

Exhibit No.:
Issues: Coal Inventory Adjustment;
Venice Power Plant
Adjustment; Tree Trimming
Adjustment; Automated Meter
Reading Adjustment
Witness: Paul R. Harrison
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

SURREBUTTAL TESTIMONY

OF

PAUL R. HARRISON

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

CASE NO. EC-2002-1

Jefferson City, Missouri
June 2002

****Denotes Proprietary Information****

NP

Exhibit No. 30 NP
Date 7/10/02 Case No. EC-2002-1
Reporter KRM

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

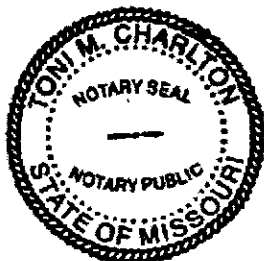
ss.

COUNTY OF COLE

Paul R. Harrison, is, of lawful age, and on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the following Surrebuttal 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
Paul R. Harrison

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



Toni M. Charlton
Notary Public

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

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PAUL R. HARRISON
UNION ELECTRIC COMPANY
d/b/a AMERENUE
CASE NO. EC-2002-1

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1 **SURREBUTAL 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. Have you previously submitted testimony in this proceeding?

13 A. Yes, I have previously submitted direct testimony in this case.

14 Q. What is the purpose of your surrebuttal testimony?

15 A The purpose of my testimony is to respond to the rebuttal testimony of various
16 AmerenUE (AmerenUE or Company) witnesses concerning the issues of coal inventory,
17 Venice Power Plant fire adjustment, tree trimming expense adjustment and automated meter
18 reading adjustment.

19 Q. AmerenUE witness Martin J. Lyons asks the question in his rebuttal testimony,
20 "What explanation has the Staff provided for departing from GAAP basis financial
21 information?" He answers the question in the following manner: "As Staff refuses to follow
22 any specific accounting methodology, it has not provided a general rational for departing from
23 GAAP." (Lyons Rebuttal, page 12, lines 7-10). Do you agree with this statement?

Surrebuttal Testimony of
Paul R. Harrison

1 A. No. The Staff relies upon the recorded data on the Company's books during
2 the test year and update period as the starting point of its audit. The Company is required to
3 keep its utility books in accordance with the Federal Energy Regulatory Commission (FERC)
4 Uniform System of Accounts (USOA), which has been adopted by the Commission. The
5 Staff analyzed the test year data to determine if it is reflective of its ongoing cost of service
6 levels. If test year data does not reflect an ongoing cost of service level, then the Staff
7 proposes adjustments to the test year data to convert the information to prospective levels of
8 revenues, expenses and rate base.

9 While the FERC USOA is generally consistent with GAAP for financial reporting
10 purposes, the USOA's regulations are not always identical with GAAP rules. Moreover,
11 GAAP itself provides for exceptions within its overall framework for the accounting practices
12 of regulated utilities to match the rate decisions of the utilities' regulators.

13 Please refer to the surrebuttal testimony of Staff Accounting witnesses Mark L.
14 Oligschlaeger and John P. Cassidy for more discussion of the relationship of ratemaking and
15 GAAP.

16 **COAL INVENTORY ADJUSTMENT**

17 Q. What UE witness addresses the issue of coal inventory in the Company's
18 rebuttal testimony?

19 A. Company witness Gary S. Weiss addresses the issue of coal inventory on
20 pages 2-5 of his rebuttal testimony.

21 Q. What level of coal inventory is the Company proposing to use for this case?

Surrebuttal Testimony of
Paul R. Harrison

1 A. Based on Mr. Weiss's supporting Executive Summary (Appendix B-3), the
2 Company recommends using the traditional 13-month average coal inventory for the 13-
3 months ended September 30, 2001 of \$37,341,897.

4 Q. Does the Staff agree with Mr. Weiss' statement at page at page 3, lines 18-20
5 of his rebuttal testimony that using a 13-month average coal inventory is the traditional
6 approach for normalizing coal inventory?

7 A. No. The Staff's traditional approach to normalizing coal inventory is to use a
8 multi-period average and tie it to the annualized dollar cost of coal burned included in the
9 Staff's cost of service. The Staff elected to use a five-year average in this case because of the
10 fluctuation from year to year in the Company's coal inventory level. In addition, the 13-
11 month average of coal stockpiled by the Company is not based on the annualized burn
12 included in the Staff's cost of service. (Please refer to Staff witness Cassidy's surrebuttal
13 testimony for a more detailed discussion of the annualized burn included in the test year.).

