BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

HEARING

July 11, 2002

Jefferson City, Missouri

Volume 3

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

BEFORE:

LEWIS R. MILLS, JR.
DEPUTY CHIEF REGULATORY LAW JUDGE.
KELVIN SIMMONS, Chair
CONNIE MURRAY,
SHEILA LUMPE,
STEVE GAW,
BRYAN FORBIS,
COMMISSIONERS.

REPORTED BY:
TRACY L. CAVE, CSR
ASSOCIATED COURT REPORTERS

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(EXHIBIT NOS. 1 THROUGH 168 WERE MARKED FOR IDENTIFICATION.)

JUDGE MILLS: We're on the record this morning for a hearing in Case No. EC-2002-1, which is a Staff earnings investigation complaint against AmerenUE. Let's begin with opening -- I mean, begin with entries of appearance starting with Staff of the Commission.

MR. DOTTHEIM: Steven Dottheim, Dan Joyce, Thomas Schwarz, Keith Krueger, Dennis Frey, Victoria Kizito, Robert Franson, Eric Anderson, David Meyer, and Nathan Williams, Post Office Box 360, Jefferson City, Missouri 65102, appearing on behalf of the Staff of the Missouri Public Service Commission.

JUDGE MILLS: Thank you.

Public Counsel?

MR. COFFMAN: Appearing on behalf of the Office of the Public Counsel and the ratepaying public, John B. Coffman and Douglas E. Micheel, P.O. Box 7800, Jefferson City, Missouri 65102.

JUDGE MILLS: Thank you.

For the Attorney General's office?

MR. MOLTENI: Ronald Molteni and Shelly Woods, office of the Attorney General, P.O. Box 899, Jefferson City, Missouri 65102, appearing on behalf of the State of Missouri.

JUDGE MILLS: Union Electric?

MR. COOK: Steven R. Sullivan, James J. Cook, Thomas M. Byrne, Joseph H. Raybuck, David B. Hennen, 1901 Chouteau Avenue, St. Louis, Missouri 63101; and Robert J. Cynkar, Victor J. Wolski and Gordon D. Todd of Cooper and Cook 1500-K Street Northwest, Suite 200, Washington D.C. 20005, appearing on behalf of Union Electric Company doing business as AmerenUE.

JUDGE MILLS: Thank you.

For the Missouri Energy Group?

MR. JOHNSON: Robert C. Johnson and Lisa C. Langeneckert, 720 Olive Street, St. Louis, Missouri 63101, appearing for the Missouri Energy Group.

JUDGE MILLS: For the Missouri Retailers Association?

MR. OVERFELT: Sam Overfelt appearing on behalf of the Missouri Retailers Association, Jefferson City, Missouri, P.O. Box 1336, 65102.

JUDGE MILLS: Thank you.

For Doe Run?

MR. FULTON: Robin Fulton, P.O. Box 151, Fredericktown, Missouri 63645, appearing on behalf of Doe Run Company.

JUDGE MILLS: Thank you.

Missouri Industrial Energy Consumers?

MS. VUYLSTEKE: Thank you. Diana M. Vuylsteke and Edward Downey of the firm Bryan Cave, LLP, 211 North Broadway, St. Louis, Missouri 63102, appearing on behalf of the Missouri Industrial Energy Consumers.

JUDGE MILLS: Thank you.

Laclede Gas?

MR. PENDERGAST: Thank you, your Honor. Michael C. Pendergast and Rick E. Zucker appearing on behalf of Laclede Gas Company, 720 Olive Street, St. Louis, Missouri 63101.

JUDGE MILLS: Thank you.

Is there anyone I've missed? KCPL I believe is a party. I don't see anyone representing them here this morning.

We'll move on. There are a number of pending motions. I'll run through some of them quickly and then some of them a little bit more slowly. And I believe, at least as far back as I searched, this should address all pending motions. If, when I get through, there's anything left, it will be incumbent on you all to let me know what you have pending that I haven't resolved.

The first series of pending motions I'm going to go through are all essentially procedural. None of them were disputed or contested in any manner and I'm just going to grant them all in a fairly summary fashion.

On March 29th, 2002, Staff filed a motion to correct the Direct Testimony of Ron Bible. No party opposed that, and I'll grant it here.

On May 17th, 2002, Union Electric requested additional time to file information required by the protective order. Again, no party opposed that motion, and it's granted.

On May 21st, 2002, the Attorney General's office filed a motion to late file the Rebuttal Testimony of the Department of Natural Resources. That motion will be granted.

On May 31st, 2002, the Office of Public Counsel filed a request to refile the Rebuttal Testimony of Witnesses Effron, Robertson and Kind because it had agreed to some changes in the designation of highly confidential and proprietary material. That motion will also be granted.

On June 7th, 2002, the Missouri Energy Group -- and I'm sorry -- the Missouri Industrial Energy Consumers and Daimler Chrysler filed a motion to have Daimler Chrysler join the MIEC, and that will be granted.

On June 6th, 2002, MEMC filed a motion to withdraw from the MIEC. That motion will be granted.

On June 27th, 2002, the Staff filed a motion to late file the list of issues. That will be granted.

On July 2nd, 2002, Staff filed a motion to

late file the response to Union Electric's motions to exclude the testimony of Greg Meyer. There was no opposition to that motion and it will be granted as well.

I believe that's all the procedural motions that are outstanding. There are a number of more substantive motions that I'm going to go through one at a time, not necessarily in any particular order.

The first one is Public Counsel's third Motion to Compel. This motion sought to compel responses to two data requests. The first two are 6016 and 829. As Union Electric correctly points out in its response, these are not requests to discover documents in existence, but they are rather requests to have the company perform additional studies.

And while there may be some circumstances in which the Commission would order those studies to be done at the behest of an opposing party, at this point in this case, I'm not doing to order those. It's not truly a discovery request, and so it will be denied.

With regard to the other data requests that are set forth in Public Counsel's third Motion to Compel from the company's response, it appears that responses to all of these data requests have been sent. Is that correct, Mr. Coffman?

MR. COFFMAN: As far as I know.

JUDGE MILLS: Okay. So with respect to the remaining data requests that are the subject of the third Motion to Compel, the request is moot since they've been complied, and I believe that resolves that motion.

Second, I'm going to go to the request of Union Electric Company to take administrative notice of the transcript from a hearing or an on-the-record presentation in Case No. ER-2002-217. That was filed on July 9th. The time for responses to that motion hasn't yet run.

I don't know if there's going to be any opposition to that or not, but if there is, I'm going to allow the parties to tell me this morning that they oppose it and whether or not their ready to address it this morning and, if not, when they plan to address it.

So I'm not going to go around the room and ask each party individually if there's any opposition, but I'll just throw the question out generally and you can volunteer if you do have any objection to admitting that transcript.

MR. DOTTHEIM: The Staff was, in all likelihood, going to respond. As far as the nature of the response, that hasn't been finalized at this point.

JUDGE MILLS: Okay. So you think you may be opposed to admitting it?

MR. DOTTHEIM: Or asking something in relief in addition to the administrative notice of that transcript being granted.

JUDGE MILLS: Okay. Mr. Coffman?

MR. COFFMAN: Essentially, I'm in the same position. We believe there are some grounds to deny the request, or in the alternative, require something comparable on behalf of the Office of Public Counsel, but if --

JUDGE MILLS: Okay. I will allow some additional time to respond to that. I don't want to give the full 10 days, because that will run us out to July 19th roughly. Why don't I set responses to that due end of the day Monday?

MR. COFFMAN: That would be sufficient.

JUDGE MILLS: And if you like, we can do that on the record rather than having you write and file something. Let me know some time between now and Monday what your preference is.

MR. COFFMAN: That would be agreeable to me.

JUDGE MILLS: And, of course, that deadline applies to the other parties as well. Anybody else who wants to chime in on that question can do so no later than that. Okay. So we'll table that one.

Next, I'm going to take up the motion to exclude the testimony of Staff Witness Ron Bible by Union Electric Company. The motion essentially amounts to a Dawber -- or Dawber challenge on the grounds that what Ron

Bible is -- the method that Ron Bible is promulgating or proposing isn't accepted by experts in the field.

And, frankly, I don't believe that's the case. I think, you know, there are different variations on the methods of obtaining a company's return on equity. I don't believe that the method that Mr. Bible used is so different from any other one that it qualifies as junk science.

I think any objection that's contained in Union Electric motion -- Union Electric Company's motion to exclude the testimony really goes to the weight rather than the admissibility. I don't think that they have demonstrated that it is so far outside the bounds of what an expert in the field would testify to that it's not admissible as expert testimony. So the motion to exclude the testimony of Staff Witness Ron Bible is denied.

Next, I'm going to go to the motion to exclude the testimony of Staff Witness Greg Meyer. Union Electric Company's approach in this is a little bit different. I don't believe that they're contending that Mr. Meyer's approach is not generally accepted in the field, but rather they're saying that Mr. Meyer is not qualified to testify in this area. And I'm going to deny that motion as well.

Mr. Meyer has an accounting degree, a lot of experience in rate setting and regulation of public utilities and I believe that he is qualified to testify on

the issue of OPEBs. And, again, I think the motion, to the extent that the points it raises are valid, simply go to the weight to be given to Mr. Meyer's testimony rather than its admissibility. So that motion will be denied as well.

The last motion I want to take up is the Union Electric Company's motion to late file additional evidence. And this is the motion that has to do with -- well, it has to do with several things, but a lot to do with the Standard and Poor's report on the Empire District Electric Company.

And while this motion -- while this information may have been appropriate to include in testimony, it's not sufficiently relevant or probative to anything that's at issue in this case that I'm going to admit it at the eleventh hour after all parties have filed all their testimony. So that motion is denied as well.

I think that all that leaves pending is the motion to take official notice of the transcript in the Citizens Electric case. If anybody knows of any other outstanding motions, check through your records, see if you've got anything pending that I need to deal with and let me know.

Is there anything further we need to take up before we get to opening statements? Mr. Fischer?

MR. FISCHER: Your Honor, I'd like to apologize for my lateness, but I'd like to make an entry of

appearance on behalf of Kansas City Power & Light Company.

JUDGE MILLS: Thank you very much.

Anything else?

Okay. We'll go off the record and I will gather up the Commissioners and we'll come back and begin opening statements probably in about 5 or 10 minutes, maybe as much as 15 depending on how quickly all the Commissioners can get together and we can get back in here. We're off the record.

(A RECESS WAS TAKEN.)

JUDGE MILLS: Before we went off the record a few minutes ago, we completed a number of preliminary motions and taken entries of appearance. We're ready to proceed with opening statements.

Since the Commissioners were not here when you gave your entries of appearance, please introduce yourself at the beginning of your opening statement.

Mr. Dottheim, please go ahead.

MR. DOTTHEIM: Thank you. Good morning. May it please the Commission. My name is Steve Dottheim. I am representing the Staff of the Commission.

Among other things, there is a statement in the UE voluminous Rebuttal Testimony that the Staff sorely needs senior policy direction and leadership and only the Commission itself can provide that leadership.

The Staff has always welcomed direction and leadership from the Commission. It is better by far that the Commission is being asked to provide leadership to a Staff that is charged by UE with being too enthusiastic in its work than the Commission being asked to provide leadership to a Staff that is indolent.

Among other things that Union Electric Company touts in its Rebuttal Testimony is the amount of sharing credits by which Missouri ratepayers have benefited during the first and second experimental alternative regulation plan.

At the same time, the company castigates the Staff for attempting to make sure that Missouri ratepayers received an appropriate share of UE's earnings under the two experimental alternative regulation plans. The dollar amount of those credits that UE now touts would not be near the size that they have been if it were not for the work of the Staff and also the Office of the Public Counsel.

UE has sought to ascribe motives to the Staff in Case No. EC-2002-1 other than routinely performing its work. Rebuttal Witness Mr. Rainwater states, quote, I believe the Staff's only motivation in this case is to justify the largest rate reduction it can, regardless of the validity of its arguments and regardless of the consequences.

Rebuttal Witness Mr. Lyons states, quote, the only unifying principle apparent across Staff's adjustment methodologies is that each ultimately results in detriment to the company. Staff appears to have picked and chosen accounting standards and normalization techniques to take advantage of opportunities to reduce the company's revenue requirement. This rank opportunism is the only plausible explanation I can identify for Staff's conduct, closed quote.

The Staff has had no motive in this case other than to perform its responsibility to monitor, audit and file a complaint when a utility has excessive earnings revenues. The Commission specifically authorized the Staff audit.

There is nothing unusual about the Staff's earnings revenues, review that has resulted in this complaint case. There is no retail competition in Missouri. Staff routinely performs earnings revenue audits near the conclusion of moratoriums or experimental alternative regulation plans.

The Staff performed an earnings revenues audit and filed an excess revenues earnings complaint case against Southwestern Bell Telephone Company during the last year of the Southwestern Bell Telephone Company alternative regulation plan, which had been extended a year.

Also, in 1987 while the Callaway nuclear generating station was being phased into rates, the Staff filed an excess earnings revenues complaint case against Union Electric Company that went to hearing and resulted in the remaining years of the phase-in of rates being eliminated.

Again, there is nothing unusual about the Staff positions in the present earnings revenues complaint case. These positions have generally been filed in other rate increase and/or rate decrease cases before this Commission.

Union Electric Company is creating the unusual aspects of this case. Why? The answer is that using reasonable rate-making principles, UE's rates are excessive and should be reduced significantly.

Regulatory bodies are being criticized today for not enforcing their oversight responsibilities. UE is asking, in essence, that the same thing be done by this

Commission regarding Union Electric Company and processing the Staff's case in general and, more specifically, with UE's alternative regulation plan proposal.

Union Electric Company is seeking that the Commission use rate comparisons, not cost of service to determine whether UE's rates are just and reasonable. UE is also saying don't use just any rate comparison, use the rate

comparisons that we, Union Electric Company, have selected or created that shows what UE wants the Commission to believe.

The Missouri Commission has rejected rate comparisons in the past for purposes of substantive regulation and the Staff recommends that the Commission continue to follow that practice. UE is suggesting that the Commission use novel approaches to set UE's rates; that is, among other things, approaches that UE calls incentive regulation.

What UE is requesting is not incentive regulation. What UE is requesting is designed for one purpose only. It is designed to allow UE to retain the level of excess earnings in revenues that UE is currently collecting from its Missouri ratepayers.

MR. COOK: Your Honor -- I'm sorry, Mr. Dottheim. I'm going to have to object and ask for a clarification of opening statements. Is it an opening argument or is it an opening statement?

I think that Mr. Dottheim is going well beyond what I recall is in the testimony of the Staff, commenting solely upon the -- his opinions concerning the company's position in this case and seems to me to be inappropriate as an opening statement.

JUDGE MILLS: Well, you know, there is no

bright line between a statement and an argument. As far as I can tell, Mr. Dottheim has not yet gotten into the point where I would call this objectionable argument in opening statement.

I do plan to allow considerable latitude to the parties to present their opening statements in the fashion that they want to. I have found nothing yet in Mr. Dottheim's opening statement that is objectionable. So to the extent that that was an objection, it is overruled.

MR. COOK: Thank you.

MR. DOTTHEIM: Every party to this case, including Union Electric Company, supports a position that would reduce UE's existing rates. The dispute, among other things, is how much to reduce UE's existing rates. Only one party to this case in addition supports a cost of service position that shows that current rates need to be increased. That party, of course, is Union Electric Company.

Nonetheless, UE has taken no action to recover either the purported $150 million revenue deficiency or the additional $375 million that -- million dollars that UE asserts that it is due to be authorized by virtue of its interpretation of 4 CSR 240-10.020. UE must file a case in order to be authorized to increase its rates.

Although UE has stated that the $250 million or $286 million rate reduction number from the Staff's case is unconscionable, UE is willing to ignore its own revenue requirement calculations of similar and greater magnitude going the other direction and still offer to reduce its rates. The answer to the inconsistent UE positions is that UE's revenue requirement cost of service numbers are not valid and these proceedings will show that.

There is no issue that has settled in this case. As a consequence, this case, for an earnings revenues complaint case or a rate increase case, is likely unprecedented.

Not even the Midwest ISO exit fee issue has settled. On July 3, the Midwest ISO Ameren services company, as agent for UE and SIPS and others, filed a participation agreement with the FERC. One of the sections states that at closing, the Midwest ISO shall refund to Ameren services company with interest the $18 million payment made by Ameren in order for UE and SIPS to leave the Midwest ISO.

Ameren services company, others in the Midwest ISO have requested that the FERC issue an order approving the participation agreement no later than by July 31, 2002. At the moment, the Midwest ISO exit fees are still an issue in this case.

The company, from the Staff's perspective, is seeking, in essence, triple recovery. Once in the credit calculation for the last year of the second experimental alternative regulation plan, a second time in the three-year amortization that UE has proposed in its Rebuttal Testimony in this case, and a third time in the refund that it will receive from the Midwest ISO.

One of the facets of this case that is unusual is the fact that UE sees most every adjustment made by the Staff as being a violation of federal or state law. UE took the same approach with the Staff's adjustments respecting the third year of the first experimental alternative regulation plan and the Commission's acceptance of certain of those adjustments.

UE then took the same approach before the Circuit Court of Cole County and lost, and now will be taking those very same arguments to the Western District Court of Appeals, that the Staff and the Commission have violated federal and state law.

What is unusual about this proceeding is UE's expansion of those assertions that were first raised respecting the third year of the first experimental alternative regulation plan, that certain adjustments are contrary to stipulations and agreements that UE entered into with the Staff, Public Counsel and certain Intervenors of prior cases and which UE asserts that the Commission is a party to.

The Staff asks that the Commission look at the plain language of the Stipulation and Agreements in Case No. EM-96-149, the UE/SIPSCO merger case and in Case

No. EA-2000-37, the case respecting Ameren/SIPS transfer of its generating facilities to an exempt wholesale generator.

The Commission needs to take a close look at the clear language of these various Stipulation and Agreements and UE's conduct thereafter, because UE has proposed in this proceeding yet another three-year alternative regulation plan.

A year ago when the day approached for the Staff's filing of this case, Union Electric Company, among other things, told the Commission that the amount of the Staff's impending excess earnings revenue complaint case should be treated as highly confidential information and not disclosed to the public.

UE does not address the dire consequences that UE stated in June 21 -- excuse me -- that UE stated in June 2001 would occur if the Commission allowed the Staff to file this complaint case. The reason is that those dire consequences did not occur, but UE wants the Commission to accept its new forecast of dire consequences if the Commission rejects any of UE's positions in this case.

It is not unusual for certain utilities under the Commission's jurisdiction to, on occasion, hire

consultants to try to impress upon the Commissioners that the Staff's positions, adjustments should not be adopted.

Southwestern Bell in the Staff's excess earnings revenue complaint case in 1988, among other consultants, hired a recent former Florida Commissioner to testify in that case. In another Southwestern Bell

Telephone Company case, Southwestern Bell even hired Alfred Kahn to testify before the Missouri Commissioners.

In a 1983 rate increase case filed by Kansas City Power & Light Company, a former mayor of Kansas City, the late Illus Davis, was hired as co-counsel by the intervenor steam customers so he would be able to make an opening statement against an allegations adjustment proposed by the Staff and opposed by Kansas City -- excuse me -- Mr. Davis was hired as co-counsel by the intervenor steam customers so he would be able to make an opening statement against an allocations adjustment proposed by the Staff and opposed by Kansas City Power & Light and its steam customers.

In a 1980 Kansas City Power & Light Company rate case, KCPL hired the tax attorney for the Edison Electric Institute to testify that Staff adjustment was playing brinksmanship with the Internal Revenue code.

Subsequently, the Eighth Circuit Court of Appeals in an unrelated Union Electric Company appeal of a

FERC decision where the same issue appeared, the Eighth Circuit Court of Appeals found that the methodology adopted by this Commission on the basis of a Staff recommendation and also utilized by certain other regulators to be lawful.

In 1986, Arkansas Power & Light Company, at a time when it was regulated by the Missouri Public Service Commission, went to Federal District Court respecting the Missouri Commission's processing of one of its rate cases. The case ultimately ended in the Eighth Circuit Court of Appeals where the Eighth Circuit Court of Appeals recognized the jurisdiction of the Missouri Public Service Commission.

Finally, I would note again with Kansas City Power & Light that in 1981, KCPL filed an action in Federal District Court and subsequently in the Eighth Circuit Court of Appeals when this Commission -- when the Missouri Commission chose not to grant KCPL interim rate relief pending a permanent rate increase case.

What is unusual in this case is the number of outside consultants that UE has hired in an effort to convince the Commissioners that the Staff's case is unusual and that this Commission is or will be the outlier if the Staff's positions are accepted and UE's proposal for an alternative regulation plan is rejected.

These proceedings will show that UE's proposal -- that UE's proposals are seriously flawed and the

number and names of the people that testify in support of UE's positions do not make UE's positions any less flawed.

Contrary to UE's assertions in this case, there is nothing in the Case No. EM-96-149 Stipulation and Agreement that provides for something other than a return to traditional regulation if the Commission determined not to continue alternative regulation at the conclusion of the second experimental alternative regulation plan.

UE's proposed alternative regulation plan is an attempt to negotiate an agreement with the Commission that no other party to this case supports. The various reasons that the Staff cannot support UE's proposal will be addressed during these proceedings. The question of the lawfulness of UE's proposal will be addressed in the Staff's initial and reply briefs as will the other legal issues in this proceeding.

The Staff would also note that there are issues in this case which are examples of affiliate abuse. The Staff contends that UE's Missouri customers are subsidizing other segments of AmerenUE.

Also, as the Commissioners are well aware, Union Electric Company is the only electric utility in the state that has challenged the Commission's affiliate transaction rule in the Missouri courts.

A prime example of affiliate abuse that is

part of the Staff's case is UE's contract with Ameren Energy Marketing Company, Ameren Energy Generating Company to meet UE's reserve requirements for UE's summer 2000 peak and the joint dispatch agreement among these entities.

The Staff determined the cost of UE meeting its reserve requirements for its summer 2001 peak as if UE had built, operated and maintained combustion turbines identical to those brought on line by AEG at Columbia, Missouri and Pinckneyville, Illinois rather than on the basis of the cost of the contract between UE and AEM/AEG as proposed by UE.

Under the joint dispatch agreement entered into by UE and SIPS in the UE/SIPSCO merger case, which was subsequently modified when Ameren/SIPS transferred its generating facilities to what became AEG, UE sells electricity to AEM at cost, but under UE's contract with AEM/AEG, UE meets its reserve requirements for its summer

2001 peak by buying energy from AEM/AEG at market price.

The contract between UE and AEM/AEG also reflects affiliate abuse because Ameren decided to build a capacity needed by UE in its non-regulated subsidiary, AEG, thereby placing UE in a position of ultimately having to purchase capacity and energy from that same non-regulated subsidiary through the Ameren marketing affiliate, AEM.

On top of all of this, UE, in its Rebuttal

Testimony, castigates the Staff for not addressing UE's infrastructure needs.

