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Missouri Public
Service Commission

DEPOSITIONS OF PAUL R. HARRISON

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

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

DEPOSITION OF PAUL R. HARRISON
TAKEN ON BEHALF OF THE RESPONDENT
APRIL 11, 2002

CONFIDENTIAL

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BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION,	)	
Complainant,	)	Case No. EC-2002-1
vs.	)	
UNION ELECTRIC COMPANY, d/b/a AMERENUE,	)	
Respondent.	)	April 11, 2002 Jefferson City, MO

DEPOSITION OF PAUL R. HARRISON,

a witness, sworn and examined on the 11th day of April, 2002, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the Missouri Public Service Commission, Room 810, Governor State Office Building, in the City of Jefferson, County of Cole, State of Missouri, before

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

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Lena Mantle, PSC Staff
Ted Robertson, OPC
Gary S. Weiss, Ameren
John J. Lipic, PriceWaterhouseCoopers
Marty Lyons, Ameren

EXHIBITS INSTRUCTIONS:

Copy and attach.

I N D E X

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

PAUL R. HARRISON, being duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. TODD:

Q. Okay. My name is Gordon Todd. I'm the attorney from Cooper & Kirk representing Ameren.

Why don't we just get -- let me get you to introduce yourself first.

A. My name is Paul Harrison. I'm a Regulatory Auditor to the Public Service Commission.

Q. Okay. And why don't we just go around the room and have everybody else introduce themselves, starting with Marty in the back corner there.

MR. LYONS: My name is Marty Lyons. I'm a controller at Ameren.

MR. LIPIC: John Lipic. I'm with PriceWaterhouseCoopers.

MR. WEISS: Gary Weiss, Supervisor, Regulatory Accounting, Ameren.

MS. COOK: Jim Cook, attorney with Ameren.

MR. MEYER: Greg Meyer with the Commission Staff.

MS. MANTLE: Lena Mantle with the Commission Staff.

MS. O'NEILL: Ruth O'Neill, Office of the Public Counsel.

MR. MOLTENI: Ron Molteni, Missouri Attorney General's Office.

MR. FRANSON: Robert Franson, attorney for Staff and here today representing Mr. Harrison.

MR. ROBERTSON: Ted Robertson, Office of the Public Counsel.

BY MR. TODD:

Q. Okay. Mr. Harrison, have you been deposed before?

A. Yes, I have.

Q. Are you somewhat -- you're somewhat familiar with the ground rules for a deposition then?

A. Yes, I am.

Q. I'll go over them briefly just to be on the safe side.

The most obvious rule, of course, is the court reporter being a human being can only transcribe one person at a time, so it's important we don't interrupt each other or talk over each other. Do you understand that?

A. I understand that.

Q. And it's also important that you give a verbal response to every question. You understand that?

A. I understand that.

Q. During the course of the deposition, I'm likely to use technical terms with which you will probably be more familiar than I will, so if I misuse a term, for purposes of clarity of the record and so we all know what we're talking about, feel free to correct me. Do you understand that?

A. Yes.

Q. If in the course of answering a question you think a term needs definition or context, please provide it in the context of your answer. Do you understand that?

A. Yes, I do.

Q. If -- you understand it's important for you to give as complete an answer as possible?

A. Yes.

Q. And where you have -- where you can't give a specific answer but you can give information bearing on the question, you should provide that too. Do you understand that?

A. Yes, I do.

Q. If you don't understand a question, you can ask me to clarify it. You understand that?

A. Yes, I do.

Q. And you can also have the court reporter read back a question. You understand that?

A. Yes, I do.

Q. During the deposition your attorney may object to a question for any number of reasons. You understand that after your attorney has objected, unless you are specifically instructed to not answer the question, you must go ahead and answer the question? You understand that?

A. Yes, I do.

Q. And while we're here, albeit quite a lot of us, in somewhat of an informal setting, you understand you are being deposed here today under oath and under the effects of the laws of perjury?

A. Yes.

Q. Do you have any reason today why you would be less than truthful?

A. No.

Q. In preparing for today's deposition, Mr. Harrison, let's talk about what you've done, starting with, what documents have you reviewed?

A. I reviewed data requests from the Company.

Q. Do you remember what data requests in specific you reviewed?

A. I've got a list of them if you would like.

Q. I would, please.

A. (Complied.)

Q. And did you prepare this list yourself?
A. Yes, I did.
Q. And this is all of the data requests you reviewed?
A. For this case. And I've got another one for the previous case.
MR. TODD: So this first -- I'm going to I guess probably get these marked as exhibits.
MR. FRANSON: That's what I would be asking for.
BY MR. TODD:
Q. Do you have multiple copies of these?
A. That's the only copy I have.
MR. TODD: Let's go ahead and get this marked as Exhibit 1, and the other one as Exhibit 2, and then we can pass them around if people want to see them.
(EXHIBIT NOS. 1 AND 2 WERE MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)
BY MR. TODD:
Q. Okay. Now, what has been marked as Exhibit 1 here is Staff's Response to Union Electric Company Data Request No. JJC-16?
A. That is correct.
Q. This is the only data request you reviewed

to prepare for today's deposition?

A. Besides what he has right there, yes.

Q. So -- and what you just referenced was Exhibit 2.

A. And I believe the Company has a copy of that already from the previous case that we filed.

Q. And did you review everything on here again in preparation for today's deposition --

A. Yes, I did.

Q. -- on Exhibit 2?

A. (Witness nodded head.)

MR. FRANSON: Just for clarity, don't those refer to other DRs?

THE WITNESS: Yes. It refers to other DRs that does not -- that was strictly for the last case that we had. The numbers changed. Mostly the second list that we have there is historical data.

BY MR. TODD:

Q. So did you or did you not look at the stuff on Exhibit 2, again, preparing for today's deposition?

A. All of those items, no, I did not. The first page there, all of that was reviewed. The second page, no.

Q. Okay.

A. Sorry about that.

Q. That's all right.

Did you review your prior testimony in this case?

A. Yes, I did.

Q. And did you review --

MR. FRANSON: We need to be careful on some terms here. "Prior testimony" means the July 2nd, 2001 one.

MR. TODD: Correct.

MR. FRANSON: And how are you going to refer to the present case?

MR. TODD: Current testimony and prior testimony.

MR. FRANSON: Okay.

BY MR. TODD:

Q. And did you review the deposition that Mr. Wolski took from you in I believe it was December?

A. Yes, I did.

Q. Who have you spoken to regarding today's deposition?

A. I did deposition prep yesterday. I've talked with my lawyers. I also talked with Greg Meyer, Steve Rackers, Mark Oligschlaeger, and my lawyers.

Q. Putting aside your lawyers throughout this line of questioning, were those individuals the only people present at deposition prep yesterday?

A. Greg Meyer was not present, but Mark Oligschlaeger and Robert Franson was.

Q. Was anyone else there?

A. Steve Dottheim was there at the end of it.

Q. Once again, leaving out interactions with your attorneys, what was discussed at deposition prep?

A. The type of questions that might be asked and see how I would respond to them.

Q. What instructions were you given regarding this deposition?

A. To be truthful.

Q. Anything else?

A. And try to make my point the best I could.

Q. Were you given any instructions with regard to the form of how to answer a question?

A. No.

Q. How about the content of answers to specific questions?

A. No.

Q. Who helped you -- assuming -- I shouldn't assume. Let me back up.

Your current testimony --

A. Okay.

Q. -- does it entirely represent your own work?
A. Yes, it does.
Q. Did anyone else have input into your testimony?
A. As far as for clarification and for grammar, there was other people that had input.
Q. Who reviewed your testimony?
A. I had Greg Meyer, Steve Rackers, Mark Oligschlaeger, Joan Wandel, and Lena Mantle, and then I had six lawyers.
Q. The notes you're thumbing through there, are those notes you prepared --
A. Yes, sir.
Q. -- in preparation for today's deposition?
A. Yes. I prepared them today, yes.
MR. TODD: We'll be asking for a copy of those.
MR. FRANSON: Understood.
BY MR. TODD:
Q. And all of these people reviewed your testimony?
A. That's correct.
Q. And you're telling me that other than grammatical changes and spelling errors, none of them gave you any input at all?

A. Clarification, how to restate the point, not to -- just to clarify it, not to change the meaning or anything. They had suggestions.
Q. Can you give me an example of a clarification that someone may have given you?
A. No, I can't.
Q. What was the form of this input?
A. What was the form of it?
Q. For instance, would they give you a red-lined version of your testimony or a sheet of typed up comments on your testimony?
A. I'd make a copy of the testimony, and then I would provide it to these individuals, and then I would get the inputs back from them with the changes that they suggested.
Q. They give you the copy back with handwritten notations on it?
A. That's correct.
Q. For all of them?
A. That is correct.
Q. Have you preserved these copies?
A. No, I have not.
Q. You destroyed them?
A. Yes, I have.
Q. Is that your usual practice?

