

Exhibit No.:
Issues: Class Cost of Service
Witness: William M. Warwick
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2007-0002
Date Testimony Prepared: February 5, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0002

REBUTTAL TESTIMONY

OF

WILLIAM M. WARWICK

ON

BEHALF OF

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

**St. Louis, Missouri
February 2007**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **WILLIAM M. WARWICK**

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

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

6 A. My name is William M. Warwick. My business address is One Ameren
7 Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63166-6149.

8 **Q. Are you the same William M. Warwick that filed Direct Testimony in this**
9 **proceeding?**

10 A. Yes, I am.

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

12 A. The purpose of my Rebuttal Testimony is to respond to certain class cost of
13 service (CCOS) issues discussed in the Direct Testimonies of Missouri Public Service
14 Commission Staff (Staff) witnesses David C. Roos and James A. Busch, Office of Public
15 Counsel (OPC) witness Barbara A. Meisenheimer, Missouri Industrial Energy Consumers
16 (MIEC) witness Maurice Brubaker, Noranda Aluminum, Inc.(Noranda) witness Donald
17 Johnstone, and AARP witness Ronald J. Binz. My failure to address a particular witness'
18 position or argument should not be construed as endorsement of that.

19 **Q. What are the major factors which are driving the differences among the**
20 **parties with regard to CCOS?**

21 A. The primary factors causing the differences in the various CCOS studies are:

- 22 • Allocation of Production Capacity Costs
- 23 • Allocation of Transmission Costs

- 1 • Classification of Distribution Costs into Customer-Related and
- 2 Demand-Related Components
- 3 • Allocation of Non-Fuel Generation Expenses between Fixed and
- 4 Variable
- 5 • Allocation of Off-System Revenues
- 6 Allocation of Production capacity costs will be addressed by Company
- 7 witness Wilbon L. Cooper in his Rebuttal Testimony. I will address the remaining primary
- 8 factors. I will also address other miscellaneous issues raised by other parties with respect to
- 9 the Company's CCOS.

10 I. **ALLOCATION OF TRANSMISSION COSTS**

11 **Q. What are the differences in the parties CCOS regarding the allocation of**

12 **Transmission costs?**

13 A. All parties that prepared CCOS studies, with the exception of the Company

14 and AARP, allocated Transmission costs using their respective Production capacity

15 allocators. The Company and AARP allocated Transmission costs on the basis of the twelve

16 coincident (12CP) demands of each class.

17 **Q. Why is it appropriate to allocate Transmission costs on class 12CP**

18 **demands?**

19 A. The transmission system must be constructed to handle maximum system

20 peak loads regardless of when they occur. Unlike production plant or generating facilities,

21 construction of transmission assets does not consider the type (i.e., base, intermediate,

22 peaking) of use. In other words, it does not vary by "plant", nor can it be dispatched at

23 various running cost levels. Therefore, it is appropriate that Transmission costs be allocated

1 using a method which employs class demands during peak periods. In addition, such
2 allocation mirrors or tracks the method by which such costs are incurred by the Company
3 under the Midwest Independent Transmission System Operator, Inc. (MISO).

4 **II. CLASSIFICATION AND ALLOCATION OF DISTRIBUTION COSTS**

5 **Q. What is the primary difference among the parties with respect to the**
6 **allocation of Distribution costs?**

7 A. The primary difference among the parties with respect to the allocation of
8 Distribution costs is whether or not there is a customer-related component to a portion of the
9 distribution system costs. Staff, MIEC and the Company classified a portion of Accounts
10 364, 365, 366, and 367 as customer-related and the remaining portion as demand-related.
11 OPC and AARP do not recognize any portion of these accounts as having a customer-related
12 component.

13 **Q. Is it an accepted utility practice to classify a portion of these accounts as**
14 **customer-related?**

15 A. Yes. The National Association of Regulatory Utility Commissioners
16 (NARUC) clearly recognizes that there is a customer component related to these accounts.
17 In its publication Electric Utility Cost Allocation Manual dated January 1992 page 90,
18 Section II. Demand and Customer Classifications of Distribution Plant Accounts, the Manual
19 states:

20 Distribution plant Accounts 364 through 370 involve
21 demand **and customer** costs. The customer component
22 of distribution facilities is that portion of costs which
23 varies with the number of customers. Thus, the number
24 of poles, conductors, transformers, services, and meters
25 **are directly related to the number of customers** on
26 the utility' system. As shown in Table 6-1, **each**
27 primary plant account can be separately classified into a

1 demand and a customer component. (emphasis is
2 added)

3 The Manual goes on further to state that there are two recognized methods
4 used to determine the customer component,

5 Two methods are used to determine the demand and
6 customer components of distribution facilities. They
7 are, the minimum-size-of-facilities method, and the
8 minimum-intercept cost (**zero-intercept** or positive-
9 intercept cost, as applicable) of facilities. (emphasis is
10 added)

11 Staff, MIEC and the Company are all using a widely accepted and recognized
12 method to classify the customer component of Accounts 364 – 369.

