A. So there was somewhat of a corresponding high cost of removal, higher salvage.

Q. Whereas in 1998 where that net salvage plunged to 500,000, there wasn't a corresponding increase in removal cost?

A. No.

Q. Okay. Do you know what averages the Staff has used in the other cases where it's advocated its current method of treating net salvage?

A. I want to say that in the most recent Laclede case the Staff used a five year average. I am not aware -- I couldn't specifically state the other averages.

Q. Does Mr. Schweiterman's direct testimony explain why he used a ten year average for this adjustment?

A. Mr. Schweiterman testifies on page eleven, line six, that he believes a ten year average is a more reasonable level of net salvage cost.

Q. Okay. And is that the only explanation he gives in his direct testimony?

A. That is all I am aware of.

Q. Did you discuss or did Mr. Schweiterman discuss to your knowledge his decision to use a ten year average with Jolie Mathis?

A. Sorry. Could you repeat the question?

Q. Did you or Mr. Schweiterman discuss the decision to use a ten year average of net salvage costs for the Staff adjustment -- did you discuss that with Ms. Mathis?

A. I couldn't testify what Mr. Schweiterman discussed with Ms. Mathis. I may have had a brief discussion with Ms. Mathis regarding that. I don't recall any objections from Ms. Mathis regarding the selection of that period.

Q. But would it be fair to say she really wasn't involved -- other than maybe looking at it, she wasn't involved in making the decision to use ten years as opposed to some other period?

A. I am sorry. Could you repeat that?

Q. Yeah. Is it true that Ms. Mathis wouldn't have been involved in making the decision to use ten years, the ten year average for net salvage as far as you know?

A. Obviously given Ms. Mathis' expertise

in the area, if she would have had a difference of opinion for utilizing ten years versus some other, the Staff would have listened to her explanations.

Q. Okay.

A. I might also point out that I testified earlier about the five year average, and that was not calculated off the most recent five year period. So that number is incorrect.

Q. Okay. I am sorry. The five year average for AmerenUE that you gave as --

A. Earlier in the deposition. That is not -- that was calculated incorrectly. That was a five year average from '91 through '96.

Q. Okay.

A. I don't have -- I have got the numbers. I don't have the five year average calculated for the most recent period.

Q. But if I wanted to do that calculation -- and I realize it's not jurisdictionalized, but if I wanted to have the nonjurisdictionalized average that I could -- for five years, I could just take the most recent five years of numbers that you read into the record and average those and I would get the nonjurisdictionalized five year average, correct?

A. **Yes.**

Q. And the apples to apples comparison would be to the nine million dollars, which is the nonjurisdictionalized ten year average; is that correct?

A. **Correct.**

Q. Okay.

A. **Off the top of my head, it's approximately 9.2 million I believe as I check.**

Q. Okay. Let me ask you this: Isn't it true that AmerenUE's net salvage cost has steadily and consistently increased as time has gone on?

A. **No.**

Q. I understand that, for example, in 1998 it dropped to $500,000, but looking at it from a broader -- in a broader sense, if you look at it over twenty years, isn't there a clear pattern of it increasing over the years?

A. **I don't have the information beyond 1991.**

Q. Okay.

A. **During 1991 to 2000, there is not a discernible trend upwards.**

Q. Okay. And you didn't -- you didn't look at any data beyond that, those years; is that true?

A. I don't know.

Q. You don't know if you looked at any data beyond those years?

A. I don't know if data was looked at beyond 1991.

Q. Okay. But you didn't look at it; is that fair to say?

A. That's correct.

Q. Maybe Mr. Schweiterman may or may not have or Ms. Mathis may or may not have; is that correct?

A. Correct.

Q. Let me ask you this: Doesn't inflation have the effect of increasing the cost of retiring property?

A. Not necessarily.

Q. Why wouldn't it? I guess the reason I suggest it would is because labor cost is a fairly significant cost in retiring a lot of these kind of units? Do you agree with that?

A. Labor is a component of retirement plant, that's correct, but the differences in

technology, the differences in company policy regarding retirements over time, the value of the salvage of a plant retired, all these components would have an effect on the net salvage.

Q. Okay. And you can't say -- without looking, you don't know what the net effect of all those factors would be?

A. That's correct.

Q. How about the quantity of plant that is retired? Hasn't Ameren consistently added plant as its service territory has grown over the years?

A. Well, obviously as your service territory grows, you have to have plant to serve.

Q. And hasn't Ameren's service territory grown pretty steadily over the past hundred years or so?

A. I would agree with you that since Ameren first became certificated its service area has grown.

Q. Doesn't it continue to grow with new houses that are being built in St. Charles County and different places?

A. I personally do not know what the type of growth that you just described would have on

Ameren's plant.

Q. But when new houses and new subdivisions are built in Ameren's service territory, it adds plant, does it not, to serve those houses?

A. Not necessarily.

Q. If they take service from Ameren?

A. Not necessarily. I am aware that in many instances the new houses that are erected in an Ameren service territory are in -- let's use generically in a service territory. The utility services are already out to that subdivision to provide service.

Q. Okay. But at least you'd have to put a new meter in and some wires going to the house, wouldn't you?

A. And depending on the utilities, sometimes that's paid for in a different charge.

Q. Let me ask you this: Do you have an opinion as to whether AmerenUE's net salvage costs are likely to increase in the future over the expenses included in this rate case when current plant, plant that is currently being used to serve customers, is retired?

A. No.

Q. You have no opinion?

A. No.

Q. Okay. Is part of the Staff's justification for its treatment of net salvage cost as an expense that if the net salvage costs change from what's included in the rates, the company has the opportunity to come in and file a rate case and thereby adjust net salvage costs to reflect the change?

A. Given Staff's current treatment of net salvage, if the company felt that the allowance for net salvage in expense was insufficient given its current operations, it can make the decision to file a rate case to attempt to recapture a greater amount of net salvage.

Q. Assume for a minute the company's view is that salvage costs, net salvage costs are steadily increasing as time goes on. If the company believes that to be true and if it turns out to be true, I guess their recourse is to file a rate case to reflect the increasing level of those costs; is that right?

A. Given your assumption that the net salvage is steadily going to increase, which as I testified earlier, the data doesn't prove that

out, at a certain point or sometime in the future the company would have to decide whether to file a rate case to attempt to recover that increased expense.

Q. But even if we did file a rate case, we wouldn't necessarily recover all of the increase in net salvage costs because -- well, for one thing, there is regulatory lag, isn't there? You'd have to incur the cost first and then you'd have the opportunity to recover it in a rate case? Isn't that right?

A. Well, I assume your question still goes back to the theory that it continually increases.

Q. Yes. All of these questions assume that it increases.

A. At a certain point in time you would capture those increases within the context of a rate increase, that's correct.

Q. But there would be a regulatory lag just like there is for all changes in expenses up or down, right?

A. As well as revenues and return.

Q. Sure. But are you saying yes, as well as revenues and returns?

A. Yes. I can only capture what is known and measurable.

Q. Sure. And isn't it true that if we had a rate case, obviously any increase in net salvage costs would have to be netted against increases and decreases in other costs?

A. The net salvage expense would just be one component of the expenses, revenues and investment of the company.

Q. So if net salvage cost went up and other costs went down, we wouldn't be able to reflect the increase in net salvage costs in our rates; is that right?

A. I probably would argue that it would be reflected in rates.

Q. You wouldn't be able to change your rates?

A. You could attempt to with the understanding that your rates may go down because of it.

Q. Sure. And what about normalization? In this case you are taking a ten year average of net salvage costs and I assume, you know, like any other expense there are any number of ways you could normalize it; is that fair to say?

A. There is obviously other methods to normalize.

Q. You could take a five year average. You could take a three year average. You could use just the test year. You could use any number of ways to normalize, couldn't you?

A. That is correct. I would probably point out that Mr. Schweiterman's use of average is probably most appropriate in this instance because there isn't a discernible trend over the ten year period.

Q. And to the extent that the Commission normalizes the expenses, there is no assurance that you will recover those expenses on a dollar for dollar basis, is there?

A. I am not aware of very few instances in the ratemaking process where either party -- where the company is assured dollar for dollar recovery of expenses.

Q. I guess I am trying to draw an analogy between treating these costs as expenses and the traditional method, where they're included in the depreciation. My understanding is ultimately -- the way depreciation accounting works, ultimately in the end the company is assured and the ratepayers are assured that the costs are recovered on a dollar for dollar basis, although it's over the long run, I admit. Whereas in treating an item such as net salvage as expense, there is just not that assurance on either side; is that fair to say?

A. I wouldn't agree with that.

Q. You wouldn't?

A. No. Because I can't sit here today and tell you that I feel any assurance that when all this plant is retired there are going to be funds sufficient to remove them. In fact, I have seen instances where there haven't been.

Q. So you are concerned the company might not have sufficient funds to remove plant when it's time to retire it?

A. There is no assurances -- there has never been any -- I am not aware of any assurances that are out there, except for a decommissioning fund.

