Exhibit No.:
Issues: *Test Year*
Allocations
Accounting Schedules
Net Salvage Expense
Reserve Amortization
Office Supplies
Property Insurance
Depreciation Expense
Witness: *James D. Schweiterman*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case Nos.: *EC-2002-1*
Date Testimony Prepared: *July 2, 2001*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JAMES D. SCHWEITERMAN

UNION ELECTRIC COMPANY
d/b/a AMERENUE

CASE NO. EC-2002-1

Exhibit No. 85
Date 7/10/02 Case No. EC-2002-1
Reporter KEM

Jefferson City, Missouri
July 2001

DIRECT TESTIMONY

OF

JAMES D. SCHWIETERMAN

UNION ELECTRIC COMPANY d/b/a AmerenUE

CASE NO. EC-2002-1

Q. Please state your name and business address.

A. James D. Schwieterman, P. O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I attended Lincoln University in Jefferson City, Missouri, from which I received a Bachelor of Science degree in Business Administration, with a major in Accounting, in May 1975.

Q. What has been the nature of your duties while in the employ of this Commission?

A. Since joining the Commission in 1975, I have directed and assisted with the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously testified before this Commission?

A. Yes, I have. Please refer to Schedule 1, which is attached to this direct testimony, for a list of cases in which I have filed testimony.

Q. With reference to Case No. EC-2002-1, have you made an investigation of the books and records of AmerenUE (UE or Company)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. Please identify your areas of responsibility in Case No. EC-2002-1.

A. My principal areas of responsibility are test year, office supplies expense, property insurance, allocations, depreciation expense and net salvage expense.

TEST YEAR

Q. What test year has the Staff used in this case?

A. The Staff has used a test year ending June 30, 2000. The test year was updated for certain material items (plant, depreciation reserve, customer levels, fuel expense, other operating expenses and rate of return/capital structure) through December 31, 2000, based on actual information available during the audit. Updating specific material test year items enables the Staff to make its rate recommendation based on more recent auditable information.

Q. What is a test year?

A. A test year is a twelve-month period used as the basis for the audit of any rate filing or complaint case. This period serves as the starting point for analyses and review of the utility's operations to set the reasonableness and appropriateness of the rate filing or complaint case for the prospective period when the rates will be in effect. The test year forms the basis for any adjustments necessary to remove abnormalities that may have occurred during the period and to appropriately reflect any increase or decrease shown in the financial records of the utility. Adjustments are made to the test year level of revenues, expenses and investment to determine the proper level of earnings. After the recommended rate of return that the utility is permitted the opportunity to earn is determined, a comparison to the results of existing rates is made to see if any additional revenues are necessary. If the Commission concludes that the utility's earnings are deficient, it will authorize the Company to increase its rates. Conversely, if existing rates generate earnings in excess of what prospectively should be authorized levels, the Commission may conclude that the utility's earnings are excessive, and may order the Company to reduce its rates. In summary, the test year, as adjusted, is the vehicle used to evaluate and determine the proper relationship between revenue, expenses and investment. This relationship is essential to determine the appropriate level of prospective earnings for a utility.

Q. Has the Staff performed any analysis to determine how UE's test year data compares with actual calendar year 2000 results?

A. Yes. The Staff performed an analysis of the operating expense accounts detailed on the Company's monthly 19607 report, by comparing the balances for the test year against the balances for twelve months ended December 31, 2000. Wherever material differences existed between the periods, the Staff first determined whether that particular account or type of expense was already being reviewed or analyzed by Staff. If the account was already being reviewed by other Staff members, then further review in this analysis was unnecessary. If the account was not already being reviewed, the Staff then tried to determine whether the difference was due to a non-recurring charge or some other adjustment to the account, or was due to an overall increase or decrease in the costs charged to that account. If the difference was due to a non-recurring charge or some other adjustment to the account, then that charge or adjustment was reviewed to determine whether any further adjustment to the test year by the Staff was necessary. If the difference was due to an overall increase or decrease in the charges to the account, then an adjustment was considered to adjust the account to what was deemed to be a more normal level.

Q. Do you have any examples of accounts or costs where material differences existed between the test year and calendar year 2000, and for which the Staff was already reviewing those accounts or costs?

A. Yes. Fuel expense is an area where cost was considerably greater during calendar year 2000 than during the test year. However, the Staff was already intending to normalize and adjust test year fuel expense to an annual level based on a fuel model using the Staff's normalized and annualized sales. Therefore, no further review in this analysis was necessary.

A second example was the power plant maintenance accounts. There were significant differences in power plant maintenance expense between the test year and calendar year 2000 expense. However, the Staff was reviewing and adjusting power plant maintenance expense for all of the Company's steam generating plants, and no further adjustment was considered necessary.

