

ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)

REBUTTAL TESTIMONY

OF

LAURIE H. KARMAN

Submitted On Behalf

Of

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

d/b/a AmerenCIPS

and

UNION ELECTRIC COMPANY

d/b/a AmerenUE

May, 2003

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Q. Please state your name and business address.

A. My name is Laurie H. Karman. My business address is 2105 East State Route 104, Pawnee, Illinois 62558.

Q. By whom are you employed and in what capacity?

A. I am Director, Credit & Collections for Central Illinois Public Service Company, doing business as AmerenCIPS, and Union Electric Company, doing business as AmerenUE (collectively referred to herein as “Ameren Companies” or “Companies”).

Q. Please summarize your educational background, your work experience, and the duties of your position.

A. I have a bachelor’s degree in business administration from Western Illinois University. I also have a master’s degree in business administration from Sangamon State University (now known as the University of Illinois-Springfield). I

24 joined AmerenCIPS in 1979 and initially worked in the Company's Macomb local office
25 performing a number of customer service activities. In 1980, I was transferred to the
26 Company's Customer Service Department in Springfield, Illinois. In 1986, I was named
27 Customer Assistance Program Coordinator and was responsible for the implementation of
28 customer assistance programs, including the statewide IRAPP and REAPP programs. In
29 1989, I became Credit & Collection Supervisor. In 1996, I was named Credit &
30 Collections Administrator at the Company's Pawnee Call Center. In May of 2000, I
31 assumed the position of General Supervisor, Credit & Collections and in 2003, I assumed
32 my current position as Director, Credit & Collections in which I have credit and
33 collection responsibilities for AmerenCIPS and AmerenUE.

34 I currently serve on the Advisory Board of Consumer Credit Counseling
35 Services and am First Vice Chair of the National Association of Credit Management's
36 (NACM) International Utility Group. I was appointed to the Illinois Commerce
37 Commission's Consumer Education Working Group to develop consumer-related
38 information related to deregulation. I currently represent combination utilities on the
39 Illinois Department of Commerce & Community Affairs Policy Advisory Council on low
40 income issues. I also hold the professional designation of CBA (Credit Business
41 Associate) in the field of Credit Management.

42 **Q. What is the purpose of your rebuttal testimony?**

43 **A.** The purpose of my rebuttal testimony is to respond to ICC Staff witness
44 Theresa Ebrey's direct testimony, specifically her adjustment to uncollectible expense.
45 Ms. Ebrey adjusts the Company's proposed revenue requirement to reflect a 5-year
46 average of uncollectible expense. She contends that the 5-year average is a better

47 indicator of the on-going level of this expense than the test year level of uncollectible
48 expense included by the Company. This adjustment is consistent with the uncollectible
49 rate used in Staff's gross revenue conversion factor calculation. (ICC Staff Exhibit 3.0
50 at 13).

51 In this rebuttal testimony I will explain why the use of a 5-year average for
52 uncollectible expense is inappropriate in comparison to the test year level used by the
53 Companies.

54 **Q. Why do you take issue with the use of a 5-year average in determining**
55 **the level of uncollectible expense to be included in the Ameren Companies' revenue**
56 **requirements?**

57 **A.** There are a number of factors that influence the level of uncollectible
58 expense. Two factors which have significant influence on uncollectible expense are gas
59 prices and the economy. Both the level of gas prices today and the expected future price
60 of gas are significantly different from prices experienced over the past five years.
61 Similarly, the economy today remains in a down cycle, compared to the last five years,
62 and it is not expected to significantly improve in the foreseeable future.

63 **Q. Can you be more specific with regard to the price of gas and its**
64 **impact on uncollectible expense levels?**

65 **A.** Yes. Ameren Companies witness Jimmy L. Davis has included schedules
66 in his rebuttal testimony that list historical and projected NYMEX settlement prices for
67 gas from January 9, 1998 through and including April 2006. Mr. Davis explains that the
68 gas prices projected for the foreseeable future correlate more closely with the test year

69 level of gas prices than with the average gas prices over the five year period used by Staff
70 to determine uncollectible expense.

71 **Q. What is the significance of this correlation?**

72 **A.** While there have been variations in the price of gas during this period of
73 time, it is clear that the price of gas is trending upward. It has been my experience that
74 the greater the increase in the customer's bill, and this would occur if the price of gas
75 continues to increase, all other things being equal, the greater the likelihood of an
76 increase in uncollectible expense. By analogy, during the winter (and especially during
77 times of extreme conditions), residential gas bills are much higher than during other
78 periods. In these circumstances when the customers' bills are elevated, the percentage of
79 unpaid bills increases. I would anticipate the projected increase in gas prices will also
80 have an upward impact on uncollectible expense.

