Exhibit No.:	
Issues:	Depreciation; Steam Production Plant Retirement Dates; Decommissioning Costs; Callaway Interim Additions
Witness:	Rosella L. Schad
Sponsoring Party:	MoPSC Staff
Type of Exhibit:	Surrebuttal Testimony
Case No.:	EC-2002-1
Date Testimony Prepared:	June 24, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTALTESTIMONY

OF

ROSELLA L. SCHAD

UNION ELECTRIC COMPANY
d/b/a AMERENUE

CASE NO. EC-2002-1

Jefferson City, Missouri
June 2002

****'Denotes Proprietary Information****
****<u>Denotes Highly Confidential Information</u>****

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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 ROSELLA L. SCHAD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE

Rosella L. Schad, is, of lawful age, and on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 23 pages to be presented in the above case; that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Rosella L. Schad
Rosella L. Schad

Subscribed and sworn to before me this 24th day of June, 2002.

Toni M Charlton

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

SURREBUTTAL TESTIMONY

OF

ROSELLA L. SCHAD

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. EC-2002-1

SURREBUTTAL TESTIMONY

OF

ROSELLA L. SCHAD

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. EC-2002-1

Q. What is your name and business address?

A. Rosella L. Schad, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am employed by the Missouri Public Service Commission (PSC or Commission) as an Engineer I in the Engineering and Management Services Department.

Q. What are your duties as an Engineer in the Engineering and Management Services Department?

A. I am responsible for engineering analyses and depreciation determinations of companies regulated by the Commission.

Q. What are your qualifications, educational background and experience?

A. In 1978, I earned a Bachelor of Science degree in Mechanical Engineering from the University of Missouri-Columbia. I am a registered Professional Engineer in Missouri. I was employed by Union Electric (now AmerenUE) as an engineer intern during the summer of 1977 and employed as a mechanical engineer by Union Electric in its Nuclear Construction Department from 1978-1980. I joined the Missouri Public Service Commission Staff in the Depreciation Department in 1999.

Q. Have you previously filed testimony before this Commission?

A. Yes. As shown in Schedule 1 attached to my testimony is a list in which I have previously filed testimony.

Q. Have you previously filed testimony in the July 2001 filing or the March 2002 filing in this case?

A. No.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony in this case is to present Staff's surrebuttal position of Company witnesses Garry L. Randolph and Thomas LaGuardia. I will also present Staff's surrebuttal position of Company witness William Stout, P.E. as does Staff Witness Jolie Mathis.

Q. What issues will you address?

A. I will address:

1) The Company's use of depreciation rate determination to attain a targeted level of cash flow for future infrastructure needs;

2) The Company's retirement dates for fossil-fueled production plant accounts and the truncation of average service lives (ASL) for determining the appropriate depreciation rate;

3) The Company's projected decommissioning costs for fossil-fueled plants and the recovery of these future costs, which are speculative, by current ratepayers;

4) Determination of ASL for Callaway Nuclear Production Plant accounts; and

5) The Company's amortization to address a depreciation reserve deficiency, which in the absence of issues 2), 3), 4) and the issue of Distribution Plant cost of removal (addressed by Staff Witness Ms. Jolie Mathis) does not exist.

I. DEPRECIATION RATE DETERMINATION

Q. Why is depreciation rate determination an issue?

A. Depreciation rate determination is an issue because setting depreciation rates to attain a targeted level of cash flow for future capital investments is being proposed by AmerenUE (Company) and is opposed by the Staff.

Q. How does the Company benefit from formulating a relationship between depreciation expense and major capital improvements?

A. The Company benefits by receiving more dollars through depreciation expense.

Q. How can the Company achieve the desired results?

A. The Company can achieve the desired results in three ways: shortened plant average service lives (ASL), increased net salvage, and positive annual amortizations for reserve variances.

Q. For purposes of the Company's rebuttal testimony, which mechanism did they choose to propose?

A. All three. As a result of Mr. Stout's depreciation parameters, ASL and prospective cost of removal, Mr. Stout recommends that a $5 million annual amortization (Stout's rebuttal testimony, Schedule 1- Depreciation Study, page III-15) is necessary to correct a reserve deficiency. The Company has proposed that depreciation expense, including

amortizations to the depreciation accrued reserve, need to be increased $30 million from current levels of depreciation expense. Mr. Stout and the Company propose to continue and increase prospective cost of removal.