Rate of return is a major issue in this case as evidenced by UE's motion to exclude the testimony of the Staff witness that has been ruled upon earlier this morning. The dollars separating UE's and the Staff's positions on rate of return are great, but nowhere near the amount of dollars associated with the 4 CSR 240-10.020 issue that UE has raised.

When the Commission looks at the rate of return issue, the Commission should also keep in mind that UE has the highest equity ratio of all the major utilities under the Commission's jurisdiction. The Staff maintains that its rate of return recommendation is consistent with decisions made by other Commissions.

Depreciation is another major issue in this case. The dollars separating UE's and the Staff's positions are $110 million. The Staff's position decrease UE's depreciation expense by $80 million while UE proposes to raise its depreciation expense by $30 million.

There are four major sub-issues: Estimation of average service lives, treatment of net salvage, amortization of depreciation reserve imbalance, and application of 4 CSR 240-10.020.

Contrary to the representations in UE's

Rebuttal Testimony, the Staff's recommended revenue requirement for UE in this proceeding is conceptually sound and based upon appropriate and consistent rate-making standards that have long been applied by this Commission.

The Staff's proposed adjustments to UE's book test year financial reports -- excuse me.

The Staff's proposed adjustments to UE's booked test year financial results are forward looking in nature, matched at an appropriate point of time, and reflect recommendations for the recovery of all ongoing known and measurable costs incurred by UE that are beneficial to its customers and necessary in providing those customers safe and adequate service.

In contrast, UE's cost of service calculation suffers from serious deficiencies, including the failure to sponsor appropriate normalization and annualization adjustments and the failure to consistently match elements of revenues, expense and rate base within the test year and the update period.

Finally, UE's express belief that Generally Accepted Accounting Principles, GAAP, should largely be applied by the Commission in determining rate levels for regulated services is fundamentally flawed because the purpose of GAAP in setting standards for financial reporting and the purpose of the Commission in determining the cost to

include in the rate-making process in Missouri are different in significant respects. Thank you.

JUDGE MILLS: Thank you, Mr. Dottheim.

Mr. Coffman?

MR. COFFMAN: Good morning. May it please the Commission. As you know, my name is John Coffman. I'm the acting Public Counsel.

It is my job and my solemn responsibility to represent before you today the interest of the ratepaying public. These are the captive customers of an electric monopoly in this case.

Consistent with my statutory charge, I'm here to represent, in particular, those customers who do not have specific representation otherwise. That is the 126,000 small businesses and 974,000 residential customers who have no other choice for electric service than to be served by AmerenUE.

These are the stores and services that keep our economy going on the eastern side of the state and these are the families that try each month to balance their budgets.

These are the families and small businesses that individually do not have the ability to hire an attorney to represent their interests as consumers, much less hire a Washington D.C. law firm nor hire a lobbyist nor public relations specialist nor hire dozens and dozens of expert witnesses, much less expert witnesses that include former public utility commissioners and a designee to the Federal Energy Regulatory Commission.

Yes, AmerenUE has pulled out all the stops for this one. It has not conceded, as Mr. Dottheim noted, even one nickel and dime issue in the case. They're putting every resource at their disposal into avoiding a cost of service rate reduction.

And I think at this point you need to step back and get something of a historical context. This is by some measure the largest rate case since the Union Electric Company attempted to place into rate base the Callaway Nuclear Power Plant.

In 1985, this Commission ordered a rate increase of hundreds of millions of dollars based upon traditional cost of service principles.

Now, I suggest that fair is fair. I suggest that these same rules of the game, that is the cost of service principles, apply both ways. If consumers had to swallow the rate shock of a traditional cost of service when the Callaway plant was placed on line, then consumers should also benefit when the rules work in their favor.

And there's another point to make with regard to Callaway. Every year since it was placed into service,

ratepayers have been responsible for approximately

$57 million in depreciation expense each year. As of this date, the Callaway plant is roughly halfway depreciated.

You could make an analogy to make a mortgage payment on your home except in this situation the payment on the principle, that is the depreciation expense, is fixed and the interest expense goes down each and every year. And this is just one of the major explanations for reductions in AmerenUE's cost of service over the past 15 years.

Of course, AmerenUE would have you believe that every reduction in cost is the result of its diligent cost-cutting, and there has been some cost-cutting, but with regard to depreciation expense, a rate reduction in this case would partly just compensate consumers for paying down the Callaway plant.

In 1997, the experimental alternative regulation plan was extended or a second EARP was adopted, and this was agreed upon by the parties as a settlement of that merger between UE and SIPSCO.

Part of the expectations of the parties in settling that case would be that Ameren would be allowed to enjoy significant merger savings before those savings had to be recognized in rates.

But the stipulation in that merger case struck a bargain. Three more years of an EARP, during which most

much of the company's over-earnings could be retained; however, this bargain included a very specific termination date upon which rates would then be reset or rebased, as we say. This date coincided with the filing of the Staff's complaint case that initiated the case we're here today to litigate.

As it turned out, interest rates fell and the 12.61 percent plus bargain contained even before sharing in the EARP turned out to be a really sweet deal for the company, but that was the deal. We agreed to it. It was a much sweeter deal than has been allowed in the other electric utility cases in this state.

Of course, ratepayers have received credits during some of the years during that period. There has been some benefits, but the permanent rates remained high. And the gap grew each year between rates and what the cost of service has now been.

I'm sure the company wishes that its deal would have never ended, but the deal was what the parties made of it and the deal has come to a close. It's now time to rebase rates. It's time for the gravy train to pull into the station.

You will find in the testimony of this company some rather unbelievable attacks, as Mr. Dottheim alluded to. There are adjectives that are way over the top, making

some rather strident accusations about what is rather normal testimony on behalf of your Staff. In fact, we don't believe the Staff goes far enough.

Moreover, the proposed rate reduction is supported by evidence of over-earnings totalling approximately $286 million when you consider the additional issues uncovered and raised in this case by the Office of Public Counsel.

We will offer evidence this month which will support many of the Staff adjustments and evidence of these additional adjustments based on our own independent audits and investigations. Our financial analyst, Mark Burdette, will present his rate of return recommendation. He performed a discounted cash flow analysis that is thorough and consistent with past Commission decisions and methodologies.

It is an entirely independent analysis from the one performed by Mr. Bible. He utilizes a proxy group of companies that is different from Mr. Bible. He uses his own independent judgment and arrives at a recommended return on equity range entirely within Mr. Bible's recommended range. Public Counsel is offering no witnesses regarding Staff's depreciation recommendations, but we do support them.

Staff's net salvage approach, which allows

recovery of amounts that are actually incurred, is just simply fair and reasonable. It is more reliable than the company's approach and will provide company precisely with the funds that it needs precisely at the time that it needs them.

Public Counsel has raised some very serious issues that we hope you take seriously as well with regard to affiliate abuse. We have found earnings manipulation and abuse with regard to SO2 emissions allowances.

And I urge you to carefully review the testimony of Ryan Kind on this issue. The evidence will show that company changed the structure and timing of sulphur dioxide transactions during the test year in an effort to avoid giving ratepayers any recognition or benefit related to them.

Therefore, the test year level for this expense, which also happens to be -- or coincide with the last year of the EARP, cannot be used in this case without adjustments that impute the amount of SO2 allowances that would have been realized absent earnings manipulations. This is a $23.4 million issue.

Alternatively, Public Counsel proposes that the Commission recognize the SO2 transaction revenues that have been booked in the 10 months following the test year. This would be a $19 million adjustment.

Furthermore, the authority that the Commission has granted UE to manage its SO2 emissions allowances should be modified so that UE should not be allowed to engage in transactions that generate more than the revenues that would be approved in this case without prior Commission approval and that it no longer should have the authority engage in any type of SO2 transactions with affiliated entities absent prior Commission approval.

As we talk about these affiliate issues, it's important to remember that AmerenUE is the only regulated Missouri electric company that is not currently complying with the Commission's affiliate code of conduct and reporting requirements. AmerenUE has got a stay from the circuit court and the matter will ultimately be decided in Missouri courts.

It's also important to keep in mind and keep in context that the chief operating officer and president of AmerenUE is also the chief operating officer and president of several other affiliate entities that are involved in a myriad of relationships and transactions and proposed deals.

Public Counsel proposes another important adjustment relating to company's affiliate relationships. This one is related to the fuel and purchase power costs incurred on a joint dispatch basis.

Public Counsel Witness James Dittmer proposes

that these costs be allocated based upon the proportional savings achieved by AmerenUE and its affiliate Ameren Energy Generating. This issue is independent from, and equally as valid as, the issue raised by Staff Witness Mike Proctor relating to the proper allocation of profits from off-system sales between AmerenUE and AEG and AEM, but they are separate issues however.

They're both important to the protection of regulated ratepayers. And the Commission's rate-making authority to decide both issues has been clearly and excruciatingly reserved by the Commission in two prior decisions approving stipulations.

Public Counsel will provide evidence on the proper method to do a variety of accounting issues in this case. And you probably do not need recent events in the news to remind you that utility accounting can be more complicated than it appears on the surface. I urge you to closely review the testimony of the Staff and Public Counsel.

And Public Counsel will offer the Witnesses of Ted Robertson and Dave Effron on these matters, most of these are not new issues to you, weather normalization, customer growth, income taxes, Callaway refueling, engineering expense, incentive compensation, outside services.

On each of these issues Public Counsel believes that Staff's adjustment needs further modification. I won't go on about every issue. I'll touch on the Midwest Independent Service Operator exit fee that Mr. Dottheim mentioned.

There are so many reasons to disallow this I can hardly list them all. It wasn't a prudent expenditure, no Commission approval was given to leave the MISO, the decision was based on non-regulatory concerns and not to mention the fact that the fees are likely to be returned.

Environmental expense, lobbying expense, these costs should be disallowed. All costs relating to lobbying and legislative activities intended to influence proposed legislation we believe should be disallowed.

On rate design, Public Counsel is proposing essentially an equal percentage change to the various customer classes based upon current class of revenues. Public Counsel is also proposing a time of use program that would be generated out of a collaborative effort of the parties and ultimately implemented by the Commission. The rate design testimony of Public Counsel is prepared by Ms. Hong Hu.

The alternative regulation plan that is offered as something of an affirmative defense by AmerenUE, we do not believe that as it's proposed, it would be just

and reasonable. It would not be in the public interest and we do not believe that the Commission has the legal authority to order the adoption of such a plan as it is proposed by AmerenUE.

The Commission cannot legally enforce a moratorium on rate reductions and cannot limit the discovery powers of the Office of the Public Counsel as would be necessary to implement the plan as they propose. This Commission has not yet ever attempted to impose such a plan on unwilling participants.

Public Counsel believes that even if the design of the plan were in the public interest and legal, adopting such a plan would not promote the public interest until certain pre-conditions are met.

Two of these pre-conditions are essential. Number one, there are the outstanding issues still in the two previous EARPs. Our office has raised allegations of misstatement, manipulations of earnings and affiliate abuse that still are not -- have been scheduled for hearing, but will not be heard for a couple of months. We believe that the experiment should be finally reviewed and these allegations addressed before another plan be entered.

And then, No. 2, maybe most important, before another plan would be considered, rates should be rebased. This is essential. Without a cost-of-service baseline, it would be difficult to set up any reasonable incentives or to evaluate the worth of such a plan.

Having appropriate affiliate transaction guidelines in place we believe is also a pre-condition, as well as appropriate SO2 emissions allowance trading guidelines.

Once these pre-conditions have all been satisfied, Public Counsel would not oppose the Commission exploring the adoption of a properly structured incentive plan in a new case. It is my suspicion that AmerenUE would like a plan in this case simply to avoid any rebasing of rates.

We've already informed the Commission of many of the shortcomings in the past experiment and some of that information is reiterated in the testimony of Russ Trippensee. The proposal by AmerenUE in this case is even worse in some respects and we address some of those aspects. Mr. Trippensee's testimony also outlines the very general basic concepts that we believe need to be considered in any properly designed alternative regulation plan.

As you deliberate on the evidence this month, I agree with the company that you should think about the economic impact that your decisions will have. You should think about the economic impact this case will have on the families and small businesses served by this monopoly.

Unlike its shareholders and its affiliates, 100 percent of AmerenUE's customers are located here in Missouri and I believe a significant rate reduction could certainly help our waning economy. And, again, think of the overriding fairness of your decision as it relates to these captive consumers over time.

Traditional cost-of-service has been the rule of the game for many years. If consumers must pay the price when costs go up, they should share the benefits when costs go down. As I talk to policymakers in other states, many express envy of the fact that Missouri has avoided many of the pitfalls associated with straying from these cost-of-service principles.

In my humble opinion, the current system does not seem broken. And I challenge anyone to explain exactly what is broke with the system. We have very healthy utilities, process has been fair to all. And I know that I don't have to remind you that AmerenUE's resources are many. Its influence is great. And compared to the resources of the Office of the Public Counsel, our resources are minuscule.

But I suggest to you that if you study what we have to say and the analysis that we have performed, you will find our evidence to be competent and substantial and it will compel a significant rate reduction for consumers.

Your role as monopoly regulators and protectors of the public is very crucial and that role will be even more challenging in a case of this size. I wish you the best in that role and I thank you very much.

JUDGE MILLS: Thank you, Mr. Coffman.

We're going to proceed in the same order the witnesses are presented, so that leads us next to the Missouri Energy Group. Mr. Johnson, Ms. Langeneckert?

MR. JOHNSON: Good morning. My name is Robert Johnson. May it please the Commission. Ms. Langeneckert and I represent the Missouri Energy Group. It's a client group of large-use customers that includes Barnes Jewish Hospital, other hospitals, and Emerson Electric Company and additional large-use customers.

We are sponsoring in this case the testimony of Mark Drazen, who has presented some fairly wide-ranging testimony that deals with revenue requirement issues, generation planning, alternative regulation plans and rate design.

He has particularly emphasized the importance of interruptible service for certain of our clients, and we are urging that the Commission give serious consideration to that issue in this case. It's quite important because there is very substantial testimony in this case about the cost of construction of new generation in order for Union Electric

to satisfy the needs of its customers.

Interruptible tariffs reduce the need for construction of new generation. There's no question that the cost of interruptible tariffs save money. It's much cheaper to have an interruptible tariff than it is to construct a combustion turbine peaking system.

Mr. Drazen has also discussed cost-of-service studies and a number of other issues. We will participate actively in this case and we'll present Mr. Drazen in accordance with the schedule. That concludes our opening statement.

JUDGE MILLS: Thank you.

For the Missouri Industrial Energy Consumers?

MS. VUYLSTEKE: May it please the Commission. My name is Diana Vuylsteke and I represent the Missouri Industrial Energy Consumers.

This group includes many of AmerenUE's largest customers. These companies make much of Missouri's economic base and this case is of the utmost importance to them. I would like to name a few of these companies: Anheuser-Busch, Bowing, General Motors, Ford, Daimler Chrysler, Proctor and Gamble, Monsanto, Soluta and others.

The MIEC's consistent position is that for rates to be fair, that they should be based upon the cost of service. The fairness of Ameren's rates is not determined

by comparison to the rates of other utilities. It is properly determined by Ameren's cost of service and that is the issue in this case.

For six years Ameren's rates have not been based on its cost of service, but on an experimental alternative regulation plan. This plan was agreed to by most of the stakeholders in the present case in settlement of the UE/SIPS merger.

It allowed UE to keep merger savings in order to offset the cost of the merger and to recover the premium that UE paid for the SIPS stock. This period is over and it is now time to flow the merger savings back to customers.

The plan turned out to be a great deal for Ameren and Ameren earned record profits under the plan. The plan was over by its terms on June 30th, 2001, as provided by the terms of the plan. And for Ameren's rates to be fair, it is now essential that its cost of service be examined.

It is impossible for the Commission to determine a fair rate without a rebasing of rates. And for that matter, it would be impossible for the Commission to determine a fair alternative regulation plan if it would choose to do so in this case without that rebasing. It does not serve the public interest for us to go into alternative regulation blindly.

Ameren's rates are clearly excessive. To highlight several important aspects of the MIEC's evidence in the case, MIEC Witness Mike Gorman's testimony takes a somewhat different approach than the Staff's to rate of return. He shows that Ameren's capital structure is unbalanced with too large of a share of equity compared to a typical capital structure.

The recognition of Ameren's unbalanced capital structure is essential to his recommendation. Although he has a higher return on equity than the Staff, he has used an adjusted capital structure with less equity and the end result is an overall rate of return that is comparable to that proposed by the Staff.

MIEC witness Jim Selecky supports the

Commission Staff's recommended treatment of net salvage. MIEC Witness Maurice Brubaker supports the revenue allocation that moves rates closer to the cost of service, yet results in a decrease for all customer classes.

Even though rates should be based on the cost of service and not by comparison to other utilities, AmerenUE makes much of rate comparisons. In the public and in this case, Ameren touts that its rates are below the national average. But national rates are not the relevant comparison here.

The Associated Press reported just this week

that the cost of living in Missouri is among the lowest in the United States. Missouri ranks seventh out of the 50 states in cost of living. All costs, including Ameren's cost of doing business, are lower in Missouri so it follows that electric rates are lower here than on the east or west coast. This is not a reason for excessive rates or to allow excessive rates.

The relevant comparison is the regional comparison. And the evidence shows that AmerenUE's overall electric rates are high in the region and that its industrial rates are among the region's highest.

From the perspective of economic development in Missouri, the rates currently faced by AmerenUE's industrial customers are the highest out of the total of 51 service territories -- excuse me -- are the seventh highest out of the total of 51 service territories in Missouri and surrounding regions.

Reducing the rates of industrial customers would make Missouri industry more competitive and would benefit economic development. As noted by Missouri's Director of Economic Development Joe Driskill, Missouri is lagging behind in the region in recovering from the recession. An example is the closing of the Ford plant in Hazelwood, about which there has been much concern.

Ameren's rates are not a helpful factor in the

equation of attracting Missouri industry and jobs. Economic development is a compelling reason to reduce AmerenUE's excessive rates in this case. Thank you.

JUDGE MILLS: Thank you.

Mr. Molteni?

MR. MOLTENI: Good morning. I'm Ronald Molteni, assistant Attorney General. Shelly Woods and I represent the State of Missouri.

On June 27th, 2001, AmerenUE filed with this Commission an amended emergency motion to temporarily stay the expiration of the experimental alternative regulation plan.

In that motion AmerenUE painted a picture of woe and misery. It told this Commission that the Edison Electric Institute ranked Ameren 42nd out of 70 companies in median stock performance. AmerenUE told this Commission that its EEI ranking placed it uncomfortably closer to utilities in financial distress than to those of top-performing utilities.

AmerenUE said that the mere filing of the complaint that initiated this case would severely impact its financial standing and ability to secure capital. At the hearing the very next day, AmerenUE again told this Commission, quote, very serious damage will occur to the company's financial situation based solely on the filing

of -- on the Staff's filing.

Several things are ironic about AmerenUE's tact in trying to extend the EARP. First, the EEI study cited by AmerenUE measured its performance from 1998 to March of 2001, a three-year period during which AmerenUE was continuously regulated by the EARP.

Secondly, Ameren spun its tail of impending doom while enjoying its then best year ever in 2000 with net income in excess of $457 million, up $72 million in net income from 1999. That record was surpassed in 2001 when Ameren posted net income of nearly $469 million.

In fact, Warner Baxter, Ameren's chief financial officer, testified at his deposition that Ameren has just come off of six years of a, quote, very successful closed quote, incentive rate regulation plan. Ameren's president, Gary Rainwater, told us at his deposition that Ameren is a well-run company. And, frankly, we believe them.

That leaves us with the question how can AmerenUE be in such dire straits when it has posted successive record years totalling net profits well over $900 million under an EARP with which it is clearly enamored.

Parties live and die by the credibility of the pleadings they file and the arguments they make before this

Commission. To paraphrase the Attorney General, AmerenUE has some explaining to do. Of course, Ameren also has to lower its rates.

I don't think anyone will tell you that Ameren's rates are high relative to other utilities outside of Missouri. But its profits are high, which doesn't sound so bad, because it's a for-profit company, until you consider the fact that AmerenUE has a service monopoly for electricity.

Most of its customers and certainly its residential and small business customers do not have any choice about their provider of electricity. They cannot shop for the best price in a competitive marketplace. They rely on this Commission to determine what rates are just and reasonable.

The State of Missouri purchases electricity from AmerenUE with taxpayer dollars. The State has several interests in this proceeding. Its primary interest is in procuring a large rate reduction. AmerenUE is being well run and its back-to-back years of record profits of over $900 million show it can lower rates substantially.

The State of Missouri also has an interest in economic development. The industrial intervenors and the Missouri Retailers Association will tell you lower energy rates will help stimulate economic development. The state also has an interest in good energy policy.

The Department of Natural Resources has filed testimony in this case about low-income weatherization and energy efficiency. DNR hopes this Commission can bring those concepts into the fold of its decision-making both in this case and on an ongoing basis.

The parties have presented this Commission with 47 different issues for adjudication. There are fundamental differences of accounting methodologies, which you'll have to adjudicate. In this era of WorldCom, Enron and Global Crossings, this Commission cannot overscrutinize the books of the monopolies or utilities it regulates.

How this Commission adjudicates the accounting issues in this case in the aggregate will determine what rate reduction is warranted. How will you make that decision? Parties live and die by their credibility. Thank you.

JUDGE MILLS: Thank you.

Mr. Pendergast?

MR. PENDERGAST: Thank you, your Honor. If it pleases the Commission, my name is Mike Pendergast and I'm here today on behalf of Laclede Gas Company.

Laclede has submitted testimony on two rate design issues in this proceeding. One relates to a proposal to increase the winter/summer differential in the energy

charges associated with AmerenUE's rates for the reasons stated in the Surrebuttal Testimony of Mike Cline. We do not believe that differential should be increased.

The second issue relates to tariff Rider E, which governs service to customers who have electric -- or who have alternative sources of electric generation. We have simply proposed, once again for reasons stated in Mr. Cline's testimony, that that tariff be clarified to make sure that it's available not only to customers who take service at primary voltage, but also customers who take service at secondary voltage.

For the sake of brevity, I will simply refer you to our statement of positions for what we had to say about the merits of incentive or alternative regulation as well as what we had to say about the indivisible tie that we believe exists between a public utility's ability to perform its fundamental obligations to its customers and receiving an adequate level of rate relief that is necessary to achieve that goal.

I was heartened by Mr. Coffman's words today where he referenced healthy utilities as being a good thing. We believe that is a good thing. In fact, we think it's an indispensable thing. And we hope in this and other cases it is a thing that the Commission continues to keep in mind. Thank you very much.

JUDGE MILLS: Thank you.

Now we'll move on to the parties who don't have specific witnesses sponsored. I'll start with the Missouri Retailers Association, Mr. Overfelt.

MR. OVERFELT: Members of the Commission, Judge. Sam Overfelt appearing on behalf of the Missouri Retailers Association.

We're the only intervenor representing a commercial class and we waive oral argument.

JUDGE MILLS: Thank you.

Mr. Fulton?

MR. FULTON: Commissioners, Judge, my name is Rob Fulton. I represent the Doe Run Company, a mining and smelting company in southeast Missouri.

