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Cost of Service, Revenue Allocation,
and Rate Design

Maurice Brubaker

Rebuttal Testimony

Missouri Industrial Energy Consumers

ER-2012-0166

August 14, 2012

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of Union Electric Company,
d/b/a Ameren Missouri's Tariff to Increase
Its Annual Revenues for Electric Service**

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Case No. ER-2012-0166

Tariff No. YE-2012-0370

Rebuttal Testimony and Schedule of

Maurice Brubaker

**on Cost of Service, Revenue
Allocation and Rate Design**

On behalf of

Missouri Industrial Energy Consumers

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STATE OF MISSOURI)

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COUNTY OF ST. LOUIS)

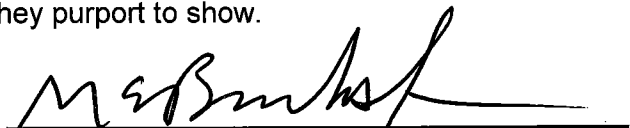
Affidavit of Maurice Brubaker

Maurice Brubaker, being first duly sworn, on his oath states:

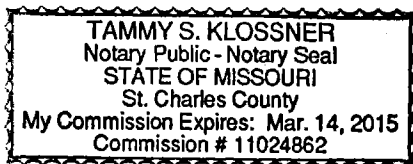
1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

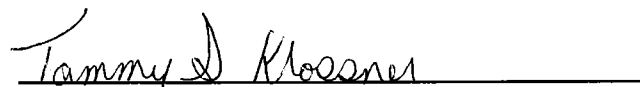
2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2012-0166.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.


Maurice Brubaker

Subscribed and sworn to before me this 13th day of August, 2012.




Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
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**In the Matter of Union Electric Company,
d/b/a Ameren Missouri's Tariff to Increase
Its Annual Revenues for Electric Service**

Rebuttal Testimony of Maurice Brubaker

1 **INTRODUCTION AND SUMMARY**

2 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A In my rebuttal testimony I will address the cost of service and revenue allocation
4 proposals put forth by the Staff of the Public Service Commission ("Staff") and the
5 Office of Public Counsel ("OPC").

6 **Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

7 A They may be summarized as follows:

- 8 1. OPC's preferred allocation of generation fixed, or demand-related, costs is
9 premised on an average and peak ("A&P") allocation method that has been
10 rejected by this and other commissions. It double counts energy consumption
11 and over-allocates costs to high load factor customers, and should again be
12 rejected.
- 13 2. Staff has developed an alternative Base, Intermediate and Peaking ("BIP")
14 method that differs materially from the BIP method described in the NARUC Cost
15 Allocation Manual and the BIP proposed for implementation in the current Kansas
16 City Power & Light Company ("KCPL") case. This version of BIP is not an
17 accepted method and should not be endorsed in this case.
- 18 3. Staff's actual implementation of BIP is based on development of a composite
19 allocation factor that is constructed by looking at several different measures of
20 class load responsibility. The alternative application proposed by Staff in this
21 case produces results that are similar to traditional allocation methods.
- 22 4. OPC's proposal to allocate the margin earned from off-system sales ("OSS") on a
23 demand basis has previously been rejected by the Commission and should
24 continue to be rejected in this case.
- 25 5. OPC's proposed allocation of the investment and expenses associated with
26 energy efficiency ("EE") is inappropriate and is not consistent with cost causation.
- 27 6. Neither Staff nor OPC recognizes the substantial difference among customer
28 classes with respect to the incurrence and recovery of EE costs. The equal
29 percent, or nearly equal percent in the case of Commission Staff, allocation of any
30 increase among customer classes fails to recognize these distinctions and would
31 be particularly burdensome on the Large Transmission Service ("LTS") customer
32 who has opted out of participation in Ameren Missouri's EE programs.

- 1 7. The percentage increase to the LTS class should be at least 4.0 percentage
2 points below the average increase for the following reasons:
- 3 a. No costs were allocated to the LTS class in Ameren Missouri's Missouri
4 Energy Efficiency Investment Act ("MEEIA") case, EO-2012-0142.
- 5 b. Unless the increase to LTS is at least 4.0 percentage points below the
6 average increase, the LTS customer will effectively be allocated responsibility
7 for a portion of the EE costs, which it is not causing or participating in.
- 8 c. The failure to appropriately recognize the specific assignment of EE costs
9 would result in an allocation that is clearly wrong, inconsistent with the letter
10 and spirit of the MEEIA legislation and the Commission rules, and would deny
11 this customer the benefit of the opt-out provision.