Q. So like the Callaway plant has a decommissioning fund, so that you can feel there is some degree of assurance that the money will be there when the Callaway plant is retired; is that true?

A. I have more confidence in that than I do in the historical practices of depreciation.

Q. Would you have -- I assume you are talking about decommissioning the fossil plants of AmerenUE? I mean, are those the large kind of expenses you are concerned that the money might not be available for?

A. Well, I think as you are aware from Ms. Mathis' deposition, that is not in my -- those types of activities are not in my adjustment.

Q. But would it assuage your concern if a similar decommissioning fund was set up for fossil fuel plants, where money was earmarked as it is for Callaway, for decommissioning, and set aside to assure that when it's time to decommission those plants, the money will be available?

A. I guess first of all, you are going to have to define assuage for me.

Q. Would it ease your concerns about not having -- that you just expressed about not having money available if a similar program was set up for Ameren's fossil plants, where there were decommissioning funds, and dollars were earmarked and specifically segregated for that purpose so that they can't be spent by the company on other things? Would that kind of a similar setup ease your concerns about not having money to decommission those plants?

A. That situation would be better than just an accrual. However, I am not sure that I could make the same comparison from a fossil fuel plant to a nuclear plant since a nuclear plant has an operating license that gives it a distinct term for operations. Whereas as you are aware through discussions in Ms. Mathis' depositions, the fossil plants are being upgraded on a continuous basis too, and are outlasting their original lives far beyond what was ever anticipated.

Q. I guess another difference is we have to have a decommissioning fund pursuant to federal law for the nuclear plant. I mean, are you aware of that? That is the difference.

A. Yes, but I am not aware that it had to be funded externally.

Q. I believe that was a Commission requirement; is that right?

A. That's right.

Q. I guess -- I realize there is a license for the nuclear plant, but it's also possible -- just like it's possible to renew any license, it may be possible to renew the nuclear license; isn't that true?

A. I would anticipate that a nuclear -- or that the license -- a new license would be applied for, but it will again be for a set period of time. I am not aware that the fossil fuel plants operate in that capacity.

Q. Well, why would it be so -- well, obviously they are not analogous because there is no license required for the fossil plants, and they can't be analogous, but why is it so critical to have a license period? Can't we make reasonable estimates of the life of any facility just like we do in all other areas of depreciation?

A. I would say given the current activities of utilities that I wouldn't feel comfortable at this point with a retirement date for a fossil fuel plant. I've been involved in regulation in the state of Missouri for 22 years. I am not aware of a coal plant being retired yet.

Q. Well, admittedly their lives are

longer than 22 years, but that doesn't -- does that mean you can't predict what a life of a plant like that would be?

A. Even if you could predict it, at time of retirement from a utility, it doesn't mean that that plant won't be sold to another one, to another utility or to an independent power producer, or the fact that the site -- the site has an invaluable amount of money for worth.

Q. Okay. Would you agree with the general proposition that ratepayers should pay the full cost AmerenUE reasonably incurs in providing them service?

A. Can you repeat that again?

Q. I am not sure I can. Maybe the court reporter can read it back.

(Whereupon, the question was read back by the court reporter.)

A. I would agree with the statement that ratepayers should pay the reasonable cost for Ameren UE to provide safe and reliable service.

Q. I guess a key word you left out of your restatement was full. I had said the full cost of providing service, full reasonable cost of providing them service?

A. I think if you read it back, you will find that you said the full cost reasonably incurred. Reasonably incurred is a very wide open range, and that is why I rephrased mine to say that ratepayers should cover the reasonable cost to provide safe and adequate service. To me there is quite a big distinction.

Q. Okay. What would you say about the full reasonable cost to provide safe and adequate service; is that true?

A. Our distinction now is merely between full and reasonable cost.

Q. Yeah. I just want to add the word full to what your definition was. I am asking you should they pay the full cost as defined in your statement, or should they pay something less than the full cost?

A. They should pay the reasonable cost, the reasonable amount of cost. Now, that may not be the full cost. The reasonable cost.

Q. Got you. Would you agree with the general proposition that one generation of ratepayers should not subsidize the costs the utility incurs in providing service to another generation of ratepayers?

A. I think in general the ratemaking process attempts to minimize that, but I don't think it's entirely possible.

Q. Would it be fair to say in a perfect world they shouldn't, but utility regulation isn't a perfect world?

A. No, I wouldn't agree with that.

Q. Okay. How about this one: Would you agree that each generation of ratepayers should pay a fair allocation of the full cost of plant used to provide them service?

A. No, I disagree with that.

Q. Let me ask you this: Should AmerenUE be permitted to recover the cost of plant from ratepayers before the plant goes into service?

A. I don't believe they are allowed to by law.

Q. Okay. And is there -- aside from the legal requirement, is there a rationale for not letting Ameren recover those cost, AmerenUE recover those costs?

A. I believe one of the premises is that the plant has to be used and useful.

Q. Why should it have to be used and useful before the company gets to recover the cost of it?

A. If it's not used and useful, it's not a component to provide safe and normal, reliable service -- safe and adequate service.

Q. So ratepayers aren't getting the benefit of the plant being used to provide them service, so they shouldn't have to pay the costs; is that fair?

A. You were talking about plant not yet constructed?

Q. That's correct. Well, it might be constructed, but it's not yet placed into service.

A. I mean, there is several road -- not roadblocks, but reasons you can't. The law. It's not used and useful. It's not needed to provide safe and reliable service. I don't know what else you need.

Q. Well, is one of those reasons -- buried in one of those reasons it's not fair to make ratepayers pay for plant that is not being used to provide them service?

A. Again, I don't know.

Q. Do you agree with that statement, that it's not fair to make ratepayers pay for plant that is not being used to provide them service?

A. No, I don't necessarily agree with that.

Q. You think it is fair to make ratepayers pay for plant that is not being used to provide them service?

A. I am not sure that you can -- I am not sure that you can stop that in certain instances.

Q. But that is not what I asked you. I asked you if you think it's fair. Maybe it's impossible to stop, but do you think it's fair?

A. I don't think it's fair in either respect. I guess what I'm saying is that the ratemaking process sometimes can't make that choice.

Q. So is it --

A. I don't know where you stop.

Q. Well, let me ask you this: Not to belabor this, but are you saying it's unfair but inevitable in an imperfect ratemaking process? Is that a fair statement of what you're saying?

A. No. I think what I said was that the ratemaking process, whether it's fair or not, has to sometimes address those situations.

Q. Okay. I understand that, but that is

not my question. My question is is it fair?

A. **I don't know that it can be changed.**

Q. I didn't ask you whether it could be changed. I just asked whether it's fair.

A. **I don't know if -- what fair is.**

Q. Let me ask you this: Are there any other aspects of depreciation costs that should be removed from the depreciation calculation and treated as an expense item? I guess the obvious one that leaps to mind is the original cost of plant that is put into service. Do you believe the original cost of plant should be treated as an expense item?

A. **No.**

Q. Why not?

A. **Depending on the magnitude, it would lend itself to rate shock. It has and provides a service for sometimes many decades.**

Q. So it's fair that the cost should be allocated over the many decades that it provided service?

A. **It's the way -- it's a component of the ratemaking formula. Those types of costs depending on the type would not exhibit a recurring type. Those are my general --**

Q. What if you had a category of property that did show recurring feature? What if it was poles or something, and there is a recurring nature to it. Could we consider taking poles out of -- instead of calculating them as a capital account that's depreciated, couldn't we just say, hey, let's treat the poles that are installed in a particular year as an expense incurred in that year?

A. I think you have seen that somewhat evolution over the years in the changing of the dollar floor that allows utilities to expense items versus capitalizing them. So I think there has been some movement. I believe when I first started that dollar was like in the range of 250 or something similar to that. It has transgressed or moved upwards over the years so that certain items when they don't meet a threshold of dollars don't have to be recorded as capital items.

Q. And is the Staff in favor of that? Do you want to move more and more things out of the depreciation calculation and into the expense side of the ratemaking equation?

A. Beyond the position that's presented

here, we haven't -- there hasn't been any other discussions that I am aware of.

Q. Would you be in favor of that?

A. I believe this is far enough.

Q. Or perhaps too far depending on your perspective.

A. If I had a different perspective, I wouldn't be sitting here.

Q. That's true. Let me ask you this: Would it be fair to say that -- I guess you normalize this net salvage cost. Is that true? Is this a normalization?

A. Versus an annualization?

Q. Yes.

A. Yes.

Q. Would it be fair to say the Staff took relatively aggressive positions in calculating the normalizations of expenses for this case?

A. How do you define fairly aggressive?

Q. Well, I guess I am asking you to define it. It's admittedly a subjective term, but I guess the way I would look at it is if you had -- I don't know. Well, I guess I would ask you to define it. That is sort of what the question is asking. Do you think the positions on normalization that the Staff took were relatively aggressive in this case? I guess that requires you to define what you think is relatively aggressive.

