

Exhibit No.: 403
Issue: Revenue Requirement
Witness: Maurice Brubaker
Type of Exhibit: Direct Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2011-0028
Date Testimony Prepared: February 8, 2011

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

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Missouri Public
Service Commission

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

Case No. ER-2011-0028
Tariff No. YE-2011-0116

Direct Testimony and Schedules of

Maurice Brubaker

Revenue Requirement

On behalf of

Missouri Industrial Energy Consumers

February 8, 2011



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9371

~~Downey Exhibit No. 403~~
~~Date 5/5/11 Reporter [Signature]~~
~~File No. ER-2011-0028~~

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STATE OF MISSOURI)
COUNTY OF ST. LOUIS) SS

Affidavit of Maurice Brubaker

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

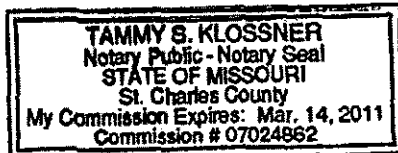
1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2011-0028.

3. I hereby swear and affirm that the testimony and schedules 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 3rd day of February 2011.




Notary Public

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Direct Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,**
3 **Chesterfield, MO 63017.**

4 **Q WHAT IS YOUR OCCUPATION?**

5 **A I am a consultant in the field of public utility regulation and President of Brubaker &**
6 **Associates, Inc., energy, economic and regulatory consultants.**

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 **A This information is included in Appendix A to my testimony.**

9 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10 **A This testimony is presented on behalf of the Missouri Industrial Energy Consumers**
11 **("MIEC"). These companies purchase substantial quantities of electricity from**
12 **Ameren Missouri, principally at the primary and transmission voltage levels.**

13 **Their cost of electricity would increase approximately 11% if Ameren Missouri**
14 **were granted the full amount of the increase that it has requested. This proceeding**

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1 will have a substantial impact on these companies' cost of doing business, and thus
2 they are vitally interested in the outcome.

3 **Introduction and Summary**

4 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A In this testimony, I address demand-side management ("DSM") issues raised by
6 Ameren Missouri witness William R. Davis. In addition, I identify the other witnesses
7 who will testify in this phase on behalf of MIEC, indicating the general subjects
8 addressed in their testimonies and presenting a quantification of the adjustments that
9 they are proposing to Ameren Missouri's requested revenue requirement.

10 **Q WHAT AMOUNT OF INCREASE HAS AMEREN MISSOURI REQUESTED?**

11 A The overall increase requested is \$263 million per year, or about 11%. According to
12 Ameren Missouri witness Warner L. Baxter, at page 5 of his direct testimony,
13 approximately \$70 million of the requested annual increase is attributable to rebasing
14 the net fuel costs that, in the absence of this rate case, would be reflected through the
15 existing fuel adjustment clause ("FAC"). The remaining portion of the increase,
16 approximately \$200 million, has been attributed to increases in non-fuel costs,
17 principally investments in infrastructure.

18 **Q DO YOU BELIEVE THAT AMEREN MISSOURI HAS JUSTIFIED ITS PROPOSED**
19 **OVERALL INCREASE OF \$263 MILLION?**

20 A No. I believe that the evidence shows Ameren Missouri's claimed revenue
21 requirement and revenue increase to be significantly overstated. We have analyzed
22 in detail many, but not all, of the significant revenue requirement issues, and found

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1 that in these areas alone, Ameren Missouri has overstated its revenue requirement
2 by at least \$147 million. Thus, even before considering the impact of additional
3 adjustments that other parties may be pursuing and presenting in their evidence,
4 Ameren Missouri's claimed revenue increase should be reduced by more than 55% of
5 its requested amount.

6 **Q DO YOU HAVE ANY GENERAL COMMENTS CONCERNING THE NATURE OF**
7 **AMEREN MISSOURI'S REQUESTED RATE INCREASE AND THE CONDITION OF**
8 **ITS SERVICE TERRITORY?**

9 **A** Yes. Ameren Missouri has presented its rate case primarily from the perspective of
10 its stockholders. Other than an acknowledgement by Mr. Baxter at page 8 of his
11 direct testimony that a rate increase of this magnitude will present hardships for some
12 customers, Ameren Missouri's presentation mainly is about the need to get more
13 money and to get it faster. While it is important that utilities maintain their financial
14 integrity in order to provide safe, adequate and reliable service, it also is important to
15 recognize that the money required to accomplish those objectives comes from
16 customers, who in this case are being asked to shoulder an 11% overall rate
17 increase.

