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Service Commission

Exhibit No.:

Issues: Plant in Service
Depreciation Reserve
Property Taxes
Cost of Removal
Ameren Services Rents
Income Taxes
Rate Base

Witness: James D. Schwieterman

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GR-2000-512

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JAMES D. SCHWIETERMAN

UNION ELECTRIC COMPANY

d/b/a AmerenUE

CASE NO. GR-2000-512

Jefferson City, Missouri
August 2000

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DIRECT TESTIMONY
OF
JAMES D. SCHWIETERMAN
UNION ELECTRIC COMPANY
d/b/a AmerenUE
CASE NO. GR-2000-512

Q. Please state your name and business address.

A. James D. Schwieterman, P. O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission
(Commission).

Q. Please describe your educational background.

A. I attended Lincoln University in Jefferson City, Missouri, from which I
received a Bachelor of Science degree in Business Administration, with a major in
Accounting, in May 1975.

Q. Have you previously testified before this Commission?

A. Yes, I have. Please refer to Schedule 1, which is attached to this direct
testimony, for a list of cases in which I have previously filed testimony.

Q. Have you made an investigation or study of the books and records of
AmerenUE (UE or Company) in Case No. GR-2000-512?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

Q. Please identify your areas of responsibility in Case No. GR-2000-512.

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1 A. My principal areas of responsibility are rate base, plant in service,
2 depreciation reserve, rents, net salvage expense, property taxes and income taxes.

3 Q. Please identify the Accounting Schedules you are sponsoring.

4 A. I am sponsoring the following Accounting Schedules:

5 Accounting Schedule 2 Rate Base

6 Accounting Schedule 3 Total Plant in Service

7 Accounting Schedule 4 Adjustments to Total Plant

8 Accounting Schedule 5 Depreciation Expense

9 Accounting Schedule 6 Depreciation Reserve

10 Accounting Schedule 7 Adjustments to Depreciation Reserve

11 Accounting Schedule 11 Income Tax

12 **RATE BASE**

13 Q. Please explain Accounting Schedule 2, Rate Base.

14 A. Accounting Schedule 2 takes the Company's adjusted jurisdictional plant
15 in service balance from Accounting Schedule 3, Total Plant in Service, and deducts the
16 Company's adjusted jurisdictional depreciation reserve from Accounting Schedule 6,
17 Depreciation Reserve, to compute the net plant in service. Added to net plant in service
18 are amounts for cash working capital (CWC), purchased gas for CWC, materials and
19 supplies, propane, gas stored underground and prepayments. Rate base deductions
20 include the federal income tax offset, state income tax offset, interest expense offset,
21 customer advances, customer deposits, and deferred income taxes. The net result is
22 company's adjusted jurisdictional gas rate base.

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1 Q. How were the rate base components for CWC and purchased gas for CWC
2 determined?

3 A. The Staff's calculation of the CWC and purchased gas for CWC rate base
4 components will be discussed in the direct testimony of Staff Accounting witness Paul R.
5 Harrison.

6 Q. How was the rate base component for materials and supplies determined?

7 A. The amount of materials and supplies is based on the balance at April 30,
8 2000, and allocated to gas using a factor based on December 31, 1999 data. The
9 April 30, 2000 balance was used instead of a 13-month average due to a large reduction
10 in the materials and supplies balance in January 2000.

11 Q. How were the rate base components for propane, gas stored underground
12 and prepayments determined?

13 A. The amounts of propane and gas stored underground were determined
14 utilizing a 13-month average. The amount of prepayments was determined by utilizing a
15 13-month average of only those prepayments that were related to gas operations. A
16 13-month average was used to round out seasonal variances.

17 Q. Please explain how the federal income tax offset, state income tax offset
18 and interest expense offset were calculated.

19 A. The Staff's calculation of these items will be discussed in the direct
20 testimony of Staff Accounting witness Harrison.

21 Q. How was the rate base component for customer advances determined?

22 A. This rate base component for customer advances is the balance at
23 April 30, 2000. An analysis of the balances of customer advances using a rolling

Direct Testimony of
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1 13-month average indicated an upward trend; therefore, the balance at the end of the
2 update period was used.

3 Q. Please describe a rolling 13-month average.

4 A. A rolling 13-month average was calculated by determining a 13-month
5 average for the 13 months ended June 30, 1999. Comparable 13-month averages were
6 then calculated for each succeeding month during the update period through April 2000.
7 These averages indicate trends in account balances.