A. Yes, it is, after we file the case.
Q. You destroy all former -- all prior copies of testimony?
A. Yes.
Q. That's Commission standard practice?
A. Well, that's what I did on this case. That's what I typically do. I don't know what the Commission Staff does.
Q. You don't know if the Commission has a standard on that?
A. No, I do not.
Q. Between the time -- well, between your former testimony and your current testimony, the Commission obviously ordered a new test year which required the new set of testimony, the new case.
What -- regarding your testimony, what have you done to change your testimony from your prior testimony to your current testimony?
A. Well, as you said, the test year changed, and with changing the test year, some of the issues changed, like the board of director advisor fees dropped out because they no longer had it. There was two prior period adjustments that was in the previous test year that wasn't in this one that is not being -- the adjustments are not being made at this time. And

power plant maintenance normalization, that dropped off. Other than that, the issues basically stayed the same.

Q. So you've looked for new issues that have appeared and old issues that have gone away?

A. Right. And the fire-related expenditures and settlements at Venice Power Plant, that's a new issue for this case.

Q. So you have things like new one-time, nonrecurring costs that you need to take care of now --

A. Right.

Q. -- and old ones that are no longer relevant?

A. Right. Everything changed since we got a new test year. The numbers changed, so we had to go back and look at all of that period of time.

Q. In each area of your testimony, did you completely redo your analysis, or did you draw upon the previous analysis?

A. Drawed upon previous knowledge, used historical data from the previous, went from where we're at on that case to where we're at on this case.

Q. Did you review all of the prior data or did you just add the new set of data?

A. Basically, added the new data, unless I picked up something that was not my work, and then I would go over it and double check the numbers on that. But that didn't happen.

Q. Would it be fair to say that unless you had a reason to go look at the old data, you pretty much left it alone?

A. That is correct.

Q. In preparing your testimony for this case, your current testimony, have you had any conversations regarding your testimony with persons outside the Commission?

A. No, I have not.

Q. Now, I understand from reviewing the deposition of your last -- your last deposition that you have a military background?

A. That is correct.

Q. And you are a -- from your testimony, you're a 1995 graduate of Park College?

A. That is correct.

Q. And you have a BS in accounting and management; is that correct?

A. That is correct, a double major.

Q. Double major, you said?

A. Correct.

Q. Could you describe for me what your

accounting studies consisted of?

A. My accounting studies?

Q. Yes.

A. I had Basic Accounting I and II, Intermediate Accounting I and II, Advanced Accounting I and II, cost accounting, auditing, income taxes, corporation and individual, and I think I had a management and cost accounting class also.

Q. Did any of your classes focus specifically on regulatory accounting?

A. No, they did not.

Q. Do you find that regulatory accounting differs from the accounting you learned about in school?

A. It is different. There is new terminology and different ways that you audit the books, go through the books, go through the records, and different concepts that are used, yes.

Q. Now, you are not a CPA, are you?

A. That is correct. I am not.

Q. You are -- you don't have any advanced degrees?

A. No, I do not.

Q. Have you had any accounting training beyond your undergraduate studies?

A. No, I have not besides what I've gained while being here at the Commission.

Q. Does the Commission have any internal training?

A. They have training manuals.

Q. Let me -- anything formal, I should say?

A. There's formal classes that we go out to for NARUC and for water rate schools and different stuff like that, which I've went to the water rate school, and --

Q. Rate school, you said?

A. Yes.

Q. What do you study there?

A. Rate base, cost of service, putting together a small -- a water rate case, how it works, get together in study groups and work through it, and a chance to interact with other -- other PSC personnel and also the Company personnel.

Q. Have you ever studied anything other than cost of service rate-making?

A. We have training manuals within the Accounting Department here and also technical manuals, and we have the -- we have -- when we first get into here, we go through the regulation of our accounting. That's one of the first things we do when we come into the Commission. And then we interact a lot with other auditors and look at other testimony, other depositions, and how different people work different issues.

Q. If someone told you that it is your job to support economic development through either traditional rate of return regulation or competition that's required by law, would you feel yourself well versed to -- to apply the competition part of that formula?

MR. FRANSON: Objection as to relevance.

THE WITNESS: I'm not sure I understand the question.

BY MR. TODD:

Q. Well, you've said -- you've told me you studied cost of service rate-making, which is really -- which is traditional rate of return regulation. Correct?

A. Okay. Correct.

Q. And you have not studied any other form of rate-making. Correct?

A. Well, as you go through the different issues and work the different issues, there is -- you've got training out there from senior auditors and also from other auditors just working on the case, so you work through the issues and you have an opportunity to interact with the other auditors if you have a problem with the different issues that you are working.

Q. Have you interacted with other auditors or other members of the Commission Staff on methods of regulation other than traditional cost of service rate-making?

A. Yes.

Q. So you've discussed, for instance, incentive regulation?

A. Yes.

Q. Do you think you have a pretty good grasp of what incentive regulation is?

A. I'm familiar with it.

Q. How good a grasp would you say you have on it?

A. What's that?

Q. How good an understanding do you think you have?

A. A basic understanding.

Q. So when you're doing your analysis, do you ever consider concepts you've learned or that you're familiar with in that?

A. Could you repeat the question, please?

Q. When you're performing your analysis in a case such as this --

A. Right.

Q. -- do you consider modes of analysis related to competition-based regulation theories, or do you just focus on the traditional methodology?

A. Basically, the traditional methodology.

Q. What types of things do you do to keep up with your field?

A. Do I -- we have CPE hours that we complete for training within the Accounting Department here. We have training manuals. We have Report and Orders that come down from the Commission to how they -- how they did -- how they decided issues one way or the other between the Company and the Staff.

We have all forms of testimony that we can look at and other work papers that other auditors have worked.

Q. I think I forgot to say in my introduction that whenever you want to take a break, if you want to take a break, just let me know and we'll do so as soon as is convenient. And that pretty much goes for everyone.

MR. FRANSON: Are you asking for one now?

MR. TODD: No, no. I just realized -- I started to look at my watch, so I realized I hadn't said that.

MR. FRANSON: Okay.

BY MR. TODD:

Q. You said you look at -- that you have training manuals?

A. That is correct, and technical manuals within the Accounting Department.

Q. Can you tell me specifically what manuals you rely on or you review?

A. Well, they have white papers in the different issues that we work and what -- how the Commission or how the Staff has treated these specific issues in the past.

Q. So, for instance, there is a tree trimming manual?

A. And it gives a description of the type of -- the information, what was looked at, basically, and how it was treated and how the Commission -- I don't know for sure if it's tree trimming or not, but it's associated with the same type of thing that you would do for tree trimming, multi-year averaging and different stuff like that, but it's broken down by different issues, and it's also got white papers that we go through.

Q. In preparing your testimony in this case, did you look at any of these manuals?

A. Yes, of course, technical manuals and the training manual, and also the training modules that we've got within the Accounting Department.

Q. Do you think you looked at every one that was relevant to the areas you were preparing testimony in?

A. Yes, I did.

Q. Okay. In your professional life, do you review literature in the field?

A. Do I review literature? Could you expound on that, please?

Q. Sure. Are there, for instance, publications, accounting -- in the legal practice we have law reviews. I don't know if there is a similar accounting review type of thing.

A. We get bulletins from the FASB as it comes out. We get that on the internet. We also get that passed around that we look at, different changes in the way that they -- the Board looked at that and how they addressed it and the different issues involved with it.

Q. And do you review those?

A. Yes, I do.

Q. Do you try to keep up with them?

A. I look at the significant things that I'm interested in, yes.

Q. How do you identify the significant ones?

A. If it relates to what I am doing now and how I would -- how I would apply it in my everyday job.

Q. So if you have -- let's say in the next rate case you have an area you haven't previously given testimony on, you wouldn't necessarily have kept up with the accounting rules relevant to that area?

A. No, but if I was going to pick up an issue that I hadn't worked at on -- at that point in time, I would go and search out all of the literature I could find on it to start out.

Q. But you would be coming at it fresh?

A. Right. And I would look at the previous person's testimony if they had worked on that case for that company because we typically have the testimony and also the working papers for -- that was done on that previous case, or if I can't find it there, then I will go out and look at another utility company where the same thing might have been done, see how they looked at it, how they did it, what kind of adjustments they made to it, and the reasoning behind why they did it the way they did it, and then -- that would be my starting point.

Then I would work forward from there, go through the issue, work the issue, and gather all of the information.

Q. So between your educational background and your time at the Commission, can I assume that you are fairly familiar with GAAP principles? I guess that's redundant. GAAP?

A. I'm familiar with them, yes.

Q. And you're familiar with FASB?

A. I'm familiar with it, yes.

Q. And uniform system of accounts?

A. Yes, I'm familiar with them.

Q. What do you think is the point to having these kind of universal systems of accounting?

A. It -- continuity and, also, you can see how different issues or different accounting practices and procedures -- how the different boards perceive it and -- from that -- from that angle.

Q. What do you mean when you say "continuity"?

A. Continuity between -- like, if the FASB -- if they -- there is a problem there with accounting within corporations and stuff like that and it is a significant problem, then they will address it and then try to get the bulletin out to everybody to how they perceive the issue and how they would -- how they rule on it and what their thinking is on it.

Q. Do you think there is any merit -- or do you think that predictability is a benefit?

A. I would think so.

Q. For instance, to give you an example, if I were a shareholder and I wanted to see how my Houston-based energy trading company was doing --

A. Okay.

Q. -- I would probably want to be able to look at --

MR. FRANSON: Objection. It calls for speculation.

THE WITNESS: I wouldn't be able to answer that.

BY MR. TODD:

Q. Do you own any -- do you invest in the stock market?

A. Yes, I do.

MR. FRANSON: Objection as to relevance.