18 Missouri certainly has not escaped the economic woes that have beset
19 America. The Bureau of Labor Statistics reports that the unemployment rate in
20 Missouri for November 2010 was 9.4%, up slightly from 9.3% in October 2009 that I
21 noted in my testimony in the last case.

22 According to the St. Louis Federal Reserve Bank, manufacturing employment
23 in Missouri has declined from about 360,000 jobs in the year 2000, to fewer than

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1 250,000 jobs currently, a drop of over 110,000 manufacturing jobs, or more than
2 30%. Many of these losses have occurred in the Ameren Missouri service territory.

3 Information compiled and published by the Missouri Department of Economic
4 Development and information compiled and published by the St. Louis Regional
5 Commerce and Growth Association both indicate that since June 2009 non-farm
6 employment in the St. Louis area has declined by more than 25,000 jobs.

7 While Ameren Missouri complains about not being able to earn its "authorized
8 return on equity," it is distinguishable from most other businesses in that it has a
9 place to go to get administrative relief in the form of higher prices if it believes that
10 costs have risen faster than revenues. Most businesses do not have that luxury.
11 Whereas, for electric utilities, prices are set equal to costs plus profits; in the
12 competitive world the process is much different, prices are not "set" at a level that
13 includes profits. Rather, prices are set in the marketplace and profit equals what is
14 left, if anything, after covering costs. This is a much different paradigm than in the
15 regulated world. Businesses who are customers of Ameren Missouri are also the
16 employers in the service territory, and most have seen their profitability decrease, or
17 even turn into a loss during the economic downturn. These are the companies who
18 provide employment in the area and are the lifeblood of the economy.

19 The economic downturn has spared few. MIEC urges the Commission, to the
20 extent possible, to keep these facts in mind when appraising Ameren Missouri's need
21 to collect more money from its customers at this point in time, as well as its requests
22 for new regulatory treatments that would allow it to collect additional revenues.

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1 **Q WHAT RATE INCREASES HAS AMEREN MISSOURI RECEIVED IN THE LAST**
2 **SEVERAL YEARS?**

3 A This is shown on Schedule MEB-RR-1.

4 **Q PLEASE EXPLAIN THIS SCHEDULE.**

5 A This schedules shows the base rate increases that Ameren Missouri received in the
6 two prior rate cases along with the increase of \$263 million requested in this case.
7 The combination of the two prior base rate increases is \$391 million on an annual
8 basis, and when combined with the request in this case, would amount to a total of
9 \$654 million if granted.

10 **Q WHAT ELSE IS SHOWN ON THIS SCHEDULE?**

11 A Column 2 of the schedule shows the increases that Ameren Missouri has been
12 authorized to receive as a result of the operation of the FAC.

13 **Q ARE THESE FUEL ADJUSTMENT INCREASES PERMANENTLY PUT INTO**
14 **RATES AT THE TIME THEY ARE GRANTED?**

15 A No. The operation is slightly different than the increase in base rates where the
16 annualized value of the new rates immediately go into effect. With the FAC, the
17 increases granted are "one time" increases to make up for past under-collections, and
18 are collected from customers with interest over the 12-month period following their
19 approval by the Commission. Although their nature is slightly different, the dollar
20 amount of the fuel adjustment increase shown on Schedule MEB-RR-1 will eventually
21 be collected from customers through the FAC. As noted on line 8, the additional

1 recoveries granted to date amount to \$186 million. Combined with the base rate
2 increases granted to date, the overall impact is about 28%.

3 **Q PLEASE IDENTIFY THE WITNESSES PRESENTING TESTIMONY ON BEHALF OF**
4 **MIEC, AND BRIEFLY DESCRIBE THE SUBJECT AREAS THAT EACH WILL**
5 **ADDRESS.**

6 **A** My testimony will serve to present an overall summary of our positions on the
7 revenue requirement issues that we are addressing. I will also address DSM cost
8 recovery issues.

9 Mr. Michael Gorman presents evidence concerning the appropriate cost of
10 equity and overall rate of return for Ameren Missouri.

11 Mr. James Dauphinais will present testimony concerning Ameren Missouri's
12 production cost modeling, fuel costs, off-system sales and transmission revenue. He
13 also states our position on Ameren Missouri's proposed treatment of certain
14 wholesale sales.

15 Mr. Greg Meyer presents evidence concerning steam production maintenance
16 expense, vegetation management expense, infrastructure inspection expense, EPRI
17 dues, storm cost expense, certain property taxes, and cash working capital. He also
18 explains why we oppose the continuation of certain trackers pertaining to vegetation
19 management and infrastructure inspections.