Mr. Bible, in his Direct Testimony, quoted extensively from several U.S. Supreme Court cases concerning the monopolistic utility rate regulation. Among them he quotes the Hope case that says just and reasonable rates involves a balancing of interests between the investor, i.e., the company, and the consumer of electric product.

What we have seen as a result of these -- this alternative rate regulation in the past several years is that UE has received a great benefit upon the backs of the consumers. While the consumers have received rebates or refunds or what have you, however you wish to phrase it, at

the same time the rates are excessive.

The rate of returns for the last four years has ranged from 12.4 percent to 14.6 percent. The Doe Run Company would give its right arm to have that rate of return. That leads to excessive earnings upon the backs of the consumers, including the small customers such as myself and more -- and the industrial consumers who provide the jobs and benefits for the residential consumers.

This Commission must reduce the rates that are breaking the backs of the industrial consumers to one that is fair and reasonable and based upon the cost of service.

I was pleased to hear Mr. Coffman state that he wants his rates based upon traditional cost of service, because that would indicate that the industrial consumers should have a reduced -- a higher reduction under this proposal. We thank you very much.

JUDGE MILLS: Thank you.

And for Kansas City Power and Light Company, Mr. Fischer?

MR. FISCHER: May it please the Commission. My name's Jim Fischer, and I'm here representing the intervenor Kansas City Power & Light Company in this proceeding.

As I'm sure you're aware, regulatory policies that are established in an important case like this can

directly affect the interests of other electric utilities in the state and that's principally the interests that we're here to protect.

While Kansas City Power & Light has not filed testimony in this case, the company is very interested in the regulatory policies and many of the issues that will be decided in this proceeding.

Particularly, we're interested in the alternative regulation plan. KCP&L supports an appropriately structured alternative regulation plan and believes the Commission does need to look beyond the traditional cost-of-service model.

I will be in and out of the hearing room throughout the three weeks and I would ask that when I'm not here, that I be excused.

JUDGE MILLS: Well, Mr. Fischer, I'm not going to explicitly excuse you, but if you're not here, we certainly won't object to that. However, if you're not here, you'll be waiving any due process rights you would have had to cross-examine witnesses that are presented in your absence.

MR. FISCHER: Certainly understand that. Thank you, your Honor.

JUDGE MILLS: You're welcome.

Is there anyone I've missed?

I think before we move on -- I'm sorry, Mr. Pendergast?

MR. PENDERGAST: Yes, your Honor. I just wanted to mention that like Mr. Fischer, I may not be here every moment either and I will, of course, operate under the same conditions that you just spelled out for him.

JUDGE MILLS: Okay. Thank you, Mr. Pendergast.

If there's no further opening statements, we do have a question from the Bench -- at least one question from the Bench for the Staff regarding its opening statements. So, Mr. Dottheim, if you can come back to the podium.

Chair Simmons?

CHAIR SIMMONS: Mr. Dottheim, in your opening statement, I believe you talked about senior policy direction and leadership. And I believe that that was mentioned in some of the filed testimony. And I'd like to ask you about that.

I know that there are more than 47 different issues, as it was mentioned this morning, but one of the issues that I am interested in is the policy issues that are out there.

Is it Staff's contention that there are a number of policy issues that must be decided in this case?

And, if there are, what are those policy issues that Staff sees? And could you clarify for me if you believe that there are certain policies that you think are before this Commission right now that need to be decided in this case or we need direction as far as policy is concerned from this Commission?

MR. DOTTHEIM: Chair, there are policies arguably in most every -- or somebody might make the argument that there are policy issues in every single issue, whether it be an accounting adjustment or whether it be a rate design determination or, as in this case, a very significant issue such as alternative regulation.

The Staff believes that it does take direction from the Commission when that direction is indicated. And we attempt to read the Commissioner's orders very closely. So the Staff is looking for direction and leadership across the board, whether that be an issue that has been tried previously that is being tried again where the Commission might indicate that it wants to take a different approach to it when it issues an order, or whether it's an issue that is being heard for the first time.

CHAIR SIMMONS: Let me narrow my question a little bit, Mr. Dottheim. In other words, I guess as we hear from Staff that will be testifying in this case, will Staff also be testifying that there are certain policy

issues that we need to deal with as they come to the stand and how will we know that here is the direction that's needed as it relates to policy?

MR. DOTTHEIM: Chair, I would suggest a review, as undoubtedly all the Commissioners already have, of the statement of positions. And I think that, of course, tracks the earlier filed list of issues. But, in particular, the statements of positions which identifies the issues and identifies the parties' positions.

I think that in a rough manner indicates the large policy areas and even some of the smaller ones, whether it be determinations having to do with what are adjustments that are appropriate within a test year update period to items such as alternative regulation, whether the Commission is interested in embarking further into the area of alternative regulation.

I think that there are other areas. It's unique in that Union Electric Company has filed a witness who is testifying on the law. I believe the other parties, most definitely the Staff, will be addressing what it believes to be the legal issues in the briefs that it files with the Commission.

So I would also include that matter, because although not arguably policy, per se, in defining or addressing what the law may be, what are the parameters of

what the Commission may do under its present statutory provision, that is an area that I think all parties are looking for direction from the Commission on.

CHAIR SIMMONS: And let me say this, Mr. Dottheim. I understand that in some cases we've got the positions of the parties and I'll be looking at the positions of the parties, but I'm also very interested in how to determine when there are certain policy positions that this Commission needs to be looking at that may differ from just the positions of the parties.

And so that's what I'm trying to distinguish and get clarification of when there is a position -- or when there is a policy position that this Commission needs to take up as you believe in this case. And that's what I'm looking for.

MR. DOTTHEIM: Yes. Well, again, I don't recall offhand that the Staff specifically -- and I won't speak on behalf of any other party, but I don't recall offhand that the Staff has characterized in its testimony literally saying that this is an area that we're looking for directive from the Commission on as far as policy is concerned, because the Staff looks for direction from the Commission in every decision that it renders.

And also, too, I think at times the Commission itself has indicated whether it is interested in being at the cutting edge, shall we say, of possibly extending the envelope or whether the Commission itself believes that it does not have the statutory authorization and is looking to the legislature, for example, for direction as to what should be the policy of the state of Missouri or the policy within the state of Missouri.

So, I mean, that is another area that it may not be a bright line identifying what the policy determination is to be made, but there still is a policy determination required. I'm sorry. I don't know that I've answered your question.

CHAIR SIMMONS: Well, I believe as the different Staff witnesses come forward, maybe some of those Staff witnesses that are testifying in particular components of this case may be able to clarify, and maybe the question will be is whether or not this is a different policy for this Commission to take up or if that is being offered or if it is just a position. That's what I'm looking for.

MR. DOTTHEIM: Of course, the Commissioners have been very active in the questioning that they've conducted of witnesses, Staff witnesses and all witnesses. So I expect that the Staff and probably all witnesses are on notice that there may be questions of that very nature from the Commissioners.

CHAIR SIMMONS: Thank you, Mr. Dottheim.

MR. DOTTHEIM: Thank you.

JUDGE MILLS: Thank you. Are there further questions from the Bench for the parties?

Okay. In just a minute we're going to take a short recess before we take up our first witness. Just for the record, I want to note, as you all know, this hearing is going out via the world wide web to anyone who is interested and I suppose to anyone who happens to stumble across it.

And just for the record and for those people out there that are watching, I'll note for the record that Union Electric is not making its opening statement today, but will be making it at the beginning of its case, which is currently scheduled to be July 24th, however, that is subject to change depending on how the hearing progresses.

So for anyone who is waiting for Ameren's UE opening statement, it's not coming today. It will be coming later on in the proceedings.

Let's go off the record. We'll take about a 10- or 15-minute recess.

(A RECESS WAS TAKEN.)

JUDGE MILLS: We're ready to proceed with the first witness, which is the company's witness, Mr. Stout. Mr. Byrne?

MR. BYRNE: Yes, your Honor. I'm Tom Byrne, attorney from AmerenUE. And I'd like to call William M.

Stout to the witness stand.

(Witness sworn.)

JUDGE MILLS: Thank you. You may be seated.

Go ahead, Mr. Byrne.

WILLIAM M. STOUT, having been sworn, testified as follows:
DIRECT EXAMINATION BY MR. BYRNE:
Q. Okay. Could you please state your name.
A. William M. Stout.
Q. And by whom are you employed, Mr. Stout?
A. I'm employed by Gannett Fleming, Inc.
Q. And in what capacity are you employed by Gannett Fleming, Inc.?
A. As president of its valuation and rate division.
Q. Are you the same William M. Stout who filed in this case Rebuttal Testimony that's been marked Exhibit 1 and Cross Surrebuttal Testimony that's been marked Exhibit 2?
A. Yes, I am.
Q. Do you have any changes to that pre-filed testimony at this time?
A. I do not.
Q. Okay. And are the answers to the questions contained in that testimony true and accurate, to the best of your knowledge and belief?

A. Yes, it is.
Q. And if I was to ask you the questions contained in that pre-filed testimony here today when you're under oath, would your answers to those questions be the same as contained in the testimony?
A. Yes, they would.
Q. Okay.

MR. BYRNE: I would offer Exhibits 1 and 2 into evidence and tender Mr. Stout for cross-examination, your Honor.
JUDGE MILLS: Thank you. Are there any objections to the admission of Exhibits 1 or 2?
Hearing none, they will be admitted.
(EXHIBIT NOS. 1 AND 2 WERE RECEIVED INTO EVIDENCE.)
JUDGE ROBERTS: For Union Electric Company's witnesses, cross-examination goes first to Kansas City Power & Light Company. Laclede Gas Company? Missouri Retailers Association, Mr. Overfelt?
MR. OVERFELT: No questions.
JUDGE MILLS: Thank you.
Doe Run, Mr. Fulton?
MR. FULTON: Just a few, your Honor.
CROSS-EXAMINATION BY MR. FULTON:
Q. Mr. Stout, how much have you or your company

been paid for your participation in this case?
A. I don't know.
Q. How much do you charge by the hour?
A. I -- for myself, I charge $210 per hour.
Q. Is that for research time or for testimony time?
A. It's for time that I spend working on behalf of Ameren.
Q. And how many hours have you incurred in this case?
A. I don't know.

Q. Do you have anybody that's available -- do you know of anyone that's got that information?

A. I could research it, but I don't have it available.

MR. FULTON: Okay. I have no further questions.

JUDGE MILLS: Thank you.

Missouri Energy Group, Mr. Johnson?

MR. JOHNSON: No questions.

JUDGE MILLS: Missouri Industrial Energy Consumers?

MS. VUYLSTEKE: Yes.

CROSS-EXAMINATION BY MS. VUYLSTEKE:

Q. Good morning, Mr. Stout.

A. Good morning.

Q. Mr. Stout, is it correct that to determine the average service lives that you propose for your transmission and distribution accounts, you analyzed historic trends of survivor characteristics?

A. That was one element of the factors that I considered.

Q. Specifically, did you employ the retirement rate method?

A. I did for the statistical analysis.

Q. And isn't it correct that the historical life patterns for the transmission and distribution accounts form the primary basis for selecting the appropriate survivor curve and estimated average service life?

A. Yes. They are the primary basis.
Q. And isn't it correct that the average service life is one of the factors that is used to determine the average service life?
A. Could you repeat that, please?
Q. Isn't it correct that the average service life is one of the factors that is used to determine the average service life?
A. I'm sorry, but I don't understand your question.
Q. On page 18 of your Rebuttal Testimony you

indicate that the net salvage percent is the net salvage cost divided by the original cost of the asset that has been retired; is that correct?
A. Yes.
Q. Is it correct that the net salvage costs are the costs incurred in the year the asset retired?
A. Yes.
Q. Okay. Just let me give you an example to be clear. Let us assume that it is the year 2000, an asset that had a 45-year service life was retired and the asset was put in in 1955. Is it correct that the original cost is dated in 1955 dollars?
A. Yes.
Q. And if the asset was removed in 2000, the cost of removal is dated in year 2000 dollars and not 1955 dollars; is that correct?
A. Yes, it is.
Q. And do you agree that since 1955 through the

year 2000, there has been some inflation?

A. Yes, there has.

MS. VUYLSTEKE: Okay. No other questions. Thank you.

JUDGE MILLS: Thank you.

Attorney General's office?

MS. WOODS: No questions, your Honor.

JUDGE MILLS: Office of Public Counsel?

MR. COFFMAN: No questions.

JUDGE MILLS: Staff?

CROSS-EXAMINATION BY MR. SCHWARZ:

Q. Morning, Mr. Stout.

A. Morning, Mr. Schwarz.

Q. Can you identify John Wiedmayer for the Commission?

A. Mr. Wiedmayer is a certified depreciation professional who works on my staff, has been employed by our firm for 16 years.

Q. He is a professional depreciation consultant who has qualified as an expert in any number of jurisdictions?

A. He has been qualified as an expert and he has been certi-- certified as a depreciation professional by the Society of Depreciation Professionals.

Q. And is it true that for purposes of the depreciation study that Gannett Fleming performed and that AmerenUE submitted both in February to the Commission Staff and as well for this testimony in this case that

Mr. Wiedmayer conducted an inspection of the Union Electric plant in Missouri?

A. Yes. At my direction.

Q. And he also had discussions with various Union

Electric personnel concerning depreciation matters; is that correct?

A. Yes, he has.

Q. And did he prepare a memorandum concerning those interviews and inspections?

A. He prepared a memorandum related to the interviews.

MR. SCHWARZ: May I approach the witness, please?

JUDGE MILLS: Yes, you may.

BY MR. SCHWARZ:

Q. Do you recognize that, what I've just handed you?

A. I do.

Q. And is that Mr. Wiedmayer's report?

A. Yes, it is.

Q. And did you refer to this in the preparation of your testimony?

A. I referred to this as well as additional telephone discussions that I had with Union Electric personnel.

Q. Did you, in relation to your testimony, conduct physical inspections of the plant, say, between October and May?

A. I did not.

MR. SCHWARZ: Okay. I would ask that this be marked as an exhibit.

JUDGE MILLS: Okay. We're up to Exhibit No. 170. We will describe Exhibit No. 170 as a memorandum from John Wiedmayer to the job file dated October -- I'm sorry -- the memorandum is dated February 14th, 2002.

(EXHIBIT NO. 170 WAS MARKED FOR IDENTIFICATION.)

BY MR. SCHWARZ:

Q. Do you have a copy of your Rebuttal Testimony that's been marked as Exhibit 1?

A. Yes, I do.

Q. Do you happen to have a copy of Ms. Mathis's Direct Testimony, which has been marked as Exhibit -- considerably later -- Exhibit 45?

A. I do not have it with me at the witness stand.

Q. Okay. Do you have a calculator with you?

A. I do.

Q. Good. I'd like to go through some of the schedules to your testimony, if we might. Could you turn to Schedule 4, and specifically pages 4.1 through 4.3? In column two, you list probable retirement years for the steam production, nuclear production, and the hydraulic production plant, do you not?

A. I do.

Q. And those are dates that you developed?
A. I developed those in discussions with company management and in concert with them.
Q. I'd like you to turn to Schedule 6, if you would, 6.1 will be fine. Are you with me?
A. I am.
Q. I notice that the fourth column is titled Estimated Net Salvage Costs; is that correct?
A. Yes, it is.
Q. And the next column is Cumulative Estimated Net Salvage; is that correct?
A. Yes.
Q. The next column is Net Salvage Accrual. How were the figures in that column determined?
A. They were determined by taking the portion of the proposed depreciation rate related to net salvage times the balance in column 3.
Q. Okay. And the cumulative net salvage accrual, how was that calculated?
A. The cumulative -- initial cumulative net salvage accrual was determined from a theoretical depreciation calculation as of December 31st, 2000. And the subsequent amounts in that column are determined by adding to the previous line balance the amount that appears in column 6 under net salvage accrual.

Q. Okay. If you go down to the year 2024, I believe, that appears to be the first year that estimated net salvage costs exceed the net salvage accrual; is that correct?

A. Yes, it is.

Q. For purposes of this theoretical calculation, would that indicate that the expectation is that the amount that the company would be expending for net salvage costs exceeds the amount they would be collecting --

A. Yes. With --

Q. -- through rates?

A. With respect to the plant currently in service, that is correct.

Q. And that basically continues for the balance of the two pages that are -- two and a half pages that are shown?

A. That is correct.

Q. So that from the year 2024 through the year 2094 the company would be, with respect to this plant, expending more money than they would be taking in?

A. That's correct.

Q. Is there anything in the prescription of depreciation rates which include net salvage as a component which would require a company to accumulate the excess of net salvage accrual over estimated net sal-- net salvage

costs, accumulate those funds so that they would be available later when the computation reverses?

A. With respect to this particular account, I'm aware of no prescription. However, all of the accruals would be recorded as credits to the depreciation reserve and reflected in that balance.

Q. Correct. But my question is, there's nothing in present requirements that requires the cash to be held on hand so that it's available later when it's needed?

A. I believe I answered that. I just -- that there is nothing that requires it --

Q. Okay. Thank you.

A. -- however, there is a credit to the reserve to reflect it.

Q. Turning to your Schedule 1, turn -- or I'm sorry. I'm sorry. I'm sorry, Schedule 7-1. With respect to the UE infrastructure investments that are listed there, do you know how much are regulated and how much would be unregulated?

A. I do not.

Q. Do you know how much would be Missouri and how much would be Illinois?

A. I do not.

Q. Would you take a look at your Schedule 10, please? With respect to the various Missouri jurisdictional

plants that are listed on the 10 pages of the schedule, do you know when the production plants were built?

A. Yes.

Q. Can you identify those for me, please?

A. For the Empire District, the Asbury plant was initially constructed in 1970; the Iatan plant was constructed in 1980; the Ozark Beach-hydro plant was initially constructed in 1931; the Energy Center combustion turbines were constructed in 1978; the Stateline combustion turbines in 1995.

Turning to St. Joseph Light & Power, the Lake Road Station was initially constructed in 1950. We've already addressed the Iatan station. The Kansas City Power & Light information doesn't identify the individual stations, but I could go through those.

Q. That's all right.

MR. SCHWARZ: May I approach the witness?

JUDGE MILLS: Yes.

BY MR. SCHWARZ:

Q. Can you show me what you're reading from, please?

A. Yes. I'm reading from the Directory of Electric Power Producers and Distributors, published in 2002, the 110th edition.

Q. Now, you did not refer to that document or

provide a copy of that document in your work papers. Is that something that you relied on in the preparation of your testimony?

A. It's a published text that I referred to for comparability of the facilities at other electric utilities.

Q. And it was an oversight that you didn't identify that in your work papers?

MR. BYRNE: I'm going to object, your Honor. There's no evidence that a published report like that constitutes a work paper, and so I'm going to object to the question on those grounds.

BY MR. SCHWARZ:

Q. You didn't --

MR. SCHWARZ: I'll withdraw that question.

JUDGE MILLS: Okay.

BY MR. SCHWARZ:

Q. You didn't identify that as a document that you had consulted or relied upon in response to Staff data requests, did you?

A. I don't recall.

Q. Let's look at Schedule 11, if we might. With respect to these plants, do you know the size of these plants?

A. I do not know all of them.

Q. Do you know the kind of fuel handling

equipment that they had?

A. Not specifically. I know the type of fuel, but I don't -- I don't know the manner in which it was handled, whether it was a bottom dump or a rotary dump or --

Q. Do you know at the time of their retirement what the cost to produce a kilowatt hour of energy was?

A. No.

Q. Do you know what the expenditures for maintenance on any of these plants was?

A. I do not.

Q. Do you know what the overall operating costs of these plants were?

A. I do not.

Q. Do you know the type of turbine design that any of these installations had?

A. I do not.

Q. If we could, take a look at Schedule 12. Who compiled this study?
A. This study was piled -- compiled by committees of the Edison Electric Institute and American Gas Association.
Q. And, to your knowledge, was it done by survey of the companies listed?
A. By survey of all companies. Those listed are the ones that responded.

Q. Responded. So there may have been companies that did not respond?
A. I'm sure there were.
Q. The column that indicates -- it's the second column from the right, Study Date. What is your understanding of the numbers listed in that column?
A. The -- it is the date on which rates are to have gone into effect from the study parameters that are presented.
Q. So -- well, let me ask you this. Do you know if those rates were set by decision of the regulatory body with jurisdiction after a contested hearing or if they were settled?
A. I do not know.
Q. The columns just to the left, it's entitled Rate and then there appear to be typically two or three letters in those columns. Do you know what those letters are?
A. Yes, I have that here. They indicate the method procedure and basis that are -- were used in the

calculation of the depreciation rate.

Q. Is that something that you had examined prior to the development of your testimony for each of these listed companies?

A. No. Because I was not interested in the

depreciation rates presented, but rather the service life and net salvage parameters.

Q. But, again, for instance, with respect to the net salvage parameters, you don't know if that was done by decision of the regulatory body or by agreement of the parties; is that correct?

A. I do not know that.

Q. And similarly with the average service life; is that correct?

A. That's correct.

Q. With respect to Schedule 13, did you examine any indicators or measures of central tendency other than the median?

A. No.

Q. So you didn't gauge them, for instance, by plant age?

A. That would not be a measure of central tendency.

Q. It's not a measure of -- I understand.

You didn't, for instance, examine a dollar weighted mean as far as the depreciation amounts?

A. No.

Q. What is your definition of depreciation? And

I know it's stated in your --

A. My definition of depreciation is set forth on

page 7 of Exhibit 1 beginning at line 16. Depreciation refers to the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which can reasonably -- be reasonably anticipated or contemplated against which the company is not protected by insurance.

Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities.

Q. And how do you go about estimating or prescribing depreciation rates?

A. Well, I only estimate depreciation rates. I go about it by determining first the service value of plant, because depreciation is the loss in service value. I determine service value by estimating the net salvage at retirement related to the plant currently in service in order to be able to deduct that net salvage from original cost in determining service value.

I determine the net salvage amounts by analyzing historical indications of net salvage as a percent of the property being retired, by considering the age at which the property has been retired historically as compared to the ages at which it will be retired in the future, and by benchmarking the results of those analyses against estimates of net salvage by other electric utilities.

Having determined the service value, I then estimate the service life over which the service value is to be allocated. I estimate the service life by analyzing those same historical retirements for the ages at which they were retired using the retirement rate method. This provides me with indications both of average service life and service life dispersion.

I have discussions with utility management regarding their outlook for that property and the extent to which they believe the future forces of retirement will be the same or different from past causes of retirement. I then, again, benchmark the results of those considerations against the estimates made by other electric utilities in arriving at my final estimate of service life.

Finally, in order to calculate the depreciation rate based on those parameters, I determine the group procedure and basis for use, typically using the precedent of the jurisdiction in which I am making the estimation for. And then calculate the annual accrual rate, incorporating the parameters, the original costs and the accumulated provision for depreciation for books in the calculation.

Q. By way of shorthand or summary, you first

determine the -- from the historical records of the company and your estimates of future net salvage, either positive or negative, the amount or the value of the property that's to be amortized over the depreciation period, if you will, the average service life of the plant.

