

1 certain provisions to help, you know, disadvantaged
2 segments of the population, where the cost of providing
3 those services would not be fully recovered by the
4 utility.

5 And that's probably -- probably a proper thing
6 to do. Although as an economist I'd prefer that that
7 money come out of general revenues than out of ratepayers'
8 pockets.

9 Q. You mean from the Legislature you're talking
10 about?

11 A. Yes.

12 Q. Okay. And even in those examples that you just
13 gave of a nuclear plant phase-in and of instances where
14 the Commission favors a particular class of customers for
15 public policy reasons, doesn't -- when the Commission
16 takes steps like that, doesn't the Commission also take
17 other steps to make sure that the utility is, I guess,
18 made whole for that policy decision?

19 Don't they also simultaneously take steps to
20 make sure that the utility recovers its reasonable costs
21 in spite of the phase-in or in spite of rates for a
22 particular class of customers that are less than the cost
23 of service for that particular class of customer?

24 A. Let me separate that into pieces.

25 In terms of the phase-in, I think that there is

1 an intention to make the company whole, and that has --
2 has to do with the elasticity of demand, in that if the
3 entire rate increase were put into effect at once, it may
4 have such a depressing effect on the sales, that the
5 revenues would never be realized.

6 So there is that offset.

7 Regarding the second part, I think you
8 mischaracterized certainly what I intended to say.

9 Q. Okay.

10 A. And it was not that the Commission would favor
11 one customer class as opposed to others.

12 What I had in mind was more like allowing
13 weatherization programs, where a company may agree or even
14 suggest that they would spend X dollars not to be
15 recovered in rates to insulate homes for the needy or, you
16 know, make a contribution to, you know, some public
17 assistance program to pay energy bills or those kind of
18 things.

19 Q. Okay.

20 A. Or maybe the cold weather rule kind of things.

21 Q. Okay. But other than the situation where a
22 utility voluntarily agrees to pay that -- pay for those
23 type of programs out of its shareholders' pocket, wouldn't
24 you agree that the Commission should take steps to make
25 the utility whole if it orders the utility to do something

1 like that?

2 A. I think that's the case as it was in the phase-
3 in.

4 There are other things operating that would
5 offset, you know, what you initially see as setting the
6 rates too low.

7 Q. Okay.

8 A. And I think that the Commission would try to
9 make that the case in the cases of weatherization,
10 et cetera.

11 For example, there is certainly the hope that
12 bad debt expense would go down as a result of lowering
13 utility bills for some customers who, because of where
14 they live, waste a lot of electricity and, therefore,
15 spending way too much for their heat.

16 Q. Okay.

17 A. There should be offsetting things.

18 Q. Okay. And, I mean, those -- and I guess what
19 I'm getting to is, like I said, limited to the cases where
20 the Commission orders a result as opposed to the utility
21 voluntarily doing the result, isn't it the Commission's
22 obligation to see that at the end of the day, when you
23 take into account whatever offsets there are, that the
24 utility is made whole?

25 And what I mean by being made whole is at the

1 end of the day they get to recover the reasonable, prudent
2 costs they incurred in providing service?

3 A. I think I would agree that at the end of the
4 day, the utility should have the opportunity to recover.

5 Q. Its costs, and earn a reasonable rate of
6 return?

7 A. That's correct.

8 Q. Okay. Looking at this particular case that
9 we're in now, EC-2002-1, do you know what the Staff's
10 overall proposal is?

11 A. By that do you mean the revenue requirement
12 recommendation?

13 Q. Yeah. I guess there is numerous pieces to the
14 Staff's overall proposal, but that is what I was asking.

15 A. I think -- I think the Staff -- the Staff is
16 recommending a rate reduction that would reduce
17 revenues -- the Company's revenues by -- and the
18 recommendation is a range.

19 I think \$250 million, in that range, but I'm
20 not sure whether that's the high, low, mid-point, what
21 that is, but that's the order of magnitude that is being
22 requested.

23 Q. Okay. And I guess -- you may have said this
24 before -- but in terms of how your issues affect the
25 overall Staff recommendation -- well, could you explain

1 that again, how your piece fits into the puzzle.

2 A. Well, the bottom line is that my piece doesn't
3 affect the revenue requirement.

4 Q. It's just how the revenue requirement is
5 recovered?

6 A. How it's implemented in rates on the tariff
7 sheets.

8 Q. Okay.

9 Do you know if the Staff's proposal in this
10 case is adopted and revenues for AmerenUE are reduced by
11 \$250 million or so, do you know what effect it will have
12 on AmerenUE?

13 A. Do you mean other than that the revenues will
14 be reduced by \$250 million?

15 Q. Right.

16 A. No, not really.

17 Q. Do you know, for example, what impact, if that
18 proposal was adopted, it would have on AmerenUE's ability
19 to invest in infrastructure?

20 A. Finance is really not my area. I don't know
21 that I've ever taken any finance courses even.

22 So I don't know all of the factors and the
23 interrelationships to really give you an answer to that.

24 Q. Okay. Do you know what impact it would have on
25 AmerenUE's ability to provide adequate security for its

1 facilities?

2 A. Security for its facilities?

3 Q. Security for its facilities.

4 A. I think I'd give you the same answer to the
5 previous question: With the exception that if -- it
6 probably wouldn't have any effect on that, because that's
7 a high priority and would be done practically no matter
8 what. Something else may go by the way side but not
9 security.

10 Q. Well, let me ask you this: When I say
11 "security," I know there are -- I mean, one sense of
12 looking at security is providing, you know, guards or
13 fences to protect facilities. But in another sense for an
14 electric utility to provide security for its system might
15 require the utility to build additional transmission and
16 distribution facilities, you know, significantly invest,
17 so that there are redundant paths. So that if some of its
18 facilities are taken out of service, it will minimize the
19 effect on the customers.

20 And I guess that's the kind of security that
21 requires a lot of investment that I was talking about.

22 So anyway, with that clarification, have you
23 thought about or do you have an opinion about whether it
24 would -- if the Staff's proposed rate reduction was
25 adopted by the Commission, if it would adversely affect

1 AmerenUE's ability to provide security in that way to its
2 system?

3 A. I'll admit that I was thinking of guards, post-
4 September 11.

5 Q. Okay.

6 A. But my answer would be the same, that that type
7 of security that you've now described is maybe the
8 Company's highest priority. That's not going to suffer,
9 not with that magnitude of rate reduction, I don't think.

10 Q. Okay. Let me ask you this: Based on your
11 answer, you said that area won't suffer. Do you have an
12 opinion about what other areas might suffer if the
13 Commission's Staff -- the Commission adopts the Staff's
14 proposed rate reduction?

15 A. I still have to disclaim, you know, being any
16 kind of an expert on finance or even revenue requirements.

17 Q. Sure.

18 A. But my assumption would be is that if the
19 Commission determined that the level of revenues which was
20 reasonable to allow the company to incur their prudently
21 incurred costs and reasonable level of rate of return was
22 \$250 million less than what the Company is earning now,
23 that those -- that the \$250 million represents excess
24 earnings which are not required to carry out the utility's
25 functions, but, rather, are gravy to the shareholders.

1 So it shouldn't have any effect at all on the
2 operation of the Company.

3 Q. Okay. Let me ask you this: Do you know what
4 impact it would have if the Commission adopted Staff's
5 proposal on AmerenUE's stock price?

6 A. I really -- really don't know, but I imagine
7 that investors wouldn't see that it's good news.

8 Q. Okay. Meaning the stock price would probably
9 go down?

10 A. Probably if all other factors were the same,
11 that would be my guess.

12 Q. Okay. Do you know what impact it would have if
13 the Commission adopted the Staff's proposal on AmerenUE's
14 ability to pay a dividend to its shareholders?

15 A. I really don't know, Tom.

16 Q. Okay. Do you know what impact it would have if
17 the Commission adopted the Staff's proposal on AmerenUE's
18 ability to attract capital in the capital markets?

19 A. I really don't know that either.

20 Q. Okay. I mean, let me ask you this: Did you
21 consider any of these impacts as you developed your
22 recommendation in this case or as you wrote your
23 testimony?

24 A. No.

25 Q. Okay.

1 A. As we've talked about before, my area, rate
2 design/class cost of service, has no impact on revenue
3 requirement.

4 Q. Okay.

5 A. And, therefore, there is no need or reason to
6 consider those things.

7 Q. Would it be fair to say that even though the
8 Commission should consider factors like this, it's sort of
9 outside your area?

10 A. You hit it on the head.

11 Q. Okay.

12 Let me ask you this: In your opinion -- and
13 this is still sort of on the same topic -- would it be a
14 good thing or a bad -- or let me start over.

15 Let me ask a bad thing.

16 In your opinion would it be a bad thing if the
17 Commission took an action which impaired AmerenUE's
18 ability to invest in its infrastructure?

19 A. That's one of those questions where it sounds
20 like the answer is obvious, but I'm not sure I understand
21 what assumptions are going into that.

22 Based on your previous questions, it seems to
23 be if the Company -- if the Commission were to adopt the
24 Staff's position, wouldn't that be a bad thing?

25 Q. Well, that's not how I mean the question.

1 A. Okay.

2 Q. I'm divorcing this question from the Staff's
3 recommendation.

4 A. Okay.

5 Q. Because I think -- I think what you said
6 before -- I don't want to put words in your mouth -- but I
7 think what you said before is if the Commission -- I mean,
8 if the Company is truly overearning and the Commission
9 adjust its rates downward, it won't impair the Company's
10 ability to invest in infrastructure.

11 Is that fair?

12 A. I think that's fairly fair.

13 The question that I'm wondering in answering
14 the question is if -- if the company has revenues that are
15 \$250 million less than they used to be, then there is
16 \$250 million less to do whatever is done with it.

17 Presumably -- if you assume that the Company
18 was going to invest that \$250 million in infrastructure,
19 then they won't have it any more to do it with.

20 If you assume it's all going to the
21 shareholders' pockets as dividends or whatever, then it
22 doesn't make any difference to the Company's ability to --
23 to invest.

24 Q. Well, let me -- let me go back to my question
25 and see if --

1 A. Okay.

2 Q. Again, with the clarification that I'm not
3 saying anything -- I'm not making any assumption -- or
4 this question has no relationship to the Staff's
5 recommendation in this case.

6 Just as a general proposition, would you agree
7 or disagree with the statement that it's a bad thing for
8 the Commission to take an action which would impair
9 AmerenUE's ability to invest in infrastructure?

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

11 A. I think it's certainly true that that's the
12 case if it impairs their ability to provide safe,
13 adequate, reliable services as a result.

14 Q. Okay. Then that would be a bad thing?

15 A. That would be a bad thing.

16 Q. Okay. Are you familiar with the recent
17 spate of utility mergers which has swept across the
18 United States in recent years?

19 A. Only in a very general and vague way. I know
20 they've all changed their name.

21 Q. Okay.

22 A. And I'm not sure who is who anymore.

23 Q. Okay.

24 Do you know whether the Staff's proposal, if it
25 was adopted, would make AmerenUE a more likely target for

1 a takeover by an out-of-state purchaser?

2 A. I don't -- I don't know. I have no opinion on
3 that.

4 Q. Okay. And I assume from your answer that you
5 haven't considered this in making your recommendation in
6 this case?

