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Witness: Lisa K. Hanneken  
Sponsoring Party: Union Electric Co.  
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Case No: ER-2007-0002  
Date Testimony Prepared: January 10, 2007

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Service Commission

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Date 3-16-07 Case No. ER-2007-  
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BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

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

DEPOSITION OF LISA K. HANNEKEN

TAKEN ON BEHALF OF UNION ELECTRIC COMPANY  
D/B/A AMERENUE

JANUARY 10, 2007

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11 EXHIBIT DESCRIPTION PAGE

12 (No exhibits marked.)

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1 APPEARANCES

2 For Union Electric Company d/b/a AmerenUE:

3 Mr. William J. Powell

4 Smith Lewis, LLP

5 111 South Ninth, Suite 200

6 Columbia, Missouri 65201-0918

7 (573) 443-3141

8 powell@smithlewis.com

9

10 For Union Electric Company d/b/a AmerenUE:

11

12 Mr. Thomas M. Byrne

13 Managing Assoc. General Counsel

14 Ameren Services

15 One Ameren Plaza

16 1901 Chouteau Avenue

17 St. Louis, Missouri 63166-6149

18 (314) 554-2098

19 tbyrne@ameren.com

20

21 For the Public Service Commission, State of

22 Missouri:

23

24 Mr. David A. Meyer

25 Missouri Public Service Commission

Governor Office Building

200 Madison Street, P.O. Box 360

Jefferson City, Missouri 65102-0360

(573) 751-8706

david.meyer@psc.mo.gov

For the Attorney General's Office,

State of Missouri:

(via telephone)

Mr. Douglas E. Micheel

Office of Attorney General

State of Missouri

P.O. Box 899

Jefferson City, Missouri 65102

douglas.micheel@ago.mo.gov

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1 BEFORE THE PUBLIC SERVICE COMMISSION

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3

4 In the Matter of Union Electric )

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6 Authority to File Tariffs )

7 Increasing Rates for Electric ) No. ER-2007-0002

8 Service Provided to Customers )

9 in the Company's Missouri )

10 Service Area. )

11

12 DEPOSITION OF LISA K. HANNEKEN, produced,

13 sworn and examined on January 10, 2007, between the

14 hours of one o'clock in the afternoon and three

15 o'clock in the afternoon of that day, at the offices

16 of the Missouri Public Service Commission, Governor

17 Office Building, 200 Madison St., Room 210, Jefferson

18 City, Missouri 65102-0360, before William L. DeVries,

19 a Certified Court Reporter (MO), Certified Shorthand

20 Reporter (IL), Registered Diplomat Reporter,

21 Certified Realtime Reporter, and a Notary Public

22 within and for the State of Missouri, in a certain

23 cause now pending before the Public Service

24 Commission, State of Missouri, in the Matter of Union

25 Electric Company d/b/a AmerenUE for Authority to File

Tariffs Increasing Rates for Electric Service Provided

to Customers in the Company's Missouri Service Area;

on behalf of Union Electric Company d/b/a AmerenUE.

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1 Also present:

2 Mr. Stephen M. Rackers, Missouri Public

3 Service Commission

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5 Ms. Krista G. Bauer, Ameren Services

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21 Court Reporter:

22 William L. DeVries, RDR/CRR

23 Missouri CCR #566

24 Illinois CSR #084-003893

25 Midwest Litigation Services

711 North Eleventh Street

St. Louis, Missouri 63101

(314) 644-2191

1-800-280-DEPO

1 IT IS HEREBY STIPULATED AND AGREED by and  
2 between all counsel that this deposition may be taken  
3 in shorthand by William L. DeVries, RDR/CRR, a  
4 Certified Court Reporter, Certified Shorthand  
5 Reporter, and Notary Public, and afterwards  
6 transcribed into typewriting; and the signature of the  
7 witness is expressly reserved.

8 \* \* \* \* \*

9 LISA K. HANNEKEN,

10 of lawful age, produced, sworn and examined on behalf  
11 of the Union Electric Company d/b/a AmerenUE, deposes  
12 and says:

13 (Starting time of the deposition: 1:02 p.m.)

14  
15 MR. POWELL: What we were discussing here  
16 was the fact that some of the questions that I'll be  
17 asking you will relate to information that has been  
18 designated highly confidential, and I was trying to  
19 work out the terms of an agreement about that, or  
20 statement about that. I think for now, unless  
21 somebody objects, what we'd like to do is just  
22 designate the -- this entire deposition today as  
23 highly confidential until we have had a chance to  
24 review it and determine what portions might not fit  
25 that criteria.

1 come up.

2 MR. MEYER: Oh, okay. Okay.

3 MR. POWELL: Sure. I'll promise a letter  
4 within two weeks designating which portions are highly  
5 confidential.

6 EXAMINATION

7 QUESTIONS BY MR. POWELL:

8 Q. State your name, please.

9 A. Lisa Hanneken.

10 Q. All right. And you are the same Lisa  
11 Hanneken who filed testimony in Missouri Public  
12 Service Commission case ER 2007-002, the case we're  
13 now taking your deposition in; is that correct?

14 A. Yes. I'm sorry to interrupt.

15 Q. Okay.

16 A. I just want to make everyone aware I have a  
17 slight hearing problem in one hear. So if I do not  
18 hear you, I'll let you know. You seem to be fine.  
19 It's certain tones that I have a problem with.

20 Q. Okay. Yeah, please do.

21 A. I just wanted to make everyone aware of  
22 that.

23 Q. Okay. Ms. Hanneken, you have filed  
24 testimony in five prior Public Service Commission  
25 cases as I understand it; is that correct?

1 MR. MICHEEL: This is Doug Micheel. When  
2 do you plan on having that done? I don't want to be  
3 going to a hearing with a completely highly  
4 confidential deposition.

5 MR. POWELL: Well, we'll do it as soon as  
6 we can.

7 MR. MICHEEL: How soon is that? I'd like a  
8 date certain.

9 MR. BYRNE: We can't do it before we get  
10 the transcript.

11 MR. MICHEEL: Really, Tom? That's  
12 incredible.

13 MR. POWELL: How about, say, two weeks  
14 after we get the transcript.

15 MR. MICHEEL: That will work great.

16 MR. POWELL: Okay.

17 MR. MICHEEL: And I'm assuming you're going  
18 to put that on the record.

19 MR. POWELL: I think we are on the record.

20 MR. MICHEEL: Okay.

21 MR. MEYER: You'll just follow up with a  
22 letter saying these pages are confidential versus -- I  
23 mean, how are you -- and I assume you're working this  
24 out on all the other depositions, too, or this --

25 MR. BYRNE: This is the first time it's

1 A. I believe so, yes.

2 Q. None of that prior testimony before this  
3 case involved incentive compensation; is that correct?

4 A. Yes.

5 Q. In your filed testimony you indicated that  
6 you have assisted with or directed audits for utility  
7 companies in the past?

8 A. Yes.

9 Q. How many?

10 A. I do not have a specific number.

11 Q. Can you give an estimate?

12 A. It's more than the five that I actually  
13 filed here. There's been several small water/sewer  
14 cases that I've been involved in, and some other cases  
15 that I've assisted with, but not been actually  
16 assigned to.

17 Q. Would the total number of audits for  
18 utility companies that you have been involved in,  
19 either assisting or directing, be less than ten?

20 A. I don't believe so. I think it's more than  
21 ten.

22 Q. Okay. But not much more than ten?

23 A. I don't believe so.

24 Q. Okay. How many of those did you personally  
25 direct?

1 A. I was assigned as lead auditor on one.  
 2 Q. Which one was that?  
 3 A. The Atmos case.  
 4 Q. And I'm not recalling at the moment.  
 5 Was -- did your testimony -- well, no, you've already  
 6 answered that. Your testimony in the Atmos case did  
 7 not involve incentive compensation, correct?  
 8 A. That's correct. I was not assigned to that  
 9 issue.  
 10 Q. Okay. Before right now have you ever given  
 11 a deposition?  
 12 A. No, I have not.  
 13 Q. Okay. I might be sure that we have certain  
 14 ground rules about depositions straight before we get  
 15 started. As you're aware, everything we say is being  
 16 recorded by a court reporter. In order to have a  
 17 clear and accurate transcript of what goes on here  
 18 today, we need to be sure that we don't talk over each  
 19 other; that is, only one of us talk at a time.  
 20 Any responses you make need to be verbal.  
 21 For example, yes or no as opposed to uh-huh or huh-uh  
 22 because that doesn't come through very clearly on the  
 23 transcript. And also, we need to do what we can to be  
 24 sure that you feel you have a clear understanding of  
 25 the questions that are asked so that we can interpret

1 A. Yes, I did.  
 2 Q. Okay. Do you have anything not previously  
 3 presented to the company, either electronically or in  
 4 print, that is responsive to any of these requests?  
 5 A. The only thing that I have that the company  
 6 has not been given was in response to item three. I  
 7 do have an e-mail from a company's employee, Mary  
 8 Hoyt, in response to a question that I had related to  
 9 DR about union contracts.  
 10 Q. All right. And you have that with you?  
 11 A. Yes, I have that.  
 12 Q. May I see that?  
 13 A. Yes.  
 14 Q. Thank you. And that's the only document  
 15 you have that was not previously provided that's  
 16 responsive to the list on Exhibit A to your notice; is  
 17 that correct?  
 18 A. I also brought some copies of partial  
 19 reports and orders that I referred to in my testimony.  
 20 But I mean, they're available to the company.  
 21 Q. Are you talking about Commission decisions?  
 22 A. Yes. Commission report and order decisions  
 23 in other cases that I referred to in my testimony.  
 24 Q. You mean by number for the case in your  
 25 testimony?

