

Exhibit No.:  
Issues: Depreciation  
Witness: William M. Stout  
Sponsoring Party: Union Electric  
Type of Exhibit: Cross-Surrebuttal Testimony  
Case No.: EC-2002-1  
Date Testimony Prepared: June 24, 2002

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. EC-2002-1**

**CROSS-SURREBUTTAL TESTIMONY**

**OF**

**WILLIAM M. STOUT, P.E.**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY  
d/b/a AmerenUE**

**St. Louis, Missouri  
June, 2002**

1 **CROSS-SURREBUTTAL TESTIMONY**

2 **OF**

3 **WILLIAM M. STOUT, P.E.**

4 **CASE NO. EC-2002-1**

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

6 A. My name is William M. Stout. My business address is 207 Senate Avenue,  
7 Camp Hill, Pennsylvania.

8 **Q. Have you previously submitted testimony in this proceeding?**

9 A. Yes. My Rebuttal Testimony on behalf of AmerenUE was submitted on  
10 May 10, 2002.

11 **Q. What is the purpose of your cross-surrebuttal testimony in this**  
12 **proceeding?**

13 A. My cross-surrebuttal testimony is in response to the Rebuttal Testimony of  
14 James T. Selecky on behalf of Missouri Industrial Energy Consumers. I am recommending  
15 that the Commission reject the net salvage and amortization of the depreciation reserve  
16 variance proposals of Mr. Selecky.

17 **Q. What are the bases for your conclusions regarding the proposals of**  
18 **Mr. Selecky?**

19 A. Mr. Selecky's proposals regarding the treatment of net salvage as an  
20 expense and the amortization of the depreciation reserve variance are nearly identical to the  
21 proposals of Commission Staff witness Jolie L. Mathis. My rebuttal of Ms. Mathis'  
22 proposal for net salvage is set forth on pages 7 through 26 of my Rebuttal Testimony and  
23 my rebuttal of her amortization of the depreciation reserve variance proposal is presented

1 on pages 46 through 49. My comments therein also apply to the proposals of Mr. Selecky  
2 and are the bases for my conclusion that his proposals also should be rejected.

3 **Q. Are there specific statements of Mr. Selecky to which you would like to**  
4 **respond?**

5 A. Yes, there are. Mr. Selecky's statements related to (1) net salvage ratios on  
6 page 3 of his testimony, lines 16 through 20; (2) the impacts of future inflation and  
7 economies of scale on page 6, lines 4 through 8; (3) NARUC support for treating net  
8 salvage as an expense on page 7, lines 27 and 28; and (4) the feed back to the ratepayers of  
9 over collections on page 8, lines 18 through 20 require specific responses.

10 **Q. Please respond to Mr. Selecky's reason for excluding net salvage ratios**  
11 **from depreciation expense as set forth on page 3, lines 16 through 20.**

12 A. Mr. Selecky's reasoning for supporting the exclusion of net salvage from  
13 the traditional whole life depreciation formula is that including net salvage in depreciation  
14 produces depreciation expense that does not reflect the current level of net salvage expense,  
15 but rather "results in collecting future net salvage costs from current ratepayers." This is  
16 not a reason for excluding net salvage from the traditional whole life depreciation formula.  
17 It is merely an observation of an admitted fact. As I explained on pages 15 through 18 of  
18 my Rebuttal Testimony, it is appropriate that the net salvage accrual exceed the net salvage  
19 cost during a period of growth. I also demonstrated in Schedule 6, attached to my Rebuttal  
20 Testimony, that this situation will reverse for the current plant in service and, over time, the  
21 net salvage accruals and net salvage costs will equal one another. Finally, it is equitable to  
22 recover from current customers the cost to remove the current plant in service when it is  
23 retired in the future inasmuch as the current customers are the ones that are being served by

1 this plant.

2           **Q.     Please respond to Mr. Selecky's statement on page 6 that future**  
3 **inflation and the absence of economies of scale explain the difference between net**  
4 **salvage accruals and net salvage costs.**

5           **A.     Mr. Selecky is incorrect. The impact of future inflation has not caused the**  
6 **difference between net salvage accruals and net salvage costs. As I explained on pages 15**  
7 **and 16 of my Rebuttal Testimony, the reasons for the difference between the net salvage**  
8 **accruals and the net salvage costs are system growth and maturity. The net salvage**  
9 **accruals relate to the current plant in service that has grown significantly during the period**  
10 **that the plant being retired was in service. The net salvage costs relate to the plant being**  
11 **retired that was placed in service years ago when the system was much smaller. The net**  
12 **salvage costs were presumably recovered during the period of time that the related plant**  
13 **was in service from the customer base that was served by this plant. The net salvage**  
14 **accruals relate to a much greater amount of plant in service and are being recovered from a**  
15 **much larger customer base.**

16           The estimates of net salvage do not fully incorporate the likely impact of  
17 future inflation. Instead, having been based primarily on the historical indications for the  
18 period 1961 through 2000, they reflect only the level of historical inflation between  
19 installation and retirement for plant retired during this 40-year period. The impact of future  
20 inflation on net salvage as a percent of the original cost of plant retired, as I explained on  
21 pages 18 through 20 of my Rebuttal Testimony, will be greater than the historical impact.  
22 Use of the historical indications, therefore, implies that there will be productivity  
23 improvements that reduce the unit cost of removal.