7 A. No, I have not.

8 Q. Okay. Do you think it would be -- well, do you
9 think it would be a good idea or a bad idea, good policy
10 or bad policy, for the Commission to take an action that
11 would subject AmerenUE to a greater likelihood of being
12 taken over by an out-of-state purchaser?

13 A. I don't know. And I assume it depends, you
14 know, who it is and what -- what the circumstances are.
15 But that's beyond my ability to figure out anyway, even if
16 I knew all of the details.

17 Q. It would --

18 A. Certainly the argument has been that the
19 mergers that have taken place, the utilities argue they're
20 a good thing.

21 Q. Okay. Would it be fair to say that like some
22 of the other questions I was asking you before, while
23 that's an issue for the Commission to consider, it's
24 beyond the scope of what you're addressing in this case?

25 A. Yes.

1 Q. Okay. Are you generally familiar with the
2 alternative regulation plan that UE had in effect until
3 just recently, known as the EARP, which I think was
4 Experimental Alternative Regulation Plan?

5 A. Again, I'm generally familiar, yes.

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

7 A. There were two plans, I believe. Each -- each
8 three years, for a total duration of six years.

9 Q. Okay. Do you know if rates generally
10 increased or decreased during the six-year period that
11 those two plans were in effect?

12 A. I know that between the beginning and the end
13 rates were reduced, permanent rates were reduced.

14 Q. Okay. Do you know how many times permanent
15 rates were reduced during the course of that plan?

16 A. It depends on how you count, but -- the general
17 answer is once.

18 Q. Okay. I mean, were they -- to your knowledge
19 were they reduced at the very beginning of the plan and
20 then after the first three years when the second plan was
21 implemented?

22 A. That's generally correct.

23 Q. Okay. And in the course of the plan did
24 ratepayers get another form of rate reduction through the
25 sharing mechanism of the plan?

1 A. Ratepayers received bill credits, I think, in
2 every year of the plan -- following every year of the
3 plan.

4 Q. Okay.

5 A. Except the last one, which I don't think has
6 gone out yet or been agreed to.

7 Q. Okay. And just generally, do you know how
8 that -- could you explain how that worked under the EARP?

9 A. How the credits worked or the rate reduction?

10 Q. The credits worked.

11 A. I only have a general understanding of how the
12 credits worked. They had to do with a grid, with the rate
13 of return in it.

14 Q. Okay.

15 A. The percentage that was shared depended on
16 where -- where the rate of return, I guess, was in the
17 grid.

18 Q. Okay.

19 A. I have some knowledge of the recordkeeping
20 requirements that would accomplish the credit and the
21 matters that affected the rates.

22 Q. Okay. I mean, my knowledge is pretty general
23 too.

24 But my understanding is, under this grid that
25 you talked about, if the Company earned a certain rate of

1 return, but customers would get a certain share in
2 percentage, and then if they earned -- in they crossed
3 another threshold, there would be additional sharing.

4 Is that your understanding?

5 A. I can't -- I can't recall for sure whether it
6 would -- it would be additional or not. I know that it
7 would be different.

8 Q. Okay. Do you have an opinion as to whether
9 AmerenUE had excess earnings during the six-year period
10 that those -- well, that the EARP in both of its
11 incarnation was in effect?

12 A. I think you'd have to define "excess earnings."

13 But in general, let me answer that to say yes,
14 in the sense that the earnings, I guess, were above the
15 minimum level of the rate-of-return grid. So there were
16 revenues to return to customers in the form of bill
17 credits every year.

18 And I think in the sense that excess just means
19 higher than some level rather than having some bad
20 connotation maybe to it, that --

21 Q. Well, let me ask it in the bad connotation way.

22 In your opinion did the part of the earnings
23 that the Company got to keep and the shareholders of the
24 Company got to keep under the six years of the EARP, was
25 that excessive earnings in your opinion?

1 A. I think that's beyond my area of expertise to
2 answer that.

3 Q. Okay.

4 Do you have an opinion as to whether the
5 Company has excessive earnings right now, or is that also
6 beyond your area?

7 A. Well, I don't have an independent opinion of
8 that. I'm aware that the Staff's recommendation is for a
9 significant rate reduction. That would lead me to believe
10 that they are overearning.

11 Q. Okay. But, again, that's outside --

12 A. I haven't done any studies or thought about it.

13 Q. Okay. That's just outside the scope of what
14 you're supposed to do in this case?

15 A. That's correct.

16 Q. Okay. I guess I'd like to ask some questions
17 about your specific testimony.

18 Who asked you to provide rate design testimony
19 in this case, if you remember?

20 A. I'm not entirely sure that I remember. It
21 might have been Lena Mantle.

22 Q. Do you remember about when you were asked to
23 provide testimony in this case?

24 A. Let me -- let me back up and give you a longer
25 answer.

1 Q. Okay.

2 A. My recollection is that maybe along about this
3 time last year, the Staff was preparing a report I think
4 required to be provided to the Commission under the
5 alternative regulation plan somehow.

6 And at that time -- I believe that was when
7 Lena might have suggested that I put something in on rate
8 design, either Lena or Mike Proctor. Lena was sort of the
9 case coordinator on that project.

10 And so it would have been at that time for that
11 report. And if you've read the report, you'll see the
12 testimony -- the report and summary looks a whole lot like
13 my testimony in this case.

14 So I'm not sure who would have asked in this
15 case that I do that.

16 Q. Okay. But it's probably Lena Mantle or
17 Dr. Proctor?

18 A. Somebody in our department. And they decided
19 it would be me that did it, so I did it.

20 Q. Did you know at that time or did the Staff know
21 at that time that there was going to be a complaint case
22 filed?

23 And I presume that they did if they were asking
24 you to file the testimony.

25 A. Well, I think there was an earnings

1 investigation, and at that time Staff believed that the
2 Company was overearning.

3 I think it was -- it was certainly subsequent
4 to the Commission's order authorizing the Staff to file --
5 the Staff knew that they would, or knew that they could.

6 Q. Okay. But the time period you're talking about
7 is about a year ago when you were having these
8 conversations with Dr. Proctor and/or Ms. Mantle?

9 A. Right.

10 Q. Okay.

11 A. I mean, certainly there was -- there was every
12 indication that there would be an additional rate
13 reduction, you know, if for no other reason, you know,
14 than there was at the end of the first three.

15 There were sharing credits in every year of the
16 first plan, and those resulted in a rate reduction.

17 Q. A permanent rate reduction?

18 A. A permanent rate reduction.

19 Q. Okay.

20 A. There were already credits, you know, in at
21 least some of the years of the -- the second plan.

22 Q. Okay. But --

23 A. And Staff was doing an earnings investigation.

24 So the Staff at least believed that there would
25 be some kind of a rate reduction rather than an increase.

1 Q. Okay. Let me ask you this: In terms of the
2 rate -- the permanent rate reduction that occurred at the
3 end of the first EARP three-year period and before the
4 beginning of the second EARP three-year period, wasn't
5 that part of an overall settlement that allowed the EARP
6 to extend for three more years?

7 A. I have to admit that sometimes I'm -- I get
8 confused about what was in the first one and what was in
9 the second one, but I believe that that was the case.

10 Q. Okay.

11 A. It was the agreements going into the second one
12 that resulted in the rate reduction.

13 Q. Okay. And unlike that situation, there has
14 been no agreement among the parties in this case about
15 extending the EARP further. Is that fair to say?

16 A. That's the case.

17 Q. Okay.

18 A. Or agreement about reducing rates.

19 Q. Okay. Did anybody -- Dr. Proctor or Ms. Mantle
20 or anybody else -- provide you with guidance at the
21 beginning before you developed your recommendations,
22 guidance about where they wanted your testimony to go in
23 this case?

24 A. No.

25 Q. Okay. Let me ask you this: Could you explain

1 what -- I guess I'd like to ask you a question about your
2 role in developing the rate design and, I guess, the class
3 allocations, although I realize you didn't do a separate
4 class cost-of-service study.

5 But your role in the rate design and the
6 class allocations of the Staff's proposed reduction in
7 Ms. Pyatte's.

8 Would it be fair to say that in those areas
9 you're responsible for making the Staff's recommendation
10 and Ms. Pyatte is responsible for performing the
11 calculations that implement it?

12 Is that a fair statement, or would you
13 characterize it in other ways?

14 A. I think I'd characterize it differently.

15 Q. Okay.

16 A. We work very closely together on most aspects
17 of the class cost of service and rate design.

18 Part -- part of the decision about who files on
19 what area depends on involvement in other matters before
20 the Commission.

21 So -- I wouldn't say that I'd be responsible
22 for the rate -- rate design recommendations as a general
23 manner, because Janice Pyatte may just as well under other
24 circumstances be responsible for that recommendation.

25 Q. Okay.

1 A. But we'd certainly both be aware of what it was
2 and would have discussed it, and it would be a matter of
3 who is actually filing the testimony.

4 Q. Okay. But in this case, based on the testimony
5 that you're both filing, would it be fair to say that
6 you're the person in this particular circumstance that's
7 supporting the Staff's recommended class allocations in
8 rate design, even though in another circumstance she could
9 be that role?

10 A. Yes.

11 Q. Okay. And to the extent she has a section in
12 her testimony that also deals with rate design, would it
13 be fair to say that she's doing the calculations that
14 implement your recommendation?

15 A. Yes.

16 Q. Okay. In this case?

17 A. In this case.

18 Q. And I understand your roles can be different in
19 different cases. Is that correct?

20 A. That's correct.

21 Q. Okay. Can we talk for a minute about your
22 class cost of service -- well, that's not even the right
23 word -- your recommendations regarding the allocation of
24 the proposed rate reduction to the revenue classes and
25 your recommendation regarding rate design, which, I think,

1 are on page 2 of your testimony. Is that correct?

2 A. The specific recommendations are at the top of
3 page 3.

4 Q. Okay. And what are those just in general?

5 A. In general, they're to carry out the rate
6 design changes that were agreed to in the Company's last
7 cost of service and rate design case, EO-96-15, in which
8 there would be an additional shift of revenues -- the
9 shift being the revenue neutral would increase the
10 residential relative to nonresidential rates.

11 And it would also fix a problem of the
12 differential in the rates between the large general
13 service class that served that secondary voltage and the
14 small primary customers class.

15 Q. Okay. And I guess the specific dollar amounts
16 and percentages are set out there on the top of page 3 of
17 your testimony?

18 A. Yes, they are.

19 Q. No need to have them -- you know, go to the
20 trouble of reading them into the deposition.

21 But where did you get those specific
22 recommendations? Is it out -- was it out of the
23 stipulation in EO-96-15?

24 A. Right. Yes.

25 Q. Okay. And did you do any additional -- well,

1 did you do any analysis or work in this case that
2 influenced your recommendation?

3 A. No.

4 Q. Did you do any separate analysis?

5 A. No.

6 Q. Okay. And so you didn't do any new studies or
7 look at any new information?

8 A. No.

9 Q. Would it be fair to say that you just took what
10 was in the stipulation and incorporated it into this case?

11 A. Yes.

12 Q. Okay. And I think this is true.

13 Would it be fair to say there isn't any
14 separate evidence in your testimony in this case other
15 than the reference to the stipulation that supports your
16 rate design and class cost-of-service allocations?

