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Missouri Public
Service Commission

**DEPOSITIONS
OF
JAMES C. WATKINS**



BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

THE STAFF OF THE MISSOURI)
PUBLIC SERVICE COMMISSION,)

Complainant,)

Case No. EC-2002-1

vs.)

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

Respondent.)

DEPOSITION OF JAMES C. WATKINS
TAKEN ON BEHALF OF THE RESPONDENT
APRIL 18, 2002

COPY

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BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

THE STAFF OF THE MISSOURI)	
PUBLIC SERVICE COMMISSION,)	
)	
Complainant,)	Case No. EC-2002-1
)	
vs.)	
)	
UNION ELECTRIC COMPANY,)	
d/b/a AMERENUE,)	
)	
Respondent.)	April 18, 2002
)	Jefferson City, MO

DEPOSITION OF JAMES C. WATKINS,
a witness, sworn and examined on the 18th day of
April, 2002, between the hours of 8:00 a.m. and
6:00 p.m. of that day at the Missouri Public Service
Commission, Room 210, Governor State Office Building,
in the City of Jefferson, County of Cole, State of
Missouri, before

KRISTAL R. MURPHY, CSR, RPR, CCR
ASSOCIATED COURT REPORTERS
714 West High Street
Post Office Box 1308
JEFFERSON CITY, MISSOURI 65102
(573) 636-7551

Notary Public, within and for the State of Missouri,
in the above-entitled cause, on the part of the
Respondent, taken pursuant to agreement.

A P P E A R A N C E S

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1 ALSO PRESENT: Janice Pyatte, PSC Staff
2 Lena Mantle, PSC Staff
3 James C. Watkins, PSC Staff
4 Richard J. Kovach, Ameren
5

6 SIGNATURE INSTRUCTIONS:

7 Presentment waived; signature requested.
8

9 EXHIBIT INSTRUCTIONS:

10 Copy and attach.
11
12
13

14 I N D E X

15 Direct Examination by Mr. Byrne
16
17
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19

4

20 E X H I B I T S I N D E X
21

22 Exhibit No. 1
23 Deposition of James C. Watkins, taken
24 November 30, 2001, and errata sheet thereto
25

4

1 (EXHIBIT NO. 1 WAS MARKED FOR IDENTIFICATION
2 BY THE COURT REPORTER.)

3 JAMES C. WATKINS, being duly sworn, testified as
4 follows:

5 DIRECT EXAMINATION BY MR. BYRNE:

6 Q. My name is Tom Byrne, and I'm an attorney
7 for Union Electric Company doing business as AmerenUE.

8 Today we are here to take the deposition of
9 James Watkins of the Missouri Public Service
10 Commission Staff in Missouri Public Service Commission
11 Case No. EC-2002-1.

12 Good morning, Mr. Watkins.

13 A. Good morning.

14 Q. Before we get started, I would like to go
15 over some preliminary matters, and you may remember
16 these questions from your last deposition.

17 First of all, if you don't hear one of my
18 questions or completely understand the question, will
19 you ask me to clarify it or repeat it?

20 A. Yes.

21 Q. So if you do answer a question, I can
22 assume that you heard and understood it; is that
23 fair?

24 A. That's fair. May not be accurate, but --

25 Q. Well, if you don't -- I mean, if you don't

1 hear or understand it, will you ask me to repeat it or
2 clarify it?

3 A. Yes.

4 Q. Okay. Are you taking any medication that
5 might affect your ability to answer or understand my
6 questions?

7 A. No.

8 Q. Do you know of any other factor that might
9 impair your ability to understand or answer the
10 questions?

11 A. No.

12 Q. Okay. Also, if you want to take a break at
13 any time, will you just let me know --

14 A. Yes.

15 Q. -- and we can do that?

16 And, finally, some terms I might use in the
17 course of the deposition. If I say UE or AmerenUE or
18 the Company or Union Electric Company, I'm talking
19 about Union Electric Company. Is that okay?

20 A. That's fine.

21 Q. And if I say Ameren, then I'm referring to
22 the parent, Ameren Corporation. Is that okay?

23 A. That's clear.

24 Q. Okay. Could you please state your name?

25 A. My name is James C. Watkins.

1 Q. And by whom are you employed, Mr. Watkins?

2 A. Missouri Public Service Commission.

3 Q. And in what capacity?

4 A. Regulatory Economist III.

5 Q. Okay. And are you the same James Watkins
6 that filed Direct Testimony addressing rate design in
7 Case No. EC-2002-1 in both July of 2001 and March of
8 2002?

9 A. Yes, I am.

10 Q. And does the latest version of your Direct
11 Testimony from March of 2002 consist of five pages
12 and two schedules?

13 A. Yes, it does.

14 Q. And do you have a copy of that testimony
15 with you today?

16 A. Yes, I do.

17 Q. Okay. And do you have any changes that you
18 need to make to your testimony at this time?

19 A. No, I do not.

20 Q. Okay. And before we went on the record,
21 the court reporter marked some documents as
22 Exhibit 1. Did you have a chance to look at those?

23 A. Yes, I did.

24 Q. And what are those documents?

25 A. Those are my previous deposition and errata

1 sheet.

2 Q. Okay. The deposition that I took, I
3 believe, on November 30th of 2001?

4 A. Yes.

5 Q. And the errata sheet that you provided that
6 corrected some things in the transcript of that
7 deposition?

8 A. Yes, sir.

9 Q. And does your errata sheet that you provided
10 correct -- you know, provide substantive corrections
11 as well as typos and things like that to the
12 deposition transcript?

13 A. Yes, it does. Probably the only typos
14 that are included are those that were -- I believe
15 were necessary for the understanding of the
16 question.

17 Q. Okay.

18 A. There may have been others.

19 Q. Okay. But there are also at least some
20 substantive changes to the deposition answers?

21 A. Yes, there are.

22 Q. Okay. And do you have any other corrections
23 to that deposition transcript, either substantively or
24 typographically, that you need to make in addition to
25 those that are in your errata sheet?

1 A. I don't believe any additional corrections
2 need to be made.

3 Q. Okay. Has your job title or employment
4 status changed since your last deposition in this
5 proceeding?

6 A. No.

7 Q. Okay. Okay. I guess the first question --
8 first substantive question I have is, can you explain
9 what, if anything, you did in your Direct Testimony
10 this time that changed from your -- the Direct
11 Testimony you filed in July of 2001?

12 A. Yes. In referring to my March 1 Direct
13 Testimony, there is a question and answer on page 2.
14 The question is on line 4, and the answer begins on
15 line 6, which explains those differences.

16 The only substantive difference between
17 the two testimonies is the question and answer on
18 page 5 which addresses the -- how to incorporate the
19 results of a separate case into the rate design for
20 this case.

21 Q. Okay. And that -- and that separate case,
22 it looks to me, is Case No. EC-2002-152?

23 A. That's correct.

24 Q. And it would be fair to say that as a result
25 of that -- the settlement in that case, certain costs

1 which were previously recovered through late payment
2 charges on deferred payment agreements are now
3 recovered from the -- from all of the customers rather
4 than just the customers who -- who have deferred
5 payment agreements?

6 A. I'm not sure that I would characterize it
7 exactly that way, but I would characterize it as a
8 certain category of revenues has been deemed no longer
9 to be in the category of other revenues and will now
10 be in the category of rate revenues.

11 Q. Okay. But is that category of revenues
12 revenues that were previously recovered through late
13 payment charges on deferred payment agreements?

14 A. Yes.

15 Q. Okay. And other than that, is your
16 testimony pretty much identical to the testimony that
17 you filed on July 1st, 2001?

18 A. Yes, it is.

19 Q. Okay. And I guess I'd like to ask you some
20 questions that I asked -- I may have asked you in your
21 previous deposition, but just to make sure that your
22 answers haven't changed or your position hasn't
23 changed between then and the time that you filed your
24 latest version of your Direct Testimony, so if some of
25 them are the same, I apologize, but that's why I'm

1 asking them. Okay?

2 A. That's fine.

3 Q. Okay. I assume you still report to
4 Dr. Proctor; is that correct?

5 A. That's correct.

6 Q. Okay. And your responsibilities -- your
7 general responsibilities still include class cost of
8 service studies and rate design?

9 A. Yes, as well as other tariff matters.

10 Q. Okay. And do you agree -- and, again, I
11 think I asked this in your last deposition, but do you
12 agree that a utility class cost of service study
13 allocates a utility's costs to its various customer
14 classes?

15 A. Yes.

16 Q. Okay. And do you agree that utility tariff
17 sheets and rate components are established in order to
18 recover the utility's costs that have been allocated
19 to each customer class?

20 A. I want to make sure I understand the
21 question.

22 Are we talking about proposed or tariffs
23 that are currently in effect?

24 Q. Well, I think the question is more general
25 than what's specifically happening in this case.

1 As a general proposition, are, you know,
2 utility tariff sheets and rate components designed to
3 recover the utility's costs that have been allocated
4 to each specific customer class?

5 A. I don't really know how to answer that other
6 than they could be. Sometimes they are; sometimes
7 they are not --

8 Q. I guess should they be?

9 A. -- even on a proposed basis.

10 Q. Okay. I guess my question is, should they
11 be? Is that what they're supposed to do?

12 A. Not necessarily.

13 Q. Okay. Okay. Do you believe that utilities
14 should have the opportunity to recover all of their
15 prudently incurred costs?

16 A. Yes.

17 Q. Okay. Now, my understanding is that in this
18 case, in the updated testimony, neither you nor
19 anybody else on the Staff is -- has submitted a new
20 class cost of service study for this case; is that
21 true?

22 A. I know that I haven't.

23 Q. Okay.

24 A. I have not read all of the testimony, but
25 I'm fairly confident that that's correct.

1 Q. To your knowledge, nobody has submitted a
2 new -- nobody on the Staff has submitted a new class
3 cost of service study in this case. Right?

4 A. That's correct. To my knowledge, they have
5 not.

6 Q. And wouldn't you probably know if they had?
7 Wouldn't they have to talk to you about it?

8 A. They wouldn't have to. And I -- I agree
9 that I would probably know.

10 Q. Okay. But they wouldn't have to talk to you
11 about it? They could file a class cost of service
12 study without you knowing it?

13 A. It's theoretically possible, yes. Someone
14 in a different division might. I can't imagine it,
15 but it's theoretically possible.

16 Q. Like who -- who could conceivably do that,
17 like, the Accounting Department, or something like
18 that?

19 A. Talking about theoretical possibilities,
20 we're talking about, I guess, any employee of the
21 Commission who could file testimony.

22 Q. Okay.

23 A. I'm fairly confident -- I'm extremely
24 confident that I would know if anyone in my division
25 did. And I'm reasonably confident that no one in any

1 other division did.

2 Q. Has anybody from another division ever filed
3 a cost of service study in a rate case or complaint
4 case?

5 A. Not to my knowledge. My qualification is, I
6 have not read every piece of testimony in this case --

7 Q. Okay.

8 A. -- so I can't say for certain that no one
9 did.

10 Q. Okay. And my understanding is, you are
11 proposing that any revenue reduction ordered by the
12 Commission in this case should be distributed among
13 the various customer classes on the basis of the
14 Stipulation and Agreement in Case No. EO-96-15, which,
15 I believe, is the Company's last rate design case; is
16 that correct?

