

EXHIBIT

203

Exhibit No.:

Issue: Vegetation Management,
Infrastructure Inspections and
Storm Cost

Witness: Stephen M. Rackers

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: ER-2010-0036

Date Testimony Prepared: March 5, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

STEPHEN M. RACKERS

UNION ELECTRIC COMPANY

d/b/a AmerenUE

CASE NO. ER-2010-0036

*Jefferson City, Missouri
March 5, 2010*

~~3103~~ Exhibit No. 203
Date 3-15-10 Reporter EF
File No. EF-2010-0036

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STEPHEN M. RACKERS
UNION ELECTRIC COMPANY
d/b/a AmerenUE
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STORM COST 5

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **STEPHEN M. RACKERS**

4 **UNION ELECTRIC COMPANY**

5 **d/b/a AMERENUE**

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

7 Q. Please state your name and business address.

8 A. Stephen M. Rackers, 111 North 7th Street, St. Louis, MO 63101.

9 Q. Are you the same Stephen M. Rackers who previously filed Direct, Rebuttal
10 and Surrebuttal testimony in this case, related to the Union Electric Company,
11 d/b/a AmerenUE's (UE or Company) request for interim rates, as well as prefiled
12 Direct testimony in support of the Missouri Public Service Commission (Commission)
13 Staff's (Staff) Revenue Requirement Cost of Service Report and Rebuttal testimony regarding
14 the issue of storm cost?

15 A. Yes, I am.

16 Q. What is the purpose of your Surrebuttal testimony?

17 A. My Surrebuttal testimony will respond to the Rebuttal testimony of Company
18 Witnesses David N. Wakeman regarding vegetation management, infrastructure inspections
19 and storm cost.

20 **VEGETATION MANAGEMENT AND INFRASTRUCTURE INSPECTIONS**

21 Q. Beginning on page 6 of his Rebuttal testimony, Mr. Wakeman discusses the
22 uncertainty regarding the cost the Company will incur to comply with the Commission's

1 vegetation management and infrastructure inspection rules. How do you respond to these
2 statements?

3 A. Staff agrees that the Company cannot know the exact amount that it may spend
4 to comply with the Commission's rules for vegetation management and infrastructure
5 inspections. However, as Mr. Wakeman states on page 6 of his Rebuttal testimony and as
6 Mr. Zdellar stated in his Direct testimony, the Company is currently in compliance with these
7 rules. In fact, the Company began complying with the Commission's rules on
8 January 1, 2008, over two years ago. The experience of the last two years should be used as
9 an indication of the ongoing amount to include in the cost of service in this case. The Staff
10 recommends that the actual amount of non-labor vegetation management and infrastructure
11 inspection cost, \$58 million, incurred by AmerenUE for the twelve months ending
12 January 31, 2010, the true-up cut-off date in this case, be included in the cost of service.

13 Q. How has the cost incurred by the Company to comply with the Commission's
14 rules changed since your original recommendation?

15 A. The cost incurred by the Company has actually declined by approximately
16 \$1,000,000 from the twelve months ending September 30, 2009.

17 Q. Has the Commission made provisions to allow the Company to address the
18 additional costs it incurred to comply with the rules?

19 A. Yes. As a result of the Company beginning its compliance with the rules on
20 January 1, 2008, the Commission allowed AmerenUE to recover the amount it spent, in
21 excess of the amount included in rates, to comply from January 1, 2008 through
22 September 30, 2008. Also, the Commission allowed the Company to defer the amount it
23 incurred to comply with the rules from October 1, 2008 through February 28, 2009, just prior

1 to the implementation of new rates on March 1, 2009, as a result of the Commission's Order
2 issued for Case No. ER-2008-0318. In addition the Commission allowed AmerenUE to
3 establish a tracker to defer expenditures the Company incurred to comply with the rules that
4 were either above or below a base level of \$64.8 million, through the effective date of new
5 rates in the current case. The Staff believes these provisions are sufficient to allow the
6 Company to address the transition to compliance with the Commission's rules. Therefore, the
7 Staff recommends that the Commission discontinue the tracker for vegetation management
8 and infrastructure inspections.

9 Q. Do you agree with Mr. Wakeman's characterizations of the Staff's position on
10 page 11 of his Rebuttal testimony regarding the amounts deferred from October 1, 2008
11 through February 28, 2009?

12 A. No. Mr. Wakeman's statements are completely incorrect. On page 86 of
13 Staff Report Revenue Requirement Cost of Service (Staff Report) I state:

14 Also as part of that rate case, the Commission allowed AmerenUE
15 to defer the amount of cost the Company incurred to comply with
16 the Commission's vegetation management and infrastructure
17 inspection rules, in excess of the amount that was included in base
18 rates from October 31, 2008 through February 28, 2009. The Staff
19 has adjusted the test year expense to included one-third of the
20 amount deferred.