17 A. The only other evidence would be the attached
18 schedule, which was the -- the result of the Staff's class
19 cost-of-service study in that same case.

20 Q. Okay. So that, too, comes out of Case
21 No. EO-96-15?

22 A. That's correct. It's not a new study.

23 Q. Okay.

24 Okay. So then just so I'm clear, the basis for
25 your recommendation includes the things that were in the

1 stipulation from EO-96-15, plus the Schedule 1 attached to
2 your testimony, which it looks like the rate impacts from
3 Case No. EO-96-15.

4 Is that the universe of things that are
5 supporting your recommendation in this case?

6 A. I think that's correct.

7 Q. Okay. How long did you -- how long did it take
8 for you to decide on your recommendation in this case from
9 when you first talked to Dr. Proctor and Ms. Mantle about
10 a year ago?

11 A. When you say "about a year ago," you mean in
12 preparation for the Staff's report rather than this
13 testimony?

14 Q. Yeah.

15 I guess my understanding was, you said before
16 the first time you were talked about -- you talked with
17 Dr. Proctor and/or Ms. Mantle about the potential of
18 filing testimony was about a year ago.

19 So how long after that did it take you to
20 decide what your approach would be in this case?

21 A. I would say probably a matter of minutes.

22 Q. Okay. And then once you decided, you know --
23 well, how long did it take you to write your testimony?

24 Did you write it back then or did you wait
25 until it became -- the schedule for the case became more

1 certain?

2 MR. WILLIAMS: Tom, which question do you want
3 him to answer?

4 MR. BYRNE: Well, let me start over.

5 BY MR. BYRNE:

6 Q. When did you write your testimony?

7 There is a straightforward question.

8 A. I'd say a week or so before the filing date.

9 Q. Okay. The July --

10 A. Within that week before.

11 Q. The July 2nd filing date?

12 A. Yes.

13 Q. Okay. And I assume it didn't take you very
14 long to write it since you were adopting the 96-15
15 stipulation?

16 A. It didn't take very long to write it because
17 the bulk of it was already contained in the report that
18 the Staff filed back in January.

19 Q. Okay. At what point did you know what the
20 filing date would be for the Staff's testimony, if you
21 remember?

22 A. I don't recall when I knew that.

23 Q. Would it be fair to say it was a long time
24 before that last week you were aware?

25 A. Yes.

1 Q. Okay. Do you know when the stipulation and
2 agreement in Case No. EO-96-15 was agreed to?

3 A. I don't recall exactly.

4 Q. Well, I have a copy of it. I don't want to
5 make it an exhibit. I don't want to make it an exhibit
6 unless we need to.

7 And I'll give one to your lawyer and one to
8 you.

9 But is that a copy of the stipulation and
10 agreement in Case No. EO-96-15?

11 And take a few minutes to look at it.

12 A. Yes, I believe it is.

13 Q. Okay. And so can you tell from that when the
14 stipulation was agreed upon and filed with the Commission?

15 A. The cover letter is May the 3rd.

16 Q. What year?

17 A. Oh. I'm sorry.

18 1999.

19 Q. Okay. And does that --

20 A. I assume that that's within a very short time
21 after the parties actually entered into the agreement that
22 it was actually filed.

23 Q. And does that jive with your recommendation
24 of -- I mean, with your recollection of when -- about when
25 it was filed?

1 A. Yes.

2 Q. Okay. Do you know what time period is covered
3 by the cost-of-service study which was conducted in that
4 case?

5 A. I don't recall exactly.

6 That test year was ordered by the Commission
7 when they established the rate design docket, the
8 EO-96-15. And that study period that we used may be
9 contained in the stipulation and agreement.

10 But I don't recall what it was and I'm not sure
11 where to find it.

12 Q. Yeah, I'm not sure if it is either.

13 But would it be -- let me ask you this: Would
14 it be fair to say that it's a mid '90s timeframe that that
15 cost-of-service study would have covered?

16 A. I think that's -- that's probably the case.
17 I'm not sure exactly how close to the middle of the '90s.

18 Q. Well, in the first paragraph of that
19 stipulation and agreement it talks about a July 21st, 1995
20 report and order in Case No. ER-95-411, and part of that
21 report and order established this docket, this docket
22 being EO-96-15.

23 Is that the order that would have set the
24 period in which the cost-of-service study was done?

25 A. Yes.

1 Q. And would that have been a period before the
2 date of that order, which is July 21st, 1995?

3 A. Is your question would the test year have been
4 prior to the period of time prior to the order?

5 Q. Yes.

6 A. I don't recall.

7 The test period is ordered -- excuse me.

8 The test year is ordered by the Commission in
9 that order, but I don't recall what it was.

10 My guess is it was -- that it would have been
11 subsequent to that, because the anticipation was that --
12 that the results of the cost of service -- rate design
13 cost-of-service investigation would be available at the
14 end of the first three-year EARP.

15 Q. Okay. Do you remember when the end of the
16 first three-year EARP was?

17 Let me ask another question.

18 Do you know when the six-year EARP ended?

19 A. Yes.

20 Q. When did it end?

21 A. June 30, 2001.

22 Q. Okay.

23 A. And it would have been three years before that.

24 Q. So it would have been June 30th, 1998?

25 A. I think that's correct.

1 Q. Okay. And so, then, at least we know the test
2 period that is contained in the cost-of-service study in
3 EO-96-15 is before that date?

4 A. That's correct.

5 Q. Okay. And are you familiar with the terms of
6 the stipulation and agreement in Case No. EO-96-15?

7 A. At one time I was very familiar with them, but
8 I'd have to look at it again to refresh my memory on any
9 of the details.

10 Q. At what time period were you familiar with it?

11 A. Well, certainly May 3rd, 1999 I was very
12 familiar with it.

13 Q. Okay. Did you read it again in connection with
14 writing your testimony in this case, or did you rely on
15 your recollection of it from 1999?

16 A. No. I read it again.

17 Q. Okay. So you would have read it in, say, late
18 May of 2001?

19 A. No. Actually, I would have -- I would have
20 looked at it about a year ago in preparation for the
21 Staff's report.

22 Q. Okay.

23 A. And I did not review it again in preparation
24 for this testimony.

25 Q. Okay. So to the best of your recollection, the

1 last time you would have probably read it was a year ago
2 or so?

3 A. That's correct.

4 Q. Okay. Well, let me ask you this: Do you know
5 if the stipulation and agreement in EO-96-15 was executed
6 by all of the parties to that case?

7 A. There were two parties that did not sign the
8 stipulation and agreement. And I assume that's what you
9 meant by "executed."

10 Q. Yes.

11 A. And who were those parties?

12 A. Laclede Gas Company and State of Missouri.

13 Q. Okay. And do you remember why either of those
14 parties didn't execute this stipulation and agreement?

15 A. Well, I'm not sure I know their motives in all
16 cases.

17 In relevant part, the State of Missouri did not
18 oppose the stipulation and agreement.

19 Q. How about --

20 A. Now, Laclede Gas had a couple of rate design
21 issues, as I recall, that we actually tried --

22 Q. Okay.

23 A. -- having to do with the summer/winter
24 differential in residential rates. And I believe the
25 other issue -- although I'm not sure was tried -- had --

1 had to do with standby power, I believe, or -- there was
2 another issue, and I don't think it actually got tried.

3 Q. Okay. So would it be fair to say that this was
4 not a unanimous stipulation and agreement that resolved
5 all of the rate design issues in EO-96-15?

6 A. That's correct.

7 Q. That in addition to this stipulation, there
8 also had to be an order issued by the Commission not just
9 approving the stipulation but also resolving litigated
10 issues in that case?

11 A. That's correct.

12 Q. Okay. And would be fair to say that to the
13 extent the parties did agree and sign on to the
14 stipulation, that it represented a compromise on various
15 issues among the parties?

16 A. I think that's fair.

17 Q. Okay. And let me ask you about a couple of
18 specific provisions in the stipulation, again, to avoid
19 making this an exhibit.

20 I'm looking at paragraph 17 on page 12 of the
21 stipulation, and I was wondering if you could just read
22 that for me.

23 A. Paragraph 17 on page 12 says, None of the
24 signatories shall be deemed to have approved or acquiesced
25 in any ratemaking or procedural principle, including,

1 without limitation, any method of cost determination or
2 cost allocation, depreciation or revenue-related
3 methodology or any service or payment standard.

4 Furthermore, none of the signatories shall be
5 prejudiced or bound in any manner by the terms of this
6 stipulation and agreement in this or any other proceeding,
7 except as expressly specified herein.

8 Q. Okay. And another one-sentence portion that
9 I'd like you to read is on the next page. It's the last
10 sentence of paragraph 19 on page 13.

11 A. That reads, The stipulations herein are
12 specified -- are specific to the resolution of this
13 proceeding and are made without prejudice to the rights of
14 the signatories to take other positions in other
15 proceedings.

16 Q. Okay. So would it be fair to say, you know,
17 based on those provisions, that it was the expectation of
18 the parties that this stipulation was only for the
19 purposes of Case No. EO-96-15?

20 A. I think that's correct.

21 Q. Okay. And the compromises which led them to
22 execute and be bound by the stipulation in that case
23 wouldn't necessarily apply in this proceeding or, really,
24 in any other proceeding?

25 A. I've been advised by counsel that that's the

1 case.

2 Q. Okay. Let me ask you this: Why didn't the
3 Staff conduct a new cost-of-service study for purposes of
4 this complaint case?

5 A. I don't -- I don't think I know the answer.

6 Q. Did you want to conduct a new cost-of-service
7 study for purposes of this complaint case?

8 A. Me personally?

9 Q. Yes.

10 A. I really hadn't given it much thought.

11 Q. Okay. So taking from that, the Staff really
12 never considered doing a new cost-of-service study in this
13 case?

14 A. No one ever discussed with me whether or not we
15 ought to do one.

16 Q. Okay. And you yourself never gave it much
17 consideration, if any?

18 A. That's correct.

19 Q. Okay. And if you had done one -- let me ask
20 you a different question.

21 Were the time constraints in filing this
22 complaint a consideration in why the Staff never really
23 seriously considered doing a new cost-of-service study?

24 A. I think I indicated that as far as I know, no
25 one ever discussed it for whatever reason. But I don't --

1 I don't think the time constraints -- I suspect that the
2 reason that it wasn't discussed was not because of time
3 constraints. It was because of the recentness of the most
4 recent changes to Union Electric rates and this electric
5 rate design and cost-of-service case.

6 Q. Okay. Fair enough.

7 But I guess -- let me ask you this: In a
8 perfect world that we don't live in, with unlimited
9 resources and unlimited time, wouldn't the best thing to
10 do be to update or redo a cost-of-service study every time
11 you change rates?

12 A. I think -- let me go back and lay a little
13 foundation for the question.

14 Q. Okay.

15 A. The results of the class cost-of-service study
16 don't tell you what to do with rates. Okay? They're one
17 of the things you ought to consider. And the study itself
18 is not universally accepted as being an accurate
19 representation of what the costs are by a customer class.

20 Q. So there has to be -- in addition to having a
21 cost-of-service study, there is an element of judgment, I
22 guess, that goes into allocating costs to the classes and
23 designing rates?

