

Exhibit No.:

Issues: Legal Fees; Midwest ISO;  
Environmental Expense;  
Fuel Costs for Coal Inventory;  
Payroll; Incremental Overtime

Witness: JOHN P. CASSIDY

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: EC-2002-1

Date Testimony Prepared: June 24, 2002

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**JOHN P. CASSIDY**

**FILED<sup>3</sup>**

**JUN 24 2002**

**Missouri Public  
Service Commission**

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

**CASE NO. EC-2002-1**

Exhibit No. 73 NP

Date 7/10/02 Case No. EC-2002-1

Reporter KRM

Jefferson City, Missouri  
June 2002

**NP**

**\*\*Denotes Proprietary Information\*\***

**\*\*Denotes Highly Confidential Information\*\***

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

The Staff of the Missouri Public Service )  
Commission, )

Case No. EC-2002-1

Complainant, )

vs. )

Union Electric Company, d/b/a AmerenUE, )

Respondent. )

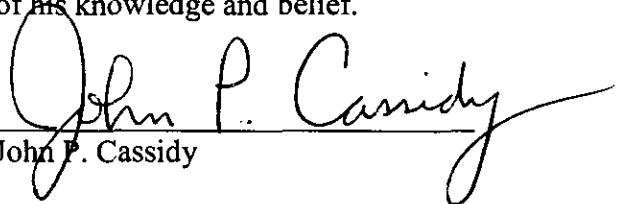
AFFIDAVIT OF JOHN P. CASSIDY

STATE OF MISSOURI )

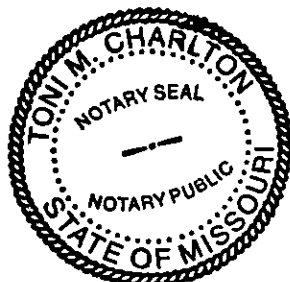
ss. )

COUNTY OF COLE )

John P. Cassidy, is, of lawful age, and on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 30 pages to be presented in the above case; that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
John P. Cassidy

Subscribed and sworn to before me this 24<sup>th</sup> day of June, 2002.





TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004

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1 Q. What is your response to the rebuttal testimony of Company witnesses Baxter,  
2 Lyons, Weiss and Whiteley regarding the issues of legal expense, environmental expense,  
3 Midwest ISO exit fee, fuel costs for coal inventory, payroll and incremental overtime  
4 associated with Callaway refueling?

5 A. The Staff disagrees with the reasoning stated in the rebuttal testimonies of all  
6 of these witnesses regarding their proposed ratemaking treatment of these expenses. The  
7 Staff will address the rebuttal testimony of each Company witness and will also respond to  
8 some specific comments made by each witness in their respective rebuttal testimony.

9 Q. Are you adopting any of the direct testimony sponsored by the Staff in this  
10 proceeding?

11 A. Yes, I am. Due to medical reasons, I am adopting the portions of the direct  
12 testimony of Staff Accounting witness Doyle L. Gibbs that concerns the issue of payroll and  
13 the related incremental overtime associated with the Callaway refueling.

14 **LEGAL AND ENVIRONMENTAL EXPENSES**

15 Q. In his rebuttal testimony, Company witness Lyons voices his support for the  
16 Company's adherence to Generally Accepted Accounting Principles (GAAP) when  
17 accounting for legal and environmental expenses for financial accounting purposes. Is the  
18 Staff proposing that the Company deviate from GAAP for financial reporting purposes?

19 A. No. The Staff is not requiring or even suggesting that the Company deviate  
20 from GAAP for financial reporting purposes. To be more specific, the Company is allowed  
21 to recognize and book an estimate of costs for liabilities it expects to incur in a future period  
22 if those amounts can be reasonably estimated, under GAAP. The Staff is not proposing any  
23 modifications to the Company's financial reporting procedures. The Staff is noting that the

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1 accrued amounts for legal and environmental expenses, which the Company reflected in the  
2 test year, are not representative of ongoing levels.

3 Q. On what basis does the Staff support its adoption of the cash basis approach  
4 for legal and environmental expenses which Company witness Lyons represents as a  
5 departure from GAAP?

6 A. The Staff's position is that using a cash basis approach for the expenses is  
7 more reasonable than an accrual approach for ratemaking purposes. It should be noted,  
8 however, that the Staff's approach is not inconsistent with GAAP, because of Statement of  
9 Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of  
10 Regulation" (FAS 71). FAS 71 is a universally accepted GAAP standard, which is not  
11 mentioned in Mr. Lyons' rebuttal testimony. FAS 71 affords that regulatory commissions  
12 are not controlled by the other FAS because these standards were not designed to be  
13 appropriate for setting rates in the context of ratemaking proceedings. Therefore, the Staff's  
14 use of the cash basis of accounting is not "arbitrary and without foundation" as Company  
15 witness Lyons suggested in his rebuttal testimony on page 14, line 13, nor is it "some home-  
16 cooked methodology" as he indicated on page 15, line 6 in his rebuttal testimony. The Staff  
17 uses a cash basis of accounting to establish an objective basis for purposes of determining an  
18 ongoing level of expense. The cash basis is less subjective than the Company's approach and  
19 it avoids the potential of accruals being used to achieve a predetermined ratemaking result.  
20 The actual cash basis provides the data to properly normalize and annualize the cost level  
21 included in rates. This process eliminates management discretion to increase or decrease an  
22 accrual for future unknown events.

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1 Q. Does the Staff agree with Company witness Lyons' explanation as to why the  
2 Commission should be wary of Staff's departure from GAAP?

3 A. No. Company witness Lyons states in his rebuttal testimony on page 13,  
4 lines 23-25, "Whatever principles the Staff is following, if they may be called principles, it  
5 is clear that they are not any generally accepted or universally recognized method of  
6 accounting." Mr. Lyons continues on page 14, lines 12-13 with the following, "In short, the  
7 Staff's departure from GAAP, the generally accepted accounting standard, is arbitrary and  
8 without foundation." Yet as was explained in the previous question and answer, the Staff  
9 bases its recommendation to use the cash basis of accounting on sound ratemaking theory.  
10 The Staff's position is not acceptable to the Company, but it is consistent with GAAP,  
11 especially the portion of GAAP directly related to this proceeding. Staff witness Mark L.  
12 Oligschlaeger addresses FAS 71 and the relationship of GAAP with regard to ratemaking  
13 practices in greater detail in his surrebuttal testimony.

14 The Staff's adjustments are based on traditional sound regulatory practices  
15 such as the use of the known and measurable standard. Costs should only be considered for  
16 regulatory purposes if the event giving rise to the cost is highly probable to occur and the  
17 impact on ongoing cost of service can be measured with a high degree of accuracy.

18 Q. Has the Commission commented on the relationship of GAAP to ratemaking  
19 and relying on sound regulatory practices for purposes of determining rates in a regulated  
20 environment?

21 A. Yes. In Case No. TR-93-181 et al., involving United Telephone Company  
22 (UTM), the Commission dealt with a post-retirement employee benefits (OPEBs) issue. The  
23 Commission sided with the Staff's approach of using a cash basis rate treatment for these

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costs, as opposed to the Company's proposed accrual method of accounting for OPEBs using FAS 106, "Employers' Accounting for Postretirements Benefits Other Than Pensions."

The following was taken from the Commission's Report And Order from that case:

The Public Service Commission has been charged with the responsibility of regulating the various investor-owned utilities to achieve fairness and balance between the interests of the ratepayers and shareholders and to insure that safe, economical and efficient utility service is provided to the public. Inherent in that responsibility is the obligation to set rates at levels that reflect the cost of service and duly compensate the shareholders for their investment, but protect the ratepayer from abuses of the natural monopoly. The Commission believes that allowing the FAS Board to dictate such a profound effect in rates, and in the balance maintained by the Commission between the ratepayer and the utility through the ratemaking process, without the benefit of the due process normally accorded both the company and the ratepayer in Missouri would usurp the powers and duties of the Commission and violate the clear mandate of the people of the state in giving this Commission its responsibility. The FAS Board is neither elected by nor representative of any constituency. It is the opinion of this Commission that, to allow such a body to simply dictate a rate outcome so far-reaching and expensive to the citizens of Missouri, could well be characterized as an abrogation by the Commission of the public trust placed in it. This is wholly unacceptable to this Commission.