81 **Q. You also mentioned the circumstances of the economy playing a role**
82 **in the level of uncollectible expense. Can you please elaborate?**

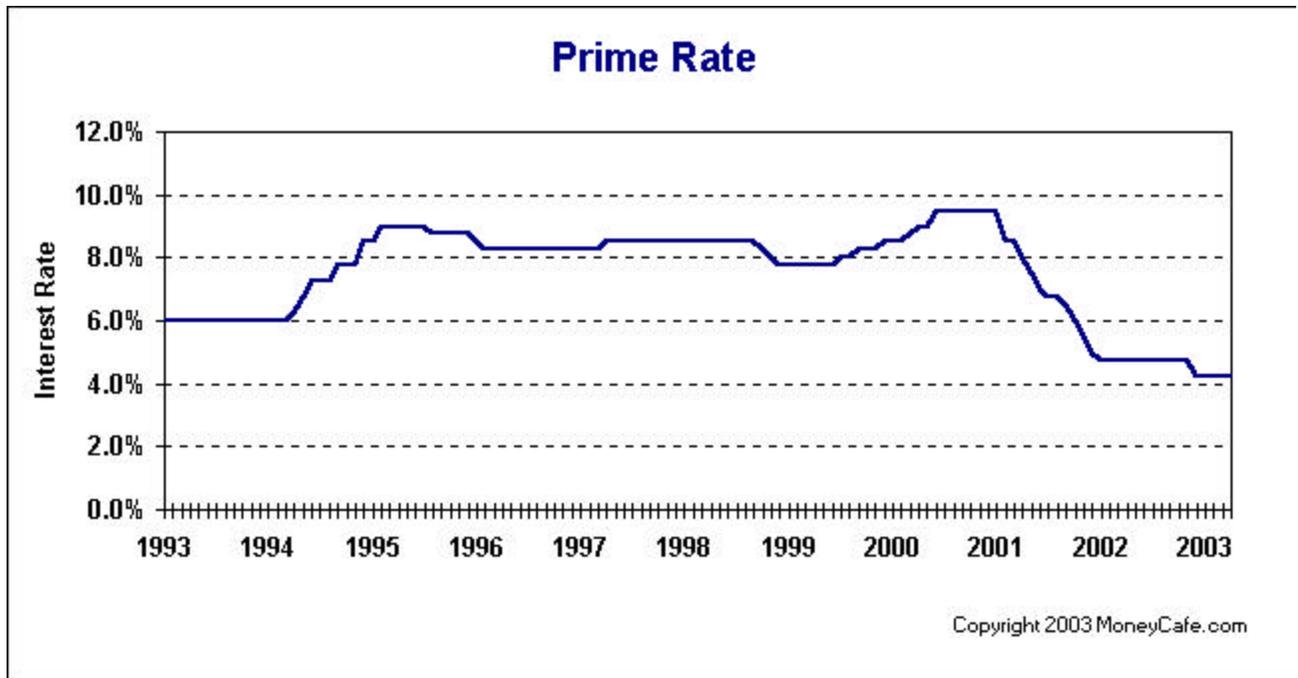
83 **A.** Yes. In my experience I have seen a direct correlation between the
84 strength or soundness of the economy and the ability of customers to pay their bills;
85 meaning, the weaker the economy, the greater the increase in unpaid bills. As the
86 economy slumps, consumers have fewer resources with which to meet their obligations.

87 **Q. What information have you considered in evaluating the strength of**
88 **the economy?**

89 **A.** One of the sources utilized was the Illinois Economic and Fiscal
90 Commission's "FY 2002 General Funds Revenue 5-Year Outlook" report of August 2001
91 which examines several economic conditions that Illinois may face through 2006. To

92 quote this particular source “All indicators suggest that we have entered into uncertain
 93 economic times.” Although this was stated nearly two years ago, it is still true today.
 94 Also when examining the prime rate on a historical basis, Graph 1 shows that the national
 95 economic environment from 1995 to 2001 is not comparable to the economic
 96 environment since January 2001. It is evident that since November 2001, the present
 97 national economic environment is at its worst state in the last ten years.

