

July 9, 2002

VIA HAND DELIVERY



Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
Jefferson City, MO 65101

Re: MPSC Case No. EC-2002-1

Dear Mr. Roberts:

Enclosed for filing on behalf of Union Electric Company, d/b/a AmerenUE, in the above matter, please find an original and eight (8) copies of its Request That The Commission Take Administrative Notice of the Transcript from Case No. ER-2002-217.

Kindly acknowledge receipt of this filing by stamping a copy of the enclosed letter and returning it to me in the enclosed self-addressed envelope.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas M. Byrne", with a stylized flourish at the end.

Thomas M. Byrne
Associate General Counsel

TMB/bb
Enclosures

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

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

**REQUEST OF UNION ELECTRIC COMPANY
THAT THE COMMISSION TAKE ADMINISTRATIVE
NOTICE OF THE TRANSCRIPT FROM CASE NO. ER-2002-217**

COMES NOW Union Electric Company d/b/a AmerenUE ("the Company" or "UE") and hereby requests that the Missouri Public Service Commission take administrative notice in this proceeding of the transcript of the June 11, 2002 hearing in *Re: Citizens Electric Corporation*, Case No. ER-2002-217. In support hereof, UE states as follows:

1. On June 11, 2002, the Commission held a hearing in which it received a unanimous stipulation and agreement, presented by the parties to Case No. ER-2002-217, a rate proceeding involving Citizens Electric Corporation ("Citizens"). A copy of the transcript of that hearing is attached hereto as Appendix A. During the course of that hearing, the Commissioners and some of the parties asked questions of witnesses to that proceeding that have a direct bearing on the issues being addressed in the instant proceeding. Specifically, in response to questions from Commissioner Murray, Staff

witness Paul W. Adam, the Staff's depreciation witness in the *Citizens* case, testified that he believed that the Staff's proposal to treat net salvage as an expense item was in opposition to the Commission's rules. (Transcript, p. 29.) In addition, in response to questions from Commissioner Murray, Mr. Adam provided background concerning the development of the Staff's position on net salvage. Mr. Adam testified that he spent a disproportionate time on the depreciation issue in the *Citizens* case even though he anticipated that the issue would settle, and that he used the *Citizens* case to promote the Staff's overall position that net salvage should be treated as an expense item, rather than as a component of the depreciation calculation. (Transcript, pp. 30-31.) Mr. Adam also acknowledged that the removal cost recommended by the Staff for *Citizens* bears no relationship to the assets of *Citizens* which are being depreciated. (Transcript, p. 46.) Finally, he admitted that the Staff's methodology would require the Company to recoup net salvage costs from future ratepayers who do not get the benefit of the use of the assets. (Transcript, p. 46.)

2. Since the Staff is proposing an identical treatment of net salvage in the instant case as it proposed in *Citizens*, Mr. Adam's statement that he believes the Staff's proposal is in opposition to the Commission's rules is directly relevant to the Commission's resolution of the issue in this case. Likewise, his testimony about the lack of relationship between Staff's proposed treatment of net salvage and assets in service, as well as his statements about intergenerational equity problems that result from Staff's proposed treatment of net salvage costs are equally applicable to this case. Moreover, Mr. Adam's admission that the Staff has used stipulated cases, such as the *Citizens* case, to promote its overall position on the treatment of net salvage is an important fact for the

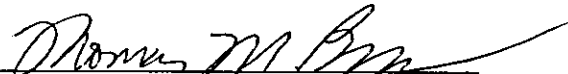
Commission to consider in weighing its own precedents in which net salvage costs were treated as an expense item.

3. Mr. Adam is not a witness in the instant proceeding, and therefore there is no opportunity for UE, any of the other parties to this case, or the Commission to obtain Mr. Adam's testimony on these important matters through oral examination at the hearing or otherwise. However, it is clearly permissible for the Commission to take administrative notice of documents in its own records, such as this transcript. *See Re: North Central County Fire Alarm System*, 28 Mo.P.S.C. (N.S.) 29, 36 (1985); *In the Matter of the Application of John Farley d/b/a Bowling Green Express*, 26 Mo. P.S.C. (N.S.) 593, 597 (1984); *Re: Southwestern Bell Telephone Co.*, 24 Mo. P.S.C. (N.S.) 516, footnote 3 (1981). In this case, taking administrative notice of the transcript of the *Citizens* hearing will provide the Commission with background on the Staff's development and implementation of its initiative to change the treatment of net salvage which it can receive from no other source.

WHEREFORE, for the reasons stated herein, UE respectfully requests that the Commission take administrative notice of the transcript of the June 11, 2002 hearing in *Re: Citizens Electric Corporation*, Case No. ER-2002-217.

Respectfully submitted,

UNION ELECTRIC COMPANY
d/b/a AmerenUE

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served via electronic mail and first class U.S. mail, postage prepaid, on this 9th day of July, 2002, on the following parties of record:

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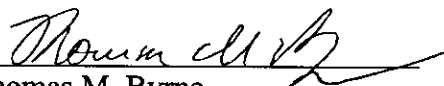
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Thomas M. Byrne

0007

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

HEARING ON
STIPULATION AND AGREEMENT

June 11, 2002
Jefferson City, Missouri
Volume 2

In the Matter of the Application)
of Citizens Electric Corporation) Case
for Approval of Interim Rates,) No. ER-2002-217
Subject to Refund, and for a)
Permanent Rate Increase)

BEFORE:

NANCY M. DIPPELL, Presiding,
SENIOR REGULATORY LAW JUDGE.
KELVIN SIMMONS, Chair
CONNIE MURRAY,
SHEILA LUMPE,
STEVE GAW,
BRYAN FORBIS,
COMMISSIONERS.

REPORTED BY:

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ASSOCIATED COURT REPORTERS
714 West High Street
Post Office Box 1308
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(573) 636-7551

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APPEARANCES:

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LISA COLE CHASE, Attorney at Law
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FOR: Citizens Electric Corporation.

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BYRON E. FRANCIS, Attorney at Law
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FOR: Mississippi Lime Company.
JOHN B. COFFMAN, Deputy Public Counsel
RUTH O'NEILL, Legal Counsel
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FOR: Office of Public Counsel and the Public.
STEVEN DOTTHEIM, Chief Deputy Counsel
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P.O. Box 360
Jefferson City, Missouri 65102
573.751.6434
FOR: Staff of the Missouri Public Service
Commission.

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P R O C E E D I N G S

(Written Entries of Appearance filed;
Exhibit Nos. 1 through 13 were marked for
identification.)

JUDGE DIPPELL: Let's go ahead and go on the
record.

Okay. We're on the record.

This is Case No. ER-2002-217, in the matter
of the application of Citizens Electric Corporation
for approval of interim rates subject to refund and
for a permanent rate increase.

My name is Nancy Dippell. I'm the Law Judge
assigned to this matter, and we have come here today
on June 11th, 2002, for a stipulation hearing. This

15 procedure is a little different than normal, so what
16 we're going to do is start out with entries of
17 appearance, and then if any of the parties would like
18 to make opening statements, we'll have those.

19 Then we'll have some questions for some
20 specific witnesses from the Commission, and I'll let
21 you-all, after each of those -- after all of the
22 Commissioners have asked questions of each witness, if
23 any of the attorneys have follow-up questions, you'll
24 be allowed to ask those then.

25 I have asked the court reporter if she can

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1 expedite the transcript and she said that she could.
2 That way the Commission can make a decision on this as
3 quickly as possible, and if the Stipulation and
4 Agreement is accepted, then we'll be cancelling the
5 remainder of the procedural schedule.

6 So let's begin then with entries of
7 appearance.

8 Can I go ahead and start with the Company,
9 Citizens Electric?

10 MR. SCOTT: Victor Scott and Lisa Chase with
11 the law firm Andereck, Evans, Milne, Peace and
12 Johnson, 700 East Capitol Avenue, P.O. Box 1438,
13 Jefferson City, Missouri, 65102, attorneys for
14 Citizens Electric Corporation.

15 JUDGE DIPPELL: Thank you.
16 Staff?

17 MR. MEYER: This afternoon we have David
18 Meyer, Steven Dottheim, Eric Anderson and Bruce Bates
19 for the Staff of the Commission. Our address is
20 P.O. Box 360, Jefferson City, Missouri, 65102.

21 JUDGE DIPPELL: Office of the Public
22 Counsel?

23 MR. COFFMAN: Appearing on behalf of the
24 Office of the Public Counsel, John B. Coffman, P.O.
25 Box 7800, Jefferson City, Missouri, 65102.

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1 JUDGE DIPPELL: And Missouri (sic) Lime
2 Company?

3 MR. TURNER: On behalf of Mississippi Lime
4 Company, Matt Turner and Byron Francis with the law
5 firm Armstrong Teasdale, LLP, One Metropolitan Square,
6 Suite 2600, St. Louis, Missouri, 63102.

7 JUDGE DIPPELL: Mr. Turner, is Mr. Francis
8 here?

9 MR. TURNER: No, he's not.

10 JUDGE DIPPELL: He's not actually here right

11 now.

12 Thank you.

13 Okay. Then I'm going to -- what we're going
14 to do next is to go ahead and I'll go off the record
15 for a little while and get the Commissioners, and when
16 we return, if you have any opening statements, you can
17 make those at that time.

18 Let's go ahead and go off the record.

19 (A recess was taken.)

20 JUDGE DIPPELL: Let's go back on the record.

21 Before we began, I did want to say that we
22 marked -- pre-marked the exhibits before we went on
23 the record and at this time I'd like to go ahead --
24 the parties had stipulated in their Stipulation and
25 Agreement to the admissibility of exhibits at the

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1 stipulation hearing; is that correct?

2 MR. MEYER: That is correct.

3 MR. SCOTT: Yes, your Honor.

4 JUDGE DIPPELL: All right. Then we're
5 going to go ahead and admit those exhibits. And
6 it's -- Exhibit 1 is the Unanimous Stipulation and
7 Agreement. Exhibit 2 are the accounting schedules of
8 Staff. Exhibit 3 is the Direct Testimony of Paul
9 Adam. Exhibit 4 is -- I can't read my writing.

10 Which one was Exhibit 4?

11 MR. MEYER: Edward Began.

12 JUDGE DIPPELL: Okay. Edward Began's Direct
13 Testimony for Staff. Exhibit 5 is the Direct
14 Testimony of Dana Eaves. Exhibit 6 is the Direct
15 Testimony of Janis Fischer. Exhibit 7 is the Direct
16 Testimony of Leslie Lucus. Exhibit 8P and NP is the
17 Direct Testimony of Roberta McKiddy. Exhibit No. 9 is
18 the Direct Testimony of Steven Rackers. And Exhibit
19 No. 10 is the Direct Testimony of James Watkins.
20 Those are all for Staff.

21 And then Exhibit No. 11 is the Direct
22 Testimony of Georgia Peifer. Exhibit No. 12 is the
23 Direct Testimony of Jody Breazeale. Exhibit No. 13 is
24 the Direct Testimony of Daniel Rodamaker, and those
25 are all for Citizens Electric Company.

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1 That was all of the prefiled testimony.

2 Is there any objection to any of those
3 exhibits coming into the record for purposes of the
4 Stipulation hearing?

5 MR. SCOTT: None, your Honor.

6 MR. MEYER: No.

JUDGE DIPPELL: Seeing no objections, then those will all be admitted into the record.

(Exhibit Nos. 1 through 11 were received into evidence.)

JUDGE DIPPELL: Is there any opening statement by Citizens Electric?

MR. SCOTT: Very briefly, your Honor.

My name is Victor Scott, corporate counsel and attorney for Citizens Electric Corporation.

As the Commissioners all know, Citizens Electric Corporation is a member-owned organization of approximately 22,000 member owners located in St. Genevieve, Missouri.

This rate case was asking for rate relief as part of a wholesale power contract, as well as a rate increase on their wires side of their business after approximately 20 years of stable if not declining rates.

We support the Stipulation, and we thank the

Staff for the efforts they put in in helping us come before the Commission and provide enough evidence and information for the Commission to approve the Stipulation and the proposed rate tariffs as we have negotiated them out. Thank you.

JUDGE DIPPELL: Thank you.

Is there any opening statement by Staff?

MR. MEYER: No, your Honor.

Public Counsel?

MR. COFFMAN: Yes, just a second.

I just wanted to note that Public Counsel in choosing to allocate its resources in this case, chose not to file any prepared testimony. One of the reasons that we did not was the fact that we do view this, as an electric cooperative, differently than we do the other regulated investor-owned utilities.

Staff, based on its filings, has taken the approach that -- it approached this case essentially the same way it does investor-owned utilities. The Office of the Public Counsel does not quite view Citizens Electric as it does other investor-owned. Most electric cooperatives in the state are not regulated by the Commission. We recognize in some sense their customers are analogous to shareholders as well.

That being said, we did review all of the testimony and reviewed the rates proposed, the revenue

3 requirement and rate design in this case, and we do
4 recommend that the Stipulation be approved and believe
5 it is just and reasonable. Thank you.

6 JUDGE DIPPELL: Thank you.

7 Is there any opening statement from Missouri
8 (sic) Lime?

9 MR. TURNER: No, your Honor.

10 JUDGE DIPPELL: All right, then. We'll go
11 ahead and begin with the first witness that the
12 Commission has some questions for, and that is
13 Ms. Pheifer (sic), Georgia Pheifer (sic), who is with
14 Citizens. If I could get you to go ahead and come
15 forward.

16 Would you please raise your right hand?

17 (Witness sworn.)

18 JUDGE DIPPELL: Thank you.

19 Go ahead, Mr. Scott.

20 MR. SCOTT: Thank you, your Honor.

21 GEORGIA LEIGH PEIFER testified as follows:

22 DIRECT EXAMINATION BY MR. SCOTT:

23 Q. Could you please state your full name for
24 the record?

25 A. Georgia Leigh Peifer.

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1 Q. And who do you work for?

2 A. I work for Citizens Electric Corporation.

3 Q. And how long have you worked there?

4 A. I've worked there since January of '99.

5 Q. Okay. Did you file testimony in this
6 matter?

7 A. Yes, I did.

8 Q. And has it been previously marked as
9 Exhibit 11?

10 A. Yes, that's correct.

11 Q. And have you reviewed that testimony lately?

12 A. Yes, I have.

13 Q. And if I asked you the same questions today
14 as is in your testimony, would your answers be the
15 same?

16 A. Yes.

17 Q. And do you have any additions or corrections
18 to that testimony?

19 A. No, I do not.

20 MR. SCOTT: At this time, your Honor, I
21 would tender the witness.

22 JUDGE DIPPELL: Thank you.

23 Ms. Peifer, I'm sorry. I believe I was
24 mispronouncing your name.

25 THE WITNESS: That's all right.
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1 JUDGE DIPPELL: We're going to begin with
2 Commission questions, and then after Commission
3 questions, I'll give the attorneys an opportunity to
4 ask some rebuttal or clarifying-type questions.

