

FILED³
APR 25 2007
Missouri Public
Service Commission

Exhibit No.:
Witness: Maurice Brubaker
Type of Exhibit: Surrebuttal Testimony
Issues: Off-System Sales, Fuel Adjustment
Clause, Cost of Service, Revenue
Allocation and Other
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2007-0002

**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-2007-0002

Surrebuttal Testimony of

Maurice Brubaker

On Behalf of

Missouri Industrial Energy Consumers

February 27, 2007
Project 8632



BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

**"NON-PROPRIETARY"
Version**

MIEC COMMITTEE ON 704NP
Date 3/12/07 Case No. SR-2007-0002
Reporter _____

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In the Matter of Union Electric Company d/b/a)
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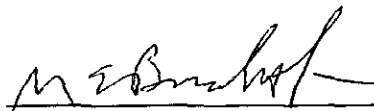
Case No. ER-2007-0002

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Maurice Brubaker

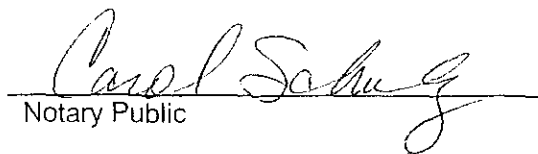
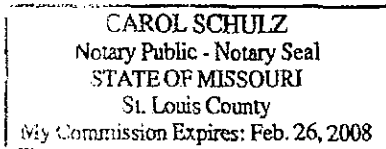
Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. 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-2007-0002.
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.



Maurice Brubaker

Subscribed and sworn to before me this 26th day of February, 2007.



Notary Public

My Commission Expires February 26, 2008.

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

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Rebuttal Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208,
3 St. Louis, Missouri 63141-2000.

4 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes. I have previously filed direct testimony on revenue requirement, cost of service
7 and fuel adjustment issues, and rebuttal testimony on cost of service issues.

8 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
9 **ANY OF THOSE PRIOR TESTIMONIES?**

10 A Yes. This information is included in Appendix A to my direct testimony on revenue
11 requirement issues.

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INTRODUCTION AND SUMMARY

1

2 **Q ON WHOSE BEHALF ARE YOU PRESENTING THIS SURREBUTTAL**
3 **TESTIMONY?**

4 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
5 (MIEC).

6 **Q ARE OTHER WITNESSES PRESENTING TESTIMONY ON BEHALF OF MIEC?**

7 A Yes. Mr. James Dauphinais presents testimony on fuel adjustment clause and
8 off-system sales issues, Mr. Michael Gorman presents testimony on rate of return,
9 and Mr. Jim Selecky presents testimony on depreciation expense.

10 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY ON REVENUE**
11 **REQUIREMENT, FUEL ADJUSTMENT AND COST OF SERVICE ISSUES FILED**
12 **BY OTHER PARTIES IN THIS PROCEEDING?**

13 A Yes, I have.

14 **Q ARE YOU OFFERING SURREBUTTAL IN RESPONSE TO THE FILINGS OF**
15 **THESE WITNESSES?**

16 A Yes. I am responding to selected issues and arguments contained in the rebuttal
17 testimonies of other witnesses on the subjects of fuel adjustment clause/off-system
18 sales, cost of service, revenue allocation and some miscellaneous issues.

