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Witness: David N. Wakeman
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2010-0036

SURREBUTTAL TESTIMONY

OF

DAVID N. WAKEMAN

ON

BEHALF OF

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

**St. Louis, Missouri
March 5, 2010**

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **DAVID N. WAKEMAN**

4 **CASE NO. ER-2010-0036**

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

6 A. My name is David N. Wakeman. My business address is One Ameren Plaza,
7 1901 Chouteau Avenue, St. Louis, MO 63103.

8 **Q. Are you the same David N. Wakeman who previously filed rebuttal**
9 **testimony in this case?**

10 A. I am.

11 **Q. What is the purpose of your surrebuttal testimony?**

12 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
13 testimony filed by Dan Beck and Stephen Rackers on behalf of Missouri Public Service
14 Commission Staff (Staff) and Michael Walter on behalf of IBEW Local 1439 and all Ameren
15 Unions (the Unions) on the issues of vegetation management, infrastructure inspection and
16 storm restoration trackers, and labor issues.

17 **I. VEGETATION MANAGEMENT AND INFRASTRUCTURE INSPECTION**
18 **TRACKERS**
19

20 **Q. Do you have any general response to the rebuttal testimony of Mr. Beck?**

21 A. I do. While Mr. Beck's rebuttal testimony discusses the appropriateness of
22 continuing or not continuing the Company's vegetation management and infrastructure
23 inspection cost trackers, he does not point to any expenditure as imprudent. In fact, to date,
24 there has not been a witness from any party in this case that has challenged the prudence of
25 any vegetation management or infrastructure inspection expenditure. AmerenUE has worked

1 very hard to implement these programs in accordance with the Commission's rules and to
2 improve our customers' reliability in the process. It appears that Mr. Beck and others agree
3 that the Company has undertaken this effort in a prudent manner.

4 **Q. Mr. Beck's rebuttal testimony sets forth a history of AmerenUE's**
5 **vegetation management programs over the past five or so years. Do you agree with his**
6 **recitation?**

7 A. I agree that Mr. Beck has correctly recited the history of AmerenUE's
8 vegetation management programs. What I do not agree with is his conclusion that
9 AmerenUE's test year level of vegetation management expenditures is the correct level to
10 use for setting the Company's revenue requirement in this case. Mr. Beck, like Mr. Rackers
11 and Mr. Meyer, presumes the fact that AmerenUE has been improving its vegetation
12 management practices means the appropriate level of vegetation management costs to build
13 into our cost of service is known. As I stated in my rebuttal testimony, because the majority
14 of our system has not been trimmed under the Commission's new vegetation management
15 rules, we do not know the appropriate level of vegetation management costs to include in
16 rates. The tracker, granted less than a year ago, protects all parties.

17 **Q. What about Mr. Beck's contention that AmerenUE's vegetation**
18 **management practices have been constant for at least the last two years? Is that true?**

19 A. Generally, that is a true statement. However, it is not correct to assume that
20 because the program hasn't undergone significant modification, AmerenUE (or Staff) knows
21 what the Company will spend on vegetation management in the future. As I stated in my
22 rebuttal testimony, the majority of our circuits have not had the overhead overhang removed.
23 The cost to trim different portions of our distribution system varies greatly. Some areas don't

1 have a lot of vegetation but many areas have significant overhang that must be removed.
2 Until the Company has more of a track record in doing this work, it is difficult to know what
3 the cost of that work will be going forward.

4 **Q. Is this tracker something the Company believes should be continued**
5 **indefinitely?**

6 A. It is not. As I stated in my rebuttal testimony, it is my belief that the
7 Company will have enough experience in two to four years that the tracker will no longer be
8 necessary. Until that time, however, to prematurely discontinue the tracker will subject the
9 Company to the possibility that it will not have included in the revenue requirement an
10 amount sufficient to cover expenditures necessary to comply with Commission imposed
11 vegetation management requirements. Conversely, the customers will be subject to the risk
12 of overpaying the true cost of vegetation management.

13 **Q. Mr. Beck points to the contracts for AmerenUE's vegetation management**
14 **contractors and the fact that they expire at the end of 2010 as a reason to discontinue**
15 **the tracker. He believes the tracker reduces the incentive to negotiate the most cost**
16 **effective contract. Do you agree?**

17 A. Not only do I not agree, I strongly disagree. Having a tracker does not
18 provide AmerenUE with perfect recovery of its vegetation management expenditures. There
19 is still delay between when we incur these costs and when we actually recover them in rates.
20 Another rate case has to be filed, we have to persuade the Commission that the expenditures
21 were prudent and that we should recover the costs, and then, typically, we are ordered to
22 amortize the uncollected amount over some period of time. For Mr. Beck or anyone else to
23 imply that AmerenUE would not continue to act prudently to benefit all parties regardless of

1 the circumstances is disappointing. AmerenUE will continue to do our best to negotiate a
2 fair and reasonable contract with the vegetation management contractors. I have worked
3 with Mr. Beck for many years and do not believe he has any basis to assert that AmerenUE
4 does not consistently negotiate the best contracts possible for this work. Mr. Beck is making
5 a recommendation based upon a theoretical possibility for which he cites nothing more than
6 an assertion. This assertion does not provide a solid basis for the rejection of AmerenUE's
7 request to continue the vegetation management tracker.

