

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

JUN 7 1999

Public Service Commission

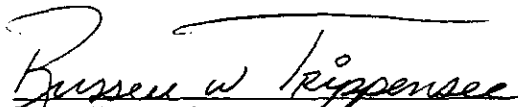
In the Matter of monitoring of the experimental)
Alternative regulation plan of Union Electric) Case No. EO-96-14
Company.)

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

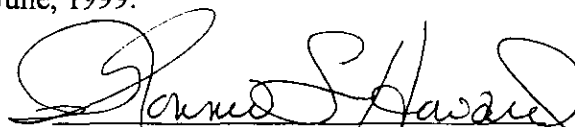
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell W. Trippensee. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my prepared statement consisting of pages 1 through 9 and Schedule RWT-1. I hereby swear and affirm that my statements contained in the attached statement are true and correct to the best of my knowledge and belief.


Russell W. Trippensee

Subscribed and sworn to me this 7th day of June, 1999.


Bonnie S. Howard
Notary Public

My commission expires May 3, 2001

Late-Filed Exhibit No. 37
Date 3-31-00 Case No. EO-96-14
Reporter _____

PREPARED STATEMENT

OF

RUSSELL W. TRIPPENSEE

UNION ELECTRIC COMPANY

CASE NO. EO-96-14

FILED

JUN 7 1999

**Missouri Public
Service Commission**

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my business address is P.O. Box 7800, Jefferson City, Missouri 65102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public Counsel).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in Accounting, in December 1977. I attended the 1981 NARUC Annual Regulatory Studies Program at Michigan State University.

Q. HAVE YOU PASSED THE UNIFORM CPA EXAM?

A. Yes, I hold certificate number 14255 in the State of Missouri. I have not met the two-year experience requirement necessary to hold a license to practice as a CPA.

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.

A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a

1 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III
2 and assumed my present position.

3 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

4 A. I served as the chairman of the Accounting and Tax Committee for the National Association of
5 State Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I
6 am a member of the Missouri Society of Certified Public Accountants.

7 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**
8 **STAFF.**

9 A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations
10 of the books and records of public utility companies operating within the State of Missouri with
11 regard to proposed rate increases.

12 **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**
13 **THE PUBLIC COUNSEL?**

14 A. I am responsible for the Accounting and Financial Analysis sections of the Office of the Public
15 Counsel and coordinating their activities with the rest of our office and other parties in rate
16 proceedings. I am also responsible for performing audits and examinations of public utilities and
17 presenting the findings to the MPSC on behalf of the public of the State of Missouri.

18 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

19 A. Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the
20 Missouri Office of the Public Counsel or MPSC Staff.

1 **Q. WHAT IS THE PURPOSE OF YOUR PREPARED STATEMENT?**

2 A. To respond to the statement of Kenneth J. Rademan filed by AmerenUE (Company or UE).
3 Specifically, I will respond to the misrepresentations contained in Mr. Rademan's statement
4 regarding the Office of Public Counsel's position during the negotiations that produced the
5 experimental alternative rate plan (EARP). I will also address other misrepresentations contained
6 in Mr. Rademan's statement regarding the EARP, its implementation, and its purpose.

7 **Q. WERE YOU INVOLVED IN THE NEGOCIATIONS THAT LEAD UP TO THE**
8 **EARP IN CASE NO. EO-96-14?**

9 A. Yes. I was involved in both the initial EARP negotiations and the subsequent negotiated extension
10 of the EARP for an additional three years that was agreed upon pursuant to a settlement of the
11 merger case, Case No. EM-96-149.

12 **Q. WERE YOU INVOLVED IN THE NEGOCIATIONS OF THE SOUTHWESTERN**
13 **BELL TELEPHONE ALTERNATIVE REGULATORY PLAN RESULTING FROM TC-**
14 **89-14 AND TO-90-1?**

15 A. Yes. That case resulted in the first alternative regulatory plan implemented on an experimental
16 basis in Missouri. I believe it is relevant to point out that the Staff was not a party to the
17 negotiations that developed the concept of the Bell Alternative Regulatory Plan (BARP).
18 Subsequent to the conceptual agreement, the MPSC directed the Staff to develop monitoring
19 procedures necessary to implement the conceptual agreement on the BARP.

