BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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| Noranda Aluminum, Inc., *et al.,*<br><br>Complainants,<br><br>v.<br><br>Union Electric Company, d/b/a Ameren Missouri<br><br>Respondent. | )<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>) | Case No. EC-2014-0224 |

**REPLY BRIEF OF**
**WAL-MART STORES EAST, LP, AND SAM'S EAST, INC.**

Wal-Mart Stores East, LP, and Sam's East, Inc., (collectively "Walmart") submit this reply brief pursuant to the Order Establishing Procedural Schedule issued herein April 16, 2014, and the Order Modifying Procedural Schedule issued herein April 23, 2014.

## I. IF THE COMMISSION GRANTS THE RELIEF REQUESTED IN THIS DOCKET, ANY REVENUE DEFICIENCY SHOULD BE ALLOCATED TO THE LGS, SP AND LP CLASSES ON A $/kW BASIS INSTEAD OF AN EQUAL PERCENTAGE BASIS IN ORDER TO BE CONSISTENT WITH COST-CAUSATION PRINCIPLES AND TO ALLEVIATE EXISTING RATE DESIGN ISSUES WITHIN THESE CLASSES.

Noranda proposes to directly modify the base rate tariffs and increase the customer charge, energy charge, and demand charge components of the Large General Service ("LGS"), Small Primary ("SP") and Large Primary ("LP") classes by an equal percentage. *See* Ex. 16, Direct Testimony And Schedules Of Maurice Brubaker, Schedule MEB-4. Staff proposes the same treatment. *See* Staff's Initial Brief p. 29, second paragraph.

As explained by Walmart's witness Steve W. Chriss, however, this treatment violates cost-causation principles and further exacerbates existing rate design issues within the LSG, SP and SP classes.

As Mr. Chriss testified, the average variable cost currently included in base rates is approximately \$0.01469/kWh and, with the Fuel Adjustment Clause ("FAC") factor, is approximately \$0.0182/kWh. Noranda's proposed \$0.03/kWh rate exceeds the average variable cost of service and, as such, the remainder between this average variable cost and the proposed rate would provide for contribution to fixed costs. As a result, the costs underlying the revenue requirement shortfall, the recovery of which is shifted to the other rate classes, are essentially fixed, or demand-related, costs. Noranda's proposal will result in these fixed or demand-related costs being incorrectly collected, at least in part, through the energy charge. For demand-metered customers, this structure is inappropriate and violates cost-causation principles. Ex. 460, Reb. Testimony Of Steve W. Chriss On Behalf Of Wal-Mart Stores East, LP, And Sam's East, Inc., p. 11, ln. 215 – p. 12, ln. 226*.*

The collection of demand-related costs on per kWh energy charges shifts demand cost responsibility from lower load factor customers to higher load factor customers who are more efficiently utilizing utility facilities. In essence, under Noranda's proposal, two LGS or SP customers can have the same level of demand and cause the utility to incur the same amount of fixed cost, but because one customer uses more kWh than the other, that customer will pay more of the demand cost than the customer using fewer kWh. This results in misallocation of cost responsibility as higher load factor customers overpay for the demand-related costs incurred by the utility to serve them, and these customers are essentially penalized for more efficiently using the utility's system. *Id.* p. 12, ln. 229-238.

An examination of the results of the class cost of service study performed by Ameren in their last rate case[1] shows that 68.4 percent of the costs for the combined LGS/SP class are demand-related. However, only 10.5 percent of the revenues for those classes are currently being collected from the demand charge. As such, no more fixed costs should be collected on the energy charge for either LGS or SP as proposed by Noranda. While the broader issues with the rate design for LGS and SP are appropriately addressed in the upcoming general rate case, the Commission should note that overlaying the revenue requirement shortfall for this docket on top of the existing rates as proposed is not appropriate. This also affects the LP class as well. *Id.* p.13, ln. 241-252.

For these reasons, any revenue deficiency for the LGS, SP and LP classes should be calculated and charged to the respective classes on a $/kW basis using the billing units approved for each class by the Commission in Ameren's most recent general rate case, rather than on the equal percentage basis proposed by Noranda and Staff. This treatment is consistent with cost-causation principles and helps to alleviate existing rate design issues within these classes.

[1] ER-2012-0166.

Dated this 16th day of July, 2014.

Respectfully submitted,

By /s/ Rick D. Chamberlain

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ATTORNEYS FOR WAL-MART STORES EAST, LP, AND SAM'S EAST, INC.

## CERTIFICATE OF SERVICE

The undersigned certifies that on July 16, 2014, a true and correct copy of the foregoing was served by U.S. mail, postage prepaid, or by electronic mail addressed to all parties by their attorneys of record.

/s/ Rick D. Chamberlain