Q. Are the levels of expense included by the Staff for legal and environmental expenses under the cash basis approach appropriate for regulatory purposes?

A. Yes. The Staff has been conservative in its use of the cash basis accounting approach. For legal expenses, the Staff exhibited this conservatism by including one of the highest annual levels of actual legal expense that the Company has incurred during the last five years. Please refer to Schedule 1 attached to this surrebuttal testimony which shows a comparison of the Staff and Company legal expense position at issue as well as a comparison to a three year and a five year average. Similarly, the Staff has been conservative in its cash basis treatment for environmental expense by including one of the highest annual levels of actual environmental expense that the Company has incurred during the last ten years. Also,

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1 the Staff has included an annual level of environmental expense that represents 88% of what  
2 the Company has actually spent in total on environmental expense during the past ten years.  
3 Please refer to Schedule 2 attached to this surrebuttal testimony which shows a comparison  
4 of the Staff and Company environmental expense position at issue as well as a comparison to  
5 a three year average, a five year average and total actual environmental expense during the  
6 past ten years. Furthermore, the Company does not dispute the amount of Staff's cash basis  
7 levels or that these amounts represent ongoing levels of expense anywhere in their rebuttal  
8 testimony.

9 Q. In general, what problems exist with Company witness Lyons' accrual method  
10 of accounting for purposes of determining rates?

11 A. Accrual basis accounting inherently uses an estimate of future costs that have  
12 not yet occurred and are not a factor in the actual operations that existed during the test  
13 period being examined, making it a "hypothetical" method or approach. Company witness  
14 Lyons admits to the shortcomings of his approach on page 19, lines 8-10 "... the accrual  
15 basis of accounting requires some attempt at a forward looking estimation of anticipated cash  
16 flows associated with known liabilities (i.e. incurred costs)." This is an inherent flaw in  
17 using the accrual method to account for legal and environmental expenses in a regulatory  
18 environment. Rates should be based on actual known and measurable costs, which the cash  
19 basis of accounting provides. Rates should not be based on Company's attempts to estimate  
20 what costs will be at some undetermined time in the future as the Company's hypothetical  
21 method provides. Furthermore, if granted the regulatory approval to include hypothetical  
22 levels of legal and environmental expense in the cost of service calculation, the Company  
23 would be granted a "blank check." This blank check would give the Company the incentive

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1 to "fill in the blank" with an overestimate for future anticipated liabilities such as legal and  
2 environmental expense and immediately correct the test year levels after the period occurs or  
3 rates are set. The Staff believes ratepayers must be protected from the Company's proposed  
4 blank check hypothetical approach, which would force them to pay for potentially inflated  
5 predictions of future expenses, which may or may not ever materialize at some undetermined  
6 time in the future.

7 Q. Has the Commission ruled against the inclusion in rates of estimated future  
8 expenses in other rate proceedings?

9 A. Yes. In Case No. ER-2001-299, involving The Empire District Electric  
10 Company (Empire), a case in which Company witness Lyons submitted testimony, the  
11 Commission found that depreciation rates should not include estimated future costs and that  
12 the appropriate time to consider such cost is when they are known and measurable. The  
13 depreciation issue in the Empire case exactly mirrors the Staff's cash basis versus the  
14 Company's hypothetical method at issue in this current case involving AmerenUE. In the  
15 Empire Case, Empire predicted certain future events (the timing and amount of  
16 major maintenance projects and the amount of net salvage to be incurred related to current  
17 plant in service) in determining depreciation expense. In contrast, the Staff relied on data  
18 from past and current events to determine depreciation expense, which did not require the  
19 estimation of costs that may be incurred at an unknown date in the future. This is precisely  
20 the problem at hand in the current case. Company witness Lyons proposes to use a  
21 hypothetical method of accounting for ratemaking purposes, for both legal and environmental  
22 expense, which relies on estimates of future expenses, to be paid out at a date which is  
23 undetermined and unknown. Furthermore, the Company's estimated future levels of

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1 hypothetical legal and environmental expense may or may not ever materialize. The Staff  
2 proposes the cash basis method, for both legal and environmental expense, which relies on  
3 actual, known and measurable data that has already occurred to determine ongoing levels of  
4 expense for these categories. The Commission took a dim view of using estimated future  
5 costs to set rates in the Empire case, as can be seen from the following excerpt taken from its  
6 Report And Order in Case No. ER-2001-299:

7           Because Empire's approach requires that both the date each future  
8           major maintenance cost will be incurred and the magnitude of those  
9           costs be projected, the Commission finds it to be too speculative. The  
10          Commission finds that depreciation rates should not include these  
11          estimated future costs and that the appropriate time to consider such  
12          costs is when they are known.

13          The Staff and Empire also disagree on whether depreciation rates  
14          should include net salvage. Inclusion of net salvage value creates the  
15          need to project the date that plant will be removed, the cost of removal  
16          at the time it is removed and the gross salvage value, for plant that  
17          may never be removed or at least not be removed for some  
18          considerable time after it is retired... This uncertainty provides  
19          sufficient grounds to reject Empire's determination of net salvage cost.  
20          The Staff's approach of treating net salvage cost as an expense based  
21          on Empire's recent historical data reduces this uncertainty... The  
22          Commission finds that net salvage cost considered in setting rates  
23          should be based on historical net salvage cost that Empire has actually  
24          incurred in the recent past and that it should be treated as an expense.

25 The Staff's cash basis approach for legal and environmental expense is entirely consistent  
26 with the Commission's ruling on depreciation expense and net salvage cost in Case  
27 No. ER-2001-299, involving Empire. However, the Company's proposed hypothetical  
28 approach for legal and environmental expense contradicts the Commission's Empire Order in  
29 this current situation involving very similar circumstances, because it seeks to estimate  
30 unknown costs, which might occur at some unspecified dates in the future. Finally, not only  
31 is Mr. Lyons' hypothetical approach attempting to include costs that are unknown in amount

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and date of occurrence, his approach runs the risk of including expenses in the ongoing cost of service that may never materialize.

Q. In what other cases has the Commission ruled against the inclusion in rates of estimated future costs?

A. In Case No. GR-96-285, involving Missouri Gas Energy (MGE), the Commission ruled in favor of the Staff's use of cash basis ratemaking for injuries and damages expense. In that case, the issue revolved around determining injuries and damages expense for the purpose of establishing MGE's rates. MGE proposed to include in its test year all paid losses as well as amounts that MGE accrued to pay losses which have occurred, but for which payment was yet to be made. Again, the Commission ruled against an accrual approach in favor of using actual historical costs, as the following excerpt from that Order demonstrates:

MGE's approach to this issue is not tenable because it would include paid losses, as well as incurred but not paid losses...The Commission finds that the approach utilized by the Staff is the most reasonable one presented because it relies on the actual historical experience of MGE while operating in the State of Missouri.

In Case No. ER-93-41, involving St. Joseph Light & Power Company (SJLPC), the Commission ruled in favor of the Staff's cash basis accounting method for OPEBs. In that case, the Commission ruled as follows:

The Commission finds that the cash basis accounting method is the appropriate method to determine OPEB expense for ratemaking purposes. In addition, the Commission will authorize SJLPC to continue to use the pay-as-you-go method for calculating the amounts charged to post-retirement benefits expenses other than pensions on its financial statements, based on actual payments to retirees. The difference between the expense amount calculated under FAS 106 and the pay-as-you-go amount shall be booked to the Uniform System of Accounts No. 186, Miscellaneous Deferred Debt, as a regulatory asset.

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1 In Case No. TR-93-181 et. al., involving United Telephone Company (UTM),  
2 the Commission dealt with another OPEBs issue that involved cash basis accounting as  
3 opposed to the accrual method of accounting using FAS 106 in accordance with GAAP. The  
4 following are excerpts taken from the Commission Report and Order from that case:

5 It is UTM's position, as supported by intervenors SWBT and GTE,  
6 that all FASB pronouncements are considered part of the generally  
7 accepted accounting principles (GAAP) currently in use by both the  
8 regulated utilities and the Commission. UTM is of the opinion that the  
9 Commission is obliged to accept FAS 106 as part and parcel of the  
10 GAAP standards...