21 Adjustments E-211-2 and 3, which appear on page 17 of the
22 Staff Accounting Schedules, Schedule 10 – Adjustments to Income Statement Detail, filed
23 with Staff's Direct testimony, include a three year amortization of the \$2 million of non-labor
24 that was incurred from October 1, 2008 through February 28, 2009. This is the very same
25 treatment that the Commission authorized for the amounts that the Company incurred from
26 January 1, 2008 through September 2008 to comply with the new rules.

1 Q. Mr. Wakeman states on page 11 of his Rebuttal that the amount incurred from
2 October 1, 2008 through February 28, 2008 is \$2.9 million. Is this the correct amount?

3 A. No. Based on documentation provided to me by the Company, the non-labor
4 amount incurred by AmerenUE to comply with the Commission's rules, in excess of the
5 amount included in base rates is \$2 million rather than \$2.9 million.

6 Q. What are the results of the tracker established by the Commission to
7 allow AmerenUE to defer the amount of cost the Company incurred to comply with
8 the Commission's vegetation management and infrastructure inspection rules, in relation to
9 the base amount, \$64.8 million, that was included in the cost of service in
10 Case No. ER-2008-0318?

11 A. Through February 28, 2010 the Company has collected approximately
12 \$5 million in excess of what it actually incurred to comply with the Commission's new rules.

13 Q. What is the Company's proposal to address this overcollection?

14 A. Mr. Wakeman proposes to use a portion of the overcollection to offset the
15 amount incurred from October 1, 2008 through February 28, 2009, in excess of the amount
16 included in rates. However, he has not provided any proposal regarding the remainder of the
17 overcollection.

18 Q. What is the Staff's proposal to address this overcollection?

19 A. Staff proposes to reduce this overcollection by the \$2 million the Company
20 incurred from October 1, 2008 through February 28, 2009, in excess of the amount included
21 in rates. Staff proposes to allow the Company to keep the remaining \$3 million to address
22 any excess it may incur above the \$58 million Staff is recommending to include in the cost of
23 service for ongoing compliance with the Commissions rules. As a result of this proposal, the

1 adjustments made by the Staff to amortize the \$2 million the Company incurred from
2 October 1, 2008 through February 28, 2009, in excess of the amount included in rates are no
3 longer necessary.

4 Q. What is the Staff's recommendation if the Commission believes the trackers
5 should be extended?

6 A. If the Commission extends the trackers beyond the effective date of rates in
7 this case, Staff recommends a base amount of \$58 million. The \$3 million of overcollection
8 would remain in the tracker as an addition or an offset to any future amounts deferred. The
9 disposition of any amounts deferred would be addressed in the next rate case.

10 **STORM COST**

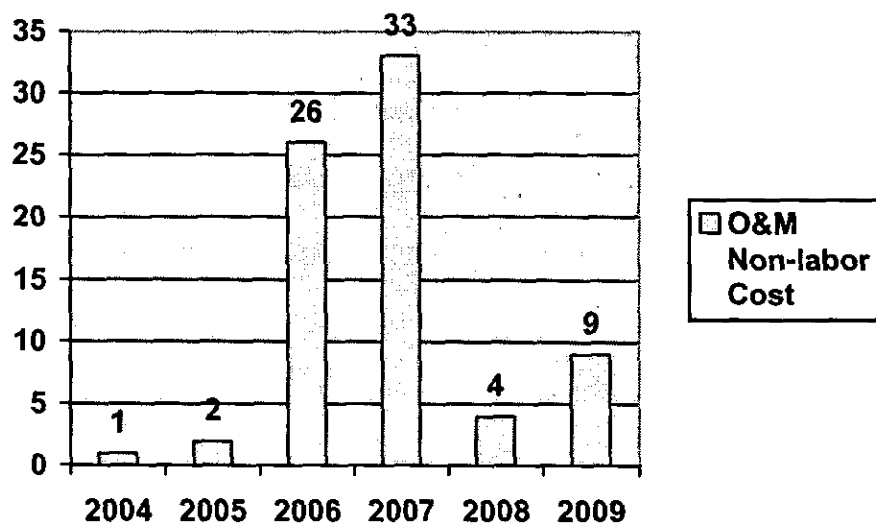
11 Q. What are the specific costs that are being addressed by this portion of your
12 Surrebuttal testimony address?