8 Q. Please describe the other items deducted from net plant in service.

9 A. The amount of the deduction of deferred income taxes is the balance on
10 the books at April 30, 2000. The deduction of customer deposits is discussed in the direct
11 testimony of Staff Accounting witness John P. Cassidy.

12 **TOTAL PLANT IN SERVICE**

13 Q. Please explain Accounting Schedule 3.

14 A. Accounting Schedule 3, Total Plant in Service, lists in Column B
15 Company's total jurisdictional gas plant in service balances as of June 30, 1999.
16 Column C lists Staff's adjustments to jurisdictional gas plant which update plant in
17 service through April 30, 2000. Column D contains Staff's adjusted total jurisdictional
18 plant in service balances, updated through April 30, 2000.

19 Q. Please explain Accounting Schedule 4.

20 A. Accounting Schedule 4, Adjustments to Total Plant, details the individual
21 adjustments to Company's total jurisdictional gas plant in service balances which are
22 listed in Column C of Accounting Schedule 3.

23 Q. Please explain Accounting Schedule 5.

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1 A. Accounting Schedule 5, Depreciation Expense, lists in Column B the total
2 jurisdictional gas plant in service balances from Accounting Schedule 3, Column D.
3 Column C contains the Staff-proposed depreciation rates. Please refer to the direct
4 testimony of Staff witness Guy Gilbert of the Commission's Engineering & Management
5 Services Department for further information regarding the development of the Staff's
6 proposed depreciation rates. The rates in Column C are then applied to the plant balances
7 in Column B to determine the annualized level of depreciation expense that appears in
8 Column D.

9 **DEPRECIATION RESERVE**

10 Q. Please explain Accounting Schedule 6.

11 A. Accounting Schedule 6, Depreciation Reserve, lists in Column B
12 Company's total jurisdictional gas depreciation reserve balances as of June 30, 1999.
13 Column C lists Staff's adjustments to jurisdictional gas depreciation reserve, which
14 update depreciation reserve through April 30, 2000. Column D contains Staff's adjusted
15 jurisdictional gas depreciation reserve balances.

16 Q. Please explain Accounting Schedule 7.

17 A. Accounting Schedule 7, Adjustments to Depreciation Reserve, details
18 Staff's individual adjustments to Company jurisdictional depreciation reserve which are
19 listed in Column C of Accounting Schedule 6.

20 Q. Please explain Accounting Schedule 11.

21 A. Accounting Schedule 11, Income Taxes, reflects the Staff's calculation of
22 current and deferred income taxes based on the adjusted net operating income before

1 taxes (NOIBT) from Column F, Accounting Schedule 9, Income Statement. I will
2 discuss the various details concerning the income tax calculation later in this testimony.

3 Q. Please identify the Accounting adjustments you are sponsoring.

4 A. I am sponsoring the following adjustments:

5 Plant in Service P-5.1 through P-39.2

6 Depreciation Reserve R-1.1 through R-22.2

7 Income Statement S-12.22, S-12.23, S-12.24, S-12.25, S-13.1,
8 S-14.1, S-15.2, S-15.5, S-16.1 & S-17.1

9 **PLANT IN SERVICE ADJUSTMENTS**

10 Q. Please explain Plant in Service adjustments P-5.1 through P-39.2.

11 A. The purpose of adjustments P-5.1 through P-33.1, P-34.1, P-35.1, P-36.1,
12 P-37.1, P-38.1 and P-39.1 is to adjust test year ending plant in service balances at
13 June 30, 1999 to reflect plant additions and retirements through April 30, 2000. The
14 purpose of adjustments P-33.2, P-34.2, P-35.2, P-36.2, P-37.2, P-38.2 and P-39.2 is to
15 eliminate allocated general plant in service. These adjustments are necessary because the
16 company is being allocated the cost of providing Ameren Services (AMS) with office
17 space through rent expense.

18 **DEPRECIATION RESERVE ADJUSTMENTS**

19 Q. Please explain Depreciation Reserve adjustments R-1.1 through R-22.2.

20 A. The purpose of adjustments R-1.1 through R-22.1 is to reflect the
21 difference between the depreciation reserve balances for the test year ended June 30,
22 1999, and the updated depreciation reserve balances at April 30, 2000. This difference
23 reflects the depreciation reserve accruals and retirements between June 30, 1999 and

1 April 30, 2000. The purpose of adjustment R-22.2 is to eliminate the reserve associated
2 with the allocated general plant eliminated in the plant in service adjustments.