20 Mr. Steven Carver will present testimony regarding various expense
21 amortizations contained in Ameren Missouri's cost of service and quantify the
22 amortizations associated with my recommended recovery periods for DSM programs
23 and solar rebates. He will also discuss miscellaneous service revenues and the
24 Pension/OPEB tracker currently reflected on Ameren Missouri's books.

1 Mr. Michael Brosch will present testimony discussing various income tax
2 issues which affect both Ameren Missouri's expenses and rate base. He will also
3 discuss certain policy issues proposed by Ameren Missouri related to Accounting
4 Authority Orders ("AAO") and a DSM lost revenue recovery proposal.

5 **Q PLEASE SUMMARIZE THE REVENUE REQUIREMENT ADJUSTMENTS THAT**
6 **MIEC IS SPONSORING.**

7 **A** Please see Schedule MEB-RR-2 attached to this testimony.

8 ➤ **Michael Gorman:** With regard to the cost of equity, Mr. Gorman has determined
9 that an appropriate return on equity ("ROE") for Ameren Missouri would be within
10 a range of 9.5% to 10.0%, in contrast to Ameren Missouri's proposed level of
11 10.9%. Ameren Missouri's requested ROE is significantly above its cost of
12 capital, and should not be accepted. At a mid-point 9.75% ROE, the claimed
13 revenue increase is reduced by about \$65 million.

14 Each ten basis points (one-tenth of a percentage point) in ROE equals a
15 revenue requirement of approximately \$5.6 million. With Mr. Gorman's range, the
16 revenue requirement variation is, accordingly, minus \$14 million to plus \$14
17 million from the mid-point.

18 ➤ **James Dauphinais:** Mr. Dauphinais has modeled the Ameren Missouri
19 generation system, including off-system sales transactions, using the RealTime
20 model, which also is used by the Commission Staff. His analysis reveals certain
21 inconsistencies and deficiencies which cause Ameren Missouri to overstate its
22 claimed net base fuel costs. Mr. Dauphinais concludes that Ameren Missouri has
23 overstated its net base fuel costs by \$12.9 million. In addition, he shows that

1 Ameren Missouri has understated its transmission revenues by \$2.9 million. In
2 total, he recommends a reduction to expenses of about \$16 million.

3 > **Greg Meyer:** As shown on Schedule MEB-RR-2, Mr. Meyer's adjustments to
4 O&M expenses (for incentive compensation, steam production maintenance,
5 storms, vegetation management, infrastructure inspections and EPRI dues) total
6 \$14.6 million. His proposed adjustment for property taxes associated with the
7 Sioux scrubbers and Taum Sauk total \$10 million. His proposed adjustments to
8 cash working capital have a revenue requirement impact of \$5.6 million.

9 His proposed adjustments total \$30 million.

10 > **Steven Carver:** As shown on Schedule MEB-RR-2, Mr. Carver's adjustments to
11 various amortizations total approximately \$11 million. His adjustments to solar
12 amortization total approximately \$620 thousand and his adjustment to energy
13 efficiency amortizations total approximately \$8.5 million. His proposed payroll tax
14 adjustment is about \$330 thousand

15 His proposed adjustments total \$20.5 million.

16 > **Michael Brosch:** In addition to addressing various AAOs and a DSM lost
17 recovery cost proposal advanced by Ameren Missouri, Mr. Brosch analyzes in
18 detail Ameren Missouri's claims for income taxes. As a result, he recommends a
19 reduction in income tax expense of approximately \$15.8 million.

20 **Q TO SUMMARIZE, WHAT DOES SCHEDULE MEB-RR-2 SHOW?**

21 **A** It shows that we have identified \$134.2 million of non-fuel related revenue
22 requirement claims that should be disallowed. In addition, we have identified \$12.9
23 million of net fuel-related costs that are not reasonable to include in the re-basing of
24 the fuel cost.

1 **Q HAVE YOU COMPLETED YOUR REVIEW OF AMEREN MISSOURI'S FILING?**

2 A No. Ameren Missouri has been late in responding to a number of data requests, and
3 as of the time our testimony had to be completed, a number of overdue requests are
4 still outstanding. As a result, it may be appropriate for MIEC to update its testimony
5 or address particular issues in rebuttal.

