

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

In the Matter of the Tariff Filing of Union Electric)
Company d/b/a AmerenUE, to Implement a)
General Rate Increase for Retail Electric Service)
Provided to Customers in its Missouri Service)
Area.)

Case No. ER-2007-0002
Tariff No. YE-2007-0007

STAFF'S RESPONSE TO COMMISSION ORDER

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and, in response to the Commission's June 22, 2007, *Order Directing Staff to Respond Regarding Treatment of Net Salvage*, states:

1. In its 22, 2007, *Order Directing Staff to Respond Regarding Treatment of Net Salvage*, the Commission states and then directs its Staff as follows:

On May 31, 2007, the Missouri Industrial Energy Consumers filed an application for rehearing or reconsideration regarding, in part, the Commission's decision on the proper calculation of net salvage expenses. The Commission believes that its decision in this case is consistent with the position it has taken in recent decisions involving Laclede Gas Company (Case No. GR-99-315), and The Empire District Electric Company (Case No. ER-2004-0570). Before ruling on the application for rehearing, the Commission would like to know the view of its Staff on that question.

IT IS ORDERED THAT:

1. No later than June 25, 2007, the Staff of the Commission shall file a pleading offering its opinion on whether the position taken by the Commission in this case regarding net salvage expenses is consistent with the position previously taken by the Commission in Case Nos. GR-99-315 and ER-2004-0570.
2. Based on its review of the Commission's *Report and Order* in this case, it is the Staff's opinion the Commission's position in this case regarding net salvage expenses is consistent with the Commission's treatment of net salvage expenses in Case Nos. GR-99-315 and ER-2004-0570.

3. In its prehearing brief filed in this case, the Staff stated the following at pages 47-48:

With regard to net salvage, the Commission further stated in its *Report and Order* [in Case No. ER-2004-0570] that traditional regulatory accounting includes Net Salvage as a component of Depreciation Expense under an accrual method where the depreciation rate for a particular asset or group of assets is calculated by the formula following:

$$\text{Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$

where net salvage equals the gross salvage value of the asset minus the cost of removing the asset from service and the net salvage percentage is determined by dividing the net salvage experienced for a period of time by the original cost of the property retired during that same period of time. *Report and Order* at 51-52.

In that same Report and Order, the Commission stated the following regarding terminal net salvage of production plant accounts:

. . . [T]his Commission generally has not allowed the accrual of this item. The reason is that generating plants are rarely retired and any allowance for this item would necessarily be purely speculative. It is true that all depreciation is founded upon estimates, but all estimates are not unduly speculative. Just as utility companies plan rate cases around the projected in-service dates of new plants, so Empire can plan around the retirement of its generating plants so that the Net Salvage expense is incurred in a Test Year. Another alternative is the device of the Accounting Authority Order. As already discussed in connection with the Production Account Service Life issue, there is no evidence that the retirement of any of Empire's plants is imminent and the estimated retirement dates considered in this proceeding are not persuasive. For these reasons, the Commission will not allow the accrual of any amount for Terminal Net Salvage of Production Plants.

4. In their application for rehearing, the Missouri Industrial Energy Consumers, raising the issue for the first time, argue that the Commission ordered no recovery in depreciation rates of terminal net salvage related to steam and hydraulic production plant, but because the net salvage percentages adopted by the Commission for these plants were applied to 100% of the investment in those accounts, by definition they include terminal net salvage. The Missouri

Industrial Energy Consumers are wrong. Interim net salvage is the difference between the salvage value and cost of removal of plant components that are replaced as they lose their usefulness due to normal use—survivor curves are used in this process. In contrast, terminal net salvage is the difference between the salvage value and cost of removal of components that are removed from service because of some other terminating event—an event such as retiring an entire generating station—and may entail costs such as brownfield reclamation of the site of that station. Interim net salvage and terminal net salvage are separate and distinct and should not be viewed together in the way the Missouri Industrial Energy Consumers invites the Commission to look at them. As quoted above, the Commission generally does not allow the accrual of any amount for terminal net salvage of production plants, and the Staff believes it has not done so by its *Report and Order* in this case.

5. In the Staff's opinion the Commission has followed its statements set forth above from the Commission's *Report and Order* from Case No. ER-2004-0570 in addressing net salvage expense in its *Report and Order* in this case.

WHEREFORE the Staff advises the Commission that it is the Staff's opinion the Commission's position in this case regarding net salvage expenses is consistent with the Commission's treatment of net salvage expenses in Case Nos. GR-99-315 and ER-2004-0570.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 25th day of June, 2007.

/s/ Nathan Williams