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April 8, 2002

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Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. EC-2002-1

Missouri Public
Service Commission

FILED³

APR 08 2002

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **RESPONSE TO MOTION TO STRIKE PORTIONS OF THE DIRECT TESTIMONY OF STAFF WITNESS PAUL R. HARRISON OR, IN THE ALTERNATIVE, REQUEST FOR CLARIFICATION OF COMMISSION ORDER.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Robert V. Franson
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RVF:ccl
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

APR 08 2002

Missouri Public
Service Commission

The Staff of the Missouri Public
Service Commission,)

Complainant,)

vs.)

Union Electric Company,)
d/b/a AmerenUE)

Case No. EC-2002-1

**RESPONSE TO MOTION TO STRIKE PORTIONS OF THE DIRECT TESTIMONY OF STAFF WITNESS
PAUL R. HARRISON OR, IN THE ALTERNATIVE, REQUEST FOR CLARIFICATION OF
COMMISSION ORDER**

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its Response to Union Electric Company d/b/a AmerenUE (AmerenUE's) Motion to Strike Portions of the Direct Testimony of Staff Witness Paul R. Harrison Or, in the Alternative, Request for Clarification of Commission Order, respectfully states as follows:

1. The Commission issued its Order Approving Jointly Filed Revised Procedural Schedule on January 3, 2002 (Order). This Order approved a joint request by AmerenUE and Staff that the test year in this proceeding be as ordered by the Commission, the twelve months ended June 30, 2001, and the test year may be updated through September 30, 2001.

2. On March 1, 2002, Staff filed Direct Testimony pursuant to Order Approving Jointly Filed Revised Procedural Schedule.

3. On March 27, 2002, AmerenUE filed its Motion to Strike Portions of the Direct Testimony of Staff Witness Paul R. Harrison Or, in the Alternative, Request for Clarification of

Commission Order (Motion). In the Motion, AmerenUE identifies part of Mr. Harrison's testimony regarding an "issue described as the 'Venice Power Plant Fire Expenditures and Settlements'" (Motion at 1-2). AmerenUE asserts that Mr. Harrison seeks to adjust test year data as a result of an insurance settlement reached and paid after September 30, 2001 (Motion at 2). AmerenUE then asserts that this action violates the Commission Order setting test year and seeks to strike designated portions of Mr. Harrison's testimony or as an alternative, AmerenUE suggests that the Commission could "clarify" its Order to provide that post September 30, 2001 data may be used as a basis for adjusting test year data.

4. Staff first notes that AmerenUE has not complied with Commission Rule 4 CSR 240-2.080(3) in that AmerenUE has not set out the applicable statutory provision or other authority authorizing the striking of testimony prior to hearing.

5. Staff's Venice adjustment utilizes appropriate accounting principles to address a ratemaking issue that has not been explained by AmerenUE in that AmerenUE has failed to set out facts to support its allegation. Staff is seeking to avoid double recovery of costs incurred by AmerenUE as a result of the Venice Power Plant fire and subsequent insurance reimbursement. Staff submits that it is premature for the Commission to rule on the substantive ratemaking issue presented in AmerenUE's Motion prior to full evidentiary development of this issue.

6. Accordingly, Staff will set out the factual background of the "Venice Power Plant Fire Expenditures and Settlements." The relevant portions of Mr. Harrison's testimony is page 7, line 1- through page 10, line 17. The accompanying accounting adjustments S-6.4 and S-11.4 are also subject to AmerenUE's Motion. Other applicable adjustments, though not included in AmerenUE's motion, include: P-3.1; P-6.1 through P-7.1; P-32.1 through P-33.1; P-40.1; and R-6.1.

7. Case No. ES-2001-359 was established by Commission Order on December 26, 2000. This case was specifically opened for the purpose of receiving an Electric Incident Report from the Staff pertaining to the incident which occurred on August 10, 2000 at AmerenUE's Venice Power Plant in Venice, Illinois and receiving AmerenUE's response to the Staff Report. The Order noted that the Staff stated that fire and electrical faults occurred at AmerenUE's Venice Power Plant in Venice, Illinois and that while there were no fatalities or major injuries as a result of the incident, that there was extensive damage to the facilities of AmerenUE.

