

Exhibit No.:
Issues: Customer Growth
Adjustment, Test Year
Revenues
Witness: Wilbon L. Cooper
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: January 31, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

REBUTTAL TESTIMONY

OF

WILBON L. COOPER

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

**St. Louis, Missouri
January, 2007**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **WILBON L. COOPER**

4 **CASE NO. ER-2007-0002**

5
6 **Q. Please state your name and business address.**

7 A. My name is Wilbon L. Cooper. My business address is One Ameren Plaza, 1901
8 Chouteau Avenue, St. Louis, Missouri 63166-6149.

9 **Q. Are you the same Wilbon L. Cooper that filed Direct Testimony in**
10 **this proceeding?**

11 A. Yes, I am.

12 **Q. What is the purpose of your Rebuttal Testimony in this proceeding?**

13 A. The purpose of my testimony is to provide rebuttal comments and evidence that
14 address the direct testimony filed by Missouri Public Service Commission (Commission) Staff
15 witness Jeremy K. Hagemeyer and the State of Missouri witness Michael L. Brosch on their
16 customer growth adjustments. In addition, I will address the testimonies of Staff witnesses
17 Shawn E. Lange and James A. Busch regarding their analyses of the Company's actual test year
18 sales and revenue.

19 **I. Staff and State of Missouri Proposed Customer Growth Adjustment**

20 **Q. Please summarize, in general terms, the customer growth adjustment that**
21 **the Staff and the State of Missouri are proposing.**

22 A. Both Mr. Hagemeyer and Mr. Brosch are proposing to impute additional
23 operating revenue to the Company's test period revenue, revenue that the Company did not
24 actually bill customers for or collect during the test year.

25 **Q. Are these proposed customer growth adjustments an appropriate adjustment**
26 **for determining the Company's overall level of revenues?**

27 A. No, they are not appropriate revenue adjustments, and the Commission should
28 reject them for several reasons. First, these proposed revenue adjustments consist of imputed
29 revenues from estimates of additional customers based upon the estimated kilowatthour usage of
30 such customers. Second, absent fuel costs, neither Mr. Hagemeyer nor Mr. Brosch allowed any
31 other direct or indirect Company operating costs associated with serving these proposed growth
32 customers.

33 **Q. Even if the Commission were to decide to allow this customer growth**
34 **adjustment proposed by Mr. Hagemeyer and Mr. Brosch, did they impute a reasonable**
35 **level of operating expenses that would be commensurate with their proposed additions of**
36 **revenues to the test year?**

37 A. No, all information received from the Staff and the State indicates that, with
38 regard to operating expenses, they merely allowed the Company an average level of fuel costs to
39 cover the additional kilowatthours associated with their proposed customer growth adjustment.
40 Mr. Hagemeyer and Mr. Brosch did not impute any other additional operating expenses
41 associated with their proposed customer growth adjustments, within the entire time frame of the
42 test year. As I will indicate later in my testimony, both Mr. Hagemeyer and Mr. Brosch ignored
43 certain other costs associated with the Company serving new customers that should have been
44 included under their proposals.

45 **Q. Why are Mr. Hagemeyer's and Mr. Brosch's proposed allowance for average**
46 **fuel expenses only an inadequate representation of the true costs associated with serving**
47 **additional customers?**

48 A. Other operating expenses that are associated with serving additional customers
49 were totally ignored by Mr. Hagemeyer and Mr. Brosch. The most obvious direct expenses
50 associated with serving additional customers that Mr. Hagemeyer and Mr. Brosch failed to
51 include are the additional meter reading expenses which are, by contract, based upon a monthly
52 reading charge per meter. Other obvious direct expenses that Staff failed to include are the costs
53 of generating additional bills, postage and handling, and customer accounts expenses. Other less
54 direct but obvious and real expenses that were omitted are allowances for the additional customer
55 call center, credit and collection expenses and distribution operating expenses associated with
56 serving a greater number of customers. While some of these expenses may be more difficult to
57 quantify than others, Mr. Hagemeyer acknowledged that some allowance for certain direct costs
58 should have been included by the Staff in setting the level of revenues for the Company in this
59 case (Hagemeyer Deposition Transcript, pages 78 – 80.) However, the Staff made no allowance
60 for such costs. For example, the direct costs of serving new customers, including such obvious
61 items as meter reading, billing and postage expenses were completely ignored.

62 **Q. As indicated earlier in your testimony, in proposing customer growth**
63 **adjustments, Mr. Hagemeyer and Mr. Brosch included total monthly revenues per**
64 **customer, but limited added expenses only to average fuel costs. Should they also have**
65 **added the current level of all other non-fuel costs associated with serving such customers?**

66 A. Besides determining the fuel cost of such imputed growth on an incremental cost
67 basis, as I indicated earlier, both Mr. Hagemeyer and Mr. Brosch should have also added a full
68 complement of the other non-fuel costs to their adjustments of the Company's expenses in this
69 case. In that way they could have at least attempted to maintain some level of fairness and

consistency in the proper matching of the customer growth in usage, revenues and costs during the test year.

Q. Can the Company continue to add customers if the only additional expenses it is allowed in its rates to serve such customers are average system fuel costs, the only expense allowed by Mr. Hagemeyer and Mr. Brosch as a part of their proposed customer growth adjustments?

A. No, because the financial constraint associated with Mr. Hagemeyer's and Mr. Brosch's growth adjustments, of allowing the Company to recover only average system fuel expenses to serve its additional customers, is both unrealistic and totally inequitable to the Company.

