Exhibit No.:	
Issues:	Fuel Expense, Callaway Refueling, Capacity Purchase Adjustments, Midwest ISO, Legal Fees, Environmental Expense
Witness:	JOHN P. CASSIDY
Sponsoring Party:	MoPSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	EC-2002-1
Date Testimony Prepared:	March 1, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY,
d/b/a AMERENUE

CASE NO. EC-2002-1

Jefferson City, Missouri
March 2002

****Denotes Proprietary Information****

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JOHN P. CASSIDY

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DIRECT TESTIMONY

OF

JOHN P. CASSIDY

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. EC-2002-1

Q. Please state your name and business address.

A. John P. Cassidy, 815 Charter Commons, Suite 100B, Chesterfield, Missouri 63017.

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

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

Q. Please describe your educational background.

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

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

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

Q. Have you filed testimony in previous cases before this Commission?

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

Q. Have you previously filed direct testimony in Case No. EC-2002-1?

A. Yes.

Q. With reference to Case No. EC-2002-1, have you made an examination of the books and records of Union Electric Company, d/b/a AmerenUE (AmerenUE or Company)?

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

Q. What is the purpose of your direct testimony?

A. My direct testimony will discuss the following items: fuel expense, Callaway refueling adjustment, capacity purchase adjustments, Midwest Independent Transmission System Operator (Midwest ISO) expense, legal expense and environmental expense. I am addressing the same issues as I did in my previous direct testimony filing, with exception to the capacity purchase adjustments and Midwest ISO.

Q. What Income Statement adjustments are you sponsoring?

A. I am sponsoring the following adjustments, which appear on Accounting Schedule 10, Adjustments to Income Statement:

Fuel Expense	S-7.1
Callaway Refueling Adjustment	S-6.1
Capacity Purchase Adjustments	S-10.3, S-10.5
Midwest ISO	S-11.5

Legal Fees	S-17.6, S.17.19
Environmental Expense	S-17.3

Overview of AmerenUE Electric Generation

Q. Please list the generating facilities that AmerenUE owns and operates for the production of electric power and include a description of each facility.

A. AmerenUE owns the following generating facilities:

Nuclear

Callaway: Callaway is located ten miles southeast of Fulton in Callaway County, Missouri. Callaway is AmerenUE's 1134 megawatt net generating capacity base load, nuclear power plant which is powered by uranium. The uranium is used in a process called nuclear fission that heats water into steam. The steam, under pressure, spins the blades of a turbine, which in turn spins a generator that creates electricity.

Coal

Labadie Units 1 – 4: Labadie plant is located near Labadie, Missouri, adjacent to the Missouri River, approximately 35 miles west of downtown St. Louis. Labadie is the largest of AmerenUE's fossil fuel plants. Its four coal fired generating units are capable of producing 2299 megawatts. Labadie serves as a base load plant and predominantly burns ** **.

Rush Island Units 1 – 2: Rush Island is located approximately eight miles south of Festus in Jefferson County, Missouri. Rush Island's two units provide 1196 megawatts of total net generating capacity. These plants burn **

** as their source of fuel.

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Sioux Units 1 – 2: Sioux plant is located in St. Charles County, Missouri near West Alton. Sioux is the third largest of AmerenUE's fossil fuel plants. Its two units are capable of generating 950 megawatts of electricity. The Sioux plant utilizes coal as its primary fuel source, but also uses petroleum coke and tire chips as supplemental fuel sources.

Meramec Units 1 – 4: Meramec plant is located on the Mississippi River in South St. Louis County, Missouri. Meramec can deliver 845 megawatts of electricity with its four generating units. Meramec can burn **

**. However, two of Meramec's units can also be fired for full load with natural gas – the only plants in the AmerenUE system that can use both natural gas and coal as fuel sources.

Gas/Oil Units

Venice Units 3 – 6 & Combustion Turbine Generator (CT): Venice is located on the Mississippi River in Venice, Illinois. Venice operates as a "peaking" plant, producing power when needed to meet peak summer demand or compensating for another plant that is down for repairs. The plant operates and maintains one CT at Venice and one jet engine generator. On August 10, 2000, a fire occurred at the Venice plant causing Units 1-6 to be forced out of service. Units 5 and 6 were restored to service on May 7, 2001. Unit 3 was restored to service on May 31, 2001 and Unit 4 was restored on July 3, 2001. The Company plans to retire Units 1 and 2 due to the extensive damage. At this time, the Venice plant net generating capacity is expected to be approximately 350 megawatts, not counting Units 1 and 2. The Venice units are powered by natural gas and fuel oil.

