

Exhibit No.:
Issues: Rate Design
Witness: Michael S. Scheperle
Sponsoring Party: MO PSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2014-0258
Date Testimony Prepared: January 16, 2015

Filed
March 23, 2015
Data Center
Missouri Public
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

MICHAEL S. SCHEPERLE

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

CASE NO. ER-2014-0258

*Jefferson City, Missouri
January 2015*

Staff Exhibit No. 233
Date 2-23-15 Reporter RS
File No. ER-2014-0258

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

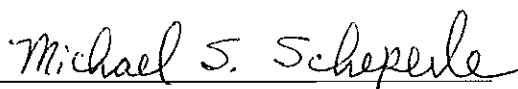
In the Matter of Union Electric Company)
d/b/a Ameren Missouri's Tariff to Increase)
Its Revenues for Electric Service)

Case No. ER-2014-0258

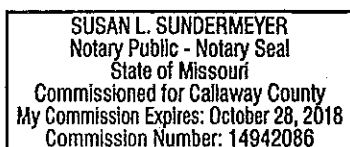
AFFIDAVIT OF MICHAEL S. SCHEPERLE

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 Rebuttal Testimony in question and answer form, consisting of 10 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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

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




Notary Public

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16

TABLE OF CONTENTS
REBUTTAL TESTIMONY
OF
MICHAEL S. SCHEPERLE

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

CASE NO. ER-2014-0258

Noranda’s Proposal..... 2
ITEM 1, ITEM 8, and ITEM 10 3
ITEM 2 4
ITEM 3 5
ITEMS 4 and 6 8
ITEM 5 9
ITEMS 7 and 9 9

1 REBUTTAL TESTIMONY

2 OF

3 MICHAEL S. SCHEPERLE

4
5 Union Electric Company d/b/a Ameren Missouri

6
7 CASE NO. ER-2014-0258

8 Q. Please state your name and business address.

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

11 Q. Are you the same Michael S. Scheperle who filed, on December 19, 2014,
12 direct testimony in question and answer format and as part of the Missouri Public Service
13 Commission's Staff's ("Staff") Rate Design and Class Cost-of-Service Report ("CCOS
14 Report")?

15 A. Yes, I am.

16 Q. What topics are you addressing?

17 A. The testimony topics I am addressing are an overview of the Noranda
18 Aluminum, Inc. ("Noranda") rate design proposal for a new Aluminum Smelter service
19 classification and Noranda's proposal to adjust certain other Union Electric Company d/b/a
20 Ameren Missouri ("Ameren Missouri") rate schedules to make its proposal revenue-neutral to
21 Ameren Missouri.

Noranda's Proposal

1
2 Q. What is your understanding of the rate design proposal by Noranda and by Mr.
3 Maurice Brubaker on behalf of the Missouri Industrial Energy Consumers ("MIEC")
4 concerning Noranda?

5 A. Noranda currently takes service under the Service Classification No. 12(M),
6 the LTS¹ rate schedule. Noranda's proposal would create a new service classification and a
7 new rate schedule for Aluminum Smelters under service rate classification 10(M). This
8 proposal would reduce Noranda's electric payments to Ameren Missouri by approximately
9 \$41.4 million. Additionally, Noranda proposes revenue-neutral adjustments to other service
10 classifications to demonstrate how rates could be adjusted that are revenue-neutral to Ameren
11 Missouri. Noranda's proposal would increase rates in service classification rate schedules²
12 1(M), 2(M), 3(M), 4(M), 5(M), 6(M), 7(M), MSD, and 11(M).

13 Noranda's proposal:

- 14 1. Creates a new service classification applicable to Service to Aluminum
15 Smelters ("SAS") under service classification 10(M);
16 2. Requests the adoption of a seven-year rate plan;
17 3. Leaves current Large Transmission Service ("LTS") service classification in
18 place and proposes that the current LTS service classification be increased by
19 the system average percentage increase in this case;
20 4. Establishes that the new SAS service classification would have an energy
21 charge rate of \$0.0325 per kWh with no demand charges, no customer charges,
22 and no seasonal (winter/summer) variation;
23 5. Establishes that the new SAS energy rate will increase by 1% per year on the
24 annual anniversary date of the initial effective date of the 10(M) service
25 classification;

¹ Noranda is the only customer under the LTS rate schedule.