11 UTM maintains that the use of GAAP standards are required by the  
12 Securities and Exchange Commission in conjunction with the external  
13 auditing of investor-owned companies...

14 In addition, UTM argues that accrual accounting for OPEBs properly  
15 matches the cost of providing service with the revenues received for  
16 that service. This is commonly referred to when discussing the OPEB  
17 issues as "intergenerational equity." UTM feels this will match the  
18 "cost causer with the cost payer." In addition, as the result of the  
19 rising cost of medical care, UTM maintains that the accrual method  
20 will avoid extraordinary cost to ratepayers at some time in the future,  
21 when those costs are actually incurred. Finally, UTM states that, to  
22 avoid inaccurate estimates as the result of the inherent uncertainty  
23 regarding actuarial assessments, the accrual amount for OPEBs will be  
24 adjusted annually.

25 The Staff and OPC are opposed to any form of accrual accounting for  
26 OPEBs. The Staff takes the position that the Commission should  
27 maintain pay-as-you-go accounting for the expense level of non-  
28 pension benefits including in the revenue requirement determination...

29 The Staff disagrees with UTM in its contention that the accrued  
30 amount under FAS 106 is known and measurable. The Staff points out  
31 that the ability to make an actuarial calculation for OPEBs does not  
32 make them known and measurable for ratemaking purposes...The  
33 Staff states that the actuarial calculations themselves may be correctly  
34 done, but the costs and expenses are incapable of being measured.  
35 Assumptions must be made to make these actuarial calculations.

36 After an in-depth review of the issues and testimony surrounding the  
37 proposed adoption of FAS 106, the Commission reaffirms its current

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1 position. For ratemaking purposes, the pay-as-you-go method will  
2 continue to be used for OPEBs. ...

3 In summary, the Staff's cash basis approach for both legal and environmental  
4 expense follows previous Commission precedent in similar situations in cases involving  
5 Empire, MGE, SJLPC and UTM. In all of these cases, the Commission ruled against  
6 including in rates hypothetical estimates of future costs because they were not known and  
7 measurable and because of the uncertainty of whether the costs will ever really be incurred.  
8 In all of these cases, the Commission found that traditional regulatory practices involving the  
9 known and measurable standard, and the use of actual historical expenses levels that the cash  
10 basis method provides, was superior to reliance on GAAP for purposes of determining rates.

11 Q. Does Mr. Lyons' rebuttal testimony contradict the Commission's view of  
12 using uncertain future cost estimates to establish ongoing rates?

13 A. Yes. In several places in his testimony this contradiction can be found as the  
14 following examples demonstrate:

15 Staff's recommendation of the cash basis... recommends setting rates  
16 on a purely backwards looking, inductive basis, rather than a forward-  
17 looking basis. ... Lyons page 18 lines 14, 16-17.

18  
19 A utility such as AmerenUE frequently incurs costs, the cash impacts  
20 of which will not be borne by the Company for some years to come.  
21 For instance, environmental and legal liabilities may not be satisfied  
22 for up to and over five years. Lyons page 18, lines 18-20.

23 More importantly, as I will explain in more detail below in rebutting  
24 specific adjustments, the accrual basis of accounting requires some  
25 attempt at a forward looking estimation of anticipated cash flows  
26 associated with known liabilities (i.e. incurred costs). For instance, the  
27 Company's accrual for injuries and damages is based on estimates of  
28 legal liability made by those intimately familiar with the likely  
29 exposure in any given case. Lyons page 19, lines 7-12.

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1           Accrual accounting, on the other hand, ...attempt[s] to estimate  
2           probable cash flows to be paid in a future period. Lyons page 21, lines  
3           16-17.

4           Q.     Does Company witness Lyons acknowledge that the Staff's cash basis method  
5           of accounting for legal and environmental expense is based on actual, known and measurable  
6           costs?

7           A.     Yes. Company witness Lyons states on page 21, lines 2-5 the following:

8                     While the Staff's adjustment is indeed based on actual known and  
9                     measurable cash flows – associated with costs long since incurred in  
10                    the provision of electric service – Staff makes no attempt to relate  
11                    those cash flows to the costs of any future period.

12          Q.     What is the Staff's response to Company witness Lyon's assertion that the  
13          Staff's cash basis approach "makes no attempt to relate those cash flows to the costs of any  
14          future period?"

15          A.     The Staff disagrees with Company witness Lyons that the cash basis approach  
16          of using actual known and measurable expenses to determine rates will not necessarily relate  
17          to what will take place in the future. These costs are the best indication of future ongoing  
18          cost based upon the data available. Mr. Lyons has provided no information to indicate that  
19          historical levels will not continue into the future. The Staff's cash basis approach provides a  
20          method of determining rates based on known and measurable costs, which is consistent with  
21          previous Commission orders in similar circumstances, as opposed to the Company's method  
22          of using hypothetical estimates.

23          Q.     Does AmerenUE consistently apply its use of accrual accounting to all of its  
24          areas of expense?

25          A.     No. When asked if AmerenUE accrues for costs associated with the Callaway  
26          refueling, an event that happens every eighteen months, the Company indicated that no

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1 accruals are performed. The following is Company's response to Staff's inquiry contained in  
2 Staff Data Request No. 182:

3           Based upon my research, a decision was made by Senior Management  
4           to book Callaway refueling costs as they actually were incurred.  
5           AmerenUE has not accrued for future period expenditures, if the  
6           service or material has not been received/performed in the current  
7           period.

8 This example illustrates the inconsistency with which the Company applies accrual  
9 accounting. AmerenUE is unwilling to accrue for expenditures associated with the Callaway  
10 refueling that it knows will be incurred within eighteen months, but it is willing to accrue for  
11 both environmental and legal expenses which take several years until services are received  
12 (see Lyons page 18, lines 18-20), if they are ever received. Please refer to the Company's  
13 response to Staff Data Request No. 182, which is attached as Schedule 3, to this surrebuttal  
14 testimony.

15           Q.     During the next two years, what is the level of electric related environmental  
16 liability expense exposure that the Company possibly may incur related to environmental  
17 cleanup?

18           A.     In the response to Staff Data Request No. 37 in Case No. EC-2002-1, the  
19 Company indicated that the most it would spend on cleanups at Sauget areas 1 and 2 would  
20 be between \*\* P                      \*\* over the next two years.

21           Q.     When did the contamination of the Sauget areas 1 and 2 occur?

22           A.     The Company has indicated to the Staff that Sauget area 1 was originally  
23 contaminated during the 1920's while Sauget area 2 was contaminated during the 1960's and  
24 1970's. AmerenUE only became aware that the United States Environmental Protection  
25 Agency (EPA) and the United States Department of Justice (DOJ) had named them as a  
26 potentially responsible party to the environmental cleanup during the year 2000.

NP

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1           Q.   Mr. Lyons states on page 21, lines 16-18 that "Accrual  
2 accounting...attempt[s] to estimate probable cash flows to be paid in a future period, and to  
3 recognize those costs when they are incurred in the provision of electric service."  
4 Does Mr. Lyons hypothetical method truly "recognize costs when they are incurred in the  
5 provision of electric service?"

6           A.   No. The Staff contends that Mr. Lyons' proposed hypothetical method does  
7 not truly recognize costs when they are incurred. Mr. Lyons' hypothetical method of  
8 accounting for environmental expenses only attempts to match costs with ratepayers who  
9 were customers at the time the Company became aware of its potential responsibility as a  
10 party to an environmental contamination, which actually occurred decades ago. To achieve  
11 intergenerational equity, this matching would require holding ratepayers who were customers  
12 at the time the actual contamination took place as being responsible for the environmental  
13 cleanup, since they were the actual customers of the Company when the events triggering  
14 this environmental cleanup expense occurred. Mr. Lyons fails to recognize that his method  
15 still does not truly address the intergenerational equity problem. The ratepayers he is asking  
16 to pay for the liability are those who happened to exist when another event occurred, namely,  
17 the Company gaining knowledge of their being a potentially responsible party to the liability  
18 of cleanup. These ratepayers are not the same ratepayers who were customers when the  
19 contamination occurred decades ago. Mr. Lyons' method is also not fair or consistent with  
20 an intergenerational equity viewpoint like the Staff's that requires ratepayers who are  
21 customers at the time the environmental costs are actually known and measurable, to bear  
22 these costs. This is true because the costs proposed for inclusion by Mr. Lyons are so  
23 speculative that they may never occur.

