

Exhibit No.:
Issues: 4 CSR 240-10.020
Witness: Gary S. Weiss
Sponsoring Party: Union Electric Company
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: February 27, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

SURREBUTTAL TESTIMONY

OF

GARY S. WEISS

ON

BEHALF OF

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

**St. Louis, Missouri
February, 2007**

SURREBUTTAL TESTIMONY

OF

GARY S. WEISS

CASE NO. ER-2007-0002

Q. Please state your name and business address.

A. My name is Gary S. Weiss. My business address is One Ameren Plaza, 1901
 cau Avenue, St. Louis, Missouri 63166-6149.

Q. Are you the same Gary S. Weiss that filed Direct and Rebuttal Testimony proceeding?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. I am responding to certain issues raised by Missouri Public Service Commission Staff witness Robert Schallenberg and State of Missouri witness Michael [REDACTED] in their Rebuttal Testimony concerning the application of Commission rule 4 CSR 240-10.020. Both of these witnesses question the Company's calculation of the impact on its rate of return from the application of 4 CSR 240-10.020 as shown on Schedule GSW-10.020 attached to my Supplemental Direct Testimony.

Q. How do Mr. Schallenberg and Mr. Brosch suggest that the application of 240-10.020 could differ from the Company's calculation and application?

A. Mr. Schallenberg and Mr. Brosch suggest that one possible interpretation of the law is that the full accumulated depreciation reserve should be deducted from rate base. The Commission agrees that such a credit must be provided to reflect the 3% earnings on the accumulated depreciation reserve.

1 reserve. This would equate to a double counting of the credit owed to customers due to the
2 accumulated depreciation reserve.

3 **Q. Is this how the Commission intended 4 CSR 240-10.020 to be applied?**

4 A. Clearly it is not how the Commission intended that the rule would be applied.
5 The order in Commission Case No. 10,723, effective January 31, 1946 (which implemented
6 the rule) states: "It is obvious, however, that if the utilities allowable return is reduced by
7 income on depreciation funds, the utility rate base upon which the allowable return is
8 predicated, should be an undepreciated rate base." 27 Missouri PSC Reports 293 (1946).
9 This finding makes it crystal clear that the Commission did not intend that the utility should
10 both provide a 3% credit to customers and reduce rate base by the accumulated depreciation
11 reserve.

12 **Q. Would the interpretation of 4 CSR 240-10.020 suggested by**
13 **Mr. Schallenberg and Mr. Brosch be in contradiction of the Commission's intent to**
14 **allocate risks and rewards between the utility and its customers?**

15 A. I believe so. As it states in the order in Case No. 10,723 "The utilities assume
16 all of the hazards and risks associated with the ownership, management and operation of such
17 property, including any losses or reductions of earnings below a fair or compensatory return,
18 whereas the customers assume no responsibilities or risks whatever, with respect to the
19 property....However, the customers are entitled to share in such income at least to the extent
20 of the value of depreciation funds." *Id.* at 296. The 3% earnings on the depreciation reserve
21 in rule 4 CSR 240-10.020 provides the customer sharing of that income. To also reduce the
22 rate base by the accumulated depreciation reserve would provide additional income to the

1 customers beyond that contemplated by the rule. This would have the effect of giving all of
2 the benefit of the depreciation reserve to the customers and none to the utilities.

3 **Q. Has the Staff previously agreed with the Company's position on how the**
4 **impact of 4 CSR 240-10.020 should be calculated, if the rule is applied?**

5 A. Yes. In his deposition in Case No. EC-2002-1 on April 24, 2002, Staff
6 witness Gregory Meyer walked through an example of how 4 CSR 240-10.020 would impact
7 the Company's revenue requirement if it was applied, and agreed the Company's calculation
8 was correct. The relevant pages from Mr. Meyer's deposition are attached as Schedule GSW-
9 E41. The example presented to Mr. Meyer in his deposition was consistent with the
10 Company's position on the application of the rule in this case.

11 **Q. Does the Company's calculation and application of 4 CSR 240-10.020**
12 **meet the requirements of the rule?**

13 A. Yes. Schedule GSW –E38 attached to my Supplemental Direct Testimony
14 follows the requirements of the rule. The accumulated depreciation reserve is not deducted
15 from the rate base and the 3% earnings on the accumulated depreciation reserve is a credit to
16 the revenue requirement..

17 **Q. Are you recommending that the Commission follow rule 4 CSR-240-**
18 **10.020 in this case?**

19 A. No. Although the Company believes that this rule remains in effect and
20 should be applied, this is a legal issue which will be addressed in briefs to be filed in this
21 case. The purpose of my testimony is to provide the correct calculation of applying rule
22 4 CSR-240-10.020 in this case.

1 **Q. Does this conclude your Surrebuttal Testimony?**

2 **A. Yes, it does.**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

THE STAFF OF THE MISSOURI)
PUBLIC SERVICE COMMISSION,)

Complainant,) Case No. EC-2002-1 ,

vs.)

UNION ELECTRIC COMPANY d/b/a)
AMERENUE,)

Respondent.) April 24, 2002
Jefferson City, Mo.

DEPOSITION OF GREGORY MEYER

COPY

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spherion.

1 A. When you are dealing with a total
2 figure, and again, I believe it's 460 million,
3 it's not too hard to calculate different periods
4 just using your head but not ever putting it into
5 an EMS run.

