

Exhibit No.: 228
Issues: Class Cost-of-Service
Rate Design
Witness: Michael S. Schepeler
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
File No.: ER-2011-0028
Date Testimony Prepared: April 15, 2011

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL S. SCHEPERLE

**UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI**

FILE NO. ER-2011-0028

*Jefferson City, Missouri
April 2011*

*Staff Exhibit No. 228
Date 4/26/11 Reporter JNB
File No. ER-2011-0028*

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

In the Matter of Union Electric Company)
d/b/a AmerenUE's Tariff to Increase its)
Annual Revenues for Electric Service)

File No. ER-2011-0028

AFFIDAVIT OF MICHAEL S. SCHEPERLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael S. Scheperle, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 8 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael S. Scheperle

Michael S. Scheperle

Subscribed and sworn to before me this 15th day of April, 2011.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Susan L. Sundermeyer

Notary Public

1
2
3
4
5
6
7
8
9
10
11

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY
OF
MICHAEL S. SCHEPERLE
UNION ELECTRIC COMPANY d/b/a Ameren Missouri
FILE NO. ER-2011-0028

Executive Summary 2

Lighting Class 2

Residential Customer Charge 6

Production Non-Fuel Expenses 7

1
2
3
4
5
6
7
8
9
10
11
12

SURREBUTTAL TESTIMONY

OF

MICHAEL S. SCHEPERLE

**UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI**

FILE NO. ER-2011-0028

13 Q. Please state your name and business address.

14 A. My name is Michael S. Scheperle and my business address is Missouri Public
15 Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

16 Q. Are you the same Michael S. Scheperle who filed in this proceeding on
17 February 10, 2011, direct testimony, both in question and answer format and as part of the
18 Missouri Public Service Commission Staff's (Staff's) Rate Design and Class Cost-of-Service
19 Report, and who filed on March 25, 2011 rebuttal testimony in question and answer format?

20 A. Yes, I am.

21 Q. What is the purpose of your surrebuttal testimony?

22 A. I respond to the Street Lighting recommendations of Union Electric Company
23 d/b/a Ameren Missouri's ("Ameren Missouri") witness Philip B. Difani, Jr. and the Municipal
24 Group's ("Municipal Group"¹) witness Petree E. Eastman. Further, I respond to Ameren
25 Missouri's witness Wilbon L. Cooper regarding Ameren Missouri's residential customer
26 charges and Missouri Industrial Energy Consumers' (MIEC) witness Maurice Brubaker
27 regarding MIEC's production non-fuel expenses.

¹ The City of O'Fallon, the City of Creve Coeur, the City of University City, the City of Olivette, the City of St. Ann, the City of Kirkwood, the City of Bellefontaine Neighbors, the City of Florissant, the City of Richmond Heights, the Village of Twin Oaks and the St. Louis Municipal League.

1 **Executive Summary**

2 Q. What do you address in your surrebuttal testimony?

3 A. With regard to the Street Lighting treatment requested by the Municipal
4 Group, Staff disagrees with the Municipal Group's characterization that adoption of Staff's
5 recommendation would cause an inequity for cities that pre-paid for their pole installation
6 after 1988.

7 With regard to Ameren Missouri's requested street lighting treatment, Staff disagrees
8 with Mr. Difani's characterization that Ameren Missouri's street lighting request is superior to
9 Staff's recommendation.

10 With regard to Ameren Missouri's requested residential customer charge, Staff
11 disagrees with the magnitude of Ameren Missouri's requested 25% increase (\$8.00 to \$10.00)
12 for the residential customer charge.

13 Finally, Staff disagrees with MIEC witness Brubaker's characterization that Staff has
14 essentially followed the classification presented by Ameren Missouri for production non-fuel
15 expenses.

16 **Lighting Class**

17 Q. Do you agree with Ms. Eastman's allegation that Staff's street lighting
18 recommendation does not acknowledge, or make an adjustment for, Ameren Missouri's
19 requested increase for 5M customers?

Surrebuttal Testimony of
Michael S. Scheperle

1 A. No. Ms. Eastman apparently misunderstands Staff's position on Ameren
2 Missouri's requested treatment of 5M lighting customers² – Staff opposes Ameren Missouri's
3 request.

4 Ms. Eastman explains that under Ameren Missouri's requested treatment, lighting
5 customers that pre-paid for their pole installations after 1988 will now bear the burden of
6 charges for pre-1988 pole installations. She states that this result is unfair and unreasonable,
7 and Staff agrees with that characterization.

