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**MISSOURI PUBLIC SERVICE COMMISSION**

**Case No. ER-2012-0166**

**REBUTTAL TESTIMONY**

**OF**

**WILLIAM M. WARWICK**

**ON**

**BEHALF OF**

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

**St. Louis, Missouri  
August, 2012**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **WILLIAM M. WARWICK**

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

5 **I. INTRODUCTION**

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

7 A. William M. Warwick, Union Electric Company d/b/a Ameren Missouri (“Ameren  
8 Missouri” or “Company”), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri  
9 63103.

10 **Q. By whom and in what capacity are you employed?**

11 A. I am Managing Supervisor of Rate Engineering for Ameren Missouri.

12 **Q. Are you the same William M. Warwick who filed direct testimony in this**  
13 **case?**

14 A. Yes, I am.

15 **Q. What is the purpose of your rebuttal testimony?**

16 A. The purpose of my rebuttal testimony is to discuss the primary, non-production  
17 plant/capacity allocation differences in the class cost of service studies (“CCOSS”) presented by  
18 the Company and those presented by the Missouri Public Service Commission Staff (“Staff”),  
19 the Office of the Public Counsel (“OPC”) and the Missouri Industrial Energy Consumers  
20 (“MIEC”). The fact that I am not addressing all of the differences between Ameren Missouri’s  
21 CCOSS and those performed by the other parties should not be construed as an endorsement of  
22 the allocation methods employed by those parties; rather the remaining differences do not drive  
23 materially different results in the CCOSS results between the Company and the other parties.

1 I will also discuss the cost differences among the Company, Staff and OPC with respect to the  
2 proposed residential and small general service customer charge levels.

3 **II. CLASS COST OF SERVICE STUDIES**

4 **Q. Did any parties other than those mentioned above present class cost of**  
5 **service studies in this proceeding?**

6 A. No.

7 **Q. What are the primary factors which drive the material differences in the**  
8 **cost-based class revenue requirements presented by the Company, Staff, OPC and MIEC**  
9 **in their respective CCOSS?**

10 A. The primary factors driving the differences between the Company, Staff, OPC  
11 and MIEC studies are:

- 12 • The classification of non-fuel, non-labor production operations and  
13 maintenance ("O&M") expenses between fixed (demand-related) and variable  
14 (energy-related) components;
- 15 • The allocation of Account 373 – Lighting;
- 16 • The allocation of distribution facilities to the Large Transmission Service  
17 class;
- 18 • The classification and allocation of distribution plant (Accounts 364-368);
- 19 • The allocation of off-system sales revenues; and
- 20 • The allocation of Production Capacity Costs.

21 The merits of the various Production Capacity cost allocation methods are addressed by  
22 Company witness Wilbon L. Cooper in his rebuttal testimony.

1           **Q.     When examining production non-fuel operations and maintenance expenses,**  
2 **what are the categories of cost?**

3           A.     There are two categories: labor and other.

4           **Q.     What is the difference between the parties regarding the allocation of these**  
5 **costs?**

6           A.     The only difference is the allocation of the costs categorized as “other” because  
7 all parties have allocated the “labor” category utilizing their respective production plant  
8 investment allocators.

9           **Q.     What is included in the category of production non-fuel operations and**  
10 **maintenance costs designated as “other”?**

11          A.     The category "other" includes materials and indirect labor costs associated with  
12 operating and maintaining the Company’s production plant. Relevant to the allocation  
13 differences between the parties, a cursory review of the “other” O&M accounts in question  
14 indicate, among other items, substantial expenses associated with items that should be classified  
15 as variable in nature. For example, variable water treatment chemical costs, fuel additives and  
16 other similar expenses are variable in nature.

17          **Q.     How did the parties allocate this “other” component?**

18          A.     The Company split “other” into fixed and variable components following an  
19 approach prescribed in the National Association of Regulatory Utility Commissioners  
20 (“NARUC”) Electric Utility Cost Allocation Manual for classification of such costs. This  
21 approach strikes a balance of these non-fuel, non-labor “other” expenses between fixed and  
22 variable that most closely follows cost causation for our plants. Staff and MIEC classified all

1 costs in the "other" category as fixed and allocated those costs based on each party's respective  
2 fixed production plant allocator.

