

Exhibit No.:  
Issues: Class Cost of Service  
Witness: William M. Warwick  
Sponsoring Party: Union Electric Company  
Type of Exhibit: Surrebuttal Testimony  
Case No.: ER-2007-0002  
Date Testimony Prepared: February 27, 2007

**MISSOURI PUBLIC SERVICE COMMISSION**

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

**SURREBUTTAL 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 **SURREBUTTAL 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 and Rebuttal**  
9 **Testimony in this proceeding?**

10 A. Yes, I am.

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

12 A. The purpose of my Surrebuttal Testimony is to present the Company's  
13 updated class cost of service (CCOS) study. I will also be responding to CCOS Rebuttal  
14 Testimony of other parties. My failure to address a particular witness' position or argument  
15 should not be construed as endorsement of that position or argument.

16 **I. CLASS COST OF SERVICE STUDY UPDATES**

17 **Q. Have you updated your CCOS study?**

18 A. Yes. I have updated Company's CCOS study to reflect modifications made  
19 since the filing of my Direct Testimony.

20 **Q. What are the modifications that you have made?**

21 A. First, I updated the Company's CCOS study presented in my Direct  
22 Testimony to reflect the Company's updated Missouri jurisdictional cost of service rate base  
23 and expense items as prepared by Company witness Gary S. Weiss and discussed in his

1 Supplemental Direct Testimony. Secondly, I updated the class revenues in the Company's  
2 CCOS study. This update reflects the proposed levels of such revenues, adjusted for weather  
3 and customer growth, as agreed to by Company and the Missouri Public Service Commission  
4 Staff (Staff) at the time of the filing of this Surrebuttal Testimony. Deviations, if any, from  
5 these class revenues should be minimal and should not greatly affect the CCOS results.  
6 However, it should be noted that these revenues do not match those utilized in the previously  
7 mentioned jurisdictional cost of service study prepared by Company witness Mr. Weiss.  
8 Lastly, I have revised the class allocation of off-system sales revenues to reflect the  
9 Company's revised position as described in my Rebuttal Testimony. The expense portion of  
10 off-system sales revenues was credited to each class' Production Operations and  
11 Maintenance expense by use of the Company's energy allocator. The margin portion was  
12 allocated to the classes based on the Company's fixed production capacity allocators that  
13 used the Average and Excess 4NCP method.

14 **Q. What are the summary results of the modifications you have made to the**  
15 **CCOS?**

16 **A.** The summary results of the modifications to the CCOS are contained in  
17 Schedule WMW-E4 and Schedule WMW-E5. Schedule WMW-E4 illustrates the results at  
18 Company's present rate levels. Schedule WMW-E5 was derived from WMW-E4 and  
19 reflects the class revenues necessary for the Company to realize equalized rates of return  
20 from each customer class at the Company's proposed level of Missouri electric retail  
21 revenues.

1           **II.       RESPONSES TO OTHER PARTIES' REBUTTAL TESTIMONY**

2           **Q.       Do you agree with the Office of the Public Counsel (OPC) witness**  
3 **Ms. Meisenheimer's assertion that there is not a customer component of the primary**  
4 **portion of Accounts 364, 365, 366 and 367?**

5           A.       No. As stated in my Rebuttal Testimony it is a generally accepted industry  
6 practice to recognize a customer component in the primary distribution Accounts 364, 365,  
7 366 and 367. Staff, Missouri Industrial Energy Consumers (MIEC), The Commercial Group  
8 (TCG) and the Company all recognize a customer component of Accounts 364, 365, 366 and  
9 367.

10          **Q.       What is Ms. Meisenheimer's basis for not including a customer**  
11 **component of the primary portion of these distribution accounts?**

12          A.       Ms. Meisenheimer's argument is that the National Association of Regulatory  
13 Utility Commissioners' (NARUC) Electric Utility Cost Allocation Manual (Manual), on  
14 page 20, defines customer-related costs as costs directly related to the number of customers  
15 and since primary distribution facilities are typically shared facilities, Ms. Meisenheimer  
16 argues that they cannot be directly related to the number of customers and thus do not satisfy  
17 NARUC's definition. Ms. Meisenheimer is unaware of or ignores NARUC's definitive  
18 recognition on page 90 of the NARUC Manual that there is a customer component to these  
19 accounts directly related to the number of customers on a utility's system.