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Meramec - CT 1 – 2: Meramec Unit 1 has a net generating capacity of 50 megawatts and burns fuel oil. Meramec Unit 2 came on line during June 2000 and provides a net generating capacity of 62 megawatts and burns fuel oil and natural gas as fuel sources. These CT units, as well as the ones discussed below, primarily function as peaking units to meet spikes in electricity demand.

Kirksville – CT: Kirksville has a net generating capacity of 13 megawatts and uses natural gas as its sole source of fuel.

Viaduct – Cape Girardeau – CT: Viaduct has a net generating capacity of 25 megawatts and uses natural gas as its only source of fuel.

Fairgrounds – CT: Fairgrounds has a net generating capacity of 55 megawatts and burns fuel oil as its only source of fuel.

Howard Bend – CT: Howard Bend has a net generating capacity of 43 megawatts and burns fuel oil as its sole source of fuel.

Moberly, Mexico & Moreau – CTs: Each of these CTs has a net generating capacity of 50 megawatts and relies on fuel oil as its only source of fuel.

Hydroelectric

Osage Units 1 – 8: The Osage plant at Bagnell Dam is located in Lakeside, Missouri on the Osage River at the Lake of the Ozarks. Osage provides power through hydroelectricity. As water passes through the dam, the pressure of falling water spins water wheels, which drive generators that produce electricity. Osage has a generating capacity of 212 megawatts and operates at the least cost of all the energy producers in the AmerenUE system.

Keokuk Units 1 – 15: Keokuk plant and dam are located on the Mississippi River at Keokuk, Iowa. Keokuk plant is a "run-of-river plant," meaning that all water flowing downstream passes the plant on a daily basis and therefore, no water is stored. Keokuk has a generating capacity of 125 megawatts.

Pumped Storage

Taum Sauk Units 1 – 2: Taum Sauk is located near Lesterville, Missouri in Reynolds County. The plant has a net generating capacity of 430 megawatts and is used primarily on a peaking basis by being put into operation when the demand for electricity is at its greatest. The pump storage system at Taum Sauk works much like a dam, but is primarily used to meet daily peak power demands for short periods of time and also during emergencies. Water is stored in an upper reservoir and is released to flow through turbines into a lower reservoir during these high energy demand periods. As water passes through the powerhouse, water spins the turbines, which drive generators to produce electricity. Then overnight, when the demand for electricity is low, the water is pumped back into the upper reservoir, where it is stored until needed again.

FUEL EXPENSE

Q. What was your responsibility in this case with regard to the area of fuel expense?

A. My responsibility was to provide current fuel prices to Staff witness Leon C. Bender of the Engineering Section of the Energy Department. I supplied current fuel prices for both AmerenUE and American Energy Generating Company (AEG or Genco), which is an affiliated generation company also owned by AmerenUE's parent corporation, Ameren Corporation. Staff witness Bender input these current fuel prices

into the RealTime™ production cost model (production cost model or fuel model). Staff witness Bender also input purchased power data, annualized net system load and other components into the production cost model. The Staff used the production cost model to calculate the annualized fuel and purchased power expense.

Q. How did you determine the fuel prices for each of the Company's generating plants?

A. The Staff obtained actual fuel prices for each of the Company's generating plants from Company fuel reports. The Staff examined fuel prices paid by the Company during its test year ending June 30, 2001 and also over the period covering January 1, 1998 through September 30, 2001. The Staff used actual fuel prices, which occurred during the twelve months ending September 30, 2001, the end of the update period. The Staff believes that these fuel prices are the best available reflection of ongoing fuel costs, within the test year and update parameters ordered by the Commission.

Q. Please explain adjustment S-7.1, which adjusts the Company's level of fuel expense.

A. Adjustment S-7.1 represents the Staff's adjustment to the Company's fuel expense based on the Staff's production cost model. The production cost model performs an hour-by-hour chronological simulation of AmerenUE's generation and power purchases. The model also determines the energy costs and fuel consumption necessary to economically meet AmerenUE's load. The Staff's annualized fuel and purchased power energy costs represent the cost of producing and purchasing power to meet the level of megawatt-hour (MWH) sales in the Staff's revenue annualization in this case.