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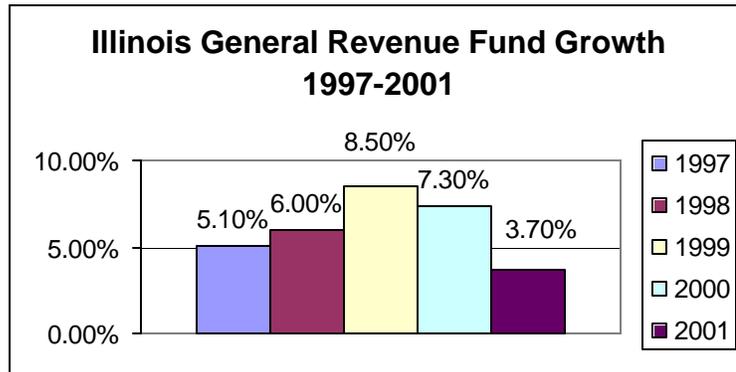


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(Graph 1)

102 From this same report, data concerning the growth of the Illinois General Revenue Fund
 103 also reflects a massive slowing in the Illinois economy. In this visual (Graph 2), it is
 104 evident that growth in the Illinois economy slowed as early as 2000 as the fund began
 105 decreasing in its growth. It is also evident from this graph that the growth in 2001 is in
 106 no way comparable to the growth of the economy and revenues in any of the prior four
 107 years:

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Graph 2

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Q. Were there other factors you considered in examining the state of the economy?

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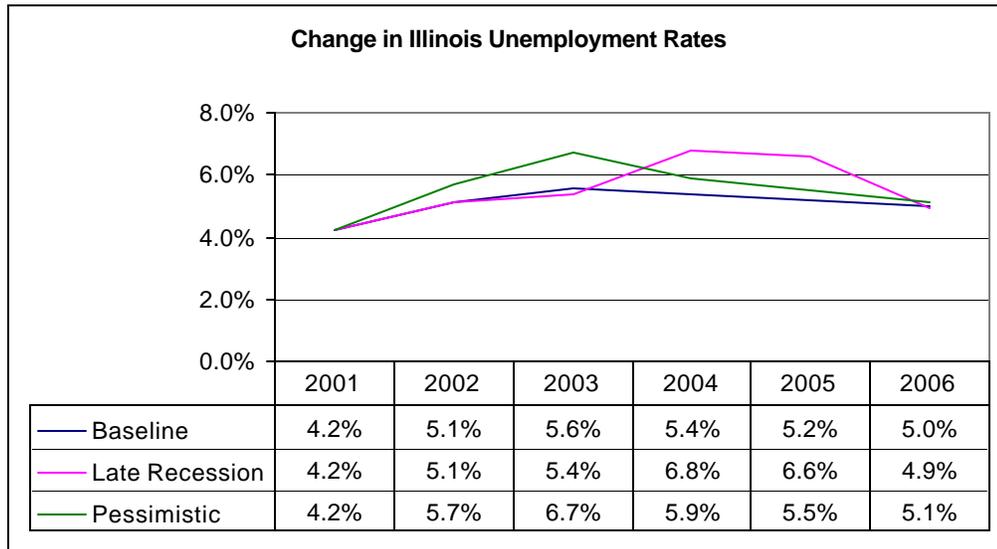
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A. Yes. Besides general measures of the economy such as the prime rate and government revenue growth, the unemployment rate can be used as a barometer of uncollectible expense. As evidenced from the below graph (Graph 3), from the same report, the Illinois Economic and Fiscal Commission also projected the future change in unemployment rates. This Graph clearly reflects that even when using the “Baseline” projection, unemployment rates in Illinois are not expected to return to 2001 or prior levels until after 2006. When comparing this Graph to the one derived from the U.S. Department of Labor, Bureau of Labor Statistics concerning historical levels of unemployment in Illinois (Graph 4), the “Pessimistic” line in Graph 3 is more indicative of growth in Illinois unemployment rather than the “Baseline” level predicted in August 2001. This Graph from the Bureau of Labor Statistics also reflects the huge disparity between the economic environments in Illinois from 1997 to 2000 as compared to the economic environment since 2000, and reinforces the inappropriateness of utilizing data from prior to 2000 as indicative of the near future economic environment.

