

Exhibit No.:
Issue: Depreciation
Witness: Guy C. Gilbert, PE, RG
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2012-0166
Date Testimony Prepared: September 7, 2012

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES**

SURREBUTTAL TESTIMONY

OF

GUY C. GILBERT, PE, RG

UNION ELECTRIC COMPANY,

d/b/a Ameren Missouri

CASE NO. ER-2012-0166

*Jefferson City, Missouri
September 2012*

**TABLE OF CONTENTS OF
SURREBUTTAL TESTIMONY OF
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UNION ELECTRIC COMPANY
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Summary.....	2
Regulatory Lag.....	2
Record Keeping Deficiencies.....	3
Asset Management	4
Production	4
Transmission	5
Distribution.....	5
General Plant Accounts	6

1 Q. Please describe your work and educational background.

2 A. A copy of my work and educational experience was provided in Appendix 1
3 of Staff's Cost of Service Revenue Requirement Report.

4 **Summary**

5 Q. How is your testimony organized?

6 A. First Staff agrees with Ameren Missouri's Laura Moore's rebuttal testimony
7 at Section IX regarding Project First beginning at page 48, and has no further issue. The
8 remaining issues are whether Ameren Missouri should be allowed to collect additional
9 depreciation due to perceived regulatory lag and Ameren Missouri's noncompliance with
10 Commission rules related to record keeping for the determination of depreciation rates and
11 the accuracy of rate base.

12 Q. Has the Company in its filed rebuttal testimony noted corrections or
13 adjustments of its property records as a result of Staff's direct report?

14 A. Yes. At page 39, lines 1 through 5, the Company states that it has adjusted its
15 books to include the retirements that Staff identified. However, based on the sampling Staff
16 performed as described in the Cost of Service Report, Staff has no confidence in the accuracy
17 of Ameren Missouri's property records. The dollar amounts currently associated with the
18 Commission rules compliance issue are de minimis in this rate case.

19 **Regulatory Lag**

20 Q. Do Ameren Missouri's unitization practices result in the reflection of retired
21 plant in Ameren Missouri's revenue requirement?

1 A. Yes. As discussed below, Ameren Missouri's inappropriately delayed
2 unitization schedule is unreasonable, and is not only entirely within Ameren Missouri's
3 control, but also results in significant positive lag for the Company.

4 **Record Keeping Deficiencies**

5 Q. Although the rate base impact of the record keeping problems is relatively
6 small in this case, is further investigation warranted?

7 A. Yes. While the Staff has not fully audited Ameren Missouri's property
8 records to identify all incorrectly recorded retirements, the items identified in Staff's initial
9 review are but one example indicating the inappropriateness of Ameren Missouri's request
10 for the collection of additional depreciation due to perceived regulatory lag.

11 Q. Will Staff undertake appropriate investigation of Ameren Missouri's record
12 keeping to facilitate future depreciation studies?

13 A. Yes. If necessary, Staff will file a complaint against Ameren Missouri to
14 compel compliance with appropriate record keeping rules.

15 Q. What is the Commission rule that Staff is concerned with?

16 A. Staff, in its direct report regarding depreciation, has detailed the
17 Commission's rules and their purpose and noted areas where Ameren Missouri has failed to
18 demonstrate compliance. Commission Rule 4 CSR 240-20.030 directs electric corporations
19 like Ameren Missouri to comply with the Federal Energy Regulatory Commission ("FERC")
20 Uniform Systems of Accounts ("USOA") for electric companies.¹ The basic premise is that
21 Ameren Missouri should maintain and be able to readily produce records that indicate plant
22 (i.e., asset) additions and retirements.

¹ Commission Rule 4 CSR 240-20.030 (4) specifically states that "[t]his rule shall not be construed as waiving any recordkeeping requirement in effect prior to 1994."

1 Q. What is the purpose and definition of depreciation?

2 A. The purpose of depreciation is to facilitate the recovery of shareholder
3 investment from ratepayers over the assets' ratable lives. The National Association of
4 Railroad and Utilities Commissioners in 1958 approved this definition:

5 "Depreciation," as applied to depreciable utility plant, means the loss
6 in service value not restored by current maintenance, incurred in
7 connection with the consumption or prospective retirement of utility
8 plant in the course of service from causes which are known to be in
9 current operation and against which the utility is not protected by
10 insurance. Among the causes to be given consideration are wear and
11 tear, decay, action of the elements, inadequacy, obsolescence, changes
12 in the art, changes in demand, and requirements of public authorities.

13 Source: Public Utility Depreciation Practices, August 1996, Published by the
14 National Association of Regulatory Utility Commissioners

15 **Asset Management**

16 Q. How are depreciable assets organized for purposes of depreciation?

17 A. Asset management: The FERC provides specific instructions and guidance
18 through its direction of regulated electric company compliance with the USOA.

