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EXHIBIT 208

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#### **MISSOURI PUBLIC SERVICE COMMISSION**

#### UTILITY OPERATIONS DIVISION

#### SURREBUTTAL TESTIMONY

OF

#### **MICHAEL S. SCHEPERLE**

UNION ELECTRIC COMPANY d/b/a AmerenUE

#### CASE NO. ER-2010-0036

Jefferson City, Missouri March 2010

Stat Exhibit No 208 Date 3-15-10 Reporter 44 File No. F=R - 2010-0036

#### **BEFORE THE PUBLIC SERVICE COMMISSION**

#### **OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company ) d/b/a AmerenUE's Tariffs to Increase its ) Annual Revenues for Electric Service.

Case No. ER-2010-0036

#### AFFIDAVIT OF MICHAEL S. SCHEPERLE

)

**STATE OF MISSOURI** ) ss **COUNTY OF COLE** )

Michael S. Scheperle, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 14 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael 5. Schepfile Michael S. Scheperle

Subscribed and sworn to before me this  $5^{-1}$  day of March, 2010.



SUSAN L. SUNDERMEYER My Commission Expires September 21, 2010 Callaway County Commission #06942086

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1	SURREBUTTAL TESTIMONY
2	OF
3	MICHAEL S. SCHEPERLE
4	UNION ELECTRIC COMPANY d/b/a AmerenUE
5	CASE NO. ER-2010-0036
6	Q. Please state your name and business address.
7	A. My name is Michael S. Scheperle and my business address is Missouri Public
8	Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.
9	Q. Are you the same Michael S. Scheperle who filed in this proceeding on
10	January 6, 2010, direct testimony, both in question and answer format and as part of the
11	Missouri Public Service Commission Staff's (Staff's) Class Cost-of-Service and Rate Design
12	Report, and who filed on February 11, 2010 rebuttal testimony in question and answer
13	format?
14	A. Yes, I am.
15	Q. What is the purpose of your surrebuttal testimony?
16	A. I respond to the rebuttal testimony of AmerenUE witness Weiss regarding
17	AmerenUE's proposed Environmental Cost Recovery Mechanism (ECRM); AmerenUE
18	witness Baxter regarding AmerenUE's rate design recommendations for low-income
19	residential customers; AmerenUE witness Cooper regarding AmerenUE's residential
20	customer charges; AmerenUE witness Cooper's, AmerenUE's witness Warwick's and MIEC
21	witness Brubaker's responses to the Class Cost-of-Service (CCOS) allocators Staff presented
22	in its direct case; Public Counsel witness Meisenheimer's recommendation on which peak
23	demand data should be used if the Commission relies on the Average & Peak 4 CP allocation

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method for determining the production cost allocator; and The Municipals Group witness
 Eastman's recommendation on street lighting.

- 3 Executive Summary
- 4

Q. Please summarize your surrebuttal testimony.

5 Α. With regard to AmerenUE's proposed Environmental Cost Recovery 6 Mechanism, I present Staff's disagreement with AmerenUE that the language "No major 7 capital projects shall be included until the Commission determines that the project is 8 operational and useful for service as required by Section 393.135 RSMo 2000" should not be 9 part of the ECRM and Staff's agreement with certain other changes to the proposed ECRM 10 Rider rate schedules and customer bill language Staff presented in its direct case that are 11 presented by AmerenUE witness Weiss. With regard to the quoted language, to better match 12 it with the wording of Section 393.135, Staff is modifying its proposal slightly so that the 13 sentence would read, "No major capital projects shall be included until the Commission 14 determines that the project is fully operational and used for service, as required by Section 15 393.135 RSMo 2000."

With regard to AmerenUE's rate design recommendations for low-income residential
 customers, I present Staff's nonsupport for the recommendations because they would provide
 rate relief to all residential customers, not just low-income residential customers.

