A Staff is working with expenses that occur beyond the test year when they're trying to utilize a known and measurable concept for expenses. And it has been Staff's position that these costs of removal expenses are similar to other expenses in a rate case. O and M expenses, they are of the same characteristics as those other expenses, and that's what we're trying to achieve with the work that we do.

Q So you're saying net salvage -- you're saying the retirement expenses, retirement costs are not -- is not -- when you retire a capital asset, that is not a capital event?

A I'm not for sure how I consider that, because I am considering it an expense item.

Q Well, let me read to you from the uniform system of accounts, and you tell me whether or not this sounds right to you.

When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D below.

If the retirement unit is of a depreciable class, the book cost of the unit

retired and credited to gas plant shall be charged for accumulated division for depreciation applicable to such property. The cost of removal and the salvage shall be charged for credited as appropriate to such depreciation account.

A I think that's important to note at this time that this Commission is not bound to uniform system of accounts. There is a clause there.

Q Okay. I think we've been over that ground already.

I don't know if you answered this question so I'm going to risk asking it again. The 50 million that Laclede spends on capital assets, I assume you would prefer that even though the average service life is not known and measurable, that Laclede recover those costs over that average service life?

A Yes.

Q Okay. So the fact that a particular value is not known and measurable and it has to be estimated is not a sufficient enough reason by itself to reject using it for purposes of setting depreciation rates, or the rates charged to utility customers. Is that right?

A Well, I don't think the -- you're saying that that original cost is not known and measurable?

Q No, we agreed the original cost was known and measurable, right?

A Yes.

Q And the estimated service life is not known and measurable. It is an estimate. Right?

A Correct.

Q But, nevertheless, we're going to use that estimate to spread that known and measurable cost, rather than just recover it immediately, we're going to spread it using that estimate.

A Yes.

Q Okay? So what I'm concluding, then, is that just because we're using an estimate is not a sufficient enough reason to reject setting depreciation rates based on that estimate.

A I agree with the caveat that the original cost is known and that will not be under or over -- the company will be made whole on that amount.

Q Unless the service life estimate is

wrong.

A Are you saying -- if the -- if the service life estimate is wrong, the company still will recover the full original cost.

Q Because the depreciation reserve will net it out?

A Yes.

Q Just like it does for net salvage under the standard method?

A No.

Q I'm afraid you were doing well up to that last answer. Okay. So since we're willing to use the average service life estimates, wouldn't you agree with me that there -- a reason not to use an estimate is because there is something wrong with that estimate?

A Yes.

Q Okay. And so let's say you did an analysis and it showed that a service life estimate tended to vary from actual experience by 5 percent. In your view, would that be sufficient to reject the use of the service life estimate in total and just permit the recovery of all capital expenditures in one year?

A No, because the reserve is for the

amount of original cost. If -- if that 5 percent, at any moment in time, fluctuated, the reserve still picks up the original cost of the item.

Q Well, if you assumed 50 years for an item -- let's say a $50,000 item for 50 years. You're going to depreciate a thousand dollars a year, right? Let's say the item only ends up lasting 40 years. You guessed wrong on the service life. Then the company will have only collected 40,000 on that item, right? Because of the error in the service life estimation.

A No, because we continue the depreciation of the item. The -- there is not a cutoff -- at that moment in time, depreciation stops. Because this is --

Q Well, at the time the item is retired, it's -- it's subtracted from the asset. Right? It's reconciled right then and the depreciation stops on that item. Right?

A Not in mass asset. We keep the depreciation rate going for the mass asset account.

Q Okay. Until the next rate case.

A Yes.

Q Let me give you another example.

Let's say that over the last 50 years, the cost of a certain item had increased by an average annual amount of 2 percent per year and that you were asked to estimate what that item would cost in another 50 years.

In your view, would it be more reasonable to assume that the cost was going to double, or more reasonable to assume that the cost would stay the same as it is today?

A What kind -- I don't know the -- I don't know that I can answer that. It's -- I don't have the kind of item, I don't have the conditions and situation.

Q So you can't answer a -- just on a hypothetical basis?

A No.

Q All right. Let's say it's a main. And we're talking about cost of removal of the main. And you know that this amount has increased by 2 percent per year over the last 50 years. Okay? Now I'm asking you, if you were to hazard a guess, what the cost of removal would be 50 years from now. Would you say it's more reasonable to assume that that cost would be double what it is now, or the same as it is now?

A Because you're so far out into the future, I wouldn't make the estimate because I would assume that someone's going to become innovative in the time and create some other, you know, scenario situation at the time of retirement.

Q But if I said you had to choose one of those two, which one would be more reasonable?

A Under your hypothetical, I'll go with the trend. Increase.

Q Meaning the double.

A Yes.

Q Would you agree that all the factors used to develop the net salvage percentage under the standard method are known and measurable?

A Known and measurable, but not predictive.

Q So the net salvage costs of retired plant, which is one of those factors, is known and measurable?

A Yes.

Q The original cost of retired plant, which is another factor, is known and measurable?

A Yes.

Q The original cost of the current

plant is known and measurable?

A Yes. It's the predictiveness of that percentage that I simply can't --

Q I understand. Let me ask you about your concerns over the -- what you call the predictiveness. In his 1999 testimony, Mr. Adam was not -- did not raise the predictiveness as an issue. Is that correct?

A I think on page 8, he said the customer should be paying only the current negative net salary to interim retirements.

Q Right. He wanted to just pay -- wanted customers to just pay the current amount. He wasn't arguing with the predictiveness.

A He chose not to use it.

Q Okay. When the Commission -- when the Missouri Commission approved the standard method for St. Louis County Water in 2000-844, the accuracy of that -- of those predictions didn't stop them, right?

A No, I -- if it's -- I understood, though, that that's not what was taken into consideration, but that the cash flow was. Just generating cash flow was the concern.

Q Okay. And the Indiana case you just

went over with Mr. Lowery, the Indiana Commission wasn't bothered by the predictiveness of the standard method?

A I can't really know for sure what they had in mind.

Q And the vast majority of state commissions that use the standard method or are aware the standard method is used are not so bothered as to depart from the standard method?

A Well, I think I had an attachment to my testimony that shows that other commissions are concerned and they're starting to look at it. And, as anything, once it starts to get further analysis, I mean, that's -- that's the context there is that there -- there certainly is some concern.

Q And this is -- this is attachment 8 to your rebuttal, you're referring to?

A Yes.

Q Let me read one paragraph from Schedule 8-1 of that testimony to you and ask you if you agree with it.

A Okay.

Q The near term revenue requirement impact makes cash treatment and other forms of

salvage and cost of removal deferral attractive to regulators. The proceedings discussed here demonstrate that this attraction is strong enough to prompt some regulators to dictate cash treatment even though in conflict with uniform system of accounts that specify accrual accounting and unfortunate for customers and the economy of the service territory.

Do you agree with that statement in your testimony?

A Well, at least not in -- in Missouri. I think the concern here, as we have presented it, is what is the appropriate cost that customers should pay in any given period today, 20 years ago, 10 years ago. We are trying to move to establish for the customers who is the -- what is the appropriate -- not in the sense of a -- that this is just a near term revenue requirement. It's the sense that we're trying to pick up what's the appropriate cost.

Q You don't want to harm the customers and the economy here, right?

A Well, if I was a business and I came to Missouri and was being overcharged, as in what we've seen in the past cases, that hurts the

economy as well.
Q But -- well, let me ask you this. Would you -- how would you feel about a situation in which you were paying significantly less than your rate, and that amount would then be paid by a future generation?
A Well, and that's my point. We're trying to make sure that doesn't happen.
Q And so are we. Okay. Let me move to a different area.
In Mr. Adam's testimony, he did not propose any amortization of the depreciation reserve to reflect a return of the net salvage amounts that were supposedly collected from customers in excess of amounts that would have been collected under Staff's method. Is that a true statement?
A I thought that he knew that it should be monitored and -- for the duration and the magnitude.
Q Do you agree that such an amortization should not be made?
A In this case, the '99 case.
Q Yes.
A I don't believe I made a

recommendation for an amortization in this case, no.

Q Okay. All right. So if the Commission adopts the Staff's method, would it be your position that the -- that the Company should reduce rates further to return net salvage amounts that theoretically were previously collected from customers in excess of the amounts that would have been collected under Staff's method?

A I generally like to take a look at the magnitude and the duration of the overaccrual. I think that that's necessary.

Q So you're saying maybe.

A Yes.

Q But you haven't decided yet.

A I think that one has to look at the circumstances to see if it is necessary.

Q Are you concerned at all with the punitive nature of that, or should I direct that to Mr. Oligschlaeger?

MR. SCHWARZ: I'll object to the characterization of the depreciation orders of the commissions as punitive.

MR. ZUCKER: Well, this isn't a depreciation order yet. I'll rephrase it for you, though, Tim.

Q (BY MR. ZUCKER) Are you concerned about the cash flow effects of that?

A If I can, I will defer cash flow to Mr. Oligschlaeger.

Q You have not done any analysis to determine the magnitude of these alleged overaccruals; is that correct?

A I have in subsequent Laclede cases, I've been involved in the Ameren complaint case and in the Aquila case earlier this year.

Q So you have, but not in the Laclede case?

A Oh, I have that, yes.

Q So how far back in time would you go to -- to assess this overaccrual?

A The overaccrual is -- is viewed as we do the depreciation study today. That is an absolute dollar that is calculated at the time of the study.

Q And how -- what time period does it cover?

A It really depends on each company.