24 A. There is an element of judgment in assigning
25 class revenues responsibilities.

1 Now --

2 Q. So it's not just --

3 A. That's it.

4 That if there were, you know, major cost
5 components or -- or, you know, known changes in the
6 revenues by class, due to who knows what, that you knew
7 about, it would probably be good to -- to do another
8 cost-of-service study, or update the old one, at least, to
9 see whether the results changed significantly from the
10 last.

11 Now --

12 Q. And Staff didn't do that in this case?

13 A. We didn't do that. We didn't know of any major
14 items that would have changed to alter our results.

15 Q. Okay. And let me ask you this: I know you
16 just testified that -- well, I think -- correct me if I'm
17 wrong -- that you don't just mechanically follow a
18 cost-of-service study results in allocating costs to
19 customer classes.

20 Is that a fair representation of what you said?

21 A. You don't follow the results of -- you don't
22 mechanically follow the results of the class cost-of-
23 service study in assigning revenue responsibilities to the
24 customer classes.

25 Q. Okay. But in spite of that, wouldn't it be

1 fair to say it's a very important tool to use in assigning
2 those revenue responsibilities to the customer classes?

3 A. I think it's an important tool, yes.

4 Q. I mean, wouldn't it be fair to say it's the
5 most important tool you use when you're allocating those
6 revenue responsibilities to customer classes?

7 A. I think it's fair to say that for me it's the
8 most important tool I use when designing rates for --
9 proposing rates to the Commission.

10 I'm not sure that in all cases that the
11 Commission believes that that's the most important thing
12 to consider when assigning the revenue responsibility.

13 Q. They may have --

14 A. It's one element.

15 Q. They may have policy considerations, but from
16 your standpoint it's the most important tool?

17 A. Right. We would propose rates consistent with
18 the cost-of-service study results.

19 Q. Okay. So even if -- and the difference
20 being -- just so I understand this difference -- even
21 though you don't slavishly, mechanically follow exactly a
22 mathematical calculation that is indicated by the
23 cost-of-service study, you still always follow the results
24 of that in your recommendation?

25 A. I'd say consistent with it.

1 Q. Okay. Got you.

2 (OFF THE RECORD.)

3 BY MR. BYRNE:

4 Q. Let me ask you this: During our break do you
5 think you could check to see what the 12-month test year
6 was in Case No. EO-96-15?

7 Would that be easy to do or hard to do?

8 A. It will either be extremely easy or extremely
9 difficult.

10 Q. Okay. Well, could you try?

11 A. I will check, and if it's easy, I will get you
12 that test year.

13 MR. BYRNE: Okay. Thank you.

14 (A RECESS WAS TAKEN.)

15 BY MR. BYRNE:

16 Q. Right before we broke I was asking if you might
17 be able to find out what the test period for that EO-96-15
18 cost-of-service study was.

19 Were you able to find that out?

20 A. Yes, I was.

21 Q. What was the test period?

22 A. I found the report and order for Case
23 No. ER-95-411. And in the stipulation and agreement,
24 approved and attached to that order, on page 12 of
25 Attachment A, paragraph 4 on rate design, it says,

1 procedural schedule for set docket shall be established at
2 a time later to be determined based on a test year of
3 12 months ending September 30, 1996.

4 Q. Okay. And does that match your -- the general
5 area that you recall it to be?

6 A. Yes.

7 Q. Okay. Let me ask you: You had said before
8 that it would be, I guess, more appropriate to update a
9 cost-of-service study or conduct a new cost-of-service
10 study if there had been changes in the Company's
11 operations or other factors that might change the
12 allocations to the various rate classes.

13 Is that true?

14 A. I think I said that if we knew of major changes
15 in the cost-of-revenue components, then that would be
16 appropriate.

17 Q. Well, let me ask you about some changes that
18 have happened at AmerenUE since the end of the test period
19 for the cost-of-service study in EO-96-15.

20 One big change, it seemed to me, was the merger
21 between AmerenUE and Central Illinois Public Service
22 Company.

23 Is it true that that occurred after the end of
24 the test period for the cost-of-service study in EO-96-15?

25 A. I don't know that for sure.

1 Q. Okay.

2 A. My recollection is that that merger was at
3 least proposed shortly after the beginning of the first
4 EARP. I believe the merger case was EM-96-149. So that
5 would have been in '96.

6 Q. Do you know --

7 A. Or fiscal year '96.

8 Q. Okay. Which might have encompassed some '95?

9 A. Yes.

10 Q. Okay.

11 A. I think. I'm not sure which way the lag goes.

12 Q. And then, I guess, that would have been when it
13 was proposed in a filing with the Commission, but I assume
14 it was consummated later than that?

15 A. Certainly.

16 Q. Do you know how much later than that it was --

17 A. I don't recall

18 Q. -- consummated?

19 A. I don't recall when it was closed.

20 Q. Okay. Well, let me ask you to assume, then,
21 that it was closed or completed at some point after the
22 end of the test period for the cost-of-service study in
23 EO-96-15.

24 Would that be the kind of event that might
25 change the class cost allocations significantly?

1 A. I'd have to check all of those dates, but I
2 believe at the time that we were concluding our studies
3 and at the time that everyone was entering into the
4 stipulation and agreement in EO-96-15, we were all aware
5 of the merger.

6 Q. Okay. And the time that we entered into the --
7 the time that the parties entered into the stipulation in
8 EO-96-15, that would have been, I think you said before,
9 1999. Right?

10 A. That would have been in 1999.

11 Q. But, I guess, even if the parties were aware of
12 the merger at that point, that doesn't necessarily mean
13 that the merger and the effects of the merger were taken
14 into account by the test period for the cost-of-service
15 study for that docket, does it?

16 Q. I don't recall the dates that the merger was
17 closed, so I'm not sure whether there were merger effects
18 in the test year or not.

19 Q. Okay.

20 A. However, none of the parties to the rate design
21 case believed that the resolution of the rate design case
22 was affected in some way by the merger that hadn't been
23 accounted for in that case.

24 If the parties believe that they need needed to
25 change the test year because of the merger, we would have

1 proposed to do that.

2 Q. Well, isn't it possible -- well, first of all,
3 not all of the parties signed the stipulation.

4 So I guess, you know, for the parties that
5 didn't, or at least Laclede that had some opposition to
6 the stipulation, they might not have agreed with anything,
7 you know.

8 Is that fair to say?

9 I mean, the stipulation -- since they didn't
10 sign it, the stipulation is no indication that they
11 necessarily agreed with anything?

12 A. That's correct.

13 Q. Okay. And even for the parties who did sign
14 it, they may have -- who knows what they might have
15 believed.

16 They might -- there might have been different
17 areas of compromise. I mean, all we know for sure is that
18 they agreed -- that they agreed to the stipulation as a
19 whole. That doesn't necessarily mean that they believed
20 that the cost-of-service study was representative in
21 isolation, does it?

22 A. I think all it indicates is that they believed
23 that at that point in time that the agreements set out in
24 the stipulation and agreement was reasonable in terms of
25 what should be done with the rates.

1 Q. Okay. Fair enough.

2 Let me ask -- let me go back again. And I know
3 it's unfair to expect you to remember dates.

4 So, you know, for purposes of my question,
5 though, I'm asking you to assume that the merger closed
6 after the end of the test period for the cost-of-service
7 study in EO-96-15.

8 So assume that it closed after December of '96.
9 Is that the end of the test period?

10 A. I think it was June. June -- June 30 was the
11 end of the test year. June 30, 1996.

12 Sorry. I'm looking at it and saying June, but
13 it says September. September 30, 1996.

14 Q. Okay. I'm sorry. Let me start my question
15 over again.

16 Okay. September 30th, 1996 is the end of the
17 test period for EO-96-15. Right?

18 A. That's correct.

19 Q. Okay. So assume for me, if you will -- and I
20 realize you don't know for sure, but assume for me that
21 the merger between AmerenUE and Central Illinois Public
22 Service Company closed after that date.

23 A. Okay.

24 Q. Okay?

25 Is that the kind of event that could be

1 expected to have an impact on class cost allocations?

2 A. You happened to ask me to assume when the
3 merger closed, only that it was after the study.

4 My recollection is, is that it closed -- or
5 looked like it was well on its way -- by the time we
6 actually did the studies and made our recommendations.

7 So no one indicated at the time that that
8 happened that that was having a major impact on their
9 study.

10 Q. Okay. Let me ask this more generally then.

11 A. Okay.

12 Q. Just in general, ignoring this specific merger
13 and the timing of it relative to this study, what kind of
14 effects in general could a merger between two utilities
15 like AmerenUE and CIPs, what kinds of effects could that
16 have on class cost allocations?

17 A. You'd have to know the details of the merger
18 and what was going on.

19 But in general I think it's certainly argued,
20 you know, that there are cost savings, you know, as a
21 result of the mergers, that the utilities are going to
22 become more efficient.

23 But there is -- I'm not aware of anything in
24 that case, in mergers in general, that would cause a shift
25 in the cost components in any major way.

1 Q. Well, let's say -- I mean, couldn't there be
2 consolidations of duplicate departments in the different
3 utilities that could create efficiencies in certain areas?

4 A. Yes.

5 Q. I mean, for example, couldn't -- couldn't there
6 be a consolidation of customer calls, center employees,
7 who, I guess, deal primarily with residential customers,
8 and maybe that could reduce the overall costs to the
9 residential class?

10 Couldn't something like that happen?

11 A. I think in general the services that the
12 Company provides to its customers, call center, whatever,
13 generally, they're treated in the cost-of-service study as
14 being allocated to all customer classes.

15 It's not a major cost component, and those
16 allocations are not probably significantly different from,
17 you know, existing revenue shares.

18 A. It just wouldn't make a significant difference
19 in the study --

20 Q. Okay.

21 A. -- the results of the study in terms of which
22 costs -- which classes should have greater or lesser
23 relative increases or decreases in revenue.

24 Q. Are there some categories of costs that are
25 only allocated to one class or another?

1 A. I think there are but that's rare. I mean, I
2 think there are some cost categories that would only go to
3 the lighting class, for example.

4 Q. Okay. And so in that example, if you had cost
5 savings in those cost categories that are allocated only
6 to the lighting class, might that not affect the overall
7 results of the cost-of-service study?

8 A. Not in any significant way. Lighting is just
9 not big enough.

10 Q. Are there any other changes in AmerenUE's
11 operations or other factors that have happened since the
12 end of September 1996 that you think could affect
13 allocation of revenues to AmerenUE's customer classes?

14 A. I'm not aware of anything that would -- that
15 would affect the allocation of cost to customer classes to
16 a degree sufficient to cause my recommendation to be
17 different in this case.

18 Q. Okay. How about, are you aware that Ameren has
19 restructured its operations since the end of that test
20 period in EO-96-15 into a holding company structure?

21 A. Yes.

22 Q. And now it has Ameren Services Company as sort
23 of the service provider under the holding company
24 structure?

25 A. I'm aware of that.

1 Q. Okay. And do you think that that kind of a
2 reorganization of corporate services might have an impact
3 on the results of the cost-of-service study?

4 A. Doubtful.

5 When we're talking about the results of the
6 cost-of-service study, I'm not talking about something
7 that happens in the sixteenth decimal place, you know.

