ERRATA SHEET

Deposition of: Jolie Mathis

Case Caption: EC-2002-1

Date Taken: November 27, 2001

Page	Line	Correction	Reason
7	4	"532" instead of "032"	Typo
8	18	"changes in the schedule I named" should be inserted between the words "Yes" and "that"	Unclear answer
11	7	"principles" instead of "principals"	Typo
13	18	Insert the word "annual" so the words should be: "decrease in annual accrual"	Type of accrual clarification
19	7, 14	"inter-generational" instead of "inner-generational"	Typo
28	20	"Iowa State" instead of just "Iowa"	To distinguish the school
53	4	"has applied" instead of "is applied"	Typo
53	6	"than previously" instead of "that previously"	Typo
55	4	"Yes" instead of "I don't know."	Correction
69	22	Change to: "I know that's what I did, look at 3 year and 5 year averages."	Correction
70	24	Change to: "I discussed the 3 year and 5 year averages."	Correction
72	12	"Black and Veatch" instead of "Blacken Veatch"	Typo
72	20	"Kalamazoo" instead of "Kalamazoon"	Typo

Jolie Mathis

Signature

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Page	Line	Correction	Reason
81	19	"Penn Sheraton" instead of "Penn Sheridan"	Typo
82	2	"Penn Sheraton" instead of "Penn Sheridan"	Typo
82	5	"Penn Sheraton" instead of "Penn Sheridan"	Typo
113	14	"in service" instead of "end service"	Typo
123	18	"look" instead of "looking"	Typo
129	19	"Penn Sheraton" instead of "Penn Sheridan"	Typo

Jolie Mathis
Signature

(This is the signature page to the deposition of Jolie Mathis taken on November 27, 2001.)

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Jolie Mathis, do hereby certify:

That I have read the foregoing deposition;

That I have made such changes in form and/or substance on the attached errata sheet(s), as might be necessary to render the same true and correct;

That having made such changes thereon, I hereby subscribe my name to the deposition.

Executed this 28th day of March, 2002,

at Jefferson City, Cole County, Missouri

Jolie Mathis
(Name)

SHARON S WILES
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 23,2002

My Commission Expires: ______________________

Notary Public: Sharon S. Wiles

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION vs. UNION ELECTRIC CO., d/b/a AmerenUE, CASE NO. EC-2002-1

ORIGINAL

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

DEPOSITION OF JOLIE MATHIS
taken on behalf of the Respondent
November 27, 2001

ASSOCIATED COURT REPORTERS

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INDEX OF QUESTIONERS

INDEX OF EXHIBITS

No Exhibits were proffered.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

DEPOSITION OF WITNESS, JOLIE MATHIS, produced, sworn, and examined on the 27th day of November, 2001, between the hours of eight o'clock in the forenoon and six o'clock in the afternoon on that day, at the offices of 200 Madison, Suite 810, Jefferson City, Missouri, before DEANNE M. LAKE, a Registered Professional Reporter, Certified Shorthand Reporter and Notary Public, in a certain cause now pending Before the Public Service Commission of the State of Missouri, wherein The Staff of the Missouri Public Service Commission is the Complainant and Union Electric Company, d/b/a Ameren UE is the Respondent.

A P P E A R A N C E S

For the Complainant:

Mr. Thomas Schwarz, Jr.
Governor Office Building
Suite 800
200 Madison Street
PO Box 360
Jefferson City, Missouri 65102-0360
573-751-5239

Also present:
Mr. Greg Meyer
Ms. Lena Mantle
Mr. Paul Adams
Ms. Lisa Kremer

For the Respondent:

Mr. Tom Byrne
Ameren Services
One Ameren Plaza
1901 Chouteau Avenue
PO Box 66149, MC 1310
St. Louis, Missouri 63166-6149
314-554-2237

Also present:
Mr. John Wiedmayer
Mr. Robert Kenney
Ms. Suedeen G. Kelly

IT IS HEREBY STIPULATED AND AGREED, by and between counsel for the Complainant and counsel for the Respondent that this deposition may be taken in shorthand by DeAnne M. Lake, a Certified Shorthand Reporter, Registered Professional Reporter and Notary Public, and afterwards transcribed into typewriting; and the signature of the witness is expressly reserved.

* * * * *

JOLIE MATHIS,

of lawful age, produced, sworn, and examined on behalf of the RESPONDENT, deposes and says:

* * * * *

MR. BYRNE: My name is Tom Byrne, and I am an attorney for Union Electric Company doing business as Ameren UE. Today we are here to take the deposition of Jolie Mathis of the Missouri Public Service Commission staff in Missouri Public Service case number EC-2002-1.

Present in the room in addition to myself and the court reporter and Ms. Mathis are Tim Schwarz, Greg Meyer, Paul Adam, Lena Mantle, Lisa Kremer, all from the Commission staff, and there is Bob Kenney and John Wiedmayer who are representing Ameren UE.

DIRECT-EXAMINATION

QUESTIONS BY MR. BYRNE:

Q. Could you, please, state your name?

A. Jolie Mathis.

Q. Ms. Mathis, I would like to ask you a couple preliminary questions before we get started. First of all, have you ever been deposed before?

A. No, I have not.

Q. Okay. Well, if you don't hear one of my questions or if you don't completely understand the question, one thing I would ask is if you would ask me to either repeat it or clarify it. Can you do that?

A. Yes.

Q. Okay. Are you taking any medications that might affect your ability to answer questions or understand my questions today?

A. No.

Q. To your knowledge, is there any other factor that might impair your ability to understand the questions or answer them this morning?

A. No.

Q. Okay. And I guess I would also like to maybe set up some -- define some terms up front that will probably be used in the deposition. If I say UE or Ameren UE, I am talking about Union Electric Company. Is that okay with you?

A. Yes.

Q. And if I say Ameren, I would be referring to the parent corporation, Ameren Corporation. Is that okay?

A. Yes.

Q. I guess the last preliminary thing is if you would like to take a break at any time, just say so, you know. We can take whatever breaks you want to take. Okay.

By whom are you employed, Ms. Mathis?

A. The Missouri Public Service Commission.

Q. And in what capacity are you employed with the Commission?

A. I work as a depreciation engineer.

Q. And are you the same Jolie Mathis that filed direct testimony in case number EC-2002-1 on the subject of depreciation of plant that consists of 16 pages and 4 schedules?

A. Yes.

Q. Do you have a copy of your testimony with you?

A. Yes, I do.

Q. Okay. Do you -- before we started the deposition, you identified some changes. Could you identify those changes that you are proposing to make to your testimony for the deposition?

A. Sure. On page 4, line 20, instead of 25 out of the 50 accounts, it should be 24 out of the 50 accounts. Line 22, it should be the other 26 accounts. Page 5, line 5, instead of 56 percent, it should be 43 percent. Page 14, line 16, 45 percent should be 19 percent.

Q. 19 percent.

A. Yes. Line 17, 25 percent should be 10 percent. Page 15, line 7, instead of 220,925,032, it should be 222,515,744. Line 11, instead of the 220 million, it should be again 222,515,744, and instead of the 229 million, it should be $231,559,076. Line 16 should be -- instead of the 28 million, it should be 27,151,279, and then on the schedule on the second page of my schedule --

Q. Which schedule is that?

A. Schedule 2, schedule 2-2. Account 371, instead of 2.70 percent, it should be 3.23 percent.

Q. Which column are you --

A. I'm sorry. Under staff proposal under depreciation rate.

Q. Okay. So the --

A. 2.70 should be 3.23 percent.

Q. Okay.

A. Account 373, same column; the 4.35 percent should be 3.57 percent. Account 391, same column; the 7.60 percent should be 8.06 percent. Account 392; 9.09 percent should be 11.11 percent.

Q. Is that all the changes?

A. Except for the column changes, the column totals at the end of staff's annual accrual. That should make that

222,515,744 and that would make column total for the increase or decrease in accrual 36,194,611.

Q. Can you say that number again?

A. 36,194,611.

Q. And it is negative, in parentheses; is that right?

A. Yes. And finally in the last column, total, the number should be 5,912,419.

Q. Again in parentheses?

A. In parentheses.

Q. Yes. Sorry to do this, but what is the number that replaces 220,920,000?

A. It is 222,515,744.

Q. Okay. I would like to ask you why you made the changes that you just recited. Let me ask it this way. Would it be fair to say that the changes in the body of your testimony either just reflect changes in that schedule that you named or they're corrections to mathematical mistakes?

A. Yes, that would be correct.

Q. So the only substantive changes you made were in the depreciation rates in that schedule 2.2.

A. Yes.

Q. Okay. Why did you make those changes?

A. Actually, for those accounts, it was simply a misprint.

Q. Okay. So you didn't change the theory or anything else you did.

A. No.

Q. It was just a misprint.

A. Right.

Q. Sort of taking --

A. A matter of reporting from the output of the software. It's just a misprint.

Q. Okay. Okay. According to your testimony, you have been employed with the Commission since 1984 -- or 1994, right after you graduated from college; is that correct?

A. A year after I graduated from college. Yes.

Q. Okay. Did you hold any jobs related to the issue that you are testifying to in case number EC-2002-1 prior to your employment with the Commission?

A. No, I did not.

Q. Okay. Could you briefly explain what positions you have held at the Commission since 1994 and what duties you performed in each position?

A. I have held the same position that I hold now, which is depreciation engineer, and I primarily do depreciation studies in all areas, electric, water and sewer, gas and so forth.

Q. Okay. And could you explain where your current position fits into the Commission's organizational chart?

For example, who is your supervisor?

A. My supervisor is Lisa Kremer, and she is the manager of the engineering and management services department, and then above her is Bob Schallenburg, who is the utility services department director -- or division director, and I guess above him would be the executive director which is now --

Q. That is okay. And then the executive director reports --

A. To the Commission.

Q. Okay. Let me ask you what is the relationship between your department and the Commission staff accounting department, if any? Is there a relationship within the organization?

A. There is not really a formal relationship, an informal relationship in that a lot of times we will get together and discuss different accounting issues relating to depreciation, but not an official relationship.