BY MR. TODD:

Q. As a shareholder, do you have an interest in understanding the system of accounting the companies you invest in are using?

A. Yes, I do.

Q. Why?

A. To see the rate of return, how my investment is doing, whether it's going up, whether it's going down, whether I need to re-invest in something else.

Q. Would you be less likely to invest in a company that followed a system of accounting you were not familiar with?

A. Could you repeat the question, please?

Q. Would you be more or less likely to invest in a company that followed a system of accounting you were not familiar with?

A. I would be less likely.

Q. And why is that?

A. Why is it?

Q. Yeah.

A. Because I would want them to follow the accounting practices that was out there and make sure that the data that I got was accurate and it was being recorded and reported properly.

Q. Okay. You told me earlier you have a copy of your testimony --

A. Yes, I do.

Q. -- your current testimony.

Do you have one as well, Robert?

MR. FRANSON: I do.

BY MR. TODD:

Q. All righty. Let's turn to page 3.
A. Okay.
Q. And you have here your testimony on the issue of prepayments?
A. Okay. I see it.
Q. And on line -- let's see, lines 13 through 15 you indicate that Commission assessment and freight on cost are included in Leasha Teel's analysis?
A. That's correct.
Q. Have you confirmed that that is the case?
A. Yes, I have.
Q. And you're confident that she has properly taken those into account?
A. Cash vouchers that we reviewed, she was taking into consideration as part of her CWC.
Q. She has taken into account Commission assessment and freight on cost in her analysis?
A. That is correct. She had the cash vouchers on it, and she did go through it.
Q. Okay. Let's go to page 13.
A. Could I mention something right here? And I guess I should have mentioned it earlier.
Q. Sure.
A. I do have a change to my testimony.
Q. Okay. Why don't we go ahead and get that

out of the way?

A. And it's on page 11, line 6. I have there June 24th, 2001. That should be June 14th, 2001.

Q. You just took away my killer question.

A. Sorry about that.

MR. FRANSON: Never apologize for taking away his killer question.

THE WITNESS: Page 13.

BY MR. TODD:

Q. I said 13. I'm sorry. I meant 15. Let's turn to property taxes.

A. Okay.

Q. Do you have a copy of your prior testimony with you as well?

A. I think so.

Q. In your prior testimony your property taxes adjustment related only to --

A. Can I ask a question here?

Q. Sure.

A. This is the nonproprietary portion here, but do we need -- do we need to address that as far as whether we are going to be discussing proprietary or nonproprietary and how we're going to treat it?

MR. TODD: I think, if it's okay with you, we'll just follow the same procedure we did last time.

MR. FRANSON: Which was --

MR. TODD: Which was, discuss it, mark the whole deposition proprietary, and then afterwards we'll review and see what needs to be marked before its release.

MR. FRANSON: Let's go off the record just a second.

MR. TODD: Okay.

(A DISCUSSION WAS HELD OFF THE RECORD.)

MR. TODD: What we're going to do is discuss proprietary material in the deposition, stamp the entire deposition proprietary, and then the attorneys will review and the witness will review too afterwards to decide what's -- what can be released in a nonproprietary version.

BY MR. TODD:

Q. Okay. Back to my question.

A. Okay.

Q. In the last round of your testimony, your property taxes adjustment only related to property taxes; is that correct? It's on page 13 of your last testimony.

A. Right. Property taxes there, when you -- the way it is in this here, it was personal property taxes. It was real estate taxes, and it was corporate franchise taxes. All of that was included in this one same as it is in this case.

Q. So the current one you've just fleshed it out more?

A. Right.

Q. And the last -- in your last testimony, you, essentially, as I understand it from your deposition, replaced the Company's tax accrual with a cash basis; is that correct?

A. No, I did not.

Q. What did you do?

A. What I did in the last case is I annualized the property taxes that was paid up through I think it was December 31st, 2000. That was actual taxes that was actually paid up through December 31st, 2000. And that tied with the accrual that the Company had at that point in time. And then I made that adjustment to what was booked into the test year.

Q. Is what you're doing this time different?

A. No. I'm doing identically the same thing. Just a different period of time.

And I've changed the methodology a little bit on this one because at that point in time we knew what the numbers were for what the Company had actually paid. At this point in time, we don't know what it was, so we've taken it up through our update period, which is September 30th, 2001.

Q. Okay. What is your basis for annualizing a cost?

A. To see what the cost is in relation to the test year.

Q. And when did you decide to go to the annualized number rather than the test year number?

A. I looked at the -- the accumulated accruals up to that point in time for the test year, and from the time we went in and we did our audit, we actually had what the Company actually paid as of December 31st of that year, but it fell outside of the test year.

And looking -- and I did two different analysis on it. One was a run the accrual for the twelve months ending September 30th, 2001, and I also ran this one here, took the last month that they paid, multiplied it out, and the amount annualized in this way was closer to what the Company actually paid than the other.

If I had went with the accrual process, the Company would have been allowed a lot less on taxes for personal property and real estate taxes and also corporate franchise taxes -- well, not corporate franchise, but personal property and real estate taxes. By doing it this way, then, that's why I did the accrual.

Q. Now, you said a number fell outside the test year.

A. That was December 31st, 2001. At the time we did the audit we had those numbers.

Q. And those -- and you didn't use those because they fell outside the test year.

A. That is correct.

Q. Would you view that as inappropriate to use that number?

A. For property taxes.

Q. When I asked you the question about your basis for annualizing something, I meant to cast it in a light larger than property taxes. I'm curious as to your view to when it's appropriate to use an annualized number versus the test year number.

A. When we're using annualized numbers, we try to go back and get as realistic a number as we can for what the actual expense or what the actual cost is for that period of time.

Q. But how do you know when a number is realistic?

A. Historical data like doing a multi-year averaging or something like that which is normalizing it to see what the cost would be. As far as the difference in that and our test year, our test year is set up with the cost of service that we make adjustments to to determine the -- the rate of return. And with this, when we do an annualization, we're trying to see what the cost would be, a realistic cost.

Q. Let's talk about fuel inventory. Page 3 it starts.

Mr. Harrison, tell me what fuel inventory is.

A. Fuel inventory is the shredding tires, petroleum coke, electric, propane, coal.

Q. That's what fuel inventory consists of.

A. Right. And that's the inventory -- the fuel inventory that the Company has.

Q. But tell me what fuel inventory as a concept is, not just what it consists of, but what is it otherwise?

A. What is fuel inventory?

Q. Yes.

A. It's the amount of fuel -- it's what the Company has for different components for fuel.

Q. And is it sitting around at a plant somewhere?

A. Well, they, like, they have coal storage piles that they have there for the boilers. They've got the shredded tires, everything that they need for -- for -- for fuel for the boilers and stuff like that for the power plants.

Q. You've listed various types of fuel, and it's my understanding that for all of the types of fuel except for coal you've just used a thirteen-month average?

A. That is correct.

Q. What's materials and supplies?

A. What is materials and supplies?

Q. Yeah.

A. Just the different materials and supplies that the Company maintains that they do not have assigned to a specific account that they have, spare parts, stuff like that that they use at the power plants. It could be electrical wire or anything like that, parts and materials that they would use at a --

Q. So stockpile -- would you agree it's a stockpile of things the Company may use in the future?

A. That is correct.

Q. And like fuel, it's sitting around somewhere. Right?

A. Right.

Q. And you used a thirteen-month average for that as well. Correct?

A. That is correct.

Q. How is fuel inventory measured?

A. How is it measured?

Q. Let me -- let me flesh it out.

How does the Company measure fuel inventory?

A. I believe they take a thirteen-month average on it.

Q. Do they measure it -- what units do they measure?

A. Well, like coal, they measure that in tons. I think shredded tires, that's the same way. They measure it in tons. Petroleum coke, electric, propane, I assume that would be in gallons or something like that. I'm not sure.

Q. Is it measured on a -- what time period is it measured over?

A. Typically, a twelve-month period, I would say.

Q. Do you know how frequently the Company measures fuel inventory?

A. How frequently? No, I do not.

Q. You do not know?

A. No.

Q. I assume that fuel inventory data was provided to you?

A. Yes, it was.

Q. What units was that data measured in?

A. What are we talking about?

Q. What time units was that data -- did you get monthly fuel inventory?

A. We get it by month -- by month for our test year up through our update period.

Q. Okay. So it would be fair to assume that they measure it at least monthly?

A. Yes.

Q. Why do you see coal as being different from tire chips or any of the other types of fuel you listed?

A. I did a five-year average for coal inventory so that I could measure the coal that was on hand in relation to how it was burned and try to tie that back into the annualized fuel expense that the other Staff member had run, John Cassidy.

Q. So if Staff had done a similar analysis for tire chips, would you have then gone with the five-year average methodology there as well?

A. No, because it's not near as significant as what the coal inventory is. It's my understanding that this is the methodology that we would use for coal inventory.

Q. What do you mean by "significant"?

A. Well, if you look at the amount of shredded tires or the propane or anything else as compared to coal inventory, the numbers are much smaller than for coal inventory, so it's a large amount that we're trying to measure and trying to pinpoint and get down to more accurate -- a better accuracy on.

Q. And I missed what you said. You said the numbers are less something.

A. Yes. The numbers are a lot smaller in these other items than what it is in coal inventory. The numbers are larger, a lot more significant.