13 Q. Do you agree with OPC and AARP's conclusion that only costs associated
14 with services, meters, meter installations and customer accounts expenses should be included
15 in a class' customer charge component?

16 A. No. I do agree these elements should be included but as I noted above there is
17 a customer component to Accounts 364-367 which should also be included in any analysis of
18 a class' customer charge determination.

19 Q. Are there other differences among the parties as to the allocation of
20 Distribution Costs?

21 A. Yes, there are other differences among the parties as to the allocation of
22 Distribution Costs; however, these differences are not significant and I will not address them
23 in my Rebuttal Testimony. As stated earlier, my failure to address a particular witness'
24 position or argument should not be construed as an endorsement of that position.

1 **III. ALLOCATION OF NON-FUEL GENERATION EXPENSES**

2 **Q. What is the issue concerning allocation of non-fuel generation expenses?**

3 A. OPC and MIEC have allocated more of non-fuel generation expenses using a
4 fixed production allocator than Staff, AARP and the Company. Basically, there exists a
5 difference among the parties regarding the classification of these costs between fixed and
6 variable components. OPC and MIEC classified all production expenses other than fuel and
7 purchased power-energy and fuel handling as fixed. The Company has consistently
8 classified only the operating labor expense and purchased power-capacity costs as fixed. The
9 Company believes all the other production expenses vary with the amount of generation and
10 should be classified as variable expenses. The Company's allocation of these costs in its
11 CCOS is consistent with Company witness Weiss' classification and allocation of them in his
12 jurisdictional cost of service study.

13 **IV. ALLOCATION OF OFF-SYSTEM REVENUES**

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

16 A. OPC, AARP and the Company allocated off-system sales revenues based on
17 their respective production capacity allocation methods and Staff accepted the Company's
18 allocation.

19 MIEC suggested two methods for allocating off-system sales revenue: 1)
20 based on each class' respective energy (kWh) allocator and 2) a variation of the first method
21 which seeks to isolate the margin or profit (i.e. revenue less fuel costs) from the off-system
22 sales and then allocate such profit using each class' production capacity allocation factor,
23 with the remaining fuel being allocated to each class based on its energy allocator.

1 **Q. Has the Company reconsidered the allocation of off-system sales margins**
2 **that was proposed in your Direct Testimony?**

3 A. Yes. The Company's initial proposal was based on the historical practice of
4 allocating all off-system sales margins based on each class' fixed production allocator, and
5 allocating the fuel expense associated with these sales based on each class' variable
6 production or energy allocator. Off-system sales margins were significantly less and, as a
7 result, the impact of a change in this method on class cost responsibility would have been
8 minimal.

9 However, margins from off-system sales are significant in the instant docket and, as a
10 result; the allocation of these margins will have a material impact on class cost responsibility.
11 Considering this impact, and the importance of cost causation principles, the Company
12 recommends that the second method described above be utilized for the allocation of off-
13 system sales margins. Essentially, this method allocates margins from the use of production
14 assets in the same manner as costs for those same assets were allocated and, therefore, results
15 in equitable treatment of costs and revenues

16 **V. OTHER MISCELLANEOUS CCOS TESTIMONY ISSUES**

17 **Q. On page 29, lines 7-9 of Mr. Brubaker's Direct Testimony, he claims**
18 **AmerenUE has changed its method for allocating credit and collection expense. Is this**
19 **true?**

20 A. No. AmerenUE has not changed its method of allocating credit and collection
21 expenses. As in past cases, the Company has weighted charge offs and credit and collection
22 expenses. These expenses were then allocated to Account 903 Credit and Collection. The
23 only difference is, in the past, the charge off amounts were broken down into residential,

1 small general service commercial and large commercial and industrial buckets. The large
2 commercial and industrial bucket was then allocated among Large General Service, Small
3 Primary Service and Large Primary Service based on customer counts. In this case, the
4 Company's records contained the charge off amounts by rate class and, as a result, a direct
5 assignment of these costs was utilized.

6 **Q. Do you understand Staff's proposal to combine the Small Primary**
7 **Service class and the Large General Service class in the CCOS mentioned by Mr Roos**
8 **on page 7, lines 1-5 and Mr. Busch on page 2, lines 20-22 of their Direct Testimony?**

9 A. No I do not. Neither Mr. Roos nor Mr. Busch give any explanation or
10 rationale behind such combination. Currently, I have a data request pending to Staff seeking
11 their rationale on this issue and I will likely address this issue in my Surrebuttal Testimony.

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

13 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 WILLIAM M. WARWICK

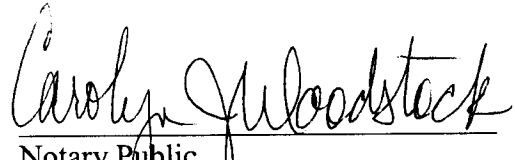
STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

William M. Warwick, being first duly sworn on his oath, states:

1. My name is William M. Warwick. I work in St. Louis, Missouri and I am employed by Ameren Services Company as Managing Supervisor of Rate Engineering.
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.


William M. Warwick

Subscribed and sworn to before me this 5th day of February, 2007.


Notary Public

My commission expires: May 19, 2008