1           **Q.     Do you agree with Ms. Meisenheimer’s criticisms of the zero-intercept**  
2 **method for identifying and classifying a portion of distribution Accounts 364, 365, 366,**  
3 **and 367 as customer-related?**

4           A.     No. In fact, Ms. Meisenheimer’s position is confusing. On one hand Ms.  
5 Meisenheimer is critical of the method, but on the other hand she offers no alternative and  
6 goes on to use the results of the Company’s zero-intercept to assign a portion of these  
7 secondary distribution costs in her CCOS as customer-related.

8           **Q.     Is the zero-intercept method for classifying distribution costs as**  
9 **customer-related appropriate and generally accepted industry practice.**

10          A.     Yes. The NARUC Manual describes two methods as being appropriate, the  
11 Minimum Size Method and the Minimum-Intercept Method (zero-intercept). The Staff and  
12 MIEC used the results of the Company’s zero-intercept analysis in their respective CCOS.  
13 TCG also agrees with the Company’s use of such method.

14          **Q.     Do you have any comments with regard to Ms. Meisenheimer’s claim that**  
15 **the use of reproduction costs, as opposed to booked costs, in pricing out distribution**  
16 **plant in the zero-intercept analysis disproportionately assigns cost to Residential and**  
17 **Small General Service customers?**

18          A.     The Company has reviewed its distribution study and corresponding expert  
19 witness testimony that was provided in a prior case. The distribution study correctly uses  
20 reproduction costs in determining the customer-related portion of the total costs of each  
21 distribution account. The use of readily available reproduction costs to establish the relative  
22 relationships of customer, secondary and primary investment does not result in any over-  
23 allocation of these components but, rather, produces percentages to apply to book costs. The

1 customer component ratio, or percentage, developed using reproduction costs is appropriately  
2 applied to booked costs in classifying customer-related costs.

3 **Q. Ms. Meisenheimer and AARP witness Mr. Binz have only included costs**  
4 **associated with services, meters, meter installations and customer accounts expenses in**  
5 **the Customer Charge component of the class' rates, do you agree?**

6 A. No. The proposed Customer Charge for each rate class should be based upon  
7 all costs determined to be customer-related costs for each class.

8 **Q. Why is it important to include all customer-related costs in the**  
9 **determination of the Customer Charge component?**

10 A. Since customer-related costs do not vary with energy or demand associated  
11 with the electrical consumption of the customers in each class, these costs should be  
12 recovered through application of fixed monthly customer charges. Failure to apply this  
13 method of cost recovery will result in rate structures which are unnecessarily unfair and  
14 inequitable to customers within a rate class. Shifting fixed customer-related costs from a flat  
15 monthly charge to a consumption-related charge, energy or demand, will result in above  
16 average use customers subsidizing below average use customers.

17 **Q. Do you agree with The Commercial Group witness Mr. Higgins'**  
18 **recommendation that the Company be encouraged to develop data bases necessary to**  
19 **directly assign distribution plant cost responsibility to its customer classes?**

20 A. No. The Company does not currently have such capability and the acquisition  
21 and administration of such data bases is likely to be costly and burdensome, with the  
22 likelihood that it would provide no meaningful improvement to the results of the current

- 1 allocation method. As a consequence, acquiring and maintaining data at this level of
- 2 granularity would not likely be cost effective.

3           **Q.     Does this conclude your Surrebuttal Testimony?**

4           **A.     Yes, it does.**



**AmerenUE**  
**MISSOURI ELECTRIC OPERATIONS**  
**ELECTRIC COST OF SERVICE ALLOCATION STUDY**  
**12 MONTHS ENDED JUNE 2006**