5 Chair Simmons, do you have any questions for
6 this witness?

7 COMMISSIONER SIMMONS: I have no questions
8 for the witness.

9 Thank you, your Honor.

10 JUDGE DIPPELL: Commissioner Murray?

11 COMMISSIONER MURRAY: Thank you.

12 QUESTIONS BY COMMISSIONER MURRAY:

13 Q. Good afternoon, Ms. Peifer.

14 A. Good afternoon.

15 Q. Would you take the Stipulation and
16 Agreement -- do you have that in front of you?

17 A. No. I'm sorry. I don't. I can get a copy,
18 though.

19 Thank you.

20 Q. And please turn to page 3, paragraph 10.

21 A. Okay.

22 Q. And the first sentence there under
23 paragraph 10 that citizens will continue to keep its
24 accounting records regarding depreciation expense and
25 accumulated provision for depreciation in accordance

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1 with the Rural Utility Service accounting guidelines,
2 is that in accordance with the -- what Mr. Adam has
3 referred to as the traditional whole life method?

4 A. Yes, that is the case.

5 Q. And is that also the -- if you know, the
6 accounting guidelines of FERC?

7 A. Yes, it is.

8 Q. Thank you.

9 And then on page 4, the -- it's about one,
10 two, three, four -- four lines down, the statement, To
11 determine the net salvage cost - net salvage/cost of
12 removal separate expense item, Citizens will total the
13 annual salvage cost and subtract the total annual cost
14 of removal.

15 That is for the Missouri recording
16 requirement under the Stipulation and Agreement; is
17 that right?

18 A. Yes, that's correct.

19 Q. So Citizens will be keeping two sets of
20 books on depreciation?

21 A. Yes, on -- at least on an annual basis. It
22 won't be -- the second set will not be a very detailed
23 set, but we will do an annual reconciliation to bring
24 us back to the method that the Public Service
25 Commission has requested.

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1 Q. That the Staff of the Public Service
2 Commission?

3 A. The Staff of the Public Service Commission,
4 yes.

5 Q. And is that in accordance with Mr. Adam's --
6 what he's calling the full recovery, whole life
7 depreciation method?

8 A. Yes.

9 Q. And is that new for Citizens?

10 A. Yes.

11 Q. The first time you've ever been asked to
12 keep records for annual salvage costs that way; is
13 that correct?

14 A. As a separate expense item, yes.

15 Q. And that is different than you would be
16 required under the RUS or under FERC guidelines?

17 A. Yes. That's different.

18 Q. And do you know if that is -- do you know
19 why RUS requires you to keep the traditional whole
20 life accounting treatment?

21 A. I know that's the preferred method -- well,
22 that is the method that RUS requires all of their
23 borrowers to use, and I know they are concerned with
24 having all of their borrowers on the same method for
25 ease of comparison.

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1 Q. Okay. Does this separate record-keeping
2 that you are doing for the Missouri Commission under
3 this agreement, does that have any effect on your
4 bottom line?

5 A. It requires some additional time for our
6 staff, for our accounting staff. We anticipate
7 approximately 40 hours annually additional time for
8 our staff.

9 Q. And does it have any effect on your -- the
10 revenue increase that is allowed here under the
11 Stipulation and Agreement?

12 A. The revenue increase was based upon this
13 depreciation method, so there was some adjustments in
14 the revenue dollars for the change in depreciation
15 method.

16 Q. Can you tell me, for Citizens, was that an

17 insignificant amount, or was it -- how would you
18 categorize it?

19 A. I believe -- I believe it was approximately
20 84,000, so not insignificant, but not so great that --
21 that we did feel like it was something we could agree
22 to.

23 Q. And in the prefiled testimony that the
24 Company submitted, I don't recall really the Company
25 even going into the issue of depreciation treatment.

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1 Is that correct?

2 A. That -- that's correct. At that time, we
3 were not aware of the issue.

4 Q. Okay. When you say you were not aware of
5 the issue, do you mean you were not aware that Staff
6 was going to be recommending a totally different
7 treatment of net salvage?

8 A. Yes, that's correct.

9 Q. Okay. And then when Staff did recommend
10 that different treatment, was that at the time -- were
11 you already in talks about coming up with a settlement
12 for the Stipulation and Agreement?

13 A. Yes, we had some discussion at the time we
14 were putting the data requests together with some of
15 the Staff members, but, really, at the time that we
16 received a copy of the testimony of Mr. Adam and
17 became fully aware of the issue there.

18 Q. Okay. For the amounts that -- over the
19 years in your treatment of depreciation to date, there
20 have been amounts that have been forecasted for cost
21 of removal of the assets; is that right?

22 A. Our depreciation rates that we're currently
23 using, which do follow the RUS guidelines, the net
24 salvage value is part of those depreciation rates, so
25 yes.

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1 Q. So that a part of the -- or whatever the
2 estimated cost of removal of those assets has been
3 included in the depreciation rates. Right?

4 A. Yes, that's correct.

5 Q. Now, is there currently an amount in
6 reserve?

7 A. I don't believe so, if I understand what
8 you're meaning, "reserve" like setting aside an
9 escrowed amount or funds to be used for removal. Is
10 that what you mean?

11 Q. Yes. I guess I'm talking about a separate
12 account.

13 A. We have an accumulated reserve account that
14 represents all of the depreciation expense that has
15 been accumulated throughout the years as one line item
16 on our balance sheet that's a net against our gross
17 plant number, but there is no amount of dollars or
18 reserve actually set aside in order to remove assets.

19 Q. All right. Now, in making this transition
20 to the "full recovery whole life method," how is --
21 how is that transition being handled in terms of the
22 net that you're booking against gross plant
23 depreciation?

24 A. So according to our Stipulation and
25 Agreement, we would actually continue to keep our

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1 books by FERC accounting and RUS accounting. It's
2 only on an annual basis we would do the reconciliation
3 to the method that -- that has been outlined in this
4 Stipulation.

5 So we -- as it explains here, we would apply
6 the month-end balances to the ordered depreciation
7 rates, which those ordered depreciation rates have net
8 salvage as a separate expense item, and then we would
9 also capture that separate net salvage/cost of removal
10 expense item, and that figure then would be -- we
11 would reconcile to that figure for rate-making
12 purposes only, not for the way we are keeping our
13 books.

14 So our annual filing with RUS and, you know,
15 what appears on our audit report and so forth would
16 still be our current method of depreciation.

17 Q. And in terms of your ratepayers, who I
18 understand are in a different position than the
19 ratepayers that we normally regulate at this
20 Commission --

21 A. Yes.

22 Q. -- but in terms of the ratepayers, when will
23 they be contributing to the retirement of plant? Will
24 it be under the bookkeeping that you're doing for RUS,
25 or will it be under the bookkeeping that you're doing

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1 for the Missouri Public Service Commission?

2 A. It would be under the bookkeeping for the
3 Missouri Public Service Commission.

4 Q. All right. Now, help me walk through this.
5 If you have some plant that, say, is -- has
6 a 50-year life, and 25 years of it have already
7 passed, now, for that first 25 years to date, you've
8 been determining your depreciation under the

9 traditional whole life method, right --

10 A. Yes.

11 Q. -- for Missouri regulatory purposes as well
12 as RUS and FERC?

13 A. Yes.

14 Q. Now, you are being asked at year 25 of that
15 asset to change that depreciation.

16 At year 50 when that plant is retired, what
17 happens then?

18 A. The cost of -- we would have to capture the
19 salvage value of that and the cost of removal, and
20 that would be accounted for as a period expense. The
21 last 25 years of that after we changed our method, the
22 depreciation of that last 25 years would not have
23 captured any net salvage value.

24 Q. Although in actuality, it did.

25 A. The first 25 years did, yes.

0025

1 Q. But the full amount of retirement will be
2 charged to the current ratepayers at the time that
3 that 50 years comes around; is that right?

4 A. Yes. Of course, again, net salvage is
5 salvage minus cost of removal, so at that point in
6 time, you could have either a positive or a negative
7 there for the ratepayers.

8 Q. And, generally, what is your experience with
9 retirement of plant? Is it positive or negative?

10 A. Generally, it has been that the cost of
11 removal is higher than the net salvage, so I guess you
12 would look at that as negative to the ratepayers.

13 However, Citizens rarely removes high-dollar
14 plant. Our cost of removal is maybe a distribution
15 line that's no longer in use or a small substation
16 that's no longer in use. In our history we have not
17 retired major assets that may be the case in larger
18 utilities.

19 Q. So that, indeed, puts you in a different
20 position in terms of treatment of depreciation than a
21 large utility would be in --

22 A. Yes.

23 Q. -- looking at changing to a different method
24 than this?

25 A. Yes.

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1 Q. So is it -- would it be fair to say, then,
2 that this amount, the difference of \$84,000 and the
3 additional annual staff time of approximately 40
4 hours, was not a significant item to Citizens in

5 agreeing to this total Stipulation and Agreement?

6 A. Yes. We felt it was an area we could
7 compromise because we knew RUS was not going to allow
8 us to change our method. We wanted to be able to meet
9 both the regulations of RUS and the Missouri Public
10 Service Commission, so we thought it was an area we
11 could compromise by this annual reconciliation.

12 Q. And do you under-- I mean, do you -- do you
13 know, or do you have an opinion as to what would be
14 the purpose of your being asked to do these two
15 methods of accounting?

16 A. Not really. I mean, we feel like what we
17 have done for over 50 years and what all of the other
18 cooperatives in the nation have done in following the
19 RUS guidelines is an adequate way to capture our
20 depreciation expense and our accumulated depreciation.

21 Q. Okay. And do you understand that when this
22 Commission approves a Stipulation and Agreement that
23 we're not making any policy statement regarding the
24 things that were -- the issues that were agreed upon
25 in that Stipulation and Agreement? In other words, if

0027

1 we approve a Stipulation and Agreement that has this
2 depreciation method that you've agreed to, that's not
3 a policy statement that that is the Commission's
4 position on that issue or any other issue that was
5 reached as a compromise by the parties? Do you
6 understand that?

7 A. Just by your explanation today, yes, ma'am.

8 Q. It's -- I guess I'm asking you if you
9 understand that we are not making a statement one way
10 or the other about where we come down on the
11 individual issues within a Stipulation and Agreement
12 when we approve one?

13 A. Yes.

14 COMMISSIONER MURRAY: I think that's all of
15 the questions I have for you. Thank you very much.

16 THE WITNESS: You're welcome.

17 JUDGE DIPPELL: Thank you.

18 Commissioner Lumpe?

19 QUESTIONS BY COMMISSIONER LUMPE:

20 Q. Ms. Peifer or --

21 A. Peifer.

22 Q. Peifer not Pheifer. Okay. Peifer.

23 Do you know also have books for tax purposes
24 that -- for accelerated depreciation or do coops not
25 have that.

0028

1 A. No. Since we are not-for-profit, we do not
2 have a separate tax for depreciation.

3 Q. Okay. Because other for-profit ones have
4 two sets of books, anyway, so --

5 A. Yes. I'm familiar with some of the
6 accelerated methods for tax.

7 Q. And in the -- is there any difference in the
8 depreciation schedules of -- of RUS and Staff other
9 than the net salvage issue? In other words, is the
10 depreciation that you set aside for RUS, is it any
11 different from depreciation numbers of Staff?

12 A. Not other than the net salvage --

13 Q. The net salvage.

14 A. -- being captured as a separate item.

15 Q. May I ask you about some other numbers? Are
16 you a witness here that can talk to some of the
17 numbers?

18 A. Yes.

19 Q. Okay. Looking at a paragraph here that
20 says, The monthly bill will increase by \$3.70 or
21 4.5 percent, which when coupled with the interim
22 increase will result in an overall increase of \$11.21
23 a month, which is 14.7.

24 So this amount is added onto what the
25 interim amount is to come up with the \$11.21 --

0029

1 A. Yes.

2 Q. -- is that correct?

3 For some reason that sounds higher than what
4 you originally asked for, which was 13.9 percent.

5 A. I believe the 13.9 percent was an overall
6 company wide increase.

7 Q. Overall of all of the --

8 A. Yes.

9 Q. -- classes?

10 A. That's correct.

11 Q. Okay.

12 A. And this was referring to just residential.

13 Q. And this is just referring to the
14 residential --

15 A. Yes.

16 COMMISSIONER LUMPE: -- is that correct?

17 Okay. Thank you.

18 That explains that to me. Thank you.

19 That's all I have.

20 JUDGE DIPPELL: Commissioner Gaw?

21 COMMISSIONER GAW: Thank you, Judge.

22 QUESTIONS BY COMMISSIONER GAW:

23 Q. Good afternoon, Ms. Peifer.
24 A. Good afternoon.
25 Q. And are you able to address questions that I
0030

1 might have regarding the contract to purchase
2 wholesale power?

3 A. Actually, I was not involved in that
4 process.

5 Q. Is someone here who would be able to answer
6 those questions?

7 A. Yes. Mr. Rodamaker, our CEO, would be.

8 Q. I'll just wait for him then.

9 A. Okay.

10 COMMISSIONER GAW: That's all I have.

11 Thank you.

12 JUDGE DIPPELL: Commissioner Forbis?

13 COMMISSIONER FORBIS: No.

14 JUDGE DIPPELL: Okay. Are there any
15 follow-up questions from Staff?

16 MR. ANDERSON: Just a few, your Honor.

17 CROSS-EXAMINATION BY MR. ANDERSON:

18 Q. Ms. Peifer, I was just wondering if you
19 could give me an explanation of your current
20 depreciation practices as far as how the account is
21 ordered? It's my understanding that you keep an
22 average cost of the vintage of each plant. Basically,
23 you keep an average cost of all plant, all vintages
24 averaged, and then this value is used when plant is
25 retired; is that correct?

0031
1 A. Yes, that is correct.

2 Q. Okay.

3 A. And that is in accordance with RUS.

4 Q. Okay. With RUS, is there a set amount for
5 net salvage?

6 A. I don't really know all of the calculations
7 that RUS has in their depreciation rates.

8 Q. Okay.

9 A. I believe that they have -- I mean, I know
10 they have indicated that net salvage and cost of
11 removal are part of their depreciation rates, but
12 exactly how they come up with that, I'm unaware.