Q And this -- if you were to do an amortization, that would assume that the utility

actually collected the net salvage amounts embedded in the depreciation rates from the customers; is that right?

A Will you ask that question again?

Q The theoretical overaccrual assumes that the Company actually collected the accrual amounts?

A Yes.

Q And so do you -- do you take into account that some amounts would -- you know, for a plant built in a certain year, there would have been no collection of rates until the next rate case occurred?

A Well, that, and plant that retired also would have continued to have accumulated.

Q And which amount do you think is larger? The interim capital additions or the interim retirements?

A I would have to sit down and calculate it.

Q Couldn't hazard a guess? Take a guess.

MR. SCHWARZ: Object, calls for speculation.

MR. ZUCKER: And I am calling for

speculation.

JUDGE DIPPELL: The witness doesn't have to answer that one. Doesn't have to guess. I would appreciate it if we got yes, no, or I don't know once in a while, but she doesn't have to take a guess.

Q (BY MR. ZUCKER) If I were to say that the capital additions are likely to be much larger than the interim retirements, would you say that's a reasonable assumption?

A I would.

Q Would you be able to tell me how much net salvage costs Laclede actually incurred for each of these years? For each of the years covered by the amortization?

A Which amortization?

Q Well, the one we were talking about. The amortization of excess reserve amounts.

MR. SCHWARZ: I object. Staff hasn't proposed an amortization, the Commission hasn't ordered an amortization.

MR. ZUCKER: Well, she said that it's possible that she would do one based on the magnitude, and I'm asking her some questions about how she would do it.

JUDGE DIPPELL: I'm going to overrule your objection and let the witness answer.

THE WITNESS: You would try to take a look at how many years it took to build up that amount, and then use judgment to say, well, is that about the appropriate number of years that you should try to bring it back. You have to -- you know, it's taken 20 years to build it up, one consideration might be should you take 20 years to reduce it back down.

Trying to keep in mind that you want to, as close as possible, return it -- or return the effect of it to the customers that would have paid it.

Q (BY MR. ZUCKER) Okay. So that -- that assumes that you would be returning it to, you know, to the extent that you went back 20 years, you would be returning it now to a lot of customers who never paid it?

A I -- there is the argument that a new generation of customers have come about. I am trying to provide as close as possible to that generation, which is a group within a time period of a rate case that would have provided it.

MR. ZUCKER: May I have a moment, Your Honor?

JUDGE DIPPELL: Certainly.

MR. ZUCKER: I may be close to finished. Okay, I'll pack up my stuff here, Your Honor. Thank you.

JUDGE DIPPELL: We'll take a short break and come back at 20 after and finish up Miss Schad starting with Commissioner questions then. You can go off the record.

(Off the record.)

JUDGE DIPPELL: Okay. We had a technical error while we were on a break, the Judge somehow managed to delete the electronic exhibit that Miss Schad worked so hard to create.

Miss Schad, do you think you would be able to recreate your example on paper.

THE WITNESS: Yes.

JUDGE DIPPELL: I will let Miss Schad attempt that. I don't want to take the time to do that, unless Commissioner Murray thinks it would help her in her questions.

THE WITNESS: It will probably just take me like three minutes.

JUDGE DIPPELL: Okay. Well, if it

will only take that you length of time, maybe we'll just go ahead and take another five minutes and let her see if she can create that, make some copies and pass it around so everybody can look at it. Go back off the record.

(Off the record.)

JUDGE DIPPELL: Okay. We're back on the record. I apologize for that little technical glitch. Someday these things will go smoothly, but Miss Schad has recreated her exhibit, and I believe that Counsel have agreed that it is a fair representation of what was on the board. Someone has gone to make us all copies, but we'll go ahead, then.

I did want to say that we're going to try to go until 6 o'clock this evening. We'll see how it goes, if we can get through with Ms. Schad and the other two Company witnesses, that would be a good goal, I think.

Commissioner Murray, would you like to go ahead and begin your questions?

COMMISSIONER MURRAY: Thank you.

BY COMMISSIONER MURRAY:

Q Good afternoon, Miss Schad.

A Good afternoon, Commissioner Murray.

Q You are adopting Paul Adam's testimony from GR-99-315; is that right?
A Yes, I am.
Q Can you tell me in GR-99-315, was there evidence in the record that the excess depreciation reserves, as you called them, were the result of the net salvage value calculation?
A That's in the record?
Q Yes.
A Not his work papers, you mean?
Q Or were his work papers in the record?
A I thought so, but I don't know. I really don't know.
Q You don't know? Okay. If they were not, was there anything else in the record?
A He had -- there -- I thought they had a board where he did something today except it was the actual Laclede accounts? They were -- it was a -- they were boards that they used to show the same concept, except on big boards. So I don't know how that worked, I just remembered it was --
Q You referred earlier to his testimony, page 8 of his direct testimony. At

line 18, he stated, another conclusion could be that the computed average service life is wrong. Now, could -- could that not be a reason for what he was calling an excess reserve amount?

A Well, I think that there -- and I don't know for sure how much change he had in average service life from the previous one. I think he was just trying to bring out the point that when you do these calculations, there are more than one component. So not -- not to discount it, but to bring it to your attention that it -- it's there.

Q But did he give us any evidence that the, what he called excess depreciation reserve was the result of the net salvage value calculation? And not, perhaps, the result of something else, such as computed average service life being wrong?

A I don't know if he made any change, but if in essence you -- he didn't make any change, then it would -- it would be contribute -- or the amount of the change, if you take a look at both, you can -- if your average service life is changing by, let's say, a year, there is -- there is a small amount there, it's not substantial, and

I do not know if that's in the record.

You know, that -- I do not know -- like using the '98, like if he didn't change any lives, he might not have, he might have, I don't know -- I don't know.

Q Okay. Do you know if there's anything in the record now to indicate that?

A No.

Q Um, what would be the rationale for the Commission to find that a large depreciation reserve is a controlling factor in determining how to calculate Laclede's net salvage value?

A Well, it would be of concern if a reserve was large, or exceedingly large. And even in the absence of that, it is something that -- if that -- if there is a need or requirement by the Commission that net salvage percentage should be defined and how it's calculated, that's a aid in -- you know, if that is what is of essence -- I'll go back to try to answer that question more direct.

Is that if the reserve is growing way too large and you're trying to determine what are the components, then one of those things to take into consideration is how should the net salvage percentage be derived. And to the extent that maybe -- so that confusion does not continue to exist, the separation of that reserve for the amount that's original cost and the amount that is the net salvage percentage would be valuable.

Q Is it possible that excess depreciation reserves or large depreciation reserves could be the result of good management on the part of Laclede?

A Well, if -- if you consider the good management, is there O and M that's properly being expensed, one would still find that the appropriate life encompasses that, and so the reserve would be reflective of the proper average service life, and I -- I don't know that that large overaccrual has a relationship to management.

Q Okay. If the estimation of net salvage cost or the estimation of average service lives was determined to be incorrect at a point in time, there would be an adjustment made under the standard methodology, would there not, to correct for that? For either one of those errors?

A There is mechanisms. The -- an amortization or a change -- we would like to -- in the past -- here's the problem. In the past, one might change the percentage of the depreciation rate to achieve a balancing. But --

Q A balancing meaning --

A Meaning like if it needs to be increased or decreased.

Q To correct for a more accurate estimation?

A Yes. The problem is we're trying to be more specific so that more analyses can be done in the future as to what is the average service life that's being ordered, what is the net salvage percentage that's being ordered, how should it be defined, so that analyses can be done in the future. Right now it's real hard.

If -- sometimes if depreciation rates were ordered, and a lot of times they were ordered without the underlying factors of what the average service life was, that makes it very difficult to do analyses. And for many, many cases in this -- in this case, only a final depreciation rate is provided. And especially in stips and agreements, we do not get out of that information what is the average service life for those accounts.

Q Okay. You quoted earlier -- somebody was asking you a question, and I don't recall who it was, but someone asked you about, I believe it was a method of depreciation, and you quoted or cited a 1915 authority.

A Yes.

Q Would you tell me what that was again? And why you cited it?

A Well, it's because the -- I'll tell you what it is and then I'll tell you why. Depreciation has evolved over time, and as it changes, we -- we change how we do the actual percentage. If you'll give me a minute -- depreciation is one of those issues that it's a -- it's a difficult area in the sense that what it's -- is in the determination of cost of service, the percentage is -- is changing as to what it represents.

During the early part of this century, depreciation was -- was a recovery to the company at a flat rate. They were each year to put into the reserve 1.5 percent of their aggregate dollars. And then in the '50s, the accounts were -- the companies were starting -- or were required to keep their books and records by

-- by the individual accounts and then depreciation rates were then assigned by -- by account.

It's -- the essence of looking at the history, and that's why I've done this here, is to -- to grasp exactly what it is we're trying to work with. And depreciation is not easy to grasp. And without the history, it's hard to understand what it is we're doing.

And if I just look at a moment in time, as in the last two or three years, it sort of clouds it. So I felt like in order to understand this, maybe just take a look back. This is General Order No. 13 in the matter of the uniform system of accounts for gas corporations and municipalities. And in that time --

Q What date was that?

A I'm sorry, January 1, 1915. Engineering books at the time on depreciation did not even include a net salvage. And so the purpose is as it developed and there was the concept of, well, you make an adjustment to that original cost so that you didn't overcharge customers, you would adjust it for a salvage amount.

Q Was that the uniform system of accounts that you cited for 1915, then?

A It says State of Missouri Public Service Commission General Order No. 13 in the matter of uniform system of accounts for gas corporations and municipalities.

