DEPOSITIONS
OF
GREGORY MEYER

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION,	)	
Complainant,	)	Case No. EC-2002-1
vs.	)	
UNION ELECTRIC COMPANY d/b/a AMERENUE,	)	April 24, 2002
Respondent.	)	Jefferson City, Mo.

DEPOSITION OF GREGORY MEYER

COPY

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OF THE STATE OF MISSOURI

THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION, Complainant,	)	Case No. EC-2002-1
vs.	)	
UNION ELECTRIC COMPANY d/b/a AMERENUE, Respondent.	)	April 24, 2002 Jefferson City, Mo.

DEPOSITION OF GREGORY MEYER,

a witness, sworn and examined on the 24th day of April, 2002, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the offices of the Public Service Commission, in the City of Jefferson, County of Cole, State of Missouri, before

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

A P P E A R A N C E S

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ALSO PRESENT: Stephen Rackers, Gary S. Weiss,
Lynn Barnes, Michael McGilligan

SIGNATURE INSTRUCTIONS:

Presentment waived; signature requested.

EXHIBIT INSTRUCTIONS:

None marked.

I N D E X

GREGORY MEYER, being first duly sworn, testified as follows:
DIRECT EXAMINATION BY MR. WOLSKI:
Q. Greg, welcome. I guess this is your third time here, so --
A. Yes.
Q. -- I think you understand the ground rules. I will just emphasize one thing, which is that if you don't understand a question that I ask, please feel free to ask for a clarification or to ask the court reporter to read it back. And if you don't ask for a clarification, I'll assume that you understood the question as it was phrased. Okay?
A. Okay.
Q. Just a few of the questions we go through on everyone. Is there any reason at all why you would not be able to give truthful and accurate testimony to the best of your recollection at today's deposition?
A. No.
Q. Okay. Do you have any medical condition or problems that might interfere with your ability to give truthful and accurate testimony at today's deposition?
A. No.
Q. Are you currently taking any drugs or other medication that might interfere with your ability to give truthful and accurate testimony at today's deposition?
A. No.

Q. Okay. Maybe we should go around the room to get on the record everyone who's present beginning with the man to your left.

MR. DOTTHEIM: Steven Dottheim, I'm with the Missouri Public Service Commission.

MR. MOLTENI: Ronald Molteni, assistant Attorney General.

MR. DANDINO: Michael Dandino, Office of Public Counsel.

MR. MCGILLIGAN: Mike McGilligan, Towers Perrin actuary for Ameren.

MS. BARNES: Lynn Barnes from Ameren.

MR. WOLSKI: Victor Wolski from Cooper and Kirk representing Ameren.

MR. WEISS: Gary Weiss from Ameren.

MR. RACKERS: Steve Rackers, Missouri Public Service Commission.

MR. DOTTHEIM: And we will probably be joined in a while by Tim Schwarz, who's also an attorney with the Missouri Public Service Commission. And that's spelled S-c-h-w-a-r-z.

BY MR. WOLSKI:

Q. Mr. Meyer, did anyone on the Staff discuss with you the consequences of your updating of the numbers you're proposing in your current testimony compared to the previous testimony prior to writing it?

A. Mr. Rackers and myself would have had discussions about the preparation of the work papers. That would have been the only one. But there was no discussions that would suggest certain numbers had to be calculated.

Q. Okay. And I take it for this particular case, you're not only a testifying expert, but you also have a position of responsibility over the other Staff witnesses; is that correct?

A. I've been assigned with Lena Mantle as the case coordinator for the case, which entails putting the case together, making sure that it's as accurate as possible.

Q. Okay. So I guess since you're case coordinator, you probably have a good idea of the size of the revenue reduction that's proposed by Staff? I think it was in your testimony, wasn't it?

A. Yes. I believe I -- it was in my testimony. And for purposes of the marked filing, it's -- Staff's recommendation is a decrease in rates of between 245 million and 285 million annually.

Q. Do you know what impact your adjustments that you propose in your testimony has on that particular number? Did it make it higher or lower?

A. I would believe overall the impact of all my adjustments would lower -- would have a -- the effect of lowering Ameren's rates.

Q. Do you have an idea of about how much overall?

A. I haven't made that calculation.

Q. In preparing your testimony to the Commission in this case, had you considered the impact of the Staff revenue reductions as proposed on the ability of UE to invest in infrastructure?

A. No, we did not. I would note that the current case has an adjustment in there to add capacity, so the rates are currently structured to cover that.

Q. Okay. And would that be -- so that would be an investment in generation?

A. Correct.

Q. Okay. And would you consider the adjustment for generation proposed by the Staff to be sufficient to meet the needs of Ameren going forward?

A. The adjustment was sufficient to meet the needs of the -- for the purpose of cost of service for the test year that was ordered by the Commission.

Q. Other than that, has there been any consideration on your part of the impact that the revenue reduction proposed by Staff might have on UE's ability to invest in new generation in the future?

A. No. I didn't make that determination.

Q. Okay. Had you considered what the impact of the revenue reduction proposed by Staff would have on -- or would be, rather, on the stock price of Ameren?

A. I didn't make that analysis, no.

Q. Had you considered what the impact of the revenue reduction proposed by Staff would be on UE's attractiveness for a possible takeover by another company?

A. That assumption didn't enter into my calculations.

Q. Did you consider the impact of the revenue reduction proposed by Staff on economic development in the state of Missouri?

A. I didn't make an analysis of that either.

Q. Okay. How about as your particular adjustments would reduce the revenues allowed to UE? Had you made any determination how that would affect the particular -- the impact of those particular adjustments, what that impact would be on the ability of UE to invest in infrastructure?

A. I think I answered that before. I didn't --

Q. I'm talking specifically about your adjustments now, not the overall revenue reduction of the Staff in this case, but the ones -- just the items that you recommended.

A. No, I did not.

Q. Or the ability to invest in generation?

A. I don't -- I didn't do that specific analysis, but I don't believe that the magnitude of my adjustments would have -- would have a severe impact on those -- on the ability of the company to do those things.

Q. Okay. Would it have an impact on stock price of UE?

A. I personally haven't done that analysis, but I don't believe it would. The analysis I've done on the stock prices just tracking it since we filed our case, stock price hasn't changed. In fact, it's probably remained stable or gone up.

Q. And had you done any analysis on the impact of the adjustments you've proposed on UE's attractiveness for a possible takeover by another company?

A. No, I did not make that analysis.

Q. Or the impact on economic development in the state of Missouri?

A. Again, I didn't make those analyses, but I don't believe the -- the magnitude of my adjustments would have an impact on those.

Q. Okay. Do you know how your March -- the adjustments in your March testimony overall compared to the size of the adjustments that you proposed in the July testimony?

A. I didn't make that comparison.

Q. Had you had any discussions with individual Staff members concerning their depositions prior to their being deposed --

A. Yes.

Q. -- this last round?

Do you recall which Staff members you may have discussed depositions with?

A. I had discussions with Paul Harrison, Leasha Teel, Alan Bax, Ron Bible, Steve Rackers, Mike Proctor. The discussions would obviously have varied in length depending on my availability and the schedule of the depositions.

Q. And what was the purpose of the discussions with each of the Staff members?

A. Generally, to help them to better prepare to answer the questions that I believed would be asked.

Q. Okay. So are you familiar with the testimony of each of the people that you've named, Harrison, Teel, Bax, Bible, Rackers and Proctor?

A. Generally, yes. I -- I believe I reviewed each of those individual's testimony prior to its filing.

Q. Between the time that we filed -- or you filed, rather, the testimony in July and the filing of your testimony in March, had you discussed the topics of your testimony with anyone other than Staff members of the Public

Service Commission?

A. Yes. I think that I could have been engaged in conversations with outside analysts. I believe that those types of discussions are covered in response to a data request that the Company issued to the Staff.

Q. Okay. And other than the people that you would have identified in response to the data request, there's no others that you know of?

A. Just general discussion in the public with friends that we finally filed a case, stuff like that. Not specifics and nothing that would have been outside of the public record.

Q. Okay. So none of the details that would have been --

A. No.

Q. I'd like to ask you about a few of the terms that you use in your testimony, which probably won't be a surprise to you since you've heard some of this already. On page 4 of your March testimony, line 3, you use the term "abnormalities." I was wondering if you could explain for us what that means?

A. I'm sorry. Could you tell me where you're at again? Page 4?

Q. I'm sorry. Page 4, line 3.

A. I'm sorry.

Q. With my dyslexia, was looking at page 3, line 4 and I was very confused myself. I might have said that, might have reversed them.

Page 4, line 3 you say, Necessary to remove abnormalities. I was wondering if you could explain what abnormalities might be?

A. In my opinion, abnormalities could be the result of -- and I'll context it within the expense area. An abnormality in expenses could occur due to the level of expense incurred during the test year or to the -- to the nature of the expense occurred during the test year. Those types or levels of expense would not be considered normal.

Q. And would that be in comparison to the level or nature in previous years or upon consideration of what the level or nature will be in the future?

A. Generally, the analysis would be based against historical. Obviously if there is something that's known and measurable, the abnormality can be adjusted to reflect the known and measurable change.

Q. Is there a particular process or method you would use to determine if a particular expense would be known and measurable?

A. It has to be auditable, it has to occur and the documentation has to exist to -- to be able to audit it.

Q. Okay. Now, at the bottom of page 4 of your testimony you quote from a Commission order. And line 24 of the testimony has the phrase "unusual or unreasonable items." I was wondering if you have a particular definition for "unusual or unreasonable items"?

A. Generally, those terms could be applied to the -- to the same discussion we had on abnormalities. That it either would be the recurrence of an event or the occurrence of an event or the level that -- of the expense or the reasonableness of the requested expense.