Q. There is no reporting relationship like --

A. No.

Q. You neither report to the accounting department, nor do they report to your department; is that true?

A. Right.

Q. Okay. But I guess you're on parallel tracks leading up to Bob Schallenburg probably; is that --

A. Yes.

Q. Okay. I would like to start out by asking you some general questions about your understanding of some of the purposes of the regulation of public utility such as Ameren UE.

Would you agree with me that one of the key principals of public utility regulation is that public utilities should have the opportunity to earn a fair rate of return?

A. Yes.

Q. And would you agree with me that the opportunity to earn a fair rate of return is affected not only by the rate of return that's allowed by the Commission, but also by the costs that are allowed to be reflected in rates?

A. Yes.

Q. In other words, if a utility had actual cost of $500,000,000, but it was only permitted to recover $100,000,000 through its rates, wouldn't it be very likely to be unable to return its authorized rate of return, whatever that was?

A. I don't know.

Q. Would you agree with the statement that it is very important to set rates at a level which reflect the cost of providing service in a reasonable and efficient manner?

A. Yes.

Q. Would you agree that it is improper for a Commission, such as the Missouri Public Service Commission, to knowingly under include those costs in setting rates, and by "those costs" I mean the costs of providing service in a reasonable and efficient manner?

A. Could you repeat that?

Q. Okay. I don't know if I can.

(Wherein, the requested question was read back.)

Q. (By Mr. Byrne) Let me try it again. Would you agree that it is improper for a commission, such as the Missouri Public Service Commission, to knowingly under include costs, those costs in developing rates, and by "those costs" I mean the cost of providing service in a reasonable and efficient manner?

A. I guess it would be hard for me to comment on what is proper for the Commission to do.

Q. So you don't have an opinion on that.

A. I just don't -- I don't know.

Q. Okay. Looking at this case specifically, and I mean case number EC-2002-1, do you know what the staff's overall proposal is?

A. No, I do not.

Q. You don't know the amount of the proposed rate reduction.

A. I don't recall at this time.

Q. Okay. Do you know how the depreciation issues that you are testifying on affect the overall staff recommendation?

A. No.

Q. Do you know the dollar value of the net salvage issue in this case?

A. Yes, I do.

Q. What is the dollar value?

A. Approximately 30 million is due to net salvage in my proposal.

Q. And are you referring to one of the schedules in that 30 million dollar number?

A. Actually, that was an individual computation. After you -- are you on that page now?

Q. Which page?

A. Schedule 2-2.

Q. Yes.

A. I am recommending a decrease in accrual of 36 million, and 6 million of that is due to life changes. 30 million is due to salvage. 30 million is not on there, but that is subtraction, 36 million minus the 6 million.

Q. Okay. And then is 36 million -- well, is the 6 million the other depreciation issues aside from the net salvage issue?

A. Yes.

Q. And are those amounts, 30 million dollars and 6 million dollars, changes from the existing depreciation rates that the company has?
A. Yes.
Q. Okay.
A. Well, in some accounts, not all accounts.
Q. Okay. Some accounts still have the same depreciation rates and others changed; is that right?
A. Well, actually, no. All of them have changes. I am sorry.
Q. Okay. But the point is -- the point I am trying to make is 36 million dollars reflects the difference between your proposal and the existing depreciation rates of the company; is that correct?
A. That's correct.
Q. Okay. If the staff's proposal in the case is adopted, have you considered what impact it will have on Ameren UE?
A. No.
Q. Do you know what impact it would have on Ameren UE's ability to invest in infrastructure?
A. No.
Q. Do you know what impact it would have on Ameren UE's ability to provide adequate security for its facilities?

A. No.

Q. Do you know what impact it would have on the company's stock price?

A. No.

Q. Do you know what impact it would have on the company's ability to pay a dividend to its shareholders?

A. No.

Q. Do you know what impact it would have on the company's ability to attract capital?

A. No.

Q. And you didn't consider any of these impacts when you wrote your testimony.

A. No.

Q. In your opinion, would it be a good thing if the Commission took an action that impaired Ameren UE's ability to invest in infrastructure?

A. Could you repeat that?

Q. In your opinion, would it be a good thing if the Commission took an action that impaired Ameren UE's ability to invest in infrastructure?

A. I don't know.

Q. Are you familiar with the recent state of utility mergers which has swept across the United States in the recent years?

A. Yes.

Q. Do you know whether the staff's proposal, if adopted, would make Ameren UE a more likely target for a takeover by an out of state purchaser?

A. I don't know.

Q. Did you consider that issue when you wrote your testimony?

A. No.

Q. Do you think it would be good policy for the Commission to take an action that would subject Ameren UE to a greater likelihood of being taken over by an out of state purchaser?

A. I don't know.

Q. Are you generally familiar with the alternative regulation plan that UE had in effect until just recently known as the EARP, which I think stands for Experimental Alternative Regulation Plan?

A. Generally, yes.

Q. Do you know how long that plan was in effect?

A. I can't recall at this time.

Q. Was it several years if you know?

A. I don't know.

Q. Okay. Do you know generally what the terms of that Alternative Regulation Plan were?

A. I don't know the details, no.

Q. Do you know if rates for customers increased or

decreased when that plan was in effect?
A. I don't know.
Q. Okay. Do you know if Ameren UE had excess earnings during the period the plan was in effect?
A. I don't know.
Q. In your opinion, is it appropriate for the Commission to take into consideration in this case any excess earnings or under earnings which Ameren UE may have realized under that EARP?
A. I don't know.
Q. So it might be okay for the Commission to take that into consideration in this case?
A. No. I just simply don't know.
Q. Okay. Okay. Now, looking more specifically at your direct testimony, can you explain to me what you are trying to measure or determine for purposes of this case?
A. I am trying to measure the appropriate depreciation rate for each account.
Q. Okay. In determining the appropriate depreciation rates, is your primary goal to protect rate payers from paying high rates?
A. No.
Q. What is your primary goal?
A. To make sure that for each account the company is able to recover the original cost of plant over the life of

that plant.

Q. Let me ask you a broader question. What is the purpose of depreciation in accounting if you know?

A. The purpose of depreciation in accounting is to allocate the original cost a plant over the life of that plant.

Q. Would a fair statement be that the purpose is to allocate the full cost of a capital asset over the useful life of that asset?

A. Yes.

Q. Why do we want to do that? Why shouldn't -- when a capital asset goes into service in a particular year, why shouldn't we just charge the full cost of that asset to the rate payers in that year?

A. Because that would be too high of a rate for a customer to pay. You want to spread it over the life of the plant in equal amounts so that customers can pay their fair share.

Q. Is it because customers in future years will get use out of that plant during its useful life, and therefore, they should pay a proportionate share of the cost of that plant?

A. Would you say that again?

(Wherein, the requested question was read back.)

THE WITNESS: Yes.

Q. (By Mr. Byrne) And isn't it true that the customer base from year to year changes as customers come on the system or leave the system so that it is not the same customer base paying the cost from year to year; is that true?

A. That's true.

Q. Are you familiar with the term inner generational equity?

A. Yes.

Q. Do you know what it means?

A. It is making sure that -- I don't have a definition. No.

Q. Let me propose one and see if you agree with it. Would it be fair to say that the point of inner generational equity is that you shouldn't have one generation of customers subsidizing another generation of customers by paying costs that are properly attributable to that other generation of customers?

A. I guess my understanding of it is that each customer pays their fair share of rates from generation to generation.

Q. And so customers at a particular point in time shouldn't -- should neither be subsidized nor should they subsidize the customers that came before or after them. Is that fair to say?

A. I am not sure about the subsidizing.
Q. Well, okay. I mean, isn't that just what it is, though; that there should be no subsidies running either way from one generation of customers to another? Each generation should pay the appropriate costs for plant that they use?
A. Yes.
Q. Did you conduct a depreciation study in this case?
A. Yes, I did.
Q. How many depreciation studies have you conducted in your career with the Commission, if you know?
A. I would estimate four.
Q. Four.
A. Five.
Q. Were they in electric cases?
A. No.
Q. So this is your first depreciation study in an electric case.
A. Yes.
Q. Okay. Did anyone help you conduct the depreciation study?
A. When you say, "help," what do you mean?
Q. I don't know. Provide you any assistance I guess.
A. Sure. People in my department.
Q. Okay. Like who for example?

A. Paul Adam, Rosella Schad.
Q. And in what way did Paul Adam and Rosella Schad help you with this depreciation study?
A. Just generally to discuss the approach to net salvage and perhaps talking about different lives of plant.
Q. Okay. Did anyone directly supervise you while you were doing this depreciation study?
A. Outside of my supervisor, Lisa Kremer, no.
Q. And was Lisa Kremer very active in working on the details of this depreciation study?
A. No. I would not say that.
Q. Do you know if Paul Adam or Rosella Schad have conducted depreciation studies for electric utilities?
A. I believe Paul Adam has.
Q. Okay. I guess what I would like to do is have you take me step by step through what you did in your depreciation study. So, I guess, what was the first step in your depreciation study? Did you obtain data from the company?
A. Yes. That's the first step.
Q. Okay. What data did you obtain from the company?
A. Well, actually, I used the data that was filed before the Commission in, I believe, 1996, which included up to year end 1995 data.
Q. Okay. And was that in the normal -- I mean, was

that in the every five years depreciation filing that the company is required to make; is that right?

A. Yes.

Q. So you didn't go ask the company for any data. You just took what they had filed in 1996; is that right?

A. No. Actually, I did ask for more updated data through the year 1998.

Q. Okay. And did you ever receive that data?

A. At the time that I requested within the 20 day period, no. They objected -- or I don't know if they objected. I might be thinking of another case.

But they stated because of their filing in January of '97, that they were not due to file one until January of 2002, and so they refused to provide the data at that time.

Q. Okay. Is it possible that they didn't have the data at that time?

A. No. I think they had it.

Q. Why do you think they had it?

A. Because I think the company is responsible to update their database every year.

Q. Okay.

A. And they keep that on record. They have the data.

Q. Did you eventually get updated data from the company?

A. Yes, I did, but this was after I wrote testimony.

This was probably about a month ago.

Q. A month ago.

A. Uh-huh.

Q. And when did you -- you wrote your testimony -- I guess it was filed in --

A. July.

Q. July 2 I think it was.

A. Yes.

Q. Okay. And so you think you got the updated data perhaps a month ago, which would be mid to late October; is that right?