12 **CLASS COST OF SERVICE ISSUES**

13 **Q HAVE YOU REVIEWED THE TESTIMONY OF COMMISSION STAFF WITNESS**
14 **MICHAEL SCHEPERLE AND OPC WITNESS BARBARA MEISENHEIMER ON**
15 **THE SUBJECT OF CLASS COST OF SERVICE?**

16 **A** Yes.

17 **Q DO YOU HAVE REBUTTAL TO THE COST OF SERVICE POSITIONS OF THESE**
18 **WITNESSES?**

19 **A** Yes, I do. I disagree with the methods which OPC has used for the allocation of
20 production and transmission fixed costs and with respect to the allocation of certain
21 other components of the cost of service. I have minor disagreements with the
22 Commission Staff's study.

1 **OPC's Study**

2 **Q WHAT METHOD HAS OPC USED FOR THE ALLOCATION OF GENERATION**
3 **FIXED, OR DEMAND-RELATED, COSTS?**

4 A OPC's recommended method is an A&P allocation method. In particular, OPC uses
5 the four monthly coincident peak demands of each customer class along with each
6 class's annual energy consumption. The energy component is weighted equal to the
7 system's annual load factor. The result is to give only about 45% weighting to the
8 contributions to the four monthly coincident peaks, and 55% weighting to annual
9 energy consumption.

10 **Q DOES OPC EXPLAIN THE BASIS FOR SELECTING THIS ALLOCATION**
11 **METHODOLOGY?**

12 A No. While OPC explains the basis for the use of the four peaks, it does not explain or
13 attempt to justify why this particular averaging method is appropriate for Ameren
14 Missouri.

15 **Q DOES THE FACT THAT A METHOD IS MENTIONED IN THE NATIONAL**
16 **ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS ("NARUC") COST**
17 **ALLOCATION MANUAL GIVE IT CREDIBILITY OR SUGGEST THAT IT IS**
18 **ACCEPTED IN THE INDUSTRY?**

19 A No.

20 **Q PLEASE EXPLAIN.**

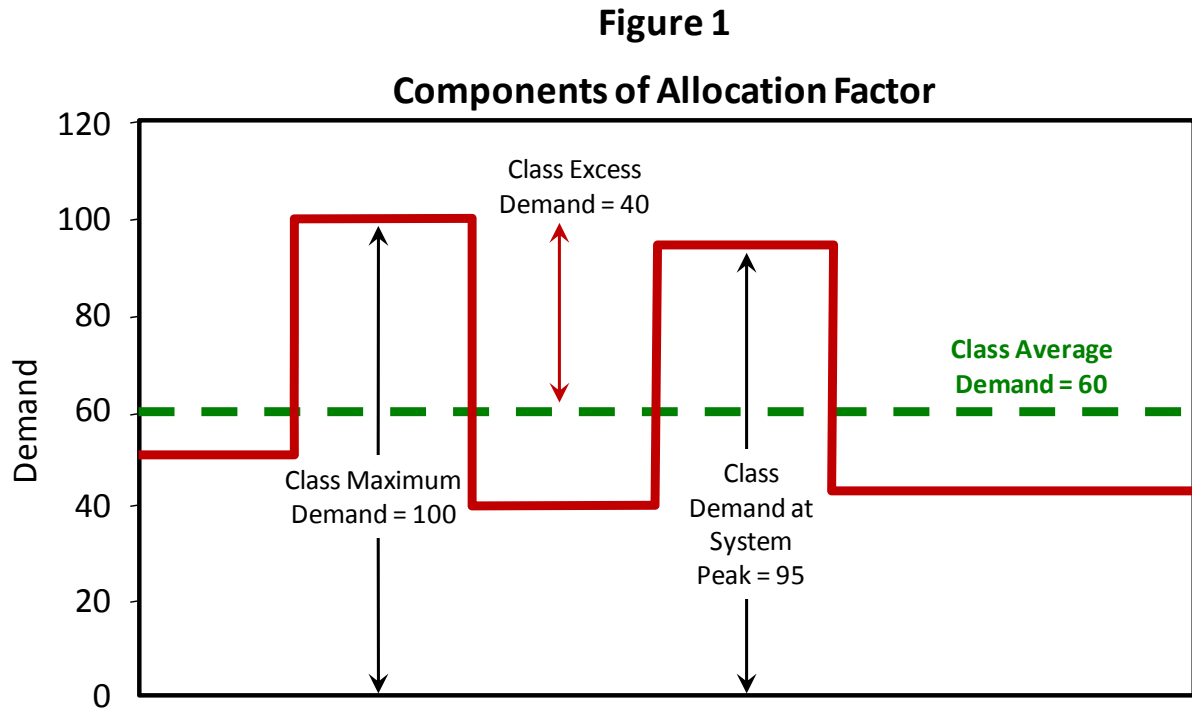
21 A The fact that a particular method is noted in the Cost Allocation Manual simply means
22 that the individuals who prepared the Cost Allocation Manual included it because it

