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**MISSOURI PUBLIC SERVICE COMMISSION  
UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY  
OF  
STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY  
d/b/a Ameren Missouri**

**FILE NO. ER-2011-0028**

*Jefferson City, Missouri  
February 8, 2011*

*Staff*  
Exhibit No. 223  
Date 4/26/11 Reporter SWS  
File No. ER-2011-0028

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OF  
STEPHEN M. RACKERS  
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**DIRECT TESTIMONY**

**OF**

**STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY  
d/b/a AMEREN MISSOURI**

**FILE NO. ER-2011-0028**

Q. Please state your name and business address.

A. Stephen M. Rackers, 111 North 7<sup>th</sup> Street, Suite 105, St. Louis, MO 63101.

Q. Please describe your educational background and work experience.

A. I attended the University of Missouri in Columbia, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1978. I have been employed by the Missouri Public Service Commission (Commission) since June 1, 1978, within the Auditing Department.

Q. Are you a Certified Public Accountant (CPA)?

A. Yes, I am. I passed the Uniform Certified Public Accountant examination and I am licensed in the state of Missouri as a CPA. In 1994 the Uniform CPA examination consisted of four parts: Accounting Practice, Accounting Theory, Auditing and Business Law.

Q. Have you previously filed testimony before this Commission?

A. Yes. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1997 to current, is attached as Schedule 1 to this direct testimony.

Q. What knowledge, skills, experience, training and education do you have in the areas of which you are testifying as an expert witness?

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1           A.     I have been employed by this Commission as a Regulatory Auditor for over  
2 30 years, and have submitted testimony on revenue, expense, and rate base ratemaking  
3 matters numerous times before the Commission. I have also been responsible for the  
4 supervision of other Commission employees in rate cases and other regulatory proceedings  
5 many times. I also participate in proceedings that involve the enforcement, interpretation and  
6 writing of the Commission's rules. I have received continuous training at in-house and  
7 outside seminars on technical ratemaking matters since I began my employment at the  
8 Commission. My responsibilities auditing the books and records of the utilities regulated by  
9 the Commission require that I review statutes applicable to the Commission or the utilities  
10 regulated by the Commission, the Commission's rules, utility tariffs, and contracts and other  
11 documents relating to the utilities' operations.

12           Q.     Have you participated in the Commission Staff's (Staff) audit of  
13 Union Electric Company, d/b/a Ameren Missouri (Ameren Missouri or Company) concerning  
14 its request for a rate increase in this proceeding?

15           A.     Yes, I have, with the assistance of other members of the Staff. I am the  
16 Services Division case coordinator facilitating the work of the Division's Staff members, and  
17 I interface and work with the Staff from other Commission Divisions involved in the Staff's  
18 direct case.

19           **EXECUTIVE SUMMARY**

20           Q.     Please summarize your direct testimony in this proceeding.

21           A.     I am sponsoring the Staff's Revenue Requirement Cost of Service  
22 Report (Report) in this proceeding that is being filed concurrently with this direct testimony.

1 I also provide in this direct testimony an overview of the Staff's revenue requirement  
2 determination. The Staff has conducted a review of all the components (capital structure,  
3 return on rate base, rate base, operating revenues and operating expenses) that determine  
4 Ameren Missouri's retail jurisdictional revenue requirement. My testimony provides an  
5 overview of the Staff's work in each area.

6 In addition my testimony provides a description of a construction audit and prudence  
7 review and an identification of the Staff members assigned to this project.

8 **REVENUE REQUIREMENT COST OF SERVICE REPORT**

9 Q. Please explain the organizational format of the Staff's Revenue Requirement  
10 Cost of Service Report (Report).

11 A. The Staff's Report has been organized by topic as follows:

- 12 I. Executive Summary
- 13 II. Background of Ameren Missouri
- 14 III. Test Year/True-Up Period
- 15 IV. Major Issues
- 16 V. Rate of Return
- 17 VI. Rate Base
- 18 VII. Allocations
- 19 VIII. Income Statement
- 20 IX. Fuel Adjustment Clause (FAC)
- 21 X. Other Items

22 The Rate Base and Income Statement sections have numerous subsections which  
23 explain each specific area and/or adjustment made by the Staff to the test year ending

1 March 31, 2010. The individual Staff member responsible for each area of the Staff's  
2 direct case and/or adjustment is identified in the Report following the written discussion he or  
3 she authored, and is the expert/witness respecting that section of the Staff's Report. The Staff  
4 may have a different or an additional expert/witness for rebuttal or surrebuttal testimony if  
5 this case goes to hearing.