You then estimate the average service life based on actuarial analysis of the history of placement of properties and retirements of properties in individual plant accounts and inform that actuarial analysis with your judgment as a depreciation specialist and engineer. Is that --

A. That's a reasonable shortcut. It leaves a few things out, but that's a reasonable shortcut.

Q. (Indicating.)

A. Yes. I recognize it.

Q. Can you tell the Commission what it is?

A. The Statistical Analyses of Industrial Property Retirements, Bulletin No. 125 of the Iowa State University, written by Lobal Winfrey.

Q. And is this the basis or underpinning of the retirement rate method of actuarial analysis?

A. I would not describe it as the underpinning. It certainly describes in there the retirement rate method, actually refers to it in there as the annual rate method. That method goes back prior to that and is -- had been used

in the insurance industry for mortality studies of individuals long before it was applied to industrial property.

Q. For purposes of depreciation then, would you say -- well, let me ask you this. Is this the source of what is commonly referred to as the Iowa curves?

A. Yes, it is.

Q. And does it consist of both a mathematical theoretical exposition of the procedures as well as empirical studies that the engineering people at Iowa State did to develop the Iowa curves?

A. Yes, it does.

Q. And does it discuss the development or estimation of net salvage as part of the depreciation calculation?

A. No, it does not. That's discussed in Mr. Winfrey's textile Engineering Valuation and Depreciation.

Q. Have you ever done a study of Union Electric depreciation history to confirm that the actual cost to remove a vintage of a particular plant account actually matches amounts collected in rates from customers for that purpose?

A. No. It -- it's not possible to take the revenue received from a customer bill and determine what

portion of that revenue represents net salvage recovery.

Q. So that there is, to your knowledge, no empirical study that shows that for a particular vintage of -- say, a pole that was installed in 1950, that the accrual for net salvage for that vintage matched what was actually collected from customers?

A. As I indicated before, the company records depreciation accruals on its books in accordance with prescribed depreciation rates and the current balances in plant. It is not possible to identify in its receipts from customers the portion of those receipts attributable to each operating expense account and each depreciation expense account in vintage.

Q. Would you turn to page 16, lines 12 through 14 of your Rebuttal Testimony? There you say, and I quote, The current net salvage cost should have been recovered during the life of the plant to which it relates, end quote.

My understanding of your answer to my prior line of questions, however, is that there is no empirical study that affirms that that occurred?

A. That's correct. That's also correct with respect to the original cost invested.

Q. On the next page, page 17, line 6 -- actually on line 7 you talk about appropriate true-ups. What's your understanding of a true-up?

A. A true-up is a technique in depreciation by which variances between the accumulated provision for depreciation recorded on a company's books and the theoretical depreciation reserve or calculated accrued depreciation that result due to changes in the estimates of service life and net salvage percent that tend to vary somewhat over time are corrected in order to continue to aim to recover the full cost of each item of plant during its service life.

Q. So, generally then, would you agree that the purpose of a true-up is to compare expected or estimated results with actual results and then make an adjustment to reflect the actual results?

A. That's an element of it. There is also an element that is related to changes in estimates themselves.

Q. I would redirect you to your Schedule 6. There's nothing on those three pages, is there, that are actual net salvage costs; is that correct?

A. That is correct. That's my forecast of net salvage costs.

Q. I'd ask you to turn to the bottom of page 19. And this, I believe, had to do with overhead conductors; is that correct?

A. Yes, it is.

Q. And do you recall what your average service

life was for that account?

A. I do.

Q. And what was that?

A. Forty-seven years.

Q. Now, do you have your calculator handy?

A. I do.

Q. Would you divide 1 by 47? And would that figure approximate the average amount of plant with an average service life of 47 years that you would expect to retire annually?

A. No.

Q. How would you estimate that?

A. That's dependent on the dispersion of the survivor curve and the pattern of plant added in the past.

Q. What would your expectation be for -- is this

Account 365?

A. Yes, it is.

Q. What would your expectation be for Account 365?

A. As to the amount that would be retired?

Q. Yes.

A. That's shown in Schedule 6. The second column, Retirements, represents my forecast of retirements based on the 47 R-1 survivor curve estimated for the count and the plant in service as of December 31st, 2000.

Q. Right. That's all in terms of dollars. I'm more interested in terms of feet or miles.

A. I could do the same thing with respect to the feet or miles represented by the dollars, but I still would not get a result of 1 over 47 of the plant each year.

Q. What would you get?

A. I would get a pattern of footage or miles retired similar to the dollar retirements that are shown in column 2.

Q. Okay. Well, for my purposes, if you divide 1 by 47, that gives you a fraction. What does that result in?

A. 1 divided by 47 is .0213.

Q. And then if you multiply that by 564,347,520 feet, what do you get?

A. I get 12,007,394 feet.

Q. Okay. And if you multiply that by 47.02 cents per foot, what figure do you come to?

A. 5,645,877 dollars.

Q. Do you have your Schedule 1? Would you turn to page Roman Numeral III-183? Are you with me?

A. I am.

Q. Would you say that, say, for the last 10 years the numbers have ranged between 1.566 million and 2. -- almost 2.8 million?

A. That's the range of net salvage values during the last 10 years.

Q. If you take the last number in that column, 2,547,535, and divide that by .4709, what do you get?

A. I'm sorry. What am I dividing by?

Q. The 47.02 cents per foot?

A. I get 5,417,982 feet.

Q. Would that be 5 million?

A. Five million, yes, I'm sorry.

Q. Is maintaining utility cash flow a purpose of depreciation?

A. No.

Q. Is there a requirement that depreciation expense equal the capital construction budget of the utility?

A. No.

MR. SCHWARZ: For the record, I would like to suggest that this paper that I've handed out does note HC at the bottom. I consulted with the company this morning because some of the figures that we had put on here had come from sources that we thought might be HC. The company informs me that none of these figures are HC and so I would ask that it not be treated as highly confidential. And I'd ask Mr. Byrne to confirm that.

MR. BYRNE: Yes, your Honor. I know -- I

pointed out to Mr. Schwarz before the hearing that the categories of things that are covered by this sheet are not HC, but I don't know -- you know, I can't verify that all these numbers are what they purport to be. Okay? But they're not HC.

MR. SCHWARZ: But they're not HC.

MR. BYRNE: Yes.

JUDGE MILLS: Mr. Schwarz, I assume you want this marked as an exhibit?

MR. SCHWARZ: Yes, I would.

JUDGE MILLS: This will be marked as Exhibit 171. It appears to be a summary of AmerenUE electric generating plants.

(EXHIBIT NO. 171 WAS MARKED FOR IDENTIFICATION.)

BY MR. SCHWARZ:

Q. Mr. Stout, you're familiar with the various production plants of AmerenUE?

A. Yes.

Q. And calling your attention to the column headed Retirement Date, if you would, those are consistent with your Rebuttal Testimony?

A. They are.

Q. To your knowledge, are the fuels at the various plants?

A. Yes. They're generally correct.
Q. And the rating in megawatts, do those conform with your --
A. Approximately, yes.
Q. Approximately.
I referred earlier to a study that your firm prepared and which UE filed with the Commission I think on February 1st. You're aware of that study?
A. Yes.
Q. And did any of the retirement dates that are listed on Exhibit 171 change from the report that you submitted in February to the report that is part of your study here?
A. Yes, they did.
Q. And which ones would those be?
A. The retirement date for Venice was changed as well as for each of the three hydraulic stations, Osage, Keokuk and Taum Sauk.
Q. And do you recall the retirement date for the Venice plant in the February --
A. It was 2010 in the study filed at that time, as compared to 2004 in the Rebuttal Testimony in this proceeding.
Q. And what about the Osage 1 to 8? Do you recall that shift?

A. Osage was changed from 2031 to 2036, Keokuk was changed from 2013 to 2028, and Taum Sauk was changed from 2010 to 2040.

Q. On page 33, line 19, you note that there have been many power plants retired, as described later in my testimony; is that correct?

A. Yes.

Q. Is that the plants listed in your Schedule 11? Is that what you're referring to?

A. Yes.

Q. At the time that any of those plants retired, did you know the maintenance practices of the utilities?

A. No.

Q. Did you know, for instance, the labor costs per kilowatt hour --

A. No.

Q. -- to produce electricity at any of those plants?

Do you know the efficiency of the boilers --

A. No.

Q. -- at any of those plants?

Do you know the cost of purchased power available to the various utilities at the time those plants were retired?

A. No.

Q. Further down, on line 22 of page 33 you talk about economics of operation. What do you mean by that?

A. I mean the present value of the revenue requirements of two or more alternatives available to the utility.

Q. Do you know what the cost of natural gas will be in the year 2016?

A. I do not.

Q. Do you know what the cost of purchased power will be in the year 2016?

A. I do not.

Q. Do you know the safety status of any of UE's power plants in the year 2016?

A. No.

Q. Do you know currently of any current conditions that would indicate that the plants are unsafe now?

A. No.

Q. Do you know any conditions currently that would indicate that the plants are unreliable now, with the exception of Venice?

A. Understood. No.

Q. Do you know any conditions currently that would indicate that the plants will be either unsafe or unreliable in 2016?

A. I don't know. I -- I relied on my discussions with company management as to their outlook for these plants and their expectations with respect to these several areas that we're discussing. As to how -- as these plants age, those factors will come into play as a factor in the decision to retire the plant.

Q. On page 35 through line 6 you note that Venice -- the company has announced that it will retire the Venice plant in 2004. Correct?
A. Yes.
Q. Then beginning on line 6 you say, However, Ms. Mathis has not reflected this in her estimated survivor characteristics for this plant; is that correct?
A. Yes.
Q. Did you reflect the 2004 retirement in your February depreciation study?
A. No. I reflected a 2010 retirement at that time because the company was still in the process of evaluating its options with respect to Venice.
Q. And, in point of fact, the company had not announced the retirement of the Venice plant at the time Ms. Mathis filed her testimony in March; is that correct?
A. I believe that the specific date was not announced until that time. I think they had narrowed it to a range of 2003 to 2006 by the time her testimony was filed.

Q. Now, the company personnel on whom you relied, at least as far as between your February report and your March report, revised the retirement dates for Venice, for Osage, for Keokuk and Taum Sauk; is that correct?
A. Yes.
Q. Taking a look at your Schedule 11 with the installation years, would you compare that to the in-service dates on what has been marked Exhibit 171? And specifically with the steam production plants and Callaway.
A. I'm sorry. I don't understand what you want

me to do.

Q. Well, take a look at Schedule 11. How many of those plants were installed after -- or more recently than 1953?

A. I could tell you there were 14 after 1950.

Q. That's close enough for gummite work.

It would appear that certainly the bulk of them were placed in service before 1940; is that correct?

A. Eighty-four of the stations were placed in service prior to 1940.

Q. Have there been changes in boiler technology between 1940 and, say, the 1960's?

A. Yes.

Q. Improvements in boiler technology?

A. Generally, I would say there are improvements.

Q. Have there been improvements in turbine plate design?

A. Yes.

Q. Have there been improvements in metallurgy; that is, are metal parts now able to be tested with X rays and such before they're placed in service?

A. Yes.

Q. Would you take a look at page 40, I guess it begins at the bottom of page 46, and the question that begins on line 20 and runs through line 8 on page 47?

It's my understanding from that passage that you are proposing that what you calculate to be an under-accrual of depreciation be amortized into customer rates over 20 years; is that correct?

A. I would describe it as a recommendation that one-twentieth of that amount be reflected in the revenue requirements in this proceeding and that it continue to be monitored during the next 20 years for continued applicability.

Q. Is that not an amortization of an under-accrual?

A. It is an amortization, but you indicated that it would be in customer rates for the next 20 years.

Q. Understood.

A. And I just wanted to clarify that that amount

would be reflected in the current revenue requirement, but actually how much gets collected from customers over the years and whether or not it's re-evaluated in several years would change whether or not it's actually collected over the next 20 years.

Q. What is the theoretical accrued depreciation?

A. Are you looking for an amount or a definition?

Q. A definition.

A. The theoretical depreciation reserve or the calculated approved depreciation is that amount which will not be recorded as depreciation expense in the future, if the current estimates of survivor curves and net salvage are realized.

Q. And how do you do the calculation?

A. The amount is calculated based on a formula that is presented in Schedule 1. That formula is shown on page Roman II-31 of Schedule 1. I think that would be better than me trying to just say the formula --

Q. Yes.

A. -- on the record.

Q. Yes. Yes. Equations are wonderful because they do things in an elegant, elegant way.

And I'm trying to pick up where you -- there on the bottom of page 20 you talk about the appropriate ratio --

A. I'm sorry. I don't know --

Q. On the bottom of page Roman Numeral II-3-- the previous page.

A. I'm sorry. I thought you said page 20.

Q. Are you with me?

A. Yes.

Q. Is the appropriate ratio the one that has been historically applied or the one that's been revised in light of current experience?

A. It is the ratio determined in accordance with the formula at the top of page Roman II-31.

Q. Okay. The average remaining life, is that a calculation that has been done currently to be compared with what has been done historically?

A. The average remaining life is determined separately for each installation year and account based on the average survivor curve for the account.

Q. On pages 12 and 13 of your Rebuttal Testimony --

MR. SCHWARZ: I would like this marked as an exhibit, if I can.

JUDGE MILLS: Thank you. Mark this as Exhibit 172.

(EXHIBIT NO. 172 WAS MARKED FOR IDENTIFICATION.)

BY MR. SCHWARZ:

Q. Keeping in mind the general example that you set forth on pages 12 and 13, would you consider what is set out in paragraph 1 on what's been marked as Exhibit 172, which changes an assumption to indicate that the original estimated life was too short, can you tell me if the figures set out there represent what they purport to do?

That is, if your original estimate of 45 years turns out to be erroneous and instead the property lasts 50 years, would the relationships between the amounts that Customer A has paid and Customer B has paid, would those change?

MR. BYRNE: Your Honor, could I object for a second or interpose an objection? He's handed Mr. Stout, you know, four pretty complicated examples with numbers in them. And I guess I would ask if Mr. Stout could have a few moments to review these examples and consider them before he starts immediately answering questions about them.

JUDGE MILLS: No, you can't, but Mr. Stout can. If Mr. Stout needs time, he can certainly say so. He hasn't indicated that he has any problem answering the question.

MR. BYRNE: Okay.

THE WITNESS: Do I need to say so or can I just take it?

JUDGE MILLS: You can take the time you need to answer the question.

MR. SCHWARZ: Would this be an appropriate place to break for lunch?

JUDGE MILLS: Well, let me ask you this. How much more cross-examination do you have of this witness?

MR. SCHWARZ: Don't know. Not certainly as much as I've already had. I would say --

JUDGE MILLS: Well, let's do this. It's my understanding that the parties have asked for an extended noon recess to talk about settlement; is that --

MR. SCHWARZ: Someone will have to answer that question other than me. I'm not that high.

MR. BYRNE: That's my understanding, your Honor.

JUDGE MILLS: Why don't we go ahead and take a recess for lunch. I'm sorry, Mr. Stout?

THE WITNESS: Can we go off?

JUDGE MILLS: Are you not available after lunch? Is that the problem?

THE WITNESS: I'm available up until about four o'clock. And I really didn't have an indication as to how long this extended lunch was or how much more Mr. Schwarz has for me.

JUDGE MILLS: We can get through with you before four o'clock, I'm fairly sure.

MR. SCHWARZ: Long before 4:00.

JUDGE MILLS: It's my understanding the parties want two hours for the noon recess; is that correct?

MR. WILLIAMS: That's what I've heard.

MR. BYRNE: I don't know. That sounds plausible, but I'm not sure.

MR. WILLIAMS: I heard discussions that said two o'clock.

JUDGE MILLS: Okay. Well, I mean, we may run out of time in this hearing and I hate to start the first day with using extra time. On the other hand, I'm happy to give you all the time you want if you're pursuing settlement discussions that may lead somewhere.

MR. SCHWARZ: We'll certainly give Mr. Stout the opportunity to take a look at the examples and it may permit me to get a a little better organized as well.

MR. WILLIAMS: Judge --

JUDGE MILLS: Mr. Williams?

MR. WILLIAMS: -- would you mind if I could go upstairs and find some people who are definitive of a time? Do you want to do that?

JUDGE MILLS: I think that's probably going to take longer than it would to simply recess and let you all get started. Why don't we go off the record? We'll take

the lunch recess from now until 1:45. Okay?

We're off the record.

(A RECESS WAS TAKEN.)

JUDGE MILLS: Go ahead, Mr. Schwarz.

BY MR. SCHWARZ:

Q. Mr. Stout, just before we broke, I had given you a sheet of paper that's been marked Exhibit 172 that contains some modifications, if you will, to the example that you gave on pages 11 to 13 of your Rebuttal Testimony. Have you had a chance to look at those tweaks to your example?

A. Yes, I have.

Q. Let's take a look at the first one, if you would. Are the numbers calculated accurately?

A. I agree with the numbers. I don't agree with all of the characterizations. There is one number that my interpretation of the language indicates is incorrect.

Q. Which would that be?

A. The -- in the last -- next to the last sentence after the comments, it says Customer A has overpaid $570 relative to Customer B.

Q. Uh-huh.

A. I believe that should be $190 inasmuch as in the example there's an additional 570 collected from Customer A and an additional 380 collected from Customer B.

The differential is $190. So relative to Customer B, I think there's 190.

Q. All right. And you don't agree with the characterization that that might be an inter-generational inequity?

A. I don't, because the result of what happens is that Customer A has paid $570 additional as a result of circumstances and Customer B has paid $380 additional. But Customer A did so over 30 years for $19 per year. Customer B did so over 20 years, again, $19 per year. So each customer paid the same amount for each year of service.

Q. Okay. Going back to your earlier comment on the 190 instead of 570, the premise of that sentence is that instead of collecting the full $9,500, the company stopped and only collected 8,550 as opposed to the 9,500. Do you follow? So that the entire over-collection would have been $570. I think that's what it's aimed at.

A. Well, I -- if -- under that circumstance, I would just disagree with the premise that there would be -- that the collection would stop at that point.

Q. Okay. Okay. But you understand -- but that's the reason that it's 570 as opposed to the 190?

A. Yes. However, again, I would point out that that was done during a 30-year period for Customer A and at the point that these accruals presumably stopped, Customer B

is still a customer and in the example is for an additional 10 years.

Q. And let me ask you this. As far as the calculations in the next three examples, are the calculations accurate as they're set out?

A. They are in Nos. 2 and 3. I don't understand No. 4. It indicates that the removal cost is twice as much, but there's no indication as to the manner in which the additional removal cost is treated for rate-making purposes.

Q. Okay. Well, let me ask you this. Without respect to the figures that are given there, if the original estimate of net salvage is set too low and Customer A is served for 30 years and Customer B for 20 years, would there be a shortcoming when it came time to remove the pole that would fall to Customer B?

A. Most likely, at -- at that time, if we presume that there was a rate proceeding in which the depreciation rates were adjusted, they would be increased to reflect that activity and Customer B would then be asked to pay those increased depreciation rates. And I think that makes my point better than my own example, which is that if we don't charge Customer A for any net salvage, it will certainly fall to future customers to pay those costs.

MR. SCHWARZ: I would ask that this be marked as well.

JUDGE MILLS: Exhibit 173.

(EXHIBIT NO. 173 WAS MARKED FOR IDENTIFICATION.)

MR. FULTON: This isn't HC, is it?

MR. SCHWARZ: No.

BY MR. SCHWARZ:

Q. Do you recognize the first page of that, Mr. Stout?

A. Yes, I do.

Q. Is it, in fact, a copy of Roman Numeral III-- page Roman Numeral III-21 of your Schedule 1 to your Rebuttal Testimony?

A. Yes, it is.

Q. And this is identified as referring to Account 311, structures and improvements. Correct?

A. Yes.

Q. And that's part of the steam production plant?

A. Yes.

Q. And you indicate that the experience is 1943 to 2000. Would you explain that for the Commission, please?

A. Yes. The experience span shown as 1943 to 2000 indicates that the original life table that I have developed using the retirement rate method incorporates the retirements and exposures that occurred in this account during the years 1943 through 2000.

Q. And that's generally what an experience band is?

A. Yes, it is.

Q. And, similarly, what does the 1910 to 2000 placements mean?

A. That indicates that during that period of experience between 1943 and 2000, the installation years or placements that were exposed to retirement came from those placements between the years 1910 and 2000.

Q. And actually running into the box, there's a notation that says, Iowa 120-- is it 120-SO?

A. Sub-zero.

Q. Sub-zero. And would you explain to the Commission what that means?

A. The Iowa 120-S0 is the survivor curve that I have selected to describe the interim rate of retirement of plant in the structures account. The 120 has an indication of the average service life of this curve between 100 percent and 0 percent surviving if it had been extended. The S0 is the type of dispersion indicating that about the 120-year average the retirements are dispersed symmetrically and the sub-zero indicates a wide dispersion of retirements.

Q. And what do the little X's in the upper left indicate?

A. The X's are referred to as the original

survivor curve. They are a plotting of the results of the original life table for that experience and placement band using the retirement rate method.

Q. I would now ask you to turn the page. Do you have a copy of Ms. Mathis's testimony?

A. I do not.

Q. Would you check that, Schedule 4-1 of Ms. Mathis's testimony?

MR. BYRNE: Excuse me. Which testimony?

MR. SCHWARZ: I'm sorry. It's her Direct Testimony of March 2002. I forgot we have all kinds of things, don't we?

JUDGE MILLS: For the record, that's Exhibit 45.

MR. SCHWARZ: Yes.

THE WITNESS: What I have is marked as Exhibit 44.

BY MR. SCHWARZ:

Q. That's my marking and that's an error.

JUDGE MILLS: Forty-four is the July 2001 Direct Testimony. Forty-five is the March 2002 testimony

MR. SCHWARZ: Which is what we're looking at.

THE WITNESS: Yes. This is March 2002.

BY MR. SCHWARZ:

Q. And would you note under Staff's proposal for

Account 311 that she indicates a 69-year life and an R2.5 curve?

A. Yes, she does.

Q. Then looking at the second page, does that represent to be a curve of 69 R2.5?

A. Yes.

Q. And what I want to ask you about, you earlier said that the 120-S sub-zero on your curve meant that if it were extended out to zero, that it would indicate an average service life of 120 years; is that correct?

A. Yes.

Q. And this is what an Iowa curve that's not truncated might look like?

A. Yes.

Q. Okay. Now, turning back to the first page, what does the vertical line between 60 and 70 indicate?

A. It represents a truncation of the 120-S0 at age 68.

Q. And does that truncation result from the assignment of specific retirement dates to the life span plant that is steam production plant?

A. Yes. It would occur at the varying ages dependent on the difference between the estimated possible retirement date and the installation date of the plant. I chose the age 68 as being the longest period that any of the

vintages currently in service would remain prior to concurrent retirement with the rest of the plant.

Q. And what would happen to the location of this vertical line if the retirement dates of the life span properties, the overall production plants was extended?

A. Well, it would depend on which installation year we were referring to. If it was the same installation year that I've depicted here, the truncation would occur at an age greater than 68.