1 had been recommended by participants in one or more rate cases. There are a
2 number of allocation methods that are described in the Cost Allocation Manual that
3 are not commonly used and that have not found wide support in the industry. OPC's
4 A&P allocator clearly falls into that category.

5 **Q HOW DOES THE A&P ALLOCATION METHODOLOGY DIFFER FROM THE**
6 **AVERAGE AND EXCESS ("A&E") METHODOLOGY THAT YOU AND AMEREN**
7 **MISSOURI USED IN YOUR CCOS STUDIES?**

8 A OPC's A&P allocator is constructed by multiplying each class's percentage energy
9 responsibility factor (average demand) times the system load factor, and adding that
10 result to each class's percentage contribution to the class peaks multiplied by the
11 quantity one minus the load factor.

12 Both the A&P and A&E methods are two-step processes. In both methods,
13 the first step is to weight the average demand by the system load factor. The second
14 step is where a major difference occurs. This is illustrated in Figure 1.



Q PLEASE REFER TO FIGURE 1 AND EXPLAIN THE DIFFERENCES.

A Figure 1 is a simplified representation of a class load. The maximum demand of this particular class is represented as 100. Its contribution at the time of the system peak is 95, its average demand is 60, and the excess demand (the difference between its peak demand and its average demand) is 40.

As explained in more detail beginning at page 24 of my direct testimony on cost of service, the A&E method combines the class average demand with the class excess demand in order to construct an allocation factor that reflects average use as well as the excess of each class's maximum demand over its average demand. The A&E allocation factor is developed using the average demand (60) and the excess demand (40) for this class, along with the corresponding demands for all other classes. (This is shown in detail on Schedule MEB-COS-3 attached to my direct testimony on cost of service.)

1 OPC's A&P method, on the other hand, combines the average demand with
2 the class monthly peak demands. As is evident from Figure 1, the average demand
3 (60) is a component or sub-set of the class peak demand (100) and of the class load
4 coincident with the system peak (95). Accordingly, in the A&P method when roughly
5 equal weighting is given to the average demand and the contribution to system peak
6 demand, the average demand is double-counted. This is a serious error, and has the
7 effect of allocating significantly more costs to high load factor customers than is
8 appropriate.

9 **Q HAS THE COMMISSION PREVIOUSLY RULED ON OPC'S PROPOSED**
10 **METHOD?**

11 **A Yes.** The Commission has previously rejected the use of the A&P method.

12 **Q IS THE A&P METHOD A REASONABLE ONE TO USE?**

13 **A No,** it is not. As noted above, this allocation gives more weighting to annual energy
14 consumption than to the class peaks used in the allocation of the investment in
15 generation facilities. Since generation facilities must be designed to carry the peak
16 loads imposed on them, the heavy weighting given to energy consumption in the
17 allocation factor is not related to cost of service at all.

18 Unlike the A&E method, which considers class individual peaks and class load
19 factors, as well as diversity between class peaks and system peak, the A&P method
20 arbitrarily allocates about half of these costs on annual energy consumption.

1 **Q HAVE YOU REVIEWED OPC'S TREATMENT OF NON-FUEL GENERATION**
2 **SYSTEM OPERATION AND MAINTENANCE ("O&M") EXPENSE?**

3 A Yes. Ms. Meisenheimer states on page 14 of her direct testimony that she followed
4 the "commonly accepted practice in CCOS studies of having expenses follow plant"
5 and then explained that this means that O&M costs are allocated in the same manner
6 as the corresponding plant.

