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**Missouri Public
Service Commission**

Exhibit No.: **077**

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

AmerenUE Exhibit No. 77
Case No(s) ER-2007-0002
Date 3-28-07 Rptr DE

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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

Surrebuttal Testimony of
William M. Warwick

- 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 GEN SERV</u>	<u>LARGE GEN SERV</u>	<u>SMALL PRIMARY</u>	<u>LARGE PRIMARY</u>	<u>LARGE 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

<u>TITLE: SUMMARY EQUAL ROR (\$000's)</u>								
	<u>MISSOURI</u>	<u>RESIDENTIAL</u>	<u>SMALL GEN SERV</u>	<u>LARGE GEN SERV</u>	<u>SMALL PRIMARY</u>	<u>LARGE PRIMARY</u>	<u>LARGE TRANS</u>	
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	
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27 CASH WORKING CAPITAL	\$ (32,602)	\$ (14,345)	\$ (3,389)	\$ (6,384)	\$ (3,017)	\$ (3,045)	\$ (2,422)	
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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%	

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.)

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

CAROLYN J. WOODSTOCK
Notary Public - Notary Seal
STATE OF MISSOURI
Franklin County
My Commission Expires: May 19, 2008