

*Exhibit No.:*  
*Issue:* Environmental Cost  
*Witness:* John P. Cassidy  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Direct Testimony  
*Case No.:* GR-2007-0003  
*Date Testimony Prepared:* December 15, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**JOHN P. CASSIDY**

**UNION ELECTRIC COMPANY,  
d/b/a AMERENUE**

**CASE NO. GR-2007-0003**

*Jefferson City, Missouri*  
*December 2006*

**\*\*Denotes Highly Confidential Information\*\***

**NP**

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

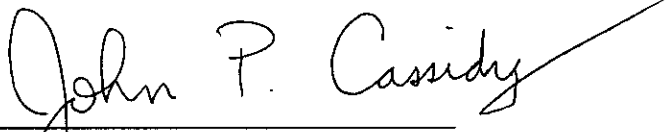
In the Matter of Union Electric Company, )  
d/b/a AmerenUE for Authority to File Tariffs )  
Increasing Rates for Natural Gas Service )  
Provided to Customers in the Company's )  
Missouri Service Area. )

Case No. GR-2007-0003

AFFIDAVIT OF JOHN P. CASSIDY


STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

John P. Cassidy, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
John P. Cassidy

Subscribed and sworn to before me this 14<sup>th</sup> day of December, 2006.

**D. SUZIE MANKIN**  
Notary Public - Notary Seal  
State of Missouri  
County of Cole  
My Commission Exp. 07/01/2008

  
\_\_\_\_\_  
Notary Public

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JOHN P. CASSIDY  
CASE NO. GR-2007-0003**

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1 **DIRECT TESTIMONY**

2 **OF**

3 **JOHN P. CASSIDY**

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

5 **CASE NO. GR-2007-0003**

6  
7 Q. Please state your name and business address.

8 A. John P. Cassidy, 9900 Page Avenue, Suite 103, Overland, Missouri 63132.

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

10 A. I am employed by the Missouri Public Service Commission (Commission) as  
11 a Regulatory Auditor.

12 Q. Please describe your educational background.

13 A. I graduated from Southeast Missouri State University, receiving a Bachelor of  
14 Science degree in Business Administration, with a double major in Marketing and  
15 Accounting in 1989 and 1990, respectively.

16 Q. What has been the nature of your duties while in the employ of this  
17 Commission?

18 A. Since joining the Commission Staff in 1990, I have assisted with and directed  
19 audits and examinations of the books and records of utility companies operating within the  
20 state of Missouri. I have also conducted numerous audits of small water and sewer  
21 companies in conjunction with the Commission's informal rate proceedings.

22 Q. Have you previously filed testimony before this Commission?

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

3           Q.     Did you make an examination and analysis of the books and records of Union  
4 Electric Company d/b/a AmerenUE (AmerenUE or Company) in regard to matters raised in  
5 Case No. GR-2007-0003?

6           A.     Yes, in conjunction with other members of the Commission's Staff (Staff).  
7 I reviewed Company workpapers and testimony, Company responses to Staff data requests  
8 Ameren Corporation's (Ameren) most recent 10-K filing with the Securities and Exchange  
9 Commission, past Ameren shareholder reports and outside auditor workpapers. I obtained  
10 information from Company personnel during various meetings. From the most recent rate  
11 proceeding involving AmerenUE (Case No. EC-2002-1), I reviewed the Company's response  
12 to various data requests, Company workpapers and testimony, Staff workpapers and  
13 testimony, Office of the Public Counsel (OPC) testimony and the Stipulation and Agreement  
14 as well as the Commission's Report and Order.

15           **EXECUTIVE SUMMARY**

16           Q.     With reference to Case No. GR-2007-0003, what matters will this direct  
17 testimony address?

18           A.     This testimony will address the Staff's determination of an appropriate level  
19 of environmental expenses to include in the cost of service with regard to the Company's gas  
20 operations. My recommendation is to reduce test year environmental expense to a level that  
21 reflects actual incurred costs.  
22

1 **TRAINING AND EXPERIENCE**

2 Q. What knowledge, skill, experience, training or education do you have in these  
3 matters?

4 A. I have previously analyzed environmental expenses at AmerenUE as part of  
5 Case No. EC-2002-1. In addition to my work experience at the Commission, I have attended  
6 numerous regulatory conferences and in-house training sessions, reviewed various journals  
7 and trade articles and had many interactions with members of the utility regulatory  
8 profession.

9 **PURPOSE OF TESTIMONY**

10 Q. With reference to Case No. GR-2007-0003, what is the purpose of this direct  
11 testimony?

12 A. The purpose of this direct testimony is to explain the following gas company  
13 related expense adjustment, which appears on Accounting Schedule 10, Adjustments to the  
14 Income Statement:

15 Environmental Expense Adjustment S-12.7

16 **COMMISSION ORDERED TEST YEAR AND UPDATE PERIODS**

17 Q. What test year and update period has the Staff utilized in the gas rate case?

18 A. The Staff has used the Commission ordered test year ending June 30, 2006  
19 with an update period ending September 30, 2006. As agreed to by the parties and ordered  
20 by the Commission, there will not be a true-up for the Company's gas rate case.

