

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

In the Matter of Union Electric Company)	
d/b/a AmerenUE for Authority to File)	
Tariffs Increasing Rates for Electric)	Case No. ER-2007-0002
Service Provided to Customers in the)	
Company's Missouri Service Area.)	

**UNION ELECTRIC COMPANY, d/b/a AMERENUE'S RESPONSE TO COMMISSION
ORDER DIRECTING STAFF TO RESPOND REGARDING
TREATMENT OF NET SALVAGE**

COMES NOW Union Electric Company, d/b/a AmerenUE ("AmerenUE" or the "Company"), and in Response to the above-referenced Commission Order issued June 22, 2007, states as follows:

1. The Commission directed the Staff to offer "its opinion on whether the position taken by the Commission in this case regarding net salvage expenses is consistent with the position taken by the Commission in Case Nos. GR-99-315 [the "*Laclede Case*"] and ER-2004-0470 [the "*Empire Case*"]." The Commission also afforded other parties the opportunity to offer their opinions on the same issue. As outlined below, the Commission has followed both the *Laclede Case* and the *Empire Case* to the letter.

2. The *Laclede Case* established the Commission's commitment to utilization of the traditional accrual method for calculating depreciation rates (including a net salvage component), and rejected the non-traditional "expense" method formerly advocated by the Staff. The *Empire Case* reaffirmed the Commission's commitment to the traditional accrual method, and also addressed the Commission's stance on when it would, and would not, include terminal net salvage for non-nuclear production plant in an electric utility's depreciation rates. With respect to terminal net salvage, the Commission outlined its stance in the *Empire Case* Report and Order as follows:

"Second, with respect to Terminal Net Salvage of Production Plant Accounts, this Commission generally has not allowed the accrual of this item. The reason is that

generating plants are rarely retired and any allowance for this item would necessarily be purely speculative. It is true that all depreciation is founded on estimates, but all estimates are not unduly speculative. Just as utility companies plan rate cases around the projected in-service dates of new plants, so Empire can plan around the retirement of its generating plants so that the Net Salvage expense is incurred in the Test Year. Another alternative is the device of the Accounting Authority Order. As already discussed in connection with the Production Account Service Life Issue, there is no evidence that the retirement of any of Empire's plants is imminent and the estimated retirement dates considered in this proceeding are not persuasive. For these reasons, the Commission will not allow the accrual of any amount for Terminal Net Salvage of Production Plants."

Empire Case, Report and Order, p. 53.

In summary, unless the utility presented persuasive evidence of final retirement dates for its plants, terminal net salvage would not be allowed in the utility's depreciation rates for its non-nuclear production plants, according to the *Empire Case*.

3. The Commission was not persuaded by the retirement dates presented in the *Empire Case*, nor was it persuaded by the retirement dates presented in this rate case.¹ Consequently, the Commission rejected the Company's depreciation rates, which included terminal net salvage, and accepted the Staff's depreciation rates, which did not. (Report and Order, p. 89).

4. The Missouri Industrial Energy Consumers ("MIEC"), and MIEC alone, argued in their Application for Rehearing that the Commission had inadvertently included terminal net salvage in the depreciation rates approved for the Company's non-nuclear production plants.² MIEC is simply incorrect. For terminal net salvage to be included in depreciation rates (A) the cost of tearing down the plants at the end of their life must be developed and included in the depreciation rates, (B)

¹ As discussed at page 83 of the Report and Order in this case, the Commission found the Company's attempts to estimate retirement dates for its non-nuclear production plants to be "unconvincing."

² MIEC did not make this argument in its Post-Hearing Brief and raised it for the first time in its Application for Rehearing.

the dates of final retirement for each plant must be calculated, and (C) survivor curves for the plants must be truncated using those final retirement dates.