Q. So the vertical line would move to the right on this particular graft?

A. Yes, it would.

Q. And the average service life would also increase?

A. Yes, it would.

Q. And the average service life is the calculated area under the curve; is that correct?

A. Yes, it is.

Q. And if the retirement dates of the plants were moved forward, closer to the present, what would happen to that vertical line?

A. It would occur at an -- at a younger age or to the left on the graft.

Q. Okay. Assume for a moment, if you would, that the Commission adopts service lives that are consistent with the graft on page 3-21, the graft we're looking at. Assume they adopt that, but in 10 years it turns out that the retirement dates are going to be moved an additional 20 years into the future. Okay?

In the intervening time when depreciation rates are set according to this curve compared to where they would be set in the future, would customers who paid under this scenario have paid more than customers in the future in proportion to the average service life of the plant that served them?

A. I don't know. It would depend on the amount of plant that was added in that interim 10-year period.

Q. Assume that things stay as they are.

A. If there is -- are no plant transactions during the next 10 years and after that time period the probable retirement dates are extended by 20 years, the depreciation rates would decrease at that point.

Q. And customers in the future would be served by plant which has proportionally been over-depreciated, if you will?

A. Based on the circumstances you've given me, that's correct.

Q. So that ceterus paris, all other things being equal, if in subsequent periods the vertical line moves either to the left or to the right, that is the estimation of the life span changes, the shifting of that line will cause an inter-generational disparity between the people who paid under the prior estimate and the people who paid under the lower; that is, it can work both ways?

A. It can work both ways and -- but the extent to which it would occur would be much less than if the survivor curve is not truncated at all.

Q. And what's the premise for that statement?

A. If the survivor curve is not truncated and we then determine that plant will be retired in three to five years and then adjust the rate to reflect that, the customers that are being provided service at that point would pay rates substantially greater than have been done historically. And I think that would be a greater inequity than the example that you've given.

Q. Well, if you would, what does -- well, let's look at the second page, for instance. And this is a hypothetical. This is a different curve with different service lives.

But assume that the vertical line had been drawn between 60 and 70, as it is, and things had proceeded along and say 25 years from now, the vertical line is drawn at 100. Can you make the same statement; that is, the amount that's being cut off then is extremely small relative to the overall area of the curve?

A. The comparison is that there is no truncation of this curve currently between 60 and 70, so the comparison would be between this curve that isn't versus one that would be truncated at 100. And that supposes the cap-- the ability of these structures to last for 100 years, which I don't find a credible supposition. And even in that case, there would be a need to increase the depreciation rate to customers in service at that time.

Q. But your statement was that the -- for instance, your 120-year curve will minimize inter-general -- possible inter-generational shifts when drawing no truncation at all, but that is dependent upon where the truncation falls on the entire 120-year curve. Is that not correct?

A. That's correct.

Q. Okay.

A. If indeed the plant would be retired at an age greater than 120 years, that would be similar to a plant in service today that was built in 1882, than there would be no impact.

Q. Well, but that wasn't what I suggested to you and it's not what you agreed to. And I just want to make this clear before we move on.

Whether or not the inter-generational inequity is greater or lesser depends on how much area is ultimately

cut off of that 120-year curve. Is that not correct? That is, you are now cutting off -- and I don't know what -- you know, without the curve how -- but you're cutting off, say, 52 years, if in point of fact, you should only cut off 20 years.

It's the area under the curve that's going to determine if a truncation at 68 years is less of a shift than a truncation at 90 years. It depends on the shape of that curve going out and where the ultimate truncation is, isn't it? I'll make it into a question.

A. The average life of the particular vintage we're examining is certainly dependent on both the interim survivor curve and the age of truncation.

My point was that in comparing the first page of Exhibit 173 as compared to the second page, that shifting the truncation at 68 for this particular vintage forward by 20 years or back by 20 years results in less of an equity shift than what would occur through the use of the curve on the second page of Exhibit 173, which is not truncated unless the plant lived for over 120 years.

Q. Well, except that -- what is the area under your truncated curve, 68 years, is that --

A. No.

Q. -- or 54? I can't remember which one is which.

A. The -- the average life of the curve depicted on that page is 60.91 years.

Q. Okay. And the entire area under the curve on the second page is 69 years?

A. Yes.

Q. Okay. So the effects of not truncating that are significantly different than the effects of not truncating 120-year?

A. Only for a 1957 vintage --

Q. True.

A. -- that's estimated to be retired in 2023. If we compare it for a more recent and more significant dollar vintage such as, for example, 1990 --
Q. Where might you be, sir?
A. I'm on page Roman III-224 of Schedule 1.
Q. Okay.
A. If I consider it for installation year 1990, which will have a truncation at age 33 and result in an average service life of 32.2 years, that is significantly different than 69 years.
Q. I will mull on that. Thank you.
We had earlier marked Wiedmayer's memorandum, and on the second to last page of that down at the bottom it refers to some kind of schedule that a UE employee named Bob Prosperi had prepared in 1996. That was not provided to

Staff along with this DR. Is that something that you looked at?
A. No, it's not.
MR. SCHWARZ: I think I'm through.
JUDGE MILLS: Thank you.
We will do a round of cross-examination from the Bench followed by further cross-examination of the parties based on that, followed by redirect on all the questions to that point.
So questions from the Bench beginning with Chair Simmons?
CHAIR SIMMONS: Thank you.
QUESTIONS BY CHAIR SIMMONS:
Q. Good afternoon, sir.

A. Good afternoon.

Q. I am going to ask you a question, and I think you may have touched upon some of these issues with the line of questionings from Mr. Schwarz, but let me kind of paraphrase what I think you said in some of the executive summary.

You talked about the Staff's proposal to eliminate net salvage from the traditional whole life depreciation rate formula. And you say that this is a radical departure from rate-making treatment of net salvage that this Commission has afforded AmerenUE throughout its

history.

Now, when you say it's a radical departure, explain to me how it is radical from the way we've treated AmerenUE in the past and from what I believe is Ms. Mathis's testimony in terms of how we would treat it today under this case.

A. The radical departure that I refer to is a change from recording net salvage accruals during the life of the plant that are estimated to reflect the net salvage that will be incurred at the end of that plant's service life.

That is, the past treatment for AmerenUE has been to record as expense the amount of net salvage related over the life of the plant to which it relates. The departure is to now go away from that and record as expense that which is being incurred on average during the past 10 years, which represents net salvage costs related to plant that has been retired and is no longer in service.

Q. Can you tell me if that treatment that you just described, as it relates to AmerenUE and how this Commission has treated AmerenUE with net salvage, differs from the way that the Commission has treated any other company in the state of Missouri that you have knowledge that we've gone away from the current net salvage treatment as it relates to Ameren right now and we've done something

radically different with any other utility?

A. Yes. There are two decisions that I am aware of where the Commission has departed from the traditional treatment, those being Laclede Gas and Empire District Electric Company.

Q. Correct me if I'm wrong, but are you saying that the current treatment that the Commission has given from a policy perspective rests with, I believe, the case that you -- which case would it be that you have stated as being the current policy for the way the Commission treats net salvage policy?

A. I've quoted from the decision in St. Louis County Water.

Q. St. Louis County Water.

A. Because in reading the three decisions, that's where it was clearest to me where there was a policy statement from the Commission in its order as to when they felt it was appropriate to use the traditional approach of recovering net salvage related to plant while that plant's providing service as compared to when it was appropriate to treat that net salvage cost as an expense and record and allow for rate-making purposes net salvage costs related to plant that is no longer providing service.

Q. And so it's your testimony that you believe that that is the current Commission policy and that it is --

or it should be similar to the Ameren case today?

A. Well, my testimony would be that the traditional approach should be used in all cases because it is the only method in which a cost related to plant is charged to customers while that plant is providing service. But I'm compelled to take notice of the Commission's policy as expressed in its orders and that's why I have noted the decision in St. Louis County Water case.

CHAIR SIMMONS: Okay. That's the only question I have. Thank you, sir.

JUDGE MILLS: Thank you.

Commissioner Murray?

QUESTIONS BY COMMISSIONER MURRAY:

Q. Good afternoon, Mr. Stout.

A. Good afternoon.

Q. I just have a few questions for you. You, in your Rebuttal Testimony, listed several of the Public Service Commissions and other bodies that you've testified before; is that correct?

A. Yes, I have.

Q. And that is over a number of years of experience in the depreciation area; is that right?

A. Yes, it is.

Q. Is it unusual for a regulated company to hire experts of your stature to testify before them in either

rate or complaint cases?
A. No, it's not.
Q. In your experience, is it unusual for there to be a dollar amount of difference between what a staff is claiming a company's rates going forward should be versus what the company is claiming its rates should be? I don't think I asked that question properly.
What I meant to say was, is the amount of difference in this case an unusually large difference between the two parties?
A. Yes, it is.
Q. On page 5 of your Rebuttal Testimony you talk about the proposal to eliminate net salvage from the depreciation rate formula and you say, It is in conflict with the manner in which nearly all electrical utility depreciation is determined in the United States.
Do you see that?
A. Yes.
Q. Then you go on to call it an ill-conceived approach, which was proposed by Ms. Mathis, and say that it is not consistent with three things, the first of which being the book and rate-making treatment afforded AmerenUE by the Commission throughout its history. And I think you just talked about that briefly with Chair Simmons. And then the second thing you say it is not consistent with is --

well, let me go back to the first thing you say it's not consistent with, the book and rate-making treatment afforded Ameren -- afforded Ameren by this Commission throughout its history.

Now, because it is not consistent with the rate-making treatment that we have given them in the past -- is that where the billion dollar amount that the Staff is suggesting be amortized over 40 years comes into play?

A. A portion of the billion dollars is related to that. Approximately 500 million of that is related to the change in treatment of net salvage.

Q. Okay. And that would be a change in policy which the Staff is asking this Commission to adopt and then recoup what -- require Ameren to allow ratepayers to recoup what we had allowed them to charge over the years for treatment of net salvage; is that right?

A. Yes, it is. Of -- of the variance between Staff's theoretical or calculated accrued depreciation and the company's booked depreciation reserve, 500 million of the difference represents the portion related to the elimination of net salvage from the depreciation accrual.

And Staff is proposing that 500 million, which is in the booked depreciation reserve and was collected from customers in the past in accordance with allowances by the Commission, be returned to future customers through this

amortization.

Q. And that would, in effect, leave nothing in

the reserve for retirement of assets in the future; is that right?
A. There would be nothing left in the book reserve for -- to offset the costs incurred to remove plant.
Q. So ratepayers in the past have contributed toward a net salvage amortization for assets that they were currently using that were currently in place; is that correct?
A. Yes, it is.
Q. And the Staff is asking that the ratepayers of the present receive the benefit of those amounts that those ratepayers in the past contributed toward net salvage?
A. That's correct. Not only the ratepayers in the present, but the ratepayers for the next 40 years.
Q. Through a reduction in their rates?
A. Yes.
Q. And then at the time that the assets that are currently being used or those assets that were used at the time that this net salvage was accruing, at the time those assets are retired, the ratepayers at that time will be asked to pay for any cost of removal; is that correct?
A. Only if the company files a rate case every year.

Q. And if the company does file a rate case and if it is a significant cost of removal, is it likely that that cost of removal would then be spread forward on ratepayers going forward?
A. If the Staff's approach, which is to take a

10-year historical average, continues to be used, then, yes, the amounts incurred would be spread forward to future customers.

Q. So there's really no -- there would be really no relationship between the customers that were using the assets and the cost of retiring the assets; is that right?

A. Very little, if any.

Q. And back on page 5 of your testimony where you say that the proposal by Staff is not consistent with three things, the second thing it's not consistent with is the Uniform System of Accounts adopted by the Commission. What do you mean by that?

A. I mean the Uniform System of Accounts of the Federal Energy Regulatory Commission. I can't tell you the CFR designation off the top of my head that this Commission has adopted as the system of accounts to be used by electric utilities under its jurisdiction.

Q. In this Commission's rule-making?

A. Yes.

Q. And then the third thing, principles of

customer equity. You say the Staff's position is not consistent with principles of customer equity. Is that the inter-generational inequities that we talked about?

A. Yes, it is.

Q. And that is because the cost of service -- the cost of the assets used to serve the customers under the traditional treatment of net salvage takes into consideration all of the costs of that asset, including the cost of retiring; is that right?

A. Yes.

Q. And the proposal that Staff is making does not attribute the cost of removal to the customers who are using the asset?

A. No. They're attributing the cost of removal to customers on average five years after the plant has been removed from service as opposed to regularly over its service life.

Q. And there's been some reference to the treatment of net salvage by the Commission in the Missouri American Water case. And I believe that -- I don't think you were asked about this in particular, but there was a tie-in in that case of depreciation to modernization programs, expenditures for current modernization programs or current construction.

In your experience with depreciation, is it

appropriate to tie depreciation to either modernization or current construction?

A. I don't believe it's necessary to estimate an appropriate level of depreciation expense with the current capital budget in mind. However, it is a fact of life that the depreciation expense results -- being a non-cash expense, results in cash flow to the utility which it can utilize in -- as internally generated funds to affect that capital program and reduce the amount of capital that it must raise in the capital markets.

So while it's not something that I would consider in estimating the appropriate level of depreciation expense, I can understand why in selecting from a range of alternative depreciation proposals, the Commission would, as a matter of policy, take notice of the capital budget requirements of the utility.

Q. In your experience, is it unusual for there to be a requirement that amounts in depreciation being specifically tied to the capital budget?

A. Yes, it is.

Q. And are there normally variances between book and theoretical reserves that are determined from time to time?

A. Yes, there are.

Q. And those are frequently amortized; is that

right?

A. Yes. They are usually dealt with by amortizing those differences over the remaining life of the property or a fixed amortization period, like 10 or 20 or in some cases 40 years, although I can't recall any that were ever as long as 40 years.

Typically the variances between the cumulated provision for depreciation on the company's books and the theoretical or calculated accrued depreciation determined as a result of a depreciation study are within plus or minus 10 percent of one another and are the result of changes in estimated survivor curves and net salvage percents.

And it's just -- you know, I analogize it to taking a trip from point A to point B. If you find out that you're further down the road than you need to be, you can slow down a little bit, or if you find out you're not as far as you ought to be, you can pick up your speed a little bit. But that's all the amortization is really intended to do, is to be a minor adjustment to get back on the track.

Q. I believe you referred to it in your testimony as a course correction. And that it should not be a significant return of prior allowances based on a change of the policy?

A. I still agree with that.

COMMISSIONER MURRAY: Thank you. That's all I

have.

JUDGE MILLS: Commissioner Lumpe?

QUESTIONS BY COMMISSIONER LUMPE:

Q. Yes. Mr. Stout, do you know when the last Ameren rate case was?

A. The last case that is of interest to me was one in the early to mid 1980's in which the present depreciation rates were established.

Q. Somewhere in the neighborhood of '83, '85, something like that?

A. Yes, ma'am.

Q. So that if there were a change in policy between 1985 and 2002, that may not be quite that radical?

A. I would not agree with that. I still believe that the change is very radical.

Q. But not in terms of Ameren specifically since there was no rate case since 1983 or '5 or mid '80s somewhere. Right?

A. The company has been recording depreciation expense and had it reflected in its customer rates for decades at this point, reflecting a recovery of prospective net salvage.

Q. But what you were talking about that it's always been in effect for Ameren, it goes back to the 1980's; is that correct?

A. No, ma'am. It -- it would go prior to that time.

Q. But not since the 1980's, mid-1980's?

A. That was the last time that the issue was adjudicated.

Q. Okay. On page 30 of your testimony on about line 5, you talk about Ms. Mathis's results for transmission distribution in general plant not differing substantially from the lines that you have estimated. And then you mention except for three areas; is that correct? You talk about the average service lives for steam, nuclear and hydraulic; is that correct?

A. Yes. Then the -- in the first paragraph that you're referring to, I indicated that the estimates for transmission distribution in general do not differ substantially. In the next paragraph I indicate that for steam, nuclear and hydraulic production plants they do vary substantially.

Q. Okay. So for one set they're similar to yours, but for this other set, they differ substantially from you?

A. Yes.

Q. Okay. You talk and you mention Ms. Mathis's

testimony. Did you read Mr. Selecky's testimony?
A. Yes, I did.

Q. And you didn't refer to his testimony anywhere in here?
A. It wasn't available to me when I wrote this testimony. It's addressed in my cross surrebuttal.
Q. So if I were to look at your cross surrebuttal, which I don't know that I've seen, I would see you responding to Mr. Selecky?
A. Yes.
Q. Okay. All right. Thank you.
I recall, I think you said when Mr. Schwarz was talking with you, that cash flow and capital construction -- that depreciation is not for the purposes of cash flow and capital construction issues; is that correct?
A. I stated that the purpose of depreciation was not to provide --
Q. Cash flow?
A. -- for those, but rather to recover the cost of an asset during its service life.
Q. All right. And then to follow-up on I think some of Commissioner Murray's questions, however, you are suggesting that we should treat Ameren similarly to the way we addressed the water company?
A. Yes. I believe so.
Q. Okay. So whether it should be used that way or not, you don't have a problem with it being used that

way; is that correct?
A. I'm following the Commission precedent as set forth in the county water case. In --
Q. It doesn't trouble you?
A. I believe that net salvage costs should be recovered during the service life of the plant to which they relate regardless of the capital construction budget. However, the Commission set forth in the county water case an indication as to when and when it would not use that approach. And given that, I -- I thought it was incumbent on me to indicate which situation I found AmerenUE in.
Q. Okay. And the situation you find them in is a need for construction?
A. Yes. A significant need for capital to construct power production facilities to improve the reserve margins, to add and bolster their transmission system and replace distribution infrastructure.
Q. Because in the water case they were replacing mains and it was to go to replace mains. Do you find this similar?
A. A significant part of the capital requirement is for replacement. Other elements of it are for other improvements to the system that although not replacement, per se, are not necessarily revenue generating either.
Q. Can you lead me to somewhere in your testimony

or somebody else's testimony that would provide me with a list of those projects, the time lines for those projects and the costs of those projects?

Looking at Schedule 7, which you referred to this morning, you were not able to say whether they were in Missouri or Illinois and whether they -- how they might be divided between regulated and unregulated. Is there somewhere that would point out just Missouri and regulated?

A. I believe there is. The information in Schedule 7-1, I could not give specific response to. The very large majority, in excess of 90 percent, of both the infrastructure investment amounts and the depreciation expense amounts relate to regulated Missouri property. And the discussion in detail of those investments can be found in several company witnesses' testimony, including Misters Randolph, Whitley, Foss, and Nelson.

Q. Okay. And they're not just referencing a number of a billion four, they're actually listing the projects --

A. I'm --

Q. -- and the costs and the time lines?

A. I can't say for sure.

Q. Okay. Because I've seen the number mentioned many times in testimony, but I have -- that's why I wondered if you could direct me to a specific place. So you think I

might find it -- if I were to look in those four pieces of testimony, I might find some of the projects, all of the projects?

A. There's certainly a list of projects I know for certain in Mr. Randolph's testimony.

Q. Mr. Randolph. Okay.

And I guess maybe just one last one here. You talk about the need to use engineering judgment. Did you mention that, some kind of judgment?

A. I described the factors that I thought should be incorporated in arriving at judgments of survivor curves and net salvage percents.

Q. But you do use survivor curves. Right?

A. Yes, I do.

Q. All right. And Ms. Mathis used survivor curves. Right?

A. Yes. For transmission distribution in general plant. We both used survivor curves of a similar nature for those mass property groups. For the production plant accounts, I used truncated survivor curves to reflect the concurrent retirement of all facilities in a unit at a point in time in the future. Ms. Mathis continued to treat those as mass property groups similar to pole lines.

Q. And where you say you used judgment, are you suggesting she did not use judgment?

A. I did not say that. What I said was that she indicated in her testimony that she considered certain factors, those being her analyses of statistics, discussions with management and the estimates of other electric utilities.

However, when asked in a data request to discuss those instances where she modified the historical statistical indications based on information from management, she did not cite any instances of using that information.

And, furthermore, in the five accounts where she was able to indicate that she modified the statistical results based on a comparison with estimates of other electric utilities, in each case she compared her estimate against only one other electric utility.

In my view, that was inappropriate. First, to not consider management input with respect to the production plants that indicates that they would experience a concurrent retirement date in the future, which would alter the survivor characteristics from those Ms. Mathis estimated.

And then secondly, to not consider a broader sample of representative electric utilities for comparative purposes than a single utility, I also considered inappropriate.

Q. Okay. I got the impression that you were suggesting that she had just sort of punched stuff in a computer and let it come out and I didn't -- and that she had not used judgment and so I was curious as to what you meant by that, but thank you, sir.

JUDGE MILLS: Commissioner Gaw?

COMMISSIONER GAW: Thank you, Judge.

QUESTIONS BY COMMISSIONER GAW:

Q. Good afternoon, Mr. Stout.

A. Good afternoon.

Q. Thank you for coming here. I was hoping maybe -- I'm trying to understand your background just briefly a little bit. As I understand it, you're an engineer by training?

A. I have a degree in management engineering and I'm a registered professional engineer.

Q. All right. And so help me to understand the basis of your testimony with that background. Is your testimony relating to the actual depreciation of an asset from a physical use standpoint or is it from a paper accounting standpoint or is it both?

A. I -- it's neither.

Q. That's even better. Tell me what it is.

A. My consideration of depreciation, which is the loss in service value of the assets, is based on

considerations of all the causes that would result in the ultimate retirement of that plant, which would include its physical condition, but would also include other factors such as its -- whether or not it provided adequate capacity, whether or not it was using obsolete technology, whether or not it was functionally or economically obsolete and incorporating all of those and not just the physical.

It's not an accounting exercise, although it -- the end result becomes an accounting exercise in the application of the rates. But the rates are developed from a lot of accounting information in terms of developing the historical indications of both service life and net salvage, but that those need to be considered along with a number of other factors as I've described in my testimony resulting in ultimate judgments as to average service life and net salvage percent.

Q. And as far as your expertise is concerned, it is mainly driven from your education and experience dealing with the useful life of these particular assets that in this case we're looking at in the electric field?

A. Yes.

Q. Would you agree with me that sometimes that accounting -- in the accounting world depreciation is not necessarily reflective of particular realities in useful life in the engineering world?

A. That -- that would depend on whether the accountant relied on an engineer to set the depreciation rates.

Q. Do you think they always do that?

A. I would -- couldn't say that they always do.

Q. Yeah. In your testimony you refer to the word "retirement" a number of times. And you're not the only one that does that; is that correct?

A. I -- I do refer to retirement and I believe I'm not the only one.

Q. Yeah. And, if you would, could you give me a quick definition of net salvage?

A. Net salvage is the gross salvage realized on the disposition of an asset less the cost of retiring the asset.

Q. And define for me the cost of retiring an asset. What do you mean by that?

A. The cost of retiring the asset is all those costs attendant to removing it from service, whether it -- even in the case of plant that can be abandoned, there are still efforts that are required to remove it from service.

It has to be disconnected from other plant that's remaining in service, plant that is actually physically taken out of its place needs to be properly disposed of. So the cost related to removing it,

transporting it and then disposing of it all would constitute the cost of retiring the asset.

