

Exhibit No.:
Issues: Depreciation Rates
Trended Cost/Current Value
Witness: Robert J. Kenney
Type of Exhibit: Direct Testimony
Sponsoring Party: Union Electric Company
d/b/a/ AmerenUE
Case No: GR-2000-512

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2000-512

FILED³
APR 03 2000
Missouri Public
Service Commission

DIRECT TESTIMONY

OF

ROBERT J. KENNEY

St. Louis, Missouri
April 3, 2000

FILED³

APR 03 2000

STATE OF MISSOURI

Missouri Public
Service Commission

In the Matter of Union Electric Company d/a/b AmerenUE)
For Authority to File Tariffs Increasing Rates for) Case No. GR-2000-512
Gas Service Provided to Customers in the Company's)
Missouri Service Area)

AFFIDAVIT OF ROBERT J. KENNEY

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

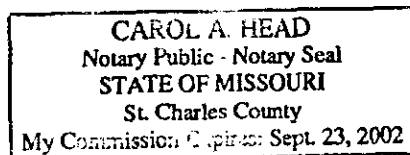
Robert J. Kenney, being first duly sworn on his oath, states:

1. My name is Robert J. Kenney. I work in the City of St. Louis, Missouri, and I am a Plant Accounting Supervisor in the Accounting Department of Ameren Services Company.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 10, and Schedule 1 through 3, all of which testimony has been prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2000-512 on behalf of Union Electric Company.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Robert J. Kenney

Subscribed and sworn to before me this 30 day of March, 2000.

Carol A. Head
Notary Public



DIRECT TESTIMONY
OF
ROBERT J. KENNEY

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1 **DIRECT TESTIMONY**

2 **OF**

3 **ROBERT J. KENNEY**

4 **UNION ELECTRIC COMPANY**

5 **d/b/a/ AmerenUE**

6 **CASE NO. GR-2000-512**

7 **Q. Please state your name and business address.**

8 A. My name is Robert J. Kenney and my business address is 1901 Chouteau
9 Avenue, St. Louis, Missouri. 63103.

10 **Q. By whom are you employed and in what position?**

11 A. I am a Plant Accounting Supervisor in the Accounting Department of Ameren
12 Services Company.

13 **Q. Please describe your educational background and work experience.**

14 A. I received a Bachelor of Science Degree in Business with a major in
15 Accounting from the University of Missouri - St. Louis in February 1969. I was employed
16 by Union Electric in February 1969 as an accountant in the Property Accounting Department
17 where I developed property records for electric transmission plant. I subsequently worked as
18 an accountant in the Internal Audit Department and the General Accounting Department. I
19 was promoted to supervisor in Union Electric's Plant & Regulatory Accounting Department
20 in 1988. I have held my current position as Plant Accounting Supervisor at Ameren Services
21 since Union Electric's merger with CIPSCO Inc. at year-end 1997. I have taken courses
22 offered by Depreciation Programs, Inc., which provides training for accountants and
23 engineers in the field of public utility depreciation. I am a member of the Society of

1 Depreciation Professionals, and have been certified to perform depreciation studies by that
2 organization.

3 **Q. What are your present duties and responsibilities?**

4 A. My duties and responsibilities include recording property and plant
5 transactions, developing and maintaining continuing property records for all gas plant,
6 electric transmission and distribution plant, and electric transportation equipment for Union
7 Electric Company d/b/a AmerenUE and its affiliate, Central Illinois Public Service Company
8 d/b/a AmerenCIPS. I prepare property and plant accounting data for regulatory, financial,
9 stockholder and other reports, and I perform current value studies on a periodic basis. I am
10 also responsible for studying, developing, and implementing rates and accruals for
11 depreciation for all depreciable assets.