8 The recommendation that the Staff has in this
9 case is basically a recommendation as to the relative
10 increase or decrease that ought to go to the residential
11 as opposed to nonresidential customers.

12 Q. Got you.

13 A. We're not talking about any changes that
14 Union Electric -- that I believe are significant enough to
15 cause a big difference in that, that would lead me to
16 believe that the residential customers are not -- are
17 already paying too much.

18 Q. What about changes in the Company's manual
19 meter reading system? Are you aware of changes that have
20 occurred in that area for AmerenUE?

21 A. I know -- I know that the meter readings are
22 all done by cell net.

23 Q. So --

24 A. And I've looked at those costs, and I don't
25 recall whether it's in relation to this cost-of-service

1 study or something else.

2 Q. Okay. I mean, essentially didn't -- in the
3 recent past hasn't Ameren gone from a system where there
4 is manual meter readings to an automatic meter reading
5 system?

6 A. That's correct.

7 Q. Okay. And did you think that might have an
8 impact on the results of the cost-of-service study?

9 A. I don't know how it would.

10 I mean, there may be cost savings there, but to
11 the extent that it costs X dollars to read a meter and now
12 it costs Y dollars, that effect's the same on every meter.

13 So it isn't like, well, they did that for one
14 customer class but not all others.

15 We're talking about things that cause a
16 difference between the classes, not of things that affect
17 overall cost of revenues.

18 Q. Okay. How about, I guess, in the wake of the
19 settlement and the Commission's order after the litigation
20 in Case No. EO-96-15, my understanding is rate design
21 changes were implemented.

22 Is that true?

23 A. That's correct.

24 Q. Okay. And would it be fair to say that the
25 cost-of-service study which predated those rate design

1 changes -- the test period did -- would not reflect any
2 changes occasioned by the new rate structure?

3 A. Changing -- I don't think I understand the
4 question, because changing revenues doesn't change costs.

5 Q. Okay. But, for example, if in response to the
6 new rate design that was implemented in the wake of
7 EO-96-15, certain customers switched from one rate
8 schedule to another, and as a result of that switching,
9 the costs the Company was required to incur to serve that
10 customer class changed, that change would not be reflected
11 in the cost-of-service study results for EO-96-15?

12 Is that fair to say?

13 A. The class cost-of-service study assumed fixed
14 customer classes.

15 If customers are moving from class to class or
16 there is a lot more growth in one customer class, it may
17 not -- it certainly does not exactly reflect in those
18 changes.

19 Q. And could those factors significantly affect
20 the cost-of-service study results?

21 Could customer growth and a class or rate
22 switching significantly affect the cost-of-service study
23 results?

24 A. I think there is a potential there, but my
25 opinion is that that's not going to have an effect of a

1 magnitude to make much difference to the result.

2 Q. In this case doesn't Ms. Pyatte make a revenue
3 adjustment for customer switching, if you know?

4 A. I recall that there was customer switching
5 occurring during the test year -- updated test year in
6 this case, which she accounted for to adjust the books.

7 Q. And if she's accounting for that customer
8 switching, shouldn't that customer switching also be
9 accounted for in the class allocations?

10 A. Frankly, I don't recall which customer classes
11 were affected by the customers that were changing rates.

12 Certainly if you were going to redo a
13 cost-of-service study, you'd want to get customers in the
14 right cost-of-service class.

15 But there you don't have any switching between
16 residential and nonresidential customers, and the cost to
17 serve a customer doesn't -- the true cost of serving a
18 customer doesn't change, depending on which rate he wants
19 to take service under.

20 I mean, the customer exists; he has his load.
21 If he says I'd rather be billed under this rate than that
22 rate, it doesn't change costs. It has some effect on
23 revenues.

24 Q. And doesn't -- I mean, don't -- let me start
25 over. It's easy for me to say.

1 Doesn't the change in the number of customers
2 in each class, whether that change results from customer
3 switching classes or for growth or declines in the number
4 of customers in that class, doesn't that affect the
5 results of the cost-of-service study?

6 A. Again, maybe there is -- maybe there is some
7 difference out in the sixteenth decimal place of some
8 result, but it just doesn't really make much difference to
9 the -- the results of the cost-of-service study for any
10 class when a customer moves to a different cost-of-service
11 class.

12 Q. I mean, aren't you assuming in your answer that
13 it's not significant; it's out into the sixteenth decimal
14 place?

15 A. Right.

16 Q. And let me ask you this. Something you said
17 before hit home with me.

18 Would it be fair to say that if you had
19 conducted an updated or new cost-of-service study with an
20 updated test period in this case, all of these things
21 would have been -- all of the things that changed since
22 the last cost-of-service study test period would have been
23 taken into account to whatever degree they had an impact.

24 Is that fair to say?

25 A. Yeah, in the sense that we would have started

1 out with all brand new data from scratch.

2 Q. So --

3 A. Whatever was in the data would be accounted
4 for.

5 Q. So it would have incorporated whatever changes
6 may have occurred as a result of the merger so far at
7 least?

8 A. It would incorporate everything that is
9 different since the data we used in 1996.

10 Q. All of the factors that I've just run through,
11 like the merger and customer switching since 96-15, any
12 changes to the metering system, and the holding company
13 structure, all of that would have been incorporated,
14 whatever effect those factors had would have been
15 incorporated in an updated study?

16 A. Yes.

17 Q. But in this case I'm assuming you didn't really
18 look at all of those factors because you weren't updating
19 the study.

20 Is that fair to say?

21 A. That's correct.

22 Q. Okay. So the degree to which they had an
23 effect is unknown because you didn't perform an updated
24 study?

25 A. I think it's correct to say that the effect is

1 not precisely known.

2 Q. Okay. Fair enough.

3 Let me ask about any effects there might be
4 from a merger.

5 If there are effects from a merger, wouldn't it
6 be fair to say that it takes time for those effects to
7 play out?

8 In other words, on the date that the merger is
9 closed, you don't immediately feel the full impact of the
10 merger, but it plays out over the course of the next few
11 years.

12 Would that be fair to say?

13 A. I don't really know the answer.

14 Q. Okay.

15 A. It's not an area that I'm that familiar with to
16 know how those things happen.

17 Q. But, I mean, wouldn't you think it takes time
18 to consolidate departments, it takes time for efficiencies
19 to be gained?

20 You don't have any knowledge or opinion of
21 that?

22 A. I don't have any real basis to disagree with
23 you. I just -- I just don't know.

24 Q. But does that make sense to you?

25 A. I mean, it seems reasonable, yeah.

1 Q. Okay. Let me ask you one other factor I sort
2 of forgot, and that is the interruptible rate class.

3 My understanding is up until maybe June of
4 2000, AmerenUE had an interruptible rate class. Is that
5 correct?

6 A. They had an interruptible rate tariff.

7 Q. Okay. And were there customers who took
8 service under that interruptible rate tariff?

9 A. I didn't understand the question.

10 Q. I'm sorry.

11 Were there customers who took service under
12 that rate schedule?

13 A. Yes, yes.

14 Q. Okay. And then it got terminated in June of
15 2000. Is that true?

16 A. That's my recollection.

17 Q. Okay. So during the test period for the
18 EO-96-15 class cost-of-service study, the interruptible
19 rate class existed?

20 A. That's correct.

21 Q. And then now it doesn't exist anymore.

22 Is that correct?

23 A. The rate schedule doesn't exist, yes.

24 Q. And what happened to those customers, if you
25 know, that took service under that interruptible rate

1 schedule?

2 A. I don't know what happened to them. I think
3 most -- they went to other -- other tariffs. I'm not --
4 I'm not sure I could tell you which customers went where.

5 Q. Okay. But could a change like that have an
6 impact on the cost-of-service study results?

7 A. It shouldn't have much of an impact on the
8 Staff's.

9 Q. Well, I mean, to the extent that there are
10 costs allocated to the interruptible class of customer,
11 don't those costs have to be allocated elsewhere when
12 the -- if they're still being incurred, don't they also to
13 be allocated elsewhere when the rate schedule terminates?

14 A. Well, there are two basic approaches that the
15 parties used in that case to how to treat the
16 interruptible customers.

17 Some parties did not allocate production
18 capacity costs to the interruptible portion of those
19 customers' load..

20 The Staff, however, treated those customers as
21 if they were firm customers for the purposes of the past
22 deallocation.

23 So we did, in fact, allocate them capacity
24 costs as if they were firm customers.

25 So the fact that they were interruptible then

1 and firm now wouldn't affect the study very much.

2 Q. These were large customers, were they not?

3 A. Relatively.

4 Q. Do you know an order of magnitude of the size
5 of their loads?

6 A. An order of magnitude. I think the combined
7 loads were alleged to be something like 40 megawatts.

8 Q. Okay. Let me ask you this: Given your
9 testimony about all of these issues, why would you --
10 what's the justification for ever doing an updated
11 cost-of-service study?

12 A. You know -- you know, cost components do change
13 over time, and I think the customer mix changes over time.

14 And I couldn't give you an exact time frame. A
15 lot of -- a lot of things have to do with, you know,
16 technology, general standards of living. Saturation of
17 air conditioning changes over time.

18 Q. And in this case is it fair to say that you
19 didn't do any analysis to measure how those factors have
20 changed or not changed for AmerenUE?

21 A. That's fair to say.

22 Q. Okay. And I assume from your answers that you
23 are not planning at any point in this case doing an
24 updated class cost-of-service study?

25 A. Not at the moment.

1 Q. Okay. I guess the question I had is, in most
2 major rate cases -- and I guess by rate cases I mean rate
3 cases filed by utilities and complaint cases where the
4 rates are being changed -- doesn't the Staff usually do a
5 cost-of-service study?

6 A. I think in the recent past the Staff has tried
7 to update the previous cost -- cost-of-service study.

8 I'd have to go through and think about them
9 individually, I guess. But in a lot of cases it's been a
10 long time since a cost-of-service study was done.

11 Q. But at least -- well, by doing a new
12 cost-of-service study, let me broaden that term to say, do
13 a new cost-of-service study or update the existing one.

14 Would it be fair to say, then, in most rate
15 cases -- and by that I mean rate increase cases or
16 complaint cases in which the rates are the subject -- in
17 most of those cases Staff either does a new cost-of
18 service study or updates a previous cost-of-service study?

19 A. Yeah, I think so.

20 Q. Okay. Go ahead.

21 A. But I think the reason for that, though, is I
22 think maybe the length of time, you know, since -- since
23 we looked at the cost-of-service study before. And in
24 Union Electric's case it really hasn't been that long.

25 Q. Can you think of another rate case or complaint

1 case involving rates where you haven't either done a new
2 cost-of-service study or updated the old one?

3 A. We haven't done one.

4 I think the most recent example I can think of
5 is the Missouri Public Service rate case that would have
6 had an ER-97 something case number.

7 Q. Okay. And in that case there was neither --
8 similar to this case, there was neither a new study, nor
9 an updated old study?

10 A. That's correct.

11 Q. And do you remember how old the study that you
12 used in that case was, how old the test period for the
13 study that you used in that case was?