With regard to AmerenUE's, MIEC's and Public Counsel's criticisms and positions
stated in rebuttal regarding CCOS studies and allocators, I present Staff's disagreement with
the charge made by AmerenUE witness Cooper and MIEC witness Brubaker that the use of an
average and peak method for determining the production capacity allocator double counts the
average demand. I respond to MIEC witness Brubaker's assertion the average and peak

methods Staff used have not ever been adopted by the Commission, and Mr. Brubaker's 1 2 assertion Staff's production capacity allocation methodology gives only seven to thirteen 3 percent weighting to AmerenUE's highest summer peak demands. I present Staff's 4 agreement with AmerenUE witness Warwick's criticism of MIEC witness Brubaker's use of 5 the 4 NCP A&E allocation methodology to develop a cost allocator for AmerenUE's 6 transmission costs and agreement with Mr. Warwick that a 12 CP methodology is the 7 appropriate allocation methodology to use. I present Staff's disagreement with MIEC witness 8 Brubaker's position that net margins from off-system sales should be allocated to the classes 9 with an energy-based allocator rather than a production-capacity based allocator and his 10 position that fuel costs should be allocated to the classes based on higher load factor 11 customers receiving below average fuel costs and low load factor customers receiving above 12 average fuel costs, rather than allocating fuel costs to customer classes based on the energy 13 usage of each class. I present Staff's disagreement with Public Counsel witness 14 Meisenheimer's recommendation of the peak demand data that should be used if the 15 Commission relies on the Average & Peak 4 CP allocation method for determining the 16 production cost allocator.

Finally, I present Staff's disagreement with The Municipal Group witness Eastman's
recommendation on street lighting.

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#### Environmental Cost Recovery Mechanism

Q. On page 10, lines 2-7 of his rebuttal testimony, based on bill space limitations,
Mr. Weiss proposes modifying the Staff's proposed wording on customers' bills for the
ECRM to be "ENVIRONMENTAL COST RECOVERY ADJ" instead of

"ENVIRONMENTAL COST RECOVERY ADJUSTMENT." Is AmerenUE's proposed
 change acceptable to Staff?

A. Yes.

Q. On page 10, lines 8-19 of his rebuttal testimony, Mr. Weiss proposes two
changes he characterizes as small corrections to Staff's proposed ECRM Rider rate schedules
(Schedules MSS-9-1 through MSS-9-6). Does Staff agree with these two proposed changes?

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A. Yes. Staff is in agreement with these changes, which are corrections.

Q. On page 10, lines 16-19 of his rebuttal testimony, Mr. Weiss discusses Staff's
definition of "ERR" in the ECRM tariff sheets Staff provided in its direct case as exemplars
of how AmerenUE's ECRM tariff sheets should be if the Commission authorizes AmerenUE
to use an ECRM. Does Staff agree with AmerenUE's recommendation to change the
definition of "ERR" in these ECRM tariff sheets?

13 A. No. The last sentence in Staff's definition reads, "No major capital projects 14 shall be included until the Commission determines that the project is operational and useful 15 for service as required by 393.135 RSMo. 2000." AmerenUE believes the sentence is 16 problematic and unnecessary. To better match it with the wording of Section 393.135, Staff is 17 modifying its proposal slightly so that the sentence would read, "No major capital projects 18 shall be included until the Commission determines that the project is fully operational and 19 used for service, as required by Section 393.135 RSMo 2000." On the advice of counsel, 20 Staff believes the sentence is both a requirement of Section 393.135, RSMo 2000 that must be 21 satisfied and a necessary safeguard to allow the Commission to determine the project is 22 actually providing benefit to AmerenUE's ratepaying customers before any capitalized project 23 amount is billed to customers under the applicable ECRM Rider rate. Delaying AmerenUE's

recovery of project costs from its retail customers is not Staff's goal, but in the opinion of Staff's counsel such projects must satisfy the "fully operational and used for service" requirement of Section 393.135 RSMo. 2000 before AmerenUE may lawfully recover the costs of them through an ECRM, or any other means. If Staff or any other party has a concern about whether a project is fully operational and used for service, that concern should be addressed by the Commission before AmerenUE's retail customers make any ECRM payments for that project.

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Q. On pages 3-4, lines 42-46 and 1-6, of his rebuttal testimony, AmerenUE
witness Baxter states, "[W]e recommend that the Commission consider adopting a rate design
that would help mitigate the impact of any increase that is ultimately approved in this case on
Missouri families (including our low income customers). As a consequence, the Commission
should consider shifting 1% of the total costs that would otherwise be borne by the residential
class to the Large Primary Service and Large Transmission Service classes, which currently
pay much lower rates than the Residential class." Does Staff support this recommendation?

