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Witness:	Michael S. Scheperle
Sponsoring Party:	MO PSC Staff
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Case No.:	ER-2014-0258
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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

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
Michael S. Scheperle

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

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 28, 2018
Commission Number: 14942086

Susan L Sundermeyer
Notary Public

<u>**TABLE OF CONTENTS**</u>

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MICHAEL S. SCHEPERLE

Union Electric Company d/b/a Ameren Missouri

CASE NO. ER-2014-0258

Q. Please state your name and business address.

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

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

A. Yes, I am.

Q. What topics are you addressing?

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

Noranda's Proposal

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

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

Noranda's proposal:

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

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

Q. Does Staff support Noranda's request?

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

ITEM 1, ITEM 8, and ITEM 10

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

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

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

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

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

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

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

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

ITEM 2

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

A. No. The new proposed service classification 10(M) does not reference a seven-year rate plan. Noranda witnesses Dale Boyles (page 3 and 18) and Thomas Harris (page 4) reference a seven-year rate plan in Direct Testimony. Mr. Maurice Brubaker (page 39) mentions a seven-year plan in his Direct Testimony. Schedule MEB-COS-5, which is an Exemplar Tariff for the new 10(M) service classification, does not reference a seven-year plan. Staff opposes a seven-year plan because it limits/eliminates key provisions of Noranda's current LTS service classification. Specifically, key provisions as Item 5 which limits the SAS energy rate increase to a 1% per year limitation and Item 9 which removes Noranda from paying any FAC payments.

ITEM 3

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

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

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

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

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

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

TABLE 1

Summary Results of Staff's CCOS Study [5]

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%

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

"Revenue neutral" means that the revenue shifts among classes do not change the utility's total system revenues. The revenue neutral format aids in comparing revenue deficiencies between customer classes and makes it easier to discuss revenue neutral shifts 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.

class' rate revenues by subtracting the overall system average increase recommended by Staff[6] from each customer class' required-percentage increase to rate revenue to match the revenues Ameren Missouri should receive from that class to match Ameren Missouri's cost to serve that class.

Q. Please explain Table 1.

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

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

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[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

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

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

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

A. No. On the surface, Noranda proposes to be billed only on the kWh usage rate with no seasonal (summer/winter) variation and not on demand charges, customer charges, FAC charges, etc. except for low-income charges. Depending on the kWh rate, this seems 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).

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

ITEM 5

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

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

ITEMS 7 and 9

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

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

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

A. Yes. Mr. Maurice Brubaker, in Direct Testimony, outlines Noranda's proposal. Mr. Brubaker calculated the dollar reduction in base rate revenues that would be associated with implementation of Noranda's rate request. Mr. Brubaker's base rate revenue adjustment proposal is summarized on his Schedule MEB-COS-7 whereby Noranda's base rate adjustment is $22.822 million. Mr. Brubaker's FAC revenue adjustment is $18.473 million and is summarized on Schedule MEB-COS-9 (page 2 of 2).

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

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

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

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

Q. Does this conclude your rebuttal testimony?

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.