19 Q. How does the USOA achieve these instructions and guidance?

20 A. Most specifically through a set of definitions; those are in turn used to
21 establish accounting rules and ultimately a chart or system of accounts wherein a utility will
22 record and track the disposition of its assets.

23 **Production**

24 Q. Would you be more specific?

25 A. With respect to depreciable (tangible) assets, the USOA states that there are
26 four classes of assets and these are common to all utilities. The first class contains the
27 production accounts. All utilities provide a service or product. These accounts are numbered

1 Account 310, Land and Land Rights, through Account 349, for which no designation
2 currently exists. The utility's product may be providing electrical power that is produced by
3 an electrical generator, water from a surface stream that is cleaned, water from a well that
4 may not require cleaning, sewage treatment, telephonic communication switching, or even
5 the provisioning of natural gas. The asset that can physically be retired is called a retirement
6 unit and it is the Company's choice to develop and assign these retirement units as the
7 Company deems appropriate.

8 **Transmission**

9 Q. What is the second class of assets provided for in the USOA?

10 A. The second group of assets provided for in the USOA is transmission. Again,
11 transmission is common to all utility types in that it is the means by which the utility product
12 is delivered to the market area. These accounts are numbered Account 350, Land and Land
13 Rights, through Account 359.1, Asset Retirement Costs for Distribution Plant. Transmission
14 is the bulk method of providing service.

15 **Distribution**

16 Q. What is the third class of assets provided for in the USOA?

17 A. The third group of assets provided for in the USOA is distribution. Again,
18 distribution is common to all utility types in that it is the means by which the utility product
19 is delivered to the ratepayer. These accounts are numbered Account 360, Land and Land
20 Rights, through Account 374, Asset Retirement Costs for Distribution Plant. It is also
21 usually where the utility service being consumed or purchased by the ratepayer is measured.
22 Distribution is the method of providing service to the individual customer.

General Plant Accounts

Q. What is the fourth class of assets provided for in the USOA?

A. These are the general plant accounts provided for in the USOA. The general plant accounts are also common to all utilities. These accounts are numbered Account 389, Land and Land Rights, through Account 399.1, Asset Retirement Costs for General Plant. Some examples of what is in the span of general plant accounts would include transportation equipment, tools, shop and garage equipment, laboratory equipment, and communications. The General Plant classification for assets covers all those assets common to the conduct of a utility.

By categorizing these assets into classes, accounts and sub-accounts, a utility is able to better track assets by function. For depreciation purposes, the depreciation engineer looks at these asset types by engineered purpose and use. Furthermore, the depreciation engineer will perform a mathematical analysis of the dollars invested in each account to determine what the average service life is by account that is composed of retirement units. If dates of dollars by retirement unit being placed in service are not recorded or dates of dollars by retirement unit being taken out of service are not recorded, there is not sufficient information to do a reliable analysis of the dollars representing retirement units placed in and out of service (additions and retirements by account) to determine service life. By analogy, if cars did not come with a model year and an odometer it would be a lot harder to determine an estimate of its useful life.

Q. Has Staff requested a listing of the Company's Continuing Property Record?

A. Yes, below is the request.

Surrebuttal Testimony of
Guy C. Gilbert

Data Request No.	0132
Ms. Moore Name	Union Electric Ms. Moore-Investor(Electric)
Case/Tracking No.	ER-2012-0166
Date Requested	2/8/2012
Issue	Expense-Operations-Depreciation
Requested From	Mary L. Hoyt
Requested By	Guy Gilbert
Brief Description	Continuing Property Record
Description	Please provide Company's updated Continuing Property Record.
Due Date	2/28/2012

Following is a screen shot sampling at the beginning of account 312.

Prepared By: Bruce Lenox
Title: Supervisor Plant Accounting
Date: 02/22/2012
Please see the attached spreadsheet named 201109_AmerenMissouriContinuingPropertyRecords.xlsx as requested.