21 **ENVIRONMENTAL EXPENSE**

22 Q. Please explain how the Company accounts for environmental expense.

1           A.     Using an accrual basis of accounting, the Company maintains a reserve which  
2 is accumulated to pay for environmental costs related to the clean-up of contaminated sites.  
3 The Company maintains environmental reserve balances for estimated environmental costs  
4 that relate to both its electric and gas operations. The following example demonstrates  
5 journal entries that the Company records when accruing and then subsequently paying for  
6 environmental expense:

7                   **Set up of Reserve**

8                   **DR**   Administrative and General – Miscellaneous

9                           **CR**   Reserve for Clean-up of Contaminated Facilities

10                   **Payment**

11                   **DR**   Reserve for Clean-up of Contaminated Facilities

12                           **CR**   Cash or Accounts Payable

13           Q.     How did the Company account for environmental expense during the test year  
14 ending June 30, 2006 for its gas operations?

15           A.     For gas operations, the Company accrued \*\* \_\_\_\_\_ \*\* for environmental  
16 expenses and actually paid \*\* \_\_\_\_\_ \*\* for environmental expenses during the test year.  
17 At June 30, 2006, the Company maintained an accrued environmental reserve balance  
18 of \*\* \_\_\_\_\_ \*\* related to its gas operations. This environmental reserve balance  
19 represents the amount of accrued environmental expenses in excess of what the Company has  
20 actually incurred.

21           Q.     Were there any test year environmental expenses that related to work that was  
22 actually performed prior to the test year and likewise, were there any payments made

1 subsequent to the test year that related to environmental costs that were actually incurred  
2 during the test year?

3 A. Yes. In the response to Staff Data Request No. 285, the Company identified  
4 actual payments for gas environmental work that was performed prior to the test year but  
5 were paid during the test year as well as any payments that were made subsequent to the test  
6 year for work performed during the test year. The adjusted test year levels of actual  
7 payments for environmental expenses to reflect these out of period adjustment are shown  
8 below:

	<u>UE-Gas</u>
9	
10	
11	** _____ **
12	
13	
14	** _____ **
15	
16	
17	** _____ **
18	
19	
20	** _____ **

21 Q. Please explain the Staff adjustment S-12.7 to the Company's gas  
22 environmental expenses.

23 A. For purposes of its gas cost of service calculation the Staff included the  
24 incurred test year level of \*\* \_\_\_\_\_ \*\*. The calculation for the Staff's adjustment is  
25 shown below:

26 Gas Operations:

27	Actual Gas Environmental Expense Incurred	** _____ **
28	Less: Company Accrued Per Book Environmental Expense	** _____ **
29	Staff's Environmental Adjustment S-12.7 – Gas Operations	\$(327,791)



1 Staff Adjustment S-12.7 removes \$327,791 of excess gas related environmental expense  
2 accruals that were made by the Company during the test year, in order to treat environmental  
3 expenses under a cash basis approach.

4 Q. How does the Company explain its use of the accrual basis of accounting to  
5 address its future environmental expenses?

6 A. The Company believes that it needs to make accruals now for future  
7 environmental costs. The Company books its environmental reserve within a minimum and  
8 maximum liability, as required by Statement of Financial Accounting Standard No. 5 and  
9 Financial Accounting Standards Board Interpretation No. 14. Ameren periodically evaluates  
10 the minimum and maximum environmental liability and adjusts the reserves accordingly.  
11 The amount recorded as a liability is not dependent upon when the cash will be required to  
12 settle such obligations. For ratemaking purposes, the Staff believes this is unreasonable  
13 because the actual timing and the amount of these expenditures are largely unknown.

14 Q. Why does the Staff recommend a cash basis approach for the Company's  
15 environmental expenses?

16 A. The Staff recommends using a cash basis approach to account for the  
17 Company's environmental expenses in order to eliminate the impact of the \$327,791 of  
18 excess gas accrual from its cost of service calculations. If this over-accrual was included in  
19 rates, the Company would be forcing its customers to pay unnecessarily for activities that are  
20 not actually being performed. The cash basis approach proposed by the Staff will provide a  
21 determination of rates based on actual known and measurable costs on a going forward basis,  
22 as opposed to the Company's accrual basis, which relies upon an estimate of what actual  
23 future payments and costs may be.

Direct Testimony of  
John P. Cassidy

1 | Q. Does this conclude your direct testimony?

2 | A. Yes, it does.