3 **INCOME STATEMENT ADJUSTMENTS**

4 **AMEREN SERVICES RENT**

5 Q. Please explain Income Statement adjustment S-12.22.

6 A. Adjustment S-12.22 eliminates from rent expense the allocated cost of the
7 electric dispatch center. UE and AmerenCIPS (CIPS) charge rent to AMS for office
8 space that AMS employees occupy. AMS, in turn, allocates those charges back to UE
9 and CIPS through rent expense. A portion of the costs allocated to UE Missouri gas
10 includes costs related to the electric dispatch center. This adjustment eliminates those
11 charges to gas operations.

12 Q. Please explain Income Statement adjustment S-12.23.

13 A. Adjustment S-12.23 reduces the AMS rent expense based on the gas rate
14 of return. A portion of the rent that UE and CIPS charge AMS is based on a return on
15 investment. This adjustment reduces that return to the Staff's recommended gas rate of
16 return.

17 Q. Please explain Income Statement adjustment S-12.24.

18 A. Adjustment S-12.24 eliminates a portion of the maintenance of general
19 plant account that is already included in AMS rent expense.

20 **NET SALVAGE EXPENSE**

21 Q. Please explain Income Statement adjustment S-12.25.

22 A. Adjustment S-12.25 includes a five-year average of net salvage costs in
23 operating expense.

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1 Q. What are net salvage costs?

2 A. Net salvage costs are the net costs resulting from the retirement of plant in
3 service. These costs include the cost of removing or dismantling retired plant, referred to
4 as cost of removal, less the gross salvage value of the disposition of the plant.

5 Q. Why is this adjustment necessary?

6 A. This adjustment is necessary because the Staff's proposed depreciation
7 rates, for purposes of this case, no longer include net salvage costs as part of their
8 calculation. Since net salvage costs are legitimate costs of retiring plant in service, it is
9 reasonable that those costs be recovered from the ratepayer by including them in
10 operating expense.

11 Q. Why is a five-year average of net salvage costs reasonable?

12 A. A five-year average reflects a level of net salvage costs that the company
13 is currently experiencing, rather than an accrual through depreciation rates. Based on the
14 value of Staff's depreciation adjustment, a five-year average is a more reasonable level of
15 net salvage costs. Please refer to the direct testimony of Staff witness Paul Adam of the
16 Commission's Engineering and Management Services Department for further
17 information concerning this area.

18 Q. Please explain Income Statement adjustments S-13.1 and S-14.1.

19 A. Adjustment S-13.1 adjusts book depreciation expense for the test year
20 ended June 30, 1999, to an annualized level based on Missouri jurisdictional gas plant in
21 service at April 30, 2000. Annualized depreciation expense is calculated on Accounting
22 Schedule 5 by multiplying the amount in each Missouri jurisdictional gas plant in service
23 account by the proposed annual depreciation rate for that account. The total annualized

1 depreciation expense, shown on Accounting Schedule 5, is compared to the book
2 depreciation expense listed on Accounting Schedule 9, and the difference between the
3 two is the adjustment.

4 Adjustment S-14.1 removes depreciation expense associated with
5 Accounts 392, Transportation Equipment and Account 396, Power Operated Equipment.
6 The depreciation associated with these accounts must be removed from operating
7 expense since the Company runs this expense through a clearing account instead of
8 depreciation expense. The amounts in the clearing account are then charged back to the
9 various operating expense accounts and construction as appropriate. This adjustment is
10 necessary so that this expense will not be recovered twice.

11 **PROPERTY TAXES**

12 Q. Please explain Income Statement adjustments S-15.2 and S-15.5.

13 A. Adjustment S-15.2 annualizes property taxes and reflects the difference
14 between the actual property taxes paid in 1999, and the amount of property taxes
15 expensed during the test year.

16 Adjustment S-15.5 eliminates the property taxes associated with the
17 allocated general plant eliminated in the plant in service adjustments.

18 **INCOME TAXES**

19 Q. Please explain adjustments S-16.1 & S-17.1.

20 A. Adjustments S-16.1 and S-17.1 adjust current and deferred income taxes
21 to a level consistent with the Staff's adjusted NOIBT.