6 **Demand-Side Management Programs**

7 **Q ARE YOU FAMILIAR WITH THE DIRECT TESTIMONY OF AMEREN MISSOURI**
8 **WITNESS WILLIAM R. DAVIS?**

9 A Yes, I am. Mr. Davis presents testimony that primarily addresses cost recovery for
10 DSM resources. Mr. Davis addresses the current rate base treatment of DSM
11 expenditures as well as makes a proposal for what he calls a "fixed cost recovery
12 mechanism" that would provide for recovery of certain revenues assumed to be lost
13 as a result of customer participation in DSM programs.

14 **Q ARE YOU ADDRESSING BOTH ASPECTS OF MR. DAVIS' PROPOSALS?**

15 A No. My testimony is directed to the rate base recovery of DSM expenditures. The
16 fixed cost recovery mechanism is addressed by MIEC witness Michael Brosch.

17 **Q WHAT ARE DEMAND-SIDE RESOURCES?**

18 A Demand-side resources include both energy efficiency measures and demand
19 response measures. Energy efficiency measures are actions or installations that
20 reduce the amount of electricity required to achieve a given end-use or comfort level.
21 Demand response generally refers to measures designed to reduce the demands of a
22 particular customer or piece of equipment at the time of the system peak or during

1 other critical peak hours, or to shift in time the incidence of a demand away from
2 system peak or other critical times to hours when the system is less stressed.

3 **Q WHAT IS THE CURRENT COST RECOVERY MECHANISM FOR DEMAND-SIDE**
4 **INVESTMENTS?**

5 A Between rate cases, costs for administration, research, design, development,
6 implementation and evaluation of DSM programs are booked as regulatory assets as
7 they are incurred, along with interest at the Company's allowance for funds used
8 during construction ("AFUDC") rate. The amortization period for the regulatory asset
9 created by this first group of expenditures is ten years at \$87,600 per year. The
10 February 28, 2011 regulatory asset balance associated with this group of costs is
11 about \$700,000.

12 In the prior rate case, Case No. ER-2010-0036, parties reached a stipulation
13 that was later approved by the Commission on recovery of certain additional costs.
14 As a part of a stipulation addressing a number of issues, it was agreed that this group
15 of additional costs could be amortized over a six-year period of time at a rate of about
16 \$1.9 million per year. The estimated balance of this asset at February 28, 2011 is
17 about \$10.2 million.

18 **Q IN YOUR VIEW, IS IT REASONABLE FOR AMEREN MISSOURI TO HAVE THE**
19 **OPPORTUNITY TO EARN THE SAME RETURN ON INVESTMENT FOR ITS**
20 **DEMAND-SIDE PROGRAMS AS FOR ITS SUPPLY-SIDE PROGRAMS?**

21 A As a general proposition, I believe it is reasonable for Ameren Missouri to have an
22 opportunity to earn the same rate of return on both supply-side and demand-side
23 resources. Of course, demand-side resources should be required to meet the same

1 kinds of tests that supply-side resources have to meet to be included in rate base.
2 Among other things, this would mean that the costs were determined to have been
3 prudently incurred and the assets are used and useful.

4 **Q AT PAGE 4 OF HIS TESTIMONY, MR. DAVIS STATES THAT THE SIX-YEAR**
5 **AMORTIZATION PERIOD FOR CERTAIN EXPENDITURES WAS THE RESULT OF**
6 **A STIPULATION AND HAS "...NO OBJECTIVE BASIS..." HE, INSTEAD,**
7 **PROPOSES COST RECOVERY OVER A THREE-YEAR PERIOD. DOES HE**
8 **PROVIDE AN "OBJECTIVE BASIS" FOR THE PROPOSED THREE-YEAR**
9 **RECOVERY PERIOD?**

10 **A No.**

11 **Q MR. DAVIS CLAIMS AT PAGES 4 AND 5 OF HIS TESTIMONY THAT THE**
12 **TREATMENT OF DSM EXPENDITURES IS "INCONSISTENT" WITH THE**
13 **TREATMENT OF SUPPLY-SIDE RESOURCES. HE ARGUES THAT THIS**
14 **DIFFERENCE SUPPORTS A MUCH SHORTER AMORTIZATION PERIOD, OR**
15 **THE TREATMENT OF DSM COSTS AS AN EXPENSE. DO YOU AGREE?**

16 **A No. Let me first address the broader conceptual issue. The idea of treating**
17 **demand-side and supply-side resources comparably extends not only to allowing the**
18 **utility to earn the same rate of return on the asset, but also extends to the recovery**
19 **period. The costs of supply-side resources are recovered over their estimated useful**
20 **life through a provision for depreciation. In the case of demand-side resources, the**
21 **equivalent asset is a "regulatory asset," and the recovery is by means of an**
22 **amortization. Thus, depreciation of supply-side resources and amortization of**
23 **demand-side resources are equivalent concepts that accomplish the same purpose.**

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1 Just as depreciation over the expected life of an asset is the norm for supply-side
2 resources, amortization of the regulatory asset over the life of the related
3 demand-side measure is the appropriate recovery period for demand-side resources.

