

Exhibit No.: 202
Issues: Callaway I Relicense
Callaway II License
Witness: Stephen M. Rackers
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: ER-2008-0318
Date Testimony Prepared: November 5, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

STEPHEN M. RACKERS

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

CASE NO. ER-2008-0318

~~STAFF~~ Exhibit No. 202
Case No(s) ER-2008-0318
Date 11-20-08 Rptr KF

Jefferson City, Missouri
November 2008

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **STEPHEN M. RACKERS**

4 **UNION ELECTRIC COMPANY**
5 **d/b/a AMERENUE**

6 **CASE NO. ER-2008-0318**

7 Q. Please state your name and business address.

8 A. Stephen M. Rackers, 9900 Page Avenue, Suite 103, Overland, MO 63132.

9 Q. By whom are you employed?

10 A. I am employed by the Missouri Public Service Commission (Commission) as a
11 member of the Auditing Department Staff (Staff).

12 **EXECUTIVE SUMMARY**

13 Q. What is the purpose of your surrebuttal testimony in this proceeding?

14 A. My surrebuttal testimony will respond to the rebuttal testimony of AmerenUE
15 (AmerenUE or Company) witness Gary S. Weiss, regarding the relicensing costs of the
16 Callaway I Nuclear Power Plant (Callaway I). The Staff opposes the inclusion in this case of
17 the cost associated with the relicensing of Callaway I. My surrebuttal testimony will also
18 respond to the rebuttal testimony of the Office of the Public Counsel (OPC) witness Ryan
19 Kind, regarding the licensing costs incurred by the Company to build and operate a second
20 nuclear power plant at the Callaway I site (Callaway II). The Staff opposes the inclusion in
21 this case of the cost associated with the licensing of Callaway II.

1 **CALLAWAY I RELICENSING COST**

2 Q. Has AmerenUE submitted its application to the Nuclear Regulatory
3 Commission (NRC) to renew the operating license of Callaway I?

4 A. No. The application has not been submitted and is not expected to be until
5 2011. Once the application is submitted, the process typically takes approximately 2 years
6 before a license is received.

7 Q. How is the Company currently accounting for these costs?

8 A. The Company is accounting for these costs like any other capital project that is
9 not yet complete. As Mr. Weiss states on page 3 of his rebuttal testimony, in accordance with
10 the Federal Energy Regulatory Commission's (FERC) Uniform System Of Accounts
11 (USOA), these costs are currently booked in Construction Work In Progress, (CWIP).

12 Q. On page 2 of his rebuttal testimony Mr. Weiss accuses you of disallowing the
13 Callaway I relicensing cost. Is this correct?

14 A. No. The Staff is not proposing to disallow these costs. The Staff is proposing
15 to treat these costs in the same manner as any other construction project that is not currently
16 complete. The Staff is proposing that these costs remain where they are, in CWIP, until the
17 relicensing process is complete and the NRC has renewed the operating license for
18 Callaway I.

19 Q. Is this the same treatment the Staff is proposing for all plant projects that are
20 currently incomplete?

21 A. Yes. In terms of regulatory accounting, this project is no different than the
22 environmental equipment (scrubbers) currently being constructed at the Company's Sioux
23 coal-fired baseload generating station. The project is not complete and will not be until the
24 end of 2009/beginning of 2010. The Company is not proposing to include the current amount

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Stephen M. Rackers

1 spent on this project in rate base and the Staff is not proposing to disallow any amount. When
2 the project is complete, these costs will be closed to plant in service. Assuming no finding of
3 imprudence, these costs will be included in rates as part of a future AmerenUE rate case that
4 encompasses the completion time period for this project.

5 Q. Why is the Company proposing to include the incomplete Callaway I
6 relicensing project in the cost of service in the current rate case?

7 A. On pages 3 and 4 of his rebuttal testimony Mr. Weiss discusses two reasons
8 why the Company is pursuing the inclusion of these costs in rates in this rate case. The first
9 reason relates to the Commission's decision in the last rate case to lower the depreciation rates
10 on Callaway I based on a 60 rather than 40 year life. This decision was simply recognition of
11 the current expected period during which Callaway I will be operated and is a necessary part
12 of determining the proper depreciation rate for any type of plant.