² Service classifications for Residential 1(M), Small General Service 2(M), Large General Service 3(M), Small Primary Service 4(M), Street and Outdoor Area Lighting – Company owned 5(M), Street and Outdoor Area Lighting – Customer owned 6(M), Municipal Street Lighting - Incandescent 7(M), Metropolitan St. Louis Sewer District ("MSD"), and Large Primary Service 11(M).

- 1 6. Establishes that no other charge shall apply to the SAS service classification
2 except for the low-income program charges;
- 3 7. Adjusts certain other Ameren Missouri service classifications to make
4 Noranda's proposal revenue-neutral to Ameren Missouri;
- 5 8. Establishes that the new SAS service classification rate schedule may adjust
6 residential low-income pilot program provisions whereby Noranda may
7 increase residential low-income payments should the program be modified;
- 8 9. Establishes that the new SAS service classification would not be included in
9 Fuel and Purchased Power Adjustment Clause ("FAC") Rider provisions; and
- 10 10. Establishes that the provisions in paragraphs 1 through 12 in service
11 classification 12(M) shall still apply; provided that the use of the 10(M)
12 service classification shall not cause a change in the term of the existing
13 contract between Noranda and Ameren Missouri.

14 Q. Does Staff support Noranda's request?

15 A. Not at this time.³ There are certain Items of Noranda's proposal that Staff
16 would support and other Items that Staff would oppose at this time. Specifically, Staff
17 explains each Item of Noranda's proposal and how it relates to Staff's recommendations in
18 this case.

19 **ITEM 1, ITEM 8, and ITEM 10**

20 Q. Does Staff support Item 1, the creation of a new service classification
21 applicable to Aluminum Smelters under service classification 10(M)?

22 A. Not at this time. Staff's recommendation is that Noranda remain under the
23 current LTS service classification. Noranda is the only customer under the LTS service
24 classification and any modification/rate change can be accomplished under the existing LTS
25 service classification without the addition of a new service classification.

26 Q. Does Staff support Item 8, which establishes that the new SAS service
27 classification rate schedule may adjust residential low-income pilot programs provisions

³ Staff supports Noranda remaining a viable retail customer of Ameren Missouri.

Rebuttal Testimony of
Michael S. Scheperle

1 whereby Noranda may increase residential low-income payments should the program be
2 modified?

3 A. Yes; however, Item 8 could still be accomplished by a modification/reference
4 in the current LTS service classification which Staff would support for the low-income
5 residential pilot program.

6 Q. Does Staff support Item 10, which establishes that the provisions in paragraphs
7 1 through 12 in service classification 12(M) shall still apply, provided that the use of the
8 10(M) service classification shall not cause a change in the term of the existing contract
9 between Noranda and Ameren Missouri?

10 A. Yes; however, Item 10, could still be accomplished by the current provisions in
11 paragraphs 1 through 12 of the LTS service classification and would not cause a change in the
12 term of the existing contract between Noranda and Ameren Missouri. Staff would support
13 Item 10 as it currently exists in the LTS service classification.

14 **ITEM 2**

15 Q. Does Staff support Item 2, where Noranda requests the adoption of a seven-
16 year rate plan?

17 A. No. The new proposed service classification 10(M) does not reference a
18 seven-year rate plan. Noranda witnesses Dale Boyles (page 3 and 18) and Thomas Harris
19 (page 4) reference a seven-year rate plan in Direct Testimony. Mr. Maurice Brubaker (page
20 39) mentions a seven-year plan in his Direct Testimony. Schedule MEB-COS-5, which is an
21 Exemplar Tariff for the new 10(M) service classification, does not reference a seven-year
22 plan. Staff opposes a seven-year plan because it limits/eliminates key provisions of
23 Noranda's current LTS service classification. Specifically, key provisions as Item 5 which

1 limits the SAS energy rate increase to a 1% per year limitation and Item 9 which removes
2 Noranda from paying any FAC payments.

3 **ITEM 3**

4 Q. Does Staff support Item 3, which leaves the current LTS service classification
5 in place and proposes that the current LTS service classification, be increased by the system
6 average percentage increase in this case?

7 A. No. Staff does not oppose that the current LTS service classification remain in
8 place but Staff proposes that Noranda remain on the LTS service classification and not the
9 new SAS service classification as proposed by Noranda. The second part of Noranda's
10 request is that the LTS service classification rate components be increased by the system
11 average percentage increase. Based on Staff's CCOS study, Staff's recommendation is that
12 the LTS service classification revenue-neutral adjustment be a positive 0.50%. This would
13 relate to the system average increase plus a one-half percent increase for the current LTS
14 service classification.