12 **Q. What is the purpose of your testimony in this case?**

13 A. My testimony will address the development of depreciation rates required to
14 recover AmerenUE's investment in gas facilities over the expected life of these facilities.
15 This data is used in the cost of service analysis sponsored by the direct testimony of
16 Company witness Gary S. Weiss. I will also address the determination of the current value
17 rate base of the Company's investment in gas property and plant used to develop the fair
18 value rate base in the direct testimony of Company witness Richard J. Kovach.

19 **DEPRECIATION RATES**

20 **Q. Please describe AmerenUE's depreciation method.**

21 A. AmerenUE uses a straight line, broad group, whole life depreciation method, which is
22 reflected in the following depreciation rate formula:

1 Depreciation Rate = (100%-net salvage %)/Average Service Life

2 **Q. Have you prepared any schedules for presentation to the Commission in**
3 **this proceeding?**

4 A. Yes, I am sponsoring Schedule 1, which sets forth a comparison of the current
5 and proposed depreciation rates applicable to gas plant accounts and the annual effect of the
6 proposed change in rates.

7 **Q. What is the basis of the depreciation rates currently being used by the**
8 **Company?**

9 A. The current depreciation rates shown on Schedule 1 were approved by the
10 Missouri Public Service Commission in Case No. GR-97-393, AmerenUE's last Missouri gas
11 rate proceeding. The rates became effective December 23, 1997.

12 **Q. Do you see a necessity for revision of the Company's existing depreciation**
13 **rates at this time?**

14 A. Yes. Revisions to some of the Company's depreciation rates are necessary at
15 this time to insure that rates adequately reflect changes experienced by the Company in
16 average service lives and in salvage and removal cost experience.

17 **Q. Please describe the study performed to determine the proposed revisions**
18 **to the Company's depreciation rates.**

19 A. The proposed depreciation rates are based on a study which I conducted,
20 consisting of four basic steps:

1 1. An actuarial study was performed of the life characteristics of
2 AmerenUE's Missouri gas plant using the historic mortality experience
3 through 1998 for the original invested dollars.

4 2. Average service lives were determined from the results of the actuarial
5 study.

6 3. A salvage analysis involving a study of the Company's historical salvage
7 and removal cost experience, and the applicability of that experience to
8 surviving property.

9 4. Calculation of depreciation rates applicable to surviving property, utilizing
10 the results of steps 1 through 3.

11 **Q. How was the actuarial study performed?**

12 A. The history of a group of assets (account) was plotted on a curve showing the
13 percent of the group surviving at each life interval (year). This is the Survivor Curve. Since
14 all of the assets in the group are not retired, the curve is not complete. The incomplete curve
15 was then statistically or visually fitted to a set of existing survivor curves so the Survivor
16 Curve could be completed. For this study, I used a set of curves developed at Iowa State
17 University, commonly referred to as the Iowa Curves that represent industrial property
18 mortality. The Iowa Curves are used extensively in gas and electric depreciation studies.
19 The average service life of the group of assets was then calculated by integrating the area
20 under the completed curve.

21 **Q. Has this depreciation study previously been supplied to the Commission**
22 **Staff and the Office of Public Counsel?**

1 A. Yes. On March 6, 2000, in accordance with the Commission's regulations,
2 the Company submitted to the Commission Staff and the Office of Public Counsel this
3 depreciation study as well as the required data base and property unit catalog.

4 Q. Were all of the gas accounts studied?

5 A. All twenty-two depreciable gas accounts were studied, but six accounts did
6 not have sufficient activity to produce a retirement curve.

7 Q. What are the results of your depreciation study?

8 A. As a result of this study, it is necessary for the depreciation rates for gas
9 mains, gas services, and eleven smaller distribution and general plant accounts to be revised.

10 Q. What would the effect of the proposed depreciation rate changes be on
11 expenses for the test year in this case, the twelve months ended June 30, 1999?

12 A. The proposed revision in depreciation rates would result in a net reduction in
13 depreciation expense of \$771,728 for the twelve months ended June 30, 1999, as shown in
14 Schedule 1.

