

212

*Exhibit No.:*  
*Issue:* *Taum Sauk & Depreciation*  
*Witness:* *Guy C. Gilbert, PE, RG*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*File No.:* *ER-2011-0028*  
*Date Testimony Prepared:* *April 15, 2011*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**GUY C. GILBERT, PE, RG**

**UNION ELECTRIC COMPANY**

**d/b/a Ameren Missouri**

**CASE NO. ER-2011-0028**

*Jefferson City, Missouri*  
*April 2011*

*Staff* Exhibit No. 212  
Date 4/26/11 Reporter JNB  
File No. ER-2011-0028

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**UNION ELECTRIC COMPANY**  
**d/b/a Ameren Missouri**  
**CASE NO. ER-2011-0028**

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **GUY C. GILBERT, PE, RG**

4 **UNION ELECTRIC COMPANY**

5 **d/b/a Ameren Missouri**

6 **FILE NO. ER-2011-0028**  
7

8 Q. Please state your name and business address.

9 A. Guy C. Gilbert, P.O. Box 360, Jefferson City, Missouri, 65102.

10 Q. Please state the purpose of your testimony?

11 A. The purpose of my surrebuttal testimony is to offer the Staff's position in  
12 response to the Office of the Public Council's (OPC) filed rebuttal testimony by Mr. Ryan  
13 Kind regarding Taum Sauk and the Company's filed rebuttal testimony of Mr. Gary S. Weiss  
14 in this case, regarding partial removal costs of \$4,905,000 for the Venice Power Plant  
15 accounts.

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

17 A. I am employed by the Missouri Public Service Commission (PSC or  
18 Commission) as a Utility Regulatory Engineer II in the Engineering and Management  
19 Services Department.

20 Q. What is your work and educational background?

21 A. A copy of my work and educational experience was provided in Appendix 1  
22 of Staff Report Cost of Service.

23 Q. How is your testimony organized?

Surrebuttal Testimony of  
Guy C. Gilbert, PE, RG

1           A.     I will present Staff's response to the OPC's proposal to deny enhancement  
2 investment for the Taum Sauk Power Plant and to the Company's proposal to amortize cost  
3 of removal for the Venice Plant.

4     **TAUM SAUK ENHANCEMENTS ISSUE**

5           Q.     What is OPC's requested ratemaking treatment of Ameren's enhancement  
6 investment in Taum Sauk production plant accounts?

7           A.     OPC recommends disallowance of all costs associated with the rebuild of  
8 Taum Sauk.

9           Q.     Is OPC's position premised on imprudence in the destruction of the original  
10 Taum Sauk upper reservoir as opposed to any allegations of imprudence in the rebuild of  
11 Taum Sauk?

12          A.     Apparently. OPC presents discussion concerning the cause and effect of the  
13 Taum Sauk incident.

14          Q.     Does OPC's position give Ameren Missouri rate recovery for the  
15 improvements in safety and generation capability that Staff characterizes as "enhancements?"

16          A.     No. Staff has considered the additional costs to make the facility a better,  
17 improved and enhanced facility, and considered the alternatives of abandonment,  
18 mothballing, or any number of degrees of retirement. All of these alternatives would carry  
19 some degree of additional cost. In addition to these costs ratepayers and the Company would  
20 experience less than optimal system performance as a result of the loss of this unique  
21 production facility.

22          Q.     Does OPC's position consider the expiration of the Taum Sauk operating  
23 license with the Federal Energy Regulatory Commission (FERC) in 2010?

1           A.     OPC does not appear to consider the license expiration. There was a  
2 requirement by the FERC for the facility to be relicensed for continued operation in mid-  
3 2010. This has been done.

4     **VENICE COST OF REMOVAL AMMORTIZATION ISSUE**

5           Q.     What is Ameren's proposal regarding the amortization of production plant  
6 accounts?

7           A.     As described on page 26 of Mr. Weiss' direct testimony, Ameren seeks an  
8 amortization to accrue \$981,000 per year for five years for the cost of removal expenses  
9 incurred at the Venice Power Plant. In rebuttal testimony Mr. Weiss indicates that since  
10 1983 the Company has depreciated the Venice Power Station at an estimated remaining life  
11 (RL) rate of 2.08%.

12          Q.     Is the admission of Mr. Weiss in his rebuttal testimony that the Company has  
13 depreciated the Venice Power Station at an estimated remaining life (RL) rate of 2.08% from  
14 1983 until 2002 consistent with Commission orders?

15          A.     No. Ameren Missouri has reported to the FERC that it is determining and  
16 collecting depreciation accruals from Missouri rate payers using a 2.08% RL rate. That  
17 depreciation rate is not consistent with the Commission-ordered depreciation rates which  
18 have ranged from 2.77% to 3.24% and was used as a basis for including depreciation expense  
19 in past-ordered tariff customer rates.

