

*Exhibit No.:*  
*Issue:* *Vegetation Management,  
Infrastructure Inspections and  
Construction Accounting*  
*Witness:* *Stephen M. Rackers*  
*Sponsoring Party:* *MoPSC Staff*  
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*File No.:* *ER-2011-0028*  
*Date Testimony Prepared:* *April 15, 2011*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY  
d/b/a Ameren Missouri**

**FILE NO. ER-2011-0028**

*Jefferson City, Missouri  
April 15, 2011*

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**UNION ELECTRIC COMPANY**  
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**FILE NO. ER-2011-0028**

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1 government-requested relocations of facilities and other plant, while not considering  
2 potentially offsetting changes in the other cost of service components. However, as I  
3 indicated in that same testimony I was speaking of considering changes in each of the cost of  
4 service components, including revenues, expenses and investment, not just changes to  
5 revenues and expenses. In fact, I specifically pointed out that it would be inappropriate to  
6 consider in isolation changes in only one cost of service component, such as plant in service,  
7 which is what Ameren Missouri is proposing through Mr. Weiss.

8 Q. What is your response to Mr. Weiss's statement that revenues and expenses are  
9 not impacted by continuing construction accounting on plant in service?

10 A. Simply because the revenues and expenses in the current case are not changed  
11 by continuing construction accounting on plant in service does not mean the matching  
12 principle is not violated by continuing construction accounting. Attempting to capture the  
13 cost associated with a single item through construction accounting so it can impact revenue  
14 requirement in a future rate proceeding, still violates the matching principle. Further, it  
15 disregards the Commission-ordered true-up cut-off date in this case. It is inappropriate, to  
16 preserve construction accounting for investment in plant (one cost of service component),  
17 while ignoring offsets related to that investment, offsets such as the accumulated depreciation  
18 and deferred income tax reserves.

19 Q. Would you explain what you mean when you say accumulated depreciation  
20 and deferred income tax reserves are offsets related to investment in plant?

21 A. The depreciation and deferred income tax reserves continue to accumulate, not  
22 only on the plant in Mr. Weiss' proposal that occurs after the true-up cut-off, but also on the  
23 plant in service prior to the true-up cut-off. This is because both depreciation and deferred

1 income tax are directly related to the new plant investment; depreciation increases as plant  
2 investment increases, as does deferred income tax. Also, the depreciation and deferred  
3 income tax reserves continue to increase with the passage of time as additional depreciation  
4 accumulates on plant already in service. The fact that ratepayers are supplying these funds,  
5 which are directly related to plant, is why they are traditional ratemaking offsets to plant in  
6 service in the rate base. Mr. Weiss is ignoring the lost return on these offsets while  
7 attempting to capture the lost AFUDC (return) and depreciation on plant additions.

8         The following discussion illustrates my point about failing to recognize proper offsets.  
9 The annual amount of depreciation expense is approximately \$385 million. During the five  
10 months following the true-up cut-off date through the operation of law date in this case, the  
11 depreciation reserve will increase by approximately \$160 million ( $\$385 / 12 \times 5$ ). Applying  
12 an AFUDC (return) rate of 8% to this amount produces approximately \$13 million of lost  
13 annual return ( $\$160 \times 8\%$ ). In response to MIEC data request 1.30, Ameren Missouri  
14 identified \$54 million of plant that it anticipates adding between the true-up cut-off date and  
15 the operation of law date in this case that would be addressed by its non-government  
16 relocation construction accounting proposal. Applying the same 8% AFUDC rate and an  
17 average depreciation rate of 3% to this \$54 million produces approximately \$6 million of lost  
18 return and depreciation expense annually ( $\$54 \times [8\% + 3\%]$ ). Therefore, without even  
19 considering the change in the deferred income tax reserve, the lost return and depreciation  
20 expense associated with Mr. Weiss' proposal is completely offset by the lost return associated  
21 with the increase in the depreciation reserve, which is a proper offset to plant traditionally  
22 recognized in rate base.

1 Q. How do you respond to Mr. Weiss' statements regarding the hard choices the  
2 Company has to make regarding which projects to proceed with based on its resources?

3 A. Staff believes the requirement to make hard decisions about allocating  
4 resources between competing projects as an ongoing management requirement. This type of  
5 decision making helps ensure that only necessary and cost beneficial investments are made.