14 A. I don't recall exactly. I think the -- the --
15 the case before was a '91 case.

16 Q. Okay. Can you think of any other examples like
17 that?

18 A. I think that's the only one that I can think of
19 any time fairly recently.

20 Q. And I think earlier in the deposition you
21 thought the order of magnitude of this case's proposed
22 revenue reduction was -- well, I think you said
23 \$250 million was in the range of the Staff's
24 recommendation for a rate reduction.

25 Do you remember the order of magnitude of the

1 case that you just referred to where no cost-of-service
2 study or update was used?

3 A. I -- I really don't. Missouri Public Service
4 is a whole lot smaller than Union Electric.

5 Q. Okay.

6 A. It wasn't -- I'm sure it wasn't in the hundreds
7 of millions of dollars, but --

8 Q. Okay.

9 A. But it was a rate reduction case, as I recall.

10 Q. Okay. Do you think it was greater or less than
11 \$50 million of a rate reduction?

12 A. I -- I frankly don't recall.

13 Q. Okay. But if I wanted to look it up, it's a
14 '97 case and a complaint case filed by the Staff?

15 A. It's an ER case. I think it was -- actually,
16 there may have been several case numbers involved in that.

17 I think that there may have been an earnings
18 investigation and a complaint case and a subsequent rate
19 case, and some of them were all consolidated together.

20 Q. Okay. But if I found in the case books the
21 1997 era, what was the company again? Missouri --

22 A. It's Utilicorp United doing business as
23 Missouri Public Service.

24 Q. So if I found the circa 1997 Utilicorp United,
25 doing business as Missouri Public Service case, that would

1 tell me the order of magnitude of the case, or at least
2 the order that was ultimately ordered?

3 A. Yes, it would.

4 Q. And it would probably tell me what the Staff
5 proposed -- well, I'll just look and see.

6 Okay. Can you think of a case -- I mean, to
7 your knowledge has there ever been a case where this big
8 of a change in revenue requirement has been proposed at
9 the Missouri Public Service Commission?

10 A. I don't recall for electric utilities -- which
11 is really the only one that I keep track of -- that there
12 has ever been a rate reduction proposed that is this
13 large.

14 Q. Is there any that are even close that you can
15 think of?

16 A. Any revenue reduction or --

17 Q. Well, why don't we broaden it and say either
18 increase or reduction.

19 A. I don't think there is anything that has
20 approached that order of magnitude.

21 Q. Okay.

22 A. But, I mean, it's been a while since
23 Union Electric has changed their rates.

24 Q. Sure.

25 A. In the earlier eras, rate cases were filed much

1 more frequently than they are today.

2 Q. And I -- well, I guess you don't know, but it
3 would seem unlikely to me that a water or sewer case would
4 approach this magnitude?

5 A. That would be my guess.

6 Q. Okay.

7 A. Union Electric is certainly the largest energy
8 utility.

9 Q. And as far as gas utilities go, my
10 understanding is that Union Electric is considerably
11 larger than any of the gas utilities in Missouri?

12 A. That's my understanding.

13 Q. So it would probably be pretty unlikely that a
14 gas rate case or complaint case would approach the
15 magnitude of this case?

16 A. I would think that would be unlikely.

17 Q. Okay. Do you support the concept that utility
18 rates should reflect the cost of service?

19 A. In general, yes.

20 Q. And would that apply both to the overall rates
21 should be based on the overall cost of service?

22 Do you agree with that?

23 A. Yes.

24 Q. And could you parse it down even more and say
25 that the different -- the different classes should be

1 allocated costs based on their cost of service -- the cost
2 of service incurred to serve that class?

3 A. I'd agree that that's a goal.

4 Q. Okay. And is the goal even -- could the goal
5 be parsed even further to say that it should be a goal to
6 set the specific rates within each customer class to
7 reflect the appropriate costs?

8 A. I'd say you could take the goal down to
9 individual customer.

10 Q. Okay.

11 A. The goal would be is that I pay exactly what it
12 costs to serve it.

13 Q. Okay. And I guess the reason I'm asking this,
14 is on page 3 of your testimony, if you have it, starting
15 on 20 you say that the customer charges that are currently
16 in effect -- presumably for AmerenUE -- are below the
17 costs for billing, meter reading and electric plant that
18 is customer specific; e.g., meters and service lines.

19 Is that correct?

20 A. That's correct.

21 Q. And why is the customer charge below those
22 costs?

23 A. I don't think I understand -- I don't think I
24 understand how to answer that question, or I don't
25 understand the question.

1 Q. Did you hear --

2 A. I heard the question.

3 I mean, the answer is, is the level of that
4 rate component, the customer charge, is established --
5 excuse me -- the level of that rate of the customer charge
6 determined by the Commission is less than the allocated
7 cost.

8 Q. Okay.

9 A. That's mathematically true.

10 Q. Okay.

11 A. I don't know why.

12 Q. But, I mean, in the simplest way to answer that
13 question is, because the Commission ordered it to be set
14 at that level. Is that true?

15 A. That's true. But it's also the case that it is
16 set exactly where all of the parties agreed it ought to
17 be --

18 Q. Okay.

19 A. -- in the stipulation and agreement.

20 Q. Almost all of the parties?

21 A. Almost all of the parties. All of the parties
22 that agreed.

23 Q. And do you know what the customer charge is for
24 AmerenUE?

25 A. It varies by customer class, but I couldn't

1 tell you exactly what it is for any class.

2 Q. Okay. You don't know off the top of your head
3 what it is for residential?

4 A. I really don't.

5 Q. Okay. Do you know -- well, do you know what it
6 should be if it included all of the costs -- well,
7 everybody --

8 A. I don't know that either.

9 Q. Okay. Would it be fair to say that it should
10 be higher?

11 A. I think I testified that the costs were higher
12 than the rate was set.

13 Q. Okay. And, I mean, I guess what I'm asking you
14 is, is it your belief that the customer charge should be
15 set to recover those costs even if it's not right now?

16 A. Not necessarily.

17 Q. Okay. What other factors would weigh on that
18 decision?

19 A. Well, we talked a minute ago about how the goal
20 to go to the individual customer --

21 Q. Right.

22 A. -- of getting each customer to pay exactly what
23 it costs to serve them.

24 Sometimes in designing rates it's important to
25 recover costs in a way that's not necessarily all that

1 obvious in order to make the rates to customers -- recover
2 the costs to serving the customer.

3 Q. Okay. And I guess in looking at your list of
4 costs on page 3 that are relevant to the customer charge,
5 it seems as though -- that those are fixed costs.

6 Is that true?

7 A. I would categorize them as such.

8 Q. I mean, they don't vary based on the
9 consumption of electricity?

10 It's based on how much consumption there is of
11 electricity?

12 A. Basically, at least, within the customer class
13 they don't vary.

14 Q. Okay. And let me ask you about some other
15 costs.

16 In your opinion do the costs of billing
17 hardware and software vary with customer usage?

18 A. The question has to do with if an individual
19 customer uses more electricity, does it then cost more to
20 bill it?

21 Q. Correct.

22 A. Within some reasonable limits. It's certainly
23 the case that it doesn't cost more to bill it if he uses
24 more electricity.

25 Q. Okay.

1 A. If he uses enough more electricity that is
2 better served on another rate schedule that requires more
3 information about it, then it may well increase the cost
4 of billing that customer.

5 Q. But to the extent he stays in the same rate
6 class, you know -- for example, let's take the residential
7 class -- it -- the billing and -- I'm sorry -- the billing
8 hardware and software costs, like these other costs that
9 you've listed on page 3 of your testimony, wouldn't vary
10 as long as the customer stayed within the residential
11 class.

12 Is that true?

13 A. That's correct.

14 Q. And that would apply to the other classes, too,
15 wouldn't it?

16 A. Yes. Basically, the big costs difference in
17 billing depends on -- in Union Electric's case, I think
18 the best way to describe it is whether you get postcard
19 billing or not.

20 Q. Okay.

21 A. If you get to be a large enough customer not to
22 get postcard billing, then there is some additional costs
23 associated with that.

24 Q. Okay. But to the extent that you either stay a
25 postcard-billed customer or a nonpostcard-billed customer,

1 my statement is true, that billing hardware and software
2 costs wouldn't vary with usage?

3 A. That's correct.

4 Q. And how about mailing costs and payment
5 processing costs -- again, I guess there may be a
6 difference between postcard and nonpostcard.

7 But to the extent that you stay in the category
8 that you're in before, isn't it true that those costs
9 would not vary with usage?

10 A. I wouldn't think so.

11 Q. Okay.

12 A. Did you mention another cost category besides
13 postage?

14 Q. Postage and payment processing.

15 A. I think the answer is the same.

16 Q. Okay. How about Company's call center
17 operations, the cost of the Company's call center
18 operations, would those vary based on usage of
19 electricity?

20 A. I think the answer there is the same as to the
21 cost of billing: that within those broad categories,
22 certainly the changes in usage don't matter.

23 Q. It seems to me that all of these costs that
24 we're talking about would vary with the number of
25 customers. In other words, if you've got more customers

1 on the system -- for every additional customer you get on
2 the system, you incur additional mailing costs and billing
3 costs, but the usage per customer doesn't affect those
4 costs.

5 Would that be fair to say?

6 A. I'd agree that the usage doesn't have an
7 effect.

8 Q. Okay. How about credit and collection costs,
9 do those vary with usage?

10 A. I really haven't studied that very much.

11 But if you're talking about an individual
12 customer, if he uses more as a cost of collecting
13 higher -- I don't really know.

14 I mean, I can imagine that, you know, if he
15 only uses this much, he can afford to pay for it; but if
16 he uses more, then he can't afford to pay his bill.

17 But I don't know if it's related or not in any
18 way like that.

19 Q. Okay. Fair enough.

20 Okay. Now, on page 3, two of the types of
21 costs you're mentioning that I think you're saying the
22 customer charge should be based on are meters and service
23 lines.

24 Is that correct?

25 A. Uh-huh.

1 Q. And are meters and service lines part of the
2 Company's distribution plant?

3 A. I don't know how -- how the Company categorizes
4 those.

5 Q. Okay. You don't know -- I mean, as opposed to
6 transmission or generation?

7 A. They're not transmission or generation.

8 Q. Okay. So if the only other category is
9 distribution, are they -- would you agree they're
10 distribution?

11 A. Yes.

12 Q. Okay. And do you know if secondary and primary
13 voltage lines are also part of the Company's distribution
14 system?

15 A. They are.

16 Q. Okay. What about distribution substations and
17 their 34 kilovolt and 69 kilovolt supply lines, do you
18 know if those are part of the Company's distribution
19 system?

20 A. No. I think that that's an area where you'd
21 have to study the substations to see what their use was --

22 Q. You're getting closer --

23 A. -- before you make that determination.

24 Q. You're getting closer to transmission at that
25 point?

1 A. Yes.

2 Q. Okay. Let me ask you this: Once installed,
3 are the costs of the facilities that I've described fixed?

4 A. I don't think I'd agree with that.

5 You mean the cost of a particular facility?

6 Q. Yes.

7 A. I guess it depends on how you define the cost
8 and over what time. It could vary.

9 It's certainly the case that if you buy a meter
10 for \$100 and put it in, that meter just costs \$100.

11 Q. Okay.

12 A. But presumably it would depreciate over time
13 and then quit depreciating.

14 Q. Sure.

15 But doesn't the same effect essentially happen
16 with these other distribution facilities?

17 Wouldn't that also be the case with secondary
18 and primary voltage lines?

19 A. Yes. And that's why I didn't know what you
20 meant by "costs," so I could answer the other question.

21 Q. Okay. Well, I guess what I'm trying to do is
22 draw an analogy between meters and service lines, which
23 you've say should be included in the customer service
24 charge, and some of these other distribution facilities
25 that seemed to me to have similar cost characteristics.