continued on next page

Surrebuttal Testimony of
Guy C. Gilbert

Account	Unit of Property	Quantity	Book Value 9/30/2011
219 312	ACID FEED SYSTEM	8	176,138.00
220	ACOUSTIC LEAK DETECTION MONITORING	3	163,033.85
221	Adj Speed Drive, Induced Draft Fan	0	0.00
222	AIR CONDITIONING UNIT	22	664,034.38
223	AIR DRYER	1	50,761.98
224	AIR HANDLER/VENTILATOR/EXHAUST	7	637,515.74
225	AIR PREHEATER ASH REMOVAL SYSTEM	1	252,548.55
226	Air Preheater Baskets, Cold Section	5	907,000.51
227	Air Preheater Baskets, Hot Section	4	567,608.74
228	Air Preheater Baskets, Intermediate	2	14,825.20
229	AIR PREHEATER CASING	4	4,343,705.04
230	AIR PREHEATER CHAR HOPPER	8	2,195,092.18
231	AIR PREHEATER HOPPER	8	2,068,730.73
232	AIR PREHEATER ROTOR	13	13,101,436.04
233	AIR PREHEATER ROTOR HOUSING	16	4,576,312.01
234	AIR PREHEATER SOOTBLOWER	24	877,934.27
235	AIR PREHEATER TROUGH	4	965,332.60
236	Air Preheater Tubes, Cold Section	3	7,575,105.65
237	Air Preheater Tubes, Hot Gas Bypass	2	2,878,391.47
238	Air Preheater Tubes, Hot Section	2	5,285,613.59
239	Air Preheater Tubes, Lower Section	1	2,392,064.26
240	Air Preheater Tubes, Upper Section	2	6,466,872.67
241	AIR RECEIVER	1	9,518.87
242	ANALYZER, ACID CONCENTRATION	8	34,649.59
243	ANALYZER, ANION CONDUCTIVITY	3	14,702.06
244	ANALYZER, BOILER WATER SILICA	18	263,891.95
245	ANALYZER, CARBON IN-ASH	2	134,384.85
246	ANALYZER, CATION CONDUCTIVITY	3	14,702.06
247	ANALYZER, CAUSTIC CONCENTRATION	8	34,296.31
248	ANALYZER, CONDUCTIVITY	27	93,395.31
249	ANALYZER, CONDUCTIVITY, COMMON	10	35,743.27
250	ANALYZER, DISSOLVED OXYGEN	5	102,203.64

The document supplied in the Company's response does not comply with Commission rule. It does not show a perpetual collection of essential records detailing original costs, quantities, and locations of plant in service. These records vary in detail depending upon the kind of plant. Continuing Plant Records ("CPRs") are required by most systems of accounts. Generally, a CPR should contain 1) an inventory of property record units which can be readily checked for proof of physical existence, 2) the association of costs with such property record units to ensure accurate accounting for retirements, and 3) the dates of installation and removal of plant to provide data for use in connection with depreciation

1 studies. What should be contained in a CPR is generally stated in *Public Utility Depreciation*
2 *Practices* published by NARUC.

3 Several additional discussions were held until Ameren Missouri's final submission of
4 a CPR did contain some of the appropriate information or data fields as follows:

5

Activity Code
Asset ID
Property Unit Code
Work Order
Work Order Description
Asset Location

6

7 However, the data was deficient as it only went back to 2005, when the new asset
8 management system was placed in service. As noted earlier in Staff's direct testimony, old
9 data was not carried forward. Staff was also informed that no additional data would be
10 forthcoming. Staff has stated in its direct filing that Ameren Missouri is not in compliance
11 with Commission rules due to Ms. Moore's inability to demonstrate compliance. The initial
12 purpose of Staff's investigation was to use the Company's lag in record keeping to
13 demonstrate Ameren Missouri's internal imprecision as an offset to its perception of
14 regulatory lag, as testified to by Lynn M. Barnes.

15 Q. Has the Company previously developed and maintained the appropriate data?

16 A. Yes, Staff at the Company's request worked jointly with the Company to
17 modernize and convert its records in compliance with the previously stated Rule 4 CSR 240-
18 20.030 and conversion of its records to the Dunn & Bradstreet fixed asset management
19 system in 1994. This resulted in an asset management system that not only complied with

1 the Commission's rule but provided a state of the art asset management system using a
2 Windows-based graphical user interface in 1995.

3 Q. Has Staff conducted additional review of the large differences between the
4 number of unique property units between the CPR and Property Unit Catalog ("PUC") as
5 Ms. Moore suggests?

6 A. Yes, and the difference is even greater when duplicate property unit
7 descriptions are removed from the two data sets. The difference went from roughly 3 to 1 to
8 nearly 4 to 1.

9 Q. Is Ms. Moore's rebuttal testimony correct when it states at page 15, lines 3
10 through 17, regarding the purpose of the previously stated rule 4 CSR 240-20.030?

11 A. No, Ms. Moore cites a totally different rule 4 CSR 240-3.161, which addresses
12 the necessary requirements to conduct a depreciation study. The rule that Staff has addressed
13 describes the accumulation of the summary depreciation data, in other words, the adequate
14 accurate and timely booking of asset additions and retirements.

15 Q. Does Ms. Moore take issue with Staff's concern regarding the destruction of
16 records and Staff's attempts to resolve its concerns?

17 A. As stated in its direct report, Staff initially became concerned when it was
18 made aware of the Company's ineffective transitioning of plant data from one system to the
19 next.