Q. Does Mr. Stout acknowledge that in order to justify depreciation expense in excess of currently incurred amounts that AmerenUE should project large capital expenditures?

A. Yes. Projecting high capital expenditures might be one way to justify excess depreciation expense. ** P----------P----------P---------- ----------P----------.P----------**

Q. How did recovery of prospective cost of removal, increase depreciation expense, and a need for major capital improvements become an impetus in the current case?

A. These three issues became an impetus in the current case because in Case No. WR-2001-844 St. Louis County Water, asked to recover prospective cost of removal through depreciation expense while stressing its need for major capital improvements. The Commission's Report And Order addressed this argument:

> …There is ample factual support to allow the Commission to choose either Staff's approach or the Company's. Under the circumstances faced by the Company, including its need for cash flow to address its infrastructure issues, the Commission concludes that using the whole life method and including estimated net salvage is in the public interest. The whole life method collects net salvage cost ratably over the life of plant by customers served by the plant. This approach is equitable based on the circumstances of this case…

St. Louis County Water's currently ordered depreciation rates include prospective cost of removal.

Q. Does the Commission's Report And Order have additional clarification?

A. Yes. The Commission's Report And Order also states:

> …The Commission explicitly distinguishes its holding on the net salvage issue here from its holding in Laclede Gas Company's recent case, Case No. GR-99-315. The Commission's holding that the Company's use of the whole life method of determining depreciation rates is based on the record in this case, and on the circumstances in which the Company finds itself. The whole life method is not appropriate for all types of property, for all utilities, and in all situations…

Q. Do you know of any authoritative text on depreciation that states that meeting the needs for cash flow to address infrastructure issues is a proper consideration in calculating depreciation rates?

A. No.

Q. On page 24, beginning with line 2 of his rebuttal testimony Mr. Stout states:

> AmerenUE is experiencing a tremendous demand for capital to increase its reserve margin, reinforce its transmission systems and meet the needs of its customers…Current depreciation expense approximates $270 million. A 10 percent increase to $300 million will reduce the amount of outside capital required. Staff's proposal to decrease depreciation to less than $200 million will substantially increase the amount of outside capital required and most likely would have a negative impact on the cost of capital…

Does Mr. Stout's statement consider depreciation expense a source of cash flow for addressing future infrastructure needs of the Company?

A. Yes.

Q. Does Mr. Stout include in his definition of depreciation, or as a proper consideration in calculating depreciation rates, that depreciation should attain a targeted level of cash flow for future infrastructure?

A. No. Mr. Stout does not take such a step in his description of his depreciation analysis, as given on page 8, lines 3 to 5 of his rebuttal testimony.

Q. Does Staff target a level of cash flow for future infrastructure needs as part of their depreciation analyses of regulated companies?

A. No. It continues to be Staff's position that depreciation should not be set at a level to achieve a given level of cash flow for future infrastructure needs.

Q. In Mr. Stout's current depreciation study, are there specific changes in methodology for estimating net salvage percentage, which result in the Company's recovering increased depreciation expenses from current levels?

A. Yes. The Company, in its depreciation estimates, has included estimated future decommissioning costs for fossil-fueled plants.

Q. Are there other areas of prospective net salvage costs?

A. Yes. Cost of removal of Distribution Plant represents a significant net salvage cost and is addressed by Staff Witness Ms. Jolie Mathis.

Q. In summary, is it Staff's position that targeting a level of cash flow for future infrastructure needs, as part of a depreciation analysis, is inappropriate?

A. Yes.

II. THE COMPANY'S RETIREMENT DATES FOR PRODUCTION PLANT

Q. Why are the Company's retirement dates for production plant an issue?

A. These retirement dates for production plant are an issue because AmerenUE is projecting the date certain that generation plant will be retired and then using these dates as the basis for shortening average service lives (ASLs) and increasing the depreciation rates for

its generation plant. As I state earlier, shortening ASLs' is one of the three ways to increase depreciation expense to achieve increased revenue requirements.

Q. Does Mr. Stout acknowledge that average service lives increase if truncation of the survivor curves occurs 15 years later than the Company's proposed retirement dates?