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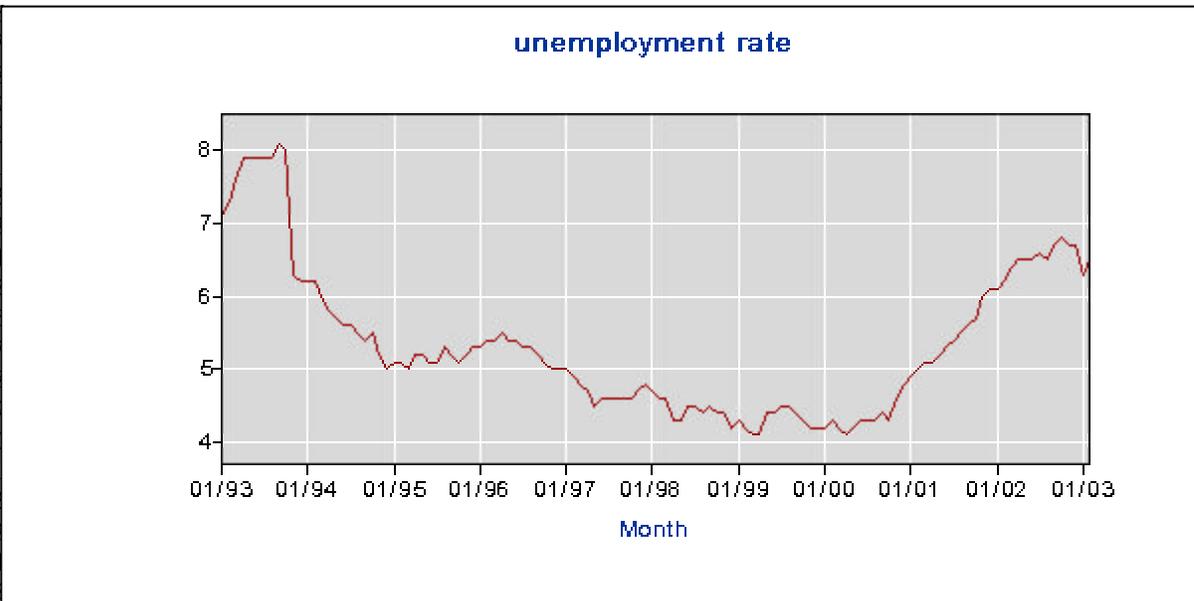
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128 The raw data for this chart reflects that unemployment decreased between
 129 the years of 1997 to 2000 by 8.5% as compared to 1997, increased by 38.3% when
 130 comparing 2002 to 1997, and when comparing the growth from 2000 to 2002 increased
 131 by a staggering 51.2%! This further illustrates that the economic environment since 2000
 132 is drastically different from the environment that existed prior to 2000.



Graph 3

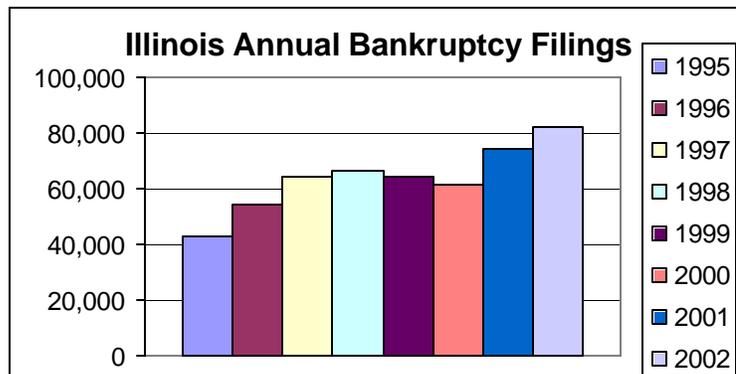
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Graph 4

157 **Q. Did you consider any other factors?**

158 **A.** Yes. Another specific barometer of uncollectible expense would be the
 159 rate of bankruptcy filings. An increase in bankruptcy filings by individuals indicates
 160 fundamental economic weakness. From data obtained from the American Bankruptcy
 161 Institute, Graph 5 reflects again that data from prior to 2000 does not capture or reflect
 162 the current number of bankruptcy filings. Last year was about 33% higher than the
 163 average number during Ms. Ebrey’s 5-year uncollectible study period. In my judgment
 164 the increase in bankruptcy filings provides a good perspective on the economy. The
 165 increasing trend suggests to me the economy is still in a slow growth mode.



Graph 5

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Q. Do you have any concluding remarks?

170 **A.** In summary, the better indicators of the anticipated level of uncollectible
 171 expense will be the current state of the economy and gas prices. In this regard, the test
 172 year data more closely correlates to current and projected conditions than do the data
 173 from the five year period over which Ms. Ebrey averages uncollectible expense. Use of
 174 her five year average of uncollectible expense understates the uncollectible expense the
 175 Companies will experience during the period rates are in effect. In my opinion, the

176 Companies' position regarding the ongoing level of uncollectible expense is far more
177 defensible than the Staff's.

178 **Q. Does this conclude your rebuttal testimony?**

179 **A. Yes, it does**