason for the increase in this expense over the level of expense incurred in other recent years. The
5 Company's response is not particularly helpful in explaining the reasons for the increase in this
6 expense account. The response cites wage rate increases (\$3.5 million), overtime (\$2.2 million),
7 and increased staffing (\$1.2 million) as reasons for the higher expense level. Together, these
8 changes account for less than half of the increase over the expense amounts from earlier years.

9 The Company also cited the implementation of activity based accounting as something that
10 "may have contributed to more dollars being charged to 517." However, UE did not quantify the
11 effect of this change and did not cite any accounts from which expenses would have been
12 transferred to Account 517. The response does not offer a great deal of insight as to why the
13 expenses charged to this account increased by nearly \$17 million from 2000 to the test year, even
14 with the six month overlap between 2000 and the test year.

15 **Q. ARE YOU PROPOSING AN ADJUSTMENT TO THE NUCLEAR OPERATION**
16 **SUPERVISION AND ENGINEERING EXPENSE INCURRED IN THE TWELVE MONTHS**
17 **ENDED JUNE 30, 2001?**

18 A. Yes. Referring to Schedule DJE-2, Page 3, it can be seen that the expense charged to this account
19 in the twelve months ended June 30, 2001 is significantly greater than the expense charged in any
20 recent year, with the exception of 2001, which has six months in common with the test year. The
21 Company has not established that the level of expense charged to this account in the twelve months

ended June 30, 2001 is normal or is indicative of the level of expense that will be incurred prospectively. Therefore, I am proposing to normalize the test year expense.

Q. PLEASE EXPLAIN YOUR PROPOSED ADJUSTMENT TO NUCLEAR OPERATION SUPERVISION AND ENGINEERING EXPENSE.

A. On Schedule DJE-2, Page 3, I have calculated the average of the expenses of over the five-year period 1997 – 2001, with the actual expenses for the years prior to the test year again escalated by 2% per year, again to account for inflation and to state the expenses in test year dollars. Using the five-year average, I have calculated a normalized level of expense of \$25,711,000. This is \$11,834,000 less than the expense incurred in the test year. Accordingly, I am proposing an adjustment of \$11,834,000 to nuclear operation supervision and engineering expense. On a Missouri jurisdictional basis, the adjustment is \$10,627,000.

3. ADMINISTRATIVE AND GENERAL SALARIES

Q. WHAT IS THE AMOUNT OF ADMINISTRATIVE AND GENERAL SALARIES (ACCOUNT 920) INCLUDED IN TEST YEAR OPERATION AND MAINTENANCE EXPENSE?

A. Test year administrative and general ("A&G") salaries were \$43,787,000.

Q. HOW DOES THIS COMPARE TO A&G SALARIES IN RECENT YEARS?

A. It is generally higher. For example, in 2000 A&G salaries were \$29,135,000. In 1999, A&G salaries were \$28,585,000.

1 **Q. HAS THE COMPANY EXPLAINED WHY THE A&G SALARIES WERE HIGHER IN**
2 **THE TEST YEAR?**

3 A. In response to OPC Data Request 4052 (attached as Schedule DJE-3, Page 4), UE stated that "the
4 charges to Account 920 vary up and down year to year", noting that "one of the main reasons is the
5 amount of this account that is charged to O&M versus capital." The Company further explained
6 that most of the charges to this account are allocated from Ameren Services and that the amount
7 charged to O&M in any year will vary depend on the service requests charged in that year.

8 **Q. ARE THE EXPENSES CHARGED TO A&G SALARIES IN THE TEST YEAR**
9 **NORMAL?**

10 A. Based on a comparison of expenses charged to that account in recent years, the expenses charged to
11 A&G salaries for the twelve months ended June 30, 2001 appear to be somewhat above normal.
12 On Schedule DJE-2, Page 4, I show the expenses charged to Account 920 for each year 1997 -
13 2001. It can be seen that the expenses charged to A&G over this five-year period have indeed
14 fluctuated, between a low of \$28,585,000 in 1999 and a high of \$51,915,000 in 1998.

15 **Q. SHOULD THE A&G SALARIES INCURRED IN THE TWELVE MONTHS ENDED**
16 **JUNE 30, 2001 BE NORMALIZED?**

17 A. Yes. As explained above, the expenses charged to this account fluctuate from year to year. While
18 the actual expenses incurred in the twelve months ended June 30, 2001 fall within the extremes of
19 the levels of expenses charged to this account over the last five years, the actual test year expenses
20 appear to be greater than normal. Therefore, the A&G expenses for the test year should be
21 normalized.