A. Yes. In work papers provided in the response to Staff's Data Request No. 4721 (Schedule 3), Mr. Stout acknowledges that, "The average lives for most installation years would increase if the interim survivor curves were truncated 15 years later than the age at which they truncated in the calculations presented in Schedule 1." (Stout's Depreciation Study) The effect of using dates certain for retiring generating units has the impact of shortening plant service lives. The truncation of the ASL curve results in increased depreciation rates.

Q. Has the Commission recently addressed proposed truncation of the ASL curve for lifespan plant for other electric utilities in Missouri?

A. Yes. Truncation of ASLs for lifespan production plant was addressed in The Empire District Electric Company's Case No. ER-2001-299.

Q. Are truncated ASLs for lifespan production plant currently ordered for The Empire District Electric Company?

A. No. The Commission's Report And Order in that case ordered the Company to adopt ASLs estimated from non-truncated ASL curves for lifespan production plant.

Q. Do you agree with Mr. Stout's assertion, on page 33 of his rebuttal testimony, that Staff witness' inability to estimate the final retirement dates with certainty is not a valid reason for not truncating the survivor curves?

A. No. A determination of the exact timing of the retirement of a particular facility can only be made relatively close to the time of its anticipated retirement date. Until that time, many variables such as power supply replacement, technology improvements, market conditions, and regulatory requirements change over time. Because retirement is a function of many variables that change over time, the final retirement date is uncertain and it is inappropriate to truncate the survivor curve at this time. These units will continue to remain in operation as long as it is economical and feasible to do so.

Q. Does the Company acknowledge that the useful life of any generating facility is determined by the interaction of a host of variables and that these variables are ever changing over time?

A. Yes. Company Witness Garry Randolph states on page 18, lines 3-4 of his rebuttal testimony, "Moreover, the variables, which include such things as technology improvements and regulatory requirements, are ever changing over time." In addition, Mr. Randolph states on page 19, line 17-19, "In the end, consideration of the unique circumstances of each facility as the estimated retirement date approaches will be the final determinant for a retirement."

Q. Did you find support for Mr. Stout's use of the proposed retirement dates for production plants?

A. No. Mr. Stout, on page 34 of his rebuttal testimony states, "Thus a probable, although not certain, retirement date can be estimated and used in the determination of annual and accrued depreciation for power plants." Mr. Stout supports his use of the proposed retirement dates by reference to the reasonableness of retirement dates provided by Company Witness Garry Randolph and AmerenUE's management, and by comparisons of his

composite average lives to the mean lives of retired plant from other electric utilities. However, in work papers provided in the response to Staff's Data Request No. 4723 (Schedule 4), the Company acknowledges that, "…Engineering judgement rather than a specific analysis was used to determine the retirement dates…" Notably absent is a specific engineering or economic analysis by the Company to determine the retirement dates.

In fact, the scope of the Company's evaluations was superficial as evident by the fact that no documentation (workpapers required to be produced to the parties) was produced as a result of AmerenUE's review of the probable retirement dates for their generating units.

Q. Does Staff have other questions with the retirement dates given by Mr. Randolph?

A. Yes. In Schedule 5 attached to Mr. Randolph's rebuttal testimony he provides the retirement dates for nine production plants. ** HC---------- HC---------- HC---------- HC---------- HC---------- ** Staff questions the reasonableness of these final estimated retirement dates and the effects on the reliability of AmerenUE's system.

Q. In the absence of a specific engineering analysis has the Company provided the necessary support for their final estimated retirement dates and the truncation of the ASL curve for lifespan production plant, thereby increasing their depreciation rates?

A. No. On page 39 of his rebuttal testimony, Mr. Stout has shown how a component of his Steam Production Plant's depreciation rates are derived. "I estimated the

life characteristics of Steam, Nuclear and Hydraulic Production Plant using truncated survivor curves." The truncation of ASLs proposed by Mr. Stout substantially increases depreciation rates and the annual depreciation accrual without the supporting benefit of a reasoned analysis.

Q. Should the Commission reject the Company's ASL's and depreciation rates for Steam Production accounts?

A. Yes.

Q. What is the increase in annual depreciation accrual, based on September 30, 2001 plant balances, due to Company's truncation of the ASL curve for AmerenUE's Steam Production Plants?

A. The increase in annual depreciation accrual, based on September 30, 2001 plant balances, due to Company's truncation of the steam production plant's ASL curve is $28 million.