Q. And what would be the test you would use to use to determine whether or not an expense is unreasonable?

A. Well, as an example, it would be my opinion that to attempt to include goodwill advertising in a cost of service calculation would be an unreasonable request.

Q. Okay. And the reason being?

A. Is goodwill advertising historically has been excluded from Commission determinations of just and reasonable rates.

Q. Okay. So that would be unreasonable because it falls in a category of things -- in that example it would fall in a category of things that had traditionally been removed, therefore, it's presumed that it's unreasonable, I guess.

What if it's something that's not in a category that the Commission has a long history of determining? How would you decide if it's a relatively new expense that has occurred over the last couple of years --

A. You'd have to look -- I'm sorry.

Q. -- relatively new or different expense that occurred since the last rate case, how would you decide whether or not that would be unreasonable?

A. You would look at the historical levels that the expense has achieved. To the extent that it's a new expense, you would -- or you could, through meetings with the company, make a determination or have discussions about the level going forward. That would generally be the type of audit or analysis that I would perform.

You would also have to look at, again, the -- make a determination of the -- if the event that is driving the expense is a recurring -- has recurring features or not.

Q. Okay. Would you also look to see whether the expense is related to the provision of service of safe and reliable service to the ratepayer?

A. That would be another check. If the expense was deemed not to be necessary to provide safe and adequate service, it would be another reason to disallow it.

Q. Now, on page 5 of your March testimony on lines 13 to 14 you say that each of these components must be measured consistently in time in relation to each other --

A. Yes.

Q. -- or the revenue requirement result will be skewed, etc., etc.

What do you mean by "consistently in time"? What does that particular phrase mean?

A. Within the context of my testimony, that would be the test year and the update period for known and measurable change.

Q. So the components should be measured all within the same 12-month period?

A. Not necessarily. There's -- there's certain aspects or certain items of our case that -- that stop at the test year. There's other items that are updated to the end of the update period of September 30th, but when you put all those together, the relationship that's developed is a -- in my opinion, is a consistent approach.

Q. How many months -- is there any point at which -- in your example, if you have a test year that goes from July through June and you have an update period through September, if you're doing a 12-month period of October through September, there is a 9-month overlap between the updated 12-month period and the test year period. Correct?

A. Well, I guess --

Q. I mean, is that the basis of the consistency in time, that there's that 9-month overlap?

A. No. I guess where I'm having the problem with the question is that -- at least I got the impression that you -- when you described the update period, that you believed that you would move all the numbers out to the update period, and that's not the purpose of the update period.

The test year has to be maintained. The numbers in the test year have to be maintained so that there's an agreed-upon starting point for reconciling with the company and the Staff and the other parties' positions.

The update period is merely adjustments that are made to the test year to move that information out to a period beyond the test year, but it doesn't -- it isn't a total movement of that -- of that particular expense category.

Q. And if some items are updated due to test -- due to update period data and others aren't, do you contend that those are -- those two different categories of items are still measured consistently in time in relation to each other?

A. Yes. And as an example, the Staff performed its advertising analysis for the 12 months ending June 30th, the test year. The -- there is no -- there's no need to -- to do the adjust-- to redo the analysis through September for advertising. The assumption is that the expenditures that were made in the 12 months during the test year would be a consistent amount and the adjustment is driven from -- or derived from that.

Q. But would you look at the update period as a check to make sure that that's the case? Otherwise, how would you know?

A. The adjustments in advertising generally to -- for the removal of goodwill, it -- you're indifferent what 12 months you would look at because historically we've disallowed all goodwill advertising.

So redoing the analysis through the update period wouldn't necessarily change the basis of the Staff's adjustment, plus, because I don't move all the expenses up through the update period, making that type of analysis is unnecessary.

Q. How do you know which expense should be adjusted based on update period data and which shouldn't?

A. The Staff continue to monitor the post-test year operations of the company through analysis of Report 19607. And then -- and also through our -- our experience, there are certain items that the Staff traditionally includes in an update period.

Q. By continuing to monitor the information beyond the test year -- the end of the test year period, would that process entail reviewing how all expenses across the board change over the next few months or over the update period? I mean, in order to determine not to update a particular item, don't you need to -- or is it necessary to look at the data from the update period to decide if updating is necessary?

A. I'm not sure I follow your question.

Q. You said that some expenses you don't change and some expenses you do adjust based on information you received in your monitoring after the end of the test year period.

So if we just look at the information that's received in the update period, in our case it's through September 30 of 2001, my question is in order to make a reasonable judgment on any particular item of expense, whether it should be adjusted to reflect post-test year data, wouldn't you have to look at that item in the test year and compare it to the expenses of that item in the update period?

A. Not necessarily. And I'll try to provide you an example. If you were -- if you were performing the payroll area, the analysis there, and you were aware of a payroll increase that occurred subsequent to the test year but within the update period, that would be an item that you would consider to update as a known and measurable change, because through your audit, you gained knowledge -- you knew there was another contract increase or you knew that there was going to be a management increase.

That would be an item that would be subject to update. Doesn't require you to move the payroll expense all the way out to September, because then you've again distorted the test year. What it does require you to do is to adjust the test year payroll expense to include the increase through the update period.

Q. Are there any categories of expenses in which even though they would go up if you looked at the expenses for that item in the update period, you would nevertheless not make any adjustment to the test year data; and if so, what is the rule of thumb that you follow to determine when you make the adjustment and when you wouldn't?

A. I would say that you would -- that in your analysis you would look to determine if including the update did or did not affect the relationship between revenues, expenses and investment that you establish as a result of your audit in the test year.

Q. Now, by the term "relationship," let me see if I can understand this better than I did the last time we were sitting around here. Do you merely mean the relationship between revenues, expenses and the return on rate base is such that if you take the revenues, you subtract the expenses, what's left over is the amount of money that should represent the percentage return on the rate base that a company should get for the particular test year? Is that what you mean by relationship?

A. What -- when I use the word "relationship" as -- as part -- as a -- the conclusion -- at the conclusion of our audit, the Staff believes that the relationship that exists between revenues, expenses, investment and return are -- is -- is a good relationship to determine or to predict that that relationship will be in effect the year -- the year rates are in effect.

Q. And how do you know if it's a good one?

A. How do I know? Through -- through our experience as auditors.

Q. What do you look for that tells you that the relationship is good or bad? I mean, is this relationship a quantifiable expression? Is it --

A. No. I would say historically this process, at least for the 20-plus years that I've been here, has worked and that's the expertise I rely on.

Through the audit process you've monitored the level of expenses, you've come up with reasonable levels, you've come up with annualizations for revenues, expenses, looked at the rate base, you've determined a fair rate of return. The combination of all those put into a cost of service calculation we believe represents that relationship will represent -- or be representative of the year rates go into effect.

Q. Well, I assume that whatever rates the Commission adopts that will -- the relationship that results will be whatever relationship that results; isn't that true? I mean, if the Commission --

A. You asked me what we looked at.

Q. Yes. I'm saying is it -- ultimately the relationship is going to be whatever the Commission allows it to be; is that --

A. The rates will be whatever the Commission orders. I will agree with that.

Q. And won't the rates then -- from the rates, you would get whatever the relationship is between revenues, expenses and investment going forward?

A. That's what the Commission -- the Commission will ultimately determine what they believe that relationship should be. The line of questions you asked me before was -- I thought was based off of the Staff's perspective.

Q. Yes. The relationship -- the relationship between these factors isn't a relationship that occurs in a vacuum. Isn't it really -- I guess I'm still struggling to understand this, but isn't it really what you're looking at is the relationship between the expenses of providing a certain amount of electric service to the ratepayers, the revenues that you would derive from those ratepayers based on current rates and whatever those would change if the rates are changed, and the residual being a percentage of rate base, but the relationship is always to the level of service that has to be provided too; isn't that right?

A. I -- I don't want to be difficult, but is your question that the relationships have to also consider the ability to serve? I mean --

Q. The relationships have to consider how much service is taking place, how much electricity is being provided to people?

A. That's -- that's inherent in the calculation, that's correct.

Q. And that would drive both the expense and the revenue numbers. Correct?

A. I have to build in enough expense to make sure that the revenues I've included in the case can be served.

Q. Now, this time you've formally included the net salvage expense in your testimony. Previously you were adopting Mr. Schwieterman's and he'd left the Staff. So I want to ask you a few questions about net salvage, if I may.

A. Okay.

Q. Now, on page 10, lines 21 to 22, you say a 10-year average -- and that's a 10-year average of net salvage costs. A 10-year average reflects a level of net salvage costs that the company's currently experiencing rather than an accrual through depreciation rates.

I want to focus on the word "currently" for a moment now. How did you calculate the 10-year average, what data did you use -- the 10-year average of net salvage costs?

A. The company's FERC Form 1 report filed annual.

Q. Is there any -- okay. And when is that filed, do you know?

A. I know that the -- the annual report that's filed with the Commission is required to be filed April 15th of every year. I don't know the time that is required to file it with FERC. That's F-E-R-C.

Q. Now, your work paper for net salvage expense analysis seems to just go through 2000. Wouldn't you want to include data from the test year which goes through June 2001 or at least possibly the update period through September 2001 in order to try to determine the level of net salvage costs the company currently experiences? Why stop in 2000?

A. Staff stopped at 2000 because those were the reports that were available to utilize to calculate.

Q. Could the data have been found in other reports?

A. I don't know.

Q. If the data were available in other reports, if there were other methods, would you have used 2001 information for this average?
A. I -- I didn't think about -- it didn't -- didn't cross my mind at that time of the March filing to -- to go in and -- and take the test year data -- or to look for the -- try to obtain the test year data.
Q. But it's important -- I think earlier you said -- to measure things consistent in time so they're not skewed and you talked about looking at test year data. Wouldn't that imply that if there's an item of expense, perhaps it would be best to determine what the test year expense is?
A. It's -- that's entirely speculative on your part at this point.
Q. Are there any other items of expense that the Staff chose not to consider data from the test year in order to make the determination of the relevant level?
A. I -- I don't know.
Q. Is there anything abnormal about the net salvage expense that UE experienced from January through September of 2001 that you know of?
A. No.
Q. Was there anything that would indicate that that level of expense was unusual or unreasonable?

