

Exhibit No.:
Issues: Nuclear Decommissioning
Fund Issues
Witness: Jerre E. Birdsong
Type of Exhibit: Direct Testimony
Sponsoring Party: Union Electric Co.
Case No.:

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. _____

DIRECT TESTIMONY

OF

JERRE E. BIRDSONG

St. Louis, Missouri
November 2, 1995

Exhibit No. 28
Date 9-5-96 Case No. EM-96-149
Reporter KE

MISSOURI PUBLIC SERVICE COMMISSION

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. _____

AFFIDAVIT OF JERRE E. BIRDSONG

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Jerre E. Birdsong, being first duly sworn on his oath, states:

1. My name is Jerre E. Birdsong. I work in the City of St. Louis, Missouri, and I am the Treasurer of Union Electric Company.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 8, inclusive, all of which testimony has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Jerre E. Birdsong
Jerre E. Birdsong

Subscribed and sworn to before me this 2nd day of November, 1995.

BARBARA LUNOWITZ
Notary Public — Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires: September 2, 1999

Barbara Lunowitz
Notary Public

1 **DIRECT TESTIMONY**

2 **OF**

3 **JERRE E. BIRDSONG**

4
5 **Q. Please state your name, address, and occupation.**

6 **A. My name is Jerre E. Birdsong, and my business address is 1901**
7 **Chouteau Avenue, St. Louis, Missouri 63103.**

8 **Q. What is your position at Union Electric Company?**

9 **A. I am the Treasurer of Union Electric Company, a position I have held**
10 **since July 1, 1993.**

11 **Q. What are your principal duties?**

12 **A. My principal duties involve the planning of the Company's long-term**
13 **capital structure; negotiation and completion of financings; securing sufficient short-**
14 **term funds for the day-to-day operation of the Company; and the management of the**
15 **investment of the Company's employee benefit and nuclear decommissioning trust**
16 **funds. In addition, the Company's cash management, dividend reinvestment stock**
17 **purchase program, first mortgage bond transfer and paying agency, investor services,**
18 **and capital budgeting are under my direction and supervision. In the performance**
19 **of these duties, I have on-going contact with investment bankers, commercial**
20 **bankers, pension fund managers, security analysts, rating agencies, and institutional**
21 **investors.**

22 **Q. Please describe your educational background.**

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1 A. I graduated Phi Beta Kappa with a Bachelor of Arts degree in
2 Economics and Mathematics from Southwestern at Memphis (presently, Rhodes
3 College). In 1977, I received a Master of Science degree in Management from the
4 Krannert Graduate School of Management at Purdue University. My area of
5 concentration in the Master's program was Managerial Applications of Mathematical
6 Modeling.

7 Q. What is your work experience at Union Electric Company?

8 A. I was employed by Union Electric Company in August 1977 as an
9 Economist in the Economic Research Department. In this position, I conducted
10 various economic, financial, and statistical studies. In October, 1979, I began
11 reporting to the Vice President of Rates and was responsible for the
12 determination of the Company's cost of capital, marginal cost of service by
13 customer class, and economic forecasts. While in this position, I also assumed
14 responsibility for coordinating the Company's load research activities and
15 assessing alternatives for the collection of monies to cover the decommissioning
16 expenses which will arise at the end of the operating life of the Callaway nuclear
17 plant.

18 In November, 1984, I was appointed Assistant Treasurer with primary
19 responsibility for the investment of the Company's employee benefit and
20 decommissioning funds. I was promoted to the position of Manager of the Financial
21 Planning and Investments Department in August 1989 at which time the

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1 responsibilities of planning the Company's long-term capital structure and of
2 administering the justification of capital expenditures were added.

3 Q. Do you have any professional affiliations?

4 A. Yes, I am a member of the Financial Executives Institute, the
5 Association for Investment Management and Research, Financial Management
6 Association, and the St. Louis Treasurers and Pension Groups. I previously served
7 three terms on the Economics Committee of the Edison Electric Institute.

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to address the effect that the
10 proposed merger of Union Electric Company (UE) and CIPSCO will have on the
11 funding of the decommissioning of UE's single nuclear generating unit, the
12 Callaway Plant.

13 Q. How is UE currently funding nuclear decommissioning?

14 A. UE's rates currently recognize nuclear decommissioning expenses in
15 its cost of service in all three of its electric jurisdictions -- Missouri, Illinois, and
16 Federal. The amounts included in cost of service are collected by UE and then
17 placed quarterly in an external qualified trust. This procedure has been used by
18 UE since the Callaway plant was included in rate base in each jurisdiction. The
19 annual expense included in cost of service has generally been determined by
20 levelizing the contribution which must be placed annually in the external qualified
21 trust through the end of the operating license of the Callaway plant (2024) in

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1 order to provide fully for the total expenditures which are estimated to be needed
2 for decommissioning the plant at that time. The cost of such decommissioning is
3 currently estimated at \$433 million in 1995 dollars.

4 The annual amounts that are currently collected from customers and
5 contributed to the external qualified trust are \$6,214,194 in the Missouri
6 jurisdiction, \$355,000 in the Illinois jurisdiction, and \$122,000 in the FERC
7 jurisdiction.

