

Exhibit No.: ~~445~~ 420  
Issue: Billing Units  
Witness: Michael L. Brosch  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Missouri Industrial Energy Consumers  
Case No.: ER-2011-0028  
Date Testimony Prepared: May 2, 2011

Filed  
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Missouri Public  
Service Commission

**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 )  
\_\_\_\_\_ )

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

Supplemental Testimony of

**Michael L. Brosch**

**Revenue Requirement**

On behalf of

**Missouri Industrial Energy Consumers**

**PUBLIC VERSION**

May 2, 2011

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_____ )	

Supplemental Testimony of Michael L. Brosch

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A My name is Michael L. Brosch. My business address is PO Box 481934, Kansas  
3 City, Missouri 64148.

4 Q ARE YOU THE SAME MICHAEL L. BROSCHE WHO PREVIOUSLY SUBMITTED  
5 DIRECT AND SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

6 A Yes. My qualifications are described in Appendix A to my previously submitted Direct  
7 Testimony.

8 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

9 A I am appearing on behalf of the Missouri Industrial Energy Consumers ("MIEC").

10 Q WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

11 A This testimony responds to Ameren's billing units adjustment that is now being  
12 proposed by Company witness Mr. William R. Davis. I understand the Company's  
13 billing units adjustment is proposed as an alternative to the Fixed Cost Recovery  
14 Mechanism ("FCRM") that was initially recommended by Ameren, and that I  
15 addressed in my Direct Testimony. I understand that Ameren is now dropping its  
16 FCRM proposal in favor of a piecemeal downward adjustment to test year Residential  
17 sales of 250,951 MWH and Commercial/Industrial sales by 227,678 MWH, based  
18 upon an estimate of the future reductions in sales that may occur if the Company  
19 continues its sponsorship of certain demand side management ("DSM") programs.<sup>1</sup>  
20 My Supplemental Testimony explains why this billing units adjustment is inappropriate  
21 and should be rejected by the Commission.

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<sup>1</sup> Surrebuttal Testimony of William R. Davis, page 4. At page 5, Mr. Davis states that the amounts stated in his testimony should actually be Updated to reflect the results of Ameren Missouri's recently completed Evaluation, measurement, and Validation ("EM&V") Reports in amounts set forth on his Schedule WRD-ES8.

1 Q HAVE YOU REVIEWED THE SURREBUTTAL TESTIMONY OF STAFF WITNESS  
2 JOHN A. ROGERS THAT IS RESPONSIVE TO AMEREN MISSOURI'S  
3 PROPOSED BILLING UNITS ADJUSTMENT?

4 A Yes. In particular, I reviewed pages 13 through 15 where Mr. Rogers lists six reasons  
5 to support Staff's objection to the Company's billing units adjustment. I agree with Mr.  
6 Rogers' rationale for rejection of the Company's billing units adjustment, as explained  
7 in greater detail in this Supplement Testimony.

8

9 Q IS MR. ROGERS CORRECT THAT ANY RECOVERY OF LOST REVENUES  
10 ASSOCIATED WITH DSM SHOULD OCCUR ONLY ON A RETROSPECTIVE  
11 BASIS, SUBJECT TO PROPER MEASUREMENT AND VERIFICATION OF DSM-  
12 DRIVEN ENERGY SAVINGS?

13 A Yes. A retrospective analysis of DSM results is required to actually measure how  
14 customers responded to the Company's DSM programs and how this customer  
15 response translated into actual impacts upon sales volumes. The Company's  
16 ratepayers should not pay higher rates today, based upon speculative estimates of  
17 DSM lost sales and revenues that may occur in the future. Such recoveries should  
18 instead be tied to measured and verified actual results from DSM programs.

19

20 Q IF AMEREN MISSOURI ACTUALLY EXPERIENCES MEASURABLE LOST MWH  
21 SALES AS A DIRECT RESULT OF ITS SUPPORT OF DSM PROGRAMS, IS  
22 THERE ANY CERTAINTY THAT THE COMPANY WILL FAIL TO FULLY  
23 RECOVER ITS FIXED COSTS?