6 Q. Did you look at any periods over
7 twenty years, or is that like the maximum that
8 you would consider?

9 A. I don't recall specifically looking at
10 anything larger than twenty.

11 MR. BYRNE: I think I need to mark a
12 couple exhibits.

13 (Whereupon, a discussion was held off
14 the record.)

15 (Whereupon, Exhibit Nos. 1 and 2 were
16 marked for identification.)

17 Q. Mr. Meyer, I have had two exhibits
18 marked. Have you had a chance to look at those
19 at the break?

20 A. I have reviewed them briefly.

21 Q. Okay. The first one is -- I guess
22 it's Meyer 1, and it is 4 CSR 240-10.020, which
23 is the Commission rule on income on depreciation
24 fund investments; is that correct?

25 A. That's what the title says.

1 Q. I mean, the rule speaks for itself,
2 but generally doesn't it talk about crediting
3 ratepayers for income from the investment of
4 depreciation funds?

5 A. That's what I got out of reading it so
6 far.

7 Q. And the second document, which has
8 been marked Meyer 2, is a page out of the
9 Missouri Register, volume 26, number 17,
10 September 4th, 2001, page 1659, and it's got a
11 proposed rescission of that rule in that; is that
12 correct?

13 A. Yes, that's correct.

14 Q. And there is a paragraph in that
15 proposed rescission that says purpose. Do you
16 see that paragraph?

17 A. Yes.

18 Q. And toward the end of that paragraph
19 -- or the bottom half of that paragraph says I
20 guess in explaining the reasons for repealing it,
21 it says "The rule is obsolete concerning rate
22 based regulated companies. The rule prescribes
23 the uses of income on investments from
24 depreciation funds, the appropriate interest
25 rate, and how the funds are accounted for when

1 setting reasonable rates. The current practice,
2 which has been used for several decades, is to
3 use the accumulated depreciation reserve amount
4 as a reduction to rate base when calculating
5 reasonable rates." Is that a correct reading of
6 that?

7 **A. You read it correctly.**

8 **Q.** Okay. I guess what I'd like to ask
9 you using a simple example is how does the
10 Commission calculate rates accounting for the
11 accumulated depreciation reserve currently, and
12 how would it do it under the terms of this rule.
13 The example I have hopefully that's simple enough
14 to follow, let's imagine a utility has a
15 billion -- that's billion with a B -- dollars in
16 original cost rate base. Let's say it has 500
17 million dollars in accumulated depreciation.
18 Let's say the Commission determines that an
19 overall rate of return of ten percent would be
20 the appropriate overall rate of return for the
21 utility. Now, my understanding is -- I realize
22 this is an oversimplified example, but my
23 understanding is the way things work under the
24 Commission's current practice is that it would
25 take the one billion dollars, billion with a B,

1 of original cost rate base. It would subtract
2 the 500 million dollars of accumulated
3 depreciation, yielding a result of 500 million
4 dollars. Then it would multiply the authorized
5 return by the net rate base number of 500 million
6 dollars, yielding a return component in the rates
7 of 50 million dollars. Is that correct?

8 **A. That would be its required return, 50**
9 **million dollars, under your assumptions.**

10 Q. Okay. Now, under this rule that's
11 obsolete and proposing to be repealed, my
12 understanding is that the accumulated
13 depreciation reserve is not subtracted from the
14 rate base. Instead, using my example
15 calculation, you would multiply the original cost
16 rate base, which is the one billion dollars,
17 times the ten percent authorized return, and you
18 would get a return of 100 million dollars. Then
19 as an offset to that return, the ratepayers would
20 get a credit for the investment income earned on
21 accumulated depreciation reserve of three
22 percent. So the ratepayers then would get a
23 credit of three percent times the accumulated
24 depreciation reserve of 500 million dollars,
25 which would be 15 million dollars a year. So the

1 net effect of applying this rule in my simple
2 example would be a 100 million dollar return
3 reduced by a fifteen million dollar credit. Is
4 that your understanding?

5 A. I am sorry. I didn't understand how
6 you got the fifteen million.

7 Q. I got the fifteen million by giving
8 the ratepayers a credit under 4 CSR 240-10.020,
9 giving them a credit of three percent for income
10 from investment of the accumulated reserve.

11 A. That's correct. The only thing I
12 would add to that is your example assumes that
13 the rate of return as traditionally been applied
14 under the Commission's rate base regulation would
15 remain constant between your two scenarios.

16 Q. Got you. I am asking you to assume
17 the rate of return is the same in the two
18 scenarios. Okay. I'd like to shift gears for a
19 second and ask you some questions about test
20 year. I know you have been asked some questions
21 before, so hopefully this won't be too long.
22 Just for point of reference, can you tell me what
23 test year is?

24 A. Generally a test year would be a
25 twelve month period used to establish the proper

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

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

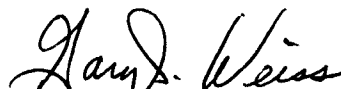
Case No. ER-2007-0002

AFFIDAVIT OF GARY S. WEISS

STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)


Gary S. Weiss, being first duly sworn on his oath, states:

1. My name is Gary S. Weiss. I work in St. Louis, Missouri and I am employed by Ameren Services Company as Manager Regulatory Accounting.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 4 pages and Schedule GSW-E41, which has been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



Gary S. Weiss

Subscribed and sworn to before me this 27th day of February, 2007.



Notary Public

My commission expires: May 19, 2008

