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Missouri Public Service Commission

STATE OF MISSOURI

PUBLIC SERVICE COMMISSION

In the Matter of Laclede Gas)
Company's Tariff to Revise Natural) Case No. GR-99-315
Gas Rate Schedules.)

DEPOSITION OF ROSELLA SCHAD,

a witness, produced, sworn and examined on the 3rd day of September, 2004, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the offices of AmerenUE, 101 Madison Street, in the City of Jefferson, County of Cole, State of Missouri, before

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And Notary Public within and for the State of Missouri, commissioned in Cole County, Missouri, in the above-entitled cause, on the part of AmerenUE, pursuant to agreement.

Exhibit No. 156
Case No(s). GR-99-315
Date 9-24-04 Rptr TS

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SIGNATURE INSTRUCTIONS:

Presentment waived; signature requested.

EXHIBIT INSTRUCTIONS:

None marked.

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ROSELLA SCHAD, being sworn, testified as follows:

DIRECT EXAMINATION BY MR. BYRNE:

Q. Good afternoon, Ms. Schad. My name is Tom Byrne, and as you know, I'm an attorney for Union Electric Company, which is also sometimes referred to as AmerenUE. This afternoon we're here to take your deposition in Missouri Public Service Commission Case No. GR-99-315, which is a case that has been remanded to the Commission from the Missouri Western District Court of Appeals.

Could you please state your name for the record.

A. My name is Rosella Schad.

Q. And, Ms. Schad, before I start the substantive part of the deposition, there are a few preliminary matters that I would like to cover.

First of all, if you don't hear or understand a question that I ask, will you ask me to repeat it or clarify it so that you know what I'm asking before you answer a question?

A. Yes.

Q. Okay. And if you need to take a break or want to take a break, will you let me know?

A. Yes.

Q. We can take a break whenever you need to. Okay?

A. Okay.
Q. Do you -- is there any reason that you know of that you might not be able to understand or answer questions that I will be asking today?
A. No.
Q. Okay. Ms. Schad, by whom are you employed?
A. The State of Missouri, Public Service Commission.
Q. And in what capacity are you employed at the Public Service Commission?
A. As an engineer.
Q. And are you the same Rosella Schad that filed supplemental direct testimony in this case on August 20th, 2004?
A. Yes.
Q. Okay. And just to get an idea of where you fit into the Staff organization, who do you report to on the Staff?
A. Lisa Kremer.
Q. And then does she report to Bob Schallenberg?
A. Yes.
Q. And then does he report -- who does he report to?
A. I would have to look at an organizational

chart to clarify that statement.

Q. I was thinking maybe Mr. Quinn. Does that sound right or --

A. I would assume so, but I would need to check back.

Q. And then are there -- in your department, are there a number of other depreciation engineers?

A. Yes.

Q. Who are the other depreciation engineers?

A. Guy Gilbert, Jolie Mathis, Greg Macias.

Q. And since we'll be talking about different treatments of net salvage, I'd like to try to get some terminology straight so we both know what we're talking about in the questions and the answers. So, you know, when I say Staff's method or Staff's approach or Staff's treatment of net salvage, I'm talking about the treatment that was originally proposed by Paul Adam in this case and whose testimony you've adopted. Is that okay?

A. Yes.

Q. Okay. And then when I talk about the company's method or approach or treatment of net salvage, I'll be talking about the method set out in the supplemental direct testimony filed by both Laclede and AmerenUE in this case. Is that okay?

A. Right.

Q. Okay. And we've also referred to our method as the standard method or approach. So when I refer to the standard method or approach, I'm talking about the company's proposal. Is that okay?

A. Okay.

Q. Okay. My understanding from your supplemental direct testimony is that you're adopting the testimony that Paul Adam submitted in this case; is that correct?

A. Yes.

Q. And I guess just for background, my understanding is Mr. Adam doesn't work for the Staff anymore; is that correct?

A. That is correct.

Q. And have you read Mr. Adam's testimony that you're adopting?

A. Yes.

Q. And have you read it recently?

A. Do you want to clarify recently?

Q. Well, how about how recently have you read it? Maybe that would be a better way to ask it.

A. In the context of preparing for my supplemental direct.

Q. Okay. And how many pieces of testimony did he file? Was it three, I think?

A. Three.

Q. Direct, rebuttal and surrebuttal?

A. Yes.

Q. Okay. And do you agree with everything that Mr. Adam said in his direct, rebuttal and surrebuttal testimony?

A. I agree with the conclusion that he presented, and to the extent of what he said, I wouldn't be able to say that I can say every single word is my words.

Q. Okay. I mean, then, would it be fair to say you agree with his conclusions, but you might not agree with other things that he has in his testimony?

A. Correct.

Q. Okay. Did you read the transcript for the case when it was heard by the Commission back in 1999?

A. I read a portion of it.

Q. And, you know, Mr. Adam presented some additional testimony at the hearing, both in the -- well, in the form of, I guess, to some degree some direct testimony, but mostly in answer to cross-examination questions; is that correct?

A. Yes.

Q. And do you agree with the testimony that he provided at the hearing?

A. I would need to go through that again to provide a complete answer for all those.

Q. Okay. So did you read any of that testimony in the course of preparing your supplemental direct?

A. Yes. I can't -- I just cannot tell you everything that was asked and how he answered it.

Q. So would it be fair to say you're not -- at least as you sit here right now, you're not sure whether you agree with what --

A. Right.

Q. -- he testified to --

A. Right.

Q. -- at the hearing?

A. Correct.

Q. Did you review any data request responses that Mr. Adam answered in this case?

A. I did not at this time.

Q. Okay. So obviously having not reviewed them, you can't say whether you agree or disagree with his answers?

A. Correct.

Q. My understanding is that in the prefiled testimony, some of Mr. Adam's prefiled testimony includes a discussion of Laclede's gas holders; is that correct?

A. Yes.

Q. And I guess my understanding is, with regard to the gas holders, that issue was not appealed and, therefore, that's not a live issue at this point in the proceeding. Is that your understanding?

A. I think that what my understanding of the issue is is that in full the '99 case is before us.

Q. So it's not just net salvage in your mind, it's more than that?

A. To the extent there's net salvage with the gas holders.

Q. Okay.

A. To the company's assets in general.

Q. Okay. Can you briefly explain for me exactly what Mr. Adam proposed in his testimony for Laclede's depreciation rates?

A. He proposed to ratably incur the cost of removal for plant just retired for the rate case that he was a part of.

Q. Okay. Is there anything else that he proposed?

A. He proposed setting the depreciation rate for the gas holders account to zero.

Q. Okay. Is there anything else he proposed?

A. He proposed to continue to look at the overall accrual, and in the future, the level of actual relative to his theoretical calculation. He proposed to receive updated and corrected data from the company.

Q. Okay. Anything else?

A. He proposed to retain the average service lives from the previous case in '98.

Q. And on that subject, do you know how those average service lives were established in the 1998 case?

A. He would have used computer software looking at the data that Laclede had provided him and running some statistical analysis of that modality.

Q. Did you go back and look at that 1998 case or the data that he looked at in conjunction with preparing your testimony in this case?

A. I had already experienced that with preparing the case that followed after the '99 case.

Q. Do you know whether or not the '98 case was settled or tried?

A. It was a Stipulation & Agreement, is my understanding.

Q. I'm sorry. I went off on a tangent. Is there anything else that Mr. Adam concluded in his testimony or proposed in his testimony, I think is how you were saying it?

A. He had a little dialog relative to final retirement of the gas holders.

Q. Okay. Anything else that you can think of?

A. Not at this time.

Q. Okay. Now, with respect to net salvage, my understanding is Mr. Adam proposed to leave the net salvage component in the depreciation calculation; is that correct?

A. He proposed to leave it in the annual depreciation expense.

Q. Okay. I mean, any -- he changed the way it had been calculated; is that true?

A. He provided how he felt that the net salvage percentage should be determined.

Q. Okay. And it was -- and it was still in the calculation of depreciation expense --

A. Yes.

Q. -- is that correct? Is that the right way to say it?

A. (Witness nodded.)

Q. But my understanding is in subsequent cases since 1999, and even in cases that you've testified in, the Staff's -- the Staff has proposed to remove the net salvage component from the calculation of depreciation expense; is that correct?

A. There's been proposal to set that

percentage to zero.

Q. Okay. And then how would the net salvage cost be recovered?

A. It would be recovered through an expense level in the cost of service study.

Q. Okay. And which approach do you believe is better? Is it better to leave the net salvage costs as a component of the depreciation calculation or is it better to set the net salvage cost to zero and the depreciation calculation and then put it as an expense item?

A. The proposed -- proposal is one that provides the utility the amount that's cost of removal, and so to the extent one is better than the other, I'm not seeing that. I'm seeing an amount to provide the company for that which has been incurred.

Q. So you don't think one is better than the other, one approach is better than the other?

A. One approach provides an absolute amount. The other approach provides a variable amount.

Q. Which one provides a variable amount?

A. Include in the depreciation expense.

Q. I mean, is one difference that if you included it in the depreciation expense, ultimately the net salvage cost will be trued up through the depreciation reserve?

A. Well, you can't true up if you don't have the same customers. So you can't really in that sense true up. The approach that Staff is doing provides the customer and the utility the best estimate of true-up.

Q. I'm sorry. I didn't understand that last part. You said which approach provides them the best true-up, the approach you're proposing in this case or the one where it's taken out of the depreciation calculation?

A. Either one, Paul's proposal or expensing it, is both very close. There's just a finite amount of difference.

Q. Okay. So you wouldn't have any problem in future cases either leaving it in the depreciation calculation or taking it out and treating it as an expense; is that true?

A. Well, I would -- I would attempt to make the closest approximation if that finite difference is so incremental. It really depends on how much plant's growing as to how much that differential's going to be.

Q. Okay. So I guess I don't completely understand it, but I think you're saying in some cases it doesn't matter, but in some cases it does?

A. Well, it's a very close approximation.

Q. Okay. Well, let me -- I understand there are differences in the customer -- customers as years go

by. Just from the company's standpoint, if you only looked at it from the company's standpoint, is a difference between Paul Adam's approach and taking it out and treating it as an expense, is that at least from the company's standpoint, under Paul Adam's approach they'll be sure to get exactly the amount of dollars that are ultimately spent on net salvage; whereas, if it's treated as an expense, they might collect too much or too little; that true?

A. No, because you really -- it's commingled into the reserve. You can't know if you hit that target.

Q. Okay. So you don't know whether you'll collect exactly the right amount if it's treated as a depreciation item?

A. Correct.

Q. Okay. Do you think the Staff will be filing Paul Adam's approach in future cases?

A. I have no way of knowing our future.

Q. Okay. But it's possible?

A. I don't know.

Q. Okay. Before we get into specific details, could you please briefly summarize for me all the reasons you believe the Commission should adopt Staff's proposed approach to net salvage?

A. How -- how are you wanting that phrased

How are you wanting the concept presented?

Q. **I guess just a list of all the reasons you think they should adopt your approach, as opposed to the company's approach.**

A. It satisfies their criteria for ratemaking principles of known and measurable amounts.

Q. **Okay. And by that you mean, under the Staff's approach you're looking at known amounts of net salvage that have actually been incurred; is that correct?**

A. Yes.

Q. **Whereas, under the company's approach it's estimated net salvage for the future; is that true? Is that the distinction you're trying to make?**

A. Well, one, the Staff's method has either been incurred or imminent. It's verifiable. You can look at prudency. It's quantifiable.

Q. **And by virtue of being an estimate, the company's approach doesn't share that quality; is that true? It's not quantifiable and verifiable in the same way?**

A. It doesn't have the -- in a sense the quality of that is more with Staff's than it is with the company's.

Q. **Known and measurableness, is that the quality you're talking about?**

A. Yes.

Q. Okay.

A. But, no, the quality of that criteria, how well you've managed to meet that criteria is itself quality.

Q. Okay. Any other reasons that the Commission should adopt your approach rather than the company's?

A. It is the best tool for intergenerational equity.

Q. And why do you say that?

A. It allows customers to be charged for those expenses that are allowing it to continue with service of the company's assets.

Q. What's your definition of intergenerational equity?

A. To the best extent that we can match costs with those customers who are consuming the service.

Q. Okay. The cost of the service should go to the customers who are consuming the service?

A. Yes.

Q. Okay. Any other -- I'm sorry.

A. To the -- and to follow on that, since the Commission had very specifically ordered that terminal costs of removal may not be collected, and those are some costs that sit out in the future, but since those have been very much addressed in past report and orders, that because they are not an amount that's known and measurable and not subject to change, they may not be collected.

Q. And those terminal costs that you are talking about, are those the terminal costs for life span property, is that what you're talking about ?

A. It could -- yes.

Q. And that would be like -- I'm sorry. I'm not much of an expert. But would that be things like electric generating plant? Is that an example of the type of property?

A. They can be. They can be items of structures of some nature. They can be manufactured gas sites.

Q. But they're items that are different than mass property accounts, like poles and wires and gas mains?

A. They are different, yes.

Q. Okay. Any other reasons the Commission should adopt the Staff's approach?

A. For now I think --

THE REPORTER: I'm sorry?

THE WITNESS: I'm concluding with that response.

BY MR. BYRNE:

Q. Okay. And are each of these points that you just made made in Paul Adam's testimony that you've adopted?

A. Have I made them in the testimony?

Q. Yeah. I guess did Mr. Adam make those points in the testimony that you adopted?

A. He certainly has, I would say, with -- because I sometimes will have seen several of his testimonies, so I want to make sure that I don't mix the two. He has with the determination of the current level of cost of removal. I think he has indicated that terminal cost of removal is something that's not collected as per the orders of the Commission. So I would say that's all I can say he's actually brought out.

Q. Okay. Let me ask you about Laclede and AmerenUE's depreciation witness, Bill Stout. Are you familiar with Mr. Stout?

A. Yes.

Q. And how long have you known him?

A. Approximately five years.

Q. Five years. Is it since you got into the depreciation area?

A. Yes.

Q. And where do you know him from?

A. From seminars and training that I have attended.

Q. And does he teach classes related to depreciation?

A. He is one of several instructors.

Q. Okay. And would it be fair to say that he is among the leading experts in depreciation in the country?

A. I can only tell you that I've only known him as an instructor and as an individual attending seminars.

Q. Okay. So, I mean, would it be fair to say you don't know if he's among the leading depreciation experts in the country?

A. I don't know what that population of experts are.

Q. Okay. And can you tell me specifically, if you remember, what classes that you took that Mr. Stout taught or presided over?

A. I believe at the Depreciation Programs it was the introductory class, and then the other one I've been at is introductory training on the software which they provide the Commission.

Q. Okay. And when did you take those classes?

A. One was in '99, and the other one was probably approximately fall of 2000.

Q. Okay. And the one in '99, was that Depreciation Programs, Inc.?

A. Yes.

Q. And where was that held, if you remember?

A. Michigan.

Q. Michigan. And then the other one, was that -- did you go to Gannett-Flemming or did you go somewhere else?

A. Went to Harrisburg, Pennsylvania.

Q. Okay. And that's where Gannett-Flemming is located --

A. Yes.

Q. -- is that true?

And the reason you took that class, my understanding is, that the Staff uses the Gannett-Flemming software that -- well, is that true?

A. Yes.

Q. And what does Gannett-Flemming software do?

A. It provides statistical analysis of asset data for depreciation purposes.

Q. Would it be fair to say that it's a tool that helps you analyze depreciation data?

A. Yes.

Q. And how does it work? I mean, do you feed

in a bunch of data to the computer program?

A. You do enter data. You use your parameters under which you're going to run that data.

Q. Okay. And then I assume the data is like in-service dates and retirement dates for different types of plant. Is that the kind of data that you enter?

A. You enter data that's assimilated by account and then assimilated by when data is placed in service and data that's retired in service and other data that -- if there's been adjustments made.

Q. And my understanding is each account has similar property in it. Like, there could be an account for electric poles or gas mains, is that --

A. For the most part, yes. Sometimes sub-accounts are established to help segregate those even more.

Q. Okay. But the general idea is you group things that are like each other in the same account?

A. Yes.

Q. Or sub-account. And then once you feed all that data into the Gannett-Flemming computer model, what does it spit out? What does it give you?

A. It gives you a statistical result using underlying statistical formulas that will give you an idea of the frequency ratios, how close different curves, being

Iowa curves, would closely approximate the retirement frequency that you're looking at data.

Q. Does it -- let me try this out and see if I'm right. Does it -- for each account, does it give you a survivor curve based on the data that you've fed into the computer, and then do you take that survivor curve and try to match it to whatever you think the most appropriate Iowa curve is; is that true?