4 **Q WHY IS THIS THE APPROPRIATE AMORTIZATION OR DEPRECIATION PERIOD?**

5 A This is the appropriate time line because the objective is to match the cost associated
6 with the resource to the customers taking service at the time the benefits of the
7 resource are being realized. Depreciating or amortizing the asset value over the
8 expected useful life accomplishes this desirable goal.

9 **Q HAVE YOU PERFORMED ANY ANALYSIS OR REVIEW TO DETERMINE AN**
10 **APPROPRIATE AMORTIZATION PERIOD FOR DEMAND-SIDE RESOURCE**
11 **COSTS?**

12 A Yes. I have reviewed the expected lives of the various demand-side measures that
13 Ameren Missouri includes in its programs. I also have reviewed Ameren Missouri's
14 calculation of costs and benefits associated with demand-side resources to determine
15 the time horizon over which it assumes benefits would be created.

16 **Q WHY IS THE TIME PERIOD OVER WHICH AMEREN MISSOURI ASSUMED THAT**
17 **BENEFITS WOULD BE REALIZED RELEVANT TO THIS ISSUE?**

18 A Fundamentally, when Ameren Missouri evaluates demand-side resources, it performs
19 economic tests that compare the costs associated with the demand-side resources
20 with the benefits in terms of the costs avoided as a result of their installation. If, after
21 appropriate adjustments for all relevant factors, the benefits exceed the costs, then
22 Ameren Missouri could include the measure or program in its portfolio.

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1 Cost recovery would be distorted if Ameren Missouri used a shorter time for
2 the recovery of the costs than for the counting of benefits. As an example, assume
3 that the measure life is ten years, but that costs are recovered in three years. This
4 means that customers on the system during the first three years would pay all of the
5 costs, while 70% of the benefit would go to customers on the system during the
6 subsequent seven years. To the extent that these are not the same customers, there
7 is a large inequity introduced into the rate.

8 **Q WHAT WERE THE RESULTS OF YOUR ANALYSES?**

9 A Information concerning the life of the various measures was taken from Ameren
10 Missouri's current Integrated Resource Plan ("IRP"). For the most part, the expected
11 lives are greater than ten years. The table below shows the distribution of the
12 measure lives.

Base Equipment Life		
# Years	Count	Average
<=5	116	2
6-10	187	10
11-15	450	13
16-20	199	18
>20	2	28
Total	954	12

13 A simple average of the lives of the 954 measures is 12 years. As noted, the
14 period of time over which benefits were assumed to accrue was derived from
15 information included in Ameren Missouri's most recent IRP analyses.

1 Q WHAT WERE THE RESULTS OF YOUR REVIEW OF THE TIME PERIODS OVER
2 WHICH AMEREN MISSOURI ASSUMED THAT BENEFITS WOULD ACCRUE IN
3 CALCULATING THE BENEFIT/COST RATIOS ASSOCIATED WITH ITS
4 DEMAND-SIDE PROGRAMS?

5 A My review revealed that Ameren Missouri used the lives referenced in my previous
6 answer to calculate the benefit/cost ratios.

7 Q WHAT DOLLAR AMOUNT DOES AMEREN MISSOURI CLAIM IS ASSOCIATED
8 WITH ITS NEW GROUP OF ENERGY EFFICIENCY EXPENDITURES?

9 A Ameren Missouri has estimated a total amount to be amortized of approximately
10 \$36.2 million. If amortized over three years as proposed, this amounts to an annual
11 amortization of approximately \$12.1 million.

12 Q WHAT IS YOUR PROPOSAL WITH RESPECT TO THE AMORTIZATION PERIOD
13 FOR DSM EXPENDITURES?

14 A It is my recommendation that the ten-year amortization period for the first group of
15 regulatory assets, and the six-year period stipulated in the last case for the second
16 group of regulatory assets, be continued.

17 For the expenditures subsequent to those included in the six-year amortization
18 period from the last case, I recommend that a ten-year amortization period be utilized.