17 A. My recommendation is consistent with that
18 Stipulation and Agreement.

19 Q. Okay.

20 A. And, yes, that was the Stipulation and
21 Agreement in the Company's last rate design case.

22 Q. Okay. Would it be fair to say your
23 recommendation is designed to fulfill the rate design
24 objectives contained in that Stipulation and
25 Agreement?

1 A. Yes.

2 Q. Okay. And did you -- have you done any --
3 well, let me back up.

4 I think we talked about this in your last
5 deposition, but do you remember what -- what period of
6 time is covered by the cost of service study that
7 underlies that stipulation in EO-96-15?

8 A. I do remember talking about it in the last
9 deposition, and that information is in the -- in the
10 previous deposition. I don't recall off the top of my
11 head when it was.

12 Q. Okay.

13 A. In the mid-'90s.

14 Q. In the mid-'90s. Yeah, that's my
15 recollection too. I don't remember the specific day.

16 And is it true that -- well, have you done
17 any analysis of the formation underlying that cost of
18 service study or any of the data underlying that case
19 in the context of preparing your testimony for this
20 case?

21 A. No.

22 Q. Okay. I mean, have you looked at any of
23 that information since your participation in EO-96-15
24 ended?

25 A. I can't recall for certain, and the reason

1 is, is that there were several cases that were
2 interrelated at that point in time because of the
3 experimental alternative regulation plan. There was a
4 merger case. There was the rate design case. I think
5 there was a monitoring case.

6 The rate design was not implemented
7 specifically in the rate design case. The Stipulation
8 and Agreement was approved, but the implementation, I
9 believe, was in a separate case, and there was an
10 appeal of that to the circuit court. And so I can't
11 guarantee that I didn't look at any of that stuff. If
12 I did, it's been a really long time.

13 Q. Okay. I mean, would it be fair to say in
14 this case what you're doing is implementing the goals
15 of the Stipulation rather than doing any analysis or
16 study of the underlying data to reconfirm that
17 those -- that those goals are appropriate?

18 A. Yes.

19 Q. Okay. And -- and I guess, again, we spoke
20 of this a little bit in your last deposition, but the
21 information underlying that settlement in EO-96-15 is,
22 you know, mid-'90s vintage information and it seems
23 that that's a little older than usual.

24 Have you -- have you ever used -- in your
25 experience have you ever used a cost of service study

1 that's that dated in setting -- in setting rates for a
2 utility, or -- does that question make sense?

3 A. I believe we addressed that in the previous
4 deposition.

5 I guess I have two comments in respect to
6 your question. One is that it is the most recent data
7 upon which to perform a class cost of service study
8 that I've available. I -- but to follow up on that, I
9 did not look at it again. I did not look at the
10 underlying data.

11 My answer is the same as to your previous
12 question, which is, I took the concepts and objectives
13 that the parties agreed to and the Commission approved
14 in that case on their face and applied them in this
15 case.

16 Q. Okay. But as Mr. Kovach points out, the
17 question really was, do you know of any other
18 utilities, do you know of any other rate cases where
19 data that's, let's say, five or six years old or older
20 has formed the basis for the rate design either
21 recommended by the Staff or adopted by the Commission?

22 A. By "data," do you mean the underlying data
23 in the cost of service study, the financial data?

24 Q. Yes.

25 A. I'm not sure -- I'm not sure that I

1 understand the question.

2 Q. Well, let me try again.

3 I guess what I'm getting to is, okay, you
4 design rates based on a cost of service study. Okay?
5 And the cost of service study incorporates certain
6 data from the Company; is that correct?

7 A. That's a possibility, yes.

8 Q. Well, isn't that how you typically do rate
9 design?

10 A. What do you mean by "do rate design"? Do
11 you mean do rate design for the purposes of filing a
12 recommendation and testimony to the Commission, or are
13 you talking about do rate design to implement the
14 Commission's decision post-hearing?

15 Q. For purposes of filing a recommendation to
16 the Commission.

17 A. Staff would ordinarily do that in a cost of
18 service and rate design case.

19 Q. Okay.

20 A. We would prepare a complete class cost of
21 service study and a rate design that's consistent with
22 that study.

23 Q. Okay. And so -- and so my question is --
24 and you are proposing a design of rates in EC-2002-1,
25 are you not?

1 A. Yes.

2 Q. Okay. And so my question is, can you think
3 of any other cases where you have used a class cost of
4 service study to design rates that's based on data
5 that's older or as old as the data that underlies the
6 class cost of service study in EO-96-15?

7 A. I think it's the case that it's always true
8 that the Staff would design rates consistent --
9 consistent with its rate design recommendation, not
10 necessarily always with its class cost of service
11 study.

12 The -- I'd have to do some analysis to --
13 and gather some data on when class cost of service
14 studies were done and when subsequently somehow the
15 rate design was based on the results of that study. I
16 don't really have that handy.

17 Q. Okay.

18 A. But it certainly is the case that it would
19 not be unusual for a class cost of service and rate
20 design case to be implemented. Perhaps the -- excuse
21 me -- would occur and subsequently be implemented in a
22 rate case, for example.

23 Then it would not be unusual for several
24 years beyond that in the next rate case for that study
25 basically to be updated for the accounting data and to

1 account for basically growth in customers, changes in
2 the sales and revenues of the company, and then to
3 make a rate design recommendation based on that
4 updated study.

5 Q. But you're not updating the study in this
6 case, are you?

7 A. We are not.

8 Q. Okay. Okay. And I take it from your
9 answer -- not to keep pounding on this, but I take it
10 from your answer that you can't -- sitting here right
11 now, you can't name me any cases or companies or
12 docket numbers where that was done, although I
13 understand you would have to -- you're saying you
14 would have to do some looking into it? Is that fair?

15 A. Well, what I'm sure of is that I don't
16 understand the point of your question.

17 Q. Well, it's -- it's simple. Okay. Let me
18 back up a second.

19 What I'm asking you is for a docket number
20 of a case, and either you -- either -- the answer
21 would be either the docket number of a case or I don't
22 know the docket number of a case. Okay? I don't know
23 if this helps. That's the answer to the question. It
24 has to either be, Here is a docket number or docket
25 numbers of cases, or, I can't give you a docket number

1 of a case. Okay?

2 And so the question is, do you know any
3 docket numbers of cases where older data underlying a
4 cost of service study or as old data underlying a cost
5 of service study has been used either by the Staff or
6 the Commission in designing rates?

7 MR. WILLIAMS: I'm going to object to that
8 question as vague. You're talking about older data.
9 Older compared to what?

10 MR. BYRNE: Older compared to the data
11 underlying the cost of service study that was in
12 EO-96-15.

13 MR. WILLIAMS: With respect to what? Are
14 you looking for a time frame, or are you just saying
15 data older than mid-90s?

16 MR. BYRNE: I'm looking for a time frame.

17 BY MR. BYRNE:

18 Q. The data -- okay. Let me back up for a
19 second.

20 We could go through the old transcripts and
21 find the test period, but my recollection is the test
22 period for the data underlying EO-96-15 was in
23 calendar year 1996. That means, if that's true, that
24 data is six years old right now. So my -- and that's
25 the data that underlies the cost of service study that

1 forms the basis for your recommendation in this case.

2 Is that correct?

3 A. I think maybe that's the problem.

4 Q. Okay.

5 A. And I think I've answered that now, which
6 is, no, that's not the case. The rate design
7 recommendation in this case is based on the
8 Stipulation and Agreement approved by the Commission
9 in the rate design case. It is not related to the
10 class -- excuse me. It is not related to the Staff's
11 class cost of service study that was filed in that
12 case, nor to any other party's --

13 Q. Okay.

14 A. -- if indeed studies were filed, and I'm not
15 sure they were.

16 Q. Okay. Okay. I see what you're saying.

17 So in your mind it doesn't matter whether
18 there were ever a cost of service study. What you're
19 using is just the fact that it was stipulated. Is
20 that fair to say?

21 A. I believe my testimony is that the rate
22 design recommendation is based on the goals that were
23 established in that Stipulation and Agreement.

24 Q. Okay.

25 A. And that that is not inconsistent with the

1 class -- the Staff's class cost of service study
2 results, which were attached as schedule 2 to that
3 testimony.

4 Q. Okay. So it does matter that -- it does
5 matter to you that there was a class cost of service
6 study that supports that stipulation?

7 A. It matters to me that -- I guess that's a
8 multi-part answer, is it mattered to me at the time in
9 recommending that the Staff join in that Unanimous
10 Stipulation and Agreement, that the agreement was not
11 inconsistent with the Staff's own study. And it also
12 matters to me now that those results were not
13 inconsistent with the Staff's study.

14 Q. Okay. Okay. And you just said an
15 interesting phrase. Unanimous Stipulation and
16 Agreement.

17 Is it your recommendation that that
18 Stipulation and Agreement was unanimous?

19 A. No. I think I erred in that. There was --
20 I think it's fair to say that there was -- there was
21 not disagreement on many aspects involved in that
22 Stipulation and Agreement; however, there were --
23 there were a number of issues which were not resolved.

24 Q. Well, do you recall whether Laclede Gas
25 Company signed that Stipulation and Agreement?

1 A. You know, I frankly couldn't tell you. My
2 recollection is that the Stipulation and Agreement may
3 have specified the areas of agreement and the areas of
4 disagreement and incorporated Laclede's lack of
5 agreement to parts of it, and there is a signature in
6 the signature section. I don't know. I would have to
7 look at the signature page.

8 Q. Do you recall whether rate design issues
9 were litigated in that case after the Stipulation and
10 Agreement was filed?

11 A. There were specific rate design issues that
12 were litigated, yes.

13 Q. Okay. Do you recall the details of that?

14 A. The one I recall had to do with how much of
15 the revenue should be generated in the summer versus
16 the winter.

17 Q. Did you -- did you examine any of that
18 litigation in the course of preparing your testimony
19 that you filed in this case?

20 A. No.

21 Q. Okay. Do you agree that the rates for each
22 customer class should reflect the total overall cost
23 of service allocated to each customer class?

24 Well, I asked that wrong. Let me withdraw
25 that question.

1 Do you agree the rates of each customer
2 class should reflect the total overall cost of service
3 of each customer class?

4 A. I believe that that's a goal.

5 Q. Okay. Let me ask you some questions about
6 fixed costs and their recovery. We covered some of
7 this in your last deposition.

8 I guess my first question is, from an
9 economist's perspective, do you believe that fixed
10 costs should be recovered from customers through fixed
11 rate elements like a fixed monthly charge, for
12 example?

13 A. Let me make sure I understand the context of
14 your question.

15 Q. Okay.

16 A. Is it fair to say that the context of your
17 question is limited to regulated electric utilities,
18 for example, as opposed to what would occur in
19 unregulated markets?

20 Q. Yes. And I think -- and maybe it's not
21 limited to regulated electric utilities, but regulated
22 utilities.

23 In the context of regulated utilities, from
24 an economist's perspective -- and I say that because I
25 understand there could be policy considerations that

1 might lead to different rate treatments. But just
2 strictly from the perspective of an economist, in your
3 opinion, should fixed costs be recovered through fixed
4 rate elements?