1 **Q. HAVE YOU QUANTIFIED A NORMALIZATION ADJUSTMENT TO THE**
2 **EXPENSES CHARGED TO A&G SALARIES IN THE TWELVE MONTHS ENDED JUNE**
3 **30, 2001?**

4 A. Yes. On Schedule DJE-2, Page 4, I have calculated an adjustment to normalize the test year A&G
5 salaries expense. My proposed adjustment is based on the actual A&G salaries expenses for the
6 five years 1997-2001. I have calculated the average A&G salaries expense for that five-year
7 period, with the actual expenses for the years 1997-2000 escalated at a rate of 2.5% per year to re-
8 state the actual level of expenses to test year dollars. The escalation rate of 2.5% is intended to
9 allow for real growth as well as the effect of inflation. I have used a 2.5% escalation factor for this
10 expense to allow for increased expenses that might be experienced as a result of real system growth
11 due to such factors as increasing numbers of customers and a growing balance of utility plant. I
12 believe that this factor is fairly conservative, in that it would not be unreasonable to expect that
13 growth in administrative and general expense would be constrained by economies of scale and
14 productivity.

15 Using this method, I have calculated a normalized level of A&G salaries of \$40,283,000.
16 This is \$3,503,000 less than the actual A&G salaries expense in the twelve months ended June 30,
17 2001. Accordingly, I recommend that the test year A&G salaries expense be reduced by
18 \$3,503,000 to normalize the actual expenses incurred in the test year. On a Missouri jurisdictional
19 basis, this adjustment reduces test year operation and maintenance expense by \$3,157,000.

4. OUTSIDE SERVICES EXPENSE

Q. WHAT IS INCLUDED IN CHARGES TO ACCOUNT 923, OUTSIDE SERVICES?

A. As provided by the Uniform System of Accounts instructions, Account 923 includes fees and expenses for professional services that are not applicable to a particular operating function. For example, this account will include fees for outside auditors, attorneys, actuaries, engineering consultants and management consultants. In the case of UE, the largest part of the charges to Account 923 is billings from Ameren Services.

Q. HAVE YOU REVIEWED THE OUTSIDE SERVICES EXPENSE FOR THE TEST YEAR?

A. Yes. Actual charges to Account 923 for outside services expense in the twelve months ended June 30, 2001 were \$80,593,000. Staff eliminated \$2,686,000 of over-accrued legal expense from this account. After this adjustment, the outside services expense is \$77,907,000.

Q. BASED ON THE COMPANY'S EXPERIENCE IN OTHER RECENT YEARS, IS THIS LEVEL OF OUTSIDE SERVICES EXPENSE NORMAL?

A. No. On Schedule DJE-2, Page 5, I show the outside services expense charged to Account 923 for each year 1998 - 2001. I have begun with 1998 because the merger of AmerenUE and AmerenCIPS and the formation of Ameren Services was effective January 1, 1998. Therefore, a comparison of expenses incurred presently to expenses incurred prior to that date might not be meaningful. Referring to this schedule, it can be seen that for 2001, the charges for outside services were \$67,084,000; for 2000, the charges were \$67,300,000; for 1999, the charges were \$30,572,000; and for 1998, the charges were \$36,566,000. Thus the charges in the test year, the

1 twelve months ended June 30, 2001, were substantially greater than the charges for either 2000 or
2 2001, even though those two years in part overlap the test year. The charges to Account 923 in the
3 test year were more than twice the charges to Account 923 in either 1998 or 1999.

4 **Q. HAS THE COMPANY EXPLAINED THE REASONS FOR THE INCREASE IN THE**
5 **CHARGES TO ACCOUNT 923 IN THE TWELVE MONTHS ENDED JUNE 30, 2001?**

6 A. OPC Data Request 4053 (attached as Schedule DJE-3, Page 5) asked the Company to explain the
7 reasons for the increase in charges to Account 923 in the test year from the level of expenses
8 incurred in prior years. The Company responded that there are many areas of expertise for which
9 Ameren must rely on outside sources, such as information technology. This describes the types of
10 charges to the outside services account, but it does not explain why the charges in the twelve
11 months ended June 30, 2001 were so much greater than the charges in other recent years.