19 Q WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR
20 RECOMMENDATIONS ON THESE AMORTIZATIONS?

21 A It is \$8.5 million and is presented in the testimony of Mr. Carver.

1 **Q IF THE SIX-YEAR PERIOD WAS AGREED TO IN THE LAST CASE, WHY IS A**
2 **TEN-YEAR PERIOD REASONABLE IN THIS CASE?**

3 **A** First, it has to be remembered that the amortization period in the last case was the
4 result of a multi-issues stipulation among the parties with the usual language affirming
5 that the treatment of items included in the stipulation have no precedential value.

6 More fundamentally, a ten-year amortization period is much more consistent
7 with the period of time over which Ameren Missouri estimates that the DSM measures
8 will provide benefits to customers. Accordingly, a ten-year amortization period is
9 much more consistent with the principal of "matching benefits and costs" than is the
10 proposed three-year amortization period that Mr. Davis supports.

11 **Q HOW DOES THE CASH FLOW WITH A TEN-YEAR AMORTIZATION COMPARE**
12 **TO THE CASH FLOW WITH A SUPPLY-SIDE RESOURCE?**

13 **A** Since most supply-side resources are depreciated over a period of 40 years or
14 longer, amortization over a ten-year period obviously provides more cash flow to the
15 utility than does investment in supply-side resources. For example, with a
16 supply-side resource that is depreciated over a 40-year life, the return of capital
17 during the first five years would be equal to $5 \div 40$, or 12.5%, while the return of
18 capital during the first five years of a ten-year amortization would be $5 \div 10$, or 50%.

19 Thus, investment of the same dollars would provide return of capital four times
20 faster with a ten-year amortization of a regulatory asset than would be the case with a
21 40-year depreciable life for a supply-side resource. If anything, the amortization
22 provides superior cost recovery in terms of cash flow for the utility than does
23 depreciation of the typical supply-side asset. That, coupled with the opportunity to

1 earn the same rate of return on the demand-side resources, clearly provides fair
2 treatment for the utility.

3 **Q ON PAGE 4 OF HIS DIRECT TESTIMONY, AMEREN MISSOURI WITNESS DAVIS**
4 **ASSERTS (AT LINE 7) THAT THE CURRENT DSM COST RECOVERY**
5 **MECHANISM DOES NOT PROVIDE FOR "TIMELY RECOVERY." DO YOU**
6 **AGREE?**

7 **A**No, I do not agree. A dollar spent on DSM will be amortized through rates and fully
8 recovered within ten years of the beginning of the amortization. Amortizations begin
9 with the effective date of new rates in a rate case. Assuming rates change every
10 three to four years (a much less frequent occurrence than has recently been the
11 experience), and that expenditures occur reasonably uniformly, new expenditures
12 would be in a regulatory asset and accruing carrying charges for an average of
13 1.5 - 2.0 years prior to the beginning of amortization. Thus, the total period elapsed
14 from the date of expenditure to the date of complete recovery through rates would be
15 about 12 years. This is shorter than the useful life of most of the DSM measures that
16 are being installed, and substantially shorter than the period of recovery for
17 supply-side resources which typically stretch over 40 or more years.

18 From a cash flow perspective, therefore, the amortization approach returns
19 capital to Ameren Missouri much more quickly than it recovers its capital associated
20 with supply-side expenditures. It is difficult to see how Mr. Davis can credibly claim
21 that current DSM cost recovery is "not timely."

1 **Q PLEASE COMPARE THE RECOVERY METHOD FOR DSM EXPENDITURES WITH**
2 **THE RECOVERY METHOD FOR SUPPLY-SIDE EXPENDITURES FROM AN**
3 **EARNINGS PERSPECTIVE.**

4 A When supply-side resources are constructed, the utility is allowed to accrue carrying
5 charges during the construction period. However, when an asset enters service the
6 capitalization of carrying charges ceases and the expensing of depreciation begins.
7 Depending on the timing of rate cases, several years could elapse before the costs
8 associated with these resources are recognized. Thus, during this period of time,
9 earnings are reduced because of the cessation of capitalization of the carrying charge
10 and the onset of depreciation expense.

11 On the other hand, with the current recovery mechanism for DSM, Ameren
12 Missouri is allowed to continue to accrue carrying charges on the expenditures up
13 until the time that the amortization begins. In addition, because amortization does not
14 start until rates are changed in a rate case, earnings are not adversely affected by the
15 amortization (similar to depreciation in the case of supply-side resources) during this
16 period of time. Thus, Ameren Missouri's earnings are much more favorably affected
17 under the DSM method of cost recovery currently in place than is the case for the
18 method of recovery associated with supply-side resources.