Another example was the outside services account. There were significant increases in calendar year 2000 costs over test year expenses. The Staff was already reviewing outside services costs, and had submitted several data requests to the Company. At a later meeting with Company representatives, it was explained by the Company that the majority of the cost increases in outside services were due to billings from Ameren Energy for transmission services. The Company representatives also explained that the cost increases were being offset fully by increased transmission revenues. As a result, no further adjustment to test year outside services expense was considered necessary.

Q. Do you have any examples of an account where a material difference existed between the test year and calendar year 2000 balances, the Staff was not reviewing that account, and a non-recurring cost or adjustment was causing the difference?

A. Yes. Transmission expense was considerably greater during calendar year 2000 than it was during the test year. The Staff determined that the difference was entirely due to a one-time expense accrual by the Company in the fourth quarter of 2000 ($25 million, total company), for an expected payment to the Midwest Independent System Operator (Midwest ISO), for costs incurred by the Midwest ISO, plus estimated exit fees to be charged the Company. An ISO operates but does not own electric transmission systems and maintains system reliability. The Company made the decision to withdraw from the Midwest ISO so that it could join the Alliance Regional Transmission Organization (Alliance RTO), and the one-time accrual was the best estimate of the Company's remaining obligation to the Midwest ISO. It is Staff's belief that permanent rates should not be set based upon non-recurring, one-time charges, and therefore, no further adjustment was necessary for this item.

Q. Are there any examples of an account where material differences existed between the test year and calendar year 2000 balances, the Staff was not reviewing that account, and a non-recurring cost or adjustment was not causing the difference?

A. Yes. The office supplies and property insurance expense accounts were two accounts where calendar 2000 costs were materially greater that the test year. The Staff made Income Statement adjustments S-19.11 and S-19.12 to normalize those accounts. These adjustments will be explained later in this testimony.

ALLOCATIONS

Q. What are the allocation factors that are being used by Staff in this case?

A. The Staff is using the Company allocation factors at December 31, 2000, with one exception. The Staff is using a different allocation factor for fixed costs. The fixed allocation factor is used to allocate most of the power plants, transmission plant, and the expenses associated with those facilities. Please refer to the direct testimony of Staff witness Alan J. Bax of the Commission's Energy Department for information regarding the development of Staff's fixed allocation factor.

ACCOUNTING SCHEDULES

Q. Please identify the Accounting Schedules you are sponsoring.

A. I am sponsoring the following Accounting Schedules:

Accounting Schedule 1	Revenue Requirement
Accounting Schedule 2	Rate Base
Accounting Schedule 5	Depreciation Expense
Accounting Schedule 9	Income Statement
Accounting Schedule 10	Adjustments to Income Statement

Q. Please explain Accounting Schedule 1, Revenue Requirement.

A. Accounting Schedule 1 is the calculation of revenue requirement for the rate of return range sponsored by Staff witness Ronald L. Bible of the Commission's

Financial Analysis Department. The rates of return determined by Staff witness Bible are applied to the Company's rate base, which is presented on Accounting Schedule 2, Rate Base, to determine the net income requirement. The gross revenue requirement is then determined by adding the required income taxes, calculated on Accounting Schedule 11, Income Tax, to the net income requirement. The direct testimony of Staff Accounting witness Stephen M. Rackers explains the calculation of income taxes on Accounting Schedule 11.

Q. Please explain Accounting Schedule 2, Rate Base.

A. Accounting Schedule 2 takes the Company's adjusted jurisdictional plant in service balance from Accounting Schedule 3, Total Plant in Service, and deducts the Company's adjusted jurisdictional depreciation reserve from Accounting Schedule 6, Depreciation Reserve, to compute the net plant in service. Added to net plant in service are amounts for cash working capital (CWC), materials and supplies, prepayments and fuel inventory. Rate base deductions include the federal income tax offset, state income tax offset, interest expense offset, customer advances, customer deposits, deferred income taxes and pension liability.

Q. How was the rate base component for CWC determined?

A. The Staff's calculation of the CWC rate base component will be discussed in the direct testimony of Staff Accounting witness Leasha S. Teel.

Q. How were the rate base addition components for materials and supplies, prepayments and fuel inventory determined?

A. The components for materials and supplies, prepayments and fuel inventory will be discussed in the direct testimony of Staff Accounting witness Paul R. Harrison.

Q. Please explain how the federal income tax offset, state income tax offset and interest expense offset were calculated.

A. The Staff's calculation of these items will be discussed in the direct testimony of Staff Accounting witness Teel.

Q. How were the rate base deduction components for customer advances and customer deposits determined?

A. The rate base components for these items will be discussed in the direct testimony of Staff Accounting witness Harrison.

Q. Please describe how the rate base deduction components of deferred income taxes and pension liability were determined.

A. The amount of the deduction of deferred income taxes and pension liability will be discussed in the direct testimony of Staff Accounting witness Rackers.