A. Well, absent your definition of what aggressive is, my answer would be no.

Q. Well, let me try to define it a little bit then. Let's say you had two possible normalizations for a certain expense, and in your mind they were equally valid. One gave the company more money in its rates and one gave the company less money in their rates. Do you tend to pick the one that would give -- and not just you, but did the Staff tend to pick the one that would give the company less money, if you know?

A. I don't know. I wouldn't know the thought process running through people's minds to make their adjustments. I can tell you that there was never any instructions given to choose a normalization method that decreased the company's expenses greater than an alternative method. In fact, I am aware of areas in the case where using normalization periods actually win the company's favor.

Q. Yeah, some did, but just -- there is

no doubt some did. It just seemed that overall there was an attempt to select and sometimes to come up with new normalization methodologies that hadn't been used for arguably to reduce the revenue requirement. I assume that you are saying you know of nothing -- you know of no evidence of that or don't have any opinion that that happened?

A. No.

Q. Okay.

MR. SCHWARZ: Can we take a break for a minute?

MR. BYRNE: Sure.

(Whereupon, a short recess was taken.)

Q. Do you want to correct something?

A. Yeah. On the break I recalculated the five year average for net salvage for 1996 through 2000, and the total company average for that five years would be approximately 8.1 million dollars. So that is the new number. In context of your previous questions about areas where it changed, obviously moving from a ten year to five year would have been a recognition of less expense.

Q. Okay.

A. That is what that is, 8.1 million.

Q. But I guess that five year has the sort of aberrant 1998 $500,000 number in it; is that right?

A. As well as the 1996 high cost of removal.

Q. Okay. The 8.1 million you just gave me, that is AmerenUE nonjurisdictionalized. So it's got Illinois AmerenUE in it too?

A. Correct.

Q. Let me ask you this. Would it be fair to say that Staff's primary role in this proceeding is to protect ratepayers from bearing unjustified costs?

A. No.

Q. What in your view is Staff's primary role?

A. Our role in this review was to put together a cost of service that results in just and reasonable rates for safe and adequate service.

Q. Okay. On another topic, I'd like to ask you some questions about the amortization of the difference between actual and theoretical reserve. Now, my understanding is you are sponsoring that item; is that right?

A. **That's correct.**

Q. And that is -- was another one that was originally Mr. Schweiterman's?

A. **Yes.**

Q. Can you tell me what actual reserve is?

A. **The actual depreciation reserve is the accumulation of depreciation expense over the years that has accumulated while the plant was in service.**

Q. Okay. So every year when the company is incurring its depreciation expense, it gets added to the -- in an accumulating total, and that is the actual reserve?

A. **That reserve is offset by retirements of plant and the incurring cost of removal. It's also increased for salvage recognized.**

Q. And then what is theoretical reserve?

A. **The theoretical reserve as I understand it from Ms. Mathis' deposition is the reserve -- for purposes of this case, would be the reserve that should be in place or exists today I believe given current depreciation rates.**

Q. So in other words, if the Staff's --

well, yeah, if Staff's calculation of the theoretical reserve is what the actual reserve would have been if the Staff's depreciation rates would have been in effect through the history of the plant; is that fair to say?

A. That is my understanding.

Q. And do you know how much the difference in this case is between the actual and the theoretical reserve?

A. I believe Ms. Mathis identifies in her testimony approximately 460 million dollars.

Q. Okay. Let me ask you this: Isn't a significant difference between Staff's depreciation rates -- well, let me start over. Isn't by far the most significant difference between the way the Staff's proposed depreciation rates are calculated in this case and the way depreciation rates have been calculated in the past the exclusion of net salvage costs from the depreciation calculation?

A. That would be a change from my understanding of the way depreciation rates were calculated in the past.

Q. I mean, isn't that the most significant driver of that difference between actual and theoretical reserve?

A. I don't know that.

Q. Okay. Can you assume for a minute -- for purposes of the rest of my questions about this, assume that about ninety percent of that difference is attributable, ninety percent of the difference -- well, I won't pin it down to a number, but assume the vast majority of the difference between the actual and theoretical reserve that Ms. Mathis has calculated is attributable to the elimination of net salvage cost from the depreciation calculation.

A. Okay.

Q. I assume -- let me get this on the record too. I assume you are not the one that calculated actual or theoretical reserve. That was Ms. Mathis, wasn't it?

A. Correct. The actual reserve would have been verified by another Staff accountant.

Q. Okay. But not you?

A. Correct.

Q. Your role, again, you are pretty much just given this difference, and then you determine how it should be recovered or over what period it should be amortized?

A. Well, Mr. Schweiterman testified to the amortization period. I am merely adopting his testimony, but we did have discussions, that's correct.

Q. Let me ask you this: To the extent that the difference Ms. Mathis has calculated reflects the elimination of the net salvage component from the depreciation calculation, isn't she effectively retroactively going back and changing the treatment of net salvage that the Commission afforded the company in previous cases?

A. I guess my answer would be no, since I don't see the distinction between that change and a change in a life that would also cause a theoretical reserve.

Q. Well, I understand that both types of things could change the theoretical reserve. Both types of things could make the theoretical reserve different from the actual reserve, okay. I understand that. I am only talking about to the extent that it's attributable not to changes in lives, not to other factors, but to the extent that difference, that 400 and however million dollar difference is attributable to taking net salvage out of the depreciation calculation, isn't she effectively going back and taking the benefit of the Commission's prior treatment of net salvage away from the company, their treatment of it in prior cases?

A. And I think my answer would still be the same, that it's not any different than a change in life which the Commission would have approved in a prior case. The treatment is the same.

Q. Well, let's examine the difference. If the life changes, if the Commission sets depreciation rates in the past and the life is too short, shorter than it should be, then the company will overaccrue its depreciation reserve; is that correct?

A. Correct.

Q. And then in that case when later on the depreciation rates are lowered to reflect a longer life for that asset, there will be a difference between theoretical and actual reserve attributable to that change in life; is that right?

A. Yes.

Q. But in that case -- and I guess that

should be -- at least if it's very significant it ought to be amortized, just like you're amortizing the difference between theoretical and actual reserve in this case, right?

A. That would be a possible solution, correct.

Q. But in the end when the difference between the theoretical and actual reserve is attributable to a change in the life of the property, in the end the company will still recover all of the costs associated with that piece of property, won't it?

A. Yes.

Q. Even though there has been a change in the rates in midstream during the life of the property, at the end of that property's life, the company will have recovered, depreciated all of the original cost of that property, even though there were some changes in the rates in the middle of the life; isn't that correct?

A. If the rates go -- if the rate change goes the direction you describe, that's correct. If it goes the other way, no.

Q. Okay.

A. If the rates start off too short and

go longer, you create a reserve, a theoretical reserve deficiency that's positive. If the rates start long and go shorter, the reserve deficiency is negative. That reserve deficiency theoretically isn't recovered until that plant is fully retired, and then an amortization would have to be set up.

Q. Okay. But in my example where the company is overaccrued because the depreciation rates have been set too high because the life was too short early on in the life of the asset, and then there is a correction, the longer life is recognized, the depreciation rates are lowered, and the amortization -- and then there is an amortization of the difference between theoretical and actual reserve. In the end the company will recover dollar for dollar the original cost of the property; isn't that right?

A. Under your scenario, I believe so, yes.

Q. Let's compare that to net salvage. What if at first net salvage is included as an item of depreciation. It's included in the depreciation formula for seventy or a hundred years. Then there is a course correction, where depreciation is calculated without net salvage cost in it. Instead, the net salvage cost is for the first time included as an expense, and then a theoretical reserve is calculated assuming there is no net salvage in the depreciation rate creating a huge overaccrual for the company. To the extent that overaccrual is due to the removal of net salvage from the depreciation rates, isn't it true the company will never recover that net salvage because it didn't include it as an expense for the seventy or hundred years leading up to the time of the change in policy? Its opportunity to recover those costs is gone; isn't that true?

A. No.

Q. Okay. How do we recover the net salvage from thirty years ago that's effectively being removed from our rates?

A. It's reflected in your reserves as you go forward. The actions of cost of removal and net salvage are reflected in your reserves. To the extent that you overaccrued at X1, XO1, you have been held or you have recovered all of the prior cost of removal and net salvage, or it's reflected in that reserve.

Q. That's true, but to the extent that I am amortizing the difference to bring theoretical reserve -- I mean to bring actual reserve in line with theoretical reserve, to the extent in this case I have to take 23 -- what is it. I believe it's 23 million dollar expense for twenty years in a row. What's happening is the benefit of those previous depreciation rates, which included net salvage, is being taken away from the company. That is what that 23 million dollars is, isn't it, to the extent it's attributable to net salvage?

A. The benefit that you are referring to is the fact that over whatever period of time ratepayers paid 460 million dollars in excess of cost to remove one's salvage, if you want to attribute the whole amount to net salvage. That is what that attributes to.

Q. And I think under Staff's theory, instead of paying for that net salvage through a depreciation rate, under Staff's new theory they should have been paying for the cost of net salvage through an expense, right?