12 Another explanation offered by the Company was that beginning in the year 2000, the billings from
13 Ameren Services charged to Account 923 included billings for transmission service, associated
14 with the formation of AmerenEnergy Generating Company. I find this explanation lacking in two
15 respects. First, if costs that had been charged to transmission expense were charged to outside
16 services, there should be an offsetting decrease to transmission expense. There was no such
17 decrease to transmission expense in the twelve months ended June 30, 2001. Second, charges to
18 Account 923 are costs that cannot be assigned to specific functions. By definition, charges for
19 transmission service can be assigned to the transmission function, for which operation and
20 maintenance expenses are charged to the 560 and 570 series of accounts, and should not be charged
21 to Account 923.

1 The explanation contained in the response to OPC Data Request 4053 concludes with the
2 statement "The current level of outside services is representative of outside services that will
3 continue into the future." If by "the current level of outside services" the response means the level
4 of outside services expense for the twelve months ended June 30, 2001, this conclusory statement
5 appears to be somewhat questionable.

6 **Q. HAS THE COMPANY PROVIDED ANY INFORMATION THAT WOULD SUPPORT**
7 **THE LEVEL OF EXPENSE CHARGED TO ACCOUNT 923 IN THE TWELVE MONTHS**
8 **ENDED JUNE 30, 2001 AS BEING REPRESENTATIVE OF OUTSIDE SERVICES**
9 **THAT WILL CONTINUE INTO THE FUTURE?**

10 A. No, and available data do not support this conclusion. As noted above, the actual outside services
11 expense for 2000 was \$67,300,000, and for 2001 the expense was \$67,084,000. Not only were the
12 expenses less in the 2000 and the other years before the test year, the expenses were also less in the
13 year ended six months after the end of the test year. This is an indication that outside services
14 expenses incurred in the test year are not representative of the outside services expenses that will be
15 incurred prospectively.

16 **Q. WHAT DO YOU RECOMMEND?**

17 A. I recommend that the actual outside services expense incurred in the twelve months ended June 30,
18 2001 be normalized for the purpose of determining the level of outside service expense to be
19 included in the Company's revenue requirement. I have calculated my proposed normalization
20 adjustment on Schedule DJE-2, Page 5.

1 **Q. PLEASE EXPLAIN THIS SCHEDULE.**

2 A. I have based my proposed normalization adjustment on the actual outside services expense incurred
3 in the years 1998 – 2001. I have used this four-year period rather than the five-year period I used to
4 normalize administrative and general salaries because, as noted above, Ameren Services was
5 formed in 1998, and the outside services expense incurred in the years before that might not offer a
6 meaningful comparison. (I should note that in 1997 the outside services expense was \$21,957,000,
7 which was less than any of the other years, so the exclusion of this year does not cause any
8 downward bias.) I have calculated the average outside services expense for the four-year period
9 1998 - 2001, with the actual expenses for the years 1998-2000 escalated at a rate of 2.5% per year
10 to re-state the actual level of expenses to test year dollars. Again, the escalation rate of 2.5% is
11 intended to allow for real system growth as well as the effect of inflation.

12 Using this method, I have calculated a normalized level of outside services expense of
13 \$51,460,000. This is \$26,447,000 less than the actual outside services expense in the twelve
14 months ended June 30, as adjusted by Staff. Accordingly, I recommend that Staff's test year
15 outside services expense be reduced by \$26,447,000 to normalize the actual expenses incurred in
16 the test year. On a Missouri jurisdictional basis, this adjustment reduces test year operation and
17 maintenance expense by \$23,829,000.

18 **Q. HAVE YOU PERFORMED A REASONABILITY TEST ON YOUR PROPOSED**
19 **ADJUSTMENT?**

1 A. Yes. The outside services expense for 2001 was \$67,084,000. For the first six months of 2001
2 (which is within the test year), the outside services expense was \$42,600,000. Thus, for the last six
3 months of 2001, outside services expense was \$24,484,000. Doubling the actual outside services
4 expense for the last six months of 2001, the annualized level of expense is \$48,968,000. This is
5 actually less than the normalized expense of \$51,460,000 that I have calculated on Schedule DJE-2,
6 Schedule 5. Based on this comparison, I believe that the normalized level of expense that I have
7 calculated is reasonable.

8 **5. INCENTIVE COMPENSATION**

9 **Q. HAVE YOU REVIEWED STAFF'S PROPOSED ADJUSTMENT TO ELIMINATE**
10 **INCENTIVE COMPENSATION FROM THE COMPANY'S COST OF SERVICE?**

11 A. Yes. Staff is proposing to eliminate Company's incentive compensation expense from the cost of
12 service on the grounds that there is insufficient evidence that the incentive compensation programs
13 provide benefits to Missouri ratepayers.

