

*Exhibit No.:*  
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Intangible Assets, Rate  
Case Expense, Changes to  
Staff's Cost of Service*  
*Witness:* *Lisa K. Hanneken*  
*Sponsoring Party:* *MoPSC Staff*  
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*Case No.:* *ER-2012-0166*  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**LISA K. HANNEKEN**

**UNION ELECTRIC COMPANY**

**d/b/a Ameren Missouri**

**CASE NO. ER-2012-0166**

*Jefferson City, Missouri  
September 2012*

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**COAL INVENTORY**

**Force Majeure**

Q. In his rebuttal testimony, does Company witness Robert K. Neff recommend a change in Company witness Gary S. Weiss' direct testimony position which advocated the inclusion of a 13-month average for coal inventory for inclusion in rate base?

A. Yes. Based on Mr. Neff's explanation that both railroads (i.e., Union Pacific and Burlington Northern Santa Fe) which haul coal to Ameren Missouri's plants declared force majeure during the test year due to flooding issues, he now recommends that the calculation omit the months of July 2011 through December 2011 in order to account for the disruptions in service.

Q. Has Staff evaluated the inventory calculation recommendation presented by Mr. Neff?

A. Yes. Staff has reviewed Mr. Neff's proposal to eliminate the data from July 2011 through December 2011 from its average inventory calculation and use only the data from January 2012 through July 2012. Staff believes this to be an acceptable method in this case to account for the force majeure situation and, therefore, will use this approach in its true-up calculations.

**Coal-In-Transit**

Q. Does Mr. Neff's rebuttal testimony address another item related to coal inventory?

A. Yes. Mr. Neff makes two recommendations related to coal-in-transit. The first recommendation Mr. Neff makes is to include the amount of coal-in-transit in the amount of inventory calculated for inclusion in rate base in this case. In addition, he recommends that the

1 coal-in-transit be given the same treatment as the coal inventory discussed above in order to  
2 account for the force majeure issue.

3 Q. What is “coal-in-transit?”

4 A. Coal-in-transit is coal that has been loaded into railcars at the mine and is en route  
5 to the plant, but has not yet arrived at the plant.

6 Q. Mr. Neff indicates on page 5 of his rebuttal testimony that the inclusion of  
7 coal-in-transit is consistent with practices in prior rate cases. Does Staff believe this statement to  
8 be correct?

9 A. No. Staff is unsure why Mr. Neff believes his recommendation to be consistent  
10 with prior cases. For example, in Ameren Missouri’s last rate case, Case No. ER-2011-0028,  
11 neither the Company nor the Staff included coal-in-transit in the cost-of-service calculation.

12 Q. According to Mr. Neff’s rebuttal testimony on page 4, does Ameren Missouri’s  
13 coal policy state what the minimum level of coal inventory should be on hand for its  
14 generating stations?

15 A. Yes. Mr. Neff indicates that Ameren Missouri’s coal policy indicates the  
16 minimum amount of inventory which should be kept on a system-wide basis.

17 Q. With the exception of the force majeure issue discussed previously, has Ameren  
18 Missouri maintained these levels?

19 A. Yes. Mr. Neff indicates in his rebuttal testimony that the coal inventory level has  
20 been maintained according to the policy requirement, excluding the force majeure event.

21 Q. If Ameren Missouri’s policy is to maintain a minimum level of inventory on hand,  
22 and those inventory levels have been maintained with the inventory on the ground, what would  
23 happen to those inventory levels if Ameren Missouri included the coal-in-transit in its inventory?

1           A.     The inventory level would increase beyond Ameren Missouri's coal policy level  
2 and, therefore, Ameren Missouri would be maintaining on their books a higher level of inventory  
3 than is necessary to meet their needs and policy standards.

4           Q.     Does Staff believe it is appropriate to include the amount of coal-in-transit in the  
5 calculation of inventory for rate base inclusion?

6           A.     No. Staff believes the inclusion of coal-in-transit would be inappropriate, given  
7 the fact that Mr. Neff's testimony indicates that the amount of coal on the ground already  
8 satisfies the Company's inventory policy.