8. The Non-Proprietary version of the Staff Report filed on January 18, 2002 sets forth extensive details of the incident. The Staff Report relates that the Venice Power Plant is located north of downtown St. Louis, Missouri, on the Mississippi River in Venice, Illinois and is owned and operated by AmerenUE. The plant consists of six (6) generating units whose eight (8) boilers are fueled by oil or natural gas. Unit #1, the first unit of this plant, was completed in 1942 and Unit #6, the last unit, was completed in 1950. Unit #1 and Unit #2 have a capacity of approximately 40 MW each and Units #s 3 through 6 are approximately 90 MW each. This plant has been used as needed to supply electricity during peak periods to meet electric load.

9. All six (6) of the units at Venice were online the afternoon of August 10, 2000. The dispatch center directed the plant to take the units offline at approximately 5:30 p.m. Plant personnel were reducing the load on the units when the hydraulic line ruptured.

10. On Thursday evening, August 10, 2000 at 5:55 p.m., a hydraulic oil line on turbine #1 at AmerenUE's Venice Power Plant ruptured, spilling approximately 3150 gallons of oil. Steam lines in the vicinity ignited the oil and the ensuing fire caused significant damage in and around the plant. Efforts to contain the blaze by plant personnel were not successful due to the intensity of the fire and the smoke in the plant.

11. The oil line is located under the floor and covered by a tread grate. It appears that the oil migrated to the steam driven oil pump where the temperature was high enough to ignite the oil. Operators observed that the oil had pooled on the floor and they thought the oil reservoir was overflowing, not realizing that the line had ruptured. When the oil flashed into a ball of fire, it was determined that the fire could not be controlled and the plant was evacuated. As operators left the building, the other units were tripped offline and they coasted down without damage. Lubrication to bearings from the steam driven system provided sufficient oil to effect a safe shutdown.

12. Local firefighting units responded to the fire but were unable to fight the fire until the electrical fault was isolated. The 138 kV connections to other transmission substations continued to feed the electrical ground fault at Venice. AmerenUE personnel were unable to trip breakers at Venice because the D.C. control system also experienced an electrical ground fault and the batteries were quickly discharged. The timeline of events shows that the last substation was manually disconnected from the 138 kV system at 7:51 p.m. Following this breaker operation at the Hall Street Substation to isolate the fault, firefighters were able to extinguish the fire by 2:00 a.m. on August 11, 2000.

13. While the Non-Proprietary version of the Staff Report did not specify the monetary expenditures for restoring the Venice plant since the numbers were deemed to be Highly Confidential, the following appeared in the Staff Report:

Initially, the plant was secured as air-monitoring equipment was installed to ensure that the environment was safe for workers. As previously stated, a portable transformer was brought in to provide station power and to facilitate cleanup.

Structural repair of the turbine floor has been completed. Damaged cabinets and equipment have been removed. The batteries for the 125-volt D.C. system have been replaced. Installation of new cable to the substation, transformer repair and replacement are underway.

Listed below are the anticipated expenditures for Venice restoration.
Insurance settlement is still pending. (Emphasis supplied).

Unit #1 and Unit #2 were retired by AmerenUE as a result of the incident.

14. From the aforementioned information, it is clear that AmerenUE made expenditures related to fixing, refitting and refurbishing the Venice plant. Mr. Harrison's testimony also makes it clear that AmerenUE booked expenses related to the Venice plant. Some of these expenses were recoverable from insurance and some were not recoverable from insurance. As Mr. Harrison's testimony clearly illustrates, the total insurance recovery for amounts expended that AmerenUE would recover in rates should Mr. Harrison's testimony be excluded as sought by AmerenUE is over \$8 million dollars during the test year. Mr. Harrison made appropriate adjustments to accurately reflect the amount of costs known to be recovered from insurance respecting costs incurred in the test year and update period involving an event that occurred in the test year.