AmerenUE Rate Design Recommendation for Low-Income Residential Customers

16 Α. No. Staff realizes AmerenUE made this recommendation to address residential 17 concerns expressed at the local public hearings in this case and Staff does support the concept 18 of a program addressing low-income customers. However, Staff is concerned with 19 AmerenUE's proposal that all residential customers receive a discounted rate, or an overall 20 revenue-neutral shift between rate classes to reduce rates for the residential class for the sole 21 goal of reducing the economic burden on all or part of those in that class, and not on a class 22 cost of service basis. As described in the rebuttal and surrebuttal testimony of Staff witness 23 Anne Ross, Staff would limit any such benefit to only low-income residential customers and,

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1 at this time, provide it through an experimental program so any economic benefit of the 2 program can be evaluated before it is implemented on a broader basis. 3 **Residential Customer Charge** 4 Q. How did AmerenUE respond in rebuttal testimony to Staff's residential 5 customer charge recommendation of an increase from \$7.25 to \$8.50? 6 A. AmerenUE opposes Staff's recommendation as detailed in AmerenUE witness 7 Cooper's rebuttal testimony on pages 11-12 asserting a greater increase to \$10.00 is warranted 8 by Staff's and AmerenUE's class cost-of-service studies. Staff believes the recommendation 9 by AmerenUE to increase the residential customer charge from \$7.25 to \$10.00 is too large 10 (37.9%) of an increase for residential customers. Staff continues to recommend a modest 11 increase in the residential customer charge to \$8.50, taking into consideration that 12 AmerenUE's residential customer charge has not increased since 2000 as well as the rate 13 impact to customers of increasing the customer charge. Staff's recommendation is based on 14 Staff's judgment of public acceptance and preference for rate stability. 15 Accusation of Double Counting - Production Capacity Allocator

Q. On page 4, lines 5-6 of his rebuttal testimony, AmerenUE witness Cooper states that the use of the Average and Peak (A&P) method is inherently flawed because it double counts the average demand of customer classes. Likewise, on page 14, lines 6-8 of his rebuttal testimony, MIEC witness Brubaker makes the same assertion. What is Staff's response to this same criticism by two different parties?

A. The Commission has seen and rejected this argument in the past. A
Commission decision in Case Nos. EO-85-17 and ER-85-60 notes that once one accepts the
A&P method, the question of double counting becomes academic. Under the A&P method

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1	utilized by Staff and adopted by the Commission, there is no double-counting. The double
2	counting only occurs if the peak responsibility is accepted. Because the Commission
3	appropriately rejected the peak responsibility theory in favor of the utilization of capacity at
4	both peak and average loads approach, there is no double-counting. Each class is allocated
5	costs based on utilization of capacity at both peak and average loads. In a Commission Order
6	involving AmerenUE in Case Nos. EO-85-17 and ER-85-60, the Commission stated:
7 8 9 10 11 12 13 14	Industrials contend there is no evidence hourly average data accurately track costs. They contend the AP method double-counts high load factor customers and that Staff's cost of service study has serious technical flaws. Staff based its position on the premise that capacity utilization throughout the year is the proper method to allocate costs. Staff's method views the UE system from a standpoint of what types and how much capacity would be purchased to meet demands in every hour of the year if it assumed no production plant exists at the beginning of the year (p. 142, 147).
15 16	Elsewhere in the Order the Commission stated:
17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33	Once one accepts the [Time of Use] TOU theory and adopts the AP method as the closest approximation without the actual load, the question of double counting as charged by Industrials becomes academic. The double counting alleged by Industrials only occurs if the peak responsibility theory is accepted. Under the TOU/AP method utilized by Staff and adopted by the Commission herein, there is no double counting. Each class is allocated costs based on utilization of capacity at both peak and average loads. The double counting allegation comes from Industrials' position that specific demands cause additional capacity to be constructed. The Commission finds that the existing customers have no property rights in any particular rate or rate design and that it is the Commission's responsibility to determine what method most accurately tracks the cost of the UE system caused by customer classes. Staff states the chronological occurrence of the load has nothing to do with the principal of cost causation as it relates to cost responsibility. The Commission agrees with this position (p. 149)."
34	Nos. EO-85-17 and ER-85-60?
35	A. Mr. Brubaker and Mr. Cooper's contention that Staff's CCOS studies are
36	flawed due to double counting are incorrect. In its Report and Order in Case Nos. EO-85-17

and ER-85-60 the Commission clearly states that under the TOU/A&P method, there is <u>no</u> <u>double counting</u>.

