

Exhibit No.:
Issue: *Discontinuance of Storm
Costs Tracker*
Witness: *Kofi A. Boateng*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2014-0258*
Date Testimony Prepared: *January 16, 2015*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KOFI A. BOATENG

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

CASE NO. ER-2014-0258

*Jefferson City, Missouri
January 2015*

Staff Exhibit No 205
Date 2-23-15 Reporter AF
File No ER-2014-0258

1 REBUTTAL TESTIMONY

2 OF

3 KOFI A. BOATENG

4 UNION ELECTRIC COMPANY,
5 d/b/a AMEREN MISSOURI

6 CASE NO. ER-2014-0258

7 Q. Please state your name and business address.

8 A. Kofi A. Boateng, 111 N. 7th Street, Suite 105, St. Louis, MO 63102.

9 Q. By whom are you employed and in what capacity?

10 A. I am a Utility Regulatory Auditor IV with the Missouri Public Service
11 Commission ("Commission").

12 Q. Are you the same Kofi A. Boateng that was responsible for certain sections of
13 the Staff's Revenue Requirement Cost of Service Report ("Staff Report") filed in this case for
14 Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri" or "Company") on
15 December 5, 2014?

16 A. Yes, I am.

17 Q. What is the purpose of your rebuttal testimony?

18 A. The purpose of my testimony is to respond to the direct testimony of Ameren
19 Missouri witness Laura M. Moore regarding the Company's proposed continuation of the
20 storm cost tracker mechanism. I will address Staff's recommendation to the Commission to
21 discontinue Ameren Missouri's non-labor related operation and maintenance (O&M) storm
22 cost tracker that was authorized in the Company's last rate case.

1 **DISCONTINUANCE OF STORM COST TRACKER**

2 Q. What amount of non-labor related O&M storm restoration cost does Ameren
3 Missouri propose to include in rates as part of this case?

4 A. The Company has included in its cost of service \$6.8 million for these costs,
5 based on the level approved by the Commission in Ameren Missouri's last rate case, Case No.
6 ER-2012-0166. The Company also proposes that this same amount be used as the base level
7 of storm costs for tracking actual storm expenses on an ongoing basis after this rate case.

8 Q. What normalized level of non-labor related O&M storm restoration costs has
9 the Staff proposed for inclusion in rates as part of this case?

10 A. The Staff proposes to include a normalized level of approximately \$4.6 million
11 based upon a five-year average of non-labor storm costs from October 2009 through
12 September 2014. The actual test year non-labor O&M storm cost recorded by Ameren
13 Missouri was \$4.3 million. Therefore, Staff's recommended non-labor major storm cost
14 annualization increases the test year cost by \$0.3 million. However, Staff also recommends
15 that the Commission discontinue the storm cost tracking mechanism it approved in Ameren
16 Missouri's last rate, No. ER-2012-0166.

17 Q. Is it Staff's understanding that Ameren Missouri is proposing to continue the
18 storm cost tracker mechanism authorized by the Commission in the Company's last rate case?

19 A. Yes. In discussing the Company's proposed test year and the items for true-up
20 consideration, Ameren Missouri witness Laura M. Moore stated at page 3 of her direct
21 testimony as follows:

22 The Company is proposing a test year consisting of the twelve months
23 ended March 31, 2014, with pro forma adjustments to account for the
24 true-up of various items, as have been included in the Company's last
25 several rate cases. In addition, the Company is proposing to true-up the

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1 following items through December 31, 2014: plant-in-service,
2 depreciation reserve, materials and supplies (including fuel
3 inventories), cash working capital (excluding lead/lag days), customer
4 advances for construction, customer deposits, accumulated deferred
5 income taxes, pension and Other-Employment Benefits (“OPEB”)
6 tracker regulatory asset/liability balances, energy efficiency regulatory
7 asset balances (pre-Missouri Energy Efficiency Investment Act
8 (“MEEIA”), **storm tracker regulatory liability balance, ... (emphasis**
9 **added)**

10 Q. What is Staff’s position regarding the storm cost tracker mechanism?

11 A. As stated above, Staff recommends that the Commission discontinue the storm
12 cost tracker authorized for Ameren Missouri to track its non-labor storm related O&M cost.
13 Other ratemaking tools already exist to adequately address the storm cost issue and, in fact,
14 those tools have been successfully used on several occasions in the recent past to allow
15 Ameren Missouri to recover all non-labor related storm restorations costs.