9     **REFINED COAL LEASE**

10          Q.     On page 8 of Mr. Neff's rebuttal testimony, he indicates that the amount of the  
11 monthly lease payment from Coal Emission Reduction Technologies, LLC ("CERT"), for  
12 refined coal at the Rush Island plant changed effective May 2012 and that this change should be  
13 reflected in Ameren Missouri's cost-of-service calculation. Does Staff agree with Mr. Neff's  
14 recommendation?

15          A.     Staff has reviewed the lease payments received by Ameren Missouri and agrees  
16 that the rate has changed. Given this, Staff will incorporate the amount of the new payment as  
17 part of its true-up calculations.

18     **DIESEL HEDGING COSTS**

19          Q.     On pages 8 through 9 of Mr. Neff's rebuttal testimony, does he provide an amount  
20 he believes should be included as the true-up amount for diesel fuel hedging costs?

21          A.     Yes. Mr. Neff presents the amount per ton which he believes should be included  
22 as the proper amount to include in the average coal cost calculation.

1 Q. Is the amount Mr. Neff recommends for diesel hedging costs appropriate?

2 A. For this item, Mr. Neff proposes utilizing a 12-month average ending July 31,  
3 2012, which is the true-up cut-off date established by the Commission for this rate case. Staff  
4 believes that this is an appropriate level to include in its calculations of cost of service in this  
5 case and will reflect this level in its true-up calculations.

6 **BASE FACTORS CALCULATION**

7 Q. Will Staff be making changes to the amounts included in its calculation of Base  
8 Factors (“BF”) – also referred to as Net Base Fuel Costs (“NBFC”)?

9 A. Yes. Staff will update the amounts included in its BF calculations to account for  
10 any true-up changes. Staff will also be making an inclusion of seasonal factors in its true-up  
11 calculations. In addition, Staff’s inclusion of certain items in the BF may change based upon  
12 data requested from the Company related to those items.

13 **MARYLAND HEIGHTS ENERGY CENTER FUEL COSTS**

14 Q. Will Staff be including fuel costs related to the Maryland Heights Energy Center  
15 in its true-up calculations?

16 A. Yes. Subsequent to the filing of Staff’s cost of service report on July 6, 2012, the  
17 Maryland Heights facility met the in-service criteria, as discussed in Staff witness Shawn E.  
18 Lange’s surrebuttal testimony. Given this, Staff will include fuel costs related to the plant in its  
19 true-up calculations in this case.

**INTANGIBLE ASSETS**

**Intangible Plant Amortizations**

Q. On pages 50 and 51 of Company witness Laura Moore's rebuttal testimony, she indicates that the Company is in agreement with the proposed intangible plant amortization adjustments made by Midwest Industrial Energy Consumers ("MIEC") witness Steven C. Carver in his direct testimony. She also proposes modifications to Mr. Carver's schedule. Does Staff agree with Ms. Moore's proposal regarding intangible plant amortizations?

A. Yes. after reviewing both Mr. Carver's testimony and schedules, as well as Ms. Moore's testimony and schedules, Staff agrees with the treatment which Ms. Moore is proposing. Therefore, Staff will reflect this treatment in its true-up calculations.

**Intangible Plant – Project First**

Q. In regards to the Project First software assets, what treatment does Ms. Moore propose on pages 48 through 49 of her rebuttal testimony?

A. Ms. Moore proposes that the appropriate method of accounting for the Project First software assets is to place them in Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") Account 303 – Miscellaneous Intangible Plant, and to apply a 10-year service life to those assets.

Q. Does Staff agree with this treatment?

A. In Staff Witness Guy C. Gilbert's surrebuttal testimony regarding depreciation in this rate case, he indicates that Staff is in agreement with this treatment. Therefore, Staff will be applying this treatment to the Project First software assets in its true-up calculations.



**RATE CASE EXPENSE**

Q. What amount of rate case expense does Lynn M. Barnes suggest should be recovered by the Company on page 30 of her rebuttal testimony?