**TITLE: SUMMARY**

|    |                                    | <u>MISSOURI</u> | <u>RESIDENTIAL</u> | <u>SMALL<br/>GEN SERV</u> | <u>LARGE<br/>GEN SERV</u> | <u>SMALL<br/>PRIMARY</u> | <u>LARGE<br/>PRIMARY</u> | <u>LARGE<br/>TRANS</u> |
|----|------------------------------------|-----------------|--------------------|---------------------------|---------------------------|--------------------------|--------------------------|------------------------|
| 1  | BASE REVENUE                       | \$ 1,979,902    | \$ 850,079         | \$ 229,070                | \$ 425,106                | \$ 179,399               | \$ 160,595               | \$ 135,652             |
| 2  | OTHER REVENUE                      | \$ 59,477       | \$ 31,010          | \$ 6,075                  | \$ 10,126                 | \$ 4,399                 | \$ 4,717                 | \$ 3,148               |
| 3  | LIGHTING REVENUE                   | \$ 27,250       | \$ 13,610          | \$ 3,111                  | \$ 5,153                  | \$ 2,122                 | \$ 2,027                 | \$ 1,227               |
| 4  | SYSTEM REVENUE                     | \$ 179,904      | \$ 82,881          | \$ 20,195                 | \$ 35,702                 | \$ 15,423                | \$ 14,946                | \$ 10,757              |
| 5  | RATE REVENUE VARIANCE              | \$ (0)          | \$ (0)             | \$ (0)                    | \$ (0)                    | \$ (0)                   | \$ (0)                   | \$ (0)                 |
| 6  | TOTAL OPERATING REVENUE            | \$ 2,246,533    | \$ 977,580         | \$ 258,452                | \$ 476,087                | \$ 201,343               | \$ 182,285               | \$ 150,785             |
| 7  |                                    |                 |                    |                           |                           |                          |                          |                        |
| 8  | TOTAL PROD, T&D, CUST, AND A&G EXP | \$ 1,337,318    | \$ 588,427         | \$ 138,995                | \$ 261,855                | \$ 123,769               | \$ 124,910               | \$ 99,362              |
| 9  | TOTAL DEPR AND AMMORT EXPENSES     | \$ 387,631      | \$ 198,165         | \$ 44,891                 | \$ 72,431                 | \$ 28,932                | \$ 27,427                | \$ 15,784              |
| 10 | REAL ESTATE AND PROPERTY TAXES     | \$ 99,877       | \$ 51,018          | \$ 11,565                 | \$ 18,670                 | \$ 7,460                 | \$ 7,076                 | \$ 4,089               |
| 11 | INCOME TAXES                       | \$ 231,344      | \$ 115,544         | \$ 26,414                 | \$ 43,747                 | \$ 18,013                | \$ 17,209                | \$ 10,417              |
| 12 | PAYROLL TAXES                      | \$ 19,727       | \$ 9,409           | \$ 2,108                  | \$ 3,677                  | \$ 1,734                 | \$ 1,703                 | \$ 1,096               |
| 13 | FEDERAL EXCISE TAX                 | \$ -            | \$ -               | \$ -                      | \$ -                      | \$ -                     | \$ -                     | \$ -                   |
| 14 | REVENUE TAXES                      | \$ -            | \$ -               | \$ -                      | \$ -                      | \$ -                     | \$ -                     | \$ -                   |
| 15 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 16 | TOTAL OPERATING EXPENSES           | \$ 2,075,897    | \$ 962,563         | \$ 223,973                | \$ 400,379                | \$ 179,909               | \$ 178,325               | \$ 130,747             |
| 17 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 18 | NET OPERATING INCOME               | \$ 170,636      | \$ 15,017          | \$ 34,478                 | \$ 75,708                 | \$ 21,434                | \$ 3,960                 | \$ 20,038              |
| 19 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 20 | GROSS PLANT IN SERVICE             | \$ 11,262,122   | \$ 5,751,785       | \$ 1,303,776              | \$ 2,105,169              | \$ 841,610               | \$ 798,332               | \$ 461,449             |
| 21 | RESERVES FOR DEPRECIATION          | \$ 4,495,358    | \$ 2,334,228       | \$ 523,579                | \$ 833,607                | \$ 324,208               | \$ 306,470               | \$ 173,266             |
| 22 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 23 | NET PLANT IN SERVICE               | \$ 6,766,764    | \$ 3,417,557       | \$ 780,197                | \$ 1,271,562              | \$ 517,403               | \$ 491,862               | \$ 288,184             |
| 24 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 25 | MATERIALS & SUPPLIES - FUEL        | \$ 231,109      | \$ 84,649          | \$ 22,799                 | \$ 49,912                 | \$ 24,720                | \$ 25,461                | \$ 23,568              |
| 26 | MATERIALS & SUPPLIES -LOCAL        | \$ 21,786       | \$ 13,392          | \$ 2,737                  | \$ 3,619                  | \$ 1,078                 | \$ 930                   | \$ 29                  |
| 27 | CASH WORKING CAPITAL               | \$ (32,602)     | \$ (14,345)        | \$ (3,389)                | \$ (6,384)                | \$ (3,017)               | \$ (3,045)               | \$ (2,422)             |
| 28 | CUSTOMER ADVANCES & DEPOSITS       | \$ (14,952)     | \$ (6,360)         | \$ (4,488)                | \$ (2,723)                | \$ (861)                 | \$ (520)                 | \$ -                   |
| 29 | ACCUMULATED DEFERRED INCOME TAXES  | \$ (1,117,530)  | \$ (570,840)       | \$ (129,398)              | \$ (208,896)              | \$ (83,475)              | \$ (79,174)              | \$ (45,748)            |
| 30 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 31 | TOTAL NET ORIGINAL COST RATE BASE  | \$ 5,854,574    | \$ 2,924,053       | \$ 668,458                | \$ 1,107,091              | \$ 455,848               | \$ 435,513               | \$ 263,611             |
| 32 |                                    |                 |                    |                           |                           |                          |                          |                        |
| 33 | RATE OF RETURN                     | 2.915%          | 0.514%             | 5.158%                    | 6.838%                    | 4.702%                   | 0.909%                   | 7.601%                 |