A. I think that's right.

Q. Okay. Do you plan to update your depreciation study to incorporate the updated data that the company recently provided you?

A. Yes, I do.

Q. And are you in the process of doing that now?

A. Not right now. No.

Q. Okay. When do you plan to do it?

A. As soon as I finish another case.

Q. Okay. What is the other case?

A. Missouri Public Service.

Q. Is it a rate case?

A. Yes.

Q. Are you doing a depreciation study in that case too?

A. Yes.

Q. Do you have any idea when you will be able to do the update to your study in this case?

A. It will take at least two months, and I am probably going to start at the end of next week.

Q. So then you would be done by -- if you did start -- if you were able to start by the end of next week, I guess you would be done by the end of January or beginning of February; is that right?

A. It is possible if I don't have any other outstanding issues with other cases.

Q. Okay. So when you say it will take two months, that's assuming you can concentrate pretty exclusively on --

A. Normally, we like to have a week per account. So that would probably make it -- well, depending on the data on some of the accounts that I did not have a curve fit on, a few more years may give me a curve fit that I didn't have before, which would extend it even longer and maybe --

Q. How many accounts?

A. -- three months.

Q. Sorry. How many accounts are there for Ameren UE?

A. 50.

Q. So if you would like to have a week per account, that is, like, a year.

A. Well, I would be -- no. I would work within the deadlines of the case.
Q. How long did it take you to do your depreciation study that you filed with your testimony?
A. I actually worked on it off and on probably for seven, eight months.
Q. But you were doing other cases at the same time.
A. Right.
Q. Did you have -- how did it fit in the priority of things that you were doing during that seven or eight month period?
A. It was top priority.
Q. Did you have any other rate cases that you were working on?
A. I had some small water and sewer cases.
Q. Did you have any other major projects that you can think of that you were working on?
A. No.
Q. Let me ask you, when the company provided updated data, what period did it cover?
A. Up to year end 2000.
Q. When you update your depreciation study, do you plan to file it as part of your testimony in this case?
A. I would like to. Yes.
Q. Do you think it would be appropriate for you to be

allowed to do that?

A. Yes, I do.

Q. Why is it better to use more updated data?

A. Considering the fact that this is 2001, we would like to have the most recent data, because there could be a significant increase in dollar amount from 1995 to 2000 in some accounts.

Q. Is 1995 data relatively stale compared to the data that you have used in other depreciation studies?

A. Relatively stale.

Q. Relatively old compared to the data that you usually use in depreciation studies.

A. Yes.

Q. Have you ever done a depreciation study using data that is six years old, that ends six years old?

A. No.

Q. You may have answered this previously, but let me ask it again anyway. In your opinion, how often should a utility like Ameren UE conduct a depreciation study?

A. I think they should conduct a study, according to the rule, every five years.

Q. Okay. And that's a Commission rule that requires us to file a depreciation study with the Commission; is that right?

A. Yes.

Q. But you also say that -- didn't you also say that the company ought to be updating its depreciation records every year; is that true?

A. Yes.

Q. What is wrong with just continuing to use the same depreciation rates once they are established? Doesn't it all come out even in the end anyway?

A. No. Because so many changes are made to the utility plant. You could have major projects going on that could increase your rate base. Because of additions and retirement activities, it is important to analyze your depreciation rates frequently so that it best reflects your current plant.

Q. Okay. Let's go back to your depreciation study. I guess you had the data from the 1995 filing; is that correct?

A. That's correct.

Q. What did you do with that data?

A. I uploaded it on my computer, and using Gannett-Fleming software, I began to -- I began my depreciation analysis on account by account basis, and also, I took plant tours of several facilities for Ameren UE, Sioux, Labadie, Rush Island, Osage, Taum Sauk, Meramec.

Q. Okay. Let me back up and talk about the Gannett-Fleming program. The Gannett-Flemming program is a computer software program; is that correct?

A. That's correct.

Q. And you bought it from Gannett-Fleming; is that right?

A. PSC did. Yes.

Q. PSC did. Okay. And what does that program do if you can tell me?

A. Well, it has several programs within the program. Like, for instance, you can start up with audit which will audit the database and make sure that everything is coded correctly according to whether it is a retirement or addition or so forth.

Deprate is a software that takes your life input and your salvage input and comes up with a depreciation rate and theoretical reserve, and it also looks at graphs, survivor curves, compares that to Iowa curves to come up with the appropriate average service life.

Q. What is an Iowa curve?

A. An Iowa curve is -- it is a system of curves set up by the Iowa engineering experiment station back in the '20s based on industrial property mortality, and it's used to compare to actual curves that are produced from retirement activity in the database to come up with the average service life.

Q. So let me see if I understand this. I might not.

You take the company's information about its actual retirements in each account -- is that where you start -- and feed those into the Gannett-Fleming computer model, and then the Gannett-Fleming computer model attempts to match an Iowa curve -- an Iowa survivor curve to the data that you've fed in. Is that true?

A. Well, for each particular account, it will take retirement activity, account balances, ending balances, beginning balances, primarily retirement activity, plots, percent surviving, which forms a curve.

Q. And that is a survivor curve.

A. Yes.

Q. Okay.

A. And that curve is compared to an Iowa curve that would represent, say, maybe a 25 year life. If it closely matches that, then that's the average service life that you would choose.

Q. So there is a whole bunch of these Iowa curves, right?

A. I believe like 165.

Q. Okay. And each one -- well, depending on which curve you select, that tells you what the average service life for the account is; is that correct?

A. That's correct.

Q. And so then not to be belabor this, but I don't understand it. So the computer takes the company's actual retirement experience in each account and it finds which one of the 160 Iowa survivor curves is most appropriate given that actual retirement data; is that true?

A. There is a program called Retrate, which lists the retirement activity, which gives you -- it will produce a set of curves that -- it will output a set of curves that it thinks best fits, and from that table, you select which one has -- according to the lowest residual measure, and the residual measure is like a --

Q. Is it a mathematical calculation?

A. It is a mathematical calculation, and the lower residual measure that you have, the more likely it is to fit that curve.

Q. Is it sort of a mathematical measure of how closely the actual data that the company has, how closely that fits --

A. Yes.

Q. -- each of the survivor curves?

A. Yes.

Q. And do you do that mathematical calculation, or does the computer model do it for you?

A. The computer model does it, and we look -- not only do we look at that, but we also look at it visually, because it may say mathematically that it fits, but we may look at it visually and say, well, no, let me try S2 45 years instead of an S2 35 year.

Q. And those are different types of Iowa curves --

A. Yes.

Q. -- S2 45 years versus S2 30 years.

A. Yes. And we also, when we go out to companies and talk to plant personnel, they may -- we also consider, when we talk to engineers, what they are talking about with regard to the life of the property. So we look at all those three things.

Q. Okay. Sometimes for some accounts is the Gannett-Fleming computer model unable to find an Iowa type curve that matches the company's retirement data?

A. Well, there are some accounts where you don't have enough retirement activity or enough plots to be able to gain a good fit. So, like, you may have a residual measure that is, like, six point something, and that is not something you would choose, because looking at it visually, it would be totally off.

Q. Okay. How many of the company's 50 accounts fell in -- I think it is 51 accounts actually, but how many of the accounts fell into the category that there wasn't an adequate Iowa curve to match?

A. I would say about half.

Q. About half. Okay. Let me talk about the other half, the half where they did have a curve that fit. Okay. My understanding is for those -- for that half of the accounts, computer model output was a list of Iowa curves that would be good candidates to fit that data, and then you could look at that list, and the computer model would tell you which curve had the best mathematical fit with the data; is that right?

A. Yes, but normally, it is usually only two or three --

Q. Two or three curves.

A. -- that would normally end up being a good fit. The rest are usually -- can be way off.

Q. Okay. And it will tell you of those two or three curves which one is the best fit; is that right?

A. Yes.

Q. In this particular depreciation study, for those accounts, were there any of them where you did not take -- let me back up for a second.

Once you decide what curve is most appropriate, what Iowa curve, that tells you what the average service life for the account is; is that right?

A. Yes.

Q. Okay. For the ones -- for the accounts -- for the half of the accounts where the computer model kicked out an Iowa curve or several Iowa curves and then told you which one was the best mathematical fit, were there any accounts that you did not use that Iowa curve and use that life?

A. There may have been a few, but I would have to go back and look at my notes to tell you which ones they were.

Q. But to the best of your recollection -- or would it be fair to say there weren't very many that you didn't use the Iowa curve with the best mathematical fit that the computer model kicked out?

A. I would say that more than likely I definitely used their survivor curve, and then I may have varied a little bit on the year, but for the most part I did choose what the computer program selected.

Q. When you say, "the year," you mean the life.

A. The life. I am sorry.

Q. Okay. When you say, "for the most part," do you think over 90 percent?

A. Yes.

Q. Over 95 percent?

A. I don't know.

Q. Okay. And then what did -- and when you did -- in the few instances when you did -- well, let me back up.

Is it -- did I -- is it right that you said in all instances you accepted the curve that the computer kicked out, but that in some instances you selected a different life, slightly different life; is that true?

A. Yes.
Q. Okay. And why did you do that in the instances that you did?
A. In the instances that I changed the life?
Q. Yes.
A. Because it seemed to make a better fit visually, and the average service life. It seemed to be a better average service life that reflected that particular account.
Q. It would be fair to say you used your judgment --
A. Right.
Q. -- based on other information to modify the life.
A. Yes.
Q. And did you significantly modify the lives of the cases where you modified them?
A. I don't think so.
Q. Okay. Okay. Let me talk about the instances where the computer model didn't have enough information to have a curve with a good enough fit, and do you know what I am talking about?
A. Yes.
Q. And that's about half the accounts; is that true?
A. Yes.
Q. Okay. What did you do then? What did you do with those accounts?
A. For those accounts, I estimated the average

service life as being -- I am sorry -- estimated the depreciation rate as being one over the average service life of the account.