A. Okay.

Q. But they didn't pay it through the

expense, right?

A. They paid for it, though.

Q. Through the depreciation rates, right?

A. Which is reflected in the reserve.

Q. Which is reflected in the actual reserve, but not the theoretical reserve.

A. But your -- but if the cost of removal and the actual reserve is reflected as of June of 2000 -- June 30th of 2000, December 31st of 2000. The actual activity of cost of removal and salvage for all those prior seventy years that you put in your questions is reflected in the actual reserve as of June -- or December 31st, 2000.

Q. That's correct. I agree with that. But to the extent that you're amortizing the difference between actual and theoretical reserve to bring the actual reserve down to the theoretical reserve, to eliminate that 400 million dollar difference between actual and theoretical reserve, to the extent you are asking the company to reduce rates by 23 million dollars attributable to that over the next twenty years, what you're doing to the extent that is attributable to net salvage is you are taking away the net salvage that you had previously let them recover -- that you had previously let the company recover through its depreciation rates, aren't you?

A. That they didn't expense.

Q. Right.

A. The 460 million, if you attribute it to net salvage, is the amount of net salvage that was accrued that wasn't expensed.

Q. I understand on a going forward basis what you are saying is take it out of the depreciation rate, but at the same time you are entitled to recover an amount as net salvage expense; isn't that right?

A. That's correct.

Q. You know, you can't do one without the other. If you take it out of the depreciation rate, you have to allow us to recover it as expense. Would you agree with that?

A. Uh-huh, yes.

Q. But when you amortize the actual reserve down to the theoretical reserve, you are taking away -- to the extent that difference is attributable to net salvage, you are taking away our recovery of net salvage, but there is no opportunity to go back and recover it as an expense; isn't that true?

A. No.

Q. How can we go back and recover it as an expense?

A. You recovered net salvage as an expense through the depreciation rates.

Q. We did, and it's reflected in the actual reserve, but now --

A. The net is. Not the total. The net.

Q. The net what?

A. I will give you an example. If in a year you through depreciation rates were allowed to accrue ten million dollars of net salvage, and you had actual expense of five million, your reserve would reflect the net of the ten and the five.

Q. Okay. Okay. But -- okay. I see what you are saying.

A. So it's not -- I am not depriving -- the Staff is not depriving through this theoretical reserve calculation the company's past recovery of net salvage. This is the net.

Q. But you are to the extent -- to the extent of the net that you just described; is that right?

A. **Because the Staff is now recognizing net salvage as an expense, that portion that is now -- or that can be identified, now in my belief either life changes or net salvage, we're amortizing that over twenty years.**

Q. So would it be fair to say it's as though the Commission treated net salvage as an expense in the past?

A. **I don't know if I'd phrase it that way. I haven't given -- I haven't thought about how this would be viewed as treating Ameren in the past.**

Q. Okay. Why did you amortize the difference over twenty years as opposed to some other period?

A. **Going less than a twenty year period created a number or a dollar expense disallowance that I had concerns with. I discussed the adjustment with my division director and recommended using a twenty year to lessen the effect, but also to try to provide some timely recognition of the amount, and it was agreed upon to use twenty.**

Q. Did you calculate any other periods?

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

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

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

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

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

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

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

A. I have reviewed them briefly.

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

A. That's what the title says.

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

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

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

A. Yes, that's correct.

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

A. Yes.

Q. And toward the end of that paragraph -- or the bottom half of that paragraph says I guess in explaining the reasons for repealing it, it says "The rule is obsolete concerning rate based regulated companies. The rule prescribes the uses of income on investments from depreciation funds, the appropriate interest rate, and how the funds are accounted for when setting reasonable rates. The current practice, which has been used for several decades, is to use the accumulated depreciation reserve amount as a reduction to rate base when calculating reasonable rates." Is that a correct reading of that?

A. **You read it correctly.**

Q. Okay. I guess what I'd like to ask you using a simple example is how does the Commission calculate rates accounting for the accumulated depreciation reserve currently, and how would it do it under the terms of this rule. The example I have hopefully that's simple enough to follow, let's imagine a utility has a billion -- that's billion with a B -- dollars in original cost rate base. Let's say it has 500 million dollars in accumulated depreciation. Let's say the Commission determines that an overall rate of return of ten percent would be the appropriate overall rate of return for the utility. Now, my understanding is -- I realize this is an oversimplified example, but my understanding is the way things work under the Commission's current practice is that it would take the one billion dollars, billion with a B, of original cost rate base. It would subtract the 500 million dollars of accumulated depreciation, yielding a result of 500 million dollars. Then it would multiply the authorized return by the net rate base number of 500 million dollars, yielding a return component in the rates of 50 million dollars. Is that correct?

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

Q. Okay. Now, under this rule that's obsolete and proposing to be repealed, my understanding is that the accumulated depreciation reserve is not subtracted from the rate base. Instead, using my example calculation, you would multiply the original cost rate base, which is the one billion dollars, times the ten percent authorized return, and you would get a return of 100 million dollars. Then as an offset to that return, the ratepayers would get a credit for the investment income earned on accumulated depreciation reserve of three percent. So the ratepayers then would get a credit of three percent times the accumulated depreciation reserve of 500 million dollars, which would be 15 million dollars a year. So the net effect of applying this rule in my simple example would be a 100 million dollar return reduced by a fifteen million dollar credit. Is that your understanding?

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

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

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

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

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

relationship between revenues, expenses, and investment.

Q. The test year that the Staff's direct testimony advocates is what in this case?

A. The twelve months ending June 30th, 2000, updated through December 31st, 2000.

Q. Again, this is another item that you are sponsoring that was originally in Mr. Schweiterman's testimony; is that correct?

A. That's correct.

Q. Okay. Let me ask you -- I have got some statements about test years, and I'd like to see if you agree or disagree with these statements. Okay. First statement is a test period should include cost and sales data that are expected to be representative of those that will be experienced during the time rates are likely to remain in effect.

A. Could you read that again?

Q. A test period should include cost and sales data that are expected to be representative of those that will be experienced during the time the rates are likely to remain in effect?

A. I would disagree with that statement and say that the test year is the mechanism used

to establish the relationship between revenues, expenses, and investment that will be expected to occur the years rates will be in effect.

Q. But the absolute level of the cost of revenues wouldn't necessarily have to be the same as long as the relationship is the same?

A. Staff does not attempt to predict with certainty any levels of expenses or revenues that will be in effect the year rates are in effect. Likewise investment.

Q. You said you don't attempt to predict with certainty. Obviously no one can predict with certainty, but do you even attempt to predict at all?

A. In some instances depending on the lag between -- strike that.

In some instances given the expense and the relationship of that expense to the other three components, sometimes that can be very close.

Q. But you don't see -- well, let me ask it this way: Would you agree with the statement that the test year is a proxy for the future period in which rates being set in a rate case will be in effect?

A. To the extent that you use the word proxy to mean what I testified previously that the proxy is the relationship between the revenues, expenses, and investment that are established in a test year and update if necessary, I'd agree with that.

Q. But once again, it's what's important to you is the relationship between those elements, not their absolute value; is that fair to say?

A. That's correct.

Q. Got some other statements. Your answer may end up being the same or close, but let me read them to you anyway. The next one is the purpose of the test year is to develop a representative cost of service reflecting jurisdictional sales, revenues, operating and maintenance expense, depreciation expense, income tax, and a fair return on rate base for the period during which the rates being set will be in effect.

A. Same answer as before.

Q. Okay. How about the cost of service or revenue requirement must be sufficient to cover all of the ordinary and necessary costs that will be incurred to provide service to customers?

A. **I disagree.**

Q. Disagree with that?

A. **(Witness nods head.)**

Q. How come?

A. **Read it to me one more time.**

Q. The cost of service or revenue requirement must be sufficient to cover all of the ordinary and necessary costs that will be incurred to provide service to customers.

A. **Those -- that statement assumes that all costs are necessary to provide service to the ratepayers. That is not necessarily true. The standard would be that the costs -- that all the relationships have to be just and reasonable, auditable, known and measurable in order to provide safe and reliable service.**

Q. But I guess the trouble I am having with it, and I think the trouble in the previous deposition the other lawyer for Ameren had, is there no forward looking element to your view of what the appropriate test year is?

A. **As long as the person is confident that the relationships that were developed within**

the context of the test year and update period are reflective or will be reflected the years rates are in effect, no.

Q. Let me ask you this. Do you agree with this statement: The central purpose of a test year is as a predictor?

A. No.

Q. Okay. Let me ask you this: Would you agree that all other things being equal, it is better to have a more current test year rather than an older test year?

A. I don't know.

Q. What else would it depend on, or what would it depend on?

A. Availability of information.

Q. Well, assume equal availability of information.

A. Generally a test year -- a test year can be any twelve months. It's the work that's required to assure that the relationships are still appropriate to suggest that those relationships will be in effect the year rates are in effect. That is the hurdle. If a person believes that adopting the most recent data is the best solution to address that situation, then

that is the case. However, that is not the rule. Adoption of any test year, if properly analyzed, requires that that relationship must go and must be continually looked at to make sure that it still gives -- that it still reflects the proper relationship that you believe would be there when the rates are in effect.