1 Q. DO YOU REMEMBER WHAT STAFF MEMBERS WERE INSTUMENTAL IN THE
2 SUBSEQUENT NEGOTIATION THAT DEVELOPED THOSE MONITORING
3 PROCEDURES FOR SOUTHWESTERN BELL TELEPHONE?

4 A. The primary or lead Staff member on the project was Robert Schallenberg.

5 Q. MR. RADEMAN STATES THAT " IT IS THAT SHARING GRID MECHANISM
6 AND NOT OTHER TERMS OF THE SW BELL ARRANGEMENT, THAT WAS THE
7 MODEL IN THE MINDS OF THE PARTIES NEGOTIATING THE UE EARP."
8 DOES MR. RADEMAN CORRECTLY STATE PUBLIC COUNSEL'S POSITION
9 AND OR THOUGHT PROCESS DURING THE NEGOTIATIONS?

10 A. Most definitely not. Public Counsel does not understand how Mr. Rademan could presume to have
11 the authority to speak on behalf of the Public Counsel. Mr. Rademan has never been employed by
12 the OPC nor was he included in any policy discussions within our office. Furthermore, his
13 assertion makes it apparent he did not fully understand Public Counsel's statements during neither
14 the negotiation of the EARP nor the comments of counsel for the OPC during the presentation of
15 the EARP to the Commission.

16 Q. DID PUBLIC COUNSEL VIEW THE BARP AS A MODEL FOR THE EARP,
17 SPECIFICALLY IN REGARD TO MONITORING?

18 A. Yes. During the presentation to the Commission of the Stipulation and Agreement addressing the
19 EARP, OPC counsel supported comments made by Staff counsel, Steven Dottheim. Mr. Dottheim
20 made the following statement during the presentation in ER-95-411:

1 Part of the Stipulation and Agreement set out therein and in Attachment C is a
2 **rigorous monitoring** of the utilities' financial data similar to the monitoring of
3 Southwestern Bell that occurred in the Southwestern Bell experimental alternative
4 regulation plan. (Emphasis added)

5 (ER-95-411, transcript, page 13, lines 21 – 25)

6 Public Counsel stated agreement with that statement at the presentation and agrees with it today. In
7 fact, Mr. Robertson of the Public Counsel has participated in the monitoring procedures in each of
8 the three years of the EARP. Mr. Robertson also performed similar monitoring tasks as part of the
9 BARP. Mr. Robertson performed these duties under my direct supervision.

10 **Q. DOES PUBLIC COUNSEL BELIEVE THE MONITORING PROCEDURES ALLOW**
11 **FOR COMMISSION RESOLUTION OF ISSUES THAT EFFECT THE SHARING**
12 **CREDITS?**

13 **A.** Yes, most definitely. Public Counsel would not have agreed to any mechanism that was strictly
14 mechanical in nature as Mr. Rademan refers to the EARP on page 6, paragraph 10 of his Statement.
15 Public Counsel believes that the Commission has an obligation to ensure that ratepayers pay just
16 and reasonable rates. The Commission cannot perform this function without the ability to review
17 revenues received and costs incurred by a utility. Public Counsel has consistently stated this
18 position in any alternative regulatory plan negotiations that have occurred in Missouri and OPC has
19 audited the BARP and the EARP plan periods and reports so as to provide the Commission the
20 information necessary to assist the Commission in performing its statutory duty. Mr. Rademan's
21 interpretation of the terms of the EARP would amount to a "blank check" and no such provision
22 was ever contemplated or agreed upon by Public Counsel.

1 Q. MR. RADEMAN TERMS THE REPORTING UNDER THE EARP TO BE LIKE A
2 "SIMPLE, ONE-PAGE TAX RETURN." DO YOU AGREE WITH HIS
3 ASSERTION?

4 A. No. Mr. Rademan would ask this Commission to abandon their statutory authority to protect
5 ratepayers. The Commission's ability to perform this duty requires a rigorous monitoring
6 procedure necessary to identify compliance with sound regulatory procedures and evaluation of
7 changes in the cost of service. Public Counsel would not ever have agreed to an abandonment of
8 this necessary function.

