

Exhibit No.:
Issues: Plant in Service; Depreciation Reserve; Other Rate Base Items; Tree Trimming Expense; Automated Meter Reading Expense; Interest on Customer Deposits; Y-2K Amortization; Venice Power Plant Adjustments; Regulatory Consultant Advisor Fees and Property Taxes
Witness: Paul R. Harrison
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

PAUL R. HARRISON

FILED³
MAR 01 2002

**Missouri Public
Service Commission**

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

CASE NO. EC-2002-1

*Jefferson City, Missouri
March 2002*

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PAUL R. HARRISON
UNION ELECTRIC COMPANY
d/b/a AMERENUE
EC-2002-1

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1 **DIRECT TESTIMONY**

2 **OF**

3 **PAUL R. HARRISON**

4 **UNION ELECTRIC COMPANY**

5 **d/b/a AMERENUE**

6 **CASE NO. EC-2002-1**

7 Q. Please state your name and business address.

8 A. Paul R. Harrison, P. O. Box 360, Jefferson City, Missouri 65102.

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

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

12 Q. Please describe your educational background.

13 A. I graduated from Park College, Kansas City, Missouri, from which I
14 received Bachelor of Science degrees in Accounting and Management in July 1995.

15 Q. Have you previously submitted testimony before this Commission?

16 A. Yes, I submitted direct testimony in Case Nos. GR-2000-512 and
17 EC-2002-1, both involving AmerenUE.

18 Q. Have you previously filed direct testimony in this case?

19 A. Yes. I am addressing the same issues in this case that I did in my previous
20 filing except for board of director advisor fees, two prior period adjustments and
21 normalization of power plant maintenance expense. In addition, I am filing direct
22 testimony in the area of the Venice power plant fire-related expenditures.

23 Q. Have you made an investigation or study of the books and records of
24 AmerenUE (UE or Company) in Case No. EC-2002-1?

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

2 Q. Please identify your areas of responsibility in Case No. EC-2002-1.

3 A. My principle areas of responsibility are plant in service, depreciation
4 reserve, other rate base items, Venice power plant fire-related expenditures and
5 settlements, tree-trimming expense, automated meter reading expense and property taxes.

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

7 A. I am sponsoring the following Accounting Schedules:

8 Accounting Schedule 3 Total Plant in Service

9 Accounting Schedule 4 Adjustments to Total Plant

10 Accounting Schedule 6 Depreciation Reserve

11 Accounting Schedule 7 Adjustments to Depreciation Reserve

12 Q. Please explain the other rate base items you are sponsoring.

13 A. I am sponsoring the rate base addition amounts for materials and supplies,
14 prepayments and fuel inventory. I am also sponsoring the rate base deductions of
15 customer advances and customer deposits.

16 **MATERIALS AND SUPPLIES**

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

18 A. The amount of materials and supplies reflects a 13-month average of
19 recorded balances, through September 30, 2001, the end of the Staff's update period.

20 Q. How were the 13-month average of recorded balances for materials and
21 supplies allocated?

1 A. The Missouri jurisdictional amounts of material and supplies are based on
2 Staff's determination of allocation factors as discussed in the testimony of Staff
3 Accounting witness Doyle Gibbs.

4 **PREPAYMENTS**

5 Q. How was the rate base component for prepayments determined?

6 A. The amount of prepayments reflects a 13-month average of Company
7 prepayments, through September 30, 2001, multiplied by the allocation factor for
8 Missouri electric operations.

9 Q. Why are taxes, rents, Commission assessment and freight on coal
10 expenses not included in the Staff's 13-month average for prepayments?

11 A. The cash vouchers that the Staff received from the Company indicated that
12 the taxes included in prepayments were gross receipt taxes that are already included as a
13 separate component in the Staff's determination of cash working capital. Rents,
14 Commission assessment and freight on coal are included in the cash voucher lag portion
15 of the cash working capital study performed by Staff Accounting witness Leasha Teel.
16 These items are also already included in rate base as part of the Staff's cash working
17 capital study.

18 **FUEL INVENTORY**

19 Q. How was the rate base component for fuel inventory determined?

20 A. The rate base component for fuel inventory (oil, shredded tires, petroleum
21 coke and electric propane) reflects a 13-month average of recorded balances, through
22 September 30, 2001. The same process was used to allocate fuel inventory as described
23 in materials and supplies.