15 Q. Please provide an overview of Staff's Class-Cost-of-Service ("CCOS") studies
16 in Case No. ER-2014-0258.

17 A. Staff performed three CCOS studies: a Detailed Base, Intermediate, and Peak
18 ("BIP") study that is the basis for Staff's recommended cost-causation results, a Market Price
19 study relying on MISO energy prices, and a Modified BIP study relying on the production
20 cost allocation methodology similar to that used by Staff in Ameren Missouri's last general
21 rate case. The results of all three studies are consistent in indication that the Residential and

1 LTS classes are contributing less on a revenue-neutral basis to Ameren Missouri's cost of
2 service than are other classes.⁴

3 Listed below are the summary results of Staff's Detailed BIP CCOS study.

4 TABLE 1

Summary Results of Staff's CCOS Study⁵

Customer Class	Revenue Neutral % Increase
Residential (RES)	2.94%
Small General Service (SGS)	-4.15%
Large General Service/Small Primary Service (LGS/SPS)	-4.92%
Large Primary Service (LPS)	-0.77%
Large Transmission Service (LTS)	10.68%
Lighting	0.36%
Total	0.00%

5
6 Table 1 shows the changes necessary on a revenue-neutral basis of each customer
7 class required to exactly match that customer class' rate revenues with Ameren Missouri's
8 cost to serve that class based on Staff's preferred CCOS study in Case No. ER-2014-0258.
9 The results are presented on a revenue-neutral basis, as a percent shift, (expressed as negative
10 or positive percent) that is required to equalize the utility's rate of return from each class.

11 "Revenue neutral" means that the revenue shifts among classes do not change the
12 utility's total system revenues. The revenue neutral format aids in comparing revenue
13 deficiencies between customer classes and makes it easier to discuss revenue neutral shifts
14 between classes, if appropriate. Staff calculated the revenue neutral percent increase to a

⁴ This is detailed in graph 8 of Staff's Rate Design and Class Cost-of-Service Report ("CCOS Report").

⁵ Staff's Rate Design and CCOS Report, Table 2, page 7, Case No. ER-2014-0258.

Rebuttal Testimony of
Michael S. Scheperle

1 class' rate revenues by subtracting the overall system average increase recommended by
2 Staff⁶ from each customer class' required-percentage increase to rate revenue to match the
3 revenues Ameren Missouri should receive from that class to match Ameren Missouri's cost to
4 serve that class.

5 Q. Please explain Table 1.

6 A. Based on Table 1, on a revenue-neutral basis, the residential customer class is
7 providing 2.94% less revenue to Ameren Missouri than Ameren Missouri's cost to serve that
8 class. The Large General Service/Small Primary Service customer class is providing 4.92%
9 more revenue to Ameren Missouri than Ameren Missouri's cost to serve that class. The LTS
10 customer class is providing 10.68% less revenue to Ameren Missouri's cost to serve that
11 class.

12 Because a CCOS study is not precise, it should be used only as a guide for designing
13 rates. In addition, bill impacts, rate riders, and economic development need to be considered.
14 While reducing over-collection from customer classes with negative revenue shift percentages
15 (revenues greater than cost to serve) for Ameren Missouri customer classes on the SGS and
16 LGS/SPS rate schedules all the way to zero is appealing, the bill impact on the customer
17 classes with positive revenue shift percentages must be considered. Staff's recommendations
18 for shifts in the class-revenue requirements are based on its CCOS study results, Staff's
19 review of Ameren Missouri's revenue-neutral adjustments in previous general rate increases
20 (ER-2010-0036, ER-2011-0028, and ER-2012-0166), and Staff's judgment regarding the
21 impact of revenue shifts for all classes.

⁶ Staff's CCOS study is based on the revenue requirement associated with Staff's mid-point increase of \$113,139,943, and an overall increase of 4.16%.

ITEMS 4 and 6

1
2 Q. Does Staff support Item 4, which established that the new SAS service
3 classification would have an energy charge rate of \$0.0325 per kWh with no demand charges,
4 no customer charges, and no seasonal (winter/summer) variation?