A. Since I don't know the level, my answer would be I don't know.

Q. Do you think it's possible that the result of your net salvage expense analysis might have been skewed either to the benefit of the company or to the benefit of the ratepayers by not using the data from the test year period for net salvage expense?

A. Again, I would say that that's purely speculation.

Q. So your statement earlier about the -- the statement in your testimony about the importance of the -- maybe importance is not the right word -- the measurement of revenues and expenses consistently in time doesn't necessarily hold then?

A. That's your -- that's your statement.

Q. Well, if each of these components must be measured consistently in time in relation to each other and you're sponsoring an adjustment that's based on data that doesn't look at the information from either six -- from six months of the test year or -- from the six months of the test year and the three months of the update period, doesn't that seem to indicate that that's not consistently in time with the other data?

A. Use of the 2000 includes at least six months -- includes six months of the test year as ordered.

To the extent that you pick certain items and say that they're not consistent to a month or a day, the Staff's cost of service calculation doesn't do that either.

Q. Do you know --

A. It's not -- there is no certain date except that it won't go beyond September 30th. And to the extent that we find we have, we're trying to correct those errors.

But there is no specific date either in the test year or in the update where everything is consistently analyzed. But that relationship that comes out of that analysis we believe is consistent between the three areas that we discussed earlier.

Q. Okay. Do you have a copy of the accounting schedules in front of you --

A. Yes.

Q. -- or near you?

The net salvage adjustment expense you have as -- I believe it's expressed in the column of the total company adjustment rather than the Missouri jurisdictional adjustment. Last time it was done in the Missouri jurisdictional adjustment. Is it six of one, half dozen of the other? You can take them -- which one is it properly in? Is it a total company adjustment or do you multiply it by some demand allocator or something or some allocator number and put it in the Missouri jurisdictional adjustment, or does it turn out to be the same thing?

A. The starting numbers, which were -- are reflected in the March cost of service are the same. Mr. Schwieterman in the prior case merely applied an allocation factor that would -- that would equate the number that you see in the March filing to a jurisdictional number.

Q. Okay. But the number that's in yours and the number that was in his are the same, they're just expressed in a different jurisdiction?

A. Correct.

Q. Okay. So that even though we have a Commission order to change and look at data from the new test year period, you used the same data that Mr. Schwieterman used to calculate the number; is that correct?

A. The average -- beginning average would be the same. I -- the reason I say that they may not be the exact same number is Mr. Schwieterman's calculation would have subjected it to an allocation factor and I'm not sure if that allocation factor is the same.

Q. Okay. But --

A. But --

Q. -- the underlying -- the data that you used for the average is the same data that he used for the average? There's no additional data as a consequence of the change in the test year?

A. No.

Q. Okay. Do you know if depreciation calculations themselves were based on data that extended through the test year period of June 2001?

A. It's my understanding that it did not.

Q. You're also sponsoring the adjustment that's listed as S-28, which is the amortization for theoretical reserve deficiency?

A. Yes.

Q. Which is a combination of words I never thought I'd use.

Do you happen to know which percentage -- well, some of that amortization -- some of the deficiency that's being amortized rather is based on a new depreciation analysis which has changed the expected life -- or adjusted the expected lives of assets. Correct? Or made --

A. If your question is, is the result of the theoretical reserve deficiency because there was changes in the lives, that's -- that's one component, that's right.

Q. Yes. That's what I meant. Thank you.

A. Yes. Sorry.

Q. I tried to say that. Whatever he said.

But there's also another portion of it that is based on the Staff's change in the way that AmerenUE would treat the net salvage. Correct?

A. Another component of the theoretical reserve deficiency is the fact that the Staff is now expensing versus accruing through depreciation net salvage.

Q. And would you happen to know what amount of the 24.54 million of the theoretical reserve deficiency adjustment is attributable to the change in the salvage treatment?

A. No. I don't have that information.

Q. Do you have any sense of how much it is?

A. I thought I saw something that said it was about 50/50.

Q. 50 percent being the salvage expense -- salvage change and 50 percent being the lives change?

A. Correct. Approximately.

Q. Okay.

A. Ballpark.

Q. Okay. Now, by moving to expensing of net salvage rather than incorporating net salvage into the value of the equipment that's being depreciated has resulted in a theoretical reserve deficiency of a certain amount, which is built into this adjustment, as I understand it. Right?

A. The -- the amount of the theoretical reserve deficiency that can be attributed to the elimination of the net salvage is the accumulation of ratepayer supplied funds over the years that haven't been spent to date to remove or to retire plant.

Q. Okay. So those funds accumulated because they were being charged to ratepayers in the past, but the equipment to which you correlate those expenses hasn't been removed from service yet, so you're making an adjustment to reflect that when it's removed, the net cost will be expensed at that time. Is that an accurate way of explaining?

A. Well, generally, I agree with that statement. However, I would also say that it could be the fact that you actually removed plant for less than what you -- what you had estimated you accrued for.

So that it's a combination of either plant to be removed or the expense that was accrued for that hasn't been spent. That relates to plant that has yet to be retired, that's a possibility. The other possibility is you accrued $100 to remove a specific piece of plant and you only spent 50 to remove it or you didn't remove it at all.

Q. And the reason why an adjustment is being proposed is because the current position of the Staff is that the ratepayers in the past shouldn't have paid for a share of the future net salvage costs, that instead they should be borne by the ratepayers at the time that the salvage costs are incurred?

A. Well, the theoretical reserve is a calculation that says where is the depreciation reserve to date? Where should it be today versus where it is in actuality? We discussed previously two circumstances that could lead to why that's happened.

Q. Putting the lives aside, just looking at the net salvage --

A. The net salvage as being a component, since the Staff now believes that expensing net salvage is the most appropriate forum to go, a portion or an amount of the theoretical reserve is associated with the refund of those prior customers paying for net salvage that wasn't spent, paying rates.

Q. To calculate your adjustment, did you at all consider -- actually, let me remove that question.

Net salvage, looking at the expense portion of it, the 10-year average that you did, did you at all consider the expected dates that assets would be retiring over the next few years to determine whether the average of the last 10 years is a reasonable cost?

A. The adjustment was based strictly on historical analysis.

Q. But since you now have an idea of what the useful lives of all of the various plant and equipment are, wouldn't one be able to judge if there was more plant than equipment that was going to be removed over the next few years and had been removed over the next few years -- or over the last few years, rather, as a basis for making some adjustment?

A. That activity wouldn't be known or measurable.

Q. Had you looked at any particular trend in which there was an association of salvage costs to category of equipment to determine whether the equipment that would be retiring in the first year that rates are in effect was properly accounted for in the expense?

A. As I said before, the adjustment was based strictly on historical analysis.

Q. Okay. But it's the number that you derive by taking a 10-year average of the net salvage expense. You don't necessarily know that that's going to be the cost of the salvage in the next year, do you?

A. I would state that we don't -- that the Staff is probably unaware of any expense that's going to be in effect the year rates are in effect. That's not -- that's what we tried to talk about before. That's not -- we're not trying to make that measurement. We're trying to put together the relationship. In Staff's opinion, the 10-year average for net salvage fits into that relationship as a component of that relationship.

Q. So I take it Staff doesn't make any

adjustments to revenues based on expected customer growth because that's not known and measurable; is that correct?

A. Staff's customer growth adjustment went through the update.

Q. But is that based on expectations of future growth?

A. No.

Q. Okay. Did you look at the plant retirement over the last few years to determine whether the expenses were unusual or unreasonably low over those years? You might be doing it right now.

A. The -- I mean, it's a line on the worksheet that was provided to you. I haven't -- I didn't review it in detail to prepare for this this morning, but we can take the time if you'd like me to look at it.

Q. Did you do any analysis of the net salvage costs that were reflected in each of those year's reports?

A. I'm sorry. Could you repeat that?

Q. I think the data was obtained from -- I think you said the Form 1 report, was it?

A. Correct.

Q. Did you do any analysis of the net salvage expenses that were incurred in each of those years? Did you try to determine how much plant equipment was retired at what age it was, those sort of things?

A. The worksheet details the dollars of plant that's retired. It doesn't -- it didn't offer a description of the -- of the -- of the plant that was retired that supported those dollars. The -- the page or the document also details how much it costs to remove the plant. Again, it didn't describe the type of plant retired or removed. So the adjustment was derived off dollars and not a specific analysis of the investment that was involved in that.

Q. And do you have an -- excuse me.

Do you have any judgment as to how representative those 10 years of net salvage expenses are of what net salvage expense would be in any particular year? Is that a normal time period over which to be looking at net salvage expense?

A. It's a time period we chose to look at.

Q. Do you know if any treatises or textbooks or journal articles endorse this approach of expensing the net salvage rather than incorporating it into depreciation?

A. I -- I didn't read any that would -- that would support this. I'm not aware of any. I am aware that other Commissions have done it.

Q. Do you know which Commissions have done it?

A. I believe Ms. Mathis cites Pennsylvania. I'm also aware that the Arkansas Commission, for purposes of telephone rates, has -- has done this in the past -- this approach.

Q. Now, the adjustments that you have in your current testimony that have carried over from the previous testimony, the pension and the OPEB area, why don't we turn to those?

Since you had filed the July testimony, have you consulted any accounting texts or treatises that support the approach or that would have language that would support the approach that the Staff's taking in the proposed pension and OPEB adjustments?