Q That was a Missouri --

A Yes.

Q -- rule or something?

A General order. So salvage wasn't even something that was considered. So what we would have then is until the '50s, the percent -- the depreciation rate itself didn't represent -- it was just -- it didn't represent anything other than a percentage of that original cost.

And as -- as the -- as the engineering studies and then the accounting field started to become more sophisticated, there becomes more sophistication and more complex statistical analyses start to become involved.

Q At some point in time there began to be a consideration of the value of an asset when it was retired. Is that correct?

A That is correct. And then maybe about 1960, because they -- once they -- once they started doing some depreciation rates, and I think they in essence were taking into -- they had into mind that there was a value at the end.

But still in Missouri it was still only a percentage, it was just a 1.5 percent. That's the way they depreciated. And -- but in the analyses of accounting and analyses of the engineering studies, they would allow for an amount at the end of its useful life.

Q So that the amount depreciated was reduced by whatever the estimated value at the end of the life was; is that correct?

A Right. And, for instance, in doing the Iowa curve study, they felt like there was a need for that salvage, but there is not statistical analyses done of the net salvage. We -- we don't have anything -- I have never seen anything of that nature because -- because of that difficulty with predicting.

Q How did they accurately predict what value an asset would bring when the salvage was positive?

A Well, and this is -- looking at maybe what was of value at the time was just probably metal, maybe it was a dollar amount per pound.

Q Is that an estimate as to what it would bring several years later or many years later when it was assumed to be retired?

A At that time, though, it wasn't included in the depreciation rate as such.

Q Was it not deducted from rate base?

A Um, I don't know when they -- they -- I'm not for sure how they did the -- the amounts during that time. Of course, at one time, they -- they implemented the 3 percent rule.

Q And how long did that -- was that actually applied, do you know?

A The flat rates? I think I did the research, I want to say it was probably until -- I know for Empire, because I've done a look at all these, the early '50s, about 1952 is about when I think the Commission orders started coming on on doing depreciation by account.

Q Can you cite to any case that used that 3 percent rule?

A In the studies -- or the research I did, there was a telephone case where they were, I think, saying okay, go ahead and do that. I don't have that here with me. Other than that, I didn't really see it being applied.

Q Did you ever see it applied to a gas case?

A No, I did not.

Q The numbers that you used in your example that the Judge erased and we don't have copies of yet -- oh, I believe Mr. Schwarz does have copies for us, so I'll wait just a moment.

JUDGE DIPPELL: Still referring to this as Exhibit 148.

Q (BY COMMISSIONER MURRAY) The numbers that you used, did I understand you to say that that was -- those numbers were based upon an Ameren account?

A That is correct.

Q Was that a mass property account?

A Yes.

Q Did that include a -- that was as a result of the FIFO, first in/first out?

A Um, well, the actual dollars here are dollars that they provided to us. And I -- you know, so.

Q And do you have any examples of a Laclede account?

A Yes, I do.

Q A mass property account for Laclede?

A Yes, it was steel services.

Q Was that in your testimony somewhere?

A No.

Q Not in evidence?

A No. I can put it on the board if you'd like to see it.

Q I'm curious as to why you didn't use a Laclede example.

A I can. It was just the first one that I grabbed, that was here.

Q Okay. Let me look at this for a minute. I didn't understand some of the things that you were going through your numbers up there. You show -- you start out with a $3.1 million minus $113,000 amount; is that correct?

A Yeah.

Q And come up with a little over $3 million which you say -- I thought you called that the net salvage.

A Well, it's the net cost of removal. It's the cost of removal minus the salvage for net cost of removal.

Q Okay. So the 3.1 was the cost of

removal?

A Three point one was the cost of removal.

Q All right. That's where I got confused. And this method was the standard method you were demonstrating?

A Well, the cost -- the net cost of removal was the 3,006,896, and for that year, 1996, there was 1,080,999 of plant retired. So as I was asking Mr. Lowery earlier, you know, you can do a two year plan, three year, five year span. If you want to define -- I mean, in this instance I did a one year look, 1996, one year.

Q So assuming there was an overaccrual, you're just saying the amount that was actually spent that year to retire an asset that had been used in the past differed from the amount that was being accrued that year for the future retirement of current plant; is that correct?

A Well, what I was saying is if I took -- if I'm at a moment of time, December 31, 1996, and that year is my test year, and if I could be like instantaneous and that's going to be applied for the next year -- the rate cases, anymore, they're just so fast, they're just that moment in time. Then for the next year, if I use the standard approach, I would -- and I put this into the cost of service, there would be an amount of 37.1 million for that year 1997.

Now, there's -- so you -- as the -- the concept there is there is a difference for 34 million. And we're not -- and this is just one account and we're talking mass property. And the dilemma is, you know, we haven't really, even in this case, the '99 case, haven't really gotten into the issues of the terminal cost of removal.

Which, let's say during this year, I now have the issue of like a power plant from years ago, that it's just sort of -- it's there and needs to be removed. It's been retired years ago and now it for whatever reason needs to be removed.

Or if you're a gas company, maybe I'm faced that year with manufactured gas sites from back in the '20s, and now I also need to address, am I going to have in customer rates an amount to -- for a ground field reclamation of a manufactured gas site, or a long ago retired electric facility.

And because in the state we haven't accumulated for anything for those, those things always are sitting out there for us to also juggle with.

Q But we've already charged the rate payers, under the standard method, for the retirement of the asset that those rate payers used over time as they used them. Is that correct?

A Well, but, see, for such a long time there was just a recovery of original cost.

Q Okay. So you're talking about the assets that were not treated this way that have not yet been retired?

A Well, there wasn't -- you know, until we got into the '50s, we were just recovering a 1.5 percent of the original plant. So the problem is, you know, did we or did we not collect any dollars from all those customers for the future. And if -- if you just look at it for what you can see, probably not.

Q So if the Commission were to change to Staff's methodology, which is what the Commission tried to do in '99, I think without understanding either methodology, and I can say

that from experience because I was the one Commissioner that was on the Commission at the time, and I -- wait, I'm not finished, I haven't asked you a question.

If we were to use Staff's methodology going forward, how, in your opinion, would that make the treatment of past assets that were treated under the straight percentage depreciation that have not yet been retired, how would that correct that situation that you just cited?

A Well, if there -- kind of like what I was saying earlier, or maybe not, I don't know, maybe -- if -- this is -- this is not easy to understand, and so I think sometimes I have to slow down and make sure I understand the question.

Q Okay. And I may not have stated a question that's understandable, so.

A No. It is. Who should pay and at what time. And the questions are very good questions. It's something that the Staff is definitely -- we -- we struggle with and try to achieve something that's fair.

So if I have plant that's not, during that time, collected anything from those customers for a final cost of removal and I'm incurring it today by customers who incur it because it keeps the system going, because I -- if I retire something and something replaces it, so the system continues, ongoing, and I have maintenance expenses, where this gets into the issue is maintenance expense on the same mass property items can also be very large.

If -- if a unit of property is, for an item, let's say, is 20 feet, and I don't replace that full item, or if I have a turbine and the full turbine is the unit, but I'm only replacing blades in the turbine, which still can run into millions of dollars, but I, as a current customer, I pay for those in O and M expenses.

Q And I understand your testimony, you set that out, but some --

A So how do I -- what else do I -- what else should I charge today's customer for? I've got plant from the past that's retiring today, and I am asking the current customers to pay that.

Q And it goes against the uniform system of accounts and the principles that an asset should be paid for, the full cost of the

asset, including cost of removal, should be paid for by the customers who use that asset. Is that correct?

A There's -- there is the conflict with that going on.

Q Let me ask you this. Is -- do you agree that the uniform system of accounts has, as at least a large part of its purpose, uniformity among the states for the utilities to be given the same accounting treatment?

A Well, I do; however, the different utilities do not have to have the same accounting as we saw -- actually, that's HC, so if I refer to it, can I -- what do I do?

Q Can you do it without numbers?

A Well, I have to refer to what I have, and it's HC.

Q Do we need to go into closed session?

A I need to refer to this.

JUDGE DIPPELL: Okay. We will then go in camera for --

MR. SCHWARZ: Could we perhaps just do it by reference to the page without reference to specific --

JUDGE DIPPELL: Miss Schad?

THE WITNESS: Yeah, I can do page numbers.

JUDGE DIPPELL: Let's try that. If you need to get more specific, then we can go into closed session.

THE WITNESS: So. So I'll reference Schedule 7-3 and 7-5. So I'll start on Schedule 7-3. Of my supplemental rebuttal testimony.

Q (BY COMMISSIONER MURRAY) I see that.

A Under information provided. The reduction in removal cost in this account is due to the use of --

JUDGE DIPPELL: Just one moment, Miss Schad.

MR. SCHWARZ: Okay.

JUDGE DIPPELL: I don't know that that can be read into the record. I'm waiting on Counsel.

MR. ZUCKER: Where is she reading from?

JUDGE DIPPELL: Her Schedule 7-3.

MR. LOWERY: Your Honor, I apologize, but are we in camera or are we not?

JUDGE DIPPELL: We are not. In fact, we are live on the internet, so.

Q (BY COMMISSIONER MURRAY) Can we just suffice it that you referenced that exhibit as your -- or that schedule in your testimony?

A That one, and Schedule 7-5.

Q Okay. I'm going to proceed, because we're running a little short on time here, I think?

A But -- so to answer your question, then, given those two things, we need to do more auditing to determine if in effect cost of removal as it is reported is the full cost of removal or if there -- if it's getting booked into with new plant.

