Exhibit No.:	
Issues:	Fuel Expense, Legal Fees Callaway Refueling, Environmental Expense
Witness:	JOHN P. CASSIDY
Sponsoring Party:	MoPSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	EC-2002-1
Date Testimony Prepared:	July 2, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY, d/b/a AMERENUE

CASE NO. EC-2002-1

Jefferson City, Missouri
July 2001

****Denotes Proprietary Information****

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JOHN P. CASSIDY

UNION ELECTRIC COMPANY,

d/b/a AMERENUE

CASE NO. EC-2002-1

Q. Please state your name and business address.

A. John P. Cassidy, 815 Charter Commons, Suite 100B, Chesterfield, Missouri 63017.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor.

Q. Please describe your educational background.

A. I graduated from Southeast Missouri State University, receiving a Bachelor of Science degree in Business Administration, with a double major in Marketing and Accounting in 1989 and 1990, respectively.

Q. What has been the nature of your duties while in the employ of this Commission?

A. Since joining the Commission Staff in 1990, I have directed or assisted with audits and examinations of the books and records of utility companies operating within the state of Missouri. I have also conducted numerous audits of small water and sewer companies in conjunction with the Commission's informal rate proceedings.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have. Please refer to Schedule 1, which is attached to my direct testimony, for a list of cases in which I have previously filed testimony.

Q. With reference to Case No. EC-2002-1, have you made an examination of the books and records of Union Electric Company, d/b/a AmerenUE (Company or AmerenUE)?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

Q. What is the purpose of your direct testimony?

A. My direct testimony will discuss the following items: fuel expense, Callaway refueling adjustment, legal expense and environmental expense.

Q. What Income Statement adjustments are you sponsoring?

A. I am sponsoring the following adjustments, which appear on Accounting Schedule 10, Adjustments to Income Statement.

Callaway Refueling Adjustment	S-10.1
Fuel Expense	S-10.2
Environmental Expense	S-19.1
Legal Fees	S-19.4

Overview of AmerenUE Electric Generation

Q. Please list the generating facilities that AmerenUE owns and operates for the production of electric power and include a description of each facility.

A. AmerenUE owns the following generating facilities:

Nuclear

Callaway: Callaway is located ten miles southeast of Fulton, Missouri in Callaway County, Missouri. Callaway is AmerenUE's ** ** megawatt net

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generating capacity base load, nuclear power plant which is powered by uranium. The uranium is used in a process called nuclear fission that heats water into steam. The steam, under pressure, spins the blades of a turbine, which in turn spins a generator that creates electricity.

Coal

Labadie Units 1 – 4: Labadie is located near Labadie, Missouri, adjacent to the Missouri River approximately 35 miles west of downtown St. Louis. Labadie is the largest of AmerenUE's fossil fuel plants. Its four coal fired generating units are capable of producing ** ** megawatts. Labadie serves as a base load plant and predominately burns ** **.

Sioux Units 1 – 2: Sioux is located in St. Charles County, Missouri near West Alton, Missouri. Sioux is the third largest of AmerenUE's fossil fuel plants. Its two units are capable of generating ** ** megawatts of electricity. The Sioux plant utilizes coal as its primary fuel source, but also uses petroleum coke and tire chips as supplemental fuel sources.

Rush Island Units 1 – 2: Rush Island is located approximately eight miles south of Festus, Missouri in Jefferson County, Missouri. Rush Island's two units provide ** ** megawatts of total net generating capacity. These plants burn ** ** as their source of fuel.

Meramec Units 1 – 4: Meramec is located on the Mississippi River in South St. Louis County, Missouri. Meramec can deliver ** ** megawatts of electricity with its four generating units. Meramec can burn ** **. However, two of Meramec's units can also be fired for full load

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with natural gas – the only plants in the AmerenUE system that can use both natural gas and coal as fuel sources.

Gas/Oil Units

Venice Units 3 – 6, & Combustion Turbine Generator (CT): Venice is located on the Mississippi River in Venice, Illinois. Venice operates as a "peaking" plant, producing power when needed to meet peak summer demand or compensating for another plant that is down for repairs. The plant operates and maintains one CT at Venice and one jet engine generator in West St. Louis County. On August 10, 2000, a fire occurred at the Venice plant causing Units 1-6 to be forced out of service. Units 5 and 6 were restored on August 30, 2000. Units 3 and 4 are expected back in service sometime during 2001. The Company plans to retire Units 1 and 2 due to the extensive damage. When fire repairs are completed this year, capacity is expected to be at least ** ** megawatts. The Venice plants are powered by natural gas and No. 2 fuel oil.