13 Q. Is that set at 10 percent for each account?

14 A. I believe with a conversation that an RUS
15 representative had with us on a conference call, I do
16 recall him referring to an approximate 10 percent,
17 but, again, I'm not sure if that's every category
18 across the board.

19 MR. ANDERSON: Okay. Thank you.
20 No further questions.
21 JUDGE DIPPELL: Any other questions from
22 Public Counsel?
23 MR. COFFMAN: No questions.
24 JUDGE DIPPELL: Missouri (sic) Lime?
25 MR. TURNER: No. Thank you.
0032
1 JUDGE DIPPELL: And did Citizens have any?
2 MR. SCOTT: None, your Honor.
3 JUDGE DIPPELL: All right, then.
4 Ms. Peifer, I believe -- or Peifer -- I keep saying it
5 wrong.
6 THE WITNESS: That's all right.
7 JUDGE DIPPELL: I believe you may step down.
8 THE WITNESS: Thank you.
9 JUDGE DIPPELL: Thank you.
10 (Witness excused.)
11 JUDGE DIPPELL: Let's go ahead, then, and
12 ask Mr. Rodamaker to come up so we can ask other
13 questions of him.
14 Would you please raise your right hand?
15 (Witness sworn.)
16 JUDGE DIPPELL: Thank you.
17 DANIEL H. RODAMAKER testified as follows:
18 DIRECT EXAMINATION BY MR. SCOTT:
19 Q. Would you please state your full name for
20 the record?
21 A. Daniel H. Rodamaker.
22 Q. And by whom are you employed?
23 A. Citizens Electric Corporation.
24 Q. And how long have you been there?
25 A. Two years.
0033
1 Q. And have you filed testimony in this
2 matter?
3 A. Yes, I have.
4 Q. And Exhibit 13, is that your testimony?
5 A. That's correct.
6 Q. And if I asked you the same questions today,
7 would your answers be the same?
8 A. Yes.
9 Q. And do you have any additions or corrections
10 to that testimony?
11 A. No, I do not.
12 MR. SCOTT: At this time, your Honor, I
13 would tender the witness.
14 JUDGE DIPPELL: Thank you.

15 Any questions for this witness from the
16 Commission?
17 Chair Simmons?
18 COMMISSIONER SIMMONS: No questions.
19 JUDGE DIPPELL: Commissioner Murray?
20 COMMISSIONER MURRAY: I don't believe I have
21 any.
22 JUDGE DIPPELL: Commissioner Lumpe?
23 COMMISSIONER LUMPE: No. Thank you.
24 JUDGE DIPPELL: Commissioner Gaw?
25 COMMISSIONER GAW: How did you know?

0034

1 QUESTIONS BY COMMISSIONER GAW:
2 Q. Good afternoon.
3 A. Good afternoon.
4 Q. I do want to ask some questions regarding
5 your power contracts.
6 It's my understanding that up through
7 December 31st of 2001 that you had a contract to
8 supply electricity from Union Electric Company doing
9 business as AmerenUE; is that correct?
10 A. That's correct.
11 Q. Was that your sole source of power before
12 that time?
13 A. That's correct.
14 Q. And approximately when did that -- I didn't
15 have an opening date on it because I didn't know. Was
16 there a time frame when that contract started?
17 A. It was a 15-year contract, and it was
18 extended one year for the period of 2001.
19 Q. Okay. And how were -- how was price
20 determined under that contract? Was it -- was it
21 determined by a formula or by a set rate?
22 A. It was determined by a set rate. It was a
23 bundled purchased power amount.
24 Q. Explain what you mean when you say, a
25 bundled purchased power amount, would you?

0035

1 A. The price of delivery of service to Citizens
2 Electric Corporation was based on a demand component
3 with an energy component, and that was for a 15-year
4 period with a one-year extension, and that included
5 both generation costs of electricity and delivery
6 costs of electricity to get it to our bulk
7 substations.
8 Q. All right. And -- okay. So the -- that
9 calculation, then, how often would that price change
10 to you? Would it be on a daily basis, on -- can you

11 give me a little detail about that?

12 A. In the -- in the old power supply
13 contract --

14 Q. Yes.

15 A. -- the contract that ended at the end of
16 2001, the only time that power supply contract would
17 change to us is if there was a change, number one,
18 with the cost -- or, excuse me, the contracts were on
19 file with the Federal Energy Regulatory Commission, or
20 in case B, when retail rates for Ameren customers
21 changed, then there would be a potential adder or a
22 decrease in that contract.

23 Q. Tell me how that would work, the last part
24 that you mentioned.

25 A. The last part?

0036

1 Q. Just in general.

2 A. Yes, sir.

3 The way that would work, in general, is if
4 the Public Service Commission of Missouri decided to
5 reduce the rates for Ameren retail customers residing
6 in the state of Missouri, then the amount of that
7 decrease would follow in Citizens wholesale power
8 supply contract.

9 Q. So if there was -- if there had been a
10 determination by the Missouri Public Service
11 Commission that rates should decrease, Citizens would
12 receive some decrease as well?

13 A. Yes, they would.

14 Q. All right. So it didn't work the other way?
15 If there was a decrease for Ameren's regulated
16 customers, you-all would get an increase?

17 A. That's correct.

18 Q. All right. And Union Electric Company,
19 d/b/a AmerenUE, is a regulated utility in the state of
20 Missouri; is that correct?

21 A. That's correct.

22 Q. Now, did Citizens attempt to renegotiate an
23 extended contract with Union Electric, d/b/a Ameren,
24 at some point prior to the ending of this -- of the
25 previous contract that you were in prior to

0037

1 December 31st of 2001?

2 A. Yes, we did. However, Ameren had -- at that
3 point in time had both regulated units and unregulated
4 units. Our contact and subsidiary was Ameren Energy
5 Marketing for power supply; and, furthermore, for
6 transmission service, Ameren Services is the contact

7 to negotiate that particular contract for delivery to
8 our system.

9 Q. And just to help me with clarification, did
10 your contacts inform you that it would not be possible
11 to renegotiate with the regulated company?

12 A. I'm sorry. Restate the question.

13 Q. Did your contacts inform you that Union
14 Electric Company doing business as AmerenUE was
15 unwilling to renegotiate your contract?

16 A. That's correct.

17 Q. So you were informed that Ameren was
18 unwilling to sell you any more electricity through
19 their regulated company?

20 A. That's correct.

21 Q. Were you told why?

22 A. We were directed toward Ameren Energy
23 Marketing, the subsidiary which would be responsible
24 for selling electricity to us and other wholesale
25 customers in the open market.

0038

1 Q. And were you told why you were being
2 directed there?

3 A. No, we were not.

4 Q. But it was -- as far as you were concerned,
5 that option was not available any longer, buying
6 through the regulated company?

7 A. Correct.

8 Q. Your negotiation then became -- was then
9 with the unregulated marketing company, Ameren Energy
10 Marketing Company?

11 A. That's correct.

12 Q. And, again, I assume. I should ask this
13 question. I presupposed it in my answer.

14 That is an unregulated company in Missouri,
15 is it not?

16 A. Yes.

17 Q. And your negotiation with the unregulated
18 company, how does that -- the resulting contract that
19 you have with them, how does it work in regard to the
20 cost of electricity that you pay for?

21 A. The cost of electricity in that contract
22 which was negotiated with the low bidder, who was
23 Ameren Energy Marketing, the way the contract works,
24 it's a five-year contract. It runs from January 1st,
25 2002 through December 31, 2006. And in that contract

0039

1 we have a negotiated demand and energy rate, and there
2 is a summer rate which the demand charge is higher, in

3 the winter rate which the demand charge is lower, and
4 then the energy charge that follows us around the
5 clock for the amount of energy and demand that the
6 Company needs for the generation portion of the
7 contract.

8 Q. Do you know where your -- where the
9 electricity that will be generated could come from
10 that you will be buying when it comes from -- when I
11 say that, I'm talking about Ameren Energy Marketing
12 Company -- where those generation units will
13 physically be located?

14 A. Ameren Energy Marketing needed to give us
15 the source -- the generation sources as a part of
16 applying for the NITS agreement, which is a
17 transmission service agreement, and the sink for that
18 agreement would be, of course, the bulk substations
19 for Citizens Electric Corporation.

20 Q. Do you know where physically the generation
21 units are located?

22 A. I don't remember, but it is in our
23 contracts, the identified sources.

24 Q. Do you know if they are within or without
25 the state of Missouri?

0040

1 A. I think the sources that were identified,
2 and I can -- we can furnish you with that exact
3 answer -- were sources in Illinois.

4 Q. And I would -- well, let me ask you this:
5 You say you put the -- you put the -- you knew you
6 were coming toward the end of the contract with the
7 regulated company, and did you -- I think I heard you
8 say you had bids in regard to the new -- possibilities
9 of new wholesale generation being furnished to you?

10 A. Yes. Thank you, Commissioner Gaw.
11 We did, and we did go to the market on a
12 couple of occasions and invited, both through trade
13 publications and letters of interest, parties who
14 would potentially supply power to Citizens Electric
15 Corporation, which could have included the regulated
16 side of AmerenUE if the company had chosen to give us
17 a proposal. We certainly would have considered it.

18 Q. They did not do that, did they?

19 A. That is correct.

20 Q. All right. Who else, if I might ask, bid on
21 this contract proposal, request for contract proposal
22 that you had?

23 A. That information is supplied to Staff. We
24 sent out to, I think, roughly 55 parties that

25 potentially could supply power to Citizens Electric
0041

1 Corporation.

2 Q. Did you -- did you specify the time frame
3 being five years in your request, or was it more
4 open-ended than that?

5 A. We left it more open-ended than that. We
6 asked for contract prices for one-year, two-year, and
7 five-year proposals, and also fully requirement
8 service as well as giving us blocks of energy that we
9 could mix and match base load, intermediate, and
10 peaking load for the system. The best overall price
11 that we received was an all requirements price.

12 Q. And that is what -- what the contract is
13 that you've entered into?

14 A. That's correct.

15 Q. If you had been able to maintain the
16 contract that you were under, you would have paid less
17 for electricity than under the contract that you've
18 got currently; is that correct?

19 A. That is correct.

20 Q. And if by chance the price for
21 electricity for Ameren customers had dropped
22 subsequent to that, you would also have paid even a
23 lesser amount for your electricity; is that correct?

24 A. I don't think so. And I think that because
25 we're dealing with an unregulated wholesale market,

0042

1 that prices in the unregulated wholesale market are
2 not regulated. With them not being regulated, it's
3 subject to more supply and demand and availability of
4 transmission to push this energy into our bulk
5 substations. If there is not available transmission
6 capacity, then Citizens Electric Corporation will be
7 handcuffed in who they can use for potential power
8 suppliers.

9 Q. You're talking about under your current
10 contract?

11 A. Yes, sir.

12 Q. I actually was referring to your former
13 contract.

14 A. Oh, I apologize.

15 Q. That's okay.

16 If there had been a reduction in the amount
17 charged to Ameren customers if that contract had
18 continued, you would have also paid less for your
19 electricity --

20 A. That's correct, Commissioner Gaw.

21 Q. -- under that old contract?

22 A. Yes, sir.

23 Q. Has Citizens ever discussed the possibility
24 of building its own generation or acquiring generation
25 assets of its own?

0043

1 A. Yes.

2 Q. Can you just, without taking up a lot of
3 time here, for my -- I'm trying not to take up so much
4 time, is what I'm saying.

5 Give me an explanation about the decision
6 that -- decisions that have been made up to this point
7 in time not to do that, and why that -- you believe
8 that's in the Company's and its customers' best
9 interest?

10 A. I can only comment on the two years that
11 I've been employed as CEO of the corporation, but in
12 those two years I've had various discussions with my
13 board concerning taking a look at alternatives which
14 would be purchased power arrangements, generation, and
15 also all requirements service.

16 It is my feeling as the CEO of the
17 corporation that we're very much limited in the
18 marketplace if we don't exercise some sort of behavior
19 that lowers our overall risk for our customers, and we
20 can do that in the form of generation -- putting in
21 peaking generation, which is the least expensive,
22 which has initial benefit to our customers of
23 reliability and also using it to be able to buy energy
24 in the marketplace, and also take a look at purchased
25 power arrangements for blocks of energy, whether it's

0044

1 base load, intermediate load, or peaking load, to
2 blend together a mix in the portfolio.

3 I think Citizens is at significant risk to
4 just be allowing the marketplace to dictate where the
5 price goes. I think Citizens and its customers felt
6 that in this two-year period since I've been here.
7 And day one on my job we started looking at power
8 supply and looking where the market is at. But
9 without some generation in the mix, either under
10 contract or hard assets on the ground, I think it
11 presents risk for the corporation.

12 Q. Do you feel that this contract that you have
13 currently provides you with some insulation from
14 that -- from that problem?

15 A. Yes, I do. The current contract gives us a
16 firm price for the next five-year period which shields

17 our customers from the volatility of the wholesale
18 marketplace in that time frame.

19 Q. And based upon -- I didn't mean to interrupt
20 you.

21 A. That's okay.

22 Q. Based upon what you believe your projected
23 needs are from your customers, what percentage of
24 those needs are met by this contract for electricity
25 being supplied at a firm price?

0045

1 A. All of the requirements.

2 Q. 100 percent?

3 A. 100 percent, yes.

4 Q. You didn't leave any -- any possibility
5 there for purchasing on the spot market, or does the
6 contract provide for that in the event the spot market
7 falls under your contract price?

8 A. The contract -- I need to answer that and
9 expand upon it.

10 Q. Yes. Please do.

11 A. The contract allows for customers, if they
12 have additional load of three megawatts or three
13 megawatts of new load or larger comes to the system,
14 that Citizens can first approach Ameren Energy
15 Marketing to see if the current price would apply, or
16 if the market has changed, then Citizens has the
17 opportunity then to try to find another source of
18 supply that will meet the needs of that customer.

19 Outside of that -- I need to expand upon --
20 we do have a customer who has an economic development
21 power supply agreement with us that operates on our
22 system that expires in September of next year, and we
23 are starting to pursue alternatives to be able to
24 supply that load. Whether it's with Ameren Energy
25 Marketing or another source, we still will need to

0046

1 come across the Ameren system with delivery.

2 So those are potentials in the future. And
3 it's my belief that Citizens in the future needs to
4 have a balanced portfolio with different types of
5 generation and different contract lengths, whether
6 it's lining the capacity up or actually putting the
7 capacity in the ground, and we are pursuing and will
8 continue to pursue opportunities of joint action to do
9 that.

10 Because we're member-owned and
11 not-for-profit status, I think we need to move toward
12 taking a little bit more control of avoiding risk, and

13 right now in the wholesale market, which is very
14 volatile, we're at the mercy of the market whenever we
15 go into the market.

