Exhibit No.:	
Issues:	*Plant-In-Service Adjustments; Depreciation Reserve Adjustment; Income Statement Adjustments; Coal Inventory Adjustment*
Witness:	*PAUL J. HARRISON*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*EM-96-149*
Date Testimony Prepared:	*April 12, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PAUL R. HARRISON

UNION ELECTRIC COMPANY, d/b/a AMERENUE

CASE NO. EM-96-149

Jefferson City, Missouri
April 2002

****Denotes Proprietary Information****

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DIRECT TESTIMONY

OF

PAUL R. HARRISON

UNION ELECTRIC COMPANY

d/b/a AMERENUE

CASE NO. EM-96-149

Q. Please state your name and business address.

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

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

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

Q. Please describe your educational background.

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

Q. Have you previously submitted testimony before this Commission?

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

Q. Have you made an examination of the data supporting the calculation of credits for the third sharing period of the second experimental alternative regulation plan (EARP) and other books and records of Union Electric Company d/b/a AmerenUE (UE or Company)?

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

Q. What is the purpose of your direct testimony?

A. My direct testimony will discuss the following items:

1) The Staff's recommendation regarding the amount of sharing credits in the third year of the second EARP.

2) A discussion of the Staff's adjustment to UE's credit calculation for Venice power plant fire-related expenditures, and settlements and Staff's analysis of the level of coal inventory maintained at UE's four coal-fired generating plants.

Q. Please explain the term "sharing credits."

A. The term relates to the amount of earnings that are credited to current ratepayers, on a one-time basis, depending on UE's achieved return on equity (ROE) during each sharing period. The annual sharing period is July 1 of one year through June 30 of the next year. The initial EARP, approved in Case No. ER-95-411, provided for three annual sharing periods from July 1, 1995 through June 30, 1998. The second EARP, approved in Case No. EM-96-149, provides for three additional annual sharing periods from July 1, 1998 through June 30, 2001.

Q. How is the achieved return on equity determined for each one-year sharing period?

A. The achieved equity return is based on the average capital structure, the average rate base and the booked earnings, as adjusted, during the particular one-year sharing period.

Q. What amounts of sharing period earnings are credited to ratepayers?

A. Fifty percent (50%) of the sharing period earnings that reflect an achieved equity return above 12.61% and less than or equal to 14.00% is credited to the ratepayers.

Ninety percent (90%) of the sharing period earnings that reflect an achieved equity return above 14.00% and less than or equal to 16.00% is credited to the ratepayers. One hundred percent (100%) of the sharing period earnings that reflect an achieved equity return above 16.00% is credited to the ratepayers.

Q. What is the Company's level of earned ROE before sharing?

A. The Company's earned ROE before sharing for the credit sharing period July 1, 2000 through June 30, 2001 is 14.69%. This figure is found on Monitoring Schedule 1, page 4 of 5.

Q. What is the Staff's recommended level of credits for the sharing period ended June 30, 2001?

A. The Staff's recommended level of sharing credits is $50,306,302. Approximately, $26,562,060 of the sharing credits is calculated based on the 50% sharing level, while $23,744,242 of the sharing credits are calculated based on the 90% sharing level. The Staff Accounting and Monitoring Schedules, included in this direct filing as a separate exhibit, support these calculations. The amounts referenced above specifically also appear on Monitoring Schedule 1, page 4 of 5.

Q. What are the bases for the adjustments made by the Staff, which are at issue in this proceeding?

A. The Staff is proposing its adjustments in accordance with the criteria established in the Stipulation And Agreements approved by the Commission in Case Nos. ER-95-411 and EM-96-149. Part of the criteria from the Stipulation And Agreement approved in Case No. ER-95-411 appear on pages 9 and 10 in sections 3.f.vi., 3.f.vii. and

3.f.viii. These same sections also appear on pages 14 and 15 of the Stipulation And Agreement approved in Case No. EM-96-149. These sections state as follows:

> 7.f.vi If Staff, OPC or other signatories find evidence that operating results have been manipulated to reduce amounts to be shared with customers or to misrepresent actual earning or expenses, Staff, OPC or other signatories may file a complaint with the Commission requesting that a full investigation and hearing be conducted regarding said complaint. UE shall have the right to respond to such request and present facts and argument as to why an investigation is unwarranted.
>
> 7.f.vii UE, Staff, OPC and other signatories reserve the right to bring issues which cannot be resolved by them, and which are related to the operation or implementation of the new Plan, to the Commission for resolution. Examples include disagreements as to the mechanics of calculating the monitoring report, alleged violations of the Stipulation And Agreement, alleged manipulations of earnings results, or requests for information not previously maintained by UE. An allegation of manipulation could include significant variations in the level of expenses associated with any category of cost, where no reasonable explanation has been provided. The Commission will determine in the first instance whether a question of manipulation exists and whether that question should be heard by it.
>
> 7.f.viii Staff, OPC and other signatories have the right to present to the Commission concerns over any category of cost that has been included in UE's monitoring results and has not been included previously in any ratemaking proceeding.

I would also note that the Reconciliation Procedure, Attachment C, Section 2.g. states, in part, that:

> UE/Staff/OPC reserve the right to petition the Commission for resolution of disputed issues relating to the operation or implementation of this Plan.

Adjustments based on this language are sponsored by Staff witnesses Ronald L. Bible, Leasha S. Teel, Doyle L. Gibbs, John P. Cassidy, Stephen M. Rackers and myself.

Q. What are your areas of responsibility in this Case No. EM-96-149?

A. My principal areas of responsibility are the calculation of the Revenue Requirement Report and the Monitoring Schedules, Venice power plant fire-related expenditures and settlements, and the Staff's analysis of the level of coal inventory maintained at UE's four coal-fired generating plants which are included in the determination of credits.

Q. What adjustments are you sponsoring?

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

Plant in Service	P-1.1, P-7.1 and P-8.2
Depreciation Reserve	R-1.1
Income Statement	S-3.1, S-4.2 and S-7.1

PLANT IN SERVICE ADJUSTMENTS

Q. Please explain Plant in Service adjustments P-1.1, P-7.1 and P-8.2.

A. The purpose of adjustment P-1.1, P-7.1 and P-8.2 are to reduce the June 30, 2001 plant in service balance for the Venice power plant to reflect the insurance settlement for a major fire that occurred during the sharing period. In August 2000, the Venice power plant had a massive fire that damaged units 1 and 2 turbine generation and accessory electric equipment, transmission structures and substations, and distribution station equipment. As a result of the fire, the Company incurred $13,190,380 in incremental power plant capital expenditures through June 30, 2001, the end of the sharing period. The Company incurred $22,495,843 in incremental power plant capital expenditures through December 31, 2001. Through December 2001, the Company received insurance settlements totaling $10,291,509 related to these power plant expenditures. I divided the June 30, 2001 capital expenditures for the Venice power plant by the total capital expenditures, through December 31, 2001 to determine the percentage of the total expenditures that the Company had incurred as of June 30, 2001. I then multiplied that percentage by the total settlement received through December 31, 2001 for each plant account.

Q. Why is this adjustment appropriate?

A. Although the settlements were not received until after June 30, 2001, the ending date of the sharing period, a pro-rata share must be included in the calculation of credits since a portion of the related fire expenditures are reflected in the Staff's Plant in Service balances. Without this matching of expenditures and settlements, ratepayer credits would be reduced by the revenue requirement associated with return and depreciation expense for plant in which the Company has no investment.

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

Finally, since the EARP expired June 30, 2001, there is no mechanism, other than the Staff's adjustments, to recognize the effect on sharing credits associated with the plant repairs and the subsequent insurance settlements which reimbursed the Company for a portion of these repairs.

DEPRECIATION RESERVE ADJUSTMENT

Q. Please explain Depreciation Reserve adjustment R-1.1.

A. Adjustment R-1.1 increases the June 30, 2001 depreciation reserve balance for the Venice power plant to reflect the insurance settlement for the turbine generator damaged during the fire. The Company chose not to restore units 1 and 2 that were damaged as a result of the fire. Instead, the Company elected to spend the related insurance settlement money on improvements to the remaining units.