1 I mean, would you agree that they have similar
2 cost characteristics, in that once installed, the costs
3 are fixed?

4 You're not -- the costs associated with a
5 primary voltage line or a secondary voltage line or a
6 distribution substation, they don't vary with usage.

7 Is that correct?

8 A. When you say "fixed," you mean don't vary with
9 usage?

10 Q. That's correct.

11 A. As opposed to fixed over time?

12 I agree that the cost does not vary with usage.

13 Q. Okay. I'm not smart enough to draw the
14 distinction you're making.

15 But if you agree that they don't vary with
16 usage --

17 A. I agree with that.

18 Q. -- then, I think, that's good enough.

19 Would that be fair to say with all of the
20 distribution facilities, with all of the physical
21 distribution facilities, they don't vary with usage, the
22 costs associated with them don't vary with usage?

23 A. If you're talking about a particular item of
24 distribution equipment, the cost doesn't vary with usage.

25 Q. Okay.

1 A. If you're talking about a particular category,
2 then the answer isn't so clear to me.

3 Q. Okay. But is it similar -- is it analogous to
4 a meter?

5 A. Yes.

6 Q. Okay. And I guess there are various ways you
7 could allocate all of the distribution costs to customer
8 classes. Is that correct?

9 A. That's correct.

10 Q. And do most allocation methodologies consider
11 some form of class demand component in --

12 A. Yes.

13 Q. -- allocating costs?

14 A. Yes.

15 Q. Okay. And how do you measure class demand?
16 What is it, I guess, is a better question?

17 A. Well, you don't actually measure class demand.

18 Q. Okay. What is it?

19 A. What is it?

20 Q. That's the question I should have asked you.

21 A. Well, there is a variety of measures or types
22 of demands that one might use to calculate those costs.

23 Q. What are some of them?

24 A. Well, you have class peak, which would be the
25 demand at the hour that is the highest during the year.

1 Q. Okay.

2 A. You could have a class coincident peak, which
3 is the demand -- the aggregate demand of the class at the
4 time when the system peaks.

5 You could have customer maximum demand, which
6 would be the sum of the individual customers' highest
7 demand, whenever they occur.

8 You could have some demand that you calculated
9 that was some combination of those.

10 Q. Okay. And my understanding -- correct me if
11 I'm wrong -- is that some of the larger customers have
12 demand metering.

13 Is that correct?

14 A. Correct.

15 Q. How does that work?

16 A. I don't understand what aspect of that you're
17 asking me about.

18 Q. I mean, does it measure -- what does a demand
19 measure meter?

20 The highest usage of that customer at a
21 particular time?

22 A. I think it depends on -- it depends on the
23 demand meter, the type of demand meter, exactly what it
24 does measure.

25 But conceptually, at least, what you say is

1 correct.

2 Q. And, conceptually, is the idea to be able to
3 measure what each customers contribution to the -- either
4 the class demand that you're looking at or the overall
5 system demand that you're looking at is?

6 A. Well, generally the primary purpose for
7 measuring it is because you bill it.

8 Q. Okay.

9 A. You use it to calculate the customer's bill.

10 Q. Okay. Because some classes of customers have a
11 rate component based on demand?

12 A. That's correct.

13 Q. Okay. But my understanding is that residential
14 and small general service customers don't have meters that
15 measure demand and they don't have rate elements that
16 charge them based on their demand.

17 Is that true?

18 A. That's true for the residential class. For the
19 small general service class, it's true that they are not
20 billed on it. But it is not true that they universally do
21 not have demand meters.

22 Q. Okay. Some of them have demand meters?

23 A. Yes.

24 Q. Okay. And is it true, then, that as far as the
25 rate elements of the residential and small general service

1 class are concerned, there is only two rate elements: the
2 customer charge and the usage per kilowatt hour charge?

3 A. It depend on what categories you're talking
4 about.

5 There is no demand charge.

6 Q. Okay.

7 A. The energy charge has various blocks to it.

8 Q. Okay.

9 A. So there are more rate components than just a
10 single-cents-per-kilowatt-hour energy charge.

11 Q. Okay. Would it be fair to say that for those
12 two classes, residential and small general service, there
13 are two types of rate components, one being the customer
14 charge, which is a fixed monthly charge, is that right,
15 and the other being a usage charge which can be subdivided
16 into various rates applicable to blocks of usage?

17 A. That's correct.

18 Q. Okay. And for those customer classes, are
19 customer charges generally viewed as the component
20 containing -- through which the Company recovers fixed
21 costs associated with serving those customers?

22 A. No.

23 Q. Okay. And why not?

24 A. It just isn't.

25 Q. Okay.

1 A. A lot of the -- a lot of fixed costs are
2 recovered through energy charges.

3 Q. Okay. Would you agree with me that from an
4 economic standpoint -- and I understand there are policy
5 considerations which have to be taken into account that
6 may be different than this.

7 But from an economic standpoint, shouldn't
8 fixed charges recover fixed costs and shouldn't variable
9 charges recover variable costs, at least in a situation
10 like you have with residential and small general service
11 customers, where there are only two kinds of charges?

12 A. I think as a general proposition it's true that
13 fixed costs should -- are better collected than a fixed
14 charge from an economic standpoint.

15 The problem is, is that the fixed costs
16 attributable to each individual customer in a class are
17 not equal for every customer. The costs are generally
18 higher for big customers than small customers.

19 Q. Sure.

20 A. But the fixed component, the reason we call
21 them classes is generally because they pay the same rate.

22 So the customer charge that would be
23 appropriate and required to collect the fixed costs, if
24 you divided it by the total -- if you divided the total
25 fixed costs by the total number of customers and

1 calculated that rate, then it would be too high for half
2 of the customers and too low for the other half of the
3 customers. It would only be correct on the average.

4 (OFF THE RECORD.)

5 BY MR. BYRNE:

6 Q. Isn't the problem with recovering fixed costs
7 through a variable charge, that if because of weather or
8 other factors, the Company sells more kilowatt hours of
9 electricity than everyone assumed they would, they will
10 over-recover their fixed costs, and if they sell fewer
11 kilowatt hours than everyone assumed they would, they
12 would under-recover their fixed costs?

13 Isn't that the problem?

14 A. You describe it as a problem. I'm not sure
15 what the problem is, but it's a fact.

16 Q. Okay.

17 A. I don't see it as a problem.

18 Q. The reason I say it's a problem is because then
19 in those circumstances you would be -- the Company would
20 be recovering either more or less than its cost of service
21 and the ratepayers would be paying either more or less
22 than the Company's cost of service.

23 Is that right?

24 A. For that short period of time, but over time it
25 averages out. It's why we do the normalizations and

1 annualizations, in order to establish the rate levels, so
2 that on the average it works out.

3 Q. Okay. But at least in the short run it doesn't
4 work out, the short run to the extent there is more or
5 less kilowatt hours being sold, the customers are paying
6 more or less than they should. Right?

7 A. They're paying more or less than the exact --
8 the exact fixed costs attributable to them.

9 Q. Okay. And, you know, even if it all ages out
10 over time -- which I'm not sure I necessarily agree
11 with -- to the extent there is changes in the customer
12 base, maybe the same customers aren't around or aren't
13 part of the customer base when things even out.

14 Is that true?

15 A. I'm not sure that I categorize that as a
16 problem. It has to be the case that if -- if a customer
17 comes on the system during extremely hot summer and pays
18 too much fixed costs and then moves away, you know, goes
19 to some other part of the country, they paid more than the
20 costs attributable related to this fixed cost, and there
21 is no mechanism to get it back for them.

22 But I don't -- I wouldn't call that a problem.

23 Q. Okay. Well, let me ask you this: When you do
24 recover fixed costs through a variable charge, shouldn't
25 the variable charge per kilowatt hour be higher for

1 customers with smaller demands and lower for larger-demand
2 customers?

3 A. Would you please repeat that?

4 Q. I'm not sure I can.

5 A. I thought you had it written down.

6 MR. BYRNE: Can you read it back, please?

7 (THE COURT REPORTER READ BACK THE PENDING
8 QUESTION.)

9 THE WITNESS: I'm still not sure I understand
10 your question.

11 BY MR. BYRNE:

12 Q. I'm not either.

13 Do you want me to try again, or do you want to
14 try to answer the question?

15 A. I think I heard the question, but I -- but I
16 don't understand it.

17 Q. Okay. Let me try --

18 A. You're talking about recovering fixed charges
19 through a variable rate?

20 Q. Okay. Let me --

21 A. Should it be smaller or larger if the customer
22 is smaller or larger?

23 Q. I think I understand the question, so let me
24 try to ask it in a way that maybe you might understand it
25 too.

1 Okay. If you're recovering fixed costs through
2 a variable charge, a customer who doesn't use as much
3 gas -- excuse me, my former employer -- a customer who
4 doesn't use as much electricity, shouldn't he be paying a
5 larger usage charge than the customer uses a lot of
6 electricity, so that you are sure to recover the fixed
7 costs from each of them even though their usage is
8 different?

9 A. I think I'd have to disagree. Unless you're
10 making some assumption about how those costs go to the
11 customers, it's different than what I'm thinking. I'd
12 have to disagree.

13 So to the extent that the fixed costs are
14 higher for a customer with a higher demand, if they're
15 demand-related costs, to the extent that the customer with
16 the higher demand has a higher fixed cost and we're not
17 billing on demand but, instead, kilowatt hours, I think
18 it's the case, that all other things equal, the customer
19 with the higher demand also has higher kilowatt-hour
20 usage, and, therefore, it's appropriate.

21 Q. Okay. Assume for a minute that all other
22 things aren't equal; assume for a minute that the larger
23 customer has a higher load factor.

24 Would that still be true?

25 A. If -- if the cost of serving two identical

1 customers -- or more or less identical customers is the
2 same, except that one has a higher load factor, okay, the
3 customer with the higher load factor will pay too much
4 relative to its costs if the rate charged to both of them
5 are the same rate per kilowatt hour.

6 Q. Okay. And if fixed charges are being recovered
7 through the use -- through the variable rate?

8 A. Right.

9 Q. Okay. And my understanding is, if you were to
10 put all of the fixed costs into a customer charge, it
11 would increase the customer charge from where it is now.

12 Is that fair to say?

13 A. That's correct.

14 Q. But I guess I'd like to ask you about some
15 other types of services.

16 For example, telephone service, in the
17 telephone service that you have for your house, what is
18 the monthly charge for that, if you know, about?

19 A. I know how much my bill is, which makes the
20 monthly local charge insignificant.

21 Q. Okay. But there is pieces to the bill -- there
22 is pieces to the bill, to the telephone bill, a basic,
23 monthly flat charge is one piece, and then there is toll
24 calls and other services that are -- that depend on how
25 you use the telephone.