1 Q PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

2 A My surrebuttal testimony may be summarized as follows:

- 3 1. AmerenUE's assertion that my fuel adjustment clause eliminates its incentive to
4 increase the level of off-system sales margins is incorrect. My fuel adjustment
5 proposal includes incentives to reduce the cost of fuel and purchased power, as
6 well as incentives to increase the level of off-system sales margins.
- 7 2. My fuel adjustment clause protects customers from an over-allocation of costs,
8 and also appropriately captures in the clause mechanism and in the sharing
9 structure the actual level of off-system sales.
- 10 3. AmerenUE's alternative sharing proposal is heavily biased against customers. It
11 would significantly enrich AmerenUE shareholders for only sub-par performance.
- 12 4. Contrary to the testimony of several of AmerenUE's rebuttal witnesses,
13 AmerenUE does have considerable influence over the level of fuel and purchased
14 power costs that it experiences. These include buying strategies, creating
15 leverage opportunities, maintaining and improving performance of generating
16 facilities, offering innovative rate structures, making wise purchases, and a host of
17 other actions.
- 18 5. The evidence clearly shows that AmerenUE's proposed pro forma level of off-
19 system sales is extremely low as compared to historic levels, and as compared to
20 its recently disclosed 2007 budget level. If AmerenUE's alternative sharing
21 proposal with the base of \$120 million were accepted, and the Company actually
22 achieved its budget level of margins for 2007, shareholders would reap ***** of
23 rewards simply as a result of meeting the budget – a result that is unacceptable.
- 24 6. Nothing that has been offered in rebuttal by Staff or OPC in support of their
25 chosen cost of service methodologies, or in criticism of mine, lead to any
26 conclusion other than that which I have already expressed in my previous
27 testimony: namely, that these studies are well outside of the mainstream,
28 erroneously place extreme emphasis on demands occurring during off-peak
29 hours, and do not reflect cost-causation.
- 30 7. Mr. Cooper's analysis, which he makes in an effort to support use of four
31 non-coincident peaks (as opposed to the three that I have used) does not in fact
32 support the use of four, but underscores the importance of utilizing the three most
33 significant peaks occurring during the test year.
- 34 8. Mr. Hanser's rebuttal on impact falls short of the mark. The kind of capping
35 typically considered in rate proceedings is how much more than the system
36 average percentage to increase a class that is below cost of service. Mr.
37 Hanser's proposal is just the opposite; he supports a below-average increase to a
38 class that needs a substantially higher than system average increase. This is not
39 the norm in regulatory proceedings.

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1 9. AmerenUE's revenue requirement should be determined based on the evidence
2 in this proceeding as to the level of costs, and off-system sales margin credits,
3 that properly should be included in rates. While comparisons to events in other
4 states and to rate history may be of interest, they are not determinative of
5 AmerenUE's need for an increase in rates and should not be used for that
6 purpose.

7 **FUEL ADJUSTMENT CLAUSE AND**
8 **OFF-SYSTEM SALES MARGIN ISSUES**

9 **Q BEFORE RESPONDING TO THE CRITICISMS OF YOUR FUEL ADJUSTMENT**
10 **ALTERNATIVE, PLEASE SUMMARIZE YOUR PROPOSAL.**

11 A In general terms, I offered a fuel adjustment clause structure that I believe is far
12 superior to AmerenUE's proposal, if a fuel adjustment clause is implemented. In
13 summary terms, I propose a fuel adjustment clause that would include all of the fuel
14 and variable purchased power costs, along with a credit for 100% of the revenues
15 from off-system sales.

16 As explained in my testimony and that of my colleague, Mr. Dauphinais, this
17 structure greatly reduces the possibility of overcharging retail customers for fuel and
18 purchased power costs as a result of a misallocation of costs between native load
19 and off-system sales.

20 The second salient feature of my proposal is a symmetrical sharing
21 mechanism with a deadband, two live bands in which deviations from base costs are
22 shared, a cap that limits shareholder exposure to higher costs, and a cap on
23 shareholder benefits in the event net costs are lower than the base.

1 Q ON PAGE 4 OF HIS FUEL ADJUSTMENT CLAUSE REBUTTAL TESTIMONY, MR.
2 SCHUKAR CLAIMS THAT YOU ELIMINATE AMERENUE'S OFF-SYSTEM SALES
3 INCENTIVE BY NETTING ALL REVENUES AGAINST AMERENUE'S FUEL AND
4 PURCHASED POWER COSTS TO DETERMINE THE COMPANY'S NET COST OF
5 FUEL. IS HE CORRECT?

6 A No. He is not correct. The structure of the fuel adjustment clause that I have
7 proposed gives AmerenUE considerable incentive to increase the level of off-system
8 sales margins, since it gets to keep a percentage of the improvement from the
9 baseline amount of off-system sales revenues included in establishing base rates and
10 setting the base point for the fuel adjustment clause. Mr. Schukar's criticism is
11 therefore inapplicable.

12 Q ON PAGES 4 AND 5 OF HIS TESTIMONY MR. SCHUKAR SAYS THAT YOUR
13 PROPOSAL IS BIASED AGAINST AMERENUE, GIVEN HIS STATEMENT THAT
14 FUEL COSTS HAVE BEEN INCREASING AND ARE EXPECTED TO INCREASE
15 FURTHER. HOW DO YOU RESPOND?