INCOME STATEMENT ADJUSTMENTS

Q. Please explain Income Statement adjustment S-4.2.

A. Adjustment S-4.2 adjusts test year Venice power plant operation and maintenance expense for the insurance settlement for the damage incurred during the fire. As a result of this fire, the Company incurred $8,191,564 in incremental steam power generation maintenance expenditures for the sharing period ended June 30, 2001. The Company incurred $10,066,974 in total incremental steam power generation maintenance expenditures through December 31, 2001. In December 2001, the Company received insurance settlements totaling $10,060,544 related to these maintenance expenditures. During the credit sharing period, the Company also incurred $33,736 in incremental steam power generation operation expenditures attributable to the fire. The Company incurred $43,585 in total incremental steam power generation operation expenditures through December 31, 2001. In December 2001, the Company received insurance settlements totaling $43,585 related to this and other costs. In addition, during the credit sharing period the Company incurred $9,156 in other power supply operation expenditures attributable to the fire as of June 30, 2001. The Company incurred $67,791 in total other power supply operation expenditures through December 31, 2001. In December 2001, the Company received insurance settlements totaling $67,752 related to this cost.

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

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

Q. Please explain Income Statement adjustment S-3.1.

A. Income Statement S-3.1 adjusts test year miscellaneous revenue for the Venice power plant as a result of the insurance settlement received because of the fire. AmerenUE received $684,831 for lost opportunities (business interruption) and $148,267 in lost revenue due to lost transmission capacity. This adjustment increases miscellaneous revenue by a total of $833,098 for the third period of the second EARP.

Q. Please explain Income Statement adjustment S-7.1.

A. Adjustment S-7.1 adjusts the Venice transmission maintenance station equipment expense as a result of the insurance settlement received because of the fire. For the credit sharing period ended June 30, 2001, the Company incurred $198,452 in transmission maintenance expenses for the Venice station equipment attributable to the fire. The Company incurred $753,440 in transmission maintenance expenses for the Venice station equipment through December 31, 2001. In December 2001, the Company received insurance settlements totaling $753,440 related to these expenditures. I divided the transmission maintenance station equipment expenditure as of June 30, 2001 by the total expenditure as of December 31, 2001 to determine the percentage of the total expenditure that the Company had incurred as of June 30, 2001. To calculate this adjustment I then applied that percentage by the total settlement received by the Company.

Q. Why are these adjustments appropriate?

A. Although the settlements were not received until after the credit sharing period, a portion of these settlements must be included in the calculation of the credits since a portion of the related fire expenditure is reflected in the operation and maintenance expenses. Also, the fire damage resulted in lost revenues during this sharing period, which reduced credits. The Company was subsequently reimbursed through insurance settlements for these lost revenues. Without this matching of expenditures and settlements, operation and maintenance expenses for which the Company has been reimbursed would be included in the sixth credit sharing period. The Staff would again argue that the Company should have accounted for these expenditures differently as previously stated in my testimony.

COAL INVENTORY ADJUSTMENT

Q. In Case No. EM-96-149, how does the Stipulation And Agreement address the average level of coal inventory?

A. The Stipulation And Agreement states in Attachment C, Reconciliation Procedure, paragraph 2.f. that the earnings report will utilize a coal inventory equal to 75-day supply.

Q. Why is the Staff proposing this adjustment?

A. The Staff has discovered that the Company is using the 75-day average level of inventory as only a limiting benchmark. The 75-day inventory level was originally included in the calculation of sharing credits because the Company characterized this level as its policy and practice. In fact, UE has never maintained a coal inventory level of 75 days, on average, for any of the six sharing periods during both of the EARPs. For this reason, the Staff believes an adjustment is necessary.

Q. What is the Company's policy pertaining to the amount of coal maintained in inventory at any given time?

A. UE's policy establishes a 75-day inventory control limit on coal levels. This level equates to a Missouri Jurisdictional amount of $56,753,124 for UE's four coal-fired generating plants.