Q. What are the real additional costs to the Company of supplying additional customers?

A. The Company's intermediate-term and long-term costs of serving additional customers are best reflected by the sum of the various functional components embedded within the Company's current class rate structures, which are comprised of the total cost of providing service to its customers. These costs include all operating and maintenance expenses, depreciation, taxes and a fair return on net plant investment.

Q. Had Mr. Hagemeyer and Mr. Brosch included all of the Company's additional operating expenses and other costs in addition to fuel costs, as a part of their proposed customer growth adjustments, would this make such an adjustment acceptable to the Company?

A. No, because if Mr. Hagemeyer and Mr. Brosch realistically and accurately reflected all of the Company's embedded costs, as well as the additional revenues associated with

their customer growth adjustment, the costs and the revenues would, theoretically, come close to matching each other, and there would be no need for such an adjustment. The Staff's and State's proposed customer growth adjustments, which include the total amount of the incremental revenues which might be realized as a result of the additional customers, but only minimal additional average fuel costs, is extremely unrealistic and a far cry from the proper matching of costs and revenues, which should always be the objective in setting fair and equitable rate levels. Shifting sales and revenues into a test year, which will not exist or be realized until after the test year, if at all, without the appropriate consideration and adjustment of all relevant costs associated with such sales and revenues, is totally unjustified and unfair.

Summary of the Company's Position Regarding Proposed Growth Adjustments

Q. Please summarize your position regarding the Staff's and State of Missouri's proposed customer growth adjustments.

A. The proposed customer growth adjustments should be rejected by the Commission. The proposals create uncertain and speculative phantom test year customers, kilowatthours and revenues which are not applicable to the test year. Costs relevant to serving customer growth were ignored altogether by Mr. Hagemeyer and Mr. Brosch, including such obvious costs such as meter reading, billing and postage. It is clear that when applying this Staff proposal to several consecutive annual test years it has the effect of simply imputing phantom revenues in establishing the Company's overall level of revenues and rates. However, in actuality these revenues were never realized by the Company during the test year and therefore cannot and should not be utilized for establishing Company revenue and rate levels for the test

period. For all of the above reasons, the proposed Staff and State customer growth adjustments are significantly deficient and should be rejected by the Commission.

II. Actual Test Year Sales and Revenue

Q. Are there any other revisions that need to be made in Staff's (adjustments to) actual test year sales and revenues?

A. Yes, a review of the Staff's schedules and workpapers showed an increase of \$51.9 million to the Company's calculation of actual test year revenues.

Q. What was the source of this revenue adjustment?

A. The adjustment was the result of Staff calculating revenues from two sets of kWh sales. The Staff calculated one set of revenues from sales developed using load research data and individual customer bills, and then calculated the second set of revenues using Company kWh sales reports, which reflect actual sales based on the Company's billing records. The estimated sales developed using load research data and individual customer bills were approximately two to three percent greater than actual reported sales from the Company's sales reports. This resulted in an increase to actual reported revenues.

Q. Why is the Staff's use of kWh sales based on load research data inappropriate?

A. There are Company reports that provide actual kWh sales and revenue for the test year. Using load research and individual customer bills to estimate Company sales is unnecessary when the Company's billing system generates monthly reports of actual kWh sales and revenues that tie very closely to the Company's general ledger. Additionally, as suggested above, the use of load research data introduces an error margin in the actual kWh sales vs.

137 estimated kWh sales and can result in a significant difference in actual revenues vs. estimated
138 actual revenues.

139 **Q. Did the Staff's use of estimated actual kWh sales based on load research data**
140 **have an impact on other adjustments to the Company's test year revenues?**

141 A. Yes, Staff utilized their estimated actuals to develop both their weather
142 normalization adjustments and customer growth adjustments.

143 **Q. Have there been discussions between the Company and the Staff regarding**
144 **the development of kWh sales using estimated load research data and individual customer**
145 **bills vs. the Company's billing system monthly reports of actual sales and revenue?**

146 A. Yes, the Company has had discussions regarding this issue with the Staff. It is the
147 Company's understanding that the Staff will revise their studies using kWh sales from the
148 Company's billing system reports. This will correct the error relating to the kWh sales
149 incorrectly used by the Staff and, upon being properly modeled using a production cost model,
150 will substantially reduce the revenue requirement impact originally calculated by the Staff. If for
151 some reason this correction is not properly made, I reserve the right to address this issue in
152 surrebuttal testimony to be filed in this case on or before February 27, 2007.

153 **Q. Does this conclude your Rebuttal Testimony?**

154 A. Yes, it does.

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

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

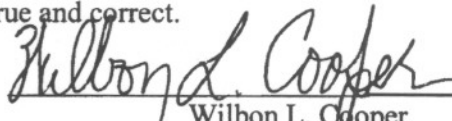
Case No. ER-2007-0002

AFFIDAVIT OF WILBON L. COOPER

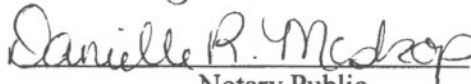
STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Wilbon L. Cooper, being first duly sworn on his oath, states:

1. My name is Wilbon L. Cooper. I work in St. Louis, Missouri and I am employed by Ameren Services Company as Manager of Rate Engineering and Analysis.
2. Attached hereto and made a part hereof for all purposes is my rebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 7 pages, which 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.


Wilbon L. Cooper

Subscribed and sworn to before me this 30th day of January, 2007.


Notary Public

My commission expires: July 21, 2009