Meramec – CT 1 – 2: Meramec Unit 1 has a net generating capacity of ** ** megawatts and burns fuel oil, propane and natural gas. Meramec Unit 2 came on line in June of 2000 and provides a net generating capacity of ** ** megawatts and burns fuel oil as its source of fuel. These CT units, as well as the ones discussed below, primarily function as peaking units to meet spikes in electricity demand.

Kirksville – CT: Kirksville has a net generating capacity of ** ** megawatts and uses natural gas as its sole source of fuel.

Viaduct – Cape Girardeau – CT: Viaduct has a net generating capacity of ** ** megawatts and uses natural gas as its only source of fuel.

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Fairgrounds – CT: Fairgrounds has a net generating capacity of ** ** megawatts and burns fuel oil as its only source of fuel.

Howard Bend – CT: Howard Bend has a net generating capacity of ** ** megawatts and burns fuel oil as its sole source of fuel.

Moberly, Mexico & Moreau – CT's: Each of these CTs has a net generating capacity of ** ** megawatts and rely on fuel oil as their only source of fuel.

Hydroelectric

Osage Units 1 – 8: The Osage plant at Bagnell Dam is located in Lakeside, Missouri on the Osage River at the Lake of the Ozarks. Osage provides power through hydroelectricity. As water passes through the dam, the pressure of falling water spins water wheels, which drive generators that produce electricity. Osage has a generating capacity of ** ** megawatts and operates at the least cost of all the energy producers in the AmerenUE system.

Keokuk Units 1 – 15: Keokuk plant and dam are located on the Mississippi River at Keokuk, Iowa. Keokuk has a generating capacity of ** ** megawatts and also provides power through hydroelectricity.

Pumped Storage

Taum Sauk Units 1 – 2: Taum Sauk is located near Lesterville, Missouri in Reynolds County. The plant has a net generating capacity of ** ** megawatts and is used primarily on a peaking basis by being put into operation when the demand for electricity is at its greatest. The pump storage system at Taum Sauk works much like a dam, but is primarily used to meet daily peak power demands for short periods of time and also during emergencies. Water is stored in an upper reservoir and is

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released to flow through turbines into a lower reservoir during these high energy demand periods. As water passes through the powerhouse, water spins the turbines, which drive generators to produce electricity. Then overnight, when the demand for electricity is low, the water is pumped back into the upper reservoir, where it is stored until needed again.

FUEL EXPENSE

Q. What was your responsibility in this case with regard to the area of fuel expense?

A. My responsibility was to provide current fuel prices for both AmerenUE and American Energy Generating Company (Genco), which is an affiliated generation company also owned by AmerenUE's parent corporation, Ameren Corporation, to Staff witness Leon C. Bender of the Engineering Section of the Energy Department. Staff witness Bender input these current fuel prices into the RealTime™ production cost model (production cost model or fuel model). Staff witness Lena M. Mantle of the Energy Department provided to Staff witness Bender the annualized net system load (sales adjusted for line losses and Company use). Please refer to Staff witness Mantle's testimony for a complete discussion of the Staff's calculation of net system load. Staff witness Bender input fuel prices, purchased power data, annualized net system load and other components into the production cost model. The Staff used the production cost model to calculate the annualized fuel and purchased power expense.

Q. How did you determine the fuel prices for each of the Company's generating plants?

A. The Staff obtained actual fuel prices for each of the Company's generating plants from Company fuel reports. The Staff examined fuel prices paid by the Company

during its test year ending June 30, 2000 and also over a three-year period covering January 1, 1998 through December 31, 2000. The Staff used actual fuel prices, which occurred during its update period for the 12 months ending December 31, 2000. The Staff believes that the most recent 12 months of fuel prices are the best available reflection of ongoing fuel costs.

Q. Did you perform other analysis regarding the area of fuel?

A. Yes. Once annualized fuel and purchased power was calculated using the Staff's production cost model, I checked some of the fuel outputs for reasonableness. Staff witness Bender's production cost model appears to be reasonable.