6 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

7 Q. In its audit of Ameren Missouri for File No. ER-2011-0028, has the Staff  
8 examined all of the cost of service components comprising the revenue requirement for  
9 Ameren Missouri's electric operations in Missouri?

10 A. Yes.

11 Q. What are the cost-of-service components that comprise the revenue  
12 requirement for a regulated investor-owned public utility?

13 A. The revenue requirement for a regulated investor owned public utility can be  
14 defined by the following formula:

15 Revenue Requirement = Cost of Providing Utility Service (Cost of Service)

16 or

17 
$$RR = O + (V - D)R \text{ where,}$$

18 RR = Revenue Requirement

19 O = Operating Costs (Fuel, Payroll, Maintenance, etc.), Depreciation and Taxes

20 V = Gross Valuation of Property Required for Providing Service (including plant  
21 plus and minus other rate base items)

22 D = Accumulated Depreciation Representing Recovery of Gross Property  
23 Investment

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1             $V - D = \text{Rate Base (Gross Property Investment less Accumulated Depreciation = Net$   
2     $\text{Property Investment)}$

3             $(V - D)R = \text{Return Allowed on Rate Base}$

4            The "revenue requirement" calculated by this formula is the utility's total revenue  
5 requirement. In rate cases, the term "revenue requirement" generally refers to the utility's  
6 necessary incremental change in revenues based on the utility's existing rates and total cost of  
7 service.

8            Q.     What is the objective of an audit of a regulated investor-owned public utility  
9 for ratemaking purposes?

10          A.     The objective of an audit is to determine the appropriate level of the  
11 components identified in my last answer in order to calculate the revenue requirement for  
12 such a regulated utility. All relevant factors are examined and a proper relationship of  
13 revenues, expenses, and rate base is maintained. The process for making that revenue  
14 requirement determination can be summarized as follows:

15                1)     Selection of a test year. The test year income statement represents the  
16 starting point for determining a utility's existing annual revenues, operating costs and  
17 net operating income. Net operating income represents the return on investment based upon  
18 existing rates. The test year, selected for File No. ER-2011-0028, is the twelve months ending  
19 March 31, 2010. Adjustments are made to the test year results when the unadjusted amounts  
20 do not fairly represent the utility's most current annual level of revenues and operating costs.  
21 As discussed below, additional information through February 28, 2011, will be considered for  
22 inclusion in the cost of service during the true-up audit agreed to by the Parties and ordered by  
23 the Commission.

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1                   2)     Selection of a "test year update period." A proper determination of  
2 revenue requirement is dependent upon matching the rate base, return on investment,  
3 revenues, and operating costs components at the same point in time. This ratemaking  
4 principle is commonly referred to as the "matching" principle. It is a standard practice in  
5 ratemaking in Missouri to utilize a period beyond the established test year in which to match  
6 the major components of a utility's revenue requirement. By updating test year financial  
7 results to reflect information beyond the established test year, rates can be set based upon  
8 more current information. Although it is a common practice to update the test year, the  
9 Parties to this case agreed that an update was not necessary, and that post-test year financial  
10 results for the determination of revenue requirement could be adequately reflected by  
11 performing a true-up.

12                   3)     Selection of a "true-up date" or "true-up period." A true-up date  
13 generally is established when a significant change in a utility's cost of service occurs after the  
14 end of the test year update period, but prior to the operation-of-law date, and the significant  
15 change in cost of service is one the parties and/or Commission has decided should be  
16 considered for cost of service recognition in the current case. In this proceeding, the  
17 Company is expecting to experience a large increase in coal cost, and add a significant  
18 amount of plant, after the end of the test year. The cost of these and other changes will be  
19 considered for inclusion in the cost of service during the true-up audit authorized by the  
20 Commission for this case, but substantive issues that can be quantified within the timeframe  
21 of the main evidentiary hearings will be tried then and not in the true-up phase of the case..

