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Witness:	*Stephen M. Rackers*
Sponsoring Party:	*MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

STEPHEN M. RACKERS

UNION ELECTRIC COMPANY
d/b/a Ameren Missouri

FILE NO. ER-2011-0028

Jefferson City, Missouri
April 15, 2011

Staff Exhibit No. 224
Date 4/26/11 Reporter [illegible]
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STEPHEN M. RACKERS

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SURREBUTTAL TESTIMONY

OF

STEPHEN M. RACKERS

UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI

FILE NO. ER-2011-0028

Q. Please state your name and business address.

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

Q. Are you the same Stephen M. Rackers who prefiled Direct Testimony in support of the Missouri Public Service Commission (Commission) Staff's (Staff) Revenue Requirement Cost of Service Report in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal testimony?

A. My Surrebuttal testimony will respond to the Rebuttal testimony of Company Witness Gary S. Weiss regarding construction accounting, vegetation management and infrastructure inspections.

CONSTRUCTION ACCOUNTING

Q. Do you agree with the following testimony of Mr. Weiss that appears on page 18 of his rebuttal testimony: "Both Mr. Rackers and Mr. Brosch talk about the principle of matching revenues and expenses during the test year"?

A. I agree I was speaking of the matching principle on pages 29 and 30 of the Staff's Revenue Requirement Cost Of Service Report where I said that it would be inappropriate to consider in isolation changes in only one item, such as costs caused by government-requested relocations of facilities and other plant, while not considering potentially offsetting changes in the other cost of service components. However, as I indicated in that same testimony I was speaking of considering changes in each of the cost of service components, including revenues, expenses and investment, not just changes to revenues and expenses. In fact, I specifically pointed out that it would be inappropriate to consider in isolation changes in only one cost of service component, such as plant in service, which is what Ameren Missouri is proposing through Mr. Weiss.

Q. What is your response to Mr. Weiss's statement that revenues and expenses are not impacted by continuing construction accounting on plant in service?

A. Simply because the revenues and expenses in the current case are not changed by continuing construction accounting on plant in service does not mean the matching principle is not violated by continuing construction accounting. Attempting to capture the cost associated with a single item through construction accounting so it can impact revenue requirement in a future rate proceeding, still violates the matching principle. Further, it disregards the Commission-ordered true-up cut-off date in this case. It is inappropriate, to preserve construction accounting for investment in plant (one cost of service component), while ignoring offsets related to that investment, offsets such as the accumulated depreciation and deferred income tax reserves.

Q. Would you explain what you mean when you say accumulated depreciation and deferred income tax reserves are offsets related to investment in plant?

A. The depreciation and deferred income tax reserves continue to accumulate, not only on the plant in Mr. Weiss' proposal that occurs after the true-up cut-off, but also on the plant in service prior to the true-up cut-off. This is because both depreciation and deferred income tax are directly related to the new plant investment; depreciation increases as plant investment increases, as does deferred income tax. Also, the depreciation and deferred income tax reserves continue to increase with the passage of time as additional depreciation accumulates on plant already in service. The fact that ratepayers are supplying these funds, which are directly related to plant, is why they are traditional ratemaking offsets to plant in service in the rate base. Mr. Weiss is ignoring the lost return on these offsets while attempting to capture the lost AFUDC (return) and depreciation on plant additions.

The following discussion illustrates my point about failing to recognize proper offsets. The annual amount of depreciation expense is approximately $385 million. During the five months following the true-up cut-off date through the operation of law date in this case, the depreciation reserve will increase by approximately $160 million ($385 / 12 X 5). Applying an AFUDC (return) rate of 8% to this amount produces approximately $13 million of lost annual return ($160 X 8%). In response to MIEC data request 1.30, Ameren Missouri identified $54 million of plant that it anticipates adding between the true-up cut-off date and the operation of law date in this case that would be addressed by its non-government relocation construction accounting proposal. Applying the same 8% AFUDC rate and an average depreciation rate of 3% to this $54 million produces approximately $6 million of lost return and depreciation expense annually ($54 X [8% + 3%]). Therefore, without even considering the change in the deferred income tax reserve, the lost return and depreciation expense associated with Mr. Weiss' proposal is completely offset by the lost return associated with the increase in the depreciation reserve, which is a proper offset to plant traditionally recognized in rate base.