6 Q. How do you respond to Mr. Weiss' comments about regulatory lag on these  
7 plant additions?

8 A. Plant investments that are not yet recognized in rates aren't the only items  
9 exposed to regulatory lag. Mr. Weiss fails to recognize the regulatory lag associated with the  
10 other components included in the cost of service. My illustration above only shows the lag  
11 associated with plant offsets traditionally recognized in the rate base. However, all cost of  
12 service components are exposed to regulatory lag. It is inappropriate to attempt to capture the  
13 affects of regulatory lag on only a single component of the cost of service.

14 Q. Please summarize your testimony on the Company's construction accounting  
15 proposals.

16 A. For the reasons I discussed above and those in my direct testimony,  
17 I recommend that the Commission reject Ameren Missouri's construction accounting  
18 proposals. These proposals only address a single component of the cost of service while  
19 ignoring other offsetting components.

20 **VEGETATION MANAGEMENT AND INFRASTRUCTURE INSPECTIONS**

21 Q. What are the specific costs that are being addressed by this portion of your  
22 Surrebuttal testimony address?

1           A.     The costs addressed by this testimony are the non-labor operation and  
2 maintenance (O&M) cost incurred by Ameren Missouri for its vegetation management and  
3 infrastructure inspection program.

4           Q.     Are the parties in agreement with regard to certain aspects of the vegetation  
5 management and infrastructure inspections issue?

6           A.     Yes. There is currently no issue among the parties regarding the use of the  
7 actual February 28, 2011 true-up cost incurred for vegetation management and infrastructure  
8 inspections as the annualized level included in the revenue requirement cost of service in this  
9 case. Also, there are no issues regarding the tracker balance for vegetation management and  
10 infrastructure inspection costs deferred from March 1, 2010 through February 28, 2011 or the  
11 amortization of this amount over three years beginning on the 7/31/2011 effective date of  
12 rates in this case. Additionally, there is no dispute regarding the previously deferred amounts  
13 of vegetation management and infrastructure inspection costs recognized in Case Nos.  
14 ER-2009-0318 and ER-2010-0036 that need to be amortized.

15          Q.     What are the remaining areas of dispute regarding the vegetation management  
16 and infrastructure inspections issue?

17          A.     There are continuing disputes among the parties regarding the time period used  
18 to amortize the previously deferred cost as accumulated through the vegetation management  
19 and infrastructure inspections tracker and the continuation of the tracker mechanism. For this  
20 case, the Staff is not opposing the Company's continuation of the tracker mechanism.  
21 Therefore, the remaining issue between the Staff and Ameren Missouri regarding vegetation  
22 management and infrastructure inspections is the appropriate level of amortization of  
23 previously deferred costs that should be reflected in the determination of revenue requirement.

1 Q. What is the Company's position in regards to the recovery of the deferrals?

2 A. In his rebuttal testimony, Company Witness Weiss recommends that  
3 amortizations of previously deferred cost specifically ordered by the Commission in case Nos.  
4 ER-2008-0318 and ER-2010-0036 continue to be reflected in the determination of revenue  
5 requirement.

6 Q. Do you agree with Company Witness Weiss' approach to the recovery of these  
7 deferrals?

8 A. No. Mr. Weiss' recommendation to make no adjustments to the level  
9 of amortization will result in over-collection of the deferrals recognized in Case No.  
10 ER-2008-0318. With regard to the deferrals recognized in Case No. ER-2010-0036, his  
11 recommendation persists in using estimated amounts from 2010 that are now known and  
12 should be recognized. The estimated amounts used in the previous rate case exceeded actual  
13 cost by over \$1,000,000. The deferral balance recognized in Case No. ER-2010-0036 is  
14 negative, which signifies that the Company's actual expenditures for vegetation management  
15 and infrastructure inspections were less than the amounts included in rates. Restating the  
16 deferral to recognize actual amounts rather than the estimates used in the previous rate case  
17 results in an even more negative balance and a higher level of over-collection. Mr. Weiss'  
18 reliance on incorrect estimates has the effect of extending the Commission ordered return of  
19 over-collections to ratepayers from 36 months to 50 months.

20 Q. What is the Staff's approach to structuring the recovery of the balances for  
21 previously deferred vegetation management and infrastructure inspection cost?

22 A. The Commission established a special regulatory mechanism, the vegetation  
23 management and infrastructure inspections tracker, to specifically address its rule changes



1 regarding vegetation management and infrastructure inspections. This mechanism tracks  
2 the difference between the actual cost incurred and the cost included in rates. Any over or  
3 under-collection is deferred until Ameren Missouri's next general rate case. In Case Nos.  
4 ER-2008-0318 and ER-2010-0036 the Commission ordered a three-year amortization of the  
5 deferred cost. The Staff does not believe the Commission intended for this mechanism to be  
6 used to increase or decrease the profits to the Company through over or under-collection of  
7 actual incurred cost.