1 Q. How did the Staff calculate the coal inventory portion of the fuel inventory
2 included in rate base?

3 A The Staff's coal inventory is based on a five-year average of coal
4 inventory on hand (calculated in days) in relation to the coal actually burned and the
5 Staff's annualized fuel expense for coal. The Staff determined the 13-month average tons
6 of coal inventory on hand for the last five years. This number was divided by the five-
7 year average of the 12-month burn divided by 365 to determine the average number of
8 days of coal inventory maintained by the Company. The annualized dollar amount of coal
9 inventory that was provided by Staff Accounting witness John Cassidy, was divided by
10 365 to determine the daily cost and multiplied by the five-year average number of days of
11 coal inventory maintained by the Company, as calculated above.

12 **CUSTOMER ADVANCES FOR CONSTRUCTION**

13 Q. How was the rate base deduction for customer advances for construction
14 determined?

15 A. An analysis of the Missouri customer advances for construction indicated
16 an increase for each month of the test year. Therefore, the customer advances for
17 construction deduction reflects the allocated Missouri electric balance recorded on the
18 Company's books at September 30, 2001, the end of the Staff's update period.

19 **CUSTOMER DEPOSITS**

20 Q. How was the rate base deduction for customer deposits determined?

21 A. The rate base component for customer deposits reflects a 13-month
22 average of recorded balances. The customer deposits deduction reflects the allocated
23 Missouri electric balance for the 13-month months ending September 30, 2001.

1 **TOTAL PLANT IN SERVICE**

2 Q. Please explain Accounting Schedule 3.

3 A. Accounting Schedule 3, Total Plant in Service, lists in Column A the plant
4 account number. Column B lists the description of the various plant accounts. Column C
5 is the Company's total electric plant in service balances as of September 30, 2001, the
6 end of the update period. Column D lists the total Company adjustments through
7 September 30, 2001. Column E is the Missouri jurisdictional allocation factors.
8 Column F lists the Staff's adjustment to the Missouri jurisdictional electric plant.
9 Column G provides the adjustment numbers that are assigned to each amount in
10 Columns D and F and explained in Accounting Schedule 4, Adjustments to Total Plant.
11 Column G contains the Staff's adjusted jurisdictional plant in service balances, updated
12 through September 30, 2001.

13 Q. Please explain Accounting Schedule 4.

14 A. Accounting Schedule 4, Adjustments to Total Plant, details the Staff's
15 individual adjustments to total Company and Missouri jurisdictional electric plant in
16 service, which are listed in Columns D and F, respectively, on Accounting Schedule 3.

17 **DEPRECIATION RESERVE**

18 Q. Please explain Accounting Schedule 6.

19 A. Accounting Schedule 6, Depreciation Reserve, lists in Column A the plant
20 account number. Column B lists the description of the various plant accounts. Column C
21 is the Company's total depreciation reserve balance for the various accounts as of
22 September 30, 2001. Column D lists total Company adjustments through September 30,
23 2001. Column E lists the Missouri jurisdictional allocation factors. Column F lists the

1 Staff's adjustment to Missouri jurisdictional electric depreciation reserve. Column G
2 provides the adjustment numbers that are assigned to each amount in columns D and F
3 and explained in Accounting Schedule 7, Adjustments to Depreciation Reserve.
4 Column H contains the Staff's adjusted jurisdictional electric depreciation reserve
5 balances, updated through September 30, 2001.

6 Q. Please explain Accounting Schedule 7.

7 A. Accounting Schedule 7, Adjustments to Depreciation Reserve, details the
8 Staff's individual adjustments to total Company and Missouri jurisdictional depreciation
9 reserve, which are listed in Columns D and F, respectively, on Accounting Schedule 6.

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

11 A. I am sponsoring the following adjustments:

12 Plant in Service P-3.1, P-6.1, P-7.1, P-16.1, P-32.1, P-33.1 and

13 P-40.1

14 Depreciation Reserve R-6.1

15 Income Statement S-6.4, S-11.3, S-11.4, S-12.4, S-13.3, S-14.5,

16 S-17.13, S-17.17, S-29.2, S-29.3, S-30.1, S-30.2,

17 S-31.1, S-31.2, S-32.1 and S-32.2

18 **PLANT IN SERVICE ADJUSTMENTS**

19 Q. Please explain Plant in Service adjustment P-16.1

20 A. The purpose of adjustment P-16.1 is to eliminate from plant the portion of
21 the Callaway Nuclear Power Plant that was disallowed by the Commission in Case
22 Nos. EO-85-17 and ER-85-160.