Q. How do you respond to Mr. Weiss' statements regarding the hard choices the Company has to make regarding which projects to proceed with based on its resources?

A. Staff believes the requirement to make hard decisions about allocating resources between competing projects as an ongoing management requirement. This type of decision making helps ensure that only necessary and cost beneficial investments are made.

Q. How do you respond to Mr. Weiss' comments about regulatory lag on these plant additions?

A. Plant investments that are not yet recognized in rates aren't the only items exposed to regulatory lag. Mr. Weiss fails to recognize the regulatory lag associated with the other components included in the cost of service. My illustration above only shows the lag associated with plant offsets traditionally recognized in the rate base. However, all cost of service components are exposed to regulatory lag. It is inappropriate to attempt to capture the affects of regulatory lag on only a single component of the cost of service.

Q. Please summarize your testimony on the Company's construction accounting proposals.

A. For the reasons I discussed above and those in my direct testimony, I recommend that the Commission reject Ameren Missouri's construction accounting proposals. These proposals only address a single component of the cost of service while ignoring other offsetting components.

VEGETATION MANAGEMENT AND INFRASTRUCTURE INSPECTIONS

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

A. The costs addressed by this testimony are the non-labor operation and maintenance (O&M) cost incurred by Ameren Missouri for its vegetation management and infrastructure inspection program.

Q. Are the parties in agreement with regard to certain aspects of the vegetation management and infrastructure inspections issue?

A. Yes. There is currently no issue among the parties regarding the use of the actual February 28, 2011 true-up cost incurred for vegetation management and infrastructure inspections as the annualized level included in the revenue requirement cost of service in this case. Also, there are no issues regarding the tracker balance for vegetation management and infrastructure inspection costs deferred from March 1, 2010 through February 28, 2011 or the amortization of this amount over three years beginning on the 7/31/2011 effective date of rates in this case. Additionally, there is no dispute regarding the previously deferred amounts of vegetation management and infrastructure inspection costs recognized in Case Nos. ER-2009-0318 and ER-2010-0036 that need to be amortized.

Q. What are the remaining areas of dispute regarding the vegetation management and infrastructure inspections issue?

A. There are continuing disputes among the parties regarding the time period used to amortize the previously deferred cost as accumulated through the vegetation management and infrastructure inspections tracker and the continuation of the tracker mechanism. For this case, the Staff is not opposing the Company's continuation of the tracker mechanism. Therefore, the remaining issue between the Staff and Ameren Missouri regarding vegetation management and infrastructure inspections is the appropriate level of amortization of previously deferred costs that should be reflected in the determination of revenue requirement.

Q. What is the Company's position in regards to the recovery of the deferrals?

A. In his rebuttal testimony, Company Witness Weiss recommends that amortizations of previously deferred cost specifically ordered by the Commission in case Nos. ER-2008-0318 and ER-2010-0036 continue to be reflected in the determination of revenue requirement.

Q. Do you agree with Company Witness Weiss' approach to the recovery of these deferrals?

A. No. Mr. Weiss' recommendation to make no adjustments to the level of amortization will result in over-collection of the deferrals recognized in Case No. ER-2008-0318. With regard to the deferrals recognized in Case No. ER-2010-0036, his recommendation persists in using estimated amounts from 2010 that are now known and should be recognized. The estimated amounts used in the previous rate case exceeded actual cost by over $1,000,000. The deferral balance recognized in Case No. ER-2010-0036 is negative, which signifies that the Company's actual expenditures for vegetation management and infrastructure inspections were less than the amounts included in rates. Restating the deferral to recognize actual amounts rather than the estimates used in the previous rate case results in an even more negative balance and a higher level of over-collection. Mr. Weiss' reliance on incorrect estimates has the effect of extending the Commission ordered return of over-collections to ratepayers from 36 months to 50 months.

Q. What is the Staff's approach to structuring the recovery of the balances for previously deferred vegetation management and infrastructure inspection cost?

A. The Commission established a special regulatory mechanism, the vegetation management and infrastructure inspections tracker, to specifically address its rule changes regarding vegetation management and infrastructure inspections. This mechanism tracks the difference between the actual cost incurred and the cost included in rates. Any over or under-collection is deferred until Ameren Missouri's next general rate case. In Case Nos. ER-2008-0318 and ER-2010-0036 the Commission ordered a three-year amortization of the deferred cost. The Staff does not believe the Commission intended for this mechanism to be used to increase or decrease the profits to the Company through over or under-collection of actual incurred cost.