A. Ms. Barnes suggests that a total of \$1,922,000, normalized over a 15-month period, which results in an amount of \$1,538,000 on an annual basis, is an appropriate level to include in the company's cost of service for rate case expense in this case. Previously, Company witness Gary S. Weiss supported a \$1,903,000 inclusion of rate case expense in his direct testimony on page 28.

Q. Does Staff believe the \$1,538,000 annual amount which Ms. Barnes calculated in her rebuttal testimony to be an appropriate level to include in the cost of service?

A. No. Staff believes a \$1,500,000 total rate case expense level, normalized over an 18-month period, resulting in an annual expense of \$1,000,000, to be a more appropriate level.

Q. Why does Staff believe \$1,000,000 is a more appropriate level to include in the cost of service calculation?

A. First, Staff is utilizing an 18-month normalization period based on information provided to Staff through a response to Staff's Data Request No. 7, which indicated when the Company anticipates filing their next rate case. The data provided in that response indicated the time period could be estimated to be as long as twenty months. However, Staff is including the most conservative normalization period based on the data provided to Staff, which is 18 months.

Second, Staff has reviewed the historical data related to Ameren Missouri's actual rate case expense levels for previous cases which indicates a downward trend in the amount of rate case expense experienced by the Company. In addition, Staff reviewed historical filed estimates provided by the Company which indicate that in general the Company over-estimates its expense level. For example, in its most recent rate case (No. ER-2011-0028), Ameren Missouri filed an

1 estimated cost level of \$2,050,000 in it direct filing. However, the actual amount of rate case  
2 expense experienced by the Company in that proceeding was \$1,735,867. Given this analysis,  
3 the Staff believes that Ameren Missouri's current actual rate case expense will likely fall below  
4 the Company's current estimate of \$1,922,000.

5 Q. In her rebuttal testimony, Ms. Barnes contends that Staff's \$1,000,000 annual  
6 amount is arbitrary and unsupported. Does Staff believe Ms. Barnes' assertion has merit?

7 A. No. The amount proposed by Staff is supported by Ameren Missouri's current  
8 and historical data.

9 Q. Why does Staff simply not use the actual invoices for expenses incurred in this  
10 case related to rate case expense to determine the actual level to include in rates?

11 A. Staff does not use this approach because the actual rate case expense data  
12 provided to Staff usually lags several months behind the Company's incurrence of these costs,  
13 and the fact that Ameren Missouri will continue to incur these costs until the completion of this  
14 case. Therefore, the total amount of actual expense will not be available until after a decision is  
15 reached in this case and therefore not able to be used to determine rates in this case.

16 Q. If the Staff is unable to use the data to determine its recommended level of total  
17 rate case expense, why does the Staff request actual data?

18 A. Staff requests this data for several reasons. The Staff reviews the data to ensure  
19 that the expenses incurred by Ameren Missouri are prudent and reasonable. Staff also checks for  
20 duplications, excessive costs and unnecessary expenses.

21 Q. Ms. Barnes also discusses in her rebuttal testimony that Staff's \$1,000,000 annual  
22 allowance was based on a comparison of what other utilities across the state are spending on rate

1 cases and suggests that a comparison of that nature is inappropriate due to the differences in  
2 investor-owned utilities. Does Staff agree with Ms. Barnes' conclusions?

3 A. No. Staff does not agree with Ms. Barnes given the fact that she assumes that  
4 Staff compared rate case expense amounts in totality to determine whether the \$1,000,000  
5 amount was an appropriate level. In actuality, Staff's comparison of other large utilities in the  
6 state referenced in the Staff revenue requirement cost of service report was only done as a  
7 reasonableness check to determine whether Ameren Missouri is incurring the same types of  
8 expenses as other utilities. Essentially, Staff looked at other utilities to determine whether or not  
9 they incur expenses for outside services related to consultants and attorneys. By doing this  
10 check, Staff determined that all large utilities in the state do incur these costs and, therefore, the  
11 costs incurred by Ameren Missouri are not unreasonable in the sense that they incur the same  
12 types of expenses as other utilities.

13 Q. If Staff's review of other utilities had shown that no other utilities in the state  
14 incur costs such as outside legal fees, would that have changed Staff's analysis?