3 **Q. Are these the same allocation methods that were advocated by these parties**  
4 **in the Company's last rate case, Case No. ER-2011-0028?**

5 A. No. The Company's jurisdictional revenue requirement study submitted in Case  
6 No. ER- 2011-0028 split its total Missouri electric jurisdictional revenue requirement between  
7 retail electric service and wholesale electric service and, also split this "other" category of cost  
8 between fixed and variable, each in an equitable fashion. In that case, the Company's CCOSS  
9 utilized the same split. As such, there was consistency between the Company's jurisdictional  
10 study and its CCOSS. In the last case, MIEC ignored the results of the Company's jurisdictional  
11 split of "other" between fixed and variable, and instead classified all costs in that category as  
12 fixed. Lastly, Staff utilized the previously mentioned NARUC method to allocate these "other"  
13 costs. In its Report and Order in Case No. ER-2011-0028, the Commission found that the  
14 allocation methodology reflected in the Company's CCOSS (when modified for the allocation of  
15 off-system sales revenues) was the "most reliable of the submitted studies."

16 **Q. In the current case, why did the Company change its method of allocating**  
17 **this "other" category of costs in its CCOSS from the jurisdictional method described above**  
18 **to the NARUC method?**

19 A. Consistent with a Stipulation and Agreement in Case No. ER 2011-0028, the  
20 Company's jurisdictional revenue requirement study submitted in the current case contains no  
21 split of its total Missouri electric jurisdictional revenue requirement. Therefore, from a  
22 jurisdictional perspective, there was no need to split the "other" costs category between fixed and  
23 variable. However, from a CCOSS perspective, a split was still needed and the NARUC method

1 is the most appropriate manner in which to equitably allocate this “other” category of cost among  
2 the Company’s customer classes.

3 **Q. Do you agree with MIEC witness Maurice Brubaker’s statement that “the**  
4 **vast majority of these O&M costs [in the “other” category] do not vary in any appreciable**  
5 **way with the number of kWh generated, but occur as a function of the existence of the**  
6 **plants, the hours of operation and the passage of time”?**

7 A. No I don’t. A cursory review of the O&M accounts in question indicate  
8 substantial expenses in those accounts – e.g., for valve repair, temporary non-company labor,  
9 fuel additives and other similar expenses — are variable in nature. Furthermore, "the hours of  
10 operation" that Mr. Brubaker referred to is a rough definition of kWh generated – also a variable  
11 component. For example, a 1 MW plant operating for 1 hour produces 1,000 kWh’s of energy  
12 whereas a 1 MW plant operating for 100 hours produces 100,000 kWh’s of energy.

13 **Q. What would be the effect on the Company’s CCROSS if the Commission were**  
14 **to adopt MIEC’s classification of production expense between fixed and variable?**

15 A. The table below shows the shift in class revenues, per the Company’s original  
16 CCROSS filing, which splits non-fuel, non-labor expenses (“other”) between fixed and variable,  
17 compared to MIEC’s and Staff’s methods, which classify these expenses as fixed only. As  
18 shown, MIEC’s proposed method increases the class cost of service-based revenue requirement  
19 of the Residential class by approximately \$10 million or 0.9%. While Staff used the BIP  
20 allocation methodology, Staff’s result varies by less than 1% from MIEC’s allocations for each  
21 rate class, so for simplicity and clarity I have only shown MIEC’s to illustrate the differences.

| Class Revenue Requirements Shift per Company's<br>Class-Cost-Of-Service (\$1,000's) |             |                           |            |                   |
|-------------------------------------------------------------------------------------|-------------|---------------------------|------------|-------------------|
|                                                                                     | Original    | Per MIEC<br>Percent Split | Difference | %<br>Difference * |
| RES                                                                                 | \$1,455,193 | \$1,465,281               | \$10,089   | 0.9%              |
| SGS                                                                                 | \$307,783   | \$308,865                 | \$1,082    | 0.4%              |
| LGS/SPS                                                                             | \$786,145   | \$782,475                 | \$(3,670)  | -0.5%             |
| LPS                                                                                 | \$203,741   | \$200,843                 | \$(2,898)  | -1.5%             |
| LTS                                                                                 | \$160,644   | \$155,802                 | \$(4,842)  | -3.3%             |
| LTG                                                                                 | \$42,217    | \$42,456                  | \$239      | 0.7%              |

\* As a percent of as filed current revenues.