7 **Q DID MS. MEISENHEIMER FOLLOW THIS TREATMENT FOR NON-FUEL**
8 **GENERATION O&M EXPENSE?**

9 A No, not entirely. From her workpapers it appears that she did apply this method for
10 the allocation of non-fuel generation O&M expense associated with steam, nuclear
11 and hydro facilities. However, for the category of other generation, she allocated a
12 significant amount of the expenses on the energy factor rather than on the demand
13 allocation factor.

14 I agree with her allocation of generation non-fuel O&M expenses for steam,
15 nuclear and hydro facilities on the demand allocation factor, but disagree with her
16 allocation of the other generation expenses for reasons I explained in my direct
17 testimony on cost of service.

18 **Q HOW DID MS. MEISENHEIMER ALLOCATE THE MARGIN EARNED FROM OSS?**

19 A She allocated this margin based on class demand allocation factors.

1 **Q IS THIS APPROPRIATE?**

2 A No, it is inconsistent with this Commission's recent findings that the margin from OSS
3 should be allocated on the basis of class energy sales and not on the basis of class
4 demands.

5 **Q HOW DID MS. MEISENHEIMER ALLOCATE THE PORTION OF THE**
6 **DISTRIBUTION SYSTEM INVESTMENT AND RELATED EXPENSES THAT**
7 **AMEREN MISSOURI IDENTIFIED AS CUSTOMER RELATED?**

8 A To allocate the customer-related portion of Account Nos. 364 (Poles, Towers and
9 Fixtures), 365 (Overhead Conductors and Devices), 366 (Underground Conduit),
10 367 (Underground Conductors and Devices), 368 (Line Transformers) and
11 369 (Services) she used what she called "weighted meter investment" instead of
12 number of customers. Ameren Missouri used number of customers which is the
13 traditional and appropriate basis for allocating the customer-related portion of these
14 investments.

15 Ms. Meisenheimer's decision to substitute weighted meter investment for
16 number of customers results in a substantial, and unjustified shifting of the cost
17 responsibility of these customer-related facilities from the smaller (mainly residential)
18 customers to larger customers.

19 **Q WHAT IS THE IMPACT OF THE ALLOCATION?**

20 A For the customer-related portion of the enumerated accounts in the distribution
21 system, Ms. Meisenheimer's allocation factor for the Large Primary Service ("LPS")
22 class is 1.08%, as compared to Ameren Missouri's allocation factor for the LPS class

1 of 0.0057%. Ms. Meisenheimer's allocation factor is almost 190 times as large as
2 Ameren Missouri's.

3 As a result, her allocation to the LPS class for the total distribution system is
4 \$199 million of investment, as compared to Ameren Missouri's allocation of
5 \$138 million of investment.

6 **Q ARE YOU AWARE OF ANY PRECEDENT OR AUTHORITY FOR THE**
7 **ALLOCATION OF THE CUSTOMER COMPONENT OF THE DISTRIBUTION**
8 **SYSTEM THAT MS. MEISENHEIMER HAS APPLIED?**

9 **A** No, I am not. The conventional, and correct, approach is the one followed by Ameren
10 Missouri which allocates the customer-related components of the enumerated
11 distribution system accounts on the basis of the number of customers, and not some
12 weighted allocation that was designed to recognize the higher than average
13 investment in meters for large customers. The customer component in the
14 enumerated accounts is just that – a customer component which is the same cost for
15 every customer taking service at the distribution level. The skewed allocation applied
16 by Ms. Meisenheimer is inappropriate and should be rejected.

17 **Q HOW DID MS. MEISENHEIMER ALLOCATE THE COSTS ASSOCIATED WITH EE**
18 **PROGRAMS?**

19 **A** She allocates the expenses using her production demand allocation method. This is
20 inconsistent with the Stipulation in the MEEIA proceeding, Case No. EO-2012-0142,
21 to which OPC was a signatory. Instead of this broad allocation, it is appropriate to
22 assign these costs to specific customer classes. She allocates the EE rate base

1 component using a weighted meter allocation factor, which has no relationship to EE
2 costs.

3 Her treatment of both components is inappropriate and fails to correlate the
4 allocation of the costs with the use of DSM programs by customer classes. The
5 approach used by Ameren, by Staff, and by me does correlate and should be used.

6 **Q DID MS. MEISENHEIMER PRODUCE A SECOND CLASS COST OF SERVICE**
7 **STUDY?**

8 A Yes. She also produced a cost study using essentially the same Average and
9 Excess – 4NCP (“A&E – 4NCP”) allocation method that Ameren Missouri used.

