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Issues: Production Plant Allocation  
Methods;  
Large Primary Service Rate  
Design;  
Miscellaneous Tariff Issues

Witness: Wilbon L. Cooper

Sponsoring Party: Union Electric Company

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**MISSOURI PUBLIC SERVICE COMMISSION**

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**SURREBUTTAL TESTIMONY**

**OF**

**WILBON L. COOPER**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**St. Louis, Missouri**

**February 27, 2007**

*AmerenUE* Exhibit No. 81  
Case No(s). ER-2007-0002  
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1 Company witnesses will provide additional Surrebuttal Testimony to address certain issues  
2 raised by these witnesses. My failure to address a particular witness' position or argument  
3 should not be construed as endorsement of same.

4 **II. PRODUCTION PLANT ALLOCATION**

5 **Q. On page 2 of his cost of service Rebuttal Testimony, Mr. Busch states that**  
6 **“AmerenUE’s method takes each class’ peak demand during the summer months of June**  
7 **– September”. Is this statement a correct characterization of AmerenUE’s 4 Non**  
8 **Coincident Peak Average & Excess Allocation (4NCP A&E) method for allocating the**  
9 **cost of production plant?**

10 A. No, it is not. While AmerenUE’s four highest system peaks in a year usually  
11 occur during the months of June through September, a strict application of the 4NCP A&E  
12 methodology requires the use of each class’ four non-coincident peak demands, regardless of  
13 when such peaks occur. The majority of the 4 NCP monthly demands for the Company’s six  
14 major customer classes occurred during the Company’s summer peak demand months of  
15 June – September; however, they all did not.

16 **Q. On page 2 of his cost of service Rebuttal Testimony, Mr. Busch provides**  
17 **an extremely simplified example of the application of the A&E method utilizing a 100%**  
18 **load factor customer and a 50% load factor customer that demonstrates the lack of any**  
19 **excess demand costs being allocated to the 100% load factor customer. Please comment.**

20 A. Mr. Busch’s mathematical computations are correct. However, the lack of  
21 any excess demand costs being allocated to the 100% load factor customer should not be  
22 misconstrued as a flaw in the A & E method for two reasons.

1                   First, the 100% load factor customer does not create a need for excess or  
2 peaking capacity as does the 50% load factor customer with a less-than-constant load. But  
3 for the spiking nature of the 50% load factor customer's demand, base load generation would  
4 have been adequate to meet the load and energy requirements of the customer. The 50% load  
5 factor customer's less-than-constant load would likely cause the installation of a peaking type  
6 plant with higher variable or running costs as a generation resource to serve the peaking load  
7 of this customer. As a result, cost causation principles would support the total allocation of  
8 the peaking plant to the 50% load factor customer.

9                   Second, absent from Mr. Busch's example is any discussion on the allocation  
10 of variable production costs for these loads. As described in the Rebuttal Testimony of  
11 MIEC witness Maurice Brubaker at pages 16 through 19, the MPSC Staff's Average and  
12 Peak method would "allocate capacity costs differentially across customer classes as a  
13 function of load pattern, but do nothing to offset this higher allocation of capacity costs with  
14 a correspondingly lower allocation of energy costs." Specifically, Mr. Busch fails to address  
15 the higher incremental energy costs of serving the 50% load factor customer in his example.  
16 The A& E method provides symmetry between the allocation of energy costs and fixed  
17 production assets as it allocates energy costs based on class energy at the generator and fixed  
18 production or demand costs giving due consideration to both the energy and excess demands  
19 requirements for serving each customer class.

20               **Q.     Have you reviewed the testimony of all other parties with regard to the**  
21 **allocation of fixed production plant costs?**

22               A.     Yes, I have. AmerenUE, Noranda, and the TCG have all provided testimony  
23 in support of the use of the 4NCP A&E allocation method for fixed production plant cost

1 allocation, while the remaining parties have sponsored other methods which I have  
2 previously rebutted. As stated in my Rebuttal Testimony, the Company's net investment in  
3 fixed production assets represents approximately 74% of the net original cost rate base and  
4 variations among the parties in allocation this investment have produced significant  
5 differences in class cost of service requirements in this case.

6           In reviewing the class cost of service results for each of the non 4NCP A&E  
7 methods sponsored by other parties in this docket, AmerenUE's 4NCP A&E method appears  
8 to produce class cost of service requirements (i.e. by class) that are fairly close to the middle  
9 of the range. While this does not suggest that the middle or the average is always the best  
10 road to take, it may lend some support to the reasonableness of the method proposed by  
11 AmerenUE.