8 Staff's position is that the lighting rate design proposed by Ameren Missouri, which
9 would eliminate the pole and span charges currently paid by some municipalities for facilities
10 built prior to 1988 and spread these costs to all 5M rate elements regardless of the vintage of
11 the facility, is fundamentally unfair to cities (municipalities) who opted to pay the upfront
12 charge rather than continue to pay the monthly charge. Staff recommends no change in the
13 rate design of the municipalities who opted to pay monthly in 1988.

14 Q. Why is Staff recommending the system average increase plus an additional 1%
15 increase for the street lighting class?

16 A. Staff's Class Cost-of-Service (CCOS) study shows that the lighting class is
17 underpaying by approximately 21%. Also, the lighting class in Ameren Missouri's last case
18 (ER-2010-0036) received no increase. Staff is attempting to bring the Lighting class closer to
19 its cost to serve while minimizing rate shock to any lighting customer. Also, Staff notes that

² According to the direct testimony of Ameren Missouri witness Difani, prior to September 1988, poles and span charges were billed on a monthly basis. In September, 1988, the mechanism to charge for these excess facilities changed to a one-time, upfront charge. Municipal customers who had facilities installed prior to September 1988, had the option at that time to pay the one-time charge for their existing excess facilities or continue to pay the monthly charge for these facilities already in place in September 1988. The rate design proposed by Ameren Missouri would eliminate the monthly pole and span charges for the facilities already in place in September 1988 and spread these costs to all other 5M rate elements which would result in all 5M customers paying these costs.

Surrebuttal Testimony of
Michael S. Scheperle

1 the other two CCOS study results in this case indicate the lighting class is underpaying by
2 17% (Ameren Missouri) and 25% (MIEC). Furthermore, the Commission in Ameren
3 Missouri's last case (File No. ER-2010-0036) noted that:

4 ... because no class cost of service study has examined the lighting class since
5 at least the 1980's, the entire class has been given rates that may or may not
6 bear any resemblance to the cost to serve that class. The lighting class is only
7 a small part of AmerenUE's (now Ameren Missouri) entire customer base, but
8 street lighting is a significant cost for the municipalities that take that service.
9 Under the circumstances, the Commission will exempt the entire lighting
10 customer class from the rate increase that will result from this report and
11 order. (page 99, Report and Order, paragraph 49).

12 Q. Did the Municipal Group produce a CCOS study to justify the Municipal
13 lighting rates?

14 A. No.

15 Q. Does the Municipal Group disagree with any of the CCOS studies justifying
16 the revenue responsibility of the lighting class?

17 A. No. In fact, Ms. Eastman "acknowledge(s) that the rates paid by the Lighting
18 Class do not necessarily cover its costs." Ms. Eastman further asserts a belief that "unlike any
19 other class, the electricity for street lighting benefits every class and every person who resides
20 in, works in, visits in and passes through Ameren territory in Missouri."³

21 Q. Does Staff have other concerns about Municipal Group's request?

22 A. Yes. In Ameren Missouri's last case (File No. ER-2010-0036), a substantial
23 amount was additionally allocated to the residential class while the Lighting class received no
24 increase. The Report and Order in File No. ER-2010-0036 stated:

25 Under the circumstances, the Commission will exempt the entire lighting
26 customer class from the rate increase that will result from this report and
27 order. The lighting class currently generates \$31.295 million in revenue for

³ Eastman Rebuttal, lines 48 - 50

Surrebuttal Testimony of
Michael S. Scheperle

1 AmerenUE [Ameren Missouri]. The roughly 10.2 percent system average rate
2 increase that will result from this case would generate an additional \$3.2
3 million in revenue from the lighting class. AmerenUE shall instead collect that
4 \$3.2 million of revenue from the other rate classes on a pro rata basis. (Report
5 and Order, File No. ER-2010-0036, paragraphs 49 and 50).

6 This meant that, in the last rate case on a pro rata basis, all other classes were allocated
7 the \$3.2 million that the lighting class' rates would have increased. From a residential class
8 basis, the residential class was additionally allocated approximately 44% of the additional
9 \$3.2 million.

10 From Staff's perspective, the Municipal Group's request in this case is trying to
11 achieve similar results by eliminating certain street lighting billing units. Furthermore, Staff
12 is then concerned how the Commission ordered increase will be applied to rate classes to
13 make up the difference. Ms. Eastman's proposal does not specify except that it should not be
14 the lighting class even though the results of all filed CCOS studies show the lighting class
15 revenue responsibility is underpaying by 17% or more.