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2

**Q. Moving now to the differences between the Company's and OPC's CCOSS,**

3

**what are your major areas of concern?**

4

A. My first area of concern is with the allocation of Account 373 – Lighting. This

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account is solely attributable to the Lighting Class and should be directly and 100% assigned to

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the Lighting class. However, upon review of OPC's CCOSS, it was apparent that OPC had

7

allocated these costs to all customer classes. The Company believes this was an error on OPC's

8

part, and OPC has indicated that this was one of several corrections being made to its CCOSS

9

and that a revised study will be sent out correcting this and other errors. The Company reserves

10

further discussion of this issue for surrebuttal testimony should the revised CCOSS be submitted

11

after filing of this rebuttal testimony.

12

**Q. What is your next concern?**

13

A. Reviewing OPC's CCOSS workpapers with respect to allocation of distribution

14

plant and expenses, the Company realized that the Large Transmission Service ("LTS") class

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was receiving an allocated portion of non-meter related distribution costs despite being served at

16

a transmission level voltage; that is, the LTS class is served at transmission voltage and does not

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utilize our distribution system except for metering. Accordingly, that class should not receive



1 any allocated portion of the distribution costs except for meter facilities. The Company believes  
2 this, too, was an error on OPC's part. If that error is also corrected in a revised CCOSS, the  
3 Company reserves further discussion of this issue for surrebuttal testimony.

4 **Q. What are the differences among the parties with respect to the classification**  
5 **of distribution plant Accounts 364 – Poles, Towers and Fixtures, 365 – Overhead**  
6 **Conductors, 366 – Underground Conduit, 367 – Underground Conductors, and 368 – Line**  
7 **Transformers?**

8 A. The difference among the parties concerns whether or not there is a customer  
9 component of the distribution system that is or should be specifically reflected in Accounts  
10 364-368. The Company, Staff and MIEC followed the widely accepted utility industry principle  
11 that recognizes a customer component in these portions of the distribution system, which are  
12 installed to provide service to all customers and to meet each individual customer's peak demand  
13 requirements. In contrast, OPC's study mis-categorized certain customer-related costs as "other"  
14 and used a weighted meter allocator to assign these "other" costs to the customer classes.

15 **Q. Even if the Commission were to accept OPC's classification of these**  
16 **customer costs as "other," would OPC's allocation of such costs be appropriate?**

17 A. No. OPC utilized a weighted meter allocator (i.e., class customer weights based  
18 on customer counts times current meter costs). This approach has no merit because it incorrectly  
19 assumes that there is a relationship between weighted customer counts and investments in  
20 Accounts 364 through 368. The Company's investment in meters is not related to its investment  
21 in poles, overhead or underground conductors and conduit, or line transformers. Customer  
22 weighted meter allocators have a direct relationship to meter investment and associated expenses

1 only and, therefore, should only be used to allocate Account 370 (meters) and meter related  
2 O&M expense.

3 **Q. Do you agree with the direct testimony of OPC's witness Barbara**  
4 **Meisenheimer (p. 12, beginning at line 24) that OPC's weighted meter investment allocator**  
5 **effectively allocates these costs in relation to the number of customers?**

6 A. No. The table below shows the difference between a customer count allocator  
7 and OPC's weighted meter investment allocator. The large differences between the results of  
8 OPC's allocation methodology and the results produced by the methodologies used by the  
9 Company, Staff, and MIEC shows that the weighted meter investment allocator used by OPC has  
10 little relationship with the number of customers served by Ameren Missouri's system. As shown,  
11 by incorrectly using meters instead of customers for its allocation, OPC's method inappropriately  
12 decreases the share of these costs allocated to the Residential class by approximately 18%.