10 **Q IS HER A&E – 4NCP STUDY APPROPRIATE?**

11 A No. It contains all of the same inappropriate allocations of generation non-fuel O&M
12 expense, the margin on OSS, the customer component of the distribution system,
13 and EE costs that I noted above in connection with my description of and rebuttal to
14 her A&P study.

15 **Staff’s Study**

16 **Q WHAT METHOD DID COMMISSION STAFF USE FOR THE ALLOCATION OF**
17 **GENERATION FIXED, OR DEMAND-RELATED, COSTS?**

18 A Mr. Scheperle states that he has used something called the BIP method. In fact,
19 however, Mr. Scheperle has applied what I think is best described as an alternative
20 version of the BIP method. The BIP method described in the NARUC Cost Allocation
21 Manual, and as proposed to be implemented in the KCPL rate case, Case No.
22 ER-2012-0174, develops separate allocation factors for different categories of plant.

1 The BIP method is not an accepted method in the industry and rarely has been used,
2 or even proposed. In fact, the principal proponent of the BIP method in the KCPL
3 rate case was only able to identify one instance in the 30 years that he had been
4 proposing the BIP method that it had been adopted by a public service commission.

5 **Q HOW DOES MR. SCHEPERLE'S MODIFIED BIP DIFFER FROM THE BIP**
6 **METHOD DESCRIBED IN THE NARUC COST ALLOCATION MANUAL AND AS**
7 **PROPOSED FOR IMPLEMENTATION IN THE KCPL CASE?**

8 A In Mr. Scheperle's alternate BIP application, he devises a composite allocation factor
9 using a combination of class average demands, class 12 monthly non-coincident
10 peak demands and class three summer month non-coincident peak demands. At
11 each stage of the development of the allocation factor components, he subtracts the
12 demands associated with the previously determined component(s) from the total so
13 as to avoid double counting. The resulting factor is applied to all generation fixed
14 costs.

15 Because of the way that the BIP allocation factor was constructed in this case,
16 the end result is comparable to traditional allocation methods such as the A&E
17 method. Accordingly, while I disagree with the fundamental premise of BIP methods,
18 Mr. Scheperle has implemented it in this case in a way that produces results
19 consistent with generally accepted allocation methods.

1 **Q HOW HAS STAFF CLASSIFIED GENERATION SYSTEM NON-FUEL O&M**
2 **EXPENSES?**

3 A With minor exceptions, Mr. Scheperle has essentially used the “expenses follow
4 plant” approach that I have used.

5 **Symmetry of Fuel and Capital Cost Allocation**

6 **Q DO YOU HAVE ANY DISAGREEMENT WITH THE ALLOCATION OF FUEL AND**
7 **VARIABLE PURCHASED POWER COSTS ON THE BASIS OF CLASS ENERGY**
8 **REQUIREMENTS, ADJUSTED FOR LOSSES?**

9 A In the context of traditional studies like coincident peak and A&E, I do not. However,
10 in the context of the non-traditional studies like A&P and others, which heavily weight
11 energy in the allocation of fixed or demand-related generation costs, it is not
12 appropriate.

13 **Q PLEASE EXPLAIN WHY IT IS NOT APPROPRIATE TO ALLOCATE ENERGY**
14 **COSTS IN THIS FASHION WHEN USING NON-TRADITIONAL STUDIES SUCH AS**
15 **A&P AND OTHERS.**

16 A These studies allocate significantly more generation fixed costs to high load factor
17 customers than do the traditional studies. In other words, the higher the load factor of
18 a class, the larger the share of the generation fixed costs that gets allocated to the
19 class. If the costs allocated to classes under these methods were divided by the
20 contribution of these classes to the system peak demand, or by the A&E demand, the
21 result is a higher capital cost per kW for the higher load factor classes, and a lower
22 capital cost per kW for the low load factor classes. Effectively, this means that the
23 high load factor classes have been allocated an above-average share of capital costs

1 for generation, and the low load factor customer classes have been allocated a below
2 average share of capital costs.

3 Given these allocations of capital costs, it would not be appropriate to use the
4 same fuel costs for all classes. Rather, the fuel cost allocation should recognize that
5 the higher load factor customer classes should receive below average fuel costs to
6 correspond to the above-average capital costs (similar to base load units) allocated to
7 them, and the lower load factor classes should get an allocation of fuel costs that is
8 above the average, corresponding to the lower than average capital costs (i.e.,
9 peaking units) allocated to them.