III. DECOMMISSIONING COSTS FOR FOSSIL-FUELED PLANTS

Q. Why are decommissioning costs for the fossil-fueled plants an issue?

A. Decommissioning costs for the fossil-fueled plants are an issue because it is speculative as to both the time dismantling will occur and the dollar amount that will be incurred. Given this uncertainty it is questionable as to whether current customers should pay the expense of removal.

Q. Do you agree with Mr. Stout's position on net salvage estimates?

A. No. On page 20, lines 13-15 of his rebuttal testimony, he states, "Since there is somewhat greater certainty in the net salvage estimate given the conservative nature of the estimates, I conclude that it also is reasonable to use estimates of net salvage for depreciation

purposes." However, Mr. Stout built into depreciation rates an estimate that is premised on the most expensive retirement option. Mr. Stout has ignored the fact that the Company should choose its most economical one. The Company will make this decision at the time it is required to make a decision on unit retirement and dismantlement.

Q. How does Mr. Stout arrive at the net salvage estimates he uses for fossil-fueled plants?

A. On page II-27 of his Depreciation Study he states:

> …The decommissioning cost estimates for each location were based on the results of decommissioning studies conducted by TLG Services, Inc. a consulting engineering firm. The Decommissioning cost estimates were stated in current (2001) dollars. The decommissioning of the steam production plants are projected to occur at various dates in the future. The decommissioning cost estimates were adjusted for the effect of inflation between 2001 and the projected retirement date to develop the net salvage percent estimate as shown in the table on the following page.

Q. Does TLG Services, Inc. take into consideration economic alternatives the Company may have regarding dismantlement?

A. No. On page 10, lines 7-11 of his rebuttal testimony Company Witness Thomas S. LaGuardia states, "…Dismantling and demolition of the Labadie, Rush Island, Sioux, Meramec and Venice fossil-fired steam electric generating stations was estimated to cost approximately $337.6 million total (2001 dollars), including credit for the scrap generated in the dismantling process. Each site was assumed to be dismantled upon the cessation of the final unit's operation." Other economic alternatives the Company may have available regarding dismantlement are never considered or analyzed

Q. What other alternatives might be considered?

A. Reuse of the site, facilities for new generating plant, or sale of the site as-is (Schedule 5).

Q. Mr. LaGuardia identifies other fossil-fueled plants used as cost-estimate models in his decommissioning study? Can you provide a list of those plants?

A. Yes. ** HC---------- HC---------- HC---------- HC---------- HC-----**

Q. ** HC---------- HC---------- HC----------**

A. ** HC---------- HC---------- HC----------**

Q. Did Mr. LaGuardia perform original detailed site-specific dismantling costs for each of AmerenUE's four fossil-fueled plants?

A. No. According to his rebuttal testimony, page 10, lines 6-8, Mr. Laguardia states, "The dismantling costs were compared to other fossil-fueled plants with detailed dismantling cost estimates prepared by TLG."

Q. Do the detailed dismantling cost estimates of other fossil-fueled plants that were used in the study approximate the actual costs incurred to dismantle those fossil-fueled plants?

A. No. None of the fossil-fueled plants used as cost-estimate models in Mr. LaGuardia's AmerenUE study have been dismantled, there is no way to determine if the

cost estimates provided to AmerenUE approximate the actual costs AmerenUE could reasonably anticipate to incur in the future.

Q. Does Mr. LaGuardia list any Missouri fossil-fueled plants, which have been dismantled?

A. Yes. On page 27, line 1-5 of his rebuttal testimony, he refers to Kansas City Power & Light's retired and dismantled Northeast Station Plant located in Kansas City.

Q. Is Staff aware if dismantlement costs and site remediation costs were incurred after retirement of this 133 MW plant in 1982 (Schedule 8)?

A. Yes.

Q. Did Staff consider and treat these costs to be the final removal costs of life span type property?

A. Yes.

Q. Did the Commission adopt Mr. LaGuardia's studies and a similar analysis in the establishment of Kansas City Power & Light's depreciation rates?

A. No.

Q. Is Staff aware of other fossil-fueled units in Missouri, which were retired but not dismantled?

A. Yes. Kansas City Power & Light has units at its Hawthorn Plant site, which are retired (Mr. Stout's rebuttal testimony, Schedule 11-1) but have never been dismantled.

Q. Has Mr. Stout, Mr. LaGuardia, or any other Company witness addressed in their rebuttal testimonies alternatives to the decommissioning cost estimates used by Mr. Stout in his depreciation study?