1 your answers correctly. I would ask that you clarify  
 2 anything if you feel you do not understand it. Will  
 3 you agree to do that?  
 4 A. Yes.  
 5 Q. And may I fairly assume that if you answer  
 6 a question, that you believe you understood the  
 7 question as asked?  
 8 A. Yes.  
 9 Q. Okay. You do realize that you are under  
 10 oath here today, and that you were also under oath  
 11 when you filed written testimony?  
 12 A. Yes.  
 13 Q. Okay. As I did with the deposition this  
 14 morning, I'd like to personally thank both you and the  
 15 staff of the commission generally for being available  
 16 and working diligently with the company to meet  
 17 deadlines and the intense schedule that we're all  
 18 working with.  
 19 You got a notice regarding the deposition  
 20 here today, and I wanted to go through the exhibit  
 21 attached to that. Do you have it?  
 22 A. Yes, I have it.  
 23 Q. Okay. That exhibit -- and I'm actually not  
 24 going to go through all of this item by item with you,  
 25 but you did go over that, did you not?

1 A. I refer to specific quotations.  
 2 Q. Okay. So by reading your testimony, we're  
 3 able to identify all of the cases that you brought  
 4 copies of the opinions in; is that correct?  
 5 A. Yes, they're all cited.  
 6 Q. Okay. It wasn't just a general reference  
 7 to the Commission has decided in multiple cases  
 8 something?  
 9 A. No, it was a specific reference.  
 10 Q. All right. I think we'll probably just get  
 11 those directly rather than require that you copy those  
 12 for us, but we appreciate that. Do you need this  
 13 back?  
 14 A. Yes, if you don't mind.  
 15 Q. Sure.  
 16 A. Thank you.  
 17 Q. Ms. Hanneken, today I plan to take the  
 18 deposition covering almost exclusively only one  
 19 subject, incentive compensation, even though your  
 20 filed testimony deals with I believe it's three other  
 21 topics. If a deposition is ever taken on those other  
 22 topics of you, it would be at a different time. So I  
 23 wanted to explain that to you as we get started.  
 24 All right. It's true, isn't it, that all  
 25 of your testimony on that issue, incentive

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1 compensation, is found on pages eleven through 21 of  
 2 your trial testimony, except that I think there is a  
 3 single reference to that in the introductory part on  
 4 page seven? Would that be an accurate statement?  
 5 A. Let me check real quick.  
 6 Q. Sure.  
 7 A. I see reference to it on pages eleven  
 8 through 23, as well as on page seven, as well as pages  
 9 two and three.  
 10 Q. Okay. I stand corrected then.  
 11 A. Or did I --  
 12 Q. You ran through page 23 in your answer, and  
 13 my understanding was that 21 through 23 -- toward the  
 14 bottom of 21 through 23 involves issues other than  
 15 incentive compensation?  
 16 A. Yes, I'm sorry. I missed a heading.  
 17 Q. All right. Most of my questions will be  
 18 directed toward being sure that I understand what the  
 19 staff's position on the incentive compensation issue  
 20 is. First, the staff does not take the position that  
 21 companies should not adopt incentive compensation  
 22 plans; is that a correct statement?  
 23 A. Yes.  
 24 Q. Okay. In fact, if I understand your  
 25 testimony, a company should be entitled to recover in

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1 its rates for incentive compensation paid to its  
 2 employees if that compensation is shown to be a  
 3 benefit to ratepayers; is that correct? I'd be happy  
 4 to repeat it, if you want.  
 5 A. Yes. I think that that is a correct  
 6 statement. I don't believe that staff would not  
 7 include that unless the criteria for receiving it as  
 8 in this instance is somehow related to financial  
 9 acuteness.  
 10 Q. Okay. But my statement as it stands, that  
 11 is staff would allow recovery in rates for incentive  
 12 compensation actually paid to employees if the  
 13 compensation is shown to be of benefit to ratepayers,  
 14 that is a correct statement, is it not?  
 15 A. Yes. As I said, it depends kind of on  
 16 what -- what it's tied to. I mean, the current  
 17 incentive compensation in some areas reduces the  
 18 ratepayer benefit, and yet we disallowed it because it  
 19 is still tied to financial earnings.  
 20 Q. Okay. And I'll want to explore that  
 21 concept with you to be sure that we on the company's  
 22 side understand what you're saying.  
 23 Let me ask you specifically about something  
 24 on page seventeen of your testimony. On page  
 25 seventeen of your testimony, you included a quotation

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1 from a particular Missouri Public Service Commission  
 2 case with the citation there. The quotation reads,  
 3 "At a minimum, an acceptable management performance  
 4 plan should contain goals that improve existing  
 5 performance, and the benefits of the plan should be  
 6 ascertainable and reasonably related to the plan."  
 7 Do you personally accept in your analysis  
 8 of this issue that statement of policy regarding  
 9 inclusion of incentive compensation and ratemaking?  
 10 A. Yes.  
 11 Q. All right. And looking right after that  
 12 quotation, this is your testimony now, it says, "In  
 13 several cases, the Commission has indicated that if  
 14 the incentive plan is based on superior employee  
 15 performance that enhances ratepayer benefit, such as  
 16 areas related to safety and O&M expenses, it should be  
 17 included in staff's calculations."  
 18 The wording of that sentence is such that I  
 19 feel I need to ask whether you personally believe that  
 20 that is the correct criteria to use in deciding  
 21 whether staff includes incentive compensation in their  
 22 calculations?  
 23 A. Yes.  
 24 Q. Okay. Have you reviewed the testimony of  
 25 state witness Carver?

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1 A. I briefly scanned it in the time period I  
 2 had available.  
 3 Q. Okay. I wanted to ask you if you agree  
 4 with the statement that I found in his -- actually, a  
 5 couple of statements. On page 52 of his testimony, do  
 6 you have that?  
 7 A. No, I do not.  
 8 Q. Okay. I'll show this to you after I read  
 9 it into the record. But on page 52 of his testimony  
 10 he states, "The state proposes recovery of the cost of  
 11 those incentive plan metrics reasonably identifiable  
 12 with customer service, employee safety, cost  
 13 reduction, individual employee performance, or  
 14 operational achievements or efficiencies."  
 15 Would you accept that as an accurate  
 16 description of the circumstances under which incentive  
 17 compensation should be included in calculations of  
 18 rates?  
 19 A. On the surface I would say yes. I would  
 20 need to know a little more information about some of  
 21 the areas that he is discussing. For example, the  
 22 cost reduction, if the company, you know, bases his  
 23 incentive on a department that cuts their expenses to  
 24 the bone as to increase profits for the company, but  
 25 yet that prohibits proper maintenance on a particular

1 project, we would not believe that that would be an  
 2 adequate metric to be included in an incentive plan.  
 3 Q. It's sounding to me like you consider it to  
 4 be part of the staff's job in evaluating this issue,  
 5 determining the actual effect on both the company and  
 6 the customer of an incentive compensation plan. Is  
 7 that a correct statement?  
 8 A. Yes.  
 9 Q. Okay. Have you, in fact, conducted any  
 10 studies to determine those actual effects in this  
 11 case?  
 12 A. No studies were performed. They were a  
 13 consideration in our analysis.  
 14 Q. In what way?  
 15 A. Considering whether or not there was a  
 16 ratepayer benefit related to the different components  
 17 involved.  
 18 Q. And what I'm trying to get at, is there --  
 19 is there anything more to that analysis than simply  
 20 your subjective opinion in looking at the way these  
 21 incentive compensation plans are assumed to produce  
 22 results?  
 23 A. In some instances we asked for specific  
 24 results of the plan, specific outcomes for the company  
 25 reaching certain criteria.

1 cite you two examples of that kind of language, if  
 2 you'd like, but one thing I'd like to know is, first  
 3 of all, your testimony was prepared some time in  
 4 December of 2006, correct?  
 5 A. Correct.  
 6 Q. There has been an ongoing exchange of  
 7 documents subsequent to that, correct?  
 8 A. Correct.  
 9 Q. Okay. One of the things I need to be sure  
 10 I understand is whether you have received any  
 11 additional information as of today that has resolved  
 12 any of those issues in your mind or caused you to  
 13 reevaluate or change your opinions in any respect with  
 14 regard to incentive compensation?  
 15 A. Could you clarify on the term incentive  
 16 compensation?  
 17 Q. Well, I was meaning to refer to the various  
 18 plans discussed in your testimony.  
 19 A. Okay.  
 20 Q. During --  
 21 A. During our process of the audit, the  
 22 company referred to certain plans as incentive  
 23 compensation and certain plans as additional  
 24 compensation.  
 25 Q. Uh-huh.