Q. And how did you determine the average service life of the account?

A. I used the currently prescribed average service lives.

Q. Okay. And do you know what the source of the currently prescribed average service lives is?

A. I know what rate case it came from.

Q. Okay. What rate case did it come from?

A. ER-83-163.

Q. Okay. And do you know what year the depreciation study that yielded those average service lives was conducted in?

A. No, I do not.

Q. Wouldn't it have to be sometime before 1983?

A. Yes. I don't know the exact year.

Q. Do you know whether the depreciation rates in case number ER-83-163 were the subject of a settlement?

A. No, I do not know that.

Q. Okay. Do you know who the staff witness was who was responsible for calculating the average service lives in case number ER-83-163?

A. No, I do not.

A. Yes.
Q. Okay. Let me ask about your discussions with company personnel. I assume when you toured --
MR. SCHWARZ: Can we take a break at this stage?
MR. BYRNE: Sure.
(Wherein, a brief recess was taken.)
Q. (By Mr. Byrne) Okay. If I remember where I was, I was going to ask you about discussions that you had with company personnel. I assume when you listed a bunch of plants that you toured earlier in your deposition, and I assumed that you talked with company personnel during those plant tours.
A. Yes.
Q. Do you remember who you talked to, or was it just various people?
A. Various people.
Q. People who operated the plants?
A. Normally, yes.
Q. Okay. Was there any, like, depreciation people from Ameren with you, or was it all --
A. Yes. Bob Kenney came with me to -- I am trying to remember which plant it was. At least one of those tours.
Q. Okay. And what did you talk to Ameren UE personnel about during those tours?
A. We talked about the operation of the plant, any

construction projects that have gone on over the past ten years, talked about retirement activity. That's pretty much it.

Q. Okay. Did you have any other conversations with Ameren UE personnel related to your depreciation study outside of those tours?

A. No.

Q. Okay. And I assume all of your tours were of generation plants, right?

A. Yes. There was some hydroelectric plants, Taum Sauk.

Q. Okay. So would your discussions have been limited to the depreciation rates and lives you have developed for generation accounts?

A. Are you asking on the plant tour, did I discuss that?

Q. Yeah. I guess on the plant tour or -- let me ask it this way. Were your discussions with Ameren UE personnel limited to discussions related to generation plant as opposed to transmission or distribution plant?

A. No. They weren't limited to that.

Q. Okay. But --

A. I would say a majority of it.

Q. Okay. I mean, when you were talking to the plant personnel at these generation plants -- and I would include

Taum Sauk in the generation plants -- I mean, did you ever ask them any questions about the company's transmission system or its distribution system?

A. I might have had a question or two about it.

Q. Okay. Did they know anything about the company's transmission or distribution systems?

A. At the time, it was limited, but yes.

Q. But you didn't have any other discussions with personnel whose primary responsibilities were for transmission or distribution facilities; is that true?

A. That's correct.

Q. Did you change any of the survivor curves or average service lives to reflect information that you got from company personnel?

A. It was considered in all of my life analysis.

Q. Okay. So even -- so I think you said that in cases where the computer had a best fit curve in that half of the accounts, they maybe -- you know, the majority of them, maybe 90 percent, you accepted the curve and the life of the computer, but on, you know, some smaller percent, maybe 10 percent, you changed the life, and I guess, would it be fair to say in making either of those decisions, either accepting the best mathematical fit that the computer put out or in deciding to change it, you took into consideration the discussions that you had with the company personnel?

A. Yes.

Q. Okay. That didn't -- I guess that didn't affect the other half of the accounts where you use the ER-83-163. Is that fair to say?

A. Yes.

Q. Okay. Are there any textbooks that you use or refer to that describe how to conduct a depreciation study?

A. Yes. Depreciation Systems by Frank Wolf, and Public Utility Depreciation Practices is a NARUC.

Q. Is that -- let me ask you, because I've got it written down, not because I have independent knowledge of it, but is Depreciation Systems by both Wolf and a guy named Fitch?

A. Yes.

Q. Okay. And Public Utility Depreciation Practices is published by NARUC. Is that -- I think that is a 1996 publication. Does that sound right to you?

A. Yes.

Q. Any other texts?

A. No.

Q. Do you consider these texts to be authoritative on the issue of depreciation studies?

A. Yes.

Q. And to your knowledge, did the depreciation, that study that you conducted, comply with the methods recommended by these texts?

A. Yes.

Q. Do you know what generally accepted accounting principals are?

A. No.

Q. Do you know whether your recommendations concerning the company's depreciation rates and the staff's proposed treatment of net salvage comply with generally accepted accounting principals?

A. I think they do.

Q. Why do you think they do?

A. Because I have people who check my work, and they would tell me if it did not.

Q. Okay. But you don't have any independent basis to determine whether it complies with generally accepted accounting principals because you don't know what they are.

A. Correct.

Q. Okay. Do you have an opinion as to whether companies and the Commission should comply with generally accepted accounting principals in setting depreciation rates?

A. I am sure that they should.

Q. Okay. Do you know what Financial Accounting Standards Board standards are?

A. No.

Q. Do you know if your recommendations regarding the company's depreciation rates and the staff's proposed treatment of net salvage comply with Financial Accounting Standards Board standards?

A. I don't know.

Q. You probably don't remember this, but maybe generally you do. I was trying to get specifically when you toured each plant and who you met with. You probably -- there were so many plants, you probably -- if you don't know, that's okay, but do you know just generally when you toured the plants?

A. Yes, I do.

Q. Okay.

A. The Sioux plant was toured in November, 2000, and the remaining plants were toured in the spring of 2001.

Q. Okay. And do you remember, other than Bob Kenney, the names of any specific people that you talked with when you were on those tours?

A. I would have to go get the names. I don't recall at this time.

Q. Do you have them in notes that you took?

A. I have their business cards.

Q. Okay. Did you take notes of your discussions with them?

A. Yes, I did.

(Wherein, Ms. Suedeen G. Kelly joined the deposition).

Q. Do you know what specific accounts you discussed on those plant tours?

A. I would have to say I didn't necessarily discuss a specific account. I looked at turbo generator units and discussed the operation of those and looked at boiler plant equipment. That's all I can recall offhand right now.

Q. Okay. But if I got a hold of your notes from those tours, I guess would that -- would those notes tell me the subjects that you discussed to the extent you can't remember them now?

A. They should. Yes.

Q. I mean, would it be fair to say that you would have -- you would have written down in your notes anything that you discussed that's relevant to your depreciation study? Is that fair to say?

A. For the most part, yes.

Q. Did you compare the service life estimates and survivor curves you used in this depreciation study with those used for other electric companies?

A. Yes, I did.

Q. Okay. Which electric companies did you look at if you remember?

A. Empire District Electric, Missouri Public Service, St. Joe Light and Power, KCP&L.

Q. And did you look at all the accounts for all those electric companies?

A. Not all of them, no.

Q. Do you remember which specific accounts you did that comparison for?

A. No.

Q. Was it most of the accounts do you think?

A. A lot of the larger accounts I did.

Q. And so it would be separated, maybe, by dollar value rather than number of accounts.

A. Correct.

Q. And what was your source of information in comparing those other utilities?

A. What do you mean by my "source of information?"

Q. Well, did you look at -- I mean, how did you get the information from those utilities? Was it part of their every five year filing at the Commission, or was it part of a rate case, or how did you get the information that you compared Union Electric's survivor curves and estimated lives to theirs?

A. We keep a log of all utilities in the State of Missouri, the most current depreciation rates.

Q. Okay.

A. So it would have to be their most recently approved depreciation rates.

Q. Okay. And those -- I guess those could have been approved -- well, do you know how long ago those were approved for those various utilities?

A. Some were as recent as this year, and some go as far back as early '90s.

Q. Okay. Was Empire like one that was this year?

A. Yes.

Q. What was one that -- do you remember which ones went back the furthest?

A. I don't recall right now.

Q. Was KCP&L maybe one that went back the furthest?

A. It may have been.

Q. Okay. I would like to look at schedule 3.1 attached to your testimony, and I guess it goes with schedule 3.2. As I understand it, schedule 3.1 is an example of a survivor curve that the Gannett-Fleming model provided; is that true?

A. Yes.

Q. And are all the little Xes on that chart actual data points of retirements for the account at issue, which is account 365?

A. Each point represents a percent surviving at that age.

Q. Okay. And what is -- what are we talking about in account 365? What kind of plant is it?

A. Overhead conductors and services -- and the devices. I am sorry.

Q. What are those?

A. That would be a plant that -- above the pole that basically conduct electricity.

Q. Like wires? Is that what that is?

A. Yes.

Q. Okay. And what -- as I understand your previous testimony, what the computer does is it looks at all those Xes, which is the company's actual experience, and then it provides you some choices of Iowa curves that fit it to various degrees; is that right?

A. That's correct.

Q. And is schedule 3.2 some of the closest fitting survivor curves that the computer program could find; is that right?

A. Yes.

Q. And then you -- it looks like you circled one in the middle that says 52.4-LO, and it has a residual measure of .85, and range of fit, it says 0 to 47. Is that information circled because that's the survivor curve that you picked out of the choices that the computer model gave you?

A. That's the -- I selected that curve because it had the lowest residual measure, and that was the first survivor curve that I attempted to fit to the data.

Q. Okay. And that residual measure -- and for this one it is .85, right?

A. Yes.

Q. And that's sort of -- not to oversimplify it, but is that a mathematical representation of how closely the curve fits the company's data?

A. Yes.

Q. And so the lower the number, under residual measure, the closer the fit; is that true?

A. Yes.

Q. Okay. I notice some of the other curves have residual measures of -- well, the one right below it has 1.19 and then below that is 2.99, and I think the highest one is 6.35.

Am I understanding from your testimony before that if it is above a six, that's really no good. Is that a fair butchering of your prior testimony? I mean, is a six a cutoff where you won't use it at all?

A. Yes.

Q. And below six is there a point where it gets to be, in your opinion, a reasonably good fit? Is there some point in your judgment where it is a pretty good fit?

A. It would depend on, you know, each individual curve that I tried. I mean, mathematically, it could -- like even a 1.19 you would think would fit pretty close, but then it is another thing to actually see it on the screen.

Q. Okay. Well, set aside seeing it on the screen for a minute, but just for -- if you're only considering how mathematically close a fit is, would it be fair to say anything below a two or a two and a half is a pretty good fit mathematically?