16 A Mr. Schukar totally overlooks the sharing mechanism, which also applies to
17 improvements in off-system sales margins. Under my proposal, improvements in
18 margins from off-system sales would offset increases in the cost of fuel, a critical
19 point ignored by Mr. Schukar in his rebuttal testimony.

20 Furthermore, with the sharing mechanism that I have proposed, AmerenUE
21 continues to have incentives to improve the performance of its generating facilities, to
22 bargain hard with its fuel and transportation suppliers in order to minimize its cost, to
23 develop alternatives to these suppliers in order to gain bargaining leverage and cost
24 reductions, and to engage in bilateral off-system sales transactions if such

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1 transactions are more profitable than day-ahead or real time sales in the MISO
2 market.

3 The incentives present in my fuel adjustment clause provide AmerenUE with a
4 motive and a financial reward for all of these, as well as any other, actions that are
5 mutually beneficial.

6 **Q ON PAGE 6 OF HIS TESTIMONY, MR. SCHUKAR CRITICIZES YOUR PROPOSAL**
7 **BECAUSE HE CHARACTERIZES IT AS PROVIDING ONLY “MODEST**
8 **INCENTIVES.” HE APPARENTLY WOULD LIKE TO HAVE GREATER**
9 **POSSIBILITIES FOR SHARING AVAILABLE TO AMERENUE’S**
10 **STOCKHOLDERS. HOW DO YOU RESPOND?**

11 **A** I find this criticism to be somewhat inconsistent with Mr. Schukar’s testimony a few
12 pages earlier where he argued that my proposal would surely raise AmerenUE’s
13 uncompensated costs. If that is what he believes, I do not understand why he would
14 be in favor of the utility absorbing still more costs as a result of having a larger
15 sharing provision. Perhaps he believes that the Company actually will do far better
16 than the numbers it has included in its testimony in this case. Under such
17 circumstances, I understand why he would prefer a larger sharing, since that would
18 allow the stockholders to keep more of the benefit.

19 I am willing to consider proposals from Mr. Schukar that would put more utility
20 “skin in the game,” provided the alterations are symmetrical so that AmerenUE
21 accepts a greater risk on the upside (increased net costs) in return for a greater profit
22 potential on the downside (decreased net costs).

1 Q AT PAGES 34 AND 35 OF HIS JANUARY 29, 2007 REBUTTAL TESTIMONY, MR.
2 SCHUKAR ADDRESSES YOUR STATEMENT THAT HIS ALTERNATIVE
3 SHARING MECHANISM FOR OFF-SYSTEM SALES MARGINS HAS A BUILT IN
4 BIAS AGAINST CUSTOMERS. HAVE YOU HAD AN OPPORTUNITY TO REVIEW
5 HIS RESPONSE?

6 A Yes.

7 Q WHAT DOES MR. SCHUKAR SAY IN RESPONSE TO YOUR CRITICISM?

8 A He attempts to deflect it, not by responding to what happens to customers if the base
9 is set at \$120 million as he proposes, but by observing what could happen to
10 shareholders if the base is set at \$183 million and there is sharing. He states
11 (page 35, line 3) that the structure he outlines would mitigate some of the downside
12 risk for shareholders by providing partial insurance against a shortfall in margins to
13 the extent margins fall between \$121 million and \$183 million. He states that in that
14 case shareholders would bear 20% of the lower margins with \$12.6 million being the
15 largest amount of lost margin the shareholders would bear.

16 Q IS THAT AN ACCURATE DESCRIPTION OF WHAT WOULD ACTUALLY HAPPEN
17 UNDER MR. SCHUKAR'S PROPOSAL?

18 A No. Under Mr. Schukar's sharing proposal, the base number for sharing would be set
19 at \$120 million. Between \$120 million and \$183 million shareholders would retain
20 (and customers would forego) 20% of the margins on off-system sales, up to a total
21 \$12.6 million benefit for shareholders. The results that Mr. Schukar describes are
22 what would happen if the base were set at \$183 million, not what would happen if the
23 base is set at \$120 million as he proposes.