14 Q. Does the Staff agree with the dollar amount for coal inventory recommended
15 by Mr. Weiss in his rebuttal testimony of \$37, 341,897?

16 A. No. The dollar amount that he quotes represents the total Company coal
17 inventory level for the 13-month period ended September 30, 2001. The corresponding
18 amount of the Missouri jurisdictional level for the 13-month period ending September 30,
19 2001, based on the Staff's Missouri Jurisdictional allocation factor, is actually \$32,803,475.

20 Q. Mr. Weiss states in his testimony on page 3, lines 18-20 that the Staff used the
21 traditional actual 13-month average coal inventory for the period ending December 31, 2000
22 of \$43,061,285. Do you agree with his statement?

Surrebuttal Testimony of
Paul R. Harrison

1 A. No. As I previously discussed, the Staff does not consider the 13-month
2 average coal inventory as the traditional way of normalizing coal inventory. In addition, the
3 \$43,061,285 amount that he references is again the total Company inventory level for the 13-
4 month period ended December 31, 2000. The equivalent Missouri jurisdictional coal
5 inventory level used by Staff in the earlier July 2001 direct filing to which he refers was
6 \$37,433,175.

7 Q. Are the actual days calculated by the five-year average of coal inventory
8 calculated in this case significantly different than the days of inventory resulting from the 13-
9 month average for the 12-months ended September 30, 2001 that the Company used?

10 A. No. In fact, the five-year average performed by Staff for coal inventory
11 provides for 49.54 days of coal inventory, as compared to the 43 days recommended by
12 Mr. Weiss in his rebuttal testimony on page 5, line 3. The main reason that the Staff's
13 valuation of coal inventory is less than UE's is that the Staff's annualized dollar cost of coal
14 burned as determined by the Staff's fuel model is less than the equivalent cost of coal
15 inventory maintained by UE. The number of days of coal inventory maintained by the
16 Company over the last five years is shown in the table below:

Period	Average Number of Days of Inventory	
7/01/96 - 6/30/97	** P	**
7/01/97 - 6/30/98	** P	**
7/01/98 - 6/30/99	** P	**
7/01/99 - 6/30/00	** P	**
7/01/00 - 6/30/01	** P	**

1 **VENICE PLANT FIRE ADJUSTMENT**

2 Q. What is the main criticism of Company witness Lyons, in his rebuttal
3 testimony at page 40, lines 1-4 concerning Staff's proposed adjustment of the insurance
4 settlement for the Venice fire?

5 A. Mr. Lyons states that, "Adjustments related to items occurring after the test
6 year and update period are inconsistent with the test year concept that is so fundamental to
7 this ratemaking process."

8 Q. Did the Company receive the insurance settlement for the Venice Power Plant
9 fire after the end of the test year and update period for this case?

10 A. Yes. The Company booked insurance reimbursements of (\$7,500,000) during
11 October and November 2001 and (\$14,679,238) in December 2001 to various plant and
12 maintenance accounts.

13 Mr. Lyons states in his rebuttal testimony (page 40, lines 16-17) that it is significant to
14 note that it was not until May 1, 2002 that the Company received a final settlement amount.
15 However, the Company did recognize the insurance proceeds by the end of the 2001 calendar
16 year as was validated by the Company's response to Staff Data Request No. 72, Supplement
17 No.1, which asked, "Does the Company expect any other settlements after 12/31/01? ..." The
18 Company replied that, ** P

19 P ** This response indicates
20 that all reimbursements are reflected on UE's calendar year 2001 books.

21 Q. Does the Staff believe that the Company's proposal for rate treatment of the
22 expenditures and settlements associated with Venice fire is appropriate?

Surrebuttal Testimony of
Paul R. Harrison

1 A. No. For ratemaking purposes, both the repair costs and the insurance
2 settlements need to be consistently reflected. There were a variety of ways the Company
3 could have accounted for these costs that would have consistently treated both the expenses
4 and their insurance offsets, and would have been more consistent with equitable ratemaking
5 treatment. Staff believes that the Company could have booked these expenses into a deferred
6 account until they received the insurance settlement. For example, FERC USOA Account
7 186, Miscellaneous Deferred Debits, could have been used for this purpose.