Q. All right. So in some cases retirement may be equivalent to actual removal and sometimes it is not?

A. Yes. That's why I often prefer the term cost of retiring as opposed to the standard cost of removal, because there are often costs to retire whether plant is physically removed or not.

Q. Yes. Okay. And in the example -- well, in the case that we have in front of us, in the items that we have to decide about whether or not there should be the allowance of net salvage either from the company's standpoint or Staff's position, does the company designate which assets are to be removed as compared to those which are not to be removed in calculation of how much the net salvage value is?

A. Not directly. However, indirectly because the -- the estimates for the mass property groups are based on the historical costs that have been recorded as related to the plant retired, that would be reflective of costs that were incurred to actually remove versus costs that were incurred where plant was abandoned in place.

Q. Okay. And give me -- define the category of property that you just described in your testimony.

A. Let me give you an example. In the case of a

pole down 364, the plant would physically have to be removed from where it was and transported and disposed of properly.

In the case of directly buried underground cable, that plant could be abandoned in place; however, in order to do so, certain activities are required to remove it from service, disconnect it from other facilities, etc. And those will be the costs of retiring in that case.

Q. And the historical averages that you're referring to from company's standpoint, what measure did they derive those numbers from as far as time is concerned? Over what period of time did they get the historical numbers?

A. I analyzed a period from 1961 through 2000 for purposes of deriving indications of historical net salvage percents.

Q. All right. And did you do the same with generation plant?

A. I did not. For generation plant -- we don't have the final retirements of generation plant year after year like we do poles and underground cable. And so for the purposes of estimating net salvage percents for production plants, specifically for the steam production plant, I utilized the results of a study of dismantling costs prepared by Thomas LaGuardia.

Q. So you assumed then that there would be a

removal of the physical plant -- of the physical plant?
A. Yes. I assumed there would ultimately be a removal of that plant, that it would not just sit there forever and ever.
Q. Okay. And in your assumption, at what point in time did you assume that that plant would be removed?
A. I assumed that it would be removed concurrent with its retirement. However, assuming that it would be done later would only increase the cost of doing so with inflation and would result, I think, in about -- a comparable need for an accrual going forward.
Q. Is it possible that that plant might never be removed?
A. I don't believe that's possible.
Q. You don't believe it's possible?
A. I don't believe it's possible that AmerenUE would be allowed to simply walk away from a power plant structure and do nothing to it.
Q. Do you believe it's possible that the plant could be sold to another entity?
A. Yes. However, I believe --
Q. Without removal?
A. Yes. However, I believe that the other entity would be well advised to consider its liability for the ultimate removal of that plant and the price that it offers

for it.

Q. Is it also possible that the plant might be refurbished or redone to continue its service beyond your estimated retirement dates?

A. I don't believe so. I believe it will require such refurbishment and renewal in order to achieve those retirement dates.

Q. I didn't understand your testimony. What did you mean by that?

A. What I mean is that these plants are constantly undergoing refurbishment and renewal. Absent that refurbishment and renewal, these plants would not last as long as I'm projecting. So I believe the refurbishment and renewal that you describe is necessary for them to achieve -- last as long as what I've projected.

Q. And you believe that -- in your estimate, there's no way they would be able to be useful beyond your estimates in your testimony?

A. Not materially longer. I think there comes a point at which the changes in technology, changes in environmental regulations, the economics of operating the plant, factors of safety and reliability ultimately will result in the company's decision to retire and replace the facility. And I believe it will be within a range of dates centered on the date that I've used for my depreciation

calculation.

Q. You don't believe it likely that a plant

would, say, last 90 years even?
A. I do not think so.
Q. What's the oldest plant that Ameren has currently, generation plant --
A. That's --
Q. -- currently in use?
A. -- providing services? It's the Venice three unit, which was installed in 1943.
Q. What's the one in -- in the Rapids in Mississippi in Keokuk?
A. That's a hydraulic production plant and I thought we were talking about coal plants.
Q. I don't believe I designated it that way. I'm sorry if you took it that way. No, I wasn't specifying coal or steam.
A. I believe it's possible for a hydraulic production plant to last up to 90 years, however, I do not believe it's possible for a steam production plant to last that long.
Q. And how long is -- at what point is the Keokuk plant supposed to be retired, do you know?
A. I've estimated a 115-year life span for the Keokuk plant.

Q. It's a little longer than 90 years?
A. Yes, it is.
Q. And is there any requirement that you know of that Ameren -- any legal requirement that Ameren actually remove the assets in a generation facility upon retirement?
A. I don't believe there's an actual requirement

that they remove the assets; however, I believe there are requirements that they would, if not dismantling it, have to maintain it in a certain condition.

Q. What are those requirements?

A. They're building codes.

Q. Have you seen our state building codes lately?

A. I'm not an expert in that. I only know that --

Q. Just checking.

A. -- building codes do indicate that structures are to be maintained in a certain state of repair.

Q. Yes, sir. But you haven't looked at our Missouri building codes, have you?

A. No, I have not.

Q. And currently does the company set aside in any special account the money -- or excuse me -- the amount depreciated for net salvage to be held for the purpose of retirement, do you know?

A. The amounts are recorded to Account 108,

accumulated provision for depreciation.

Q. And is that money actually set aside in an escrow account somewhere for that purpose?

A. Not for the non-nuclear facilities.

Q. It is for Callaway?

A. That's my understanding.

Q. But not for the others?

A. Correct.

Q. So that fund -- those funds can be utilized for whatever -- at this point in time under current company policy, whatever they choose to use them for?

A. Yes. They would largely be used to fund new capital additions.

Q. Is that company policy that's written somewhere?

A. No. That's just the natural result of the cash flow generated by the depreciation expense.

Q. It could also be utilized to pay dividends to a parent corporation?

A. It would -- both would come out of the same cash accounts.

Q. Yeah. In other words, there's no way of knowing, of tracking that money?

A. Other than by recognizing that the capital additions exceed that amount of depreciation expense.

COMMISSIONER GAW: Okay. That's all I have. Thank you, Mr. Stout.

JUDGE MILLS: Thank you.

Commissioner Forbis?

QUESTIONS BY COMMISSIONER FORBIS:

Q. Get this turned on. There. Good afternoon.

A. Good afternoon.

Q. Just one question, I think. It's probably a straightforward question, but I want to make sure I understand. On page 24 of your Rebuttal Testimony, we're back to the depreciation and cash flow and all of those issues.

And you write, Staff's proposal to decrease depreciation to less than 200 million will substantially increase the amount of outside capital required and most likely would have a negative impact on the cost of that capital.

So could you just explain to me the linkage of those two and why it's maybe only a likely impact as opposed to a definite or no impact?

A. The -- there's a difference of over $100 million between my proposal and Staff's. That is $100 million less of internally generated funds available for capital programs. The capital programs are what they are. And so that 100 million difference would have to be

raised either through the issuance of additional equity or debt.

Q. Right.

A. It's my understanding from experts in cost of capital that the fact that a smaller portion of capital would be generated from these internally generated funds would be viewed as an increased risk to the company and that increased risk would come at the price of a higher cost of capital.

Q. So it's all tied into the risk and that's why the cost of capital would go up?

A. Yes.

Q. Okay. And it's likely only because it may not happen, but in your estimation it would be probable?

A. It's likely only because I'm a depreciation expert and I'm relying on what I've discussed with cost of capital experts.

Q. I appreciate that. Thank you very much.

COMMISSIONER FORBIS: That's my only question.

JUDGE MILLS: Thank you. We're going to have some further questions from the Bench. I guess I'll start back with the seniority again. Commissioner Murray?

FURTHER QUESTIONS BY COMMISSIONER MURRAY:

Q. I just have a follow-up. In your experience with depreciation and the use of -- you said the amounts

that are booked to depreciation and the cash flow that's created thereby for current construction. In your opinion, would it ever be appropriate to consider those amounts booked to depreciation as contributions in aid of construction?

A. No. I don't believe that's what they are. They are credits to the depreciation reserve. The impact on rate base is the same inasmuch as both are credits to the balance sheet. Both contributions and the depreciation reserve would be deducted in arriving at rate base, but the appropriate place for those depreciation accruals to be recorded is to the depreciation reserve.

Q. Have you ever known of an instance in which depreciation reserve has been considered to be a contribution in aid of construction?

A. No.

COMMISSIONER MURRAY: Thank you.

JUDGE MILLS: Commissioner Lumpe?

FURTHER QUESTIONS BY COMMISSIONER LUMPE:

Q. On page 15 of your testimony you reference an

article that you wrote for EEI; is that correct?
A. Yes.
Q. And you mention five different ways of recognizing net salvage?
A. Yes.

Q. And while your preference is the straight line accrual method, you mention the expensing, you mention amortization of experience net salvage, a sinking fund -- two sinking funds actually, different kinds, but do you consider all but the straight line one radical?
A. No. I would consider only expensing and amortization of experience net salvage and the sinking fund, which recognizes the price level in the year of calculation, as radical.
Q. So two, three and four you would consider radical, but straight line and the sinking fund recognizing price level are two different ones that are not radical; is that correct?
A. Yes. The numbers, however -- the ones I'd consider radical are two, three and five. The ones --
Q. I'm sorry, yeah.
A. -- the ones I think are reasonable are one and four.
Q. One and four. I'm sorry.
I kind of glanced through your article and I was trying to find out where you say they're radical and I didn't find that.
A. I didn't say that.

Q. Do you tell me that somewhere?

A. No. I didn't say that in my article.

Q. You didn't put that in your article?

A. No.

Q. Okay. I just thought maybe I hadn't found it.

COMMISSIONER LUMPE: Thank you.

JUDGE MILLS: We've been on the record for about an hour and a half now. I realize we're on some time constraints, but nonetheless, we will take a 5-minute recess before we come back for further cross-examination.

We're off the record.

(A RECESS WAS TAKEN.)

JUDGE MILLS: We finished with questions from the Bench. We're going to continue with a further round of cross-examination based on those questions. I think a number of the parties are not here to take their turns, but I'm going to call them out anyway so that the record is clear they had the opportunity.

Kansas City Power & Light Company? Laclede Gas Company? Missouri Retailers Association? Doe Run Company? Missouri Energy Group, Mr. Johnson?

MR. JOHNSON: No questions.

JUDGE MILLS: Missouri Industrial Energy Consumers? State of Missouri? Office of Public Counsel, Ms. O'Neill?

MS. O'NEILL: No questions.

JUDGE MILLS: Mr. Schwarz, further

cross-examination from the Staff?

MR. SCHWARZ: I'm not sure I have any cross-examination. I would like to offer my exhibits into the record at this point.

JUDGE MILLS: That would be Exhibit 170, 171 and 172. Are there any objections to the admission of those exhibits?

MR. SCHWARZ: Did I also not mark 173 --

MS. O'NEILL: Yes.

MR. SCHWARZ: -- the charts?

JUDGE MILLS: Yes, you did. I'm sorry. And 173.

MR. BYRNE: Your Honor, I object to 171, which is the summary of AmerenUE electric generating plants. And I guess the grounds for my objection are it contains two sets of data, data that has a source in some of the testimony and then whole columns of data or information that don't have any source in anybody's testimony and weren't identified or verified by Mr. Stout or anybody else.

And, you know, specifically -- well, if you look -- do you have the exhibit in front of you? The in-service date, that's tied to testimony that was filed, because it has footnote one. Column two, rating, that's tied to Ms. Schad's testimony, so that's footnote two. And then nothing for the third column in terms of attribution or

evidence that it's based on. I don't know if any of those numbers are right or not.

The column of fuel, you know, I just don't know if those are right or not. Retirement dates, there is an attribution to testimony. And then percent, there's no attribution to anything.

I guess, to my mind, the things that are already in testimony don't need to be put into the record again and the things that no one has laid a foundation for are inappropriate. So I object to the whole exhibit.

JUDGE MILLS: Mr. Schwarz, do you have a response?

MR. SCHWARZ: Well, I would say as far as the cost of removal, it should have been attributed to the testimony of Mr. LaGuardia and I think that if I can add that attribution to the column or I can wait and ask Mr. LaGuardia if those reflect his numbers, either way the Commission would choose.

As to the others, I think that Mr. Stout identified -- I asked if the fuel was as he remembered and I think he said that it was. I think there's enough foundation for that.

As to the percentage, it is simply the mathematical division of the rating over the total -- the rating of the particular plant over the total generation of

the company. And I don't think that needs any -- I mean, the principles of multiplication and division I think the Commission can take judicial notice of.

MR. BYRNE: I don't think Mr. Stout verified anything except maybe the in-service dates. But anyway --

JUDGE MILLS: Well, the percent, I don't have a problem with that. That's simply the rating over the -- as a percent of the total shown at the bottom, so I don't know that that really needs to have a cite anywhere in the system. Retirement date is tied to the testimony.

The fuel, there may not have been a foundation laid for that with this witness. I don't think there's any dispute over the fuel source for any of those plants. Mr. Schwarz?

MR. SCHWARZ: If I might, let me withdraw the offer. I want to leave 171 marked, and I will wait to offer it until after Mr. LaGuardia testifies and all --

JUDGE MILLS: That's where I was going. I think that's what we'll do.

With respect to 170, 172 and 173, there were no objections. Those will be admitted.

(EXHIBIT NOS. 170, 172 AND 173 WERE RECEIVED INTO EVIDENCE.)

JUDGE MILLS: We will talk about 171 again after we get to Mr. LaGuardia.

Okay. Then I believe we're up to redirect, Mr. Byrne.

MR. BYRNE: Yes, your Honor. I have a blow-up of some of the charts that Mr. Stout was questioned on and I'd like to use those if I could to redirect, if that's possible.

JUDGE MILLS: Okay.

REDIRECT EXAMINATION BY MR. BYRNE:

Q. Mr. Stout, can you see that?
A. I can.
Q. This is one of the exhibits, I think it was Schedule 7-1 to your testimony that you got some questions from Mr. Schwarz and some of the Commissioners. Do you recall those questions?
A. Yes, I do.
Q. And one issue is, you know, how much of this is Missouri versus Illinois and how much of it is regulated versus unregulated. And do you remember those questions that you got about that?
A. I do.
Q. And I think you said you don't know exactly how much was Missouri versus Illinois --
A. Correct.
Q. -- contained in these grafts, but let me ask you this. Do you have any idea of the order of magnitude of

Missouri versus Illinois that is contained in the lines on this graft?
A. Yes. All of the lines on that graft which represent total UE, over 90 percent of that would be Missouri jurisdictional plant. That is regulated Missouri plant.
Q. Okay. Does this graft depict anything that is unregulated?
A. No, it does not.
Q. Okay. And let me ask you this. Are the different lines on the graft apples to apples; in other

words, are they all the same thing, UE jurisdictional plant?

A. The line -- it is apples to apples; that is, all of the lines, that is the infrastructure investment and depreciation expense lines, relate to total Union Electric. And if we were to depict only the Missouri regulated plant, it would be a fixed percentage of those lines and would basically indicate the same relationships that the schedule does with total plant.

Q. Okay. And it's showing -- generally, the relationship that this is showing is between infrastructure and investment -- well, can you tell me what the relationship is it's showing?

A. What it shows is that beginning in the year 2000 and beyond, the infrastructure investments of AmerenUE

will be substantially greater than the current or proposed level of depreciation expense and it will be -- they will be, on average, more than three times the level of depreciation expense proposed by Staff.

Q. And even for UE's proposed depreciation expense, will it be higher?

A. Yes. They will average twice what the proposed depreciation expense is.

Q. Okay. I've got another blow-up of one of the schedules Mr. Schwarz asked you about, and I have just a couple questions.

Just to clarify, that first one was Schedule 7-1 attached to your Rebuttal Testimony; is that correct?

A. Yes, it is.

Q. Okay. I have another one. And this is Schedule 13-1, which I believe was also attached to your Rebuttal Testimony; is that correct?

A. Yes, it is.

Q. And do you remember Mr. Schwarz asking you some questions about the lines on this graft?

A. Yes, I do.

Q. Could you just basically explain what this graft depicts?

A. Yes. The graft depicts the range of

depreciation rates used by electric utilities throughout the United States during the period 1997 through 2000.

The blue shaded portion includes 90 percent of those depreciation rates, that is between the 5th and 95th percentile of the composite rates for electric utility total plant.

The line with the points in it labeled UE Actual represents the composite depreciation rate that is currently in effect for UE's plant, which is below the median line that is the dark blue line, which is that point at which half of the electric utilities in the United States have rates higher than that and half have rates lower than that.

My proposal, as shown by the single point in the test year, increases the composite rate from the rates presently in effect to a level that approximates the median composite depreciation rate of four electric utilities in the United States.

Q. And what's this red dot at the bottom of the graft?
A. The red dot represents Staff's proposal in this proceeding for AmerenUE. And as indicated, is well below the 5th percentile of the rates used by electric utilities in the United States; that is, it would probably be the lowest, if -- maybe there might be a few lower

composite depreciation rates for electric plant.
Q. Okay. And again, just for clarification, that is Schedule 13.1 of your rebuttal; is that correct?
A. 13-1, yes.
Q. 13-1. I'm sorry.
You were asked a couple of questions by Mr. Schwarz about Schedule 12 to your Rebuttal Testimony. Do you have that schedule?
A. I have it.
Q. And he specifically -- I don't have it in front of me, but he specifically asked you questions about a column that was labeled the study dates. Do you see that column?
A. Yes, I do.
Q. And I notice some of those study dates look like they're 1929. Do you see those?
A. I do.
Q. Is there a reason for that? Are those really 1929 dates of the study?
A. No, they're not. They're -- I believe that with respect to that field, that there was a shift in the numbers or a transposition of the numbers.

Q. How many of them are there that are transposed like that?

A. Well, there are a number for which that

occurred.

Q. Okay. Mr. Schwarz asked you this morning about improvements in the quality of plants and I think specifically he talked about metallurgic improvements that may have occurred over the years. Do you remember that line of questioning?

A. Yes, I do.

Q. And I think the implication probably was that improved plants might be able to last longer than historical plants. But are there any reasons that you know of that in spite of enhancements to the metallurgy or other enhancements to the plants that may have occurred in recent years that that might not enhance their lives?

A. Yes. Principally two come to mind. Although there have been improvements in design and in the metals used, those improvements enabled an increase in the pressures at which the plants operate.

For example, the company's Venice plant operates at steam pressures of approximately 1,000 to 1,200 pounds. With the introduction of some new technologies at Meramec, it then operates at its various units in a range of 1,250 to 2,200 pounds. The Rush Island and Labadie plants operate at 2,400 pounds pressure and the Sioux at 3,600 pounds.

And this increased pressure enabled by those improvements also acts to degrade those very same components and will result -- particularly in the case of the super critical pressures at Sioux -- in a reduction in service life as compared to what might occur at lower steam pressures.

And another factor is the ever-increasing environmental regulations with respect to both clean air and clean water that cause additional costs to be incurred by the company, and ultimately in many cases, in the industry have resulted in decisions to retire plants.

Q. Commissioner Lumpe asked you in one of her questions about the 1980 -- I think it's early -- I think you said early to mid-80's when Union Electric had a rate case. Do you remember that line of questions?

A. Yes, I do.

Q. But are you aware whether Union Electric has had any rate cases since that time?

A. Yes. There have been rate cases since then.

Q. And to the extent that the Commission set rates, including a treatment of net salvage, that would be a continuation of the policy beyond 1983, would it not?

A. It would be implicit in the depreciation revenue requirement utilizing those rates that had been established in 1983.

Q. Okay. Commissioner Gaw asked about ways to track the money; in other words, how do you know that if the company gets money for salvage costs, it won't just issue dividends to its shareholders or spend the money on something else and then the money's gone.

But are you aware of how the amount that the money -- amount of money that the company collects in its overall depreciation rates compares to its overall capital expenditures?

A. Well, yes. That can be readily determined by looking at the amount of investment in plant as compared to the balance in the accumulated depreciation account where the total original cost that December 31st, 2000, is 8.3 billion as compared to accumulated depreciation of 3.6 billion.

So there's an indication on the surface that accruals in the past have been less than total capital expenditures. And as shown previously with Schedule 7-1, the expectation is that in the future, there will be a significant difference between capital expenditures and depreciation expense.

Q. So would it be fair to say more money has been and is going out the door for capital expenditures than is it coming back in through the door through depreciation recovery?

A. That is correct.

MR. BYRNE: That's all I have. Thank you.

JUDGE MILLS: Thank you. Mr. Stout, you may step down.

I think we're ready for Staff Witness Bible.
Mr. Schwarz, you're handling that witness?
MR. SCHWARZ: No, sir.
JUDGE MILLS: Who is, do you know? Is that Mr. Williams?
MR. SCHWARZ: Mr. Williams.
MR. BYRNE: Your Honor, could we mark an exhibit for Mr. Bible?
JUDGE MILLS: Sure. Go ahead.
(EXHIBIT NO. 174 WAS MARKED FOR IDENTIFICATION.)
(Witness sworn.)
JUDGE MILLS: Thank you.
Mr. Williams, you may go ahead.
MR. WILLIAMS: Nathan Williams appearing on behalf of Staff. May it please the Commission.
RONALD L. BIBLE, having been sworn, testified as follows:
DIRECT EXAMINATION BY MR. WILLIAMS:
Q.   Please state your name.
A.   Ronald L. Bible.
Q.   And what's your occupation?
A.   I'm the manager for the financial analysis

department with the Missouri Public Service Commission.
Q.   Did you pre-file Direct Testimony in this case on March 1st, 2002, that has been marked for identification as Exhibit No. 6?
A.   Yes, I did.
Q.   Has an errata sheet showing corrections to

that testimony been prepared and pre-filed for identification as Exhibit 7?

A. Yes.

Q. Do you have any further corrections to that testimony?

A. No.

Q. If I were to ask you today the questions that are contained in Exhibit 6 as corrected by Exhibit 7, would your answers be the same as those that are set forth in Exhibit 6 as corrected by Exhibit 7?

A. Yes.

Q. Did you also pre-file Surrebuttal Testimony in this case on June 24th, 2002, both proprietary and non-proprietary versions that have been marked for identification as Exhibit 8-NP and Exhibit 8-P?

A. Yes, I did.

Q. Has an errata sheet showing corrections to that testimony been prepared and premarked for identification as Exhibit 9?

A. Yes.

Q. Do you have any further corrections to that testimony?

A. No, I don't.

Q. I thought you had a correction to page --

A. We didn't put that on the errata sheet?

Q. No. Page 48?

A. Page 48, line 13 should be 35 basis points instead of 34 basis points.

Q. Do you have any further corrections?

A. No.

Q. If I were to ask you today the questions in Exhibit 8-P as corrected by Exhibit 9, and further corrected by your testimony that you just gave, would your answers be the same as those in Exhibit 8-P as corrected by Exhibit 9 and the corrected answer -- the change in the number you just provided?

A. Yes.

MR. WILLIAMS; I offer into evidence Exhibits 6, 7, 8-NP, 8-P and Exhibit 9.

JUDGE MILLS: Are there any objections to the admissions of Exhibit 6, Exhibit 7, Exhibit 8-NP, Exhibit 8-P or Exhibit 9?

MR. CYNKAR: No objections, your Honor.