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1 **Q UNDER MR. SCHUKAR'S PROPOSAL, WHAT WOULD HAPPEN IF MARGINS**
2 **ARE GREATER THAN \$183 MILLION?**

3 A All the way up to \$360 million, AmerenUE proposes that it be allowed to keep 50% of
4 the off-system sales margins. For example, should off-system sales margins be \$243
5 million (\$60 million more than \$183 million included in the Company's direct case),
6 then AmerenUE would keep 50%, or \$30 million of this incremental amount. Added
7 to the \$12.6 million that it would keep for margins between \$120 million and \$180
8 million would bring the benefit to shareholders to over \$42 million.

9 This analysis indicates clearly the importance of setting the base for any
10 sharing mechanism at a level that approximates the best expectation of off-system
11 sales margins. As illustrated, if the base were set at \$120 million and the actual
12 margins turned out to be \$243 million, the detriment to customers would be more than
13 \$42 million per year.

14 **Q DO YOU AGREE WITH AMERENUE REBUTTAL WITNESS PROFESSOR JOHN**
15 **MAYO WHEN HE STATES AT PAGE 8 OF HIS REBUTTAL TESTIMONY THAT**
16 **COSTS INCLUDED IN A FUEL ADJUSTMENT ARE "UNCONTROLLABLE"?**

17 A No. I have addressed much of this previously in responding to Mr. Schukar. Even if
18 market prices are completely beyond control or influence by a utility, the utility
19 controls how it interacts with the market through its negotiating strategy, leverage
20 opportunities, and purchasing strategies. How well a utility's generating facilities
21 perform, the kinds of innovative rate structures it has in place, its purchase power
22 practices, and many other factors also influence the actual level of costs experienced
23 by a utility. It is simply incorrect to say that a utility's experienced fuel cost is
24 "uncontrollable."

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1 If Professor Mayo's assertion told the whole story, AmerenUE would not have
2 voluntarily given up its Illinois fuel adjustment clause and bragged about the lack of a
3 fuel adjustment clause in Missouri because the absence of such clauses gave it a
4 greater "incentive" to drive costs down (see Attachment 1 to the December 29, 2006
5 Fuel Adjustment testimony of OPC witness Ryan Kind citing to statements by
6 AmerenUE's then-Chairman, President and CEO, Chuck Mueller).

7 **Q AT PAGES 29-30 OF HIS JANUARY 31, 2007 REBUTTAL TESTIMONY,**
8 **AMERENUE WITNESS FINNELL RESPONDS TO YOUR TESTIMONY ABOUT**
9 **AMERENUE'S PRO FORMA LEVEL OF OFF-SYSTEM SALES VOLUMES BEING**
10 **SUSPICIOUSLY LOW IN LIGHT OF HISTORICAL PERFORMANCE. HAVE YOU**
11 **HAD AN OPPORTUNITY TO REVIEW MR. FINNELL'S COMMENTS?**

12 **A** Yes, I have. Mr. Finnell was responding to the comments in my direct testimony
13 which were critical of the Company for reducing its level of off-system sales from the
14 test year ended June 30, 2006 level of 13.2 million MWh to the pro forma level of 9.1
15 million MWh. As a rationalization he lists several factors, such as equivalent
16 availability factor, the level of purchased power and the use of AmerenUE generation
17 to meet spinning reserve requirements. He does not attempt to justify the 9.1 million
18 MWh pro forma level of sales in his rebuttal. In fact, in his rebuttal testimony he
19 reduces the level of off-system sales further to 8.9 million MWh.

1 **Q IN LIGHT OF MR. FINNELL'S REBUTTAL TESTIMONY, DO YOU CONTINUE TO**
2 **BELIEVE THAT AMERENUE'S PRO FORMA LEVEL OF OFF-SYSTEM SALES IS**
3 **LOW?**

4 A Yes. While some of the factors mentioned by Mr. Finnell could have merit, I believe
5 that overall the Company has not justified the significant reduction in its level of off-
6 system sales. My position is supported by the AmerenUE 2007 budget which was
7 recently approved by the Board of Directors, and distributed to the parties on
8 February 14, 2007. The 2007 budget has *****. This exceeds the level of off-system
9 sales included in AmerenUE's rebuttal testimony by *****.