1 Q. Okay. I may come back to that again to be  
 2 sure I'm understanding it. Let me ask you one other  
 3 thing from Mr. Carver's testimony. On page 53, still  
 4 discussing the incentive compensation and what's  
 5 recoverable from ratepayers, he has a statement  
 6 beginning on line two of page 53 that reads, "Costs  
 7 must be actually incurred, reasonable amount necessary  
 8 for utility purposes and of direct benefit to  
 9 ratepayers."  
 10 Would you agree that those are at least  
 11 among the criteria to be used in determining whether  
 12 incentive compensation should be allowed as part of  
 13 the recovery in rates?  
 14 A. May I please see that so I can ...  
 15 Q. Sure. I'm sorry.  
 16 A. I'm a visual person. Thank you.  
 17 Q. Sure, it's up here.  
 18 A. I believe these criteria should be  
 19 considered.  
 20 Q. Okay. Several places in your written  
 21 testimony you make statements along these lines, that  
 22 you had difficulty in evaluating incentive  
 23 compensation plans using the criteria that we've been  
 24 discussing. Based on the information provided, at  
 25 least as of when your testimony was prepared, I can

1 A. I did not know if you were encompassing all  
 2 of them or ...  
 3 Q. For this question let's encompass them all,  
 4 sure.  
 5 A. Okay. We have received several pieces of  
 6 information in documents related to some of the plans  
 7 that we analyze, and I am currently still analyzing  
 8 those -- that information because they were received  
 9 subsequent to my testimony, and there may be some  
 10 change in my adjustments based on those documents.  
 11 Q. Okay. I'm not sure I heard you clearly  
 12 with respect to one word. Did you say the word  
 13 analyzing or annualizing to describe what you're  
 14 doing?  
 15 A. Analyzing.  
 16 Q. All right. But as of today you've not, in  
 17 fact, changed any of your opinions or made any  
 18 different adjustments because of incentive  
 19 compensation or additional compensation; is that  
 20 correct?  
 21 A. I'm still in the process of looking at the  
 22 documents.  
 23 Q. Okay. Can you give us any kind of a time  
 24 frame about when you might complete that process?  
 25 A. I'm not sure. I know we have rebuttal

1 coming up, so that will be another concern. We have a  
2 prehearing next week. That will be another concern.  
3 But I was hoping to get something, you know, at least  
4 settled by next month.

5 Q. Okay. The parts of your testimony that I  
6 just made reference to where you say there if you had  
7 additional information, you might change your opinions  
8 about these things. And one of those that I wanted to  
9 refer to specifically is you said something about  
10 wanting to know more about the KPIs, the key  
11 performance indicators used in some of these plans and  
12 wanting additional information about that.

13 But what I'm now trying to understand is,  
14 are there still things that you do not have that you  
15 feel would be of assistance to you in making  
16 determinations about whether applying your criteria at  
17 some of these additional compensation or incentive  
18 compensation plans ought to be included to a larger  
19 extent than your current opinions reflect in the  
20 ratepayer calculations?

21 A. What I have looked at to date leads me to  
22 believe that I was given all the documentation that I  
23 had requested. However, if I get into a more  
24 detailed, in-depth review of those documents, there  
25 may be additional questions that I would have. But at

1 Q. In fact, wouldn't it be true that if a  
2 financially unhealthy company regulated by the  
3 Missouri Public Service Commission paid large employee  
4 bonuses on top of salaries, the staff would disallow  
5 all of those bonuses as inappropriate and unreasonable  
6 under those circumstances? Wouldn't that be a true  
7 statement?

8 A. I'm sorry, could you --

9 Q. Sure. I'm not sure I can, but I'll try.

10 A. Okay.

11 Q. If a financially unhealthy company had  
12 large expenditures for incentive compensation on top  
13 of salaries, isn't it true that the staff would  
14 disallow bonuses under those circumstances as  
15 inappropriate or unreasonable?

16 A. Without knowing the circumstances of that  
17 premise, I'm not sure I can answer that question.

18 Q. Are there any circumstances under which the  
19 staff would include in ratemaking bonuses on top of  
20 salaries paid to employees if the company was  
21 financially in jeopardy?

22 A. I don't know.

23 Q. Okay. Can you state what measures of  
24 financial health for a company staff would consider as  
25 acceptable triggers for an incentive compensation

1 this time I don't know if I have additional questions  
2 or not.

3 Q. Okay. And even sitting here today, there  
4 isn't anything you can name that you think might be  
5 helpful that you don't already have?

6 A. In relation to the KPIs or any information  
7 in general?

8 Q. Uh-huh.

9 A. Well, I did request yesterday some  
10 additional information or completeness on DR -- data  
11 request 410 that actually relates to another incentive  
12 plan that I was not aware of at the time of my  
13 testimony.

14 Q. Okay. I wanted to go through some of the  
15 information in the data requests that have been  
16 exchanged on these topics, but before doing that, let  
17 me -- let me make sure that you are not saying some  
18 other things about this topic. You are not saying  
19 that staff would approve inclusion in rates of an  
20 incentive compensation plan only if the bonuses are  
21 paid regardless of the financial health of the  
22 company, are you?

23 A. No. I believe that, you know, if there  
24 were circumstances that, you know, prevented the  
25 payment, that we could not make that a criteria.

1 plan?

2 A. I don't know that we would look at  
3 something as being a trigger as to whether or not the  
4 company had the ability to pay -- I mean, we have to  
5 look at the individual situation. But I mean, I don't  
6 know that we could set out a specific criteria for  
7 the -- for the financial health of the company. I  
8 mean, there's many factors that influence the  
9 financial health of the company that really have  
10 nothing to do with whether or not the company is  
11 managed properly or whether or not --

12 Q. Do you -- representing the staff's position  
13 here, do you have a problem with the fundamental idea  
14 that whether or not bonuses are paid to employees  
15 should be tied to the overall financial health of the  
16 company in some way?

17 A. I don't know that they should be tied to  
18 the financial health of the company. That -- I mean,  
19 if you were to see a company that, you know, was  
20 incapable of paying the bonuses, there might be some  
21 policy that they should have, but I really don't know.

22 Q. Okay. Isn't it true that really all

23 bonuses at all companies are paid out of earnings?

24 A. I'm sorry?

25 Q. Isn't it true that all bonuses at all



1 companies are really paid out of earnings?  
 2 A. Can you define what you're -- mean by  
 3 earnings?  
 4 Q. Well, the company's income.  
 5 A. The company's revenues?  
 6 Q. Revenues, yes, more generally.  
 7 A. I would say that most expenses are paid out  
 8 of revenues unless there's some sort of borrowing  
 9 done.  
 10 Q. But that would include incentive  
 11 compensation, would it not?  
 12 A. Yes.  
 13 Q. Okay. Now, let me back up and be sure that  
 14 I have an understanding of the materials that you  
 15 considered in arriving at the opinions that you have  
 16 expressed in this case. First of all, have you  
 17 reviewed multiple data request responses?  
 18 A. Yes.  
 19 Q. Okay. Did that review include those  
 20 provided in response to requests made by Steven  
 21 Carver?  
 22 A. No. My testimony was written prior to my  
 23 receiving those.  
 24 Q. Okay. Have you looked at them  
 25 subsequently?

1 A. Correct. However, I was in the middle of  
 2 preparing for this deposition last week.  
 3 Q. Sure.  
 4 A. So I just briefly scanned them to know how  
 5 I should categorize them for my analysis.  
 6 Q. Okay. The next one I'm looking at is  
 7 AG/UTI-088. This was prepared by Krista Bauer, who is  
 8 here with us today. Again, it's a request by  
 9 Mr. Carver.  
 10 A. No, I have not seen that one.  
 11 Q. Okay. Is it one you intend to have a look  
 12 at?  
 13 A. I have yet to look again at the list that  
 14 he submitted to the company of data requests and  
 15 determine which ones I wish to see. I have to submit  
 16 a data request in order to see these, so I ...  
 17 Q. Okay. I'll represent to you that, in fact,  
 18 it deals with the general topic of incentive  
 19 compensation. Is it your intention to look at all  
 20 data requests dealing with the issue of incentive  
 21 compensation?  
 22 A. Only ones that I feel that I did not  
 23 receive the data from my own data request. If it was  
 24 almost an identical question to what I asked, I may  
 25 not ask for it as it's --

1 A. I've looked at a few of them, yes.  
 2 Q. Okay. What I might do is just go through  
 3 the stack I have that relate to this issue of  
 4 incentive and additional compensation and just ask  
 5 that prior to today whether you've actually reviewed  
 6 these particular data request responses or not. I'll  
 7 hand them to you so you can visually have a look.  
 8 The first one I'm looking at is a response  
 9 to a request from Steven Carver. The number on it is  
 10 AG/UTI-086. Have you reviewed that? Or do you just  
 11 have a list of them?  
 12 A. I do have a list, yes.  
 13 Q. Okay.  
 14 A. And this -- I did briefly get a chance to  
 15 look at this last week.  
 16 Q. Okay. What about, again, from Mr. Carver  
 17 responded to by Tom Opich at the company on November  
 18 27th of 2006, AG/UTI-087. It had an Excel attachment.  
 19 A. Yes. I did review this one, although I did  
 20 not get to open all of the attachments as of yet. I  
 21 reviewed this one last week as well.  
 22 Q. Okay. Your answer I thought implied that  
 23 you intend to give that further study and open the  
 24 attachments. Is that the correct perception on my  
 25 part?

