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Missouri Public
Service Commission

Exhibit No.:

Witness:

Type of Exhibit:

Issues:

Sponsoring Party:

Case No.:

Michael Gorman

Rebuttal Testimony

Interim Rates

Missouri Industrial Energy Consumers

ER-2010-0036

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company,
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

Michael Gorman

On behalf of

Missouri Industrial Energy Consumers

November 17, 2009



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9187

Exhibit No. R
Case No(s) ER 2010-0036
Date 12-07-09 Rptr KT

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STATE OF MISSOURI)

COUNTY OF ST. LOUIS)

SS

Affidavit of Michael Gorman

Michael Gorman, being first duly sworn, on his oath states:

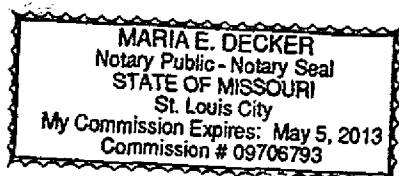
1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

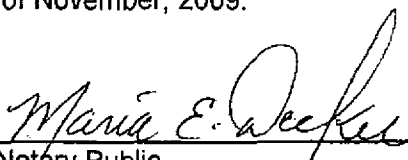
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2010-0036.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things they purport to show.


Michael Gorman

Subscribed and sworn to before me this 16th day of November, 2009.




Notary Public

**In the Matter of Union Electric Company,
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Rebuttal Testimony of Michael Gorman

12 A He asserts that because of the use of historical test years, and the way costs are
13 recorded, regulatory lag results in significant costs not being recovered by Missouri
14 utilities. He offers examples where a utility makes an investment in a new utility
15 asset, and is not allowed to recover the cost of that asset until new rates are set. He

BRUBAKER & ASSOCIATES, INC.

1 asserts that if there is a one-year gap between the in-service date of a new asset and
2 its inclusion in rates, that a utility would completely forego recovery of the first year
3 return on the investment, and the first year depreciation expense.

4 **Q DO YOU BELIEVE MR. BUCK'S TESTIMONY ACCURATELY ASSESSES THE**
5 **IMPACT OF REGULATORY LAG ON MISSOURI UTILITIES?**

6 **A** No. While I would agree that there are instances where utilities' rates are simply not
7 adequate to provide for recovery of the cost of a new investment, the suggestion that
8 this will always happen is not accurate. Indeed, sales growth, decreases in other cost
9 of service components, and decreases in cost of capital, are offsetting changes in
10 cost of service that can cover all costs including new costs. Hence, it is not accurate
11 or credible to single out specific costs associated with new assets placed in-service
12 and argue that rates will not be adequate to allow for recovery of that new cost
13 without a complete review of all components of the utility's cost of service.

14 **Q DID MR. BUCK PROPOSE SOME MEASURES WHICH WILL ADDRESS**
15 **REGULATORY LAG IN MISSOURI RATEMAKING?**

16 **A** Yes. He outlines these proposals as:

- 17 1. Adopting AmerenUE's proposal in this case for interim rates, again earning a
18 return of and on the incremental investment in utility plant since its last rate case.
- 19 2. The second mechanism would be to grant accounting authority to defer carrying
20 charges and depreciation expense on new investments until those costs are
21 ultimately considered for recovery in a rate case.
- 22 3. A regulatory process that makes greater use of technological advancements and
23 new processes which would allow more rapid recognition of both increases and
24 decreases in cost of utility service. However, he does not propose this solution in
25 this case, but rather endorses AmerenUE's proposal.

Michael Gorman
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1 Q DO YOU BELIEVE THAT MR. BUCK'S SOLUTIONS TO HIS PERCEIVED
2 REGULATORY LAG ARE REASONABLE?

3 A No. It is my understanding that Missouri utilities already have authority to seek
4 accounting deferral authorization from the Missouri Public Service Commission. To
5 the extent there is legitimate reason for this accounting deferral mechanism, this
6 mechanism is already available to the utilities.

7 Second, I disagree with his recommendation to approve AmerenUE's interim
8 rate request for the reasons outlined in my direct testimony.

9 Mr. Buck's third mechanism suggests rate changes to reflect increases and
10 decreases in cost of service but is neither defined nor proposed by Mr. Buck.

11 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

12 A Yes, it does.

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