Q. Please explain adjustment S-10.2, which adjusts the Company's level of fuel expense.

A. Adjustment S-10.2 represents the Staff's adjustment to the Company's fuel expense based on the Staff's production cost model. The production cost model performs an hour-by-hour chronological simulation of AmerenUE's generation and power purchases. The model also determines energy costs and fuel consumption necessary to economically meet AmerenUE's load. The Staff's annualized fuel and purchased power energy costs represents the cost of producing and purchasing power to meet the level of megawatt-hour (MWH) sales in the Staff's revenue annualization in this case. For a complete discussion of the Staff's production cost model, please refer to Staff witness Bender's direct testimony.

CALLAWAY REFUELING

Q. Please explain adjustment S-10.1.

A. Adjustment S-10.1 removes ** ** from the Staff's cost of service calculation in order to normalize the Company's refueling of the Callaway nuclear power plant, which occurred during October 1999, within the Staff's test year ending June 30, 2000. The Company refuels the Callaway plant on an eighteen-month cycle. Therefore, the cost of the refueling must be normalized to reflect the amount incurred during an average year. This adjustment removes one third of the costs related to the nuclear plant refueling.

LEGAL FEES

Q. Please explain how the Company accounts for the legal fees that are the subject of the Staff's adjustment.

A. The Company's treatment for these legal fees is based on accrual accounting. Under this accrual basis, the Company maintains a reserve of accumulated funds to pay for legal fees based on estimates of legal fees that the Company anticipates will be incurred rather than for what is actually paid. Accruals to increase the reserve are expensed and actual claims are charged against the reserve balance when paid. The following example shows journal entries that the Company records when it accrues for legal expense and then subsequently pays for legal expense.

Accrual

Debit (DR) Legal Services Expense

Credit (CR) Law Expense Accrual Reserve

Payment

DR Law Expense Accrual Reserve

CR Accounts Payable

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Q. Please explain the Staff's proposed adjustment S-19.4 to legal fees.

A. During the test year ending June 30, 2000, the Company accrued, for Missouri electric operations, approximately ** ** of legal fees; however, the Company actually paid only ** ** for legal fees during the same period. This resulted in an excess accrual of ** ** for the Company's Missouri electric operations, relating to legal fees. By completing adjustment S-19.4, the Staff proposes to remove the ** ** of excess accrual over actual cash payments, in order to treat legal fees under a cash basis approach. Additionally, the test year ** ** level of actual legal expense included by the Staff is ** ** higher than the actual level of legal expense experienced by the Company for the calendar year ending December 31, 2000, which was ** ** The Staff's calculation of adjustment S-19.4 is shown on Schedule 2, which is attached to this direct testimony.

Q. Why does the Staff recommend a cash basis approach for the Company's legal fees?

A. The Staff recommends using a cash basis approach to account for the Company's legal fees in order to eliminate the impact of the excess accrual. The cash approach will include an ongoing level of this expense in the Staff's cost of service calculation based on actual known costs, as opposed to the Company's accrual basis, which relies upon an estimate of what actual future payments and costs will be. The Staff's adjustment is reasonable because it allows the Company recovery of its actual legal fees payments in the context of its cost of service calculation.

ENVIRONMENTAL EXPENSE

Q. Please explain how the Company accounts for environmental expense.

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A. Using an accrual basis of accounting, the Company maintains a reserve of accumulated funds, which are set aside to pay for environmental costs related to clean-up of contaminated sites. The Company charges major expenditures directly against the reserve. Small expenditures are directly expensed, to eliminate the constant adjustment of the reserve amount. The following example demonstrates journal entries that the Company records when accruing and then subsequently paying for environmental expense.

Set up of Reserve

DR Administrative & General Expenses - Miscellaneous

CR Clean-up of Contaminated Facilities - Non-Current Portion

Payment

DR Reserve

CR Accounts Payable

Q. How did the Company account for environmental expense during the test year ending June 30, 2000 and the update period ending December 31, 2000?

A. During the test year and update period, the Company accrued ** ** and ** ** respectively, for environmental expenses. During the test period, the Company charged to expense actual payments of ** ** related to environmental expenses. Approximately ** ** of the ** ** related to an electric transformer spill clean-up, while the remaining ** ** related to a Manufactured Gas Plant (MGP) clean-up in Columbia, Missouri. Also, during the test year the Company received ** ** from United Cities Gas Company for future clean-up of a Manufactured Gas Plant in Keokuk, Iowa. During the update period, the Company charged to expense actual payments of ** **

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related to environmental expenses. Approximately, ** ** of this update period amount related to labor expense that has already been addressed by the Staff through its payroll annualization, leaving ** ** which related to actual non-labor environmental expense. For a complete discussion of the Staff's payroll annualization, see Staff Accounting witness Mark D. Griggs' direct testimony.