A. It gives you graphing, and then that is what you then take the plot and you compare statistically to a curve.

Q. Okay. To see how close it matches one of the standard Iowa curves?

A. Yes. Well, and after you entered certainly many parameters.

Q. Okay. And then do you use your judgment to pick what you think is the most appropriate Iowa curve?

A. Yes.

Q. And that's how you determine the average service life of that account?

A. It is one of the factors.

Q. Okay. And then what are the other factors?

A. You have to understand what the limitations of the data are. So you have to take into consideration limitations, other influences.

Q. Like, what would an example of another influence be?

A. Be looking at an account that has plastic and copper in it and there's still copper still starting to -- still retained in it, but not of sufficient amount. You need to -- you need to understand what's in your account, how they might have retired dollars, like if they're using Siebel, because that's going to distort what you have, and how they may have gone back and at a moment in time and then assigned dollars back into periods prior to that time. It all will affect what you're going to see.

Q. Okay. So, I mean, would it be fair to say after you pick the Iowa curve that you think most closely fits the data, that still doesn't tell you what the average service life is; you have to apply your judgment based on what you know about that account to determine what the average service life should be?

A. Well, it's -- I mean, yes. That curve in and of itself, if you do the integration, then tells you a life.

Q. But you might adjust that based on your judgment and things that you know about the account?

A. It's a -- it's a field of judgment.

Q. Got you. Now, does the Gannett-Flemming

computer model tell you anything about net salvage? When you feed all this data in, does it tell you anything about net salvage?

A. This data in and of itself is not net salvage data.

Q. Okay. But does the computer model tell you anything about net salvage when you -- you know, when it gives you its results, when it processes the data that you fed in, does it tell you anything about net salvage or is that completely unrelated to this computer model?

A. Well, the computer model has some other programs for salvage, but in order to get those results you have to utilize them.

Q. Right. Got you. So let me ask it this way: Before the Staff started looking at recent net salvage data, when it was including net salvage as part of a depreciation calculation, did the Staff use the Gannett-Flemming computer model to help it -- as a tool to help it to decide what the net salvage percent should be that goes in the depreciation calculation?

A. Well, going back to the '90 case with Mr. Love, they were not utilizing Gannett-Flemming, I don't believe, at that time.

Q. Okay. What about cases after 1990 but before 1999 when this case went to hearing?

A. I'd have to research with the Staff exactly what --

Q. And that was before you were on the Staff anyway, right?

A. Yes.

Q. Okay. But it would have been possible for them to use the Gannett-Flemming computer model as a tool to help them calculate what they thought was the right net salvage percent in the depreciation calculation?

A. I don't believe our rules require the utilities to provide --

THE REPORTER: I'm sorry. I didn't hear the last part.

THE WITNESS: I don't believe the rules require the utilities to provide salvage data during that time.

BY MR. BYRNE:

Q. Okay. But to the -- and maybe this is a fine distinction, but to the extent that you had the data, the Gannett-Flemming computer model would, if you chose to use it in this way, would allow you to use it as a tool to help you calculate net salvage percent; is that true?

A. Well, I don't know that -- what tools are there again have to depend on how you utilize them, and so I would have --

Q. Is it true that you've -- you yourself have never used the Gannett-Flemming computer model to get any information on net salvage for any utilities?

A. I have not utilized it in that regard.

Q. Okay. Fair enough.

When you took your classes on depreciation at Depreciation Programs, Inc., is that the name of it?

A. Uh-huh.

Q. Did you take --

A. Can I back up to that other one?

Q. Sure.

A. I want to clarify something, too. As we saw in the Ameren 512 case, 2000-512, you have to look at -- if you were to go in to use the software, which I believe could be used, but depending on what the company is doing with their booking can really if you're -- you can't -- you can't just look at this as here's output if your input isn't all being handled the same way.

And so to -- as we saw in the Ameren case, they were expensing costs of removal rather than capturing it for purposes. So my concern maybe with that question is, you know, I think in looking at the output, you need to look back much further to what's the input.

Q. So if you have bad inputs, you're going to get bad outputs?

A. Yes.

Q. But aside from that problem, which I agree is a valid problem, is it true, then, that if you had good inputs, you could get good outputs from the Gannett-Flemming model regarding net salvage?

A. I believe they have a program for the salvage.

Q. Okay.

A. But my concern is that we have some issues with the inputs that's in -- that's certainly -- that's quantifiable as far as a concern.

Q. Okay. And you've never used the Gannett-Flemming model or whatever programs they may have addressing net salvage you haven't used?

A. I don't believe so.

Q. Okay. Back to Depreciation Programs, Inc. When you attended that, I guess, school I'll use it for any -- for lack of a better term, did you take any classes on net salvage?

A. You know, it may have been a discussion point within it. I really --

Q. You don't think it was a whole separate class?

A. No.

Q. And I assume these classes were all taught

by depreciation experts; is that fair to say?

A. Well, I believe they were all taught by people who are involved in the industry.

Q. Okay. And do you remember at Depreciation Programs, Inc. whether the people who were teaching the classes advocated the Staff's method or the company's method of addressing net salvage?

A. I don't know if I -- if I can say that there was one of those two, because there's certainly several ways to calculate it. So I'm not sure if I could narrow it down to two as you presented.

Q. Is the answer you don't remember?

A. I'm just saying that there's certainly several ways to calculate net salvage percentage, so --

Q. Sure. And I'm just asking you. I know there's several ways to do it as evidenced by our different testimony in this case, but what I'm asking is --

A. I can't say it's been narrowed down to just those two.

Q. I guess what I'm asking is, do you remember what the people who taught the classes at Depreciation Programs, Inc. said was the way to do it?

A. No. I mean, the idea is that you just want to make sure that on depreciation, you have recovered the full amount, which is the original cost, and then to the extent that you don't want to have more than that, you can have an adjustment called net salvage.

Q. Sure. And I mean, this is kind of aside from the merits of what's the appropriate one to use, and I know we've heard arguments on both sides. I just want to know if you remember, and maybe the answer is you just don't remember.

A. No.

Q. You don't remember what people said at Depreciation Programs, Inc. on this issue?

A. No.

Q. Okay. Well, I asked you before if you thought Mr. Stout was a nationally recognized expert on depreciation, and I think you said you didn't know. More broadly, who in your opinion are nationally recognized experts on depreciation, if you know any?

A. I know consultants who work in the area.

Q. But none -- no one that you would consider to be a nationally recognized expert on depreciation?

A. You know, I just don't know that I've ever seen that defined, as what is a depreciation expert.

Q. Well, I mean, I guess -- well, let me ask this: Do you think -- there's a book by Wolf and Fitch that seems to be a standard textbook in depreciation; is

that fair to say?

A. Yes.

Q. Do you know what the name of it is?

A. Depreciation Systems, I believe.

Q. Yeah, that's right. And, I mean, would you con-- it's written by Frank Wolf and Chester Fitch. I mean, would you consider Mr. Wolf and Mr. Fitch to be nationally recognized experts in depreciation?

A. Again, I think what they're recognized as, as individuals who have studied in that area of academia.

Q. I mean, are you saying --

A. We don't have a licensing board that says this person is an expert. We have boards that tell us that you are a -- if you are a licensed engineer, then you may perform engineering work in the area in which you've become licensed.

Q. Well, let me say it another way. I mean, would you say Barry Bonds is a nationally recognized baseball player?

A. I don't know.

Q. I mean, you don't know because he's not certified by a board that says he's nationally recognized?

A. You know, I know a few baseball players, but I can't answer your question because I don't know.

Q. So I guess your problem is unless somebody

is certified by a board as a nationally recognized expert, you can't say whether they're nationally recognized or not; is that right?

A. No. I think you asked that question as whether I considered him. Well, I don't know. I don't know him. I don't know what his --

Q. Okay. Fair enough. And there's nobody else you can name that you would say is a nationally recognized expert in depreciation?

A. No.

Q. Okay. Fair enough.

Mr. Stout has testified that he is not aware of any authoritative texts that support the Staff's approach to net salvage. Are you aware of any authoritative texts that support the Staff's approach to net salvage?

A. I think you've asked me if I understand authoritative, which means someone had to give them the authority to be authoritative, which I'm not familiar with.

Q. Okay. Well, let me simplify the question. Are you familiar with any texts that support the Staff's approach to net salvage?

A. I've seen articles written on different views of net salvage and cost of removal. I don't know that I've -- I have a text to tell you the name of, one that specifically has come out and said Missouri is right on target.

Q. Okay. So, I mean, just to -- you can't tell me, you can't name me a text that says the Staff's approach is right; is that a fair summary of what you just said?

A. Yes.

Q. Okay. I'd like to ask you about other jurisdictions for a minute. I know there's been testimony in this case about Pennsylvania treats net salvage in a manner similar to Staff; is that your understanding?

A. I've heard that in the hearing room, you know, to that extent, but I haven't gone and looked at what their statutes say they are to do and any of that.

Q. Okay. And would it be fair to say you have -- have you done it looking at any other jurisdictions?

A. I have not gone in and looked at all the parameters that would lead up to what is required in order to do a comparison.

Q. So would it be fair to say -- and I know maybe it's based on you not having done the analysis, but would it be fair to say as you sit here right now you don't know of any other jurisdictions that support the

Staff's approach to net salvage?

A. Well, I know that John Ferguson with the Society of Depreciation Professionals has certainly written a document that has taken a look since 1975 at some jurisdictions that have requested treatment like ours, treatments that are hybrids, treatments that are similar to ours. There's many different treatments that have been -- that have been in our country, but I have not picked up a phone and called each one of them.

Q. Okay. Or you haven't read cases in other jurisdictions to compare?

A. I've made myself familiar with the fact that others have the same concerns that our staff has and has -- there's been -- there have been other jurisdictions with some cases going on to that effect.

Q. Okay. But you're not in a position now to tell me the names of other jurisdictions or the names of other cases that have --

A. I can certainly get you the article in which that was presented.

Q. Okay. But you haven't looked at the underlying cases or statutes or anything?

A. No.

Q. Okay. Can you explain to me how Staff's position on net salvage as applied to mass property

accounts as opposed to life span property? Can you tell me how the Staff's position on net salvage for mass property accounts came into being?

A. Well, looking at history of what we have in our state, the first concept was to just apply a percentage to company's assets.

Q. And is that like what the company is proposing in this case?

A. No.

Q. Okay. I'm sorry. Explain what that means.

A. Well, companies that were working in the electric industry had a certain percentage to apply to their assets. Companies working in water industries had a different percentage.

Q. Okay. You didn't look at company-specific data; it was just an industry-wide percentage?

A. Yes.

Q. Okay. And then when was that? Was that, like, a long time ago?

A. Well, probably up until, I'm going to guess, maybe about the '60s.

Q. Okay. And the companies and the commissions all agreed to do that basically; is that true?

A. Well, that was what orders were. I don't know --

Q. That's what the orders were. Okay. And then what happened?

A. I think there was a little more conversion from engineers going out and looking at a wall, saying, I see no deterioration or I see a certain amount to --

Q. But I'm asking specifically about mass property accounts, as opposed to a specific building or something which might be a life span.

A. Well, but those units are still coming out of the accounts.

Q. Okay. So they started looking -- would it be fair to say they started looking at company-specific data at that point?

A. Well, in the beginning, I mean, they were looking at two things. They were looking at the physical deterioration and then also the allocation of dollars ratably over the life of the assets.

Q. Okay. So I'm having trouble understanding what happened in the '60s that was different from before that.

A. I think that the -- the original cost that's getting allocated ratably over the life of the assets was looked at with the adjustment that you don't want to return more than those dollars from the original cost, which salvage was doing, and that's why you had the adjustment for salvage. And then at some point it was identified that that's starting to have a turning point. The cost of removal was starting to become larger than the salvage.

Q. But you're skipping ahead a little bit.

A. Well, but then -- so then as they -- it's not skipping ahead. It's very linear in nature as to what was happening.

Q. Okay. Let me back up for a second, because maybe I'm just not understanding. You're saying up 'til the 1960s, as I understand what you're telling me, there were industry-wide percentages for different accounts. So you wouldn't -- you wouldn't look at company-specific data. You'd just open a book and it would say, you know, electric wires 2 percent or something, and then every electric company would use 2 percent as the Depreciation rate for their electric wires; is that right?

A. Probably what was going on was -- and probably -- I think it was probably with the '50s before they actually had to keep things by account.

Q. Okay. But then at some point there started to be calculations of depreciation that were based on company-specific data rather than industry averages; is that true?

A. Yes.

Q. And what that came into being was, like, in the 1960s?

A. Well, I think that's when you actually started seeing that there was something changing that was going from the theory of the engineers working back and starting to understand it and starting to apply it.

Q. And then when they went to the company-specific data, calculating the depreciation rates based on the specific data, at that point did they include net salvage in the depreciation calculation?

A. Well, they had a net salvage. That was to keep the overcollection from -- that was to keep so that if you -- if you had $100 you needed to recover from the customer, but there was going to be $10 at the end. You didn't want to collect $100 from the customer. You wanted to make sure that you only collected the $90 so that that would be the appropriate amount. So net salvage would -- it's consumed in depreciation. Depreciation is the original cost minus the service value.

Q. You said original cost minus service value. Isn't it original cost minus net salvage? Did you mean to say --

A. Well, it may be. You've got the original cost and then you have an amount that is worth something to you at the end.

Q. Okay. That would be like a positive net salvage?

A. Yes.

Q. But net salvage could also be negative, couldn't it?

A. As we know it today.

Q. Okay. But maybe back in the '60s it was less likely to be negative, more likely to be positive?

A. Well, we have -- we know that probably in about the '60s it was being identify that cost of removal was starting to become more than salvage.

Q. Okay. But net salvage was still included in the depreciation calculation for a while, was it not? Like, all during the 1960s, wasn't net salvage included in the calculation of depreciation?

A. It was included. That's -- yes.

Q. And in the 1970s, wasn't net salvage included in the calculation of depreciation?

A. Well, it was included, but how you -- how you calculate it is certainly not something that's been established.

Q. I mean, my understanding is historically it was calculated in the way that the companies have proposed in this case by --

A. Oh, no, that's not true.

Q. -- by examining a ratio of -- well, in the case where there's a negative net salvage, examining a ratio of the removal case to the original cost of the asset and then applying that ratio to the plant balances. Is that true?

A. That is one way.

Q. Okay. Wasn't it the most common way of doing it?

A. Common, I can't tell you. I can just tell you that different consultants have had different ways that they want to determine what that net salvage percentage is.

Q. Okay. But during the 1960s and 1970s, that was one way that would -- the way I explained was one way, right?

A. It was one, one way.

Q. And do you know of any other ways that were used in the 1960s and 1970s?

A. Because it's not established, I can't tell you all the ways that a person can think of coming up with.

Q. But you know that they did it the away I said it, at least? That's at least one way?

A. It is at least one way.

Q. And even though you think there were other

ways, you can't tell me what other ways there were in the 1960s and 1970s; is that correct?

A. Well, we know one way was because Staff --

Q. In the 1960s and 1970s?

A. Oh, no. By 1990 we know that Staff had how they wanted, how they saw that it had to be established.

Q. Okay. Well, do you think before -- and in the 1990s, what case are you talking about?

A. ER-90-101.

Q. Okay. And did that represent a change in the Staff's position on how net salvage should be treated?

A. It presents a way to calculate it.

Q. Sure. I understand that. But was that way a change from the way it had been calculated by the Staff up 'til that time?

A. On change, I don't know. We don't have in our state a way that has been ordered that must be calculated this way. We don't have that.

Q. I guess my question then is, why are you citing the 1990 case? I was under the impression that was a pointing point, but that's not?

A. It is a case that we certainly have some discussion on it that we can provide you.

Q. But you don't know -- do you know how the staff was treating net salvage before that 1990 case?

A. No.

Q. Okay. Do you know how Staff treated net salvage in cases after the 1990 case but before the 1999 hearing, testimony in this case?

A. I think that there was -- if I can articulate this correctly. There was a percentage, and we don't have where that number was. We don't have documentation that tells you exactly how the percentage was calculated during that time.

Q. Okay. So it was a percentage included in the depreciation calculation?

A. Percentage is always in the formula. How it's calculated is, you know, you don't know unless someone actually writes it out and leaves record of it.

Q. So there's no record, you don't know how Staff was calculating those percentages back then?

A. I don't have at least to this time a record that says this is, and then for sure I do not have that the Commission has said it must be done this way. In all the orders we don't have that the Staff -- or the Commission has clarified that.

Q. Okay. But it was at least in the -- it was a percentage in the depreciation calculation up 'til 1990 and even in the 1990 case?

A. But not for terminal amounts, because the

Commission said if they're not known and measurable, we can't include them.

Q. And again, terminal amounts are for like life span properties like an electric plant, right?

A. It is.

Q. Let me ask about the 1990 case. My understanding -- well, what did the Staff do in the 1990 case? How did it calculate net salvage in the 1990 case?

A. Again, I do not know that I have the exact record. What I have is only what Mr. Love has said, that what he was looking at was bringing in more dollars than what the company was spending, and he was balancing that back.

Q. Do you know if the 1990 case dealt with mass property accounts as well as life span property accounts or if it only dealt with life span?

A. Well, he was dealing with mass property.

Q. Okay. And do you know if -- and Mr. Love, who you referred to, was the Staff witness on depreciation in that 1990 case; is that right?

A. Yes.

Q. And do you know if Mr. Love in that 1990 case made any provision for the -- well, do you know how he calculated the net salvage exactly?

A. It appears that he knew the amount was being incurred and backed into it.

Q. So similar to what the Staff's doing in this case, he looked at recent known and measurable levels of salvage; is that true?

A. He took a five-year average.

Q. Okay. And that's exactly what Staff did in this case; is that right?

A. Yes.

Q. Okay. And did Mr. Love in that 1990 case make any provision for the effect of inflation?

A. He entered into -- I'd have to go back and tell you exactly what he allowed.

Q. But he allowed some amount for inflation, and can you explain what the logic of that was?

A. Again, I don't have all the work papers.

Q. Okay. But wasn't the general principle just that if you use current net salvage as a proxy for the net salvage that's going to be incurred in the future, you've got to -- in Mr. Love's mind at least, you've got to make some allowance for the fact that inflation is going to increase the cost of that salvage over the years?

A. Well, I was suspecting he was looking at the effect of, and still maintaining that he was trying to keep the intergenerational equity there. I'm just telling you what I can kind of see in that extent. If a five-year average is the right amount or whether it's a three-year average, the most recent one year that occurred during a test year or if you want to trim, the idea is still to provide that a level for the rate case.

Q. Did you read Mr. Love's testimony in that 1990 case?

A. I have read it.

Q. When did you read it?

A. First time I read it was probably a year or so ago.

Q. When's the last time you read it?

A. Probably a couple weeks ago.

Q. Okay. And would it be fair to say that the Staff's recommendation on net salvage in this case does not have a -- does not address inflation as Mr. Love's calculation of net salvage did in 1990?

A. I did not see a reference to inflation in Mr. Adam's work.

Q. Okay. So as near as you can tell, there isn't that kind of a factor that addresses inflation the way there was in Mr. Love's testimony in 1990?

A. No, not that I can tell you I saw.

Q. Okay. But I take it from your answer you're not 100 percent sure?

A. I don't recall ever seeing an inflation factor. I would say there is not one.

Q. Okay. And then --

A. And, you know, again, I'm not -- I'm not present when the '90 case occurred, but to the extent that it did keep it within a known and measurable criteria, I think that that was established. I mean, that was contained in that case as well as Mr. Adam's testimony.

Q. Okay. Let me ask you about after 1990. My understanding is there were a number of other cases after 1990 but before 1999, and do you know what Staff was recommending for net salvage in those cases that occurred in that nine-year period between?

A. I know that the '93 case in which Mr. Love testified again, he again brought this same concept of the known and measurable to the forefront again.

Q. Do you know what company that case was involved with?

A. I believe it would have been Missouri Public Service.

Q. Okay. And the 1990 case was a Missouri Public Service case also?

A. Yes.

Q. What about all the other utilities? And I guess here I'm talking about gas, electric, water and mass property accounts. What about all the other utilities,

the gas, electric and water utilities that had rate cases in that period from 1990 through 1999, other than Missouri Public Service, do you know how the Staff was treating net salvage for mass property accounts for those utilities?

A. I have not come across work papers that declare this is how to calculate that percentage for those rate cases.

Q. Okay. So would it be fair to say you don't know how they were dealing with it?

A. No, I don't.

Q. And then in 1999, this case came along, and in your mind, did this case represent sort of a watershed event for the Staff's -- the evolution of the Staff's thinking or was it just --

A. Not that I know of.

Q. Okay. So in your mind, it was maybe just a continuum?

A. It was still a continuity of known and measurable events.

Q. Yeah. I kind of got the impression from Mr. Adam's testimony in this case, and I guess it's the testimony of the hearing, I don't -- I can't cite you to a line, but I got the impression from Mr. Adam's testimony that he sort of believed that he was taking a new approach to net salvage in this case, different from what had been

done in the immediate past. Is that -- to your knowledge, that's not true?

A. My knowledge is I know what he -- I know how that he backed into it and I know he seen it happening. So I don't know how he would have perceived that.

Q. Okay. But your perception is not that he was doing anything different?

A. No.

Q. Okay. And then after the 1999 case, this case, has the Staff consistently recommended the same approach to net salvage except that now you're taking the net salvage out of the depreciation rate?

A. Yes.

Q. To your knowledge, it's been a consistent -- other than that one factor, it's been a consistent approach that Staff has applied?

A. To my knowledge.

Q. Okay. And you probably would know because you've -- unlike before 1999 when you weren't working for the Staff, you've been working in the depreciation area all this time?

A. Right.

Q. Okay.

A. Maybe this is a good time for a break.

Q. Sure.

(A BREAK WAS TAKEN.)

BY MR. BYRNE:

Q. A couple of questions going back to a couple things you said earlier. One is, my understanding is you said a problem with using Gannett-Flemming's computer program on net salvage is if you have poor data going in, you'll get poor results out of the program. Do you remember that? Is that a fair statement of what you said?

A. Well, it's applicable to that or applicable to any program that you're operating with.

Q. But do you -- do you know, I mean, do you have reason to believe that Laclede's specific data is -- there's something wrong with it that would make the results of that computer model be bad because of the bad quality of the data?

A. Well, I don't know. We'd have to get in and actually audit their work orders to see if they actually are -- they're expensing it or if it goes to be capitalized, and with the new plant, there's a lot of work that has to be done in order to know what you're really working with.

Q. Okay. I assume you haven't done that, right? I mean, is that true?

A. To the extent have I come in and audited the work orders? No.

Q. I mean, even though there could be problems with the quality of the data, you don't know that there are any; is that fair to say?

A. I don't know.

Q. Okay. And another -- just one other thing going back. You had said something about the rule on -- I guess the Commission rule requires utilities to submit a depreciation study and some other information every, I think it's every five years; is that right?

A. I think so.

Q. Okay. And you said -- and I don't want to put words in your mouth. Correct me if I'm misstating. But I think you said you would not get the data, the rule doesn't require the utilities to provide the data that would be needed to run the net salvage part of the Gannett-Flemming computer program; is that true?

A. I don't think the rule requires the utility to provide salvage data.

Q. Okay. Like the retirement cost you don't think is required by the rule?

A. It may be. I don't know.

Q. Okay. But if the rule does require retirement cost and salvage data, then that -- at least that aspect of it wouldn't be a problem; is that right? Is that the information --

A. You still have to go in and audit it to --

Q. Sure.

A. -- make sure it's good.

Q. But at least the categories of data that you need would be there if they've got retirement costs and salvage costs?

A. If they have removal costs and salvage costs.

Q. Okay.

A. And it's, you know, booked to the correct year and all of those things.

Q. Sure. I mean, don't you have to do the same thing when you're estimating service lives, you've got to audit the data that the company provides you, right?

A. Oh, yes. Well, you will incur -- there will be things wrong, which we found in subsequent Laclede cases, and you have to have them corrected.

Q. Sure. But it's the same kind of audit whether it's salvage data that you're looking at or average service life data, is that right, just to make sure that they're not giving you bad data?

A. Well, you still have on the -- as far as working with the service lives, you still have the -- the object there is the original cost. That's the key. I mean, when you're talking -- and that's absolute dollars. It's already in the plant balance.

Q. Okay.

A. So you're doing a different estimation process.

Q. Okay. I guess maybe what you're saying is it's less likely there's going to be a problem with that kind of information than there is --

A. No. I mean, I'm just saying it's less likely that the actual dollars that you're depreciating is inaccurate.

Q. Okay. I understand. Do you personally agree with the Staff's treatment of net salvage?

A. I personally agree that to collect dollars at a known and measurable level is the thing that we should be doing.

Q. Okay. And so would it be fair to say -- well, so you would -- would you say the Staff's approach is right and the company's approach is wrong rather than they're two different approaches, each which has merits and demerits?

A. I think that the Staff's approach is the closest solution to a known and measurable environment, and I'm not saying that one cannot assimilate something that's closer. I don't know. I know that what the company has in this case is not meeting that criteria.

Q. Meeting the criteria of known and measurable?

A. Correct.

Q. But it that wasn't the criteria, then --

A. Then the Commission would have to order something different.

Q. Okay. To your knowledge, has the Staff ever had second thoughts on its position on net salvage since 1999?

A. Second thoughts?

Q. Uh-huh.

A. Can you define what second thoughts are?

Q. Have you ever considered changing to the company's position, which I think is the historic position, but I may be wrong about that. Do you ever --

A. I'd have to -- I'm trying to understand there. What part of the Commission's order would you not want us to meet?

Q. Which order are you talking about?

A. The order of the Commission that we establish cost of service on known and measurable amounts.

Q. Where do you find that?

A. I can't give you a reference as to where those words are. So, I mean, what part of that did you not want us to meet?

Q. Well, I guess I just want to know where that is, where it says that everything has to be known and measurable. Is that one of the Commission's rules or --

A. You know, I certainly can tell you we've seen those words, like, in the -- in cases, in orders.

Q. And I guess from a -- backing up for a second, it seems to me from what you've said today and what's in testimony, you know, one of the main problems that you have with the company's approach is that it includes estimates of future net salvage costs which in the Staff's mind are sufficiently uncertain and sufficiently speculative that it's better to use known and measurable amounts from the past. Is that a --

A. To the extent that you can -- the amount is known, not subject to change, that's what we're trying to achieve.

Q. Okay. What if -- what if you knew with absolute certainty what the future net salvage would be for each account, you know, so that element of having to estimate or the element of speculation is removed. If that was the case, would you support spreading that known future cost back along the life of the property?

A. Well, we already do that with the original cost. We allocate it ratably over the life of the asset.

Q. Okay. So just like you do with the known original cost, if you knew for certain that the future net salvage cost would be a certain dollar amount, under those --

A. If you knew the amount and it wasn't subject to change and you knew the time at which it would occur?

Q. Okay.

A. Those are the criteria under which we're operating.

Q. So if you knew all those things, you would use that cost that you knew rather than the costs that occurred in the past; is that correct?

A. Well, I would say that the cost has to have been incurred or imminent, has to be verifiable and prudent.

Q. No, no. I'm saying say, you know, say you -- I guess I'm not saying this right. Let's say you put --

A. I can't put something into a scenario that doesn't exist.

Q. Well, I'm asking hypothetically if it did exist.

A. Well, we have original cost which does exist, and we do allocate it ratably over the life.

Q. But say you put a pipeline in the ground, okay, and you know the original cost, so that's a known and measurable.

A. So are you asking me if it's meeting the criteria of, let's say, something that has to be reported as a FASB 143?

Q. That's not what I'm asking. Let me give you an example and then you can tell me. You put a pipeline in the ground, and you -- and under my hypothetical you knew for certain how long that pipeline would last, you knew it would last for 50 years, and you knew at the end of that, for sure you knew at the end of that 50 years you would incur $100,000 to remove that pipe from service. That would be the net salvage.

If you knew that for sure, would you use that $100,000 number in your calculation or would you use what the Staff does now, which is look at the recent past? Which would you do if you knew that with certainty? I guess I'm suggesting if you knew it with certainty, you should use the actual net salvage that was going to be incurred in the future, rather than the actual net salvage that has been incurred in the past. What do you think?

A. I think I would ask the Commission to consider their orders of known and measurable for those future events, and to that extent that's -- that's their decision, how the Commission wants that. They haven't varied from that concept of the fact that those things are just simply not known and measurable.

Q. Okay. But under my hypothetical it becomes known and measurable. And I know that's hypothetical. It's not the reality that's there now. But if it was known and measurable, would that take care of your problem?

A. I probably can't answer the hypothetical.

Q. Okay. Isn't it true that there are estimates that are used in other areas of the ratemaking process?

A. I would have to say that I'm not involved in those areas to see their work papers and give you a good response on that.

Q. Okay. Well, let me suggest a couple of examples. Maybe you're not aware of them, but I'll ask anyway. Maybe you are.

For example, isn't it true that inflation estimates and growth in earnings estimates are used in the discounted cash flow method for calculating a company's return on equity by the Staff and by other parties? Isn't that true?

A. I'll say that that's not my task at the Commission to do that.

Q. Do you know whether that's true or not?

A. I haven't researched that.

Q. So you don't know?

A. I -- it's not my -- it's not the work that I'm assigned to do.

Q. Sure, but that's not what I'm asking. I'm just asking, do you know if estimates are used in the context of that?

A. I don't know.

Q. Okay. Fair enough. But to the extent those estimates are used in the discounted cash flow method, you're not suggesting that the Commission should stop using those estimates, are you?

A. I'm familiar with orders for the area in which I work, so --

Q. So you're not making any recommendation about whether estimates should be used or not used in any other area; is that fair to say?

A. Correct.

Q. Okay. What about pension expenses, are you aware that actuarial estimates are used in calculating pension expenses?

A. Again, I don't know.

Q. Okay. But to the extent that actuarial estimates are used in calculating a company's pension expense, you're not suggesting that the Commission should stop doing that, are you?

A. I'm not -- I'm not making that suggestion.

Q. Okay. How about nuclear plant decommissioning fund, are you aware that estimates of future costs of decommissioning the Callaway nuclear plant and future earnings on the fund, the segregated fund that's to be used for that purpose are all estimates that go into deciding how much the annual amount of that expense is? Are you aware of that?

A. I'm aware it's tied into -- with the -- in parallel with it, a sinking fund that must exist.

Q. And you're not suggesting, are you, that the estimates that go into that calculation, the Commission should stop using those estimates, are you?

A. I'm not to make that recommendation, no.

Q. Okay. And isn't it true that service life estimates are used -- here's something you probably are familiar with. Isn't it true that service life estimates are used in the calculation of depreciation rates?

A. Service life estimates are used in conjunction with a dollar amount that is known and measurable.

Q. Okay. But the part of it that's the service life is an estimate, is it not?

A. Yes.

Q. And you're not suggesting that estimates of service lives should no longer be used in the depreciation -- calculation of depreciation expense, are you?

A. No.

Q. Well, what's the difference, if you can tell me, between estimated net salvage and estimated average service life, estimates of inflation that go into the nuclear decommissioning fund, actuarial estimates that go into the pension expense, estimates of future inflation that go into the DCF model?

MR. SCHWARZ: Excuse me. I think I'd like one question at a time.

BY MR. BYRNE:

Q. What's the difference between estimates of net salvage and any of those other estimates that we've talked about that are used in the ratemaking process?

A. I can only tell you the effect of the estimate in the area in which I work.

Q. Okay. So you don't know, is that your answer?

A. Correct.

Q. Okay. And would it be fair to say to the extent estimates are being used anywhere in the ratemaking process, that's not using known and measurable dollar amounts; is that true?

A. Again, I don't know if you have a situation where the dollars are accurate and you're estimating some other parameter in how you allocate that over time or if the dollars are the estimate.

Q. Okay. But at least the parameter is not known and measurable? Isn't an estimate by definition not known and measurable?

A. I don't have a definition for estimate here.

Q. Okay. Did you independently decide to adopt the approach that Staff has been taking or were you told to adopt that approach to net salvage?

A. That was an approach that I learned of through working out the calculations and then comparing that to what is a Commission agenda, Commission order, and of my own have been able to determine that it meets the criteria under which we are to work.

Q. So you just developed it on your own, and lo and behold it's the same method that the other Staff people have endorsed?

A. Well, I can analyze. I can analyze the effect and analyze that that is appropriate.

Q. Okay. But did you do -- when you did your analysis, I mean, did somebody tell you this is the Staff's approach and then you did your analysis to confirm that you were willing to testify to that or did you completely independently come up with it?

A. It is a -- we work as a team, but we work -- you can't as a professional determine what's the effect of doing calculations.

Q. Okay. So I guess would it be fair to say maybe you found out that was the Staff's position first, but then you confirmed that it was a reasonable position in your mind?

A. I was able to look at how we were doing the work we were doing and make -- and with the assumptions in place, and conclude that it was -- that it was an appropriate method to work under as a team, as an individual, as an agency.

Q. Okay. What if you had wanted to adopt the company approach to net salvage in this case, would you have been permitted to, or are you allowed to independently decide what position to take in any individual case or is the Staff required to be consistent from case to case?

A. I don't know in the extent of must we do a five-year average or must we do trend. I don't think we have a policy.

Q. Okay. What if you would have wanted to adopt the company position in this case, do you think you would have been allowed to?