15 Q. What is responsible for this net decrease in depreciation expense?

16 A. The reasons for the net decrease in depreciation expense are discussed below,
17 for each plant account.

18 **Gas Mains - Account 376**

19 Account 376, Gas Mains, constitutes almost 50% of the gas plant. The current
20 depreciation rate of 2.50% is being reduced to 2.45%, reflecting a reduction in the net salvage
21 percentage from -10% to -8%. The average service life of 44 years remains the same.

1 The formula for this proposed rate is $100\% - (-8\%) / 44$ years or 2.45%. This proposed
2 rate would decrease annual test year depreciation expense by about \$47,000.

3 **Measuring and Regulating Station Equipment - General - Account 378**

4 Account 378, Measuring and Regulating Station Equipment - General, constitutes less
5 then 2% of the gas plant. The current depreciation rate of 2.61% is being reduced to 2.29%.
6 A study of the life characteristics of such equipment produced an average service life of 44
7 years. Net salvage was -1%.

8 The formula for this proposed rate is $100\% - (-1\%) / 44$ years or 2.29%. This proposed
9 rate would decrease annual test year depreciation expense by about \$9,000.

10 **Gas Services - Account 380**

11 The major portion of the net decrease in depreciation expense proposed by the
12 Company in this case is related to Account 380, Gas Services, which constitutes about 32%
13 of the gas plant. The current rate is 4.06%. A study of the life characteristics of this account
14 indicates that its average service life should be reduced slightly, from 44 years to 42 years.
15 The salvage rate was calculated by adding the cost of removal and the gross salvage
16 experienced between 1995 and 1998, reducing the salvage rate from -79% to -17%.

17 The depreciation rate resulting from these changes is $100\% - (-17\%) / 42$ years or
18 2.78%. This proposed revision would reduce annual test year depreciation expense by about
19 \$783,000.

20

21

22

House regulators - Account 383

Account 383, House Regulators, constitutes less than 4% of the gas plant. The current depreciation rate is 1.52%. A study of the life characteristics produced an average service life of 44 years. Net salvage was 2%.

The depreciation rate resulting from these changes is $100\% - (2\%) / 44$ years or 2.22%. This rate proposed would increase annual test year depreciation expense by about \$48,000.

General Plant

The nine general plant accounts together are about 4.3% of gross gas plant investment at June 30, 1999. The proposed changes in depreciation rates would increase annual expense by about \$20,000, as shown in Schedule 1. The study results for these accounts are listed below:

| <u>Acct</u> | <u>Description</u> | <u>CurrentRate</u> | <u>ASL</u> | <u>Salvage %</u> | <u>ProposedRate</u> |
|-------------|--------------------------------------|--------------------|------------|------------------|---------------------|
| 391 | Office Furniture | 4.01% | 14 | 0% | 7.14% |
| 391.01 | Mainframe Computers | 10.33% | 9 | 4% | 10.67% |
| 391.02 | Personal Computers | 10.33% | 9 | 4% | 10.67% |
| 392 | Transportation Equip. | 7.04% | 12.5 | 9% | 7.27% |
| 393 | Stores Equipment | 1.97% | 15 | 0% | 6.67% |
| 394 | Tools, Shop, and Garage Equipment | 5.13% | 17 | 0% | 5.88% |
| 395 | Laboratory Equipment | 2.22% | 17 | 0% | 5.88% |
| 396 | Power Operated Tools | 6.14% | 18 | 14% | 4.78% |
| 397 | Communications Equip. | 5.28% | 11 | 0% | 9.00% |

TRENDED COSTS/CURRENT VALUE

Q. Turning to your second area of responsibility in this case, please describe your determination of the current value of the property used in providing service to AmerenUE's natural gas customers in the State of Missouri.

A. Generally, the current value of our gas property is determined by developing the "current cost new" of such facilities and then applying an appropriate factor for depreciation to such current costs.

