Exhibit No.:
Witness: James T. Selecky
Type of Exhibit: Direct Testimony
Issues: Revenue Requirement
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2010-0036

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Union Electric, d/b/a AmerenUE's Tariffs to Increase Its Annual Revenues for Electric Service	)))))	**Case No. ER-2010-0036** Tariff Nos. YE-2010-0054 and YE-2010-0055

Rebuttal Testimony of

James T. Selecky

Revenue Requirement

On behalf of

Missouri Industrial Energy Consumers

February 11, 2010

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9187

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of James T. Selecky

James T. Selecky, being first duly sworn, on his oath states:

1. My name is James T. Selecky. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony and schedules, which were prepared in written form for introduction into evidence in the Missouri Public Service Commission Case No. ER-2010-0036.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

James T. Selecky

Subscribed and sworn to before me this 10th day of February, 2010.

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2013
Commission # 09706793

Notary Public

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Rebuttal Testimony of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME JAMES T. SELECKY WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A Yes.

Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN THAT PRIOR TESTIMONY?

A Yes. This information is included in Appendix A to my Direct Testimony.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A The purpose of my rebuttal testimony is to address the Missouri Public Service Commission Staff's (Staff) depreciation rates for the steam production plant accounts. Specifically, I will be addressing the Staff's proposed average service lives used to develop the depreciation rates for Accounts 311-Structures & Improvements,

312-Boiler Plant Equipment, 314-Turbogenerator Units, 315-Accessory Electric Equipment and 316-Miscellaneous Power Plant Equipment. In addition, I will be addressing the Staff's recommended depreciation rate for nuclear production plant Account 322-Reactor Plant Equipment. Finally, I will address the treatment of net salvage as proposed by the Staff for the transmission and distribution plant accounts. The fact that an issue is not addressed should not be construed as an endorsement of the Staff's or any other parties' position.

Steam Production Plant Accounts

Q DO YOU HAVE ANY OBJECTION TO THE AVERAGE SERVICE LIFE THAT THE STAFF USED TO DEVELOP ITS PROPOSED STEAM PRODUCTION DEPRECIATION RATES?

A Yes. I object to the average service lives that the Staff used to develop its steam production depreciation rates. I object to the lives proposed for Accounts 311 through 316. However, I am not taking exception to the life utilized for Account 312.3-Coal Cars.

Q WHAT IS YOUR OBJECTION TO THE AVERAGE SERVICE LIVES THAT THE STAFF UTILIZED TO DEVELOP ITS STEAM PRODUCTION DEPRECIATION RATES?

A The Staff utilized the results of a retirement analysis that includes both interim and final retirements. The objection that I have is that the final retirements should have been excluded from this analysis. These final retirements are associated with gas and oil fired units that were retired a number of years ago. These retirements should be excluded from the life analysis because these units that were retired are not

similar to the steam production plants that AmerenUE currently has in service. That is, the Staff is estimating the average service life for the coal fired steam production plant using retirements of gas and oil fired generating plants as a proxy. By including these final retirements in its analysis, the Staff is using life characteristics of dissimilar generating plants to develop depreciation rates. By analogy, the average service life of an electric car should not be developed from a car that relies solely on gasoline.

Q COULD YOU PLEASE BRIEFLY DESCRIBE SOME OF THE DIFFERENCES THAT EXIST BETWEEN THE UNITS THAT THE STAFF USED AND AMERENUE'S CURRENT FLEET OF STEAM PRODUCTION PLANTS?

A Yes. AmerenUE's current fleet of steam production generators consists of units at Meramec, Sioux, Labadie and Rush Island. Each of these units is a coal fired unit and does not rely on either fuel oil or natural gas for its primary fuel. The units that the Staff used are not coal fired.

It is my understanding that the generating plants that the Staff included in its life analysis to develop its steam production depreciation rates include Mound, Cahokia and Venice generating plants. Venice consists of two plants, Venice I and Venice II. Mound, Cahokia and Venice I were retired in 1972, 1977 and 1972, respectively (response to Data Request MIEC No. 16-1). The Venice II power plant was retired in 2002. At each of those generating plants, the fuel used to produce electricity was natural gas and/or fuel oil.

Q ARE THERE ANY OTHER RELEVANT FACTORS THAT SUPPORT YOUR CONCLUSION THAT THESE FINAL RETIREMENTS SHOULD BE EXCLUDED FROM THE ANALYSIS?

A Yes. The Mound, Cahokia and Venice I plants were very inefficient units. In response to Data Request MIEC No. 16-1, AmerenUE indicated that the heat rates of the Mound, Cahokia and Venice I were 23,676 BTU/kWh, 22,655 BTU/kWh and 36,482 BTU/kWh, respectively. The heat rates for the current fleet of coal fired units that are subject of the depreciation rates approved in this case range from 9,100 to 9,715 BTU/kWh for the larger units and 10,750 to 12,500 BTU/kWh for the smaller units (AmerenUE witness Loos, page 9). This indicates that all other things being equal, the variable cost or fuel cost to generate electricity from the existing fleet is less than half the cost that would be incurred if electricity was generated from Mound, Cahokia and Venice. Therefore, it is very likely that Mound, Cahokia and Venice were retired for economic reasons as opposed to the units simply wearing out.