A. I would have had to -- I would want to present to my management shortcomings of not doing so.

Q. Okay. So you would have had to get approval, I guess, just like for anything?

A. Sure.

Q. Okay. But you don't -- they may have approved it, as far as you know?

A. Oh, sure. If I -- you know, that's my job is to provide information, provide knowledge and provide any shortcomings that may be outstanding.

Q. Okay. I have a question about Paul Adam's testimony. I'll show it to you, but let me find it first. This is -- I've got Paul Adam's direct testimony from this case that you've adopted, and I'm looking at a question and answer that's on page 9, lines 11 through 15, and I guess I'd ask -- it's a short question and answer. I'd ask if you could read it and then tell me if you agree with it or not.

A. Which lines?

Q. 11 it starts at, 11 through 15, page 9,

direct testimony. If you could read it out loud and then tell me if you agree with it.

A. Is the overaccrual due to an overstatement of a negative net salvage or an understatement of average service life or both?

We do not know and do not have the ability to compute that answer. We simply must do our best to correct the observed situation over a reasonable time frame in the future.

Q. Do you agree with that testimony, that you don't know whether Laclede's overaccrual is due to net salvage problem or a service life problem?

A. I believe that we've identified a shortcoming of accumulating this cost of removal in the reserve in order to correct the situation in the future.

Q. Okay. But I guess that's not what I asked you. I'm asking you, do you agree with Paul Adam's answer to that question that he can't tell?

A. Yes. That's why --

Q. So for all you know, the overaccrual might be due to -- the net salvage might be okay and it might be due to a problem with the service lives?

A. Well, you can have -- certainly you cannot know to the extent by dollar, but you can do analysis to determine that the weighting probably is very much the cost of removal and not the change in average service lives.

Q. **Have you done that analysis in this case?**

A. Not in this case. Well, no, not in this case. I have in other cases.

Q. **Okay. Again, talking about the idea that under the company's approach net salvage values are estimates, and my question is this: Do you -- can you explain any specific problems with the estimates used by Laclede for their net salvage that's contained in their depreciation in this case? You know, is there a specific problem with the way they've estimated it that maybe could be corrected that you've identified?**

A. Can you repeat that?

Q. **Probably not, but I'll try. Is there a specific problem with the way Laclede has estimated the net salvage values that they've included in their depreciation calculation? In other words, is there a specific problem with the way they estimate those values that maybe could be corrected that you've identified?**

A. The alternative of calculating this net salvage percentage -- and again, there's many alternatives. One could become -- I mean, whatever architecture you could think of. In this particular one with it being a ratio of dollars it cost to remove it for original cost dollars retired isn't shown in any studies I've seen to be a calculation that has a relationship to collection.

Q. And what studies have you looked at?

A. I think there have been no studies. That's the -- that's the problem. It does not bring it down to the level of what's being expensed. It's not bringing it to that.

Q. But you haven't looked at any studies because there aren't any, you think? Have you looked at any studies? You mentioned studies is the only reason I asked. Is it true that you haven't looked at any studies?

A. Well, I can -- I can do a study. I can look at that number, and that is the study -- I mean, my study shows that it does not --

Q. Okay.

A. -- create it.

Q. But you haven't looked at any studies done by other people on this subject?

A. I don't know.

Q. Maybe they don't exist. That would be fine.

A. I don't know. It's a shortcoming of the -- of the application.

Q. Okay. Just to -- you haven't looked at any

studies other than your own?

A. I've seen -- I've seen Mr. Love did the same.

Q. Okay.

A. He did the same study.

Q. And have you looked at that study?

A. I've looked at, not the work papers, but just his dialog, and it presents the same argument.

Q. Other than what you yourself have done and what Mr. Love did, have you looked at any other studies?

A. No.

Q. Okay. And I guess back to my question, is there any -- is there any way that Laclede could correct the way that it is estimating depreciation or, you know, estimating net salvage, or is it your view that no estimate is appropriate and only the known and measurable amounts from years should be used?

A. I think the known and measurable application is the appropriate one to use.

Q. And, therefore, would it be fair to say that no estimate would be appropriate for net salvage, for future net salvage?

A. I think an inclusion cost in the cost of service study for what the customers are incurring is the correct amount for an estimation for a cost of service study.

Q. **Well, but that's not an estimate of the future, is it? That's what's known and measurable today, isn't it?**

A. That's the criteria that I'm applying.

Q. **Okay. But I'm asking you, do you think any kind of an estimate of what it's going to cost way in the future when today's plant is retired is appropriate or is no such estimate appropriate?**

A. And are we including life span property in the question?

Q. **No. Just mass property. I'm sorry.**

A. I think that, similar to the life span property, it is appropriate to not include that which is not either incurred or imminent or verifiable.

Q. **And because retirement costs that are going to be incurred over the long-term future are so unverifiable, it's not appropriate to even attempt to estimate them? It's appropriate to use today's costs instead?**

A. Well, you know, I have to look at -- there's other things one has to look at. What kind of cost/benefit analysis has been done to determine whether one should incur the cost? So if one can abandon plant and not incur cost, would it be a prudent decision for the company to incur costs if it didn't have to incur it?

Q. Who's taking this deposition?

A. I'm sorry.

Q. No, it would not. But anyway, I guess trying to get an answer to my question, it's -- I mean, I guess what I think I hear you saying is it's in-- and correct me if I'm wrong -- it's inappropriate to attempt to estimate the salvage -- or the removal cost at the end of life of long-lived plant. Would it be fair to say you think it's appropriate not to attempt to estimate those costs that will occur possibly in the far distant future and instead to rely on the known and measurable costs from recent time periods? Is that fair?

A. That's fair. I don't know at the end of its life it will be owned by the utility anymore. It's fair. It's fair.

Q. Okay. And you've got -- and again, this kind of relates, but there's nothing you would be recommending now to improve the estimates that the company has done for the removal costs in the future? You don't have any specific recommendations to say, here's what you could do to improve your estimates of those future removal costs?

A. No. There might be some literature out there maybe. Maybe others might have an idea, but I do not.

Q. But you don't, right, as you sit here now?

A. No.

Q. I have another Paul Adam testimony question I was going to ask you, if I can find the testimony. I am looking at page 7, lines 11 to 12, and it's just a sentence, and you can look at the context of it, too, if you want. But I'd like you to read that sentence and tell me if you agree with it, and then I might have another question. If you could just read that sentence that's on line 11 and 12 of page 7 of his direct testimony.

A. The second part of the equation, negative net salvage percentage divided by average service life, recovers the net salvage. Final salvage is considered to be unmeasurable and unknown except in specific cases.

Q. Do you agree with that? And look at the context of it if you need to.

A. Okay.

Q. Do you agree with that?

A. I think it's fine.

Q. And when he's talking about final net salvage, is he talking about life span accounts or life span property or mass property accounts?

A. Well, it's applicable to both.

Q. Okay. And he says except in specific

cases. What's that mean? What are the specific cases that are the exception to that?

A. I would say if you have a contract out that you're going to -- it's eminent, and so there's been a dollar amount set to do the work. It's verifiable, it's prudent.

Q. Okay. Got it. In St. Louis County Water Company's case, and I don't have the cite, there's a St. Louis County Water Company case where the Commission adopted the treatment of net salvage proposed in that case by Mr. Stout. Are you aware of that case?

A. I've heard of it.

Q. Have you read it?

A. Yes.

Q. And do you agree with the Commission's decision in the St. Louis County Water Company case?

A. I think the decision was theirs to make.

Q. Okay. But do you agree with it? And maybe you don't have an opinion on that.

A. I don't have an opinion.

Q. Okay. So you're not sure if you agree or disagree with the Commission's decision in that case?

A. I agree it's theirs to make.

Q. But do you think they were right?

A. I don't know that I'm a person that has --

I don't know that I would have a reason to qualify a judgment.

Q. Okay. Isn't it true that under the Staff's approach what you're really doing is taking net salvage costs that were incurred in the recent past, like in this case it was over the last five years; is that right?

A. Yes.

Q. And isn't it true that those net salvage costs are incurred in connection with plant that is by definition no longer in service at the time the rate case came along?

A. Well, if you've -- let's say if you've taken out like a ten-foot section of main and that's retirement unit, and you've -- in order to keep the service going, you need to put in another ten-foot section, the pipeline's still providing service to the customers.

Q. Well, you might or might not put in another ten-foot section; isn't that true? What if a customer -- the house may have been torn down or the -- isn't it possible you wouldn't put another ten-foot section in service to replace that?

A. Well, it would seem like it would be true, then, that the customer's no longer -- if it's not serving the customer, and you haven't replaced it, how are they getting their service?

Q. Maybe the customer's no longer at the end of a pipe. Maybe the building's been torn down.

A. Then are they paying for it, if they're not there?

Q. Right. I guess I'm just saying -- I guess I'm just saying that the ten-foot piece of pipe that you removed from service may or may not be replaced; isn't that true?

A. It may or may not be replaced.

Q. Okay. That's all I'm saying. And so to the extent you incur costs associated with plant being taken out of service, that plant's not there anymore, right? I mean, new plant might be, but that plant that was taken out of series is no longer there?

A. Are I required to take it out of service? Are you required to remove it?

Q. Well, no, not in my example. You just remove it because its life is over.

A. Is that a good management decision to --

Q. Well, I mean, all I'm saying, all I'm asking you is, isn't it true that the plant associated with the retirement costs that were incurred historically is no longer in service; isn't that true? The plant that you retired over the last five years that's associated

with the retirement costs over the last five years is no longer in service.

A. If dollars are retired. Now, are you asking me if it's also removed?

Q. Yes. I'm saying if you incur removal costs, like in this case, Staff is using the removal costs that were incurred from, like, 1994 to 1999, right?

A. Right.

Q. To calculate the net salvage costs that are built into the depreciation rate; is that correct?

A. Correct.

Q. And those removal costs, isn't it true that those removal costs that were incurred from 1994 to 1999 are incurred in connection with plant that is no longer in service?

A. Well, it's either one of two things. If it's replaced in order to keep the customer in continuity of service, then the customer's still using the system of which it was integral to. And if it's not any longer providing service to that for continuity and you've incurred the cost to remove it but you didn't need to, I would look at a prudency issue.

Q. But the plant, I mean, whether it's replaced or not, that plant is no longer in service, is it?

A. If it's retired, it's no longer in service.

Q. So you are including in Laclede's depreciation rates a net salvage component associated with plant that is no longer in service, are you not?

A. Can you ask that again?

Q. Sure. You took five years of retirement costs, maybe it was net salvage costs, but whatever, five years of let's say net salvage costs, and used those five years of historic costs to calculate a net salvage component, took an average of those costs for the net salvage component in this case; is that right?

A. Yes.

Q. And all I'm saying is, because the net salvage costs incurred in the last five years, five years of history, 1996 to '99, are associated with plant that is no longer in service, correct?

A. Yes.

Q. So what you have in your net -- as the net salvage component in your depreciation rates in this case is a net salvage component associated with the plant that is no longer in service, correct?

A. Yes.

Q. Okay.

A. But it falls into one of two categories. It's either integral to a part of continuity, which is still serving the customer, or as I explained before, if it's been removed and there was -- and it didn't be required to be removed, then there is the issue of why did you incur the cost if abandonment was the more cost-effective route.

Q. Okay. And this net salvage cost associated with plant that's already been retired is going to be paid by customers in the future, right?

A. The customers --

Q. As a component of their rates?

A. Again, one of those two categories, if it's -- if it's integral to the system, it's still serving customers, then they're still on the system and they're still -- they're still getting utility out of the system. And if it's being incurred, but someone's not being served by it and they weren't required to remove it, then I would be charging customers for something that was not prudent.

Q. Sure. I guess I'm just saying, the way it's calculated by using a five-year historical average, by definition you are using a net salvage component that's associated with plant that's already retired, right?

A. Yes.

Q. Okay. And so that net salvage component goes into depreciation rates, which is a component of rates that will be paid by future customers, right?

A. By the continuity of --

Q. By future customers, right?

A. In order to keep the system going.

Q. Okay. That's all I want. Okay. And let me ask you this. You guys are using a five-year average in this case; is that right?

A. In this particular case, yes.

Q. In some other cases you've used other averages of net salvage costs?

A. I believe so.

Q. Do you know what different ones you've used?

A. I believe that in the latest Aquila case, five-year average. Might have been a ten-year average. I would have to go back and look.

Q. Have you used ten sometimes in some cases?

A. I'd have to go back and actually take a look at which level the auditor has performed that audit.

Q. I think, although I'm not sure, ten years may have been used in the Union Electric EC-2002-1 case. Do you know whether that's true?

A. No, but I can find out.

Q. Okay. Well, let me ask you this: If you use a five-year average, wouldn't it be true that the net salvage costs on average are two and a half years ago's

net salvage cost?

A. Well, and to the extent that speaking of -- I mean, like, the last Ameren gas case actually overall the cost of removal was not cost of removal; it was salvage.

Q. There was a positive net salvage?

A. Yes.

Q. But to the extent that inflation is causing negative net salvage to increase or become a larger number, a larger negative number every year, wouldn't it be true that to the extent you're using these multi-year averages you're not even giving the most current amount of net salvage, you're diluting the most current amount of net salvage value?

A. Well, you have to look at it on a case-by-case basis because you've got volatility there. So if -- you can have a couple things going. You don't know for sure it's going to go up. You don't know those factors in the future, as far as are you going to incur more cost of removal.

What you do know is that you -- you know, to the extent possible, you're going to provide a dollar amount that is at best an amount that's ongoing, and that's what you want to try to put into the case. Maybe a trended amount is the best, maybe an average. You know, and to the extent that you might see -- the company's might -- maybe there could be bunching going on where you try to do it all in one year and then don't see it for three or four years. You just really need to take a look at what is the amount that should be included in a rate case.

Q. So it might be appropriate to trend it to take more -- to give more weight to the more recently incurred costs?

A. Certainly. The idea of Staff is to make the company whole for their costs incurred.

Q. Let me ask you this: A lot of these facilities, these utility facilities that are being removed from service are long-lived facilities, aren't they?

A. They could be. They could be short-lived.

Q. Well, for example, let's take gas mains. In your work as a -- I mean, isn't that one of the main accounts Laclede has?

A. Yes.

Q. One of the largest accounts?

A. (Witness nodded.)

Q. And do you know how long on average or what the average service life for gas main is?

A. Of what material?

Q. Let's say --

A. Steel?

Q. -- steel?

A. Cast iron might be around 70. I'm thinking Laclede had a longer life than some of the other gas utilities.

Q. 70 years?

A. (Witness nodded.)

Q. So if you're looking at gas mains that are being removed from service during the five-year period that you looked at in this case, 1994 to '99, and the items in that account have average service life of something along the lines of 70 years. You could be looking at retirements of gas mains that were originally put in service back in '20s; is that correct?

A. You could be looking at that.

Q. And it wouldn't be unusual to have them in the '20s or '30s or even before that if they're longer than average?

A. It's possible.

Q. And --

A. You can also have short ones. I mean, if Laclede had just entered a main into an area and the Highway Department came along and said, I want to change the highway, then you're going to have a shorter.

Q. Sure. But on average, I mean, isn't that what an average service life is? On average they're going to be 70 years old, aren't they?

A. That's what, you know, during a time frame you do a duty and you get a 70, but if you're starting to see a lot of work where they're doing a lot of, you know, plant that had just got put in and they're starting to do a lot of road changes and a lot of these things, it can go -- yes. That's why you do depreciation studies in a fashion in a way that we do.

Q. Every so often periodically. But let's assume there's nothing unusual going on, like an unusual amount of road construction. You know, all other things being equal, these gas mains are being taken out of service are going to be from a long time ago, they're going to have been put in service a long time ago, like in the teens or '20s or '30s on average, aren't they?

A. They should be.

Q. Okay. And I guess my question is, wouldn't it be fair to say that Laclede Gas Company's distribution system was pretty significantly different back in the teens and '20s and '30s than it is today?

A. Can you define your framework for different?

Q. Well, wouldn't it be fair to say it was substantially smaller, and I mean orders of magnitude smaller, back in the teens and '20s and '30s than it is today?

A. And also, I mean, to the number of customers it's serving?

Q. Sure. I mean, any measure you take, the number of customers served, the miles of pipe, wasn't Laclede Gas Company's distribution system much, much, much smaller back in the teens and the '20s and the '30s than it is now?

A. I would think so.

Q. But you haven't looked at that, I guess?

A. I would assume there's been customer growth.

Q. Would you assume there's been substantial customer growth?

A. Yes.

Q. Do you know what gas was used for in the 19-teens and 1920s and 1930s?

A. You mean in addition to heating?

Q. No. I mean instead of heating.

A. Are you referring to for industries?

Q. Well, you know, I'm asking you, but let me suggest that I think -- I think the primary use for natural gas during that period of time was lighting, do

you know if that's true or not, street lights?