A. I would have to say below a one.

Q. You would have to say below a one. I mean, I understand that even within the category of those that are a reasonably good mathematical fit, you would pick the one that is the best, unless there is some reason not to, but I guess the point I am making is even though they are not the best mathematical fit, aren't some of those other ones like the ones that are, say, below two or two and a half, aren't they a pretty good mathematical fit, albeit not the best mathematical fit?

A. Well, there are other things you have to look at too, and that's the mode of the curve, like for instance LO. That L represents -- that means that it is to the left of the mode of the curve. The mode being the highest point of the curve, and that means that you might have more retirements at the beginning, and then if you pick an R type of curve, that means you may have more retirement to the right side of the mode.

Q. And in this case, you thought an L curve was better than an R curve.

A. Yes.

Q. How come?

A. Because you have more retirement activity to the left than you did towards the right.

Q. Okay. But you are not going to -- I keep trying to get you to tell me a cut off number for that residual measure that you think is a pretty good measure. So let me ask it again.

Let's say they were all left mode, you know, and you are only looking -- and that is the appropriate mode in your opinion --

A. Well, it would never be all left mode. They always give you S R L O.

Q. Okay. Among the ones that are left mode --

A. Uh-huh. Yes.

Q. -- would it be fair to say that the ones below a two or a two and a half are a pretty good mathematical fit or not, or is there some other cut off? I mean, I understand that .85 is the best mathematical fit.

A. I guess I just hate to give it a number.

Q. Okay. Fair enough. Okay. Let me ask you, then, the question my expert asked me to ask you, which is would you characterize -- can you assign a number in your mind, in your judgment, where it would be an excellent fit or a good fit or a fair fit? Can you assign numbers to those adjectives?

A. I think a good fit would be -- a really good fit would be less than one. Then once you start going over one, it would go into fair.

Q. Okay. And then, like, six is off the map I assume.

A. Yeah.

Q. Horribly terrible.

A. Yeah.

Q. Okay. I would like to ask you about the definition of a term, and the term is service value as it applies in the context of depreciation accounting, and I guess I would like to give you something.

MR. BYRNE: I don't think it is necessary to make it an exhibit unless you want me to, but it is a -- and unfortunately I only have two copies.

MR. SCHWARZ: I just want to look at it for --

Q. (By Mr. Byrne) And this is an excerpt from Public Utility Depreciation Practices, which, I think, is that NARUC publication that you referred to before, and on the second page after the cover, which is page 14 in the book, it's got a definition of service value, and I guess I want to ask you if you agree with it, and it's probably a third of the way down the page, and since I don't want to make this an exhibit, I guess I would like to read it into the record.

It says, "The Uniform System of Accounts for electric utilities recommended by NARUC defines 'service value' as follows: The difference between the original cost and the net salvage value of the utility plant. 'Loss in service value,' therefore, must be understood and construed in light of its specially defined meaning."

Do you agree with that definition of service value?

A. Yes.

Q. Okay. Okay. Let me ask about -- that's all I need to ask about that document.

MR. BYRNE: Mr. Schwarz, I don't see any need to make that as an exhibit, but I will if you want me to.

MR. SCHWARZ: No need. I am sure we have copies of it and so forth.

Q. (By Mr. Byrne) Okay. I would like to talk to you about the staff's treatment of net salvage in this case. Well, first of all, is it fair to say that you're proposing a new treatment of net salvage, at least for Ameren UE's electric service, different than it has been treated in the past in Ameren UE electric cases?

A. Yes.

Q. And it's a new method of addressing net salvage that I guess the staff is applied in a few cases in the recent years, but again, it's different from the traditional treatment that previously was afforded net salvage. Is that fair to say?

A. Yes.

Q. Can you explain to me the difference between the old way that net salvage was treated and this new way that net salvage is being treated?

A. For the old way of net salvage, typically a depreciation analyst will use the formula one minus net salvage over the average service life to come up with a depreciation rate, and they would analyze net salvage using historical salvage data, trying to project into the future what they think cost of removal or gross salvage may be.

Our change is -- primarily, we still use the same formula, except for net salvage we use zero, and you are actually using the actual net salvage incurred in expensing that.

Q. So would it be fair to say you are taking net salvage out of the depreciation calculation and instead providing recovery of net salvage cost through an accounting adjustment?

A. Yes.

Q. Okay. And let me go back to the way it used to be. Would you agree -- and I think I do understand this -- that the way they used to do it is -- and the way the staff used to do it and all the utilities used to do it up until recently is, based on historic information, you would develop a net salvage percentage of original cost, a percentage that compared the net salvage cost of a particular item or class of property to its original cost, and you develop a percentage from that; is that true?

A. I believe so.

Q. And then you would apply that percentage to the balances in -- the current balances in those plant accounts, and that's how you would come up with net salvage. Is that your understanding? If you don't know, don't hesitate to say you don't know.

A. No. The net salvage would be estimated. At least at the Missouri Commission we use Gannett-Fleming -- used to use Gannett-Fleming in estimating cost of removal and gross salvage in trying to project an estimation of what that would be.

Q. When you say, "use Gannett-Fleming," you mean the computer model, the Gannett-Fleming computer model.

A. Yes.

Q. But doesn't the estimation of future net salvage that the Gannett-Fleming computer model does, isn't that based on the historic relationship between salvage -- net salvage cost and original cost of each account, if you know?

A. I don't know.

Q. Okay. Okay. And your calculation -- well, and you are not -- as I understand it, you are not sponsoring the net salvage -- the accounting adjustment that puts current net salvage into rates; is that true?

A. Someone else within this rate case testified to that.

Q. Okay. You are just saying it shouldn't be in the depreciation rates.

A. Right.

Q. Do you know who is sponsoring the accounting adjustment?

A. It was Jim Schwieterman.

Q. But he is retired.

A. He is retired.

Q. Do you know who is sponsoring it now?

A. I guess I could say Greg Meyer.

Q. I think he's still got a few more years to go before he retires. Do you know how -- do you know how the allowance that the staff proposes for net salvage in this case was calculated?

A. I think a ten year average was done.

Q. Do you know if that's consistent with the way the staff has calculated that adjustment in other cases?

A. I do not know.

Q. Do you know why ten years was selected, and I understand it is not your adjustment, but do you just happen to know why ten years was selected?

A. No, I do not.

Q. So you are not providing any support for the selection of ten years as opposed to some other -- as opposed to test year or three year average or five year average.

A. Right.

Q. You are not supporting anything. That would be Mr. Meyer, I guess, now.

A. Yes.

Q. Okay. Let me ask you this. Don't most depreciation professionals treat net salvage as a part of the depreciation formula?

A. There are a lot that do.

Q. Do you know if most of them do?

A. I don't know.

Q. Let me ask you what advantage is there in making this change, what advantages there are in removing net salvage from the depreciation formula?

A. You are ensuring that the company is recovering actual net salvage expense that has occurred as opposed to a projected number that may or may not come true.

Q. Would it be fair to say that the salvage cost actually incurred in the test year or in the past ten years averaged in any historical period might deviate significantly from net salvage cost which could be expected to be incurred in the future?

A. No.

Q. You are saying they -- you are saying no to that they might deviate significantly from net salvage cost that could be expected to be incurred in the future.

A. I am saying because there has been a significant increase in cost of removal over the past, probably, 10 to 20 years or more, the company has recovered that amount, and so there wouldn't be any -- if the company was to go with actual net salvage, I don't think that the company would be suffering.

Q. Well, let me give you some examples and see if you would agree that in these examples current net salvage might be significantly different than net salvage that would be expected to be incurred in the future.

The first example is what if you had a brand new utility that was just starting service and they built an electric plant and built a transmission and distribution system, and they had only been in operation a year, and so probably hardly any of their equipment would be retired; is that fair to say?

A. Yes.

(Wherein, Lena Mantle left the deposition.)

Q. And if you applied staff's methodology to that utility, you would have -- wouldn't it be fair to say that the net salvage that brand new company a year old had actually experienced would be significantly different than the net salvage that that company could expect to incur in the future when their current plant is retired?

A. Well, you probably wouldn't have net salvage within a year.

Q. So under your methodology, then, they would get zero allowance for net salvage; is that right?

A. Well, I mean, if the plant has only been there a year, you are not going to have, probably, any retirement, so you wouldn't have a need to have gross salvage or you wouldn't have a cost of removal issue.

Q. So the staff allowance would be zero in rates for net salvage; is that right?

A. Yes, but that would probably be zero anywhere for just one year.

Q. But, I mean, not if you did it under the traditional methodology?

A. Well, I am just saying a year into plant, you are not going to have a lot of plant that you are going to be selling back that's retired that -- within just one year of the plant starting that you are going to have a cost of removal or a gross salvage.

Q. Right. But that's -- but the point I am trying to make is isn't that zero actual retirement that you would have significantly different than the net salvage cost that a person could reasonably expect that utility to incur when it retires its currently existing plant in the future?

A. I would ask you to restate that if you can, but I know you can't.

MR. BYRNE: I probably can't.

(Wherein, the requested question was read back.)

THE WITNESS: I am sorry. I don't understand the question, especially when you say the zero retirement.

Q. (By Mr. Byrne) Okay. Only probably because it doesn't make that much sense. Let me try it again.

Isn't the -- in our example, where there is a new utility, it's only been in business a year or so. We agree that they would have few, if any, retirements in their short history.

So for purposes of our example, let's say they had zero retirements, and so under the staff's method, they would get zero allowance for net salvage in their rates; is that true?

A. That's true, but they would also get zero allowance if it was 50 years later. They would still get allowance for actual net salvage expense.

Q. Right. And in my example, that actual net salvage expense would be zero, because they haven't retired anything.

A. Okay.

Q. Now, isn't that zero significantly different than the amount of net salvage cost that utility can reasonably be expected to incur in the future when they retire all the plant?

A. It can be.

Q. And it would be, wouldn't it?

A. Uh-huh. Yes.

Q. Okay. And you know, that's an extreme example, but let's make it a little more realistic for a company like Ameren UE. Let's say you had a category of plant. Let's say you had a new account category of plant and it just recently went into service, and again, there is no history of retirements from that particular account.

Again, my understanding is in that case, for that account, the staff allowance for net salvage would be zero; is that right?