Q. Please explain Accounting Schedule 5.

A. Accounting Schedule 5, Depreciation Expense, lists in Column B the total electric depreciation and amortization expense by category, based on the Staff's proposed depreciation rates. The categories that are listed are local and directly assigned plant, power pool plant, and system general plant. The local and directly assigned plant category includes depreciation expense for nuclear and distribution plant, Callaway decommissioning expense and the amortization of the allowed Missouri merger costs. The power pool plant category includes depreciation and amortization expense of steam, hydraulic, other production and transmission plant. The system general plant category includes depreciation and amortization for intangible and general plant. These categories are used to allocate depreciation and amortization expense. Please refer to the direct testimony of Staff witness Jolie Mathis of the Commission's Engineering & Management Services Department for further information regarding the development of the Staff's proposed depreciation rates. Column C lists the allocated Missouri jurisdictional electric depreciation and amortization expense and adjustments by category, based on the Staff's proposed depreciation rates. Column D contains the Missouri jurisdictional income statement adjustment numbers that also appear on Schedule 10, Adjustments to Income Statement. Columns E and F depict the Illinois and Sales for Resale electric depreciation and amortization expense by category.

Q. Please explain Accounting Schedule 9.

A. Accounting Schedule 9, Income Statement, lists in Column B Company's total electric operating revenues and expense for the twelve months ended June 30, 2000. Columns C and E list Staff's adjustments to total electric and jurisdictional electric operating revenues and expense, respectively. Column D contains the Missouri jurisdictional allocation factors. Column F contains the Staff's adjusted jurisdictional electric operating revenues and expense.

Q. Please explain Accounting Schedule 10.

A. Accounting Schedule 10, Adjustments to Income Statement, lists the Staff's individual total electric and Missouri jurisdictional adjustments to the unadjusted test year income statement to derive Staff's adjusted net income, and also are shown in Columns C and E of Accounting Schedule 9, respectively. A brief explanation for each adjustment and the name of the Staff witness sponsoring the adjustment is included on Accounting Schedule 10.

Q. Please identify the Accounting adjustments you are sponsoring.

A. I am sponsoring the following adjustments:

Income Statement	S-14.1, S-14.2, S-14.6, S-19.11, S-19.12, S-21.1, S-21.2, S-21.3, S-22.1, S-22.2, S-22.3, S-23.1, S-23.2 & S-23.3

Q. Please explain Income Statement adjustment S-14.1.

A. Adjustment S-14.1 eliminates from operating expense the Illinois portion of distribution expense. This adjustment is necessary in order to eliminate any non-Missouri jurisdictional costs from operating expense.

NET SALVAGE EXPENSE

Q. Please explain Income Statement adjustment S-14.2.

A. Adjustment S-14.2 includes a ten-year average of net salvage costs in operating expense.

Q. What are net salvage costs?

A. Net salvage costs are the net costs resulting from the retirement of plant in service. These costs include the cost of removing or dismantling retired plant, referred to as cost of removal, less the gross salvage value of the disposition of the plant.

Q. Why is this adjustment necessary?

A. This adjustment is necessary because the Staff's proposed depreciation rates, for purposes of this case, do not include net salvage costs as part of their calculation. Since net salvage costs are legitimate costs of retiring plant in service, it is reasonable that those costs be recovered from the ratepayer by including them in operating expense.

Q. Why is a ten-year average of net salvage costs reasonable?

A. A ten-year average reflects a level of net salvage costs that the Company is currently experiencing, rather than an accrual through depreciation rates. Based on the value of the Staff's depreciation adjustment, a ten-year average is a more reasonable level of net salvage costs. Please refer to the direct testimony of Staff witness Mathis for further information concerning the elimination of net salvage costs from the Staff's proposed depreciation rates.

RESERVE AMORTIZATION

Q. Please explain Income Statement adjustment S-14.6.

A. Adjustment S-14.6 amortizes the over-accrued accumulated depreciation reserve over a twenty-year period. Please refer to the direct testimony of Staff witness Mathis for further information concerning the over-accrued depreciation reserve, and the twenty-year amortization period.

OFFICE SUPPLIES

Q. Please explain Income Statement adjustment S-19.11.

A. Adjustment S-19.11 increases operating expense to reflect a normalized level of office supplies expense based on a five-year average.

Q. Why is this adjustment necessary?

A. Subsequent to the test year, the Staff analyzed all operating expense accounts by comparing the balances for the test year against the twelve months ended December 31, 2000, as was explained earlier in this testimony. The analysis revealed that calendar 2000 office supplies expense was materially greater than the test year amount. After further analysis of the account did not reveal a non-recurring charge or adjustment, it was determined that an adjustment to normalize the test year amount was appropriate. Staff chose to use a five-year average of office supplies expense because of the fluctuation of the amounts charged to the account over the past five years.