8 **Q. Mr. Beck asserts the tracker for infrastructure inspections should also be**
9 **discontinued. Do you also disagree with this recommendation?**

10 A. I do. Mr. Beck does not provide any evidence supporting his recommendation
11 other than to state that the costs for the infrastructure inspection program are already in the
12 Company's revenue requirement. Again, in my rebuttal testimony I set forth the reasons that
13 historical costs for our infrastructure inspection programs cannot be relied upon as an
14 indicator of future expenditure levels. This Commission rule imposed many requirements
15 that have only recently been started and the Company does not have enough of a track record
16 with these programs to know the appropriate level of costs to place in its revenue
17 requirement. As with the vegetation management tracker, AmerenUE's approach is one that
18 allows the Company to recover all prudent expenditures without subjecting our customers to
19 the possibility that they pay more than is necessary for that work.

20 **II. STORM RESTORATION COST TRACKER**

21 **Q. Staff opposes the establishment of a storm restoration tracker, claiming**
22 **AmerenUE's storm restoration costs have been recovered through a five-year**

1 **amortization process. Do you disagree with Staff's explanation of how restoration costs**
2 **after major storms have been handled?**

3 A. Mr. Rackers has accurately recited how the costs associated with major storm
4 restoration have been handled historically. In fact, his explanation is the same as that
5 contained in the Company's direct testimony in this case. These expenses have traditionally
6 been captured in an Accounting Authority Order (AAO) if they are incurred outside of a test
7 year or amortized over five years if they are incurred during a test year. As the Company's
8 direct testimony explains, that methodology still imposes upon AmerenUE significant
9 regulatory lag for expenditures over which it has very little control but which the
10 Commission and our customers expect us to make after a major storm.

11 **Q. Mr. Rackers also testified that using the test year expenditure level to set**
12 **the tracker base is inappropriate. How do you respond to that statement?**

13 A. I disagree with Mr. Rackers' reasoning. First, no party in this case, including
14 Mr. Rackers, has taken issue with any of the improvements the Company has made to its
15 restoration efforts following major storms, nor did he point to any expenditure as being
16 imprudent. Furthermore, there would not be any basis to make such a challenge. AmerenUE
17 understands it, we are expected to restore service quickly and safely following a storm and
18 we are making the expenditures necessary to do so. Our restoration work after the January,
19 2009 storm in Southeast Missouri has been recognized by others in the electric industry,
20 AmerenUE was just awarded the "Emergency Recovery Award" by Edison Electric Institute
21 (EEI). This award is presented annually by EEI to recognize outstanding efforts in restoring
22 electric service that has been disrupted by severe weather conditions or natural events. The

1 award recognizes exceptional efforts in restoring electric service by a company in its service
2 territory. EEI's press release about this award is attached as Schedule DNW-SR2.

3 Mr. Rackers' rebuttal testimony discussed the multiple amortizations currently
4 used to recover previous restoration expenditures. The mere fact that there have been
5 multiple amortizations for storms occurring over several years is an indication that the
6 amount currently in AmerenUE's revenue requirement is not adequate. Additionally, we are
7 proposing the Commission adopt a tracker in order to ensure all parties are protected,
8 whether the amount set in rates turns out to be too high or too low.

9 **Q. Mr. Rackers alleges there have been no major storms on AmerenUE's**
10 **system since January of 2009. Is he correct?**

11 A. No, he is not. On May 8, 2009, the southeastern portion of our system was
12 struck by a tornado. While not as devastating as the ice storm that occurred in January of
13 2009, this storm nonetheless is classified as a major storm. AmerenUE was required to
14 spend \$1.1 million on Operations and Maintenance expenses and to make \$6.2 million in
15 capital investments to restore service to this region. This storm alone would not have cost
16 the Company more than was included in our cost of service in the last rate case, but then
17 again, it wasn't the only major storm to impact our system in 2009.