22 Q. Please describe the components that comprise the Company's total income
23 tax liability.

1 A. There are five components that historically comprise the total income tax
2 liability for a utility. These are current income tax, deferred investment tax credit (ITC),
3 amortization of deferred ITC, deferred income tax and the amortization of deferred
4 income tax. These components are summarized at the end of the Staff's income tax
5 calculation on Accounting Schedule 11, where they are listed on lines 26 through 35.

6 Q. Please describe the current income tax component.

7 A. The current income tax component is calculated on Accounting
8 Schedule 11 by taking the NOIBT amount from Accounting Schedule 9, Income
9 Statement, and adjusting for additions to and deductions from NOIBT that appear on
10 Accounting Schedule 11, then multiplying this result by the appropriate federal and state
11 income tax rates. This calculation is based upon the fact that federal income taxes are
12 50% deductible for state income tax purposes, and state income taxes are fully deductible
13 for federal income tax purposes. The calculation in this case is based on the use of a 35%
14 federal income tax rate and a 6.25% state income rate, which results in an effective tax
15 rate of 38.3886%.

16 Q. Please describe the additions used to arrive at net taxable income in this
17 case.

18 A. Annualized book depreciation was added back to NOIBT because the
19 deduction for tax depreciation in determining income taxes is different than book
20 depreciation.

21 Non-deductible meals and entertainment expenses were added back to
22 NOIBT since meals and entertainment expenses are only 50% deductible for tax

1 purposes. The amount included in the Staff's calculation represents the non-deductible
2 portion for the 12 months ending June 30, 1999.

3 Contributions in Aid of Construction (CIAC) and customer advances were
4 added back to NOIBT because for tax purposes, the Company must include CIAC and
5 customer advances net of refunds in income. The amount of the addition is based on that
6 income for the 12 months ending June 30, 1999.

7 Q. Please list the deductions used to arrive at net taxable income.

8 A. The deductions are interest expense, tax depreciation-straight line, and tax
9 depreciation-accelerated.

10 Q. Please explain the deduction for interest expense and how it was
11 calculated.

12 A. Interest expense is calculated by multiplying the jurisdictional rate base by
13 the Staff's calculated weighted cost of debt (2.76%), which is sponsored by Staff witness
14 Roberta McKiddy of the Financial Analysis Department.

15 This methodology assures that the amount of interest expense used in the
16 calculation of income tax expense, for ratemaking purposes, equals the interest expense
17 the ratepayer is required to provide the Company in rates. Since the revenue requirement
18 recommended by the Staff is based on a rate of return computation, the interest
19 synchronization method allows an interest deduction consistent with the rate of return
20 computation, which is applied to rate base.

21 Q. Are you aware of any other rate cases where this type of methodology was
22 proposed?

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1 A. Yes. This methodology was first utilized by the Staff and adopted by the
2 Commission in Kansas City Power and Light Company's 1980 electric rate case, Case
3 No. ER 80-48, and has been used consistently by the Staff and adopted by the
4 Commission since that case.

5 Q. Please discuss the depreciation deductions to NOIBT.

6 A. Tax depreciation, not book depreciation, is the appropriate deduction for
7 tax purposes. Therefore, since book depreciation has already been added back to NOIBT,
8 then tax depreciation must be deducted from NOIBT to properly calculate taxable
9 income. Tax depreciation in this case is made up of two components: tax depreciation--
10 straight line and tax depreciation--accelerated.

11 Q. Please explain these two components.

12 A. Tax depreciation--straight line is the equivalent of book depreciation,
13 restated to reflect the tax basis of the related plant in service. Tax depreciation--
14 accelerated is the difference between total accelerated tax depreciation and tax
15 depreciation--straight line.

16 Q. Why is it important to separate tax depreciation into the two components
17 of tax depreciation--straight line and tax depreciation--accelerated?

18 A. It is important to separate tax depreciation into the two components
19 because the tax depreciation--accelerated amount is the component that, due to provisions
20 in the Internal Revenue Code (Code), the ratepayer must provide deferred taxes. By
21 multiplying the tax depreciation--accelerated amount appearing on Accounting
22 Schedule 11, line 8, by the effective tax rate of 38.3886%, I have calculated the deferred
23 income tax component which will be described later in my testimony.