And as we saw earlier in a case earlier this year, numbers that get reported on the FERC account were not the same as what was reported to Staff. I think Staff needs to get a better handle on those cost of removal dollars.

Q And if those cost of removal dollars are accurately evaluated and applied to the standard methodology, the amounts that are accrued for net salvage can be corrected if they are genuinely improper; is that right?

A If, as the example I had in the Ameren case this morning, I would have that much accruing in one year, like a 34 million, when the -- that's just one account, and I have just the whole Company's annual net cost of removal for like a ten year period, 1990 to 2000, is only 10 million, it makes it difficult to -- what is that true-up mechanism?

When -- when the numbers are -- the example, which I could do one, like the steel account for -- I'm sorry, it's plastic, copper, and services -- plastic copper services account for Laclede, I had done an analysis in 1998, and it was generating about $6 million more per year. Depending on the magnitude and depending on the duration, it is going to depend on what kind of mechanism and what kind of true-up.

And then if the concept is just we just want to provide cash, I'm not really for sure where we're going to blend that in to this.

Q Is it not true that Laclede serves substantially more customers now than it served in '98, for example?

A I will say that it serves more. I don't know the, you know, the magnitude of that.

Sometimes they -- if they saw a growth earlier on when they were -- there was other parts of St. Louis being added into the system --

Q Has the plant, the size of the plant itself grown?

A I would assume so.

Q Has the cost of removal generally gone up rather than down? Over time? Over long periods of time, particularly?

A It can -- it can fluctuate as we -- say if you have a replacement program going on, and as that subsides, it could drop off substantially then. When those replacement programs end.

Q I'm sorry. If replacement programs end, would reason for the drop-off be that you're not retiring things?

A No, if you have -- if there's been replacement because you're trying to take out all the copper services or you're trying to take out all the cast iron main -- once those programs end, because that's just taking a whole system and removing all copper services that you have in the system.

Q Okay. And the reason -- and it ends

because you're no longer retiring or removing product?

A All the copper.

Q So that's not meaning that the cost of removal is going down, it's just that at that point in time, there isn't a removal.

A There isn't the magnitude going on. Right.

Q I'm going to keep moving here. Commissioner Appling was asking you questions, and when you came to the Commission, did you have training particularly in -- in depreciation, first of all? Prior to coming to the Commission?

A For calculating average service lives?

Q Depreciation in general.

A I had done our own depreciation for tax purposes on the -- on farm equipment.

Q Did you have any formal depreciation training?

A No.

Q And none in net salvage, I would assume?

A No.

Q Did you have the opportunity to make

your own decisions as to the proper methodology to be applied after you came here?

A Yes.

Q And how did you determine that you would adopt Mr. Adam's approach rather than the standard approach to the treatment of net salvage?

A Well, it really takes a lot -- it -- it takes a lot of analysis as to what is the intent of what I will put into the cost of service study and what are the shortcomings of one, that's the strengths of another, perhaps knowing that -- if there's maybe shortcomings in Staff's and how would you want to try to maybe make that better in the future. That's how I came to that conclusion.

Q Not based on any authorities, but based on your own thought process?

A Right.

Q Have you been involved in any of the cases since 99-315 that included an amortization of what Staff considers overaccrual?

A Yes.

Q You personally have been?

A Yes.

Q Okay. Can you tell me how those accruals in the depreciation account were -- how

did those accruals get there?

A The accruals are the result of booking of annual depreciation expense.

Q So they were gotten from rate payers going backward, correct?

A Yes.

Q What is the effect of amortizing them as was done at least by agreement, I believe, stip and agreement in maybe a case or two that you had been involved in, what was the effect of -- what is the effect of amortizing those?

A It is a set amount. If I was to reduce the depreciation rate by a percentage and plant was growing, I would be -- I would be in effect reducing that reserve by a growing amount. So rather than do that, an amortization is a set dollar amount.

Q You're taking what is in the reserve account, a dollar amount; is that correct?

A Yes.

Q A full dollar amount that has been in that account for the cost of net salvage?

A Well, yes, for the most recent history of which net salvage would have been included in a depreciation rate.

Q That's the only way it could have gotten there, right? Otherwise, it wouldn't be in that --

A Right. Yes.

Q Okay. So you're taking that, and that was put in there for what purpose?

A The net -- well, the reduction of the net -- the reduction, which is the net salvage, was put -- was included to keep a overaccrual from occurring. The cost of removal then became an adjustment to the adjustment.

Q Let's back up.

A If -- if I have a thousand dollar item and I know that there's $10 of -- if I know that there's $10 of salvage at the end of its useful life and it will take me a dollar to remove that --

Q Let's do a negative net salvage.

A A negative? Okay.

Q That's going to cost you $10 to remove it.

A If it's $10 salvage and $20 cost of removal, then I have an extra $10 to receive from the customers. In addition to the original cost.

Q Okay. And assume you've had that

asset in place for ten years.
A Okay.
Q And -- and assume you've got the full salvage accrual in there. With your methodology of amortizing that, what happens to it?
A If that $10 of cost removal did not occur --
Q It hasn't occurred yet.
A Oh, you're saying that it has not occurred --
Q It has not occurred yet. That doesn't mean it's not going to.
A Right. Yeah. Well, an amortization would not be done prior to that event. It's only after it's been collected that an amortization is recommended.
Q Okay. Right now in this case, 99-315, it's Staff's recommendation, as I understand it, that rather than use the standard accounting treatment for the cost of net salvage, by which you use a formula to determine an estimate of what that cost will be in the future and you charge that over time year by year to the rate payers who use that asset as you depreciate

the initial cost of the asset; rather than doing that, Staff is saying for this particular case we want to recalculate what that salvage -- future net salvage cost is going to be by looking backwards for the past five years, or whatever period of time it was, and we want to say that what that future cost is going to be, rather than based on this formula that's been proven over time and by many jurisdictions, including ours, that cost will be an average of something that we've seen in the last five years, and that's what we're going to allow to accrue for cost of removal for these current assets. Is that -- am I accurate in that?

A Only in the sense that I have one disagreement with what you've said, and that's proven. I haven't seen a proven yet, in the decades, time tested --

Q Let's not argue about that. We've had plenty of --

A I don't have it. I don't have the -- I don't have the proven part.

Q Okay. And you don't have any proven part that Staff's methodology is correct, is that --

A That is correct.

Q And it is a different way of estimating the future cost of removal. Is that correct?

A Yes.

Q Now, after this case was decided in '99, it's my understanding that Staff has been going further, taking further steps to change the standard method of treatment of net salvage, and by that the next further step, as I understand it, was that not only did Staff choose to change the way that the future net salvage cost was estimated, Staff went so far as to say it shouldn't be accrued at all.

And we shouldn't even try to estimate, we should just charge the current rate payers whatever it cost that year to remove or retire an item. Is that -- is that your understanding?

A It has evolved to that, yes.

Q And in addition to that, Staff has looked at the amount that has been accrued over time for cost of removal and says, oh, this shouldn't be here any longer. And then has arrived at a method of amortizing that so that

that account basically is removed. Is that right?

A It -- it helps to diminish the amount that's there, but your statements are correct.

Q So really what has evolved and what is continuing to evolve, it seems, is a rapid evolvement from one methodology to another, and a drastic change from what the cash flows are to the utilities that are regulated because of this sudden and drastic change. Would you not agree with that?

A In looking back -- no, in looking back before the '90s, I did not come across papers that was so predictive into the 30s, 40s, 50 years ahead of us for mass assets. I -- I have papers that have depreciation rates. Sometimes rates get stipped, I -- I don't consider this a sudden change by any means.

Q And you don't consider it a large change to the cash flow that a utility -- regulated utility has as a result of this change in methodology?

A Depending on the company and the account, it is a change, it is a significant change in that cash amount.

Q And are you at all concerned about the rate payers in the future that are being -- are going to be saddled with the full cost of removal of the assets that we are using today and, because of Staff's methodology, not only are we not paying any of that cost, future cost of removal, but we are kind of getting repaid for what past rate payers have paid for the cost of removal of the assets that are currently being used? Does that concern you?

A It does concern me in the sense that the -- we are at the crossroads here. We have the past, it's still with us, and we don't know how to take the future for sure and make us sure that we're on target.

Q But by not being sure that we're on target, you're saying let's just not even try. Let's just say we're not going to pay for anything related to the cost of removal of the assets that will be removed in the future, and we'll just pay for the cost of those old assets as they're removed, even though it's probably a lot cheaper for us now, and we'll let other grandkids pay for whatever we're using now, even if it costs a whole lot more? I mean, isn't that the result?

A I honestly -- I don't know. I don't know what that future is necessarily going to be. I -- I probably have more concern on how we're going to maybe someday in the future handle any large groundfill reclamation costs that may be looming out there.

Q Okay. And I'd just like to refer to your -- I'm not going to go into it, because of the time here is running -- running out and I know the other Commissioners want some time, but your Schedule 8-1 that you attached to your supplemental rebuttal testimony, I find very instructive.

The letter from the membership -- the letter to the membership of the Society of Depreciation Professionals from John Ferguson, the Chairman of the Current Issues Committee, because I -- I find that it is interesting you attached it to your testimony, because it disproves what Staff is claiming, in my opinion.

A Well, I think that there's -- there's debate in there, there is no doubt. And I felt like to the extent there is a lot going on out there in the debate, it's better to put it out there. So if we are here to a point where we can get a generic policy adopted or something, that there is certainly this -- this here that's out there.