18 **Q. Mr. Rackers recommends to the Commission the use of a multiyear**
19 **average to set the amount included in the cost of service for storm restoration. Isn't**
20 **that traditionally how this issue has been resolved?**

21 A. Staff's testimony ignores the obvious; we are asking the Commission to
22 change their approach for determining this amount and to stop using a multiyear (in this
23 instance, a four year) average to determine the appropriate level of expenditures for storm

1 restoration work. Staff's methodology is not designed to provide for the costs of major
2 storms. The Staff Report states the Staff first removed expenditures related to major storms
3 in 2006 and 2007¹ and then averaged non-major storms over four years. By definition, this
4 calculation does not and, in fact, cannot capture what AmerenUE spends on its major storm
5 restoration efforts. Yet the Company faces making these large and immediate expenditures
6 relatively frequently and both the Commissioners and our customers have made it clear they
7 expect us to do what it takes to restore service as quickly and safely as possible. We are
8 asking the Commission to acknowledge our actions by placing an amount for those costs into
9 our cost of service. We know that major storms have been occurring on a relatively
10 continual basis, as is evidenced by the number of amortizations listed by Staff in their
11 Report. AmerenUE could face the next major outage tomorrow or six months from now.
12 The timing of that next storm doesn't diminish the importance of this request. We are asking
13 the Commission to incorporate into rates an amount to reflect expenditures on major storms.
14 We do not make this request lightly; AmerenUE has requested the Commission impose a
15 mechanism that protects our customers as well. Unlike a proposal which would merely
16 increase the amount in our cost of service, a tracker ensures that if we do not spend at least
17 the base amount, we would refund the unspent amount to customers.

18 **Q. Mr. Rackers states that authorizing a storm restoration cost tracker**
19 **would decrease the Company's risk, which should be reflected in its rate of return.**
20 **How do you respond?**

21 A. Although the tracker would reduce the regulatory lag suffered by the
22 Company, I do not know how that would impact the Company's overall risk profile. I will

¹Case No. ER-2010-0036, Staff Report Revenue Requirement Cost of Service, December 18, 2009, pp. 89-90.

1 leave this argument to the experts on rate of return, which I do not claim to be and which, I
2 suspect, Mr. Rackers would not claim to be either.

3 A part of his “risk” argument however, is that a tracker “guarantees the recovery of
4 the costs associated with all storms.”² His statement is true, but I see that as a reason for the
5 Commission to adopt AmerenUE’s proposal over Staff’s. As mentioned above, both the
6 Commissioners and our customers have made it clear they expect us to do what it takes to
7 restore service as quickly and safely as possible. The Company cannot put off these costs for
8 even one day, we cannot decide to restore only a portion of our system or undertake other
9 cost saving techniques. We do not control the timing or significance of these expenditures.
10 Further, the Commission has historically determined these expenditures should be recovered,
11 as evidenced by the numerous amortizations detailed in the Staff Report. We restore service
12 as quickly as possible, so as to reduce the inconvenience and health risk to our customers. It
13 is my hope that the Commission appreciates the improvements which have been made in just
14 the last few years and is willing to provide AmerenUE with the tracker mechanism in
15 recognition of the facts presented above.

16 III. UNION TESTIMONY

17 **Q. Are you familiar with the rebuttal testimony filed by Michael Walter on**
18 **behalf of the Unions?**

19 **A.** I am familiar with his testimony; although I view it with the recognition that
20 Mr. Walter’s job responsibilities include lobbying for the use of more employee labor versus
21 the use of outside contractors. Additionally, I would caution that not all of the concerns
22 raised by Mr. Walter’s testimony can be read as representative of what all of our Unions

² Case No. ER-2010-0036, rebuttal testimony of Stephen M. Rackers, February 11, 2010, p. 5.

1 would offer, as some of our Unions represent contractors as well as employees and likely
2 would not agree with some of Mr. Walter's conclusions.

3 **Q. Mr. Walter asserts that utility reliance on outside contractors has caused**
4 **a nationwide shortage of skilled labor. Do you agree with that assessment?**

5 A. I would have to disagree. AmerenUE's workforce, the only utility for which I
6 can speak, has undergone a normal transformation in its makeup. We, and the industry as a
7 whole, are facing a shortage of skilled workers because of the retirement of many linemen
8 trained during periods of more rapid growth in the system. Mr. Walter's testimony reads as
9 if AmerenUE could have a larger internal workforce if it wanted to and that, for some reason,
10 it refuses to do anything other than hire outside contractors. This is a mischaracterization of
11 the current situation. Until recently, AmerenUE had offered a hiring bonus for persons who
12 qualified as a journeyman lineman. The lack of qualified personnel is why AmerenUE, and
13 most electric utilities, have no choice but to rely on outside contractors for at least a portion
14 of their normal workforce needs. It is the shortage that drives our reliance on contractors and
15 not the other way around, as Mr. Walter states.

16 AmerenUE also uses contractors for work that requires highly specialized
17 labor or for work needs that are cyclical rather than consistent across a year. Mr. Walter does
18 not appear to take issue with the use of contractors for these types of labor needs.