5 A. I think I would have to give a qualified
6 yes, at least. The qualification would be if it were
7 practical and practicable, that would be the ideal
8 way.

9 Q. Okay. So, for example, I guess narrowing it
10 a little more down to an electric customer, if, say, a
11 residential electric customer pays a fixed monthly
12 charge and a variable charge per kilowatt hour of
13 electricity that he uses, would it be fair to say
14 that, again, from the economist's perspective, the
15 fixed costs ought to go in the fixed monthly charge
16 and the variable costs ought to go into the variable
17 per kilowatt hour charge?

18 A. That would be the case if it were possible
19 to identify the fixed costs that the particular, say,
20 type of customer at least, their general size and load
21 shape customer, were placing on the system, and you
22 could design the fixed charge just for that group, I
23 think I agree.

24 Q. Okay. Your qualification is if it were
25 possible to identify the fixed costs?

1 A. Yes.

2 Q. Okay. Would you agree that basic telephone
3 service for -- the bill for basic local telephone
4 service, excluding any long distance charge, is
5 approximately \$20 a month?

6 A. Well, my expertise is in electric, so I --
7 based on anecdotal evidence of, say, my own phone
8 bill, I think it's in that neighborhood, yes. But I'm
9 not an expert.

10 Q. And for that -- for that \$20 or so a month
11 that you pay for basic local telephone service, would
12 it be fair to say that you get access to the system
13 and access to make phone calls at least within your
14 local calling scope?

15 A. Yes, in addition to other things.

16 Q. Okay. And if you wanted to make long
17 distance calls or -- or, you know, maybe call
18 information where they might charge you a charge or --
19 you know, those would be additional charges that you
20 might incur across the course of the month; is that
21 right?

22 A. Yes.

23 Q. Okay.

24 A. Let me make sure I understood your question.
25 Are you talking about basic local service

1 being the kind of service where you just pay a fixed
2 charge per month and that excludes, like, local
3 metered service where you pay a per-minute charge for
4 all of your calls?

5 Q. Yes.

6 A. Okay.

7 Q. And isn't that the most common -- I mean,
8 isn't it a lot more common for customers to pay a
9 fixed monthly fee than have local metered telephone
10 service?

11 A. I don't know that for sure, but I would
12 assume that that were the case.

13 Q. Okay. How about cellular telephones? Do
14 you have a cellular telephone?

15 A. Let me make a comment. My recollection of
16 my previous deposition includes a lot of questions
17 about me personally. As a State employee, much of my
18 personal information is public, but I would really
19 rather not go there again.

20 I'm generally familiar with cell phones, if
21 that's sufficient for the purposes of answering your
22 question.

23 Q. I apologize for personalizing the questions,
24 and I'll -- can I ask the same kinds of questions but
25 not personalize them to you? Is that okay with you?

1 A. That's fine with me.

2 Q. I recognize your concern, and I -- okay.
3 Let me ask it more generally then.

4 Are you generally aware of how cellular
5 telephone plans work?

6 A. Yes.

7 Q. Okay. And would it be fair to say that for
8 a -- under at least the most common types of plans,
9 you pay a fixed monthly charge and then you get so
10 many minutes of calling that are covered by your fixed
11 monthly charge, and then if you exceed that or exceed
12 the boundaries of what you've agreed to, then you can
13 incur additional costs?

14 A. That's my understanding, yes.

15 Q. Okay. And would it be fair to say under
16 that scenario, by paying the fixed monthly charge, you
17 get access to the system? You get access to the
18 system of cell towers? You get access to the -- to
19 your local whatever scope in terms of minutes and time
20 that you have subscribed to?

21 A. I think the answer is yes. You do get
22 access to the cellular system and you -- and you have
23 prepaid for some number of minutes at different usage
24 times. Both -- at least both of those things are
25 included in that service.

1 Q. And do you have any general idea about how
2 much -- and I understand it varies by plan, but do you
3 have any idea of the magnitude of the monthly charges
4 for a service like that?

5 A. I think that it probably varies from maybe
6 \$20 a month for almost no minutes to \$150, \$200 for
7 more or less unlimited minutes. I think it's kind of
8 in that range.

9 Q. Okay. How about cable TV? Do you -- again,
10 would it be fair to say that as a general proposition
11 cable TV companies charge a flat monthly access fee,
12 and then sometimes in addition to that flat monthly
13 access fee, you can -- you can subscribe to enhanced
14 services?

15 A. Yeah. My understanding of the way pricing
16 of cable TV works is that there are or a variety of
17 charges that apply for additional channels, but there
18 is certainly no charge per minute of watching TV.

19 Q. Okay. Fair enough. And if you subscribe to
20 a basic cable package without a lot of enhanced stuff,
21 you know, without a lot of premium channels and things
22 like that, do you have any idea of roughly what that
23 costs?

24 A. I think it's probably in the same range as
25 local phone service. It's probably twenty bucks.

1 Q. Twenty or twenty-five bucks?

2 A. I think so.

3 Q. Okay. How about basic internet service?

4 Again, would the same sort of pricing model hold true?

5 And by that I mean, if you subscribe to an internet

6 service from, say, Prodigy or AOL or any -- I guess

7 there are local providers of service as well, do

8 you -- again, in general, do you pay a flat monthly

9 charge to obtain access to the system?

10 A. Well, I think there's two basic pricing

11 plans. It may be similar to cell phones. For a

12 low -- a relatively low charge per month you get

13 access, but no usage. And at the other extreme is you

14 pay a higher amount and you get access and unlimited

15 usage. And I assume there may be plans in between

16 that.

17 Q. Do you know how much under either of those

18 scenarios, do you know how much the flat monthly

19 charge is in general for internet access?

20 A. Well, I think there is a variety of types of

21 internet access, but let's call it the basic dial-up

22 access I would say is probably in that \$20 range too.

23 Q. Similar to the other types -- like the

24 telephone service and the other types of services

25 we've been talking about?

1 A. Yes.

2 Q. Okay. And do you know -- with regard to
3 internet service, do you know what the relative
4 popularity of the measured -- time measured access
5 plans versus just flat monthly fee access plans are?

6 A. I really don't know.

7 Q. Okay. And would it be fair to say that in
8 all of these examples that we've talked about -- I
9 think I said this in some of my questions, but would
10 it be fair to say that in all of these examples that
11 we've talked about, people pay the fixed monthly fee
12 to have access to a system of services, whether it be
13 cable TV or telephone or internet or cell phone?

14 A. Telephone is not my area of expertise.
15 Access charges, I've heard, is something they talk
16 about in telephones. I only know about access charges
17 in a generic sense, not in any technical sense they
18 might use in the telephone industry.

19 Q. And I don't mean my question in the
20 technical jargon of the telephone industry.

21 A. But it is certainly the case that the fixed
22 portion of the charge includes access.

23 Q. Okay. And maybe in addition to that in a
24 lot of these cases -- maybe not all of them, but in a
25 lot of these cases you can -- after you pay your fixed

1 monthly charge, you can pay for enhancements to your
2 service, I guess? Would that be fair to say?

3 A. Well, either enhancements to your service or
4 for basically additional usage in some cases.

5 Q. Okay. Or maybe additional types of
6 services?

7 A. There is that too.

8 Q. And those additional types of service, you
9 have the possibility of subscribing to those because
10 you've got access to the system. Is that fair to say?

11 A. I don't know. I suspect so.

12 Q. Okay.

13 A. The additional service wouldn't be very
14 useful to you if you didn't have access to the system.

15 Q. Okay.

16 A. I've never tried to call the local phone
17 company and say, I don't really have service with you,
18 but I would like to have call waiting.

19 Q. Right. The basic access makes it possible
20 for you to subscribe to the enhanced services; is
21 that -- would that be fair to say?

22 A. I don't know.

23 Q. Okay.

24 A. I don't know if you could subscribe to them
25 without the basic service or why you would want to.

1 Q. Okay.

2 A. But -- I mean, I think in principle I would
3 say yes, but I don't know that you couldn't.

4 Q. Gotcha. Okay. And let me ask you, then,
5 about electric, you know, service.

6 You know, my understanding is -- and correct
7 me if I'm wrong, but the way rates are currently
8 designed for electric service, there are fixed costs
9 that are recovered through cents-per-kilowatt-hour
10 charges. Is that fair to say as a general
11 proposition, or --

12 A. I think that that's generally true, yes.

13 Q. Okay. And, again, maybe this is going over
14 old territory, but from an economist's perspective,
15 would it not make sense if you could put fixed costs
16 in a flat monthly charge analogous to the \$20 or \$25
17 that are in basic -- in all of the services we just
18 talked about, would that not make sense from an
19 economist's standpoint for electric service?

20 A. I'm not entirely sure the entire set of
21 assumptions I have to make to answer that, but,
22 basically, electric service is in many ways much
23 different than any of the other services you've talked
24 about. For example, it doesn't -- for, say, internet
25 access, you know, it doesn't matter what kind of

1 computer I have hooked to it. It doesn't matter how
2 long I'm on it. If I have access through the phone
3 line, I just have the same phone line no matter what.

4 Q. Uh-huh.

5 A. In electric, it does matter what I have
6 hooked to it, how big the line has to be to come in.
7 So there are differences --

8 Q. Okay.

9 A. -- in those utilities.

10 Q. Okay. But I'm saying within a -- let's
11 say -- and I understand what you're saying.

12 But let's say within a class of customers
13 that all had the same kind of a line going into their
14 house, wouldn't it make sense, if there are sufficient
15 fixed costs that are currently being recovered through
16 a cents-per-kilowatt-hour charge, and that's an
17 assumption I'm making, that there are sufficient fixed
18 costs, wouldn't it make sense from an economist's
19 standpoint to put those fixed costs in a \$20 or \$25
20 access charge and then recover the variable costs
21 which would be much lower through the
22 cents-per-kilowatt-hour charge?

23 A. I would think as an economist I would at
24 least agree that if you identify individual pieces of
25 equipment or categories of sizes of equipment to serve

1 each customer and you put those on a fixed basis, you
2 would pay some charge, \$1 or \$2, something for the
3 service line that comes into your house, depending on
4 how long it was. You would pay a \$1 for a meter,
5 those things.

6 So that -- I mean, I see the fixed charge
7 for individual pieces of equipment because -- because
8 there is so much variety. I think between individual
9 customers it would be hard to -- it would be hard to
10 be practical to say, Here are all of the possible
11 categories of equipment you could have.

12 Q. And I think -- would it be fair to say that
13 the current customer charge, the current flat monthly
14 charge does have some of those fixed costs, some or
15 all of those fixed costs built in it already? Is that
16 true?

17 A. I've heard that view expressed by
18 knowledgeable people. It's not my opinion.

19 Q. It's not your opinion?

20 A. My opinion is you -- that all of those costs
21 are somewhere in the rate. If you have two elements
22 of the rate, let's say a residential rate, which is,
23 you know, hypothetical and very simple. You just have
24 a customer charge and a cent-per-kilowatt-hour charge,
25 okay, for the residential class, you know, based on

1 some set of billing determinants or billing units,
2 that rate will recover all of those costs.