16 Q. So help me a little bit more with this now.

17 If the -- at what point in time can you go
18 out and shop for lower prices for your customers under
19 this contract that you're -- that you're currently
20 under?

21 A. Under this contract, with any new load over
22 three megawatts, that's an opportunity, and the
23 contract that's not subject to this particular rate
24 proceeding, we'll be able to go to market with that.

25 It's our intention as a corporation to next
0047

1 year start an RFP process, looking out for 2007 to
2 give potential generators in the marketplace an
3 opportunity to put in the ground generation to meet
4 the needs of the load.

5 I think that if the corporation decided to
6 wait, let's say, until 2004 and shop, they are very
7 limited -- potential bidders are very limited on what
8 they can supply and what price they can supply power.

9 Q. So if the spot market falls under the price
10 on your contract, you really can't go out and shop
11 unless it's this particular economic development
12 customer or it's a new customer of over, you say,
13 three --

14 A. Three megawatts.

15 Q. -- three megawatts?

16 A. Yes, sir.

17 Q. But you do have stability?

18 A. We do have -- yes, we do have stability
19 which we feel has lowered our risk by having the
20 five-year contract. And, very frankly, when we went
21 to the market, the one-year and two-year contracts,
22 the prices were significantly higher than the
23 five-year cost.

24 Q. You-all don't have any -- I know there's
25 been several people mention the fact that you're
0048

1 member-owned and similar to the rural coops in a
2 number of ways. But you don't have any relationship
3 with any of the transmission or generation companies
4 under the coops in Missouri?

5 A. We are a member of the Missouri Electrical
6 Coops Association in the state. We are, as an
7 alternative, looking at and pursuing talks with
8 Associated, which is the large generation and

9 transmission supplier for the other 39 electric coops
10 in the state of Missouri.

11 We would love to see the price point that
12 they are delivering to our members as an opportunity
13 for our customers, but it has to be a two-way street.
14 Not only would we like to be part of that
15 organization, that organization also needs to feel
16 with its membership it's in its best interest allowing
17 Citizens to join the organization.

18 Q. So that's -- that's -- I think I got that
19 message pretty clearly, that you-all have a strong
20 interest in pursuing that if it's available?

21 A. Yes, sir.

22 Q. And it would under current circumstances
23 help your prices as far as your wholesale costs are
24 concerned?

25 A. Yes, sir.

0049

1 COMMISSIONER GAW: All right. I want to
2 thank you for your time, sir. Thank you.

3 THE WITNESS: Thank you, Commissioner.

4 JUDGE DIPPELL: Thank you, Commissioner Gaw.
5 Commissioner Forbis, do you have any
6 questions?

7 COMMISSIONER FORBIS: No.

8 JUDGE DIPPELL: All right, then. Are there
9 any follow-up questions from Staff?

10 MR. MEYER: No, your Honor.

11 JUDGE DIPPELL: Public Counsel?

12 MR. COFFMAN: No. Thank you.

13 JUDGE DIPPELL: Missouri (sic) Lime?

14 MR. TURNER: No. Thank you.

15 JUDGE DIPPELL: Is there any follow-up from
16 Citizens?

17 MR. SCOTT: None, your Honor.

18 JUDGE DIPPELL: Thank you, Mr. Rodamaker.

19 You may be excused.

20 (Witness excused.)

21 JUDGE DIPPELL: I don't believe there are
22 any other Commission questions for the other Citizens
23 witness, so we'll go ahead and go to Staff's witness,
24 and we're going to begin with Mr. Adam.

25 Please raise your right hand.

0050

1 (Witness sworn.)

2 JUDGE DIPPELL: Thank you.

3 PAUL WILLIAM ADAM testified as follows:

4 DIRECT EXAMINATION BY MR. ANDERSON:

5 Q. Good afternoon.

6 A. Good afternoon.

7 Q. Please give your name for the court
8 reporter.

9 A. Paul William Adam.

10 Q. Mr. Adam, who are you employed by and in
11 what capacity?

12 A. I'm a depreciation engineer for the Missouri
13 Public Service Commission Staff.

14 Q. Did you prepare the prefiled testimony in
15 this case which has previously been marked for
16 identification as Exhibit 3, Direct Testimony of Paul
17 Adam?

18 A. I did.

19 Q. Do you have any corrections or additions to
20 make to your prefiled testimony at this time?

21 A. I have no changes to make.

22 Q. Are the answers you have now provided true
23 and accurate to the best of your knowledge and belief?

24 A. To the best of my knowledge and belief.

25 Q. If I would ask you the same questions today
0051

1 that are contained in your prefiled testimony, would
2 your answers be the same?

3 A. Yes.

4 MR. ANDERSON: At this time I would offer
5 Exhibit 3 into the record, and tender the witness for
6 questioning.

7 JUDGE DIPPELL: Thank you.

8 Mr. Adam, I'm going to ask you to speak up
9 just a little bit. I'm having difficulty hearing you.

10 THE WITNESS: Okay.

11 JUDGE DIPPELL: Are there Commission
12 questions for Mr. Adam from the Chair?

13 COMMISSIONER SIMMONS: No.

14 JUDGE DIPPELL: Commissioner Murray?

15 COMMISSIONER MURRAY: Thank you.

16 QUESTIONS BY COMMISSIONER MURRAY:

17 Q. Good afternoon, Mr. Adam.

18 A. Good afternoon.

19 Q. My first question, is that a flag on your
20 finger?

21 A. It is a Band-Aid, but it looks like a flag.

22 Q. Are you familiar with the testimony -- the
23 prefiled testimony of Dana Eaves for the Staff?

24 A. I'm not certain I will know what you're
25 asking about, but I'll try.

0052

1 Q. All right. Since I understand that he's not
2 here today, I would like to ask you a couple of
3 questions from his testimony. And if you're unable to
4 answer them, just say so.

5 On -- do you have a copy with you?

6 A. No.

7 Q. On page 4 he says that he doesn't agree with
8 the Company's accounting method for accumulated
9 depreciation transmission and distribution plant
10 accounts 108.5 and 108.6. That's at lines 16 and 17.

11 A. I think I can address this.

12 Q. All right. He recommends that the Company
13 maintain its depreciation reserve accounts in
14 accordance with Commission Rule 4 CSR
15 240-20.030(3)(k).

16 Now, my first question is, under the
17 Stipulation and Agreement, are they going to do that?

18 A. No.

19 Q. All right. I'll come back to that, but my
20 second question is, does Staff also -- or would at the
21 time that this testimony was prefiled, would Staff
22 also have recommended that the Company keep its
23 accounts in accordance with 4 CSR 240-20.030(3)(h)?

24 A. Can I try to answer your question? I think
25 I know what we're talking about here, and I'm not

0053 familiar with those rules fully.

2 But in the rules, companies that are
3 regulated by the Commission are required to keep
4 vintage data account by account of retirements. In
5 other words, as you would retire plant over time, you
6 would retire it per vintage. And what -- and the RUS
7 does not require that of companies. RUS not only
8 allows them to bring all vintages together as a single
9 dollar amount, but RUS also suggests that when they
10 retire, they retire on an average cost.

11 So in other words, if a company were to buy
12 more plant in the current year, and its unit cost
13 would simply get put in the large number of dollars,
14 then at the time they went to retire a unit of plant,
15 no knowledge of which vintage that plant came from,
16 they would retire an average of what the total bucket
17 has. In other words, if you had 100 units of plant
18 and \$100,000, you would retire \$1,000. It's an
19 average cost retirement.

20 Our other regulated companies that I've
21 seen -- this is the first one I've run into with this,
22 and this is the first RUS one I've run into that's in

23 the power industry. The other companies retire FI/FO
24 and keep data by vintage.

25 The records are established with this

0054

1 company. They've been doing it, and they've been
2 successfully meeting RUS requirements. There is a
3 chart that RUS requires them to fall between two lines
4 on that chart as far as calculation of reserves versus
5 plant, and I was able to get the past five years of
6 data for that plant. So it appears to me they are
7 meeting RUS guidelines.

8 So in our proposal, in Staff's proposal, and
9 true in the Stipulation, too, we did not request that
10 the Company go through the project of breaking all of
11 their data out vintage by vintage.

12 Q. And is that because under the Stipulation
13 and Agreement it doesn't matter vintage by vintage
14 other than the fact that as plant is retired, it will
15 be expensed at that time, so there is no need to
16 really keep a vintage by vintage record of --

17 A. This really gets confusing now. RUS gives
18 ranges of depreciation rates. They don't designate a
19 life or a net salvage to go with those depreciation
20 rates.

21 Their concept is -- in speaking with their
22 specialist out of Washington, DC, is that overall, for
23 a whole company, all accounts, is that net salvage is
24 positive. In other words, gross salvage exceeds cost
25 of removal. And this concept goes back for years and

0055

1 years, and they haven't updated that. He admitted
2 that it probably needed to be updated.

3 But they work on a -- kind of a conceptual
4 basis that they have some beliefs, but then they come
5 up with a range of depreciation rates. You might have
6 seen that in one of the attachments where for
7 different accounts they show a high and low for what
8 they expect companies to use for various accounts --
9 electric companies to use for various accounts.

10 It's difficult to -- it's difficult to
11 analyze this company in the way the PSC works and the
12 rules and regs that relate to the PSC and the rules
13 and regs that relate to the RUS and how the RUS works,
14 and it's a difficulty the Company has to contend with.

15 Q. Okay. In terms of the rule, and the purpose
16 of this subsection (k) of -- (3)(k) of the rule in
17 requiring maintenance of subsidiary records which
18 separate account 108, what is the purpose of that

19 under the rule?

20 A. Well, if we had the accounts broken out,
21 then we can follow -- we can use software that will
22 analyze life of the plant. And in using that software
23 to analyze plant life, we then move on to depreciation
24 rate, because we're saying that the Company should
25 recover an equal amount over the average service life.

0056

1 That type of data is not available from
2 Citizens. The position that I took, and is Staff's
3 position in the Stipulation, is that to develop a
4 database that would be valuable to analyse that would
5 probably take 30 years of record-keeping from this
6 point forward, and that it -- it's just cumbersome and
7 unnecessary cost for this company, because RUS is
8 requiring them to meet their guidelines.

9 And it seems to me -- this was a part of my
10 decision and my position in this case, was that what
11 RUS was requiring of them was adequate to keep them
12 financially sound.

13 Q. Okay. And that same rule under (3)
14 subsection (h) says, Charge original cost less net
15 salvage to account 108.

16 And what is the purpose of that --

17 A. Okay.

18 Q. -- in the rule?

19 A. Let me look at this just a minute.

20 What lines are you on?

21 Q. I'm not in anybody's testimony.

22 A. Oh, I'm sorry.

23 Q. I'm looking at the rule itself.

24 A. Okay. I'm sorry.

25 I believe the rule says that net salvage

0057

1 will come out of the accrual, but what has been
2 proposed at the direction of top management in Staff
3 is that net salvage will be proposed as an expense and
4 handled as an expense item for the companies that are
5 regulated by the PSC.

6 And that's where what's in the Stipulation
7 about the annual work that will be done by the Company
8 that Mrs. Peifer talked about that would take about
9 40 hours is to look at net salvage as an expense and
10 present that to the Commission as though that's the
11 way their books were kept, while still maintaining the
12 balance of everything they do every month in an RUS
13 format.

14 Q. And the Commission has not engaged in any

15 proceeding to change this rule; is that correct?

16 A. Not that I'm aware of, no.

17 Q. But Staff was proposing that it be done not
18 in accordance with the rule?

19 A. In the Stipulation?

20 Q. Before -- well, when you filed your prefiled
21 testimony, in your recommendation.

22 A. When I filed my testimony, I proposed that
23 they continue with RUS technique, and another member
24 of the Staff had -- unknowns to me had brought up
25 these rules which require the data to be kept account

0058

1 by account.

2 In the stipulation, we fell back to the
3 position of there was no gain. There was no benefit.
4 As a matter of fact, it would incur probably consider
5 cost.

6 Q. Mr. Adam, I'm becoming confused, and I don't
7 know if it's you or me, but let's go back to my
8 question about --

9 A. Okay.

10 Q. -- subsection (3)(h) of the rule where I
11 asked you about the requirement to charge original
12 cost less net salvage to account 108. And I thought I
13 heard you say the rule says that it shall be done that
14 way, but Staff had proposed expensing it.

15 Now, what I understand you to say is that
16 Staff was proposing and the Stipulation and Agreement
17 agreed to something that is different than what is
18 required by the rule. Is that correct?

19 A. Okay. I have confused you, and I apologize.

20 The annual data that the Company will supply
21 to the Commission, or to the Staff, will be as though
22 the cost of removal was expensed.

23 Q. Okay. Now, let me stop you there, because
24 I'm going to go back to what it was the Staff proposed
25 before there was any Stipulation and Agreement.

0059

1 Was Staff proposing that the Company be
2 required to expense net salvage versus doing it in
3 accordance with the Commission rule?

4 A. No. Before -- the Staff's position has been
5 for the last several cases, including this one, that
6 net salvage would be expensed.

7 Q. And is that in opposition to our Commission
8 rule?

9 A. I believe it is, yes.

10 Q. Thank you.

11 Now, I want to --

12 A. I apologize for the confusion, Commissioner.

13 Q. I'd like to go -- let's see. Where do I
14 want to go from here?

15 Let's look at the Stip and Agreement for a
16 minute, and then I want to go to your testimony.

17 The section on depreciation reserve accruals
18 which is at page 3, paragraph 10 -- and I asked
19 Ms. Peifer about this -- the RUS accounting
20 guidelines, are they in accordance with the
21 traditional whole life method?

22 A. Please ask that question again.

23 Q. The RUS accounting guidelines, are they in
24 accordance with the -- what you call the traditional
25 whole life method?

0060

1 A. To a broad degree, they perhaps are.

2 Q. Okay. And are they in accordance with FERC
3 guidelines?

4 A. I'm not certain I can answer that.

5 Q. And then the rest of that paragraph 10 that
6 goes on over to page 4, I asked Ms. Peifer about the
7 agreement here to determine the net salvage/cost of
8 removal separate expense item, Citizens will total the
9 annual salvage cost and subtract the total annual cost
10 of removal.

11 That is where Citizens agreed to follow
12 Staff's proposal to expense the annual salvage cost;
13 is that right?

14 A. That's my understanding of what was agreed
15 to.

16 Q. And, basically, Citizens agreed to Staff's
17 recommendations to just accept those for their
18 Stipulation and Agreement in terms of what Staff had
19 proposed for the treatment of depreciation and net
20 salvage; is that right?