22                   4)     Determination of Rate of Return. A cost of capital analysis must be  
23 performed to allow Ameren Missouri the opportunity to earn a fair rate of return on its



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1 net investment (rate base) used in the provision of utility service. Staff witness David Murray  
2 has performed a cost of capital analysis and is sponsoring a section of the Staff's Revenue  
3 Requirement Cost of Service Report to explain and provide the results of his analysis.

4           5)     Determination of Rate Base. Rate base represents the utility's  
5 net investment used in providing utility service, on which the utility is permitted the  
6 opportunity to earn a return. For its direct filing, the Staff has determined Ameren Missouri's  
7 rate base consistent with the end of the test year established for this case, March 31, 2010, and  
8 estimated amounts through the true-up cut-off date, February 28, 2011 for plant, depreciation  
9 reserve and accumulated deferred income taxes. These estimates will be replaced with actual  
10 amounts following the true-up as authorized by the Commission. Other rate base components  
11 reflect the last known balance, which will also be replaced with actual amounts following the  
12 true-up. Rate base includes, e.g., plant in service (plant fully operational and used for  
13 service), cash working capital, materials and supplies, prepayments, fuel inventories,  
14 accumulated reserve for depreciation, accumulated deferred income tax, etc.

15           6)     Net Operating Income from Existing Rates. The starting point  
16 for determining net income from existing rates is the unadjusted operating revenues,  
17 expenses, depreciation, and taxes for the test year which is the twelve-month period ending  
18 March 31, 2010, for this case. All of the utility's specific revenue and expense categories are  
19 examined to determine whether the unadjusted test year results require adjustments in order to  
20 fairly represent the utility's most current level of operating revenues and expenses.  
21 Numerous changes occur during the course of any year that will impact a utility's annual level  
22 of operating revenues and expenses. The March 31, 2010 test year has been adjusted to  
23 reflect the Staff's determination of the appropriate ongoing levels of revenues and expenses.

1 | These items will be reexamined based on actual data as part of the true-up through  
2 | February 28, 2011.

3 |           7)     Determination of Net Operating Income Required. The net income  
4 | required for Ameren Missouri is calculated by multiplying the Staff's recommended rate of  
5 | return by the rate base. Net income required is then compared to net income available from  
6 | existing rates discussed in Item 6. The difference, when factored-up for income taxes,  
7 | represents the incremental change in the utility's rate revenues required to cover its operating  
8 | costs and provide a fair return on investment used in providing electric service. If a utility's  
9 | current rates are insufficient to cover its operating costs and a fair return on investment, the  
10 | comparison of net operating income required (Rate Base x Recommended Rate of Return) to  
11 | net income available from existing rates (Operating Revenue less Operating Costs,  
12 | Depreciation and Income Taxes) will result in a positive amount. If the comparison results in  
13 | a negative amount, this indicates that the utility's current rates may be excessive.

14 |           Q.     Please identify the types of adjustments which are made to unadjusted test year  
15 | results in order to reflect a utility's current annual level of operating revenues and expenses.

16 |           A.     The types of adjustments made to reflect a utility's current annual operating  
17 | revenues and expenses are:

18 |                 1)     Normalization adjustments. Utility rates are intended to reflect normal  
19 | ongoing operations. A normalization adjustment is required when the test year reflects the  
20 | impact of an abnormal event. One example is the Staff's revenue adjustment to normalize  
21 | weather. Actual weather/climate (weather) conditions during the test year are compared to a  
22 | 30-year "normal." The weather normalization adjustment restates the test year sales volumes  
23 | and revenue levels to reflect normal weather conditions.

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1                   2)     Annualization adjustments. Annualization adjustments are required  
2 when changes have occurred during the test year, update and/or true-up period, which are not  
3 fully reflected in the unadjusted test year results. For example, a portion of Ameren  
4 Missouri's employees received a salary increase during July of 2009. As a result, only a  
5 portion of the twelve months ending March 31, 2010, reflect the impact of this payroll  
6 increase. An annualization adjustment was made to capture the financial impact of the payroll  
7 increase for the portion of the test year prior to the wage increase.