16 Q. What is the storm cost tracker mechanism and how does it work?

17 A. Under the two-way storm cost tracking mechanism, the Commission
18 establishes a base level of expected non-labor storm restoration O&M costs in Ameren
19 Missouri’s revenue requirement. Actual expenditures are then tracked above and below that
20 base level to create a regulatory asset or liability that the Commission would consider for
21 amortization and recovery in the Ameren Missouri’s next rate case. If actual storm damage
22 expenses during the calendar year are more than the expense included in rates, Ameren
23 Missouri will record the difference as a regulatory asset and will seek recovery for the
24 shortfall. If the actual storm costs are less than the cost levels included in rates, the difference
25 will be recorded as a regulatory liability and this over-collection would need to be returned
26 to ratepayers.

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1 Q. What was the storm cost tracker balance at the time of filing Staff rebuttal
2 testimony?

3 A. At the time of filing this rebuttal testimony, Staff only has storm tracker data
4 through September 30, 2014. Based upon that data, Staff calculates that Ameren Missouri has
5 recorded approximately a \$4.7 million regulatory liability through the storm restoration cost
6 tracker since its inception on January 2, 2013. Staff recommends that this amount be
7 amortized over a five-year period and included in Ameren Missouri's cost of service in this
8 proceeding. As Ameren Missouri updates its filing through December 31, 2014, the storm
9 cost tracker balance may change.

10 Q. What is Staff's rationale for recommending the discontinuation of the storm
11 tracker?

12 A. Staff believes that standard ratemaking methods already exist to appropriately
13 address non-labor storm costs, without the use of a tracker mechanism. In fact, these methods
14 have been utilized effectively in past rate cases involving Ameren Missouri and other
15 utilities under the Commission's jurisdiction to address all normal and extraordinary storm
16 restoration costs.

17 Storm costs have frequently been addressed through historical multi-year averages
18 whenever a utility files for rate request, most often using five-year normalization. Under that
19 approach, unusual levels of test year storm expense may be adjusted to reflect the level of a
20 recent multi-year average non-labor storm restoration costs in order to normalize this expense.
21 Alternatively, if an extraordinary storm event occurs between rate cases, the Company has the
22 option of requesting an Accounting Authority Order (AAO) to capture the cost and defer it for

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1 possible rate treatment in a future rate case. These two methods have both successfully been
2 employed in past rate cases with regard to Ameren Missouri.

3 Q. Please discuss the distinction between these two methods that Staff has
4 traditionally used to address storm cost.

5 A. The distinction between these two methods is that “normal” storm costs are
6 generally included in the cost of service by including a multi-year average level. A certain
7 number of storm events usually will occur each year in Ameren Missouri’s service territory,
8 and the repair and restoration costs associated with these events should be considered as part
9 of normal and ongoing expense for an electric utility, and included in the utility’s rates at a
10 reasonable and ongoing level. Normal storms that occur during a rate case test year can be
11 dealt with using standard ratemaking practices. However, costs associated with extraordinary
12 storm events, which feature large numbers of customers being out of service and massive
13 repair and restoration efforts, are usually deferred to the utility’s balance sheet through an
14 AAO. The AAO process requires the utility to justify the storm event as being extraordinary
15 before the costs can be granted deferral treatment. The appropriate recovery of the deferral, if
16 any, can be examined in relation to the utility company’s earnings.

17 Ameren Missouri’s storm cost tracker is problematic in that it applies one ratemaking
18 procedure to handle all incurred storm costs, both normal and extraordinary. Ameren
19 Missouri uses a mechanism it calls “IEEE Standard 1366”, to determine which storm event
20 should be categorized as major storm costs for inclusion in the storm cost tracker.

21 Q. What is IEEE Standard 1366 and how does Ameren Missouri use this standard
22 to categorize different types of storm events?

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1 A. In his direct testimony in Case No. ER-2012-0166, Ameren Missouri witness
2 David N. Wakeman described his recommendation related to the IEEE Standard 1366, at
3 page 13, lines 8 through 16, as follows:

4 Our recommendation is to use IEEE Standard 1366 to identify major
5 events and to classify only weather events which meet this criteria as
6 major storms, with one additional criterion. The IEEE 1366 method
7 looks at the magnitude of an outage event by examining customer
8 minutes out per customer on a daily basis, and it compares them to the
9 "normal" range of customer outage minutes based on 5 years of
10 historical daily customer outage minutes, including days with storms.
11 If the customer minutes of interruption per customer on a given day are
12 outside of the "normal" range, the day is classified as a Major Event
13 Day by the IEEE standard, and presuming the cause was a weather
14 event, this event would be classified as a major storm.