| Party   | Method                    | RES    | SGS    | LGS/SPS | LPS   | LTS   | LTG   |
|---------|---------------------------|--------|--------|---------|-------|-------|-------|
| Company | Customer Counts           | 83.21% | 11.51% | 0.81%   | 0.01% | 0.00% | 4.46% |
| Staff   | Customer Counts           | 83.21% | 11.51% | 0.81%   | 0.01% | 0.00% | 4.46% |
| MIEC    | Customer Counts           | 83.21% | 11.51% | 0.81%   | 0.01% | 0.00% | 4.46% |
| OPC     | Weighted Meter Investment | 64.98% | 19.97% | 13.80%  | 1.08% | 0.07% | 0.09% |

13  
14 **Q. What is the difference among the OPC and the other parties with respect to**  
15 **the allocation of off-system sales revenues?**

16 A. The Company, Staff and MIEC allocated off-system sales revenues based on their  
17 respective energy (kWh) allocators, which is consistent with the methodology approved in Case  
18 No. ER-2010-0036, where the Commission stated, "the Commission finds that AmerenUE's

1 class cost of service study, modified to allocate revenues from off-system sales on the basis of  
2 class energy requirements, is the most reliable of the submitted studies.” The OPC's allocation  
3 of off-system sales revenues based on its production capacity (demand) allocator is contrary to  
4 the method the Commission adopted in Case No. ER-2010-0036.

5 **Q. What would the effect be on the Company's CCOSS if the Commission were**  
6 **to reverse its findings in Case No. ER-2010-0036 with respect to the allocation of off-system**  
7 **sales revenues and adopt OPC's proposed allocation?**

8 A. The table below shows the shifts in class revenues, per the Company's CCOSS  
9 filing, using OPC's method of allocating off-system sales revenues to the customer  
10 classifications. As shown, OPC's proposed method decreases the revenue requirement of the  
11 Residential class by approximately \$35 million or 3% and increases the revenue requirement of  
12 the Large Transmission class by approximately \$16.8 million or 11.3%.

| <b>Class Revenue Requirements Shift per Company's<br/>Class-Cost-Of-Service (\$1,000's)</b> |                 |                               |                   |                           |
|---------------------------------------------------------------------------------------------|-----------------|-------------------------------|-------------------|---------------------------|
|                                                                                             | <b>Original</b> | <b>Per OPC<br/>Allocation</b> | <b>Difference</b> | <b>%<br/>Difference *</b> |
| RES                                                                                         | \$1,455,193     | \$1,420,207                   | \$(34,985)        | -2.99%                    |
| SGS                                                                                         | \$307,783       | \$304,030                     | \$(3,753)         | -1.30%                    |
| LGS/SPS                                                                                     | \$786,145       | \$798,873                     | \$12,728          | 1.70%                     |
| LPS                                                                                         | \$203,741       | \$213,789                     | \$10,048          | 5.29%                     |
| LTS                                                                                         | \$160,644       | \$177,435                     | \$16,791          | 11.35%                    |
| LTG                                                                                         | \$42,217        | \$41,388                      | \$(829)           | -2.41%                    |

\* As a percent of as filed current revenues.

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**III. CUSTOMER CHARGE LEVELS**

**Q. What are the primary cost differences among Company, Staff and OPC with respect to monthly residential and small general service customer charges?**

A. The primary differences with respect to the resulting CCOSS customer charge levels among Company, Staff and OPC are driven by the costs that were included in each party's analysis. The Company's CCOSS includes all customer-related costs in its customer charge, including those costs in distribution Accounts 364-368 that have a customer-related component. In contrast, Staff and OPC include only the allocated costs of services, meters, and customer installations and the various O&M expenses associated with the operation and maintenance of such services and meters. In addition, Staff includes all customer service and sales expenses, including uncollectible expense, while OPC does not include the uncollectible account expense. It is currently our understanding that OPC will issue corrections to its CCOSS which may affect the results related to the monthly customer charge. Consequently, Ameren Missouri reserves any further comments on OPC's position on this issue until the Company can review OPC's corrected study.

**Q. Does this conclude your rebuttal testimony?**

A. Yes, it does.