8 The USOA description of this account reads:

9 ...this account shall include all debits not elsewhere provided for such
10 as miscellaneous work in progress, construction certificate application
11 fees paid prior to final disposition of the application, unusual or
12 extraordinary expenses not included in other accounts, which are in
13 process of amortization, and items for which the final disposition is
14 uncertain...

15 If the Company had booked these expenditures this way, only the amount of the
16 expense above and beyond that amount of reimbursements recovered from the insurance
17 company, would have been entered into the Company books under the plant and maintenance
18 accounts. In that circumstance, there would be no need for a test year adjustment to prevent
19 double recovery of Venice repair costs.

20 Q. If as suggested by the Company there is no adjustment made to the test year to
21 include insurance reimbursements, what would be the impact?

22 A. The Company would be potentially able to recover the expenses up to three
23 times. First, the fire-related expenditures for the Venice Power Plant would be included in the
24 test year and in the cost of service and, therefore, paid for by the ratepayer. Second, the
25 insurance company has already reimbursed the Company for part of these same expenditures
26 and these reimbursements would not be used to offset the cost of repairing/replacement of this

Surrebuttal Testimony of
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1 plant during the test year. Third, the Company will be allowed up to 50% recovery of these
2 expenditures from the second Experimental Alternative Regulation Plan (EARP) third sharing
3 period, if its position in that proceeding is adopted. Furthermore, if the Staff's proposed
4 adjustment to remove the expenses reimbursed from the insurance companies from the test
5 year is not adopted the result will be equivalent to the costs of a fire at the Venice Power Plant
6 being built into the rates each and every year going forward. These expenditures would
7 become: 1) part of the rate base through plant additions; and 2) part of the test year
8 maintenance expense that would be included in the cost of service calculations. In other
9 words, each and every year going forward the plant will be overstated by \$6,764,614,
10 depreciation reserve will be understated by \$2,078,000 and the maintenance account will be
11 overstated by \$8,428,425, all with no offsets.

12 Q. Mr. Lyons states in his testimony (page 40, lines 1-4) that, "Adjustments
13 related to items occurring after the test year and update period are inconsistent with the test
14 year concept that is so fundamental to this ratemaking process." What is the purpose of a test
15 year?

16 A. The purpose of a test year, as set out by the Commission in the past, is:
17 ...To create or construct a reasonable expected level of earnings,
18 expenses and investment during the future period in which the rates to
19 be determined herein will be in effect. All aspects of test year
20 operations may be adjusted upward or downward (normalized) to
21 exclude unusual or unreasonable items in order to arrive at a proper
22 allowable level of all the elements of the Company's operation. (RE:
23 Kansas City Power and Light Company, 24 Mo. P.S.C. (N.S.) 386,391-
24 392 (1981))

25 Q. Are parties allowed to propose adjustments outside the test year and update
26 period?

Surrebuttal Testimony of
Paul R. Harrison

1 A. Yes, if the adjustment is based on known and measurable information and an
2 appropriate matching of revenues/expenses/rate base is still maintained. The Staff's
3 adjustment meets these tests.

4 Q. Does Staff believe that this proposed treatment of the Venice fire expenditures
5 and insurance settlements appropriately maintains the matching of the revenues, expenses and
6 rate base items?

7 A. Yes. The Staff believes its proposed inclusion of insurance proceeds in its case
8 not only maintains an appropriate matching of revenue requirement elements, but enhances it
9 by matching the insurance settlement with the fire associated costs.

10 **TREE TRIMMING EXPENSE ADJUSTMENT**

11 Q. What UE witness addresses the issue of tree trimming expense in the
12 Company's rebuttal testimony?

13 A. Company witness Thomas R. Voss addresses the issue of the tree trimming
14 expense on pages 14-18 of his rebuttal testimony.

15 Q. Mr. Voss states, "At a minimum, tree-trimming expenditures will continue to
16 escalate from current test year levels at a rate of 3% per year. In fact, 1994-95 was the only
17 period during the years 1990-2000 that AmerenUE's tree trimming expenditures has
18 declined." Do you agree with this statement?

19 A. No. In his comments supporting his belief of a continuing upward trend for
20 tree trimming, Mr. Voss is really projecting future expense levels based on customer growth
21 and other factors that are not associated with current test year and current customer levels.