A. Is your question have I looked at any additional treaties that we didn't discuss for purposes of the July --

Q. Yes.

A. No.

Q. Okay. Are you aware of any other Commissions that approach the pension and OPEB adjustments in the same manner as the Staff's recommending here?

A. No. I've done no further analysis on that.

Q. Now, as I understand it, there are a couple of basic changes that are proposed in the adjustment -- changes I mean from the way that Ameren treats their pension and OPEBs, not basic changes from the methodology that you -- your methodology hasn't changed from the previous testimony. Correct?

A. Correct.

Q. And what the adjustments you suggest boil down to are a couple of, I guess, basic adjustments. One is that the -- well, the amortization period for the accrued gains or losses, you're recommending that that be shortened to 5 years as opposed to the 10-year period that it is currently?

A. Currently the amortization of gains and losses is done over a 10-year period. Staff is recommending that the gains and losses be a 5 -- an amortization -- a 5-year amortization of the average 5-year balance.

Q. Okay. If we focus first on the amortization aspect of it, the 10 years as opposed to 5 years rather than the determination of what number it is that you're amortizing, just focus on the period, what would be the reason for moving from a 10-year period to a 5-year period? What is the policy reason that supports moving this way?

A. I believe if you look on page 18 of my testimony, beginning on line 14, the 5 years results in more timely recognition of the actual results. It's consistent with a federal government-enacted legislation. And it's also consistent with the Staff's historical treatment of amortizing. I'll give you a, for instance, an ice storm. And I believe that that's also --

Q. Of course, the Staff isn't equating a well-funded pension plan with an ice storm, is it?

A. No.

Q. I would hope you'd want the well-funded pension plan more frequently than ice storms. So you're not actually considering the gains or losses to be abnormal items, are you?

A. No. They're -- they're items that need to be recognized in a timely manner.

Q. Okay. And by "timely" do you mean from the moment -- recognized in a timely manner. Recognized means when they actually would show up as an expense. Correct? Is that what you mean by --

A. Our recognition historically has been when the new actuarial reports are generated.

Q. And timely is in reference to what time period?

A. The continual movement or the recognition of five years. The gains and losses will be returned over a 5-year period as a time line.

Q. Okay. Does that create more or less volatility than using a 10-year amortization period?

A. The 5-year amortization of the 5-year -- of the -- of the five-year balance creates less volatility than a 10-year -- then a straight 10, in the Staff's opinion.

Q. Do you know how much less volatility? Has that been calculated?

A. I believe Mr. Traxler performed a calculation. I don't have that with me.

Q. Have you actually seen the calculation?

A. I seem to recall that I have, but I don't have it.

Q. Was that -- I'm sorry.

A. I do remember a discussion.

Q. And is that calculation based on the 2000 pension data or the 2001 pension data --

A. It was --

Q. -- pension and OPEB data?

A. I'm sorry. It would have been based on a hypothetical.

Q. Okay. Do you know, based on the current financial condition of the funds, whether the existing method is more or less volatile than the method you propose?

A. I have not done a comparison between the 10-year amortization and the 5-year amortization of the average 5-year balance.

Q. Now, if the 5-year amortization or the average 5-year balance were more volatile then the approach that Ameren takes, would you still recommend that that approach be adopted for purposes of the rate-making?

A. Currently I would say yes. I've had -- or been instructed either by Mr. Rackers or Mr. Traxler that there is -- if significant volatility would exist, that the Staff would change its method at that point.

Q. Okay. Now, in the issue of the 5-year averaging of the gain and loss in order to get the value component of what's being amortized --

A. Okay.

Q. -- if that -- make up some new phrase I'm sure is not a common parlance, and if it were, we wouldn't know it anyway.

Your position, I take it, is that the -- let me ask you this.

Why is the 5-year average of the gains or losses a better way to handle volatility than the market related calculation that the company uses in order to determine what each year's gain or loss accrued expense would be?

A. I'm confused by your question, because it seemed like it took -- you took me into two components. One was the gain/loss amortization --

Q. Well, okay.

A. -- then you coupled it with the market related. We can talk about them separately, but --

Q. What I wanted to look at was the market related approach that's used by the company is used to determine what the gain or loss is for any particular year. Correct?

A. Yes.

Q. And what that does is that comes up with a -- as I understand that system, that would create a number for gain or loss for each year which is based on some moving average of the four -- of a 4-year period. Correct?

A. For the value of the assets?

Q. For the value, yes.

A. Correct.

Q. And that ultimately results in a gain or loss number. There's averaging going on on the value of the pension fund itself, so that when you apply the expected return and then compare that to what really happened, you come up with a gain or loss, but there's a system of averaging or smoothing that's built into the derivation of the gain or loss for each year. Correct?

A. In the Company's method?

Q. Yes.

A. Correct.

Q. And in your method, instead of doing averaging at that level, which is the level of determination what the gain or loss is, you would instead use the pension fund value -- I guess the current value as of whatever year you happen to be in and using, but then when you get the gain or loss numbers, you take an average of five years in order to come up with the actual amount that will be expensed, correct, or that will be amortized?

A. Again, over five years, yes.

Q. Again, over five years?

A. So it's a 5-year average balance amortized over five years. So it's almost -- it's a two-fold adjustment. Now --

Q. I'm putting aside right now the 5-year amortization portion. I was just looking at -- so both systems, the Ameren system and your system, employs some method of averaging in order to determine what the level of the gain/loss expense will be in a particular year?

A. I would agree with that.

Q. And --

A. The problem I'm having is that on the backside I don't know that you can drop off the 5-year amortization.

Q. We'll get to the 5-year amortization with you, yeah.

A. Because -- especially when you want to tie it into volatility, because that's one of the tools that decreases the volatility even more.

Q. But handling volatility is the only purpose of the market-related smoothing. Correct? Does it serve any other accounting or pension purpose other than trying to control volatility?

A. It's my understanding that that's probably the primary driver of the market related is a smoother or to address volatility.

Q. And that --

A. The Staff --

Q. I'm sorry.

A. -- uses the actual -- the current --

Q. Sure.

A. -- value of the assets as they exist for the most current actuarial report.

Q. But over a long enough time period do these numbers end up evening out and if you're using the market related rolling 4-year average or you're using the current average that you're using but then dividing over five years, that component of it will ultimately total to the same number, won't it?

A. It's possible. I don't know that you can make that statement though within the context of rates.

Q. Okay. Now, under the market-related smoothing approach that the company takes, the value of the pension fund is fully taken into account over a 4-year period, isn't it? Because you're looking at -- you're using four years in which to do this rolling average, so that over a 4-year period you will fully recognize --

A. The first year?

Q. The -- yeah, the first year.

A. Yeah. It takes you four --

Q. It takes you four years to recognize the first year?

A. -- years to recognize the first year.

Q. And under your approach, would it take five years to recognize the first year because you're using a 5-year average?

A. No.

Q. Why not?

A. Because I recognize the actual value of the plant -- of the assets to date.

Q. But you're only putting -- marking down in there the average of that in each of the other four years in order to do your amortization, aren't you?

A. Well, the amortization -- the 5-year amortization of the average 5-year balances is comparable to the Company's 10-year.

Now, the recognition of the -- of the assets -- the asset value for the 2000 report -- 2001 actuarial report for the Staff will be recognized currently. I think what you just said -- or stated was that it would actually take four years for the company to recognize the asset value of the 2001 actuarial report using the market-related value.

Q. For purposes of the questions, I'll accept what you just stated in that in the current year you are recognizing the full -- the current value of the fund.

A. Using -- okay, I'm sorry.

Q. However, that flows through to an expense that only recognizes one-fifth of the gain or loss and incorporates one-fifth of the gain or loss of each of the four preceding years by taking a 5-year average. Correct?

A. Actually, it's less than that.

Q. You're taking less than a 5-year average to determine the gain/loss expense?

A. I take 5-year -- five balances, add them up, divide by five, that's the average balance. I take that average balance and divide that -- and amortize that over five years. So I don't know -- I don't agree with you that it's 20 percent. The change is not 20 percent --

Q. But --

A. -- the change --

Q. -- if you were to do this on an annual basis, it will take you five years to fully incorporate the -- you may be recognizing the current value of the fund, but for any practical expense purposes, it's not going to flow through to an expense until you've looked at five particular periods; isn't that true?

A. It would take five years to recognize the impact of a gain, where the Company's would be in excess of ten.

Q. Do you know any -- or can you cite any support among the Accounting Standards Board or -- or ERISA or anyone that you would believe speaks somewhat authoritatively on the subject of pension accounting for this notion of taking the 5-year average of the gain/loss balance in order to come up with the number that you're amortizing? I'm not looking at the amortization period. I'm looking at the 5-year average aspect of it.

A. I believe the ERISA, as I stated earlier, uses a 5-year -- a 5-year balance or a 5-year amortization period for gains and losses.

Q. But there's a difference between an amortization period and an average balance, isn't there?

A. Yes. Actually, the amortization goes one step beyond the average, in my mind.

Q. But just looking at the balance itself, before you amortize it, if you amortize it 5 years, 10 years, 20 years, I don't know if it can go 20 years. I think you can only go to the expected service life, whatever that is, 17 or whatever it is for Ameren.

But 2 years, 5 years, 10 years -- I'm not concerned with the period of time over which the number is amortized. I'm looking at the derivation of the number itself. Does ERISA or is there a FAS pronouncement that says that in order to determine the value of this number that you are then going to amortize, it's okay to take a 5-year average of the balance?

A. I would probably say that I believe the first step, as you went to describe it, is consistent with ERISA.

Q. But is the 5-year -- is the taking of the 5-year average of the balances the -- is that actually endorsed by ERISA or cited by ERISA as an acceptable approach?