**AmerenUE**  
**MISSOURI ELECTRIC OPERATIONS**  
**EQUALIZED CLASS RATES OF RETURN ANALYSIS**  
**12 MONTHS ENDED JUNE 2006**

| <b><u>TITLE: SUMMARY EQUAL ROR (\$000's)</u></b> |                                       | <b><u>MISSOURI</u></b> | <b><u>RESIDENTIAL</u></b> | <b><u>SMALL<br/>GEN SERV</u></b> | <b><u>LARGE<br/>GEN SERV</u></b> | <b><u>SMALL<br/>PRIMARY</u></b> | <b><u>LARGE<br/>PRIMARY</u></b> | <b><u>LARGE<br/>TRANS</u></b> |
|--|---------------------------------------|------------------------|---------------------------|----------------------------------|----------------------------------|---------------------------------|---------------------------------|-------------------------------|
| 1  | BASE REVENUE                          | \$ 2,329,256           | \$ 1,095,545              | \$ 253,832                       | \$ 447,370                       | \$ 198,307                      | \$ 195,269                      | \$ 138,933                    |
| 2  | OTHER REVENUE                         | \$ 59,477              | \$ 31,010                 | \$ 6,075                         | \$ 10,126                        | \$ 4,399                        | \$ 4,717                        | \$ 3,148                      |
| 3  | LIGHTING REVENUE                      | \$ 27,250              | \$ 13,610                 | \$ 3,111                         | \$ 5,153                         | \$ 2,122                        | \$ 2,027                        | \$ 1,227                      |
| 4  | SYSTEM REVENUE                        | \$ 179,904             | \$ 82,881                 | \$ 20,195                        | \$ 35,702                        | \$ 15,423                       | \$ 14,946                       | \$ 10,757                     |
| 5  | RATE REVENUE VARIANCE                 | \$ (0)                 | \$ (0)                    | \$ (0)                           | \$ (0)                           | \$ (0)                          | \$ (0)                          | \$ (0)                        |
| 6  | TOTAL OPERATING REVENUE               | \$ 2,595,887           | \$ 1,223,046              | \$ 283,213                       | \$ 498,351                       | \$ 220,252                      | \$ 216,960                      | \$ 154,066                    |
| 7  |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 8  | TOTAL PROD., T&D, CUSTOMER, AND A&G E | \$ 1,339,417           | \$ 590,250                | \$ 139,104                       | \$ 261,894                       | \$ 123,788                      | \$ 125,019                      | \$ 99,362                     |
| 9  | TOTAL DEPR. AND AMMOR. EXPENSES       | \$ 387,631             | \$ 198,165                | \$ 44,891                        | \$ 72,431                        | \$ 28,932                       | \$ 27,427                       | \$ 15,784                     |
| 10   | REAL ESTATE AND PROPERTY TAXES        | \$ 99,877              | \$ 51,018                 | \$ 11,565                        | \$ 18,670                        | \$ 7,460                        | \$ 7,076                        | \$ 4,089                      |
| 11   | INCOME TAXES                          | \$ 229,583             | \$ 114,665                | \$ 26,213                        | \$ 43,414                        | \$ 17,876                       | \$ 17,078                       | \$ 10,337                     |
| 12   | PAYROLL TAXES                         | \$ 19,727              | \$ 9,409                  | \$ 2,108                         | \$ 3,677                         | \$ 1,734                        | \$ 1,703                        | \$ 1,096                      |
| 13   | FEDERAL EXCISE TAX                    | \$ -                   | \$ -                      | \$ -                             | \$ -                             | \$ -                            | \$ -                            | \$ -                          |
| 14   | REVENUE TAXES                         | \$ -                   | \$ -                      | \$ -                             | \$ -                             | \$ -                            | \$ -                            | \$ -                          |