13 A. The costs addressed by this testimony are the operation and maintenance
14 (O&M) cost incurred in the restoration of Company's facilities following a storm. Plant that
15 is installed as part of the storm restoration cost is included in the plant accounts and is not
16 addressed as part of this issue by any party. For the storms shown in Mr. Wakeman's chart on
17 page 14 of his Rebuttal testimony, except in 2007, the capital cost (plant) portion of storm
18 restoration cost was significantly more than the O&M cost. The storm cost issues in this case
19 only address the O&M cost.

20 In addition only the non-labor portion of the O&M cost is addressed by the parties for
21 this issue. As stated by Company witness Ronald C. Zdellar on page 21 of his
22 Direct testimony: "First, the Company is asking the Commission to set the base level of storm

1 restoration O&M costs (excluding internal labor) in the Company's revenue requirement at
2 the actual amount incurred during the test year, which is \$10.4 million".

3 To better focus this issue, I have recast Mr. Wakeman's chart that is found on page 14
4 of his rebuttal testimony to address the costs which are at issue in this case.



7
8
9 Q. Your chart shows very significant non-labor O&M expenditures for storm
10 restoration in 2006 and 2007. How were these costs addressed for ratemaking?

11 A. The majority of the non-labor O&M storm cost in 2006 was determined to
12 have been offset through sales of SO2 allowances. In its Order in Case No. ER-2007-0002
13 the Commission stated: "The Commission concludes that AmerenUE's 2006 storm related
14 operating and maintenance shall be offset against its 2006 SO2 allowance sales revenue.
15 Thereafter, the company's 2006 storm related operation and maintenance costs shall not be
16 considered in any manner in any future rate proceeding."

1 For 2007, the majority of the O&M cost related to a single storm event that resulted in
2 \$25 million of non-labor restoration cost. This amount was deferred as a result of an
3 Accounting Authority Order (AAO) that was granted in Case No. EU-2008-0141. As part of
4 Case No. ER-2008-0318, the Commission ruled that the amount deferred should be amortized
5 and included in the cost of service over 5 years.

6 As discussed above, most of the non-labor storm cost in these two years was
7 specifically addressed in rate cases. The remainder of the cost in these two years was
8 addressed through the inclusion of an ongoing level in the cost of service and amortizations of
9 above normal storm cost.

10 Q. Do you agree with Mr. Wakeman when he says at page 13 of his Rebuttal
11 testimony that "The number and severity of storms varies widely from storm to storm and
12 from year to year"?

13 A. Yes. As the chart above shows, the non-labor O&M cost level from 2004
14 through 2009 has varied from \$1 million to \$33 million. Furthermore, since the storm that
15 occurred on January 27, 2009, for the over 13 month period through March 4, 2010, the total
16 non labor O&M cost from significant storms has been only \$1 million. It is precisely for this
17 reason that Staff has used averages and amortizations to determine the ongoing expense levels
18 and above normal storm cost. Also, an AAO was used to address unusually significant
19 events, such as the 2007 storm.

20 Q. How do you respond to Mr. Wakeman's statements on page 16 of his Rebuttal
21 testimony that the use of an AAO and amortizations are inadequate to cover the storm costs
22 that the Company has experienced?

1 A. I believe that the use of averages to determine the ongoing test year cost is
2 appropriate given the variation in the amount of storm cost experienced and that the use of an
3 AAO and amortizations show the significant steps the Staff has taken to address the storm
4 cost that has occurred.

5 Q. Has the Commission previously indicated that it intends to limit the use
6 of trackers?

7 A. Yes. In Section 2.a of its Order in Case No. ER-2008-0318, the Commission
8 stated: "Public Counsel's general concerns about the overuse of tracking mechanisms are
9 valid. The Commission does not intend to allow the overuse of tracking mechanisms in this
10 case, or in future cases".

11 Q. Does this conclude your Surrebuttal testimony?

12 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

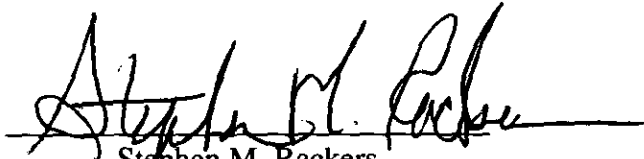
OF THE STATE OF MISSOURI

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

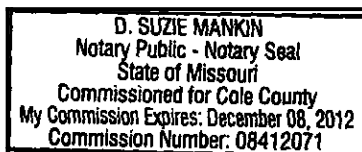
AFFIDAVIT OF STEPHEN M. RACKERS

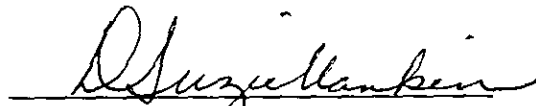
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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


Stephen M. Rackers

Subscribed and sworn to before me this 5th day of March, 2010.




Notary Public