For a complete discussion of the Staff's production cost model, please refer to Staff witness Bender's direct testimony.

CALLAWAY REFUELING

Q. Please explain Staff adjustment S-6.1.

A. Staff adjustment S-6.1 removes ** ** from the Staff's cost of service calculation in order to normalize expenses associated with maintenance projects pertaining to the Company's refueling of the Callaway nuclear power plant. The Company refueled the Callaway nuclear power plant during April and May 2001, which is within the Staff's test year ending June 30, 2001. The Company refuels the Callaway nuclear plant on an eighteen-month cycle. Therefore, the cost of refueling must be normalized to reflect the amount incurred during a twelve month period. This adjustment removes one third of the ** ** test year level of non-labor maintenance project costs related to the nuclear plant refueling. The labor related costs associated with the Callaway refueling are addressed in the Staff's payroll adjustment and discussed in the direct testimony of Staff Accounting witness Doyle L. Gibbs.

CAPACITY PURCHASE ADJUSTMENTS

Q. Please explain Staff adjustment S-10.3 to eliminate the expense associated with a capacity purchase made by the Company during the test year.

A. Staff adjustment S-10.3 eliminates a non-recurring capacity purchase made with Ameren Energy Marketing (AEM) by the Company during the test year. This adjustment reduces expenses by ** **. Staff witness Dr. Michael S. Proctor of the Energy Department describes this capacity purchase and the reason for excluding it in his direct testimony. He also describes the replacement capacity that was modeled to

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estimate fuel and purchased power expense and included in rate base by Staff Accounting witness Greg R. Meyer.

Q. Please explain Staff adjustment S-10.5.

A. Staff adjustment S-10.5 eliminates the expense associated with a capacity purchase transaction made with Mid American Energy (Mid American) during the test year. The Company's contract with Mid American expired during the test year. Adjustment S-10.5 eliminates the expense associated with the Mid American capacity purchase because it is non-recurring.

MIDWEST ISO

Q. Please explain the Midwest ISO.

A. In 1998, AmerenUE and AmerenCIPS joined the Midwest ISO. The Midwest ISO is made up of a number of member regional electric power companies. The Midwest ISO is responsible for avoiding potential "bottlenecks" in the flow of power and ensuring measures of reliability. The Federal Energy Regulatory Commission (FERC) regulates the Midwest ISO.

Q. Why has the Staff made Adjustment S-11.5 with regard to the Midwest ISO expense?

A. Staff adjustment S-11.5 removes $12,502,800 associated with AmerenUE's withdrawal of its membership in the Midwest ISO. During the year 2000, two of the Illinois members of the Midwest ISO, Commonwealth Edison and Illinois Power, announced their intent to withdraw from the Midwest ISO and in turn join the Alliance Regional Transmission Organization (Alliance RTO). In November 2000, following that announcement, AmerenUE determined that the operational configuration

of the Midwest ISO was unacceptable and announced its withdrawal from the Midwest ISO and its intention to join the Alliance RTO. As a result of the Company's decision to withdraw from the Midwest ISO, AmerenUE incurred, during May 2001, a $12,502,800 exit fee. However, this expense relates to a one time, non-recurring event. Furthermore, recent events at the federal level with FERC's non-approval of the Alliance as an RTO indicate that AmerenUE may rejoin the Midwest ISO in the near future and may be able to recover a full refund of the $12,502,800 exit fee.

LEGAL FEES

Q. Please explain how the Company accounts for the legal fees that are the subject of the Staff's adjustment.

A. The Company's treatment for these legal fees is based on accrual accounting. Under this accrual basis, the Company maintains a reserve of accumulated funds to pay for legal fees based on estimates of legal fees that the Company anticipates will be incurred rather than for what is actually paid. Accruals to increase the reserve are expensed and actual claims are charged against the reserve balance when paid. The following example shows journal entries that the Company records when it accrues for legal expense and then subsequently pays for legal expense:

Accrual

Debit (DR) Legal Services Expense

Credit (CR) Law Expense Accrual Reserve

Payment

DR Law Expense Accrual Reserve

CR Accounts Payable (or Cash)