I mean, Mr. Ferguson called me last October. He told me he was, you know, going to be putting something together. He didn't agree with -- or he indicated to me he didn't agree with how it's being done in Missouri.

Q I think that's obvious when you read the attachment, but --

A I felt like it was still -- it was just still allow you to see because that's important and it's part of what we're trying to do here is bring this on the table.

COMMISSIONER MURRAY: I appreciate your putting it in the record. Thank you.

JUDGE DIPPELL: Thank you.

Commissioner Clayton, did you have questions?

COMMISSIONER CLAYTON: I don't want to take away from Commissioner Davis' time. If he wants a piece of this action.

COMMISSIONER DAVIS: Oh, no. No. Go ahead, Mr. -- Commissioner Clayton. Once you're done, I'm sure all my questions will be

answered.
BY COMMISSIONER CLAYTON:
Q I want to talk about this Society of Depreciation Professionals. Sounds like a pretty rowdy group. Are you a member of that group?
A Well, it's not the Barry Bonds Club, I guess. But yes.
Q I want to start off on your Exhibit 148 because I missed the discussion of that earlier, and I apologize, but I quickly wanted to go over those numbers. And since you have a copy of it in front of you, the example that you're using?
A Yes.
Q The top of the page, you have the $3.12 million cost of removal. Is that a one -- is that a total amount for account 364, or is that -- exactly what is that? Is that a --
A That is the cost of removal for account 364 as Ameren's provided for year ending December 31, 1996.
Q So is that a number that represents costs of removal for just one year?
A Yes.
Q Or is that the -- what I'm confused

about is that if you go out to the net cost of removal, does that then have to be divided -- do you divide that by the life of the plant that you're talking about to --

A The first line item is --

Q Or have you already divided it?

A I haven't divided anything. I'm just providing the amount that's net cost of removal.

Q Cost of removal. That's the -- as you look forward, that's what you estimate the cost of all the plant in account 364, what the cost is to remove it. Correct?

A During 19 -- oh, I'm sorry. During the year 1996, they incurred the $3 million --

Q So that's actual -- that's the actual cost that they had for that year?

A Yes. Those are actuals.

Q Okay. Okay. Oh, for Ameren. This case isn't about Ameren. Okay. Now, going down Staff's method, you have 3,006,896, and you have Staff's method, and then you have standard method right under it.

A Right.

Q What is the 1,080,000 figure? You

said retired plant?
A Oh, the cost of removal in relation to the dollars retired during that year.
Q So that's the actual --
A The actual dollars retired off the books.
Q An amount that had not depreciated out completely?
A It could be. You don't know. They're just dollars.
Q Just dollars. Okay. Well, I don't understand your example. I'm going to move past it, though.
In your testimony, you go to great lengths to talk about how the accrual method is not -- not a method that's regularly used, or it's not universally used. Is that a fair characterization of your testimony?
A That it's not universally used, yes.
Q Well, would you say that most use it? I mean, we're out of the norm, don't you think?
A Yes.
Q Okay. And that change in policy from Staff came roughly in 1990?

A To the best that I can determine, yes.

Q Well, do you have a different date in mind?

A No.

Q Okay. How long have you been with the Commission?

A Five and a half years.

Q Five and a half. Okay. So you weren't around in -- okay. There's been discussion the last couple of days regarding safeguards, quote unquote, that are included in the accrual method to regularly make accurate these depreciation accounts over time; that if the estimates are off, that they be reconciled and corrected, quote unquote.

What is it about those safeguards that you find to be inadequate for an accurate reflection of the accrual method?

A We don't see them -- they don't occur. We're in a state that uses the whole life. It becomes more complex, but since we're in a state that uses the whole life --

Q When you say a whole life --

A It's a way of --

Q It's cash versus accrual or --

A No. No. No. If I'm --

Q I'm not a member of that society so you got to be patient.

A The only way we have in this state to made those adjustments is through amortizations. And they are rare. I haven't seen an amortization to increase a reserve.

Q But wouldn't Staff have the ability to review the estimates for -- well, I -- let me start over.

There's been testimony that there -- once we choose a method of dealing with the net cost of removal, that once we choose a method, that there would still be variables for the parties to discuss and fight over and argue about in the future.

Wouldn't Staff have the ability, if we were to adopt the accrual method, to adjust figures in these accounts every time that there is a rate case to make sure that they are updated with the most current information, or is that not possible?

A Well --

Q And I'm maybe missing the mark, so

--

A Well, we can, but what am I going to make as my point that I want to arrive at? I mean, we would also have to establish that -- conceptually there has to be something that I'm going to amortize or estimate to.

Q Well, you mean the actual -- the estimate for the cost of removal.

A Yeah.

Q Are you saying you don't have any way of knowing what that number is?

A Well, okay, if I -- if I take it beyond what Mr. Adam has done here and said that, let's say, conceptually the last year should be approximately what the next year is, that's already been done here. If -- and I could do the last three years for the next three years. But let's -- and also it is -- I don't have something to -- to arrive at. I mean, I have to -- if I'm going to get there --

Q I don't know what you mean by you have to get something to arrive at. That doesn't --

A How am I going to know what to change in the depreciation reserve, how much I need to change if I'm -- if I'm going to stay in the accrual, what's my target for how much it should change?

Q I don't know what your target is. I -- aren't we trying to determine an amount of the cost of removal and how best to deal with that, and there's been discussion about the ability to, in every rate case subsequent, to reevaluate each of these accounts?

And maybe I just don't understand how these accounts work and some of the formulas that are used, but does Staff not have the ability to verify or evaluate the estimates on the part of the Company on what the cost of removal will be?

I mean, you know the plant that's in service, you have those dollars, you have the lives. You estimate the cost to remove it net of salvage and then that is basically divided by the lives and you include that in the ongoing rates. I mean, that's how it works, correct?

A Okay. Correct. And if I have, let's say, an account that's a 50 year life, I don't know what's going to happen at the end of 50 years that I should make my amount to.

Q Okay. So you're -- you're saying is

that it is too speculative to make that stipulation for 50 years down the road is what you're saying?

A It is speculative. There are -- you know, if -- if we don't have a problem with being speculative, then we can assign a dollar amount at that time. I don't know how I -- I can't --

Q But what if you -- would it be -- would it be -- I guess, are these -- this method would -- would you take, say, the cost that it would be to remove it today and then take a future value, adjust it for inflation, or something like that? Is that how it's done?

A Well, under what I have as the standard method, which is what's being proposed in this -- by the Company, if I -- in that -- that amount that says 278.16. If -- basically that's saying that for every dollar of plant that I retire, I need $278 for cost of removal. It is a ratio.

It's -- so if, you know, if this Commission would like us to -- if it is the Commission's desire that that relationship is the appropriate relationship to move forward with, and for each account we define that we think that the last five years or the last ten years and get those numbers and work that, and then I develop that relationship, if the Commission finds that I should -- I should use that number, you know, we disagree whether it's predictive or not, that's what we would do.

We do not find it's predictive, we -- but -- but regardless. If that is what our instructions are to do, that's what we would do.

Q I'm going to ask you a risky question here. Do you think I misunderstand how this works? I do not get it? From what I explained? No risk of penalty. Because from what I -- I think maybe I misunderstand how this works.

A Okay. If it takes -- okay. Then maybe I -- can I ask you what you don't understand?

Q Well, you have a concern about determining what amounts these -- I think you have a concern about the speculative nature of picking or choosing a number that would represent the cost of removal 50 years down the road. Correct?

A Okay. I --

Q Correct?

A Yes.

Q Okay. Now, you have expressed serious concerns about these figures and figuring out what those numbers are in the future; yet, 47 other jurisdictions around the country use this method, so they don't have this problem. Do they?

A I -- I think it's starting to come to the surface, and I think that, as this letter shows, some are starting to get involved in it. It's -- because it's -- because it's difficult, it --

Q Is your answer that they are finding that they are having problems?

A I believe so.

Q That's what your answer is. Okay. Okay. Well, would it -- under the accrual method, I guess the way it had been done in the past, how did they -- how is the cost of removal determined? That cost determined right now under this method, do you know? Is it a present day valuation moved forward for a future value? Is it --

A There's --

Q Do you know?

A It is not a net present value.

Q Okay. Do you know how they -- how that number is chosen?

A In other states? Or here?

Q In the method that's being proposed by Laclede, by Ameren --

A Those are current dollars.

Q Which are -- I thought we were talking about future speculative removal costs. How do they propose that those numbers be chosen?

A They would look at the dollars retired last year. They need that number. The dollars of plant retired. And they need the dollars of cost of removal in order to remove those plant. The dollars incurred is my $3 million. The dollars retired is the 1 million.

Q So they don't estimate, it's just purely a percentage; is that what you're saying?

A Well, intuitively, it seems like it would. But if you take a look at an account -- took a look at this account for several years in succession, you're still not coming up to anywhere near the 37 million. But we're -- but they're saying over time, it should prove to be true.

Q Over time what would be proven to be true?

A That for every dollar of plant retired, I need $278 for cost of removal.

Q All right. So it's your testimony that you don't believe there are sufficient safeguards to keep these figures accurate on a forward looking basis?
A Well, we --
Q If that's a difficult question, let me ask you this. Are there any safeguards that you do like in the accrual method?
A Yes. The fact that it is offset to rate base. That is something --
Q Okay. So you do like that offset to rate base. Have you all done an historical analysis comparing the amount of dollars of actual cost of removal versus what the accrual method would indicate for a revenue requirement and how different they are on a historical basis, say, like the last five or ten years?
A Well, I -- I've looked at -- like this account, I -- I have done just what I have here for -- for like five years.
Q Where are what you have here?
A That was on the board earlier.
Q Oh, this thing is the last --
A Yes.
Q Okay. The thing I didn't

understand.