| 15   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 16   | TOTAL OPERATING EXPENSES              | \$ 2,076,235           | \$ 963,507                | \$ 223,881                       | \$ 400,085                       | \$ 179,791                      | \$ 178,303                      | \$ 130,668                    |
| 17   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 18   | NET OPERATING INCOME                  | \$ 519,652             | \$ 259,539                | \$ 59,332                        | \$ 98,265                        | \$ 40,461                       | \$ 38,656                       | \$ 23,398                     |
| 19   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 20   | GROSS PLANT IN SERVICE                | \$ 11,262,122          | \$ 5,751,785              | \$ 1,303,776                     | \$ 2,105,169                     | \$ 841,610                      | \$ 798,332                      | \$ 461,449                    |
| 21   | RESERVES FOR DEPRECIATION             | \$ 4,495,358           | \$ 2,334,228              | \$ 523,579                       | \$ 833,607                       | \$ 324,208                      | \$ 306,470                      | \$ 173,266                    |
| 22   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 23   | NET PLANT IN SERVICE                  | \$ 6,766,764           | \$ 3,417,557              | \$ 780,197                       | \$ 1,271,562                     | \$ 517,403                      | \$ 491,862                      | \$ 288,184                    |
| 24   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 25   | MATERIALS & SUPPLIES - FUEL           | \$ 231,109             | \$ 84,649                 | \$ 22,799                        | \$ 49,912                        | \$ 24,720                       | \$ 25,461                       | \$ 23,568                     |
| 26   | MATERIALS & SUPPLIES -LOCAL           | \$ 21,786              | \$ 13,392                 | \$ 2,737                         | \$ 3,619                         | \$ 1,078                        | \$ 930                          | \$ 29                         |
| 27   | CASH WORKING CAPITAL                  | \$ (32,602)            | \$ (14,345)               | \$ (3,389)                       | \$ (6,384)                       | \$ (3,017)                      | \$ (3,045)                      | \$ (2,422)                    |
| 28   | CUSTOMER ADVANCES & DEPOSITS          | \$ (14,952)            | \$ (6,360)                | \$ (4,488)                       | \$ (2,723)                       | \$ (861)                        | \$ (520)                        | \$ -                          |
| 29   | ACCUMULATED DEFERRED INCOME TAXES     | \$ (1,117,530)         | \$ (570,840)              | \$ (129,398)                     | \$ (208,896)                     | \$ (83,475)                     | \$ (79,174)                     | \$ (45,748)                   |
| 30   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 31   | TOTAL NET ORIGINAL COST RATE BASE     | \$ 5,854,574           | \$ 2,924,053              | \$ 668,458                       | \$ 1,107,091                     | \$ 455,848                      | \$ 435,513                      | \$ 263,611                    |
| 32   |                                       |                        |                           |                                  |                                  |                                 |                                 |                               |
| 33   | RATE OF RETURN                        | 8.876%                 | 8.876%                    | 8.876%                           | 8.876%                           | 8.876%                          | 8.876%                          | 8.876%                        |

**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.            )

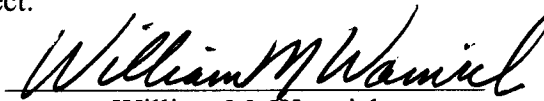
Case No. ER-2007-0002

**AFFIDAVIT OF WILLIAM M. WARWICK**

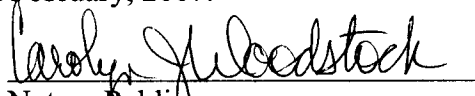
**STATE OF MISSOURI    )**  
  **) ss**  
**CITY OF ST. LOUIS     )**

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 Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 6 pages, and Schedules WMW-E4 through WMW-E5, all of which have 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 27<sup>th</sup> day of February, 2007.

  
Notary Public

My commission expires: May 19, 2008