Q. So there is nothing inherently better about a more recent test year?

A. Not in my mind.

Q. Okay. And you mentioned a rule in your second to last answer. Are you thinking of a rule that's written down somewhere or a rule that is in the Commission's rules? What rule were you talking about? If you want, he can read back your answer.

A. I don't remember.

(Whereupon, the answer was read back by the court reporter.)

A. Right. There is no written rule in my mind that says the Staff or any party has to adopt the most recent data for a test.

Q. Let me ask you this: Your test year ends June -- your proposed test year in your direct testimony ends at the end of June 2000, right?

A. Correct.

Q. That was about a year, almost a year to the day or I guess a little more than a year to the day prior to the date that the complaint was filed; is that right?

A. That's correct, but that test year was updated.

Q. Updated at the end of 2000?

A. December 31st, 2000.

Q. And then -- but the end of the test year, now we are in December, and so it's getting close to eighteen months ago, is that correct, that that test year ended?

A. The time period between June 30th, 2000 and December of 2001 is eighteen months, I will agree with that.

Q. And then if the Commission -- I mean, I don't want to even guess what the schedule could be like for this case, but if the Commission sets a hearing in March or April, you would be getting close to two years since the end of the test period, maybe 20, 21 months, however many months that is. Is that right?

A. I will accept that.

Q. Have you -- in your experience, has there ever been a case where the Commission has used a test year that's of similar age compared to, say, the hearing date, assuming the Commission's hearing is in March or April of 2002?

A. Yes. I believe in the Southwestern Bell complaint case there was a substantial delay between the -- substantial margin of time between the Staff's test year and the hearings.

Q. Would that have been -- just so I can pin it down, would that have been like the complaint case from the late eighties?

A. The complaint case in the eighties would have been 89-14. I believe that was the case. There has also been -- there was also I believe another Bell case where a test year was substantially -- there was a substantial lapse of time between the test year and the hearings due to the fact that there was an accounting change in the company's books that the Staff didn't want to recognize. I also believe there was a substantial amount of time in the test years for the nuclear cases.

Q. For the UE and --

A. Kansas City Power and Light cases involving the nuclear plants coming on-line.

Q. In those cases that you mentioned was the test year contested?

A. I am -- I believe in at least both Bell cases the test year -- I know in the Bell complaint case the test year was an issue. I believe there was -- I don't recall the other Bell case. The nuclear cases, I don't recall that being an issue, no.

Q. Okay. So the ones where it was an issue or might have been an issue, that is the two Bell cases, right?

A. Correct.

Q. One of them, one of the two cases, the age of the test year was attributable to Southwestern Bell changing its accounting system pretty substantially; is that true?

A. The accounting system changed, and the Staff didn't want to recognize an accounting system change, so they adopted another test year.

Q. Okay.

A. There has been other test year issues involving companies. Your question, though, I thought was phrased such that test years where an

extended period of time existed between the test year and the time when the parties went to hearing.

Q. Yes. That's right. Let me go back to this relationship point, and my understanding of what you're saying is the important thing is not the timing of the test year. It's not the absolute level of costs or revenues that are in the test year, but *instead of those things*, the important thing is establishing a relationship between costs and revenues and investment; is that right?

A. That's correct.

Q. But I have some trouble understanding that. I guess let me try to explore that in this way. Let's imagine that you have a test year long ago. Let's say you took the twelve months that was in 1925, okay, and obviously in 1925 all of the costs were a lot lower. All of the revenues were a lot lower. Probably the returns on investments were a lot lower maybe, I don't know, but let's say just coincidentally 1925 had the same relationship of revenues, expenses, and costs as prevails now. I mean, you couldn't use -- you are not saying you could use 1925 as a reasonable test year, could you?

A. **You would be indifferent.**

Q. But I mean, how would you set rates using that as a test year? Wouldn't the costs be orders of magnitude lower than they are now? So how could you use costs from that test year to set rates for today?

A. **Well, your initial question I thought said that you assumed that the relationships were the same between the two periods.**

Q. Sure, but the ones in 1925 are all like a tenth of what they are now, but their relationship relative to each other is the same.

A. **The relationship of the test years would be the same. Obviously there would have to be some modification made to the rate to reflect current prices, but the relationships -- when you said -- you made the assumption that the relationships were the same. From that your question was could I use 1925 as a test year. My answer was yes. Now, there is going to be some difficulty, and it's going to require some work to transform the 1925 test year, which I think you have gone to a little bit of an extreme, to price that into today's dollars.**

Q. I mean, couldn't you look at it another way. I mean, I understand and I agree with you that it is important that the test year -- a test year be picked that has the right relationships between those elements that you identified. But isn't another important characteristic in addition to that and not in place of that that the absolute level of costs be at least somewhat representative of what the costs are likely to be in the period when the rates are going to be in effect?

A. You capture that when you've captured the correct relationship between those three things that we talked about.

Q. How do you capture that if 1925 has the relationships and its costs are a tenth of what the costs are now? How does that capture the costs that are going to be expected to be incurred in the future?

A. Well, as you and the attorney that deposed me last week or week before, you keep taking one component out of the equation. You keep wanting to zero in on one component. As I said before, it's all three of them. You can't take one out. You've got to keep them all.

Q. How would you use a 1925 test year that had the same relationships -- or that had the appropriate relationships between expenses and revenues and investment? How would you take that and create rates for 2002?

A. As I said -- I didn't say it was going to be easy. I said you could do it. You made the assumptions that the relationships were correct.

Q. What would you do?

A. You would have to take the relationships that existed in 1925 and reflect those relationships to current levels. It would take an extremely -- a lot of work. I would probably advise someone, would suggest that in 1925 versus the one that you looked at here where they were the same, I would probably suggest that the person take the most current one, absent going through the work. Now, given that, I am not aware in my 22 years with being with the Commission where we have had a 65 year difference between test years. I'll say that we have had differences between one and two and three years. That is when the relationship and analysis becomes even more important.

Q. But Greg, the reason that you haven't -- I think the reason that you haven't picked test years in 1925 is because there is more to it than just the relationships. It's the relationships, plus there is also an element of wanting to have costs in the test year that are representative of those that are going to be experienced in the future. Isn't that true?

A. That is where the work comes in from the end of the test year, to make sure that those relationships and that relationship priced out at today's dollars and quantities are consistent.

Q. So when you go through this pricing out as you called it of today's costs and revenues, I guess, that is where you ensure that the adjusted test year reflects an appropriate level of revenues and expenses; is that true?

A. Well, let me step back. I have never had to deal with a test year that is 76 years old. So I have never been faced with that type of work. I can tell you that in the context of this case it has been monitored going forward, and I would still suggest that the Staff's test year is appropriate.

Q. Okay. Let me ask you this: I assume

that the Staff believes that AmerenUE is overearning right now as we sit here; is that right?

A. Absolutely.

Q. And to the tune of whatever the rate reduction proposed is, right?

A. I would -- I am very confident that they are in an overearning situation. The magnitude can be left up to the Commission to decide.

Q. Let me ask you this: Do you believe that AmerenUE was overearning during the test period in this case, during the Staff's proposed test period?

A. Yes.

Q. Do you believe they were overearning even before the Staff's proposed test period in this case?

A. The analysis that was presented in the Staff's February 1, 2001 report would indicate that AmerenUE was overearning prior to the beginning of EARP's.

Q. You think it's been overearning ever since then?

A. The table on page 27 would indicate

that the company has been in an overearning situation when utilizing Staff methodologies in those particular timeframes, yes.

Q. So since even before the EARP up until now. Is that the timeframe you are talking about?

A. Just so there is -- let me make sure that it's clear. When I say I believe you are overearning, that would be absent the fact that you participated -- that AmerenUE participated in the EARP's.

Q. Got you.

A. I don't believe I could -- because of the EARP's, I don't believe the Staff could make that type of determination in those periods.

Q. Okay. Do you think it's appropriate for the Commission to consider whether the company was overearning or underearning in the past in determining the result of this case?

A. Is your question phrased such that there won't be another alternative regulation plan?

Q. I guess my question is just is that one of the factors the Commission should consider in making its decision in this case?

MR. SCHWARZ: I will object. It calls for a conclusion as to relevance of a prior period experience. I think that that is a legal conclusion. I will direct him not to answer.

MR. BYRNE: Not to answer?

MR. SCHWARZ: Not to answer.

MR. BYRNE: In that case, I think I'm done. Thank you very much, Mr. Meyer.

(Whereupon signature was not waived and the witness was excused.)

COMES NOW THE WITNESS, GREG R. MEYER, and having read the foregoing transcript of the deposition taken on the 6th day of December, 2001, acknowledges by signature hereto that it is a true and accurate transcript of the testimony given on the date hereinabove mentioned.

____

[GREG R. MEYER]

Subscribed to before me this __________ day of ________________________________, 2001.