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1           Q.     How does the Staff respond to Company witness Lyons' point that because of  
2 the length of time associated with environmental remediation projects, postponement of  
3 recovery in rates until environmental liabilities are actually paid (i.e. a cash basis is used),  
4 requires ratepayers who did not benefit from the Company's actions to pay for those actions?

5           A.     The Company does not truly match environmental expenses to the ratepayers  
6 who were customers at the time when the environmental contamination took place.  
7 Customers rarely achieve true intergenerational equity. Intergenerational equity requires a  
8 highly speculative estimate to quantify a future expenditure. There is a high probability the  
9 estimate will require adjustment in the future. Therefore the customers that pay the future  
10 costs will not be the same customers that will receive the benefit of the modification.  
11 Sometimes these corrections are made outside of rate cases, thereby creating a situation  
12 where customers never receive the benefit. Regulatory approval of the Company's  
13 hypothetical approach would give the Company a blank check to fill in at its convenience.  
14 The Company would always have the opportunity to overstate rates in any future case based  
15 on its own estimates of future costs. This provides an ongoing incentive to overaccrue  
16 expenses. Under such a scenario, the Staff would be placed in a position of trying to  
17 determine if the Company's prediction of future costs is accurate. However, such future  
18 costs are not known and measurable. This would lead to overcharging customers today and  
19 on an ongoing basis for a prediction regarding an unknown cost that may occur, if ever, at  
20 some future unspecified date. For these reasons, the Company's hypothetical approach  
21 should not be permitted in a ratemaking environment.

22           Q.     Please respond to Company witness Lyons' assertion that "the cash basis is  
23 readily subject to self-interested manipulation."

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1           A.     The Staff finds Company witness Lyons' thought process as expressed in his  
2 rebuttal testimony on page 20, lines 1 through 10 disturbing. Here, Mr. Lyons states the  
3 following:

4                     ...the cash basis is readily subject to self-interested manipulation.  
5                     Were the Commission to adopt it, nothing would prevent a utility from  
6                     cooking its books as surely as the sun rises and sets. Staff, proposes,  
7                     for instance that the cash basis is appropriate for injuries and damages.  
8                     Were that to be the rate making treatment, nothing would prevent a  
9                     company from settling a large number of cases in a given year – and  
10                    promptly filing a rate case based on that test year. A company could  
11                    similarly monkey with its books through creating pre-payments –  
12                    having vendors bill in advance for services yet to be rendered; or it  
13                    could manipulate its environmental expenses in a manner similar to  
14                    injuries and damages. The simple fact is that unlike USOA-mandated  
15                    accrual basis, the cash basis is rife with opportunity for manipulation.

16                The controllers of utilities under the jurisdiction of the Commission should  
17 never entertain thoughts of manipulating their books. The energy and accounting industries  
18 are currently paying for a significant loss of public trust because of these types of actions.  
19 The Staff believes Mr. Lyons' accruals are more readily subject to self-interested  
20 manipulation. If the Company decided to settle a large number of injuries and damages  
21 cases, under a cash basis approach the Staff would audit the underlying reasons and prudence  
22 supporting these actions. If the Company decided to buy a 100 year supply of office supplies  
23 and tried to include it as an ongoing expense, the Staff would not include such a level as a  
24 reasonable, ongoing, prudently incurred level of expense. The Company would then be  
25 exposed to the possibility of not receiving enough revenues to cover its expenditures. The  
26 Company could not game the system, as easily as Mr. Lyons suggests, because by using the  
27 cash approach the Staff would always have the data supporting these actual known and  
28 measurable costs to examine and could review under what circumstances they were incurred.  
29 Therefore, in Mr. Lyons hypothetical example, he suggests inclusion in the cost of service

Surrebuttal Testimony of  
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1 amounts of actual costs that would be unreasonable and not reflective of ongoing levels, as  
2 well as being imprudently incurred. Similarly, using Mr. Lyons' example, if the Company  
3 were to create pre-payments with vendors to bill in advance for services, this would involve  
4 collusion with a party outside of the Company, which would increase the chances of being  
5 discovered. Highly irregular activities of this nature could be discovered as a result of the  
6 document trail that would be available for examination. In addition, because expenses have  
7 been incurred, there are invoices to examine and actual costs to audit and question.

8           Quite to the contrary, the Staff contends that it is the Company's hypothetical  
9 method that is readily subject to self-interested manipulation on Company's part. This is  
10 because under the Company's hypothetical method there would be no invoices to examine.  
11 There would be no actual known and measurable cost trail to examine, only the Company's  
12 prediction as to what the costs may be at some undetermined date in the future. If the  
13 Commission upheld the Company's hypothetical method for ratemaking purposes, the  
14 Company would only need to collude with itself to always overestimate future levels of  
15 expense, thereby forcing its ratepayers to pay for expenses that may never materialize. The  
16 Company's ratepayers must be afforded protection from the opportunity for ratemaking  
17 abuse that this blank check approach for legal and environmental expenses would provide to  
18 the Company within a regulatory context.

19 **Environmental**

20           Q. Is AmerenUE's environmental accrual and corresponding reserve balance  
21 determination based solely on the liability it expects to incur related to the electric  
22 operations?

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1           A.     No. A major component of the Company's determination of its environmental  
2 accrual is based on estimates of liabilities that relate to Manufactured Gas Plant (MGP)  
3 cleanups that the Company is involved with. In the late 1800s and early 1900s, MGPs  
4 existed to manufacture gas from coal to heat homes and businesses. This process was  
5 discontinued when it became possible to transport natural gas from gas wells through long  
6 distance pipelines. As a result, MGP sites were abandoned since they were no longer  
7 economically feasible. The EPA is currently in the process of identifying and evaluating  
8 these sites because of the potential contamination from coal tar and other residual chemicals  
9 left in the soil when the MGP sites were abandoned. The Staff contends that the Company's  
10 accrual for its electric operations is improperly inflated because it includes estimates of the  
11 MGP liabilities, which should be accounted for separately as part of the Company's gas  
12 operations. Currently, the Company determines their environmental accrual based on their  
13 liability exposure for gas and electric as well as nonjurisdictional Illinois operations. Then  
14 the Company allocates roughly 3-4% of this amount to gas operations and approximately  
15 another 8% to Illinois operations. The following chart shows the minimum and maximum  
16 estimated liabilities related to MGP cleanup which has impacted its accrual decision, but  
17 which is in no way related to the Company's electric operations:

18	**		<u>HC</u>	<u>                    </u>	<u>                    </u>
19		<u>HC</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
20		HC	_____	_____	_____
21		HC	_____	_____	_____
22		HC	_____	_____	_____
23		HC	_____	_____	_____
24		_____	_____	_____	_____
25		HC	_____	_____	_____
26		HC	_____	_____	_____
27		HC	_____	_____	_____

\*\*

Surrebuttal Testimony of  
John P. Cassidy

1 Considering the fact that the Company estimates that the most it expects to expend during the  
2 next two years is \*\* P \*\* for electric related cleanup at Sauget, the Staff  
3 believes that it is the MGP cleanup that is driving the Company's determination of its  
4 environmental accruals. In addition, the Alton MGP cleanup is related to the Company's  
5 Illinois operations. Therefore, the Company's accrual is heavily biased with MGP expense  
6 that has no relationship to the Company's electric operations. Also, to reiterate the  
7 discussion in my direct testimony on page 17, lines 3 -5, "Even after making this  
8 (environmental) adjustment (S-17.3), the Company will still have an over-accrued  
9 environmental reserve balance in excess of \*\* P \*\* to serve as a cushion against  
10 any large future environmental expenses." In addition, the Staff is proposing to include in  
11 rates on an annual ongoing basis, \*\* P \*\* of additional environmental expense,  
12 which represents one the highest twelve month levels of environmental expense the  
13 Company has incurred during the past ten years. The Company would need to spend  
14 \*\* P \*\* before it would even need the level of expense the Staff is allowing in this  
15 case on an annual ongoing basis.