A. No.

Q. Does Mr. LaGuardia's decommissioning study or his rebuttal testimony provide sufficient evidence to support that his estimates, which have not been verified for accuracy, will develop the correct level of recovery for the Company's fossil-fueled plants?

A. No. Mr. LaGuardia's decommissioning study lacks a verifiable database of decommissioned power plants similar in size and type for which dismantling costs have been confirmed. In addition, as previously stated, the plants Mr. LaGuardia utilizes for his decommissioning study have not actually been dismantled. Staff has not yet received related Data Request responses, which could affect this answer.

Q. Does Mr. LaGuardia's listing of the English Station at 135 MW capacity (Schedule 9), the cost model power plant used for comparison with Venice, correlate with the capacity reported by United Illuminating Company's reporting of the power plant in its 2000 Annual Report (Schedule 10)?

A. United Illuminating Company's annual report lists the capacity of English Station as 75 MW.

Q. What other concern does Staff have with the decommissioning cost estimates provided by Mr. LaGuardia?

A. Staff's concern with Mr. LaGuardia's decommissioning cost estimates is that there is no discussion or study that dismantling represents the most prudent alternative the Company has regarding their fossil-fueled plants final retirement.

Q. What other concerns does Staff have with the net salvage estimates built into Mr. Stout's depreciation rates?

A. Staff questions the future net salvage estimates built into Mr. Stout's depreciation rates, shown on page II-28 of his depreciation study as –26.1% for Meramec, -

24.4% for Sioux, -52.2% for Venice, -25.8% for Labadie, and –28.5 % for Rush Island. It should be noted that negative net salvage percentage estimates are indicators of prospective cost of removal. These net salvage percentage estimates will generate an ever-increasing depreciation expense as plant balances grow, not a defined level as the original net salvage estimates provided to Mr. Stout by TLG.

Because Mr. Stout's annual depreciation accrual is a function of plant balances, the effect of incorporating future net salvage estimates, as percentages, into the depreciation rates means that as plant balances increase so will the annual accruals for future net salvage amounts. Thus instead of accumulating annual amounts, which will equal the amounts of net salvage estimated by Mr. LaGuardia, as plant balances grow the net salvage amounts will grow by the same percentage. Staff's position is that the level of recovery from current customers proposed by the Company for future decommissioning costs for steam production plant is not justifiable. Mr. Stout's inclusion of these decommissioning costs in his depreciation rates will result in AmerenUE's customers being forced to pay even more than Mr. LaGuardia recommends.

Q. What is the benefit to the Company of large prospective negative net salvages percentages in the depreciation rates?

A. The benefit to the Company is that they have more cash to spend in any manner they wish. Large prospective negative net salvage percentages in the depreciation rates results in the Company collecting more money each year from customers in its utility rates.

Q. Mr. LaGuardia bases his estimates on the assumption that each site will be dismantled promptly upon the cessation of the final unit's operation. He also allows that site

remediation is included in the estimate. What is his rationale for proposing the appropriate alternative is immediate dismantling of a power plant after it is retired?

A. His rationale for prompt dismantling, as given on page 24, lines 15-20 of his rebuttal testimony, is:

> Securing, maintaining and guarding retired power plants indefinitely is costly, which will require either a full-time guard force, and/or intrusion detection devices and alarms monitored by local law enforcement agencies, as well as general building maintenance to keep the structures in a safe condition. Furthermore, prompt dismantling of retired power plants makes the site available for alternative uses at the earliest possible time.

Q. In discussions with the Company and Staff on February 8, 2002 and in which you participated, did the Company employees indicate that there were no plans to dismantle Venice?

A. Yes.

Q. Is there any guarantee that the dollars a regulated electric utility has collected in the depreciation reserve for future net salvage costs will be available years from now if and when the Company's steam production plants retire?

A. No. AmerenUE is only proposing that future net salvage costs be collected from its customers. The only funds that are guaranteed to exist when plant retires is the decommissioning fund for nuclear generation facilities, which is not an issue in this case. The cost of removal dollars a regulated utility has collected in the depreciation reserve for steam production plant cannot be guaranteed to exist even in five years from now, much less many years into the future. The dollar amounts are commingled in the depreciation reserve resulting in an inability to even identify how much cost of removal has been collected from customers.

Q. What is the increase in annual depreciation accrual, based on September 30, 2001 plant balances, due to Company's determination of future decommissioning costs for steam production plant in depreciation rates?