3 Now, whether you think some particular item
4 of cost is being covered in one element of that rate,
5 the customer charge, or in another element of the
6 rate, that's sort of -- the beauty is in the eye of
7 the beholder. You can say it's wherever you want to.
8 You know, and the only limit is, well, after you said
9 all of these things are in the customer charge and
10 they add up to as much as or more than the customer
11 charge, than it's inconsistent to keep saying that
12 there is more stuff in there than that. But when you
13 say it's being recovered in the customer charge or the
14 energy charge, it's -- that's a function of how you're
15 thinking about it.

16 Q. Okay.

17 A. It's not a function of reality.

18 The reality is it's being recovered
19 somewhere, in one or the other or both of those
20 charges. It's being covered in the bill.

21 Q. Can I take it from your answer that in the
22 case of residential electric customers, is what you're
23 saying that the customer charge that is currently
24 being paid by them, say, for AmerenUE's system, isn't
25 high enough to cover all of the customer-specific

1 fixed charges like their meter and their service line,
2 and so some of those costs, in your opinion, have to
3 be being recovered through the cents-per-kilowatt-
4 hour charge?

5 A. Instead of just saying I agree, I would say
6 that the fixed -- the category of costs that we would
7 ordinarily call fixed costs is too large to be
8 recovered. If it were recovered in the customer
9 charge, it's too big to all be recovered there --

10 Q. Okay.

11 A. -- with the current level of Union
12 Electric's customer charge.

13 Q. Okay. And when you're talking about fixed
14 costs -- in the context of the answer you just gave,
15 you're talking about customer-specific fixed costs
16 like the service line, the meter, those kinds of fixed
17 costs?

18 A. Those are examples, yes.

19 Q. But, I mean, are you limiting your view of
20 fixed costs to customer-specific fixed costs? I mean,
21 aren't there even more fixed costs in the whole
22 system?

23 A. I wasn't limiting my answer.

24 Q. Okay. You're saying for all of the fixed
25 costs in the whole system, it's -- the customer charge

1 isn't large enough?

2 A. For those costs that do not vary with usage.

3 Q. Okay.

4 A. I would call those fixed costs, and they are
5 much larger than would be recovered in the customer
6 charge.

7 Q. Okay. And in addition to the equipment
8 costs that we talked about like the meter, the service
9 line, would other -- would it also include the O&M
10 expenses that go along with those fixed-cost items?

11 A. I don't understand the question. Would what
12 include the O&M?

13 Q. I'm sorry. Does your definition -- would
14 your definition of fixed cost include not only the
15 cost of installing a meter, let's say, or a service
16 line, but also the O&M expenses that go along with
17 those fixed-cost assets, I guess is the best way to
18 put them?

19 A. Is your question whether I consider O&M
20 expenses fixed?

21 Q. Yes.

22 A. With nothing to do with where they are
23 collected or --

24 Q. My question is, do you consider O&M expenses
25 associated with fixed-cost assets? And maybe I can

1 give you an example. Let's say a customer -- a
2 residential customer has a meter.

3 Now, you would say that meter is a fixed
4 cost for that residential customer; is that correct?

5 A. I would categorize it as such, yes.

6 Q. Now, would you also -- there's operation and
7 maintenance expenses associated with that meter, I
8 guess. Is that fair to say?

9 A. I'm not really an expert in accounting, but
10 I think that's the case.

11 Q. Okay. Let's assume there are operating --

12 A. Yeah.

13 Q. -- operation and maintenance, or O&M costs
14 associated with that meter. Okay. Can you make that
15 assumption?

16 A. Yes.

17 Q. Okay. Would you consider those O&M expenses
18 part of the fixed costs because they are associated
19 with fixed cost assets, or would you say they vary
20 based on the usage?

21 A. I would say that they vary based on the
22 usage. I wouldn't consider them to be fixed costs.

23 Q. Okay. But they don't vary based on the
24 usage, do they?

25 A. Am I supposed to assume that?

1 Q. No. I guess -- no, I'm not asking you to
2 assume that.

3 I'm saying, assume that there are operation
4 and maintenance expenses associated with a meter, say,
5 or some other assets that you would consider a fixed
6 cost asset.

7 Would you -- do you believe those O&M
8 expenses should be treated as fixed or variable costs?

9 A. Well, I would categorize O&M expenses as
10 variable if they vary with usage and fixed if they
11 don't vary with usage.

12 Q. Okay. Fair enough. Fair enough.

13 I have some general questions about the rate
14 case that don't specifically address your testimony,
15 so I just -- and there aren't very many of them, but I
16 just thought I would tell you that so you don't think
17 I'm referring to parts of your testimony. Is that
18 okay?

19 A. That's fine.

20 Q. I guess the first thing I'd like to ask is a
21 series of statements and see if you agree with the
22 statement or don't agree with the statement. Okay?

23 A. Just agree/disagree? It's not like a scale
24 of one to five?

25 Q. That's correct. But you can -- if you want,

1 you can explain why you agree or disagree.

2 Okay. And I'm reading these off a piece of
3 paper, and I will hand you the piece of paper so you
4 don't have to remember what I say.

5 But the first one is, "Test year as a
6 starting point to set reasonable rates for the
7 prospective period when rates are in effect." And
8 actually -- that didn't sound right.

9 How about -- how about, "Test year is a
10 starting point to set reasonable rates for the
11 prospective period when rates are in effect."

12 And if you don't know, that's okay too.

13 A. It's not clear to me what would have
14 preceded test year. If it's an analysis of the
15 utility's costs and revenues during the test year is a
16 starting point to set rates, I would certainly agree.

17 Q. Okay. That makes sense.

18 Okay. The second quote, which is a little
19 longer is, "The purpose of a test year is to create or
20 construct a reasonably expected level of earnings,
21 expenses, and investment during the future period
22 during which the rates to be determined will be in
23 effect. All of the aspects of the test year
24 operations may be adjusted upward or downward
25 (normalized) to exclude unusual or unreasonable items

1 to arrive at a proper allowable level of all of the
2 elements of the Company's operations."

3 A. I think it's somewhat like the previous
4 question. There are elements to this that are left
5 out. I think in -- I think in both cases the -- it
6 would appear -- or I would agree if the test year is a
7 fixed period in time in which an attempt is made to
8 match every element of cost of service with the
9 revenues over some fixed twelve-month period, and to
10 normalize or annualize that for a variety of factors,
11 so that instead of being purely historical, it would
12 be a better than purely historical representation of
13 what one might expect to happen beyond the test year.

14 Q. Okay.

15 A. So, I mean, I think I'm saying I agree with
16 this, but it isn't as detailed as my answer I think I
17 just gave you was in terms of how I interpret what
18 this means.

19 Q. Okay. So it's not that -- it's not that you
20 disagree with that. It's just that there is more --
21 the additional detail given in your answer makes it --
22 if you add that to it, then you would agree with the
23 statement?

24 A. Yes.

25 Q. Okay. The third one, "Revenue requirement

1 is net operating income multiplied by the current tax
2 multiplier."

3 A. No.

4 Q. You disagree with that statement?

5 A. Well, I disagree with that statement because
6 revenue requirement means cost of service. The entire
7 cost of service is the revenue requirement. Rates
8 need to be designed to recover all of the costs.

9 Now, I understand that a lot of people --
10 maybe most people use the term "revenue requirement"
11 to mean the increment or detriment that needs to be
12 accounted for in a particular case compared to some
13 assumed level of cost of service that exists
14 currently. And in that context, I'm not sure I
15 necessarily understand how that would be calculated.
16 So I don't know whether to agree or not to that part.

17 But my guess is that revenue requirement is,
18 to me, being used incorrectly in that sentence in the
19 first place.

20 Q. Okay. The next one I have says, "Revenues,
21 expenses, and rate base are the key components of the
22 rate-making process and each of these components must
23 be measured consistently in time in relation to each
24 other or the revenue requirement result will be skewed
25 either to the utility's or its customers' detriment."

1 Obviously, the question is, do you agree or
2 disagree or don't know about that statement?

3 A. I think it's another example where the
4 context in more detail would be helpful to me.

5 I mean, if it means nothing more than if you
6 had a test year where you -- if you did some
7 determination of what you believe the revenue
8 requirement would be based on revenue expenses and
9 rate base that are consistent in time versus one that
10 didn't, you would get a different answer. And an
11 evaluation of those two answers would -- you could
12 make a determination to whose detriment that might be.

13 But I don't know that there is -- that
14 there's a consistent relationship between some method
15 of doing it which would always be a detriment to one
16 or the other party. I don't know that there is any
17 causal relationship or, you know, if you do it this
18 way, it always turns out that way. I don't think
19 that's the case.

20 But I think it's certainly true that you
21 would get different answers, and one would be -- could
22 be considered to be detrimental to one party or the
23 other.

24 Q. But I guess what this is saying is, if you
25 don't measure revenues, expenses, and rate base

1 consistently in time, one way or another, it will skew
2 the results? So do you agree with that or not?

3 A. Part of the difficulty I'm having is with
4 the notion of skewness.

5 Q. Okay.

6 A. Okay. To me that's -- the skewness to me
7 implies a consistent bias.

8 Q. Well, maybe -- I mean --

9 A. And I don't know that that's what's being
10 implied there necessarily.

11 It's certainly true, if you get two
12 different answers, the Company would prefer one of
13 them; consumers would prefer one of them, and it's
14 probably not the same one. But I don't know that if
15 you're talking about a methodology for doing things
16 whether, if you consistently do it, it always
17 consistently is to the advantage of the Company or
18 consumers.

19 It may be that it's still a random thing.
20 If you do it -- if you don't match them all up but you
21 do it consistently, sometimes it's better for
22 consumers and sometimes it's worse for consumers. I
23 don't know. There is no consistent bias, I don't
24 think, implied by failure to match --

25 Q. But I don't think that the statement is

1 something about a consistent bias.

2 A. Okay.

3 Q. It's just saying, if you don't match -- or
4 if you don't measure those components, revenues,
5 expenses, and rate base, consistently in time in
6 relation to one another, the revenue requirement
7 result will be skewed either to the utility's or its
8 customers' detriment, and I don't think that means
9 consistently one way or the other.

10 But with that clarification, would you agree
11 with the statement?

12 A. Yes.

13 Q. Okay. The last statement, "The test year
14 forms the basis for any adjustments necessary to
15 remove abnormalities that may have occurred during the
16 period and to appropriately reflect any ongoing
17 increase or decrease shown in the financial records of
18 the utility."

19 And the question, again, is, do you agree,
20 disagree, or not have an opinion on that statement?

21 A. Again, out of context and not enough detail
22 to really satisfy me.

23 The test year is certainly a twelve-month
24 period where every effort is made to match revenues,
25 expenses, and rate base. And to examine the elements

1 of all of those items to determine if there are
2 abnormalities, not in the sense of grotesque things
3 necessarily, but deviations from normal maybe, and to
4 the extent that those are adjusted in that period that
5 provides an opportunity to also adjust the other
6 elements of cost of service that may be affected by
7 that adjustment and still keep revenue expenses and
8 rate base matched up on a twelve-month basis, not
9 necessarily that twelve-month basis, but on a
10 twelve-month basis, it's not entirely clear to me what
11 is intended by the -- the last part of the question
12 about ongoing increases and decreases shown in the
13 financial records.