A. Well, I know that there was a -- there was a transition to where one was becoming obsolete for lighting and the other one was becoming into its own.

Q. Do you know what the primary fuel used for heating was in St. Louis in the 1920s and 1930s?

A. I can't tell you what that primary --

Q. Do you think it was coal, or do you not know?

A. I'd have to find out for you.

Q. Well, if gas was -- natural gas was not used for heating, do you think that might be a significant difference in the natural gas system of Laclede Gas Company back in the 1920s and 1930s from the way it's used now?

A. So are you implying there wasn't much residential?

Q. Yeah. I'm implying that the system was very different from what it is now, to the extent that gas wasn't being used for space heating. Would you agree with that?

A. I would think that would be probable.

Q. Do you know where an Laclede got natural gas for -- I should say gas. Do you know where Laclede got gas in the 1920s? Do you know if it got gas from

pipelines in the 1920s?

A. I don't know if the source was its own processing of the -- of another product into making it the gas.

Q. Might that affect whether the system was different in the 1920s than it is now, if they were using manufactured gas rather than --

A. Well, that's --

Q. -- pipeline gas?

A. Certainly.

Q. Okay. Has there been inflation historically?

A. Yes.

Q. Do you anticipate that there will be inflation in the future?

A. I would think that it's possible.

Q. I mean, is it reasonable to anticipate that we will experience inflation over the next several decades?

A. I would think it's reasonable.

Q. Is it reasonable to assume that the labor costs associated with removal of plant will be significantly higher 20 or 30 or 70 years from now than they are today?

A. Well, whether or not they're higher or not, the second question is, would you use that route to remove plant if that's the most cost-effective application.

Q. Okay. But that's kind of a different issue. My question is, is it fair to -- and I realize you might not use --

A. If you're going to abandon it, you're not going to use labor.

Q. That's true. If you abandon it in place, you might not use labor. To the extent that you can't abandon it in place and you have to use labor, would it be fair to say that the cost of labor is going -- you can expect the cost of labor to be significantly higher 20, 30 or 70 years from now?

A. Well, I would say that I don't know if it's going to be more. I would think that someone who's sort of innovative would find some other solution --

Q. Right. But if you can't --

A. -- to avoid it.

Q. If you can't find another solution, and you have to avoid labor -- I understand you might be able to find another solution, but to the extent you have to use labor, is it fair to suppose that labor is going to be significantly more expensive 20, 30, 70 years from now?

A. That I can't tell you.

Q. Okay. Let me ask you this: Is it fair to

say the Staff's treatment of net salvage does not take into account the fact that current plant balances are significantly greater than they were in the past in the universe of plant from which recent retirements come? In other words --

A. Relative to the customers that's being served? I mean, you have growth on -- you have growth in dollars, but you have customers that are also coming on board to meet that growth.

Q. But you're using an absolute dollar amount for the retirements, aren't you? You're not -- it's not a ratio compared to the customers. You're looking at the absolute dollar amounts of the retirements incurred in the past.

A. I'm looking at the dollars retired.

Q. Do you take into account that the retirements occurring from 1994 to 1999 are retirements of plant that came from a universe of plant that's significantly smaller than the universe of plant that's being used to serve today's customers? Is there any factor in your calculation that takes that into account or adjusts for that?

A. I guess I'm not clear as to what I need to adjust for.

Q. The fact that the retirements occurring

during the period from 1994 to 1999 come from a universe of plant that is much, much smaller than the universe of plant that's being used to serve customers today. Is there anything that adjusts for that?

A. I'm not -- I'm not catching a connect here of where that -- where that is becoming a parameter.

Q. Well, if gas mains are being retired that were put in service in the '20s and '30s and '40s, weren't there far fewer gas mains that were put in service during that period of time that might be retired from '94 to '99 than there are gas mains that are in service today? And do you take --

A. I'm not so sure where I'm going to apply the fact that I have more gas mains today.

Q. Okay. So would it be fair to say that there's not an adjustment factor in your calculation to take that into account?

A. I guess I'm not -- if I'm taking it into account, what am I taking it into account for?

Q. I'm just asking you, is there an adjustment factor that takes that into account or not? It's a yes or no question.

A. No.

Q. Okay. Let me ask you this: Do you know whether Laclede Gas Company spends more each year on

capital additions and retirement costs, in other words on a cash basis, cash out of their pocket, for capital additions plus retirements as opposed to the depreciation they collect through rates? On a cash basis, are they ahead or behind each year?

A. So I would need to know if I -- am I aware that capital expenditures for additions plus that incurred to remove plant is more?

Q. More or less. Do you know whether it's more or less than what they recover in depreciation plus what they recover for removal costs?

A. In my analysis, I don't have a step that that's required for.

Q. So you don't know?

A. No.

Q. Do you think that's relevant at all to the Commission in deciding this issue?

A. For my assignment?

Q. Okay. For your assignment.

A. Well, if it was relevant, I'd have to have a step where it would have to be placed into my work.

Q. And you don't have that step?

A. That step's not there.

Q. Do you think it should matter to the Commission whether Laclede's collecting through

depreciation a whole lot more than they're spending? Should that even be a consideration for the Commission, even though it's not in your analysis?

A. I would have to get involved into the whole picture of all the -- where financial analysis fits in and where auditing fits in each of those in order to be able to answer that.

Q. Okay. So you don't know, would that --

A. No, I don't know.

Q. Okay. Same question for Ameren. Do you know how Ameren's annual out of pocket --

MR. SCHWARZ: I'll object. I have absolutely no idea how anything to do with Ameren is relevant to the depreciation rates to be set for Laclede in 1999.

MR. BYRNE: Okay. I get to ask the question anyway, right?

MR. SCHWARZ: Yes.

BY MR. BYRNE:

Q. Same question for Ameren. Do you know how the expenditures on capital additions, the cash out of their pocket for capital additions and removals compares to the amount of money they're receiving in depreciation? And in Ameren's case, net salvage is still in the depreciation calculation, so how does that compare, if you

know?

A. I don't know. It's not one of my steps in my calculation.

Q. Okay. Would it be fair to say, unlike life span accounts where you might have no experience in retiring a particular building or electrical plant or something, in the case of mass property accounts, is it fair to say you have a lot of experience with historic retirements, there's a lot of retirement data?

A. Well, the life span -- for most life span accounts there's still a turnover of the actual units that's booked to the individual accounts.

Q. There's like interim retirement you're talking about?

A. There is interim retirement.

Q. Well, just for mass property accounts.

A. We treat those as mass property. They are -- there's --

Q. Just for mass property accounts, though, is it fair to say there's a lot of data at least for the big accounts for Laclede Gas Company on historic retirements?

A. There generally should be a fair amount of data.

Q. Okay. Laclede and AmerenUE have argued in this case in their supplemental direct testimony there's a

number of safeguards that protect customers. I don't know if you read that testimony. Do you recall that at all?

A. I recall.

Q. Okay. And I'd like to ask you your opinion about a couple of them, if I might. One of the safeguards -- I assume, did you read the testimony that Laclede and Ameren filed?

A. I have read through it. I don't -- I'm not --

Q. You didn't memorize it?

A. No.

MS. O'NEILL: Tom, just for the record, could you identify what testimony you're going to refer to when you ask her the questions so we can all keep it straight?

MR. BYRNE: Okay. It's in a couple of pieces of testimony.

MR. SCHWARZ: Can we take a break at this stage?

MR. BYRNE: Absolutely.

(A BREAK WAS TAKEN.)

BY MR. BYRNE:

Q. Ms. O'Neill was just -- I was asking you about some safeguards. She asked what testimony it's in. The safeguards I'm talking about are at least two places

that Ameren filed testimony on. One is Warner Baxter's testimony, beginning on page 19; and the other is Martin Lyon's testimony, beginning on page 10.

But anyway, one of the safeguards cited by both Ameren and Laclede is the fact that de-- the Commission's rules require depreciation studies to be filed every so often; is that correct?

A. Yes.

Q. And I think we think it's every five years. Does that sound right to you?

A. Yes.

Q. And would you agree that at least, you know, to the extent that the -- that if the Commission did decide to rely on estimates of future net salvage, would you agree that the fact that depreciation studies have to be provided periodically provides some protection that those -- that those estimates will stay in line with the data that is available?

I mean, in other words -- let me say it better than that. By periodically revising the estimates through the depreciation study, that provides some level of protection above if there was no periodic revision; is that fair to say?

A. Well, if you're overcharging, even if you do another study and you continue to overcharge, the end result is still overcharging.

Q. But isn't it at least true that to the extent that new data and new information allows you to improve your estimates of net salvage and then that improved data could be taken into account by periodic updates?

A. Which is what Staff is doing currently.

Q. Okay. But I guess all I'm saying is, to the extent that estimates of net salvage are used as the companies are proposing, those estimates could be refined each time a depreciation study was filed; isn't that true?

A. Well, again I'm back to if I'm overcharging and that's my estimate and I continue to overcharge, in the end I still have overcharging.

Q. But that's -- I guess I'm just asking, couldn't the estimates be refined and improved each time the company filed a depreciation study?

A. If you bring it back to Staff's formulation, yes.

Q. Okay. But you don't think if you were using estimates of future net salvage, you don't think those estimates could be refined over time?

A. We haven't seen it to date.

Q. Okay. A second safeguard that's spoken about in the testimony is the fact that the depreciation

reserve is a reduction from the rate base. Would you agree that the depreciation reserve is a reduction from the rate base?

A. Yes.

Q. Okay. And would you also agree, then, to the extent that customers pay net salvage before the company incurs that net salvage cost, that amount is going to be reflected in the depreciation reserve?

A. Yes.

Q. And, therefore, and because it is a reduction from rate base, therefore, the customers' rates are going to be reduced by an amount equal to the company's overall return times the change in the depreciation reserve?

A. Do you want to ask that again?

Q. I want to, but I don't know if I can. To the extent -- to the extent that the customers pay for net salvage costs in advance of the company spending those dollars, that amount's going to be reflected in the depreciation reserve, right?

A. Yes.

Q. And the depreciation reserve is a deduction from rate base, correct?

A. Yes.

Q. And so the rates will then be lowered by an

amount equal to the company's overall rate of return times the increase in the depreciation reserve due to the prepayment of net salvage costs; is that true?

A. Well, I guess I need to qualify it, that to the extent that's happening it may not be equal to the overcharging that occurred to begin with.

Q. Okay. Yeah. And, in fact, to the extent that they prepaid, to the extent that they paid money that for whatever reason hasn't yet been spent, they're only getting a percentage of that back, right, because you have to multiply it by the -- by the company's overall return, right?

A. So to the extent that what's being shown as a safeguard is actually what is now contributing to inequity because we cannot get those overcharged payments back to the customers who paid them.

Q. Would it be fair to characterize that phenomenon that we've been talking about as the customers getting a return on moneys that are prepaid to the company for net salvage that hasn't been incurred yet?

A. I don't know how you'd want to title that.

Q. Well, would it be fair to say the customers are at least better off than if there had been no rate base reduction?

A. Well, if I'm asked to overcharge a customer to begin with, where do I draw the line of him being bettered only to the extent that I bring it all back to him or never have overcharged him to begin with?

Q. Okay. So you're saying they're not better off because there's a reduction to rate base?

A. The better-off situation is not to overcharge to begin with.

Q. Okay. But what if it's not an overcharge, what if it's just a prepayment in advance of the company incurring the cost?

A. But a prepayment meaning I cannot know verifiably that it's going to be incurred. So we've got to get back to it's known and measurable, which is back to Staff's position.

Q. Okay. Got it. But again, back to my question, at least they're better off having a reduction to rate base than they would be if there was no reduction to rate base; isn't that true? They may not be as well off as if you didn't do it at all. I know you're saying that, but --

A. I wouldn't want to say they're better off because I shouldn't have done what I did to begin with.

Q. Another safeguard the company has cited in their testimony is the fact that -- and we talked a little bit about this before, but the idea that the depreciation

reserve acts as a balancing account. Does that -- do you understand what that means or can you explain to me what that means to you, if anything?

A. Well, I think I'd have to maybe reverse. What is the intent of it being said?

Q. Well, the point being made is that, you know, in the end, in the aggregate, customers and the utility will neither overpay nor -- the customers in the aggregate will neither overpay nor underpay, and the utility in the aggregate will neither overcollect or undercollect because there's a depreciation reserve that keeps track of how much has been paid and how much is being spent for retirements.

So I guess the idea is, when it's treated as an element of depreciation, there's a balancing out, you know. You keep track of the revenues and expenditures. Is that true in your mind?

A. Well, we are not in a situation yet where we are keeping track of how much is being collected, and to the extent if I want to know how much is actually being incurred, I can -- I have other mechanisms to be able to do that. Staff's current -- I don't know how much over-- if I look at the reserve for Laclede, I cannot tell you how much of that reserve is for cost of removal. So I can't -- I can't tell you that.

Q. But you do know how much is being collected overall, right, in depreciation? Doesn't the depreciation reserve keep track of that?

A. It doesn't -- many times we do not have a -- in fact, almost in all cases we don't have it disaggregated. It's all just dollars coming in, and there's no amount that I can tell you or the company, I would probably also say, can tell me how much in any given account is the dollar amount that has been collected from customers for either cost of removal or for the original cost.

Q. Okay. But you do keep -- the depreciation reserve does keep track of the total amount that's being collected for both of those things together, even though it's not broken down between the two elements; isn't that correct?

A. It's an aggregate.

Q. Okay. And does it balance on the aggregate? Does it also keep track of the amount being expended?

A. There is -- it's booked to it, but I can't compare apples and apples because I don't have apples in one hand. I do not know how much in that reserve has been collected for.

Q. Okay. The reserve takes into account the

total amount of depreciation that's been collected by account each year, right?

A. Yes.

Q. And that would include in the case of a company that -- well, in the case of Laclede, it would include both the net salvage and depreciation of the original cost?

A. Yes.

Q. Okay. But it's not split between those two components, right?

A. Right.

Q. But it is by account, right?

A. (Witness nodded.)

Q. And then doesn't the depreciation reserve also take into account when a retirement occurs, doesn't it take into account the original cost of the item that's retired and the cost of retiring it?

A. Are you asking does that come out of the reserve?

Q. Yes.

A. Yes.

Q. So isn't it kind of like a balancing account that takes into account the total amount of dollars coming in, even though it's not broken down between net salvage and depreciation of original cost?

A. A balancing account would be if you want to pay in the dollars for cost of removal, and I will specify an area for it to go to only, and like a sinking fund which you could establish, and then you can -- you can balance.

Q. Okay. But in your mind, a depreciation reserve is not such a balancing account?

A. To be able to balance, you have to have something on either end.

Q. Well, doesn't it just have the money coming in and the property being retired?

A. I still don't know if I'm in balance.

Q. Okay. I want to ask a few questions about intergenerational equity. Do you know what inter-- do you know what the definition of intergenerational equity is?

A. A generation that's incurring a cost is a generation that's paying for the cost, is what I would call intergenerational equity.

Q. Well, would it be fair to say that it means each generation of customers should pay the full cost the utility incurs to provide them with service?

A. I would think that would be. I think that's a fair definition for it.

Q. Okay. And would you agree that it would be unfair for past or future generations of customers to

subsidize rates paid by today's customers?

A. In the way that the company's doing today?

Q. In any way. Is it unfair -- just as a general principle, is it unfair for past and future generations of customers to subsidize today's customers?

A. I think that's a fair statement.

Q. And is that sort of intergenerational equity something that the Commission ought to take into account when it makes decisions?

A. I would think so.

Q. And when it sets rates?

A. Yes.

Q. Do you know what the matching principle is?

A. Trying to -- I'm going to just -- maybe what I would think of is certainly the costs during a period and then the users of those costs.

Q. I mean, let me try out a definition, see if you like it. Would it be fair to say that it's the idea that a utility's revenues should be matched to its costs so that customers pay rates that reflect the costs incurred to provide them with service?

A. I would think that would be a fair statement.

Q. Okay. Do you generally support the matching principle?

A. Generally.

Q. Would you agree that's an important consideration for the Commission to take into account in setting rates?

A. Yes.

Q. Mr. Stout testified that the Staff's method for treating net salvage is inconsistent with the Uniform System of Accounts. Do you agree or disagree with that, or don't know?

A. Are you asking me very specifically disagreement with what the Commission is authorized to do?

Q. No, no, not the Commission. I'm not talking about the Commission. I'm talking about the Uniform System of Accounts, which is different from the Commission.

A. All right. Is Staff's method different?

Q. Is Staff's method inconsistent with the Uniform System of Accounts, as Mr. Stout has testified, or is it consistent with the Uniform System of Accounts or you don't know? Those are the three possible answers.