Q. Please explain the Staff's proposed adjustment S-17.6 to legal fees.

A. The Staff examined the Company's accrued legal fees and the actual legal fee expense for a period covering July 1, 1995 through September 30, 2001. During the test year ending June 30, 2001, the Company accrued, for total electric operations, approximately ** ** of legal fees; however, the Company actually paid only ** ** for legal fees during the same time period. During the test year the difference between the accrued legal fees and the actual paid legal fees resulted in an excess accrual of ** ** by the Company for its total electric operations. During the twelve months ending September 30, 2001, which corresponds with the Staff's update period, the Company actually paid ** ** for legal fees. The Staff has included in its cost of service calculation the actual legal fees that the Company incurred during the twelve months ending September 30, 2001. By including the September 30, 2001 update period level of actual legal expense totaling ** ** which is greater than the ** ** level that was incurred by the Company during the test year, the Staff is attempting to be conservative in its treatment of legal fees and also to reflect the most current annual level of expense. Staff adjustment S-17.6 is calculated by subtracting the ** ** September update level of actual legal expense from the ** ** level of test year accrued legal fees. This results in a difference of ** ** and represents the Staff's adjustment to total electric legal expense to eliminate the excess accrual related to legal fees which occurred during the test year.

Q. Why does the Staff recommend a cash basis approach for the Company's legal fees?

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A. The Staff recommends using a cash basis approach to account for the Company's legal fees in order to eliminate the impact of the excess accrual. The cash approach will include an ongoing level of this expense in the Staff's cost of service calculation based on actual known and measurable costs, as opposed to the Company's accrual basis, which relies upon an estimate of what actual future payments and costs will be. The Staff's adjustment is reasonable because it allows the Company recovery of its actual legal fee payments in the context of its cost of service calculation.

Q. Please explain Staff adjustment S-17.19 to legal fees.

A. Staff adjustment S-17.19 removes from legal expense ** ** of outside contractor charges that the Company incurred during the test year ending June 30, 2001. These expenditures related to work performed in relation to the third sharing period of the second Experimental Alternative Regulation Plan (EARP), as well as work, that the Company has characterized as pre-rate case activity. Although Staff plans to include the ** ** of outside contractor charges in its calculation of sharing credits for the third sharing period of the second EARP, these charges are non-recurring costs that should not be included in the cost of service calculation for the determination of on-going rates. The Staff has also included an adjustment to allow recovery of rate case expense in the context of its cost of service calculation for this case. For a complete discussion of the Staff's rate case expense adjustment in this case, please refer to the direct testimony of Staff Accounting witness Leasha S. Teel.

ENVIRONMENTAL EXPENSE

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

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A. Using an accrual basis of accounting, the Company maintains a reserve of accumulated funds, which are set aside to pay for environmental costs related to the clean-up of contaminated sites. The Company charges major expenditures against the reserve. Small expenditures are charged directly to expense, to eliminate the constant adjustment of the reserve amount. The following example demonstrates journal entries that the Company records when accruing and then subsequently paying for environmental expense:

Set up of Reserve

DR Administrative & General Expenses – Miscellaneous

CR Reserve for Clean-up of Contaminated Facilities

Payment

DR Reserve for Clean-up of Contaminated Facilities

CR Accounts Payable

Q. How did the Company account for environmental expense during the test year ending June 30, 2001 and the update period ending September 30, 2001?

A. During the test year and update period, the Company accrued ** ** for environmental expense. During the test period, the Company incurred actual non-labor related environmental expense totaling ** **. During the twelve months ending September 30, 2001, the Company incurred actual non-labor related environmental expense totaling ** **. Both of these actual non-labor related environmental expense totals include small expenditures that were expensed by the Company as well as major expenditures that were charged against the environmental reserve.

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Q. In the past, how has the Company accounted for its environmental expenses?

A. The Staff has examined accruals, the charges made against the reserve, non-labor cash payments charged to expense, and the total accrued reserve balance for environmental expenditures for the twelve month periods ending June 30, 1993 through June 30, 2001, as well as for the update period ending September 30, 2001. The following chart summarizes these items:

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This chart shows that by the end of the Staff's update period ending September 30, 2001, the Company had a cumulative accrued environmental reserve balance of ** **. However, from July 1, 1992 through the end of the Staff's update period, the Company had only cumulatively paid **

** for actual environmental expenditures. Subtracting actual expenses from the accrued reserve balance reveals that the Company has amassed an over accrued environmental reserve balance totaling ** **, which is net of all environmental expenses through September 30, 2001. This indicates that as of September 30, 2001, the Company's ratepayers have already paid through their current electric rates ** ** for environmental expense for which the Company has actually paid nothing. This ** ** over accrued reserve balance represents the amount that the Company believes that it might incur at some undetermined time in the future.