19 **Q WHAT DO YOU CONCLUDE FROM THIS COMPARISON OF COST RECOVERY**
20 **METHODS BETWEEN SUPPLY-SIDE RESOURCES AND DEMAND-SIDE**
21 **RESOURCES?**

22 A I conclude that the current method of recovery for DSM resources is superior to that
23 for supply-side resources both in terms of cash flow considerations and earnings.

1 Q ON PAGES 4 AND 5 OF HIS TESTIMONY MR. DAVIS ASSERTS THAT WHILE
2 SUPPLY-SIDE RESOURCES DEPRECIATE OVER TIME, DSM PROGRAM
3 EXPENSES CONTINUE TO INCREASE OVER TIME CREATING WHAT HE CALLS
4 A "BUBBLE" OF COSTS. DO YOU AGREE WITH MR. DAVIS' ANALYSIS?

5 A No. Mr. Davis is comparing the investment in a single supply-side resource with a
6 series of investments in demand-side resources. If we were to compare a series of
7 investments in supply-side resources with a series of investments in demand-side
8 resources, we would find that there would be an increase over time in the value of
9 both supply-side resources and demand-side resources. Or, at the very least, there
10 would be a much smaller difference than is suggested by Mr. Davis in his example.
11 In evaluating this claim, the much shorter period of cost recovery should also be kept
12 in mind.

13 Q ARE THERE OTHER IMPORTANT CONSIDERATIONS WHEN EVALUATING
14 COST RECOVERY FOR DSM VERSUS SUPPLY-SIDE RESOURCES?

15 A Yes. DSM resources are in smaller, more discrete, increments than supply-side
16 resources. The rate of expenditure for DSM resources can be adjusted quickly in
17 response to changing conditions since the dollar investments in any particular
18 program are much smaller than in the case of supply-side resources, and the
19 investment increments are much smaller since they consist of a series of small
20 projects rather than one large project.

21 Thus, if conditions change, Ameren Missouri can respond to that change
22 much more quickly if it is investing in demand-side resources than if it is investing in a
23 large, lumpy, single expenditure supply-side resource. Also, delaying a supply-side
24 resource creates substantially more cost than delaying demand-side resources

Maurice Brubaker
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1 because of the accrual of carrying charges on the large supply-side asset during the
2 period of delay.

3 **Q ARE YOU FAMILIAR WITH SB 376, CODIFIED AS 393.1075 RSMo?**

4 **A** Yes, I am.

5 **Q WHAT IS THE STATUS OF THE RULEMAKING PROCEEDING THAT THE**
6 **COMMISSION INSTITUTED TO IMPLEMENT THE PROVISIONS OF SB 376?**

7 **A** The Commission held a hearing on the rulemaking on December 20, 2010. To the
8 best of my knowledge, no additional formal action has been taken and these rules are
9 not currently in effect.

10 **Recovery of Costs Associated with Solar Rebates**

11 **Q WHAT HAS AMEREN MISSOURI PROPOSED WITH RESPECT TO THE**
12 **RECOVERY OF COSTS ASSOCIATED WITH SOLAR REBATES?**

13 **A** Ameren Missouri requests a one-year amortization (essentially expense treatment)
14 for the amount of solar rebates that it has incurred as of February 28, 2011, which it
15 currently estimates to be \$690,000. For subsequent expenditures, it is requesting an
16 AAO.

17 **Q DO YOU AGREE WITH AMEREN MISSOURI'S PROPOSAL TO EXPENSE THE**
18 **COST OF SOLAR REBATES INCURRED AS OF FEBRUARY 28, 2011?**

19 **A** No, I do not. The solar facilities to which these rebates apply are expected to have a
20 life of at least ten years. In fact, Ameren Missouri's Rider "SR" - Solar Rebate says,
21 among other things, that in order to be eligible to receive the rebate:

1 "The retail customer must declare the installed solar electric system
2 will remain in place on the account holder's premise for the duration of
3 its useful life which shall be deemed to be a minimum of ten (10)
4 years."

5 Another requirement is that:

6 "The solar modules and inverters shall be new equipment and include
7 a manufacturers warranty of ten (10) years."

8 For the above reasons, it is my recommendation that the solar rebate cost be
9 amortized over a period of not less than ten years, rather than expensed.