1 Q. Please explain Plant in Service adjustments P-3.1, P-6.1 through P-7.1,
2 P-32.1 through P-33.1 and P-40.1.

3 A. The purpose of adjustment P-3.1, P-6.1 through P-7.1, P-32.1 through
4 P-33.1 and P-40.1 is to adjust the September 30, 2001 plant in service balance for the
5 Venice power plant to reflect the insurance settlement for a major fire that occurred
6 during the test year. In August 2000, the Venice power plant had a massive fire that
7 damaged units 1 and 2 turbine generation and accessory electric equipment, transmission
8 structures and substations, and distribution station equipment. As a result of the fire, the
9 Company incurred \$18,681,661 in incremental power plant capital expenditures through
10 September 30, 2001, the end of Staff's update period. The Company incurred
11 \$22,483,541 in incremental power plant capital expenditures through December 31, 2001.
12 In December 2001, the Company received insurance settlements totaling \$10,291,509
13 related to these power plant expenditures. I divided the September 30, 2001 capital
14 expenditures for the Venice power plant by the total capital expenditures, through
15 December 31, 2001 to determine the percentage of the total expenditures that the
16 Company had incurred as of September 30, 2001. I then multiplied that percentage by
17 the total settlement received through December 31, 2001 for each plant account.

18 Q. Why is this adjustment appropriate?

19 A. Although the settlements were not received until after the September 30,
20 2001 update, a pro-rata share must be included in the cost of service since a portion of the
21 related fire expenditures are reflected in the Staff's Plant in Service balances. Without
22 this matching of expenditures and settlements, the ratepayer would provide a return and
23 depreciation expense for plant in which the Company has no investment.

1 Furthermore, the Staff believes that UE should have accounted for the Venice
2 fire-related expenditures and insurance settlements differently. Expenditures, for which
3 the Company had outstanding claims, should not have been booked to plant or expense
4 accounts until the claims were settled. Under this method, the Company's books would
5 only reflect the amount of expenditures, in excess of outstanding claims.

6 **DEPRECIATION RESERVE ADJUSTMENTS**

7 Q. Please explain Depreciation Reserve adjustment R-6.1.

8 A. Adjustment R-6.1 increases the September 30, 2001 depreciation reserve
9 balance for the Venice power plant to reflect the insurance settlement for the turbine
10 generator damaged during the fire. The Company chose not to restore units 1 and 2 that
11 were damaged as a result of the fire. Instead, the Company elected to spend the related
12 insurance settlement money on improvements to the remaining units.

13 **VENICE POWER PLANT FIRE EXPENDITURES AND SETTLEMENTS**

14 Q. Please explain Income Statement adjustment S-6.4.

15 A. Adjustment S-6.4 adjusts test year Venice power plant operation and
16 maintenance expense for the insurance settlement for the damage incurred during the fire.
17 As a result of this fire, the Company incurred \$8,191,564 in incremental steam power
18 generation maintenance expenditures for the 12 months ended June 30, 2001, the Staff's
19 test year. The Company incurred \$10,066,974 in total incremental steam power
20 generation maintenance expenditures through December 31, 2001. In December 2001,
21 the Company received insurance settlements totaling \$10,060,544 related to these
22 maintenance expenditures. For the test year, the Company also incurred \$33,736 in
23 incremental steam power generation operation expenditures attributable to the fire. The

Direct Testimony of
Paul R. Harrison

1 Company incurred \$43,585 in total incremental steam power generation operation
2 expenditures through December 31, 2001. In December 2001, the Company received
3 insurance settlements totaling \$43,585 related to this and other costs. In addition, for the
4 test year the Company incurred \$9,156 in other power supply operation expenditures
5 attributable to the fire as of June 30, 2001. The Company incurred \$67,791 in total other
6 power supply operation expenditures through December 31, 2001. In December 2001,
7 the Company received insurance settlements totaling \$67,752 related to this and other
8 costs.

9 Q. What methods did the Staff use to apply the insurance settlement to the
10 steam generation operation and maintenance expenditures?

11 A. The Staff used two different methods of applying this insurance settlement
12 to the operation and maintenance expenditures. First, if the settlement as of
13 December 31, 2001 was equal to the expenditure as of June 30, 2001, I matched the
14 settlement to the amount of the expenditure for the various operation and maintenance
15 account balances. For the second method, I divided the June 30, 2001 expenditure by the
16 December 31, 2001 expenditure to determine the percentage of the total expenditure that
17 the Company had incurred as of June 30, 2001. I then multiplied that percentage by the
18 total settlement received by the Company to determine the pro-rata share associated with
19 test year expenses.