JUDGE DIPPELL: Exhibit 148.

Q (BY COMMISSIONER CLAYTON) Okay. So -- I don't know. I'm confused, because you used numbers from Staff's method, then you put them into the standard method, then you go to ASL, and then back to Mr. Adam's method. And I don't see how I bounce back and forth between the methods.

A Okay. I think I'll start over and clear it up.

Q No, let's not. You all have been through this and I don't want to take everybody's time to do that. I'll figure it out. I'm a good study at home.

If we were to choose to use the accrual method, would there be additional safeguards or concerns or ideas that you would have to provide an addition layer of protection for the rate payer?

A I would agree that there has to be additional safeguards. I have not come to the conclusion of what -- how they would be. One helpful mechanism for us would be if the reserve was separated into the part that's for the original cost and the part that's for salvage, or cost of removal. If that alone was separated, that would be helpful so that we can see what is part of each one.

Q Okay. What is -- exactly what is Staff's proposal? Is it the actual -- the actual removal cost for the test year? Is it an average over years, or --

A In Mr. Adam's testimony, it was actual without an inflation factor or any other mechanism for some change.

Q Actual from the test year? Does that make sense?

A No. That probably would not -- that wouldn't be available to us yet. We'd have to go back two to three years. To capture that.

COMMISSIONER CLAYTON: All right. Thank you.

JUDGE DIPPELL: Commissioner Davis, did you have any questions?

COMMISSIONER DAVIS: No, I just wanted to make sure Commissioner Clayton had a full and fair opportunity to ask anything else that he wanted.

COMMISSIONER CLAYTON: Do you want me to take some more time?

COMMISSIONER DAVIS: No.

JUDGE DIPPELL: Okay. I know this is a little out of order, but what I'm going to do is go ahead and ask Mr. Sherwin to come back for Commission questions before we do redirect and further cross examination of Miss Schad. And that way, the Commissioners can ask their questions.

We're going to take just a five minute break. Come back at 10 till. Go off the record.

(Off the record.)

JUDGE DIPPELL: Go back on the record. Okay, Mr. Sherwin has returned to the stand, and I will remind him that he is still under oath.

I will also remind those of you that are left that the doors are going to lock at 5 o'clock. You will be able to get out of this room, but if you come back in, you will have to come back in, this door will be propped open, and as long as it remains propped open, you will be able to get back in. But also I believe the building doors lock at 5, so if you go out onto the street, you will not be able to get back in unless you have a friend inside the building.

So with that said, Commissioner Murray, do you have questions for Mr. Sherwin?

R. LAWRENCE SHERWIN, testified as follows:

BY COMMISSIONER MURRAY:

Q You know, I'm not sure that I have much for you, Mr. Sherwin. But I -- I will ask you while you're on the stand if you could briefly, and I hope it's possible to do that briefly, explain how an overaccrual would be tracked and addressed by the standard method? Can you do that?

A Yes, certainly. The overaccrual that we had an example of before would be addressed, first of all, by an adjustment to the depreciation rate and subsequent to depreciation studies.

Secondly, the amortization we've been discussing, the kind of amortization that has been discussed is another method of eliminating an over or underaccrual.

Q Would you explain how that amortization works? What actually happens?

A Well, a determination is made of the so-called overaccrual using a theoretical depreciation reserve and comparing that to the actual book reserve of the company, and then the difference is divided over -- divided by a number of years. And each year the company takes one -- takes a ratable portion, one-fortieth or however many years have been divided into it, and goes the opposite direction. Removes some of it, in effect.

Q Okay. And that would be -- that's fine.

Can you identify within your accumulated depreciation what has been accumulated as a result of depreciation of the original cost of assets versus the cost of -- estimated cost of removal?

A As Mrs. Schad indicated, the rates for Laclede for our property accounts weren't separated, or weren't determined by account until the early '50s. So there would be a period of time when that would just be impossible, but it -- certainly someone trying to get at that number could model around that beginning -- that starting point.

Someone would have to analyze the determination of our depreciation rates over the years, and finding the information might be challenging. But I -- I think it may be possible with a lot of work.

Q Right now the accounts are grouped into groups of assets; is that right?

A Our depreciation rates are set by primary plant account. Mains or -- steel mains and cast iron mains.

Q And under the standard method, the estimate for the cost of retirement is based on a retirement history of the group of assets; is that correct?

A Yes, it is.

Q And then that's a percentage or a ratio is applied going forward to estimate the cost of removal of the current assets. Is that --

A Typically the analyst divides the cost of removal for a period by the original cost of the property retired for that period. Often it's done for a number of years to eliminate fluctuations and help to better identify trends.

The resulting ratios are the starting point for determining how to estimate the future. And often it's -- that resulting ratio is just taken without adjustment and used in developing the rate.

So very often it's used directly without any kind of adjustment by the analyst, but the analyst is certainly free to make whatever adjustments they might identify as being important to them. There may be some new technology or something of that nature.

Q Okay. I'm not -- and with what Laclede is proposing for Laclede's assets, are you -- is Laclede proposing to make adjustments or --

A No. Our proposal was to use the existing ratios.

Q Okay.

A As the estimate.

Q And is it true that sometimes the cost of removal could exceed the original cost of the asset?

A Yes, especially on long life properties.

Q And if that is indeed the case, that would not provide any reason to not charge the rate payers who are using that asset or that cost, would it?

A No, it -- it just may be counterintuitive. It may be a little -- something for the analyst to get used to that, gee, that's doubling that. Well, yeah, sometimes it has to.

Q But it's still a part of what it cost to provide that asset for the rate payers.

A That's exactly right. It is still a cost.

Q And if it indeed costs more than the original cost of the asset, seems to me like it would be definitely unfair to charge -- to wait and charge rate payers at the time, or going forward for the cost of removal of that asset and not charge the customer who used it over a 40 or 50 year period.

A Certainly. Right.

Q Okay. I don't think -- yeah. On page 20 of your testimony.

A I have it.

Q You mention the Commission rule that has a provision specifying that utilities should credit rate payers an annual amount equal to 3 percent of the value of the depreciation reserve as a compensation for the use of their money. And then go on to point out that the compensation that the rate payers receive through a reduction in rate base is significantly higher than that.

Are you talk -- when you're

referencing that compensation, you're referencing compensation for the full depreciation accrual, including what was depreciated from the original cost of the asset as well as the estimated cost of salvage; is that right?

A Yes. That is referring to the balance in the accrued depreciation account.

Q Okay. And do you know if that rule was ever applied?

A I have -- I have never seen it applied. The rate cases I've been involved with, it has been a rate base reduction for accumulated depreciation.

Q And if that rule were applied, there would be no rate base reduction; is that correct?

A Um, that's the only sense I can make out of it, yes. That -- it talks about compensation, and rate base reduction is another form of compensation.

Q Isn't rate base reduction also a -- an integral part of depreciation? I mean, as your depreciation accruals accumulate, the rate base reduces? Is that --

A Yes, that's just the normal accounting. Yes.

COMMISSIONER MURRAY: All right. I think that's all I have. Thank you.

THE WITNESS: Okay.

JUDGE DIPPELL: Commissioner Clayton, do you have questions for Mr. Sherwin?

COMMISSIONER CLAYTON: Well, yes, but they may not be very good questions.

BY COMMISSIONER CLAYTON:

Q Is there any correlation, statistical correlation or if you look over either a historical period or look forward between the amount of accrued cost of -- net cost of removal that is your company's position versus the actual removal cost in a given year? If you compare year to year, is there any correlation to that at all?

A Well, the studies we have seen in this case show that it provides a conservative estimate.

Q A conservative estimate of the future costs of removal.

A Yes. Maybe I'm not understanding your question.

Q But I'm talking about a comparison with Staff's position. I'm talking about the dollar amounts that you all would propose as part

of revenue requirement, or part of rate base, the position that you all would have on this issue versus Staff's position on the issue, is there a correlation between the two?

I mean, is -- is Staff's position always going to be 50 percent of what -- what you all would propose over a period of time? Or is there absolutely no correlation?

Do you understand the question?

A I would think, if I understand your question, I would think that would depend on the service life and the net salvage percentage of the property and whether it's a positive or negative. So --

Q I'm kind of speaking in total.

A In total, for our property, I would expect the standard method would typically front load the depreciation compared to the Staff method.

Q I agree with that. I believe -- Staff's position is a five year average, is it not?

A I think that's what Adam used.

Q And is that different from what Miss Schad has proposed?

A My experience is Staff sometimes varies the percentage from case to case.

Q Okay. Well, we had a chart that was proposed by Mr. Stout the other day, and I -- we were talking about comparing the cost of removal over time, and I wanted to get a -- try to -- as we look forward, what the difference in the Company's position, what you all want us to do versus what Staff wants us to do, what will that mean on average more in revenue requirement as we look forward per year?

And will each year there be a -- is there always going to be a correlation? Is it always going to be 70 percent or -- or there may be no correlation.

A I'm not smart enough to be able to boil it down to a percentage. I would think that it would have to be figured up, and I haven't done so. I don't have that.

Q Okay. Do you believe that rate payers are protected from volatility in -- in -- in the differences in costs of removal over -- over the years in any given year by using the accrual method?

A Yes. Absolutely. The standard

method does protect against volatility because of the way it functions.

