

*Exhibit No.:*  
*Issue:* Depreciation  
*Witness:* Guy C. Gilbert, PE, RG  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* ER-2012-0166  
*Date Testimony Prepared:* August 14, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES**

**REBUTTAL TESTIMONY**

**OF**

**GUY C. GILBERT, PE, RG**

**UNION ELECTRIC COMPANY,**

**d/b/a Ameren Missouri**

**CASE NO. ER-2012-0166**

*Jefferson City, Missouri  
August 2012*

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1           A.     As described on page 18 of Lynn M. Barnes direct testimony, Ameren seeks  
2 an amortization to accrue \$9,772,000 for a period of ten months due to a perceived lag in  
3 depreciation between when new plant is placed in service and when rate recovery including  
4 depreciation and net salvage begin on that plant at the conclusion of a general rate case.

5           Q.     Is this perception of regulatory lag justified?

6           A.     No. The Company has long recognized the necessity of depreciation and a  
7 requirement for the pre-collection of net salvage. In response to document request No. 0130,  
8 the Company states that “for the period October 1, 2010, to September 30, 2011, the portion  
9 of the depreciation accrual in Account 108 attributable to future interim retirements (costs of  
10 removal) totaled \$76,209,396.” Ameren Missouri further states that its “Power Plant  
11 Asset Management system tracks the net salvage component of depreciation expense  
12 separate from the life component of depreciation expense. Because the Power Plant system  
13 tracks this, separate entries are not booked to account for the two separate components of  
14 depreciation expense.”

15           As stated in the above Data Request response, Ameren Missouri has already  
16 pre-collected in one year alone an amount for future interim retirements that is nearly  
17 seven (7) times greater than this new perceived inequity. Ameren Missouri also pre-collects  
18 for the remaining life depreciation assumptions of its production facilities and has considered  
19 a request to pre-collect for final retirements of production plant.

20           Q.     Which is of a larger magnitude, the perceived regulatory lag discussed in  
21 Ameren Missouri’s request or the rate base inflation attributable to regulatory and accounting  
22 lag that you discussed in Staff’s Cost of Service Report beginning on page 144 and ending on  
23 page 155?

1           A.     The rate base inflation discussed in Staff's Cost of Service Report appears to  
2 be of significantly greater magnitude and duration than the delays relating to Ameren  
3 Missouri's amortization request. The regulatory lag Staff discussed in its Report is  
4 attributable to a number of recordkeeping and rule compliance shortcomings that result in a  
5 systemic failure to appropriately record asset additions and retirements. As discussed in  
6 Staff's Report, the retirement delays and poor record keeping result in unearned benefits to  
7 the Company.

8           Q.     Is it appropriate to attempt to be either completely precise or inattentive with  
9 regard to a given aspect of depreciation?

10          A.     No. Ameren Missouri's amortization request seeks absolute precision in  
11 adding plant, while as it operates, Ameren Missouri is failing to apply the prescribed level of  
12 precision in its retirements. If the Commission accepts Ameren Missouri's request, to be  
13 consistent it should (1) implement the Staff's recommendation regarding disallowances for  
14 retired plant still appearing in Ameren Missouri's rate base calculations, and (2) review the  
15 over-accruals already on Ameren Missouri's books.

16          Q.     What over-accruals are already on Ameren Missouri's books?

17          A.     Ameren Missouri currently has the following plant in service and depreciation  
18 reserves through July 31, 2012, as filed in Staffs' direct testimony accounting schedules:

19           Total Plant in Service	\$14,528,776,731
20           Less Accumulated Depreciation Reserve	<u>\$ 6,240,168,710</u>
21           Net Plant in Service	\$ 8,288,608,021

22           \$6.2 Billion ÷ \$14.5 Billion = 43%, so simply stated, 43% of Ameren Missouri's  
23 asset investment has already been returned by ratepayers to shareholders.

1 Q. What does the above analysis indicate for depreciation reserve accruals?

2 A. It is difficult to express an exact number, let alone in the absence of a full  
3 depreciation study, with accurate data<sup>1</sup> (see Staff's direct report). However, for a utility that  
4 is expected to continue providing electric utility service for generations of people to come,  
5 the accumulated depreciation reserve is very large in comparison to the net plant in service.

6 Q. In your opinion and experience, what is a typical level of accrual for an  
7 ongoing utility operation?

8 A. Typically, for an ongoing utility operation that is expected to remain in  
9 service for at least another one hundred years, the depreciation professional as a rule of  
10 thumb would expect the reserve to be in the range of 30% to 40%. Using a mid-point  
11 of 35%, the Company is over-accrued by conservatively \$400 million to \$1 billion.

12 Q. Is Staff recommending an adjustment in this case to reduce the size of the  
13 over-accrual?

14 A. No, Staff is not recommending that at this time. Staff notes that the  
15 Commission did approve a Stipulation and Agreement reflecting a similar amortization of  
16 over-accrued reserve in Case No. EC-2002-1.

17 Q. Is such an amortization appropriate if the Commission approves Ameren  
18 Missouri's requested amortization?

19 A. Yes. If the Commission accepts Ameren Missouri's request to increase  
20 the level of precision applied to the front end of depreciation, the Commission should  
21 similarly increase the precision applied to the back end of depreciation. If the Commission

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<sup>1</sup> As discussed in Staff's Cost of Service Report, Ameren Missouri does not appear to be maintaining its books in conformance with the USOA. At the very least, Ameren Missouri does not provide to Staff upon request the information needed to perform an appropriate depreciation study.

1 accepts Ameren Missouri's amortization request, it should also order Ameren Missouri to  
2 amortize the excess depreciation reserve back to ratepayers over a 10 year period at  
3 \$40 million annually.

4 Q. Are Staff's recommendations contained in its Cost of Service Report  
5 applicable whether or not the Commission accepts Ameren Missouri's amortization request?

6 A. Yes. As recommended in its Cost of Service Revenue Requirement Report at  
7 page 155, the Commission should reduce Ameren Missouri's Missouri jurisdictional  
8 rate base by \$2,528,567. Staff also recommends that the Commission direct Ameren  
9 Missouri to achieve compliance with all applicable depreciation regulations and Commission  
10 orders by June 1, 2013, to avoid prosecution of a complaint by Staff. Finally, Staff  
11 recommends that the Commission authorize Ameren Missouri to establish a new account  
12 numbered as Account 391.003, Enterprise Systems, to be depreciated at an ordered  
13 depreciation rate of 5%.

14 Q. Does this conclude your prepared rebuttal testimony?

15 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 )  
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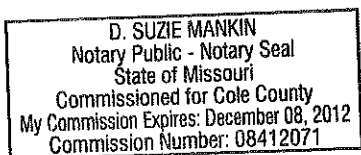
AFFIDAVIT OF GUY C. GILBERT, MS, PE, RG


STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            ss.

Guy C. Gilbert, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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 14<sup>th</sup> day of August, 2012.



  
Notary Public