8                   3)     Disallowance adjustments. Disallowance adjustments are made to  
9 eliminate costs in the test year results that are not considered prudent, reasonable, appropriate  
10 and/or of benefit to Missouri ratepayers for recovery from ratepayers. An example in this  
11 case is certain executive incentive compensation costs. In the Staff's view, these costs are  
12 incurred to primarily benefit shareholder interests, and it is not appropriate policy to pass  
13 these costs onto customers in rates, these costs do not benefit ratepayers. Therefore, these  
14 costs should be eliminated from the cost of service borne by ratepayers, and the Staff has  
15 proposed to disallow these costs from recovery in rates.

16                   4)     Pro forma adjustments. Pro forma adjustments reflect the impact of  
17 items and events that occur subsequent to the test year. These items or events significantly  
18 impact the revenue, expense and rate base relationship and should be recognized to address the  
19 forward-looking objective of the test year. Caution must be taken when recognizing pro forma  
20 adjustments to ensure that all items and events subsequent to the test year are examined to  
21 avoid not recognizing offsetting adjustments. In addition, some post-test year items and  
22 events may not have occurred yet and/or may not have been sufficiently measured. As a  
23 result, quantification of some pro forma adjustments may be more difficult than the

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1 quantification of other adjustments. A true-up audit that considers a full range of items and  
2 events that occur subsequent to the test year attempts to address the maintenance of the proper  
3 relationship among revenues, expenses and investment as well as address the difficulty in  
4 quantification associated with making pro forma adjustments.

5 Q. What rate increase amount, based on what return on equity (ROE) percentage,  
6 did the Company request from the Commission in this case?

7 A. Ameren Missouri requested that its annual revenues be increased by  
8 approximately \$263 million, based on an ROE of 10.90%.

9 Q. Please describe the Staff's direct case revenue requirement filing in this  
10 proceeding.

11 A. The results of the Staff's audit of Ameren Missouri's rate case request can be  
12 found in the Staff's filed Accounting Schedules, and is summarized on Accounting  
13 Schedule 1, Revenue Requirement. This Accounting Schedule shows that the Staff's  
14 recommended revenue requirement for Ameren Missouri in this proceeding ranges from  
15 approximately \$44,789,202 to \$99,306,105 based upon a recommended rate of return (ROR)  
16 range of 7.11% to 7.62%. Staff's recommended ROE range is 8.25% to 9.25%, as calculated  
17 by Staff expert/witness David Murray. Staff's midpoint ROE is 8.75%.

18 Q. What portion of the Staff's recommended increase in the cost of service is the  
19 result of increasing net fuel expense above the amount currently included in base rates?

20 A. The revenue requirement calculated by the Staff, includes an increase of  
21 approximately \$50 million in the net fuel cost included in base rates. This increase  
22 includes the changes in net fuel cost since the January 31, 2010 true-up cut-off date in  
23 Case No. ER-2010-0036 that are currently being recovered through the fuel adjustment

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1 | clause. This increase also includes the changes in net fuel cost that are estimated to occur  
2 | through February 28, 2011, the true-up cut-off date in this rate case.

3 |         The remainder of the Staff's \$22 million revenue requirement, at the midpoint of its  
4 | rate of return range, is due to increases in non-fuel costs.

5 |         Q.     What items are included in the Staff's recommended rate base in this case?

6 |         A.     The rate base items include: Plant in Service, Accumulated Reserve for  
7 | Depreciation, Cash Working Capital, Materials and Supplies, Prepayments, Fuel Inventories,  
8 | Customer Advances for Construction, Customer Deposits, unamortized FAS 87-Pension  
9 | and FAS 106-OPEBs Tracking Liabilities, the unamortized Energy Efficiency  
10 | DSM Regulatory Asset and the Accumulated Deferred Income Tax Reserve (ADIT). The  
11 | Plant, Depreciation Reserve and ADIT balances reflect the Staff's estimates through the  
12 | February 28, 2011 true-up cut-off date. Other rate base items reflect various levels at or  
13 | beyond the end of the March 31, 2010 test year. The rate base components will be true-up  
14 | through February 28, 2011.

15 |         Q.     What are the significant income statement adjustments the Staff made in  
16 | determining Ameren Missouri's revenue requirement for this case?