24 A No. The Company's MWH sales volumes and other billing determinants (customer  
25 counts, KW demand volumes) can be expected to continuously change after the test  
26 year, due to ever changing general economic conditions, weather fluctuation, growth

1 in the number of customers being served, personal income levels and spending  
2 habits of its customers, and other energy usage decisions made individually by  
3 Ameren customers. Utility-sponsored DSM is only one of many variables that  
4 influence trends in Ameren's overall MWH sales volumes. It is quite possible for the  
5 Company's total sales and revenue volumes to maintain an upward trend even with  
6 ongoing DSM program sponsorship. If Ameren Missouri's overall sales grow in spite  
7 of DSM savings achieved by certain customers, Ameren will have a reasonable  
8 opportunity to fully recover its fixed costs on a going forward basis.<sup>2</sup>

9  
10 **Q WOULD APPROVAL OF A DOWNWARD ADJUSTMENT TO BILLING UNITS IN A**  
11 **FIXED AMOUNT DO ANYTHING TO REMOVE THE SO-CALLED THROUGHPUT**  
12 **DISINCENTIVE THAT IS MENTIONED IN MR. DAVIS' TESTIMONY?**

13 **A** No. This is another point where I agree with Staff witness Mr. Rogers. A fixed level  
14 of billing units adjustment, as proposed by the Company, does nothing to change any  
15 financial incentives or disincentives the utility will experience regarding changes in its  
16 future sales volumes. Once rates are set in this pending rate case, either with or  
17 without the Company's proposed billing units adjustment for DSM impacts, Ameren  
18 shareholders will still experience the same marginal earnings impact from each  
19 gained or lost MWH of energy sales that occurs after the test year. A fixed  
20 ratemaking adjustment is simply not responsive to incremental changes in future  
21 levels of energy demanded by consumers.

22

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<sup>2</sup> At pages 30-33 of my Direct Testimony, I describe that Ameren Missouri has not proven any financial need for extraordinary forms of piecemeal rate relief and how changes in tax laws have created improved internal cash flows and provided mitigating relief from earnings attrition that may be alleged to exist by the Company.

1 Q DOES AN ACCOUNTING FOR ACTUAL DSM LOST SALES VOLUMES OCCUR  
2 NATURALLY, AS PART OF THE NORMAL, PERIODIC RATE CASE PROCESS?

3 A Yes. The cumulative impact of all utility-sponsored DSM programs, as well as the  
4 effects of general economic conditions, customer funded conservation measures,  
5 price elasticity, weather and other variables are reflected within the embedded test  
6 year sales volumes that are subject to review and normalization in rate cases. Test  
7 year MWH sales volumes, therefore, have already captured an adjustment for lost  
8 revenues from DSM, while also capturing the potentially offsetting effects of the other  
9 variables at the same point in time. The significance of test year capturing of  
10 embedded DSM revenue effects is that the measurement period is synchronized with  
11 all other changes in test year sales volumes – so that all the elements of the revenue  
12 requirement calculation are properly matched.

13

14 Q WHAT IS WRONG WITH SELECTIVELY ADJUSTING FOR FUTURE ESTIMATED  
15 DSM SALES VOLUME IMPACTS?

16 A. The Company's adjustment would not retain the essential matching of revenue  
17 requirement elements in the test year. Instead, Ameren Missouri seeks to selectively  
18 reach forward for the anticipated negative energy sales impacts of utility-sponsored  
19 DSM, while ignoring the potential for improving economic conditions and/or the  
20 addition of new customers to more than offset any sales losses caused by such DSM.

21

22 Q IN YOUR DIRECT TESTIMONY, AT PAGES 37-38, YOU DISCUSSED CERTAIN  
23 "OBVIOUS PROBLEMS WITH THE PROPOSED FCRM THAT SUPPORT  
24 REJECTION OF THIS MECHANISM." DO THESE SAME OBVIOUS PROBLEMS  
25 APPLY TO THE BILLING UNITS ADJUSTMENT NOW BEING PROPOSED BY MR.  
26 DAVIS?

1 A Yes.

2 Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

3 A Yes.