PROPERTY INSURANCE

Q. Please explain Income Statement adjustment S-19.12.

A. Adjustment S-19.12 increases operating expense to reflect a normalized level of property insurance expense based on a five-year average. This adjustment is based on the same methodology as the previous adjustment, No. S-19.11.

DEPRECIATION EXPENSE

Q. Please explain Income Statement adjustments S-21.1, S-21.2 and S-21.3.

A. Adjustment S-21.1 adjusts book depreciation expense on local and directly assigned electric plant in service for the test year ended June 30, 2000 to an annualized level at the Staff's proposed depreciation rates based on local and directly assigned electric plant in service at June 30, 2000. Annualized depreciation expense is calculated by multiplying the amount in each local and directly assigned electric plant in service account by the Staff's proposed annual depreciation rate for that account. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Adjustment S-21.2 updates annualized depreciation expense on local and directly assigned plant to an annualized level at the Staff's proposed depreciation rates based on local and directly assigned electric plant in service at September 30, 2000. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Adjustment S-21.3 updates annualized depreciation expense on local and directly assigned plant to an annualized level at the Staff's proposed depreciation rates based on local and directly assigned electric plant in service at December 31, 2000. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Q. Please explain Income Statement adjustments S-22.1, S-22.2 and S-22.3.

A. Adjustment S-22.1 adjusts book depreciation expense on power pool electric plant in service for the test year ended June 30, 2000 to an annualized level at the Staff's proposed depreciation rates based on power pool electric plant in service at June 30, 2000. Annualized depreciation expense is calculated by multiplying the amount in each power pool electric plant in service account by the Staff's proposed annual depreciation rate for that account. The resulting depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Adjustment S-22.2 updates annualized depreciation expense on power pool electric plant to an annualized level at the Staff's proposed depreciation rates based on power pool electric plant in service at September 30, 2000. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Adjustment S-22.3 updates annualized depreciation expense on power pool electric plant to an annualized level at the Staff's proposed depreciation rates based on power pool electric plant in service at December 31, 2000. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Q. Please explain Income Statement adjustments S-23.1, S-23.2 and S-23.3.

A. Adjustment S-23.1 adjusts book depreciation expense on system general electric plant in service for the test year ended June 30, 2000 to an annualized level at the Staff's proposed depreciation rates based on electric plant in service at June 30, 2000. Annualized depreciation expense is calculated by multiplying the amount in each system general electric plant in service account by the Staff's proposed annual depreciation rate for that account. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Adjustment S-23.2 updates annualized depreciation expense on system general plant to an annualized level at the Staff's proposed depreciation rates based on electric plant in service at September 30, 2000. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Adjustment S-23.3 updates annualized depreciation expense on system general plant to an annualized level at the Staff's proposed depreciation rates based on electric plant in service at December 31, 2000. The depreciation expense is then allocated as Missouri jurisdictional depreciation expense based on the allocation factors at December 31, 2000.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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 JAMES D. SCHWEITERMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

James D. Schweiterman, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 14 pages to be presented in the above case; that the answers in the foregoing Direct 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.

James D. Schweiterman

James D. Schweiterman

Subscribed and sworn to before me this 28th day of June, 2001.

Toni M Charlton

Notary Public

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

RATE CASE PROCEEDINGS PARTICIPATION

JAMES D. SCHWIETERMAN

COMPANY	CASE NO.
Arkansas-Missouri Power Company	ER-77-116
Associated Natural Gas Company	GR-77-117
Capital City Water Company	WR-94-297
Central Telephone Company	TR-78-258 TR-81-59
Choctaw Telephone Company	TR-91-336
Continental Telephone Company of Missouri	TR-82-223
Cuivre River Electric Service Company	EA-86-13
Empire District Electric Company	ER-79-19 ER-83-42 ER-90-138 ER-94-174 ER-97-81
Gas Service Company	GR-78-70
Laclede Gas Company	GR-78-148 GR-83-233
Missouri-American Water Co.	WR-95-205 SR-95-206
Missouri Cities Water Company	WO-86-122
Missouri Utilities Company	GR-81-244 WR-81-248 ER-81-346
Ozark Natural Gas Company	GA-98-227
Missouri Water Company	WR-77-212
St. Joseph Light and Power Company	EC-98-573 HR-99-245 GR-99-246 ER-99-247

RATE CASE PROCEEDINGS PARTICIPATION

JAMES D. SCHWIETERMAN

COMPANY	CASE NO.
St. Louis County Water Company	WO-86-100
Sho-Me Power Corporation	ER-79-106 ER-80-83 ER-82-134 ER-83-80
Southwestern Bell Telephone Company	18,660 TR-79-213 TR-80-256
Union Electric Company	EO-86-36 EM-96-149 GR-97-393 GR-2000-512
Western Resources, Inc. d/b/a Gas Service	GR-93-240