5. As Staff's own testimony indicates, Staff did not include the cost of tearing down the plants in its depreciation rates, and Staff (and the Commission) rejected the use of any final retirement dates for these plants, and no such final retirement dates were used in calculating Staff's depreciation rates. Consequently, neither (A), nor (B), nor (C) is present in the Staff's depreciation rates adopted by the Commission.

6. Staff depreciation witness Jolie L. Mathis was clear on these points:

Q. Did the Staff determine net salvage for [sic] in this case consistent with the Commission's statements regarding net salvage in its Third Report and Order issued January 11, 2005, in Case No. GR-99-315 (Laclede) and in its March 10, 2005, Report and Order in Case No. ER-2004-0570 (Empire)?

A. Yes . . . [quoting from the *Laclede Case*].

Mathis Direct Testimony, p. 7, l. 15- 19 (Exh. 222).

Moreover, Ms. Mathis, at pages 4 and 5 of her Surrebuttal Testimony (Exh. 223), illustrated that the Company had included both an estimated lifespan (i.e., estimated retirement dates – *see* Box 3 on page 5) and estimated terminal salvage (i.e., the cost to tear down the plants -- *see* Box 1, page 5;) in its depreciation rates, whereas the Staff had included neither of those components in its depreciation rates (*see* diagram on page 4).

7. The bottom line is that if one does not include the costs to tear down the plants when they are retired, and if one does not include retirement dates for the plants, one cannot then include terminal net salvage in their calculated depreciation rates. Staff rejected use of retirement dates and the expense of removal, as illustrated further by the following testimony from Ms. Mathis:

“Q. In Mr. Bill Stout’s [one of the Company’s depreciation witnesses] Rebuttal Testimony . . . he states “Terminal net salvage should be incorporated in the determination of annual depreciation rates for power plants Do you agree with him?

A. No. It is speculative, and not known or measurable, as to both the time dismantling will occur [the retirement dates] and the dollar amount that will be incurred [the tear down costs]. Given this significant uncertainty it is inappropriate for customers to pay the expense of removal at this time.”

Mathis Surrebuttal, p. 5, l. 3-11 (Exh. 223)

Ms. Mathis goes on to quote from the *Empire Case* and criticized AmerenUE for, in Staff’s view, AmerenUE’s failure to adhere to the *Empire Case* respecting terminal net salvage.³ It is obvious that Staff, which itself cited to and relied upon the *Laclede and Empire Cases*, and which did not use retirement dates or removal costs, has followed both the *Laclede and Empire Cases*. It follows that the Commission, which adopted Staff’s depreciation rates for these plants, has also followed those decisions to the letter. The Commission set depreciation rates using Staff’s proposed rates, calculated using the traditional accrual method set forth in the *Laclede and Empire caes*, those rates include no removal costs at the end of the Company’s production plant lives, and the survivor curves used by the Staff in calculating those depreciation rates were not truncated – i.e., no plant retirement dates were used. Consequently, there is no terminal net salvage in the Company’s production plant depreciation rates, just as there was no terminal net salvage allowed in Empire’s production plant depreciation rates in the *Empire Case*.

³ As noted above, the Commission’s decision respecting terminal net salvage in the *Empire Case* was that the evidence relating to retirement dates in that case was unpersuasive, not that the Commission would never consider allowing terminal net salvage if evidence of retirement dates was presented that was persuasive. Consequently, AmerenUE did not “fail to adhere” to the *Empire Case*. Rather, AmerenUE presented evidence that it believed established reasonable dates for retiring its production plants upon which, if the Commission found that evidence to be persuasive, the Commission could have based a decision, consistent with the *Empire Case*, to provide an

WHEREFORE, AmerenUE respectfully submits this Response to the Commission's June 22, 2007 Order.

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allowance for terminal net salvage in the Company's depreciation rates.

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Response was served via e-mail at the e-mail addresses listed below, to the following counsel of record for all of the parties to Public Service Commission Case No. ER-2007-0002, on the 25th day of June, 2007.

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