13 Mr. Weiss' second reason for proposing to include the incomplete Callaway I
14 relicensing project is that it allows the Company to earn a return on these costs. This
15 reasoning does not account for the fact that the Company will be allowed to capitalize an
16 allowance for funds used during construction (AFUDC) on this project until it is completed.
17 AFUDC represents the financing cost associated with construction projects. When the project
18 is complete, the Company will earn a return on the cost of the project including AFUDC. The
19 AFUDC rate is more heavily weighted for short-term debt than the rate of return, in
20 recognition that short-term debt is the main financing source for construction. However, once
21 short-term debt is exhausted, equity and long term debt components are included in the
22 AFUDC rate. In addition, any portion of capitalized AFUDC that represents equity is allowed
23 to be included in the utility's earnings for financial reporting purposes. Again, this same

1 situation exists for any uncompleted construction project in which the Company is currently
2 engaged.

3 Q. Are Mr. Weiss' reasons sufficient justification for including this incomplete
4 plant in the cost of service and deviating from the FERC USOA that has been approved for
5 use by the Commission?

6 A. No. As Mr. Weiss points out on page 2 of his rebuttal testimony, this issue
7 only changes the revenue requirement in this case by approximately \$74,000. The Staff does
8 not believe that this item is so material to the Company's cost of service or that Mr. Weiss'
9 reasoning is compelling enough to justify including in the cost of service in this case, the cost
10 of the incomplete process related to extending the life of the plant.

11 **CALLAWAY II LICENSING COST**

12 Q. Starting on page 11 of his rebuttal testimony, OPC Witness Kind explains
13 OPC's opposition to the inclusion of the cost of licensing Callaway II in rates in the context of
14 this rate case. Does the Staff agree?

15 A. Yes. The cost of the construction and operating license application process is
16 certainly a cost of constructing Callaway II, which is not fully operational and used for
17 service. As such, I have been advised by counsel that Section 393.135 RSMo 2000 applies to
18 the Callaway II construction and operating license application process costs.

19 Q. How has the Company accounted for these costs?

20 A. The Company is accounting for these costs like any other capital project that is
21 not yet complete. In accordance with the FERC's USOA, these costs are currently booked in
22 CWIP. The Company is asking the Commission to deviate from properly accounting for
23 these costs according to the FERC USOA and including costs related to plant that is

1 incomplete in the cost of service in this case. This license application is a necessary
2 construction related cost to operate Callaway II,

3 Q. Is AFUDC currently being accumulated on these costs as part of CWIP?

4 A. Yes.

5 Q. How were the costs of obtaining the construction and operating license of
6 Callaway I accounted for?

7 A. The cost of obtaining the original construction and operating license of
8 Callaway I was capitalized and remained a part of CWIP until the Callaway I plant went in
9 service as part of Case Nos. EO-85-17 and EO-85-160 in 1985. The Staff is seeking the same
10 treatment for the cost of obtaining the construction and operating license of Callaway II.

11 Q. Has the cost of obtaining a construction and operating license for other
12 generating plants in the State of Missouri been accounted for in the same way?

13 A. Yes. The cost of obtaining the original construction and operating license for
14 the Wolf Creek Nuclear Power Plant, which is partly owned by Kansas City Power & Light
15 Company (KCPL) was accounted for by capitalizing the cost to CWIP as part of the
16 total construction project. The licensing cost along with the other plant construction cost was
17 later closed to plant in service and the entire project cost was included in rates in Case Nos.
18 EO-85-185 and EO-85-224 in 1986.

19 Q. Is there a more recent example of the licensing costs of a baseload generating
20 unit being included in CWIP along with the construction cost of the power plant?

21 A. Yes. The cost of obtaining the appropriate permitting and licensing cost for
22 the Iatan 2 Plant, which is being built by KCPL along with several partners, is being
23 accounted for by capitalizing the cost to CWIP as part of the total construction project.

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Stephen M. Rackers

1 Q. Is the process of obtaining a construction and operating license for Callaway II
2 complete?

3 A. No. The application was submitted to the NRC on July 24, 2008, but no
4 decision is expected before 2011.

5 Q. Does this conclude your surrebuttal testimony?

6 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 for Authority to File Tariffs) Case No. ER-2008-0318
Increasing Rates for Electric Service Provided)
to Customers in the Company's Missouri)
Service Area.)

AFFIDAVIT OF STEPHEN M. RACKERS

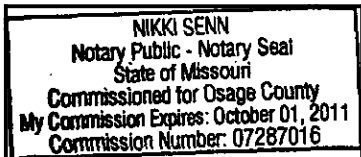
STATE OF Missouri)
COUNTY OF Cole)

ss.

Stephen M. Rackers, 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.

Stephen M. Rackers
Stephen M. Rackers

Subscribed and sworn to before me this 5th day of November, 2008.



Nikki Senn
Notary Public