Q. What basic methods were used in determining the "current cost new" of the gas property?

A. The current cost new for Production Plant, Transmission Plant, Distribution Plant, and General Plant was determined by the widely used and generally accepted trending process, whereby the original cost of property is restated to current cost new by use of an appropriate index series. The first step is to determine the remaining investment by year of expenditure in each account being studied. This remaining investment for each year of expenditure is multiplied by a price index applicable to that year to restate those expenditures in terms of current cost new. The total current cost new of all the property is the summation of the current cost new for all the years so obtained.

Q. What price indexes were used in this process?

A. For the majority of the Company's Production, Transmission and Distribution Plant, the price index utilized was determined from the Handy-Whitman Index of Public Utility Construction Costs published by Whitman Requardt and Associates. The Handy-Whitman Index contains an index series for gas utility property in six regional Divisions. The

1 one for the North Central Division, which includes Missouri, was used. The study trends
2 costs to December 31, 1999. The U.S. Department of Labor's Consumer Price Index and
3 Producer Price Index were used for a majority of the General Plant.

4 **Q. What adjustments were made to the December 31, 1999 study to reflect**
5 **the twelve months ended June 30, 1999 test year in this case?**

6 A. The ratio of Total Plant at June 30, 1999 to Total Plant at December 31, 1999
7 was applied to current cost new at December 31, 1999 to develop an estimate of current cost
8 new at June 30, 1999.

9 **Q. How was the "Current Cost New" investment adjusted for depreciation**
10 **to determine the current value of the gas property?**

11 A. A depreciation reserve ratio was established as the ratio of book depreciation
12 reserves to original cost. The current cost new was then multiplied by the complement of the
13 depreciation reserve ratio to determine the current value.

14 **Q. Have you prepared schedules that show the current value of AmerenUE's**
15 **gas property as of June 30, 1996?**

16 A. Yes. Schedules 2 and 3 show the current value of the gas property owned by
17 AmerenUE in Missouri. Schedule 2 shows the total current value to be \$256,324,620,
18 consisting of Production Plant having a current value of \$5,231,592, Transmission Plant
19 having a current value of \$3,379,927, Distribution Plant having a current value of
20 \$240,537,088 and General Plant having a current value of \$7,176,013.

21 Schedule 3 is a summary of the Company's total current value gas rate base, which is
22 \$251,493,000

Direct Testimony of
Robert J. Kenney

1 **Q. Does this conclude your testimony?**

2 **A. Yes, it does.**

Sponsoring Witness: Robert J. Kenney
Direct Testimony
Sponsoring Party: AmerenUE
Case No.: GR-2000-512

List of Schedules

| <u>Schedule No.</u> | <u>Description of Schedule</u> |
|---------------------|---|
| Schedule 1 | Comparison of Current and Proposed Depreciation Rates |
| Schedule 2 | Current Value of Property |
| Schedule 3 | Current Value Rate Base |

AmerenUE
Comparison of Current and Proposed Depreciation Rates
CASE NO. GR-2000-512