10 **Q WHY WOULD IT BE APPROPRIATE TO RECOGNIZE A LOWER FUEL COST**
11 **ALLOCATION TO THOSE CLASSES THAT ARE ALLOCATED A HIGHER**
12 **CAPITAL COST?**

13 **A** It is not only appropriate, but it is essential if heavily energy-weighted allocations of
14 generation costs are employed. Failure to make this kind of distinction would charge
15 high load factor customers above-average capital costs, but not allow them to have
16 the related below-average energy costs; and charge the low load factor customers
17 below-average capital costs, yet still allow them to enjoy average fuel costs.

18 **Q HAVE YOU PERFORMED ANY CALCULATIONS AND DEVELOPED A**
19 **SCHEDULE TO ILLUSTRATE THIS?**

20 **A** Yes, I have. Please refer to page 1 of Schedule MEB-COS-R-1 attached to this
21 testimony. This schedule compares the capacity costs per kW and the energy costs
22 per kilowatthour ("kWh") across classes for the traditional A&E allocation method and
23 the A&P method. To establish a common framework of costs for the analysis, so as

1 to isolate the impacts just of allocation methodology, I used the total generation
2 capacity costs and total generation energy costs from Staff's cost of service study and
3 applied my allocation factors (traditional) as well as OPC's demand and energy
4 allocators to these total amounts. I then divided the results by the A&E capacity kW
5 and by the class megawatthours ("MWh").

6 **Q PLEASE EXPLAIN WHAT THIS SCHEDULE SHOWS.**

7 A The top part of the schedule shows that under traditional allocation methods the
8 capacity costs per kW and the energy costs per kWh allocated to each class are the
9 same.

10 The bottom part shows the allocation results under OPC's A&P method. Note
11 that the impact is to allocate significantly more capital costs, in fact, 21% more to the
12 LPS class and 47% more to the LTS class than under the traditional approaches,
13 which allocate average capacity costs to all classes. Note also that fuel costs per
14 kWh are essentially the same for all classes.

15 Page 2 of Schedule MEB-COS-R-1 graphically shows the skewing under the
16 A&P method.

17 **Q YOU INDICATED THAT THE ENERGY COSTS PER KWH ARE THE SAME**
18 **UNDER THESE ALLOCATIONS. HOW DIFFERENT ARE THE ENERGY COSTS**
19 **OF THE DIFFERENT GENERATING FACILITIES?**

20 A They are quite diverse. For example, the fuel cost for the Callaway nuclear unit is
21 about 0.75¢ per kWh, the base load coal plants have fuel costs in the range of 1.6¢ to
22 2.2¢ per kWh, the more efficient peaking units have fuel costs of 6¢ to 8¢ per kWh,
23 and other peakers have costs that are 10¢ per kWh to 18¢ per kWh. (Note: These

1 fuel costs are taken from Ameren Missouri's 2011 FERC Form 1 report.) Obviously, if
2 some classes are allocated higher capacity costs than others, they should be entitled
3 to at least an above-average share of the energy output from the higher capital cost,
4 more fuel efficient, base load type generating units, which would make their fuel cost
5 per kWh lower than average. The A&P allocation method advanced by OPC does
6 not recognize this correspondence, and as a result over-allocates costs to high load
7 factor customers.

8 **Q WHAT SHOULD BE CONCLUDED FROM SCHEDULE MEB-COS-R-1?**

9 A This schedule clearly demonstrates that the non-traditional methods like A&P are
10 highly non-symmetrical. They burden high load factor classes with above-average
11 capacity costs, but do not allow them to benefit from the lower cost of energy that
12 goes with the higher capacity costs. No theory supports this result and these studies
13 should be rejected.

14 **REVENUE ALLOCATION PROPOSALS**

15 **Q WHAT INTERCLASS REVENUE ALLOCATION DOES OPC RECOMMEND?**

16 A Ms. Meisenheimer indicates at page 17 of her testimony that she believes the
17 Residential class and the Small General Service ("SGS") class are close enough to
18 system average that they should not be subject to a revenue neutral increase. She
19 does not provide any recommendations for other customer classes. From this, I
20 assume that she does not propose to give weight to the results of her cost of service
21 studies and is supporting an equal percentage increase for all classes.