1                   However, such productivity improvements will most likely come from  
2 technological advances, not economies of scale as suggested by Mr. Selecky. Economies  
3 of scale will not alter the future relationship of net salvage to original cost retired from the  
4 relationship that is inherent in my estimates. In the case of power plants, the net salvage  
5 estimates are based on engineering estimates of decommissioning costs that reflect such  
6 economies. In the case of mass plant accounts, there is not an expectation of "large  
7 retirement activity...during a single year." Further, with respect to the mass plant accounts,  
8 the estimates are based on sufficient retirement history, particularly for the accounts with  
9 significant net salvage accruals.

10           **Q.     On page 7, lines 27 and 28, Mr. Selecky states "It is clear that NARUC**  
11 **supports the procedure of including net salvage as a separate expense." Do you**  
12 **agree with this characterization of NARUC's text Public Utility Depreciation**  
13 **Practices?**

14           **A.     No, I do not agree. As I noted on page 10 of my Rebuttal Testimony, I**  
15 **believe that Public Utility Depreciation Practices actually supports the traditional whole**  
16 **life depreciation formula that includes net salvage. Although the text notes the use of the**  
17 **expensing approach by some commissions, the statements of principle set forth on pages**  
18 **157 through 161 support the incorporation of net salvage in the depreciation formula in**  
19 **order that "customers who benefit from the consumption of plant pay for the cost of that**  
20 **plant, no more, no less." The text also presents a discussion of the manner in which net**  
21 **salvage should be estimated, a discussion that would seem out of place in a text that**  
22 **supported the expensing approach. This discussion concludes with the following:**

1                    “It is believed that an analyst, cognizant of the factors that  
2                    may cause future cost of removal experience to differ from  
3                    that of the past, is able to adequately estimate the future  
4                    cost of removal as a percent of retirements.”<sup>1</sup>

5                    In my opinion, based on both the text and the practice of nearly all state  
6                    commissions, it is disingenuous to suggest that the notation of a practice by “some  
7                    commissions” constitutes support of the expensing approach by NARUC. Instead, a  
8                    review of the entire text suggests to me that the opposite is true.

9                    **Q.     Please comment on Mr. Selecky’s recommendation regarding the**  
10                   **amortization of the variance between the book depreciation reserve and the**  
11                   **calculated accrued depreciation determined by Ms. Mathis.**

12                   A.     On page 8, lines 18 through 20, of his testimony, Mr. Selecky recommends  
13                   that “the Commission should feed back to the ratepayers any over collection of  
14                   depreciation expense that is currently contained in the accumulated depreciation expense.”  
15                   For the same reasons as stated on page 48 of my Rebuttal Testimony, I believe it is  
16                   inappropriate to refund the portion of the reserve variance that relates to the proposed  
17                   radical change in policy with respect to net salvage. Such amounts were collected from  
18                   customers in accordance with Commission policy at the time and such prior ratemaking  
19                   allowances should not be revised retroactively.

20                   **Q.     Does this conclude your cross-surrebuttal testimony?**

21                   A.     Yes, it does.

---

<sup>1</sup>Public Utility Depreciation Practices. Page 161. National Association of Regulatory Utility  
Commissioners. 1996.

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

The Staff of the Missouri Public Service Commission,	)	
	)	
Complainant,	)	
	)	
vs.	)	Case No. EC-2002-1
	)	
Union Electric Company, d/b/a	)	
AmerenUE,	)	
Respondent.	)	

**AFFIDAVIT OF WILLIAM M. STOUT**


**COMMONWEALTH OF PENNSYLVANIA**     )

) ss

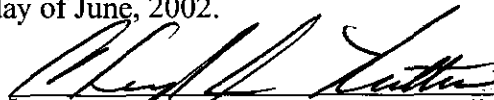
**CITY OF CAMP HILL**     )

William M. Stout, being first duly sworn on his oath, states:

1. My name is William M. Stout. I work in Camp Hill, Pennsylvania and I am employed by Gannett Fleming, Inc. as President of the firm's Valuation and Rate Division.
2. Attached hereto and made a part hereof for all purposes is my Cross-Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 5 pages, which has been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
William M. Stout

Subscribed and sworn to before me this 14th day of June, 2002.

  
Notary Public

My commission expires: FEBRUARY 20, 2003