20 Q. Please explain Income Statement adjustment S-11.4.

21 A. Adjustment S-11.4 adjusts the Venice transmission maintenance station
22 equipment expense as a result of the insurance settlement received as a result of the fire.
23 For the test year ended June 30, 2001, the Company incurred \$198,452 in transmission

1 maintenance expenses for the Venice station equipment attributable to the fire. The
2 Company incurred \$753,440 in transmission maintenance expenses for the Venice station
3 equipment through December 31, 2001. In December 2001, the Company received
4 insurance settlements totaling \$753,440 related to these expenditures. I divided the
5 transmission maintenance station equipment expenditure as of June 30, 2001 by the total
6 expenditure as of December 30, 2001 to determine the percentage of the total expenditure
7 that the Company had incurred as of June 30, 2001. I then applied that percentage by the
8 total settlement received by the Company to calculate this adjustment.

9 Q. Why are these adjustments appropriate?

10 A. Although the settlements were not received until after the September 30,
11 2001, update, a pro-rata share must be included in the cost of service since a portion of
12 the related fire expenditure is reflected in the Staff's operation and maintenance
13 expenses. Without this matching of expenditures and settlements, operation and
14 maintenance expenses for which the Company has been reimbursed would be included in
15 the determination of on-going rates. The Staff would again argue that the Company
16 should have accounted for these expenditures differently as previously stated in my
17 testimony.

18 **TREE-TRIMMING EXPENSE**

19 Q. Please explain Income Statement adjustments S-11.3 and S-12.4.

20 A. Adjustments S-11.3 and S-12.4 adjust the transmission and distribution
21 tree-trimming expense to reflect the difference between the most current four-year
22 average for transmission and distribution tree-trimming expenses (September 30, 1998-
23 September 30, 2001) and the amount expensed during the test year.

1 Q. Why did the Staff use a four-year average?

2 A. Data obtained from the Company state that the tree-trimming cycle for
3 distribution feeders runs five years for urban and seven years for rural routes. However,
4 in a meeting with the Staff, AmerenUE Forestry Department personnel stated that their
5 target cycle for tree trimming is four years. In addition, in a memo attached to the
6 Company's customer reliability study, dated June 24, 2001, it is stated that the target
7 cycle is four years for tree trimming. The Staff believes that, as a result of the Company
8 increasing their tree trimming activities to meet this four-year target cycle, the Company
9 tremendously increased the tree trimming expense over the last couple of years.
10 Therefore, the Staff believes that on-going tree-trimming expenses should decline from
11 test year levels and more closely approximate the most current four-year average.

12 **AUTOMATED METER READING SERVICE EXPENSE**

13 Q. Please explain Income Statement adjustment S-13.3.

14 A. This adjustment eliminates the costs of the retrofit charges, polycarbonate
15 meter covers, and door hanger notification tags from automated meter reading costs for
16 the test year. The retrofit charge is a one-time, non-recurring cost to adapt the manual
17 meters to the automated/electronic meters. The polycarbonate meter cover charges are a
18 one-time cost for new meter cover replacements by CellNet. (CellNet is the independent
19 vendor that UE contracts with to collect the meter reading data from the automated
20 meters.) The "door hanger" notification tag charge is a one-time cost for printing the
21 "door hanger" notification tags that are used during the deployment and related meter
22 changes.

1 Q. What prior period adjustments were made to Account 902 (automated
2 meter reading service)?

3 A. Adjustment S-13.3 also eliminates two prior period adjustments. The first
4 adjustment was a credit posted to Account 902 (automated meter reading service), in July
5 2000, for a billing error by CellNet that was made in January 1999. The second
6 adjustment was a credit for the use of the CellNet communications network that is
7 installed on AmerenUE facilities, to provide service to other utilities.

8 Q. Please provide the history of UE's installation of automated/electronic
9 electric meters in the state of Missouri.

10 A. The following table illustrates the historical placement of these meters:

PERIOD	AUTOMATED/ELECTRONIC ELECTRIC METERS IN SERVICE
6/30/1997	251,174
6/30/1998	601,994
6/30/1999	855,922
6/30/2000	1,087,175
6/30/2001	1,137,577

18 Q. How many automated/electronic meters does the Company still have left
19 to install in Missouri at June 30, 2001?

20 A. At June 30, 2001, the Company has less than 100 automated/electronic
21 meters left to install in Missouri. These are the meters that are hard to access because of
22 location and coordination problems with owners of the property.

23 **CUSTOMER DEPOSIT INTEREST EXPENSE**

24 Q. Please explain Income Statement adjustment S-14.5.

1 A. Adjustment S-14.5 annualizes interest expense related to customer
2 deposits. The Staff's adjustment is calculated by multiplying the 13-month average of
3 customer deposits through September 30, 2001 by 10.5%, which represents the prime
4 interest rate of 9.5% as of December 31, 2000 plus one percentage point. The
5 Company's tariff sheet specifies that the prime interest rate, at December 31st of each
6 year, will be used to calculate customer deposits. The methodology used by the Staff for
7 this adjustment has been used in numerous previous rate cases.