16 Q. What amount of funds has the Company already received in credits as part of  
17 the EARP for environmental expenses?

18 A. During the first three years of the first EARP, the Company accrued and was  
19 allowed to recover \*\* P \*\*. This represents an amount that is even larger than the  
20 Company's anticipated maximum exposure of \*\* P \*\* related to cleanups at  
21 Sauget Areas 1 and 2 over the next two years.

Surrebuttal Testimony of  
John P. Cassidy

**Legal**

Q. Has the Staff been able to adequately examine the support for the Company's test year legal expenses?

A. No. The Staff requested supporting documentation for test year legal expenses that pertained to matters concerning Case No. EC-2002-1 (and the related earnings investigation) in Data Request No. 92. A representative portion of the Company's response to this data request is attached as Schedule 4 to this surrebuttal testimony. The Company has indicated that it has redacted information that is protected by the attorney-client privilege. As can be seen by viewing the attached response, the Company has redacted pertinent information, preventing the Staff from making an accurate assessment of the Company's actual test year legal expense respecting AmerenUE. For example, the Staff is being asked to assume that the activity that is redacted relates to AmerenUE and the Staff's earnings investigation/complaint case rather than other legal activity respecting Ameren. This response does not justify inclusion of the level of legal expenses included in the test year.

The Staff contends that if this were a rate case instead of a complaint case, the Staff would propose to disallow the Company's outside legal expense until such time that the Company provided adequate justification and support to the Staff. Given that this case is a complaint case, and staying consistent with its conservative treatment of the Company's expenses in this case, the Staff has given the Company actual paid outside legal expenses in its cost of service calculation, with exception of approximately \*\*P - \*\* of nonrecurring legal work performed in relation to the third sharing period of the second EARP. Certainly, the Company's lack of support for legal costs associated with this complaint case is justification for not allowing any additional legal fees in rate case expense

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John P. Cassidy

1 as part of the ongoing cost of service. For a further discussion regarding the area of rate case  
2 expense, please refer to the direct and surrebuttal testimonies of Staff witness Leasha S. Teel.

3 Q. Is any other Staff witness addressing cash versus accrual issues?

4 A. Yes. Staff Accounting witness Mark Oligschlaeger is also addressing these  
5 issues in his surrebuttal testimony.

6 **MIDWEST ISO**

7 Q. What is the Company's position on how the Midwest ISO exit fee should be  
8 treated?

9 A. In his rebuttal testimony, Company witness Baxter, proposes to include a  
10 four-year amortization of the \$12.5 million exit fee. However, if the Staff does not agree to  
11 include a four-year amortization of the exit fees in its cost of service calculation, Mr. Baxter  
12 argues that the Staff should include approximately \$6 million of estimated future  
13 Midwest ISO administrative expense. This estimated level of Midwest ISO expense is  
14 described in Company witness Whiteley's rebuttal testimony on page 16, lines 3-15.

15 Q. Subsequent to the Staff's direct testimony filing, has AmerenUE reached a  
16 decision on whether it will rejoin the Midwest ISO?

17 A. Yes. AmerenUE has announced that it will rejoin the Midwest ISO and will  
18 begin operations under the Midwest ISO no later than four months after receipt of the last  
19 regulatory approval. Within 60 days of receipt of FERC approval, AmerenUE will receive a  
20 full refund of the \$12,502,000 exit fee payment, with interest. Attached as Schedule 5 to this  
21 direct testimony is an Ameren Service Company Compliance filing before the FERC and an  
22 executed agreement between AmerenUE and the Midwest ISO which explains Ameren's

Surrebuttal Testimony of  
John P. Cassidy

1 intent to rejoin the Midwest ISO and also the settlement terms for refunding AmerenUE's  
2 exit fee with interest.

3 Q. Does the Staff propose to disallow the Midwest ISO exit fee "based on the  
4 speculation that it will be refunded at some point in the future" as was portrayed in the  
5 rebuttal testimony of Company witness Warner L. Baxter on line 18, page 54 and supported  
6 by Company witness Whiteley on page 15, lines 12-20?

7 A. No. The basis for the Staff's disallowance of the Midwest ISO exit fee is that  
8 it is a one time, non-recurring event as the Staff has previously stated in its direct testimony.  
9 However, it is an important point to realize that the Company will receive a full refund for  
10 the exit fee expense with interest, because it further compounds the problem associated with  
11 Company's proposal to allow the Company to recover this Midwest ISO exit expense  
12 through the use of a four year amortization. If given a four year amortization of  
13 Midwest ISO expense, the Company would be allowed to recover from ratepayers an item  
14 that is not only one time and non-recurring, but will also be recovered from the Midwest ISO.  
15 To allow this item in rates would constitute double-recovery on the Company's part.

16 Q. Should the Company be allowed to include the \$6 million of estimated  
17 Midwest ISO administrative expenses, as described in Company witness Whiteley's rebuttal  
18 testimony, if a four year amortization is not allowed?

19 A. No. These costs represent an estimated amount of future expense that will  
20 begin to be incurred in their entirety, well beyond the Staff's test year and update period as  
21 has been ordered by the Commission in this case. As such, they should not be considered as  
22 part of this case. Also, further examination of Mr. Whiteley's forward looking calculations

1 shows a failure to recognize any offsetting cost savings as part of AmerenUE's decision to  
2 rejoin the Midwest ISO. Such cost savings include the following items:

- 3           • Payments made by AmerenUE to Mid America Interconnected Network  
4           (MAIN) for various services during the test year will be eliminated in the  
5           future.
- 6           • AmerenUE may eliminate employees because they will no longer have to  
7           handle transmission services that will now be handled by the Midwest ISO.
- 8           • Recognition of future transmission revenues.

9 In Staff Data Request No. 210 which is unanswered to date, the Staff has asked the Company  
10 to identify all cost savings that will result from its decision to rejoin the Midwest ISO. This  
11 data request also asks AmerenUE to identify all costs that are already included in the test  
12 year for administrative expenses that AmerenUE paid the Midwest ISO and the Alliance  
13 Regional Transmission Organization. These costs were also not considered as part of  
14 Mr. Whiteley's calculations.

15 **FUEL COSTS FOR COAL INVENTORY**

16           Q.     Why does the Company disagree with using the cost of coal burned as  
17 annualized by the Staff to develop the coal inventory adjustment?

18           A.     Company witness Gary S. Weiss states on page 3 of his rebuttal testimony that  
19 the Staff's annualized cost of the coal burned has three main problems. First, the cost used  
20 includes coal cost and cost of all other fuels burned. Second, this fuel cost is based on the  
21 Staff's AmerenUE stand alone production cost model and does not reflect the total cost based  
22 on the Joint Dispatch Agreement (JDA). Third, this fuel cost is based only on native load  
23 and not the total generation load.

Surrebuttal Testimony of  
John P. Cassidy

1           Q.     How does the Staff respond to the Company's three concerns with the fuel  
2 prices used to develop the coal inventory?

3           A.     Regarding the first concern, the Staff's coal inventory levels in its direct filed  
4 case did include coal cost as well as minor amounts of gas and oil fuel costs. Upon learning  
5 of this, the Staff revised its calculation of the coal burned to eliminate the costs of all other  
6 fuels burned. These revised coal costs as reflected in the Staff's most recent production cost  
7 model, which is discussed in the surrebuttal testimony of Staff witness Leon C. Bender, were  
8 provided to Staff witness Paul R. Harrison to incorporate into his coal inventories  
9 calculation. Please refer to the surrebuttal testimony of Mr. Harrison for a complete  
10 discussion of the Staff's updated adjustment to coal inventory.

11                 The Company's other two arguments that the Staff failed to reflect total fuel  
12 costs based on the JDA and that it is based only on native load are not valid arguments. By  
13 making these two arguments AmerenUE is seeking to include in the cost of service  
14 calculation a level of coal costs that represents a level of coal inventory to serve the JDA load  
15 rather than Missouri customer load. Coal inventory costs associated with serving the energy  
16 transfers from AmerenUE to Ameren Energy Generating Company (AEG)/Ameren Energy  
17 Marketing (AEM) are not included in the margin above incremental fuel cost as described in  
18 the direct testimony of Staff witness Michael S. Proctor. In other words, AmerenUE does not  
19 receive any compensation from AEG/AEM for coal inventory costs associated with energy  
20 transfers from AmerenUE to AEG/AEM. For a discussion of the margin related to energy  
21 transfers from AmerenUE to AEG/AEM, refer to Dr. Proctor's direct testimony page 7,  
22 lines 4-14. In addition the surrebuttal testimony of Staff witness Robert E. Schallenberg  
23 discusses the impact of recognizing the costs associated with coal inventory.