8 Due to the unknown timing of the Company's next rate case filing, it is not possible to  
9 precisely address the level of potential over or under-collection of the deferred vegetation  
10 management and infrastructure inspection costs. However, in an attempt to minimize this  
11 potential, the Staff recommends recalculating the amount of annual amortization to more  
12 accurately reflect rate case timing, without significantly changing the original amortization  
13 period ordered by the Commission.

14 Q. What is the Staff's recommendation for the deferrals recognized in Case No.  
15 ER-2008-0318?

16 A. The first tracker balance collection that needs to be addressed is the three-year  
17 amortization ordered by the Commission in Case No. ER-2008-0318, effective March 1,  
18 2009, for the cost deferred during the period January 1, 2008 through September 30, 2008.  
19 Due to a correction that reduced the deferred balance in the Company's last general rate  
20 proceeding, Case No ER-2010-0036, at the current rate of amortization these deferred costs  
21 will be completely amortized in January 2012. If for example the Company files a new  
22 general rate case in September 2011, it will over-collect by approximately \$1,000,000. This  
23 over-collection will occur during the months following the full recovery of the deferred costs

1 in January 2012 through the July 31, 2012 operation of law date of the next rate case in my  
2 example. In an attempt to minimize this over-collection, the Staff is recommending that the  
3 balance existing at the July 31, 2011 effective date of rates in the current rate case, File No.  
4 ER-2011-0028, be amortized over the succeeding twelve months. This recalculation reduces  
5 the monthly amortization to less than \$80,000 and only extends the Commission's originally  
6 ordered 36 month amortization period by five months.

7 Q. What is the Staff's recommendation for recovery of the deferred cost incurred  
8 by the Company from October 1, 2009 through February 28, 2010, as established in Ameren  
9 Missouri's previous general rate proceeding, Case No. ER-2010-0036?

10 A. These costs include a netting of the deferred costs during October 1, 2008  
11 through February 28, 2009 and the deferred over-collection of cost during March 1, 2009  
12 through February 28, 2010. The amount of the deferrals during October 1, 2008 through  
13 February 28, 2009 was adjusted in Case No. ER-2010-2010 to recognize the vegetation  
14 management and infrastructure inspection costs that were included in rates prior to the  
15 implementation of the Commission's rule changes. The amount of the deferrals during  
16 March 1, 2009 through February 28, 2010 needs to be adjusted in the current case to replace  
17 the previously used estimate for February 2010 with the actual amount incurred. As I  
18 discussed earlier in my testimony, Mr. Weiss' recommended level of amortization continues  
19 to rely on estimates of 2010 cost and results in an extension of the Commission's ordered  
20 amortization period.

21 In Case No. ER-2010-0036, the Commission ordered a three-year amortization of the  
22 negative deferrals realized during the period October 1, 2009 through February 28, 2010.  
23 Based on the estimated amounts used in that case, the ordered amortization would return the

1 deferred over-collection of vegetation management and infrastructure inspection costs during  
2 the 36 months ending in June 2013. However, if the deferral balance is restated to include  
3 actual rather than estimated data, without making any change to the level of amortization, the  
4 deferred over-collection will not be fully returned to ratepayers until August 2014.

5 Therefore, the Staff recommends changing the amount of the amortization beginning  
6 on the effective date of rates in the current rate case, so that the over-collection of vegetation  
7 management and infrastructure inspection costs, based on actual incurred amounts, is returned  
8 to ratepayers over the remaining life of the original Commission ordered 3 years.

9 Q. Has any other party taken a position with regard to these amortizations?

10 A. Yes. Missouri Industrial Energy Consumers Witness Steven Carver has also  
11 recommended extending the amortization period established in Case No. ER-2009-0318 for  
12 amounts deferred from January 1, 2008 through September 30, 2008. His proposals also  
13 address the need to adjust the level of amortization to prevent over-collection of deferred  
14 vegetation management and infrastructure inspection costs.

15 Q. Does this conclude your Surrebuttal testimony?

16 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a )  
AmerenUE's (n/k/a Ameren Missouri) Tariff to ) File No. ER-2011-0028  
Increase Its Annual Revenues for Electric )  
Service )

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF SAINT LOUIS )

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
Stephen M. Rackers

Subscribed and sworn to before me this 11<sup>th</sup> day of April, 2011.

  
Notary Public