A. No. It would be the -- did you say there were zero retirements?

Q. Yeah.
A. Since the inception of the plant?
Q. Yeah. Because it is a brand new type of plant that's only been in existence for a year or two, no retirements from that account. So wouldn't it be true that the staff allowance for net salvage would be zero?
A. Yes.
Q. But again, just like in the example of a new utility, isn't that zero allowance significantly less than the amount that you could reasonably expect the utility to incur when they retire the existing plant from that account?
A. Yes.
Q. And I guess if you go the other way too in accounts that have a positive necessary salvage, my understanding, and do you agree with me, that in most cases electric utility plant has a negative net salvage. Is that fair to say?
A. In a lot of cases, yes. In a lot of accounts.
Q. I mean, isn't it the vast majority of the accounts?
A. Yes.
Q. But there are some -- like, say you have a vehicle. Now, that would be an example, and Ameren UE does have vehicles. It strikes me that a vehicle would be an example of an account where you would be likely to have a

positive net salvage value; is that right?

A. Yes.

Q. So in my example if the new account was vehicles and Ameren had bought some vehicles but hadn't retired any of them, the staff adjustment for net salvage would be zero under the method that you're proposing, right?

A. If there were no retirements, yes.

Q. But at the same time, you could reasonably expect that in the future when the retirement of those vehicles took place, there would be a positive net salvage value; is that right?

A. Yes.

Q. Okay. Let me ask you this. In previous cases, have you submitted testimony to the Commission supporting the traditional treatment of net salvage?

A. Yes.

Q. Do you remember which cases you filed such testimony in?

A. Some of them are listed in my testimony. I don't recall which particular cases.

Q. Do you remember any out of that list where you supported the traditional treatment of net salvage?

A. Well, I did not discuss net salvage in all of these cases, but I know that in some of them I may have talked about the whole life formula, which includes net salvage. I don't recall at this time which ones those are.

Q. But I can go back and look and see.

A. Yes.

Q. Some of them you endorse the traditional treatment of net salvage. Is that fair to say?

A. Yes.

Q. Is this the first case that you've endorsed the new treatment, the expense treatment of net salvage?

A. Yes.

Q. Why did you change your mind from testimony in previous cases?

A. Well, it was a group collaboration that was decided within our department to have a change in methodology of the net salvage, and since that change has been made, this is the first time that I have testified or provided written testimony.

Q. Well, would it be fair to say that -- would it be fair to say, rather than you changed your mind about this issue, the staff changed its position, and you were told to file this testimony or testimony supporting the staff's position?

A. No. In discussions with other group members and looking at the history of cost of removal in a lot of utility companies across the State of Missouri, we came to a conclusion as a group that net salvage needed to be expensed.

Q. Who was in the group?

A. Paul Adam, Rosella Schad and Lisa Kremer, and we also had some input from Bob Schallenburg.

Q. Any accounting department people?

A. Yes. Greg Meyer I think, probably a few other people from accounting. I don't recall at this time.

Q. And when did this group meeting take place?

A. Well, there wasn't one big meeting. I mean, this was several discussions throughout the years.

Q. Okay. When? Over what period of time did the several discussions take place?

A. I would say within the past -- probably as far back as the end of '99, maybe earlier.

Q. And when did you decide that that was a better approach?

A. After talking about -- after having discussions, several discussions on it and -- that's my answer.

Q. Okay. I mean, in 1999, which one did you think was the right approach? Do you remember?

A. I don't remember a specific date that I decided.

Q. Okay. Was it recently or a long time ago do you think?

A. I would have to say end of '99 I guess.

Q. Okay. But just so I make sure, you were not instructed to take this position because it's staff position. You reached this conclusion on your own. Is that your testimony?

A. Yes.

Q. What would have happened if you wouldn't have agreed? Would you -- do you think you would have been allowed to file testimony that retained the old treatment of net salvage?

A. I guess I wouldn't know that until I decided to do that.

Q. Okay.

A. Whatever you know -- we work as a group, so we wouldn't file one testimony one way and file another testimony another way.

Q. So then you probably -- would it be fair to say you probably wouldn't have been allowed to contradict the staff position?

A. I guess that would be fair to say.

Q. Did -- let me ask you this. Was there a single point in time where it became the staff's position? Did a single person make a decision at a point in time where the staff's position changed like a -- well, or is it more of an evolution?

A. I would say it is an evolution, and then a final decision was made by our division director that this is the way we will go forward.

Q. Okay. That's what I am looking for. Who is the division director?

A. Bob Schallenburg.

Q. Okay. Do you remember when he made that final decision?

A. I think in '99.

Q. Maybe when -- again, I don't want to put words in your mouth, but my recollection -- and unfortunately, I have a -- too clear of a recollection. So the first time it was applied was in the Laclede gas company GR-99-315 case. Is that about the time that decision was made?

A. I think so.

Q. And that's when it would have become difficult to take a contrary position after that decision was made.

A. Yes.

Q. Did you conduct any net salvage analysis in the course of your depreciation study for this case?

A. Yes.

Q. And which accounts did you do net salvage analysis on?

A. The top -- I would have to say the ones that I did find a survivor curve fit for primarily.

Q. Okay. And are those -- just generally, let me flip back to your schedule 2.1 and 2.2 and just -- in the third column from the right on both the chart on 2.1 and 2.2, there is a theoretical reserve column. Do you see that?

A. Which column are you looking at? Staff's '95 theoretical reserve?

Q. Yeah.

A. Yes.

Q. And just for purposes of identifying the accounts that you had a curve for versus those that the model didn't produce an acceptable curve, would it be fair to say that the -- where there is a number in that column for that account, the model produced a curve, and when there is not a number in that column, the model didn't produce a curve that was acceptable to use?

A. Well, they produce curves for all accounts, but a curve that was actually fit.

Q. Yeah. Yeah. That's what I mean, a curve that adequately fit the retirement data. Again, is that -- is whether there is a number in that column, is that -- if I was just trying to see which accounts produced a fitting curve, is it the ones where there is a number in that column?

A. Yes.

Q. So like almost all the accounts on schedule 2.1, except two of them, which are account 316, miscellaneous power plant equipment, and account 355, poles and fixtures, all the other ones didn't produce a fitting curve. Whereas on schedule 2.2 almost all of them -- I guess all of them except account 366 underground conduit did produce a curve that you used; is that true?

A. Yes.

Q. Okay.

(Wherein, a brief recess was taken.)

Q. (By Mr. Byrne) So before the break I think I was asking you about -- I think you had said you conducted net salvage analysis on the accounts that the Gannett-Fleming model produced a curve -- a curve that reasonably fit. Is that true?

A. Yes.

Q. Okay. What kind of analysis did you do?

A. I looked at the past, I believe, the data at, like, the last ten years, and I looked at trends of three years and five years of the net salvage for those past ten years to look and see where the net salvage was at up to end of year 1995.

Q. Okay. So when you were looking at net salvage, it was -- the only thing you were looking at was the historic net salvage for each account. Is that fair to say?

A. Yes.

Q. You weren't, like, doing the old project into the future what it would be.

A. Right.

Q. Okay. And why did you do that?

A. I did that just to look and see where the net salvage was and to, I guess, consult with our other auditor when he did his analysis, the numbers that I came up with, as far as looking historically.

Q. And did you do it to assess the impact of different approaches on Ameren UE's rates?

A. Yes.

Q. And what did you find -- do you remember -- about the impacts of the different periods of time on rates?

A. I don't recall the number specifically at this time, but I do remember they were comparable to our staff auditor's numbers.

Q. Okay. So he -- and the staff auditor at that point being Jim Schwieterman, was looking at three year, five year, ten year averages of net salvage costs for each account, and then you too were looking at three year, five year, ten year averages for each account.

A. I don't know if he looked at three year, five year, ten year. I know that's what I did.

Q. Okay. And do you remember if net salvage, as a general rule, was higher or lower whether you used a three or five or ten year average?

A. I don't recall at this time.
Q. Okay. But there were differences I guess. Is that fair to say?
A. Yes.
Q. So what did you do then with the results of that process? Did you give it to Jim Schwieterman or talk to him about it? What did you do? How, if at all, did the results of your net salvage analysis show up in this case or affect the staff's recommendation in this case?
A. I discussed it and then I included it with the rest of my study.
Q. But I guess I still don't understand why you were doing it. If he was going to calculate the salvage allowance, why did you also calculate it?
A. I guess it is just to have an input or an opinion about where we think net salvage should be.
Q. Okay. So you kind of gave it to him, gave him the results of your analysis as your input --
A. Right.
Q. -- on where it should be.
A. Yes.
Q. And you gave him all the -- I mean you gave him the three year and the five year and the ten year averages.
A. I discussed it.
Q. Okay. Discussed all of them with him.

A. Yes.

Q. Okay. Did you give him anything or just discuss something with him?

A. I remember talking to him about it in his office. I don't recall if he had a copy of what I had or not.

Q. I mean, was he interested in what you had to say?

A. Sure.

Q. And do you think he incorporated that into his analysis?

A. I think so.

Q. Did you do any calculation to assess the impact on depreciation expense of switching the way net salvage was treated?

A. Yes, I did.

Q. What did you do exactly for that calculation?

A. Well, if you look at schedule 2-2, the column that says -- right after staff's annual accrual column, it says increase decrease of accrual. That total is 36 million, and the far right column, the total that is listed at approximately 6 million, I subtracted -- that column represents the change that was due to life. I subtracted that from the 36 million, and that was the impact that was due to salvage, 30 million.

Q. So we collect about 30 million dollars less in depreciation rates as a result of the net salvage change.

A. Yes.

Q. Okay. Let me ask you this. Can you name any depreciation professionals, other than members of the Missouri Public Service Commission staff, that support your treatment of net salvage?

A. Outside of the State of Missouri?

Q. Outside of the staff members.

A. Staff members.

Q. In the State of Missouri.

A. I know of one name. I cannot think of the name.

Q. Who --

A. I think he is from Blacken Veatch, but I can't really name any at this time.

Q. In your testimony you said that you attended a -- four weeks of formal training from Depreciation Programs, Inc. in Kalamazoo, Michigan; is that right?