**INCREMENTAL OVERTIME – CALLAWAY REFUELING**

Q. What is the Company's witness Gary S. Weiss' position on overtime costs related to Callaway refueling?

A. Company witness Weiss believes that the overtime expense that was associated with the Spring 2001 refueling is the most representative ongoing level of overtime expense. This belief is also stated on page 20 of the rebuttal testimony of Company witness Gary L. Randolph.

Q. What explanation has the Company provided as to why the level of overtime expense associated with the Spring 2001 refueling has exceeded each of the five previous refuelings?

A. The Staff asked the Company this very question in Data Request No. 207. In response to this question, the Company referred the Staff to its response to Staff Data Request No. 138 where the Staff asked the Company to explain why the maintenance project expense during the spring 2001 refueling exceeded each of the previous five refuelings. In response to that question, the Company stated the following:

\*\* P

P

P

P

P

P

\*\*

Apparently, the Company is stating that there is a correlation between the level of overtime expense associated with Callaway refueling and the maintenance activities that it performs. The Staff has attached Data Request No. 207 as Schedule 6 and Data Request No. 138 as Schedule 7 to this surrebuttal testimony.

Surrebuttal Testimony of  
John P. Cassidy

1 Q. Does a strong correlation between overtime expense and maintenance  
2 activities exist with regard to the Callaway refueling project for Spring 2001?

3 A. No. The Staff has prepared the following chart summarizing maintenance  
4 projects expense and incremental overtime wages for the past six refuelings and showed the  
5 percentage of incremental overtime to maintenance project expense.

6 \*\* P  
7 P \_\_\_\_\_

8 P  
9

10 P  
11 P

12 P  
13 P

14 P \*\*

15 This chart shows that the Company is proposing to include a level of overtime expense that  
16 represents the highest ratio of overtime to maintenance expense that the Company has  
17 experienced during its last six refuelings over a period covering nine years. Therefore, the  
18 Company's attempt to correlate test year incremental overtime expense with test year  
19 maintenance projects is flawed. This chart also shows that the duration of days associated  
20 with the test year refueling is much longer than usual.

21 Q. How did the Staff adjust the incremental overtime incurred during the test  
22 year?

23 A. The Staff used an adjusted average of the incremental overtime incurred  
24 during the most recent three Callaway refuelings.

Surrebuttal Testimony of  
John P. Cassidy

1           Q.    How does the Staff's adjusted average of incremental overtime wages  
2 associated with the three most recent Callaway refuelings compare with the test year level of  
3 maintenance project expense?

4           A.    The Staff's three refueling average compared to test year maintenance project  
5 expense is shown by the following calculation:

6	**	P	
7		P	
8		P	_____
9		P	
10		P	
11		P	
12		P	_____
13		P	
14			**

15 This calculation shows that the Staff's use of a three refueling average produces a ratio of  
16 overtime to maintenance projects that is more consistent with the ratios that have occurred  
17 during the past five refuelings, as shown above in this surrebuttal testimony.

18           Q.    Did the Staff factor up the overtime expense associated with the Callaway  
19 refueling for wage rate increases?

20           A.    Yes. The Staff included in its cost of service calculation a three refueling  
21 average of overtime wages, factored up for all wage rate increases that have occurred during  
22 those three refuelings in order to price past overtime expense consistently with current  
23 overtime expense. The following chart shows adjusted overtime wages to reflect the effect  
24 of all wage rate increases that have occurred during the past three refueling as well as a three  
25 refueling average of these amounts:

Surrebuttal Testimony of  
John P. Cassidy

1                   \*\*                   P  
2                                   P  
3                   P  
4                   P  
5  
6                   P  
7                   P                                   \*\*

8 To complete its annualization, the Staff took two-thirds of \*\* P                   \*\* to calculate its  
9 annualized level of \*\* P                   \*\* for incremental overtime. The Staff and the Company  
10 also included two-thirds of the \*\* P                   \*\* for maintenance projects.  
11 Since the Company refuels the Callaway nuclear plant on an eighteen month cycle, the Staff  
12 included two-thirds to properly normalize refueling cost over the eighteen month Callaway  
13 refueling cycle to reflect an amount incurred during a twelve month period.

14           Q.    What level of maintenance project expense associated with Callaway  
15 refueling is the Company budgeting for future Callaway refuelings?

16           A.    The Company's response to Staff Data Request No. 138, attached as  
17 Schedule 7-8 to this surrebuttal testimony, shows that the Company has budgeted  
18 \*\* P                   \*\* for Refueling 12 (scheduled to occur in Fall 2002) and  
19 \*\* P                   \*\* for Refueling 13 (scheduled to occur in Spring 2004). This is less  
20 than the \*\* P                   \*\* amount which occurred during the test year associated with  
21 Refueling 11 (Spring 2001), to which the Company's level of incremental overtime is  
22 directly tied. Using the Company's argument that there is a correlation between the level of  
23 incremental overtime expense associated with Callaway refueling and the maintenance  
24 activities that it performs, these budgeted amounts indicate that incremental overtime should  
25 actually decline in relation to the Company's next two refuelings.

Surrebuttal Testimony of  
John P. Cassidy

1           Q.     Please summarize why the Staff believes that the Company's position is  
2 inappropriate for determining ongoing levels of Callaway refueling incremental overtime  
3 expense.

4           A.     The cost of incremental overtime experienced for the latest refueling that  
5 occurred during the Staff's test year is higher than any level AmerenUE has incurred during  
6 the previous five refuelings. Furthermore, when the Company tries to correlate incremental  
7 overtime with maintenance projects, the Staff's calculations (shown above in this surrebuttal  
8 testimony) demonstrate that the relationship during the test year was not consistent with the  
9 relationship that occurred during the previous five refuelings. However, the relationship  
10 between the Staff's three refueling average more closely reflects the relationship that existed  
11 during the previous five refuelings. The Staff contends that its use of a three refueling  
12 average of incremental overtime best reflects the normalized incremental overtime for  
13 refueling Callaway because of this stronger relationship. Also, the Staff's adjustment is  
14 conservative because the three refuelings average includes in the cost of service calculation a  
15 level of incremental overtime expense that is higher than any of the past five Callaway  
16 refuelings. Lastly, the Company budgets a level of maintenance projects expense that is  
17 lower than the test year actual level. Since the Company correlates incremental overtime  
18 expense with maintenance projects expense, this would indicate that future incremental  
19 overtime expense should decline.

20     **PAYROLL**

21           Q.     Other than the Callaway incremental overtime are there any other areas in  
22 payroll that the Company and the Staff are in disagreement over?

Surrebuttal Testimony of  
John P. Cassidy

1           A.    No. I have been informed through discussions with Company witness  
2 Gary S. Weiss that the Company will make an adjustment to production payroll to eliminate  
3 three months of the annualization of payroll that are included in the Company's production  
4 expenses through September 30, 2001. Mr. Weiss also indicated that he would reduce  
5 payroll by \$80,000 to correct an error in the Company's calculation of incremental overtime.  
6 To the extent the Company does not make these adjustments, the Staff reserves the right to  
7 file supplemental surrebuttal testimony regarding these areas.

8    **OTHER CORRECTIONS AND CHANGES TO STAFF'S CASE**

9           Q.    What change are you sponsoring to the Staff's case?

10          A.    Staff witness Leon Bender performed a revised calculation of annualized fuel  
11 and purchased power expense, using his production cost model. This change has been  
12 reflected through Adjustment S-7.1. The reasons for making this change are explained in  
13 detail in Mr. Bender's surrebuttal testimony and summarized in Schedule 1, which is also  
14 attached to his surrebuttal testimony.