21 A. That's my understanding, yes.

22 Q. And that is truly different than what
23 Citizens has done for the Missouri jurisdiction in the
24 past; is that correct?

25 A. Yes. There is a change here, yes.

0061

1 Q. Now, when I was reading the testimony in
2 preparation for this case, I was kind of struck by the
3 fact that your testimony was -- was very thick and
4 basically only dealt with depreciation, and there was
5 not a lot of testimony other than your testimony, and
6 the Company didn't even address depreciation. And it

7 appeared to me from the fact that you devoted so much
8 time and effort into proposing such lengthy testimony
9 just on depreciation that this was your most important
10 issue.

11 A. Depreciation is my only issue. That's my
12 employment.

13 Q. Let's put it this way: Staff's most
14 important issue?

15 A. I don't know about that.

16 In this particular case, I had time to
17 address depreciation more than I might normally and to
18 address the concepts which I felt it was important for
19 some of the Commission-- all of the Commissioners, as
20 a matter of fact, to be aware of some of the
21 difference between what has been vocalized as
22 traditional whole life versus what the Staff has been
23 putting forward for the past several cases, which I
24 termed full recovery, where we look at recovery of the
25 original cost of plant, be it depreciation, and we

0062

1 look at coverage of net salvage via an expense item,
2 and then if there is a final removal cost of
3 life-span-type plant, then that would be looked at at
4 a future time as an amortization.

5 And I -- there's been quite a bit go on over
6 the last couple of years, and I wanted to try to bring
7 it, if not crystal clear, at least to a better
8 understanding for yourself and the other Commissioners
9 as to what's going on and what could occur that might
10 be something you need to be aware of now rather than
11 at a future date. So I spent a disproportionate
12 amount of time on this.

13 Q. And did you think that there was going to be
14 a Stipulation and Agreement in this case?

15 A. At the time I was writing my testimony? I
16 probably figured it wouldn't go to hearing.

17 Q. So is it fair to say you were using this as
18 an opportunity to elaborate on your position as to
19 depreciation, although it was not that important to
20 this particular case?

21 A. As I just said, yes. I felt as though that
22 in the recent couple of years Staff has moved toward
23 what I termed as full recovery. And then the term
24 traditional whole life has come up a lot. And we
25 don't get a chance to talk on a one-to-one basis. I

0063

1 know that's not allowed. But I wanted the
2 Commissioners to have some understanding of some of

3 the things that are going on.

4 Q. And if we approve the Stipulation and
5 Agreement, you would not use the Stipulation and
6 Agreement in the future to point to to say that the
7 Commission has in the past adopted this, what you're
8 terming whole life treatment of depreciation -- or I'm
9 sorry. Full recovery --

10 A. Full recovery.

11 Q. -- whole life treatment of depreciation,
12 would you?

13 A. No. What -- the majority of this testimony
14 was to try to explain differences and perspectives of
15 what you may see from the Company versus what you may
16 see from Staff. And -- and, actually, the position
17 that I took for this company, because it's a non--
18 not-for-profit corporation, in -- in my position on
19 their keeping of data which we've just discussed was
20 an exception to what we see with other corporations
21 that we regulate. So I wouldn't even want to argue my
22 own position in other cases.

23 Q. Okay. And the term "full recovery whole
24 life technique," was -- was that of your origin?

25 A. I coined that to try to separate the two

0064

1 here, hopefully making it clear. There is kind of two
2 different things here. There is full life full
3 recovery and there is whole life traditional.

4 Q. Back to Mr. Eaves' testimony for a moment,
5 on page 6, at lines 10 through 12, he says, Typically,
6 removal costs exceed salvage value resulting in a net
7 negative salvage value. The net effect of cost of
8 removal and salvage -- excuse me. Just forget that
9 last sentence.

10 The sentence I just read is the one I'm
11 referring to.

12 Typically, removal costs exceed salvage
13 value resulting in a negative net salvage value. Do
14 you agree with that?

15 A. That is -- is a true statement based on what
16 I've seen for the majority of my eight years here.

17 Q. Okay. And then turn to Page 7 of his
18 testimony, please.

19 The question was posed at line 3, Have cost
20 of removal and salvage value been treated this way in
21 prior Citizens rate cases? And when we say "this
22 way," that's the way that Staff is recommending here
23 in the way that the Stipulation and Agreement
24 provided. And the answer, he said, Not to my

25 knowledge.

0065

1 You agree with that too. Right?

2 A. In previous Citizens cases, it has not been
3 expensed.

4 Q. And then he goes on at line 7 to say --
5 well, actually let's read from line 5. Typically,
6 cost of removal and salvage value is reflected in the
7 overall depreciation rate, and, thus, an amount for
8 these items were included in depreciation expense.
9 However, recently Staff has proposed to remove from
10 the depreciation rates the accrual of the removal
11 costs and salvage value.

12 Do you agree with that?

13 A. That's true.

14 Q. And how recently has Staff proposed to
15 remove?

16 A. Cost of removal and gross salvage --

17 Q. Yes.

18 A. -- and handle it as an expense?

19 Q. Yes.

20 A. I would say approximately in the last two
21 years.

22 Q. Now, I want to go back to your testimony.
23 I'm sorry. This is going to be kind of all
24 over the place because I just have margin -- notes in
25 the margins here, but I'll try not to make it too

0066

1 confusing.

2 If we go to page 18 of your testimony at --
3 beginning on line 20, Because there is no actuarial
4 file that ties the original cost of plant removed to
5 that same plant's gross salvage and cost of removal,
6 depreciation engineers normally work with multi-year
7 averages, and then on the next page you say, Using
8 multi-year averages tends to relate the original plant
9 retired to its associated gross salvage and cost of
10 removal, although a correct association is not
11 approved.

12 Now, my question there is, doesn't that
13 achieve a more correct association than your
14 methodology which doesn't even attempt to relate the
15 original cost of plant to what's being removed?

16 A. What I'm discussing here is that when we get
17 data from companies, what they supply, say, for 1999
18 as cost of removal and gross salvage does not
19 necessarily tie to the plant that they show that was
20 retired in that year. There is, like, a lag in their

21 reporting of this data, and, therefore, if you're
22 using multi-year averages, you would come closer to
23 getting a correct tie to the number of dollars retired
24 to the dollars of net salvage.

25 Q. Okay. But no tie to the original cost of

0067

1 that plant?

2 A. Well, the dollars retired were the original
3 cost of the plant.

4 Q. Page 20, at line 4 you speak about
5 depreciation rate for net salvage being multiplied
6 times the current plant balance to determine the
7 annual accrual that the Company should recover from
8 customers for future net salvage costs. The same
9 amount is used in the determination of the revenue
10 requirement.

11 And there are you talking about the -- what
12 you call the traditional treatment?

13 A. Correct.

14 Q. Now, if -- if future net salvage were
15 determined to be positive, the current customers would
16 see a benefit reflected in the current rates; is that
17 right?

18 A. Correct. The depreciation rate would go
19 lower.

20 Q. And it's all related to the value of the
21 asset that used to serve the current customer; is that
22 right?

23 A. It's a ratio between the gross salvage
24 subtracted -- gross salvage minus cost of removal is
25 ratioed to the original cost of the plant.

0068

1 Q. The plant that is serving the current
2 customers?

3 A. The plant that was retired.

4 Q. No. I'm talking about the current method,
5 the traditional method.

6 A. Right. And that's what the traditional
7 method does, is if you bought plant 30 years ago and
8 then retired it today, and it cost you a net dollars
9 to retire it, you would ratio today's dollars of cost
10 to the dollars that you paid 30 years ago to buy it,
11 and then that would determine the net salvage portion
12 of the depreciation rate in the traditional format.

13 Q. Okay. But the net salvage was estimated at
14 the time that the plant was put into service under the
15 traditional method, and then it was depreciated if it
16 was to be a negative net salvage, depreciated over the

17 life of that asset; is that correct?

18 A. And I address some of this in another part
19 of the testimony where I talked about that if we went
20 back 30 or 40 years, we'll find that in some of those
21 cases gross salvage exceeded cost of removal. So at
22 the time that plant was placed, it appeared then that
23 actually there was going to be a receipt of dollars
24 into the company. But by the time the 30 or 40 years
25 goes by, the situation reverses and the cost of

0069

1 removal exceeds the gross salvage. And the problem
2 that we have is trying to predict the future with a
3 simple ratio of what has occurred in the past.

4 Q. But now as we predict the future, don't we
5 go back to the statement that Mr. Eaves made that you
6 agreed with in his testimony that, typically, removal
7 costs exceed salvage value resulting in negative net
8 salvage value?

9 A. When we look at today's event of cost of
10 removal, net salvage calculated as a ratio against
11 plant's original cost, the plant that is retired
12 today, its original cost, and we calculate that ratio,
13 we show that there is a negative, yes.

14 Q. And that is the experience that you've been
15 seeing?

16 A. Yes.

17 Q. Now, in determining how current customers
18 will pay for the assets that serve them, we have been,
19 under the traditional method, spreading the cost of
20 that asset over its useful life, and we still do that
21 even under your method. Correct?

22 A. Correct.

23 Q. But the cost of that asset under the
24 traditional methods of dealing with depreciation is
25 the original cost of the asset minus whatever value it

0070

1 will have at its retirement or -- plus whatever
2 negative net salvage it will have at the time it's
3 retired divided by the number of years it will be in
4 service. That's what's normally depreciated. Right?

5 A. That's the traditional format, yes.

6 Q. So the only part of that equation that is --
7 and correct me if I'm wrong, but the only part of that
8 equation that is not an estimated amount is the
9 original cost; is that right?

10 A. The original cost is a known amount, yes.

11 Q. And you don't really know how long the asset
12 is going to last? That's estimated.

13 A. We determine that from what is called a
14 survivor curve, by analyzing the mortality data and
15 other events.

16 Q. And the net salvage is estimated, either
17 negative or positive?

18 A. The net salvage as Staff is doing it is
19 estimated on a current level.

20 Q. Let's go to page 21 of your testimony where
21 you speak about the FERC accounting and recording
22 requirements. And they give some definitions.

23 And you say that -- at line 20, you say,
24 It's clear by the FERC definitions that net salvage
25 cannot include future services such as the removing of

0071

1 plant, demolishing, dismantling, and transportation,
2 because money must actually be paid to be included in
3 cost of removal.

4 Do you still agree with that statement?

5 A. In their definitions, the word "cost" is
6 defined as the amount of money actually paid for
7 property or services.

8 Q. And, in your opinion, is it possible to
9 estimate a cost?

10 A. You can -- yeah. You can -- certainly. You
11 could estimate a cost, yes.

12 Q. And is it possible to estimate an average
13 service life?

14 A. Yes.

15 Q. Now, if the definition of net salvage as you
16 would define it -- would your definition of net
17 salvage require that the specific property being
18 depreciated be replaced in the calculation with a
19 different property; that is, other property that's
20 currently being retired so that you knew what the
21 actual retirement amount was?

22 And let me clarify that. I see I've
23 confused you, and I've kind of confused myself too
24 because I wrote these notes here and these questions a
25 long time ago.

0072

1 But the definition here on this page in your
2 testimony, on page 21, which is FERC's definition of
3 net salvage, gross salvage value of property retired
4 less the cost of removal, and the emphasis is added,
5 so, therefore, I guess what I'm saying is, the
6 definition of cost as you read it, and as FERC, you
7 say here, defines it as the amount of money actually
8 paid for property or services, does FERC's definition

9 of net salvage then require that specific property
10 that's being depreciated be replaced with different
11 property, in other words, property that's currently
12 being retired so you know what that retirement amount
13 is, the cost of removal is?

14 A. Well, it doesn't require a replacement of
15 that property, but it requires a retirement of the
16 property, and, therefore, you know what the cost that
17 was paid for that property years ago, you know what
18 that amount was.

19 Q. Okay. I think I've confused myself on that
20 question enough that I'm going to move on.

21 On page 22 you talk about Staff believes
22 that -- and I'm on line 16. Staff believes that --
23 Staff believed that customers have the right to
24 expect that moneys paid for removal of retired plant
25 should be available for such removal, transportation,

0073

1 et cetera, when the designated plant is retired. That
2 is why Staff support the collection of current net
3 salvage cost, not estimated future net salvage cost.

4 Now, my question to you is, if for some
5 reason the money for removal is not available at the
6 time the plant is actually removed under the
7 traditional method where it's been depreciated, and
8 that it's not there at the time of actual removal,
9 wouldn't that automatically be a shareholder and not a
10 ratepayer expense?

11 A. I don't know. If the Company were to come
12 and ask for more money, I don't know whether they
13 would be allowed it or not. If -- if they are
14 incapable of paying for the removal, I don't know
15 where that falls. Do they go bankrupt?

16 That's kind of the concern that we're
17 addressing here, is -- if you look at what the nuclear
18 regulatory Commission does in requiring money to be
19 set aside for retirement, then there is a fund that
20 actually has dollars in it available for removal of
21 the plant. But if you didn't have that fund, and you
22 got to the end of the life of a nuclear plant and it
23 needed to be retired and there was no cash available
24 to do it, what -- what happens?

25 And that's -- that's kind of the position

0074

1 that we're putting out, is if you -- if the ratepayers
2 continue to pay on a current level the cost of
3 removal, then the funds will flow with what the
4 company is spending at the current time and they

5 basically will equate.

6 Q. But that would be something that the
7 Commission would determine at the time? It wouldn't
8 just happen? The rates would --

9 A. It would require an order.

10 Q. And it wasn't a concern of yours in this
11 case with Citizens, was it?

12 A. As far as future removal?

13 Q. In terms of whether there would be enough
14 money there and the ratepayers might end up paying
15 twice?

16 A. Well, now, the rates that are being used to
17 determine the tariffed rates are what we call full
18 recovery here. In other words, the amount of money
19 that's in the Stipulation for cost of removal is the
20 current level.

21 Q. I understand that. What I'm saying is, when
22 you prefiled your testimony and you were going into
23 all of these concerns of Staff --

24 A. Yes.

25 Q. -- that wasn't really a concern even at the
0075

1 time of Citizens, was it?

2 A. That they would not have money available --
3 no. I know that I addressed that.

4 Q. You didn't really address it for Citizens.
5 You just addressed it because you wanted to tell us?

6 A. That's -- they don't -- right.

7 They don't -- they don't have a life span
8 type plant like a big power plant or something like
9 that.

10 Q. Okay. You expressed that Staff had six
11 concerns, and on page 28 you talk about concern No. 4.
12 If companies are ordered to use traditional whole life
13 technique depreciation rates, then during the years
14 after the inflection point, the company's cash flow
15 will be inadequate and the company may submit cases
16 after the inflection point occurs to switch to the
17 full recovery whole life technique.