A. Actually, it was in Grand Rapids, Michigan, but I think that's where their office was located.

Q. Okay. The company that put it on, their office is located in Kalamazoon, Michigan, but the seminar you attended was in Grand Rapids, Michigan; is that right?

A. Yes.

Q. Okay. And you spent four weeks; is that right?

A. Well, it wasn't at one time. It was separate courses, one week courses. In fact, one of them was held at the building the -- well, the Truman building.

Q. Okay. And basically, this was just to -- for you to learn how depreciation accounting was done. Is that fair to say?

A. Learn about how to perform an actual depreciation study, the basic concepts of depreciation, life analysis and salvage analysis.

Q. And who are people that put this on, this Depreciation Programs, Inc.?

A. You have the author of Depreciation Systems, Frank Wolf; the president of Gannett-Fleming, Bill Stout; Ron White; Bob White; Harold Cowles, who is a significant author of -- actually, he got involved from the beginning of this whole thing. At Iowa State, he was an actual professor at Iowa State that was involved in some of the curves, and Susan Jensen.

Q. Would it be fair to say -- I hate to even say this, but are these, like, maybe the celebrities or the stars of the depreciation world, or is that an overstatement?

A. You could say that.

Q. Are these people who, in the world of depreciation, are some of the most well respected people?

A. Yes.

Q. And what did they have to say about how net

salvage should be treated? Do you remember?
A. They probably support the inclusion of net salvage in the whole life formula, but I mean, I haven't talked to them in years. Their perception may have changed. I don't know.
Q. And what you were saying is the traditional treatment of depreciation is what they supported at least at the time you were there.
A. Yes.
Q. And I notice one of the topics you listed in your testimony was forecasting salvage and cost of removal.
A. Yes.
Q. Was that a -- was that one of the four week long classes?
A. Actually, that was part of a week long class. That wasn't the whole week.
Q. And do you remember how many days it was?
A. Probably at least two days.
Q. And I assume, since it says forecasting salvage and cost of removal, that would be explaining how you do the traditional treatment of net salvage; is that right?
A. Yes.
Q. I understand this is -- when did you go? I guess it was early in your career at the Commission. Do you remember what year?

A. Yes. '94, '95 and I think '96.

Q. Okay. Do you remember what year you did forecasting salvage and cost of removal?

A. I don't recall at this time.

Q. You mentioned some of those professionals. Well, there has been the passage of time, and even though they supported the traditional treatment of net salvage at that time, it is possible that some of them could have changed their mind since then. Is that a fair statement or at least a statement of what you testified to?

A. It is possible.

Q. Okay. But you don't know of any of those people that have changed their mind on this subject, do you?

A. No.

Q. Have you asked any of them?

A. No.

Q. Are you aware of -- I guess some of them have surfaced in other Missouri Commission cases, and I was wondering if you were familiar with, for example, Ron White's testimony in the Laclede Gas Company case number GR-99-315? Did you have an occasion to look at that?

A. No.

Q. Would you be surprised to find out that he still supported the traditional treatment of net salvage in that case?

A. No.

Q. Bill Stout is another person that you named who has filed testimony on this subject at Missouri, and I believe he filed testimony in the St. Louis County Water Company case. Did you have any -- are you familiar with that testimony at all?

A. Yes.

Q. And do you know whether he still supports the traditional treatment or the staff's new methodology?

A. I think he -- I think he supports the traditional.

Q. Okay. Do you know of any other of those people from the program that you took that still support the traditional treatment of net salvage?

A. I don't know whether they do or not.

Q. Okay. Can you name any authoritative text on depreciation that supports the staff's treatment of net salvage as opposed to the traditional treatment?

A. There is mention of it in the Public Utility Depreciation book.

Q. But do you know whether they support the use of that treatment in the Public Utility Depreciation Practices book?

A. Because of the fact that they mention it means that they recognize that other commissions are taking different approaches.

Q. I mean, my understanding -- let me -- disagree with me -- I guess my question is do you agree with this. My understanding is that the approach recommended in Public Utility Depreciation Practices, the NARUC publication in 1996, is the traditional treatment of net salvage. Do you disagree with that?

A. Could you restate the question?

Q. My understanding is that the approach recommended in Public Utility Depreciation Practices, the 1996 publication by NARUC, that publication recommends the traditional treatment of net salvage as opposed to the staff's treatment of net salvage as an expense. Do you disagree with that?

A. The book does not make recommendations. It simply talks about the whole life formula, but it also talks about what some commissions are doing now, which is including net salvage as an expense.

Q. And in that publication or that -- is it your understanding they are just neutral? They don't -- they don't -- the authors of that publication don't take a position on what is the appropriate way to do it?

A. I mean, basically, they discussed the theory of depreciation in relation to net salvage.

Q. And does their view of the theory of depreciation support the traditional treatment of net salvage?

A. I mean, it just discusses it.

Q. Okay. So just -- it is just a neutral publication as far as you are able to tell. As far as you are able to tell, it neither recommends one or the other. Is that your testimony?

A. I mean, it discussed it, like, you know, you attend a class and you read about a particular subject.

Q. Let me ask it this way. Let's say -- I will give you that they mention that there are other treatments. Okay. That's not what I am talking about.

So my question is not whether they mention different treatments, but in that publication, is it the opinion of the authors that it is appropriate to use the traditional treatment of net salvage or not?

A. There is no wording in that book that says it is appropriate to use that formula.

Q. Okay. But I mean, I am not -- even if it is not exactly those words, is it your opinion that the publication is neutral and doesn't say whether it is appropriate to use either the traditional treatment or the staff's new treatment of net salvage?

A. Well, it is not really neutral.

Q. Okay. Why isn't it neutral? Explain.

A. I mean, the book explains what we are calling the traditional methodology of including net salvage in the formula, and to that extent, anyone pursuing a career in this field would look to this book and recognize, you know, that it is so-called -- well, I don't want to say that.

Q. Let me ask you this. Let me ask it this way.

MR. SCHWARZ: She is entitled to finish her answer.

MR. BYRNE: Sure.

THE WITNESS: Anyone that looks at this subject is going to read what is the foundation of the net salvage discussion to have a -- to have background information, but in -- but they also, when looking at that particular subject, should recognize, and it is recognized in the book, that there are different treatments of net salvage.

Q. (By Mr. Byrne) Are you done?

A. I am done.

Q. Let me ask it this way, and maybe it is the same answer, but to the extent you are using this book, Public Utility Depreciation Practices, published by NARUC, as a -- to tell you how to do a depreciation study, to the extent you are using it for that purpose, would it tell you to use the traditional treatment? Wouldn't it tell you to use the traditional treatment for net salvage?

A. No.

Q. No.

A. I am sorry.

Q. That's okay. No is your answer, though, right?
A. It just would not tell you you must use this traditional method.
Q. Okay. Have you surveyed any other states to see how net salvage is being handled?
A. No.
Q. So you don't know how Illinois handles net salvage.
A. No.
Q. Or Kansas.
A. No.
Q. Or Iowa, home of the famous Iowa curves.
A. No.
Q. Do you know if any states use the staff's proposed method?
A. I think in my testimony I talk about Pennsylvania Commission.
Q. I think that's right. Page 14.
A. Yes. Page 14, line 1. The State of Pennsylvania removed the net salvage rates from depreciation rates.
Q. And I guess is the -- let me ask you this. Do you know any other states besides Pennsylvania that uses the staff's method?
A. I think Florida does.
Q. But you don't know for sure.

A. No.

Q. Any other states?

A. No.

Q. Okay. And would it be fair to say that the reason Pennsylvania provides that treatment, the staff's treatment of net salvage, is based on the case that you cite in your testimony, which is Penn Sheridan Hotel versus Pennsylvania Public Utility Commission, which is a 1962 case?

A. Yes.

Q. And is there any similar requirement in Missouri that would require the Missouri Commission to use the staff's method? Any court case or statute or anything that requires the Commission to do that, the Missouri Commission?

A. Requires the Commission to do what?

Q. To use staff's treatment of net salvage?

A. Are you asking about any other rate case?

Q. No. I am asking -- let me start over. Pennsylvania uses -- treats net salvage as an expense because the Penn Sheridan case requires them to do so; is that correct?

A. Yes.

Q. Is there anything similar to the Penn Sheridan case, and I guess it could be a case or a statute that would require the Missouri Commission to treat net salvage as an expense?

A. I don't know.

Q. Have you read the Penn Sheridan case?

A. No.

Q. Are you aware of -- let me -- since you haven't read the Penn Sheridan case, I assume you would have no way of knowing what factors led the court in that case to require Pennsylvania to treat net salvage as an expense.

A. No.

Q. Okay. Are you aware of Financial Accounting Standards Board number 143? Have you ever heard of that before?

A. No.

Q. I think it's -- I think the title is Accounting for Asset Retirement Obligations. That doesn't ring a bell?

A. No.

Q. Would you agree with the general principal that rate payers ought to be required to pay a fair share of the net salvage cost of capital items used to provide service to them?

A. Yes.

Q. I was asking you some questions earlier. I was giving you some examples where I think the salvage cost experienced in the past for a certain account or in the case of a new company for a whole company might be zero, and you might expect the future salvage cost associated with a plant that's currently in service to be some higher number. Do you recall those questions?

A. Yes.

Q. Would that same effect happen if the amount of property in a particular account is increasing or decreasing? In other words -- well, let's take the example of decreasing.

Let's say, for whatever reason, you had an account where the amount of property in that account was decreasing over time. Okay. And wouldn't it be true in that case that the amount of net salvage in the past would not be representative of the amount of net salvage that could be expected to be incurred by the company in the future related to plant that's currently in service?

A. Because you have plant that's decreasing doesn't mean that you would have an increase in cost of removal.

Q. No. I am saying wouldn't the net salvage cost experienced in the past be greater than the net salvage cost you would expect to incur in the future because the amount of property in the account is declining?

A. Well, I would have to know why the property was declining and --

Q. Okay. Let me give you an example. Let's say you had a class of property, a particular account of property that was being completely retired from service, and in the years leading up to a rate case or a case where a depreciation study is done -- I guess it would have to be a rate case.

Let's say in the years leading up to the rate case the company takes plant out of service until there is very little plant left in the account still to be retired, because they are eventually going to eliminate it.