3 Importance of Precedence

Q. On page 25-26, lines 14-24, 1-3, of his rebuttal testimony, MIEC witness
Brubaker states that CCOS studies that have not withstood the test of time must be viewed
with skepticism, and proponents of such methods bear a special burden of proving that they
do a more accurate job of identifying cost-causation than do recognized methods. Mr.
Brubaker also states on page 3 of his rebuttal testimony that Staff's A&P methods have not
ever been adopted by this Commission. Has this Commission previously adopted Staff's
Capacity Utilization A&P method?

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A. Yes. This Commission, in 1983, issued a decision in Re Kansas City Power &

12 Light Company, Case No. EO-78-161, February 28, 1983, Report and Order, in which it

13 expressly stated:

... As will be discussed in greater detail, *infra*, based on the evidence presented in this case, the commission finds the time-of-use method to be the most theoretically appropriate approach for allocating generation costs and, further, finds the average and peak allocation method for fixed generation cost as the most reasonable alternative to a full time-of-use procedure. As a result of these findings, the updated cost-of-service study to be submitted by KCPL shall contain either: (a) a full hourly time-of-use allocation of both fixed and variable generation costs to the customer classes, or (b) an average and peak allocation of fixed generation costs and an allocation of variable generation costs on the basis of annual class energy usage adjusted for losses.

Therefore, based on the findings that fixed generation and bulk transmission costs should be allocated to the customer classes based on class demand levels and that the average and peak method gives a degree of consideration to offpeak usage of generation facilities, the commission concludes that the average and peak method, as proposed by the staff, provides the most reasonable alternative to the time-of-use procedure for allocating the costs involved.

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1	In addition, in Re Arkansas Power & Light Company, Case No. ER-81-364, 25
2	Mo.P.S.C.(N.S.) 101, 113 Report and Order (1982) and Re Union Electric Company, Case
3	Nos. EO-85-17 and ER-85-160, 27 Mo.P.S.C.(N.S.) 183, 274 – Report and Order (1985) the
4	Commission approved the TOU method and adopted the A&P method as a practical
5	alternative to approximate the TOU method which at that time was impractical to implement.
6	Q. Is MIEC witness Brubaker correct that Staff's A&P methods have never been
7	adopted by this Commission?
8	A. No. Mr. Brubaker's statement is not true. Staff outlined at least three cases
9	above where this Commission adopted the A&P method.
10	Q. Has this Commission ever adopted the Four Non-Coincidental Class Peak,
11	Average and Excess (4 NCP A&E) method proposed by MIEC witness Brubaker?
12	A. Not to my knowledge. The Capacity Utilization A&P Method proposed by
13	Staff expressly has been adopted by this Commission at least three times as detailed above,
14	but if this Commission has ever adopted the Four Non-Coincidental Class Peak, Average and
15	Excess (4 NCP A&E) method, I am unaware of it.
16	Importance of Summer Peaks
17	Q. On page 15, lines 9-15, of his rebuttal testimony, MIEC witness Brubaker
18	states that it is the summer peak demands that drive the need for additional generation
19	capacity and that an allocation methodology which gives only 7% to 13% weighting to the
20	highest summer peak demands cannot be reasonable. Mr. Brubaker further contends that
21	Staff's allocations skew the results so that high load factor customers are allocated a

significant amount of costs for which they have no responsibility for causing. Do you agree?

