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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2012-0166

REBUTTAL TESTIMONY

OF

WILLIAM M. WARWICK

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
August, 2012

Ameren Exhibit No. 34
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REBUTTAL TESTIMONY

OF

WILLIAM M. WARWICK

CASE NO. ER-2012-0166

I. INTRODUCTION

Q. Please state your name and business address.

A. William M. Warwick, Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom and in what capacity are you employed?

A. I am Managing Supervisor of Rate Engineering for Ameren Missouri.

Q. Are you the same William M. Warwick who filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to discuss the primary, non-production plant/capacity allocation differences in the class cost of service studies ("CCOSS") presented by the Company and those presented by the Missouri Public Service Commission Staff ("Staff"), the Office of the Public Counsel ("OPC") and the Missouri Industrial Energy Consumers ("MIEC"). The fact that I am not addressing all of the differences between Ameren Missouri's CCOSS and those performed by the other parties should not be construed as an endorsement of the allocation methods employed by those parties; rather the remaining differences do not drive materially different results in the CCOSS results between the Company and the other parties.

I will also discuss the cost differences among the Company, Staff and OPC with respect to the proposed residential and small general service customer charge levels.

II. CLASS COST OF SERVICE STUDIES

Q. Did any parties other than those mentioned above present class cost of service studies in this proceeding?

A. No.

Q. What are the primary factors which drive the material differences in the cost-based class revenue requirements presented by the Company, Staff, OPC and MIEC in their respective CCOSS?

A. The primary factors driving the differences between the Company, Staff, OPC and MIEC studies are:

- The classification of non-fuel, non-labor production operations and maintenance ("O&M") expenses between fixed (demand-related) and variable (energy-related) components;
- The allocation of Account 373 – Lighting;
- The allocation of distribution facilities to the Large Transmission Service class;
- The classification and allocation of distribution plant (Accounts 364-368);
- The allocation of off-system sales revenues; and
- The allocation of Production Capacity Costs.

The merits of the various Production Capacity cost allocation methods are addressed by Company witness Wilbon L. Cooper in his rebuttal testimony.

Q. When examining production non-fuel operations and maintenance expenses, what are the categories of cost?

A. There are two categories: labor and other.

Q. What is the difference between the parties regarding the allocation of these costs?

A. The only difference is the allocation of the costs categorized as "other" because all parties have allocated the "labor" category utilizing their respective production plant investment allocators.

Q. What is included in the category of production non-fuel operations and maintenance costs designated as "other"?

A. The category "other" includes materials and indirect labor costs associated with operating and maintaining the Company's production plant. Relevant to the allocation differences between the parties, a cursory review of the "other" O&M accounts in question indicate, among other items, substantial expenses associated with items that should be classified as variable in nature. For example, variable water treatment chemical costs, fuel additives and other similar expenses are variable in nature.

Q. How did the parties allocate this "other" component?

A. The Company split "other" into fixed and variable components following an approach prescribed in the National Association of Regulatory Utility Commissioners ("NARUC") Electric Utility Cost Allocation Manual for classification of such costs. This approach strikes a balance of these non-fuel, non-labor "other" expenses between fixed and variable that most closely follows cost causation for our plants. Staff and MIEC classified all

costs in the "other" category as fixed and allocated those costs based on each party's respective fixed production plant allocator.

Q. Are these the same allocation methods that were advocated by these parties in the Company's last rate case, Case No. ER-2011-0028?

A. No. The Company's jurisdictional revenue requirement study submitted in Case No. ER- 2011-0028 split its total Missouri electric jurisdictional revenue requirement between retail electric service and wholesale electric service and, also split this "other" category of cost between fixed and variable, each in an equitable fashion. In that case, the Company's CCOSS utilized the same split. As such, there was consistency between the Company's jurisdictional study and its CCOSS. In the last case, MIEC ignored the results of the Company's jurisdictional split of "other" between fixed and variable, and instead classified all costs in that category as fixed. Lastly, Staff utilized the previously mentioned NARUC method to allocate these "other" costs. In its Report and Order in Case No. ER-2011-0028, the Commission found that the allocation methodology reflected in the Company's CCOSS (when modified for the allocation of off-system sales revenues) was the "most reliable of the submitted studies."

Q. In the current case, why did the Company change its method of allocating this "other" category of costs in its CCOSS from the jurisdictional method described above to the NARUC method?