A. I believe the Uniform System of Accounts has costs -- I want to say it's an accrual concept in the Uniform System of Accounts. So in the extent of this '99 case, I would say that we are consistent with that.

Q. You're consistent with it?

A. In the '99 case.

Q. Okay. And is that because in the '99 case the depreciation still remained a part of -- I mean, the net salvage still remained in the depreciation calculation? Is that why you're saying it's consistent with accrual accounting?

A. It was accrual accounting, to my understanding.

Q. And would it be fair to say when you pull it out of the -- when you pull net salvage out of the depreciation calculation in other cases and treat it as an expense, that's not consistent with accrual accounting?

A. I would say that's not accrual accounting.

Q. Okay. Fair enough. And it doesn't -- it doesn't matter -- as long as it's in the depreciation calculation, you would say that's accrual accounting even though you're basing the amount on past costs?

A. There is no part of the Uniform System of Accounts that declares how that net salvage percentage is to be calculated.

Q. Is there any part that says it's supposed to be in the depreciation calculation?

A. It just says depreciation accrual accounting, I believe.

Q. To your knowledge, the Uniform System of

Accounts doesn't specifically address the fact that net salvage should be included in the depreciation calculation?

A. I'm going to say that I believe -- and I can look this up if you need us to look it up --

Q. That's okay.

A. -- exactly how, you know, it's depreciation accrual accounting.

Q. Have you -- have you read the Uniform System of Accounts?

A. I have.

Q. Have you read it recently?

A. I have. I just don't recall exactly at this moment every caveat and every nuance of it.

Q. Okay. Did you read it in connection with developing your testimony in this case?

A. I have read it in connection with usually all the cases that we do. It's reading material.

Q. But you don't know if it says to put net salvage in the depreciation calculation?

A. Net salvage is an adjustment to original cost. So, I mean, in the Uniform System of Accounts in the definition it gives you the definition of depreciation and the service value.

Q. So do you know -- I'm back to do you know

whether the Uniform System of Accounts says to put it in the depreciation calculation or not?

A. I don't think there's a formula in the Uniform System of Accounts.

Q. That's not what I asked. Do you know whether the Uniform System of Accounts says to include net salvage in the depreciation calculation?

A. I think -- I think, yes, net salvage is an adjustment to depreciation, and I think that's -- I think that's stated in the Uniform System of Accounts.

Q. So the Uniform System of Accounts says put net salvage in the depreciation calculation; is that right?

A. I think it says that it's -- it is in the definition of how -- of depreciation.

Q. So is that a yes?

A. Well, you're asking me if it says depreciation calculation. I don't think that I've -- I don't think that I've read that depreciation calculation in the Uniform System of Accounts.

Q. Does it say it should be a part of depreciation expense? How about that?

A. It just -- I'm going to say it's a contextual thing, that it's original cost minus this net salvage, and it doesn't say -- I could be wrong, but I don't think -- it doesn't have depreciation calculation or depreciation expense.

Q. Does it say that's what depreciation should be, like in the definition of depreciation does it have net salvage as a part of that definition?

A. I think that -- I think that it is in it. I think it's depreciation, which is the cost incurred, I think -- we can get it and read it if that is what you would like -- minus net salvage. It doesn't say net salvage percentage. It says -- I mean, it's a net salvage.

Q. Okay. Are you planning on filing rebuttal testimony in this case?

A. I think that's my assignment.

Q. Do you know if there's any other Staff witnesses filing rebuttal testimony in this case?

A. I don't know.

Q. Okay. Would you agree with this statement: the costs associated with an asset include its cost of removal?

A. If they're required to be incurred.

Q. What if they aren't required to be incurred but they just are regularly incurred?

A. I think we would start doing an audit or we would start doing a prudency examination.

Q. Okay. Did you -- well, and this is -- I'm not asking for any attorney/client privileged information, so if you talked to your attorney, please exclude that from this question. But did you talk to anybody on the Staff besides your attorney about your testimony and developing your testimony?

A. I would say after I wrote my testimony I passed it to Mr. Schwarz to -- and I passed Lisa Kremer, my manager.

Q. Did Mr. Schallenberg view your testimony?

A. I believe -- I believe he did.

Q. And did you get any substantive direction from any of them, other than your attorney, on what testimony to file?

A. No. What you have is what I --

MR. BYRNE: Okay. That's all I have. Thanks.

CROSS-EXAMINATION BY MR. PENDERGAST:

Q. Ms. Schad, how are you this afternoon?

A. I'm good, Mike.

Q. Good to hear that. I don't have a tremendous number of questions. As you know, I'm here on behalf of Laclede Gas Company.

I'd like to ask a couple of questions to start with to hopefully put a few things in perspective, because I believe in a number of your answers you talked about overcharging and overrecovery. You're familiar with the testimony of Mr. Cooper in this case?

A. I have read through it once. I don't think that makes me familiar with it.

Q. That's fine. He indicates in his testimony that Laclede spends approximately $50 million a year in capital expenditures. Do you have any reason to doubt that?

A. Oh, I can't confirm it. If you tell me it's true, it must be true.

Q. Okay. But you don't have any reason not to believe that's true. And he also indicates in his testimony that depreciation collected by Laclede on all of its facilities, not just that $50 million investment, but all of its facilities is about $22 million per year. Is that generally familiar to you?

A. Okay.

Q. And I believe Mr. Sherwin also filed testimony that said Laclede's got an average depreciation rate orf about 2 1/2 percent. Does that sound unusual to you or out of the realm of reasonableness?

A. I don't have a window of reasonableness, so I don't know if I'm out of it.

Q. Well, I'm just saying if you added up all

depreciation rates for all the accounts that Laclede has and we took an average of it, would 2 1/2, 3 percent sound about right to you?

A. Compared to?

Q. Would it seem accurate to you, accurate?

A. If that is the percentage that's been calculated, then I would say it's accurate.

Q. Okay. Well, let's say it's around 2.5 percent. Let's assume that's true and that's accurate. Does that mean that of its $50 million in capital expenditures that are being made each year, that Laclede gets to recover from its customers about 2 1/2 percent of that per year?

A. It is meaning that of the plant assets on the books, it is meaning a depreciation expense, the percentage that you just informed times that amount for an amount to be booked as expense.

Q. Right. So the company comes in, it spends $50 million in a given year, and what it's likely to get back from customers is going to be 2 1/2 percent of that, which would be what, million-five, million-seven, something like that?

A. (Witness nodded.)

Q. So from the perspective -- was that a yes?

A. If you did the calculation.

Q. It's around a million-five to two million. I guess my question is, under those circumstances, each and every year Laclede is spending significantly more money than it's getting back in depreciation; is that correct?

A. I would say so.

Q. Okay. And you had a long discussion about what's known and measurable. Now, that $50 million that's being expended every year, is that known and measurable?

A. Well, that's the amount for your capital expenditure?

Q. Yes.

A. Yes.

Q. And that's a known and measurable value. Now, if the company were to go ahead and say, you know, we've seen the light and we agree that this known and measurable criteria is what the Commission ought to use for purposes of determining what's reflected in rates and we came to the Commission and we said, we want to go ahead and raise our rates to recover that $50 million of known and measurable cost this year and have that as an ongoing level that we're recovering, we don't want to capitalize it, we want to go ahead and recover it because it's known and measurable, would Staff be supportive of that approach?

A. To expense all of your capital expenditures?

Q. Yes, because it's known and measurable. We've seen the light and we agree that the Commission ought to go ahead and use that as its primary criteria. The one thing we know is that that $50 million is known and measurable, it can be verified, and we want to go ahead and recover that this year. Would that be something Staff could support?

A. I don't know that I've come here today to speak on behalf of Staff on that area.

Q. So you don't know whether that would be something Staff could support or not?

A. I don't know if that's my area to speak on on Staff.

Q. Let's talk, then, about what Staff does. Staff does not go ahead and under those circumstances say, because that $50 million is a known and measurable and verifiable number, we're going to go ahead and allow that to be expensed and included in rates. Staff does not do that currently, does it?

A. No.

Q. What Staff does instead is it says, I'm going to go ahead and do an estimate of actual service lives or estimated service lives and I am going to go

ahead and use those service lives to spread that cost?

MR. SCHWARZ: I'm going to object to the form of the question. Your prior question I think indicated that it would be an action of Laclede; that is, if Laclede included the $50 million a year, and it's not the exact wording, but I think the effect was that Laclede's going to claim that the $50 million should be. So I don't -- I don't want it to appear that that's a Staff proposal.

BY MR. PENDERGAST:

Q. Oh, I didn't think I created the impression it was a Staff proposal, but if I did, no. My recollection of what you answered to that was you have no opinion if Laclede were to propose that, what Staff's reaction would be. Is that fair?

A. Yes.

Q. Okay. And now I'd like to turn to what Staff does do in that particular circumstance. And as I understand the way it works, Staff does not recommend that that entire known and measurable and verifiable amount be expensed in a given year, right? That's not what Staff recommends typically?

A. I'm not aware of a recommendation by Staff to do that.

Q. Okay. Instead what Staff does is it says

we need to spread the recovery of those costs?

MR. SCHWARZ: Now I am going to object, because Laclede capitalizes that stuff. There's no adjustment for Staff to be making. It's not -- I mean, it's not that Laclede's reporting this as an expense. Laclede reports it as a capital item. So Staff would have to -- you're asking if Staff -- well --

BY MR. PENDERGAST:

Q. I've said that we had $50 million in capital expenditures. Okay? And what I'm asking is, when we come in with $50 million in capital expenditures -- and that's real cash outflow, right? That's what we're paying for wages and salaries and plant and equipment, is that correct, that $50 million in annual capital expenditures? Right?

A. Well, I assume that those things are included.

Q. Right. And what I'm saying is, when we come in and we have those $50 million worth of capital expenditures that we make on our capital activities each year, Staff spreads the cost of those capital expenditures over a number of years for recovery, does it not?

A. Yes.

Q. Okay. And it bases that spreading of those current known and measurable and verifiable dollars based

on what its estimated service lives are for the various plants that are in those accounts; is that correct?

A. Yes.

Q. Okay. And it determines what that service life is going to be for each of those accounts based on an estimate, is that correct, of a service life, right? It's based on an estimating technique; is that right?

A. Yes.

Q. Okay. And the same for a 10,000 -- a main that cost $10,000 to invest, we know that that main -- we know that that 10,000 is a known and measurable cost at this time, right? That's on the books. We know it. We know the company outlaid that cash, right?

A. Yes.

Q. Okay. And let's say Staff comes in and does a service life calculation and says, I think that's going to have a useful service life of 70 years. I think we just had that discussion with steel; is that correct?

A. (Witness nodded.)

Q. Okay. In actuality, is it possible that that service life will turn out to be 65 years instead of 70?

A. For some plant.

Q. It happens all the time, doesn't it?

A. Yes.

Q. Okay. Could it turn out to be 75 rather than 70?

A. Well, that's part of the numbers that go into creating the average service life of 70.

Q. Yeah. But I'm saying isn't it even true that the average service life can change over time?

A. Yes.

Q. Experience may vary from your estimate; is that correct?

A. It may.

Q. Experience may be shorter --

A. (Witness nodded.)

Q. -- correct?

It may be longer; is that correct?

A. Yes.

Q. Or it could be the same; is that correct?

A. Yes.

Q. And it could be longer and shorter and just the same as your net salvage allowance could be more or less or just the same; is that correct?

A. The dollar amount of that original cost has not varied for me. The life over which we're ratably allocating it has the potential to change less or more.

Q. Okay. And that -- that service life that you're using to go ahead and spread out the cost of this

known and measurable and verifiable number over many years is not in itself known and measurable within your definition of the term, is it?

A. Is the time period known and measurable?

Q. Well, it could be 70-year life, can turn out to be 65 or it could turn out to be 75 or could turn out to be 80. Is it known and measurable at the time you establish rates?

A. I would say any given piece of property has a continuum of some short all the way to something very long. So we're going to have plant that's going to retire in five years. So we're going to have -- we're on a continuum-like line. It's nothing that's -- there's customers with plant that's short. There's plant that's 5 years, 15 years, 30 years, 45 years, 70, 75. When you get that much plant and that much continuum of time, then you are doing an average service life.

Q. That's not my question, though.

A. But is that average service life known and measurable?

Q. Yes, that's my question.

A. Well, the math you just did is, at that moment in time, that is the known and measurable average of all that plant.

Q. Yes, I know it's the average of all that

plant. What I'm asking you is, is the reality that that service life will turn out to be 70 years known and measurable at the time you establish rates? Do you know that that's going to turn out to be 70 years?

A. No.

Q. You do not?

A. No.

Q. It is not known; is that correct?

A. It is not known.

Q. And you cannot measure it at that time because it hasn't happened yet, has it?

A. No.

Q. Okay. And it's not verifiable yet because you haven't verified it yet, have you?

A. No.

Q. Okay. But nonetheless, your recommendation to the Commission in case after case after case is, Commission, don't use this known and measurable $50 million number for purposes of setting rates, but instead use a portion of that number based on a value, a service life that is not known, is not measurable and is not verifiable; is that correct?

A. I cannot know and I cannot verify that average service life.

Q. Okay. Could you explain to me, then, why

it is appropriate for the Commission instead of using that known and measurable amount that's verifiable and we're incurring today should use something that's not known and not measurable and not verifiable in order to spread its cost over a significant period of time? Explain to me why that's appropriate.

A. I think that we've got variables here, and it's the variable of dollars that has been asked to be known and measurable. That is what has been asked to be known and measurable is the dollars.

Q. But you're not recognizing the dollars. The dollars are known and measurable. The original cost is known and measurable.

A. That is what is my known and measurable.

Q. And you're not reflecting that in rates, right? You're not reflecting that known and measurable amount in rates, are you? You're reflecting a percentage of it, aren't you?

A. I'm reflecting a portion of it.

Q. Based on a value that you have acknowledged is not known, is not measurable and is not verifiable; is that correct?

A. I have a life that is not known and measurable. What I'm trying to capture as known and measurable is the total dollars that comes back to the company. That is what if -- that is what I'm trying to provide you is the known and measurable dollars that you get back, a company gets back.

Q. Let me ask you this: You just basically said that, and correct me if I'm wrong, but that service lives are based on estimates or service live estimates themselves aren't known, aren't measurable and aren't verifiable.

Is it fair to say, then, that as part of the depreciation process, you believe it is appropriate for the Commission to utilize estimates that aren't known, aren't verifiable and aren't measurable?

A. For the dollars that cannot be known and measurable, I think that we -- we're not trying to do estimates. We're trying to keep that as the dollars that you will collect from customers.

Q. Let me put my question again. We've talked about the fact that we have a known and measurable dollar amount in annual capital expenditures of $50 million, and we've talked about the fact that not all of that known and measurable amount is included in rates in a given year, that it's spread out based on service lives, correct? And we have also talked about the fact that those service lives are not known, are not measurable and aren't verifiable, and that they're estimates that don't qualify

for any of those three criteria; is that correct?

A. I think that's correct.

Q. And so my question to you then is, that as a part of setting depreciation rates for ratemaking purposes, is it your belief and opinion that it is okay, that it is appropriate for the Commission to use estimates that aren't known, aren't verifiable and aren't measurable?

A. Criteria, the original cost is in the past, it's been incurred, it's known, it's verifiable. And the other aspect that you're asking me to go out and look into the future is estimate of dollars in the future, which is -- it's two different things here.

Q. I don't think you're answering my question, though, and my question is very simple. You say today that you spread out dollars that are known and measurable over many years based on a value, based on a service life, based on an estimate that is not known, is not measurable and is not verifiable.

And I'm asking you, in light of that, do you believe it's appropriate for the Commission to use -- this Commission to use estimates in the depreciation process that aren't known, aren't measurable and aren't verifiable?

A. As long as they're dollars I'm talking about, I think that it's appropriate to stay with known and measurable.

Q. **Well, then, is it your position that what the Commission should do is allow us to recover our $50 million of known and measurable costs instead of spreading them out based on an unknown, unmeasurable and unverifiable service life value?**

A. I think it's appropriate because the dollars are absolute amounts.

Q. **So you do think it's appropriate for us to be allowed to collect that entire $50 million in capital expenditures each year that we go ahead and reflect that whole amount in rates because it's known and measurable; is that correct?**

A. I'm not saying that I -- that it should be all collected in one year.

Q. **Okay. Then you believe it should be spread out over many years, is that what you're saying?**

A. Yes.

Q. **Based on service lives, estimates, correct?**

A. Service -- average service lives is the current variable over to which we allocate it.

Q. **That's what I'm -- I think we've established that, and I think we've also established -- we'll establish it one more time. Those service lives**

estimates are not known, they're not measurable and they're not verifiable. And my question to you is, in light of that, you believe it's appropriate for the Commission when establishing depreciation rates to at least in some instances, i.e. the establishment of service lives, to use estimates that aren't known, aren't measurable and aren't verifiable; is that correct?