1 Q. All right. I understand.  
 2 A. It takes quite some time to receive them.  
 3 Q. Okay. The next one I'm looking at is  
 4 AG/UTI-107, and it had a couple of attachments, PDF  
 5 files. The response was prepared by Leonard Mans.  
 6 Again, a request from Mr. Carver.  
 7 A. It's 107. No, I have not seen this one as  
 8 of yet, no.  
 9 Q. Okay. Would it be your intention to review  
 10 that response and the attachments as you further study  
 11 this issue?  
 12 A. As I said, I need to go over what was  
 13 submitted by Steve Carver and find out which ones I  
 14 need to request.  
 15 Q. This isn't going to take all day because I  
 16 have got such a thick one next. This is data request  
 17 number 0050, a request by John Cassidy, responded to  
 18 by Thomas Opich at the company, and there was an  
 19 earlier response by Krista Bauer dated August 15th of  
 20 2006. Have you reviewed those?  
 21 A. Yes, I have.  
 22 Q. So in fact, you have seen the attachments,  
 23 which include documents describing the incentive  
 24 compensation plans themselves?  
 25 A. Yes, and actually, I used this to formulate

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1 some of my testimony on the incentive compensation  
 2 issue.  
 3 Q. Okay. All right. And AG/UTI-085, a  
 4 request by Mr. Carver responded to by Krista Bauer,  
 5 have you reviewed that one?  
 6 A. No, I have not.  
 7 Q. To speed this up, are you able to just  
 8 answer if I read the numbers to you, if I ask the same  
 9 question?  
 10 A. Yes.  
 11 Q. Okay. I'll just do that then. Here's one  
 12 with a number MPSC 0273. Have you reviewed that, the  
 13 response?  
 14 A. That is staff's data request 273?  
 15 Q. I believe so, yes. And the response by  
 16 Krista Bauer, October of '06.  
 17 A. Yes. And there was some discussion  
 18 concerning that response subsequent to receiving it.  
 19 Q. Okay. And there was also a response by  
 20 Leonard Mans dated October 11 of '06. You reviewed  
 21 both of those?  
 22 A. Yes.  
 23 Q. Staff data request 0050.1, and you made  
 24 this request, and Ms. Bauer responded December 6th  
 25 of '06. The timing is such that I want to ask, did

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1 you review this prior to preparation of your  
 2 testimony?  
 3 A. I'm sorry. May I see it?  
 4 Q. Uh-huh.  
 5 A. Make sure I understand this. Yes, I did  
 6 review this prior to finalizing my testimony.  
 7 However, there were some questions on this, some  
 8 incompleteness that were not answered.  
 9 Q. Okay. Do you now feel you have complete  
 10 responses to complete your analysis?  
 11 A. Sections, like section E, I did not receive  
 12 a response to date for the exceptional performance  
 13 bonus plans. They did provide a response for the  
 14 generation incentive bonus plan. I believe that was  
 15 all that was still -- but the rest we had a phone  
 16 conference about, but I believe that was the only one  
 17 that was still outstanding.  
 18 Q. Okay. Do I correctly understand then that  
 19 you have just identified something else you would like  
 20 to receive and have not yet received?  
 21 A. It was my understanding that we would not  
 22 be receiving that, that it was not either -- it kind  
 23 of just -- they really didn't give me an explanation  
 24 as to why, but they --  
 25 Q. My question, though, is --

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1 A. Yes, I would like to receive that response,  
 2 but I was under the impression I would not be  
 3 receiving it.  
 4 Q. All right. Number -- staff request 0408,  
 5 that's the response by Krista Bauer, also dated  
 6 December 6th of 2006, did you review that?  
 7 A. Thank you.  
 8 Q. Uh-huh.  
 9 A. Okay. Yes, I did review this.  
 10 Q. Prior to preparing your testimony?  
 11 A. Yes. Yes. Before I finalized it, yes.  
 12 Q. Okay.  
 13 A. Yes.  
 14 Q. And requests from Mike Brosch, a state  
 15 witness, labeled AG/UTI-192, and a response by Thomas  
 16 Opich?  
 17 A. 192, I have not seen.  
 18 Q. Okay. Attorney General number 1193, the  
 19 response by Ms. Bauer?  
 20 A. No.  
 21 Q. That relates to the EBP program?  
 22 A. No, I have not seen that.  
 23 Q. Okay. Is it your intent to review that?  
 24 A. That's another one. Like I said, I'm going  
 25 to go through all of the AG's requests as some of

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1 these were done later in the -- later in the audit.  
 2 Q. Okay.  
 3 A. And see if there's any that I still need to  
 4 review.  
 5 Q. Mr. Brosch also made a request, it's  
 6 numbered 137, AG-137.  
 7 A. I have seen that, yes.  
 8 Q. Okay. That was dated December 6. Did you  
 9 review it prior to finalization of your testimony?  
 10 A. I did not receive most of AG's DRs until  
 11 late in December because --  
 12 Q. So that would be a no?  
 13 A. That would be a no.  
 14 Q. Okay. AG number 194 from Mr. Brosch,  
 15 responded to by Ms. Bauer. Have you seen it?  
 16 A. I have seen that. It was subsequent to my  
 17 testimony.  
 18 Q. Okay. There we go.  
 19 A. Making headway, okay.  
 20 Q. All right. Request from the Attorney  
 21 General 138, Mr. Brosch, responded to by Mr. Opich,  
 22 December 8th of '06. Have you seen that?  
 23 A. I have seen that. It was subsequent to my  
 24 testimony.  
 25 Q. Okay. Mr. Brosch, request number 139,

1 response by Krista Bauer, November 27th of 2006. Have  
 2 you seen it?  
 3 A. I have not seen that.  
 4 Q. Okay. Mr. Brosch, number 140, it's a  
 5 response by Ms. Bauer. Have you seen that?  
 6 A. I have seen it subsequent to my testimony.  
 7 Q. Okay. Mr. Brosch, number 143, response by  
 8 Krista Bauer?  
 9 A. No, I have not seen that.  
 10 Q. Mr. Brosch, 142, response by Ms. Bauer?  
 11 A. Yes, I did see that subsequent to my  
 12 testimony.  
 13 Q. Okay. As to those where you're answering  
 14 that you've seen them subsequent to your testimony, am  
 15 I correct in understanding you to have already said  
 16 that you intend to be considering those matters as you  
 17 decide whether to make further adjustments in your  
 18 opinions; is that correct?  
 19 A. Correct. Anything that I review after my  
 20 testimony is being considered.  
 21 Q. Okay. Here's a request from Mr. Brosch,  
 22 number 141, and response by Ms. Bauer. Have you seen  
 23 it?  
 24 A. Yes, I have, subsequent to the testimony.  
 25 Q. Okay. Mr. Brosch, number 136, responded to

1 statements on this issue in those two cases. In the  
 2 Empire case on page 46 the Commission said, "At a  
 3 minimum an acceptable management performance plan  
 4 should contain goals that improve existing  
 5 performance, and the benefits of the plan should be  
 6 ascertainable and reasonably related to the plan."  
 7 I think that's the precise wording I asked  
 8 you about earlier, but this time I'm quoting the  
 9 Commission, and my question is do you agree with and  
 10 accept that formulation for when it is appropriate to  
 11 include incentive compensation in rate calculations?  
 12 A. Yes.  
 13 Q. Okay. And on page 49 of the same case,  
 14 this statement appears: "There are sound reasons to  
 15 use incentive pay. The Commission does not agree with  
 16 the staff -- the staff position taken in the Empire  
 17 case that the spread of incentive-based compensation  
 18 is a slippery slope, but does understand the staff's  
 19 discussion of the use of objective criteria that it  
 20 can apply evenhandedly."  
 21 My question is: Do you accept that  
 22 formulation of policy of the Commission?  
 23 A. I'm not exactly sure what they're referring  
 24 to as staff's position. All I did was review the  
 25 order, the report and order itself. So I -- other

1 by Mr. Weiss at the company, have you seen it?  
 2 A. No, I have not.  
 3 Q. A request you made, responded to by David  
 4 Loesch, number 409, with the response consisting of an  
 5 Excel attachment. You have reviewed that, I assume?  
 6 A. Yes, I have. And actually, I believe it's  
 7 part of my testimony.  
 8 Q. Okay. So it's fully incorporated, unless  
 9 you change your opinions in the testimony already  
 10 filed?  
 11 A. Yeah, that one -- that one is incorporated.  
 12 Q. Okay. This is a request you made,  
 13 responded to by Ms. Bauer. The number is 408. That  
 14 number seems familiar. We've had --  
 15 A. Yeah, I believe we've already --  
 16 Q. I thought so, too.  
 17 A. -- seen that.  
 18 Q. Okay. I have a couple of specific  
 19 questions that relate to some of the contents of those  
 20 data requests, but I'll come back to those. Have you  
 21 reviewed the Commission decisions issued on December  
 22 21st of 2006 in the KCP&L case and the Empire case,  
 23 which both address incentive compensation?  
 24 A. Yes, I have.  
 25 Q. Okay. The Commission made specific

1 than what's contained in there, I'm not exactly sure  
 2 what they're referring to.  
 3 Q. Okay. But do you have any disagreement  
 4 with that statement of policy as it stands in the  
 5 order?  
 6 A. May I see?  
 7 Q. Sure.  
 8 A. Thank you. I do not -- I'm not sure  
 9 exactly what they're referring to as a slippery slope  
 10 as contained within this case. However, I believe the  
 11 theory in general I do agree with.  
 12 Q. Okay. And the KCP&L case where the opinion  
 13 was issued on the same day, it's true, isn't it, that  
 14 in the staff analysis of the incentive compensation  
 15 plans involved in the KCP&L -- well, that are used by  
 16 KCP&L, that the staff's analysis allowed some 65  
 17 percent of the incentive compensation paid by the  
 18 company in that case; is that correct?  
 19 A. I'm not sure. I don't recall exactly --  
 20 exact numbers or anything.  
 21 Q. Okay.  
 22 A. I just briefly read it one time.  
 23 Q. All right. The Commission order states on  
 24 page 58 that, "The staff objected to full inclusion  
 25 and stated that roughly 35 percent of the cost should

1 be disallowed on the grounds that it either tied to  
2 earnings per share and thus had negligible, if any,  
3 benefit to ratepayers, or it was awarded for vague  
4 reasons."