Q ARE THERE ANY ADDITIONAL CIRCUMSTANCES SURROUNDING THE RETIREMENT OF VENICE II THAT SUPPORT EXCLUDING ITS RETIREMENT FROM THE LIFE ANALYSIS?

A Yes. The Venice II power plant, which was retired in 2002, experienced a fire in August 2000. As a result of this fire, AmerenUE retired certain units of Venice II and expected to return other of its units to service. As a result of the fire, AmerenUE received insurance proceeds, net of deductibility, in the amount of $22.2 million (Data Request MIEC No. 8-4). A review of the use of those funds indicates that approximately $8.5 million of these funds were used for repairs of several of the Venice II units. However, despite those repairs, Venice II was retired two years later

in 2002. If these dollars were capitalized and are reflected in the life analysis, this would give these dollars a life of only approximately two years. Those retirements alone would unduly influence the life analysis and shorten the average service life. Therefore, the Staff should have removed from the analysis all of the final retirement activity of Venice II because of the fire.

Q WHAT IS YOUR RECOMMENDATION?

A If the Commission is going to approve depreciation rates that use the whole life method, my recommendation is to utilize the life analysis that reflects only interim retirement activity. Including final retirements of these gas and oil fired units is inappropriate and is not reflective of the type of generating plants that are currently in service. In my mind, this is equivalent to determining the useful life of a modern Ford that is currently on the road and utilizing life statistics from a Model T to project modern Ford's life.

Account 322 – Reactor Plant Equipment

Q WHAT IS THE STAFF'S RECOMMENDED DEPRECIATION RATE FOR ACCOUNT 322?

A For Account 322, the Staff is recommending the same depreciation rate that AmerenUE proposed. This recommended depreciation rate is 2.55%.

Q IN YOUR DIRECT TESTIMONY, DID YOU RECOMMEND ANY CHANGES TO THE DEPRECIATION RATE PROPOSED BY AMERENUE?

A Yes. In my direct testimony on pages 17 through 19, I addressed the remaining life and net salvage parameters that were utilized to develop the rate for Account 322.

My criticism of AmerenUE's proposed depreciation rate for this account also applies to the Staff's recommended depreciation rate for Account 322 since the Staff used the same life and net salvage parameters to develop their depreciation rate.

Q SINCE YOU PREPARED YOUR DIRECT TESTIMONY, HAVE YOU RECEIVED ANY ADDITIONAL INFORMATION THAT SUPPORTS YOUR POSITION THAT THE REMAINING LIFE AND NET SALVAGE VALUES UTILIZED BY THE STAFF AND AMERENUE TO CALCULATE THE DEPRECIATION RATE FOR ACCOUNT 322 ARE OVERSTATED?

A Yes. The development of the life and net salvage depreciation parameters reflect the impact of the premature retirement of the steam generators. This retirement is abnormal and should be excluded from the development of the remaining life and net salvage parameters that are used to calculate the depreciation rate.

In response to Data Request MIEC No. 16-4, AmerenUE stated that the expected design life of the original steam generator was 40 years. This steam generator was retired after a service life of only 19.5 years. That is, the steam generator's service life was approximately half of what was expected.

The response to Data Request MIEC No. 16-4 also states that AmerenUE received cash payments of $10 million, a fuel credit of $20 million and a non-fuel related credit of $5 million from Westinghouse associated with the retirements of the steam generators at Callaway. It clearly appears that Westinghouse provided payments to AmerenUE because the steam generator had a shorter service life than expected.

Q WHAT IS THE PROBLEM ASSOCIATED WITH INCLUDING THIS RETIREMENT IN THE LIFE AND NET SALVAGE ANALYSIS FOR ACCOUNT 322?

A The problem with including this retirement in the life and net salvage analyses is that it understates the remaining life and overstates the net salvage cost or percentages. Including this retirement will produce a depreciation rate for Account 322 that is too high.

Q WHAT IS YOUR RECOMMENDATION?

A My recommendation is that this retirement be excluded from the life and net salvage analysis since this retirement is abnormal and skews the results of the life and net salvage analyses.

Q ARE YOU PROPOSING THAT THE COMMISSION NOT ALLOW AMERENUE TO RECOVER THE COST AND NET SALVAGE ASSOCIATED WITH THE RETIREMENT OF THE SUBJECT STEAM GENERATOR?

A No. My depreciation rates for Account 322 reflect full recovery of the cost associated with the steam generator and any net salvage expense that AmerenUE incurred for this retirement. I am proposing only to adjust the depreciation rate for this account to exclude the impact that this retirement has on the development of the depreciation rate. It should be noted that if this equipment had remained in service for its expected life span, this retirement would not have taken place, the proposed remaining life for this account would have been greater and the net salvage percentage would have been less negative.