A. Can you repeat the question?

Q. Yeah. The 5-year average of the asset -- of the balance -- I don't -- well, ERISA expressly allows asset smoothing, the averaging of the value of the funds itself, doesn't it?

A. I'm not sure.

Q. Okay. Well, it's my understanding that ERISA does, but we'll put that aside then. Can you cite a statement or an authority that says that it is okay to make that sort of an average when you're looking at the gain/loss balance itself as opposed to the value of the assets, the smoothing? Just the gain/loss balance itself. Does ERISA say it's okay to do a 5-year average? Does FAS say you're allowed to do a 5-year average, FAS 87, FAS 106?

A. Yes.

Q. They say you can take the 5-year average?

A. It says -- excuse me. It says if you do a systematic -- if you have a systematic approach. And I believe I responded to that in a DR to the company. I want to say it's No. 36.

Q. Okay. You can say that. Let's see if that works.

A. And I also would suggest that in 87, paragraph 33, which is on page 18, line 3 of my testimony, that that -- that that type of approach that the Staff has proposed is allowable. And this Commission has found that this approach is a reasonable approach in orders and companies have found it and agreed to it within the context of stipulations.

Q. Well, the Commission's not bound by past precedent, are they, by their past precedent?

MR. MOLTENI: Objection. Calls for a legal conclusion.

THE WITNESS: I would argue that past precedent is -- is cited to the Commission for purposes of its deliberation to make its decisions. Is there any statutory requirement? I'm not aware of one.

BY MR. WOLSKI:

Q. Okay. Because you'd said the Commission had previously found it a reasonable approach, but Commissions can always change their mind. That's why you're here, that's why we're here because we're trying to convince the Commission of the reasonableness or unreasonableness of particular items in these various schedules that are put together and filed.

And the question I have is, putting past Commission decisions aside and just approaching the Commission in the role of an objective third party that's going to be looking at the Staff's proposal and looking at the Company's current practice of OPEB and pension gain/loss treatment, what is the standard by which they or any other objective third party can judge the reasonableness of your proposal compared to the current practice?

A. Well, I -- I would suggest that if the Staff didn't cite past Commission precedent in this area or in any area where they have to rule that just and reasonable rates are established using this practice, that the Staff would be -- would have provided the service to either the Commission or itself.

Q. But the Commission has also issued orders approving Ameren's practice, haven't they? For instance, under the EARP, I assume that pension and OPEB is accounted for the way the company accounts for it. True?

A. No.

Q. It's not?

A. As a condition of the EARP, the company had to change, what I understand, its pension calculation and OPEB calculation to be consistent with St. Louis County and Water. I think you'll find that --

Q. Is that the same way you're proposing?

A. No.

Q. Well, the Commission didn't require at that time UE to adopt the proposal that you put forward. So I guess my question is, you say yours is more reasonable. What I want to know is what is the test to determine that this is more reasonable other than just saying that it is?

I mean, if you were going to -- if we were going to -- we were going to actually sit back and try to measure and determine whether you're right or we're right, how do you decide whether it's more reasonable? What do you look at? What factors should be considered to determine if the Staff approach is more reasonable? I think earlier you mentioned volatility is one of the --

A. Yes. Volatility is one of the reasons that you -- or the Staff has the proposition of a 5-year amortization, of a 5-year average balance. There's been extensive amount of time spent on behalf of the Staff in this area in the past, not by myself, but other individuals in the Staff analyzing this area.

This is the -- as a result of that, this is the most reasonable approach that the Staff believes and is the correct approach that Staff believes should be reflected in the company's cost of service.

Q. But certainly the Commission would normally need more than just the conclusion that it's a more reasonable approach, and how are they to judge the reasonableness? How would one measure it?

A. They've already judged it and that's --

Q. And prior to that, they've probably judged that the other method is fine too and they've changed their mind at some point. So I want to know what the --

A. I -- excuse me.

Q. -- what are the standards that they could use or that anyone could use to determine that it's still more reasonable?

A. I believe that those -- those are set out in my testimony. This approach addresses your volatility arguments, gives you timely recognition of gains and losses, puts the asset values at the current market. There's other pieces of testimony that have been filed by the Staff also that basically support this type of approach. And the Commission has found that this approach is proper to set just and reasonable rates.

Q. Well, I think you finally did answer my question the way I was -- what I was just trying to get at, which is, what are the things that if the Commission is going to judge whether your approach should still be considered more reasonable, the things that they would be looking at would be volatility, the timeliness of the recognition, and I think your third approach was the current market, but that seems to me that's sort of a conclusion in itself.

But how would one trade off the volatility and the timeliness? Because obviously the longer of a period over which you amortize something, the less volatile changes in that will be, yet the less timely the recognition is. How does one compare the volatility with the timeliness as two factors?

A. And that was part of the extensive work that -- that I described earlier that we did and this is the result of that work.

Q. But you weren't, yourself, involved in that analysis?

A. No.

Q. Okay. Now, you were saying -- I'm sorry to get back -- I think this was actually all a sidetrack.

You were talking about the 5-year average of the gain/loss balance as an acceptable method. Now, you had cited, I believe, a couple of data request responses which are probably the previous ones, aren't they?

A. I believe I cited No. 36.

Q. 34, 35, 36. Okay. Which for some reason I don't seem to -- do you have a copy of the response to No. 36 that you could certainly consult?

Okay. So you cited paragraph 60 in FAS 106 as supporting the use of a 5-year average of the balances of the net unrecognized gain/loss balance, which I believe is this paragraph here.

Now, if you could read this for me -- you don't have to read it into the record, but I'm a little confused, because it seems to me that this paragraph is talking about the amortization method and not the method of determining the unrecognized gain and loss amount that's being amortized.

If you could look -- maybe you misunderstood the question, but what we're looking at is not support for the idea of a 5-year amortization period, but support for the idea that the thing that's getting amortized is the result of a 5-year average of the gain/loss net balance.

A. I must not understand your question. It's our belief that paragraph 60 and 33 are the paragraphs that allow us to use the amortization method that we have.

Q. Okay. And putting aside the amortization method, what paragraphs support the method you use for determining the amount that's being amortized, not the method of amortization? The method of amortization is how many years over -- how many years are you spreading the number. I want to know how you get that number, which is the 5-year average?

A. It will -- sorry. It would be my belief that that paragraph would apply to both aspects of that calculation.

Q. Okay. Is there any particular reason why a 5-year average was used as opposed to, say, the 10-year average that you're using for net salvage expense?

A. I think I tried to answer that earlier. It's delineated on page 18 starting on line 14 through page 19, line 5 and on further even. Page 19, line 6 through 14 also delineate the companies that at the time of the testimony were utilizing that method also.

Q. Okay. So page 18, the first part of point two seems to address the amortization period, not the average of the -- I mean, nobody's disputing that you could do an amortization period of five years. I mean, but --

A. Yes.

Q. -- the 5-year averaging to get the number that's being amortized, where does that -- I mean, are you suggesting maybe that our market-related smooth approach would have been fine if we used five years rather than four years of data because five is the number that's used here?

A. No. I -- I would believe that we would stick with actual market value.

Q. Okay. And if you want to use actual market value, why are you then taking an average of the resulting number? Isn't that no longer the actual market -- you're using the actual market value to get a number, but then you're taking an average of that number, so you're taking a step away from the actual market value.

A. Well --

Q. Sort of like saying you're going to take the actual temperature for the day, but then you're going to average that over the past five years. What you end up with is not the actual temperature for the day.

A. Right. It's been determined that to take the actual gain in any year would create volatility that neither party would want. The Company's methodology essentially pushes the recognition of some of the gains over 14 years.

Q. Over 14 years?

A. Because of the market related, it takes 4 years to get to it and then you amortize it over 10, that extends it beyond 10 years. Staff -- and this is again the analysis that I described earlier -- has looked at this area extensively and has determined that to address the concerns the companies have raised, especially regarding volatility but also to attempt to get timely recognition of the gains and/or losses of the funds, that a 5-year average amortized over five years is the preferable method.

Q. Which means that there's a -- by the same way of approaching it though, that would require 10 years for something to be actually recognized. Right?

A. No.

Q. Why not? If you said that the 4-year -- the 4-year smoothing amortized over 10 years equals to a 14-year period, then I would think a 5-year average amortized over 5 years is adding up to a 10-year period.

A. No.

Q. Why not?

A. Because each year you would bring in a new gain or loss balance. You'd drop off the previous -- the first year, you'd average them for five -- you'd average that over five and then you'd amortize it over five. You'd continue to move, but it would expire --

Q. By taking --

A. Excuse me. Excuse me.

MR. DOTTHEIM: Mr. Wolski, let him finish.

THE WITNESS: It will expire because you drop off a gain balance so it only exists for -- that gain balance only exists to be amortized over 5 years. It's not 10.

BY MR. WOLSKI:

Q. Could you articulate the reason why it is bad to take an average for purposes of the value of the asset of the fund itself, but it's not bad to take an average of the resulting gain/loss calculation? It seems to me that you're taking -- there should be no principal difference between taking the average at this level or taking the average at the next level. You're still taking an average of --

A. I would agree with you that there is an average on the gains and losses. I'm not -- I'm not arguing. It's just that --

Q. It's just the --

A. It's just a period -- I'm sorry. It's just a period, whether it should be 10 years or a 5-year average amortized over five years.

Q. Okay. If the pension fund had a $100 net gain in one year, under the Staff proposal, how much of that would be amortized in the first year of the account? A $100 gain for year 2001. If you're doing the calculation, how much of that $100 gain is --

A. That portion of the gain would be $4.

Q. So how many years would it take to fully recognize that if you're going $4 at a time?

A. After five years, this gain would disappear.

Q. But would it be fully amortized?

A. It wouldn't -- it wouldn't -- it wouldn't be as part of the calculation. It wouldn't be subject to the calculation. If you put it in in 2001, by 2007 that $100 gain is gone and it's not subject to amortization.