12           Arguably, every allocation method for fixed production plant costs sponsored  
13 by parties in this docket has merit, and the Company is not suggesting that there is a single  
14 methodology for the allocation of production plant. However, the Company's proposed  
15 4NCP A&E method is superior to other proposals offered by certain parties in this case due  
16 to its more balanced consideration of both the energy and excess demands requirements for  
17 serving each customer class. Also, as stated earlier, it has the support of Noranda and TCG,  
18 and has produced results that are fairly close to the middle of the results of all proposed  
19 methods for the allocation of production plant costs in this docket. For these reasons and  
20 those stated in my Rebuttal Testimony, the Company recommends that the Commission  
21 adopt the 4NCP A&E for the allocation of production plant costs.

1                                   **III.    LARGE PRIMARY SERVICE RATE DESIGN**

2                   **Q.    The Rebuttal Testimony of both Mr. Watkins and Ms. Meisenheimer**  
3 **state their respective positions on the Company’s proposed 10% discount on the energy**  
4 **charges to customers in the Large Primary Service (LPS) Class demonstrating an annual**  
5 **load factor of at least 80%. Please comment.**

6                   A.    Ms. Meisenheimer indicates no opposition to this proposal, but, rather states  
7 that any such discounts should be funded by shareholders. I’m a bit puzzled by Ms.  
8 Meisenheimer’s statement as there are high load factor incentives embedded in existing rates  
9 that are “not funded by shareholders”. For, example, the Company’s Small Primary Service  
10 and Large Primary Service rates contain billing demand provisions whereby customers’ off-  
11 peak demands can exceed their on-peak demands by up to 100% without billing penalties.  
12 Obviously, these existing provisions provide incentives for customers with high load factors.  
13 Additionally, the Company’s proposal would collect any discounts generated by this  
14 provision from other customers within the LPS class, and therefore this discount is an intra-  
15 class issue as opposed to one that affects all customer classes. Considering the above, Ms.  
16 Meisenheimer’s proposal to fund the proposed high load factor discount with shareholders’  
17 equity should be rejected by the Commission.

18                                   Moving now to Mr. Watkins’ opposition to the Company’s proposed energy  
19 discount of 10% to LPS customers, Mr. Watkins’ appears to be a bit confused as to the  
20 Company’s proposed 10% **energy** discount to high load factor customers. This proposal  
21 does not include a 10% discount on the other two components (i.e., monthly customer charge  
22 and demand charge) of a customer’s monthly bill and, as a result, Mr. Watkins’ 10% overall  
23 discount to the 80% load factor customer is significantly overstated. Using a 5,000 MW

1 customer at 80% load factor vs. 79.99% load factor, the annual discount for the 80% load  
2 factor would be approximately 6 percent. While Mr. Watkins' rate discontinuity concern has  
3 some validity, it is noteworthy that, to date, neither the Missouri Energy Group nor the  
4 Missouri Industrial Energy Consumers, who both have clients within the LPS classification,  
5 has expressed any opposition to the Company's proposal. Additionally, it is commonly  
6 recognized within the industry that system load factor improvement leads to more efficient  
7 and effective utilization of fixed cost assets and, thus, customers should have an adequate  
8 incentive to contribute to this effort.

9 **Q. On pages 3-4 of his Rebuttal Testimony, Mr. Watkins states the Staff's**  
10 **strong opposition to implementation of the Company's proposed prohibition on Large**  
11 **Primary Service customer rate switching. Please comment?**

12 A. I have addressed this issue in my Rebuttal Testimony at page 11, lines 4  
13 through 19.

14 **IV. LARGE TRANSMISSION SERVICE RATE DESIGN**

15 **Q. On page 4 of his Rebuttal Testimony, Mr. Watkins states his opposition**  
16 **to the elimination of the Annual Contribution Factor (ACF) for the Large Transmission**  
17 **Service Rate. Please comment.**

18 A. A brief explanation of the origin of the ACF might be beneficial before I  
19 specifically comment on Mr. Watkins' opposition. As part of a negotiated settlement in the  
20 Noranda case (Case No. EA-2005-0180), the ACF was utilized as an adder to the LTS rate to  
21 effectively bill Noranda on the LPS rate that was in effect at the time, less any distribution  
22 related charges.