Q **If we look into the future, the accrual method will always bring in more money for the Company than Staff's proposal would be if the Company's going to operate in perpetuity, correct?**

A That -- looking too far into the future is probably beyond -- beyond me. But I would accept that -- that, yes, if we keep adding plant, that's certainly a possibility.

COMMISSIONER CLAYTON: Okay. I don't think I have any other questions. Thank you.

THE WITNESS: Thank you.

JUDGE DIPPELL: Thank you. Is there any further cross examination based on the questions from the bench from Ameren?

MR. BYRNE: No, Your Honor.

JUDGE DIPPELL: From Public Counsel?

MS. O'NEILL: No, Your Honor.

JUDGE DIPPELL: Staff?

MR. SCHWARZ: Yes, ma'am.

RECROSS EXAMINATION BY MR. SCHWARZ:

Q **Commissioner Murray asked you a question about how the amortization of an**

overaccrual would work. Do you recall that?
A I do.
Q And I think you indicated that the estimate of the overaccrual comes through analysis of the theoretical reserve and you then spread that overaccrual over a number of years; is that --
A Yes.
Q And what would the effect be on the cash flow of the Company of doing such an amortization?
A Of an overaccrual?
Q Mm-hmm.
A The amortization tends to reduce the cash flow of the Company.
Q So that the safeguards, or the protections that the standard method provide have the same effect in correcting an overaccrual that the Staff's method would have on a -- on the present cash flow? That -- and not as to amount, but as to -- to direction.
A It would depend if it's an overaccrual or an underaccrual. As we were talking about safeguards, we referred to both.
Q But both of those things reduce the

Company's cash flow?

A If it's an underaccrual we're correcting, no.

Q Correct.

A If it's an overaccrual, yes.

Q Okay. Would you expect the value of the dollar in, say, 2050 to be the same value as the dollar today?

A We're talking about inflation?

Q Yeah. The value of a dollar in 2050. Would it have the same purchasing power it does today?

A I would expect it would be less.

Q So to the extent that customers in 2050 may be paying inflated costs, they'll also be paying those in inflated dollars; is that correct?

A I would think the dollars we receive in 2050 will be in inflated dollars.

Q So whatever costs they pay in 2050, they'll be paying in inflated dollars?

A Yeah, with the assumption of inflation, yes.

Q Commissioner Clayton asked you if there was a correlation between the amount of accrued cost of removal or net salvage and the

actual cost of removal. Do you recall that question?

A Yes.

Q Have you read Mr. Stout's -- or strike that.

You were here this morning when Mr. Stout testified?

A I was.

Q And did he indicate that he was not aware of any studies that compared the actual cost of removal to the amounts accrued for cost of removal for any particular vintage?

A By vintage?

Q Yes.

A I believe that was his answer, yes.

Q Okay. Commissioner Clayton also asked you if the standard method would be some measure of protection against volatility, and I think you answered that it would.

A Yes.

Q Would -- would the use of averages or trends also be a protection against volatility? As opposed to the --

A Averages or trends tend to reduce volatility in the abstract.

MR. SCHWARZ: Thank you.

JUDGE DIPPELL: Thank you. Is there any redirect from Laclede?

MR. PENDERGAST: Yes, thank you.

REDIRECT EXAMINATION BY MR. PENDERGAST:

Q Just a few questions, Mr. Sherwin. You were asked a number of questions about the -- how the safeguards work under the standard approach. Do you recall those questions?

A I do.

Q Just want to ask you a couple of clarifying questions on that. Are those safeguards designed to ensure that accruals and actual expenditures for cost of removal ultimately reconcile back to zero?

A Yes.

Q And is that under every circumstance regardless of whether there are changes in estimates as you go along, regardless of whether property that you thought might have to be removed doesn't have to be abandoned, so forth and so on, it always reconciles back to zero?

A Always be that tendency, yes.

Q And to the extent -- and to the extent that there is any difference between the

accruals and the amounts that are being expended by the Company, is the rate payer compensated for that by an amount equal to the utility's overall rate of return?

A Yes, that's exactly right.

Q And I want to explore that a little bit with you. That's because the depreciation reserve that reflects those differences is deducted from the utility's rate base; is that correct?

A Yes.

Q And when that depreciation reserve is calculated, is the accrual calculated in a way that assumes that the Company began to collect the money for that accrual the minute, or at least in the month that the plant was placed in service?

A It does assume that, yes.

Q Okay. But in reality, utilities, particularly inclining cost utilities like Laclede that may file rate cases every two or three years, they don't get to adjust their rates as soon as that plant is placed in service, do they?

A No. There is a time on it.

Q And that time lag could be one to two to three years; is that correct?

A Certainly. Yes.
Q So under the traditional method or the standard method, it assumes that Laclede began collecting that money right away for that accrual, even though in reality it didn't begin to collect that money until one or two or three years down the road; is that correct?
A That's right.
Q And it makes that assumption year after year after year after year; is that correct?
A Yes.
Q Okay. And I think there's been some discussion about perhaps that's offset a little bit by the fact that when facilities are retired, that they don't immediately come out of the rates either until you have a rate case; is that correct?
A That's been the ledge, but with a growing plant base, the numbers aren't equal.
Q In fact, would it be your opinion that the amount of phantom collections that are assumed under the traditional method are significantly greater than the amount of rate -- rate before continuation facilities have been taken out of service?

A Yes.

Q Would that be due to the fact that those facilities are being taken out of service at a much smaller additional cost than the new plant additions that are being placed in service?

A Yes, as would be evident by the growing rate base.

Q So with this accounting convention where customers are given credit for collections that the Company's never made, if you will, be another safeguard that makes the standard approach a pretty good one for the rate payer?

A Well, it lends -- leans toward conservatism. Mostly what we've been talking about in safeguards are toward equality.

Q Let me ask you about conservatism because I believe you mentioned it in response to another question. And when you were referring to that, you were referring to the analysis that Mr. Stout did in his testimony?

A I was.

Q Where he looked at the fact that net salvage percentages had been increasing over time?

A Yes.

Q And was that based on actual data,

to your knowledge?

A Yes, it was.

Q And when he says that net salvage percentages have been increasing over time, since it is based on actual data, does that mean that the actual net salvage costs that are being incurred today are greater than what was estimated in the past?

A Yes.

Q Okay. Have you seen any contrary analysis from the Staff in any way, shape, or form that has presented any evidence suggesting that that is not the case?

A No, I have not.

Q Have you to this date seen any evidence from the Staff that has ever questioned any estimate that Laclede has ever used for net salvage costs other than a demonstration that those net salvage costs happen to be greater than what the Company's incurring at this time?

A No, I have not.

Q Is the fact that you do have a greater level of costs being accrued at this time compared to what's actually being extended a reason, in your opinion, to be concerned?

A Well, it certainly points out the importance of this issue.

Q Okay. I guess my question would be, is the fact that you're accruing more than you're expending right now something that you would or wouldn't expect for a utility that has a growing rate base and given what we know about inflation?

A Oh, absolutely, the way the percentage, the way the calculation works, you would expect that.

Q Would you be surprised by somebody that was surprised by that result?

A Well, somebody brand new to this process might be, but it shouldn't take very long for them to understand that you would expect that kind of activity. That kind of function.

Q Okay. And with respect to the estimates that you have seen where Staff has pointed to large differences between the amount that's being accrued and the amounts being expended, does the Company have a large difference between the amount that it is spending every year and the amount it's recovering from rate payers every year on a cash basis for capital items?

A Yes, absolutely. We spend probably

around 50 million a year on -- upside on capital projects, and we recover just a very small fraction of that.

Q Do you think that the Commission, because there is this significant difference between the amount that we're actually expending and the amount that we're getting back for rate payers, should be concerned?

A Well, it's certainly something to look at, but I don't think it's a point of concern with the standard function of depreciation.

Q So the fact that you happen to be spending a lot more than you're getting back at any particular time, without more evidence of whether there's something wrong with an estimate or something, is, whichever way it's going, is no reason to be concerned. Is that --

A I think that's right.

Q Okay. You were asked some questions about cash flow and what the impact of an amortization would have. I'd like to ask you -- depending on whether Staff's method was in effect or not in effect, do you recall those questions?

A I recall the questions.

Q Okay. And can you tell me what

impact Staff's method has had on Laclede's cash flow compared to what you know about the cash flow or the amount of funds from operations that other utilities get?

A Well, yes. I looked at a study of Laclede's cash flow compared to peer companies. These would be, oh, maybe ten LDCs like Laclede --

MR. SCHWARZ: I'm going to interject at this time. I don't recall any questions of Mr. Sherwin that asked him about comparisons with other companies.

MR. PENDERGAST: No, he asked a question about cash flow and what impact that had on Laclede under the Staff method, and I think it's appropriate to explore that.

JUDGE DIPPELL: Commissioner Clayton did ask questions about the cash flow and the effects that they were going to have in the future.

MR. SCHWARZ: But that doesn't mean that Atlantic Gas Light or Washington Gas Company or Nycore [phonetic] or Commonwealth Edison or Consolidated Edison is -- I don't know that anybody's inquired about those. Of Mr. Sherwin. And it may just -- I mean, if someone can refresh my memory, I'd be glad, but I don't recall it.

MR. PENDERGAST: Well, what I'm refreshing your memory is there were questions asked by Commissioner Clayton and also by you about cash flow and what the relative impact was depending whether you had Staff's method in effect or the Company's method in effect, and I'm trying to get Mr. Sherwin to go ahead and address that in greater detail, put it in perspective.

MR. SCHWARZ: But that's -- there was nothing asked about comparisons. I mean, I -- well.

JUDGE DIPPELL: You're overruled. Go ahead, Mr. Pendergast.