Q. Where does it go?

A. It's not part of the calculation.

Q. So asset gains just disappear then?

A. It will -- it will be -- by the fifth year, it will be fully amortized --

Q. Okay.

A. -- or the effects of it will be. Let me put it that way.

Q. If you had $100 gain in year one and you had no net gain in year two, year three, year four, year five, year six, how much of the $100 gain ends up being amortized under your approach?

A. I would say that the whole 100 gets amortized.

Q. We know $4 get amortized in year one. How much would be amortized in year two?

A. I guess I'm confused. I don't -- I would -- it would probably be better to have all four numbers to work with them.

Q. The other ones are 0, 0, 0 and 0 and the next year would be 0 as well. The actuaries did a real good job of getting the expected value.

A. In the last year of the calculation it would be $4. It exists for -- I mean, that gain would actually exist in a calculation for -- for five years. I'm --

Q. But if it's only $4 a year for five years, it seems that under your approach only $20 ever gets recognized. That doesn't seem to be a timely recognition of the actual gain or loss.

A. I'd have to run through the numbers. I'm confident it works, but I mean, it's -- it's not coming to me at this time.

Q. Now, the reason that you gave in your first testimony for opposing the market-related value -- actually the first reason you gave, reason No. 1, it was your numbering, not mine.

The No. 1 reason was that -- was found on page 13 of your testimony, lines 10 through 22 in which you said that the utility companies in Missouri have well-funded pension plans, that annual investment gains are the rule rather than the exception and that the market-related approach resulted in a continual understatement of the value of the pension fund assets.

And that was the No. 1 reason you gave before, and that reason no longer shows up in your testimony. Do I take it that that's no longer a reason to support the use of market-related value?

A. The recent historical trend in the OPEB area would suggest that the -- that the funds currently are not gaining, but they're actually -- there's been two years of losses, so the statement at this point wasn't appropriate.

We also were aware when we drafted the testimony, that there had been assertions made in the previous deposition of substantial asset losses to the -- to those -- both of those areas.

Q. Now, considering that the Company approach is to take the 4-year average and market-related smoothing of the value of the fund and your approach is to take a 5-year average of the gain/loss balances -- net gain/loss balances, both approaches are going to have in them going forward these two -- the two bad years you cited, the two negative years, the two bad return years so that it's possible, if not likely, I would take it, that going forward under either calculation there's going to be actual expenses charged for pension rather than a negative expense because the funds will have under-performed because of the two bad years. Is that an accurate --

A. I don't know. You've -- I think your question contains several assumptions either through the actuarial performance of the -- of the calculation --

Q. Okay.

A. -- markets --

Q. I'm sorry.

A. There's -- there's too many assumptions in there to give you an answer.

Q. Well, if the funds are not well-funded or are under-funded, that would imply that the cost of making them well-funded would be an expense. Correct? It would be an actual --

A. Well, the OPEBs area experienced losses in two years. That's -- it could be a combination of several factors. I don't -- I don't know that I can testify to whether those factors will continue into the future or not.

Q. But that year-to-year volatility is the reason why the smoothing is used in Ameren's approach and is the reason why a 5-year average is used in your approach. Correct?

A. You keep -- you keep wanting to use this smoothing and market-related, but you -- but -- and tie that into the 5-year average and what I'm having problems with still is the market-related versus the actual market, that's one issue. And then the amortization period is the second one. But I'm uncomfortable using market-related to our amortization.

Q. Market-related -- I'm sorry, maybe I misspoke. I was merely comparing market related to the 5-year average that you use in order to get the number that's being amortized.

We're both looking at the -- we're both taking averages of the past several years in order to determine what number is going to be amortized. And when you've got a couple of years of losses, that makes it more likely that there's going to be an expense. And you wouldn't happen to know under which approach there would be -- a greater expense would show up, would you --

A. No.

Q. -- given the last two years?

A. (Witness shook head.)

Can we take a break?

MR. WOLSKI: Sure. Take a five-minute break.

(A RECESS WAS TAKEN.)

BY MR. WOLSKI:

Q. In your testimony you had cited several utilities that currently use the Staff's recommended approach to pension and OPEB gain/loss recognition. And I wanted to ask you --

A. Is this the March testimony?

Q. This should be the March testimony, yeah. Somewhere in here near the end, page 19, I guess you have -- one of the companies you listed was the Laclede Gas Company. And I was wondering if Laclede has expressed any desire to change from the Staff approach to a different approach for accounting for the OPEBs and pensions?

A. It's my understanding that in their current case they have departed from this methodology.

Q. And that was filed -- when did they file that case? Sometime this year or was it last year?

A. I believe it was filed either latter part of last year or early part of this year.

Q. And without betraying any proprietary information, do you happen to know why they would want to change from the Staff approach to their own?

A. I haven't read the testimony.

Q. Okay. And earlier you had referenced some of the data requests in your responses. And one thing I noticed was in response to Data Request JJC-59 you stated that in reviewing the Staff's work papers, the Staff believes that the test year balances may not be accurate. The Staff will review this area and inform the Company of that analysis.

I just wanted to ask you if you could explain just briefly what the problem might have been that's identified as you understand it now?

A. The one problem that I'm definitely aware of is that in the -- in the cell that identifies the test year AMS pension expense, there was a value that was inputted incorrectly.

Q. Okay. And is that for both the annualization of the OPEB expense and the --

A. I --

Q. -- pension?

A. I'm sorry. I didn't -- I wasn't able to quantify or to trace out all of them. That's why I gave you the response that you have --

Q. Sure.

A. -- in 59.

Q. But you will continue to be looking at them?

A. Yes. I will anticipate that since we're winding down on the depositions now, that next week Mr. Rackers and I will be able to sit down and verify those figures for you.

Q. Now, were these work papers for the pension and OPEBs, were these your calculations or someone else's?

A. I put those together --

Q. Okay.

A. -- with assistance from Mr. Rackers.

Q. Was there anyone else who had a hand in that, do you recall?

A. Not that I recall.

Q. In some of the data requests we had submitted we had questions about the allocator that was used in these various calculations. Do you know how that allocator was derived -- how the different allocators were derived? You have an AmerenUE allocation 66.53 percent for the value of the plant assets and you've got a total electric OM allocator of 76.16 percent.

A. Yes. I believe in response to JJC-32, I included two worksheets that reference the -- those two allocation factors and with -- detailed the data requests that the Staff got those from.

Q. Okay. And the source of the data was all from the Data Response 99? Oh, there's a second page.

A. I thought they were actually referenced in two DRs.

Q. Okay. I see that now.

You said you hadn't looked at the Laclede papers. Had you done any other -- have you performed any other pension or OPEB analysis for other cases since we last spoke in November?

A. No.

Q. And is there any -- one thing I wanted to ask you, is there any reason why recognition of pension gain/loss accounts should be more timely than any other expense that a utility incurs?

A. I believe if you reference my testimony, the Staff would contend that that recognition is consistent with other events, that the Staff has historically used periods of a similar nature. Specifically, I don't know if --

Q. But is there anything that -- anything in the law or in any accounting standard that requires that these expenses be recognized in a more timely manner than other expenses?

A. Not that I'm aware of. Except, again, past Commission decisions.

MR. WOLSKI: Well, I think that we're through with you then. Thank you.

THE COURT REPORTER: Signature?

MR. DOTTHEIM: Yes.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

____

GREGORY MEYER

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

____

Notary Public in and for County

State of Missouri

C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF BOONE)

I, Tracy L. Cave, Certified Shorthand Reporter with the firm of Associated Court Reporters, do hereby certify that pursuant to notice and agreement there came before me,

GREGORY MEYER,

at the law offices of the Public Service Commission, in the City of Jefferson, County of Cole, State of Missouri, on the 24th day of April, 2002, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing 64 pages; and the witness and counsel waived presentment of this deposition to the witness, by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

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

Given at my office in the City of Columbia, State of Missouri, this 24th day of April, 2002.

Tracy L Cave
TRACY L. CAVE
Certified Shorthand Reporter

ERRATA SHEET

Deposition of: Gregory R. Meyer

Case Caption: EC-2002-1

Date Taken: December 6, 2001

Page	Line	Correction	Reason
7	20	“appreciation” should read “depreciation”	Wrong word
11	23	“1987” should be “1983”	Wrong year
12	22	Delete the word “vertically”	Clarity
38	16	Delete the word “not”	Clarity
51	23	“win” should read “were in”	Wrong word
54	6	Insert the word “depreciation” between “actual” and “reserve”	Clarity
64	5	“expense” should read “spend”	Clarity
64	9	“expensed” should read “spent”	Clarity

Signature: Gregory R. Meyer

Hoyt, Mary

From: Cook, James J
Sent: Monday, April 22, 2002 2:42 PM
To: Hoyt, Mary; Whitehead, Valerie
Subject: FW: Errata Sheets To Greg Meyer's Depositions

Meyer Errata Sheet - EC20021-N...   Meyer Errata Sheet - EC20021 d...

-----Original Message-----
From: Dottheim, Steve [mailto:sdotthei@mail.state.mo.us]
Sent: Monday, April 22, 2002 2:27 PM
To: 'vwolski@cooperkirk.com'; 'jjcook@ameren.com'
Subject: Errata Sheets To Greg Meyer's Depositions

Sorry about the delay.