18 There you're posing the scenario where the
19 company comes in midstream and says, Now we want to do
20 it Staff's way; is that right?

21 A. Correct.

22 Q. Have you ever had that occur?

23 A. No.

24 Q. And then you go on to say, This switch could
25 result in customers paying the companies twice for the
0076

1 removal cost to retire a plant. Staff considers this
2 a potential double collection of removal cost by the
3 company and wrong.

4 Now, I'd like to ask you, wouldn't this be
5 the reverse of what Staff -- the switch that Staff has
6 made recently? I mean, isn't Staff coming in and
7 saying, You've been doing the traditional whole life
8 technique. Now we want to come in and cause you to
9 switch techniques in midstream?

10 A. But there is no -- there is no -- they
11 have -- they have overrecovered versus what they have
12 spent to date. And what Staff's position is, is they
13 should recover on the level that they are spending,
14 and the overrecovery actually should be addressed in
15 somehow going back to the ratepayers.

16 Q. So you're labeling that as an overrecovery?

17 A. It's a recovery in excess of what they
18 spent, yes.

19 Q. And that is even though it's been in
20 accordance with Commission-approved techniques and
21 Commission-approved rates that they have done so?
22 You're still calling that an overrecovery; is that
23 right?

24 A. Because when we calculate a theoretical
25 balance, it shows that their accrual is greater than

0077

1 the theoretical levels shows it should be.

2 Q. Okay. But you're not claiming that because
3 you now disagree with that method that's been used all
4 of these years and you're calling that an
5 overrecovery, you're not claiming that this company or
6 any other company has been doing something that is
7 beyond their tariff or not in accordance with the law
8 or not in accordance with the rules or any order of
9 this Commission, are you?

10 A. In no way.

11 Q. Thank you.

12 It sounds like it when you say they have
13 been overrecovering.

14 A. I apologize. To clarify that, I should have
15 spent more time talking about theoretical versus
16 actual accrual.

17 But what we calculate -- when we have the
18 data, we can calculate a theoretical accrual balance
19 which says, Here is what the accrual balance should be
20 today, and what we have found in virtually all cases
21 is that the actual accrual is greater than what the
22 theoretical calculation shows.

23 Q. On concern -- I guess this is what you
24 listed as concern No. 6 on that same page, you say,
25 Staff believe that the determination of a revenue

0078

1 requirement for each company should be fair to the
2 company and to the company's customers. The full
3 recovery whole life technique provides fairness. The
4 traditional whole life technique does not.

5 So are you saying that when the Commission
6 approved -- has approved over the years the
7 traditional whole life technique, that we've been
8 approving a technique that does not provide fairness?

9 A. It -- it could present problems in that
10 management at a later date after you've gone past the
11 inflection point will not have the cash flow available
12 per the traditional calculation, and that could
13 present a problem in operating the company. But I
14 recognize that an order tells the company what to do.

15 Q. So when you say traditional whole life
16 technique does not, do you really mean in some
17 instances it might not rather than a blanket statement
18 that it's just unfair, period?

19 A. That's probably a better statement that I
20 should have made.

21 Q. Okay. How many other states use the
22 traditional whole life technique?

23 A. I'm unaware.

24 Q. How many use the -- your full life -- or
25 full recovery full life technique?

0079

1 A. The equivalent of the full life?

2 I know that Florida has applied it to
3 certain cases. I understand Pennsylvania has. But
4 I've done no study. The NARUC text on depreciation
5 addresses that there are other commissions, but it
6 doesn't outline which commissions have gone to looking
7 at net salvage as an expense item.

8 Q. Okay. On page 29 you talk about St. Joseph
9 Power & Light Company. St. Joseph Light & Power
10 Company. Right? And I want to give you a minute to
11 read that because I want to ask you a question.

12 A. I remember this exam.

13 Q. Okay. Are you saying there that the
14 company was short of collecting for costs of removal
15 by 48 percent?

16 A. That's exactly what occurred.

17 Q. Okay -- now --

18 A. Excuse me. May I correct that statement?

19 This is a period of time. I don't know
20 specifically what might have occurred in between, but
21 if the 5 percent had been used up until the time the
22 plant was retired, it would not have collected as much
23 as they needed to retire the plant relative to the
24 plant that was retired.

25 Q. Okay. Now, it's my understanding that

0080

1 adjustments are made annually when you're looking at
2 the traditional whole life technique. That's not
3 true?

4 A. No.

5 Q. Okay. They are made periodically, though.
6 Correct?

7 A. Only if there is a case.

8 Q. So if we don't change the methodology with
9 each case, make the adjustments based upon the actual
10 situation, there should be some balancing there to
11 make those numbers, by the time the plant life has
12 expired, come out fairly close to reality; is that
13 right?

14 A. As far as recovering for original cost of
15 plant, if we have calculated and analyzed through the
16 mortality data the life right, if we have the average
17 service life right, then they would recover the full
18 original cost of the plant over the average service
19 life.

20 The net salvage part of it is a little bit
21 harder to get ahold of because it seems to be
22 variable, and that's what this part of the testimony
23 is trying to show, is that over a relatively short
24 period of time net salvage can vary significantly
25 relative to what the company might need. And there

0081

1 would need to be an analysis made from time to time,
2 but it is characteristically only made when the
3 company comes in for a rate case.

4 JUDGE DIPPELL: Commissioner Murray, would
5 this be a good time for me to interrupt so we could
6 take a short break?

7 COMMISSIONER MURRAY: Yes.

8 JUDGE DIPPELL: All right. Let's take a
9 ten-minute break, or make it a thirteen-minute break,
10 and come back at 20 till 4:00 by the clock in the back
11 of the room.

12 Let's go off the record.

13 (A recess was taken.)

14 JUDGE DIPPELL: Let's go ahead and go back

15 on the record.

16 Commissioner Murray, are you ready to
17 resume?

18 COMMISSIONER MURRAY: Yes.

19 BY COMMISSIONER MURRAY:

20 Q. Mr. Adam, on page 30 of your testimony, you
21 talk about -- at line 7 the question is, what is or
22 was the result of ordered depreciation rates that were
23 determined using traditional whole life techniques?

24 Do you see that?

25 A. Yes.

0082

1 Q. And then your answer there, The result is
2 that depreciation rates were increased to a level such
3 that companies have recovered and are annually
4 recovering more moneys for net salvage costs than
5 these companies are spending on net salvage cost. And
6 then you're talking -- and spending, you're talking
7 about currently, or current removal; is that correct?

8 A. Correct.

9 Q. Okay. Now, if they are annually recovering
10 more for net salvage costs than they are currently
11 spending for net salvage costs, isn't that because the
12 assets are being deprecia-- that are being depreciated
13 are likely to cost more for removal than the assets
14 that are currently being removed because they will be
15 removed at some later time?

16 A. If the concept that cost would continue to
17 go up as it has in the past were to hold.

18 Q. Okay. And then there are different assets.
19 Right?

20 A. Yes.

21 Q. When you talk about the moneys for net
22 salvage cost and the moneys that the companies are
23 spending -- currently spending for net salvage cost,
24 it's different assets that you're talking about.
25 Right?

0083

1 A. Looking at the traditional technique, the
2 moneys that you would calculate today would be for
3 retirement of some future period, yes.

4 Q. Of an asset that will be retired later?

5 A. Yes.

6 Q. Whereas, when you talk about what they've
7 spent for net salvage cost, you're talking about
8 another asset that they are retiring currently?

9 A. Correct.

10 Q. Okay. How can you depreciate one asset by

11 substituting the costs of a different asset? You
12 can't, can you?

13 A. Let me think about that a moment.

14 The original cost that we are using as our
15 basis for a depreciation rate is determined on
16 mortality data which is representative of the plant
17 that's in that account, and that's how we determine
18 those depreciation rates.

19 Q. And you couldn't determine those
20 depreciation rates based on the cost of retiring a
21 totally different asset, could you?

22 A. Not -- that's why the accounting system is
23 set up the way it is. Similar assets are in the
24 accounts, and there is -- there's guidelines that are
25 given to the accountants as to what assets go into

0084

1 what accounts.

2 Q. And you couldn't substitute the original
3 cost of an asset that was being purchased today for
4 the original cost of an asset that was purchased years
5 ago but that's currently being depreciated, could you?

6 A. How would -- how are you versing your
7 substitution?

8 Q. Well, in determining an asset's -- what
9 you're going to depreciate that asset -- how you're
10 going to depreciate over its average life, average
11 life span --

12 A. Yes.

13 Q. -- you first have to have an original cost.
14 Correct?

15 A. Well, in determining the average service
16 life, we're looking at mortality of dollars in the
17 account, so we're --

18 Q. That's not my -- that's not what I'm getting
19 at.

20 A. I'm sorry.

21 Q. Maybe I'm not phrasing my question right.
22 To make your calculation, you need several
23 things. One is you need the original cost of the
24 plant. Right?

25 A. To make a calculation of --

0085

1 Q. How you're going to depreciate that asset.
2 You need its original cost, don't you?

3 A. Not the way -- what we're doing now. We
4 need the mortality data to determine an average
5 service life, and then we'll determine from that
6 average service life the depreciation rate. That

7 depreciation rate times plant balance gives an annual
8 accrual.

9 Q. Okay. But you're depreciating an asset that
10 is valued at something. Where do you get that value?

11 A. That's what -- the plant balance. That's --
12 when you take the depreciated rate times the plant
13 balance, that's where that value is.

14 Q. That changes over time, but, originally, you
15 start out with the original cost; is that right?

16 A. Yes, but not to develop the average service
17 life.

18 Q. Okay. And I didn't mean to develop the
19 average service life. I'm sorry. My question became
20 very confusing.

21 I was just trying to determine that if
22 you're looking at an asset, and you're looking at the
23 life -- and I'm not saying trying to calculate the
24 life of that asset, but you look at an asset and you
25 also look at the life span of that asset, and you set

0086
1 up a depreciation rate, and -- you have to determine
2 the cost of that asset somehow, and, originally, the
3 cost of that asset is its original cost?

4 A. That's a given, yes.

5 Q. Okay. And I guess what I was trying to ask
6 you was, you can't really -- you can't take another
7 asset and substitute its cost -- you can't take one
8 asset and substitute certain portions of that equation
9 with the numbers from another asset, can you?

10 A. I believe the answer to your question is
11 that you can't. The dollars that are put in the
12 account are the assets that are purchased by the
13 company, and then those dollars are depreciated.

14 Q. On page 31 of your testimony, you have a
15 little formula there. And the first line on that
16 where you show gross salvage minus cost of removal,
17 and then on the -- the next column over it says,
18 current dollars. And then that first column is
19 divided by the original cost of the plant removed, and
20 the next column over shows that as vintage dollars.

21 The first line -- you're talking about the
22 traditional whole life method there, whole life
23 technique, is what you've got that formula to
24 represent. Right?

25 A. Correct.

0087
1 Q. And under the traditional whole life
2 technique, doesn't that formula -- the first line of

3 that formula equate to future dollars rather than
4 current dollars?

5 A. To calculate net salvage, the net salvage
6 ratio in the traditional technique, they look at
7 current retirements and ratio them against the cost of
8 the plant that's being retired and the cost at that
9 date, in other words, in vintage dollars.

10 Q. Okay. When you say "they," who are you
11 talking about?

12 A. Anyone that uses the traditional technique.

13 Q. So you're saying that there is no estimation
14 of the future cost of removal of that specific asset,
15 that it is not specific to an asset?

16 A. I think that was one of the issues of
17 writing some of this, is that outside of the major
18 studies that are done for the cost of removal of
19 nuclear plants, there is no presentation; there is no
20 study of any type, engineering or otherwise, that says
21 what is it going to cost and what -- what types of
22 activities are going to be required 20, 30, 40 years
23 from now to remove today's plant.

24 Q. So you're telling me that the calculations
25 that are made for depreciation of an asset do not

0088

1 include specific estimations of the cost of removal of
2 that asset?

3 A. For the cost of removal, correct, with one
4 exception, nuclear plant.

5 Q. But it's based upon an average that is
6 applied to the asset that is being depreciated,
7 assuming that that average is going to come out
8 somewhere near what an estimated cost of removal for
9 that specific asset would equate to?

10 A. It looks at the current relationship between
11 plant that's retired today and its original cost, and
12 it makes the presumption that that will occur for all
13 plant that's in service, that same exact relationship.

14 Q. That same ratio?

15 A. Yes.

16 Q. And that ratio -- if that ratio continues,
17 is it not true that an asset that costs more when it's
18 placed in service will also cost more for removal at
19 the time it's removed if that current ratio continues?

20 A. If -- if the current plant's cost is higher
21 and the ratio is the same, then the -- in raw dollars,
22 the future cost of removal would be higher, yes.

23 Q. Page 33, you talk about -- the question
24 there on line 3 is, What is a reasonable solution to

25 the inability to predict the future? And you say, The
0089

1 reasonable solution is to use the full recovery whole
2 life technique to determine depreciation expense and
3 removal cost. This technique eliminates the inherent
4 wrongness of a future net salvage value that is
5 determined using a traditional whole life technique.
6 The full recovery whole life technique will allow
7 future differences between actual accrual balances and
8 the theoretical calculation, what the accrual balance
9 should be, to be small and easily adjusted on a going-
10 forward basis.

11 Now, as I read your full recovery whole life
12 technique, I see it as having no relationship -- the
13 removal costs that are used having no relationship to
14 the assets that are being depreciated.

15 A. The removal cost is the current level, and
16 the current assets are the ones that are going to be
17 removed, and we expect to see essentially the current
18 level of cost of removal to occur in the near term.

19 Q. Okay. So there really is no relationship
20 other than the fact that you say it won't increase?
21 It will be the same as it is today for removal --
22 future removal of current plant will be the same cost,
23 no greater than what it costs for removal of another
24 plant today?

25 A. That's -- that's where we're at. The

0090
1 statement that's been made by our division director is
2 that if it were to increase, the companies have the
3 opportunity to come back for another rate case.

4 Q. And charging that off to future ratepayers
5 who probably didn't use the asset. Right?

6 A. Well, it would be at that time that the cost
7 would be higher. When the cost goes higher, they
8 would come back to move their rates up to recoup the
9 higher cost of removal.

10 Q. And they would recoup that from the
11 ratepayers that would be current ratepayers at that
12 time, not the ratepayers who used that asset over its
13 life; is that correct?

14 A. You could say that, yes.

15 Q. So -- and in your proposal, aren't you in
16 effect really just removing the factor of net salvage
17 from the equation for depreciation and replacing the
18 definition of depreciation with your new definition
19 and simply expensing current costs of removal of the
20 assets?