14 **Q. BASED ON YOUR REVIEW, IS STAFF'S ELIMINATION OF INCENTIVE**
15 **COMPENSATION FROM THE COST OF SERVICE APPROPRIATE?**

16 A. Yes. There are three incentive compensation programs – the Ameren Incentive Plan, the Ameren
17 Management Incentive Plan, and the Executive Incentive Plan. The primary determinant of the
18 amount of incentive compensation to be awarded pursuant to each of these plans is earnings per
19 share ("EPS"). Because the primary determinant of the incentive compensation is EPS, a
20 shareholder goal, elimination expense of this expense from the cost of service to be paid by
21 ratepayers is appropriate.

1 **Q. WHY IS IT APPROPRIATE TO ELIMINATE INCENTIVE COMPENSATION ON**
2 **THE GROUNDS THAT THE PRIMARY BASIS FOR DETERMINING THE**
3 **COMPENSATION TO BE AWARDED IS EPS?**

4 A. If the primary basis for awarding incentive compensation were safety, reliability, or cost control,
5 then it would be reasonable to include such incentive compensation expenses in the cost of service.
6 These are goals that benefit everybody, including customers.

7 However, maximizing EPS is a shareholder-oriented goal, not a customer-oriented goal. For
8 example, all else equal, higher rates will result in higher revenues, which in turn will result in
9 higher EPS. Thus, including incentive compensation related to EPS in the revenue requirement
10 would, in effect, require customers to reward company management on a contingency basis for
11 getting them to pay higher rates. If the incentive compensation program is successful in increasing
12 EPS, the shareholders should be happy to reward management accordingly and absorb the cost of
13 the program. As shareholders are the primary beneficiaries of increases to EPS, it should be those
14 shareholders, not customers, that bear the cost of the incentive compensation related to EPS.
15 Therefore, the incentive compensation based on EPS should be excluded from the cost of service.

16 **Q. IS IT YOUR UNDERSTANDING THAT THE COMMISSION HAS DISALLOWED**
17 **INCENTIVE COMPENSATION FROM THE COST OF SERVICE IN OTHER CASES?**

18 A. Yes. Staff has cited other cases where the Commission has disallowed incentive compensation,
19 because the utilities had not established that the incentive compensation plans met the
20 Commission's standards for inclusion of the expenses in the cost of service, such as the plan's
21 being primarily in the interest of ratepayers. As UE's incentive compensation plans appears to be

Rebuttal Testimony of
David J. Effron
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1 based primarily on the interests of investors, the incentive compensation expense should not be
2 included in the cost of service in this case.

3 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 **A. Yes.**

UNION ELECTRIC COMPANY
ACCUMULATED DEFERRED INCOME TAXES
(\$000)

Balances as of September 30, 2001:	<u>Total Company</u>	<u>Missouri Alloc.</u>	<u>Missouri Balance</u>
Deferred Compensation	16,993	0.9010	15,311
Nuexco Sale of Collateral	2,020	0.8754	1,768
Reserve and Clearing Accounts	<u>8,934</u>	0.9225	<u>8,242</u>
Totals	<u>27,947</u>		<u>25,321</u>

Source: Staff Workpapers

UNION ELECTRIC COMPANY
ACCUMULATED LIABILITY FOR OPEB
(\$000)

Accrued OPEB Liability, September 30, 2001	(1)	97,678
Allocation to Missouri	(2)	<u>0.9010</u>
Accrued OPEB Liability - Missouri, September 30, 2001		<u>88.008</u>

Sources:

- (1) OPC Data Request 4041
- (2) Staff Workpapers

UNION ELECTRIC COMPANY
TEST YEAR REVENUE
(\$000)

	<u>Residential</u>	<u>Large General</u>	<u>Small Primary</u>	<u>Total</u>
Annualized Revenue	4,986	15,420	(1,353)	19,053
Annualized Revenue per Staff	<u>3,491</u>	<u>13,005</u>	<u>(675)</u>	<u>15,820</u>
Adjustment to Staff Revenue	<u>1,495</u>	<u>2,416</u>	<u>(678)</u>	<u>3,233</u>
Annualized Sales - MWH	70,232	270,619	(31,520)	309,331
Annualized Sales per Staff - MWH	<u>44,937</u>	<u>227,005</u>	<u>(17,032)</u>	<u>254,910</u>
Adjustment to Staff Sales - MWH	<u>25,295</u>	<u>43,614</u>	<u>(14,489)</u>	<u>54,421</u>

Source: Revenue Adjustment Workpapers

UNION ELECTRIC COMPANY
CALLAWAY REFUELING OUTAGE COSTS
(\$000)