JUDGE MILLS: Hearing none, they will be

admitted.

(EXHIBIT NOS. 6, 7, 8-NP AND 8-P WERE RECEIVED INTO EVIDENCE.)

MR. WILLIAMS: I offer the witness for examination.

JUDGE MILLS: Cross-examination for Staff witnesses is first to the Office of Public Counsel.

MS. O'NEILL: No questions.

JUDGE MILLS: State of Missouri?

MS. WOODS: No questions, your Honor.

JUDGE MILLS: Missouri Industrial Energy Consumers? Missouri Energy Group?

MS. LANGENECKERT: No questions, your Honor.

JUDGE MILLS: Missouri Retailers Association? Doe Run Company?

MR. FULTON: No questions, your Honor.

JUDGE MILLS: Laclede Gas Company? Kansas City Power & Light Company? Union Electric, Mr. Cynkar?

MR. CYNKAR: Thank you, your Honor. My name is Bob Cynkar here on behalf of Ameren. Your Honor, the first thing I would like to do pursuant to your earlier order is to offer into evidence the transcripts of several of the depositions we took of Mr. Bible -- actually two depositions. And those are Exhibits 10 and a new transcript that has just been marked as Exhibit 174.

And per your original order, my intention in doing that is to avoid having to cover the ground I covered in those depositions, so this will significantly shorten my cross-examination here today.

JUDGE MILLS: The depositions of Mr. Bible including, I believe, signature pages and the errata sheets have been bound together and marked as Exhibit 10; is that correct?

MR. CYNKAR: That is, your Honor, but apparently there was an error in the binding. Exhibit 10 has Mr. Bible's second deposition, which took place in April, and we had his first transcript as an exhibit in there, but the exhibits to the first deposition were not attached to that.

So we have now, with the help of Mr. Williams, provided that as Exhibit 174. So 174 is the first deposition with the transcripts and Exhibit 10 is the second and the first and all those.

JUDGE MILLS: Are there any objection to the admission of Exhibit 10 or Exhibit 174?

MR. WILLIAMS: No objection.

MS. WOODS: No objection.

MS. O'NEILL: No objection.

JUDGE MILLS: Hearing none, they will be admitted.

(EXHIBIT NOS. 10 AND 174 WERE RECEIVED INTO EVIDENCE.)

JUDGE MILLS: Although these were provided to the parties, copies have been made available to the court reporter for the official file. I don't believe that I or the Commissioners have copies of any of the depositions that UE is planning to offer. We don't need to hold up the proceedings right now to get that done, but at some point we'll need copies of that.

MR. CYNKAR: Be happy to, your Honor.

JUDGE MILLS: These two exhibits as well as all the other ones.

MR. CYNKAR: That's fine.

CROSS-EXAMINATION BY MR. CYNKAR:

Q. With that, good afternoon, Mr. Bible.

A. Mr. Cynkar.

Q. Good to see you again.

I'm going to focus my cross today on your Surrebuttal Testimony since we have last seen each other in depositions. And I guess I would like to start with page 10 of your Surrebuttal Testimony. Do you have copies of that there?

A. Yes.

Q. In fact, it would probably be easier if you take your surrebuttal and direct out and have that handy in

front of you.

If I could direct your attention in your surrebuttal to page 10, lines 9 through 15. And, as I understand your testimony there is you were making the point in response to Ms. McShane's testimony that from your perspective, determining a rate of return requires the calculation of a pre-tax weighted cost of equity as part of the process; is that correct?

A. No. For my calculations for what I do as far as calculating a rate of return, I don't do a pre-tax of anything. My illustration here was to point out that the implication of what Ms. McShane had presented was that my recommendation would result in lower revenue for the company than her recommendation or the recommendations as published in Regulatory Research Associates.

So I was making an illustration that if you looked at carrying my recommendation out through how the calculation would be done in rate base to generate revenue, that that wasn't true.

Q. Well, as I understand your testimony here on lines 9 and 10, you say, The return on equity is applied to common equity as a percent of total capital and that gets you your weighted cost of equity. Correct?

A. That's correct.

Q. And then you say, It is grossed up for taxes

so that it will produce enough after-tax revenue to meet the return on equity revenue requirement.

Now, that resulting calculation isn't -- that is a pre-tax weighted cost of equity. Correct?

A. That calculation is, yes.

Q. Okay. And then you say, if I understand it correctly, that after that grossing up is done, it is applied to rate base to derive a before-tax weighted ROR; is that correct?

A. Well, it's not applied to rate base to calculate an ROR. I mean, the before-tax weighted cost of equity is added to the weighted cost of debt and the weighted cost of preferred and that would give you a before-tax rate of return. That then would be applied --

Q. I see.

A. -- to rate base.

Q. Okay. So is it your testimony that this calculation of both the before-tax weighted cost of equity and the before-tax ROR, is that, in your view, an essential part of accurately calculating a rate of return?

A. Like I said, when I calculate a rate of return, I do not calculate a before-tax weighted cost of equity or before-tax rate of return. That happens when I pass along my information and the people that work on rate design, they start running it through their systems and

their models. They will apply those.
Q. So is the answer to my question no?
A. Would you ask the question again?
Q. Yes. Is it your testimony that the calculation of a pre-tax weighted return on equity in a pre-tax weighted rate of return is an essential part of doing an accurate rate of return calculation?
A. No. I would say, no, it's not an essential part. But, again, the implication being that my recommendation would result in a lower revenue for the company as represented by the company's witness is not true.
Q. Now, if you could turn your attention to page 47 of your surrebuttal, lines 1 to 2, and I'm going to read this.
Quote, In setting the rate of return, the before-tax weighted cost of equity and before-tax rate of return are the most important aspects to consider.
Now, in light of what that seems to say, you feel that the calculation of a before-tax weighted cost of equity and before-tax rate of return must be done as part of the process of setting the rate of return?
A. In the context of generating the revenue.
Q. So what do you mean when you say "in the context of generating the revenue"?
A. Revenue comes from before-tax rate of return

being applied to rate base.

Q. Right. And so that's not part of your process?
A. No. That's not what I do.
Q. So in terms of evaluating what you do, which is calculating the rate of return, this is not part of your calculations? You said you pass it on to someone else --
A. Right.
Q. -- who does it later?
A. Right.
Q. Now, if you turn your attention in your Direct Testimony to page 16 and on to page 17, beginning on line 22 on page 16 and going to line 16 on page 17, there is a heading -- the question and answers I've just referred to appear under a heading called Determination of the Cost of Capital. Correct?
A. Yes.
Q. Okay. And the question you have posed in your testimony here is to describe your approach for determining a utility company's cost of capital. Correct?
A. Yes.
Q. Okay. And then subsequently you discuss that in the following two questions and answers. And you on line 6 and 7 on page 17 say the following, quote, This total weighted cost of capital is synonomous with the fair rate of

return for the utility company, closed quote?
A. Yes.
Q. And so in terms of evaluating the results of your work, is an examination of the total weighted cost of capital what you should be focusing on?

A. No.

Q. Why not?

A. Well, the reason I just gave you. The implication coming from the company's witness is that my recommendation would result in lower revenue for the company.

And if you just want to ignore capital structure of the company and you want to ignore the before-tax implications of that, then it would be easy for someone to say that my return on equity is lower than what's being recommended other places. But that's not an apples to apples comparison.

Q. Well, so what you're saying is that you have to undertake this before-tax calculation to do an apples to apples comparison. Right?

A. Yes.

Q. Okay. Now, you have testified before this Commission before. Correct?

A. Yes.

Q. Okay. And presumably, your adversaries have

criticized what you've done before? They've certainly disagreed with it, I suspect?

A. Yes. I would say that's accurate.

Q. Certainly if it's gone to hearing, they've disagreed. Correct?

A. Yes.

Q. So, therefore, the criticisms of your analysis that we have alleged in our testimony are not new?

A. Yes, they are.
Q. How so?
A. The basic implication that my recommended rate of return will result in a lower revenue for the company than what the company could get in other jurisdictions. And that's just not true when it's compared on an apples to apples basis.
Q. So what you're saying is that no one who has been in front of the Commission as an adversary of the Staff on a rate of return issue has ever looked to what other Commissions are doing to get a sense of whether you're proposing a fair rate of return?
A. I wouldn't say that, but they have never put in their testimony as -- in a case that I've been a witness that I recall that they said your return on equity is lower than what we could get in other jurisdictions.
Q. And you, yourself, don't do that calculation?

I mean, you don't look at other jurisdictions to see how your rate of return stacks up. Correct?
A. Not typically. In this case I did since the company brought it up.
Q. But you didn't in preparing your Direct Testimony, did you?
A. That's correct.
Q. Now -- excuse me. Allergy medicine is wonderful, but it dries you out when you talk, so I apologize.
Now, do you know whether any of your colleagues have ever made a calculation like you have

proposed with respect to before-tax weighted ROE and ROR in their testimony before this Commission?

A. Would you define my colleagues?

Q. The other members of the Staff.

A. I don't recall any other members of the Staff doing that, no.

Q. Now, at the same time though even if you don't do it, you say that the calculation of before-tax weighted cost of equity and of the before-tax rate of return -- well, you say -- let me correct that.

You say the before-tax weighted cost of equity and before-tax rate of return are the most important aspects to consider in setting the rate of return?

A. In the context of my rebuttal in response to the company's witness and, again, the implication that my recommendation would result in a lower revenue for the company than other jurisdictions would allow, yes.

Q. Well, but that's what you're saying in response to my questions, but in your testimony you have articulated that as a free-standing principle, that that is true, that in terms of setting this rate of return, that is the most important aspect to consider?

A. I articulated that in response to the company's witness.

Q. So if we hadn't said that you have a problem with your rate of return when you look at what other Commissions are doing, then calculating before-tax weighted cost of equity and before-tax rate of return, you wouldn't

have any need to say that?
A. If the accusation had not been made that my return on equity, and focusing only on return on equity, was lower than other jurisdictions would authorize and implied that it would result in a lower revenue for the company than other jurisdictions would authorize, then I would have no reason to look at it that way.
Q. Do you think it's fair to compare a rate of return that you propose with a rate of return that other Commissions have awarded?

A. What do you mean by fair?
Q. Well, I think that's a pretty -- what don't you understand about the word "fair"? Fair and reasonable.
A. I don't understand what you mean by fair.
Q. Well, do you think it is somehow inappropriate for someone to try to look at your rate of return in comparison to what other Commissions have done?
A. Not necessarily.
Q. But folks just don't do that regularly, it sounds like?
A. Like I said, I've never had a case where I've been a witness before where my return on equity was compared specifically to the returns on equities that were authorized in other jurisdictions.
Q. Do you know if any other Staff members in preparing rate of return have confronted such a comparison?
A. I don't recall specifically. It's possible it's happened.
Q. Now, your position, if I recall, is you are a

manager of the financial analysis department; is that correct?

A. Yes.

Q. And is the financial analysis department, that's -- is that the group of people who do the rate of return calculations --

A. Yes.

Q. -- for the Staff?

And so when the members of the Staff in that department do a rate of return calculation, do you review them all?

A. Typically, yes.

Q. And if a case goes to hearing, are you kept abreast of what is going on in the case, of what the other side is saying about the rate of return?

A. To a certain extent. Not to any great detail, because I carry a caseload myself unlike a lot of managers, so obviously I have my own work.

Q. I understand. So is what you're saying then is that you really wouldn't be in a position necessarily to know whether this comparison with what other states are doing would have been raised in a case?

A. Like I said, I don't specifically recall a particular case.

Q. Would it surprise you if I told you that I have looked through rate of return testimony and surrebuttal filed by the Staff -- you started with the Staff in '97. Correct?

A. That's correct.
Q. That's five years. So would it surprise you if I told you that I have looked through the Staff's Direct,

Surrebuttal Testimony, Rebuttal Testimony on rate of return and have never once found the statement that I've quoted from page 47, lines 1 to 2 of your surrebuttal? Would that surprise you?
A. No. It wouldn't surprise me.
Q. And would the logic then be that's because no one else ever suggested that a rate of return was illicit by looking at what other jurisdictions are doing?
A. No. I wouldn't say that would be the logic.
Q. What would be the logic?
A. To what?
Q. To the fact that in those testimonies over five years the point that you have made in your surrebuttal concerning what are the most important aspects to consider in setting the rate of return have ever appeared in the Staff's filed testimony to this Commission.
A. Well, would I say the logic to that is I don't recall that a witness has made the claim -- a company witness has made the claim that that I or anyone on my staff was recommending a return on equity that would result in a -- the lowest return on equity of any other jurisdiction and with the implication that it would result in the lowest revenue that any other jurisdiction would allow the same company in a rate proceeding.
Q. Well, let me ask you about that. You've

already testified that you would not think it would be inappropriate to make such a comparison, but don't you think it would be pretty natural to make that comparison?

A. I can't say that it would be natural.

Q. Well, presumably if it's not inappropriate, it's appropriate. Correct?

A. Well, as an example, let's say we were the highest recommendation of all other jurisdictions. I don't think anybody would come in here and make the claim that, look, you're giving us too much, so look at all these other jurisdictions, they're giving much lower rates of return. I don't see that happening, so I don't -- I don't follow your logic as far as --

Q. Well, but that wasn't my question. My question is, is that when you are proposing the largest rate cut in a company's history, don't you think it is a fairly natural thing to do to compare the rate of return component in that rate proposal with what's going on in other jurisdictions in this country?

A. I -- I don't see the connection between whether this is the largest rate cut that a company's ever experienced and really, you know, how that would relate specifically to what other jurisdictions are doing.

Q. Well, I can tell you it motivates you pretty well.

So I'm still confused about your testimony. Does it strike you that -- that it is -- I'll leave it there.

If you could turn to Table 2 in your surrebuttal, which is on page 13, lines 1 to 8. Now, you earlier, I believe in our discussion, adverted to RRA or Regulatory Research Associates. And does that RRA average that you have on line 7, that refers to Regulatory Research Associates?

A. That's correct.

Q. And are you familiar with who RRA is?

A. In general.

Q. Would it be fair to say that they're a fairly well recognized source of data on what's going on in the states in regulation and rate of return?

A. For utilities, I would say that would be true.

Q. Okay. Now, in looking at -- now, the next column over there is ROR, rate of return. And rate of return includes both the weighted cost of equity and the weighted cost of debt and preferred stock. Correct?

A. Yes.

Q. And that really is sort of what the company is allowed on its rate base; is that fair?

A. Well, if you're talking about rate base, it would be the before-tax rate of return.

Q. So what is the ROR here then?

A. That ROR would be weighted cost of equity, weighted cost of debt and weighted cost of preferred.

Q. Okay. Well, when you talk about before-tax, the tax you're talking about is the corporate tax that's paid by the utility. Right?
A. Well, it's the tax that they are not paying on debt and typically preferred because it is a tax deductible expense.
Q. True.
A. So in order to get the comparable return on equity, it must be grossed up for taxes. Then it generates a revenue requirement and that revenue requirement flows through expenses, potentially would be taxed and then that would give them the after-tax.
Q. So the tax, if I understand you correctly, is the tax is paid by the company?
A. Right.
Q. It's on the equity, as you've correctly said?
A. Yes.
Q. Now, what that means though is that that tax is not money that the investors see. Correct?
A. Well, I mean, there would be less earnings for -- available for shareholders if it was not grossed up for tax, so it does have an effect on shareholders.

Q. Well, but the shareholders don't pay the tax. Right? So that --
A. Well, no, the shareholders don't pay the tax.
Q. And the company does?
A. That's correct.
Q. And so that does represent the revenue requirement -- the calculation of the revenue requirement,

as you said. And that money goes into the company and Uncle Sam and the State of Missouri and everybody else takes their share before money can be dispersed in dividends. Correct?

A. That's correct.

Q. So from the perspective of -- dividends are paying one class of investors, equity holders. correct?

A. Yes.

Q. Okay. And so from the perspective of evaluating whether investors are getting a fair return, it is the post-tax money that counts for them. Correct?

A. That's correct.

Q. Okay. Now, if we look at your Table 2, right there you have -- first of all, your ROR that you propose here is 8.31 percent. That is 100 basis points below -- over 100 basis points below the RRA average. Correct?

A. In this table, yes.

Q. Yes. And the RRA number, that 9.33, is an average. Right?

A. That's correct.

Q. And so there are RORs that other Commissions have felt to be reasonable that are above that. Correct?

A. That's correct. And there are RORs that are lower.

Q. Below. That's fair. I was going to say that.

When you move over to the ROE column, the RRA average is 11.46 percent, you are at 9.41 percent. So you're 200 basis points below the RRA average. Correct?

A. Yes. I hope you're going to keep going across.

Q. Oh, I am. In fact, we're going to even go farther than that.

A. Okay.

Q. Now, by those measures your recommendation is seriously below average. Correct?

A. If you want to focus just on those, you could -- someone could come to that conclusion.

Q. Thank you.

MR. CYNKAR: Now, excuse me for a second, your Honor. If I may approach the easel?

JUDGE MILLS: Yes, you may.

BY MR. CYNKAR:

Q. What I did here just for our discussion purposes is to finish your table. Now, this is your Table

No. 2 and -- whoa, a little clumsy here.

And on your Table 2 you have the next column, which was your equity ratio, and then you had the weighted cost of equity. And as we talked about before, the ROR is the weighted equity and the weighted debt and preferred?

A. Yes.

Q. Okay. And so to get the weighted debt and preferred, you have to subtract that number from this number, the weighted COE subtracted from the ROR to get that?

A. That's correct.

Q. Okay. So, in other words, these are slices of those pies. Correct?

A. That's correct.

Q. So that the weighted cost of equity and the weighted debt and preferred are each slices of the pie of the ROR?
A. That's correct.
Q. Okay. And the ROR represents the money that investors get. Right?
A. The ROR represents money that investors get?
Q. Well, it's the return that they get? That's the --
A. No.
Q. What would you say?

A. The rate of return is synonomous with the weighted average cost of capital or cost of capital. And that is the product of the estimating process that we come up to -- come up with to apply on a before-tax basis to rate base, to generate revenue for the company. Those revenues flow through expenses, taxes, what have you, come up with an earnings figure. That earnings figure is the return. Whatever is available for shareholders is what the shareholders get.
Q. We may be just talking past each other, so I apologize. But I mean, the ROR or -- I mean, the assets of the company are financed through equity debt and preferred. Right?
A. That's correct.
Q. So this represents all the investors in the utility. Correct? These being the weighted COE and weighted D and P; is that correct? Those are the investors

in the company. Right?
A. Not necessarily.
Q. Who else is investing in the company?
A. Well, if you look at the weighted cost of debt, that not only includes the coupon, but it also includes unamortized expenses. And that's not necessarily an investor return. The coupon is the investor return.
Q. Okay.

A. So that weighted cost will include that also, so it's not just the investors' part. It is the recovery of the cost of capital. Part of it is the investors' return, part of it is the cost of the company of issuing the debt and the preferred.
Q. But it's fair to say that the weighted cost of equity by itself doesn't represent all of the investors?
A. No, it doesn't.
Q. Okay. Now, if I understand what you're saying in your testimony, and this was your point about responding to Ms. McShane, is that, well -- as you said, someone might draw the conclusion that the ROR that I'm proposing and the ROE here are below average, but when you look at the weighted cost of equity averages from RRA, I'm above that?
A. That's correct.
Q. And so what you are proposing to the Commission is that these numbers start with your proposal being below average, it flips here and it is the gravamen of your Surrebuttal Testimony to the Commission that that really is what you should look at to really understand what's going on with your proposal. Is that fair?

A. No. I wouldn't say that's really what they should look at to understand what's going on with my proposal. That's what should be considered and focused on in any argument that my recommendation would result in a

lower revenue for the company than other jurisdictions would give the company.
Q. Now, so you're saying -- going back to my pie analogy, we've talked about these being slices of this pie. And so you're saying that I've got here a bigger slice -- in fact, let's say we're out here in the hall. And I don't know if these folks out here sell pizza. I've only had sandwiches there.
Let's say they sell pizza. And you and I are standing there at the counter and we each get a slice of pizza and you have a bigger slice than I do. Now, you're saying because you have a bigger slice, you're really going to have more revenue in the -- sort of flipping back to the real world from our pizza analogy, you say you're actually going to be better off in total because you have a bigger slice since it's just natural. Do I understand you correctly?
A. I'm not sure I'm following your example.
Q. I'm sorry. It may be a bit labored. What you're saying is that you have a bigger slice of -- this is a bigger slice than that?
A. Yes.
Q. And so that you're going to produce more overall return to the company. Correct?

A. Well, the weighted cost of equity will produce

more return than the weighted cost of equity average for the Regulatory Research Associates.

Q. Isn't the standard, if I understand what you said, and we talked about this in the first kind of questioning, that it is the total weighted cost of capital that corresponds to a fair rate of return for the utility company and that's the full pie. Right?

A. In general, yes.

Q. Right. So when you're just looking at one slice and you don't know what the size of the pie is, the size of those slices don't tell you whether you're giving enough total weighted cost of capital; is that true?

A. Well, in your example here, what you're alluding to is the differences in the weighted cost of debt and preferred. And obviously the 2.75 is lower than the 4.05. And the 2.75, I got that information from the company and the company's witness also adopted that too.

And the basic reason that it's low is AmerenUE has such a high equity ratio -- and this is generally acknowledged in the financial community. They have such a high equity ratio, they're perceived as being less risky.

They're not only perceived as being less risky by equity investors, they are perceived as being less risky by debt and preferred investors and, therefore, they would require a lower return. And that is why the 2.75 is there.

Their expectations are there's less risk associated with investing in this company and they expect a lower coupon, lower return on their fixed investments.
Q. Now --
A. So the overall expectation for a rate of return for AmerenUE is going to be lower than on the average for the Regulatory Research Associates group.
Q. And that is because of their -- what you consider to be their high capital structure?
A. That's a big part, yes.
Q. Do you know why they have that capital structure?
A. Management decision.
Q. I mean, is that a black box? Do you know why people would choose to have more equity over debt?
A. Why people would choose to --
Q. Why a utility company?
A. Well, considering how much higher it is than the average, I'm not sure why they do it.
Q. Do you know why someone in any company would want to have more equity than debt?
A. Well, we're talking about utilities here. And, like I said, since they're so much higher than the average, I'm not sure why they do that.
Q. Okay. So do you have any idea of -- is a

company riskier or less risky if it has more equity than debt?

A. A company is considered less risky if it has more equity.

Q. Okay. And that's because it has real dollars. Right?

A. Well --

Q. That's equity as opposed to something you borrowed from someone else. Correct?

A. Well, mostly it's because it has less debt and less fixed charges. If a credit rating agency were to look at it, they would look at the relationship of how much debt and fixed charges they have, because those calculations have to do with pre-tax interest coverages and funds flow from operation coverages and those kinds of things. So it probably has more to do with that they have less debt.

Q. Okay. Now, do you know why a company would choose a particular mix of equity to debt?

A. I don't know why AmerenUE would have 59 percent versus an average of 46 percent in the Regulatory Research Associate study.