10 **Q WHAT IS THE REVENUE REQUIREMENT OF THIS RECOMMENDATION?**

11 **A As quantified by Mr. Carver, it is about \$620 thousand.**

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

13 **A Yes, it does.**

Appendix A

Qualifications of Maurice Brubaker

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 Q PLEASE STATE YOUR OCCUPATION.

5 A I am a consultant in the field of public utility regulation and President of the firm of
6 Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
8 EXPERIENCE.

9 A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in
10 Electrical Engineering. Subsequent to graduation I was employed by the Utilities
11 Section of the Engineering and Technology Division of Esso Research and
12 Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of
13 New Jersey.

14 In the Fall of 1965, I enrolled in the Graduate School of Business at
15 Washington University in St. Louis, Missouri. I was graduated in June of 1967 with
16 the Degree of Master of Business Administration. My major field was finance.

17 From March of 1966 until March of 1970, I was employed by Emerson Electric
18 Company in St. Louis. During this time I pursued the Degree of Master of Science in
19 Engineering at Washington University, which I received in June, 1970.

1 In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis,
2 Missouri. Since that time I have been engaged in the preparation of numerous
3 studies relating to electric, gas, and water utilities. These studies have included
4 analyses of the cost to serve various types of customers, the design of rates for utility
5 services, cost forecasts, cogeneration rates and determinations of rate base and
6 operating income. I have also addressed utility resource planning principles and
7 plans, reviewed capacity additions to determine whether or not they were used and
8 useful, addressed demand-side management issues independently and as part of
9 least cost planning, and have reviewed utility determinations of the need for capacity
10 additions and/or purchased power to determine the consistency of such plans with
11 least cost planning principles. I have also testified about the prudence of the actions
12 undertaken by utilities to meet the needs of their customers in the wholesale power
13 markets and have recommended disallowances of costs where such actions were
14 deemed imprudent.

15 I have testified before the Federal Energy Regulatory Commission ("FERC"),
16 various courts and legislatures, and the state regulatory commissions of Alabama,
17 Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia,
18 Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri,
19 Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania,
20 Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia,
21 Wisconsin and Wyoming.

22 The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and
23 assumed the utility rate and economic consulting activities of Drazen Associates, Inc.,
24 founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It
25 includes most of the former DBA principals and staff. Our staff includes consultants

Ameren Missouri

**Recent and Proposed Increases
in Missouri Electric Rates
(\$/Millions)**

<u>Line</u>	<u>Date of Increase</u>	<u>Base Rate Increase</u> (1)	<u>Fuel Adjustment Increase</u> (2)	<u>Total Increase</u> (3)
1	March 2009	\$162		
2	October 2009		\$(13)	
3	February 2010		\$19	
4	June 2010		\$45	
5	July 2010	\$229		
6	October 2010		\$72	
7	February 2011		\$63	
8	Granted to Date	\$391	\$186	\$577 (28%)
9	August 2011*	\$263		263
10	Total	\$654		\$840 (41%)

* Proposed

**Ameren Missouri
Case No. ER-2011-0028**

**MIEC's Adjustment to Ameren Missouri's
Proposed Revenue Requirement**

<u>Line</u>	<u>Category of Adjustment</u>	<u>Amount of Reduction (\$000)</u>	<u>Witness</u>
1	Return on Equity	\$ 64,761	Gorman
2	Incentive Compensation	\$ 1,148	Meyer
3	Steam Production Maintenance	\$ 2,800	Meyer
4	Storms	\$ 4,718	Meyer
5	Vegetation Management	\$ 2,980	Meyer
6	Infrastructure Inspections	\$ 2,008	Meyer
7	EPRI Dues Annualization	\$ 1,005	Meyer
8	Sioux Scrubber & Taum Sauk Property Tax	\$ 10,000	Meyer
9	Income Tax Issues	\$ 15,806	Brosch
10	Amortization Rescheduling	\$ 11,057	Carver
11	Payroll Tax	\$ 329	Carver
12	Solar Amortization	\$ 621	Brubaker & Carver
13	Demand-Side Management Amortization	\$ 8,455	Brubaker & Carver
14	Transmission Revenues	\$ 2,923	Dauphinais
15	Cash Working Capital	<u>\$ 5,611</u>	Meyer
16	Total Non-Fuel	\$ 134,221	
17	Net Fuel Costs	\$ 6,561	Dauphinais
18	Other Sales Revenues	<u>\$ 6,309</u>	Dauphinais
19	Total Fuel	\$ 12,869	
20	Total Reduction	\$ 147,090	