20          Q.     Does Ameren Missouri's booking practice result in the depreciation expense  
21 that resulted from Commission-ordered depreciation rates being fully recorded to the  
22 depreciation reserve?

Surrebuttal Testimony of  
Guy C. Gilbert, PE, RG

1           A.     No. Ameren Missouri's unilateral change to their depreciation rates causes  
2 their books to have an under accrual of depreciation reserves. Essentially the rate payers  
3 have not received credit for a range of 25% to 36% of each dollar they have paid for  
4 depreciation, because Ameren Missouri has not booked the accrual.

5           Q.     Did the Commission-ordered depreciation rates provide for net salvage?

6           A.     Yes, thus Ameren Missouri was recovering for the cost of the removal of  
7 Venice over the life of Venice.

8           Q.     What is interim cost of removal?

9           A.     The cost to remove or retire a dollar of investment.

10          Q.     What are terminal removal costs?

11          A.     The cost to remove or retire a dollar of investment.

12          Q.     What is the difference then between interim cost of removal and terminal  
13 removal cost?

14          A.     Some argue that cost of removal is for something that will be replaced  
15 (interim retirement) and that terminal removal cost (final retirement) is for something that  
16 will not be replaced.

17          Q.     Do these interim and final retirements differ and if so how?

18          A.     They may differ or not. Using a car as an example, if the water pump fails  
19 and the owner desires to continue to drive the car, the cost of removal for the water pump  
20 would be the cost of a mechanic to loosen the belts and hoses so that the pump can be  
21 removed. However, if the water pump fails and the owner does not desire to continue driving  
22 the car, the car – with the water pump in place – would be taken to the salvage yard and  
23 disposed of.

Surrebuttal Testimony of  
Guy C. Gilbert, PE, RG

1 Q. Has the Commission provided guidance to Staff for treating cost of removal?

2 A. Yes. Staff considers the Report and Order in Case No. ER-2004-0570, to  
3 provide instruction as to treatment of cost of removal for Missouri regulatory purposes. The  
4 Report and Order provides:

5 
$$\text{“Depreciation Rate} = \frac{100\% - \% \text{ Net Salvage}}{\text{Average Service Life (years)}}$$
  
6

7 In this formula, net salvage equals the gross salvage value of the asset minus the cost of  
8 removing the asset from service.<sup>1</sup> The net salvage percentage is determined by dividing the  
9 net salvage experienced for a period of time by the original cost of the property retired during  
10 that same period of time.<sup>2</sup> “In a recent case, the Commission stated that the fundamental goal  
11 of depreciation accounting is to allocate the full cost of an asset, including its Net Salvage  
12 cost, over its economic or service life so that utility customers will be charged for the cost of  
13 the asset in proportion to the benefit they receive from its consumption.<sup>3</sup> The Commission  
14 found in that case that the traditional accrual method used by the utility was consistent with  
15 that fundamental goal.<sup>4</sup> It is the policy of this Commission to return to traditional accounting  
16 methods for Net Salvage.

17 *This formula treats all cost of removal as interim.*

18 Q. What is Staff’s recommendation regarding the amortization of alleged  
19 unrecovered investment and retirement costs as requested by Ameren Missouri?

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<sup>1</sup> *Id.*

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*, at 7.

<sup>4</sup> *Id.*

Surrebuttal Testimony of  
Guy C. Gilbert, PE, RG

1           A.     Staff maintains that these costs should have already been provided by  
2 ratepayers through depreciation rates in two ways. First, Ameren Missouri improperly  
3 booked depreciation expense that ratepayer's paid, and did not record the full value of the  
4 depreciation expense that results from Commission-ordered rates in their reserves. Second,  
5 because Ameren Missouri's depreciation rates include an allowance for net salvage, the  
6 collection of that allowance for net salvage should be reflected in Ameren Missouri's  
7 \$6 billion depreciation reserve.

8           Q.     What is Staff's recommendation regarding the amortization of net salvage for  
9 the Venice Power Plant?

10          A.     Staff recommends Ameren simply book any incurred cost of removal against  
11 Ameren's already-collected depreciation reserve for the appropriate production plant  
12 accounts. The net salvage expense for the Venice Power Plant should not be amortized.

13          Q.     Does this conclude your prepared surrebuttal testimony?

14          A.     Yes, it does.



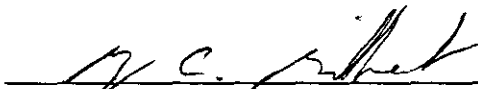
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

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


AFFIDAVIT OF GUY C. GILBERT, MS, PE, RG

STATE OF MISSOURI     )  
  )     ss.  
COUNTY OF COLE     )

Guy C. Gilbert, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
\_\_\_\_\_  
Guy C. Gilbert, MS, PE, RG

Subscribed and sworn to before me this 15<sup>th</sup> day of April, 2011.

  
\_\_\_\_\_  
Notary Public

