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Witness: James K. Guest
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2012-0166

REBUTTAL TESTIMONY

OF

JAMES K. GUEST

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

**Washington, DC
August, 2012**

REBUTTAL TESTIMONY

OF

JAMES K. GUEST

CASE NO. ER-2012-0166

1 **Q. Please state your name and business address.**

2 A. My name is James K. Guest. My business address is 1155 15th Street, NW,
3 Suite 400, Washington, DC 20005.

4 **Q. On whose behalf are you testifying in this proceeding?**

5 A. I am testifying on behalf of Union Electric Company d/b/a Ameren Missouri
6 (“Ameren Missouri” or “Company”).

7 **Q. By whom are you employed and what is your position?**

8 A. I am an Associate with the firm of Brown, Williams, Moorhead & Quinn, Inc.
9 (“BWMQ”).

10 **Q. What services does the firm offer?**

11 A. BWMQ provides technical and policy assistance to various segments of the
12 natural gas, electric and oil industries on economic, business, accounting, financial and
13 regulatory matters.

14 **Q. Please describe your educational background and professional**
15 **experience.**

16 A. I am a Certified Public Accountant and a member of the American Institute of
17 Certified Public Accountants. I received a Bachelor of Science degree in Accounting from
18 Indiana University of Pennsylvania in 1974. Shortly after graduating, I accepted a position
19 with the Federal Energy Regulatory Commission (“FERC”) as a field auditor in the FERC’s

1 Office of Chief Accountant. I was employed by the FERC for the next 32 years, accepting
2 positions of increasing responsibility in the area of financial accounting and reporting
3 requirements for the electric utility, natural gas pipeline and oil pipeline industries.

4 During this period, I served as Deputy Director of the Division of Audits in the Office
5 of Chief Accountant, Deputy Chief Accountant, and Chief Accountant before retiring from
6 federal service in September 2007. In those positions, I was responsible for determining
7 individual companies' compliance with the Commission's Uniform Systems of Accounts and
8 related reporting requirements, developing and directing rulemaking proposals for needed
9 changes in those requirements, and providing counsel and advice on accounting matters to
10 senior Commission staff, the Commissioners, and the Chairman.

11 Since my retirement from federal service, I have provided professional consulting
12 services to the regulated electric, natural gas and oil pipeline industries primarily through my
13 association with BWMQ.

14 **Q. What were your responsibilities as FERC's Chief Accountant?**

15 A. The Chief Accountant is the agency's top authority on financial accounting
16 and reporting matters. In that role I was responsible for all aspects of FERC's financial
17 accounting and reporting programs for the regulated electric utility, natural gas and oil
18 pipeline industries in the United States. This involved administration of three separate
19 Uniform Systems of Accounts, as well as extensive annual and quarterly financial reporting
20 requirements for entities subject to FERC jurisdiction. More specific duties included issuing
21 letter orders responding to requests for accounting approvals, interpretive rulings on all
22 aspects of FERC's accounting and financial reporting requirements, providing guidance to
23 the industries on significant emerging issues, and providing counsel and advice to other

1 Commission Offices and the Chairman on financial accounting and reporting matters as they
2 arose in individual cases coming before the agency.

3 **Q. Have you provided testimony before a regulatory body?**

4 A. Yes. Early in my federal service I provided testimony in two proceedings
5 before FERC involving income taxes and recovery of fuel costs in rates. As best as I can
6 recall, those proceedings were *McDowell County Consumers Council v. FERC* and a
7 *Southwestern Public Service* rate proceeding. More recently and as an independent
8 consultant, I provided expert testimony on financial accounting matters in the following
9 proceedings:

- 10 • Docket No. 25393-07, *PPL Corporation and Subsidiaries v. Commissioners of*
11 *Internal Revenue*, United States Tax Court;
- 12 • Docket No. 090172-EI, *Florida Power and Light Company* before the Florida
13 Public Service Commission; and
- 14 • Docket No. PA10-13, *ITC Holdings and ITC Midwest LLC* before the FERC.

15 **Q. What is the purpose of your testimony in this proceeding?**

16 A. The purpose of my testimony is to explain the requirements of the Uniform
17 System of Accounts (USoA) applicable to electric utilities, and in particular, those provisions
18 of the USoA cited by Missouri Public Service Commission Staff witness Guy C. Gilbert in
19 the Staff Revenue Requirement Cost of Service Report (Staff Report) submitted by the Staff
20 on July 6, 2012, in this case.