8 **AMORTIZATION OF YEAR 2000 COMPUTER MODIFICATION EXPENSE**

9 Q. Please explain the Income statement adjustment S-17.13 pertaining to
10 Year 2000 (Y2K) computer modification expense.

11 A. The purpose of adjustment S-17.13 is to amortize the software upgrade
12 costs (\$5,014,941) associated with Y2K compliance over a six-year period.

13 Q. Please explain why the Staff is recommending amortizing the costs
14 associated with software upgrade services related to Y2K over a six-year period.

15 A. The Staff is recommending amortizing these costs over a six-year period
16 because this time period is very close to the depreciable life for computer equipment that
17 is being proposed by Staff Witness Jolie Mathis of the Commission's Engineering and
18 Management Services Department. The Y2K costs were previously deferred, as ordered
19 by the Commission, in the third sharing period of the first Experimental Alternative
20 Regulation Plan.

21 **REGULATORY ADVISOR CONSULTING FEES**

22 Q. Please explain Income Statement adjustment S-17.17.

1 A. This adjustment decreases the test year expense for AmerenUE's
2 Regulatory Advisor consulting fees allocated to Missouri electric operations. In reply to
3 Staff Data Request No. 257R, the Company provided the following information related to
4 the Company's regulatory advisor's fees:

5 The Staff asked:

6 1) How often did he provide advice to the Company concerning
7 state and national matters?

8
9 2) Minutes of and/or dates of agenda meeting he attended.

10
11 3) Number of times he appeared before the Commission on
12 Ameren matters.

13
14 4) Number of times he performed legal research for Ameren and
15 what issues was he working on?

16
17 5) Copies of any reports, research papers, minutes of meetings, or
18 any other documentation that he could have worked on.

19
20 The Company responded:

21 Questions 1, 2 and 3. The Company does not keep specific records
22 of the number of times [] provides advice, the number of
23 Commission agenda meetings he or his associates attend, nor the
24 number of times he or his associates appear before the Commission
25 on Ameren matters. [] services are provided to the Company
26 on a periodic basis. It could be several times in a given week or
27 only a few times in a given month – depending on the level of
28 relevant activity at the Commission.

29
30 Questions 4 and 5. The Company has previously objected to these
31 two questions.

32 The Company either cannot provide or will not provide (assertion of attorney-
33 client privilege) any documentation concerning the consultant's work for the Company
34 during the test year. Therefore, the Staff cannot make a determination whether these
35 services are necessary for the provision of safe and adequate electric service or provide
36 any direct benefit to the ratepayer. As a consequence, the Staff proposes a disallowance

1 since it cannot evaluate these expenses due to the withholding of the necessary
2 information or the fact that the information necessary to make an evaluation does not
3 exist.

4 **PROPERTY TAXES**

5 Q. Please explain Income Statement adjustments S-29.2 and S-29.3, S-30.1
6 and S-30.2, S-31.1 and S-31.2, and S-32.1 and S-32.2.

7 A. These adjustments annualize property, real estate and corporate franchise
8 taxes. The September 30, 2001 amount expensed was multiplied by 12 to determine the
9 annualized level.

10 Q. How were the property, real estate and corporate franchise taxes
11 allocated?

12 A. The Missouri jurisdictional amount of property, real estate and corporate
13 franchise taxes are based on Staff's determination of allocation factors as discussed in the
14 testimony of Staff Accounting witness Doyle Gibbs.

15 Q. Does this conclude your direct testimony?

16 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

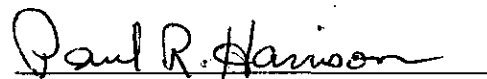
The Staff of the Missouri Public Service)
Commission,)
)
Complainant,)
vs.)
)
Union Electric Company, d/b/a AmerenUE,)
)
Respondent.)

Case No. EC-2002-1

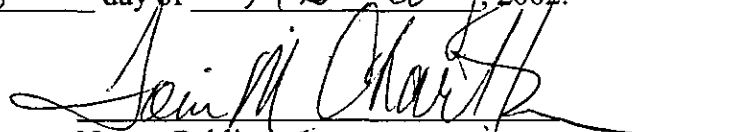
AFFIDAVIT OF PAUL R. HARRISON

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Paul R. Harrison, 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 15 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.


Paul R. Harrison

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


Notary Public