5 A. Not at this time. Staff notes that all CCOS studies⁷, including Mr. Brubaker's
6 study on behalf of Noranda, calculate that the LTS class is providing less revenue to Ameren
7 Missouri than Ameren Missouri's cost to serve. Noranda is the only customer in the LTS
8 service classification. Noranda currently pays approximately 3.795 cents (\$0.03795) per kWh
9 for retail service excluding FAC payments. Noranda proposes a rate of 3.250 cents
10 (\$0.03250) per kWh for retail service and no FAC payments. This proposal would reduce
11 Noranda's electric payments to Ameren Missouri by approximately \$41.4 million per year.
12 Noranda's proposed energy rate is too low when no FAC payments are contemplated and
13 limited to an increase of 1% per year.

14 Q. Does Staff support Item 6, which establishes that no other charge shall apply to
15 the SAS service classification except for the low-income program charges?

16 A. No. On the surface, Noranda proposes to be billed only on the kWh usage rate
17 with no seasonal (summer/winter) variation and not on demand charges, customer charges,
18 FAC charges, etc. except for low-income charges. Depending on the kWh rate, this seems
19 logical except that the wording is very restrictive for any new legislation/programs in the

⁷ A total of seven CCOS studies were conducted in this case. Staff conducted three CCOS studies (summarized on Table 6, page 34, Staff Rate Design and CCOS Report); Ameren Missouri conducted one CCOS study (summarized on Table 3, page 15, Direct Testimony William R. Davis); the Office of Public Counsel conducted two CCOS studies (summarized on Attachments GM-3 HC and GM-4 HC – OPC has pending motion to remove HC designation); and Mr. Maurice Brubaker filed one CCOS study (summarized on Schedule MEB-COS-4).

1 future. Staff would not support where a seven-year rate program restriction is involved from
2 Item 2.

3 **ITEM 5**

4 Q. Is Staff opposed to Item 5, which established that the SAS energy rate will
5 increase by 1% per year on the annual anniversary date of the initial effective date of the SAS
6 service classification?

7 A. Yes. The 1% limitation shifts additional risks and costs to other classes and
8 ratepayers. Noranda should present evidence in each general rate case proceeding for
9 Commission consideration without a 1% limitation each annual anniversary date and that risk
10 of changes in the market price to serve Noranda should not be passed to other customers.

11 **ITEMS 7 and 9**

12 Q. Does Staff support Item 7 and Item 9, which adjusts certain other Ameren
13 Missouri service classifications to make Noranda's proposal revenue-neutral to Ameren
14 Missouri on a revenue-neutral basis?

15 A. No. Not at this time. Noranda proposes a two-step process of adjusting base
16 rates and an FAC adjustment.

17 Q. Would you explain your understanding of Noranda's revenue-neutral
18 proposal?

19 A. Yes. Mr. Maurice Brubaker, in Direct Testimony, outlines Noranda's
20 proposal. Mr. Brubaker calculated the dollar reduction in base rate revenues that would be
21 associated with implementation of Noranda's rate request. Mr. Brubaker's base rate revenue
22 adjustment proposal is summarized on his Schedule MEB-COS-7 whereby Noranda's base

Rebuttal Testimony of
Michael S. Scheperle

1 rate adjustment is \$22.822 million. Mr. Brubaker's FAC revenue adjustment is \$18.473
2 million and is summarized on Schedule MEB-COS-9 (page 2 of 2).

3 Q. Would you explain your understanding of Mr. Brubaker's total adjustment on
4 Schedule MEB-COS-9 (Page 1 of 2)?

5 A. Yes. Noranda proposes revenue-neutral adjustments to base rates and FAC
6 rates of other major customer classes⁸ detailing the \$41.355 million dollar adjustment. The
7 percent adjustment averages 1.53% ($\$41,355,000 / \$2,710,675,000$). The other classes' rates
8 would increase to make Noranda's proposal revenue-neutral for retail rates.

9 Q. Do you support Noranda's calculation on the revenue-neutral proposal?

10 A. Not at this time. Staff supports Noranda still paying FAC payments
11 and no limitation of a 1% annual adjustment. This shifts additional risks and costs to other
12 classes and ratepayers. Noranda should present evidence in each general rate case proceeding
13 for Commission consideration. However, Mr. Brubaker's proposal outlines the framework
14 for revenue-neutral adjustments to Ameren Missouri rate classes should the Commission
15 adopt Noranda's proposal for a Stipulated Agreement.

16 Q. Does this conclude your rebuttal testimony?

17 A. Yes, it does.

⁸ Noranda proposed adjustments for 1(M), 2(M), 3(M), 4(M), 5(M), 6(M), 7(M), and 11(M) classes.