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Issue: *Storm Costs Tracker*
Witness: *Kofi A. Boateng*
Sponsoring Party: *MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KOFI A. BOATENG

**UNION ELECTRIC COMPANY,
d/b/a AMEREN MISSOURI**

CASE NO. ER-2012-0166

Jefferson City, Missouri
August 2012

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STORM COST TRACKER

Q. What amount of non-labor related O&M storm restoration cost does Ameren Missouri propose to include in rates as part of this case?

A. The Company has calculated for inclusion in its cost of service approximately \$7.8 million, based on a three-year average of non-labor storm cost from October 2008 through September 2011. Company witness Barnes proposes to use this level to establish a base storm costs to track actual storm expenses against as part of their next rate case.

Q. What normalized level of non-labor related O&M storm restoration costs has the Staff proposed for inclusion in rates as part of this case?

A. The Staff proposes to include a normalized level of approximately \$7.0 million based upon a five-year average of non-labor storm costs from May 2007 through April 2012. The Staff is opposed to use of the tracker proposed by Ameren Missouri for storm related expenses.

Q. Please describe the two-way storm restoration cost tracker mechanism proposed by the Company witness Barnes on pages 12 through 16 in her direct testimony.

A. The Company recommends that each year its actual non-labor O&M storm restoration expense be compared to the storm expenses included in rates from its previous rate case proceeding. The difference between the actual expense and the base level included in rates will be captured and booked as a regulatory asset or liability. If actual storm damage expenses during the calendar year are more than the expense included in rates, Ameren Missouri will record the difference as a regulatory asset. If the actual storm costs are less than the cost levels included in rates, the difference will be recorded as a regulatory liability. The

1 resulting regulatory asset or liability will be included in the calculation of rate base and the
2 balance amortized to expense in the Company's next rate case.

3 Specifically, on page 14, lines 3 through 14, of her testimony, Ameren Missouri
4 witness Lynn M. Barnes states:

5 First, the Company is asking the Commission to set the base level of
6 major storm restoration O&M costs (excluding internal labor) in the
7 Company's revenue requirement at a level based on an average of the
8 last three years of actual costs incurred, which is \$7.8 million as noted
9 in Ameren Missouri witness Gary S. Weiss' direct testimony. Second,
10 Ameren Missouri is asking the Commission to establish a two-way
11 "storm restoration cost tracker." Storm-related non-labor O&M
12 expenses would be tracked against this base amount with expenditures
13 below the base to create a regulatory liability and expenditures above
14 the base to create a regulatory asset, in each case along with the
15 associated interest (at the Company's AFUDC rate). This would allow
16 the Company to reflect the regulatory asset or liability amounts in the
17 revenue requirement in the Company's next rate case for amortization
18 over a period that the Company would propose should be three years.

19 Q. Is the Staff supportive of Company witness Barnes' storm tracker proposal as
20 described and explained in her direct testimony?

21 A. No. The Staff does not support the establishment of a storm tracker for
22 this particular expense. As Company witness Barnes points out on page 12 of her
23 testimony, storm costs have frequently been addressed through a five-year amortization. If a
24 storm occurs during the test year, the level of test year expense is adjusted to reflect one-fifth
25 of the operation and maintenance cost. Alternatively, if an extraordinary storm event occurs
26 between rate cases, the Company has the option to request an Accounting Authority
27 Order ("AAO") to capture the cost and defer it for possible rate treatment in a future rate case.
28 These two methods have both been employed recently with regard to Ameren Missouri.

29 Q. Please discuss the distinction between the two methods Staff has traditionally
30 used to address storm cost.

1 A. The distinction between these two methods is that “normal” storm costs are
2 generally included in the cost of service by including a multiyear average level. A certain
3 number of storm events will occur each year in any electric utility’s service territory, and the
4 repair and restoration costs associated with these events should be considered as part of
5 normal and ongoing expense for an electric utility, and included in the utility’s rates at a
6 reasonable and ongoing level. Normal storms that occur during a rate case test year can be
7 dealt with using standard ratemaking practices. However, costs associated with extraordinary
8 storm events, which feature large numbers of customers being out of service and massive
9 repair and restoration efforts, are usually deferred to the utility’s balance sheet through an
10 AAO. The AAO process requires the utility to justify the storm event as being extraordinary
11 before the costs can be granted deferral treatment. The appropriate recovery of the deferral, if
12 any, can be examined in relation to the utility company’s earnings. A problem with Ameren
13 Missouri’s proposed tracker is that it would use one ratemaking procedure to handle all
14 incurred storm costs, both normal and extraordinary.