17 |         A.     A summary of the Staff's significant income statement adjustments follows:

18 |         Operating Revenues

19 |         Retail revenues were adjusted for the elimination of unbilled revenue and gross  
20 | receipts taxes, customer growth, weather normalization and the increase ordered by the  
21 | Commission in Ameren Missouri's last general rate increase case effective June 21, 2010,  
22 | Case No. ER-2010-0036. Other electric revenues were adjusted for off-system sales, capacity  
23 | and ancillary sales and transmission revenues.

1        **Depreciation and Amortization Expense**

2        Depreciation expense was annualized based upon the plant in service as of  
3        March 31, 2010, the Staff's true-up estimate through February 28, 2011, and the new  
4        depreciation rates resulting from Case No. ER-2010-0036. The new depreciation rate  
5        proposed by the Company and accepted by the Staff for the Taum Sauk Pumped Storage Plant  
6        is reflected in the calculation of depreciation expense.

7        **Payroll, Payroll Taxes and Employee Benefit Costs**

- 8                    • Payroll expense annualized for wage increases and employee levels  
9                    through January 1, 2011.
- 10                   • Payroll taxes consistent with the payroll annualization.
- 11                   • Incentive compensation and restricted stock awards disallowance.
- 12                   • Callaway refueling overtime normalization.
- 13                   • Employee benefits including pensions and OPEBs.
- 14                   • Voluntary and involuntary employee separation programs.
- 15                   • Amortizations of severance costs and union lump sum payment

16        **Other Non-Labor Expenses**

- 17                   • Property taxes based on the most recent tax payments and the estimated  
18                   additional taxes related to the Sioux scrubbers and Taum Sauk.
- 19                   • Fuel, purchased power and off-system sales annualizations to reflect  
20                   January 1, 2011 coal prices, Staff's recommended market prices, and  
21                   the dispatch of power sources to meet the Staff's determination of  
22                   Ameren Missouri's generation requirements.
- 23                   • Rate case expense adjustment.
- 24                   • Disallowance of certain advertising, dues and donations.
- 25                   • Insurance premiums adjustment.
- 26                   • Storm cost amortization and normalization.

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- 1                   • Power plant maintenance normalization.  
2                   • Elimination of Taum Sauk upper reservoir failure expenses.

3           Q.     What reliance did you place on the work or conclusions of other Staff members  
4 working on Staff's behalf?

5           A.     I and the other assigned Staff Auditors relied on the work from numerous other  
6 Staff members in calculating a revenue requirement for Ameren Missouri in this case.  
7 Weather-normalized sales and the recommended rate of return are some examples of data and  
8 analysis supplied to the Auditing Department as inputs into the Staff's revenue requirement  
9 cost of service calculation. Signed affidavits and the qualifications for all Staff members  
10 who are responsible for a section of the Staff's Cost of Service Revenue Requirement Report  
11 and for whom that section constitutes direct testimony in this rate proceeding are attached in  
12 an appendix to the Report. Each Staff member who is responsible for a section of the  
13 Staff's Revenue Requirement Cost of Service Report is identified at the conclusion of the  
14 section he or she authored as being the Staff expert/witness responsible for that section.

15          Q.     What are the biggest differences between the rate increase request filed by the  
16 Company and the Staff revenue requirement recommendations being filed in this proceeding?

17          A.     From the Staff's perspective, there are four primary revenue requirement  
18 differences.

- 19               • Return On Equity (ROE).

20               As previously stated, Ameren Missouri's return on equity recommendation is  
21 10.90%, while the Staff is recommending a range of 8.25% through 9.25%.

22               The dollar difference between the Company and the Staff's midpoint return on  
23 equity, 10.90% compared to 8.75%, is approximately \$125 million.

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- 1           • Payroll, Payroll Taxes and Benefits Cost.

2           The Staff's normalization and annualization of payroll, payroll taxes and  
3           benefits, including pensions and OPEBs, results in a difference from the  
4           Company of \$10 million.

- 5           • Fuel and Purchased Power net of Off-System Sales (OSS).

6           The majority of this difference relates to the level of off-system sales  
7           recommended to be reflected in rates by Ameren Missouri and the Staff. The  
8           total difference between Company and the Staff in this area is approximately  
9           \$21 million.

- 10          • Amortization Expense.

11          This item includes amortization expense associated energy efficiency,  
12          vegetation management, infrastructure inspections and other items. The total  
13          difference between Company and the Staff in this area is approximately  
14          \$13 million.