1 Is that fair to say?

2 A. That's correct.

3 Q. But do you know how much the basic monthly
4 charge is that?

5 A. No.

6 Q. Is it maybe on the order of magnitude of \$20 a
7 month?

8 A. Yes.

9 Q. Okay. And I guess what that provides you is
10 access -- well, it provides you with local calls and
11 access to the telephone system.

12 Is that right?

13 A. Yes.

14 Q. Okay. And how about, do you have cable TV or
15 satellite TV at your house?

16 A. Yes.

17 Q. And, again, do you know -- I guess there can be
18 a basic monthly flat service charge and maybe there's
19 incremental charges for premium services.

20 But do you know how much the basic flat monthly
21 flat service charge for cable TV is?

22 A. No.

23 Q. Is it on the order of magnitude of \$20 a month?

24 A. I don't know.

25 Q. Okay.

1 A. It's not itemized on my bill.
2 Q. What is your total bill for cable usually?
3 A. Something in the 70s.
4 Q. Wow.
5 A. Digital capable, premium packages.
6 Q. Okay. How about Internet service, do you have
7 Internet service at your house?
8 A. Yes, I do.
9 Q. And do you pay a flat monthly fee for that
10 service?
11 MR. WILLIAMS: I'm going to object. I'm not
12 sure what relevance or bearing any of this line of
13 questioning has.
14 MR. BYRNE: Okay.
15 But my understanding is --
16 MR. WILLIAMS: Yeah, he can go ahead and
17 answer. It seems like we're getting far afield to me.
18 MR. BYRNE: I don't have much more.
19 BY MR. BYRNE:
20 Q. Anyway, do you remember the question?
21 Do you have Internet service?
22 A. Yes.
23 Q. And what's the flat monthly fee for Internet
24 service, if you know?
25 A. Approximately 40 bucks.

1 Q. All right. And would you agree with me that
2 the fixed monthly service fees for all of these services
3 are essentially delivery system access charges for the
4 different delivery systems, the telephone, the Internet,
5 cable TV?

6 A. I know a lot about electric. I know very
7 little about other -- other utilities and other cable and
8 Internet providers that you're talking about.

9 I don't really have any knowledge to give you
10 an answer.

11 Q. Okay. I guess your answer may be the same to
12 this next question, but do you know whether the electric
13 company's distribution system is analogous to the
14 distribution systems of all of those other service
15 providers?

16 A. No.

17 Q. Okay. Let me ask you this: I guess -- and I'm
18 limiting these questions to the residential class of
19 customers.

20 If you add -- okay. Scratch that. Let me ask
21 a different question.

22 When you worked in the Commission's generation
23 and capacity planning area, did you have some
24 responsibility for operating the Commission's production
25 cost model?

1 A. No.

2 Q. Okay.

3 A. It wasn't until subsequent to that -- I was
4 moved out of that section before I had that
5 responsibility.

6 Q. Okay. But at some point did you have
7 responsibility --

8 A. Yes.

9 Q. -- for the production cost model?

10 A. Yes.

11 Q. Okay. And were you actually in charge of
12 operating that model at one time?

13 A. Yes.

14 Q. Okay. For the residential class only, if you
15 add additional customers, is it fair to say that that will
16 mean additional kilowatt hours of sales for the Company?

17 A. Yes.

18 Q. And is it also fair to say that if you add
19 additional customers and if that creates additional
20 kilowatt hours of sales for the Company, that is going to
21 create additional costs for the Company?

22 A. Yes.

23 Q. And, I guess, one class of costs that seem
24 obvious to me is variable costs, such as fuel, that vary
25 with kilowatt hours of use.

1 Is that one class of costs that would increase
2 if you added customers?

3 A. Yes.

4 Q. And I guess there are additional customers
5 specific types of costs that would be added if you added
6 customers?

7 A. Yes.

8 Q. Like each of those added customers would have
9 to have a service line and meter. Is that right?

10 A. That's correct.

11 Q. You'd have to send a bill to each of those
12 customers?

13 A. Yes.

14 Q. So all of that cost would increase -- all of
15 those customers specific kinds of costs would increase?

16 A. Yes.

17 Q. And, I guess, at a certain point, if you added
18 enough additional customers, then the other -- the costs
19 that I've been talking about as fixed -- if you added
20 enough additional customers, you'd have to add bigger
21 transmission lines and bigger -- bigger distribution
22 lines. Is that true?

23 A. More or bigger, yes.

24 Q. More or bigger. Okay. Sir

25 Isn't it true that as there are increases in

1 residential customers, system peak demand and residential
2 class peak demand also increase?

3 A. You say as there is increases in residential
4 customers?

5 Q. Yes.

6 A. On a weather normalized basis, yes.

7 Q. Okay. How about would that same -- I've been
8 talking about residential.

9 Would that same thing be true for small and
10 large general service customers: As the number of
11 customers increase, would the system peak demand and the
12 peak demand for their particular class increase?

13 A. If we're talking about adding additional
14 customers --

15 Q. Yes.

16 A. -- rather than just looking at now we've got
17 more customers than we used to have in total. If we're
18 talking about adding incremental customers, the costs do
19 go up just like they do for residential.

20 Q. But I am talking about adding incremental
21 customers.

22 But this question was would the demand -- would
23 the system peak demand increase and would the class peak
24 demand increase if you added small general service
25 customers, and the same thing be true if you added more

1 large general service customers?

2 A. Yes --

3 Q. Okay.

4 A. -- on a weather normalized basis.

5 Q. Okay. How about primary service customers,
6 again, would the addition of incremental primary service
7 customers increase the system peak demand and the peak
8 demand for that class of customers?

9 A. Yes, it would on a weather normalized basis.

10 Q. Okay. Wouldn't it also be true on an actual
11 demand basis in addition to being true on a weather
12 normalized basis?

13 A. Not necessarily -- not necessarily.

14 I mean, in concept, yes.

15 But the reason I said weather normalized is
16 because if you're talking about measuring it, if I measure
17 it this summer, okay, then I add customers and I measure
18 it next summer, I don't know that what I measured to be
19 the demand is going to be higher next summer.

20 Because this summer it may be 120 degrees when
21 I'm measuring the demand, and next summer it may be 72 --
22 well, no. It's not going to be 72, but it may just be in
23 the high 80s or 90s.

24 Q. Sure. I understand.

25 A. So when I measure the demand, I add customers

1 but the demand is lower. So that's why I said weather
2 normalized.

3 Q. Got you.

4 A. It is going to increase demands, and on a
5 weather normalized basis, you'll see that increase;
6 whereas, you may not see it actually.

7 Q. Would it be fair to say that for all of those
8 classes of customers, when you add customers, it increases
9 the demand for the system and the demand for the class
10 over what it would have been had you not added those
11 customers?

12 A. That's correct.

13 Q. Okay. Is that true during all months of the
14 year?

15 A. It's true at every moment in the year.

16 Q. Okay. Did you circulate drafts of your
17 testimony to other members of the Staff?

18 A. Yes, I did.

19 Q. Who did you circulate drafts to, if you
20 remember?

21 A. I gave the answer in the interrogatories, and I
22 could look it up.

23 Q. Well, don't bother. If it's in the
24 interrogatories --

25 A. It's in the interrogatories.

1 Q. Okay. And do you remember if you got any
2 substantive feedback?

3 And I guess by substantive, I mean, did any of
4 those people that you circulated your testimony to
5 recommend that you change your testimony in any
6 substantive way?

7 A. No.

8 Q. Okay. What, if anything, did you do to prepare
9 for this deposition?

10 And I guess I would exclude discussions with
11 your attorneys, which are probably privileged.

12 But other than discussions with attorneys, did
13 you do anything to prepare for this deposition?

14 A. I read through my testimony a couple of times.
15 I looked at my answers to the interrogatories. I briefly
16 looked at some of the admissions that, you know, other
17 people had answered. Both of those documents I scanned
18 through. That's really the only preparation.

19 I talked to Lena; told me it's going to be in
20 this room, we can use this table, we have a court
21 reporter, you'll be on one side, I'd be on the other,
22 those kind of things.

23 Q. Lena Mantle?

24 A. Lena Mantle.

25 Q. Okay. Just to try to tie up a loose end, I

1 have the Ameren 2000 annual report, and it has the date of
2 the merger. I'll show it to you. Maybe you could get
3 that into the record.

4 Does that suggest what the date of the merger
5 between AmerenUE and CIPs was?

6 A. It says in December 1997 Union Electric
7 Company, Amerenue in parentheses, and CIPSCO,
8 Incorporated, CIPSCO in parentheses, combined to form
9 Ameren, Amerenue and CIPSCO subsidiaries.

10 But the date it gives is December 1997.

11 Q. Does that sound consistent with your knowledge
12 of when it occurred?

13 A. Yes.

14 MR. BYRNE: Okay. That's all I have. Thank
15 you, Mr. Watkins.

16

17

18

19

JAMES C. WATKINS

20 subscribed and sworn to before me this day of
21 , 2001.

22

23

24

25

COPY

Notary Public in and for
County
State of Missouri

1 STATE OF MISSOURI)
) ss.
2 COUNTY OF COLE)
3


4 I, Patricia A. Stewart, RPR, CCR, CSR,
5 Registered Merit Reporter with the firm of Associated
6 Court Reporters, Inc. do hereby certify that pursuant to
7 notice, there came before me,

8 JAMES C. WATKINS,

9 at the Governor Office Building, Room 810, in the City of
10 Jefferson, County of Cole, State of Missouri, on the 30th
11 day of November, 2001, who was first duly sworn to testify
12 to the whole truth of his knowledge concerning the matter
13 in controversy aforesaid; that he was examined and his
14 examination was then and there written in machine
15 shorthand by me and afterwards typed under my supervision,
16 and is fully and correctly set forth in the foregoing
17 pages; and the witness and counsel waived presentment of
18 this deposition to the witness, by me, and that the
19 signature may be acknowledged by another notary public,
20 and the deposition is now herewith returned.

21 I further certify that I am neither attorney
22 nor counsel for, nor related to, nor employed by any party
23 to said action in which this deposition is taken; and
24 further, that I am not a relative of employee of any
25 attorney or counsel employed by the parties hereto, nor
finally interested in this action.

Given at my office in the City of Jefferson,
State of Missouri, this 1st of December, 2001.


Patricia A. Stewart, RPR, CSR, CCR
Registered Merit Reporter

1
2
3
4 December 1st, 2001

5 Public Service Commission
6 Governor Office Building
7 Jefferson City, Missouri 65101

8 ATTN: Nathan Williams

9 In Re: Case No. EC-2002-1

10 Dear Mr. Williams:


11 Please find enclosed your copy of the deposition of
12 James C. Watkins on November 30, 2001 in the
above-referenced case. Also enclosed is the original
signature page and errata sheet.

13 Please have the witness read your copy of the transcript,
14 indicate any changes and/or corrections desired on the
errata sheet, and sign the signature page before a notary
public.

15 Please return the errata sheet and notarized signature
16 page to Mr. Byrne for filing prior to trial date.

17 Thank you for your attention to this matter.

18 Sincerely,

19 
20 Patricia A. Stewart

21 Encl:

22 CC: Tom Byrne
23
24
25