Refueling Outage	Maint. Projects	Overtime	Total
Actual:			
Spring 1995	20,700	4,500	25,200
Fall 1996	16,500	3,500	20,000
Spring 1998	16,300	5,100	21,400
Fall 1999	22,000	5,000	27,000
Spring 2001	23,100	8,000	31,100
Escalated to Test Year:			
Spring 1995	23,312	5,068	28,379
Fall 1996	18,038	3,826	21,864
Spring 1998	17,298	5,412	22,710
Fall 1999	22,663	5,151	27,814
Spring 2001	<u>23,100</u>	<u>8,000</u>	<u>31,100</u>
Average of 5 Maint. Outages	20,882	5,491	26,373
Annual Average	13,921	3,661	17,582
Staff Annualized	<u>15,400</u>	<u>5,333</u>	<u>20,733</u>
Adjustment to Staff Position	(1,479)	(1,672)	(3,151)
Missouri Allocation	<u>0.8754</u>	<u>0.9021</u>	
Adjustment to Missouri Expense	<u>(1,294)</u>	<u>(1,509)</u>	<u>(2,803)</u>

Sources: Response to MPSC Staff DR 31
Assumed Escalation Rate

2.0%

UNION ELECTRIC COMPANY
NUCLEAR OPERATION - SUPERVISION AND ENGINEERING
(\$000)

<u>Year</u>		<u>Nuclear S&E</u>	<u>Escalated</u>
2001	(1)	45,553	45,553
2000	(1)	20,795	21,002
1999	(1)	19,909	20,509
1998	(1)	19,913	20,924
1997	(1)	19,189	<u>20,566</u>
Average			25,711
Test Year Nuclear Operation Supervision and Engineering	(2)		<u>37,545</u>
Adjustment			(11,834)
Missouri Allocation	(3)		<u>0.8979</u>
Adjustment to Missouri Expenses			<u>(10,627)</u>
Escalation Rate	2.0%		

Sources:

- (1) FERC Form 1
- (2) OPC Data Request 4008
- (3) Staff Workpapers

UNION ELECTRIC COMPANY
ADMINISTRATIVE AND GENERAL SALARIES
(\$000)

<u>Year</u>		<u>A&G Salaries</u>	<u>Escalated</u>
2001	(1)	49,555	49,555
2000	(1)	29,135	29,497
1999	(1)	28,585	29,664
1998	(1)	51,915	55,221
1997	(1)	34,374	<u>37,477</u>
Average			40,283
Test Year A&G Salaries	(2)		<u>43,786</u>
Adjustment			(3,503)
Missouri Allocation	(3)		<u>0.9010</u>
Adjustment to Missouri Expenses			<u>(3,157)</u>
Escalation Rate	2.5%		

Sources:

- (1) FERC Form 1
- (2) OPC Data Request 4008
- (3) Staff Workpapers

UNION ELECTRIC COMPANY
OUTSIDE SERVICES EXPENSE
(\$000)

<u>Year</u>		<u>Outside Services</u>	<u>Escalated</u>
2001	(1)	67,084	67,084
2000	(1)	67,300	68,136
1999	(1)	30,572	31,726
1998	(1)	36,565	38,893
<hr/>			
Average			51,460
Test Year Outside Services	(2)		80,593
Adjustment to Legal Expense Accrual	(3)		<u>(2,686)</u>
Test Year Outside Services as Adjusted by Staff			77,907
Adjustment to Staff Outside Services Expense			(26,447)
Missouri Allocation	(4)		<u>0.9010</u>
Adjustment to Missouri Expenses			<u>(23,829)</u>

Escalation Rate 2.5%

Sources:

- (1) FERC Form 1
- (2) OPC Data Request 4008
- (3) Staff Accounting Schedule 10-4
- (4) Staff Workpapers