10 **Q HOW DOES THE LEVEL OF NUCLEAR AND COAL-FIRED GENERATION IN THE**
11 **2007 BUDGET COMPARE TO THE AMOUNTS OF NUCLEAR AND COAL-FIRED**
12 **GENERATION INCLUDED IN AMERENUE'S RATE FILING?**

13 A The rate filing originally included ***** and AmerenUE's rebuttal case reduced it to
14 *****. In the 2007 budget, the level of nuclear and coal-fired generation is ***** , and
15 this level is the lowest of any of the years 2007 through 2011 that is included in the
16 information supplied.

17 **Q IN CONTRAST TO AMERENUE'S REBUTTAL POSITION OF \$183 MILLION OF**
18 **MARGINS ON OFF-SYSTEM SALES, WHAT AMOUNT IS INCLUDED IN THE 2007**
19 **BUDGET APPROVED BY THE BOARD OF DIRECTORS?**

20 A The amount included in the 2007 budget approved by the Board of Directors is *****.
21 This represents an additional ***** over and above AmerenUE's rebuttal position. As
22 compared to the \$120 million base number that Mr. Schukar proposed for margin
23 sharing, the budget number is ***** higher. If the sharing base were set at \$120

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1 million as AmerenUE proposes, and the approved budget level of sales was
2 achieved, AmerenUE would keep ***** of off-system margins for its shareholders
3 simply as a result of meeting the budget. This is an unacceptable result.

4 **Q WHAT DO THE OFF-SYSTEM SALES VOLUMES AND MARGINS YOU HAVE**
5 **MENTIONED ASSUME ABOUT THE AVAILABILITY OF EEInc. CAPACITY?**

6 A These numbers assume that the EEInc. 400 MW is not available to the regulated
7 Missouri system. If it is, these numbers would increase dramatically.

8 **Q DID THE PRODUCTION COST RUNS PERFORMED BY THE COMMISSION**
9 **STAFF SUPPORT OFF-SYSTEM SALES MARGINS HIGHER THAN AMERENUE'S**
10 **NUMBERS?**

11 A Yes. Even if the EEInc. capacity were removed from Staff's case, the result was
12 higher than AmerenUE's margins.

13 **Q WHAT DO YOU RECOMMEND?**

14 A I recommend determining the best expectation for the margins after all of the
15 evidence has been evaluated. This would be the offset to base rates if a fuel
16 adjustment clause is not approved, or would be the amount subtracted from fuel costs
17 in determining the base for the fuel adjustment clause if one is approved. If the
18 Commission rules that EEInc. capacity is available to retail customers, the number
19 should be adjusted accordingly.

1 CLASS COST OF SERVICE ISSUES

2 Q WHAT IS DISCUSSED IN THIS SECTION OF YOUR SURREBUTTAL
3 TESTIMONY?

4 A I discuss certain class cost of service allocation issues in this section.

5 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF STAFF WITNESS
6 JAMES BUSCH?

7 A Yes.

8 Q THE CENTERPIECE OF MR. BUSCH'S CRITICISM OF THE AVERAGE AND
9 EXCESS (A&E) METHOD THAT YOU USED APPEARS AT PAGE 3 OF HIS
10 REBUTTAL TESTIMONY. DO YOU AGREE WITH MR. BUSCH'S CRITIQUE OF
11 THE A&E METHOD?

12 A No. Mr. Busch contends that the A&E method suggests that the "only" reason an
13 electric utility adds generation capacity is to meet peak demands, and goes on to
14 assert that "electric utilities add generation capacity when it reduces its running costs
15 of meeting its load requirements throughout the year by more than the cost of
16 additional capacity."

17 While there may be certain isolated instances where a utility has a generation
18 mix that is so substantially non-optimal that adding capacity to change its generation
19 mix (even if it did not need capacity for reliability purposes) would be economical, that
20 clearly is not the case for AmerenUE. AmerenUE's recent capacity additions have
21 been relatively low cost peaking capacity, and there is no suggestion, nor could there
22 be, that these additions were for the purpose of reducing energy costs. Thus, Mr.

1 Busch's central assumption, and the centerpiece of his argument against the A&E
2 method, does not hold water in the case of the AmerenUE system.