21 A. With the exception of final removal of life
22 span plant, I think what your statement is is true.

23 Q. And let me see if I follow you with the
24 exception of the final removal of the life span plant.
25 Would you elaborate on that?

0091

1 A. Life span plant would be plant such as a
2 power plant where perhaps something new was replaced
3 last year but the full plant is all retired together.
4 Therefore, that new roof, maybe, is retired after only
5 one year.

6 So in life span plant you have essentially a
7 single date on which all accounts and all plant within
8 that unit is retired, regardless of age, and it
9 usually carries with it a major removal cost.

10 Q. And are you saying that it is your position
11 that for those assets that require a major removal
12 cost that they would continue to be treated under the
13 traditional whole life approach?

14 A. No. What we've said is we -- when we're
15 aware, when there is some kind of knowledge of those
16 plants being terminated as far as active life, and
17 retired, that we would set up an amortization to allow
18 the company to recover that.

19 Q. I see. So you would allow -- you would have
20 the ratepayers at that time going forward pay for
21 removal of the asset that was used by ratepayers in
22 the past?

23 A. Yes.

24 Q. Okay. Page 35 -- I think we've already
25 covered that.

0092

1 On page 36 you refer, and you have referred
2 on different pages to the crossover point or
3 inflection point. And doesn't that inflection point
4 or crossover point occur because there is newer plant
5 with a larger balance at the beginning of the
6 depreciation cycle, and the plant that's being retired
7 is at the end of its depreciation cycle?

8 A. The crossover point occurs because if you
9 were to finalize an account, if an account was to stop
10 at some point in time, you would have to have a
11 balance of dollars in and dollars out. If you collect
12 more dollars than you're spending during some period
13 of that life of that account, then during another
14 period of the life of that account, there is no choice
15 but to -- to collect less than you're spending.

16 Q. And isn't that -- is it the fact that you're

17 collecting more in the beginning because you've got a
18 larger balance at the beginning of the depreciation
19 cycle?

20 A. Well, what is setting up some of the high
21 numbers that we're seeing for cost removal now is the
22 relationship of all of the things that go into that
23 formula that we just looked at, and because that ratio
24 has vintage dollars versus current dollars, you're
25 also looking at inflation, what might have happened

0093

1 environmentally to cause costs to go up, so those
2 things are involved.

3 If inflation doesn't go up the same as it
4 did in the past, you wouldn't get that same ratio. If
5 you don't have environmental conditions change as you
6 have in the past, you wouldn't get that ratio.

7 Q. On page 39, you talk about your -- well,
8 your category there, Double collection of net salvage
9 cost. And the question is, What could happen if a
10 company continues to collect net salvage cost
11 determined by the traditional whole life technique,
12 spends the excess cash for other activities and
13 reaches a date, after the inflection point, when bills
14 for removal cost exceed the collection of net removal
15 cost dollars from customers?

16 First, I didn't realize that until I just
17 read that sentence out loud now, but it seems to me
18 like the opposite of what we just talked about has
19 occurred there in your scenario. If after the
20 inflection point bills for removal exceed what's
21 already been collected for net removal, there you have
22 obviously costs going up beyond what was originally
23 estimated. Is that right?

24 A. Well, this is what we just talked about, is
25 after you go beyond the inflection point, if you've

0094

1 recovered more than you have spent for removal costs
2 prior to the inflection point, then beyond the
3 inflection point, you have to recover less.

4 Q. But you haven't spent anything for removal
5 of that asset yet. It hasn't been retired yet.

6 A. Correct. But the total number of dollars
7 collected at the end of that account's life would have
8 to equal zero.

9 Q. The total amount collected at the end of
10 that account's life --

11 A. Right. If you had an account that was --
12 the way you anal-- can analyze it is to look at an

13 account that's going to terminate. And if you collect
14 more dollars than you are spending for removal costs
15 during an early phase of the life of that account,
16 then at the inflection point what happens is the
17 situation reverses and you spend more than you
18 collect. You're basically using up that difference
19 between the theoretical and the actual accrual.
20 You're using it up as you go throughout the balance of
21 time.

22 Q. And there is where you're talking about
23 bunching all of these assets together versus treating
24 one asset at a time, because you don't spend anything
25 to retire an asset until you retire it?

0095

1 A. The cost of removal would come either when
2 it's retired or sometime thereafter, yes.

3 Q. Okay. So when you talk about the account,
4 you're talking about account of all of the assets
5 together?

6 A. The assets that are in a particular account,
7 yes.

8 Q. So if -- if Staff has this concern, why --
9 why are you not suggesting that the company -- and I
10 realize for this company you have reached a
11 Stipulation and Agreement, and I really feel bad about
12 having to drag this company through all of this which
13 really doesn't relate to them, but this is where you
14 filed your testimony, so this is the only place I can
15 ask you these questions.

16 If that was Staff's concern, why doesn't
17 Staff recommend removal costs be maintained in a
18 separate account versus recommending a full, new
19 radical new approach to the treatment of depreciation
20 and net salvage?

21 A. By maintaining an account, are you saying
22 set up a cash reserve?

23 Q. Uh-huh.

24 A. It's been discussed, and this has been the
25 way that the decision's been made.

0096

1 I personally am not opposed to the
2 presentation you just made, that there would be an
3 account set up similar to the accounts for the
4 nuclears for major plant's removal.

5 Q. And then you wouldn't have to say that the
6 company had overcollected; is that right?

7 A. Well, what we would say is the dollars are
8 truly there and set aside for that purpose, and then

9 when that plant is removed, if there were excess
10 dollars, they could flow either back to the customers
11 or be utilized in another account for another major
12 piece of plant.

13 Q. Now, when I read your testimony, this was a
14 few days before we had a matter on for agenda vote
15 which was a telecommunications matter, the sale of
16 GTE/Verizon plant. And I was absolutely amazed when I
17 read your testimony in this electric case that talked
18 about GTE plant, and you went into great detail about
19 how the GTE situation was reflective of Staff's
20 concerns with this whole depreciation issue.

21 And on page 40 you said, there are two
22 concerns to be addressed as a result of the sale of
23 GTE's plant. Now, at line 11 you say, Staff believes
24 that the new owner of the GTE plant determined the
25 purchase price based on an analysis of future

0097
1 earnings. And then at line 16, Staff's concern is
2 that GTE will simply keep all of this money. If this
3 is the case GTE will reap a windfall profit on the
4 sale of the Missouri plant due to the money GTE
5 collected using traditional depreciation techniques to
6 set depreciation rates. These traditional
7 depreciation rates provided funds for the retirement
8 of plant decades in the future.

9 Now, I also, in that we were just seeing
10 the -- one of the GTE sales on transfer of assets on
11 agenda a couple of days later, I filed an ex parte --
12 a Notice of Ex Parte in that case because I felt that
13 it directly related to a case that was before us, and
14 I also read the Suggestions in Support of the
15 Stipulation and Agreement in the GTE matter that was
16 on agenda on whatever that date was. The Suggestions
17 were filed on April 8th by the Staff.

18 And the Staff stated, The parties to the
19 agreement recommend that the Commission issue an order
20 to find the transfer of assets is not detrimental to
21 the public interest, and then on page 3 of that --
22 those Suggestions said, The Staff has found no
23 evidence to suggest that the transfer of assets is
24 detrimental to the public interest. Accordingly,
25 Staff recommends approval of the transfer of assets

0098
1 under 392.300 RSMo 2000.

2 And I'm getting to a question, believe it or
3 not.

4 It appears to me, and appeared to me, that

5 you were attempting to make a point that the
6 traditional whole life method that this Commission had
7 approved for use by GTE over many years was likely to
8 result in a detriment to Missouri ratepayers after the
9 assets are transferred to a new owner. Is that what
10 you were saying?

11 A. Commissioner Murray, I didn't intend to walk
12 on another case's toes, and I didn't realize I was
13 doing it until after the fact. And I apologize.

14 Now, what I was saying, I was trying to lay
15 out a case for what can happen in the transition of
16 assets where an amount of money has been collected
17 through rates for the purpose of retirement of plant
18 at some future date, the traditional method and that
19 then another company takes over that plant. If they
20 don't fully understand, and if we meet, say, perhaps
21 the five-year rule where they look and there is no
22 more competition and we go away from price caps and go
23 back to cost-based regulation, and if we were to
24 evaluate depreciation at that time and calculate a
25 theoretical balance, we could find that that

0099

1 theoretical balance may be way, way less than what is
2 on the books that were transferred.

3 And it -- as a depreciation engineer, it's
4 something that I wanted the Commissioners to be
5 knowledgeable of, not in that I was trying to affect a
6 current case. I was not.

7 Q. Did you think that the transfer of the
8 assets in that GTE case was detrimental to the public
9 interest?

10 A. I honestly had not made a thought process of
11 that nature.

12 Q. Was that kind of a case of the right hand of
13 the Staff not knowing what the left hand of the Staff
14 was doing?

15 A. Well, at least this left hand, perhaps.
16 That's the best explanation I can give you at this
17 time.

18 Q. Page 43 of your testimony -- excuse me.
19 Before we go to that, turn to pages 58 and 59, if you
20 would, where you, again, refer to the GTE multiple
21 collections potential and that -- on line 19 you say,
22 Certainly, GTE was instantly gratified by receiving
23 more dollars for removal of plant than the company was
24 spending but that instant gratification will not
25 support a strong and vibrant Missouri regulated

0100

1 company. Customers will potentially have to pay
2 additional dollars to a new owner of the GTE plant to
3 have a strong and vibrant Missouri regulated company
4 now and in the future.

5 But it is your position that you have not
6 looked at the GTE transfer of assets and you have no
7 position on whether it was detrimental to the public
8 interest?

9 A. I have not. There is -- we would have to
10 have data to analyze that, and we don't have it. I
11 did not get it. The Depreciation Department did not
12 get it.

13 So my answer is, we did not.

14 Q. So these statements about GTE in this
15 particular case, were they kind of off the wall? I
16 mean, were you basing them on any kind of data?

17 A. I -- I consider them theoretical, and I was
18 trying to use a specific company as an example, and I
19 feel as though I made a major error in using a
20 specific company as an example.

21 Q. Okay. Let's go to Page 43 now.

22 You say at line 21, the Missouri Public
23 Service Commission has previously addressed moneys
24 paid for net salvage cost. The general tenor of the
25 Commission's orders has been that moneys must have

0101
1 been spent and/or plant must be in service to be
2 included in customer rates.

3 Now, what do you mean by that statement?

4 A. In recent cases, the orders have been based
5 on -- with the exception of County Water, which I
6 believe we talk about, have been based on looking at
7 net salvage costs as current level.

8 Q. Okay. So you're saying there the general
9 tenor of the Commission's orders has been to follow
10 your full recovery whole life technique?

11 A. That would be true.

12 Q. And that's how many orders?

13 A. I would guess in the range of five or six.

14 Q. And how many of those were Stipulations and
15 Agreements?

16 A. Maybe half.

17 Q. I'd like to be a little more specific. I
18 need to know how many times the Commission ordered
19 that we follow this --

20 A. Well, I do know Empire, because I did that
21 case myself.

22 Q. Okay.

23 A. And that is the only one that I did myself.
24 I would have to develop the rest of the answer for
25 you.

0102

1 Q. And there was -- Laclede, I believe, was the
2 first one.

3 A. Laclede is -- is somewhat different. That
4 first case, it was on the current level, but the cost
5 of removal still flowed through the accrual.

6 And you were talking about the rule earlier.
7 The Laclede case met the rule because the cost of
8 removal was brought to their current level of
9 expenditure, but it did flow through the accrual. The
10 cases subsequent to that, a major decision was made --
11 a decision was made at a high level that cost of
12 removal net salvage would be expensed.

13 Q. And that was not a unanimous agreement.
14 Right?

15 A. You're picking up on that. Yes, you're
16 right.

17 Q. And --

18 A. Commissioner, I would like to say, you know,
19 there's a couple hundred employees, and we don't
20 always all agree.

21 Q. I don't mean unanimous Staff. I mean, it
22 was not a unanimous Commission decision?

23 A. Oh, I'm talking about -- I'm talking about
24 Staff.

25 Q. Okay. Now, did the Commission rule in

0103

1 Empire to require the full recovery whole life
2 technique?

3 A. Net salvage, yes, would be expensed, yes.
4 The order went out that way, yes.

5 Q. Which was not a unanimous Commission order?

6 A. I'm certain you're right.

7 Q. And your next sentence, 23, In a rare
8 exception to this Commission guideline -- now, when
9 you talk about Commission guideline, where is that
10 guideline coming from specifically?

11 A. I should have said in this general -- the
12 general tenor. I'm back to the general tenor. I've
13 used the word "guideline."

14 Q. So the general tenor of things that have
15 been ordered are -- basically would be the Empire
16 case, is that right, if Laclede was different?

17 A. To my knowledge of the cases that I worked
18 on.

19 Q. And then you say, In one rare exception, the
20 Commission did order the traditional whole life
21 depreciation rates, and you talk about the Missouri-
22 American Water case for quite a number of pages after
23 that in your testimony.

24 Do you still consider that one rare
25 exception when we ordered the traditional whole life
0104 depreciation rates?

2 A. Currently, it is the case that is different
3 than several cases that have been ordered either by
4 the Commission or stipulated.

5 Q. Now, isn't it true that Stipulations and
6 Agreements should have no -- I'm drawing a blank on
7 the word I want -- precedential value for cases going
8 forward because they were all reached by negotiation
9 and agreement of all of the issues, and that any issue
10 in that doesn't have any precedential value? It's not
11 a policy statement by the Commission when we approve a
12 Stipulation and Agreement, is it?

13 A. I don't know that I understood that, but,
14 obviously, I'll take your word that that's the way it
15 is.

16 Q. Now that you understand that, will you be
17 less intent upon trying to get people to agree in
18 Stipulations and Agreements to this depreciation
19 technique where it doesn't really matter for them?

20 A. I -- my belief pattern will probably still
21 be that the current level of net salvage is
22 appropriate, but I will change the way I address it
23 definitely.

24 Q. So you won't in the future point to
25 Stipulations and Agreements as evidence that the

0105 Commission -- the general tenor of the Commission
1 orders has been a certain way?

2 A. I'll make that correction.

3 Q. Thank you, because I find that to be very
4 misleading. And I happen to have been here during
5 those cases, so I know the background. I know the
6 history of this. And as I read this testimony, I
7 thought, if I had not been here and I was just getting
8 into this for the first time, I would have been
9 misled. And I don't think you want to mislead.