____

[Notary Public]

My commission expires: ______________________.

MO. Public Service Commission vs. Union Electric
Reporter: William L. DeVries, CSR/CCR/RMR/CRR
Date Taken: December 6, 2001

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

NOTARIAL CERTIFICATE

I, WILLIAM L. DEVRIES, Certified Shorthand Reporter and a duly commissioned Notary Public within and for the City of St. Louis, State of Missouri, do hereby certify that there came before me at the offices of the Missouri Public Service Commission, 815 Charter Commons Drive, Suite 100B, St. Louis, Missouri,

GREG R. MEYER,

who was by me first duly sworn to testify to the truth and nothing but the truth of all knowledge touching and concerning the matters in controversy in cause; that the witness was thereupon carefully examined under oath and said examination was reduced to writing by me; and that this deposition is a true and correct record of the testimony given by the witness.

I further certify that I am neither attorney nor counsel for nor related nor employed by any of the parties to the action in which this deposition is taken; 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.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 10th day of December, 2001.

My commission expires May 30, 2002.

____
[NOTARY PUBLIC]

WILLIAM LAWRENCE DEVRIES
Notary Public State of Missouri
City Of St. Louis
My Commission Expires 05/30/2002

ERRATA SHEET

Deposition of: Gregory R. Meyer

Case Caption: EC-2002-1

Date Taken: November 29, 2001

Page	Line	Correction	Reason
9	14, 23, 25	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
10	12	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
11	7	"incent" should read "incentive"	Clarity
11	11	"is" should read "are"	Clarity
11	12	"incents" should read "incentives"	Clarity
18	4	"percentage" should read "percent"	Clarity
19	23	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
22	10	"$215 million" should be "$250 million"	Wrong number
51	5	Insert the words "to reflect" in between "applied" and "the"	Clarity
55	2	"quantify" should read "qualify"	Wrong word
67	21	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
68	5, 7, 10, 15, 24	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
69	14, 17	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
70	3, 6, 14, 21	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
72	17	"you're" should read "you've"	Wrong word
73	12	"Accountant" should read "Accounting"	Clarity
73	25	"sign" should read "assign"	Wrong word
74	6, 12	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
76	19	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
76	19	"weighted" should read "relied"	Wrong word
80	5	"is" should read "are"	Clarity

Page	**Line**	**Correction**	**Reason**
80	7	"formated" should be "formatted"	Misspelling of word
89	5	Misspelling of Schallenburg – Correct to Schallenberg	Misspelling of name
94	18	"in" should read "and"	Wrong word
96	14	Delete the first "do" in the line.	Clarity
104	19	Add "Q." at the beginning of the line	This seems to be part of the question asked by Mr. Wolski.
104	22	"our" should read "your"	Wrong word
108	2	Change first "on" to "in"	Clarity
114	4	"in" should read "and"	Wrong word
120	7	"plant" should read "plan"	Wrong word
129	13	"counting" should read "accounting"	Clarity

Signature: Gregory R. Meyer

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION,	)	
Complainant,	)	
vs.	)	Case No. EC-2002-1
UNION ELECTRIC COMPANY d/b/a AMERENUE,	)	
	)	November 29, 2001
Respondent.	)	Jefferson City, Mo

DEPOSITION OF GREGORY R. MEYER

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BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION,	)	
Complainant,	)	
vs.	)	Case No. EC-2002-1
UNION ELECTRIC COMPANY d/b/a AMERENUE,	)	November 29, 2001
Respondent.	)	Jefferson City, Mo

DEPOSITION OF GREGORY R. MEYER,

a witness, sworn and examined on the 29th day of November, 2001, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the Governor Office Building, Room 810, in the City of Jefferson, County of Cole, State of Missouri, before

PATRICIA A. STEWART, RPR, CSR, CCR
Registered Merit Reporter
ASSOCIATED COURT REPORTERS
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P.O. Box 1308
Jefferson City, Missouri 65102
(573) 636-7551

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

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Steve Rackers, Public Service Commission
Lena Mantle, Public Service Commission
Lynn M. Barnes, Manager, Ameren
Michael D. McGilligan, Principal, Towers Perin

SIGNATURE INSTRUCTIONS:

Obtain signature; waive presentment.

EXHIBIT INSTRUCTIONS:

Attached to the deposition.

INDEX

EXHIBITS INDEX

(MEYER DEPOSITION EXHIBIT NO. 1 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)
GREGORY R. MEYER, having been sworn, testified as follows:
MR. WOLSKI: Welcome, Mr. Meyer. You've seen a lot of these over the last couple of weeks. I'm sure you know what we're doing.
But first let me go around the room and get on the record everyone who is present, beginning with, stating your full name.
And the witness can state his address for the record, but we don't need for everybody else to.
THE WITNESS: Gregory R. Meyer, 815 Charter Commons Drive, Chesterfield, Missouri, 63017
MR. DOTTHEIM: Steven Dottheim with the Staff of the Missouri Public Service Commission.
MR. RACKERS: Steve Rackers with the Missouri Public Service Commission.
MR. COFFMAN: John B. Coffman for the Office of the Public Counsel.
MS. BARNES: Lynn Barnes with Ameren Corporation.
MR. MCGILLIGAN: Mike McGilligan with Towers Perrin, an actuary for the Plaintiff.
MR. WOLSKI: And I'm Victor Wolski from Cooper & Kirk, representing AmerenUE in this case.

DIRECT EXAMINATION BY MR. WOLSKI:

Q. Now, Mr. Dottheim is representing you today, is he not?

A. That's correct.

Q. Okay. Have you ever been deposed before?

A. Yes, I have.

Q. On how many occasions?

A. Five.

Q. Were they all rate or complaint cases?

A. No.

Q. Could you explain the five times that you were deposed, just briefly?

A. I was deposed in an Arkansas Power & Light rate case, I was deposed in a Southwestern Bell Telephone complaint case, and I was deposed in a Union Electric complaint case.

MR. DOTTHEIM: Mr. Meyer, could you speak up?

THE WITNESS: Sure.

BY MR. WOLSKI:

Q. And the other two occasions were for personal matters?

A. I was deposed in an employee investigation relating to the Commission, and I was deposed on a wrongful death suit.

Q. Did that relate to the Commission?

A. No.

Q. Just so there is no misunderstanding about what we're doing, I'll run through the ground rules just so we have them on the record.

Then as you know from taking depositions before, this is a procedure for taking your testimony under oath in connection with a pending legal action in this case. It's the complaint case brought by the Staff against AmerenUE.

And even though we're here in an informal setting in the conference room, the Commission's Staff's offices over here in Jefferson City, you're still giving testimony today under penalty of perjury just as if you were testifying in a court of law.

Do you understand that?

A. Yes.

Q. And as you see, the court reporter is taking down everything that is being said during the course of the deposition. And after the deposition, unless Steve waives it, you'll receive a copy of the transcript and be able to read it and make corrections and sign it as your testimony in this case.

Do you understand that?

A. Yes.

Q. Okay. And you understand that as I'm asking you questions, that your counsel, Mr. Dottheim, might from time to time object to the form of the question for purposes of getting the objection on the record, but you're still to answer the question unless he instructs you not to answer.

Do you understand that?

A. Yes.

Q. Okay. Feel free if you don't understand one of my questions to ask for a clarification. You could also ask the court reporter to read back the question.

If you don't ask for a clarification, I'll assume that you understand the question as was phrased.

Do you understand that?

A. Yes.

Q. Okay. And there may be times when you don't know an exact answer to one of my questions but you have some information on the subject or you can make some reasonable approximation or estimate, and if so, I'd like you to provide that information that you do have.

Is that clear?

A. Yes.

Q. And as you know from seeing several of these depositions the last couple of weeks, that the court reporter can't transcribe two people talking at the same time. So it's important for us not to talk over each other and interrupt each other as we're moving along.

Do you understand that?

A. Yes.

Q. And you also understand that she can only put down on the record verbal responses, so that a shake of the head or nod of the head wouldn't suffice. So I would ask you to make sure that all of your answers are verbal.

Do you understand that?

A. Yes.

Q. 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. And 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. What steps have you taken to prepare for today's deposition? Could you explain?

A. I've had discussions with the Staff, various members of the Staff. I have reviewed various documents, reviewed my workpapers, my testimony.

Q. Do you recall what documents you reviewed to prepare for the deposition?

A. My testimony, the summary of workpapers provided to the Company, the stipulation and agreement in ER-95-411.

Q. And that case was?

A. The report and order from -- that stipulation and agreement was the result of the first Experimental Alternative Regulation Plan.

Q. Okay. And which Staff members did you discuss your testimony with?

A. Steve Rackers, Steve Dottheim, perhaps Bob Schallenburg.

Q. And could you explain what your discussions with Mr. Rackers pertained to?

A. Clarifications of certain aspects of the pensions and OPEB areas.

MR. WOLSKI: Can we go off the record one second?

(OFF THE RECORD.)