8 Q. Please describe the external qualified trust into which nuclear
9 decommissioning funds are placed.

10 A. UE maintains a single, tax-qualified nuclear decommissioning trust
11 with three subaccounts. In the three subaccounts all balances, contributions,
12 earnings, and other activity are accounted for separately by jurisdiction.
13 Boatmen's Trust Company serves as trustee for the external qualified trust.
14 Boatmen's and Mississippi Valley Advisors (a wholly-owned subsidiary of
15 Mercantile Trust Co.) serve as investment managers. UE receives a tax deduction
16 for the amount contributed to the trust for state and federal income tax purposes.
17 Income earned and realized capital gains on investments in the trust are taxable
18 at the rate of 22% for federal income tax and 6.25% for Missouri state income
19 tax. The Federal income tax rate is slated to decline to 20% effective January 1,
20 1996.

21 Q. What effect will the proposed merger and transfer of Illinois

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1 distribution properties from UE to CIPS have on the funding and administration
2 of the nuclear decommissioning trust?

3 A. The merger resulting in UE and CIPS becoming wholly-owned
4 subsidiaries under a single holding company has no effect on the future funding
5 and administration of the trust. However, the proposed transfer of UE's electric
6 distribution properties to CIPS requires that some changes be made to current
7 procedures. If UE and CIPS' proposals are accepted in all jurisdictions, none of
8 these changes will affect Missouri PSC jurisdictional obligations or nuclear
9 decommissioning expenses to be paid by Missouri customers.

10 With the proposal to transfer UE's electric distribution properties to
11 CIPS, we are also proposing a System Support Agreement which is subject to the
12 jurisdiction of the Federal Energy Regulatory Commission (FERC). Therefore,
13 oversight of the nuclear decommissioning obligation of UE's current Illinois
14 electric jurisdiction would be shifted to the FERC jurisdiction. As jurisdictional
15 responsibilities for nuclear decommissioning costs are determined by demand
16 allocation methodology, we propose that the most current Illinois annual demand
17 simply be transferred to FERC in calculating the demand allocator to be applied
18 to nuclear decommissioning. There would thus be a shifting of responsibility from
19 Illinois to FERC, but Missouri would remain unchanged.

20 The Missouri jurisdiction's demand allocator for nuclear
21 decommissioning will not be affected by the merger or property transfer. There is

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1 no change in the decommissioning funding amount required from Missouri
2 customers, and no action needs to be taken regarding nuclear decommissioning by
3 the Commission in this proceeding.

4 Q. When is the next time that this Commission must address UE's
5 nuclear decommissioning?

6 A. UE is required to file a decommissioning cost study with this
7 Commission on September 1, 1996. Based on this filing, annual decommissioning
8 expense may be adjusted as described in the order in Docket No. ER-95-411.

9 Q. For informational purposes, what is being proposed regarding
10 nuclear decommissioning funding in UE's other jurisdictions, Illinois and
11 wholesale?

12 A. Once the transfer is completed, UE will no longer have an Illinois
13 retail electric jurisdiction. Since the IRS requires that contributions into a
14 qualified trust must be included in that jurisdiction's cost of service, UE would no
15 longer be able to place Illinois' current \$355,000 annual contribution into the
16 qualified trust. Because FERC will have jurisdiction over the System Support
17 Agreement, through which nuclear decommissioning costs will be recovered on
18 behalf of UE's current Illinois territory, we are proposing that, soon after the
19 effective time of the transfer of property, the balance in the Illinois subaccount
20 remain in the qualified trust be transferred in its entirety to a subaccount over
21 which FERC has jurisdiction.

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1 By adopting the procedure described above, jurisdictional
2 obligations, assets, and liabilities will be defined consistently and may be directly
3 compared at any point in time in the future to determine surpluses and/or deficits
4 in required contributions by jurisdiction. Furthermore, the Missouri jurisdiction
5 will not be affected.

6 **Q. Does FERC place any restrictions on the management of funds**
7 **under its jurisdiction?**

8 A. Yes. FERC requires that funds make the same investments as any
9 reasonable or "prudent investor". Although the standard is fairly subjective, it is
10 nonetheless restrictive and forces the burden of proof of prudence upon the
11 investment manager, trustee, and sponsor of the trust. In my opinion, the current
12 investments in the Illinois subaccount meet the "prudent investor" standard as
13 imposed by FERC. Therefore, our proposal in Illinois to transfer the current
14 investments to FERC jurisdiction would comply with FERC standards. This
15 transfer would also have no effect on the tax situation of the trust.

16 **Q. Please summarize your testimony regarding nuclear decommissioning**
17 **in the proposed merger and property transfer.**

18 A. The proposed merger and property transfer will have no effect on the
19 amounts paid for nuclear decommissioning by Missouri jurisdictional customers. No
20 action is required by the Commission in this area. UE will make its regularly
21 scheduled filing as required by the Commission on September 1, 1996, and the results

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1 of that case will be administered as described in the Order in Docket No. ER-95-411.

2 Q. Does this conclude your direct testimony?

3 A. Yes it does.