<<Meyer Errata Sheet - EC20021-November 2001.doc>>
<<Meyer Errata Sheet - EC20021 dec 6.doc>>

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

DEPOSITION OF GREG R. MEYER

Taken on behalf of Respondent
December 6, 2001

Volume II

William L. DeVries, CSR/RMR/CCR
CSR NUMBER: 084-003893
CCR NUMBER: 566

I N D E X O F E X A M I N A T I O N

I N D E X O F E X H I B I T S

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

DEPOSITION OF GREG R. MEYER, produced, sworn, and examined on behalf of Respondent, December 6, 2001, between the hours of eight in the forenoon and five in the afternoon of that day, at the offices of the Missouri Public Service Commission, 815 Charter Commons Drive, Suite 100B, Chesterfield, Missouri, before William L. DeVries, a Certified Shorthand Reporter, Certified Court Reporter, Registered Merit Reporter, and Notary Public.

A P P E A R A N C E S

The Complainant and Witness were represented by Mr. Thomas R. Schwarz, Jr., Deputy General Counsel, Public Service Commission, State of Missouri, 200 Madison Street, Suite 800, Jefferson City, Missouri, 65102.

The Respondent was represented by Mr. Thomas M. Byrne, Associate General Counsel, Legal Department, Ameren Services, 1901 Chouteau Avenue, St. Louis, Missouri, 63166.

Also Present: Mr. Stephen M. Rackers.

IT IS HEREBY STIPULATED AND AGREED by and between Counsel for the Complainant and Counsel for the Respondent, that this deposition may be taken in shorthand by William L. DeVries, a Certified Shorthand Reporter, Certified Court Reporter, Registered Merit Reporter, and Notary Public, and afterwards transcribed into typewriting, and the signature of the witness is not waived by agreement of counsel and the witness.

O-O-O

GREG R. MEYER,

of lawful age, being produced, sworn and examined on the part of the Respondent, and after responding "I Do" to the oath administered by the court reporter, deposes and says:

* * * * * * * * * * * *

[EXAMINATION]

QUESTIONS BY MR. BYRNE:

Q. Good morning. My name is -- or sorry, good afternoon. My name is Tom Byrne. I am an attorney for Union Electric Company, doing business as AmerenUE. Today we are here to take the deposition of Greg R. Meyer of the Missouri Public Service Commission Staff in Missouri Public Service Commission case number EC-2002-1. Present in the room in addition to myself, Mr. Meyer, and the court reporter are Steve Rackers and Tim Schwarz from the Commission Staff. Could you please state your name, Mr. Meyer?

A. Greg Meyer.

Q. Mr. Meyer, I have some preliminary questions before we get into the substance of the deposition. First of all, if you don't hear or understand a question that I ask, will you ask me to repeat it or clarify it so that you understand what I am asking before you answer a question?

A. Yes.

Q. And for purposes of having a good transcript, will you let me finish my questions before you answer them? At the same time, I will let you finish your answers before I ask you the next question.

A. Yes.

Q. If you need a break, will you let me know?

A. Yes.

Q. Okay. Mr. Meyer, are you taking any

medication that might adversely affect your ability to understand or answer my questions today?

A. No.

Q. Is there any other reason that you know of that you might not be able to understand or answer the questions I will be asking today?

A. No.

Q. Last of all, I'd like to define some terms if we could up front that might be used in the deposition. First of all, if I say "UE" or "AmerenUE" or "Union Electric" or "the company," I am referring to Union Electric Company. Is that okay with you?

A. Yes.

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

A. Okay.

Q. And finally, if I say "the Commission" or "the Missouri Commission," I would be referring to the Missouri Public Service Commission. Is that okay?

A. Yes.

Q. Okay. By whom are you employed, Mr.

Meyer?

A. Missouri Public Service Commission.

Q. And in what capacity?

A. Regulatory auditor five.

Q. And are you the same Greg Meyer who filed direct testimony in Missouri Public Service Commission case number EC-2002-1 consisting of fourteen pages and three schedules?

A. Yes.

Q. Are you the same Greg Meyer that was deposed in case number EC-2002-1 on November 29th, 2001?

A. Yes.

Q. Are you the Staff witness that is adopting some or all of the adjustments in the direct testimony filed by James D. Schweiterman in case number EC-2002-1?

A. The adjustments I am adopting from Mr. Schweiterman's testimony relate to the accumulated reserve -- appreciation reserve amortization and the net salvage expense adjustment.

Q. Now, are you also adopting his testimony on the test year?

A. Yes, but there is not a specific test

year adjustment in the case.

Q. Okay. But you would be supporting his testimony to the extent it talks about the appropriate test year?

A. Correct.

Q. Okay. Are there other Staff witnesses that are supporting some of the other adjustments that were in Mr. Schweiterman's direct testimony?

A. Yes.

Q. And why are you and the other Staff witnesses adopting Mr. Schweiterman's adjustments?

A. Mr. Schweiterman retired from the Commission after the filing of this case.

Q. With respect to the adjustments and the testimony that you are adopting, do you agree with his testimony and his adjustments?

A. I have read the testimony. I reviewed the adjustments. The methodologies employed are not of such a nature that I would object to.

Q. Okay. How did you find out you were going to adopt Mr. Schweiterman's adjustments, the portion of Mr. Schweiterman's adjustments and testimony that you are adopting?

A. I made the decision to adopt those

areas.

Q. Okay. When did you decide that?

A. Subsequent to Mr. Schweiterman's retirement and prior to the depositions that were held in this case.

Q. When was his retirement?

A. I believe Mr. Schweiterman retired October 1 of 2001.

Q. So sometime between October 1 and I guess when the deposition started in this case?

A. That's correct.

Q. What work have you done with regard to the adjustments and the testimony of Mr. Schweiterman that you are adopting?

A. I reviewed the testimony and the methodologies used, and I found a work paper related to one of the adjustments and reviewed it.

Q. He didn't give you his work papers; you just found one?

A. They were maintained in a central file, and I obtained the work paper on net salvage that I needed.

Q. Did you look at any of the other work papers he may have developed?

A. **In those areas?**

Q. In the areas that you are adopting?

A. **No.**

Q. Do you know if there are any work papers in those other -- any more work papers in those areas?

A. **I am not aware.**

Q. So there might or might not be?

A. **I am still not aware.**

Q. Would it be fair to say that you reviewed his work rather than doing the independent analysis on the issues of your own?

A. **I wouldn't say that.**

Q. You wouldn't say that?

A. **No.**

Q. Okay. What independent analysis did you do besides reviewing these work papers and his methodology?

A. **Prior to the drafting of Mr. Schweiterman's testimony these areas were discussed between himself and my -- and me. So I had prior knowledge of these areas and the adjustments.**

Q. Okay. And would that be sort of in your capacity as the case co-coordinator?

A. That's correct.

Q. I guess I'd like to talk about the specific adjustments that you are adopting. One adjustment is the calculation of net salvage; is that correct?

A. That's correct.

Q. Can you tell me what net salvage is?

A. Net salvage is the netting of cost of removal and the salvage that the company experiences when it retires plant, or when a plant is retired or removed from service.

Q. It's my understanding that the Staff's proposal in this case is to treat net salvage as an expense; is that correct?

A. That's correct.

Q. In previous cases, at least in previous AmerenUE cases it's been treated as a component of the depreciation rates; is that correct?

A. It would be my understanding that the last time that the company's rates were examined similar to the context of this filing would have been 1987, and in that case I believe cost of removal or net salvage would have been included in the depreciation rates of the company.

Q. Okay. Well, let me ask it this way: Isn't it true that the Commission has -- and the Commission Staff for that matter have only relatively recently adopted the position that net salvage should be taken out of the depreciation calculation and included as an expense?

A. The change in position by the Staff in this area was done while the company was under the EARP's.

Q. Correct me if I'm wrong. I think the change in position of the Staff has manifested itself in several cases, and I'd like to try to list them and tell me if you agree with my list. I think it began in the Laclede Gas Company rate case, which was GR-99-315. Do you know if that is true?

A. I actually think the position was advocated earlier than the 99-315 case.

Q. Do you know when?

A. Reflection of actual cost of removal and salvage I believe was even addressed in the 98-374 case vertically.

Q. Okay. Okay. Do you think that was the first time that Staff advocated the position then of treating net salvage as an expense?

A. That is the first one I am aware of.

Q. And before that, all the cases that you are aware of, the net salvage was included for all companies as a component of the depreciation calculation?

A. I am not aware of a case prior to the 98-374 case where that treatment was used.

Q. And what treatment are you talking about?

A. Net salvage being reflected as the amount actually being expensed or incurred.

Q. Okay. Let me just try to say that again. I think -- I think I know what you said, but didn't you say you are not aware of a case before the 98-374 Laclede case where net salvage was treated as an expense?

A. I think what I said is I am not aware of a case prior to 98-374 where net salvage was included on the amount incurred. There is a difference between expense and the amount incurred, depending on how it's reflected.

Q. Okay. I don't understand that difference. Can you explain it to me?

A. I believe in 98-374 net salvage was reflected as incurred on an average in the

depreciation rate. For purposes of this case, net salvage is included as an expense item. There is a difference.

Q. What is the difference?

A. If net salvage as incurred is incorporated into the depreciation expense rates, depreciation rates, and the company is allowed to continue to retire plant and record cost of removal and salvage as it has historically done, there is no cap above which or below which the company would not reflect those charges in the CPR accounts. For the purposes of this case, there is a set amount set in expense such that if the company incurs less, they make money. However, if they have to incur more, they make a decision whether to file for that increased expense or not.

Q. Okay. I think I understand. Would it be fair to say that in this case net salvage is treated as a true expense like payroll and any other expense, whereas in the Laclede case that you were talking about, 98-374, even though the Staff may have calculated the amount of the net salvage based on recent historical experience, it was still incorporated into the depreciation calculation?

A. Correct.

Q. Okay. So would it be fair to say that Staff made a two-step change in how it looked at net salvage? The first step being it relied on recent historical experience to calculate the amount of net salvage, but left it in the depreciation rates; would that be the first step?