A. I would say since it is time that I'm talking about, not dollars, that it is appropriate for us to continue in that manner.

Q. Okay. And can prudence have an impact on how long that period is, how long a service life period is? I mean, whether you maintain your facility, you don't maintain your facility, is that a factor that can impact that, just like it can your net salvage cost?

A. I would think so.

Q. Okay. Now, if you establish a service life of 70 percent and lo and behold it turns out to have a service life of only 50 years, is the utility going to under-recover its costs under those circumstances?

A. Yes, if there is no other mechanism in place to make the company whole, which the Commission does have available. There are tools that the company will have.

Q. And are those stools typically used?

A. I've seen them used. I've --

THE REPORTER: I'm sorry. I didn't hear you.

THE WITNESS: Yes, I've seen them used in industries.

BY MR. PENDERGAST:

Q. So because it's part of the depreciation calculation, would it be fair to say you kind of keep track of whether this thing that you assumed was going to last 70 years, now it's only lasted 50 years, you know that it's not lasting 70 years and you're keeping track of that; is that correct?

A. Now, has the account totally come to where there's no more additions to it, so that you're saying this is -- this is all there is?

Q. Well, let's say that you estimate steel services to be 70 percent, and 15 years later you estimate that, you know, it's really getting taken out of the ground faster, it's a 50-year service life. Is there a way of making sure that for all the steel mains that were subject to that particular rate, that the company comes out whole, it doesn't overcollect or undercollect?

A. We adjust the depreciation rate.

Q. Okay. You adjust the depreciation rate, and that will go ahead and enable the company to come out

whole and not over or under-recover; is that correct?

A. Yes.

Q. And when net salvage costs are part of the process, does the same thing happen there, too?

A. Depending on how high the rate had been set in there, I might not be able to -- I can adjust it, but if I really overcollected, it's going to take a long time to bring that back into balance.

Q. Sure. Just like if you have a service life that varies significantly from one that was used in establishing depreciation rates, it's going to take a long time for that, too, right?

A. Life doesn't have the -- to that extreme it doesn't have the sensitivity that causes net salvage percentage.

Q. But it has some sensitivity, it has some variation?

A. Always.

Q. Okay. And you can use the depreciation process to, in essence, bring everything back to zero so everybody's protected; is that correct?

A. Again, because it's sensitivity, I can't bring back large amounts, I mean, to those customers. It's getting -- it's sensitivity that's the problem.

Q. Let me ask you this. Mr. Byrne asked you

questions about it. To the extent that there is a deviation between what your net salvage estimate was and what your actual net salvage experience was, and that deviation's going to be reflected in the depreciation reserve; is that correct?

A. For all of it, yes.

Q. Right. I mean, that will be one component of it, but it will go ahead and either increase or decrease it by whatever it is, right?

A. Yes.

Q. Okay. To the extent that it increases it or decreases it by whatever it is, that depreciation reserve amount, and I think we've established this, under current Commission practices is deducted from the rate base; is that correct?

A. Yes.

Q. Okay. So to the extent that a customer can be said to be paying more than what the actual experience is in the utility at any given point in time, he's being compensated for that with an amount that's equal to the utility's overall return; isn't that correct?

A. Again, when you say compensated, he may -- I cannot say he's getting his full compensation.

Q. I didn't ask you if he was -- I didn't ask you if he's being given all that back at one time. I'm saying I'm acknowledging he's paying more than what the utility's incurring. Okay. And what I'm saying is, for that excess amount that he's being paid, he's being compensated at least at a return or an amount that's equal to the utility's return; is that correct?

A. There is an offset equal to that.

Q. I'd like to ask you a couple of questions about the impact of Staff's method on a utility's cash flows and also on their evaluation by credit agencies, that type of thing. You know, we filed some testimony on that. And if you don't have an opinion, just say you don't have an opinion.

But would you agree with me that, generally speaking, an impact of Staff's method at least over the short term is to decrease the cash flows available to utilities?

A. Decrease it from?

Q. Where it would be under what we have called the standard method.

A. Well, Paul's numbers used in the case will provide less cash flow than the company's numbers used in the case.

Q. That's what I'm asking, generally speaking. And is that true just with Laclede or is that true of most of the utilities that you introduced the Staff method to?

A. I guess to the extent that it has been set up with an amount that overcharges, as we've seen several times, Staff's method brings in less cash flow.

Q. Let me ask you about the overcharging thing for just a minute. Okay. Let's assume that I am building in an estimate, okay, of what something's going to cost 30 years from now and trying to recover that over that 30-year period, and let's say that that estimate is dead-on accurate and I know I'm going to recover that amount 30 years from now.

If I'm charging that customer that amount each and every year for that dead-on, I know I'm going to incur that 30 year from now cost, am I overcharging the customer in your opinion?

A. Can you give an example of where that occurs?

Q. Yeah. I've got a contract with somebody and he's going to go ahead and do everything it takes to remove the facility 30 years from now for $500,000, okay, and let's say it cost a million dollars to go ahead and install, and I want to go ahead and say this guy's got an ironclad contractual obligation to remove that at the end of the useful service life of this. I've showed you the contract. Staff has said, well, yeah, that seems like a prudent reasonable thing to do given everything we know at this time. So we know we're going to incur that $500,000.

Now, if I start collecting that $500,000 ratably over the life of that service line asset, are you going to say collecting that amount now from customers, beginning to collect it is overcharging?

A. I'm going to say that I know my customer and I'm going to have that fund go into a sinking fund so I know it's there and I know that customer that will be entitled to that money?

Q. You know that each customer as he uses that each year is using one -- let's say it's got a 30-year service life -- is using 1/30 of that and he's getting charged 1/30 of that known removal cost at the end of the useful life. Under those circumstances, would you say you're overcharging that customer?

A. You're saying this was the cost, it did not end up being that amount?

Q. No. I'm saying that amount, we know it's going to be that amount. We've got a contract that you've reviewed, said it's prudent, and it's as sure as sure can be that it's going to cost $500,000 at the end of 30 years to go ahead and remove this item from service.

And what I'm asking you is, would you say it's overcharging customers for each of those 30 years to charge them 1/30 of that $500,000? Is that overcharging?

A. In that scenario, I would say you've created a scenario that I don't see existing in the work I do. So if you're going to have a scenario that's not applicable to what I do, I don't want to comment on something that's not incorporated. You can -- you can charge that customer that amount.

Q. And you wouldn't view that as an overcharge?

A. I wouldn't be in that -- I wouldn't be in there to make that evaluation because it's not something that's applicable to what I do.

Q. Let's say it was, and assume for me that it happened.

A. So if the amount is known?

Q. Yes.

A. And it's not subject to change?

Q. Right.

A. And the customer is known?

Q. Yes.

A. Such that that person can get it back?

Q. Well, the customer -- every customer on Laclede's system during the first year is going to go ahead and get 1/30 of it, just like they're going to pay 1/30 of the capital cost of the item rather than paying the whole thing. Okay. Now, under those circumstances,

do you view that as being an overcharge?

A. No, because all my criteria have been met.

Q. Okay. Fine. Unlike the criteria that is applicable to a service line or a service line estimate, correct?

A. Well, where the criteria have not been met.

Q. Yes.

A. There is that difference.

Q. Yes. Okay. In any event, generally speaking, Staff's method does have a tendency to decrease cash flows over what they would be utilizing the standard method we talked about?

A. If that is Laclede's method, but different companies' consultants have had different ways of calculating net salvage percentage. So I can't -- I can't --

Q. Let me ask you this. When Empire has opposed Staff's method, when St. Louis County Water Company has opposed Staff's method, when Ameren has opposed Staff's method, when Laclede has opposed Staff's method, and I don't know who else, but in those circumstances, has the impact of Staff's method always been to result in less cash flow compared to whatever the utility was proposing?

A. I would believe so.

Q. Okay. And would you agree with me that to the extent that you have less available cash flow being generated by the rates you're charging customers, that to the extent that you've got a capital program that exceeds those cash flows, you have to borrow more in order to finance that cash program or get more equity in from investors?

MR. SCHWARZ: I'm going to object to this question. I don't see how that can conceivably lead to relevant evidence in this case. There has been absolutely no connection between or any testimony in this case to suggest that depreciation is -- one of its functions is to support a capital investment program of any utility.

So if you can explain to me whose testimony suggests that, in addition to considering the amortization of historical costs, that one of the functions of depreciation is to finance additional capital investment in the company, I'd like to know.

MR. PENDERGAST: I guess I was taking administrative notice of the Commission's Report and Order in the st. Louis County Water Company case where it mentioned cash flow as being a distinguishing characteristic as to why going with the standard method was appropriate there and talked about it in terms of its comparison to Laclede.

MR. BYRNE: As there is no hearing examiner present, you get to ask the question anyway. Go ahead and ask it.

BY MR. PENDERGAST:

Q. Yes, but thank you.

A. Do you want to repeat it?

Q. If only I remembered it. It had something to do with cash flow. I remember that.

A. Mike, let me just put it this way. Again, I don't have a step in my work that says cash flow has to be considered in order to establish a determination of depreciation.

Q. Okay. So --

A. To the effect that if the company, you know, if they have a need for cash, then that should be brought up to the Commission, but it's still not a step in the process of which I do my work. I don't -- I don't, let's see. Oh, I need $50 million cash, so I will just insert that in here. That'll work. That's not part of my process in order to provide you depreciation.

Q. Let me broaden it a little bit. I appreciate that answer. Let me broaden it a little bit. Is there anybody else on the Staff that you're aware of that takes the impact of Staff's depreciation method on cash flow into account? You say you don't do it, but what

I'm asking is, are you aware of any other Staff member that takes the impact of cash flow or the impact of Staff's depreciation method into account?

A. I would say, to the extent I know, if there is a need for cash, that that would be its own part of cost of service and would be addressed accordingly.

Q. So would it be fair to say that when Staff proposed its method or whenever that may have begun, that its impact on things like cash flow, availability of funds to fund construction, and any impact it might have on credit ratings and earnings volatility and certainty over-recovery, none of those factors to your knowledge were ever taken into account by Staff?

A. Well, to the extent that I've seen past orders for Laclede, I have never seen the Commission state in an Order, of the ones I viewed, that depreciation level was correlated with other items as you brought them up. I have not seen that stated in Commission orders.

Q. Did you read the St. Louis County Water Company case and what they had to say about cash flow?

A. I was referring to Laclede.

Q. Okay. But really that wasn't my question. It's not what you've seen in Commission orders.

My question was, are you telling me that because it doesn't fit into your particular calculation, to your knowledge, neither you nor any other Staff member took into account when deciding to adopt and pursue Staff's depreciation method its impact on cash flows, its impact on utility credit ratings, its impact on earnings volatility, its impact on certainty of cost recovery, any of those factors, to your knowledge they were never taken into account by Staff?

A. Well, starting with what I've seen in the '90 case and going forward from '93, I did not see that there was testimony filed by Staff or the companies to that effect.

Q. Okay. And I appreciate --

A. So to the extent if staff has done it, I haven't -- I can't say that it's either been done or not been done.

Q. And all I'm asking for is what you know, and I think the answer would be, then, would you agree, that you do not know that it has ever been -- any of those factors have ever been taken into account or were taken into account in deciding to go forward with Staff's approach to depreciation?

A. To go forward or maintain? That's how --

Q. Well, let's say to either maintain or go forward.

A. To maintain or go forward, I can't tell you that that's a consideration that is or is not taken into account by other Staff.

Q. You know how net salvage was determined in Laclede's '96 rate case?

A. I do not have a sheet that says net salvage percentage by account was formulated. You know, I don't have a paper that says.

Q. Okay. And you don't know how Staff calculated it for purposes of Laclede's '96 rate case?

A. No.

Q. Would the same thing be true with its '94 case?

A. I don't know.

Q. Okay. If we continue to go back, the answer would be the same?

A. I can -- I can tell you -- I've seen all the way back to 1960 what's been entered at that time, but I have not seen papers that says Staff's calculation was this, this and this to determine net salvage percentage.

Q. Okay. Fair enough. Fair enough.

A. And I haven't seen it for the company's side either.

Q. Okay. That's all I was asking.

Let me ask you this: In his testimony which you've adopted, Mr. Adam indicated that for purposes

of what he termed as overaccrual, which I think is if you think my approach to net salvage is appropriate, the company's accruing too much; whereas, if you think somebody else's approach is appropriate, maybe it's not. But, you know, he indicated I'm not going to make any judgments about whether or not to amortize that back to customers until four or six years down the road. Does that -- do you recall that?

A. (Witness nodded.)

Q. Okay. And is that still your opinion, that no judgment should be made until -- of course, it is about four to six years down the road, but --

A. Well, I think the first thing that needs to be done is separating the debundling of that cost of removal the original cost so we can see how much has been collected. That's the first thing. And until we get into that mode where we do that, and that's of essence that we do that so that we can see how much is being collected, then we will be able to know sensitivity of that -- of the original cost parameters to what we're allowing.

Q. But then -- but then once you do that, do you have an opinion as to whether or not it is appropriate to amortize whatever that difference is between what was theoretically collected under the standard method versus what Staff says should have been collected under its

approach, amortizing that back to customers over some period of time? Do you have an opinion on that?

A. Well, I think it needs to be looked at carefully. I mean, we have collection in accruals, which we don't know how much is there. And so I think that it can be appropriate at times, and we need to understand when it should be appropriate.

Q. But you think it could be appropriate under some circumstances?

A. I think it could be.

Q. And then under those circumstances where you think it might be appropriate, would you be basically recommending to the Commission that you refund to future customers amounts that were collected from previous customers?

A. I think that's what a negative amortization is actually accomplishing.

Q. Okay. And can you tell me why you believe it's appropriate for future customers to get something that prior customers paid, if you think they paid for it?

A. I think you're trying to return it in a time period as close to the original customers as one possibly can. If you delay it any further -- once you've made that determination that it should be done, then to delay doing so even sets you into further time frame for customers who paid it.

Q. **And your assumption is that these amounts were actually collected at some point in the past?**

A. Well, they're in the reserve.

Q. **Yeah, but, for example, when I start talking about a depreciation rate and a net salvage amount and I start talking about whether it's been reflected in the reserve, do I start accruing that from the moment it's placed into service?**

A. Well, we're going to get back into that time period when it was just a percentage.

Q. **Well, whether it's a percentage or not, when I have a net salvage cost or I put in a main that I'm placing in service, do I start accruing for depreciation reserve? Let's say I installed it on September 1st, do I start accruing -- September 1st, 1985, do I start accruing for that at that point and depreciation starts and, you know, everything's on its merry way? So it starts the minute it goes into service, right?**

A. Right.

Q. **Okay. And I've got a net salvage amount, let's say, in there for that. Now, do I immediately begin to collect money for that net salvage amount from my customers?**

A. If you -- if you have a percentage that's more than 100 percent. If it's less than 100 percent, you're reducing it because you're expecting to salvage. That was the concept. So if it's more than 100 percent rate, then it's dollars for cost of removal is how it worked.

Q. Well, I guess what I'm asking is, am I collecting anything from the customer for a depreciation period, whether it's net salvage or just for depreciation, when I first place it in service on September 1st, or do I have to go ahead and wait until I have a rate case before I start collecting for it?

A. Well, I think theoretically you're in a rate case before you actually are accounting for it such that it's put into the revenue requirement.

Q. Yeah, I know, but I'm starting to -- I'm starting to go ahead, get the depreciation reserve and accrue it, you know, pretending that I'm, I guess, collecting it from my customers the minute I put it in service, aren't I?

A. You're putting it on your records.

Q. I'm putting it on my records, and that's what you reflect in your depreciation reserve, and that's probably what you're going to reflect when you go back and you calculate, oh, how much of an excess amount has the company collected, right? That's what you're going to be

looking at. You're not going to be looking at when we got rate relief, oh, it was a year and a half after that and that's when they started collecting it. You'll just assume that we got rate relief the minute that went into service; isn't that correct?

A. For a company that comes in about every two years, every -- it's going to be a much different situation than in a company that hasn't come in since 1985.

Q. Sure. But even if we only come in every two years, there's going to be a year to two and maybe even three lag between the time we put this in service and the time we actually start collecting for it, isn't it Okay. For new capital additions, isn't that true? For new customers. They could be one, two, three years, right?

A. Okay.

Q. I mean, would you agree with that?

A. Yeah.

Q. Okay. And let's say if we make use of an ISRS mechanism, it's still going to be six months, you know, maybe longer in order to go ahead and collect it under that mechanism, right?

A. (Witness nodded.)

Q. But when you're doing this --

MR. SCHWARZ: Let her answer.

THE WITNESS: I think so. I guess I'm not talking loud enough. I think so.