16 Q. Do you agree with Ameren Missouri's proposal to eliminate the pole and span
17 charges in the 5M category?

18 A. No. Mr. Difani states that Staff does not address the proposal to eliminate the
19 pole and span charges and Staff's recommendation will continue to increase all of the current
20 charges. Staff does address the pole and span charges because its position is to maintain the
21 status quo by keeping the billing units as currently billed.

22 Mr. Difani states that there are two reasons to eliminate the monthly charges:

- 23 1. Elimination of the monthly charges will simplify the company's record-keeping and
24 billing for lighting service; and
- 25 2. Ameren Missouri has received numerous complaints from customers affected by these
26 charges alleging these facilities have been paid for. Clearly, this argument is not
27 consistent with the idea that these customers are paying monthly for service enabled
28 by these facilities and are not paying for the facilities themselves.

Surrebuttal Testimony of
Michael S. Scheperle

1 Staff agrees that elimination of the monthly charges will simplify the company's
2 record keeping. However, Staff does not agree with the second reason that these charges
3 should be eliminated. Staff recommends that the pole and span charges not be eliminated as
4 billing units because these customers are paying monthly for service enabled by these
5 facilities.

6 However, if the Commission decides to eliminate the pole and span charges, Staff
7 recommends that the approximately \$2.7 million stay in the lighting class and not be allocated
8 to other classes of customers.

9 **Residential Customer Charge**

10 Q. What was Ameren Missouri's position in rebuttal testimony regarding Staff's
11 residential customer charge recommendation of an increase from \$8.00 to \$9.00?

12 A. Ameren Missouri opposes Staff's recommendation, as detailed in Ameren
13 Missouri witness Cooper's rebuttal testimony on pages 11-12. Mr. Cooper suggests a greater
14 increase from \$8.00 to \$10.00 is warranted and that Ameren Missouri's residential customer
15 charge is lagging behind similar charges for three of the four other utilities in the state.

16 If Ameren Missouri's recommendation is adopted, that would mean a 25% increase
17 for the customer charge (from \$8.00 to \$10.00). Staff recommends a more modest \$1.00
18 increase for the residential customer charge which would be in line with Kansas City Power &
19 Light Company and KCP&L Greater Missouri Operations Company residential customer
20 charges. Staff's recommendation is based on Staff's judgment of public acceptance and
21 preference for rate stability. Staff believes the 25% increase on residential customer charges
22 as requested by Ameren Missouri has the potential for rate shock to all residential customers,
23 especially for small users.

1 **Production Non-Fuel Expenses**

2 Q. On page 3, lines 4-6 of his rebuttal testimony, MIEC witness Brubaker states
3 that Staff's classification of generation system operation and maintenance (O&M) expense is
4 similar to Ameren Missouri's and has essentially followed the classification proposed by
5 Ameren Missouri (Page 10, lines 6-8). Do you agree with his characterization of Staff's
6 classification?

7 A. No. Mr. Brubaker completely mischaracterizes Staff's position as essentially
8 following Ameren Missouri's position. Ameren Missouri witness Mr. Warwick in Rebuttal
9 Testimony (page 2) states the position's correctly as follows:

10 The primary difference among the Company, Staff and MIEC CCOSS are
11 related to the classification on non-fuel production operation and maintenance
12 ("O&M") expenses between fixed (demand-related) and variable (energy-
13 related) components. More specifically, the classification of three categories
14 of cost – "Operations Expense – Other," "Maintenance Expense – Labor," and
15 "Maintenance Expense – Other" are at issue. MIEC classified these three
16 categories of cost as demand-related and allocated them based on MIEC's
17 fixed production plant allocator. The Staff's method of classification of these
18 costs seems to follow an approach prescribed in the National Association of
19 Regulatory Utility Commissioners ("NARUC") Electric Utility Cost
20 Allocation Manual. In contrast, the Company classified these three categories
21 of cost as variable and allocated them based on the Company's energy
22 allocator.

23 Mr. Warwick further details the difference between Ameren Missouri, Staff, and
24 MIEC in a chart on page 3 titled "Fixed and Variable Split of Production O&M Expense". A
25 review of Ameren Missouri's chart details the different allocation methods for Production
26 non-fuel expenses. Mr. Warwick's chart shows that Staff allocated 54% of a fixed and
27 variable split to a fixed component and 46% to a variable component. Ameren Missouri
28 allocated 30% to a fixed component and 70% to a variable component. MIEC allocated 100%
29 to a fixed component and 0% to a variable component.

Surrebuttal Testimony of
Michael S. Scheperle

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.