| <u>Line</u> | <u>Acct</u> | <u>Description</u> | <u>Proposed Rate</u> | <u>Current Rate</u> | <u>Annual Change</u> | <u>Depreciable Plant 6/30/99</u> |
|-------------|-------------|---|--------------------------|-------------------------|--------------------------|--|
| 1 | 305 | Propane Plant Structures and Improvements | 2.38% | 2.38% | \$0 | \$267,109 |
| 2 | 311 | Liquefied Petroleum Gas Equipment | 2.81% | 2.81% | \$0 | \$2,127,443 |
| 3 | 366 | Transmission Structures and Improvements | 0.00% | 0.00% | \$0 | \$1,798 |
| 4 | 367 | Gas Transmission Mains | 2.11% | 2.11% | \$0 | \$1,508,243 |
| 5 | 369 | Trans. Measuring & Regulating Station Equip. | 2.65% | 2.65% | \$0 | \$35,554 |
| 6 | 375 | Distribution Structures and Improvements | 2.04% | 2.04% | \$0 | \$40,016 |
| 7 | 376 | Gas Mains | 2.45% | 2.50% | -\$47,273 | \$94,545,229 |
| 8 | 378 | Measuring & Regulating Station Equip. - General | 2.29% | 2.61% | -\$9,218 | \$2,880,818 |
| 9 | 379 | Measuring & Regulating Station Equip. - City Gate | 2.61% | 2.61% | \$0 | \$241,822 |
| 10 | 380 | Gas Services | 2.78% | 4.06% | -\$782,850 | \$61,160,150 |
| 11 | 381 | Gas Meters | 2.20% | 2.20% | \$0 | \$11,886,538 |
| 12 | 383 | House Regulators | 2.22% | 1.52% | \$48,035 | \$6,862,274 |
| 13 | 385 | Industrial Measuring & Regulating Equip. | 3.05% | 3.05% | \$0 | \$914,135 |
| 14 | 386 | Other Property on Customers' Premises | 0.00% | 0.00% | \$0 | \$0 |
| 15 | 387 | Other Distribution Equipment | 0.00% | 0.00% | \$0 | \$9,858 |
| 16 | 390 | General Plant Structures and Improvements | 2.13% | 2.13% | \$0 | \$648,908 |
| 17 | 391 | Office Furniture and Equipment | 7.14% | 4.01% | \$1,968 | \$62,882 |
| 18 | 391.1 | Mainframe Computers | 10.67% | 10.33% | \$191 | \$56,396 |
| 19 | 391.2 | Personal Computers | 10.67% | 10.33% | \$972 | \$285,863 |
| 20 | 392 | Transportation Equipment | 7.27% | 7.04% | \$6,781 | \$2,948,041 |
| 21 | 393 | Stores Equipment | 6.67% | 1.97% | \$2,083 | \$44,323 |
| 22 | 394 | Tools, Shop and Garage Equipment | 5.88% | 5.13% | \$11,547 | \$1,539,702 |
| 23 | 395 | Laboratory Equipment | 5.88% | 2.22% | \$2,465 | \$67,342 |
| 24 | 396 | Power Operated Tools | 4.78% | 6.14% | -\$27,908 | \$2,052,067 |
| 25 | 397 | Communications Equipment | 9.00% | 5.28% | \$21,479 | \$577,389 |
| 26 | | Estimated decrease twelve months ended 6/30/99 | | | <u>-\$771,728</u> | <u>\$190,763,900</u> |