5 Do you recall reading that? It's toward  
6 the top.

7 A. Yes. Yes, I do now that I see that. Yes.

8 Q. Do you have any disagreement with that  
9 statement of policy?

10 A. No.

11 Q. Okay. Focusing now on our case, the  
12 AmerenUE rate case in which we're taking your  
13 deposition, isn't it true that the primary objection  
14 of staff in this case to allowing recovery in rates  
15 for incentive compensation or this additional  
16 compensation is that if individual awards are  
17 calculated based on earnings per share of the company,  
18 then they simply should be disallowed? Is that your  
19 position?

20 A. Yes.

21 Q. You do agree, don't you, that utilities  
22 should be efficient and safe and that the Public  
23 Service Commission should encourage those things in  
24 ratemaking?

25 A. Yes.

1 A. That would depend.

2 Q. On what?

3 A. Upon our analysis. For example, there are  
4 three sections of employees for UE. There's contract,  
5 management, and ALT. For contract, those are union  
6 negotiated rates through the bargaining units.  
7 They're negotiated amounts that generally are accepted  
8 as a going rate for those employees.

9 Q. And would it be staff's position -- just  
10 focusing on that group of employees for a moment  
11 that's represented by a union, would it be the staff's  
12 position that in all cases where there's a negotiated  
13 union contract, that whatever the compensation is and  
14 whatever its components, whether salary, straight  
15 salary, or perhaps on occasion some incentive  
16 compensation, the staff's position generally would be  
17 to accept that compensation without question or  
18 without disallowance in ratemaking?

19 A. I'm sure there is an overall broad analysis  
20 that it was not extremely excessive compared to other  
21 companies.

22 Q. Has the staff ever disallowed any  
23 compensation plan, regardless of its components, when  
24 the group of employees involved was unionized?

25 A. I am not aware of any.

1 Q. The efficiencies to be encouraged  
2 encompasses financial efficiency; is that correct?

3 A. Financial efficiency doesn't necessarily  
4 equate to ratepayer benefit or safe and adequate  
5 service.

6 Q. I'm trying to ask a broader question than  
7 that. In your opinion, would you agree with the  
8 statement that the efficiency which the staff should  
9 encourage in the operation of public utilities  
10 encompasses financial efficiency?

11 A. Yes.

12 Q. Okay. Do you agree that in this case the  
13 company -- and in all cases companies generally have  
14 wide discretion in setting both employee salaries and  
15 employee incentive compensation?

16 A. Yes.

17 Q. You have no studies, I take it, indicating  
18 that this company's incentive compensation plans are  
19 unreasonably high, do you?

20 A. No.

21 Q. Okay. If the incentive compensation and  
22 additional compensation plans were eliminated  
23 altogether and all compensation were paid as salary,  
24 would there be a dispute between staff and the company  
25 on employee compensation?

1 Q. If it could be shown that some specific  
2 portion of a given incentive compensation plan were  
3 based entirely on things like safety and reliability  
4 and other direct benefits to ratepayers, such as cost  
5 savings, would the staff allow recovery for that  
6 portion of the plan in rates?

7 A. I'm sorry. Can you repeat that?

8 Q. I think so. If it could be shown that some  
9 specific portion of an incentive compensation plan  
10 were based entirely on things like safety,  
11 reliability, and other benefits to ratepayers, such as  
12 cost savings, would the staff allow recovery for that  
13 portion of the plan in rates?

14 A. If it were not tied to any EPS trigger that  
15 triggers a pool, yes.

16 Q. So is it true that your fundamental  
17 objection to the incentive compensation plans  
18 currently in place at AmerenUE is the fact that they  
19 have a trigger related to earnings per share; is that  
20 the fundamental problem?

21 A. On three of their plans, yes.

22 Q. Okay. Earlier I asked you about -- I take  
23 it there are some incentive compensation plans that in  
24 your opinion ought to be disallowed, even though they  
25 do provide benefits to ratepayers; is that an accurate

1 representation of what you're saying? And if it is,  
2 why would that ever happen, that's where I --  
3 A. In this immediate instance there are the  
4 three plans that are triggered by EPS. There are  
5 criteria attached to those plans that are related to  
6 safety, for example. The criteria that's related to  
7 safety, for example, would be acceptable measure of an  
8 incentive plan.

9 However, since that plan is tied to an EPS  
10 trigger, that has no -- even though, you know, EPS may  
11 be a measure of the financial health of a company, it  
12 really doesn't show whether there is a good management  
13 of the company.

14 There are so many factors that contribute  
15 to EPS that are totally out of the control of the  
16 management of the company, for example, interest rates  
17 and weather, that if the incentive compensation is  
18 tied to this trigger it -- even though there may be  
19 criteria for receiving this money that relates to  
20 safety, for example, the whole premise that it's tied  
21 to EPS to begin with --

22 Q. Uh-huh.

23 A. -- causes the plan to be tied to financial  
24 goals.

25 Q. Let me ask this: Is there any circumstance

1 plan like this or like anything, it's just what you  
2 care about is whether to include the payments under  
3 that plan as part of the ratesetting process; is that  
4 correct?

5 A. Correct.

6 Q. Okay. We had a little bit of uncertainty  
7 in your earlier testimony on this. Let me ask it  
8 again. Does the staff object to the idea that a given  
9 incentive plan would have a pool of money available  
10 for award to individual employees; that is, the  
11 question of whether it's available or not, would you  
12 object to that varying depending on the financial  
13 health of the company?

14 A. I believe the company has the ability to  
15 vary the amount of compensation they award to their  
16 employees based on whatever criteria they see fit.

17 Q. Right.

18 A. However, when they specifically tie the  
19 plan to a certain EPS --

20 Q. And I'm trying to ask a question much  
21 broader than an EPS criterion here. Does the staff  
22 object to the idea that a given incentive plan would  
23 have a pool of money available to award to individual  
24 employees to have that vary depending on the financial  
25 health of the company, regardless of whether it's EPS

1 under which an incentive compensation plan tied to  
2 earnings per share would be allowed by staff as part  
3 of ratemaking, tied in any way?

4 A. As far as I'm aware, it's been the  
5 Commission's position on this in past cases that EPS  
6 is not a good -- a good tie to incentive compensation.

7 Q. Okay. And I need to struggle with this  
8 concept just a little bit more to be sure I understand  
9 the staff's position. And the way I'd like to  
10 approach it is by looking at one specific plan in this  
11 collection here. There's a plan -- let me find the  
12 right one. The document I'm looking at was attached  
13 to the request by Mr. Cassidy, responded to by Tom  
14 Opich, and the specific plan is the one entitled 2006  
15 Ameren Executive Incentive Plan For Managers and  
16 Directors. Do you have that handy?

17 A. No, I don't.

18 Q. I'll let you use mine.

19 A. I may have it in my file here.

20 Q. Okay. First, the existence of such a plan,  
21 if I understand your testimony, is not what the staff  
22 objects to. It's just whether a plan constructed in a  
23 certain way or in a portion of an incentive plan  
24 should be considered in ratemaking; is that a true  
25 statement? That is, you don't care if they have a

1 or something else? In other words, do you have a  
2 problem with a company, a regulated utility company,  
3 making a decision to the effect that we're going to  
4 pay bonuses if we're financially healthy to  
5 individuals if they earned them under whatever  
6 criteria, but only if we're financially healthy? Do  
7 you have a problem with that concept?

8 A. I think there should be -- I mean, like in  
9 the immediate instance, if there is no incentive  
10 available to the employee, no money, no pool available  
11 to the employee, then what incentive do they have to  
12 meet the incentive criteria. If they -- I mean,  
13 obviously it's up to the company what they pay their  
14 employees.

15 Q. Okay. Let me try to ask it as a yes or no  
16 question because we're still, you know -- throughout  
17 this conversation we've gone sort of back and forth,  
18 and I don't feel like I understand your position on  
19 this yet. Yes or no, does the staff object to the  
20 idea that a company would make incentive compensation  
21 available to its employees only under certain  
22 financial circumstances? That is, the overall  
23 financial circumstances of the company?

24 A. No, I don't believe so.

25 Q. Does the staff object to the size of the

1 pool of money available for incentive compensation  
2 being larger if the company is more financially  
3 successful?

4 A. No. That would be up to the company to  
5 determine.

6 Q. Okay. Directing the discussion again to  
7 this EIP program, is that the right abbreviation?

8 A. Yes.

9 Q. Okay. If I understand your testimony, it's  
10 quite clear that since that particular program  
11 calculates an individual bonus for an individual  
12 employee bases 25 percent on earnings per share, that  
13 you certainly object to that portion of that plan,  
14 correct?

15 A. Sorry. Let me -- let me --

16 Q. It's the first line on the highlighted part  
17 there.

18 A. Oh, I'm sorry. You're talking about just a  
19 performance component and not the individual  
20 performance. I'm sorry, I --

21 Q. Well, let me be -- the way I understand  
22 this program works, and I want to know if you  
23 understand it this way, is that if this particular  
24 bonus pool is formed because of the company's overall  
25 financial performance, then everyone in the group to

1 that 25 percent of an individual employee's award, in  
2 fact, is based on issues such as safety, efficiency,  
3 etc.; is that a correct statement?

4 A. As well as financial goals as well.

5 Q. Well, in what respect does the other 75  
6 percent of an individual's award within a pool, once  
7 it's established, in what respect is it calculated  
8 based upon earnings per share?

9 A. It's not based upon earnings per share.  
10 It's based on financial goals of the business line  
11 within the KPIs for that business line.

12 Q. You're saying that the business line, some  
13 of their KPIs relate to financial matters?

14 A. Correct.

15 Q. Okay. Did you mean to say more than that?  
16 Did I miss something?

17 A. No. There's financially related items  
18 within the KPIs.

19 Q. Okay. Isn't it true in comparing this  
20 plan, which we've just looked at with the other plans,  
21 and they're summarized in the same documents attached  
22 there, that this is the only one of those incentive  
23 compensation plans that has EPS as one of the factors  
24 in setting an individual award within the pool?