Q. Do you view your analysis, your methodology here, as more accurate than a straight thirteen-month average?

A. Yes, I do.

Q. So you view it as important -- you view it as more important to be accurate on a larger number?

A. I would say yes.

Q. Do you consider other numbers unimportant?

A. No, I do not consider them --

Q. Do you have an interest in being less than accurate in measuring other units?

A. No, I -- no, I do not.
Q. Now walk me through, if you would, your equation.
A. On the five-year average?
Q. Yes.
A. Okay. On the five-year average, I took the thirteen-month to date burned.
(MR. COOK LEFT THE DEPOSITION ROOM.)
BY MR. TODD:
Q. Let me just stop you on each one. Being a novice at this, I want to understand what each thing is.
A. What's that? What's that again?
Q. I said, being a novice, I want to understand what each thing is. You said a thirteen-month average of coal burning.
A. Right. I take the thirteen balances for the twelve-month period, which is the beginning balance of that month up through, like, for our test year, for instance, which is June 30th, 2001. I take the thirteen-month average of that.
Q. And fuel burned is fuel actually burned. Correct?
A. Of the fuel -- twelve-month to date burn.
Q. Okay.

A. Well, excuse me. I'm sorry about that.

We take the -- like, for instance, in this one, I used a thirteen-month average of our test year as of June 1, and that was the inventory on hand. Okay. And I did that for five consecutive years. Then I used the twelve-month to date burned, and I did a five-year average for that. Then I divided the five-year average for the twelve-month burn by 365, and that gave me the five-year average for the daily burn.

And then -- excuse me. And then I took the five-year average of the thirteen-month average and I divided -- and once I got my number there, I divided that into my thirteen-month average of the five-year, and that gave me the five-year average of the days. And then I got the Staff's annualized fuel expense for each one of the power plants, Labadie, Sioux, Meramec and Rush Island, and I divided that by 365, and the number that I got there I multiplied by the five-year average in days that I had, and I came up with the annualized coal inventory for the five-year average.

Q. And you did your analysis by plant as well, I assume?

A. By plant.

Q. What is it that makes you believe your analysis is more accurate than a straight thirteen-month average?

A. It's taking the data for the last five years. It's a longer period of time that you're evaluating, putting the data into place and looking at five years as opposed to just one year.

Q. What types of factors lead you to think that five years' worth of data is better than one year worth of data?

A. What's that?

Q. What makes you think that five years' worth of data is more accurate as an ongoing concept?

A. Because each year you could have different levels of coal inventory. One year it could be high. The next year it could be low. So you've got variations from year to year. By taking a multi-year, you're averaging it out, smoothing out the levels to where you --

Q. What kind of things cause those variations? What types of things cause those variations?

A. It could be any amount of things to cost of coal, what they paid for the coal, the availability of getting the coal shipped in to them. Any number of things could go into it as to how much coal the Company would maintain at any one time.

Q. Did you look for trends over those five years?
A. Yes, I did.
Q. Did you notice any trends?
A. The amount of coal that they maintain from year to year varied, yes.
Q. But varied doesn't mean trend, does it?
A. Well, to me it -- to me it does, but could you be more specific?
Q. By "trend" I mean was there a rising trend in the amount of coal kept around?
A. No, I don't think there was. It varied from year to year. It went up and it went down.
Q. So would it be fair to say there was not a discernible one-way trend?
A. No, I did not see an upward trend or a downward trend. It was up and down.
Q. Do you understand the methodology Mr. Cassidy used to figure out his annualized --
A. No.
Q. -- coal cost?
A. No, I wasn't involved with that at all.
Q. Let me represent to you that -- and we can check this out, I'm sure, that Mr. Cassidy has used coal prices from the -- from -- has used the most

recent coal prices available in the update period.

A. Okay. As of September 30th, '01?

Q. Exactly.

MR. FRANSON: Well, I'm going to object to this witness commenting on another witness's testimony that he's already said that he's not familiar with.

BY MR. TODD:

Q. Do you think that if my representation of Mr. Cassidy's testimony is true that it is appropriate to use a cost number derived from the test year data at --

MR. FRANSON: Okay. I'm going to object here again. Once again, you're asking him to comment on another witness's methodology that he's not familiar with.

MR. TODD: If you bear with the question, you'll understand I'm not asking that.

BY MR. TODD:

Q. Do you think there is any problem with using a cost number derived from the update period and multiply -- and using that to multiply a coal inventory number that's developed from a five-year average?

A. I don't know because I don't know what went into his analysis. I don't know what type of work he did on it. I got a final number for annualized fuel expense and I tied my numbers to that.

Q. Do you think it's important in the type of analysis you do to measure units consistently in time?

A. Yes.

Q. Why is it that you decided to normalize fuel inventory?

A. Why did I decide to normalize fuel inventory?

Q. Yeah.

A. Because, like I said earlier, doing a five-year average -- are you talking -- when you talk actual inventory, are you talking about coal or are you talking about --

Q. Coal. Coal, yeah.

A. Because over the five-year period with coal inventory numbers, tonnage, being different from year to year in the amount that the Company maintained, then I wanted to do a normalized annual amount based on the five-year average.

Q. Now, the last time, in your prior testimony, you didn't use this method, did you?

A. No. I used a thirteen-month average before.

Q. And from your comments earlier about this current methodology, I assume that you think your last testimony was inaccurate?

A. Not that it's inaccurate, but I had more time to prepare for this one, more time to look at the different numbers, and to go into more detail and to further analyze coal inventory.

Q. You think you had more time?

A. On this time? More with the fact and not having to research all of the historical data that I had to before. I already had it done up to that point when we filed the last case and I had to go from there forward, basically, and do updates for all of the stuff, yes, sir. We didn't have to go back and gather all of the data again for all of the historical data and make comparisons and analyze that data.

Q. And like you said earlier, you really didn't have to go back and look at it, did you?

A. No.

Q. What information have you received from the Company regarding the maintenance of fuel inventory?

A. As far as maintenance for fuel inventory? Do you --

Q. What's your understanding of how the Company decides how much fuel inventory to have?

A. For this case?

Q. Or any case. I'm just curious what your understanding is.

A. I believe the Company has a requirement to maintain -- or their policy is to maintain a seventy-five-day requirement of coal inventory, but I don't know that that -- that data request was not pulled from this -- or the information from this case was pulled from, like, a fifth sharing credit that we did before.

Q. So you didn't submit any new data requests --

A. No.

Q. -- in this case?

A. No.

Q. Do you have any idea how fuel consumption today compares to fuel consumption, I suppose, five years ago?

A. No, I do not.

Q. Do you think there is any link, or do you know whether there is any link between the price of coal and the inventory maintained?

A. I could only guess on that. I don't know for sure.

Q. Give me your guess.

A. I'm sure that if the price of coal is lower, they probably stockpile more coal.

Q. Do you know whether there is any relationship between the burn rate and the amount of inventory?

A. I would say that that would have to be tota-- those two numbers would have to be tied together, yes.

Q. How would they be tied together?

A. Because the amount of coal that you would have on hand or inventoried at any period of time would be based on the amount that you would burn. You would want to make sure that you would have enough inventory to cover what you needed to burn.

Q. So would it be fair to say that if you're burning more, you need more?

A. I would say that's correct.

Q. A fifty-day supply for a plant that is running flat out is larger than a fifty-day supply for a plant that is running at half capacity; is that correct?

A. That assumption seems correct.

Q. Have you performed any analysis on how the Company obtains coal?

A. No, I have not.

Q. Do you understand where the Company buys coal from?

A. I understand they pull it from western states.

Q. Do you understand how it is shipped?

A. Freight cars.

Q. Do you have any idea of how easy it is or difficult it is to increase the amount of coal being delivered to the Company's plants?

A. I haven't done an analysis of that, so I would have no idea.

Q. Have you reviewed the testimony being filed in this case by Michael Proctor?

A. What's that?

Q. Have you reviewed the testimony being filed by Michael Proctor?

A. No, I have not.

Q. I think I got his name right.

Do you understand that Mr. Proctor is -- is suggesting or sponsoring an adjustment that adds -- I forget whether it is 450 or 500 additional megawatts of production?

A. No, I'm not aware of that.

Q. Do you think it would be appropriate in your fuel inventory calculation to take account of a proposed change like that?

A. I haven't seen the proposed change, so I would have to look at it, I would have to analyze it, and I would have to make a decision at that point in time.

Q. If the Staff's test year -- if the Staff's generation calculation is based on additional -- the additional -- or the addition of extra -- I'm sorry. Forget that.

MR. FRANSON: Gordon, do you need a moment?

BY MR. TODD:

Q. If the Staff's analysis adds extra megawatts of gas turbines, wouldn't your thirteen-month average for gas fuel inventory be inappropriate?

A. I don't think so because looking at my numbers, the average days that the Company has maintained at this point in time is lower than it was the last test year. It's lower than it was two years ago. It's the same as it was three years ago, and it's quite a bit lower than it was five years ago. So looking at my analysis, I don't have anything to draw the conclusion that you just -- you just said.

Q. If the Company had more generation than it actually does now, would it not follow that it would be burning more fuel than it is now?