Due to the unknown timing of the Company's next rate case filing, it is not possible to precisely address the level of potential over or under-collection of the deferred vegetation management and infrastructure inspection costs. However, in an attempt to minimize this potential, the Staff recommends recalculating the amount of annual amortization to more accurately reflect rate case timing, without significantly changing the original amortization period ordered by the Commission.

Q. What is the Staff's recommendation for the deferrals recognized in Case No. ER-2008-0318?

A. The first tracker balance collection that needs to be addressed is the three-year amortization ordered by the Commission in Case No. ER-2008-0318, effective March 1, 2009, for the cost deferred during the period January 1, 2008 through September 30, 2008. Due to a correction that reduced the deferred balance in the Company's last general rate proceeding, Case No ER-2010-0036, at the current rate of amortization these deferred costs will be completely amortized in January 2012. If for example the Company files a new general rate case in September 2011, it will over-collect by approximately $1,000,000. This over-collection will occur during the months following the full recovery of the deferred costs in January 2012 through the July 31, 2012 operation of law date of the next rate case in my example. In an attempt to minimize this over-collection, the Staff is recommending that the balance existing at the July 31, 2011 effective date of rates in the current rate case, File No. ER-2011-0028, be amortized over the succeeding twelve months. This recalculation reduces the monthly amortization to less than $80,000 and only extends the Commission's originally ordered 36 month amortization period by five months.

Q. What is the Staff's recommendation for recovery of the deferred cost incurred by the Company from October 1, 2009 through February 28, 2010, as established in Ameren Missouri's previous general rate proceeding, Case No. ER-2010-0036?

A. These costs include a netting of the deferred costs during October 1, 2008 through February 28, 2009 and the deferred over-collection of cost during March 1, 2009 through February 28, 2010. The amount of the deferrals during October 1, 2008 through February 28, 2009 was adjusted in Case No. ER-2010-2010 to recognize the vegetation management and infrastructure inspection costs that were included in rates prior to the implementation of the Commission's rule changes. The amount of the deferrals during March 1, 2009 through February 28, 2010 needs to be adjusted in the current case to replace the previously used estimate for February 2010 with the actual amount incurred. As I discussed earlier in my testimony, Mr. Weiss' recommended level of amortization continues to rely on estimates of 2010 cost and results in an extension of the Commission's ordered amortization period.

In Case No. ER-2010-0036, the Commission ordered a three-year amortization of the negative deferrals realized during the period October 1, 2009 through February 28, 2010. Based on the estimated amounts used in that case, the ordered amortization would return the deferred over-collection of vegetation management and infrastructure inspection costs during the 36 months ending in June 2013. However, if the deferral balance is restated to include actual rather than estimated data, without making any change to the level of amortization, the deferred over-collection will not be fully returned to ratepayers until August 2014.

Therefore, the Staff recommends changing the amount of the amortization beginning on the effective date of rates in the current rate case, so that the over-collection of vegetation management and infrastructure inspection costs, based on actual incurred amounts, is returned to ratepayers over the remaining life of the original Commission ordered 3 years.

Q. Has any other party taken a position with regard to these amortizations?

A. Yes. Missouri Industrial Energy Consumers Witness Steven Carver has also recommended extending the amortization period established in Case No. ER-2009-0318 for amounts deferred from January 1, 2008 through September 30, 2008. His proposals also address the need to adjust the level of amortization to prevent over-collection of deferred vegetation management and infrastructure inspection costs.

Q. Does this conclude your Surrebuttal 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 AmerenUE's (n/k/a Ameren Missouri) Tariff to Increase Its Annual Revenues for Electric Service	))))	File No. ER-2011-0028

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
) ss.
COUNTY OF SAINT LOUIS)

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Stephen M. Rackers

Stephen M. Rackers

Subscribed and sworn to before me this 11[th] day of April, 2011.

Lisa K Hanneken

Notary Public

LISA K. HANNEKEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Franklin County
My Commission Expires: April 27, 2014
Commission Number: 10967138