14 I can think of examples -- I can think of
15 examples where I would agree that those things would
16 be incorporated and matched on that twelve-month
17 basis. I'm not sure -- none have occurred to me that
18 I don't think are the case, but I'm not sure -- I
19 don't know enough about what's in those financial
20 records, and I guess there's an assumption about what
21 the folks are doing that are analyzing these financial
22 records are determining, and I don't know very much
23 about that process.

24 But I think certainly a goal would be -- if
25 there is a trend in some item of expense or revenue,

1 certainly you would want to incorporate that for a
2 proper matching in the test period.

3 Q. Okay. And so would it be fair to say that
4 as far as the ongoing increases or decreases shown in
5 the financial records, you could think -- you could
6 think of some examples where you would include it, but
7 there may be other -- you can't think of any examples
8 where you wouldn't include it, but they may be out
9 there. Is that fair?

10 A. I didn't think of any while I was thinking
11 about your question.

12 Q. Okay.

13 A. I don't know if I could or not given enough
14 time.

15 Q. Okay. Fair enough.

16 Okay. Again, you know in the context -- I
17 guess I'm done with those quotes, but I have some
18 other questions that are of a general nature.

19 Again, in the context of talking about test
20 year expenses and the regulatory environment in the
21 environment of a rate case or a complaint case, would
22 you in your mind have a definition of a one-time,
23 nonrecurring expenses?

24 A. If a one-time, nonrecurring expense is a
25 technical term, I'm not sure I understand exactly what

1 it is, but --

2 Q. Okay. I don't think it is.

3 A. I'm not an expert on the revenue requirement
4 side by any means, but, I mean, can I think of
5 something that I -- just using my general
6 understanding of what those words mean in that
7 combination, sure, I could think of things.

8 Did you want examples?

9 Q. What's a definition, I guess, I'm asking you
10 rather than for examples.

11 A. I thought that -- I thought the question
12 was, can I imagine something that would have happened
13 in the test year that was an unusual event that I
14 wouldn't expect ever to happen again?

15 Q. I'm sorry. I may have misspoken.

16 The question I should have asked you, is --
17 but it's in the context of rate-making and in the
18 context of using a test year to set rates.

19 But do you have a definition of the term
20 "one-time, nonrecurring expense"?

21 A. No, I don't have a definition, if that's the
22 question.

23 Q. How about the term "extraordinary expense"?

24 A. I don't have a definition for that either.

25 Q. Okay. How about "abnormality"?

1 A. I don't think I have a definition for that
2 one either.

3 Q. Okay. How about "unreasonable item"?

4 A. I don't have a definition.

5 Q. And a last one, "unusual item"?

6 A. I don't have a definition for that either.

7 Q. Okay. Do you have an opinion, if you had
8 any of those things that occurred in the test year,
9 any of those things being an abnormality, an
10 unreasonable item, an unusual item, a one-time,
11 nonrecurring expense, or an extraordinary expense, if
12 you had any of those things in a test year, do you
13 have an opinion as to what the proper rate-making
14 treatment for those items would be?

15 And, more specifically, do you think those
16 items should be just eliminated from consideration in
17 rate-making or should they be amortized over some
18 period, or should there be some other rate-making
19 treatment of them, or do you not have an opinion?

20 A. That was a fairly complicated question. Let
21 me see if I can give you an answer if that's a
22 sufficient answer.

23 First of all, I'm not an expert by any means
24 on the revenue requirement side of the case. And if I
25 had an opinion, it would be, you know, an opinion as a

1 nonexpert.

2 Q. Okay.

3 A. If you could tell me, however, what you're
4 talking about as a specific example of one of those
5 things, since I don't know really how those things
6 would be defined, you know, I might have an idea of
7 some things that might be reasonable to do with it.
8 But I'm not an expert.

9 Q. Okay. Well, let me try to think of an
10 example.

11 Let's say you had -- let's say you had an
12 ice storm in the test year and it was sort of -- it
13 was an unusual -- I guess in Kansas City they recently
14 had a big ice storm, and -- so let's say you had an
15 ice storm in the test year and a whole bunch of costs
16 were incurred that are not typically incurred every
17 year. Okay?

18 Do you have an opinion as to what the proper
19 rate-making treatment would be for that kind of an
20 event? Would it be eliminate the cost from the cost
21 of service -- that's one choice -- or amortize the
22 cost over some future period, or maybe some other
23 rate-making treatment?

24 A. I'm not sure -- I don't remember your list
25 of all of the things that I didn't have definitions

1 to, so I'm not sure whether that falls into any of
2 those, I mean, but it appears to me that the storm
3 damage is something that does recur. We've had more
4 than one storm. We probably will have another one
5 some day.

6 Q. Okay.

7 A. I mean, it would seem to me that somehow
8 rates should be set to recover those costs.

9 Q. Okay.

10 A. Now, I don't know about amortizations and
11 all of that stuff, but it seems like it should be an
12 element of the Company's cost of service.

13 MR. BYRNE: What if you had a cost -- I
14 understand that's your answer.

15 What if you had a cost that was truly
16 nonrecurring? And if you give me a second, maybe I
17 can think of an example of one.

18 MR. WILLIAMS: Tom, do you mind if we take a
19 five-minute break?

20 MR. BYRNE: Sure.

21 (A RECESS WAS TAKEN.)

22 BY MR. BYRNE:

23 Q. Okay. In the break I thought of some other
24 examples that I could ask you about.

25 A. Okay.

1 Q. One example would be, what if you had a fire
2 at the -- at the Company's general office building,
3 let's say, and the general office building burned to
4 the ground, and that occurred in the test year? Would
5 you have an opinion as to how -- you know, again, what
6 rate-making treatment would be afforded to the costs
7 incurred as a result of that fire? Would it --
8 would, you know -- well, that's the question.

9 And I guess, really, the question is, what
10 rate-making treatment do you believe should be
11 afforded to the costs associated with that fire?

12 A. I'm not an expert on that. I don't have an
13 expert opinion, but I can usually come up with an
14 opinion on things I know nothing about.

15 Q. Okay.

16 A. So if you would like my opinion, for what
17 it's worth -- frankly, I have to admit it's easier to
18 come up with an opinion on things I don't know
19 anything about than on things I do.

20 Really, I don't know where to begin. You
21 have to identify what all of the costs are. I assume
22 there's -- there's lots of costs besides needing to
23 replace the building. You know, I assume there's
24 damage to the stuff inside, maybe people got hurt. I
25 mean, there's lots of things, and I don't know how to

1 account for those.

2 Q. Sure. But let's say there was --

3 A. And there's insurance.

4 Q. Sure.

5 A. And I don't know how to incorporate all of
6 that either.

7 Q. Well, let's just say, for example, there
8 was -- you know, pick some number. There was a
9 million dollars of net costs incurred by the Company
10 in connection with the fire, and they were all
11 legitimate costs, you know, in terms of being
12 reasonably incurred by the Company.

13 But from a rate-making perspective -- and
14 they fell in the test year. From a rate-making
15 perspective, what would you do? Would you throw them
16 out because a fire is a nonrecurring event, that might
17 be one choice, or would you leave them in the test
18 year, or would you amortize it over some period? What
19 would you do with those costs?

20 A. I'm not an expert, you know.

21 When you say "net costs," do you mean -- I
22 assume that any proceeds from insurance, et cetera,
23 have offset any costs and that the event -- there was
24 no responsibility or blame that could be assigned to
25 the utility for the original event? Did you --

1 Q. Yes.

2 A. Let's simplify it. You've got a million
3 dollars of costs that came from somewhere, the fire,
4 anywhere, that represented an unusual event?

5 Q. Yes. And it's net of an insurance payment
6 that was made, and the insurance payment was made
7 during the test year. The costs were incurred during
8 the test year and the insurance payment was made
9 during the test year in my example. And the fire --
10 and the costs were not the fault of the Company. They
11 were reasonably incurred costs.

12 What would you do with those costs?

13 A. That really is a difficult situation. I
14 mean, clearly, if you expected that will never happen
15 again, you wouldn't want to set rates to collect that
16 forever, but, on the other hand, it doesn't seem like
17 you should just ignore it either. But I don't -- I'm
18 not sure how -- I'm not sure what -- how you could
19 kind a middle ground to -- I just don't know enough
20 about the revenue requirement side to know what has
21 been done or, you know, what could be done.

22 But it doesn't seem like you should leave
23 them out or fully include them either if they are
24 never going to happen again, but they did happen once.

25 Q. Would it be fair to say that you think there

1 should be some recognition in the rate-making process
2 for those costs?

3 A. I guess that would be my opinion, yeah, for
4 what it's worth again.

5 Q. Okay. Let me give you another example, and
6 maybe your answer will be the same, but it's a
7 different fact situation.

8 Let's say you buy coal to -- as fuel for
9 your generation plants, the electric company does, and
10 let's say it has a number of coal contracts that have
11 uneconomic pricing provisions. Because of -- because
12 of changes in the market price for coal, the price in
13 these contracts has become uneconomic. And let's say
14 during the test year the utility pays a one-time fee
15 to get out of these uneconomic -- to get out of all of
16 its uneconomic coal contracts.

17 Now, would it be fair to say that's the kind
18 of cost that you might not expect to recur every year?

19 A. I wouldn't expect that to occur every year.

20 Q. Okay. What would you -- what would you do,
21 if you -- if you have an opinion on how those costs
22 should be treated?

23 A. It appears to me that there is a cost
24 comparison there, a projected cost comparison, and,
25 one, is to continue to purchase the coal under the

1 contracts that -- you said uneconomic. What I assume
2 is you mean that the price that's specified in the
3 contract is higher than the current market price?

4 Q. Yes.

5 A. You could estimate what the costs of
6 continuing under that contract are for -- for those
7 contracts for the term of the contract, paying those
8 prices, versus making a lump -- making the lump-sum
9 payment that was made and paying market prices over
10 that same term. They would each have a separate
11 cost. I guess my opinion is you pick the smaller
12 one.

13 Q. Let me ask you this: If the utility acted
14 reasonably in my example, would it be fair to say
15 that there should be some rate recognition of those
16 costs?

17 A. This kind of goes back to what's in --
18 what's in which element of the rate components, I
19 think. I think your question is, should those
20 specific costs be recovered? And I don't know the
21 answer to that. But it may be that some portion of
22 those dollars ought to be recovered.

23 Q. I guess my question is a little broader,
24 and it is, should there be some -- even if you can't
25 figure out sitting right here exactly how that should

1 be treated, is it your opinion that there should be
2 some rate recognition of those costs as opposed to
3 completely ignoring them altogether?

4 A. My opinion is that fuel costs used to
5 produce electricity should be included in the
6 determination of the revenue requirement. And my
7 opinion in that particular regard is that coal costs
8 should be included at the lesser of the costs that
9 are associated with the contracts or the costs that
10 are associated with the buy-out of those contracts and
11 market prices.