15 Although Ameren Missouri uses the IEEE 1366 standard to serve other useful operational
16 purposes, Staff does not believe the IEEE method should be used as a substitute to address the
17 types of storm events that are traditionally classified as normal and extraordinary under the
18 existing ratemaking procedures.

19 Q. Has Staff reviewed the type of storm costs that are included in the storm
20 tracker in this rate case?

21 A. Yes. In Staff Data Request No. 463 in this rate case, Staff sought information
22 related to storm events that have occurred within the Company's service territories for the
23 period beginning January 2, 2013, through December 31, 2014, and Ameren Missouri's
24 method and criteria for classifying those storm events as included in the storm tracker. Based
25 on review of Ameren Missouri's response to this data request, Staff believes that the storm
26 events that occurred during the test year and beyond are ordinarily what would be considered
27 normal storm events that do not require special ratemaking treatment.

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1 Staff is mindful of Commission guidance regarding the proliferation of trackers when
2 it initially denied Ameren Missouri's request for storm tracker in Case No. ER-2010-0036,
3 where it stated "The Commission is unwilling to implement another tracker. As the
4 Commission has previously indicated, trackers should be used sparingly because they tend to
5 limit a utility's incentive to prudently manage costs." Again, in Ameren Missouri's last rate
6 Case No. ER-2012-0166, in which the Commission approved the storm tracker, the
7 Commission indicated that it continues to remain generally skeptical of tracking mechanisms.
8 In the *Report and Order* for that case, the Commission stated "There is a legitimate concern
9 that a tracker can reduce a company's incentive to aggressively control costs. However, that
10 concern is reduced for major storm restoration costs." However, Staff contends that the storm
11 restoration costs included in the Company's current tracker are best described as regular or
12 normal storm costs resulting from normal operational events that do not rise to the level of
13 extraordinary events that require extraordinary cost recovery treatment. In fact, those costs
14 should be considered as being normal and expected as most other operational costs of a utility
15 company.

16 Q. Has the Company experienced any storms which caused extraordinary levels
17 of non-labor related O&M cost since January 2007?

18 A. No. The last extraordinary storm event experienced by Ameren Missouri
19 occurred on January 13, 2007. That storm resulted in \$24.6 million in non-labor related storm
20 costs that Ameren Missouri has fully recovered as part of an AAO amortization.

21 Q. Have all major storms previously experienced by Ameren Missouri before the
22 establishment of the storm tracker been reflected in rates?

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1 A. Yes. The two methods I discussed above have been used to address all the
2 major storms previously experienced by Ameren Missouri. At page 94 of its *Report and*
3 *Order* in Case No. ER-2012-0166, Ameren Missouri's last rate case, the Commission stated
4 in respect to those two ratemaking methodologies:

5 The current system has allowed Ameren Missouri to recover all of its
6 major storm recovery costs in recent years. For the period from
7 March 1, 2009, when rates from Case No. ER-2008-0318 went into
8 effect, until the July 31, 2012 true-up cut-off date for this case, Ameren
9 Missouri has, or will, collect in rates approximately \$8.2 million more
10 than the actual costs it incurred to restore service.

11 In fact, Staff's analysis of prior storm costs shows that from April 1, 2007, through
12 September 30, 2014, the Commission has allowed Ameren Missouri to recover every single
13 dollar expensed for storm restorations.

14 Q. How have these two methods been used by the Commission to determine rates
15 with regard to Ameren Missouri's non-labor related O&M storm restoration costs?

16 A. In Ameren Missouri Case Nos. ER-2007-0002, ER-2008-0318 and
17 ER-2010-0036, all general rate cases, an above average level of storm cost was reflected in
18 each test year. In each of these three rate cases, the amount in excess of a multi-year average
19 storm cost was amortized over a five-year period. In Case No. EU-2008-0141, the Company
20 requested an AAO to address an extraordinary storm event that occurred on January 13, 2007,
21 which was beyond the true-up date in Case No. ER-2007-0002. These costs were also
22 subsequently addressed in the context of the Company's next rate case, ER-2008-0318, and
23 recovered by the Company through a five-year amortization. In fact, by the time the rates in
24 this rate case proceeding become effective in May 2015, Staff estimates that Ameren Missouri
25 will over recover prior storm (2006, 2007, 2008, and 2009) amortization costs in an
26 approximate amount of \$1.4 million.

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1 Q. Why is the Staff proposing to discontinue the tracker given that Ameren
2 Missouri has recently recovered more in rates than the actual non-labor storm restoration costs
3 that were incurred?