**RATE CASE PROCEEDING PARTICIPATION**

**JOHN P. CASSIDY**

**COMPANY**

**CASE NO.**

**Missouri Cities Water Company**

**WR-91-172**

Payroll and Related  
Pensions  
OPEBS  
General Insurance Expense  
Advertising Expense  
Miscellaneous Expenses

Type of Testimony Filed: Direct and Surrebuttal

**St. Louis County Water Company**

**WR-91-361**

Tank Painting  
Main Failures  
Residue Removal  
General Insurance Expense  
PSC Assessment  
Miscellaneous Expenses

Type of Testimony Filed: Direct

**Southwestern Bell Telephone Company**

**TC-93-224**

Advertising Expenses  
Promotional Giveaways  
Miscellaneous Expenses

Type of Testimony Filed: Direct and Surrebuttal

**COMPANY**

**CASE NO.**

**Laclede Gas Company**

**GR-94-220**

Payroll and Payroll Taxes  
Incentive Compensation  
401 (K)  
Dental and Vision Insurance  
Data Processing

Type of Testimony Filed: Direct

**The Empire District Electric Company**

**ER-95-279**

Revenues  
Uncollectibles Expense  
Municipal Franchise Taxes  
Postage Expense  
Emission Credits

Type of Testimony Filed: Direct

**Imperial Utility Corporation**

**SC-96-247**

Rate Base  
Depreciation Reserve  
Depreciation Expense  
CIAC  
Property Taxes  
Property Insurance  
Lab Testing Expense  
Sludge Removal Expense

Type of Testimony Filed: Rebuttal

**St. Louis County Water Company**

**WR-97-382**

Payroll and Payroll Taxes  
Employee Benefits  
Employee Savings  
Shared Employees

Type of Testimony Filed: Direct

**COMPANY**

**CASE NO.**

**Laclede Gas Company**

**GR-98-374**

Payroll and Payroll Taxes  
401 (K)  
Health Care Costs  
Pension Plan  
Director's Pension Plan  
Trustee Fees  
SERP  
Outside Consulting  
Incentive Compensation  
Advertising Expense

Type of Testimony Filed: Direct

**United Water Missouri, Inc.**

**WR-99-326**

Payroll and Payroll Taxes  
401 (K)  
Health Care Costs  
Employee Relocation  
Corporation Franchise Tax  
Advertising Expense  
Dues and Donations  
Miscellaneous Expenses

Type of Testimony Filed: Direct

**Union Electric Company**

**EC-2000-795**

Injuries and Damages  
Legal Expense  
Environmental Expense

Type of Testimony Filed: Direct

**Union Electric Company**

**GR-2000-512**

Revenues  
Uncollectibles Expense  
Customer Deposits

Type of Testimony Filed: Direct

**COMPANY**

**CASE NO.**

**Laclede Gas Company**

**GR-2001-629**

Revenues  
Gross Receipts Tax  
Gas Supply Incentive Plan  
Gas Costs  
Uncollectibles Expense  
Non-Utility Operations

Type of Testimony Filed: Direct

**Union Electric Company, d/b/a AmerenUE**

**EC-2002-01**

Fuel Expense  
Callaway Refueling  
Legal Expense  
Environmental Expense  
Capacity Purchases  
Midwest ISO  
Payroll and Related  
Incremental Overtime

Type of Testimony Filed: Direct and Surrebuttal

**Union Electric Company, d/b/a AmerenUE**

**EC-2002-1025**

Legal Expense  
Environmental Expense  
Midwest ISO

Type of Testimony Filed: Direct

**Laclede Gas Company**

**GR-2002-356**

Revenues  
Gross Receipts Tax  
Gas Supply Incentive Plan  
Gas Costs  
Uncollectibles Expense  
Income Taxes

Type of Testimony Filed: Direct

**COMPANY**

**CASE NO.**

**Laclede Gas Company**

**GT-2003-0117**

Financial Aspects

Type of Testimony Filed: Direct

**Missouri-American Water Company**

**WR-2003-0500 & WC-2004-0168**

Allocation of Belleville Labs Cost to MAWC  
National Call Center  
Compensation for Services Provided from MAWC to AWR  
Information Technology Services  
Capitalization of Shared Services  
Transition Costs  
Cost Allocation Manual  
Affiliate Transactions  
Severance Costs  
National Call Center Transition Costs  
National Shared Services Transition Costs

Type of Testimony Filed: Direct & Surrebuttal

**Missouri-American Water Company**

**SM-2004-0275**

Acquisition Adjustment

Type of Testimony Filed: Direct

**The Empire District Electric Company**

**ER-2004-0572**

Interim Energy Charge  
Fuel Expense  
Purchased Power  
Off System Sales  
KCPL Transmission Expense  
Income Taxes

Type of Testimony Filed: Direct & Surrebuttal