15 Q. Have all significant storms recently experienced by Ameren Missouri been
16 reflected in rates?

17 A. Yes. The two methods I discussed above have been used to address all the
18 significant storms recently experienced by Ameren Missouri.

19 Q. How have these two methods been used by the Commission to determine rates
20 with regard to Ameren Missouri’s non-labor related O&M storm restoration costs?

21 A. In Ameren Missouri Case Nos. ER-2007-0002, ER-2008-0318 and
22 ER-2010-0036, an above average level of storm cost was reflected in each test year. In each
23 of these three rate cases, the amount in excess of a multi-year average storm cost was

1 amortized over a five-year period. In File No. EU-2008-0141, the Company requested an
2 AAO to address an extraordinary storm event that occurred beyond the true-up date in Case
3 No. ER-2007-0002. These costs were also subsequently addressed in the context of the
4 Company's next rate case, ER-2008-0318.

5 Q. Were there any costs in excess of the normalized average that were permitted
6 in rates by the Commission as part of Ameren Missouri's last rate case, No. ER-2011-0028?

7 A. No. In Ameren Missouri's last rate case, Case No. ER-2011-0028, the
8 Company proposed to include in rates an amortization to address storm preparation costs
9 associated with an anticipated February 2011 ice storm (that did not occur) that exceeded the
10 normalized test year level. The Commission did not permit Ameren Missouri to include this
11 proposed amortization in its rates. More specifically, the Commission stated the following on
12 page 20 of its Report and Order:¹

13 In the past, the Commission has dealt with storm costs by allowing the
14 utility to recover an amount in rates based on a historic average of the
15 storm costs incurred. For costs that exceed the average level of costs
16 recovered through rates, the utility is generally allowed to accumulate
17 and defer those costs through an accounting authority order, an AAO.
18 The accumulated and deferred costs are then considered in the utility's
19 next rate case. Generally, the Commission allows the utility to recover
20 those costs amortized over a five-year period. Using those practices,
21 the Commission has allowed Ameren Missouri to recover every single
22 dollar expended for storms since April 1, 2007.

23 On pages 23-24 of the same Report and Order, the Commission went on to state the
24 following:

25 In Ameren Missouri's last rate case, the Commission allowed Ameren
26 Missouri to recover \$6.4 million in its cost of service for storm
27 restoration costs. Based on that amount as well as the amount Ameren
28 Missouri was allowed to recover in the next previous rate case, ER-
29 2008-0318, MIEC's witness, Greg Meyer, correctly calculated that
30 from the beginning of the test year in this case (April 1, 2009) through

¹ Footnotes omitted.

1 the end of the true-up period (February 28, 2011), Ameren Missouri has
2 recovered \$10.8 million in rates for repairs from major storms. During
3 that same time, Ameren Missouri has incurred \$9.4 million in storm
4 costs, including the costs for the February 2011 storm preparations for
5 which Ameren Missouri seeks an additional amortization.

6 Based on those calculations, it is apparent that there is no basis for
7 allowing Ameren Missouri to amortize \$1,037,146 for storm costs
8 relating to its preparation for the February 2011 ice storm.

9 In its decision, found on page 24 of the Report and Order, the Commission ruled that:

10 Ameren Missouri shall recover \$7,096,592 in its rates for non-labor
11 storm costs. Ameren Missouri shall not amortize an additional
12 \$1,037,146 for storm costs relating to its preparation for the February
13 2011 ice storm.

14 Q. Is the Staff proposing to include an amortization to address Ameren Missouri's
15 \$14.1 million level of test year non-labor related storm costs that were in excess of Staff's
16 proposed \$7.0 million normalized level that it is recommending as part of this rate case?