Q (BY MR. PENDERGAST) Go ahead, Mr. Sherwin.

A Okay. I have looked at, for the period of 2001 through 2003, a comparison of cash flows as a percentage of invested capital. So we get it on an equalizing, or a comparable basis between Laclede and peer companies. And, as you might expect with the amortization and the reduced appreciation recovery Laclede is experiencing, the Laclede cash flow is among the lowest of the peers and far below the average.

Q And when you say below the peers, can you give me a general number?

A Um, yes. For this three year period, Laclede's cash flow from operations as a percent of invested capital was 6.8 percent compared to a high among the peers of 21.8 percent. The next highest was 16.2 percent. There are several in the 11 percent range.

Q Can you just give me the average?

A I can do that in just a minute. Let's see if I have a summary here. The peers together would be an average of 11.8 percent compared to Laclede's 6.8 percent.

Q And that's the percentage on the amount of invested capital?

A Yes, that's to make it on a comparable basis, so that a huge utility can be compared to one that's a smaller size.

Q And by "invested capital," we're talking about a number that is in the hundreds of millions; is that correct?

A Certainly, yes.

Q You were also asked about volatility and whether the standard method seems to address volatility. Do you recall that?

A I do.

Q Okay. And can you tell me -- and Mr. Schwarz, I believe, asked you some questions about whether using an average would also do that. Do you recall?

A Well, an average or a trend would go in that direction, yes.

Q Okay. Let's say that we're using Staff's method and we're using an average, and let's say it's a five year average.

A Oh, yeah, Staff's method with an average does not give you a very good step toward reducing volatility.

Q And can you explain why that is?

A Well, because Staff's method doesn't use the ratio -- it basically gives you the actual cost for removal that the Company has experienced. The net salvage which typically is cost of removal.

Q Well, let's say that you use a five year average, and let's say that over that five year period, you have four years where you have $5 million of net salvage expense and one year where you have $10 million of net salvage expense. And let's further assume that rates were established based on the assumption that net salvage costs would be $5 million per year. We're now in a new rate case and we have that data that I just gave available to us.

First of all, the fact that you had $10 million in, let's say it was the third year versus the $5 million that rates were established on, would the Company have to absorb that $5 million in increased costs?

A Yes, the 5 million extra, yes.

Q Okay. So compared to the standard approach, then, that wouldn't be reconciled back to zero, the Company would simply eat that amount; is that correct?

A That's right, with the expensing approach.

Q Okay. And then on a going forward basis, you might do an average and take the 7 million and then the four years of 5 million and add them up and divide by 5?

A I lost you with the 7.

Q Did I say 7? Ten million.

A Ten.

Q And then the four years of 5?

A Yes.

Q Add them up?

A Add them up, divide by five.

Q Divide by five and would that, in your view, be any assurance that you would just about hit your net salvage cost right for whatever period of rates would be in effect?

A No. You could still have to suffer the wins or losses of the fluctuation off of that average. Whatever the allowance was in rates.

Q And, conversely, would it also be true that if rates under the expensing approach were set at a higher level than what the Company incurred, that the rate payers would -- would pay more for that net salvage cost than they would have under the standard method?

A It's entirely possible.

Q And assume for me, if you will, that generally net salvage costs are increasing over time. Does the use of historical average tend to understate those costs over time?

A Yes.

Q So if rates were being based on that average, over time you would be pretty much behind the curve and you'd be under recovering your net salvage costs?

A Yes.

Q And, in fact, even under the standard method, the testimony has been that there's an understatement of the estimate; is that correct?

A That's right.

Q But does the standard method have a vehicle available for correcting that in the end so that it all reconciles back to zero?

A Yes, it does.

Q Does Staff's approach have that?

A No.

Q In your view, has the standard method worked appropriately and well for both Laclede and its customers since Laclede has been following it?

A Yes. I think so. My experience has -- or my look at history has shown it went into just the early '50s for most of our property and it's functioned well.

MR. PENDERGAST: Thank you very much. I have no further questions.

JUDGE DIPPELL: Thank you. Thank you, Mr. Sherwin. We're doing this all for you and you may be excused. Appreciate you staying late.

We can continue, then, with the questions from the bench for Mr. Lyons if he's ready.

JUDGE DIPPELL: And I'll remind you, Mr. Lyons, that you're still under oath.

Commissioner Murray, have you had a chance to switch gears here?

COMMISSIONER MURRAY: I think most of the questions I was going to ask you, Mr. Lyons, have been pretty well covered already, but let me just take a minute and look.

MARTIN J. LYONS, JR., testified as follows:

BY COMMISSIONER MURRAY:

Q We had talked earlier with some of the witnesses about the fact that net salvage values can be large, and they can be even -- even exceed the cost of the original asset. And I notice in your testimony on page 8, you cite to the NARUC depreciation practices that recognizes that point; is that right?

A Yes, and I believe they refer to inflation, especially as it relates to labor as being one of the factors driving that.

Q And also point out that it's

appropriate and necessary so that the required cost allocation occurs?

A That's correct.

Q And I'm assuming, correct me if I'm wrong, that that required cost allocation is referring to allocating the rate cost to the rate payers that are benefiting from the use of the asset?

A That's correct.

Q You go on to talk about the fact that since Staff first applied -- or since it applied its approach in this case, that Staff has further modified that approach by eliminating net salvage from depreciation rate calculations altogether, and you have gathered this information by, what, looking at cases that have been either settled or decided by the commissions in the past?

A Yes, and my understanding of proposals made by the Staff in those cases.

Q And did you hear my questions to Miss Schad earlier regarding the evolving nature of Staff's methodology and the way it has been applied since this case?

A I did hear a line of questioning relating to that, yes.

Q Do you agree that that somewhat accurately characterized the positions that Staff has taken since this case was decided? Or do you recall well enough to answer that question?

A I don't recall having any differing views on that subject from that which Ms. Schad stated.

Q So that in this case, Staff was using somewhat of a hybrid approach, I believe Miss Schad characterized it as a hybrid, whereby the accrual, the estimated net -- the estimated cost, net salvage cost was accrued, continued to be accrued, but the estimate was based on looking backward at and taking an average of the actual cost of removal of assets over the last five years. Is that pretty accurate?

A That is my understanding, yes.

Q And then since that time, the recommendations have been more in line -- Staff's recommendations have been more in line with removing any consideration of an estimate of the cost of removal of the current assets and just simply expensing the actual costs of removal. Is that right?

A That is also my understanding, yes,

Commissioner.

Q And then, in addition to that, they have sometimes recommended that any accumulated reserve be amortized, or, in other words, that account be reduced to eliminate any reserve for the cost of net salvage?

A Yes, that is correct.

Q And what is the effect of the combination of both of those -- both of those things on the cash flow to the utility?

A The combination of those things has a detrimental impact on the cash flow to the utility, it decreases the cash flow to the utility.

Q What is the effect on the current rate payer?

A The current rate payer is, in my view, not being charged the appropriate amount for the service value of the assets that are serving them, meaning it does not incorporate the appropriate amount of provision for eventual cost of removal and retirement.

Staff's method also would then have the impact of paying to customers, or -- through the form of lower rates over some future period, essentially refunding to those customers amounts that were collected from previous customers for the eventual removal of the assets that were providing those customers service.

Q What is the effect on future customers?

A The long-term effect on future customers is higher rates.

COMMISSIONER MURRAY: And the standard methodology -- never -- scratch that. Thank you.

THE WITNESS: You're welcome.

JUDGE DIPPELL: Commissioner Clayton, did you have questions for Mr. Lyons?

COMMISSIONER CLAYTON: I don't.

JUDGE DIPPELL: All right. Is there any further cross examination based on questions from the bench from Laclede?

MR. PENDERGAST: No.

JUDGE DIPPELL: From Public Counsel?

MS. O'NEILL: No.

JUDGE DIPPELL: Staff?

MR. SCHWARZ: No.

JUDGE DIPPELL: Is there redirect based on questions from the bench?

MR. BYRNE: Just two questions. Two questions. Promise.

REDIRECT EXAMINATION BY MR. BYRNE:

Q Question number one. When -- in response to Commissioner Murray, she asked you about the amount of net salvage that was accrued under the -- Mr. Adam's method. Do you remember that question?

A I don't believe she referred to Mr. Adam, but I do remember questions --

Q The Staff's method in this case. I guess what I'm getting to is she used the word "accrual." And I guess my first question is, is what the Staff did in terms of just putting the five year average into the depreciation calculation, in your mind, does that constitute a true accrual of net salvage?

A No, it does not.

Q And why not?

A I believe that an appropriate accrual of net salvage is one where one has made an estimate of the cost of eventually removing the plant that is in service today, making a sound estimate of that, and then accruing for that over the life of the asset -- over that asset. I don't believe that the Staff's method makes any attempt to do that.

Q Okay. My last question is, you were asked a couple of questions about the amortization of overaccruals. Do you recall that line of questioning?

A I do.

Q Are you aware, in Ameren UE's last electric case, EC-2002-1, did the Staff propose an amortization of overaccruals, to your knowledge?

A They did, yes.

Q And are you aware of the relative magnitude in that case of the amortization of the overaccrual proposed by Staff to the net salvage expense proposed by Staff?

A To the best of my recollection, the Staff computed an overaccrual of $350 million, and, to the best of my recollection, they recommended that that be -- float back to the customers in the form of reduced future rates. And I believe they recommended a 40 year amortization period in that case.

Q And so how did the -- do you know how the yearly amortization of the overaccrual compared to the expense?