15          Q.    Does this conclude your surrebuttal testimony?

16          A.    Yes, it does.

**CASSIDY SCHEDULE 1**

**HAS BEEN DEEMED**

**PROPRIETARY IN ITS ENTIRETY**

**CASSIDY SCHEDULE 2**

**HAS BEEN DEEMED**

**PROPRIETARY IN ITS ENTIRETY**

## DATA INFORMATION REQUEST

Union Electric Company

CASE NO. EC-02-001

Requested From: Mary Hoyt

Date Requested: 05/24/02

Information Requested:

1. Does AmerenUE accrue for costs associated with Callaway refueling?
2. If the answer to number 1 above is no, then please explain why not.

Requested By: John Cassidy

Information Provided:

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EC-02-001 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Union Electric Company office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to Union Electric Company and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By: \_\_\_\_\_

Date Response Received:

Prepared By:

**Ameren UE's Response to  
MPSC Staff Data Request  
Case No. EC-2002-1  
Excess Earning Compliant  
Staff of MPSC v Union Electric Company d/b/a AmerenUE**

No. 182

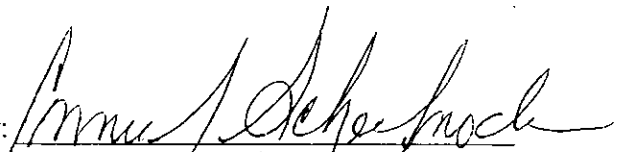
Request:

1. Does AmerenUE accrue for costs associated with Callaway refueling?
2. If the answer to number 1 above is no, then please explain why not.

Response:

1. No.
2. Based upon my research, a decision was made by Senior Management to book Callaway re-fueling costs as they actually were incurred. AmerenUE has not accrued for future period expenditures, if the service or material has not been received /performed in the current period.

Signed By:

  
Prepared By: Connie S. Scheinmocker  
Title: Manager - Accounting

**CASSIDY SCHEDULE 4**

**HAS BEEN DEEMED**

**PROPRIETARY IN ITS ENTIRETY**

**ORIGINAL**

FILED  
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02 MAY 28 PM 1:49  
FEDERAL ENERGY  
REGULATORY COMMISSION

JONES, DAY, REAVIS & POGUE  
51 LOUISIANA AVENUE, N.W.  
WASHINGTON, D.C. 20001-2113  
PHONE: 202-879-3939 • FACSIMILE: 202-626-1700

WRITER'S DIRECT NUMBER:

202-879-5426

May 28, 2002

Magalie R. Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington DC 20426

Re: Alliance Companies, et al.,  
Docket No. EL02-65-000: 006  
Compliance Filing of Ameren Services Company

Dear Ms. Salas:

By its Order on Petition for Declaratory Order ("Order"), issued April 25, 2002, in this docket, the Commission required the Alliance Companies to make a compliance filing within 30 days of the date of the Order and, in such filing, to declare which regional transmission organization ("RTO") the Alliance Companies plan to join and "whether such participation will be collective or individual." *Slip op.* at 5. In compliance with the Order, Ameren Services Company ("Ameren"), as agent for and on behalf of Union Electric Company, dba Ameren UE, and Central Illinois Public Service Company, dba Ameren CIPS, advises the Commission that Ameren will join the Midwest Independent Transmission System Operator, Inc. Regional Transmission Organization ("MISO").

Ameren and MISO executed the enclosed Memorandum of Understanding ("MOU") on May 24, 2002. Ameren will apply for membership in MISO on or before June 23, 2002 (thirty days after the date of the MOU), either as an individual transmission owner or as part of an Independent Transmission Company ("ITC"). Were Ameren to join MISO initially as an individual owner, Ameren, nonetheless, will retain the option to convert its status at any time to that of a participant member in an ITC under MISO.

Ameren and MISO will promptly negotiate and execute the necessary membership and other agreements for filing with this Commission and any other regulatory agencies. Ameren and MISO intend that Ameren shall begin operations under MISO no later than four months after receipt of the last regulatory approval.

Within sixty days of receipt of FERC approval, MISO shall return to Ameren, with interest, the \$18 million payment that Ameren made to MISO to exit MISO and join the Alliance RTO under the terms of the settlement accepted by this Commission in *Illinois Power Company, et al.*, 95 FERC ¶ 61,183, *reh'g denied*, 96 FERC ¶ 61,026 (2001).

020606-0023-1

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\*ASSOCIATE FIRM

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JONES, DAY, REAVIS &amp; POGUE

Magalie R. Salas  
May 28, 2002  
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Any communications or correspondence concerning this compliance filing should be directed to:

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Respectfully submitted,  
Ameren Services Company

  
Carolyn Y. Thompson  
One of its attorneys

WA-1298479v1

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### **Memorandum of Understanding**

This Memorandum of Understanding is entered into this 24th day of May 2002 between Ameren Services Company ("Ameren Services"), as agent for Union Electric Company, d/b/a AmerenUE and Central Illinois Public Service Company, d/b/a AmerenCIPS, and the Midwest Independent Transmission System Operator, Inc. ("MISO"). Ameren Services and MISO may individually be referred to below as a "Party" or collectively as "Parties".

Witnesseth:

Whereas Union Electric Company and Central Illinois Public Service Company (collectively, the "Ameren Operating Companies") are wholly owned subsidiaries of Ameren Corporation ("Ameren"), a multi-state public utility holding company system; and

Whereas Ameren Services, as agent for the Ameren Operating Companies, operates the transmission facilities of the Ameren Operating Companies as a single system pursuant to Ameren Services' Open Access Transmission Tariff; and

Whereas the transmission facilities operated by Ameren Services are not currently under the operational control of a Federal Energy Regulatory Commission ("FERC") approved Regional Transmission Organization ("RTO"); and

Whereas MISO is a FERC approved RTO with an open architecture that accommodates various forms of participation in its organization including independent transmission companies; and

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Whereas Ameren Services, as agent for the Ameren Operating Companies, desires to pursue participation in the MISO in a manner that maximizes the value of the transmission assets that Ameren Services operates; and

Whereas the Parties have entered into negotiations to develop arrangements that would allow Ameren Services to participate either as a transmission owner within MISO or as a member of an independent transmission company within MISO; and

Whereas the Parties desire to set forth the principles and conditions governing Ameren Services' proposed participation in MISO.

Now therefore, the Parties agree as follows:

1. For purposes of this Memorandum of Understanding, the transmission facilities proposed to be transferred to MISO's operational control include all transmission facilities owned by the Ameren Operating Companies within the control area operated by Ameren Services.
2. Ameren Services, on behalf of the Ameren Operating Companies, will apply for membership in MISO as an individual transmission owner or, as part of an Independent Transmission Company, under Appendix I of the MISO Agreement. Such Independent Transmission Company may be the Alliance Gridco. Ameren Services will apply for such membership in MISO within thirty days of execution of this Memorandum of Understanding. If Ameren Services assumes membership in MISO as an individual transmission owner, Ameren Services may nonetheless transfer the transmission facilities of the Ameren Operating Companies to an Independent Transmission Company operating under Appendix I of the MISO Agreement at any time. Ameren Services' rights and obligations under this Memorandum of Understanding will apply whether Ameren Services joins MISO as an individual transmission

owner or as part of an Independent Transmission Company, except that the withdrawal provisions for an individual transmission owner would apply if Ameren Services joins and remains as an individual transmission owner.

3. Ameren Services will remain in MISO through at least December 31, 2004, but has the right to withdraw from MISO at anytime thereafter, subject to the required regulatory approvals. Except as provided in paragraphs 6 and 7, Ameren Services will provide MISO with no less than twelve months written notice of its intent to withdraw from MISO. While Ameren Services will not be responsible for an exit fee in order to withdraw, Ameren Services will remain responsible for all financial obligations it incurs under the applicable MISO agreements and the MISO Open Access Transmission Tariff (MISO Tariff) before the date of its withdrawal. It is the intent of the Parties that Ameren Services' financial obligations to the MISO upon its departure will be limited to (i) any unamortized Ameren Services integration costs as described in paragraph 8, (ii) any unamortized Alliance RTO and Alliance Participants Administrative and Start-Up Activities Company LLC costs as described in paragraph 12, (iii) should the Offer of Settlement in Docket No. ER02-111-000 concerning the Schedule 10 to the MISO Tariff (MISO Schedule 10) be approved by the FERC, Ameren Services' proportional share of any unamortized settlement credits and associated financing costs that were applicable in a month when load served within the Ameren Services zone was paying the MISO Schedule 10 charges and the settlement credits were in force, and (iv) Ameren Services load ratio share of any unamortized amounts resulting from the payment pursuant to paragraph 14.
4. MISO will make no assessment or other allocation to Ameren Services or other MISO transmission owners or Independent Transmission Companies of capital costs associated with the integration of the Southwest Power Pool, its transmission owners or members into MISO. The costs associated with such integration will be recovered under MISO Schedule 10.