12 Q. Okay. Fair enough.

13 A. Since that's on a future projected basis,
14 somehow those would have to be normalized to an
15 annual basis.

16 Q. Okay. Fair enough. Let me ask you another
17 example, and -- and I guess it's a similar example
18 specific to AmerenUE.

19 And we were originally a member of MISO. Do
20 you know what "MISO" stands for?

21 A. Yes.

22 Q. And that's a -- as I understand it -- I'm
23 not real familiar with it, but it's a regional
24 transmission organization. Is that your
25 understanding?

1 A. MISO stands for Midwest Independent System
2 Operator --

3 Q. Okay.

4 A. -- System Operator. Its -- it's the Midwest
5 ISO. I know it's an ISO. I'm not sure whether it's
6 an RTO, regional transmission organization.

7 Q. And I guess -- let me phrase this as a
8 hypothetical, because I'm not -- it's not an issue
9 that I'm working on.

10 But let's say that AmerenUE was required to
11 pay some money as a -- as a condition of -- in the
12 test year as a condition of leaving the MISO to go to
13 another similar organization. Okay. Can you assume
14 that for me?

15 A. I'll assume that.

16 Q. And can you assume that it was reasonable
17 for AmerenUE to do that? Okay. To make that
18 assumption, I realize you're not -- you're not here
19 to testify on that and haven't looked at that, but
20 can you assume it was reasonable for AmerenUE to do
21 that?

22 A. Okay.

23 Q. And by "reasonable," I mean economically
24 justified. Okay? Can you --

25 A. I'm not sure what you mean by "economically

1 justified."

2 It was the least cost alternative?

3 Q. Yes.

4 A. Okay.

5 Q. Again, you know, given the fact that that's
6 not -- that presumably such a cost would not recur
7 every year, but it did occur in the test year, what
8 would -- what would be your opinion about whether, you
9 know -- I guess let me start simpler.

10 In your opinion, should there -- should
11 there be rate treatment of such a cost as opposed to
12 just being completely thrown out?

13 A. This is a hypothetical example of
14 something that really did happen to Ameren during
15 the test year?

16 Q. Well, I make it -- yeah. I make it a
17 hypothetical only because I'm not completely familiar
18 with the facts. It's not the issue that I'm working
19 on, so that's the only reason I make it a
20 hypothetical. Either something exactly like that or
21 something similar did happen so -- but go ahead.

22 A. Well, it's also an issue I'm not working on,
23 and even -- and it would be extremely unlikely if I
24 were to work on that, not my area at all, so I don't
25 know anything about it either. And I --

1 Q. So you don't have an opinion?

2 A. If it happened in the test year, Staff is
3 dealing with it. It has an expert that's dealing with
4 it. I'm sure that's Staff's position.

5 Q. Okay. Okay. But do you have an opinion as
6 to whether there should be rate treatment of that cost
7 or not? And maybe -- you can say I don't know.
8 That's a legitimate answer.

9 A. There's always some rate treatment of
10 everything, even if the rate treatment is not to
11 include it.

12 Q. I'm sorry. What I mean -- go ahead.

13 A. But what you're describing is a set of
14 circumstances that neither you or I know very much
15 about that exist in this case. Presumably, the Staff
16 does have a witness that's addressing it that does
17 know the facts, and so I really hate to get into
18 that.

19 And it's clear that -- there are a lot of
20 additional facts that neither one of us know that we
21 have to make assumptions about in order for me to
22 even really hazard a guess about what ought to
23 happen.

24 Q. Let me ask it more simply then.

25 A. Good.

1 Q. In your opinion, should there be no recovery
2 of any kind associated with those costs merely because
3 they don't recur every year?

4 MR. WILLIAMS: I'm going to object to that
5 as being vague, because I don't know what you mean by
6 "those costs."

7 BY MR. BYRNE:

8 Q. The costs paid to the MISO in my example.

9 A. As I understand your question, it's, should
10 costs be excluded solely on the basis of them
11 occurring only in the test year and not expected to
12 recur every year after that?

13 Q. Correct.

14 A. I think now we're back to my other
15 example -- or the other question in my answer, which
16 is, it doesn't seem reasonable to include them in
17 rates and recover them forever or to totally exclude
18 them either, but I'm not familiar enough about how the
19 revenue requirement is determined and amortizations
20 and all of those kind of things to really know -- to
21 really even have an opinion about how those should be
22 recovered --

23 Q. Okay.

24 A. -- or if -- because --

25 Q. But it strikes you -- I mean, I understand

1 it's based on limited knowledge and it's a
2 hypothetical which may or may not match any particular
3 facts. But, I mean, to select a piece out of what you
4 just said, is it fair to say, you know, based on those
5 limitations, it doesn't seem fair to completely throw
6 it out?

7 A. I wouldn't categorize it that way. I
8 would say it's -- it's a situation I haven't really
9 given any thought to. The situation is more
10 generally -- is that there is a cost and it may be,
11 you know, too high, too low, needs some adjustment,
12 you know, kind of a thing. But you'd expect it to
13 recur. I haven't thought about how to treat those.

14 But if you have something that truly only
15 happens once, it's never expected to happen again, I
16 really don't know what to do with that.

17 Q. Yeah. Okay. Let me speak more generally.

18 A. Okay.

19 Q. Would it be fair to say -- not the MISO
20 example, not the coal example, not the fire example,
21 but, just generally, would it be fair to say that if
22 you have an expense that occurs in the test year
23 that's nonrecurring, would it be fair to say that you
24 don't think it's fair to have no rate recovery at all
25 associated with that cost simply because it doesn't

1 recur?

2 A. No. Again, I haven't thought about that a
3 whole lot, but let me -- assuming these are prudently
4 incurred costs or --

5 Q. Yes.

6 A. -- really no one's fault -- I'll try to make
7 it as simple as possible. There's this lump of costs
8 that you have to decide what to do with. Okay. They
9 happened in the test year.

10 Q. Yes.

11 A. They will never happen again.

12 Frankly, I'm in a quandary because if you --
13 if you don't include anything in rates for them,
14 clearly, those costs won't be recovered by the
15 Company. But if you do include something in rates for
16 them, then they are going to recover them as if they
17 were an occurrence which would be repeated, and I
18 really haven't thought how to -- how to balance those
19 things or what the possibilities would be for treating
20 that.

21 Q. Would it be fair to say that neither of
22 those results seems fair?

23 A. That's my immediate thought on it, is
24 neither one of those seems like the fair or
25 appropriate thing to do.

1 Q. Okay. I think I'm done. I just have one --
2 one clarification.

3 When I was asking you before about all of
4 those quotes -- do you remember that line of
5 questioning?

6 A. Yes.

7 Q. I just want to make sure. I'm not sure I
8 asked on every quote, what is your opinion? Do you
9 agree or disagree with each of these quotes? But was
10 that your understanding of what I was asking about
11 each of those quotes?

12 A. That was my understanding.

13 Q. Okay. So if I didn't say it for one of
14 them, that's -- your answer was -- was based on that
15 question?

16 A. Yes.

17 Q. One last question and then I'm really done,
18 and that is, talking about these nonrecurring costs,
19 wouldn't you expect that in any test year you pick for
20 any case, there are going to be some -- there are
21 likely to be some nonrecurring costs of the general
22 type that we were discussing before?

23 A. You know, I really don't know the answer.
24 That's a hard one for me. I know -- I don't know that
25 I've, you know, seen or read anything about

1 nonrecurring costs in previous cases that I've been
2 involved in.

3 And the -- if a nonrecurring cost is
4 something that happens now and you never expect it to
5 happen again, then it seems like, by definition,
6 before it happened, you never would have expected that
7 it would ever happen.

8 So whether or not those are -- those are --
9 I mean, I would have to guess those are not frequently
10 in -- they don't frequently occur in test years and
11 rate cases. That would be my guess.

12 Q. Okay.

13 A. Because you never would expect them to
14 happen in the first place.

15 Q. But I'm talking about a different set --
16 I'm talking about a whole new set of different
17 nonrecurring costs, you know, depending on what test
18 year you pick.

19 A. That would -- that would be one -- in
20 deciding what to do about what you're calling
21 nonrecurring costs, that would be one of the things I
22 would want to have more information on.

23 I mean, to me it seems like if -- if each
24 individual event you never thought would happen, but
25 on the other hand, there is always some event that

1 costs you a million dollars every year, so if I look
2 historically and I see, well, there was a million
3 dollars this year, a million dollars that year, a
4 million dollars that year, you know, and then I think
5 maybe there is some expectation that -- there is --
6 there is no specific thing that you would ever expect
7 to happen, but you've developed this sort of history
8 of bad luck that tells you, you don't know what it is,
9 but you're pretty sure something bad is going to
10 happen next year too.

11 Q. So in that case --

12 A. Then I think in that case there would be
13 more justification for putting something in rates
14 to --

15 Q. If you could -- if you could develop sort of
16 a normalized level of nonrecurring expenses, if that's
17 not --

18 A. Yeah, a normalized level of things you never
19 thought would happen.

20 Q. Okay. That's fair enough.

21 Okay. And it could even be stuff -- you
22 could apply the same logic to things that maybe only
23 happen every five or six or seven years as opposed to
24 never again. You know, couldn't the same logic be
25 applied to those kinds of sort of unusual costs that

1 don't recur year after year after year?

2 A. I think that the key element to your
3 question has -- I think the answer is that those costs
4 would be regularly recurring --

5 Q. Okay.

6 A. -- but not necessarily annually.

7 Q. Okay.

8 A. And I think regularly occurring would be
9 what I would look at in my analysis, whether they
10 occur every year or every two years or --

11 Q. So you could build a level of them in -- a
12 level of those costs into the rates that reflects the
13 frequency of their occurrence as opposed to the
14 nonrecurring costs?

15 A. In the sense that if the particular level of
16 costs occurred every year, you would want to include
17 twice as much in rates as if that same particular
18 level only occurred every two years, yes.

19 Q. Okay. But you wouldn't just completely
20 ignore those costs in setting rates, would you?

21 A. Those costs that -- those nonrecurring costs
22 that regularly occur?

23 Q. Yes.

24 A. I wouldn't, no.

25 MR. BYRNE: Okay. Thank you.

That's all of the questions I have.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

JAMES C. WATKINS

Subscribed and sworn to before me this day of
 , 2002.

Notary Public in and
for County,
State of Missouri

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I, KRISTAL R. MURPHY, CSR, RPR, CCR, with the firm of Associated Court Reporters, do hereby certify that pursuant to agreement, there came before me,

at the Missouri Public Service Commission, Room 210, Governor State Office Building, in the City of Jefferson, County of Cole, State of Missouri, on the 18th day of April, 2002, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing 69 pages; and the witness and counsel waived presentment of this deposition to the witness, by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

Given at my office in the City of Jefferson,
State of Missouri, this 19th day of April, 2002.

COSTS: (Computation of court costs based on payment within 30 days.)





(This is the signature page to the deposition of James C. Watkins taken on November 30, 2001.)