A. I don't know that the Company has more generation. I haven't seen that report or that testimony.

Q. Will you accept my representation that it is being added in, and answer my question?

A. I haven't seen -- I haven't seen the testimony or the analysis. I would have to look at it, and then I would have to render a decision at that point. If I looked at it, then I could probably answer that question.

Q. So you're not capable of answering the question -- let me flesh it out even more.

If we assume that all of the plants that are running now continue to run at their test-year levels and there are suddenly two additional gas turbines running, and there are -- let's say they are running at maximum capacity, you are incapable of answering the question whether the Company would be burning more fuel?

A. I can assume that what you are saying is correct, based on what you are saying, but it's an assumption on my part. And, like I said, my analysis does not indicate that. So I would have to look at the analysis, where the increase was at, and determine at that point.

But based on what you said, I would have to assume that what you are saying is correct.

MR. TODD: Why don't we take a break at this point?

MR. FRANSON: Okay.

(A RECESS WAS TAKEN.)

MR. TODD: All right. Let's go back on here.

BY MR. TODD:

Q. Let's talk about Venice fire adjustments. I want to discuss all of these -- I want to discuss all of these together, so page 6 through page 10 of your testimony are the Venice fire adjustments.

A. Okay.

Q. Now, when you say a cost runs through a date, for instance on page 7 you set out --

A. Page 7.

Q. -- you set out the September -- the September costs and then the December costs, am I correct in assuming that the December costs is just approximately $6 million more than the --

MR. FRANSON: Where on page 7 are you?

MR. TODD: I'm sorry. Line 9 and line 11.

THE WITNESS: Okay. What's your question?

BY MR. TODD:

Q. The question is, you say the Company incurred $18 million, approximately, in expenditures through September, and then the Company incurred 22-million-some-odd dollars in the same cost through December.

A. Right. That's accumulated total.

Q. That's just $6 million more?

A. (Witness nodded head.)

Q. Did you receive all of these numbers from the Company?

A. Yes, I did.

Q. Now, the incremental power plant capital expenditure you discussed on page 7, the first cost you provide is as of September 30th. That's correct?

A. The first one I discuss --

Q. The amount on line 9 is through September.

A. Okay. That is through September 30th, 2001.

Q. Okay. And then the another adjustments you make later, for instance on page 8 and page 9 --

A. Page 8 and page 9, we're talking --

Q. So, for instance, in lines 17 and 18, the first cost incurred there is only through June.

A. Right. June 30th, 2001.

Q. And that's -- and that holds true for all of the other adjustments you make in this area?

A. Right. All of the maintenance expenditures ran through the test year of June 30th, 2001, and plant and reserve ran through September 30th, 2001, our update period.

Q. And that's the appropriate way to handle those respective types of costs?

A. Yes.

Q. Now, the insurance payments made in December, do you know whether they were final?

A. As of December 31st, 2001, yes, they were final. That was all of the adjustments the Company was going to get -- or all of the settlements they were going to get.

Q. So you know for a fact, then, that there were no more ongoing insurance negotiations after that date?

A. That is correct. The meetings I had with the Company and also, I think, data requests indicated that the settlements was up through December 31st, 2000, and the expenditures, the same way.

Q. Tell me what your understanding is of how the Company accounts for the costs and the insurance settlements involved with the Venice fire.

A. The way I understand it that the Company accounted for it is they had expenditures as a result of this fire and they booked it to their plant, their reserve, and their maintenance accounts as -- as the expenditures was incurred. And then they had some time, I figured during our test year, they had applied those expenditures to request an insurance settlement, which I think that came in September through December -- or, excuse me, October through December.

Q. And what did they do with the insurance payment when it came in?

A. They credited it back to those accounts.

Q. Do you know why the Company used that methodology?

A. Why they used that methodology?

Q. Uh-huh.

A. No, I do not.

Q. You told me earlier that you have at least a basic grasp, if not a decent grasp, of the GAAP concepts?

A. Yes.

Q. Do you have any idea whether the Company was following GAAP doing this?

A. I'm not sure whether they were or not.

Q. Have you ever inquired into why the Company accounts for -- or accounted for these costs in the manner that they did?

A. No, I did not.

Q. And would it be fair to infer from your earlier answer that your understanding of GAAP is not sufficient to allow you to tell whether or not they were following GAAP?

A. That's correct.

Q. Now, you admit, obviously, that the insurance proceeds were not received until December '01?

A. The first was received, I think, in October.

Q. Final settlement was not reached --

A. The final settlement was December.

Q. And you would agree, would you not, that both October and December fall outside the test year and the update period?

A. It is outside of the test year, but I believe that the Company should have booked these expenditures differently. They could have set up a reserve account or they could have set up a deferred account, kept these totally isolated from what the maintenance and plant accounts were, and then as they got the insurance settlements, they could have applied them, and then they would have only had to book the excess of what they weren't reimbursed for for the expenditures.

Q. Do you know of any generally accepted system of accounting that would recommend a company do that rather than what the Company did?

A. I think the uniform system of accounts allows that to be done that way. As a matter of fact, we did it for Y2K. We treated it the same way. We put it into a deferred account and then amortized it over a period of time.

Q. Have you applied this methodology to property, plant, and equipment type of items before?

A. I don't know whether -- are you asking me personally, or are you --

Q. Yes.

A. No, I have not.

Q. And do you know whether the Staff has ever done that before?

A. I don't know whether Staff has or not.

Q. Would you agree that in your proposed adjustment you are deviating from cash accounting?

A. Could you repeat that question?

Q. Would you agree in your proposed adjustment you are deviating from cash accounting?

A. We're doing the accrual basis of accounting.

Q. Do you know whether the accrual basis you are following is consistent with GAAP?

A. I think it is, yes.

Q. Do you think that a test year usually matches all related costs and expenses -- I'm sorry -- costs and revenues?

A. Do they match?

Q. Yes.

A. Yes, they do.

Q. Do you think that a test year always matches all costs -- related costs and revenues?

A. All major costs, I would say.

Q. Would it be fair to assume that in any given test year there will always be events that occur that are -- the cost of which falls outside the test year?

A. Could you ask the question again, please?

Q. Sure. I'm sorry. There was a big time gap in the middle of the sentence.

Do you think it's fair to assume that there will always be at least some costs that are incurred during the test year but the actual charge doesn't arrive until you fall -- until after the test year?

A. Well, I think that's totally different from the situation that we've got right now.

Q. Could you answer my question then?

A. What's that?

Q. Could you answer my question?

A. Can I answer your question?

Q. Yes.

A. I'm not sure. I have not looked at every adjustment for -- that we're making against the Company for the test year.

Q. What do you understand is meant by the term "known and measurable"?

A. Could you repeat the question, please?

Q. What do you understand the term "known and measurable" to mean?

A. You know what the expense is and you're able to measure it with a high degree of accuracy.

Q. Would you agree that any test year has or contains expenses recorded for items purchased prior to the test year and items received but not paid for until after the test year?

A. Could you give me an example?

Q. Sure. Legal services purchased during the test year that are not invoiced until after the test year.

A. That would be totally different from the way we're receiving this here.

Q. Do you agree a test year would contain such things?

A. It would have an accrual for, like, legal expenses, and then they would be paid after the test year. That's very possible.

Q. How do you -- why do you think an example such as that is different from what we're dealing with here?

A. Because in this situation here, the Company has got the expenditures built into the cost of service. And with them being built into there, they are figured into the rates, so they will be compensated for these expenditures there, and at the same time after the test year, they are getting an insurance settlement for the same expenditure again, so it's double recovery. In the other situations that you were talking about, you have an accrual process, and then it's paid on a cash basis outside of that. Without this adjustment, you'll have basically figured it into the equation twice.

Q. Do you know whether the Staff favors cash or accrual accounting for legal fees?

A. I think accrual method is the way they --

Q. That Staff favors?

A. And I think that's also what the uniform system of account states.

Q. And if the Company was to use cash accounting, then -- for that, then would that be a parallel situation?

A. What's that again?

Q. If the Company used a cash accounting instead of an accrual accounting for legal fees, would my hypothetical be more like the Venice situation?

A. I don't understand what you're saying.

Q. Well, you just said the difference between my hypothetical and your situation with Venice is that -- in legal fees the Company is accruing --

A. And then they pay --

Q. -- and Venice is not?

A. And then they pay it -- and then they pay it outside. But if you had a cash basis and they paid for it as they went along, there would be nothing falling outside the test year. You would only have the numbers figured in the test year for that legal expense.

Q. You gave me a definition of known and measurable --

A. Okay.

Q. -- earlier. When did the insurance settlement become known and measurable?

A. When did it become known and measurable?

Q. Yes.

A. I think it was probably January/February 2002.

Q. Do you understand what I mean if I use the

term a "forecasted test year"?
A. Forecasted test year. Could you give me an example or give me a definition?
Q. Are you familiar with the term?
A. Forecasted test year, I haven't worked with it.
Q. Do you understand what a historical test year is?
A. Yes, I do.
Q. What is a historical test year?
A. Historical test year is a twelve-month historical period that adjustments are made to to determine the cost of service on a going-forward basis.
Q. What do you view as the point of using a test year?
A. What's that?
Q. What do you think is the point of using a test year?
A. To where you can take all of the expenses, revenues, all of the capital accounts, and you can set up a test year that you can look at what the cost is and you can always compare it to the test year to see what the difference is or where it's at or if you've got a high test year, a low test year, or if the --

the expenses or revenue is normal or abnormal. It gives you a point to start from at a known point in time.