9 Q. MR. RADEMAN ASSERTS THAT THE EXPERIMENTAL ALTERNATIVE
10 REGULATORY PLAN WAS A "DISTINCTIVE BREAK WITH TRADITIONAL
11 RATE REGULATION" AND "COULD SMOOTH THE TRANSITION TO A
12 COMPETITIVE ELECTRIC UTILITY MARKET". WAS THAT THE BASIS
13 UNDERLYING THE EARP FROM PUBLIC COUNSEL'S PERSPECTIVE?

14 A. No. Public Counsel does not view EARP concepts as being dramatically different from traditional
15 regulatory practices. Public Counsel provided the Commission with insight into our analysis
16 regarding the EARP during the presentation of the Stipulation and Agreement in Case No. ER-95-
17 411 (transcript, page 22, lines 2 - 13). The sharing grid contained in the EARP is strictly based on
18 a revenue requirement formula. The monitoring necessary from Public Counsel's perspective is
19 also based on traditional regulatory practices. The EARP, or any alternative regulatory plan,
20 requires a great deal of cooperation between the parties because they are in constant contact
21 regarding reports, inquiries, and other communications. The amount of work required of the Public

1 Counsel and other parties under the EARP is not less, but simply spread out over a time line
2 different than a traditional rate case.

3 Regarding Mr. Rademan's assertion that the EARP would smooth the transition to competitive
4 markets, Public Counsel specifically addressed and rejected this position in response to questions
5 from the bench during the stipulation presentation held on July 19, 1995 in Case No. ER-95-411.
6 Public Counsel stated, "To my mind, it doesn't either hinder nor foster such competition. It's
7 neutral." (ER-95-411, Transcript, volume 1, page 72, lines 12 - 13). It is interesting to note that
8 Staff counsel indicated similar beliefs subsequently during the presentation of the stipulation and
9 agreement.

10 **Q. MR. RADEMAN ASSERTS THAT THE SHARING GRID ILLUSTRATES THE**
11 **EARP DID NOT INVOLVE ANY CONCEPT OF INAPPROPRIATE OR**
12 **EXCESSIVE EARNINGS THAT IS SO FAMILIAR IN THE CONTEXT OF**
13 **TRADITIONAL REGULATION. (PAGE 2, PARAGRAPH 4) DOES PUBLIC**
14 **COUNSEL AGREE WITH MR. RADEMAN?**

15 **A.** Absolutely not. The primary purpose of the sharing grid was an effort to **protect ratepayers** from
16 **paying excessive rates**. The grid even includes a cap on earnings that has the express purpose of
17 limiting any excess earnings. Public Counsel believed the EARP had the possibility to provide
18 ratepayers with timely recognition of excessive rates. The Company's actions with respect to the
19 third year of the EARP has caused those Public Counsel hopes to evaporate.

Public Counsel would also point out that the EARP was negotiated as part of a settlement that included a \$30M rate reduction and a \$30M credit to customers. Excess earnings were clearly part of the negotiations. Mr. Rademan's assertion does not address reality and misstates the intended purpose of a sharing grid.

Q. HOW DO YOU RESPOND TO MR. RADEMAN'S ASSERTION REGARDING THE FIRST USE OF A SHARING GRID IN MISSOURI (PAGE 3, PARAGRAPH 5) WAS FOR AN INDUSTRY THAT DOES NOT STRICTLY USE COST OF SERVICE?

A. Mr. Rademan's asserted that a sharing grid was first used in the telecommunications industry, "a context, unlike that of electric utilities, in which rate setting is not strictly based on the cost of service, but on the value of service." Mr. Rademan intermixes two completely separate concepts. This intermixing shows either a fundamental lack of understanding of the regulatory process or is an attempt to mislead the Commission.

The sharing grid is based on the overall rate of return of the specific company, be it either Southwestern Bell Telephone or AmerenUE. The overall rate of return is a primary component of the revenue requirement formula ($\text{Revenue Requirement} = \text{Expenses} + \text{Rate of Return}$). Clearly the sharing grid of an alternative regulatory plan and the rate of return used in traditional regulation are similar in function. In contrast, "value of service pricing" is a term of art used in the rate design phase of rate case involving a telecommunications company. The rate design method used in any case is separate from the determination of the revenue requirement. The develop of a specific rate design must ensure that the resulting rates calculated when taken times the billing units for each

1 rate category equal the total revenue requirement as determined in the overall cost of service study.