19 **Q. Mr. Walter states that the contractors used by AmerenUE aren't as**
20 **skilled or trained as AmerenUE employees. Do you agree?**

21 A. No. While I agree with Mr. Walter that the training provided by AmerenUE is
22 outstanding, the individuals employed by our outside contractors also receive excellent
23 training. Much of that training is the same as that our employees undergo. Some of the

1 classifications have a journeyman test which the employee must pass, and others receive on-
2 the-job training. As we utilize the contractors on a day-to-day basis, we audit their
3 performance for compliance with our standards for workmanship and safety. AmerenUE is
4 not utilizing untrained individuals as contract labor.

5 In AmerenUE's last rate case, the Unions filed several pieces of testimony
6 from several different Union representatives. Those individuals included David Desmond, of
7 IBEW Local 2, which represents employee linemen as well as contract linemen.
8 Mr. Desmond testified that the contractors in his union are well qualified and well trained.³
9 He stated contractors go through the same certification requirements as employees, that they
10 undergo the same four year apprenticeship to become journeymen linemen, and train on the
11 distribution, substations and underground systems.⁴ Mr. Desmond concluded that the
12 contractors in his union enjoyed a good safety record.⁵ Mr. Walter and Mr. Desmond both
13 represent linemen, yet Mr. Walter is the one with a concern with the use of contract labor.

14 Finally, I would point out that the decision to use contract labor versus
15 employee labor is a management decision and the Commission has not historically gotten
16 involved in discussions between the Company and its labor unions. Mr. Walter's testimony
17 provides no reason why the Commission should change that longstanding practice.

18 **Q. Does this conclude your surrebuttal testimony?**

19 **A. Yes, it does**

³ Case No. ER-2008-0318, Tr. pp. 1738-9.

⁴ Id.

⁵ Id. p. 1740.

In the Matter of Union Electric Company d/b/a) Case No. ER-2010-0036
AmerenUE's Tariffs to Increase its Annual) Tracking No. YE-2010-0054
Revenues for Electric Service.) Tracking No. YE-2010-0055

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

David N. Wakeman
David N. Wakeman

Mary Hoyt
Notary Public

Mary Hoyt - Notary Public
Notary Seal, State of
Missouri - Jefferson County
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AMERENUE EARNS 'EMERGENCY RECOVERY AWARD' FOR RESTORATION EFFORTS FOLLOWING ICE STORM

WASHINGTON (March 3, 2010) – The Edison Electric Institute (EEI) today recognized AmerenUE as a winner of the “Emergency Recovery Award” for its excellence in restoring electricity to its customers following an aggressive ice storm last year. The award was presented today at EEI’s Spring CEO and Board Meeting.

On Jan. 26, 2009 and the two days that followed, a substantial ice storm covered much of southeastern Missouri, resulting in accumulation of up to five inches. 3,800 AmerenUE distribution poles broke from being loaded with ice and from coming into contact with ice-laden trees. A peak of 36,500 customers in AmerenUE’s service territory lost their power due to extensive damage to the 34.5 kV sub-transmission system.

The storm’s wake left unfavorable conditions for restoration, as slick roads hampered efforts and snow- and debris-covered terrain created access problems. AmerenUE sent crews comprising a total of 4,800 electrical workers, vegetation workers and others who came from nine states to assist the utility. In total, the team of workers tallied 402,928 man hours in its endeavor.

“Ice storms are some of the most damaging natural events to our electric infrastructure, and in this case in particular, AmerenUE really excelled in its job of turning the lights back on,” said EEI President Tom Kuhn. “AmerenUE’s efforts following this severe ice storm are very commendable, and it’s important to note that their commitment is common of the entire electric power industry after such an event.”

The “Emergency Recovery Award” is presented annually by EEI to U.S. and foreign-based member companies to recognize outstanding efforts in restoring electric service that has been disrupted by severe weather conditions or natural events. The Recovery Award

DNW-SR2

recognizes exceptional efforts in restoring electric service by a company in its service territory. Winners of the award were chosen by a panel of judges following an international nomination process, and awards were presented today during EEI's Spring CEO meetings.

AmerenUE, founded in 1902, provides electric and gas service to approximately 1.2 million customers across central and eastern Missouri, including the greater St. Louis area. UE serves 57 Missouri counties and 500 towns. The company's electric rates are among the lowest in the nation. For more information, visit www.ameren.com.

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The [Edison Electric Institute \(EEI\)](#) is the association of U.S. shareholder-owned electric companies. Our members serve 95 percent of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70 percent of the U.S. electric power industry. We also have more than 65 International electric companies as Affiliate members, and more than 170 industry suppliers and related organizations as Associate members.