BY MR. WOLSKI:

Q. And your conversations with Mr. Schallenburg, do you recall what they might have pertained to?

A. If I had discussions with Mr. Schallenburg, it would have been on the same -- similar to the same lines as with Mr. Rackers.

It might have included discussions of prior alternative regulation plans and discussions of interpretations of this alternative regulation plan.

Q. And were those discussions pertaining to the alternative regulation plan as it would deal with the pension and OPEB issues?

A. No.

Q. What were the issues concerning the alternative regulation plan, or the EARP, that you may have discussed with Mr. Schallenburg?

A. The distinction between the EARP and performance-based regulation or incentive-based regulation.

MR. DOTTHEIM: Mr. Meyer, you said EARP. Will you please spell that?

THE WITNESS: Experimental Alternative Regulation Plan, EARP.

BY MR. WOLSKI:

Q. And what would those distinctions be?

A. I'm sorry?

Q. What would the distinctions be between the EARP and other performance-based plans or incentive regulation plans?

A. Basically our discussion centered around the Staff's belief that the EARPs are not performance-based regulation, or a form of incentive-based regulation.

Q. What would be the hallmarks or characteristics of incentive-based regulation?

A. There would have to be goals distinguished at the outset of the plans to provide some form of an incent for the company that would be under that plan to work to achieve.

Q. What sort of goals would those be?

A. There is numerous. Traditional cost of service regulation has various forms of incents built into their rates.

Q. Would the goals pertain to performance measurement? Would it pertain to service quality measurement?

A. It could be any of those.

Q. Efficiency measurement?

A. If you can document that.

Q. Okay. If you know, what were the goals -- and these -- these goals would have to be in your mind in the -- it's probably not the best way to phrase it. Let me rephrase that.

Is it your belief that those goals would have to be expressly provided in the document that creates the incentive plan?

A. Absolutely.

Q. Okay. And do you recall what the specific goals were of the Southwestern Bell incentive plan?

A. The one goal that I do recall is that the -- in the context of the SBIRE, which is Southwestern Bell Incentive Regulation Experiment, S-B-I-R-E, was the commitment of the Company to modernize its system through the replacement of certain telephone switches, central office switches, the elimination of one-party service, and there was one other infrastructure improvement.

And the Company was required during that period to file either quarterly or semiannual reports to track that progress, so that in addition there was a sharing mechanism.

So that during the term of the plan, one could track change or the improvements in the infrastructure of the Company.

Q. And the sharing mechanism was designed to track these changes?

A. No.

Q. What was the purpose of the sharing mechanism?

A. The purpose of the sharing mechanism was to -- was a mechanism to share earnings similar to the EARP above a certain return on equity.

incentive plan?

A. Absolutely.

Q. Okay. And do you recall what the specific goals were of the Southwestern Bell incentive plan?

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So that during the term of the plan, one could track change or the improvements in the infrastructure of the Company.

Q. And the sharing mechanism was designed to track these changes?

A. No.

Q. What was the purpose of the sharing mechanism?

A. The purpose of the sharing mechanism was to -- was a mechanism to share earnings similar to the EARP above a certain return on equity.

Q. And why was that included in the Southwestern Bell plan?
A. I don't recall.
Q. Okay. Had any of the requirements of the Southwestern Bell plan -- you said modernizing system, making some service changes and infrastructure improvements.
Had any similar requirements ever been part of a stipulation and agreement that would settle the case involving a utility that did not result in an incentive plan?
A. Could you repeat that?
Q. Sure. I might be able to phrase it a little better.
Do you recall any times or any occasions in which a utility case, either a rate case or a complaint case, was settled with the stipulation and agreement, and in that stipulation and agreement there would be requirements placed on the utility similar to the requirement to modernize the system, for instance, that was in the Southwestern Bell stipulation and agreement?
A. Yes.
Q. And were there any stipulation and agreements settling other utility cases that would require changes in service or services offered by a utility?

A. When you say "services," are you referring to customer services?

Q. Well, you had said that one of the goals for the Southwestern Bell plan was to eliminate -- they were required to eliminate one-party service?

A. Correct.

Q. And I guess that would be a service that was customer service, essentially, or a service provided to the customers? Is that --

A. If you took that, I misspoke.

In the Southwestern Bell experiment, the requirement was for everyone to receive one-party service.

Q. Okay.

A. People around -- in certain areas of their service territory were still receiving multi-party service.

Q. And that would be like Green Acres where they had to climb up on the pole?

A. Lake of the Ozarks.

Q. And so that would be a change in the service provided to customers?

A. Correct.

Q. And had any change in the service provided by customers been a requirement in a stipulation and agreement between the Staff and a utility that would settle a case that did not result in an incentive plan?

A. I believe so.

Q. Okay. And the infrastructure improvements you said were a requirement.

Had any infrastructure improvements, to your knowledge, been a requirement in any stipulation and agreements to settle a case between the Staff and a utility that had not resulted in an incentive plan?

A. I'm aware that they're a component. I'm not sure that -- that it wasn't a result of Commission orders.

Q. But based on your understanding of what incentive regulation or performance-based regulation would be, is the Southwestern Bell plan the only example that has been the result of an agreement with the Missouri Public Service Commission Staff?

A. Besides the alternative regulation plan that UE was in for the past six years, Southwestern Bell's alternative regulation plan was the only alternative regulation plan that I'm aware of.

Q. Okay. So that if infrastructure improvements were required through a Commission order or through a stipulation and agreement to settle another case, those infrastructure improvements would not have been part of the incentive plan. Correct?

A. Correct.

Q. And to your knowledge have there been instances when incentive improvements were required of the utility in the resolution of a rate case of a utility or a complaint case?

A. Yes.

Q. Okay. Now, before we started the deposition this morning, I believe you had pointed out to us that there were some corrections that would be necessary to the Staff accounting schedules that you noticed when reviewing the workpapers?

A. Yes.

Q. And you had provided us a copy of one of your workpapers with some corrections identified that would need to be reflected in a revised accounting schedule?

A. The ultimate change would flow to the accounting schedules, correct.

Q. And we've marked as your Exhibit 1 a copy of that sheet.

Could you please explain what the errors are that you identified that will need to be corrected --

A. Okay.

Q. -- briefly, if you could?

A. The recognition of the pension gains and losses for each of the plan years for 1996 to 2000, some of these years had the incorrect amounts listed.

Specifically, the amount listed in 1997 should be the amount that was listed in 1996, and the 1996 amount should be obtained from the actuarial report for 1996.

There has been some discussion between the Staff and the Company off the record about the proper reflection of what the gain and loss balance should be in 1998.

The gains and losses in the year 2000 and 1999 reflect total Ameren gains and losses. Those were allocated improperly to get to AmerenUE, using a factor of 70.11 percent. The correct allocation factor should be 68.26 percent.

That would affect the amortization of the gain/loss balance adjustment as shown in the middle of the worksheet, which is found in the accounting schedules under S-19.7.

The pension adjustment related to eliminating the market related value of the assets, which is quantified in accounting schedule under S-19.5, has the wrong AmerenUE allocator. And that should be 68.26 percent.

Also, under the amortization of the gain/loss balance for pensions, the gain or loss per the actuarial report of 2000 was improperly allocated, again, using 70.11 percent factor. It should have been -- it should have used the 68.26 percent factor.

The annualizations of pensions and OPEBs expense did not reflect the allocation to Missouri electric. Therefore, the 100 percentage factors listed in those adjustments should be changed to 90.11 percent.

These adjustments will -- the changes in these adjustments will flow to the accounting schedules and will be reflected in the adjustments that are contained in there.

Q. Okay.

A. They will also affect -- I believe they also will affect the reconciliation of the pension and OPEB expense schedules that are contained as Schedules 3.1 to 3.2 to my testimony.

Q. Okay.

A. I might also point out that -- I don't believe we've used any yet -- but many of these numbers are -- a discussion in this area has been classified as proprietary.

MR. WOLSKI: And I think what we will do with this transcript, as with the other transcripts in this case, is that it will be marked confidential on the cover page and identified as containing proprietary information.

And we will promptly review the transcript and determine which portions could be released and which portions would be redacted for public purpose.

MR. DOTTHEIM: Fine.

MR. WOLSKI: Thanks for pointing that out.

BY MR. WOLSKI:

Q. Okay. And do you happen to know, Greg, when the adjusted accounting schedules and the adjusted schedules to the testimony might be finalized?

A. The corrected worksheet will be provided within the next -- in the immediate future.

We apologize for the changes that were found last night, but at that point, considering the preparation for today, it wasn't possible to get you a new sheet.

As far as the changes being reflected on the accounting schedules, we are in the process of gathering several changes that have been either identified in previous depositions or that Staff became aware of subsequent to the July filing, and I would anticipate that a new accounting schedule can be provided sometime in the next two weeks.

Q. Okay.

If you could turn back for a moment to your recollection of the Southwestern Bell plan and the discussions you had with Mr. Schallenburg.

Do you recall if any of the -- do you recall if the sharing mechanism for the Southwestern Bell plan was contingent on the meeting of the goals that you elicited, the modernization of the system, the extension of one-party system, the infrastructure improvements?