17 A. No. As Staff previously explained in the Staff Report on page 119, lines 21
18 through 29 and page 120, lines 1 through 31, the Staff does not recommend that an
19 amortization be included to address the test year storm costs because all of the storm costs
20 through February 28, 2011, including approximately \$7.46 related to non-labor related O&M
21 storm preparation costs for an anticipated February 2011 ice storm, were already addressed by
22 this Commission in their Order in the last rate case as indicated in the language stated earlier
23 in this testimony. Since the Commission ruled that the \$7.46 million of storm preparation
24 costs related to the anticipated February 2011 ice storm has already been recovered in rates by
25 Ameren Missouri the remaining test year level of storm costs is approximately \$6.68 million,
26 which is actually lower than Staff's proposed \$7.0 million normalized level that is based upon
27 a five year average covering April 1, 2007 through May 31, 2012. The Staff will continue to

1 examine non-labor storm costs through the July 31, 2012, true-up cutoff once this information
2 is available.

3 Q. Did the Staff include the \$7.5 million of non-labor O&M storm preparation
4 costs in its calculation of the \$7.0 million normalized level based upon the five-year average
5 ending May 31, 2012?

6 A. Yes.

7 Q. Since the February 28, 2011, true-up cutoff point established by the
8 Commission in the Company's last rate case, has the Company received more or less in rates
9 for non-labor related storm restoration costs than its actual incurred costs?

10 A. To date, the Staff has reviewed actual storm cost data through May 31, 2012.
11 From March 1, 2011, through May 31, 2012 the Company has collected \$1.9 million more in
12 rates than it has incurred in relation to non-labor related storm restoration costs. During the
13 period covering March 1, 2011, through May 31, 2012, the Company has received
14 \$8.58 million of recovery through rates but has only experienced \$6.68 million in actual costs.
15 In fact, Staff's analysis of prior storm costs shows that from April 1, 2007, through May 31,
16 2012, the Commission has allowed Ameren Missouri to recover every single dollar expensed
17 for storms. Staff will continue to analyze actual non-labor storm costs in comparison to the
18 amounts Ameren Missouri has collected in rates through the July 31, 2012, true-up cutoff
19 once this information becomes available.

20 Q. Mr. Baxter states in his direct testimony on page 24, lines 12 through 14 that
21 since "...the Company experienced no extraordinary storm restoration costs in calendar year
22 2010. If that year had been the test year used to set rates there would be no major storm

1 restoration costs included in rates, which is clearly inappropriate.” Does this represent a valid
2 argument to somehow justify the Company’s proposed storm cost tracker?

3 A. No. During calendar year 2010, the Company recorded only approximately
4 \$38,000 for non-labor O&M storm costs. Obviously, Staff would not propose to normalize
5 non-labor O&M storm costs based on that hypothetical test year example. Instead the Staff
6 would examine a multi-year history of data in order to develop reasonable, ongoing
7 annualized and normalized level to propose for inclusion in rates as discussed earlier in this
8 rebuttal testimony.

9 Q. How do you respond to Company witness Barnes’ concerns about use of an
10 amortization for storm expenses, which she refers to as “protracted” and her proposal to
11 include interest (i.e., carrying costs) on the difference between the base amount of storm cost
12 and the actual amount experienced?

13 A. Company witness Barnes is proposing to establish a mechanism that
14 significantly reduces the period during which the cost associated with all storms, whether they
15 are extraordinary or not, are recognized in rates and is also attempting to recover an
16 associated financing cost. Company witness Barnes, through her proposal, is seeking
17 extraordinary treatment for all storm costs, including those costs that are associated with
18 normal storm events. The Commission has previously ruled that the cost associated with an
19 “act of God” should not be the ratepayers’ sole responsibility. In Case No. WR-95-145,
20 the Commission denied St. Louis County Water Company’s request to include the
21 unamortized balance of the cost associated with the 1993 flood in rate base. In its Order, the
22 Commission stated:

23 The cost incurred as a result of the flood of 1993 was a natural disaster,
24 an “act of God, and the expenditures were not intended to produce any

1 benefit other than restoring the system to its pre-flood operating
2 condition. The burden of “acts of God” should not be borne solely by
3 the ratepayers. In the case of a natural disaster, the shareholders should
4 not be completely shielded from the risk, but should share in the cost
5 with the ratepayers. Allowing County Water to recover the cost
6 through an amortization, without the inclusion of the unamortized
7 balance in rate base, achieves that sharing.