A. Consistent with a Stipulation and Agreement in Case No. ER 2011-0028, the Company's jurisdictional revenue requirement study submitted in the current case contains no split of its total Missouri electric jurisdictional revenue requirement. Therefore, from a jurisdictional perspective, there was no need to split the "other" costs category between fixed and variable. However, from a CCOSS perspective, a split was still needed and the NARUC method

is the most appropriate manner in which to equitably allocate this "other" category of cost among the Company's customer classes.

Q. Do you agree with MIEC witness Maurice Brubaker's statement that "the vast majority of these O&M costs [in the "other" category] do not vary in any appreciable way with the number of kWh generated, but occur as a function of the existence of the plants, the hours of operation and the passage of time"?

A. No I don't. A cursory review of the O&M accounts in question indicate substantial expenses in those accounts – e.g., for valve repair, temporary non-company labor, fuel additives and other similar expenses — are variable in nature. Furthermore, "the hours of operation" that Mr. Brubaker referred to is a rough definition of kWh generated – also a variable component. For example, a 1 MW plant operating for 1 hour produces 1,000 kWh's of energy whereas a 1 MW plant operating for 100 hours produces 100,000 kWh's of energy.

Q. What would be the effect on the Company's CCOSS if the Commission were to adopt MIEC's classification of production expense between fixed and variable?

A. The table below shows the shift in class revenues, per the Company's original CCOSS filing, which splits non-fuel, non-labor expenses ("other") between fixed and variable, compared to MIEC's and Staff's methods, which classify these expenses as fixed only. As shown, MIEC's proposed method increases the class cost of service-based revenue requirement of the Residential class by approximately $10 million or 0.9%. While Staff used the BIP allocation methodology, Staff's result varies by less than 1% from MIEC's allocations for each rate class, so for simplicity and clarity I have only shown MIEC's to illustrate the differences.

Class Revenue Requirements Shift per Company's Class-Cost-Of-Service ($1,000's)				
	Original	Per MIEC Percent Split	Difference	% Difference *
RES	$1,455,193	$1,465,281	$10,089	0.9%
SGS	$307,783	$308,865	$1,082	0.4%
LGS/SPS	$786,145	$782,475	$(3,670)	-0.5%
LPS	$203,741	$200,843	$(2,898)	-1.5%
LTS	$160,644	$155,802	$(4,842)	-3.3%
LTG	$42,217	$42,456	$239	0.7%

* As a percent of as filed current revenues.

Q. Moving now to the differences between the Company's and OPC's CCOSS, what are your major areas of concern?

A. My first area of concern is with the allocation of Account 373 – Lighting. This account is solely attributable to the Lighting Class and should be directly and 100% assigned to the Lighting class. However, upon review of OPC's CCOSS, it was apparent that OPC had allocated these costs to all customer classes. The Company believes this was an error on OPC's part, and OPC has indicated that this was one of several corrections being made to its CCOSS and that a revised study will be sent out correcting this and other errors. The Company reserves further discussion of this issue for surrebuttal testimony should the revised CCOSS be submitted after filing of this rebuttal testimony.

Q. What is your next concern?

A. Reviewing OPC's CCOSS workpapers with respect to allocation of distribution plant and expenses, the Company realized that the Large Transmission Service ("LTS") class was receiving an allocated portion of non-meter related distribution costs despite being served at a transmission level voltage; that is, the LTS class is served at transmission voltage and does not utilize our distribution system except for metering. Accordingly, that class should not receive

any allocated portion of the distribution costs except for meter facilities. The Company believes this, too, was an error on OPC's part. If that error is also corrected in a revised CCOSS, the Company reserves further discussion of this issue for surrebuttal testimony.

Q. What are the differences among the parties with respect to the classification of distribution plant Accounts 364 – Poles, Towers and Fixtures, 365 – Overhead Conductors, 366 – Underground Conduit, 367 – Underground Conductors, and 368 – Line Transformers?

A. The difference among the parties concerns whether or not there is a customer component of the distribution system that is or should be specifically reflected in Accounts 364-368. The Company, Staff and MIEC followed the widely accepted utility industry principle that recognizes a customer component in these portions of the distribution system, which are installed to provide service to all customers and to meet each individual customer's peak demand requirements. In contrast, OPC's study mis-categorized certain customer-related costs as "other" and used a weighted meter allocator to assign these "other" costs to the customer classes.

Q. Even if the Commission were to accept OPC's classification of these customer costs as "other," would OPC's allocation of such costs be appropriate?