Q. Point to start from to do what?

A. To -- your test year is what you've got locked in for revenue for expenses and also for your capital accounts. And you can come out with a total in all of these accounts, and then any type of analysis you do against it, you can compare that back against the test year to make any adjustments.

Q. What types of adjustments can be made to test year data?

A. About any type of adjustment that you're looking at, expenses, plant, reserve, maintenance revenue. You can make any type of adjustment against test year.

Q. But when I say "what types of adjustments," I mean what forms do those adjustments take?

A. What forms do they take? You've got plant adjustment. You've got reserve adjustment. You've got income statement adjustments.

Q. You're answering the question, what types of things can be adjusted.

A. Okay.

Q. I'm asking, how can they be adjusted?

A. How can they be adjusted?
Q. Yes.
A. You do some type of analysis of a particular specific issue that you are working, and you do some kind of normalization annualization and you cross-check that back against the test year to make an adjustment. Is that the question that you're asking?
Q. Yes.
What is it about test year data that would drive you to normalize something, to perform a normalization analysis.
A. Well, for instance, like the tree trimming expense, you look at the cycle that the company is doing the tree trimming and you run, like, a four-year average, and then you compare that back against your test year, and that gives you a point to look at how it compares in the average to how it actually is in the test year. Then you can adjust up and down from there.
Q. How do you know whether the average or the test year is more accurate?
A. Because, typically, you've got a more significant period of time that you're looking at and you're looking at more data. You're analyzing the data and you're comparing it back to the test year.

Q. So can I summarize that by saying -- would it be fair to characterize your view as more data is more accurate?

A. Not always, but that's one of the things that would -- that you would look at, more data.

Q. Well, what would -- what kinds of things would lead you to think that a five-year average, for instance, of an expense is more accurate than the test year number?

A. Because one -- one year, the numbers could be higher or the numbers could be low. You have to look at a spread, a period of time to take into consideration where you've got a high test year, a low test year, in each one of the different areas that you're looking at and each one of the issues you're looking at, and then you take, like, a five-year average and you -- and that covers the whole period, and it will smooth it out and take out the -- the one single thing. It gives you more data that you can look at, for instance, like for a five-year average.

Q. Do you think it's also important to look to see what else is going on with that particular expense?

A. Yes.

Q. For instance, we talked about fuel

inventories earlier. If five -- would it be fair to say that if five years ago the Company had only half the plant it has now, then we would -- could assume that the fuel inventory data for five years ago wouldn't be of much help figuring out what fuel inventory would be a year from now?

A. I would say that's correct. You have to take that into consideration.

Q. How about events that are foreseeable? In your analysis, do you ever look to see what's likely to happen in the future to see how it will affect the data you're looking at?

A. For monitoring purposes to see -- like, the adjustment that we made against the test year to see how it compares after the fact for the months that's following the test year. We do that for monitoring to see if the expense or the revenue is going up or if it's going down.

Q. If you were going to make an adjustment based on something forward-looking, how certain do you think you would have to be to know it was going to happen to make that adjustment?

A. You would -- you would have to be absolutely certain it was going to happen.

Q. You would have to be -- I asked you earlier about the known and measurable concept.

Would it have to be known and measurable?

A. Yes, it would.

Q. Would you agree with me that the data collected for the test year and then adjusted, normalized, whatever you do to it, the end result of that process should be something that forecasts what costs and expenses, et cetera, will look like during the time when the rates set are in effect?

A. Yes. It's on a going-forward basis.

Q. So when you make these adjustments, any of them, you analyze any of these areas, you're trying to figure out what that area will look like two, three, years from now?

A. Next week, next month, next year, as far out as possible.

Q. Okay. Now, on page 8 of your testimony, lines 2 through 4, you take issue with the Company's accounting method --

A. Yes.

Q. -- or how the Company booked the Venice expenses.

A. Yes.

Q. I think you averted to an answer to this question earlier, but I want to ask it specifically.

What do you recommend in the -- under generally acceptable Harrison principles, what do you think the Company should have done with those expenses?

A. Well, it's not only what I think they should do, but talking with the senior Staff and other persons within the Staff, we think that the Company should have booked these expenditures toward either a deferral account, a reserve, or a receivable account, and then when they've got the settlements in for the insurance, they could have credited it back against that account, and then only the expenditures above and beyond what the cost was or what the settlement was would have to be put on the books.

Without that, you've got double recovery. You've got it built into the cost of service that rates are going to be set on, and you've got it also getting -- the Company getting reimbursed for it later on, which is not being applied back to the cost of service.

Q. Do you think it will be appropriate to scrutinize the books to make sure that every single cost the Company has incurred, that all reimbursement related with that has been moved into the test year data?

A. What's that again?

Q. Do you think it is important to review the Company's books, perform a similar analysis across the board to make sure that all reimbursement for costs incurred during the test year, even when the reimbursement falls outside the test year, is captured in your analysis?

A. We look at -- the Staff looks -- when we look at the Company's records, the Company's books, we go into as much detail as we can looking at that and analyzing the data.

Q. Would that be a yes?

A. That would be a yes.

Q. What about the converse? Do you think it's equally important to make sure that all -- that the cost associated with all revenues that came in during the test year, that the cost itself, even if it fell before the test year, is included in the test year?

A. For all revenues?

Q. Uh-huh.

A. We -- we -- we do a revenue analysis during the test year, yes.

Q. Do you understand what I'm asking though? I'm asking the converse of the analysis you've proposed.

A. Okay.

Q. You've said -- correct me if I'm wrong. You've said there is a cost during the test year?

A. Right.

Q. The Venice fire.

A. Right.

Q. Revenue came in in December -- October and December. We want to include that in the test year.

A. That's right. Insurance settlements came in for the expenditures.

Q. Right. Do you think that is equally important that -- let's say in the first month of the test year the Company received a big check for whatever reason and it was payment for a cost the Company had incurred before the test year started.

Do you think it would be equally important to move that cost into the test year?

A. That is a prior period adjustment, and that adjustment would be made.

Q. By including the cost or removing the revenue?

A. Prior period adjustments would be taken out of the test year.

Q. Your adjustment in this area is based entirely on hindsight, isn't it? Aren't they, I should say.

A. I don't think so because if you look at the expenditures, the Company knew that they were getting insurance settlements for these expenditures. They just did not know the amount that they were getting. But they knew that they were getting these settlements for these expenditures that they had during that period of time. The amount just wasn't there. So they knew that they would recover these amounts when they booked them into these accounts.

Q. But as of the last day of the update period, it's your position that the Company definitely 100 percent knew it was getting money?

A. I would say by September 30th the Company -- since they got reimbursed in October, the month following, I would say that they had already submitted claims to the company, and they had a pretty good idea of how much they were going to get reimbursed based on how much their expenditures were.

Q. Do you have firsthand knowledge, or what are you basing that assumption on?

A. I'm basing that on -- I'm basing that on in October they received $6 million in settlements, so they had already had to have made a claim by the end of the test year.

Q. So you don't actually know whether at the end of the test year the Company knew it was getting an insurance settlement?

A. I would say the Company knew they were getting an insurance settlement. They just did not know how much. And that's the reason you have insurance.

Q. But are you speculating based on the proximity of the payment? Aren't you simply speculating on the proximity of the payment?

A. I would say that the Company knew. There is no way that the Company would not have known that they were going to get an insurance settlement for this. We discussed this with the Company on the previous case that we were working on, and the personnel that we talked to had no doubt that they were going to get reimbursements. The only question was the amount.

Q. Is that statement based on anything -- is your analysis based on anything other than the fact that they were paid in October?

A. The fact of talking with Company personnel when we went through and was looking at the previous case. We knew there was a fire there. We knew there was an insurance settlement. We knew there was a $5 million deductible there and we got this information from the Company.

Q. Do you know what the Company personnel were basing their optimism on?

A. Based on their insurance policies. And that's what you've got insurance for, is to recover.

Q. You admit, though, would you not, that as of the last date of the update period, the amount of the settlement was not known -- or was not measurable, rather, I should say?

A. As of September 30th, 2001, I would say they did not know the exact amount. They knew they were getting insurance settlements, though.

Q. So at that point the amount wasn't known and measurable?

A. No, it was not.

Q. And in your understanding of GAAP and the uniform system of accounts, you believe it would be appropriate nevertheless to book this revenue?

A. Uniform system of accounts and GAAP, yes, I do, because the Company is going to get double recovery.

Q. Do you know about GAAP?

A. I have a basic understanding of it.

Q. Do you understand -- do you know what GAAP thinks of your suggestion?

A. Specifically, no. I can't -- I can't quote it verbatim.

Q. Now, you've recommended deferring these expenses.

A. That's correct.

Q. If the Company were to have done so, done that rather than book the expenses when it did, wouldn't that be speculative?

A. Speculative?

Q. Yes.

A. I don't understand your question.

Q. Well, you're recommending that they defer the expense in some kind of --

A. Right.

Q. -- holding account?

A. Receivable or deferred account or a reserve account of some type.

Q. And you recommend them doing that pending payment?

A. That is correct.

Q. So by booking it that way, wouldn't they be speculating that they were going to receive the payment?

A. I don't think so. They knew they had insurance. They were paying premiums for that insurance, and they knew that they were going to get reimbursement for these expenditures. The only question is the amount.