3 **Q HAVE YOU CONSIDERED MR. BUSCH'S ELABORATION ON HIS STATEMENT**
4 **ON PAGES 3 AND 4 OF HIS SURREBUTTAL TESTIMONY?**

5 A Yes. Here he simply recites that utilities can choose a combination of base,
6 intermediate and peaking capacity in order to serve load at the overall lowest
7 reasonable cost. This is nothing new, nothing surprising, and not anything that I did
8 not fully consider in my choice of the A&E method. The A&E method considers both
9 energy requirements and peak demands, and does so in a time-tested way that does
10 not double count the peak demands of customers ... a positive attribute that
11 distinguishes it from the flawed Average and Peak (A&P) and TOU methods used by
12 Staff, OPC and AARP.

13 **Q AT PAGE 5 OF HIS REBUTTAL TESTIMONY, MR. BUSCH EXTOLS THE VIRTUE**
14 **OF STAFF'S WEIGHTED 12 NCP A&P METHOD BECAUSE IT "TAKES INTO**
15 **ACCOUNT EVERY MONTH OF THE YEAR, NOT JUST THE MONTH WITH THE**
16 **HIGHEST PEAK." DO YOU HAVE ANY COMMENTS ON THIS STATEMENT?**

17 A Yes. First of all, my methodology did not use just one month, it took the three most
18 important months, and also has an explicit component for annual energy.
19 Furthermore, the weighting that Staff gives to loads in non-peak times and non-peak
20 months is not a virtue, but is a serious detriment. As I pointed out at page 8 of my
21 cost of service rebuttal testimony, Staff's study gives only 19% weight to peak
22 demands occurring during the three critical summer months, and 81% weight to loads
23 occurring at other times. An allocation method that gives more than four times as

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1 much weight to loads in non-critical times as to loads at critical times cannot have any
2 possible claim to reflecting cost-causation, and should be rejected for that reason, if
3 not for others as well.

4 **Q DID STAFF FILE A CLASS COST OF SERVICE STUDY AS PART OF ITS**
5 **REBUTTAL CASE?**

6 A No, it did not.

7 **Q HAS STAFF SUBSEQUENTLY FILED ANY NEW CLASS COST OF SERVICE**
8 **RESULTS?**

9 A Yes. Staff recently distributed a modification to its previously filed cost of service
10 study. This modification was intended to correct an inconsistency in the treatment of
11 fuel costs and revenues from off-system sales. As explained in my earlier testimony,
12 Staff (as well as AmerenUE, OPC and AARP) allocated to customer classes all of the
13 fuel and variable purchased power costs that are incurred to support off-system
14 sales, using as a basis class kWh energy requirements. However, 100% of the
15 revenues received from these sales (revenues include amounts to cover the variable
16 fuel and purchased power expense incurred to make the sale as well as the profits)
17 were allocated to classes using the demand allocation factor.

18 Staff circulated to the parties on February 9 a modified version of its cost of
19 service study. In this modified version, it reduced off-system sales revenue by the
20 amount of fuel and variable purchased power expense associated with off-system
21 sales, and also reduced O&M expense by the same dollar amount.

1 Q DO YOU HAVE ANY COMMENTS WITH RESPECT TO THE STAFF'S MODIFIED
2 COST OF SERVICE STUDY?

3 A Yes. When the Staff adjusted the O&M expenses, it made the mistake of reducing
4 the capacity-related O&M expenses rather than the energy-related expenses. This
5 leaves a major inconsistency in Staff's cost of service study. I am assuming that this
6 was inadvertent and will be corrected. If not, then it remains as an inconsistency in
7 Staff's class cost of service study.

8 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF OPC WITNESS
9 BARBARA MEISENHEIMER?

10 A Yes, I have. She has offered two revised cost of service studies.

11 Q DOES SHE COMMENT ON YOUR A&E ALLOCATION METHOD?

12 A Yes. At page 14 of her rebuttal testimony, she references the *NARUC Electric Cost*
13 *Allocation Manual* and states that the "required" data for the A&E method is the
14 annual maximum demand and the average demand for each customer class, as well
15 as the system load factor. She criticizes me for utilizing the three highest monthly
16 non-coincident peaks occurring during the summer, and then calculates an alternative
17 factor using the three highest NCPs regardless of the months in which they occur.