So let's say 90 percent of the plant -- over the last 10 years 90 percent of the plant has been taken out of service, and there is only 10 percent left to be retired.

Well, under those circumstances, wouldn't it be true that a ten year average of the salvage cost -- net salvage cost would not be representative of the net salvage cost that the company could be expected to incur in the future with respect to the remaining items in that account?

A. I mean, if a ten year average wouldn't be -- then there is really no way you can really predict the future.

Q. Well, I mean, first answer the question, if you don't mind. You know, would it be representative or not or can't you tell in the example that I gave you?

Would the ten year average of net salvage cost be representative of net salvage cost the company could be expected to incur in the future with respect to the remaining items in that account?

A. I don't know.

Q. Okay. Because the future is unpredictable?
A. Yes.
Q. Let me ask you this. Doesn't the establishment of depreciation rates require you to predict average service lives long into the future?
A. Yes. That's true, but when you -- net salvage is something that is still measurable year by year and can be expensed.
Q. I guess investment in plant is something that's measurable year by year that could be expensed as well, couldn't it?
A. I think when you're talking about using a ten year average, I think you need to probably -- I don't know how much I can testify to that issue, because I did not make that final decision.
Q. What final decision are you talking about?
A. On using a ten year average.
Q. Okay. But I am -- what I was asking in the question is you said net salvage is something that can be measured year by year and be expensed, and I agree with you. That's true. But couldn't -- isn't it also equally possible to measure the company's investment in capital assets? It is new capital assets that go into service year by year, and by the same token you could expense those too, couldn't you?
A. That's true.

Q. I mean, what is the difference?

A. The difference is over the past years net salvage has been expensed -- well, cost of removal has been so high that it's created large negative net salvage numbers that the company has recovered, and the company has not always met those numbers. The company is accruing more than what it should in cost of removal.

Q. Well, it is accruing more than it has incurred in the historical past for net salvage; isn't that true?

A. Yes.

Q. But you are not saying it is incurring more than it will incur in the future. You are not -- you don't have an opinion on that, do you?

A. I don't know what it will incur in the future.

Q. Okay. Do you know if Ameren UE's overall plant has been increasing or decreasing in recent years?

A. I think it's been increasing due to additions.

Q. Do you know by how much?

A. I don't know by how much.

Q. I would like to talk a little bit about inflation and your opinion of it. I guess the first question I have is would it be fair to say that the cost of retiring plant in the future is likely to be higher than the cost of retiring plant today?

A. Yes. That's another reason why we feel that net salvage should be expensed.

Q. So it doesn't reflect those higher costs that will be incurred in the future?

A. Because it is hard to predict. Today's dollar will be different from tomorrow's dollar, so it is hard to predict, due to inflation, what type of gross salvage you may get.

Q. Okay. But even if you can't predict exactly the amount of inflation, and I agree with you we can't, would you agree with me that inflation exists, and therefore, to some degree, it is going to be more expensive to retire plant in the future than it is to retire the same plant today?

A. Yes.

Q. Okay. And if the plant is in service for a relatively long period of time, say 20 or 30 years, would it be fair to say that the cost of retiring it is likely to be much higher than it is today?

A. It is fair to say the cost of removal will be much higher. Yes.

Q. And it could even be multiples of what it would cost to retire it today; is that fair to say, two or three times maybe?

A. Maybe.

Q. And is it fair to say that the staff's treatment of net salvage gives no consideration to the effect of inflation between now and a future date that plant that is currently in service will be retired?

A. I guess if you were doing it in the traditional method, you would try to consider that, but however, there is really no way to predict that. So that's why -- one of the reasons why we chose to take net salvage out of the whole life depreciation rate.

Q. I mean, because it doesn't give any consideration to the effect of inflation; is that true?

A. No. I mean --

Q. Or does it give effect -- or does it take into account the effect of inflation?

A. There is really no way you can predict inflation, what it is going to be.

Q. Okay. So there is no factor in the staff's net salvage cost that they allow to account for inflation, because you can't predict it; is that true?

A. That's true.

Q. Are there any circumstances that you would recommend the traditional treatment of net salvage cost as a component of depreciation expense?

A. No.

Q. It is my understanding that in some Commission cases recently the Commission has adopted the staff's approach to net salvage, and in at least one case, which is the St. Louis County Water Company case, it didn't. Is that your understanding as well?

A. Yes, but that was -- that particular company had an infrastructure problem, and it was looked at differently.

Q. Okay. And if you -- well, you just told me that there were no circumstances that you would recommend the traditional treatment of net salvage.

So if you were confronted with the St. Louis County Water Company case again and you were to make the recommendation, would you recommend the traditional treatment of net salvage, or would you still recommend the new expensing of net salvage?

A. I would recommend the same recommendation I made for this case.

Q. But your understanding of why the Commission did was because of St. Louis County's need for infrastructure enhancement.

A. Yes.

Q. And I guess there were no in the Laclede case -- again, I don't know. Are you familiar with the Laclede GR-99-315 decision?

A. Yes.

Q. I guess there wasn't the same kind of evidence about infrastructure replacement in the Laclede case. Is that fair to say?

A. That's correct.

Q. Let me ask you about another subject. Can you explain to me your understanding of what the life span approach to depreciation is?

A. Yes. The life span method is associated with the plant that has large units, and during the life of that property, there are interim retirements at the end of -- at the end of the life of that plant, there is a final retirement where everything associated with that is retired at one time.

Q. Okay. And is the reason that you would use a life span approach because the characteristics of a large unit of property like that are different from mass property like wires or poles?

A. Yes.

Q. Okay. And specifically what kind of assets would you apply a life span approach to?

A. Building, gas holders.

Q. What about an electric plant? That leaps to my mind.

A. A building would apply to an electric plant.

Q. Look on page 11 of your testimony. Maybe that will help.

A. Power plants.

Q. Any other ones?
A. I can't think of any other right now.
Q. Okay. Can you explain how the -- tell me how that works again. Maybe you just did, but how interim retirements work under a life span approach.
A. Well, like you have a building, you know, that you may have a roof that needs to be replaced every ten years, and you know that it's got, like, 100 year life. So the interim retirements would be retirement of that roof every ten years.
Q. Okay. But then you would know at the end of the 100 years, the building and all of its contents are retired; is that right?
A. Yes.
Q. So let's say you had, you know, a furnace in a building that lasts 100 years and the furnace lasts 70 years. So after 70 years, you put in a new furnace, and in theory, the furnace could last 70 years, but is it fair to say that because you know the building is going to be torn down after the 100 years that second furnace has to be depreciated over just the 30 years of remaining life of the building? Is that true, or have I misunderstood?
A. I think you can say that.
Q. Okay. Are you recommending the life span approach in this case for Ameren UE's power plants?

A. Yes, for those life span accounts except for the mass property accounts.

Q. Okay.

A. Well, when you say life span method, part of that includes estimating a final retirement date, and we are not estimating final retirement dates on property.

Q. Why not?

A. Because there is -- every time we talk to company personnel, they don't say that, you know, in 20 years, this place is going to be gone. There never really is talk of, well, this whole place is gone in 10, 20 years. There never is a finite date. So it is kind of hard to predict.

Q. Did you ask for a finite date?

A. I didn't ask for a specific date, but I asked how much longer you think that a certain part of the plant may last.

Q. Well, how do you know -- how can you -- then how are you -- let me start over.

How are you depreciating the original cost of those plants, the fossil fuel plants?

A. By determining the average service life and taking the original -- well, one over the average service life which gives you the depreciation rate.

Q. Okay. So couldn't you use that as the life for purposes of the life span approach?

A. Yes.

Q. And again, let me see if I understand how you are handling interim retirements on the power plants. Maybe you could explain that to me.

A. Well, I think you should understand that with life span accounts, when trying to estimate the final retirement, that would be done -- not the estimating of the final retirement date, but when the final -- when the plant is finally going to be demolished or green field or what have you, depreciation engineers would then look at the net salvage cost at that time.

Q. Okay. Let's forget for the moment forget about the demolition cost or the decommission cost of those plants. For purposes of interim retirements, how are you handling the interim retirements on those power plants?

A. When you mean "handling," how am I determining the depreciation rate?

Q. Yeah.

A. Like I said earlier, one over the average service life.

Q. That's for the original cost of the plant, right?

A. Correct.

Q. I am talking about what if they retire a boiler or retire -- make an interim retirement of some component of that plant? How do you determine the depreciation effect of that?

A. Well, as far as net salvage, I mean, that's -- whatever cost of removal and gross salvage associated with that retirement at that time would be expensed, but it would have the same average service life.

Q. Okay. Let me give you an example. We're not communicating right. It is because I don't understand this stuff that well, but say you got a power plant, and your average service life is 40 years for that power plant, and you've got a boiler in that power plant, and the average service life of the boiler is 30 years. Okay.

Now, at the end of 30 years, the boiler is replaced, and now, what is the depreciation you use for that new boiler? Do you use the 10 years of life that the plant has left, or do you use 30 years of life for the boiler?

A. You use the 30 year life, and more than likely, at the end of the 30 years, because they make so many additions to that, it will probably last longer than 30 years.

Q. But not if they tear down the plant at the end of 40 years.

A. Right.

Q. And that's the assumption that's implicitly built into depreciating the original cost of the plant, isn't it?

A. That's the assumption?

Q. Yes. That's why it is depreciated over, in my example, 40 years.

A. I guess I don't understand what you are asking.

Q. Well, if you depreciate the original cost of the plant over 40 years, isn't the implicit assumption in that that the plant is going to be used for 40 years and not used after that?

A. That's the assumption, but normally it doesn't happen that way. Well, for your nuclear plant, it's got a 40 year license life. So everything associated with a nuclear plant has a -- currently has a 40 year life, and I did not change that in my recommendation.

Q. Okay. So if we replace a component of that nuclear plant, and the component -- well, and the component would normally last longer than the 40 year life of the nuclear plant, do you shorten the life of that component to reflect the fact that the life of the nuclear plant is 40 years?

A. No.

Q. Okay. So isn't that an inconsistency? You're depreciating the original cost over 40 years, but these components you are allowing to depreciate beyond the 40 year period.

A. No. Every individual piece of equipment would have the 40 year life, and at the end of the 40 year, if they decide to decommission the plant, then everything would