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1 Α. No. Staff disagrees with Mr. Brubaker's percentages. Staff agrees that 2 AmerenUE is a summer peaking utility. In AmerenUE's territory, the highest peak demands 3 have typically occurred in the summer due to air conditioning load. Both of Staff's CCOS 4 studies (4 CP A&P; Capacity Utilization A&P) give more weight to the summer months in 5 deriving allocation factors. The production-capacity "Peak" component of the 4 CP A&P 6 method provides a 100% "Peak" component as it considers the four months with the highest 7 peak demand, which occur during the summer months (June – September). The Capacity 8 Utilization A&P method also considers the summer months by allocating approximately 48% 9 of costs to the summer months (June - September). Mr. Brubaker is incorrect when he states 10 in his rebuttal testimony that Staff uses a 7% to 13% weighting of the highest summer peak 11 demands.

#### 12 Transmission Costs Allocation

Q. On pages 2-3, lines 16-19 and 1-12 of his rebuttal testimony AmerenUE witness Warwick disagrees with MIEC witness Brubaker on how transmission costs should be allocated. Does Staff agree with AmerenUE witness Warwick on how transmission costs should be allocated?

A. Yes. Staff and AmerenUE have used the same method for allocating transmission system costs. AmerenUE witness Warwick explains that the 4 NCP A&E allocation method MIEC uses for deriving production allocators has little justification for use to derive a transmission allocator as MIEC proposed. Mr. Warwick and Staff believe it is more appropriate that transmission system costs be allocated using a method which employs class demands during peak periods, and that a 12-month CP method is appropriate. As stated

earlier, Staff used and supports the same method as AmerenUE for deriving the transmission
 system costs allocator.

3 Revenues from Off-System Sales

Q. On page 26, lines 14-19 in his rebuttal testimony, MIEC witness Brubaker states: "It appears that both OPC and Staff have allocated the net margins (revenues minus estimated fuel and purchased power costs) to classes on the basis of a demand allocation factor. This is comparable to AmerenUE's allocation, which I believe to be inferior to an energy-based allocation." Does Staff agree with Mr. Brubaker?

9 A. No. Staff differs with Mr. Brubaker's position that the off-system sales 10 margins allocator should be based on an energy component. In Staff's Class Cost-of-Service 11 study, fuel expenses for off-system sales and the cost of purchased power for off-system sales 12 were subtracted from off-system sales revenues to provide the margin from off-system sales. 13 Removing the fuel expenses and the cost of purchased power removes the energy dependent 14 component of the off-system sales. The margin (net) from off-system sales was generated by 15 AmerenUE's generation facilities. Since the margin from off-system sales is a result of 16 AmerenUE's generation facilities where Staff removed the energy component in its Class 17 Cost-of-Service study, Staff appropriately allocated the off-system sales margin using Staff's 18 A&P production-capacity allocator.

19 Fuel Costs Allocation

Q. On page 22, lines 4-9 of his rebuttal testimony, MIEC witness Brubaker states:
"The fuel cost allocation should recognize that the higher load factor customer classes should
receive below average fuel costs to correspond to the above-average capital cost (similar to
base load units) allocated to them, and the lower load factor classes should get an allocation of