5. MISO will make no assessment or other allocation to Ameren Services or other MISO transmission owners or Independent Transmission Companies of capital costs associated with the development and implementation of a standard market design. The MISO will file with the FERC a proposal for deferring and recovering costs associated with the development and implementation of a standard market design from all market participants through a user based transaction mechanism similar to MISO Schedule 10; provided however, MISO will not make such FERC filing until after MISO has first presented the proposal to its stakeholders for review and comment.
6. If ownership of all or a substantial portion of the Ameren Operating Companies transmission facilities is changed as a result of a sale, merger, or acquisition involving a party other than an affiliate of the Ameren Operating Companies, then the new owner may withdraw the applicable Ameren Operating Companies' transmission facilities from MISO at any time following thirty days written notice to MISO, subject to applicable regulatory approvals.
7. Subject to FERC approval, Ameren Services, on behalf of the Ameren Operating Companies, will have the right to withdraw from MISO upon thirty days written notice if any MISO transmission owners or Independent Transmission Companies withdraw from MISO and either: a) the transmission facilities of the Ameren Operating Companies are no longer directly interconnected with a remaining MISO member; or, b) in Ameren Services sole discretion, a material portion of the transmission facilities under MISO's operational control are removed by the withdrawing member or members.
8. MISO and Ameren Services will incur costs to integrate the transmission facilities of the Ameren Operating Companies into MISO. MISO and Ameren Services will agree upon an integration plan and budget prior to any integration expenditures being made. MISO will reimburse Ameren Services for its integration costs upon completion of the integration plan activities.

MISO will recover its costs, both those directly incurred and those incurred to reimburse Ameren Services, exclusively from MISO Schedule 10 revenues. Ameren Services will not have to pay the MISO membership application fee because of Ameren's existing MISO membership status. Ameren Services, the Ameren Operating Companies, Ameren's affiliate companies or their customers, as applicable, will pay the MISO Schedule 10 charge applicable to load served within the Ameren Services zone.

9. MISO will support the use of the existing Ameren Services Open Access Transmission Tariff ("OATT") rates and rate design within the Ameren Services zone, and will permit Ameren Services, at Ameren Services' option to convert its existing OATT rate for network integration transmission service within the Ameren Services zone to a formula based rate. MISO will support the use of Ameren Services' rate structure for operations within MISO to the greatest extent possible. Ameren Services reserves the right to proffer, individually or with other companies, the Alliance rate design endorsed by the FERC in its April 25, 2002 Order On Petition For Declaratory Order in Docket Nos. EL02-65-000 et al (hereinafter the "April 25<sup>th</sup> Order").
10. MISO will also support the recovery of Ameren Services' lost revenues resulting from the elimination of multiple zonal transmission rate charges and corresponding revenue allocation in a manner consistent with the April 25<sup>th</sup> Order.
11. MISO will either discount its total charges for Drive-Out and Drive-Through Service or make a Section 205 application with the FERC to lower the cap on its total charges for Drive-Out and Drive-Through Service. The new cap on its total charges for Drive-Out and Drive-Through Service, whether achieved by discount or filing, will be formulated to provide flexibility for the MISO to maximize revenue while minimizing the charges applied to this service.
12. MISO will make a Section 205 application with the FERC to provide for the recovery, through MISO Schedule 10, of all prudent costs incurred by the

Ameren Operating Companies for Alliance RTO development and start-up activities, including costs of establishing Alliance Participants Administrative and Start-Up Activities Company LLC.

13. The Parties acknowledge that implementation of these principles and conditions may be subject to the approval of regulatory authorities. MISO and Ameren Services agree to cooperate in negotiating and executing any agreements necessary to reflect the provisions of this Memorandum of Understanding so that applications for all necessary regulatory approvals can be filed as soon as possible. It is the objective of MISO and Ameren Services that Ameren Services begin operations under MISO no later than four months after receipt of the last regulatory approval.
14. Within 60 days after final order from FERC is received accepting Ameren Services participation in MISO on terms consistent with this Memorandum of Understanding, the MISO agrees to pay to Ameren Services the \$18 million paid to the MISO pursuant to the Settlement Agreement reached in Docket No.ER01-123-002 plus interest and less credits, if any, actually received by Ameren Services or its affiliates through Schedule 10A. The interest rate will be determined monthly using the average monthly rate the MISO earned on investments from the time the monies were received by the MISO until the date of the repayment.
15. In the event that a regulatory authority materially modifies any of the terms and conditions of Ameren Services' participation in MISO, including its rights under this Memorandum of Understanding, the Parties agree to negotiate in good faith to establish new terms and conditions that place the Parties in the same position as bargained for herein. In the event that the Parties cannot reach an agreement within thirty days of the regulatory action on new terms and conditions, or the new terms and conditions are not subsequently approved by the regulatory authority, Ameren Services may withdraw its application to join MISO upon thirty days written notice.


16. All discussions and information exchanged under this Memorandum of Understanding are confidential. No information provided by the disclosing Party to the other Party may be disclosed to third parties without the consent of the disclosing Party. No Party will issue any press release or make any public disclosure concerning this Memorandum of Understanding without the consent of the other Party.

AGREED TO this 24th day of May 2002 by the undersigned representatives of Ameren Services and MISO.

Midwest Independent Transmission  
Incorporated

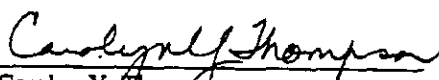
Ameren Services Company  
as agent for  
Union Electric Company d/b/a  
AmerenUE and  
Central Illinois Public Service  
Company d/b/a AmerenCIPS

  
By: James P. Torgerson  
Title: President & Chief Executive Officer

  
By: David A. Whiteley  
Title: Senior Vice President

**CERTIFICATE OF SERVICE**

I hereby certify that the foregoing document has been this day served on each party designated on the official service list compiled by the Secretary in this proceeding.

  
Carolyn Y. Thompson  
Jones, Day, Reavis & Pogue  
51 Louisiana Avenue, NW  
Washington DC 20001-2113  
(202) 879-5426

Dated this 28th day  
of May, 2002

WA-1265398v1

Schedule 5-10

## DATA INFORMATION REQUEST

Union Electric Company

CASE NO. EC-02-001

Requested From: Mary Hoyt

Date Requested: 06/04/02

Information Requested:

Regarding overtime expense associated with Callaway refueling, why did overtime expense associated with refueling 11 exceed each of the five previous refuelings in terms of levels of overtime expense? Please explain in detail. Provide all supporting documentation.

Requested By: John Cassidy

Information Provided: \_\_\_\_\_

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EC-02-001 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Union Electric Company office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to Union Electric Company and its employees, contractors, agents or others employed by or acting in its behalf

Signed By: \_\_\_\_\_

Date Response Received: 6/6/02 LT

### Schedule 6-1

Prepared By: \_\_\_\_\_

AmerenUE's Response to  
MPSC Staff Data Request  
Case No. EC-2002-1  
Excess Earnings Complaint  
Staff of the MPSC v. Union Electric Company d/b/a AmerenUE

No. 207:

Regarding overtime expense associated with Callaway refueling, why did overtime expense associated with refueling 11 exceed each of the five previous refuelings in terms of levels of overtime expense? Please explain in detail. Provide all supporting documentation.

Response:

See AmerenUE's response to MPSC Data Request No. 138.

Signed By:

Mary Hoyt

Prepared By: Mary Hoyt

Title: Legal Assistant

**CASSIDY SCHEDULE 7**

**HAS BEEN DEEMED**

**PROPRIETARY IN ITS ENTIRETY**