A. The increase in annual depreciation accrual, based on September 30, 2001 plant balances, due to Company's determination of future decommissioning costs for steam production plant included in depreciation rates is $16 million.

IV. DETERMINATION OF ASL FOR THE CALLAWAY NUCLEAR PLANT

Q. Why is the determination of ASL for the Callaway Nuclear Plant accounts an issue?

A. Determination of ASL for the Callaway Nuclear Production Plant accounts is an issue because the ASL will, through depreciation rates, establish the level of annual depreciation expense current customers must pay in utility bills.

Q. Can you provide information regarding current trends in the nuclear industry, which would have a significant impact on the evaluation of the reasonableness of an appropriate depreciation rate for Callaway?

A. Yes. The Nuclear Regulatory Commission NRC has issued renewed licenses for six nuclear power plants in the U.S., including Arkansas Nuclear One, Unit 1 on May 30, 2002 (Schedule 11). Several other nuclear power plants have made license renewal applications (Schedule 12). In another neighboring state, the Kansas Corporation Commission (KCC) has reduced the annual depreciation rate for Western Resources for Wolf Creek Nuclear Production Plant accounts to 1.73% (Schedule 13). Wolf Creek is a nuclear unit that is designed similar to Callaway. This reduction is based on the KCC's assumption

that the Wolf Creek Nuclear Plant will request and obtain a 20-year license extension from the (NRC).

Q. May the Company apply, in the future, for an extension of the Callaway Nuclear Plant's operating license?

A. Yes. The Company may make an application for license renewal to the NRC in 2004.

Q. Has the Company made any commitment to Staff that they will not be applying for an extension of the license, such that the plant is guaranteed not to operate past 40 years?

A. No.

Q. Then do you agree with Mr. Stout when he acknowledges, on page 43 of his rebuttal testimony, that it is conceivable that the license could be renewed?

A. Yes.

Q. If Callaway's operating license is renewed for an additional 20-year period, would customers paying for its service in the first 20 years have paid too much for recovery of capital original plant costs?

A. Yes. Applying a 40-year ASL will generate an inappropriate level of annual depreciation and accrued depreciation if Callaway's operating license is extended.

Q. Do Staff depreciation rates for Callaway include recovery for future interim additions?

A. No. Staff does not include recovery for future interim additions because these costs cannot be specified and measured at the present time, either as to the time they will occur or the dollar amount that will be incurred.

Q. Did Staff propose a 2.5% depreciation rate based on a 40-year ASL for the Callaway accounts?

A. Yes. Staff used a 2.5% depreciation rate based on a 40-year ASL for Callaway's accounts which assures the life parameter in the depreciation rate will sufficiently recover the original capital plant cost for customers during its licensed 40-year operating life without undue upfront weighting, given the probability that the licensed operating life will be extended by 20 years.

Q. Does Mr. Stout point out the potential for an under-accrual of Callaway's accrued reserve?

A. Yes. On page 35, lines 21-23 of his rebuttal testimony, he states that Staff's 40-year ASL will result in an overstatement of the average lives of the Nuclear Production Plant accounts and an understatement of the annual and accrued depreciation.

Q. Is it more probable that Callaway's depreciation reserve will be over- or under-accrued?

A. It is more likely that Callaway's depreciation reserve will be over-accrued, given the likelihood that Callaway's life will be extended.

Q. How would Staff recommend handling any under-accrual of the accrued depreciation reserve that could potentially exist at the conclusion of the 40-year operating license if a license extension is not obtained for Callaway Nuclear Plant?

A. Staff's recommendation, for lifespan type plant that has an under-accrual of its depreciation reserve at the end of its life span, is an amortization to the accrued reserve. This will assure full recovery to the Company of all original capital plant costs. This matter will be monitored in each future depreciation review.

Q. How much does the use of the Company's ASLs in depreciation rates for Callaway Nuclear Production Plant accounts, based on September 30, 2001 plant balances, add to the annual accrual?

A. The use of the Company's ASLs in depreciation rates for Callaway Nuclear Production Plant accounts, based on September 30, 2001 plant balances, adds $8 million to the annual accrual.

Q. Does Staff's proposed depreciation rate of 2.5% and ASL of 40-years for all of Callaway's accounts incorporate interim retirements as the currently ordered rates do?