A. It never became an issue.

Q. But was it expressly provided in the plan that the sharing mechanism would be triggered based on these goals being met; it would be stopped or shut off based on these goals being met or not met?

A. I just don't recall.

Q. Well, could you explain how the goals that you identified for the Southwestern Bell plan provided any greater incentive to the Company to meet the goals than would be the normal case if those goals were provided in a stipulation and agreement or a Commission order in a nonincentive plan resolution?

A. I believe there was an advantage due to the fact that if the Company maintained its modernization schedule, in exchange for that, it was allowed to remain not subject to a rate review by the Commission or any other party.

Q. And that was expressly provided in the plan?

A. A rate moratorium. Is that what you're asking?

Q. That the rate moratorium is contingent on these goals being met?

A. I don't know that there was specific -- a specific time, but with many stipulations and agreements there are a set of conditions. Those just happen to be two of them.

Q. And did the Southwestern Bell plan have any time tables -- or points in time in which the satisfaction of these requirements would be measured?

You had mentioned --

A. Yes.

Q. -- there were quarterly reports.

When the quarterly report was filed, was Southwestern Bell required to demonstrate that a certain percent of modernization had occurred by that time?

A. Yes.

Q. Okay. Had any similar requirements been imposed on utilities other than Southwestern Bell in the resolution of rate or complaint cases?

A. I'm sorry. I didn't understand the question.

Q. Had any similar requirements, filing a report so that progress could be measured towards meeting a certain goal, had any requirements like that been placed on utilities in the resolution of other utility cases?

A. I'm aware that in order to comply with the Commission's rule on safety line replacement -- for their safety line replacement program, that the companies are required to file reports.

Q. So the Commission could impose a requirement that a utility report progress towards a goal based on regularly scheduled reports in the resolution of a case even if there was no incentive plan adopted in that case?
A. I suppose.
Q. Now, are you aware of the total size of the revenue reduction proposed by the Staff in this case?
A. Yes.
Q. And what do you understand that amount to be?
A. A range of $213 million to $215 million annually.
Q. And do you understand the impact that that would have on UE's rates?
A. I haven't made that calculation.
Q. Okay. In performing your work on this case, have you held any role other than the role of a person who was providing testimony on the two items in your testimony?
A. Yes.
Q. And that role would be?
A. I was assigned as a case coordinator, along with Lena Mantle.
Q. And what would the job of the case coordinator be?
A. It's our responsibility to put together -- or

to make sure that the case is put together and that the testimony is filed and that the issues are hopefully coordinated.

Q. By coordinating the issues, do you mean that adjustments made by one Staff member that would affect the calculation of another Staff member should be communicated, things like that?

A. It's our attempt to do that.

Q. Okay. And as case coordinator, then, you're aware of all of the testimony filed by Staff members in the case?

A. I'm aware of -- I was aware of all of the witnesses that filed testimony.

Q. And did you review the testimony prepared by each of the other witnesses?

A. I don't believe I reviewed everyone's testimony.

Q. But reviewing the testimony would be part of the -- would that be part of the job of a case coordinator?

A. Not necessarily.

Q. As case coordinator, do you have a greater sense of the overall impact of the adjustments proposed by the Staff compared to the understanding of any individual auditor who would be working on one piece of direct testimony?

A. It would depend on the experience of the -- of the case coordinator.

Q. But based on your experience, do you feel that you have as good an understanding of the total impact of the adjustments being proposed as any other member of the Staff?

A. A comparison to the rest of the Staff would be a hard measure. I believe I'm adequately trained to make those decisions.

Q. In doing your work on this case, have you considered the impact of the revenue reduction that's proposed on AmerenUE's ability to make needed investments?

A. Is your question did I look at the revenue requirement recommendation by the Staff and assess whether AmerenUE could make needed investments?

Q. Yes.

A. No.

Q. Okay.

Did you look at the rate reduction and consider its impact on UE's ability to invest in new generation?

A. No.

Q. Or its ability to invest in infrastructure?

A. No.

Q. In doing your work on this case, have you considered the impact of the revenue reduction that's been proposed on AmerenUE's stock price?

A. Are you asking me if I've made a --

Q. A judgment as to what --

A. What the stock --

Q. -- the impact on the stock price.

Let me clarify.

If you made a judgment on what the impact on Ameren's stock price would be if the rate reduction that is proposed were to go into effect?

A. No, I have not.

Q. Are you aware of the mergers and acquisitions involving American utilities over the last few years?

A. Through either conversations with other Staff or review of periodicals, yes.

Q. So you do have some familiarity with that, with the mergers and acquisition?

A. Just as I previously testified.

Q. And were you aware that Louisville Gas and Electric was taken over by a British company?

A. I've been made aware of it through previous depositions.

Q. In performing your work in this case, did you consider whether the revenue reduction proposed by Staff would make AmerenUE more vulnerable to a take-over bid?

A. No.

Q. In doing your work for this case, have you considered the impact of the revenue reduction that was proposed by Staff on economic development in the state of Missouri?

A. I did not make a study.

Q. Had you considered that at all?

A. No.

Q. Okay. And you're aware of the impact of the adjustments that are proposed in your testimony on the total revenue reduction that's proposed by the Staff, correct, or at least what it will be once the numbers are --

A. I presently do not have the dollar impact that those adjustments would have on the Company's total revenue requirement.

I'm still confident that it would be a reduction.

Q. Okay. Now, the Public Service Commission is obligated to set rates that are just and reasonable. Is that correct?

A. Yes.

Q. And it's obligated to balance the interests of ratepayers, the investors and shareholders of the utility and the general public?

A. I believe so.
Q. And one purpose of your job as a member of the Staff of the Commission is to develop the recommendation to the Commission as to what UE's revenues should be?
A. What UE's cost of service should be, right.
Q. What is your understanding of the term "just and reasonable"?
A. When I hear the term "just and reasonable," it's usually associated with the phrase "just and reasonable rates."
In my opinion, the outcome of just and reasonable rates has to be an analysis and proper relationship and proper presentation of the revenues, expenses and investment of a company that would produce the result.
Q. So the first step is to determine what the proper revenues are and then get those translated into the rates?
A. In my opinion, the first step is to establish the relationship between revenues, expenses and investment. Once that is accomplished, the reciprocal -- or the effect of that is just and reasonable rates.
Q. So that just and reasonable rates are the outcome of the process of determining revenues, expenses and investment for a particular company?

A. It's the outcome of the relationship of those factors as you mentioned, correct.

Q. And in performing your job as a Staff member of the Commission, you're required to give the Commission sufficient information and analysis to allow them to determine just and reasonable rates?

A. It's my requirement to provide, along with other members of the Staff, the Staff's viewpoint and the data that would support a calculation for just and reasonable rates.

Q. And once the schedules and exhibits to the testimony are revised, the adjustments that you're proposing in this case in your opinion are designed to help the Public Service Commission determine just and reasonable rates for AmerenUE?

A. Are you specifically asking me in the areas of pensions and OPEBs that I testified about?

Q. Yes, in the schedules you've sponsored and the attachments to your testimony and the numbers in your testimony.

It's a little confusing because I understand that they have to be corrected.

But the adjustments that you ultimately will be proposing are designed to help -- or the goal of them is to help the Public Service Commission determine what just and reasonable rates should be for the ratepayers of UE?

A. I believe that the outcome of the adjustments as corrected for the pensions and OPEBs areas will produce just and reasonable rates for UE as they -- as they have consistently done for other utilities in the state of Missouri.

Q. So you believe that if the Commission were to accept your proposed adjustment, insofar as that proposed adjustment results in different rates being set, those rates would be just and reasonable?

A. Different rates being set than are presently being charged?

Q. Different rates being set than would be the case if you hadn't proposed the adjustment.

Maybe I can clarify.

Your proposed adjustment is a just and reasonable adjustment for purposes of determining what the end rate should be?

A. Correct.

Q. Okay. And in making this recommendation to the Commission, you considered all of the factors that you believe are material to the pension and the OPEB numbers?

A. I followed the methodologies that have been used consistently for utilities that operate in Missouri for purposes of the Ameren calculation.

Q. And in doing that you believe that all of the factors that are material to the determination of the proper -- the determination of the proper treatment of the pension and OPEB numbers, expenses, et cetera, were considered by you?

A. I didn't say that.

Q. In preparing your testimony do you believe that you considered -- and maybe I misphrased.

In preparing your testimony do you believe that you considered all of the factors that are material to determining what the proper treatment of the pension and OPEB adjustments should be?

A. I think, as I previously testified, I included all of the factors from the Company's data to calculate the pensions and OPEBs adjustments as have been consistently applied to most of the major utilities in the state of Missouri.

Q. And you believe that there are no other factors that are important to the determination of these issues that were not considered?

A. I guess I'm somewhat confused by your question because it's very -- it's very broad.

Q. Well, you said that you've done this consistent with the methodology applied to other companies. I'm just trying to verify that every important factor in making