1                   Considering the Company's class cost of service study filed in this case by  
2 Mr. Warwick which lists Noranda as a separate rate class with its own cost based revenue  
3 requirement, Noranda's revenue requirement can easily be achieved with a simple rate design  
4 structure similar to that of the LPS class without any of the complications associated with an  
5 ACF. Therefore, Mr. Watkins' recommendation should be rejected by the Commission.

6                   **V.     MISCELLANEOUS TARIFF REVISIONS**

7                   **Q.     On page 3 of his Rebuttal Testimony, Mr. McDuffey states that the**  
8 **Company's proposed change to its definition of "residential customers" may have**  
9 **significant impacts on customers. Please comment.**

10                  A.     The Company's proposed changes are benign and are not intended to change  
11 any existing customer billing from Residential Service to Small General Service. The  
12 Company's proposed tariff language changes are only intended to provide additional clarity  
13 on the definition of residential service. This clarification will make administration of the  
14 tariff easier and improve all parties understanding of the meaning of the tariff.

15                  **Q.     On page 5 of his Rebuttal Testimony, Mr. McDuffey recommends that**  
16 **the Commission reject the Company's proposed use of estimated costs in its Municipal**  
17 **Underground Cost Recovery Rider. Please comment.**

18                  A.     Mr. McDuffey provides no rationale for his opposition other than to state that  
19 existing tariffs provide for the use of reconciled costs. The Company's proposed use of  
20 estimated costs is consistent with several other tariff provisions relating to distribution  
21 system extension costs and provides customers with certainty of cost responsibility before  
22 work starts. This certainty benefits customers from a budgeting perspective and, at the same

1 time, avoids any after the fact disputes between the customer and the Company regarding  
2 differences between estimated costs and actual costs.

3 **Q. On page 7 of his Rebuttal Testimony, Mr. McDuffey recommends that**  
4 **the Commission either reject the Company's proposal to amend its guarantee agreement**  
5 **to enhance its bargaining position with respect to electric cooperatives as unduly**  
6 **discriminatory or to allow all customers, regardless of whether they have an option of**  
7 **service from a cooperative, to benefit . Please comment.**

8 A. The Company's proposal is not unduly discriminatory as it justifiably  
9 distinguishes customers based on clearly defined differences in their circumstances. The  
10 difference is between those customers having no choice of service supplier vs. those having a  
11 choice of service provider. The Company is proposing that customers in areas where service  
12 is available from the Company or a cooperative be given the opportunity to "finance" their  
13 line extensions over a three year period. The Company's existing tariffs contain over thirty  
14 (30) listed Commission order numbers associated with waivers of all or part of any charges  
15 associated with extensions of service and/or construction deposits the Commission has  
16 granted where the Company competes for business with unregulated competition. The  
17 Commission has approved these waivers recognizing that waivers were required in order to  
18 allow the Company to effectively compete with offers made to developers and/or customers  
19 by unregulated competitors. Clearly, the Commission has acknowledged the unique nature  
20 of the Company doing business in areas where cooperative competition exists.

21 As stated earlier, in the instant case, the Company is not proposing to waive  
22 any charges, but, instead, to allow a deferral of the collection of the charges. The Company's  
23 proposal may be viewed as an extension of its existing Commission-approved practice of

1 treating customers differently who have the option of selecting service from either the  
2 Company or a cooperative. The Company's proposal should be beneficial in the Company's  
3 ongoing efforts to obtain service territory agreements with cooperatives, thereby minimizing  
4 any duplication of distribution facilities.

5 **Q. On pages 8-9 of his Rebuttal Testimony, Mr. McDuffey recommends that**  
6 **the Commission reject the Company's proposed changes to tariff language addressing**  
7 **Multiple Occupancy Building Metering. Please comment.**

8 A. This proposed tariff revision stems from a variance request filed by  
9 AmerenUE, Case No. in EE-2006-0524. The central question of the case was whether a  
10 facility for seniors qualified as an exempt transient multiple-occupancy building, because it  
11 was not a nursing home but it did offer a common dining area and, on-duty medical staff, and  
12 the utilities were paid by the facility. The Unanimous Stipulation and Agreement filed by all  
13 parties, including the Commission's Variance Committee, recommended that the facility be  
14 treated as an exemption. In its order approving the Stipulation and Agreement, the  
15 Commission accepted that the facility was "...a Senior Living Facility which qualified as an  
16 exempt transient multiple-occupancy building pursuant to Commission rule 4 CSR 240-  
17 20.050(4)(A)." Case No. EE-2006-0524, *Order Approving Stipulation and Agreement and*  
18 *Granting Exemption*, issued October 31, 2006, p. 8. AmerenUE does not believe it is asking  
19 the Commission for a new exemption or that it is in any way broadening the existing  
20 exemptions by proposing this tariff modification. However, having this language in the tariff  
21 provides clarity for parties who may need to address this issue in the future, especially for  
22 AmerenUE and Staff's personnel who deal with requests for master metering regularly.