UNION ELECTRIC COMPANY
WORKPAPERS FOR RESIDENTIAL REVENUE ADJUSTMENT

Residential

	1	2	3	4	5	6	7	8	9
			Mos.						
Month	Custs	Avg. Custs	to 9/01	Ending Cust.	Growth	Avg. Rev.	Revenue Adjstmt	KWH/ Cust	KWH Adjstmt
Jun-00	#####								
Jul-00	#####	967,499	14.5	976,477	8,978	112	1,005,532	1,284	11,527,702
Aug-00	#####	968,064	13.5	976,427	8,364	104	869,822	1,185	9,910,947
Sep-00	#####	969,044	12.5	976,795	7,752	97	751,942	1,100	8,527,175
Oct-00	#####	970,337	11.5	977,478	7,141	47	335,643	766	5,470,265
Nov-00	#####	971,261	10.5	977,787	6,527	46	300,222	734	4,790,494
Dec-00	#####	972,551	9.5	978,464	5,913	57	337,031	1,043	6,167,079
Jan-01	#####	974,369	8.5	979,669	5,300	73	386,923	1,428	7,568,848
Feb-01	#####	975,583	7.5	980,265	4,683	66	309,050	1,199	5,614,404
Mar-01	#####	976,312	6.5	980,373	4,061	58	235,553	1,020	4,142,487
Apr-01	#####	976,612	5.5	980,050	3,438	48	165,000	790	2,715,633
May-01	#####	975,821	4.5	978,631	2,810	43	120,840	688	1,933,438
Jun-01	#####	974,391	3.5	976,574	2,183	77	168,055	854	1,863,882

Totals							4,985,612		70,232,353
Staff Adjustment							3,490,775		44,937,115
Adjustment to Staff Position							1,494,837		25,295,238

Line Notes

- 1 Staff Workpapers
- 2 Average of current month plus prior month
- 3 Months from midpoint of month to 9/30/01
- 4 Column 2 * (1+ Avg. Growth*Column 3/12), Growth from Page 1A
- 5 Column 4 - Column 2
- 6 Staff Workpapers
- 7 Column 5 * Column 6
- 8 Staff Workpapers
- 9 Column 5 * Column 8

UNION ELECTRIC COMPANY
WORKPAPERS FOR RESIDENTIAL REVENUE ADJUSTMENT

Residential Customers	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Average Growth</u>
Jan	932,536	938,064	944,545	951,065	958,843	967,281	0.00745
Feb	932,921	938,834	945,283	952,407	960,106	969,253	0.00779
Mar	934,568	939,941	945,711	953,644	961,077	969,761	0.00753
Apr	933,873	935,598	945,955	953,769	960,966	969,453	0.00762
May	932,560	938,778	945,157	952,572	960,013	968,282	0.00766
Jun	931,900	937,331	944,470	951,468	959,562	967,309	0.00760
Jul	931,858	936,715	944,623	952,012	959,858	967,689	0.00769
Aug	932,031	937,031	944,972	952,258	960,248	968,438	0.00781
Sep	934,156	938,150	945,882	952,982	961,380	969,649	0.00760
Oct	935,023	939,249	944,906	953,498	961,959	971,025	0.00770
Nov	935,384	941,160	946,598	954,840	962,987	971,498	0.00772
Dec	936,253	943,193	949,183	956,464	964,976	973,606	0.00798
					Average		0.00768
Source:	Staff Workpapers						

UNION ELECTRIC COMPANY
WORKPAPERS FOR LARGE GENERAL REVENUE ADJUSTMENT

Large General

	1	2	3	4	5	6	7	8
Month	Custs	Avg. Custs	Ending Cust.	Growth	Avg. Rev.	Revenue Adjstmt	KWH/ Cust	KWH Adjstmt
Jun-00	8,109							
Jul-00	8,170	8,140	8,565	426	5,941	2,529,985	81,190	34,573,305
Aug-00	8,166	8,168	8,565	397	5,888	2,339,488	79,616	31,633,999
Sep-00	8,273	8,220	8,565	346	5,966	2,063,377	78,568	27,171,419
Oct-00	8,277	8,275	8,565	291	3,215	934,296	70,404	20,458,316
Nov-00	8,290	8,283	8,565	282	3,018	851,333	66,210	18,676,691
Dec-00	8,248	8,269	8,565	296	3,089	915,251	71,148	21,083,398
Jan-01	8,335	8,292	8,565	274	3,350	917,333	78,991	21,630,405
Feb-01	8,258	8,297	8,565	269	3,051	820,236	69,469	18,675,690
Mar-01	8,573	8,416	8,565	150	2,970	445,014	67,451	10,106,376
Apr-01	7,963	8,268	8,565	297	2,946	876,065	64,441	19,160,348
May-01	8,288	8,126	8,565	440	3,061	1,346,384	66,356	29,185,709
Jun-01	8,340	8,314	8,565	251	5,497	1,381,576	72,666	18,263,357
Totals						15,420,337		270,619,015
Staff Adjustment						<u>13,004,684</u>		<u>227,004,713</u>
Adjustment to Staff Position						<u>2,415,653</u>		<u>43,614,302</u>