Q WHAT IS THE IMPACT OF YOUR PROPOSED ADJUSTMENT TO THE LIFE AND NET SALVAGE PARAMETERS USED TO DEVELOP THE DEPRECIATION RATE FOR ACCOUNT 322?

A As indicated in my direct testimony, my adjustment to Account 322 lowers the proposed depreciation rate from 2.55% to 2.07%. This reduces the depreciation expense for Account 322 by approximately $4.954 million. It should be noted that with this revision in the Account 322 depreciation rate, my proposed composite depreciation rate for all of the nuclear plant accounts is 1.84%.

T&D Net Salvage

Q HAVE YOU REVIEWED THE STAFF'S PROPOSED DEPRECIATION RATES FOR THE TRANSMISSION AND DISTRIBUTION (T&D) PLANT ACCOUNTS?

A Yes. I have reviewed the T&D depreciation rates and the average service lives and net salvage ratios that Staff used to develop those rates.

Q HAS THE STAFF INCLUDED SIGNIFICANT AMOUNTS OF NET SALVAGE IN ITS PROPOSED T&D PLANT ACCOUNTS?

A Yes. As indicated in Staff Schedule AWR-6A, Page 4 of 4, the Staff's proposed depreciation rates for T&D accounts produce an annual net salvage component of depreciation expense of $55.820 million.

Q HOW DOES THE STAFF'S PROPOSED COMPONENT OF NET SALVAGE EXPENSE COMPARE WITH AMERENUE'S ACTUAL NET SALVAGE EXPERIENCE?

A As shown on Staff Schedule AWR-6A, Page 4 of 4, the Staff expects the annual net salvage expense to be $19.177 million. That is, the Staff's proposed depreciation rates contain a provision for net salvage that will exceed its annual needs by $36.643 million. Therefore, AmerenUE will continue to accrue significant dollars for future removal costs.

Q DO YOU BELIEVE THE STAFF'S PROPOSED NET SALVAGE PERCENTAGES ARE EXCESSIVE?

A Yes. The Staff's Schedule AWR-6A indicates that the Staff's T&D depreciation rates include a net salvage provision that exceeds the expected annual cost by $36.643 million ($55.820M - $19.177M).

As indicated in my direct testimony, AmerenUE in response to Data Request MIEC No. 4-11 has stated that AmerenUE has already accrued $582 million in its T&D plant accounts for future net salvage expense. That is, AmerenUE's past depreciation rates have allowed AmerenUE to accrue in its depreciation expense a net salvage component for T&D plant accounts significantly in excess of its actual needs. As a result, AmerenUE has accrued $582 million as of March 31, 2009 for future net salvage associated with T&D retirements.

Q WILL THE STAFF'S PROPOSED NET SALVAGE RATIOS FOR THE T&D PLANT ACCOUNTS ALLOW AMERENUE'S ACCRUED NET SALVAGE COMPONENT OF ITS DEPRECIATION RESERVE TO GROW?

A Yes. If no adjustment is made to the Staff's T&D net salvage component of its depreciation, AmerenUE will be allowed to accrue annually approximately $36 million in excess of its actual needs. Therefore, if these depreciation rates remain in effect for five years, AmerenUE will have collected $762 million in its T&D plant account for future removal costs (($36M x 5) + $582M).

Q WHAT IS YOUR RECOMMENDATION IF THE COMMISSION APPROVES THE STAFF'S PROPOSED T&D DEPRECIATION RATES?

A If the Commission approves the Staff's proposed depreciation rates, I would recommend that the Commission establish a T&D accrual offset of $25 million. This would allow AmerenUE to accrue at least $31 million per year for cost of removal associated with its T&D assets. This is over $10 million per year in excess of AmerenUE's need as projected by the Staff. I have outlined my proposal for creating an offset to T&D depreciation expense in my direct testimony on pages 31 and 32. If the Staff's T&D depreciation rates are approved, the offset would be $25 million.

Q HOW DOES THE AMOUNT OF NET SALVAGE THAT THE STAFF HAS INCLUDED IN ITS T&D DEPRECIATION RATES COMPARE WITH THE NET SALVAGE THAT AMERENUE HAS INCLUDED IN ITS T&D NET SALVAGE RATES?

A AmerenUE included approximately $76.131 million of net salvage in its proposed depreciation rates.

Q WHY IS THE STAFF'S PROPOSED NET SALVAGE EXPENSE SO MUCH LESS THAN AMERENUE'S NET SALVAGE?

A That has to do with the method that was utilized to calculate the depreciation rates. As indicated in my direct testimony and shown on my Exhibit JTS-9, AmerenUE's proposed depreciation rates for the T&D plant accounts are essentially based on the remaining life method. That is, AmerenUE is proposing to recover the undepreciated investment adjusted for net salvage over the remaining lives of the T&D plant accounts. However, the Staff's proposed depreciation rates are based on the whole life method.

Under AmerenUE's method of calculating the T&D depreciation rates, any increases in the net salvage percentages are collected over the remaining life plant accounts. Since the remaining lives are shorter than the average service lives, the net salvage component of the depreciation expense is arguably larger.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.