Q. What is the source for your statement?

A. Staff submitted Data Request No. 59, for the second sharing period of the second period, requesting the Company's policy for coal inventory for each generating unit within AmerenUE. The Company's response was:

> The Company coal inventory policy assures that sufficient inventory levels are maintained, at each of the plants, to assure

> economic risks and potential fuel shortages are reasonably guarded against. Some of the factors that are considered in establishing these safe levels are; projected burns, projected energy availability, projected energy prices, transportation cycle times, transportation/coal delivery ratability, time of the year, plant inventory capabilities and controls. **Depending on the plant and its individual risk factors, inventories are maintained at levels up to 75-days. If any plants inventory were to get above a 75-day inventory, actions would be considered to bring the inventory with in this limit, as soon as possible, to avoid extra costs.** (Emphasis added)

This response indicates that UE's policy regarding coal inventories specifies 75 days as a "cap" or a maximum quantity of coal to keep on hand at any point in time, and that the 75-day figure does not function as any kind of target or goal concerning the average level of coal inventory for UE. The Staff's belief on this point is supported by the data concerning actual levels of coal inventory maintained by UE during this sharing period and prior sharing periods under the EARPs.

Q. How much coal has the Company actually maintained in inventory?

A. Using a 13-month average ending June 30, 2001, the amount of coal inventory maintained by the Company is approximately ** ** days. This equates to a Missouri jurisdictional amount of $32,452,842 for UE's four coal-fired generating plants.

Q. Historically has the Company maintained a 75-day average inventory level of coal over the last six credit sharing periods for UE's four coal-fired generating units?

A. No. The Company has not maintained a 75-day, average inventory level of coal during any of the six sharing periods. The average number of days of coal inventory maintained by the Company over the six credit sharing periods, based on the actual annual coal burned, is shown in the table below:

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Credit Sharing Period	Period	Average Number of Days of Inventory	
1st Year / 1st EARP	7/01/95 – 6/30/96	**	**
2nd Year / 1st EARP	7/01/96 – 6/30/97	**	**
3rd Year / 1st EARP	7/01/97 – 6/30/98	**	**
1st Year / 2nd EARP	7/01/98 –6/30/99	**	**
2nd Year / 2nd EARP	7/01/99 – 6/30/00	**	**
3rd Year / 2nd EARP	7/01/00 – 6/30/01	**	**

Q. How did the above results impact the ratepayer during the first and second EARP?

A. During the six credit sharing periods (first EARP and second EARP) the Company has consistently maintained average coal inventory levels well below the 75-day level. As a result of including a 75-day average inventory level during the six credit sharing periods, rather than the inventory level actually maintained, the Company has increased its Rate Base in excess of $119 million dollars and retained the revenue requirement associated with this practice rather than sharing the earnings that is offset by this practice with the ratepayer.

Q. Prior to EARP, did the Company maintain an average 75-day level of coal inventory?

A. No. Prior to EARP, the Company maintained ** ** days and ** ** days, respectively, for the 13-month average ending June-1995 and June-1994.

Q. Please explain the Staff's proposed adjustment for coal inventory.

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A. During the third sharing period of the second EARP, July 1, 2000 through June 30, 2001, the Company maintained approximately ** ** days of coal inventory. The Staff's proposed adjustment is to reflect ($32,452,842) the Missouri jurisdictional amount for the 13-month average level of inventory experienced during the third sharing period of the second EARP in the credit calculation. Therefore the Staff proposes to reverse the pro-forma adjustment that the Company made to its books to remove the excess level that the Company has included in its rate base for coal inventory, in order to reflect only the actual level of coal inventory maintained by UE. The Staff's calculation of this adjustment is shown on Schedule 1, which is attached to this direct testimony.

The Staff believes that the difference between the 13-month average and the Company's 75-day control limit for coal inventory levels results in a significant reduction in sharing for the ratepayer. The Staff also believes that the Company's pro-forma adjustment represents a manipulation of earnings as covered in the Stipulation And Agreement in Case No. EM-96-149.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In The Matter Of The Application Of Union Electric Company For An Order Authorizing: (1) Certain Merger Transactions Involving Union Electric Company; (2) the Transfer of Certain Assets, Real Estate, Leased Property, Easements And Contractual Agreements To Central Illinois Public Service Company; And (3) In Connection Therewith, Certain Other Related Transactions.	)	Case No. EM-96-149

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 foregoing Direct Testimony in question and answer form, consisting of 13 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

Paul R. Harrison

Subscribed and sworn to before me this 17th day of April 2002.

Toni M Charlton

Notary Public

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

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SCHEDULE 1

HAS BEEN DEEMED

PROPRIETARY

IN ITS ENTIRETY