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1	fuel costs that is above the average, corresponding to the lower than average capital cost (i.e.,
2	peaking units) allocated to them." Does Staff agree?
3	A. No. While somewhat intuitively attractive, the argument has no merit. Utilities
4	do not build only peaking capacity to meet the needs of their low load factor customers and
5	only baseload capacity to meet the needs of the high load factor customers. Utilities build
6	capacity to meet all the load of their customers all the time. Further the Commission
7	previously addressed this same argument in its Report and Order in a Union Electric
8	Company case, Case Nos. EO-85-17 and ER-85-160. There the Commission stated:
9 10 11 12 13 14 15	The Commission finds that the existing customers have no property rights in any particular rate or rate design and that it is the Commission's responsibility to determine what method most accurately tracks the cost of the UE system caused by customer classes. Staff states the chronological occurrence of the load has nothing to do with the principal of cost causation as it relates to cost responsibility. The Commission agrees with this position (p. 149).
16	The Commission also stated in the Report and Order:
16 17 18 19 20 21 22 23	The Commission also stated in the Report and Order: Industrials' argument concerning the unfairness of the allocation of average costs to primary service customers is a restatement of their position that existing customers have rights in the current structure. This is not true, as stated earlier. The Commission has found Staff's method to most closely associate costs with utilization and the results are not unfair on that basis (p. 150).
17 18 19 20 21 22	Industrials' argument concerning the unfairness of the allocation of average costs to primary service customers is a restatement of their position that existing customers have rights in the current structure. This is not true, as stated earlier. The Commission has found Staff's method to most closely associate costs with utilization and the results are not unfair on that basis
17 18 19 20 21 22 23	Industrials' argument concerning the unfairness of the allocation of average costs to primary service customers is a restatement of their position that existing customers have rights in the current structure. This is not true, as stated earlier. The Commission has found Staff's method to most closely associate costs with utilization and the results are not unfair on that basis (p. 150).
17 18 19 20 21 22 23 24	<ul> <li>Industrials' argument concerning the unfairness of the allocation of average costs to primary service customers is a restatement of their position that existing customers have rights in the current structure. This is not true, as stated earlier. The Commission has found Staff's method to most closely associate costs with utilization and the results are not unfair on that basis (p. 150).</li> <li>Q. How does Staff allocate fuel costs in its Class Cost-of-Service study?</li> </ul>
17 18 19 20 21 22 23 24 25	<ul> <li>Industrials' argument concerning the unfairness of the allocation of average costs to primary service customers is a restatement of their position that existing customers have rights in the current structure. This is not true, as stated earlier. The Commission has found Staff's method to most closely associate costs with utilization and the results are not unfair on that basis (p. 150).</li> <li>Q. How does Staff allocate fuel costs in its Class Cost-of-Service study?</li> <li>A. Staff allocates fuel costs by the amount of energy (kWh including losses) that</li> </ul>
17 18 19 20 21 22 23 24 25 26	<ul> <li>Industrials' argument concerning the unfairness of the allocation of average costs to primary service customers is a restatement of their position that existing customers have rights in the current structure. This is not true, as stated earlier. The Commission has found Staff's method to most closely associate costs with utilization and the results are not unfair on that basis (p. 150).</li> <li>Q. How does Staff allocate fuel costs in its Class Cost-of-Service study?</li> <li>A. Staff allocates fuel costs by the amount of energy (kWh including losses) that each class used. This method allocates the average cost of fuels to the classes.</li> </ul>

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A. No. Most of the high load factor customers are in the Large Primary and the
 Transmission classes. Staff's A&P allocator properly allocates fuel costs to these classes
 based on the kWh (including losses) that each class used.

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#### Peak Information Used in Staff CCOS Report

Q. On page 3, lines 9-12, of her rebuttal testimony, Public Counsel witness Meisenheimer states her belief that the primary factor contributing to the difference between OPC and Staff 4 CP A&P allocators are that OPC used weather normalized peak demand data while Staff used peak demand data that was not adjusted to normal weather. Is she correct?

A. No. Staff and OPC used the same data source but Staff updated its data based
on information AmerenUE provided in its response to Staff DR 0178. In its response to that
DR, AmerenUE corrected its data for customers who switched rate classes in 2008 and for
having inadvertently using incorrect energy loss rates instead of system peak loss rates. The
difference between the 4 CP A&P allocator of OPC and Staff has nothing to do with weather
normalized peaks or actual peaks.

15 Street Lighting Recommendation

Q. On page 15, lines 1-14 of his rebuttal testimony, Mr. Eastman, on behalf of The Municipal Group, recommends that AmerenUE commence a CCOS study for street lighting and recommends that there be no increase for street lighting rates under rate schedules 5M and 6M. Mr. Eastman also recommends that the 10% discount currently offered to municipalities be increased to 20%. Does Staff agree?

A. Yes and no. Staff agrees that AmerenUE should file a CCOS study for street lighting in its next rate case. But Staff does not agree with the recommendation that there be no rate increase for street lighting or that the current 10% discount be increased to 20%.

AmerenUE's Street lighting revenue is approximately \$31,295,000. Based on Staff's midpoint recommendation of 10.68% (from Staff's direct testimony), the increase in revenue requirement responsibility of street lighting customers is approximately \$3,342,000. If street lighting rate schedules do not receive the average increase, then the other rate classes would receive a higher percentage increase. Staff recommends in the absence of a CCOS study to support a change, the street lighting rate schedules receive the average percent increase authorized by the Commission.

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- Q. Does this conclude your surrebuttal testimony?
- A. Yes, it does.