Q. Does Ameren or any utility in Missouri have a fuel adjustment clause?

A. I don't deal with those issues, so I couldn't tell you.

Q. So then you wouldn't know what role Callaway Nuclear Power Plant plays in producing revenue for this company, would you?

A. Well, I would say that, you know, investors, in general, particularly investors that would purchase the equity in AmerenUE, would know. And that would be considered in the price they're willing to pay and would be incorporated in the DCF model.

Q.   That's not the question I asked you though. You have no -- you, yourself, have no understanding of the impact of the lack of a fuel adjustment clause on the risk of running the Callaway Nuclear Power Plant, do you?

A.   No. But the investment community would understand that and incorporate that in what they're willing to pay.

Q.   Well, you just said earlier though that it was management that made the decision about the capital structure, not the investment community. Correct?

A.   Well, I didn't say anything about the investment community making a decision on capital structure.

Q.   I know. My point simply is that the investment community is irrelevant to my questions here. I asked you if you could explain to me why a company would choose to have a particular debt/equity ratio and you said it's management's choice.

A.   That's right.

Q.   I was exploring why management, particularly Ameren's management -- one big reason why it might choose to have more equity than debt given the Callaway Nuclear Power Plant, given the consequences if they have any problem with fuel there in terms of buying fuel and not having a fuel adjustment clause.

A.   Mr. Cynkar, your implication is that that somehow makes the company more risky and there should be some adjustment. And what I'm telling you is the investment community is aware of those circumstances surrounding whether or not there's a fuel adjustment clause unless it's a secret.

And given that they understand that, they are going to determine what price they're willing to pay for those perceived risks. And those are incorporated in the DCF model and the return on equity that is calculated.

Q. Okay. So now your view is that the -- as this number here -- this equity number goes up, these numbers should go down. Do I understand you correctly?

For purposes of the record, that when the equity ratio goes up, because you have a less risky company, as I understand your testimony, the numbers for the weighted cost of equity and the weighted debt and preferred should go down; is that true?

A. I don't think I said anything about the weighted cost of equity going down. Obviously it didn't. It went up.

Q. Well, do you know?

A. Well, the numbers are right there. The 5.56 is higher than the 5.28 with the higher equity, so --

Q. So then if I understand your testimony then, Ameren's equity -- Ameren's capital structure makes it less risky than the average of the RRA numbers that you have here?

A. That's the financial theory, yes.

Q. Okay.

A. It's accepted.

Q. And you said so folks who invest in Ameren through debt and preferred appreciate that and so they're willing to pay less because they don't have as much risk; is that right?

A. That's the theory, yes.

Q. Now, why wouldn't that be true for a person who is investing as an equity shareholder?

A. It would. And you can see right here this is what they're willing to pay. It's 200-and-some basis points less, which you pointed out.

Q. Well, that's what you said.

COMMISSIONER GAW: Judge, if I could interrupt

for a second. The record is going to be a little cloudy here pointing to numbers. And it would be helpful if we had that -- maybe they could describe what they're pointing to.

MR. CYNKAR: Thank you. I've been trying to do that, your Honor. And Mr. Bible was just pointing to 9.41 ROE proposal. Thank you. I've been doing try to do that.

BY MR. CYNKAR:

Q. Let me direct your attention to your Surrebuttal Testimony on page 14, please, on lines 21 through 22, that first sentence of that lower paragraph. Now, first of all, I have a question to ask you about whether there -- now, I, frankly, have not kept on top of the various errata sheets. Working on a big case like this, as I'm sure you know, you go in all different directions.

But I have one question of whether there is a typo here. Your sentence as it currently reads says, quote, Financial theory states that a company with a higher equity ratio is less risky than a company with a lower equity ratio.

And my question about a typo is that wouldn't it be more accurate to say that the equity of a company with a higher equity ratio is less risky than a company with a lower equity ratio?

A. I guess I would ask why?

278
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Q. Well, so you don't agree with my concern that that qualifier should be there?

A. Well, the company is less risky with a higher equity ratio.

Q. Well --

A. I'm not sure what your qualifier --

Q. -- that's irrespective of anything else. The sentence doesn't focus on the equity of the company, but rather just simply the whole company is less risky if you've got a higher equity ratio. Correct?

A. That's -- that's typical financial theory, yes.

Q. Okay. And then your next sentence is that, Therefore, investors will expect a lower rate of return from the company with the higher equity ratio and resulting lower risk, closed quote.

Correct?

A. Yes.

Q. Okay. So if I understand you correctly then,

that the higher your equity ratio goes, that people should be expecting -- investors should be expecting less return. True?
A. That's the financial theory, yes.
Q. Well, I mean when you say that's financial theory, does that match the real world?

A. Not all the time, no. No theory does.
Q. Do you know whether it matches in this case?
A. It appears to me that it does, yes.
Q. We'll talk about that in a moment.
So that means though that -- if I understand it, that investors -- there's investors here under the weighted cost of equity column and there's investors here, as you point out, there's other things going on in the weighted debt and preferred column.
But so those folks in these two columns, weighted COE and weighted D and P, those numbers should be going down as that number goes up -- "that number" being the equity ratio number based on financial theory?
A. Yes.
Q. Thank you.
Now, we'll get back to that, but what I'd like to do is see how this comparison that you're making works in the context of other cases.
MR. CYNKAR: And, first of all, your Honor, I'm not going to offer these into evidence. These are just exhibits for purposes of my cross-examination, but I have a copy for you, sir. And, your Honor, I don't know if you want this. I'm not going to be introducing this. This is

just an exhibit for impeachment purposes.

BY MR. CYNKAR:

Q. Now, if you -- the document that I have just handed you is the Direct Testimony of Roberta A. McKiddy on behalf of the Staff giving cost of capital testimony in the Empire District Electric Case, Case No. ER-2001-299, which was filed -- was prepared April 3, 2001; is that correct?

A. I'll take your word for it.

Q. I mean, you have it in front of you. Did I read anything wrong?

A. No.

Q. Now, if you would be so kind as to turn to Schedule 29, which is the second to the last page. Now, it is true, isn't it, this was testimony -- and it was signed by Ms. McKiddy, she is in your department. Correct?

A. Yes.

Q. Okay. So this, from your perspective, was a proposal for a reasonable cost of capital in this case, this Empire case?

A. Yes.

Q. Okay. Now, let's see how the numbers that -- how this comparison of weighted COE, how that works out when you have a company with a different capital structure. Now, if you're looking at this table on Schedule 29, and you see I have here in blue Ms. McKiddy's testimony. Now, her total ROR is 8.33 percent. Right? That's this middle number right here. Correct?

A. Yes.
Q. Okay. So put that here. Then her ROE is 9 percent. Right? That's that center column again. Correct?
A. Yes.
Q. Okay. And we know from Schedule 29 that the common stock equity is 39.80 percent, so that's the equity ratio right there?
A. Yes.
Q. Okay. And then when you multiply these numbers, the equity ratio times the ROE, you get a weighted COE of 3.58 percent --
A. Yes.
Q. -- correct?
And you get a weighted debt and preferred of 4.75 percent. Correct?
A. Yes.
Q. Okay. Now, you have said in this case, in the Ameren case, that, in fact, you're going to be producing more revenue through your recommendation of an ROE because the weighted COE is above the average weighted COE in RRA's collection of utility cases. Correct?
A. Yes.
Q. Now, in Ms. McKiddy's situation, her number for weighted COE ends up being 3.58 percent, which is not

quite, but it's about 150 basis points, I guess, below the average RRA number?

A. Yes.

Q. Now, if I understand your standard correctly here or what you're saying in your testimony, that if you look at this 5.56, at the end of the day I'm producing more revenue than these other jurisdictions as Ms. McShane accused me of not doing, and so this is a reasonable rate of return proposal I'm making to the Commission?

A. It was reasonable before she ever attacked it with just look at ROE. It was reasonable before and I came up with my analysis to show, okay, she claims that other jurisdictions would offer more. And based on my analysis, no, they wouldn't on the average.

Q. Well, Ms. McKiddy, when you applied that analysis, she comes up woefully short, doesn't she, compared to the average RRA?

A. This case isn't about Ms. McKiddy. And I can go in and cherry pick two cases out from all the Regulatory Research Associates stuff and make a point too.

Mr. Cynkar, the Regulatory Research Associates is 285 decisions -- on the average 285 decisions. My recommended weighted cost of equity will produce more revenue than on the average those 285 decisions over 11 years and 3 months. So the company's witness is incorrect.

Q. So it happens to work in this case, but it didn't work in Ms. McKiddy's case. Right?

A. Well, I mean, we're not looking at her case in this case.

Q. I know. But the point is though that you said in your testimony that doing this is a standard for judging whether you have proposed a reasonable rate of return that this Commission should accept. And what --

A. I don't believe I said that.

Q. So then this is just idiosyncratic?

A. It may be draconian too.

Q. I think that's probably a good word.

So, in other words, that in your analysis responding to Ms. McShane, you're not saying that this can apply in evaluating rate of return proposals necessarily in any other case, just here?

A. When you say "this," what is "this" that you're referring to?

Q. The notion that the weighted COE, that single slice of the pie, is in any way relevant to evaluating whether this Commission is awarding a fair return. That test that you propose only happens to work in this case. Right?

A. No. I wouldn't say that. I couldn't say that it wouldn't work in other cases.

Q. Well --

A. In this case it happens to work.

Q. Well, I'll tell you what. Let's take a look at Mr. Murray's. I have the same figures up there. If you turn to Schedule 24, which is at the end of -- this is testimony by David Murray on behalf of the Staff on the issue of rate of return in the UtiliCorp case filed --

prepared December 6th, 2001. And the Case No. is ER-2001-672.

Now, I've done the same thing here with Mr. Murray. And I have his 8.74 percent ROR, his 9.93 percent ROE, and his capital structure there in this case is 48.51 percent. And you come out with 4.82 percent, which again, is significantly lower than the weighted COE average from RRA; is that true?

A. Yes.

Q. Okay. And isn't it interesting to note that he flunks the weighted COE test and he's actually even giving a higher ROE and higher ROR in that case than you are here?

A. Well, Mr. Cynkar, in the Regulatory Research Associates study I'm sure there are other companies just as low or lower on the weighted cost of equity. Again, it's an average.

Q. Okay. Let's talk about the Regulatory

Research Associates. And let's talk about -- if you'll excuse me for one second here, let's talk about your -- I believe it is Schedule 3 on your surrebuttal. Okay?

Now, Schedule 3, which is on two pages, 3-1 and 3-2, you took from the RRA data the equity ratio of these companies that were referred to in Ms. McShane's testimony which you asked for in a data request?

A. Yes.

Q. And you rated in the right-hand column on each page from the highest ratio to the lowest. Correct?

A. Yes.

Q. Okay. Now, Regulatory Research Associates has more information on each of these companies than just the equity ratio. Correct?

A. Yes.

Q. Okay. So it has the allowed ROE?

A. Yes.

Q. And it also has the ROR?

A. Yes.

Q. Okay. And did you take a look in your analysis that you prepared for your surrebuttal at the allowed ROE of these companies?

A. Of these companies?

Q. All these companies on your Schedule 3, yes, sir.

A. No.

Q. Okay. And did you take a look -- well, then you wouldn't have calculated the weighted ROE of all these companies?

A. Not in my testimony here. I have subsequent to that.

Q. Okay. Now, I am going to --

MR. CYNKAR: And this will be an exhibit I'm going to offer, your Honor, so if we could mark this.

JUDGE MILLS: We're up to 175.

(EXHIBIT NO. 175 WAS MARKED FOR IDENTIFICATION.)

JUDGE MILLS: Mr. Cynkar, while you're between questions, I'll tell you now we are going to quit roughly at five o'clock tonight. So if you can keep an eye on the time and let me know when you come to a natural breaking point close to five o'clock.

MR. CYNKAR: Actually, I think I will be finished by then.

JUDGE MILLS: Okay. Even better. Thank you.

BY MR. CYNKAR:

Q.   Okay. Now, the document --

MR. CYNKAR: It was 175? I'm sorry, your Honor.

JUDGE MILLS: That's correct.

BY MR. CYNKAR:

Q.   175 that I've just put in front of you contains that data from RRA. And you'll see that the first column is the equity ratio which you reported. And then it goes -- it does not have Ameren on there. We all know Ameren is 59.08.

I want to focus on the first two pages of this exhibit, if I might. Now, that is the whole list that you had on your Schedule 3 with all this other information put in.

Now, if you recall, earlier in your testimony you said that in light of the financial theory which you described in your surrebuttal concerning the riskiness of the company, that one would expect that the numbers for the weighted COE and the weighted D and P to go down as the equity ratio went up. Remember that?

A.   Yeah.

Q.   Okay. Now, if you look at the weighted ROE column from this data, you see that starting with Kentucky Utilities, which is at 57.91, you have a weighted ROE of 6.66. And the numbers don't necessarily fall in a -- go down in a specific progression, but they are high up at 57.91 and the weighted ROE actually goes down, it trends down until you get down to the end, which is Banger Hydroelectric with an equity ratio of 26.72.

So would it be fair to say that at least in terms of the data in your Schedule 3, the data that Ms. McShane was talking about, in reality doesn't seem to match that financial theory, does it?

A. It's possible to conclude that. But, again, you would have to look at each of these companies over time and any changes in their capital structure to be able to determine whether or not -- for that particular company if their equity changed or their debt changed, whether or not investors would perceive them as being more or less risky.

Q. Regardless of what the investors are perceiving, these are the weighted ROE numbers for these utilities in that report of RRA. Correct?

A. Yes.

Q. Okay. Now, let's look at the ROE column. Interestingly enough, when you look at the ROE, there does not seem to me, and perhaps you may agree, that there is any relationship between the equity ratio and the ROE. By that I mean, as the equity ratio goes down, the ROE goes all over the place.

So that you have -- for example, you can have

Kentucky Utilities with an ROE of 11.50 with an equity ratio of 57.91 and you can go down to United Illuminating with a 33.96 equity ratio having the same ROE. So there doesn't seem to be, would you say based on the data, a correlation

between where the ROE is and what the equity ratio is?

A. Between companies, no. But, like I said, to have an adequate and fair comparison, you would have to track the change in the equity ratio of the company ROE over time and what investors would expect from that.

Q. Let me direct your attention to the third page of this exhibit. Because when you start averaging -- again, we have on the first two pages and in Schedule 1, we have a huge disparity in terms of equity ratios for -- we have a company with -- Ameren, 59.08, Kentucky Utilities, 57.91, down to an equity ratio of the 26.72.

Now, let's say, just to analyze this, we wanted to try to group comparable utilities from the perspective of their equity ratio. And if we do that by taking what seems to be the top third of these, which are the utilities with an equity ratio above 50 percent, that final page of this Exhibit 175, is a collection of all of these utilities who are in the higher equity ratio.

And you notice that when you look at utilities with comparable equity structures, capital structures, excuse me, that the average ROE goes up to 11.71, the average ROR goes up to 9.58, the weighted COE is 6.22, which is again above your 5.56.

And does that suggest to you again that that financial theory that you articulated in your testimony doesn't seem to be fitting reality, at least in terms of this data?

A. No. Because, like I said, I did the analysis myself when I got the data request response on ROEs. And I took each individual company and calculated its weighted cost of equity and then compared Ameren's weighted cost of equity. And Ameren was 28 out of 72, so it was in the upper 50 percent as far as weighted cost of equity.

So, you know, your analysis kind of cherry picks some things out. I looked at the entire group to see where Ameren fit.

Q. Well, when you say I cherry picked, I mean, so you think it's -- certainly when you average a big number down to a small number, you end up with a smaller number. So when you average the data for utilities with a high equity ratio and with a low equity ratio, you're going to end up with a smaller number than if you average a smaller group of them like I did on page 3. Correct?

A. Yes.

MR. CYNKAR: Okay. Your Honor, if I could have just one second to check with my colleagues and then I can wrap up.

JUDGE MILLS: Okay.

MR. CYNKAR: Your Honor, I'm reminded by my colleagues of one item which I can get -- meet your deadline.

JUDGE MILLS: Sure. And I'm certainly not trying to cut you off. I'm just trying to not interrupt you right in the middle of a train of thought.

MR. CYNKAR: I appreciate your courtesy, your Honor. And, frankly, because of the ability to put in those depositions, I was trying to keep this an exact cross-examination and not take up a huge amount of time. So this is perfectly consistent with what I wanted to do.

BY MR. CYNKAR:

Q. Now, Fitch is a credit rating agency, is it not, sir?

A. Yes.

Q. Okay. And it issued a negative outlook on Ameren in December of last year. Correct?

A. I don't recall exactly when they issued the negative outlook.

Q. But they did issue a negative outlook?

A. That's my understanding, yes.

Q. Okay. Well, I think it's more than your understanding. It was your testimony. If you turn to page 36 of your surrebuttal, beginning on line 3, going all the way to page 38 -- well, I'll stop at page 38, line 33.

You start out by saying on lines 3 to 4 of page 36, quote, Mr. Fetter claims that the negative outlook

Fitch issued for Ameren reflects the potential that this Commission will order a rate reduction for AmerenUE.

And then if you turn --

A. That's potential rate reduction.

Q. Is that one of your errata sheets?

A. I'm sorry. I was looking at --

Q. It's does say a rate?

A. Yes, it does.

Q. So if you then turn to page 38 where you have a discussion of several pages on this point and you make the observation on page 38, lines 32 to 33, quote, This is a situation that had already been developing and not caused, as Mr. Fetter would have the Commission believe, by the Staff's complaint, closed quote. Correct?

A. Yes.

Q. Okay. Now --

A. That was in reference to the Standard and Poor's, not the Fitch.

Q. Well, if you go back to page 36, am I somehow misunderstanding your sentence on lines 3 to 4? You say that Mr. Fetter claims that the negative outlook Fitch issued for Ameren reflects the potential that this Commission will order a rate reduction for AmerenUE.

So there you say quite rightly that Mr. Fetter testified in his prepared testimony about the negative

outlook that Fitch issued. So when you later on are disputing Mr. Fetter's claim, it concerns the negative outlook that Fitch issued. Correct?

A. You're leaving out my reference to the chronology of events as spelled out in Standard and Poor's that refutes that.

Q. We'll get to that. My question is -- to make sure we're clear on this -- is that this refers to Mr. Fetter's explanation of the negative outlook that Fitch issued. Correct?

A. Mr. Fetter's claim, yes.

Q. Yes. So it refers to Fitch's negative outlook. Correct?

A. Assuming that Mr. Fetter was correct in citing Fitch, yes.

Q. I'm not saying whether he was correct or not. I want to make sure we're talking about apples and apples here --

A. Yes.

Q. -- so Fitch. Right?

Okay. Good. So you say that Mr. Fetter makes this claim about Fitch's negative outlook. And over the next several pages you discuss Standard and Poor's, which is not Fitch. Right?

A. Right.

MR. CYNKAR: Okay. Now, I would like to have this marked as an exhibit.

JUDGE MILLS: This will be 176.

(EXHIBIT NO. 176 WAS MARKED FOR IDENTIFICATION.)

BY MR. CYNKAR:

Q. All right. Now, this Exhibit 176 is entitled Fitch Rates Ameren Notes A Plus, talks about the outlook negative for Ameren, AmerenUE and it has a date of 7, December, 2001, 12:59 p.m. this was printed out.

Now, if you turn your attention to the third full paragraph, the paragraph begins with the words, Ameren Corporation. And if you go to the last sentence, which I'm going to read into the record, quote, The negative rating outlook for both entities reflects the potential rate reduction at AmerenUE, which is Ameren's largest subsidiary, and accounts for roughly 70 percent operating income, closed quote.

Now, if you would turn the page and there is another -- a document from Fitch and if you go down about, oh, a third of the way, there's a sentence that begins -- it's right at the margin there, The primary credit concern. Are you with me, sir?

A. Yes.

Q. Okay. The primary credit concern is the

pending rate case for AmerenUE, closed quote.

Now, Fitch here would -- is it fair to say that Fitch itself describes that its negative rating outlook reflects the potential rate reduction that you're asking this Commission to order?

A. Yes.

Q. Thank you.

A. But, again, the S&P chronology doesn't support --

Q. Well --

A. -- that that's the only reason.

Q. -- but you were challenging Mr. Fetter's description of what Fitch's justification for the negative outlook --

A. Yes.

Q. But since -- here we go.

MR. CYNKAR; I guess Exhibit 177, your Honor.

JUDGE MILLS: That's correct.

(EXHIBIT NO. 177 WAS MARKED FOR IDENTIFICATION.)

MR. CYNKAR: Exhibit 177 --

MR. WILLIAMS: Pardon me.

MR. CYNKAR: I'm sorry. It's late in the day. I apologize. I've got stacks of all this stuff here.

MR. COFFMAN: Thank you.

MR. CYNKAR: Here's the Fitch one.

MR. COFFMAN: Okay. Thanks.

BY MR. CYNKAR:

Q. All right. This is a publication for Moody's Investors Service. It says it's published 12, July, 2001 and it says, Moody's assigns negative outlook to AmerenUE and Ameren Corporation.

If you go to the first paragraph, the second sentence I will read into the record. It says, quote, Moody's has taken this action in response to the Missouri Public Service Commission's July 2nd Staff filing, which if implemented, could reduce AmerenUE's annual revenues between 214 million and 250 million.

That reference there was to the negative outlooks referred to in the first sentence. But let me direct your attention also to the second page, to what is the third full paragraph under the heading Rationale for the AmerenUE Negative Outlook. It's the paragraph that begins, Given.

And that paragraph says, quote, Given the expected length of the proceedings, the vigor with which Moody's expects the company to oppose the filing and the financially unreasonable effect of that filing, Moody's decided initially to assign only a negative outlook to AmerenUE's long-term securities, period.

Moody's will monitor the proceedings and as the direction of the proceedings becomes clearer, may at some point either remove the negative outlooks or place AmerenUE's long-term and possibly commercial paper ratings on review for possible downgrade.

Placing AmerenUE's commercial paper ratings on review for possible downgrades would imply a significant three-notch downgrade in AmerenUE's double A3 senior secured rating, closed quote.

Do you think it would be fair to say that Moody's negative action was, by their own description, undertaken in response to the Staff's complaint against Ameren in this case?

A. Yes. And I don't know what negative outlook definition is for Moody's or for Fitch. But I know Standard and Poor's, when they issue an outlook, they say it's not necessarily a precursor to a credit watch or any particular downgrade or any change in credit ratings.

Q. I'm not a sophisticated financial person, but would you say a negative outlook is a bad thing?

A. Not necessarily. Because it would depend on what happens ensuing the time period that they're looking at the company. I think, you know, the connotation negative means bad. What they're doing is taking a closer look at the company because the way things are developing.

Q. And that's a good thing?

A. It could be.

MR. CYNKAR: Your Honor, I will pause here. I do have one small thing to take up tomorrow when we continue, but this is a perfect time to break.

JUDGE MILLS: Okay. And it's almost five o'clock, so we will recess for the day and reconvene tomorrow at 8:30 continuing with Mr. Cynkar's cross-examination of Mr. Bible.

We're off the record.

WHEREUPON, the hearing was adjourned until July 12th, 2002 at 8:30 a.m.

I N D E X