8 Q. How do you respond to Ameren Missouri witnesses Lynn Barnes’ and David
9 Wakeman’s comparison of the storm tracker to the trackers the Commission has approved for
10 vegetation management, infrastructure inspections and employee benefit costs, at page 16 of
11 her testimony?

12 A. The existing trackers for pension and retiree medical employee benefits are
13 related to benefits that are externally funded by the utility until payment is made many years
14 later to the retiree. In contrast, there is no external funding requirement for storm costs, nor is
15 there a long duration between the point the costs are incurred, and when they are paid by the
16 Company. In addition, the Commission established trackers for vegetation management (tree
17 trimming) and infrastructure inspections in direct response to specific new rules it established.
18 The Staff believes that these trackers were designed as short-term tools to allow the Company
19 to recover the added O&M costs incurred to ramp-up to the levels required by the new rules.
20 On an ongoing annual basis, the Company will continue to manage vegetation, inspect
21 infrastructure and pay employee benefits. However, the occurrence of extraordinary storms
22 that cause significant operating and maintenance cost to the Company’s system do not
23 represent annual ongoing programs.

24 Q. Has the Company experienced any storms which caused extraordinary levels
25 of non-labor related O&M cost, since the storm that occurred in January 2007?

26 A. No. In fact, since that time, the Company has not experienced a storm which
27 resulted in extraordinary levels of non-labor O&M costs through the end of May 31, 2012.

1 Staff will evaluate data through the July 31, 2012, true-up cutoff established by the
2 Commission in this proceeding once this information is available.

3 Q. Will the establishment of a storm tracker mechanism, if approved, reduce the
4 risk to the Company?

5 A. Yes. The Company is trying to establish a mechanism that guarantees the
6 recovery of the costs associated with all storms. This mechanism will reduce the risk that
7 Ameren Missouri will not earn its authorized rate of return. And its establishment would
8 relieve the Company of the entire financial risk associated with storm damage and
9 unreasonably place the responsibility of this entire burden upon the ratepayers. However,
10 witness Barnes has not acknowledged or proposed any offset to the cost of service in
11 recognition of her proposed shifting of risk.

12 Q. Has the Commission recently provided some guidance regarding the
13 proliferation of trackers, in particular in relation to storm trackers?

14 A. Yes. In its Order in the recent Ameren Missouri's rate case, ER-2010-0036,
15 the Commission denied the Ameren Missouri's request for a proposed storm cost tracker. In
16 its Order, on page 68, the Commission stated: "The Commission is unwilling to implement
17 another tracker. As the Commission has previously indicated, trackers should be used
18 sparingly because they tend to limit a utility's incentive to prudently manage its costs".

19 Q. Does any other Missouri electric utility under the Commission's jurisdiction
20 have a storm restoration cost tracker?

21 A. No.

22 Q. How does the Staff recommend that Ameren Missouri treat any storm
23 restoration costs it may incur in the future?

1 A. The Staff maintains that traditional ratemaking approaches continue to be
2 adequate and appropriate to allow recovery of Ameren Missouri's non-labor related O&M
3 storm costs. If the Company's storm restoration costs meet the Commission's criteria for
4 AAO treatment, Ameren Missouri has the option to seek a Commission AAO for deferral of
5 very large and extraordinary storm restoration costs.

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Increase Its) Case No. ER-2012-0166
Revenues for Electric Service)
)

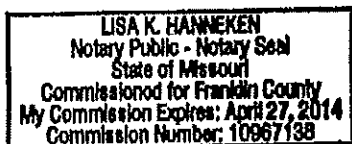
AFFIDAVIT OF KOFI AGYENIM BOATENG


STATE OF MISSOURI)
) ss.
COUNTY OF ST. LOUIS)

Kofi Agyenim Boateng, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.


KOFI AGYENIM BOATENG

Subscribed and sworn to before me this 13TH day of August, 2012.




Notary Public