BY MR. PENDERGAST:

Q. Thank you. But under this amortization approach as I understand it, when you calculate how much the company's collected from its customers, you don't take into account this lag between when they put it in and when they actually started getting dollars, do you?

A. No.

Q. So really, I mean, and I'm not trying to be pejorative here, but doesn't your calculation under the amortization approach of these amounts that were supposedly collected in the past have some element of phantom collections that never even occurred? I mean, isn't that a fair thing to say?

A. There is that stair step that you're cutting off the corner of until you get to the rate case.

Q. Yeah. Those are collections that really never happened, but nonetheless, in your calculation they are assumed to have happened, right?

A. Correct.

Q. Okay. And you don't know what the magnitude of those uncollected amounts that are being assumed to have been collected are?

A. I haven't ever gone in and tried to take each account and take each little piece of that.

Q. Sure. Sure. Well, and, you know, even if we were to assume that somehow you got to adjust your rates instantaneously when you placed something in service and started to assume that collections had started when they're really not, just because they're in your rates doesn't mean that you've actually collected it, does it?

I mean, can't whether you collected something depend on what your volumes were, how much you sold? I mean, you make all kinds of assumptions in rate cases to establish those rates, and a lot of times actual experience varies, right?

A. Yes.

Q. But under the calculation you're talking about, you not only assume that collections began immediately when it went into service, but you also assume that those collections actually happened, you know, in exact consistency with the rate that was in effect and the revenue assumptions that were in effect, but that's not true either, is it?

A. Do we adjust for that?

Q. Yeah, you don't adjust for that?

A. No.

Q. And you don't know what the impact of that would be if somebody were to say, well, tell me how much customers really paid of this stuff, tell me how much they really paid, you wouldn't know what the --

A. I guess if the company wanted to initiate a software to track it, we could -- we could do so.

Q. Okay. But you don't now and you're not sure what the magnitude would be?

A. (Witness shook head.)

Q. Okay. Why is it appropriate to go back and, in your view, reach back in time to return to future customers amounts that were supposedly collected from them in the past on an element of some service in this particular instance when, as you're probably aware, you really don't do that in many in other instances where rates don't match what your actual experience was?

I mean, if I had O&M expense that was greater than what was reflected in rates or I was given credit for in rates, I don't get to go back and get that additional amount from future customers. Why is it appropriate to do it in this instance?

A. Under the umbrella of what we have here with reserve, I believe it was -- the view is, to the extent that we can start getting these things with original cost separated and cost of removal separated, whether it's into a sinking fund or expense, we need to bring the balance in with as close proximity to the customers who was overcharged and try to get that overcharge back to them.

Q. Well, couldn't you say the same thing, though, if you somehow, you know, put $10 million in for O&M expense and only managed to incur $5 million, couldn't you say that it's appropriate to do the same thing there to take that $5 million difference and flow it through to future customers?

I mean, why wouldn't you do it there but do it in this particular instance? What's the distinguishing characteristic?

A. Well, I don't know what I -- I don't know. I can tell you what I did for -- or I can tell you for the arena we're speaking about, but to the extent someone has or has not done it or should not do it or should do it for another area, I don't know.

Q. So you personally --

A. It's not something for me to make a recommendation on.

Q. Okay. And you personally don't have an opinion on why it would maybe be treated differently in one area versus yours --

A. No.

Q. -- is that correct?

A. Right.
Q. Okay. You're aware, aren't you, that the case immediately preceding the 1990 rate case that Laclede had was a settled case?
A. I think the last case before that back to the '78 case was settled.
Q. I think we had a long history of settled cases, yes. And is it your recollection that nobody was recommending any principle of depreciation or depreciation methodology in that 1998 case?
A. In the 1998 case?
Q. Yes, the one that preceded the '99 case.
A. Oh, did Staff have a --
Q. It's mentioned in Mr. Adam's testimony, which is the only reason I'm asking.
A. Well, the '99 comes from the '98 case.
Q. Well, and that's why I'm trying to get a clarification from you. The '98 case, are you aware it was a settled by a Stipulation and Agreement?
A. Yes.
Q. Are you aware that it had language in there that said nobody's not agreeing to nothing here as far principle or methodology or anything of that nature?
A. Yes.
Q. Okay. So it would not be your testimony

that any principle of methodology or anything else of that nature was established in the '98 case?

A. Correct.

Q. With respect to depreciation or for all you know anything else?

A. (Witness nodded.)

Q. Okay.

MR. BYRNE: I don't know if they're picking up when you nod.

THE WITNESS: Yes.

BY MR. PENDERGAST:

Q. Let me ask you a question. Just as a general rule, do you think it's better for the Commission to establish or maintain a ratemaking mechanism under which the utility recovers its costs but no more than its costs compared to a method where you set a level and if you incur more, you absorb it, and if you incur less, you get a benefit? Do you have any particular opinion on which of those approaches is best?

A. For this particular area which I'm trying to provide you, it would -- I would try to provide you what you have incurred.

Q. And I understand that, but when you say I want to provide you what you've incurred, do you mean over time? I mean, would one of your goals be to say, I want

you to go ahead and recover your capital outlay, I don't want you to recover any more of it, and I don't want you to recover any less of it? Is that a better result than let's just establish a level and if it -- you incur more or you incur less, we'll just have some winners and losers. That's what I'm asking.

A. If I understand the ratemaking principles is that in a test year, what you incur as far as expenses in general now may or may not be exactly what that test year amount was.

Q. Exactly. And, you know, I guess what I'm asking is, under the old depreciation approach, you know, you make adjustments as you go through time, and the objective is to go ahead and come back to a point where it's all over where you didn't over or under-recover that capital investment, right?

A. We didn't over or under?

Q. Yeah. You just recovered whatever your investment was and that's it, right?

A. Well, I think that's what Staff is trying to do.

Q. Okay. And I guess what I'm saying is, do you believe that approach is more appropriate than an approach where you estimate a level of expenditure and if you incur more or you incur less, then the utility either

absorbs the difference or it gets a benefit?

A. I think that to the extent that what we've just spoke about, even with Staff, if we put into an amount that is this level, I wouldn't know that you could hit that target so exact that you were over or under. But to the extent that we've tried to accommodate recovery for the company, and I think that's what we've tried to do, I don't know that one is so perfect that you ever eliminate any of ratemaking, except for capturing the original cost, but what for it to be trying to -- trying to hit a target.

Q. Let me ask it to you this way: Not the approach reflected in Mr. Adam's testimony, but the next stage of the approach where you use the depreciation rate and you make it an expense item. If the utility actually incurs more net salvage than what you've given allowance for in there, it'll eat the difference; is that correct?

A. I think it will take on the characteristics of any other expense in a ratemaking proceeding.

Q. Okay. And conversely, if it incurs less than that, it'll get that benefit, right?

A. Correct.

Q. And do you prefer that, say, to an approach where you would go ahead, much like you do under your traditional depreciation, go ahead and accumulate any over or under-recoveries between rate cases so that, you know,

when you come back in the next case or in the future, you can flow those differences back to customers and in the end you don't over or under-recover your net salvage costs. Would that be just as appropriate or more appropriate in your view?

A. Well, I think the cost of removal is really now characteristic of an expense, and if the depreciation has life and we were tracking it, we know how much is there, we -- we have it into the expense arena, that you've separated it now. It's -- it's --

Q. Well, and I realize that's where you put it, but what I'm asking is your opinion on whether or not you're more comfortable with setting that level and saying, you know, there may be winners or losers, customers may overpay for it, the utility may undercollect for it, I like that better than having some mechanism that says we're going to reconcile those over and under-recoveries so that in the end customers don't pay anything more for it than what it actually was and the utility doesn't collect it anymore.

A. There is a third alternative, and that is to have a fund where it gets caught and it's there. That's another alternative.

Q. Okay.

A. And that's probably viable.

Q. And I guess I'm just asking, which of those alternatives do you personally believe is most appropriate?

A. Well, I'm certainly of the opinion that the fund which defines the dollars and makes a safeguard there that the dollars will be there for the future is one alternative. The expensing is certainly a viable solution. So of the three, then, the mechanism, where we can't know how much is collected, it's the least preferable.

Q. Okay. Least preferable from your perspective?

A. (Witness nodded.)

Q. Okay. Gas holders, you answered a couple of questions about those. Are you -- are you aware that Laclede did not appeal the Commissions decisions related to gas holders in its '99 case?

A. Can I ask my counsel?

Q. You certainly may.

A. So your question is am I aware of it?

Q. Yes, you are aware of whether Laclede appealed the gas holders decision by the Commission in the '99 case?

A. Yes.

Q. You're aware of whether we did?

A. I'm aware.

Q. And did we?

A. My understanding is it is not part of this remand.

Q. Okay. That's fine. I just wanted to clarify that.

You also in response to questions from Mr. Byrne talked about intergeneration equity, and you thought it was most appropriate and I guess most consistent with principles of intergenerational equity to charge customers for what the utility was actually incurring; is that correct?

A. Well, yes. You have one of three things going on. If you're retiring a unit, property, it's one either keeping the system integral and working to the customer so the customer is still getting service out of it, or it's not providing service to anyone, which you now established that there is no -- there's not a customer at the end paying for it because you cut the service.

And then that has two subsets. One is if you are required to -- if you are required to remove it, it's going to get caught under FASB. And if you're not required and you removed it, then the question becomes prudency, like why you would incur a cost that you don't need to?

Q. Well --

A. So to the best that we can, that's the -- to the best that we can, not necessarily -- if someone can come up with something even better, but to the best that we can, that's the best we can do with the equity.

Q. Okay. Well, let me ask you a follow-up question on that. Are you aware of any utilities that are typically out there spending money to do things to their facilities that they have no need to do, just for the fun of it?

A. Have I done a --

Q. Are you aware of any instance where utilities are doing that?

A. I wouldn't think that they would choose to do so.

Q. I mean, most rational business people-- would you concede there are few of those in the utility area?

A. It's the economic forces that's going to be looked at by the company.

Q. And if you don't have to incur a cost, generally speaking you won't, right?

A. Right.

Q. Okay. But I guess my question was, and you gave this answer of continuity and not having to put

something out, but getting back to the broader principle, are you saying intergenerational equity is best served by charging current customers what a utility is currently incurring in providing utility service?

A. Yes, because it's keeping their service going.

Q. Okay. Why isn't that applicable and why -- to justifying full recovery of that $50 million in expenditures that you talked about before immediately? I mean, wouldn't it be more equitable to say I incurred $50 million this year, currently incurring it. I've got my current customers over here. Why don't you pay that $50 million and we've got intergenerational equity achieved? Would it be achieved under those circumstances?

A. Is the customer tomorrow not also getting service from it?

Q. So the fact that the customer tomorrow is getting some service from it is a factor that needs to be considered?

A. I think that's where the allocation ratably over its life comes from.

Q. Okay. And by that same token, to the extent the customer today is benefiting from a cost that's going to be incurred in the future, is that also a factor that you would take into account?

A. Well, the problem in that statement is that you haven't verified that that cost is going to be incurred.

Q. In other words, it's got the same flaws as the service life estimate the Staff uses to allocate these costs?

A. Well, if you sell it to another entity, if you sell it, then that --

Q. Well, if you sell something to another entity, it's going to have the same impact on your recovery of service lives it is on your net allowance or your net salvage, isn't it? I mean, I don't see why that's a distinguishing characteristic.

A. Well, if you have a -- if you have a structure and you've -- if you've collected, let's say, 100 million for it to be retired some day but you sell that structure and those customers have incurred for that, that it's not going to be -- or maybe you decide to abandon it. Either way you don't know -- it's not an amount that is known and not subject to change.

Q. Like a service life estimate?

A. But the dollars that your service life estimate's applying to is known.

Q. Yes, but -- I know, but you're not recognizing that known and measurable amount, right?

A. I'm not recognizing it?

Q. No, not in the year it's being incurred. You're spreading it out over many years, right?

A. I am spreading it out.

MR. PENDERGAST: I'm finished.

CROSS-EXAMINATION BY MR. SCHWARZ:

Q. Ms. Schad, are there -- some estimates are reliable and some estimates are unreliable, would you agree with that?

A. Can you give me an example?

Q. No. Some estimates can be reliable, some estimates can be unreliable?

A. Maybe if there's empirical evidence.

Q. I want to clear up something about the Gannett-Flemming software for net salvage. Are you aware of what formulas it uses to calculate net salvage?

A. For calculating net salvage?

Q. Yes.

A. No.

Q. Okay. If the Gannett-Flemming software uses a ratio of cost of removal divided by the historical cost of the plant retired, all of that divided by the average service life, would such a formula in Staff's -- or would the software be providing a reliable estimate of future salvage?

A. Not necessarily.

Q. Is the -- is the estimate of average service life based on empirical studies of service lives of many industrial and commercial properties?

A. Yes.

Q. Are you aware of any such study for empirical study supporting estimates of future salvage costs?

A. No.

MR. SCHWARZ: That's it.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

CERTIFICATE OF REPORTER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, KELLENE K. FEDDERSEN, RPR, CSR, CCR, and Notary Public within and for the State of Missouri, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; that the testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action to which this deposition was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

____
KELLENE K. FEDDERSEN, RPR, CCR
Notary Public, State of Missouri
(Commissioned in Cole County)
My commission expires 3/28/05.

SIGNATURE PAGE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Rosella Schad, do hereby certify:

That I have read the foregoing deposition;

That I have made such changes in form and/or substance to the deposition as might be necessary to render the same true and correct;

That having made such changes thereon, I hereby subscribe my name to the deposition.

I declare under penalty of perjury that the foregoing is true and correct.

Executed the 17th day of September, 2004, at Jefferson City, Missouri.

Rosella Schad
ROSELLA SCHAD

Notary Public:
D. SUZIE MANKIN D Suzie Mankin
My commission expires:
07-01-2008

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

KF/Rosella Schad
RE: Laclede Gas Company/GR-99-315

ERRATA SHEET

ROSELLA SCHAD

The following changes/corrections and needed for the deposition of Missouri Public Service Commission Staff witness Rosella Schad.

Deposition of: Rosella Schad

Case Numbers: GR-99-315

Company: Laclede Gas Company

Date Taken: September 3, 2004

Page	Lines	Remove	Replace
1	5	GR-88-315	GR-99-315
9	7	is is	is
10	11	modality	mortality
22	2	at data	for the given data
22	7	assimilated	assembled
22	10	the plot	, the plot,
23	8	Seibll	FIFO
26	14	to go in	
26	20 - 21	capital plant	
36	16	that that	that
36	18 – 19		...Depreciation is the loss in service value.
37	10	indentify	identified

Page	Lines	Remove	Replace
38	3	case	cost
38	16	one, one	one
40	13	you know	
43	2		average, or whether it's the most
43	3	trim	trend
43	4	that a level	that level
43	22		No, not that I can recall
44	1	I'm not – I'm not	I was
45	3		I know he backed into it and I know he saw what was happening.
47	1	have	that I have
47	18		in their data
47	20	they're goes to be	is
48	10	costs	
49	1	you still have the	
49	2 – 3	I mean, when you're talking	
49	12	you know	
49	18	you will incur	
49	25	Well, you still have one the	
50	1	assimilate	estimate
51	19	I'd have to	
51	20	there	

Page	Lines	Remove	Replace
54	2	that's	
55	6		it's not my
56	3	tied into – With the --	
58	20	own have	own and have
59	7	It is a	
59	7	, but we work	
59	8	can't	can
61	23	you can have	
62	62	One could become	
63	13	Well, I can	
66	16	It's fair	
67	4	you're going to – it's	is imminent
69	24	that the customer's no longer	
70	15	series	service
70	16	I	You
74	2	that speaking of --	
74	3	I mean, like	
75	1 – 2	the company's might	and to the extent that you might see -
75	21	you – you know	
75	22	to the extent possible	
75	25	You know	

Page	Lines	Remove	Replace
77	5	duty	study
			70 yr life
77	6	they're doing a lot of, you know,	
77	9		go shorter, yes
77	25		shorter life
82	7	you have growth	on
93	21	I can	
93	24 – 25	I can't	
93	7 – 8	I would probably also say, can tell me	
97	10		specifically if I have
100	15	of how	
101	6	I think that	
102	8		Schwarz and to Lisa Kremer
104	16 –17	for an amount	times that amount of plant assets on the books
106	15	for on Staff	for Staff
113	1	That is what if	
117	15	that is	
118	24		It's geting
129	16	I can	
130	14	the	or
130	15		removal from the

Page	Lines	Remove	Replace
132	2		to have salvage
132	25	If you	
137	13	I don't know what I	
141	3	spoke	spoken
141	10	What for it to be trying to	
144	2	that's the	
142	10	It's – it's	
144	14		unit of property, it's one of
147	14	if you have a	
147	15	and you've	

Rosella Schad