15          There are other significant differences between the Staff and the Company, based  
16          upon their respective direct filings. However, these items are less significant than the  
17          differences discussed above.

18          Q.    Is it possible that significant differences exist between the Staff's revenue  
19          requirement positions and those of other Parties besides Ameren Missouri in this proceeding?

20          A.    Yes. However, the other Parties are filing their prepared direct testimony,  
21          if any, concurrent in timing with the Staff's direct filing. Until the Staff has a chance to  
22          examine the direct testimony of other Parties, it is impossible for the Staff to determine what  
23          differences exist and how material they may be.



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1 Q. Are there other significant differences that exist between the Staff and Ameren  
2 Missouri in their direct filings that are not specifically quantified on the Accounting  
3 Schedules?

4 A. Yes. The Company recommends that the Commission implement accounting  
5 authority orders (AAOs) which allow Ameren Missouri to continue construction accounting  
6 on relocation of facilities required by government entities and additions to plant in service that  
7 occur after the true-up cut-off date, but prior to the effective date of new rates in the current  
8 case. The Company is also requesting an AAO to allow Ameren Missouri to accumulate any  
9 cost related to the implementation of the Renewable Energy Standards resulting from  
10 legislation passed in 2008, commonly referred to as Proposition C. The Staff's  
11 recommendations regarding these issues are discussed in its Revenue Requirement Cost of  
12 Service Report.

13 Q. Please identify the Staff experts/witnesses responsible for addressing each area  
14 where there is a known and significant difference between the Staff and the Company that is  
15 addressed in this direct testimony or in the Staff Report in Section IV, Major Issues.

16 A. The Staff experts/witnesses for each listed issue are as follows:

17 <u>Issue</u>	<u>Staff Witness</u>
18 Return on Equity/Rate of Return	David Murray
19 Payroll, Payroll Taxes and Benefits	John P. Cassidy
20 Fuel, Purchased Power and Off-System Sales	Alan J. Bax
21	Shawn E. Lange
22	Erin L. Maloney
23	Lisa K. Hanneken
24	David W. Elliott
25	
26 Amortization Expense	John A. Rodgers
27	Stephen M. Rackers

1  
2 Construction Accounting AAOs Stephen M. Rackers

3 Renewable Energy Standards AAO Michael E. Taylor

4 Q. When will the Staff be filing its customer class cost of service/rate design  
5 direct testimony and report in this proceeding?

6 A. The Staff's customer class cost of service/rate design direct case report /  
7 prepared direct testimony and schedules will be filed on February 10, 2011.

8 **CONSTRUCTION AUDIT AND PRUDENCE REVIEW OF GENERATING UNITS**

9 Q. What is a construction audit and prudence review?

10 A. A construction audit and prudence review is an examination of expenditures  
11 for large capital additions, generally relating to power plants. A construction audit and  
12 prudence review is typically conducted prior to and during the course of a rate increase  
13 application and/or tariff filing of a utility seeking rate recovery of costs relating to the  
14 construction project.

15 Staff has examined costs of power plants various times, most notably when  
16 Kansas City Power & Light Company and Union Electric Company built the Wolf Creek and  
17 Callaway nuclear generating facilities, respectively, in the late-1970's to the mid-1980's, but  
18 even respecting construction projects prior to those generating facility construction projects,  
19 such as the construction of the Iatan 1 generating facility by Kansas City Power & Light  
20 Company. A construction audit and prudence review was performed in Case No. ER-2004-  
21 0570, involving The Empire District Electric Company (Empire). In that rate case, costs  
22 relating to Empire's Energy Center Units 3 and 4, which are simple-cycle combustion turbine

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1 generators, were examined by Staff including a Staff Auditor from the Commission's  
2 St. Louis office.

3 Q. What Staff members were involved in the examination of Empire's Energy  
4 Center units?

5 A. Staff members assigned to the review of Empire's Energy Center Units 3 and 4  
6 were Staff witnesses David W. Elliott, Utility Engineering Specialist III in the Commission's  
7 Energy Department and Staff witness Roberta A. Grissum, of the Commission's  
8 Auditing Department. In addition, Staff witness Elliott performed a review of the in-service  
9 performance testing of each of the generating units. It is typical procedure for both Staff  
10 accounting/auditing and engineering personnel to participate and file testimony in  
11 Staff construction audits and prudence reviews.