Line Notes

- 1 Staff Workpapers
- 2 Average of current month plus prior month
- 3 Jul 8,365 Staff Workpapers
 Aug 8,982 Staff Workpapers
 Sep 8,515 Staff Workpapers
 Oct 8,635 OPC Data Request 4048
 Nov 8,289 OPC Data Request 4048
 Dec 8,606 OPC Data Request 4048
 Average 8,565
- 4 Column 3 - Column 2
- 5 Staff Workpapers
- 6 Column 4 * Column 5
- 7 Staff Workpapers
- 8 Column 4 * Column 7

UNION ELECTRIC COMPANY
WORKPAPERS FOR SMALL PRIMARY REVENUE ADJUSTMENT

Small Primary

	1	2	3	4	5	6	7	8
Month	Custs	Avg. Custs	Ending Cust.	Growth	Avg. Rev.	Revenue Adjstmt	KWH/ Cust	KWH Adjstmt
Jun-00	653							
Jul-00	647	650	646	(4)	37,378	(155,742)	594,042	(2,475,173)
Aug-00	652	650	646	(4)	37,684	(138,175)	599,648	(2,198,708)
Sep-00	650	651	646	(5)	38,600	(199,435)	589,744	(3,047,009)
Oct-00	647	649	646	(3)	23,250	(62,000)	552,461	(1,473,229)
Nov-00	643	645	646	1	20,571	17,142	531,061	442,551
Dec-00	645	644	646	2	20,906	38,327	542,915	995,345
Jan-01	655	650	646	(4)	21,185	(88,269)	565,077	(2,354,486)
Feb-01	672	664	646	(18)	25,932	(458,135)	790,172	(13,959,699)
Mar-01	675	674	646	(28)	13,623	(376,901)	379,540	(10,500,609)
Apr-01	616	646	646	0	19,601	6,534	521,176	173,725
May-01	651	634	646	12	20,595	254,006	481,320	5,936,274
Jun-01	652	652	646	(6)	33,589	(190,335)	539,863	(3,059,224)
Totals						(1,352,984)		(31,520,242)
Staff Adjustment						(675,006)		(17,031,704)
Adjustment to Staff Position						(677,978)		(14,488,538)

Line Notes

- 1 Staff Workpapers
- 2 Average of current month plus prior month
- 3 Jul 645 Staff Workpapers
 Aug 661 Staff Workpapers
 Sep 648 Staff Workpapers
 Oct 639 OPC Data Request 4049
 Nov 637 OPC Data Request 4049
 Dec 645 OPC Data Request 4049
 Average 646
- 4 Column 3 - Column 2
- 5 Staff Workpapers
- 6 Column 4 * Column 5
- 7 Staff Workpapers
- 8 Column 4 * Column 7

Public Counsel Data Request
Union Electric Company
Case No EC-2002-1

Request No. 4036

Account 190 Minors	Description	Explanation	Associated Accrued Liabilities or Reserves	Balance @ 09/30/2001
321 & 322	Interest Income on Environmental Bonds	AFC debt accrued separately from normal AFC for years 1981-1985, therefore, a separate deferred tax account was used.	None	2,636,137
331 & 332	Discount - Westinghouse Credits	Westinghouse Credits are recognized as taxable income when received; amortized for book purposes.	None	1,695,788
341 & 342	Deferred Compensation	Book expense/accrual for deferred compensation reversed for tax. Payments on deferred compensation recognized as expense for tax.	242-092/93/94/95/97 242-217/218/219 253-092/93/94/97	16,922,738
793 & 794	Nuexco Sale of Collateral	Sales of collateral received from bankruptcy court were taxable events (gain or loss recognized), but not for book purposes.	None	2,019,750
871 & 872	Reserve & Clearing Adjustments	Net change in reserve accounts (I&D, Legal and Uncollectibles), and Clearing accounts	Clearing - 163,184,700's Uncollectible - 144 Legal - 242-009 I&D - 282-002, 282-020/21/22/23	8,934,000
961 & 962	Other Taxes	Over/underaccrual of taxes other than income	None	7,267,000

AmerenUE's Response to
PUBLIC COUNSEL DATA REQUEST
Case No. EC-2002-1
Excess Earnings Complaint
Staff of the MPSC v. Union Electric Company d/b/a AmerenUE

No. 4041

Question:

Please provide the accrued liability for post-retirement benefits other than pensions as of June 30, 1995 and as of September 30, 2001.