1 **Q WHAT REVENUE ALLOCATION PROPOSAL IS MADE BY STAFF?**

2 A As indicated at page 22 of Staff's "Rate Design and Class Cost-of-Service Report"
3 Staff recommends revenue neutral increases of 1% to the Residential class and 3%
4 to the Lighting class, and an approximate 1% decrease to other customer classes.
5 Any overall increase in revenues granted to Ameren Missouri would then be allocated
6 as an equal percentage to all classes.

7 **Q DO YOU AGREE WITH STAFF'S RECOMMENDED REVENUE ALLOCATION**
8 **PROPOSALS?**

9 A No. I disagree in two respects. First, the adjustment of 1% to Residential customers
10 and a 1% decrease to other customers, is far too modest to meaningfully adjust for
11 the wide differences in rate of return.

12 Second, Staff does not make a separate provision for the substantial new
13 additional costs associated with EE (the MEEIA-related costs and the pre-MEEIA
14 costs that are being amortized) in its revenue allocation formula. This is extremely
15 important because the identified EE revenue requirement as a percent of revenues
16 varies from 5.0% for the Residential class to 0% for the LTS class and the Lighting
17 class. The assignable amounts are 5% of revenues for the Residential class, 2.2% of
18 revenues for the SGS class, 4.3% of revenues for the Large General Service
19 ("LGS")/Small Primary Service ("SPS") class, 4% of revenues for the LPS class, 0%
20 for the LTS class and 0% for the Lighting class.

21 **Q WHY ARE NONE OF THESE COSTS ASSIGNABLE TO THE LTS CLASS?**

22 A In accordance with the opt-out provisions of the MEEIA legislation, as implemented in
23 the Commission's rules, customers meeting certain qualifications are permitted to

1 opt-out of and not participate in utility sponsored EE programs. The LTS customer
2 has exercised that opt-out provision.

3 **Q HAVE CUSTOMERS IN OTHER CLASSES ALSO OPTED OUT?**

4 A Yes. Certain customers in other classes, including customers in the SGS, LGS, SPS
5 and LPS classes, also have exercised the opt-out provision.

6 **Q WITH AN ACROSS-THE-BOARD INCREASE, OR WITH ONLY A MINOR COST OF**
7 **SERVICE ADJUSTMENT, WOULD OPT-OUT CUSTOMERS IN THE LPS CLASS,**
8 **FOR EXAMPLE, BE BURDENED WITH THE FULL AMOUNT OF THE EE COSTS**
9 **ASSIGNABLE TO THE LPS CLASS?**

10 A No, for two reasons. First, the share of EE costs properly assignable to this class
11 equates to 4.0% of its present revenues, which is essentially equal to the total costs
12 for all classes divided by the revenues from all classes. Second, within the LPS class
13 there is a specific provision whereby only customers who are participating in EE
14 programs pay for the costs of those programs by means of a special rate surcharge.
15 Customers who have opted out do not pay these costs, and thus would see rates that
16 are approximately 4% lower than customers who do not opt out. This is how the opt-
17 out provision is intended to work.

18 **Q COULDN'T THIS APPROACH ALSO WORK FOR THE LTS CLASS?**

19 A No. The LTS class has only one customer, and that customer has opted out. Any
20 amount associated with EE that is allocated to the LTS class would have to be paid
21 by the one customer in the class. There is not a customer that has not opted out, so

1 all costs that are effectively allocated to the LTS class are paid by this customer . . .
2 who has opted out!

3 If the rate increase is allocated across the board (as proposed by Ameren
4 Missouri), or nearly across the board as proposed by Staff, the LTS customer who
5 has opted out of the EE program would still be charged the average cost (about 4%
6 of revenues) for a program that it has opted out of. This is clearly wrong, inconsistent
7 with the spirit of the MEEIA legislation and the Commission rules implementing
8 MEEIA, and would deny this customer the benefit of the opt-out provision.

9 **Q IN CASE NO. EO-2012-0142, AMEREN MISSOURI'S MEEIA PROCEEDING,**
10 **WHEN THE INDIVIDUAL RATE SCHEDULE COMPONENTS RELATED TO MEEIA**
11 **PROGRAMS WERE DETERMINED, WERE ANY COSTS ALLOCATED TO THE**
12 **LTS CLASS?**

13 **A** No. In the MEEIA case, costs related to the new EE programs were assigned and/or
14 allocated (as appropriate) to the individual customer classes based on program costs
15 and estimated throughput reductions. These determinations in the MEEIA case
16 respected the opt-out provision and, accordingly, no program costs or throughput
17 disincentive component, were allocated to the LTS class. This case was resolved by
18 a Unanimous Stipulation that included Ameren Missouri, Commission Staff, OPC and
19 MIEC among the signatories.