A. No. Currently, Callaway's ordered depreciation rates have an additional 0.1% adder (2.5% + 0.1% =2.6%) for interim retirements. In the absence of consideration of any additional trends in the nuclear industry, the Commission may find that the currently ordered depreciation rate of 2.6% is appropriate to re-adopt for Callaway's accounts.

V. THE COMPANY'S RECOMMENDED ANNUAL AMORTIZATION

Q. Why is the Company's recommendation for a 20-year annual amortization an issue?

A. The Company's recommendation for a 20-year annual amortization of $6 million is an issue because the reserve deficiency, as defined by Mr. Stout, is totally dependent on Commission's finding that the Company's issues (e.g. future decommissioning costs) discussed in my testimony and another significant issue, discussed in Ms. Mathis' surrebuttal testimony (i.e., cost of removal of Distribution Plant) are reasonable. If the Commission does not accept these positions, then AmerenUE will have a depreciation reserve surplus.

Q. In reviewing Company's filing, did Staff find that Mr. Stout's annual amortization for reserve deficiency of $4,825,225 is the proposed booked amount by the Company in this case?

A. No. Staff is still investigating this amount. At the time of this filing, Staff has submitted a Data Request to the Company to determine why their proposed annual amortization for reserve deficiency of $5,917,744 is $1,092,519 higher (Schedule 14) than Mr. Stout's reserve variance of $4,825,225, as given in Table B on page III-15 of his Depreciation Study.

Q. Does Staff's Depreciation Engineers agree with Mr. Stout that the currently ordered depreciation rates are not appropriate to determine current revenue requirements?

A. Yes. The current depreciation rates, excluding Callaway, were established in 1983. Callaway's depreciation rates were established in 1984. The Commission should establish new rates.

Q. On page 51, lines 7-9, of his rebuttal testimony, Mr. Stout recommends a 20-year annual amortization, as supported on page 51 of his rebuttal testimony, "I further recommend the initiation of an amortization of the variance between the calculated accrued depreciation and the book accumulated depreciation as shown in column 4 of Table C." Do you agree with Mr. Stout's recommendation for the 20-year annual amortization?

A. No. Staff does not find that the Company's testimony, noted in 1) – 4) above and on the other significant issue, Distribution Plant cost of removal, have merit. Consequently, Staff does not find the Company's theoretical reserve to be valid.

Q. Does Staff find the Company's arguments, for these five significant issues in this case, to be reasonable?

A. No. The Company's arguments for Distribution Plant cost of removal ($35 million), steam production plant retirement dates/truncated ASLs ($28 million), decommissioning of steam production plant-cost of removal ($16 million), Callaway's ASL ($8 million), and amortization for reserve deficiency ($6 million) are not supported by adequate data and analysis.

Q. Is it Staff's position that a reserve deficiency does not exist?

A. Yes.

Q. Based on your review and in the absence of credible support for the Company's position on production plant retirement dates, dismantling costs for steam production plant, and depreciation rates for Callaway's accounts, should the Commission reject the Company's 20-year amortization for its proposed deficiency in the depreciation accrued reserve?

A. Yes.

Q. In fact, is it Staff's position that the Commission should not retain the currently ordered depreciation rates for the Company's Production and Distribution Plant accounts?

A. Yes. Current depreciation rates for the Company's Production and Distribution Plant accounts are based on understated Production Plant lives and large unpaid cost of removal amounts for Distribution Plant. These facts have generated an annual depreciation expense that is excessive.

Q. In summary, what is Staff's proposal?

A. Staff's proposal is:

That the Commission should order Staff's proposed depreciation rates and plant ASLs for AmerenUE's plant accounts, effective on the date of this Order.

Q. Does this conclude your testimony?

A. Yes, it does.

CASE PROCEEDING PARTICIPATION

ROSELLA L. SCHAD

COMPANY	CASE NO.
Iamo Telephone Company	TT-2001-116
Peace Valley Telephone Company	TT-2001-118
Holway Telephone Company	TT-2001-119
KLM Telephone Company	TT-2001-120
Ozark Telephone Company	TC-2001-402
Osage Water Company	SR-2000-556
Osage Water Company	WR-2000-557
Northeast Missouri Rural Telephone Company	TR-2001-344
Oregon Farmers Mutual Telephone Company	TT-2001-328
Laclede Gas Company	GR-2001-629
Laclede Gas Company	GR-2002-356