21 **Q. What USoA provisions does Mr. Gilbert cite?**

22 A. Through references contained in certain Missouri regulations that he cites, and
23 other references, he cites the following USoA provisions:

- 1 • Part 101 Definitions 8;
 - 2 • Part 101 Electric Plant Instructions 2.A;
 - 3 • **Part 101 Electric Plant Instructions 10.A;**
 - 4 • Part 101 Electric Plant Instructions 10.F;
 - 5 • Part 101 Electric Plant Instructions 11.B;
 - 6 • **Part 101 Electric Plant Instructions 11.C;**
 - 7 • **Part 101 Balance Sheet Accounts 108.C;**
 - 8 • Part 101 Balance Sheet Accounts 111.C;
 - 9 • Part 101 Income Accounts 403.B;
 - 10 • **18 CFR Ch. I, Subchapter C, General Instruction 2.C;**¹ and
 - 11 • **18 CFR 125.2(d)(3).**²
- 12 **Q. Does Mr. Gilbert contend that Ameren Missouri is not in compliance with**
13 **some or all of these USoA provisions?**
- 14 A. Yes, he does. It appears that he contends that Ameren Missouri is not in
15 compliance with the USoA provisions that are in **boldface** type in my answer to the prior
16 question. He may also be taking issue with Ameren Missouri's compliance with Part 101
17 Account 403, Depreciation Expense, Paragraph B.
- 18 **Q. Starting with the first provision, Part 101 Electric Plant Instructions**
19 **10.A, please explain what it requires.**
- 20 A. USOA Instruction 10.A provides as follows:

¹ Mr. Gilbert did not cite specifically to General Instruction 2.C, but the language he quotes at lines 15-16 on page 147 of the Staff Report is identical to that General Instruction.

² Mr. Gilbert also cites to "125.2, 2. Records. Part C (3)" at lines 21-26 on page 147 of the Staff Report, but the language he quotes is from a different USoA provision, 18 CFR 125.2(d)(3), so I assume that is what he meant to cite.

1 For the purpose of avoiding undue refinement in accounting for
2 additions to and retirements and replacements of electric plant, all property
3 will be considered as consisting of (1) retirement units and (2) minor items of
4 property. Each utility shall maintain a written property units listing for use in
5 accounting for additions and retirements of electric plant and apply the listing
6 consistently.

7 **Q. Have you been provided information regarding how Ameren Missouri**
8 **interprets this rule, and regarding how Ameren Missouri complies with it?**

9 A. Yes. I have reviewed the rebuttal testimony of (until recently) Ameren
10 Missouri's Plant Accounting Department Manager, Laura Moore. That testimony accurately
11 described the requirements of the rule, and explained how Ameren Missouri complies with
12 the rule. On the assumption that Ms. Moore's description of how Ameren Missouri uses its
13 property unit catalog is accurate, it is my opinion that Ameren Missouri is in compliance with
14 this regulation. I have also been provided a copy of Ameren Missouri's property unit
15 catalog, and agree that it reflects a written property units listing for use in accounting for
16 additions and retirements of electric plant, as described in the regulation.

17 **Q. Please describe the requirements of Part 101 Electric Plant Instructions**
18 **11.C.**

19 A. This regulation provides as follows:

20 In the case of Major utilities, each utility shall maintain records for
21 which, for each plant account, the amounts of the annual additions and
22 retirements are classified so as to show the number and cost of the various
23 record units or retirement units.

24 I would also note that I have reviewed the Missouri regulation that points to 11.C,
25 which Ms. Moore quotes in her rebuttal testimony. The Missouri regulation mirrors this
26 USoA provision, with the exception that it specifies that retirement unit information be
27 maintained by vintage year.

1 **Q. Can you conclude that Ameren Missouri is in compliance with 11.C and**
2 **the Missouri rule that references it?**

3 A. Again, assuming that Ms. Moore's testimony that Ameren Missouri does have
4 records, for each plant account, that show the amounts of annual additions and retirements
5 that are classified so as to show the number and cost of various record units or retirement
6 units and the vintage year, then yes, Ameren Missouri is in compliance with both the USoA
7 provision and the slightly modified Missouri provision. I would note that the records need
8 not be maintained in any particular form or on any particular media.

9 **Q. Is a record unit or retirement unit the same?**

10 A. The USoA contains a definition of "retirement unit" (Definition No. 34) but
11 does not contain a definition of "record unit." However, records maintained showing the
12 amounts of annual additions and retirements classified as to the number and cost of various
13 retirement units would be in compliance with Electric Plant Instruction No. 11.C.

14 **Q. Does Ms. Moore describe a retirement unit in her rebuttal testimony, and**
15 **if so, is her description accurate?**

16 A. Yes, she does describe a retirement unit and yes, her description is accurate.

17 **Q. Must all of the records maintained under 11.C be maintained in one**
18 **system?**

19 A. No. Records covering one period of time could be on paper and records for
20 another period of time could be in some kind of electronic system. The requirement of the
21 rule is that the record be maintained. How it is maintained is up to the utility.

22 **Q. What does Part 101 Balance Sheet Accounts 108.C provide for?**

23 A. Account 108.C states as follows:

For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant:

- (1) Steam production
- (2) Nuclear production
- (3) Hydraulic production
- (4) Other production
- (5) Transmission
- (6) Distribution
- (7) Regional Transmission and Market Operation, and
- (8) General.

These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification:

- (a) The amount of accrual for depreciation,
- (b) The book cost of property retired,
- (c) Cost of removal,
- (d) Salvage, and
- (e) Other items, including recoveries from insurance.

Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in Account 108, Accumulated provision for depreciation of utility plant (Major only).

Q. Can you conclude that Ameren Missouri is in compliance with 108.C and the Missouri rule that references it?

A. Yes, I agree with Ms. Moore that compliance with 108.C only requires that these subsidiary records be kept at the functional classification level listed in items (1) through (8) in the regulation quoted above. This means that the information in items (a) through (e) are kept at that functional classification level (e.g., cost of removal for steam production). I also see nothing in the Missouri regulation that cites to 108.C that adds to or is inconsistent with the requirements of 108.C.

Q. What does 18 CFR Ch. I, Subchapter C, General Instruction 2.C require?

1 A. Mr. Gilbert quotes it at page 147, lines 15-20 of the Staff Report. Its terms are
2 straightforward. The utility cannot destroy records it is required to maintain unless the
3 destruction is permitted by the rules and regulations of the FERC.

4 **Q. Is the Company in compliance with 2.C?**

5 A. Ms. Moore says no records were destroyed and for purposes of my answer I
6 am assuming that is true. She indicates that she believes that Mr. Gilbert thought that records
7 in the Company's prior electronic system (which, as I understand it, was used from 1996 to
8 2005) were destroyed because Ameren Missouri printed reports from the prior system, which
9 apparently implied to him that only the printed reports remained. But Ms. Moore indicates
10 that the records remain in the prior system. If that is true, then Ameren Missouri is in
11 compliance with 2.C. I have no reason to believe it is not true.

12 **Q. What does 18 CFR 125.2(d)(3) require?**

13 A. Mr. Gilbert quotes this regulation at page 147, lines 21-26 of the Staff Report.
14 The regulation says that if the utility transfers data from one media to another (e.g., from
15 paper to CD; CD to hard drive; electronic system A to electronic system B), then it must
16 verify it transferred it accurately and document the transfer. Moreover, if software and
17 hardware is needed to access the data, then the hardware and software must be maintained.

18 **Q. Is the Company in compliance with 125.2(d)(3)?**

19 A. Ms. Moore's testimony indicates that when Ameren Missouri began using an
20 electronic system (the AMS system) starting in 1996 and when Ameren Missouri began
21 using its current PowerPlant system, that it verified that the data input into those systems tied
22 back to Ameren Missouri's general ledger. She further indicates that Ameren Missouri has
23 all of the hardware and software needed to access data in both systems. Assuming that this

1 verification was done and that the hardware and software does allow access to the data, then
2 it is my opinion that Ameren Missouri is in compliance with 125.2(d)(3), as it currently
3 exists.

4 **Q. You earlier mentioned that Mr. Gilbert may be raising a compliance issue**
5 **regarding Ameren Missouri's compliance with Part 101 Accounts 403, Depreciation**
6 **Expense, Paragraph B. What does that regulation require?**

7 A. The regulation provides as follows:

8 The utility shall keep such records of property and property
9 retirements as will reflect the average service life of property which has
10 been retired and aid in estimating probable service life by mortality,
11 turnover, or other appropriate methods; and also such records as will
12 reflect the percentage of salvage and costs of removal for property retired
13 from each account, or subdivision thereof, for depreciable electric plant.

14 The Missouri rule that cites to this USoA provision is essentially the same.

15 **Q. Is Ameren Missouri in compliance with this rule?**

16 A. If, as Ms. Moore indicates, it has kept records that contain this data, then yes,
17 it is. It is not required to have all of this data in one file or one system. Rather, it is only
18 required to have kept it.

19 **Q. Another issue that appears to have been raised deals with the meaning of**
20 **the term Continuing Plant Inventory Record. What is a Continuing Plant Inventory**
21 **Record under the USoA?**

22 A. A Continuing Plant Inventory Record, which is sometimes referred to as a
23 "CPIR" or "CPR," is defined as follows in Part 101, Definitions:

24 8. *Continuing Plant Inventory Record* means company plant records for
25 retirement units and mass property that provide, as either a single record, or in
26 separate records readily obtainable by references made in a single record, the
27 following information:

28 A. For each retirement unit:

- 1 (1) The name or description of the unit, or both;
2 (2) The location of the unit;
3 (3) The date the unit was placed in service;
4 (4) The cost of the unit as set forth in Plant Instructions 2 and 3 of this part;
5 and
6 (5) The plant control account to which the cost of the unit is charged; and

7 B. For each category of mass property:

- 8 (1) A general description of the property and quantity;
9 (2) The quantity placed in service by vintage year;
10 (3) The average cost as set forth in Plant Instructions 2 and 3 of this part; and
11 (4) The plant control account to which the costs are charged.

12 **Q. Under the USoA, must the CPIR or CPR contain retirement**
13 **information?**

14 A. No, the USoA does not require that the CPIR contain retirement information.
15 That is not to say that some might describe a set of records that does contain retirement data
16 as a CPIR, but as far as the USoA is concerned a CPIR consists of the data listed in the
17 definition for the plant the utility then has in service; the plant that is continuing to provide
18 service.

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

20 A. Yes, it does.