2 However, rate design does not directly impact overall cost of service study and the resulting
3 revenue requirement. (Note: Price elasticity and resulting revenue stimulation from rate design
4 studies can be estimated. The resulting impact is normally minimal on the total revenues.)

5 Mr. Rademan's mixing of the terms discussed raises serious questions with regard to the intent or
6 accuracy of his statements.

7 **Q. DOES THIS CONCLUDE YOUR PREPARED STATEMENT?**

8 **A. Yes.**

Prepared Statement of
Russell W. Trippensee
Case No. EO-96-14

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180
Missouri Edison Company, Electric Dept., Case No. ER-79-120
Southwestern Bell Telephone Company, Case No. TR-79-213
Doniphan Telephone Company, Case No. TR-80-15
Empire District Electric Company, Case No. ER-83-43
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181
Missouri Public Service Company, Electric Dept., Case No. ER-81-85
Missouri Water Company, Case No. WR-81-363
Osage Natural Gas Company, Case No. GR-82-127
Missouri Utilities Company, Electric Dept., Case No. ER-82-246
Missouri Utilities Company, Gas Dept., Case No. GR-82-247
Missouri Utilities Company, Water Dept., Case No. WR-82-248
Laclede Gas Company, Case No. GR-83-233
Great River Gas Company, Case No. GR-85-136 (OPC)
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)
United Telephone Company, Case No. TR-85-179 (OPC)
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)
KPL/Gas Service Company, GR-86-76 (OPC)
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)
Union Electric Company, Case No. EC-87-115 (OPC)
Union Electric Company, Case No. GR-87-62 (OPC)
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)
St. Louis County Water Company, Case No. WR-88-5 (OPC)
West Elm Place Corporation, Case No. SO-88-140 (OPC)
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)
Osage Utilities, Inc., Case No. WM-89-93 (OPC)
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)
Capital City Water Company, Case No. WR-90-118 (OPC)
Laclede Gas Company, Case No. GR-90-120 (OPC)

Prepared Statement of
Russell W. Trippensee
Case No. EO-96-14

Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)
Empire District Electric Company, Case No. ER-90-138 (OPC)
Associated Natural Gas Company, Case No. GR-90-152 (OPC)
Southwestern Bell Telephone Company, Case No. TO-91-163
Union Electric Company, Case No. ED-91-122
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360
The Kansas Power and Light Company, Case No. GR-91-291
Southwestern Bell Telephone Co., Case No. TO-91-163
Union Electric Company, EM-92-225 and EM-92-253
Southwestern Bell Telephone Company, TO-93-116
Missouri Public Service Company, ER-93-37, (January, 1993)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224
Saint Louis County Water Company, WR-93-204
United Telephone Company of Missouri, TR-93-181
Raytown Water Company, WR-94-300
Empire District Electric Company, ER-94-174
Raytown Water Company, WR-94-211
Missouri Gas Energy, GR-94-343
Capital City Water Company, WR-94-297
Southwestern Bell Telephone Company, TR-94-364
Missouri Gas Energy, GR-95-33
St. Louis County Water Company, WR-95-145
Missouri Gas Energy, GO-94-318
Alltel Telephone Company of Missouri, TM-95-87
Southwestern Bell Telephone Company, TR-96-28
Steelville Telephone Exchange, Inc., TR-96-123
Union Electric Company, EM-96-146
Imperial Utilites Corporation, SC-96-247
Laclede Gas Company, GR-96-193
Missouri Gas Energy, GR-96-285
St. Louis County Water Company, WR-96-263
Village Water and Sewer Company, Inc. WM-96-454
Empire District Electric Company, ER-97-82
UtiliCorp d/b/a Missouri Public Service Company, GR-95-273
Associated Natural Gas, GR-97-272

Prepared Statement of
Russell W. Trippensee
Case No. EO-96-14

Missouri Public Service, ER-97-394, ET-98-103
Missouri Gas Energy, GR-98-140
St. Louis County Water, WO-98-223.
United Water Missouri, WA-98-187
Kansas City Power & Light/Western Resources, Inc. EM-97-515
St. Joseph Light & Power Company, HR-99-245
St. Joseph Light & Power Company, GR-99-246
St. Joseph Light & Power Company, ER-99-247
AmerenUE, EO-96-14, (prepared statement)