Response:

The accrued liability balance for Union Electric Company post-retirement benefits other than pensions as of June 30, 1995 was zero and as of September 30, 2001 was \$97,678,850.53. The liability balance at Ameren Services Company as of September 30, 2001 was \$1,000,046.69.

Date
04/16/02

Signed By:

Leonard A. Mans

Prepared By: Leonard A. Mans
Title: Supervisor General Ledger

PUBLIC COUNSEL DATA REQUEST**UNION ELECTRIC COMPANY**
d/b/a AMERENUE**CASE NO EC-2002-1**

REQUESTED FROM: Mary Hoyt

DATE REQUESTED: April 5, 2002

INFORMATION REQUESTED:

The response to OPC Data Request 4008 indicates the nuclear supervision & engineering operation expense for the twelve months ended June 30, 2001 was \$37,545,468. This represents a substantial increase over the level of nuclear supervision & engineering operation expense incurred for 1997, 1998, 1999 and 2000. Please explain the reasons for this increase.

REQUESTED BY: David Effron

INFORMATION PROVIDED:

There are several reasons for the increase in supervision & engineering operations expenses for the twelve-month period ended June 30, 2001. First, there was an increase in total wages. Comparing the two most recent periods, July 99 - June 00 and July 00 - June 01, we see that wage rates increased by 7% or \$3.5 million. Overtime increased by \$2.2 million and staff increased by an equivalent of about 177 people, or \$1.2 million. This increase in total wages would funnel additional dollars into the 517 account. Secondly, Activity Based Costing was implemented during the most recent period. Matching activities and FERC major accounts, versus a more traditional approach of major account assignment, may have contributed to more dollars being charged to 517. Fine-tuning the activity/FERC major account relationship is an on-going process.

The information provided to the Office of the Public Counsel in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Office of the Public Counsel if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information.

DATE RECEIVED: _____

SIGNED BY: TITLE: Supervising Engineer

AmerenUE's Response to
Office of the Public Counsel Data Request
Case No. EC-2002-1
Excess Earnings Complaint
Staff of the MPSC V Union Electric Company d/b/a AmerenUE

No. 4052:

The response to OPC Data Request 4008 indicates the administrative and general salaries expense for the twelve months ended June 30, 2001 was \$43,786,588. This represents a substantial increase over the level of administrative and general expenses incurred for 1999 and 2000. Please explain the reasons for this increase.

Response:

The charges to Account 920 for the twelve months ended June 30, 1999 were \$47,655,160 and for the twelve months ended June 30, 2000 were \$30,505,524. This shows that the charges to Account 920 vary up and down year to year. One of the main reasons is the amount of this account that is charged to O&M versus capital. Most of the charges to this account come from the allocation of Ameren Services and based on a fixed payroll distribution. Each year the percent charged to capital is reviewed. Also the various service requests charged also have different amounts being charged to capital or O&M. Thus depending on the service requests charged in a particular year the amount going to O&M will vary.

Signed by: Gary S. Weiss
Prepared by: Gary S. Weiss
Supervisor, Regulatory Accounting


AmerenUE's Response to
Office of the Public Counsel Data Request
Case No. EC-2002-1
Excess Earnings Complaint
Staff of the MPSC V Union Electric Company d/b/a AmerenUE

No. 4053:

The response to OPC Data Request 4008 indicates the outside services expense for the twelve months ended June 30, 2001 was \$80,592,903. This represents a substantial increase over the level of outside services expenses incurred for 1997, 1998, 1999, and 2000. Please explain the reasons for this increase.

Response:

Every year as part of the Missouri Revenue Sharing Plan (ARP) information was provided to the MPSC Staff and OPC on outside services. The merger of AmerenUE and AmerenCIPS and the formation of Ameren Services took place effective 1/1/98. Any comparison prior to that date is meaningless. Since 1998 there has been a reduction in full time employees, which has resulted in some additional outside services. Also there are many areas of expertise that Ameren does not have in house and thus must use outside services. In the IT area it is very difficult to find full time employees in certain areas and thus outside services must be used. As you can see on the schedules provided in response to OPC Data Request 4024 a large portion of the charges to account 923 are related to the Ameren Energy billings. During the year 2000 with the formation of AmerenEnergy Generating Company, Ameren Services started charging Ameren Energy for transmission service. Ameren Energy then bills the transmission service charges back through its billings in account 923. Again this information has been provided to the MPSC Staff and OPC during the Missouri Revenue Sharing Plan (ARP) data requests and meetings. The current level of outside services is representative of the level of outside services that will continue into the future.

Signed by: 
Prepared by: Gary S. Weiss
Supervisor, Regulatory Accounting