Q. Has the Staff examined any environmental expense transactions, which have occurred since the end of its update period ending September 30, 2001?

A. Yes. The Staff has examined environmental expense activity through the end of December 2001. The Company accrued an additional ** ** to the environmental reserve in December 2001. At the end of December 2001, the Company had a cumulative reserve balance of ** **. From July 1, 1992 through the end of December 2001, the Company had only cumulatively paid **

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** for actual environmental expenditures. Subtracting these actual expenditures from the accrued reserve balance shows that through the end of December 31, 2001 the Company's over accrued environmental reserve balance has increased to approximately ** ** which is net of all environmental expenditures.

Q. Please explain the Staff's adjustment S-17.3 to the Company's environmental expense.

A. The Staff included in its cost of service calculation the ** ** of actual non-labor related environmental expense that the Company incurred during the twelve months ending September 30, 2001 as an ongoing level of total electric environmental expense. By including the update period level of actual expense of ** ** which is greater than the ** ** level that was incurred by the Company during the test year, the Staff is attempting to be conservative in its treatment of actual non-labor related environmental expenses and reflect the most current annual level. The calculation for the Staff's adjustment is shown below:

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Staff's adjustment S-17.3 removes the ** ** of excess environmental expense accrual made by the Company during the test year, in order to treat environmental expenses under a cash basis approach. Even after making this adjustment, the Company will still have an over-accrued environmental reserve balance in excess of ** ** to serve as a cushion against any large future environmental expenses.

Q. What explanation has the Company provided for its environmental accruals?

A. The Company has indicated that it needs to make accruals now for future environmental costs. In the response to Staff Data Request No. 32, the Company stated that, "The (environmental) reserve is not booked by individual site, but within the minimum and maximum liability, as required by Statement of Financial Accounting Standard No. 5 and Financial Accounting Standards Board Interpretation No. 14. Ameren periodically evaluates the minimum and maximum environmental liability and adjusts the reserve accordingly. The amount recorded as a liability is not dependent upon when cash will be required to settle such obligations." For ratemaking purposes, the Staff believes this is unreasonable because the actual timing and the amount of these expenditures are largely unknown.

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

A. The Staff recommends using a cash basis approach to account for the Company's environmental expenses in order to eliminate the impact of the ** ** of excess accrual from its cost of service calculation. Since 1992, the Company has never actually incurred a level of expense to justify the level of accruals

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that it has booked. By continuing to over accrue in this manner, the Company is forcing its customers to pay unnecessarily for activities that are not actually being performed. The cash approach proposed by the Staff will provide a determination of rates based on actual known and measurable costs on a going forward basis as opposed to the Company's accrual basis, which relies upon an estimate of what actual future payments and costs may be.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

The Staff of the Missouri Public Service Commission,	)	
	)	Case No. EC-2002-1
Complainant,	)	
vs.	)	
	)	
Union Electric Company, d/b/a AmerenUE,	)	
	)	
Respondent.	)	

AFFIDAVIT OF JOHN P. CASSIDY

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

John P. Cassidy, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 18 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

John P. Cassidy

Subscribed and sworn to before me this 28th day of February, 2002.

D Suzie Mankin

Notary Public

D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

RATE CASE PROCEEDING PARTICIPATION

JOHN P. CASSIDY

COMPANY	CASE NO.
Missouri Cities Water Company	WR-91-172
Missouri Cities Water Company	SR-91-174
St. Louis County Water Company	WR-91-361
Southwestern Bell Telephone Company	TC-93-224
Laclede Gas Company	GR-94-220
Empire District Electric Company	ER-95-279
Imperial Utility Corporation	SC-96-247
St. Louis County Water Company	WR-97-382
Laclede Gas Company	GR-98-374
United Water Missouri, Inc.	WR-99-326
Union Electric Company	EC-2000-795
Union Electric Company	GR-2000-512
Laclede Gas Company	GR-2001-369
Union Electric Company, d/b/a AmerenUE	EC-2002-01