20 In discussions, the Company offered Staff the opportunity to review printouts of the
21 old system's data. Upon transition to the current system, Ameren Missouri made printouts of

1 the old system's data and, in potential violation of 18 CFR Ch. I, Subchapter C,² Ameren
2 Missouri transitioned the old data systems without retirement records to the new electronic
3 systems and disposed of the old system.

4 Staff has performed two follow-up visits with Ms. Moore and has a third trip planned
5 after the filing of this testimony. Upon the first visit for which Staff provided Ameren
6 Missouri an itinerary, Staff was able to review the current CPR system that is in apparent
7 compliance with the rules. Staff was further informed of additional data going back at least
8 10 years from 2012. In Ms. Moore's rebuttal testimony Staff was informed that the Asset
9 Management System ("AMS") goes back to 1996. This system apparently resulted from
10 Staff's previously noted assistance to Ameren Missouri in establishing the AMS system.

11 During Staff's physical review of Ameren Missouri's purported paper records prior to
12 the initial implementation of AMS in 1996, however, no paper print out records, as
13 previously mentioned, were made available. However, bound journals were presented with
14 some having notices that the information had been moved to an electronic system in 1994,
15 two years earlier than previously stated. Additionally, hand-written entries were noted in
16 some books after they were last used to establish plant account balances in 1988. Staff
17 requested copies of these marked pages. Ms. Moore was unsuccessful at copying the flagged
18 pages and Staff plans to return and photograph the pages that were previously flagged for
19 copying.

20 Q. Does Ms. Moore take issue with Staff regarding its compliance with salvage
21 and cost of removal?

² Pursuant to Commission rule 4 CSR 240-3.175. Ameren Missouri is required to comply with the FERC USOA.

1 A. Ms. Moore again contends that the Company has the information available but
2 failed to provide it. Staff has inquired as to the availability of this information and is left
3 with the understanding that when a work order is unitized (estimates removed and actual
4 amounts entered into the plant accounting records) these amounts are then
5 re-aggregated and entered.

6 Q. Why does Staff take issue with Ms. Moore's unitization process?

7 A. Staff has observed in previous CPR audits that failures in the process and the
8 timeliness of the process can cause harm to ratepayers by overstatement of the rate base as
9 when an item is unitized but the estimated project costs are not removed from the plant
10 records. Ameren Missouri has a backlog of retirements requiring accurate recording
11 approximately three times longer (or seven years) than any other visited utilities.

12 Q. Are the failures to adequately record retirements by the Company the result of
13 a misstated process or the failure to implement the process in a timely manner?

14 A. It is a failure to implement the process in a timely manner. The Labadie
15 burner example is correct if the miss-sorted first column is eliminated or corrected. Staff is
16 concerned that three separate projects over three separate years would each yield the same
17 retirement costs to the penny.

18 The Sioux ID fan, even by Ms. Moore's testimony, reveals a process oversight that
19 resulted in adjustments to the Company's books.

20 Q. Does Ms. Moore take issue with the significance of Staff's review?

21 A. Yes, Ms. Moore takes issue with the financial significance of Staff's findings.
22 All along, Staff has attempted to show that the significance of current process failures offset
23 the precision that Ms. Lynn M. Barnes attempts to assign to the depreciation accrual.

1 Q. Does Mr. Steven W. Wills also take issue with Staff's records review at the
2 Sioux Plant?

3 A. Yes, Staff merely gathered a list of assets that would in effect provide a
4 reconnaissance level review of Account 312 at Sioux. Mr. Wills places far more import on
5 this "site visit visual confirmation." While the sample was neither random nor intended for
6 statistical validation, the review did result in Ameren Missouri making a booking adjustment.

7 Q. Does Mr. Guest take issue with Staff's depreciation witness direct report?

8 A. Not really. Mr. Guest's testimony primarily focuses on whether or not the
9 Company correctly states the rules cited. In that respect he is correct. The issues are one
10 does regulatory lag cause the Company unmitigated harm, to which Staff has responded no
11 harm to the Company and two as a result of the discovery process Staff has found harm to
12 ratepayers that substantially mitigates any perception of harm due to the regulatory process.
13 Consequently, as a result of Staff's review there is now a concern regarding the accuracy of
14 Ameren Missouri's CPR and rate base as noted throughout this testimony.

15 Q. Does this conclude your prepared surrebuttal testimony?

16 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION


OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Increase Its) Case No. ER-2012-0166
Revenues for Electric Service)
)

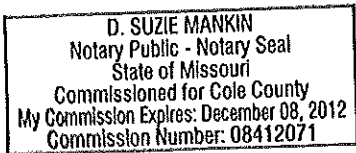
AFFIDAVIT OF GUY C. GILBERT, MS, PE, RG


[illegible]

Guy C. Gilbert, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 13 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


GUY C. GILBERT

Subscribed and sworn to before me this 7th day of September, 2012.




Notary Public