12 Q. How did Staff perform its review of construction costs in Empire  
13 Case No. ER-2004-0570?

14 A. Staff members toured the plant facilities at various times during construction  
15 and also after completion. Information on the units was reviewed and discussed at the plant  
16 site and also at Empire's general headquarters. Staff reviewed and requested copies of  
17 specific information regarding the project, as a rule, by data request. Once this information  
18 was received, follow-up or additional questions were submitted, either by data request, e-mail  
19 or telephone call. Staff reviewed multiple versions of the construction budget, Board of  
20 Directors meetings minutes, documentation regarding specific components of the project,  
21 explanations of budget overruns, and various other documentation.

22 Q. Was Staff satisfied with the level of costs it took to construct Energy Center  
23 Units 3 and 4?

Direct Testimony of  
Stephen M. Rackers

1           A.     No. Based on its review, Staff found that Empire had acted imprudently with  
2 regard to its management of the project and proposed a disallowance of a portion of the  
3 project cost.

4           Q.     Did the Staff conduct a construction audit and prudence review as part of  
5 File No. ER-2011-0028?

6           A.     Yes. The Staff is filing a separate construction audit and prudence review  
7 report for the addition of wet flue gas desulfurization units (scrubbers) at the Sioux coal-fired  
8 Generating Station. The Staff is also filing a construction audit and prudence review report  
9 for the rebuild of the upper reservoir and the addition of plant enhancements at the  
10 Taum Sauk Pumped Storage Hydroelectric Plant.

11          Q.     What Staff members were assigned to the construction audits and prudence  
12 reviews?

13          A.     Under the direction and supervision of Robert E. Schallenberg, Utility Services  
14 Division Director, Staff Auditor Roberta A Grissum, conducted the Auditing Department's  
15 portion of the construction audit and prudence review of the Sioux scrubbers and  
16 Staff Auditor Erin M. Carle conducted the Auditing Department's construction audit and  
17 prudence review of the Taum Sauk reservoir rebuild and Guy C. Gilbert, Engineering and  
18 Management Services Department, Utility Services Division, conducted the engineering  
19 review at Taum Sauk. Michael E. Taylor, Energy Department, Utility Services Division,  
20 conducted the engineering review at Sioux.

21          Q.     Is a construction audit and prudence review limited to questions of prudence?

Direct Testimony of  
Stephen M. Rackers

1           A.     No. In addition to prudence, Staff looks at matters regarding reasonableness,  
2     appropriateness, benefit to Missouri ratepayers and whether the facilities are fully operational  
3     and used for service.

4           Q.     Does this conclude your prepared direct testimony in this proceeding?

5           A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**


**OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company d/b/a )  
AmerenUE's Tariff to Increase Its Annual ) File No. ER-2011-0028  
Revenues for Electric Service )


**AFFIDAVIT OF STEPHEN M. RACKERS**

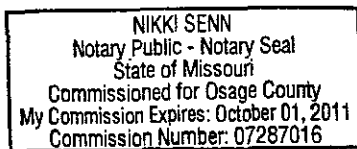
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Stephen M. Rackers

Subscribed and sworn to before me this 8<sup>th</sup> day of February, 2011.

  
Notary Public



Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
Revenue Requirement Cost Of service Report, Debt Facility Fees, Energy Efficiency, Equity Issuance Cost, Income Taxes	GR-2010-0363	Direct	Union Electric Company d/b/a AmerenUE
Revenue Requirement Cost Of service Report Overview	GR-2010-0192	Direct	Atmos Energy, Inc.
Revenue Requirement Cost Of service Report, Vegetation Management, Infrastructure Inspections, Storm Cost, Training	ER-2010-0036	Direct, Surrebuttal	Union Electric Company d/b/a AmerenUE
Interim Rates	ER-2010-0036	Direct, Rebuttal, Surrebuttal,	Union Electric Company d/b/a AmerenUE
Revenue Requirement Cost Of service Report, Taum Sauk Capacity Sales, Nuclear Plant Licensing	ER-2008-0318	Direct, Surrebuttal	Union Electric Company d/b/a AmerenUE
True-Up, Income Taxes, MGP Sites, Other Rates Base Items, Revenue Requirement and OPEB	GR-2007-0387	Direct, Rebuttal	ATMOS Energy Corporation
True-up, Security AAO, Joplin Surcharge	WR-2007-0216	Direct, Rebuttal, Supplemental True-up Direct	Missouri- American Water Company
Income Taxes, Accumulated Deferred Income Taxes in Rate Base, Taum Sauk Generating Plant, Pinckneyville and Kinmundy Generating Plants, Accumulated Income Deferred Income Tax Balance, Income Tax Expense	ER-2007-0002	Direct, Rebuttal, Surrebuttal	Union Electric Company d/b/a AmerenUE
Revenue-Requirement,	GR-2006-0387	Direct, Rebuttal	ATMOS Energy

Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
True-up, Income Taxes, MGP Sites, Other Rate Base Items, OPEBs			Corporation
Affidavit in Support of the Stipulation and Agreement on various issues.	GR-2005-0284	Stipulation and Agreement	Laclede Gas Company
ISRS Income Taxes	GO-2004-0443	Direct	Laclede Gas Company
St. Joseph Treatment Plant, AAOs, Depreciation, Transaction Costs, Old St. Joseph Treatment Plant, Security Accounting Authority Order, Acquisition Adjustments	WC-2004-0168	Direct, Surrebuttal	Missouri-American Water Company
Security AAO, Recovery Of Undepreciated Plant Balances and Acquisition Adjustments	WR-2003-0500	Direct, Surrebuttal	Missouri-American Water Company
Transaction Costs, Depreciation, AAO's, Acquisition Adjustment, Security Accounting Authority Order, Old St. Joseph Treatment Plant	WR-2003-0500	Direct, Surrebuttal	Missouri-American Water Company
Financial Aspects	GT-2003-0117	Direct	Laclede Gas Company
Copper Surveys, Net Salvage Expense, Environmental Cost, Test Year & True-Up, Accounting Authority Orders, Laclede Pipeline, Safety and Copper Service Replacement Program	GR-2002-356	Direct, Rebuttal, Surrebuttal	Laclede Gas Company
Purchase Power	ER-2002-217	Direct	Citizens Electric Corporation
Income Taxes, Pension Liability	EC-2002-1025	Direct	Union Electric Company d/b/a



Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
Pension Liability, AFUDC, Deferred OPEB Asset, New St. Joseph Treatment Plant Phase-In, OPEBS-FAS 106, Accounting Authority Order, Phase-In, St. Joseph Treatment Plant		Surrebuttal	American Water Company
Staff's Explanation and Rationale for Supporting the Stipulation Agreement	SR-2000-282	Direct in Support of Stipulation Agreement	Missouri-American Water Company
Territorial Agreements	EO-99-599	Rebuttal	Union Electric Company / Ozark Border Electric Cooperative
Safety Deferral, FAS 87, FAS 88, FAS 106, Prepaid Pension Asset, Environmental Cost, Computer Cost, Supplemental Pension, Accounting Authority Orders	GR-99-315	Direct, Rebuttal, Surrebuttal	Laclede Gas Company
Main Replacement Program, Order-Infrastructure, Accounting Authority, Main Replacement Programs	WO-98-223	Direct	St. Louis County Water Company
Lease Classification & Terms	WA-97-46	Rebuttal	Missouri-American Water Company
Amortization of Depreciation Reserve Deficiency, Appointment Meter Reading, Main Incident Expense, Income Tax, Infrastructure Replacement Deferral, Property Tax	WR-97-382	Direct	St. Louis County Water Company
Lease Classification & Terms	WF-97-241	Rebuttal	Missouri-American Water

Regulatory Case Proceeding Participation

**Stephen M. Rackers**

<b>Issue</b>	<b>Case Number</b>	<b>Exhibit</b>	<b>Case Name</b>
			Company
Income Tax, Territorial Agreement, Overview, Income Taxes, Alternative Regulation Plan and Agreements, Pension Liability	EM-96-149	Direct, Surrebuttal	Union Electric Company
Overview, Income Tax, Territorial Agreements, Alternative Regulation Plan and Agreement	EO-96-14	Direct, Surrebuttal	Union Electric Company