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1 Q. Please describe how adjustment S-16.1 was calculated.

2 A. Adjustment S-16.1 reflects the difference between the annualized current
3 income tax expense, described above, and the Company's test year level of current
4 income taxes. The annualized level of current income tax expense is shown on
5 Accounting Schedule 11, line 29.

6 Q. Please describe the deferred ITC component.

7 A. Since the Tax Reform Act of 1986 eliminated ITC, I have not recognized
8 deferred ITC in the income tax calculation. Accordingly, it has been set at zero for this
9 case.

10 Q. Please describe the amortization of deferred ITC component.

11 A. The amortization of deferred ITC component represents the recovery by
12 the ratepayer of a portion of previously deferred ITC. The amount is based on the level
13 of deferred ITC amortization reflected on the Company's books during the test period.

14 Q. Please describe the deferred income tax component.

15 A. The deferred income tax component represents the amount of income
16 taxes that, due to provisions in the Code, the ratepayer is expected to provide in rates
17 currently but for which payment to taxing authorities will be deferred to some future
18 period. The deferred income tax amount is arrived at by multiplying those tax timing
19 differences, in this case tax depreciation—accelerated, by the effective tax rate of
20 38.3886%.

21 Q. Please explain the amortization of deferred income tax component.

22 A. The amortization of deferred income tax component represents the amount
23 of deferred income taxes to be flowed back to the ratepayers. The amortization of the

Direct Testimony of
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1 deferred income tax component in this case was based on the level reflected on the
2 Company books during the test period.

3 Q. Please describe how adjustment S-17.1 was calculated.

4 A. Adjustment S-17.1 represents the amount needed to adjust test year
5 deferred income taxes to the level of deferred income taxes calculated on Accounting
6 Schedule 11, line 34.

7 Q. Does this conclude your direct testimony?

8 A. Yes, it does.

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

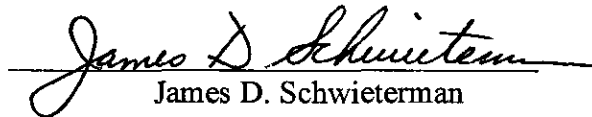
In The Matter of Union Electric)
Company, d/b/a AmerenUE, For)
Authority To File Tariffs Increasing Rates)
For Gas Service Provided To Customers)
In The Company's Missouri Service Area)

Case No. GR-2000-512

AFFIDAVIT OF JAMES D. SCHWIETERMAN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James D. Schwieterman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing written testimony in question and answer form, consisting of 14 pages of testimony to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


James D. Schwieterman

Subscribed and sworn to before me this 4th day of August, 2000.

SHARON S WILES
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 23, 2002


Notary Public

My commission expires _____

RATE CASE PROCEEDINGS PARTICIPATION

JAMES D. SCHWIETERMAN

COMPANY	CASE NO.
Arkansas-Missouri Power Company	ER-77-116
Associated Natural Gas Company	GR-77-117
Capital City Water Company	WR-94-297
Central Telephone Company	TR-78-258 TR-81-59
Choctaw Telephone Company	TR-91-336
Continental Telephone Company of Missouri	TR-82-223
Cuivre River Electric Service Company	EA-86-13
Empire District Electric Company	ER-79-19 ER-83-42 ER-90-138 ER-94-174 ER-97-81
Gas Service Company	GR-78-70
Laclede Gas Company	GR-78-148 GR-83-233
Missouri-American Water Co.	WR-95-205 SR-95-206
Missouri Cities Water Company	WO-86-122
Missouri Utilities Company	GR-81-244 WR-81-248 ER-81-346
Ozark Natural Gas Company	GA-98-227
Missouri Water Company	WR-77-212
St. Joseph Light and Power Company	EC-98-573 HR-99-245 GR-99-246 ER-99-247

RATE CASE PROCEEDINGS PARTICIPATION

JAMES D. SCHWIETERMAN

COMPANY	CASE NO.
St. Louis County Water Company	WO-86-100
Sho-Me Power Corporation	ER-79-106 ER-80-83 ER-82-134 ER-83-80
Southwestern Bell Telephone Company	18,660 TR-79-213 TR-80-256
Union Electric Company	EO-86-36 EM-96-149 GR-97-393
Western Resources, Inc. d/b/a Gas Service	GR-93-240