10 A. Correct. My intention was to inform, not to
11 mislead. To bring awareness, but not to mislead.

12 Q. On Page 44, you talk about -- you're talking
13 about the Missouri-American Water case which you cited
14

15 as the one rare exception where we didn't order -- did
16 not order your new method of depreciation, and you go
17 into contributed plant, and there -- rather than me
18 try to paraphrase, why don't you tell me what it is
19 you're saying that you think -- and you've said that
20 you would ask for in their next rate case, I believe?

21 A. Okay. We see a lot of times in small water
22 companies that the plant is already in place, or sewer
23 companies, when they're set up and it's called
24 contributed plant, and, therefore, they have no rate
25 base to speak of. And that plant has been purchased

0106

1 by someone else, whether it's the customers or the
2 developer or whatever.

3 In the County Water case, as it was
4 presented, the company argued that they needed dollars
5 for infrastructure replacement, and they also argued
6 that a place for them to get these dollars was via
7 depreciation.

8 What I foresee happening is when we come to
9 a future case, we'll -- again, we'll calculate a
10 theoretical reserve balance, and it will be
11 significantly lower than the actual reserve balance
12 that's on the books. But those dollars that went in
13 were used for a necessary thing, which was the
14 infrastructure that did need truly to be replaced and
15 improved by that company.

16 And in my world, which is strictly
17 depreciation, I see a situation coming up that can
18 present some conflict because it's almost like we're
19 going to say they were given the money to develop new
20 infrastructure and then we calculated a theoretical
21 balance. They are overaccrued. Now, we've got to
22 turn around and have the company give that money back
23 to their customers.

24 Q. So you're suggesting what in the next rate
25 case?

0107

1 A. Well --

2 Q. You suggested it in your testimony.

3 A. I said that we would say that that plant
4 that was purchased with those dollars would be seen as
5 plant that was purchased by the customers ahead of
6 time and it would be contributed plant and would not
7 go into rate base. That still will leave us with some
8 way to address a theoretical calculation that's less
9 than the actual accrual.

10 I do believe -- I would like to say, I made

11 several visits to County Water. They needed the
12 infrastructure project. I was never against that.
13 It's just that when I look at this from the vantage
14 point of depreciation, I'm saying how -- how are we
15 going to address this in a future case?

16 Q. Are you familiar with Public Utility
17 Depreciation Practices published in August of 1996 by
18 the National Association of Regulatory Utility
19 Commissioners?

20 A. Somewhat. One of our -- one of our past
21 employees was involved in that. I was not.

22 Q. Okay. I'm going to quote for you a quote
23 that I actually took from another Staff member's
24 testimony in another case that is currently pending
25 before us, but -- and I assume that she quoted it

0108

1 correctly out of the Public Utility Depreciation
2 Practices, and it says, "It is essential to remember
3 that depreciation is intended only for the purpose of
4 recording the periodic allocation of cost in a manner
5 properly related to the useful life of the plant. It
6 is not intended, for example, to achieve a desired
7 financial objective or to fund modernization
8 programs."

9 How can we tie depreciation to modernization
10 programs, infrastructure replacement?

11 A. Can you rephrase the question? I understood
12 the statement, but your question is --

13 Q. Well, here is -- I understood you to say
14 that you think the depreciation that they were allowed
15 in the Missouri-American Water case under the
16 traditional whole life method, and I believe the
17 Commission found there that it should be tied to
18 infrastruc-- a certain amount of that depreciation
19 should be tied to that infrastructure replacement,
20 which I dissented from that order, that being one of
21 the main reasons that I did.

22 But I'm asking you, in your suggestion of
23 treating that in future rate cases as contributed
24 plant, you're tying that infrastructure replacement to
25 depreciation, right, directly to the depreciation?

0109

1 A. Well, the source -- the source of the cash,
2 or the dollars to buy it, was put into the revenue
3 requirement via depreciation rates. Is that --

4 Q. And how do you -- how do you approximate --
5 how do you square that or make that okay with the
6 NARUC statement that depreciation is not intended, for

7 example, to achieve a desired financial objective or
8 to fund modernization programs? Can you square it
9 with that?

10 A. Yeah. If you're asking me if I was in favor
11 of using depreciation to fund an infrastructure
12 program, it was not. I believe my testimony in that
13 suggested that there were other ways, a separate line
14 item on the bill where the -- if they needed
15 additional money, somehow, you know, get them
16 additional money to take care of putting in pipes that
17 don't leak, but I personally did not feel that
18 depreciation was the place to do it.

19 If I had have, I would be supporting the
20 traditional method myself, I guess. But the Staff's
21 position in that case, which was mine, was, again, to
22 have cost of removal on the current level.

23 Q. And because it was treated under the
24 traditional whole life technique, you are going to
25 make the case in their next rate case that that plant

0110
1 was contributed by the amount included in the
2 depreciation of another asset; is that right?

3 A. It's -- it's got to be brought to the
4 surface, I think. If we do that, we still have the
5 problem of calculating a theoretical reserve balance
6 that may be considerably less than their actual
7 accrual, and I honestly -- at this point in time, I
8 haven't thought about it enough, but I do see some
9 problems in getting everything balanced out.

10 Q. Because you don't normally tie depreciation
11 of an asset with modernization; is that correct?

12 A. Yes.

13 Q. Okay. I think I'm about -- I'm getting
14 toward the end, hopefully.

15 A. Can I say hallelujah?

16 Q. The other Commissioners may say that.

17 On -- you have -- you have a schedule 19 --
18 I'm sorry -- 9 that's attached to your testimony, and
19 that is a FASB Summary of Statement No. 143,
20 accounting for asset retirement obligations; is that
21 correct?

22 A. Correct.

23 Q. And that is for financial accounting and
24 reporting by oil and gas producing companies; is that
25 correct?

0111
1 A. This may be, but the -- and I -- I'm not an
2 accountant, but the Accounting Board is looking at

3 this Statement 143 which would, I guess, require
4 companies to predict what their removal costs were
5 going to be and to carry it on the books.

6 Q. And oil and gas producing companies would
7 not be regulated utilities. Right?

8 A. Not by the Missouri Public Service
9 Commission.

10 Q. So they wouldn't have ratepayers involved
11 that -- where there would be a need to match the cost
12 causer to the cost payer; is that right?

13 A. This may need to be cleared up with an
14 accountant, but I believe that this 143 will
15 potentially come into the environment of regulated
16 companies.

17 Q. It has not to date, though; is that correct?

18 A. My understanding, that is true.

19 Q. And when is the effective date of this?

20 A. I don't know there is an effective date yet.
21 I think this is still a work in progress, but I could
22 be -- have to be corrected on that.

23 Q. In the attachment that you provided to your
24 testimony, it says on page 3 of 3, This statement is
25 effective for financial statements issued for fiscal

0112

1 years beginning after June 15, 2002.

2 But at any rate, as of today, June 11, 2002,
3 it's not even effective for nonregulated companies; is
4 that correct?

5 A. No. But it -- it -- again, it could be
6 something that awareness of -- on the part of the
7 Commissioners of something that may be coming up.

8 Q. And do you have anything to point to that
9 indicates that anyone would -- anyone other than you
10 and the Missouri Staff would be considering it for
11 regulated utilities?

12 A. My concern is -- and I believe there is a
13 sentence in here on schedule 9-1, I believe, right at
14 the very bottom is -- where it's talking about
15 recognizing this amount. It says, If a reasonable
16 estimate of fair value can be made...

17 And, again, it goes back to something we
18 discussed already, is that to look 20 or 30 or
19 40 years into the future and predict what costs are
20 going to be seems to me to be something that we just
21 cannot do.

22 COMMISSIONER MURRAY: Guess what? You can
23 say hallelujah. That's my last question.

24 Thank you.

25 JUDGE DIPPELL: Commissioner Lumpe, did you
0113

1 have questions?

2 COMMISSIONER LUMPE: I'll be very quick, I
3 hope.

4 QUESTIONS BY COMMISSIONER LUMPE:

5 Q. Just to follow up on that, was that not part
6 of the FERC statement also, if actual -- if actual
7 costs could be predicted at the FERC?

8 A. I believe it is. And I guess the position
9 that I have personally taken to date is if you had
10 something like vehicles, which you're looking at four,
11 five, six years, we may be able to look into the
12 future and predict pretty closely what we think a
13 vehicle is going to be worth at the end of its life.

14 But when we look at other items that are
15 going to last 30 or 40 or 50 years -- and also in
16 those items, characteristically cost of removal is the
17 major item, not the gross salvage -- it's -- it seems
18 to me that it's just impossible to make a decision of
19 what is the appropriate number to put on the books.

20 Q. As an estimate as opposed to the actual?

21 A. Correct.

22 Q. Okay. Let me just ask one question. And I
23 have a bunch here, but I'll just ask one.

24 Is there any way that the Company would not
25 recover the full value of the plant using the full

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1 value or the traditional value? They will recover the
2 value of the plant; is that correct?

3 A. Using the technique that the Staff is
4 putting forward?

5 Q. Yes.

6 A. They would recover the full cost of the
7 plant that they've invested in, and through an expense
8 item, they would cover their cost of removal expenses
9 on a year-by-year basis. And then for those major
10 plant items, like power plants, at the time they were
11 torn down, we would set up an amortization for them to
12 recover those dollars.

13 Q. And I know there's a lot of concern about
14 what these people paid for here and then these new
15 people are going to pay for there, but isn't there an
16 awful lot of overlap of people? Some people might
17 have left five years, and some people may still be
18 going on, and so there is not just a start and stop of
19 all of these people are gone and then all of these new
20 people come in, is there?

21 A. That's true, as well as things change.
22 We've seen an instance just recently where a company,
23 rather than retiring and removing pipe that is under
24 the streets of St. Louis, has been able to sell it for
25 gross value. So the -- they previously were under the

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1 traditional calculation, and the calculation had them
2 collecting money for the removal of that pipe, yet,
3 when the date came for retirement of that pipe, they
4 were able to sell it, and officially.

5 So how would we get all of that money they
6 collected that wasn't needed back to the correct
7 people? We just -- we can't predict the future.
8 It's -- there's so many things changing with
9 technology, and now you can use old gas pipe to run
10 fiber through, and we don't know what's coming down
11 the road.

12 Q. You make -- let's see. I know I have it
13 somewhere here.

14 On -- you talked about updating -- updating
15 the depreciation, and isn't that supposed to be done,
16 like, every five years?

17 A. There is a rule for gas and electric
18 companies only that requires them to submit a
19 depreciation study, but the depreciation rates do not
20 change.

21 Q. But they do the study, and then if they come
22 in for a rate case, those -- that new study may be
23 used for that new rate case?

24 A. Could, yes.

25 Q. And I think you mentioned that technology is

0116

1 one of the reasons that we need to look at that on a
2 periodic basis; is that right?

3 A. I believe that's absolutely true, yes.

4 Q. And sometimes the companies just leave the
5 pipe in the ground. They don't dig it up. There's no
6 salvage there. They just put new pipe in in the old
7 pipe or beside the old pipe or something like that?

8 A. Yes. Those things occur.

9 COMMISSIONER LUMPE: So those things occur.

10 Okay. I'm going to let you go, Mr. Adam.

11 You've answered a lot of questions.

12 THE WITNESS: Thank you.

13 JUDGE DIPPELL: Commissioner Forbis, do you
14 have any questions?

15 COMMISSIONER FORBIS: Mine have been
16 covered.

17 JUDGE DIPPELL: Thank you.
18 I have just a couple of questions for you,
19 Mr. Adam, just some clarification things.
20 QUESTIONS BY JUDGE DIPPELL:
21 Q. Way back at the beginning of your testimony,
22 you mentioned FI/FO. Am I correct that that is an
23 accounting method known as first in, first out?
24 A. Correct.
25 Q. And you were discussing the Empire case. Do
0117 you happen to know the case number for that case?
1 A. I believe it's 2001 ER-2001-299.
2 Q. And we mentioned the Laclede case, and, to
3 your knowledge, is that GR-99-315?
4 A. I can't answer that question. I don't
5 recall that well.
6 Q. And then just a couple of other things to
7 clarify for the record.
8 Commissioner Murray referred to the GTE
9 case, and I believe that may have been cited in the
10 record, but if it wasn't, that was TM-2002-232.
11 And Commissioner Murray also referred to
12 your schedule 9 as FASB, which is the abbreviation for
13 Financial Accounting Standards Board; is that correct?
14 A. Correct.
15 JUDGE DIPPELL: Okay. I just wanted to
16 clarify those things in the record.
17 COMMISSIONER LUMPE: May I just ask one
18 more?
19 FURTHER QUESTIONS BY COMMISSIONER LUMPE:
20 Q. I think you mentioned the St. Joe case in
21 your testimony. Were you not involved in that case,
22 but that is another example of where we used the full
23 recovery method?
24 A. I believe -- yeah. I believe Guy Gilbert
0118 who was here at the time did the St. Joe case.
1 COMMISSIONER LUMPE: Okay. Thank you.
2 JUDGE DIPPELL: All right. Are there any
3 follow-up questions from Citizens?
4 MR. SCOTT: None, your Honor.
5 JUDGE DIPPELL: From Office of the Public
6 Counsel?
7 MS. O'NEILL: No questions.
8 JUDGE DIPPELL: Missouri (sic) Lime?
9 MR. TURNER: No.
10 JUDGE DIPPELL: Are there follow-up from
11 Staff?
12

13 MR. ANDERSON: No.
14 JUDGE DIPPELL: All right, then. Mr. Adam,
15 you may be excused.
16 (Witness excused.)
17 JUDGE DIPPELL: And did the Commissioners
18 have any questions for any other witnesses?
19 (No response.)
20 JUDGE DIPPELL: Then I believe all of the
21 Commission questions have been answered.
22 At this time I would allow you-all to make
23 closing statements in lieu of briefs, if you like.
24 I see Mr. Scott shaking his head, so let's
25 just go ahead and begin with you, Mr. Scott.
0119

1 MR. SCOTT: I have no closing statement.
2 Thank you, your Honor.
3 JUDGE DIPPELL: But that's in lieu of your
4 brief. That's why you were --
5 MR. SCOTT: In lieu of my brief.
6 JUDGE DIPPELL: -- shaking your head.
7 Is there any other -- anyone that would like
8 to make a closing statement?
9 (No response.)
10 JUDGE DIPPELL: All right, then. I believe
11 that concludes the Stipulation hearing.
12 We can go off the record.
13 Thank you.
14 WHEREUPON, the hearing of this case was
15 concluded, subject to the Commission acceptance of the
16 Stipulation and Agreement.
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3	Exhibit No. 1	9	13
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