Q. And, once again, your statement that they knew they were going to receive payment is based on nothing other than yours and the Company's -- and the Company -- well, your view that they were paid in October and the Company's -- Company's evaluation of their insurance policy?

A. It's based on -- it's based on, they had insurance and they paid premiums on it, and the sole purpose for the insurance was for reimbursements of accidents that happen like this.

If -- if they knew --

Q. At what point --

A. If they knew -- if the Company knew for sure that they were not going to get reimbursed, they wouldn't have carried the insurance.

MR. FRANSON: Gentlemen, let me remind you, the court reporter is starting to hear two people going back and forth. I think it's real hard to follow.

BY MR. TODD:

Q. At what point would it be appropriate to move those expenses back to where the Company did account for them under your view?

A. As soon as they got the insurance settlements for this, if they would have had it in some other account set up, they could have credited it back to that account, and then they would have only had to book against plant, reserve, and the maintenance accounts the excess of what they did not get the insurance settlement for.

Q. Let's expand this discussion beyond the present -- beyond the example of Venice. Let's take an example of a cost where insurance recovery is questionable and there is a genuine legal question as to whether you're entitled to insurance. Would you recommend the Company accounting for a cost like that in the same way?

A. Well, I think the Company does do that by figuring in on an accrual basis what they expect for, like, legal fees and stuff like that. They figure in a monthly accrual for stuff like that that comes up, accidents, injuries, damages, legal expenses, anything like that. They've got an accrual that they put in their books every month for that expectation. Again, they just don't know what the amount is.

Q. Let's say the Company's insurance policy includes a provision that says that it will not reimburse intentional acts of destruction by a company. Let's just assume that. Okay?

A. That's not the situation that we're dealing with.

Q. Let's just -- let's just -- can you assume that?

A. Okay.

Q. Let's say there is a genuine question as to whether Marty Lyons over here went and burned down Venice. Okay? There is a genuine legal question as to that, and because of that, there is a genuine question as to whether the Company will get any insurance money at all.

Under that situation, would it be appropriate for the Company to follow what the Company did or what you did?

A. They would have known that long in advance if something like that was the case, that they were -- if they had problems of what you describe there. In this situation -- I mean, this fire happened in August of 2000, so all of the investigations and everything else had been completed at that point in time.

Q. When were the expenses booked to plant and -- let's just say --

A. The expenses, I'm not sure of the exact -- I think there was some expenses booked in there prior to the beginning of our test year.

Q. So would be fair --

A. We tracked -- we tracked twelve months ending June 30th, 2001, and then we tracked it on up through 9-30-01, accumulated total. Then we tracked a twelve-month period up through 9-30-01, and then we tracked accumulated total up through December 31st.

Q. Would be fair to assume that expenses related to the fire start being booked -- under the Company's method, start being booked when they are incurred, which could well be the day after the fire?

A. We don't have a problem with them booking it. Our problem is the way they booked it against plant, reserve, and the maintenance accounts. They knew they were getting an insurance settlement back.

It should be booked against some type of deferral or receivable account or some way to where they could have kept it separate from their plant account, kept it separate from their reserve account, kept it separate from their maintenance account, and then when they got the insurance settlement back in, they could have applied it back to that account, and they would have only had to book against plant reserve and the maintenance accounts what was in excess of the insurance settlement.

Q. I want to make sure I understand exactly what you're saying.

Let's say the day after the fire the Company has to start paying for cleanup.

A. Okay.

Q. That's a cost --

A. Okay.

Q. -- related to the fire. That's a cost that may be covered in the insurance settlement.

Is it your theory that as soon as the Company starts paying for those costs, it should immediately -- because the Company accounts as it goes along, should it immediately start treating them in this -- in this holding account that you're proposing?

A. That is correct.

Q. Okay. And I gave you an example with my -- let's call it the Marty Lyons scenario. The day after the fire there is a question as to whether any insurance money is coming along, but, yet, is it your argument that it should still be put in this -- this hypothetical account?

A. Yes, it is. I don't know that right after the fire that they would know whether the money was coming along or not. It's just the amount again.

Also, I would like to add that if -- if this adjustment isn't made, these expenditures are going to be embedded into the cost of service, and it's going to be like having a Venice fire every year after this because they had the expenditures, they got reimbursed for it, but, yet, these expenditures are in the cost of service, and they are going to carry every year as if we had a Venice fire.

Q. That's understood. I'm glad you brought that up.

Have you done any analysis of how frequently accidents like this happen?

A. No, I have not.

Q. Is it fair to surmise that it's happened more than once?

A. The possibility is there.

Q. And this is a cost -- if there was a way of charging -- you know, passing this cost along just once rather than repeatedly, as you claim it is -- it would be, would it be appropriate to pass it along once?

A. And still get insurance reimbursement for it? No, I don't think so, and I don't think Staff would agree with that either.

Q. So when you say it is built into the

rates --

A. It is part of the expenditures going into the cost of service and -- which rates are figured from, and that's how rates are determined.

Q. You would however agree it would be fair to pass along the excess over -- the cost over the insurance?

A. What's that again?

Q. You do think it would be appropriate, it would be fair, just and reasonable even, to pass along the costs over and above the insurance settlement?

A. Yes.

Q. And does your methodology do that?

A. Yes, it does.

Q. You averted earlier to your -- the Y2K situation?

A. Okay.

Q. And if my recollection is correct, in that case there was a specific order from the Commission to defer the cost; is that correct?

A. Yes.

Q. Are there any situations that you can give me other than the Y2K situation in which you or the Staff has applied this methodology?

A. No, I cannot.

THE WITNESS: Do you think we might be able to take another break?

MR. TODD: Sure, if you would like to.

THE WITNESS: We're at a break, a point in time that we can take a break. Right?

MR. TODD: I think we can take a break and then make a run for the finish line.

(A RECESS WAS TAKEN.)

MR. TODD: All right. Let's go back on.

Over the break the question was raised whether we're going to introduce the notes that Mr. Harrison prepared for today's deposition. And I think we've agreed that we should go ahead and do that, so let's get this marked as Exhibit 3.

(EXHIBIT NO. 3 WAS MARKED FOR IDENTIFICATION BY THE COURT REPORTER.)

BY MR. TODD:

Q. Okay. Let me get you to turn to page 10 of your testimony and let's talk about tree trimming.

A. Okay. I'm there.

Q. And you have two proposed adjustments here, one for transmission tree trimming and one for distribution tree trimming; is that correct?

A. That's correct.

Q. And your methodology here is that you have replaced the test year number with a four-year average of tree trimming costs; is that correct?

A. That's correct.

Q. And based on your testimony -- let me back up.

What understanding do you have of the Company's -- how the Company organizes tree trimming?

A. They have their Forestry Department, and they contract out to vendors to do the tree trimming.

Q. Do you know how they decide when a particular line or neighborhood needs to be trimmed?

A. I think on the transmission lines, they drive by annually and check them, and then on the distribution feeders, it's like a four-year cycle, and they do reliability studies for customers and stuff like that which determine that.

Q. So on transmission is it your understanding they drive by --

A. Annually.

Q. -- everything each year?

A. The transmission lines, not distribution feeders.

Q. Right. On distribution you said they have a four-year --

A. Four-year cycle.

Q. What -- what does that four-year cycle mean? What is the four-year cycle?

A. Typically, from the time they do one feeder to the time they come back in and do that same feeder again, four years will lapse.

Q. Do you know how long the Company has been following this four-year cycle?

A. The data request that I got said that they -- that their tree trimming was actually five years for urban and seven for rural, and then a memo that I got said that their target was a four-year, and I got that June 14th, 2001, is when I got a copy of that. That's the change I made here.

And I think that addressed that as a result of a '98 reliability study that they were doing, and that's when they started to increase the cy--

Q. In 1998?

A. Well, based on 1998 numbers off the reliability study, they started doing it in 1999.

Q. So in 1999 they shifted from a five- to seven-year cycle to a four-year cycle?

A. And they started increasing their cycle time, and with meetings we had with the Company, they said their target cycle was four years.

Q. Who was at that meeting?

A. Rick Schank, Dave Schepers, I think is his name. Rick Schank and Dave S-c-h-e-p-e-r-s. I think it's Schepers. And there was -- I think Jim Cook was also there, but I don't remember who else was there at that time.

Q. So your four-year cycle, your four-year average includes data from -- what's the first year of that cycle?

A. It goes from September 30th, 1998 through September 30th, 2001.

Q. And you just told me they shifted this four-year cycle in '99?

A. Right. That's when they started doing the reliability testing, from what I understand, started looking at the reliability study for their customers.

Q. Now, it stands to reason, doesn't it, that if you have been cutting any given area every five to seven years and now you're going to start cutting everything every four years, that you're going to be cutting more every year?

A. And you're also going to have a catch-up period that you're going to have to -- or a catch-up mode, I guess I should say, where you're going to be trimming more in the first few years to catch up on the five-year or seven-year since you did increase the cycle.

Q. What do you base that on?

A. Because if you -- if you are decreasing the amount of time on the cycle, then you're going to be in a catch-up mode because what you used to trim in five to seven years, now you're trimming in four years, plus or minus, so --

Q. Do you necessarily know that the Company made catch-up efforts like that?

A. At a meeting that I was at with these same personnel, the term "catch-up mode" because of the reliability study was stated, yes.