AmerenUE
Current Value of Property
CASE NO. GR-2000-512

AS OF JUNE 30, 1999

| <u>Line</u> | <u>Account</u> | <u>Description</u> | <u>Original Cost</u> | <u>Current Cost New</u> | <u>Depreciated Current Value</u> |
|-------------|----------------|---------------------------------|-----------------------------|-----------------------------|--------------------------------------|
| 1 | | Production Plant | | | |
| 2 | 304 | Land and Land Rights | \$36,537 | \$200,589 | \$200,589 |
| 3 | 305 | Structures and Improvements | \$267,109 | \$825,171 | \$662,322 |
| 4 | 311 | LPG Equipment | \$2,127,443 | \$6,740,294 | \$4,368,681 |
| 5 | | | <u>\$2,431,089</u> | <u>\$7,766,054</u> | <u>\$5,231,592</u> |
| | | Transmission Plant | | | |
| 6 | 365 | Land and Land Rights | \$82,682 | \$418,222 | \$418,222 |
| 7 | 366 | Structures and Improvements | \$1,798 | \$1,895 | \$1,790 |
| 8 | 367 | Mains | \$1,508,243 | \$5,016,934 | \$2,862,789 |
| 9 | 369 | Meas. and Reg Station Equip. | \$35,554 | \$132,671 | \$97,126 |
| 10 | | | <u>\$1,628,277</u> | <u>\$5,569,722</u> | <u>\$3,379,927</u> |
| | | Distribution Plant | | | |
| 11 | 374 | Land and Land Rights | \$80,276 | \$380,885 | \$391,284 |
| 12 | 375 | Structures and Improvements | \$40,016 | \$125,265 | \$92,468 |
| 13 | 376 | Mains | \$94,545,229 | \$200,016,877 | \$164,804,796 |
| 14 | 378 | Meas. & Reg Station Equip. | \$2,880,818 | \$5,918,738 | \$3,319,159 |
| 15 | 379 | Meas. & Reg Station Equip. City | \$241,822 | \$439,008 | \$310,918 |
| 16 | 380 | Services | \$61,160,150 | \$96,412,341 | \$50,467,446 |
| 17 | 381 | Meters | \$11,886,538 | \$15,880,170 | \$12,820,328 |
| 18 | 383 | House Regulators | \$6,862,274 | \$9,028,650 | \$7,370,872 |
| 19 | 386 | Other Gas Prop. on Cust. Prem. | \$914,135 | \$1,069,282 | \$949,929 |
| 20 | 387 | Other Equipment | \$9,858 | \$10,016 | \$9,888 |
| 21 | | | <u>\$178,621,116</u> | <u>\$329,281,232</u> | <u>\$240,537,088</u> |
| | | General Plant | | | |
| 22 | 389 | Land and Land Rights | \$178,739 | \$561,797 | \$561,797 |
| 23 | 390 | Structures and Improvements | \$648,908 | \$1,286,406 | \$889,616 |
| 24 | 391 | Office Furn. & Equipment | \$405,141 | \$376,761 | \$277,392 |
| 25 | 392 | Transportation Equip. | \$2,948,041 | \$3,309,762 | \$1,800,448 |
| 26 | 393 | Stores Equip. | \$44,323 | \$62,642 | \$53,553 |
| 27 | 394 | Tools, Shop & Garage Equip. | \$1,539,702 | \$2,001,960 | \$1,648,792 |
| 28 | 395 | Laboratory Equip. | \$67,342 | \$117,769 | \$112,935 |
| 29 | 396 | Powered Operated Equip. | \$2,052,067 | \$2,695,789 | \$1,345,439 |
| 30 | 397 | Communication Equip. | \$577,389 | \$650,948 | \$486,041 |
| 31 | 398 | Miscellaneous Equip. | \$0 | \$0 | \$0 |
| 32 | 399 | Other Tangible | \$26,853 | \$0 | \$0 |
| 33 | | | <u>\$8,488,504</u> | <u>\$11,063,834</u> | <u>\$7,176,013</u> |
| 34 | Total | | <u><u>\$191,168,986</u></u> | <u><u>\$353,680,842</u></u> | <u><u>\$256,324,620</u></u> |

AmerenUE
Current Value Rate Base
CASE NO. GR-2000-512

AS OF JUNE 30, 1999
(000)

| <u>Line</u> | <u>Description</u> | <u>Amount</u> |
|-------------|---|-----------------------------|
| 1 | Current Value of Property for Gas Operations | \$256,325,000 |
| 2 | Materials & Supplies | \$13,545,000 |
| 3 | Prepayments | \$236,000 |
| 4 | Cash Working Capital | -\$1,058,000 |
| 5 | Income Tax Offset | -\$1,543,000 |
| 6 | Interest Expense | -\$489,000 |
| 7 | Customer Deposits | -\$356,000 |
| 8 | Customer Advances | -\$1,089,000 |
| 9 | Accumulated Deferred Income Taxes | <u>-\$14,078,000</u> |
| 10 | Total Current Value Rate Base | <u><u>\$251,493,000</u></u> |
| 11 | Lines 2 through 9 per schedule 13 of Company witness Gary S. Weiss. | |