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

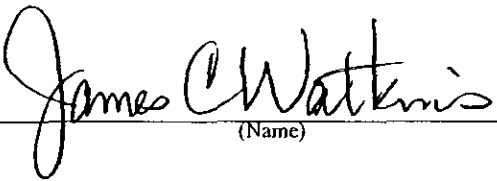
I, James C. Watkins, do hereby certify:

That I have read the foregoing deposition;

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

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

Executed this 28th day of March, 2002, at Jefferson City, Missouri.


(Name)

My Commission Expires: June 1, 2005

Notary Public: Loesman Reed

ERRATA SHEET

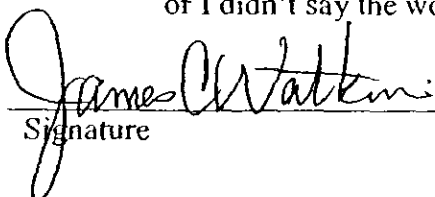
Deposition of: James C. Watkins

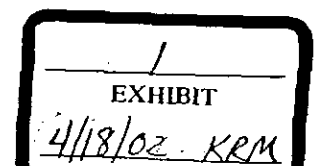
Case Caption: Before The Public Service
Commission, State of Missouri
Staff Of The Missouri Public
Service Commission, Complainant,
vs. Union Electric Company d/b/a
AmerenUE, Respondent.
Case No. EC-2002-1

Date Taken: November 30, 2001

Page	Line	Correction	Reason
59	1	"set" should be "said"	See Note 1 below
59	15	"-revenue" should be "-service"	See Note 1 below
61	24	Delete "need"	I intended to change "need" to "needed"
75	21- 22	"past deallocation" should be "cost allocation"	See Note 1 below
82	11	"would be" should be deleted	I intended to change "would be" to "is"
82	12	"it" should be "me"	See Note 1 below
87	10	"I wouldn't think so." Means "I wouldn't think those costs would vary with usage."	To make it clear that the answer was not "I wouldn't think it was true."
96	13	"than" should be "in"	See Note 1 below
98	9	I understood "ages" to be "averages" and my answer is based on that understanding.	This appears to be a transcription error.
103	5	"capable" should be "cable"	See Note 1 below

Note 1: It appears likely that either the reporter misunderstood the word that was said,
or I didn't say the word that I had intended to say.


Signature



spheri^lon.

1 BEFORE THE PUBLIC SERVICE COMMISSION
2 STATE OF MISSOURI

3 STAFF OF THE MISSOURI PUBLIC)
4 SERVICE COMMISSION,)

5 Complainant,)

6 VS.)

Case No. EC-2002-1

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

9 Respondent.)

November 30, 2001

Jefferson City, Mo

10 DEPOSITION OF JAMES C. WATKINS,

11 a witness, sworn and examined on the 30th day of November,
12 2001, between the hours of 8:00 a.m. and 6:00 p.m. of that
13 day at the Governor Office Building, Room 810, in the City
14 of Jefferson, County of Cole, State of Missouri, before

15 PATRICIA A. STEWART, RPR, CSR, CCR
16 Registered Merit Reporter
17 ASSOCIATED COURT REPORTERS
18 714 West High Street
19 P.O. Box 1308
20 Jefferson City, Missouri 65102
21 (573) 636-7551

22 within and for the State of Missouri, in the
23 above-entitled cause, on the part of the Respondent, taken
24 pursuant to notice.
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FOR THE COMPLAINANT:

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(314) 554-2514

PRESENT: Richard J. Kovach, Ameren Services
Hong Hu, Office of Public Counsel
Lena Mantle, Public Service Commission

SIGNATURE INSTRUCTIONS:

Obtain signature; waive presentment.

EXHIBIT INSTRUCTIONS:

None marked.

I N D E X

Direct Examination by Mr. Byrne 3

1 JAMES C. WATKINS, having been sworn, testified as follows:

2 MR. BYRNE: My name is Tom Byrne, and I'm an
3 attorney for Union Electric Company doing business as
4 AmerenUE.

5 Today we are here to take the deposition of
6 James Watkins of the Missouri Public Service Commission
7 Staff in Missouri Public Service Commission EC-2002-1.

8 DIRECT EXAMINATION BY MR. BYRNE:

9 Q. Mr. Watkins, could you please state your name?

10 A. My name is James C. Watkins.

11 MR. WILLIAMS: Tom, would you mind if we just
12 named who is in the room?

13 MR. BYRNE: Okay. Why don't we go around the
14 room.

15 MR. KOVACH: Richard Kovach, Ameren Services.

16 MS. MANTLE: Lena Mantle, Staff of the PSC.

17 MR. WILLIAMS: Nathan Williams, Staff of the
18 Missouri Public Service Commission.

19 MS. HU: Hong Hu from OPC.

20 MR. BYRNE: And in addition to me and James
21 Watkins and the court reporter.

22 BY MR. BYRNE:

23 Q. Before we get started I'd like to address some
24 preliminary matters.

25 First of all, have you ever been deposed

1 before, Mr. Watkins?

2 A. Once.

3 Q. Do you remember what case that was in?

4 A. I don't remember the case number, but it was an
5 Arkansas Power & Light case, when the Grand Gulf nuclear
6 plant was the main driving force of the case.

7 Q. Okay. I remember that case as well.

8 Well, maybe this is old stuff for you, but if
9 you don't hear one of my questions or understand it, will
10 you please feel free to ask me to repeat it or ask me to
11 clarify it?

12 A. Yes.

13 Q. Okay. And some questions we ask all of the
14 witnesses is, are you taking any medication that might
15 affect your ability to understand my questions or answer
16 them today?

17 A. No.

18 Q. Do you know of any other factor that might
19 impair your ability to understand the questions or answer
20 them?

21 A. I'm a little hard of hearing in my left ear,
22 but I can hear you fine, even with the air conditioning
23 on.

24 Q. Well, if you can't hear a question, please ask
25 me to repeat it.

1 Also, if you need to take a break at any time,
2 don't hesitate to say. We can take whatever breaks you
3 need to take.

4 Is that okay?

5 A. Thank you. That's fine.

6 Q. Sure.

7 And I guess, finally, I'd like to define some
8 of the terms upfront, some of the common terms in these
9 depositions.

10 If I say UE or AmerenUE or Union Electric, I'm
11 talking about Union Electric Company. Is that okay with
12 you?

13 A. That's fine.

14 Q. And then if I say Ameren, I would be talking
15 about the parent Ameren Corporation. Is that okay?

16 A. Ameren is the holding company and anything with
17 UE in it refers to AmerenUE --

18 Q. That's right.

19 A. -- or Union Electric Company.

20 Q. That's right.

21 A. I'm straight.

22 Q. Okay. Mr. Watkins, -- oh, one other sort of
23 the housekeeping detail is -- I guess it's for both of us.
24 I'll try to let you finish your answers before I ask the
25 next question, if you try to let me finish my questions

1 before you answer them.

2 Is that okay?

3 A. That's okay.

4 Q. Just so the quality of the transcript is
5 reasonably good.

6 Okay. By whom are you employed, Mr. Watkins?

7 A. Missouri Public Service Commission.

8 Q. And in what capacity are you employed at the
9 Commission?

10 A. I'm a Regulatory Economist III.

11 Q. Okay. Are you the same James Watkins that
12 filed direct testimony in Case No. EC-2002-1 on the
13 subject of rate design, consisting of four pages and a
14 schedule?

15 A. Yes, I am.

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

18 A. Yes.

19 Q. Okay. Do you know of any changes that you need
20 to make to your testimony at this time?

21 A. No.

22 Q. Okay. According to your testimony, I believe
23 you've been employed at the Commission since 1982.

24 A. That's correct.

25 Q. Is that correct?

1 Did you hold any jobs related to the issues
2 that you are testifying to in Case No. EC-2002-1 prior to
3 your employment at the Commission?

4 A. No.

5 Q. Okay. Could you briefly run through the
6 positions that you've held at the Commission since 1982,
7 and briefly tell me what duties you performed at each of
8 those positions?

9 A. I was hired in 1982. My official title was
10 Operations Research Specialist II. I was in the
11 Generating Facilities Section, assigned to capacity
12 planning.

13 I think it was about two years later that I
14 became an Economist III and -- let me correct that.

15 I think I became an Economist IV at that time.
16 Under the current numbering system -- it's changed its
17 number a long time, but I've been in that same -- same job
18 position since then.

19 Q. Okay. And what sort of duties did you perform
20 when you were an Economist IV and whatever numbers you
21 became?

22 A. I didn't understand.

23 You said before I was an Economist IV?

24 Q. No. I'm sorry.

25 When you switched over to become an

1 Economist IV, what sort of duties did you perform?

2 A. I think there really wasn't any switch in my
3 responsibility, except the Economist IV at that time was a
4 more supervisory position.

5 At that time I believe the focus was on
6 forecasted fuel prices.

7 Q. Okay.

8 A. If you'll remember that era of rapid inflation
9 and rising fuel prices. We had a mechanism for
10 forecasting the fuel prices that was allowed into rates
11 subject to true-up and refund.

12 Q. Okay. And then did you eventually move into
13 class cost-of-service rate design --

14 A. Yes.

15 Q. -- work?

16 Okay. And about when was that?

17 A. I couldn't tell you exactly. It's probably
18 been in the last 10 or 15 years.

19 Q. Okay. That's fair enough.

20 Could you explain to me where your current
21 position fits into the Commission's organization chart?

22 And I guess the best way to do that maybe would
23 be to tell me, who is your supervisor at the Commission?

24 A. Michael S. Proctor.

25 Q. And then who is Dr. Proctor's supervisor?

1 A. Warren Wood.

2 Q. Okay. And then who is Warren Wood's
3 supervisor?

4 A. Wes Henderson.

5 Q. And then who is Wes Henderson's supervisor?

6 A. I believe that's Bob Quinn, the Executive
7 Director.

8 Q. Okay. And then Mr. Quinn reports directly to
9 the Commission?

10 A. Yes.

11 Q. Okay. And do you work in the same department
12 as Jan Pyatte?

13 Could you explain how your job relates to Jan
14 Pyatte's job?

15 A. Jan Pyatte and I both are Regulatory
16 Economists III. We're both in the same section of the
17 economic analysis section of the Energy Department. Our
18 offices are next to one another, and we both work on rates
19 and rates design.

20 Q. And she reports to Dr. Proctor as well?

21 A. Yes, she does.

22 Q. Okay. And how does your function relate to the
23 Staff accounting function?

24 I guess, is there any reporting relationship
25 with the Accounting Department?

1 A. I'm not sure I understand "reporting
2 relationship."

3 Q. Well, because it's not that great of a
4 question.

5 Well, let me ask you this: Your department
6 doesn't report to the Accounting Department, does it?

7 A. No, sir.

8 Q. Nor does the Accounting Department report to
9 your department?

10 A. That's correct.

11 Q. Okay. But, presumably, you work with the
12 Accounting Department in rate cases and complaint cases.
13 Is that true?

14 Or to what degree do you work in the Accounting
15 Department?

16 A. We try to coordinate with the Accounting
17 Department. And there are really two areas -- in general,
18 the Accounting Department is responsible for revenue
19 requirement issues.