1           **Q.     On pages 9-10 of his Rebuttal Testimony, Mr. McDuffey recommends**  
2 **that the Commission reject the Company's proposed changes to tariff language that**  
3 **would impose charges for customers who disconnect electric service for part of a year.**  
4 **Please comment.**

5           A.     Mr. McDuffey states that, "Unlike gas customers, electric customers require  
6 continuous service". While this statement is true for the overwhelming majority of our  
7 customers, the Company has experienced seasonal disconnects and subsequent reconnects  
8 within a twelve month period at the request of customers served under the Residential and  
9 Small General Service classifications. As I stated in my Direct Testimony, the Company's  
10 customer charges contemplate year-round service and the billing of customer charges during  
11 months where service is discontinued is consistent with this concept.

12                     Mr. McDuffey also asserts that "the administrative costs of implementing this  
13 proposal for electric service far outweigh any benefits". Mr. McDuffey's statement has some  
14 merit as tracking these requests must be done manually; however, he is ignoring the benefit  
15 of this tariff language as a deterrent to customers who would otherwise disconnect their  
16 service seasonally. Often, consumers will react to the potential imposition of charges or fees  
17 and modify their behavior accordingly. Additionally, the Company's existing residential gas  
18 tariffs have similar Seasonal Use tariff language and the adoption of the Company's proposal  
19 would promote equity and consistency between the Company's electric and gas residential  
20 operations.

1           **Q.     On page16, lines 9-10 of her Rebuttal Testimony, Ms. Meisenheimer**  
2 **expresses two concerns with the Company’s proposal of additional per foot fees for**  
3 **distribution facility extensions to large lots within a subdivision. Please comment.**

4           A.     Ms. Meisenheimer’s first concern is that the Company’s proposed per foot  
5 fees are not specified within the tariff. While Ms. Meisenheimer is correct, it is also a fact  
6 that the Company’s existing tariffs already reference per foot charges for distribution  
7 extensions which are not specifically stated in the tariffs. Fourth Revised Sheet No. 147 of  
8 the Company’s Schedule 5 – Schedule of Rates for Electric Service contains, in part, the  
9 following language in paragraph E. Overhead Extensions to Individual Residential  
10 Customers: “Alternatively, at customer’s option, Company will provide any distribution  
11 facilities in addition to the meter, overhead service drop and transformation capacity referred  
12 to above, at no cost to customer provided the annual net revenue estimated to be received by  
13 Company from the extension equals or exceeds the installed cost of such additional  
14 distribution facilities, estimated **at the Company’s then current standard construction**  
15 **cost per foot** (emphasis added) of single phase overhead extensions.” The use of current  
16 cost, as opposed to tariff costs that may have been set some years ago to assess customer  
17 contributions does a better job of collecting actual costs from the cost causer. And, unlike  
18 base rate charges or certain other charges or fees, monies collected under this type of  
19 arrangement do not increase the Company’s revenues, but, rather offset rate base and over  
20 the long term contribute to lower rates for customers.

21                     Ms. Meisenheimer’s second concern is that owners of larger lots who are  
22 assessed excess costs should not be subsidizing distribution extension costs associated with  
23 customers “further down the block”. Ms. Meisenheimer’s concern would be legitimate if the

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1 Company was proposing excess charges for secondary voltage lines within and through the  
2 subdivision for large lot owners; however, the Company's proposal involves service lines  
3 only. Within subdivisions, service lines are run to and terminated at individual homes.  
4 Therefore, Ms. Meisenheimer's concern about customers "further down the block" is without  
5 merit.

6                   Considering the above and the Staff's endorsement of the Company's  
7 proposal to modify its tariff provisions applicable to Overhead Extensions to Residential  
8 Subdivisions, the Commission should reject Ms. Meisenheimer's recommendations and  
9 accept the Company's proposal.

10           **Q. Does this conclude your Surrebuttal Testimony?**

11           A. Yes, it does.