A. No. OPC utilized a weighted meter allocator (i.e., class customer weights based on customer counts times current meter costs). This approach has no merit because it incorrectly assumes that there is a relationship between weighted customer counts and investments in Accounts 364 through 368. The Company's investment in meters is not related to its investment in poles, overhead or underground conductors and conduit, or line transformers. Customer weighted meter allocators have a direct relationship to meter investment and associated expenses

only and, therefore, should only be used to allocate Account 370 (meters) and meter related O&M expense.

Q. Do you agree with the direct testimony of OPC's witness Barbara Meisenheimer (p. 12, beginning at line 24) that OPC's weighted meter investment allocator effectively allocates these costs in relation to the number of customers?

A. No. The table below shows the difference between a customer count allocator and OPC's weighted meter investment allocator. The large differences between the results of OPC's allocation methodology and the results produced by the methodologies used by the Company, Staff, and MIEC shows that the weighted meter investment allocator used by OPC has little relationship with the number of customers served by Ameren Missouri's system. As shown, by incorrectly using meters instead of customers for its allocation, OPC's method inappropriately decreases the share of these costs allocated to the Residential class by approximately 18%.

Party	Method	RES	SGS	LGS/SPS	LPS	LTS	LTG
Company	Customer Counts	83.21%	11.51%	0.81%	0.01%	0.00%	4.46%
Staff	Customer Counts	83.21%	11.51%	0.81%	0.01%	0.00%	4.46%
MIEC	Customer Counts	83.21%	11.51%	0.81%	0.01%	0.00%	4.46%
OPC	Weighted Meter Investment	64.98%	19.97%	13.80%	1.08%	0.07%	0.09%

Q. What is the difference among the OPC and the other parties with respect to the allocation of off-system sales revenues?

A. The Company, Staff and MIEC allocated off-system sales revenues based on their respective energy (kWh) allocators, which is consistent with the methodology approved in Case No. ER-2010-0036, where the Commission stated, "the Commission finds that AmerenUE's

class cost of service study, modified to allocate revenues from off-system sales on the basis of class energy requirements, is the most reliable of the submitted studies." The OPC's allocation of off-system sales revenues based on its production capacity (demand) allocator is contrary to the method the Commission adopted in Case No. ER-2010-0036.

Q. What would the effect be on the Company's CCOSS if the Commission were to reverse its findings in Case No. ER-2010-0036 with respect to the allocation of off-system sales revenues and adopt OPC's proposed allocation?

A. The table below shows the shifts in class revenues, per the Company's CCOSS filing, using OPC's method of allocating off-system sales revenues to the customer classifications. As shown, OPC's proposed method decreases the revenue requirement of the Residential class by approximately $35 million or 3% and increases the revenue requirement of the Large Transmission class by approximately $16.8 million or 11.3%.

Class Revenue Requirements Shift per Company's Class-Cost-Of-Service ($1,000's)				
	Original	Per OPC Allocation	Difference	% Difference *
RES	$1,455,193	$1,420,207	$(34,985)	-2.99%
SGS	$307,783	$304,030	$(3,753)	-1.30%
LGS/SPS	$786,145	$798,873	$12,728	1.70%
LPS	$203,741	$213,789	$10,048	5.29%
LTS	$160,644	$177,435	$16,791	11.35%
LTG	$42,217	$41,388	$(829)	-2.41%

* As a percent of as filed current revenues.

III. CUSTOMER CHARGE LEVELS

Q. What are the primary cost differences among Company, Staff and OPC with respect to monthly residential and small general service customer charges?

A. The primary differences with respect to the resulting CCOSS customer charge levels among Company, Staff and OPC are driven by the costs that were included in each party's analysis. The Company's CCOSS includes all customer-related costs in its customer charge, including those costs in distribution Accounts 364-368 that have a customer-related component. In contrast, Staff and OPC include only the allocated costs of services, meters, and customer installations and the various O&M expenses associated with the operation and maintenance of such services and meters. In addition, Staff includes all customer service and sales expenses, including uncollectible expense, while OPC does not include the uncollectible account expense. It is currently our understanding that OPC will issue corrections to its CCOSS which may affect the results related to the monthly customer charge. Consequently, Ameren Missouri reserves any further comments on OPC's position on this issue until the Company can review OPC's corrected study.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service.	)))	Case No. ER-2012-0166

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 the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as a Managing Supervisor in Rate Engineering.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 10 pages, and Schedule(s) N/A, 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 14th day of August, 2012.

Julie Donohue
Notary Public

My commission expires:

Julie Donohue - Notary Public
Notary Seal, State of
Missouri - St. Louis City
Commission #09753418
My Commission Expires 2/17/2013