The purpose of a test year is to create or construct a reasonable expected level of earnings, expenses and investment during the future period during which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward (normalized) to exclude unusual or unreasonable items to arrive at a prior allowable level of all the elements of the Company's operations.

Re: Kansas City Power and Light Company, 24 Mo.P.S.C. (N.S.) 386, 391-392 (1981).

15. Staff's position is that it was inappropriate for AmerenUE to book expenditures, recoverable through insurance related to restoring the Venice plant, to expense or plant accounts until the claims were settled. Staff asserts that these amounts should have been booked into a receivables or deferred account, or a reserve adjustment should have been made until bills sent to the insurance company(ies) were paid. Staff made the adjustments to remove the settled part of the expenditures from rate base and net income.

16. Staff had a choice to make regarding how to deal with this matter. Staff did not have to simply accept AmerenUE's incorrect accounting for this matter. Staff could have estimated the amount covered by insurance and thereby made an estimated adjustment or it could have disallowed all of the expenditures above the insurance deductible as recoverable from insurance. Staff chose a conservative approach and offset expenditures by amounts actually recovered from the insurance company(ies). Staff asserts that it is not appropriate for AmerenUE to recover expenditures in rates that are covered by insurance. AmerenUE has never indicated to Staff that its Venice plant expenditures were not recoverable from the applicable insurance company(ies). Staff further asserts that in this particular situation Staff's utilization of actual data is appropriate.

17. Contrary to the assertion of AmerenUE in its Motion, Staff is not taking some event outside the test year and update period to adjust test year and update period data. Instead, Staff is using post-test year and update period data to more accurately quantify an event that occurred within the test year. Staff asserts that it is unacceptable for AmerenUE to seek inclusion in rates of Venice plant expenditures that have been or will be reimbursed through insurance proceeds. Staff's adjustment is necessary to prevent double recovery by AmerenUE.

18. AmerenUE knew that it was entitled to recover its Venice plant costs through insurance proceeds for a major power plant incident during the test year and opted to book actual Venice plant expenditures prior to insurance recoveries. AmerenUE apparently desires that those expenditures be included in rates and the insurance proceeds ignored. Accordingly, AmerenUE should have treated these expenditures as a deferral or a receivable, pending insurance recoveries.

19. Staff is not aware of and AmerenUE does not provide any authority for the proposition that it is inappropriate to use post test-year and update period data to more accurately quantify an event that occurred within the test year that is improperly booked. AmerenUE merely asserts that Staff is prohibited from using any data outside the test year and update period, however, AmerenUE then asserts an exception in a footnote. AmerenUE stated in footnote 1 of its Motion:

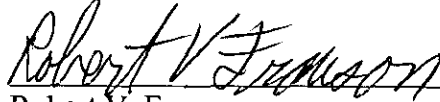
As a matter of clarification, the Company does not object to presentation of post September 30, 2001 data to substantiate trends in a limited number of cost of service items if such evidence is offered merely to support or explain test year data. It is clearly violative of this Commission's Order, however, to use post September 30, 2001 data as a basis for adjusting test year data.

The net effect of AmerenUE's position is to create an exception for AmerenUE to utilize post test year data in some unexplained ways and to recover the Venice expenditures both from insurance and in rates. Staff opposes this approach to ratemaking.

WHEREFORE, Staff respectfully requests that the Commission overrule AmerenUE's Motion and decide this ratemaking issue with all of the ratemaking issues in the case as the issues are presented to the Commission.

Respectfully submitted,

DANA K. JOYCE
General Counsel

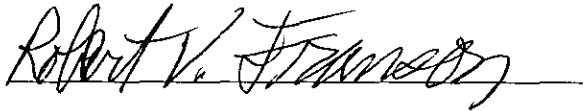


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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 8th day of April, 2002.



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Case No. EC-2002-1
Verified: February 8, 2002 (rr)

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