20 The Operation -- Operations Division and our
21 department is responsible for cost of service and rate --
22 class cost of service and rate design.

23 Q. Okay.

24 A. The two areas of coordination are on revenues
25 and fuel and purchased power expense.

1 On the revenue side, because of the needs of
2 the class cost-of-service study, if we do one, and the
3 rate design, we need revenues in much greater detail than
4 the accountants need for determining the revenue
5 requirement.

6 They're happy with one number. We need
7 revenues by rate class.

8 So Janice is the one that generally is working
9 on revenues from the Operations Division, and she'd work
10 with various accountants to make sure we're coordinated,
11 at least, on the issue of revenues.

12 The engineering section of our department has
13 the responsibility for running the production cost model,
14 simulations of the fuel run.

15 Q. Okay. And that would be, I guess, Mr. Bender
16 in this case. Is that right?

17 A. Yes, I believe it was, yes.

18 Q. Okay. And I guess Ms. Pyatte is dealing with
19 those revenue issues in this case that you just spoke
20 about?

21 A. Yes, she is.

22 Q. Okay. Let me ask you: You've mentioned class
23 cost of service and rate design.

24 What's the difference between those two terms,
25 class cost of service and rate design?

1 A. Class cost of service usually refers to a study
2 that allocates all of the company's costs to various
3 customer classes.

4 Rate design has to do with designing tariff
5 sheets and rate components under the tariff sheets to
6 collect the overall revenue requirement, and, hopefully,
7 reflect the correct revenues from each customer class.

8 Q. Okay. Sometimes is the term "rate design" used
9 to include both class cost of service --

10 A. I think it frequently is.

11 Q. Both -- let me finish.

12 -- both class cost of service and rate design
13 as you've just described it?

14 A. That's correct.

15 Q. Okay. And in -- and I guess in your -- for
16 example, in your testimony today, or in this case, does
17 the designation of it being rate design -- based on my
18 understanding of your testimony, it covers both class
19 allocations and rate design. Is that fair to say?

20 A. I think that's fair to say, but let me qualify
21 that.

22 The Staff did not perform a new class
23 cost-of-service study in this case.

24 And the convention that I use for putting the
25 name of the issue on the top of my testimony is that I'll

1 leave off the customer class cost of service as an issue
2 where it says issue if we didn't perform an updated study
3 or a new study to file in the case.

4 Q. Okay.

5 A. Let me finish.

6 But customer class cost of service would be my
7 responsibility.

8 There is a schedule that shows the results of
9 the class cost-of-service study that we filed and updated
10 in the most recent rate design case.

11 So to the extent that there is customer class
12 cost of service or, you know, a cost allocation to
13 customer class, that would be my responsibility.

14 Q. Okay. Yeah, I guess that's what I was going to
15 ask.

16 Even though there is no new class
17 cost-of-service study, you're responsible, are you not,
18 for the Staff recommendation allocating the proposed rate
19 decrease to the various rate classes?

20 A. Yes, I am.

21 Q. And then also, of course, rate design?

22 A. Yes.

23 Q. Okay. How many class cost-of-service studies
24 have you participated in, about, if you can estimate that?

25 A. I'd just have to take a guess. I think I

1 provided those in response to an interrogatory.

2 Q. Oh, okay.

3 A. But my guess -- if you need a guess, is more
4 than half a dozen and less than 15.

5 Q. Okay. And how about -- oh.

6 Of those -- have most of those been for
7 electric utilities?

8 A. They've all been for electric utilities.

9 Q. Okay. And I guess a similar question about
10 rate design.

11 How many times have you conducted a rate design
12 study or provided testimony about a utility's rate design?

13 A. That's -- that's a harder question to answer,
14 because for me that's not as black and white.

15 Q. Okay.

16 A. Whether or not I file testimony in a class cost
17 of service is fairly easy to distinguish, because that
18 will mean we did a particular study to determine what
19 those cost allocations should be.

20 Rate design, as you mentioned before, is
21 commonly used for a much broader -- as a much broader
22 term.

23 Certainly each time there was a cost-of-service
24 study there was a rate design recommendation that went
25 with that, and the design of rates that would recover

1 those costs.

2 At the other extreme, okay, every time any rate
3 component on a tariff sheet changes, one could argue that
4 that's also rate design. And recently my responsibility
5 has always been for -- for the tariffs.

6 So all of the tariff filings come through me
7 too. I wouldn't call the -- like a full rate design. My
8 responsibility is that any time any of those rates
9 change --

10 Q. Okay.

11 A. -- it has to go through me.

12 Q. So let me ask it this way.

13 Of the 12 to 15 cost-of-service studies we were
14 talking about before, in all of those cases you would have
15 had some involvement?

16 MR. WILLIAMS: I think he said between 6 and
17 15.

18 MR. BYRNE: Oh, I'm sorry. Thank you.

19 BY MR. BYRNE:

20 Q. Of between 6 and 15 rate design studies that we
21 spoke of before, in all of those cases you would have had
22 some involvement in rate design. Is that true?

23 A. Yes.

24 Q. And then depending on how you define rate
25 design, there are many -- there could be many more cases

1 where a particular tariff rate changes and it affects rate
2 design. Is that fair to say?

3 A. That's correct.

4 Q. Okay.

5 I guess at this point I'd like to ask you some
6 general questions about your understanding of some of the
7 purposes of regulation of a public utility such as
8 AmerenUE.

9 And my first question along those lines is:
10 Would you agree with me that one of the key principles of
11 public utility regulation is that public utilities should
12 have the opportunity to earn a fair rate of return?

13 A. I can give you, I guess -- I can think about
14 that and give you an answer.

15 It's not really, you know, been associated with
16 my area of responsibility, because I focus on rate design.

17 Every time you talk about cost of service and
18 rate design, the term you'll hear is "revenue neutral."

19 It has no effect on the company's revenue
20 requirement or earnings, et cetera.

21 I've heard that notion expressed that the
22 company should be allowed an opportunity to earn a fair
23 rate of return.

24 Q. Okay. And I don't mean to -- I understand some
25 of these questions that I'm going to ask you don't

1 directly deal with your area. And so that's okay. You
2 know, if you don't -- if because you don't deal with it,
3 you don't have an opinion or know, that's -- that's fine,
4 you know.

5 A. Okay.

6 Q. Well, let me ask, going back to that question,
7 I mean, aside from having heard it expressed, do you have
8 an opinion as to whether it's true or not, your own
9 personal opinion or not, because it's not your area?

10 A. Going back to your question, you're asking if
11 it's true that it ought to be a goal or that it is a goal?

12 Q. Yes.

13 A. I don't remember your question.

14 Q. Let me read the question again.

15 The question is: Would you agree with me that
16 one of the key principles of public utility regulation is
17 that public utilities should have the opportunity to earn
18 a fair rate of return?

19 A. I think I agree with that.

20 Q. Okay. And would you agree that the opportunity
21 to earn a fair rate of return is affected not only by the
22 nominal rate of return that the Commission allows a public
23 utility but also by the costs that it is permitted to
24 reflect in its rates?

25 A. I'd have to think about that one a little.

1 I think it's certainly true that the
2 opportunity to earn a fair rate of return is dependent on
3 the rates that the utility is allowed to charge its
4 customers.

5 Then whether or not they earn some nominal rate
6 of return, if there was ever one specified, would depend
7 on the revenues that are generated by those rates and the
8 costs that are incurred over the same time period.

9 Q. Okay. Well, let me try a real simple example
10 and see if that might illustrate what I'm talking about.

11 If a utility has \$500 million in costs that it
12 incurs to provide service and if those -- if those costs
13 are reasonable, but the Commission only sets rates at a
14 level that enabled it to recover \$100 million in costs --
15 which in this example is a fifth of what I said before --
16 wouldn't it be very unlikely that that utility could earn
17 a fair rate of return?

18 A. I'm not sure I understand again.

19 If the Commission determines that 500 million
20 in costs is reasonable and then they don't allow the
21 recovery of that cost?

22 Q. No.

23 In my example, I guess, the Commission does --
24 well, in my example the Commission doesn't allow it to
25 recover all of its reasonable costs of providing service.

1 And in my example, in my hypothetical there is
2 \$500 million worth of reasonable costs of providing
3 service and the Commission sets rates that only allow it
4 to recover \$100 million in costs.

5 And in that hypothetical, wouldn't it be very
6 difficult -- or wouldn't it be impossible for the utility
7 to earn a fair rate of return?

8 A. I'm still trying to understand the hypothetical
9 situation, Tom.

10 Q. Okay.

11 A. I mean, I've never known it to happen. I can't
12 imagine it to happen, that the Commission would issue an
13 order and say, we find that my \$500 million in costs are
14 reasonable but we're only going to allow the company to
15 recover 100 million.

16 So as far as I know, it's the Commission's
17 responsibility to determine what costs are reasonable.

18 So I don't understand the hypothetical in the
19 first part about 500 million in costs being reasonable.

20 Who are we assuming has decided that they're
21 reasonable in the first place?

22 Because I think it's frequently the case that
23 companies indicate that a higher level of costs is
24 reasonable in their opinion than the Staff and other
25 parties may believe, and the Commission may ultimately

1 decide.

2 Q. Yeah. That's a fair comment. So let me --
3 even though it's never happened, let me amend the
4 hypothetical to say, what if the Commission did find
5 \$500 million was the reasonable cost but then -- and I
6 know this has never happened out -- but then they only
7 allowed the utility to recover \$100 million in costs
8 through their rates.

9 In that hypothetical, wouldn't it be impossible
10 for the utility to earn a fair rate of return?

11 A. Assuming that there wasn't anything on the
12 revenue side to offset that effect, it would -- it would
13 certainly limit the opportunity to earn a fair rate of
14 return. It would not preclude the possibility, however.

15 Q. Okay. Fair enough.

16 And the reason that is true is you never know
17 exactly what is going to happen in terms of how many
18 revenues they're actually going to collect in the future?

19 A. Or what costs are going to be, that's correct.

20 Q. Okay. But would you at least agree that it's
21 very important to set rates at a level which reflect the
22 reasonable, prudent cost of providing service?

23 A. Yes, I'd agree with that.

24 Q. Okay. And would you agree that it is improper
25 for any commission to knowingly under-include the prudent

1 reasonable costs of providing service for a utility in
2 rates?

3 A. Did you say any commission?

4 Q. Yes.

5 A. I think we're kind of back to that first
6 question, is I think it would be improper if a commission
7 determined that a certain level of cost was just and
8 reasonable, but they weren't going to allow the utility to
9 recover those unless, I mean, there was some other -- some
10 other factor in the case that was overriding that somehow.

11 Q. Okay. But all other things being equal --

12 A. Yes.

13 Q. -- will you agree that that's improper for the
14 Commission to do?

15 A. All other things being equal.

16 The problem I have with it is I can imagine a
17 situation where -- because of impact on customers, for
18 example, the full rates wouldn't be allowed to go into
19 effect immediately.

20 I'm thinking back to those nuclear plants when
21 they came online. I believe Union Electric phased in the
22 revenue requirement increases. I think that was probably
23 proper to do that.

24 I think there may be public-policy-type
25 situations where the Commission may allow or authorize