A. I am not sure that it can be divided into steps. I believe that the true intent of where the Staff -- how the Staff wanted to portray net salvage is how it's being presented in this case, as an expense that can be tracked.

Q. Okay. But for some of the earlier cases as you were developing your new position, it was still part of the depreciation calculation, and that would have been --

A. That's true.

Q. That would have been true in 98-374. I think it was true in GR-99-315 as well, do you know?

A. I don't know about 99-315.

Q. Okay. But would it be fair to say that when the Staff changed its position was in the late nineties, probably in GR-98-374, on how net salvage should be calculated?

A. To the best of my knowledge, that is what I recollect.

Q. Before that, the Staff and the Commission treated it in the traditional way, and by the traditional way I guess I mean it was included as part of the depreciation calculation in the way that it traditionally has always been. Is that fair to say?

A. Prior to what I recall in the 98-374 case, net salvage was a component of the depreciation rates.

Q. Prior to that it was not in expenses; is that true?

A. Couldn't be in both.

Q. So your answer is no, it wasn't in expenses, right?

A. It was in the rates, depreciation rates.

Q. And it wasn't in the expenses, right? Other than the depreciation expense, I guess.

A. Correct. It couldn't be in both areas. You can't collect it through -- I guess you could, but it hadn't been collected through depreciation rates and expense also as a separate

item. It was just collected or it was -- that component was included in the calculation of depreciation rates.

Q. Would it be fair to say that the treatment of net salvage that the Staff is advocating in this case is a minority position in the world of depreciation?

A. I haven't done any analysis to verify or to substantiate that statement.

Q. Well, have you looked at the treatment of net salvage by any other jurisdictions besides Missouri?

A. Currently, no.

Q. So you don't know how Illinois treats net salvage, do you?

A. Currently, no.

Q. Or any of the other states surrounding Missouri?

A. For purposes of three-way depreciation meetings with Southwestern Bell, it's my understanding that Arkansas did not address net salvage in the calculation of the depreciation rates.

Q. Okay. And is your knowledge limited to telephone rates in Arkansas?

A. That was what my exposure was to it.

Q. Okay. Do you know of any depreciation professionals other than those on the Missouri Public Service Commission Staff that advocate the Staff's proposed treatment of net salvage costs as an expense?

A. Besides the members that are currently on the Staff, I am aware of past members that were members of the Staff that also would have advocated this position, yes.

Q. Anybody other than that?

A. Not that I am aware of. Oh, excuse me. I misspoke. I believe, since I was a part of the review of the testimony, Ms. Mathis lists the Pennsylvania Commission as also adopting this type of position.

Q. Okay. But does your knowledge of that come from your review of Ms. Mathis's testimony as opposed to your own independent investigation of it?

A. My reliance -- Ms. Mathis' testimony was a reminder. Through several Staff discussions I was made aware of that commission. It wasn't just literally reading her testimony that reminded me of that.

Q. Are you aware of any other commissions?

A. There was a discussion that the Florida Commission may also adopt a similar approach.

Q. Any other commissions?

A. Not that I am aware of.

Q. Let's talk about the Commission's adoption of the Staff's treatment of net salvage. I think in some recent cases the Commission has adopted that treatment; is that true?

A. I am aware that it was a component of the Laclede Gas stipulation in the last case.

Q. Are you aware of any other cases where the Commission has adopted the Staff's proposed treatment of net salvage costs?

A. I know it's listed in Ms. Mathis' testimony. I don't have that in front of me.

Q. But again, it would be after the Staff began advocating the position in the late nineties; is that fair to say?

A. That's correct.

Q. My understanding also is that -- I may have asked a bit of a misleading question before. My understanding is that on -- in AmerenUE's last gas rate case, Staff's treatment of net salvage may have been a piece of the settlement in that case. Does that sound right to you?

A. Yes, it is. It's in the -- it's contained within the body of the stipulation agreement.

Q. Okay. But on the electric side, it's my understanding that AmerenUE has never had that treatment of net salvage as an expense; is that true?

A. That's true because parties were precluded from presenting that position due to the existence of the EARP's.

Q. So in the time since the Staff has developed this position, there hasn't really been an opportunity for the Staff to advocate applying it to AmerenUE's electric rates?

A. This is the first opportunity.

Q. Okay. Doesn't the Staff's treatment of net salvage as expense typically significantly lower the amount of money that a utility is permitted to recover for net salvage costs through its rates?

A. Staff's treatment, current treatment of net salvage from the cases I have looked at

has lowered the amount of expense that is a component of the Staff's cost of service due to the fact that the Staff currently puts in a historical -- well, either historical average of the actual costs expensed, incurred, versus the accrued amount that would have been contained in the depreciation rates.

Q. Staff's number would be a significantly lower number than that, would it not?

A. In the utilities that I am aware of, the accrual of net salvage was greater than the actual cost incurred for that area. So yes, it would have been less expense.

Q. In this case, isn't it pretty significantly less than the amount that would have been included in AmerenUE's rates for net salvage under the traditional treatment of it?

A. I believe Ms. Mathis provides a quantification. It is less. I don't want to get into the adjectives of significant or not, but I know it is less.

Q. Sure. Understandable. Well, let me ask you this. Let me try to understand the difference between your testimony and Ms. Mathis' testimony. Would it be fair to say that Ms. Mathis is providing the evidence in this case that it is appropriate to remove net salvage from the depreciation calculation and it is appropriate to treat it as an expense, and then Mr. Schweiterman's testimony, which you are adopting, sort of implements that result by calculating the amount of the expense?

A. For purposes of this case, Mr. Schweiterman's responsibility was to provide an expense level for net salvage to be included in the company's -- in the Staff's cost of service. The rationale for departing from inclusion in the depreciation rates was the responsibility of Ms. Mathis.

Q. How did you calculate the net salvage expense in this case, or how did Mr. Schweiterman --

A. I believe he used a ten year average.

Q. Okay. Why did he pick a ten year average, or I guess the better way to put it is why are you endorsing the ten year average?

A. When I reviewed Mr. Schweiterman's work paper, in the cost of removal and salvage area, the cost of removal amounts fluctuate

within a certain range over the ten year period. However, the salvage component in three years varies from the other three. There was also a discussion with Mr. Schweiterman and myself about the actual timing or the recognition of salvage to the actual time that the plant was retired. So I think that is all I have.

Q. I didn't understand the last part of that answer.

A. There is -- there was a concern about -- and no follow-up done about the actual recognition, the timing of the recognition of salvage to when the plant was actually retired, if there was a substantial waiting period or not. I am not aware if Mr. Schweiterman did any further data request in that area or not.

Q. So he was concerned that there was a lag time between when plant was retired and when it was recorded on the books of the company?

A. Well, the situation could occur where plant was retired, material or the plant removed and then subsequently salvaged. There may have been a window there, a time window. There could be months, whatever --

Q. Okay.

A. -- where those dollars recognized as salvage could have actually fluctuated between periods that were measured. Mr. Schweiterman used the annual reports of the company to develop his ten year average. So for instance, salvage recorded in 1997, if it was high, could have actually reflected -- be reflective of plant retired in 1996.

Q. But that wouldn't -- you wouldn't need to use ten years to take care of that effect, would you?

A. Not necessarily.

Q. Did you or Mr. Schweiterman look at using any other periods to average this net salvage cost?

A. Yes.

Q. What other periods did you look at?

A. I looked at a five year average.

Q. What is the amount of your ten year average, if you know?

A. Jurisdictionalized it's 8.1 million.

Q. So that is the amount of the net salvage expense Staff is recommending? You want to take a break a minute?

A. 8.1 is the Missouri portion. I was

trying to provide you a reference number. I just can't seem to locate it at this time.

MR. SCHWARZ: Is it 14.2?

A. Yes. That is 14.2.

Q. But the amount of the adjustment is 8.1 million dollars, right?

A. Missouri jurisdiction, correct.

Q. Okay. You said I believe you looked at five years as well? Is that true?

A. Yes.

Q. What would the amount of that have been?

A. 8.9 million dollars.

Q. Did you look at just the test year amount?

A. No.

Q. Do you know what that amount would have been?

A. No.

Q. Did you look at a three year average?

A. No. I have the information to do that. I didn't look at it.

Q. Do you have the information to like tell me what it was in the test year?

A. No.

Q. Do you have the information to tell me what it was in the most recent year for which you have data?

A. Yes. For 2000 it would have been approximately 12.5 million. For 1999 it would have been approximately 7.7 million. For 1998 500,000.

Q. $500,000 for 1998?

A. Yes.

Q. Do you mind keep going back if you have the sheet in front of you?

A. 1997, 9.5.

Q. Million dollars?

A. These are -- the numbers I am reading you now aren't jurisdictionalized either. They would be -- I can't ballpark that for you.

Q. Just keep doing it, if you don't mind.

A. 1996, 10.2. 1995, 11.9. 1994, 11.6. 1993, 9. 1992, 7.7. 1991, 9.4.

Q. And those numbers you gave me for each year are all in millions of dollars except for the one year that had $500,000?

A. Correct.

Q. Did you mention there were three years in that period that you thought were sort of aberrant? What were those, if you can tell me?

A. 1998, the salvage amount was noticeably larger than the rest of the years.

Q. And that is why the net salvage was so low in 1998?

A. Correct. 1996 and 1995, the salvage amounts again were somewhat higher than the other years.

Q. Let me ask you this: You said those numbers you just read for each year are not jurisdictionalized. Do you have the nonjurisdictionalized ten year average? I guess I could just average them all and that would be it, right?

A. Yes.

Q. You don't have to do it.

A. Nine million.

Q. It's nine million dollars?

A. (Witness nods head.)

Q. Okay.

A. I might add that the years that I described where salvage was higher, the cost of removal in 1996 and 1995 was also higher in those years.

Q. Okay.