25 A. You specifically said EPS related?

1 which this pool applies gets a bonus; is that your  
2 understanding?

3 A. Yes.

4 Q. Okay. And the individual award to an  
5 individual employee and this particular group of  
6 employees, the manager -- executive group, 25 percent  
7 of that they get regardless because it's a simple  
8 matter of calculating what the earnings per share  
9 were, and then they get 25 percent of the maximum  
10 available; is that your understanding?

11 A. Yes.

12 Q. The other 75 percent of the amount  
13 available to an individual employee in this particular  
14 pool depends on some other things, though, correct?  
15 And they're listed there, specifically whether their  
16 own business line achieves its goals and whether they  
17 individually have performed well, correct?

18 A. Yes.

19 Q. Okay. There's no doubt in my mind from  
20 your testimony, both filed and here today, that the  
21 staff certainly objects applying the logic, the way I  
22 understand your logic, to that 25 percent part?

23 A. Of the EPS, yes, because that's financial  
24 goals.

25 Q. The remainder, though, of -- other than

1 Q. Yes.

2 A. Once the pool was created, the individual  
3 performance evaluations are not based on EPS.

4 Q. Okay. And just to be sure that we're clear  
5 on this, the AMIP plan, if you'd look at that, the  
6 individual awards are based fifty percent on business  
7 line KPIs, correct?

8 A. Yes.

9 Q. Ten percent is based on completion of  
10 individual employee development goals, correct?

11 A. For the energy delivery business line only,  
12 yes.

13 Q. Okay. And forty percent is based on  
14 individual performance for -- for the energy delivery.  
15 The nonenergy delivery people it would be fifty  
16 percent, correct?

17 A. That is correct.

18 Q. And looking at the AIP plan for bargaining  
19 unit employees, once the pool is established for  
20 individual awards, it's based entirely on whether that  
21 employee's particular business line achieves the  
22 business line's KPIs; is that correct?

23 A. Yes.

24 Q. Okay. If I understand your testimony  
25 correctly, you're saying that at least as your

1 opinions stood at the time that the written testimony  
 2 was supplied, that your position was that much of the  
 3 incentive compensation that this company uses you were  
 4 disallowing for consideration in the ratesetting,  
 5 notwithstanding the fact that they were tied in some  
 6 ways to ratepayer benefits, correct?  
 7 A. I'm sorry. Can you repeat that?  
 8 Q. Okay. Your position when you filed the  
 9 written testimony was that you believed much of the  
 10 incentive compensation plans, in fact all of them  
 11 except the bargaining unit plan should be disallowed  
 12 in ratemaking, even though it's true that ratepayer  
 13 benefits could be -- could be demonstrated. And your  
 14 reason for that is that you see a problem with any  
 15 such compensation being tied to earnings per share.  
 16 That's my understanding of your testimony. What  
 17 ratepayer benefits have you been able to detect from  
 18 the incentive compensation plans?  
 19 A. Well, if you eliminate the whole EPS  
 20 trigger --  
 21 Q. Right.  
 22 A. -- that determines whether or not there  
 23 will be funding and how much funding there is  
 24 available for the plans. Within each plan there are  
 25 some benefits, such as safety --

1 Q. Right. Sure. Is it your opinion then that  
 2 if these same plans were in place, but did not have an  
 3 earnings per share trigger, that the staff would allow  
 4 them?  
 5 A. The AIP -- the AIP said that the key  
 6 performance indicators are related to financial  
 7 performance, I believe. And so I'm not -- without  
 8 analyzing that, not having it in front of me, all of  
 9 it, I'm not sure if a hundred percent of it would be  
 10 allowable.  
 11 Q. Some of it would, though?  
 12 A. Yes. That would be the same for the AMIP.  
 13 Q. Okay.  
 14 A. The EIP as you pointed out, there's 25  
 15 percent of the individual performance components that  
 16 is tied to EPS as well.  
 17 Q. And it would be -- just so we're clear on  
 18 that, applying the staff's logic, as I understand it,  
 19 no matter what, you're going to a disallow that  
 20 portion, correct?  
 21 A. If it relates to financial goals of the  
 22 company that benefits the shareholders --  
 23 Q. But I'm asking your analysis as to whether  
 24 that's true or not in this case?  
 25 A. Yes.

1 Q. Uh-huh.  
 2 A. -- or customer service detectable, and this  
 3 is in regards to the EIP, AMIP, and AIP plans.  
 4 Q. Uh-huh.  
 5 A. At the time of the testimony, the other  
 6 plan, which was the EBP, was not yet determinable as  
 7 to what ratepayer benefits were or were not available  
 8 for that plan.  
 9 Q. Okay. Are there other ratepayer benefits  
 10 that you were able to detect, as you say?  
 11 A. Right off the top of my head, I recall the  
 12 safety and customer service. Let's see. I know there  
 13 were financial goals. There were some like  
 14 professional development goals that were to better the  
 15 employees.  
 16 Q. That would benefit ratepayers?  
 17 A. That would likely have a ratepayer benefit.  
 18 Q. Okay. And cost reduction was among the  
 19 benefits, was it not?  
 20 A. I believe it was, at least for some of the  
 21 KPIs that I reviewed. I can't recall all of them.  
 22 Q. Are you able to think of any others at the  
 23 moment?  
 24 A. Not at the moment, no. Sorry. There's  
 25 quite a few KPIs.

1 Q. Okay. Go ahead.  
 2 A. And as well there's some KPIs that were  
 3 related to financial performance for the EIP plan.  
 4 Q. This has been covered in several different  
 5 ways. Let me cover it one more time in a slightly  
 6 different way. To the extent that the KPIs relate to  
 7 safety, cost reduction, performance efficiency,  
 8 achieving personal goals, personal development goals,  
 9 as we've talked about, and things of that nature, the  
 10 staff's position would be that incentive compensation  
 11 in this case should be allowed; is that correct?  
 12 A. Yes.  
 13 Q. I had just a few things about your filed  
 14 testimony that I wanted to ask you about. On page one  
 15 in your testimony prepared in December, you indicated  
 16 you were intending to complete your MBA during  
 17 December. Did you complete that?  
 18 A. Yes, I did.  
 19 Q. Okay. Congratulations.  
 20 A. Thank you.  
 21 Q. Almost done, I think. Jump all the way to  
 22 page 22, the next-to-last page.  
 23 A. Okay.  
 24 Q. You answered a question by saying -- this  
 25 is outside the incentive compensation plan. It's

1 under your heading miscellaneous expense adjustments.  
2 I was just curious about one item in the miscellaneous  
3 expense adjustments. You've made an adjustment for  
4 \$36,000 related to a regulatory attorney and 29,000  
5 related to a former employee for legal assistance, and  
6 I just wanted to know why you did not allow those in  
7 the ratemaking?

8 A. Because to date I have not received any  
9 information showing what services they provide to the  
10 company. The data requests that I had asked -- asked  
11 for details, and what I was provided was that the  
12 money that was paid to these individuals were  
13 retainers to make them available for service, and I am  
14 aware that they -- at least one of them has been paid  
15 this amount for several years.

16 To date I don't know that they actually  
17 have ever provided service to the company. If I were  
18 provided some additional information like I stated in  
19 my testimony, I'd be happy to reconsider those items.

20 Q. Okay. You are aware, aren't you, that many  
21 attorneys work on retainer arrangements, that is  
22 payment in advance for services?

23 A. Yes.

24 Q. Okay. In fact, that's a quite common way  
25 for attorneys to be employed by clients; is that

1 And if so, wouldn't that, in fact, mitigate your  
2 concern in this regard?

3 A. There are other factors that are beyond the  
4 management's control as far as the EPS is concerned.  
5 I'm not sure. I don't know if they're able to  
6 mitigate all of them or not.

7 Q. Yeah. I didn't mean to say eliminate the  
8 concern, but mitigate the concern.

9 A. I don't know to what extent that would --

10 Q. But to some extent it would mitigate it?

11 A. I would have to, you know, analyze the  
12 situation. Again, like I said, I was unaware of that,  
13 but I still believe that the EPS is more driven based  
14 on the financial goals of the company and not  
15 necessarily tied to things that are underneath -- or  
16 under the individual employee's control.

17 Q. Well, following up on that, as we've just  
18 gone through in some detail here, isn't it a true  
19 statement that in all of the incentive compensation  
20 plans with the exception of the executive plan, that  
21 once a pool of funds is established, there are no  
22 individual goals or criteria that are applied that are  
23 in any way tied to earnings per share?

24 A. In the EPI plan, 25 percent is tied to EPS.

25 Q. Right. But other than that, there are

1 correct?

2 A. Yes.

3 MR. POWELL: Okay. Let me take a short  
4 break.

5 (WHEREIN, a discussion was held off the  
6 record.)

7 Q. (By Mr. Powell) You gave testimony earlier  
8 that one of your concerns was -- about this company's  
9 incentive compensation plan was that some of the  
10 events that go into the determination about whether a  
11 pool of money is available for such plans were outside  
12 the control of the employees, such as weather, you  
13 mentioned?

14 A. Correct.

15 Q. You are aware, aren't you, that the board  
16 of directors can adjust the incentive compensation  
17 either up or down to eliminate or offset at least  
18 uncontrollable events like that? Are you aware of  
19 that?