Q. Do you know what the -- do you know who said that?

A. No, I do not.

Q. Do you know what catch-up mode --

A. It would have been Rick or Dave, either one. It was one of those two.

Q. Did you get that whole answer?

Do you know what "catch-up mode" referred to?

A. I assume that it meant the fact that they were doing tree trimming five to seven, and now that they were doing it with four, then they had to catch up on that.

Q. Given this four-year cycle, for purposes of this discussion -- let's assume that this Ameren service area is divided into four areas.

A. Okay.

Q. An area where tre-- trees were trimmed in year one, year two, year three, and year four.

A. Okay.

Q. You understand what I mean by that?

A. Right. And every four years they would be coming back to the same area?

Q. Right. The first year we cut one, the next year we cut two, and year five we cut area one again.

A. Okay.

Q. Do you know whether when the Company shifted to its -- this four-year cycle you're talking about, do you have evidence you can point to other than this comment you've told me about that they didn't just say, okay, this year we're going to cut area one. Next year we'll cut area two, and the next year we'll cut area three, and the following year we'll cut area four?

A. I don't understand your question. Do I have specific -- could you repeat the question, please?

Q. I assume that when the Company shifted to this four-year cycle, that's what they adopted. The year after -- so the year starting whenever in '99 it was that they adopted this policy, that '99 to 2000 year they would have cut area one.

A. Okay.

Q. Do you have reason to understand or reason to believe that in that year they actually cut area one plus something else?

A. No, I do not. I do not have anything to point to or to identify that that's what they've done.

Q. In your prior testimony you had a chart attached to the back of it, and you haven't included that in this testimony, have you?

A. No, I have not.

Q. Why not?

A. Because since then I've had meetings with the Company and I've had data requests that I've submitted since the last filing that we did to find out exactly what the cycle was, how they looked at it, and how they measured it.

Q. Would that chart be inaccurate for purposes of your current testimony?

A. Would it be inaccurate? I don't know that it would be inaccurate, but with the Company telling me they got a four-year, I don't need that chart to track it out that way. Taking it back over a ten-year period is just...

Q. Now, in your prior testimony you concluded, based on your analysis of the four-year cycle, that costs would -- would drop?

A. That is correct.

Q. And I believe that you made an adjustment, something on the order of $5 million in your last testimony?

A. Somewhere around there. I would have to look at it to give you an exact number.

Q. Okay. Have you reviewed more recent data in the tree trimming area?

A. Yes. I updated through September 30, 2001.

Q. Did the more recent data bear out your earlier analysis?

A. I believe tree trimming expense from September 30 of 2000 to September 30 of 2001 decreased by a million-and-a-half dollars.

Q. Decreased from -- from what period?

A. Okay. As of September 30th, '01, for distribution and transmission, we had $26,564,414.

Q. That's for both combined?

A. Both of them combined, and that's not including the capitalized cost. As of September 2000, we had $27,855,760, so it's decreased by about a million-and-a-half between the ending of the last test period that we had and the ending of this test period. And that's why you see the decrease of my adjustment this time based on the adjustment of the last time.

Q. You told me earlier -- you agreed earlier that the test year tries to set rates based on the costs that will be around a week, two weeks, a month, a year from now?

A. That's what test year cost of service does, going on a going-forward basis, yes.

Q. So if -- based on your earlier analysis you actually -- you would have reduced tree trimming expenses by three-and-a-half million more than they were actually reduced?

A. What's that again?

Q. Your earlier adjustment would have reduced tree trimming costs for the Company by $3.5 million more than -- approximately, than they actually reduced; isn't that correct?

A. But I still feel that they are in the catch-up mode and they haven't got through this cycle where they started to increase their reliability. And I don't think that you will see that until it levels out, and that's the reason I did a four-year average, because going into it, it's going to be high and then it's going to start dropping off, and you won't know the effect of it until it's completed that cycle.

Q. And your analysis is based -- the key assumption there is that they are in this catch-up mode?

A. Catch-up mode, and they are doing a four-year cycle.

Q. I asked you earlier and I forget whether you told me you did or didn't have a copy of your deposition testimony.

A. Yes, I do.

Q. You do.

Mr. Wolski asked you a series of questions relating to things you may or may not have considered in your analysis.

A. Okay.

Q. You told me that you reviewed this deposition preparing for -- or your transcript preparing for today's deposition?

A. That is correct.

Q. Do you remember looking at those questions, the questions he asked you in the tree trimming area?

A. Yes, I remember looking at them.

Q. Do you recall -- in doing your analysis this time, did you take into account any of the things he asked you about last time?

A. I don't remember every specific item that he asked.

Q. Why don't I just ask you the same questions?

A. Okay.

Q. In making your adjustment, did you consider --

MR. FRANSON: Where are you reading from?

MR. TODD: I'm just asking him questions. Just pretend -- act like I'm asking the question here.

MR. FRANSON: Okay.

MR. TODD: I'll tell you where it is. It's on page 9-- starting on page 93.

BY MR. TODD:

Q. In making your adjustment, did you consider whether labor rates would be increasing over the next several years?

A. No, I did not. And I don't know that the labor rates are going to increase over the next several years.

Q. Do you know what percentage of tree trimming costs are labor?

A. What percentage are labor? No, I do not that have broken out separately.

Q. Did you take into consideration whether future costs were expected to increase for equipment related to tree trimming?

A. No, I did not.

Q. How about whether the cost of herbicides in tree trimming and vegetation control would be increasing?

A. At one of the meetings that I had had, again, with AmerenUE and Rick Schank, herbicides was one of them that came up, and they said that there would be a decrease in it as a result of killing the roots and stuff like that, a discussion we had in the meeting.

Q. Did you look into that at all in this testimony?

A. Did I do an analysis?

Q. Sure.

A. No, I did not.

Q. Have you done any analysis of planned line construction?

A. Planned line construction?

Q. Yes.

A. No, I did not.

Q. So you don't know whether the Company is planning on adding to distribution or transmission?

A. During the last deposition, it was mentioned that they was going to add 17 miles, but that's all of the knowledge I have of it.

Q. You have not followed up on it?

A. I have not followed up on that.

Q. Do you think that would affect the cost of tree trimming in the future for the Company to add?

A. I don't know. I would have to analyze it at that point in time and see, because you could also have it dropping off to where they retire certain feeders or retire certain transmissions, so you would have to look at the entire scope of it.

Q. Let me give you a hypothetical. Let's assume that nothing is dropping off. It's only being added. They're adding, say, 50 miles of distribution or transmission lines. Would that add to the cost of tree trimming?

A. Not a lot, because if you look at the transmission and distribution feeders, the majority of all of it is tied up in distribution feeders. There is very little cost associated with transmission -- all of the transmission lines that they've got right now. So if you only add 17 miles, that would be a very minimum cost that would be added.

Q. I think I said 50 miles, but let's flip the question.

A. Okay. Fifty miles.
Q. Let's flip the question and ask you about adding distribution rather than transmission.
A. All right.
Q. If you added 50 miles of distribution, would that affect tree trimming?
A. Yes, it would.
Q. In making your adjustment, did you consider whether changes in Ameren's service territory will affect tree trimming?
A. No, I did not consider that.
Q. From your prior testimony, you dropped a lot of detail.
A. What's that again?
Q. From your prior testimony, you have dropped a lot of detail. You've significantly shortened your testimony this time around. I'm curious as to why.
A. I've shortened it? I thought I extended it. Before, I think, it was 13 pages, and this time I think it's, like --
Q. I meant -- I'm sorry. I meant just your tree trimming analysis.
A. That's because I addressed a question specifically in the data request that I had received from the Company during that period of time. And I

stated what was requested from the Company and as part of that meeting that we had and then what the Company representative had said.

Q. We started talking about this earlier, but I want to touch on it specifically. Why have you amortized the Y2K expenses?

A. Why?

Q. Yes.

A. Because it was a deferred account that was put into the books, and we decided to go ahead and amortize it over a six-year period of time and pull it out of the deferred account and expense it over amortize it over that six years.

Q. Do you think it is appropriate to amortize the Y2K expenses?

A. Yes, I do.

Q. Why?

A. With the third sharing credit, I think it was, that's what my -- the testimony that I've read and the orders that I've read, it was so directed by the Commission to amortize it over a ten-year period of time.

Q. Putting aside the Commission's order to do it, as an accounting matter, do you think it appropriate to amortize a cost such as Y2K?

A. Yes.
Q. Why?
A. Because instead of expensing it all at one shot for one year, you're spreading it over the depreciable life of the asset.
Q. You don't think that writing it off as a one-time cost would be appropriate?
A. No, I do not.
Q. Why not?
A. My -- I would be biased again by saying that my experience lies with what I've read on the third sharing credit and what I've read on the EARP and that's where my knowledge is coming from for making this adjustment here. And it's based on the depreciable life of the asset tied back to the computers, based on what the Staff witness -- what she had in hers for -- for a depreciable life.
Q. The amount of money -- or the costs that are being amortized in Y2K were expenses. Right?
A. That's correct.
Q. They were things charged to expense.
And you would agree with me, would you not, that that expense -- a similar expense is unlikely to recur in future years, perhaps until the turn of the -- whatever you call 10,000?