20 **Q IS EE DIFFERENT FROM OTHER COSTS?**

21 **A** Yes, it is materially different in its nature, and its impact on customers.

1 **Q PLEASE EXPLAIN.**

2 A The primary beneficiary of any EE service is the customer who receives the incentive
3 or service of an EE program directly. As a result, this customer will experience a
4 reduction in the quantity of electricity through the meter which, of course, directly
5 reduces the amount of the electric bill. All of this benefit, i.e., 100%, accrues to the
6 customer receiving the EE service.

7 Unlike other costs, such as fuel, generation and transmission that are used to
8 serve all customers, EE costs are customer-specific in their application, and the
9 collection of EE costs must recognize that fact.

10 **Q IN THE SHORT RUN, WHO BENEFITS?**

11 A In the short run, only those customers who participate in the programs have the
12 possibility of being better off. They would be better off only if the savings that they
13 experience in their electric bill is more than the sum of their directly incurred costs
14 plus the demand-side, or EE, charges that they would pay to have Ameren Missouri
15 provide these services.

16 **Q WHAT ARE THE EXPECTATIONS IN THE LONG RUN FOR CUSTOMERS NOT**
17 **PARTICIPATING IN EE PROGRAMS?**

18 A As indicated by evidence supplied by Ameren Missouri in Case No. EO-2012-0142,
19 and presented as Schedule 5 to my rebuttal testimony in that proceeding, the EE
20 program will cause rates to be higher than they would have been had the programs
21 not been implemented and instead the utility had pursued supply-side resources.
22 Therefore, customers who are not receiving the direct benefit by participating in

1 Ameren Missouri's EE programs, will not benefit from them, and in fact will be worse
2 off.

3 **Q FOR THE LTS CLASS WHAT IS THE BOTTOM LINE ON THE EE ISSUE?**

4 A Because the LTS customer has opted out of EE programs, the percentage increase
5 to this class must be at least 4.0 percentage points less than the system average
6 increase in order to ensure that this customer is not charged part of the costs of the
7 EE programs that it has opted out of.

8 **Q CAN YOU ILLUSTRATE WITH AN EXAMPLE?**

9 A Yes. If the overall increase were 8%, the increase to the LTS class should not be
10 more than 4%. If the overall increase is 10%, the LTS class increase should not be
11 more than 6%.

12 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

13 A Yes, it does.

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Ameren Missouri
Docket No. ER-2012-0166

**Customer Class Generation Capacity Costs Per kW
And Energy Costs Per kWh Under Traditional Methods
As Compared to OPC Proposal**

MIEC COST OF SERVICE STUDY

<u>Customer Class</u>	<u>Traditional Avg. & Excess CCOS</u>			
	<u>Capacity Rev Req.</u>		<u>Energy Rev Req.</u>	
	<u>Capacity Costs \$ per kW</u>	<u>% Difference From System Avg.</u>	<u>Energy Costs ¢ per kWh</u>	<u>% Difference From System Avg.</u>
Total	141		1.62	
Res	141	0%	1.62	0%
SGS	141	0%	1.62	0%
LGS/SPS	141	0%	1.62	0%
LPS	141	0%	1.62	0%
LTS	141	0%	1.62	0%
Lighting	141	0%	1.62	0%

OFFICE OF PUBLIC COUNSEL COST OF SERVICE STUDY

<u>Customer Class</u>	<u>OPC Avg. and Peak CCOS</u>			
	<u>Capacity Rev Req.</u>		<u>Energy Rev Req.</u>	
	<u>Capacity Costs \$ per kW</u>	<u>% Difference From System Avg.</u>	<u>Energy Costs ¢ per kWh</u>	<u>% Difference From System Avg.</u>
Total	141		1.62	
Res	126	-11%	1.63	0%
SGS	133	-6%	1.63	0%
LGS/SPS	151	7%	1.63	0%
LPS	171	21%	1.63	0%
LTS	207	47%	1.63	0%
Lighting ¹	N/A	N/A	N/A	N/A

¹ OPC Cost of Service Study did not allocate costs to the Lighting class.

Ameren Missouri
Docket No. ER-2012-0166

**Illustration of Skewed Allocation of Capital Costs and
Energy Costs Under OPC's Allocation Proposal**