Q. How did the Staff treat the expenses paid by AmerenUE, and the payments received by AmerenUE, which related to MGP clean-up during the Staff's test year?

A. The Staff contends that the ** ** of MGP clean-up expense as well as the ** ** of funds received from United Cities Gas Company for future MGP clean-up have been incorrectly booked to electric operations, and should instead be booked to AmerenUE gas operations. This left a negative ** ** of cash payments and receipts in environmental expense for the test year. Since the MGP clean-up amounts relate to AmerenUE's gas operations, the Staff removed the negative balance of environmental cash payments and receipts totaling ** ** in the context of adjustment S-19.1, which is explained next.

Q. Please explain the Staff's adjustment S-19.1 to the Company's environmental expense.

A. The Staff believes that the ** ** which relates to actual non-labor environmental expense, that the Company incurred during the twelve months ending December 31, 2000, should be included in the cost of service calculation as an ongoing level of electric environmental expense. By including the update period level of actual expense of ** ** which is greater than the ** ** level that was incurred by the Company during the test year, the Staff is attempting to be conservative in its

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treatment of actual non-labor related environmental expenses. The Staff has prepared the following chart which shows the Company's annual level of accrual as well as total accrued balance for environmental expense as compared to levels of actual cash payments for environmental expense for the twelve-month periods ending June 30, 1993 through June 30, 2000 as well as for the update period for the calendar year ending December 31, 2000:

**

**

This chart shows that by the end of the Staff's update period, the Company had a total accrued balance of ** ** but had only cumulatively paid ** ** for actual non-labor related electric environmental clean-up costs since July 1, 1992. The calculation for Staff adjustment S-19.1 is shown below:

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Staff's adjustment S-19.1 proposes to remove the ** ** of excess environmental expense accrual made by the Company in order to treat environmental expenses under a cash basis approach. Please refer to the Staff's workpaper for environmental expense, which is attached to this direct testimony as Schedule 3.

Q. Why does the Staff recommend a cash basis approach for the Company's environmental expenses?

A. The Staff recommends using a cash basis approach to account for the Company's environmental expenses in order to eliminate the impact of the ** ** of excess accrual from its cost of service calculation. Since 1992, the Company has not actually incurred a level of expense to justify this level of accruals that it has booked. By continuing to over accrue in this manner, the customer's rates are subject to being increased unnecessarily for activities that are not actually being performed. The cash approach proposed by the Staff will provide a determination of rates based on actual known costs as opposed to the Company's accrual basis, which relies upon an estimate of what actual future payments and costs may be.

Q. What explanation has the Company provided for its environmental accruals?

A. The Company has indicated that it needs to make accruals now for future environmental costs. The Staff believes this is unreasonable because the actual timing and the amount of these expenditures are still largely unknown. Another variable that must be considered is how much money from other entities liable for the clean-up, as well as insurance proceeds, will be available to AmerenUE in order to help fund any possible future environmental costs. The United Cities Gas Company payment that the

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Company received demonstrates this point, even though it applies to AmerenUE gas operations.

Q. Does this conclude your direct testimony at this time?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JOHN P. CASSIDY

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

John P. Cassidy, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 14 pages to be presented in the above case; that the answers in the foregoing Direct 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.

John P. Cassidy

Subscribed and sworn to before me this 29th day of June, 2001

Notary Public

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

RATE CASE PROCEEDING PARTICIPATION

JOHN P. CASSIDY

COMPANY	CASE NO.
Missouri Cities Water Company	WR-91-172
Missouri Cities Water Company	SR-91-174
St. Louis County Water Company	WR-91-361
Southwestern Bell Telephone Company	TC-93-224
Laclede Gas Company	GR-94-220
Empire District Electric Company	ER-95-279
Imperial Utility Corporation	SC-96-247
St. Louis County Water Company	WR-97-382
Laclede Gas Company	GR-98-374
United Water Missouri, Inc.	WR-99-326
Union Electric Company	EC-2000-795
Union Electric Company	GR-2000-512

Schedule 1

SCHEDULE 2

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY

SCHEDULE 3

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY