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Issue(s): Power Plant. Maint. Exp.
Witness: Mark C. Birk
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2010-0036

SUPPLEMENTAL TESTIMONY

OF

MARK C. BIRK

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
March, 2010

SUPPLEMENTAL TESTIMONY

OF

MARK C. BIRK

CASE NO. ER-2010-0036

Q. Please state your name and business address.

A. My name is Mark C. Birk. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, MO 63103.

Q. Are you the same Mark C. Birk who filed direct and rebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of your supplemental testimony?

A. I will briefly address the fact that Missouri Industrial Energy Consumers (MIEC) witness Greg Meyer completely changed his position and his approach regarding steam production plant maintenance expense in his surrebuttal testimony filed last Friday evening, March 5, 2010. Because Mr. Meyer failed to advance his new position, or his approach in arriving at his recommendation on this issue, in either his direct or rebuttal testimony, the Company has had no opportunity to respond and to provide the Commission with relevant information about his new position and approach.

Q. What is different about Mr. Meyer's approach now, versus the approach he supported when he filed his direct testimony on December 18, 2009?

A. The approach underlying Mr. Meyer's direct testimony used two simple sets of historic maintenance expenses aggregated across the entire fleet, which consists of four plants (Labadie, Rush Island, Sioux and Meramec). More specifically, Mr. Meyer looked at the actual,

combined levels for all four plants for calendar years 2006, 2007, and 2008, and he looked at the actual expense levels for three other 12-month periods (the 12-month periods ending March 31, 2006, 2007, and 2008). Based on those two aggregated sets of data, and his observation that the April 2008 to December 2008 expense level appeared higher than any one of these 12 month periods, Mr. Meyer picked a number – the actual expense for the 12-months ending March 31, 2008, as his proposed level of "normalized" maintenance expense. His entire discussion of this issue in his direct testimony covered approximately three pages, and he provided no workpapers that under-lied it because he didn't need any. Meyer deposition, p. 34, l. 24 to p. 35, l. 5.

Q. Did you rebut Mr. Meyer's original position?

A. Yes. I fully rebutted his original position, including the original approach he took.

Q. How does the approach he has taken in his surrebuttal testimony differ from the approach he took in his direct testimony?

A. His new approach bears no resemblance to the approach he took in his direct testimony. Mr. Meyer agrees that "[i]t's a different approach." Meyer deposition, p. 36, l. 4 – 7. His new approach involves examining the yearly historical (and in one case, budgeted) maintenance expenses *by plant* versus the aggregate data he examined in his prior approach. Previously, Mr. Meyer paid no attention to Labadie separately from Meramec, separately from Sioux, separately from Rush Island. Meyer deposition, p. 37, l. 18-21.

In addition to conducting a plant-by-plant maintenance expense examination, Mr. Meyer's new approach consisted of conducting a unit-by-unit examination of what he characterized as scheduled outages at the various units (there are a total of 12 generating units across the four plants). No such examination was done as part of his direct testimony approach.

Meyer deposition, p. 38, l. 12-18. His new approach covers more than 60 percent more testimony, includes four detailed schedules, and was supported by numerous workpapers (two separate Excel spreadsheets with a total of 15 different tabs).

Q. Was the data he used for the first time in his surrebuttal approach available to MIEC throughout this case?

A. With two minor exceptions, yes it was. All of the maintenance expense data for the years 2000 through 2008 was available when the case was filed, as was data for at least the first quarter of 2009. Calendar year 2009 data was available in January, and in fact at the Staff's request, was provided to the Staff on January 21. All of the outage data Mr. Meyer used was available when this case was filed, except the October 2009 data, which was provided to all parties to the Company's last rate case (including MIEC) in December of this year as part of the Company's monthly fuel adjustment clause reporting. In any event, Mr. Meyer indicates that his firm has access to the outage data through its own subscription. Meyer deposition, p. 70, l. 10-16.

Q. Please respond to Mr. Meyer's new approach and recommendation.

A. Mr. Meyer's new approach is more reasonable and less arbitrary than his old approach, but it fails to account for two key facts. First, a dollar in 2010 or 2011, when rates to be set in this case will be in effect, is worth less than a dollar in 2004, 2005, 2006, etc.; i.e., maintenance expenses experience inflation over time – Mr. Meyer did not account for this. Second, the number of scheduled outages during the periods examined by Mr. Meyer were substantially less than normal, which creates a downward bias in his results.

Q. Please address the impact of inflation on maintenance expense.

A. I have attached as Schedule MCB-E5 a table that uses each of Mr. Meyer's calculated base/routine maintenance expense levels (column 1) and each of Mr. Meyer's calculated scheduled maintenance levels (column 3) to arrive at the equivalent level of expense in year-end 2009 dollars. As shown in column 5, Mr. Meyer calculates a "normalized" level of maintenance expense of $104.6 million, using a combination of 2004 through 2009 dollars.[1] I have accounted for the time value of money, using precisely the same inputs used by Mr. Meyer, and all other aspects of his methodology exactly has he performed it, which results in a maintenance expense level of $ 113.3 million. This level is within less than five percent of the test year sum, and given that the test year sum of an expense is the default or starting point for any test year analysis, indicates that there is no justification from departing from the test year level in this case. This is further confirmed by the fact that the Company's budgeted maintenance expense for 2010 is approximately $117.5 million. All three of these figures, which are all in more recent dollars than used by Mr. Meyer, are within about 5 percent of each other. Thus in my opinion the test year level is representative of the level we can reasonably expect to incur once rates set in this case take effect.

Q. What inflation rate did you apply to account for the time value of money?

A. I used a 3.25 percent rate of inflation. I chose a 3.25 percent rate of inflation for several reasons. First, I examined industry data from SNL Financial for power plant maintenance expenses from 2003 through 2008 (the most recent five-year period available). According to these data, power plant maintenance expense increased by an average of 3.94% from 2003 through 2008. Second, I used the United States Bureau of Labor Statistics Employment Cost Index for Utilities. I examined the utility employment cost index because

approximately two-thirds of maintenance expenses are labor costs. From 2004 to 2009, the employment cost index rose an average of 3.44% annually. Finally, I considered the fact that for each of the past several years our union power plant workers have received a contracted-for 3% annual wage increase, our current contract with Local 148 runs through June 30th, 2013 and calls for 3% annual wage increases.

This information suggested a range of inflation applicable to these costs of 3% to 3.9%. I then conservatively elected to use a 3.25% inflation rate. This may in fact understate the increases, but the point is that clearly Mr. Meyer's dollars need to be escalated, and with escalation they are near the test year amount.

Q. You noted that Mr. Meyer's surrebuttal testimony approach fails to account for the abnormally low number of outages during the period he used to calculate his base/routine expense and scheduled outage expense. Please elaborate.

A. As I explained in my rebuttal testimony, from 2005 to 2008 the Company was transitioning from taking more frequent outages in the early 2000s (approximately three per year, on average) and took, on average, less than two outages per year during the 2005 to 2008 time period. Moreover, as I also discussed in my rebuttal testimony, the liquidity crisis in late 2008/early 2009 caused the Company to defer outages it had planned to take in 2009 into 2010. Thus, 2009 was also an abnormal year. Almost all of Mr. Meyer's data is based on these abnormal years. This explains why when we look at the data over time (from 2001 through 2009, as depicted in the graph on page 16 of my rebuttal testimony), we don't see a clear upward trend. However, had we been taken a normal level of outages, coupled with accounting for inflation, the data would have looked much different.

Q. Does this conclude your surrebuttal testimony?

[1] One of his many figures uses budgeted expense for 2010.

A. Yes, it does.

Generating Plant
MIEC "Normalized" Maintenance Expense

	1	2	3	4	5	6
	Routine/Base Maintenance ($/Millions)		Scheduled Maintenance ($/Millions)		Total Maintenance ($/Millions)	
	Inflation Rate		Inflation Rate		Inflation Rate	
Generating Plant	0%	3.25%	0%	3.25%	0%	3.25%
Labadie	$25.3	$27.7	$7.9	$9.4	$33.3	$37.1
Rush Island	16.2	17.8	3.9	$4.2	20.1	$22.1
Meramec	20.3	22.0	3.1	2.6	23.5	$24.6
Sioux	21.4	22.7	6.5	6.9	27.9	$29.6
Total	$83.2	$90.2	$21.5	$23.2	$104.6	$113.3