

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

1
2
3
4
5
6
7
8
9
10
11

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY
OF
GUY C. GILBERT, PE, RG
UNION ELECTRIC COMPANY
d/b/a Ameren Missouri
CASE NO. ER-2011-0028

TAUM SAUK ENHANCEMENTS ISSUE 2
VENICE COST OF REMOVAL AMMORTIZATION ISSUE 3

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?

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

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.¹ 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.² “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.³ The Commission
14 found in that case that the traditional accrual method used by the utility was consistent with
15 that fundamental goal.⁴ 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?

¹ *Id.*

² *Id.*

³ *Id.*, at 7.

⁴ *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

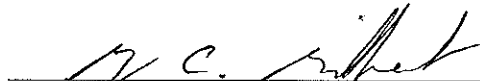
OF THE STATE OF MISSOURI

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 15th day of April, 2011.



Notary Public