20 A. I was aware they have done so in the past  
21 for certain items such as the bond issuance.

22 Q. Okay.

23 A. I was not aware that they could do so for  
24 weather.

25 Q. Okay. I'll represent to you that they can.

1 none, none of the criteria for individual employee  
2 awards that are in any way tied to earnings per share  
3 once the pool is established; is that a true  
4 statement?

5 A. Yes.

6 MR. POWELL: Okay. That's all I have.

7 MR. MEYER: I think I have a few redirect  
8 questions. If we could take a brief break, I might be  
9 able to make them even shorter.

10 MR. POWELL: Great.

11 MR. MICHEEL: Dave, just for the record, I  
12 don't have any questions, and I think I should  
13 probably go next.

14 MR. MEYER: Okay.

15 MR. POWELL: And you just did, right?

16 MR. MICHEEL: I did indeed.

17 (WHEREIN, a recess was taken.)

18 MR. MEYER: Back on the record.

19 EXAMINATION

20 QUESTIONS BY MR. MEYER:

21 Q. Ms. Hanneken, Mr. Powell asked you some  
22 questions regarding the level of earnings per share  
23 and its relationship with the financial health of a  
24 company. Do you recall that?

25 A. Yes.



1 Q. Do you consider the level of earnings per  
 2 share in and of itself to be a reflection of whether  
 3 or not a company is financially healthy?  
 4 A. No.  
 5 Q. Mr. Powell asked you some questions about  
 6 the Commission's recent Empire and KCP&L decisions  
 7 that came down. Do you remember those questions?  
 8 A. Yes.  
 9 Q. Do you know whether in either of those  
 10 cases there was a financial trigger for the incentive  
 11 compensation?  
 12 A. I know that in at least one there was. I'm  
 13 not sure about the other one.  
 14 Q. Do you recall any of the details about that  
 15 trigger?  
 16 A. I know that it was related to EPS.  
 17 Q. Mr. Powell asked you some questions  
 18 regarding the implications of unions upon -- and how  
 19 they interacted with the incentive compensation  
 20 schemes. Do you recall those questions?  
 21 A. Yes.  
 22 Q. If the incentive was paid on straight  
 23 salary, in your view, would staff still allow the  
 24 incentive to be paid?  
 25 A. That would have to be analyzed to see if

1 MR. POWELL: I have at least one follow-up.  
 2 FURTHER EXAMINATION  
 3 QUESTIONS BY MR. POWELL:  
 4 Q. Ms. Hanneken, you've just now offered an  
 5 opinion about earnings per share not being an  
 6 appropriate measure of financial health. Do you have  
 7 an opinion about what are better measures of financial  
 8 health of a company?  
 9 A. Not off the top of my head right now. I  
 10 mean, there's various analyses that can be done to a  
 11 company to ascertain whether they are financially  
 12 healthy. I don't know what would be the best method  
 13 or if maybe a combination of methods should be used.  
 14 But EPS in and of itself, I mean, there are factors  
 15 outside the company that can affect the company's EPS.  
 16 If there's a sudden fall in the stock  
 17 market, that could affect EPS. 9/11, for example.  
 18 That does not necessarily mean that the company is not  
 19 financially healthy. It just means that overall all  
 20 companies' EPS's have been lowered.  
 21 Q. Would you at least concede that earnings  
 22 per share is one factor in evaluating financial health  
 23 of the company?  
 24 A. It can be one factor. It may or may not be  
 25 used depending on what analysis you're doing.

1 that would cause salaries to become excessive. I  
 2 mean, like for an example, I may have discussed the  
 3 contract union portion. The management and ALT  
 4 portion we would need to look at on an individual  
 5 basis to see if that would -- analyze it, look at  
 6 salary surveys and that type of thing, see if that  
 7 would be considered an excessive amount of  
 8 compensation.  
 9 Q. Mr. Powell also asked you if staff would  
 10 object to plans based on financial health or plans  
 11 where the pool was based on financial health. Do you  
 12 recall those questions?  
 13 A. Yes.  
 14 Q. Just to be clear, I think you had said no  
 15 to that question?  
 16 A. Yes.  
 17 Q. Okay. Does that response mean that you or  
 18 staff does not object to the company having such a  
 19 plan?  
 20 A. That is correct. Staff does not object to  
 21 the company having such a plan. However, that does  
 22 not mean that staff would include it in the cost of  
 23 rates.  
 24 MR. MEYER: That's all the questions I  
 25 have. Thank you.

1 MR. POWELL: Okay. That's all I have.  
 2 Thank you.  
 3 MR. MEYER: We would like to read over  
 4 this.  
 5 MR. POWELL: Okay. What we said this  
 6 morning was we waive presentment so it can just be  
 7 delivered to her, and we would like to have it signed,  
 8 but an agreement that if it's not signed by the time  
 9 of the hearing in March, that we can treat it as if  
 10 it's signed for purposes of cross-examination.  
 11 MR. MEYER: Okay.  
 12 (WHEREIN, the deposition was concluded at  
 13 2:53 p.m.)  
 14  
 15  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

1 CERTIFICATE OF REPORTER  
 2 STATE OF MISSOURI )  
 ) ss.  
 3 CITY OF ST. LOUIS )  
 4 I, William L. DeVries, a Certified Court  
 5 Reporter (MO), Certified Shorthand Reporter (IL),  
 6 Registered Diplomate Reporter, Certified Realtime  
 7 Reporter, and a Notary Public within and for the State  
 8 of Missouri, do hereby certify that the witness whose  
 9 testimony appears in the foregoing deposition was duly  
 10 sworn by me; that the testimony of said witness was  
 11 taken by me to the best of my ability and thereafter  
 12 reduced to typewriting under my direction; that I am  
 13 neither counsel for, related to, nor employed by any  
 14 of the parties to the action in which this deposition  
 15 was taken, and further that I am not a relative or  
 16 employee of any attorney or counsel employed by the  
 17 parties thereto, nor financially or otherwise  
 18 interested in the outcome of the action.

21 \_\_\_\_\_  
 Notary Public within and for  
 22 The State of Missouri  
 23  
 24

25 My Commission expires May 30, 2010.

1 STATE OF )  
 ) )  
 2 COUNTY OF )  
 3  
 4 I, LISA K. HANNEKEN, do hereby certify:  
 5 That I have read the foregoing deposition;  
 6 That I have made such changes in form and/or  
 7 substance to the within deposition as might be  
 8 necessary to render the same true and correct;  
 9 That having made such changes thereon, I hereby  
 10 subscribe my name to the deposition.  
 11 I declare under penalty of perjury that the  
 12 foregoing is true and correct.

13  
 14  
 15 LISA K. HANNEKEN

16 Executed this day of  
 17 2007, at

18 Notary Public:  
 19 My Commission Expires:

20 Signature page to: Mr. David A. Meyer  
 21 WLD/LISA K. HANNEKEN, JANUARY 10, 2007  
 22 In the Matter of Union Electric Company d/b/a AmerenUE  
 23 for Authority to File Tariffs Increasing Rates for  
 24 Electric Service Provided to Customers in the  
 25 Company's Missouri Service Area.

1 Midwest Litigation Services  
 2 711 North Eleventh Street  
 3 St. Louis, Missouri 63101  
 4 Phone (314) 644-2191 \* Fax (314) 644-1334  
 5  
 6 January 11, 2007  
 7 Mr. David A. Meyer  
 8 Missouri Public Service Commission  
 9 Governor Office Building  
 10 200 Madison Street, P.O. Box 360  
 11 Jefferson City, Missouri 65102-0360  
 12 (573) 751-8706  
 13 david.meyer@psc.mo.gov  
 14 In the Matter of Union Electric Company d/b/a AmerenUE  
 15 for Authority to File Tariffs Increasing Rates for  
 16 Electric Service Provided to Customers in the  
 17 Company's Missouri Service Area.

18 Dear Mr. Meyer:

19 Please find enclosed your copy of the deposition of  
 20 LISA K. HANNEKEN taken on January 10, 2007, in the  
 21 above-referenced case. Also enclosed is the original  
 22 signature page and errata sheets.  
 23 Please have the witness read your copy of the  
 24 transcript, indicate any changes and/or corrections  
 25 desired on the errata sheets, and sign the signature  
 page before a notary public.

Please return the errata sheets and notarized  
 signature page to Mr. Thomas M. Byrne for filing prior  
 to trial date.

Thank you for your attention to this matter.

Sincerely,

William L. DeVries, CCR(MO)/CSR(IL)/RDR/CRR  
 Enclosures  
 cc. Mr. Thomas M. Byrne

1 WITNESS ERRATA SHEET  
 2 Witness Name: LISA K. HANNEKEN  
 3 Case Name: In the Matter of Union Electric Company  
 4 d/b/a AmerenUE for Authority to File Tariffs  
 5 Increasing Rates for Electric Service Provided to  
 6 Customers in the Company's Missouri Service Area.