4 A. Normal storm costs do not rise to a level that warrants the implementation of
5 a tracking mechanism. During the test year, Ameren Missouri experienced approximately
6 \$4.3 million of non-labor storm restoration costs in comparison to approximately \$2.6 billion
7 of total operating expenses. Test year non-labor storm restoration costs only represent an
8 infinitesimal 0.0016% of total operating expenses (\$4,291,750 of test year storm cost divided
9 by \$2,618,565,496 of unadjusted test year operating expenses). Traditional ratemaking
10 methodologies, such as use of a five year ending average at September 30, 2014 of non-labor
11 storm costs to set the level of this expense that Staff recommends in this case, are sufficient to
12 address this cost category. In the situation that an extraordinary non-labor storm cost event
13 occurs, Ameren Missouri can request AAO treatment in order to defer and recover those costs
14 through an amortization, as with the storm that occurred on January 13, 2007.

15 Q. Is Staff aware of any other concerns associated with the continuation of the
16 storm tracker mechanism?

17 A. Yes. Ameren Missouri has cut its distribution maintenance expense recently.
18 The following chart depicts actual distribution maintenance expense reductions for the twelve
19 month periods ending March 31, 2012, through March 31, 2014.

	(In millions) 12 Mos End 3/31/2012	(In millions) 12 Mos End 3/31/2013	(In millions) 12 Mos End 3/31/2014	
20				
21				
22	<u>DESCRIPTION</u>			
23				
24	Labor	\$74.6	\$71.5	\$68.9
25	Non-Labor	\$41.8	\$32.3	\$32.7
26	Total Distribution Maintenance Expense	\$116.4	\$103.8	\$101.6

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1 Staff witness Lisa K. Hanneken addresses distribution maintenance expense in more detail in
2 her rebuttal testimony in this case. This substantial cut in total distribution maintenance
3 expense causes a possible concern that the Company may now be cutting distribution
4 maintenance expense in an effort to boost earnings per share with the realization that any
5 increases in storm related costs that may result from the reduction in distribution maintenance
6 expenditures will now be addressed by the existing storm cost tracker. Furthermore, if
7 distribution maintenance costs continue to be slashed going forward, Ameren Missouri could
8 once again find itself in the unenviable situation that it was in with regard to extended
9 customer outages related to the storms that occurred in 2006, and early 2007. Staff believes
10 the storm cost tracker may incorrectly aid in incentivizing Ameren Missouri to reduce
11 distribution maintenance expense to levels that may be too low.

12 Q. Does Staff maintain that the establishment of a storm tracker mechanism
13 reduces the level of risk faced by the Company?

14 A. Yes. The establishment of the tracking mechanism guarantees the recovery of
15 the costs associated with all storms. This mechanism reduces the risk that Ameren Missouri
16 will not earn its authorized rate of return. Use of a tracker mechanism for this item relieves
17 the Company of the entire financial risk associated with storm damage and unreasonably
18 places the responsibility of this entire burden upon the ratepayers.

19 Q. Does any other Missouri electric utility under the Commission's jurisdiction
20 have a storm restoration cost tracker beside Ameren Missouri?

21 A. No. In addition, neither Kansas City Power & Light Company nor The Empire
22 District Electric Company have requested use of such a device in their current general rate
23 applications before this Commission.

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1 Q. How does the Staff recommend that Ameren Missouri treat any storm
2 restoration costs it may incur in the future?

3 A. The Staff maintains that the traditional ratemaking approaches continue to be
4 adequate and appropriate to allow recovery of Ameren Missouri's non-labor related O&M
5 storm costs. If the Company's storm restoration costs meet the Commission's criteria for
6 being extraordinary, Ameren Missouri has the option to seek a Commission AAO for deferral
7 of those costs.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

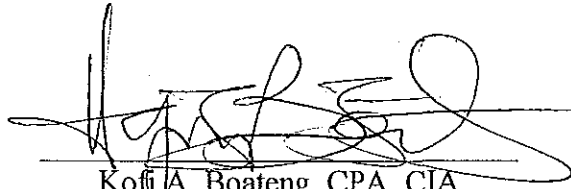
In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariff to Increase Its)
Revenues for Electric Service)

Case No. ER-2014-0258

AFFIDAVIT OF KOFI A. BOATENG, CPA, CIA

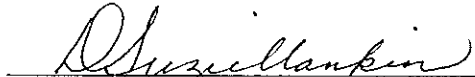
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kofi A. Boateng, CPA, CIA, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.


Kofi A. Boateng, CPA, CIA

Subscribed and sworn to before me this 15th day of January, 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070


Notary Public