15 A. Possibly. At the very least, additional information would have been requested  
16 from the Company to show why these costs were prudent and reasonable in order for them to be  
17 included in the cost of service for this case.

18 Q. Ms. Barnes suggests in her rebuttal testimony that Staff refused to provide  
19 comparative rate case expense data in its response to Company Data Request No. 16. Is that a  
20 fair portrayal of the circumstances?

21 A. Staff does not believe it is. In my analysis of other utility's rate case expense data  
22 discussed above, I reviewed utility responses to a Staff data request issued in Case No.  
23 AW-2011-0330, a docket opened by the Commission to review its rate case expense recovery

1 policies. Staff answered Ameren Missouri's data request to the best of its ability; however, it did  
2 indicate to Ameren Missouri that the data reviewed by Staff was marked as "highly confidential"  
3 by the utilities, including Ameren Missouri, in its response. Staff has not received permission to  
4 divulge this information to other parties. Staff was not aware of Ameren Missouri's concern  
5 over the response to Company Data Request No. 16 until Ameren Missouri filed its rebuttal.  
6 Since Staff is now aware of the issue, Staff is attempting to obtain permission from all utilities  
7 responding to the Staff's data request in Case No. AW-2011-0330 to provide the requested  
8 classified information to Ameren Missouri.

9 Q. Does Staff still believe the annual amount of \$1,000,000 to be an appropriate  
10 level of rate case expense to be included in the cost of service for this case?

11 A. Yes. Staff believes the normalized amount of \$1,500,000 to be sufficient for  
12 Ameren Missouri to complete this rate case.

### 13 **CHANGES TO STAFF'S COST OF SERVICE**

14 Q. Has Staff made any changes to its calculations subsequent to the filing of its cost  
15 of service report?

16 A. Staff has made changes to its Purchased Power, Transmission Expense, and  
17 Outside Services calculations.

#### 18 **Purchased Power**

19 Q. Please describe the change made to Staff's Purchased Power calculation.

20 A. Staff made a change to the amount of test year expense shown in its filed  
21 workpaper. In Staff's filed workpaper, the amount of test year expense was listed as  
22 \$40,952,151. However, based on clarification discussions with the Company, this amount

1 should have been \$50,730,809. This change in test year affected the amount of the Staff's final  
2 adjustment, which decreased the revenue requirement by \$9,778,658.

3 **Transmission Expense**

4 Q. Please describe the change made to Staff's Transmission Expense calculation.

5 A. In Staff's filed workpapers, Staff inadvertently included transmission expenses  
6 related to certain schedule items (i.e., 10D, 10E, 10F) which are not typically included as part of  
7 the adjustment made by Staff. Therefore, Staff removed these expenses from its calculation.  
8 This resulted in a decrease in revenue requirement of \$528,303.

9 **Outside Services**

10 Q. As part of Staff's cost of service filing in this case, did Staff disallow \$12,000 of  
11 costs related to Outside Services?

12 A. Yes. On page 128 of Staff's cost of service report, Staff discusses this amount as  
13 being disallowed given that the service provides no ratepayer benefit.

14 Q. Did Company personnel discuss this adjustment with Staff during the Settlement  
15 Conference held in Jefferson City, the week of July 30<sup>th</sup> 2012?


16 A. Yes. Staff and Company discussed this item and determined that the data request  
17 response improperly represented the \$12,000 as Ameren Missouri's allocated amount, when in  
18 fact this amount was the total Ameren amount prior to allocation. Therefore, Ameren Missouri's  
19 allocated amount and the proper amount to be disallowed in this case is \$4,741. Staff will be  
20 making a correction to its cost of service to account for this change.

21 Q. Will any of the amounts for Purchase Power, Transmission Expense and Outside  
22 Services be subject to future revisions?

1           A.     Yes It is possible that through Staff true-up calculations that the amounts for  
2 Purchase Power and Transmission Expense may change. The amount of disallowance for  
3 Outside Services will not change.

4           Q.     Does this conclude your surrebuttal testimony?

5           A.     Yes, it does.

  
\_\_\_\_\_  
Notary Public