22 Q. What evidence are you aware of that an actual decline in tree trimming costs
23 has occurred from test year levels?

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1 A. The tree-trimming expense for distribution and transmission lines for the test
2 year as updated ending September 30, 2001 was \$26,564,414. The same tree trimming
3 expense for the 12 months ended September 30, 2000 was \$27,855,760. This equates to an
4 annual decrease for tree trimming expense of \$1,291,346. ** P

5 P

6 P

7 P

. ** (Please refer to Proprietary
8 Schedule 1.) This equates to another decrease of \$478,000 from the 12-months ended
9 September 2001 level. Even though the Staff used the most current four-year period ending
10 September 30, 2001 to develop its average to normalize tree trimming, when the calendar year
11 amount for 2001 and budget amount for 2002 tree trimming expenses are compared to
12 previous years, there is still a rapid decline after the year 2000.

13 Q. Why does the Staff believe that tree trimming is going to decrease from the test
14 year level to approximate the current four-year average that the Staff is recommending for this
15 adjustment?

16 A. Data obtained from the Company on September 29, 2001 states that the normal
17 tree-trimming cycle for distribution feeders runs five years for urban and seven years for rural
18 routes. However, other data received from the Company, and which was verified in a meeting
19 between the Staff and AmerenUE Forestry Department personnel, indicates that the target
20 cycle for tree trimming for the period including the test year was four years. This four-year
21 cycle target was chosen to address and increase customer service reliability. The Staff
22 believes that, as a result of the Company increasing their tree trimming activities between the
23 years 1998 and 2000 to meet this new four-year target cycle, the Company tremendously

Surrebuttal Testimony of
Paul R. Harrison

increased their tree trimming expense. The dollar amounts associated with the tree trimming expense for distribution feeders and transmission lines excluding capital investment by the Company for the 12-months ended September 30, 2001 for the most current four years are listed below:

Date	Amount	Increase/Decrease
September 30, 1997	\$16,962,566	
September 30, 1998	\$15,100,941	(12)%
September 30, 1999	\$22,218,284	47%
September 30, 2000	\$27,855,760	25%
September 30, 2001	\$26,564,414	(05)%

The tree trimming expenses started to increase during the last part of the year 1998 and continued up through the year 2000 as the Company increased its tree trimming activities to attempt to decrease customer outages and improve customer reliability. The Staff believes that these increases in tree-trimming activities peaked sometime in the year 2000 and as the Company caught up on its tree trimming activities and expenses, the expenses then started to decline, as indicated in the numbers above. The Staff also believes that since the Company has caught up on its tree trimming activities, the tree trimming expense will continue to decrease and level out to approximately the amount that is reflected in the Staff's four-year average.

Q. If the Commission does not choose to accept the Staff's recommendation to use a four-year average for tree trimming, do you have an alternative recommendation?

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Paul R. Harrison

1 A. Yes. As an alternative if the Commission does not accept the Staff's
2 proposed four-year average for the tree trimming expense, then the Staff recommends using
3 the 12-month ending September 30, 2001 amount for tree trimming expense.

4 **AUTOMATED METER READING SERVICE ADJUSTMENT**

5 Q. What UE witness addresses the issue of automated meter reading service in the
6 Company's rebuttal testimony?

7 A. Company witness Thomas R. Voss addresses the issue of automated meter
8 reading service on pages 18-19 of his rebuttal testimony.

9 Q. Mr. Voss states in his testimony that \$491,801 of the retrofit charges from the
10 automated meter reading expense for the test year is an annual charge that AmerenUE will
11 continue to pay each year to CellNet through the year 2015 (Voss Rebuttal, page 4, lines 18-
12 22). What is your response to this statement?

13 The Staff submitted Data Request No. 168, dated May 22, 2002, to the Company
14 requesting any and all documentation to support the statement that retrofit charges would be
15 included in CellNet's annual charge. On June 5, 2002, I received the Company's reply to this
16 data request. I then reviewed the data request response and the Schlumberger's (formerly
17 CellNet Data Services) contract pertaining to retrofit charges. The Staff now concurs with the
18 Company that the \$491,801 portion of the retrofit charge is a recurring cost and should be
19 included in the test year.

20 Q. Does this conclude your surrebuttal testimony?

21 A. Yes, it does.

HARRISON
SCHEDULE 1
DEEMED
PROPRIETARY
IN ITS ENTIRETY