

Exhibit No.:
Witness: David L. Stowe
Type of Exhibit: Surrebuttal Testimony
Issues: Cost of Service
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2008-0318

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

**In the Matter of Union Electric Company d/b/a
AmerenUE for Authority to File Tariffs Increasing
Rates for Electric Service Provided to Customers
in the Company's Missouri Service Area.**)
)
) **Case No. ER-2008-0318**
)
)

Surrebuttal Testimony of

David L. Stowe

on Cost of Service

On Behalf of

Missouri Industrial Energy Consumers



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 8983
November 5, 2008

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OF THE STATE OF MISSOURI**

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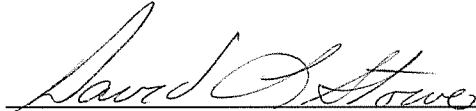
STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

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Affidavit of David L. Stowe

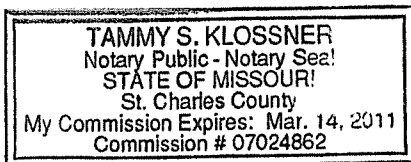
David L. Stowe, being first duly sworn, on his oath states:

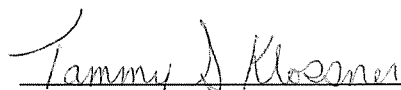
1. My name is David L. Stowe. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0318.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



David L. Stowe

Subscribed and sworn to before me this 4th day of November, 2008.





Notary Public

1 **Q PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

2 A My testimony may be summarized as follows:

3 1. The data necessary to distinctly identify and separate the cost to serve customers
4 at high voltage and primary voltage levels were available to AmerenUE prior to its
5 development of the class cost of service study (“COSS”). AmerenUE, however,
6 chose to combine these data to form a single category or class.

7 2. AmerenUE’s decision to combine high voltage (“HV”) and primary voltage
8 customers into a single category obscures the specific costs incurred to serve
9 customers operating at either voltage level. Furthermore, by combining the HV
10 and primary voltage categories, AmerenUE ensures that the COSS will allocate
11 costs incurred on the standard primary voltage system to HV customers who
12 receive no benefit from this system.

13 3. The discount provided to HV customers in AmerenUE’s Rider B does not
14 necessarily resolve the problem caused by AmerenUE’s misallocation of costs to
15 HV customers in its COSS.

16 4. The zero-intercept study performed for AmerenUE by Mr. Michael Vandas results
17 in unreasonable customer- and demand-related classifications.

18 **HV, Primary, and Secondary Distribution Studies**

19 **Q HAS AMERENUE PERFORMED AN IN-DEPTH ANALYSIS OF ITS DISTRIBUTION**
20 **SYSTEM?**

21 A Yes. Michael Vandas performed a distribution study to determine the percentages of
22 AmerenUE’s total distribution system costs associated with serving HV customers
23 (34.5 kV and 115 kV), standard voltage primary customers (between 600 V and 34.5
24 kV), and secondary voltage customers (below 600 V).

25 **Q DOES AMERENUE USE THE RESULTS OF MR. VANDAS’ STUDIES IN ITS**
26 **COSS?**

27 A Yes, but not to the precision of detail provided by Mr. Vandas. As I discussed in my
28 direct testimony, AmerenUE combined Mr. Vandas’ results for HV and standard

1 voltage primary customers into a single category prior to developing its COSS. As a
2 result, the Company allocates costs associated with standard voltage primary service
3 to customer loads that are served from electrical lines that operate at 34.5 kV or
4 higher.

5 **Q HAS ANY AMERENUE WITNESS RESPONDED TO THIS ISSUE IN REBUTTAL**
6 **TESTIMONY?**

7 A Yes. AmerenUE's witness, Mr. William Warwick, has addressed this issue in his
8 rebuttal testimony. In his response to the question of whether it is necessary to
9 maintain the granularity between the HV and primary customers, thereby preventing
10 primary costs being allocated to HV customers, Mr. Warwick states that it is not
11 because:

12 "... the Company's presently effective Rider B tariff provides for a
13 discount to customers receiving service under the Company's Small
14 Primary and Large Primary Service rates who are served at voltage
15 levels higher than standard primary voltage (i.e., 34,500 volts and
16 higher)." (Rebuttal Testimony of William Warwick, page 6, lines 1-4)

17 **Q DOES RIDER B RESOLVE THE PROBLEM THAT IS CREATED BY THE**
18 **MISALLOCATION OF PRIMARY COSTS TO HV CUSTOMERS?**

19 A No. By combining the HV and primary customers into a single group, AmerenUE
20 negates the ability to determine which portion of the allocated cost is specifically
21 incurred to serve HV customers, and which portion is incurred to jointly serve the HV
22 and primary classes. Without clear knowledge of the cost to serve HV customers, it is
23 impossible to know whether the discount offered them in Rider B matches, or
24 "resolves," the problem caused by the misallocation of cost.

1 Moreover, AmerenUE’s approach over-allocates costs to the classes in which
2 these customers are served (mainly Rate LPS). Adjusting the level of the credits
3 internal to the class does not solve this fundamental problem.

4 **Unreasonable Results of the Zero-Intercept Study**

5 **Q HAS AMERENUE PERFORMED ANY OTHER IN-DEPTH ANALYSIS OF ITS**
6 **DISTRIBUTION SYSTEM, BESIDES THAT DISCUSSED ABOVE?**

7 A Yes. AmerenUE also had Mr. Vandas perform “zero-intercept” analyses on the major
8 distribution system components represented by FERC Accounts 364 (Poles and
9 Towers), 365 (Overhead Conductors and Devices), 366 (Conduit), 367 (Underground
10 Cable and Devices), and 368 (Line Transformers).

11 However, as I have described in my direct testimony, certain results of Mr.
12 Vandas’ zero-intercept study defy common sense. Specifically, Mr. Vandas’ results
13 suggest that of every dollar spent burying electrical conduit, less than 6¢ is needed to
14 dig the trench, remove debris, backfill the trench, cut and repair surface features such
15 as sidewalks and driveways, etc., while 94¢ out of every dollar is needed simply to
16 purchase the PVC conduit.

17 These results are clearly unreasonable. It is widely recognized that the cost of
18 burying electrical components can increase the total installed cost of a distribution
19 system multiple-fold. In contrast to this, Mr. Vandas’ study suggests the wholesale
20 cost of conduit is nearly 16 times greater than the cost of burying it.

21 In my opinion Mr. Vandas’ results for FERC Account 367, which suggest that
22 the costs of burying underground cable (i.e., digging the trench, debris removal,
23 backfilling, etc) represent only 21.5% of the total cost, are also unreasonably low.

1 Q HAS ANY AMERENUE WITNESS RESPONDED TO THIS ISSUE IN REBUTTAL
2 TESTIMONY?

3 A No.

4 Q HOW DO THE RESULTS OF MR. VANDAS' ZERO-INTERCEPT STUDY IMPACT
5 THE RESULTS OF AMERENUE'S COSS?

6 A AmerenUE's COSS uses the results of Mr. Vandas' zero-intercept study to allocate
7 over \$220 million in plant costs, and additional tens of millions in O&M expenses
8 (these values are for FERC Accounts 366 and 367). Of these total investments and
9 expenses, the portions determined by Mr. Vandas' zero-intercept study to be
10 customer-related (i.e., 5.6% for Account 366, and 21.5% for Account 367) are
11 distributed to the classes based on the number of customers in each class. The
12 remainder are classified as demand-related and distributed on the basis of peak
13 demand.

14 By using Mr. Vandas' unreasonably low customer-related percentages,
15 AmerenUE's COSS allocates fewer costs to the classes based on the customer
16 numbers, and more costs based on demand. The net result is an over-allocation of
17 costs to customer classes with relatively few large customers, and an under-allocation
18 of costs to the residential class that has a very large number of customers.

19 Q WHAT IS YOUR RECOMMENDATION?

20 A The Commission should require AmerenUE to separate the HV and primary
21 customers in its COSS. The Commission should also direct AmerenUE to conduct a
22 new voltage level and zero-intercept analyses on its distribution system, and provide

1 the results to the parties no later than six months from the date of the order in this
2 case.

3 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A** Yes, it does.

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