7 Date Taken: JANUARY 10, 2007

8 Page # \_\_\_\_\_ Line # \_\_\_\_\_  
 9 Should Read: \_\_\_\_\_  
 10 Reason for Change: \_\_\_\_\_

11 Page # \_\_\_\_\_ Line # \_\_\_\_\_  
 12 Should Read: \_\_\_\_\_  
 13 Reason for Change: \_\_\_\_\_

14 Page # \_\_\_\_\_ Line # \_\_\_\_\_  
 15 Should Read: \_\_\_\_\_  
 16 Reason for Change: \_\_\_\_\_

17 Page # \_\_\_\_\_ Line # \_\_\_\_\_  
 18 Should Read: \_\_\_\_\_  
 19 Reason for Change: \_\_\_\_\_

20 Page # \_\_\_\_\_ Line # \_\_\_\_\_  
 21 Should Read: \_\_\_\_\_  
 22 Reason for Change: \_\_\_\_\_

23 Page # \_\_\_\_\_ Line # \_\_\_\_\_  
 24 Should Read: \_\_\_\_\_  
 25 Reason for Change: \_\_\_\_\_

26 Witness Signature: \_\_\_\_\_

1 STATE OF  
2 COUNTY OF

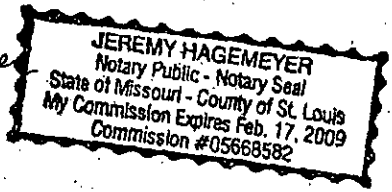
}  
}

3 I, LISA K. HANNEKEN, do hereby certify:  
4 That I have read the foregoing deposition;  
5 That I have made such changes in form and/or  
6 substance to the within deposition as might be  
7 necessary to render the same true and correct;  
8 That having made such changes thereon, I hereby  
9 subscribe my name to the deposition.  
10 I declare under penalty of perjury that the  
11 foregoing is true and correct.

*Lisa K. Hanneken*  
LISA K. HANNEKEN

11 Executed this 25th day of January  
12 2007, at

13  
14  
15 Notary Public: *Jeremy Hagemeyer*  
16 My Commission Expires: Feb 17, 2009



17  
18 Signature page to: Mr. David A. Meyer  
19 WLD/LISA K. HANNEKEN, JANUARY 10, 2007  
20 In the Matter of Union Electric Company d/b/a AmerenUE  
21 for Authority to File Tariffs Increasing Rates for  
22 Electric Service Provided to Customers in the  
23 Company's Missouri Service Area.  
24  
25

WITNESS ERRATA

Witness Name: LISA K. HANNEKEN

Case Name: In the Matter of Union Electric Company  
d/b/a AmerenUE for Authority to File Tariffs  
Increasing Rates for Electric Service Provided to  
Customers in the Company's Missouri Service Area.

Date Taken: JANUARY 10, 2007

Page # 8 Line # 12

Should Read: Service Commission case ER 2007-0002, the case we're

Reason for Change: Correction

Page # 8 Line # 17

Should Read: slight hearing problem in one ear. So if I do not

Reason for Change: Typo / misquote

Page # 15 Line # 6 - 9

Should Read: statement. I don't believe that staff would include incentive compensation if the  
criteria for receiving it as in this instance is somehow related to financial goals.

Reason for Change: Clarity

Page # 15 Line # 17

Should Read: incentive compensation in some areas increases the

Reason for Change: misspoke

Page # 17 Line # 22

Should Read: cost reduction, if the company, you know, bases its

Reason for Change: typo/misquote

Page # 17 Line # 24

Should Read: the bone so as to increase profits for the company, but

Reason for Change: Clarity

Witness Signature: Lisa K. Hanneken

WITNESS ERRATA

Witness Name: LISA K. HANNEKEN

Case Name: In the Matter of Union Electric Company  
d/b/a AmerenUE for Authority to File Tariffs  
Increasing Rates for Electric Service Provided to  
Customers in the Company's Missouri Service Area.

Date Taken: JANUARY 10, 2007

Page # 22 Line # 21

Should Read: What I have looked at to date in reference to KPIs leads me to

Reason for Change: Clarity

Page # 48 Line # 4

Should Read: As well as financial goals.

Reason for Change: Clarity

Page # 51 Line # 2

Should Read: -- or customer service which are detectable, and this

Reason for Change: Clarity

Page # 51 Line # 6

Should Read: plan, which was the Executive Bonus Plan (EBP), was not yet determinable as

Reason for Change: Clarity

Page # 53 Line # 12

Should Read: Yes, if no EPS trigger were utilized.

Reason for Change: Clarity

Witness Signature: Lisa K. Hanneken

**Amenities**  
**Electric Rate Case EC-2007-0002**  
**HPSC Data Request 0397**

Major	Minor	Description	12 months ended		Allocated on
			June 30, 2004	June 30, 2003	
408	011	Gain/Loss on Sale of Emr Allow	37,294,859.29	10,241,174.68	100% Retail
450		Forfeited Discounts	10,108,761.59	10,719,881.57	9,025,036.58 100% Retail
451		Misc Service Revenue	2,613,226.04	3,582,598.18	2,681,405.65 100% Retail
454	AEC	Rentals - AEC	1,079.06	7,620.79	9,695.50 Fixed
454	AFS	Rentals - AFS	928,358.00	584,306.00	587,064.00 Fixed
454	AMC	Rentals - AMC	2,424.00	2,424.00	2,424.00 Fixed
454	AME	Rentals - AME	300,612.00	155,910.00	260,665.00 Fixed
454	AMS	Rentals - AMS	18,346,512.00	19,262,668.00	19,981,392.00 Fixed
454	CJP	Rentals - CJP	3,000.00	3,000.00	3,000.00 Fixed
454	EEL	Rentals - EEL	35,715.36	35,004.06	37,158.29 Fixed
454	GEN	Rentals - GEN	239,172.00	125,945.00	28,053.00 Fixed
454	GMC	Rentals - GMC	228,124.00	358,200.00	312,243.00 Fixed
454	001	Rentals - Pole Space	5,155,001.77	3,709,515.99	301,686.26 100% Retail
454	002	Rentals - Other	2,121,154.99	2,768,165.36	2,320,479.84 Fixed
454	003	Rentals - Pole Space Processing Fee	122,264.00	105,111.49	81,282.00 100% Retail
454	004	Rentals - Agriculture Lands	58,923.66	50,094.06	38,966.85 Fixed
454	005	Rentals - Facilities SR Customers	7,843.68	-	- 100% Retail
454	006	Rentals - Facilities INT Customers	1,479,504.00	1,318,002.86	910,487.86 Fixed
454	007	Rentals - Ameren Services	1,163,680.44	1,130,812.85	898,191.81 100% Retail
456	AMS	AMS Indirect/Transgrs	23,989,633.91	24,259,590.07	23,609,388.77 100% Retail
456	AMS	AMS Intercompany Transfers	-	-	859,165.18 100% Retail
456	ARS	ARES NTS Billing from AMS	-	-	1,864,249.29 100% Wholesale
456	DIS	Wholesale Distribution Charges	-	(0.14)	(0.38) 100% Retail
456	MIS	MISO	-	-	4,435,346.87 100% Retail
456	TRN	Transmission Sales for Retail	-	-	619,839.32 100% Wholesale
456	WBD	Wholesale Bundled Distribution	-	-	712,513.43 100% Retail
456	WBT	Wholesale Bundled Transmission	-	-	- 100% Retail
458	001	Other Electric Revenue	46.44	1,448.39	- 100% Retail
458	003	Revenue From Meramec Terminal Opns	3,350,716.09	2,049,425.72	(574,004.20) Fixed
458	005	Overhead Billing - Other Parties	(874,488.84)	1,238,486.83	3,892,858.40 100% Retail
458	006	Sales of Steam	-	3,973.00	2,923.60 100% Retail
458	007	Collecting and Remitting Taxes	1,082,533.02	1,086,541.89	1,051,765.32 100% Retail
458	008	Environmental Rider Revenues	(19,207.94)	(882,574.22)	- 100% Retail
458	010	Miscellaneous Billings	271,211.83	365,800.02	572,628.69 100% Retail
458	011	Miscellaneous Bill Adjustments	(780,744.78)	(177,205.84)	(3,524,479.12) 100% Retail
458	025	Tax Cost Basis Investment History	2,688.00	2,624.00	2,141.80 100% Retail
458	101	Gain/Loss - Electric Energy Options	-	-	300.00 100% Retail
475		ARES PTP Billing From AMS	2,946.78	1,618.23	288.60 100% Retail
Remove II		Wholesale Distribution Charges	(1,002,059.98)	(760,601.88)	(3,751,508.00) 100% Retail
Remove II	450	Gain/Loss on Sale of Emr Allow	(94,178.82)	(44,411.47)	- 100% Retail
Remove II	451	Forfeited Discounts	(41,485.21)	(33,270.46)	- 100% Retail
Remove II	454-001	Rentals - Pole Space	(97,429.20)	(13,148.81)	- Fixed
Remove II	454-002	Rentals - Other	(889,008.12)	(807,505.10)	- Fixed
Remove II	454-006	Rentals - Other (Verica IL)	(204,638.81)	(188,868.80)	- Fixed
Remove II	454-007	Rentals - Ameren Services	(789.00)	(714.50)	- Fixed
Remove II	458-007	Collecting and Remitting Taxes	18,507.94	482,974.22	- 100% Retail
Remove II	458-008	Environmental Rider Revenues	118,175.31	45,562.75	- 100% Retail
Remove II	458-011	Miscellaneous Bill Adjustments	1,496.32	-	- 100% Retail
Remove II	458-025	Tax Cost Basis Investment History	(181.00)	(146.00)	- 100% Retail

104,690,585.88  
 80,055,934.32  
 67,942,320.15  
 98.10%  
 98.40%  
 98.33%

Fixed % to Retail  
 Total 100% Retail  
 54,872,068.55  
 30,868,242.19  
 42,000,565.39  
 100% Retail

**SUMMARY:**  
 Total Fixed  
 49,716,413.11  
 49,187,892.13  
 23,527,876.16  
 Rental Payments Reclass  
 68,478.00  
 Meramec Terminal Opn Reclass  
 1,149,008.40  
 Adjusted Fixed  
 49,716,413.11  
 49,187,892.13  
 24,744,162.56

2,384,078.61  
 100% Wholesale