18 Q IS MS. MEISENHEIMER'S CRITICISM WELL FOUNDED?

19 A No. It is customary to include more than one peak when developing allocation factors
20 that utilize coincident peaks or non-coincident peaks. Ms. Meisenheimer does the
21 same thing with her allocation methodology – using three coincident peaks. It also is

1 customary to use only demands occurring during the critical period, which she also
2 has done.

3 **Q ON THE ISSUE OF WHETHER OR NOT THERE SHOULD BE A CUSTOMER**
4 **COMPONENT TO THE PRIMARY PORTION OF ELECTRIC DISTRIBUTION**
5 **PROPERTY, WHAT POSITION DOES MS. MEISENHEIMER TAKE?**

6 A Similar to her direct testimony, she continues to deny the existence of any customer
7 influence on the extent of coverage and cost of the primary distribution system.
8 Arguments presented in her rebuttal testimony do not add anything to her prior
9 arguments, and clearly do not demonstrate the absence of a customer-related
10 influence in primary distribution investment.

11 Fundamentally, Ms. Meisenheimer seems to confuse cost allocation with rate
12 design. While the design of rates may focus on a narrower definition of customer
13 components, it would be a mistake to mis-allocate costs to classes in order to reduce
14 the customer charge for the residential class. If it is desired to include fewer cost
15 components in the customer charge, that could be accomplished by including a
16 portion of the customer-related costs that are allocated to the residential class in a
17 component of the rate other than the customer charge.

18 **Q HAVE YOU REVIEWED MS. MEISENHEIMER'S REVISED COST OF SERVICE**
19 **STUDIES FILED WITH HER REBUTTAL TESTIMONY?**

20 A Yes. She makes a number of changes, including what appear to be some corrections
21 for errors in her original studies.

1 In both of her studies, she changes the allocation for transmission from the
2 one in her direct testimony, which used the production allocation factor, to an
3 allocation based on the 12 coincident peaks.

4 **Q DO YOU AGREE WITH HER CHANGE?**

5 A I would agree that the 12 coincident peak method is preferable to Ms. Meisenheimer's
6 production allocation method, but the 12 coincident peak method still gives too much
7 weight to loads in off-peak months. The A&E 3NCP method should be used for
8 transmission.

9 **Q HAVE YOU REVIEWED MS. MEISENHEIMER'S SUPPLEMENTAL REBUTTAL**
10 **COST OF SERVICE STUDIES?**

11 A Yes.

12 **Q DO YOU HAVE ANY COMMENTS ON THESE STUDIES?**

13 A Yes. It appears that a major change was to reduce the dollar amount of revenue
14 credits (principally off-system sales) used in the study. There does not appear to be
15 any change in the allocation method for these revenue credits nor is there any
16 change in the amount or allocation of O&M expenses. As a result, the allocation of
17 off-system sales revenue and O&M expense continues to be internally inconsistent.

18 **Q IN HER SUPPLEMENTAL REBUTTAL SCHEDULES, DOES MS. MEISENHEIMER**
19 **MAKE ANY CHANGES IN THE ALLOCATION OF TRANSMISSION COSTS?**

20 A Yes. Inexplicably, in her non-time-of-use study, she reverts back to an allocation of
21 transmission costs on the basis of her production allocation factor. The supplemental

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1 rebuttal time-of-use study continues to utilize the 12 coincident peak method for
2 transmission, however.

3 **Q HAVE YOU REVIEWED THE TESTIMONY OF AMERENUE WITNESS WILBON**
4 **COOPER?**

5 A Yes.

6 **Q ARE YOU FAMILIAR WITH HIS TESTIMONY AT PAGE 6 WHERE HE ANALYZES**
7 **THE MAGNITUDE OF AMERENUE'S MONTHLY SYSTEM PEAK DEMANDS?**

8 A Yes. Mr. Cooper looks at monthly peak demands over an 11-year period and reports
9 the average of 11 years of data, showing the demand in each month as a percent of
10 the highest demand for the year.

11 His graph clearly shows the dominance of the July and August months in the
12 annual load profile. It also shows that the month of June, which is the third of the
13 three months that I used in my A&E allocation method, also is high, with an average
14 value of 91%. While less than the July and August peaks, the June month in the test
15 year used in the cost of service study in this case was 96% of the annual maximum.

16 **Q WHAT DO THIS GRAPH AND THE UNDERLYING DATA REVEAL ABOUT THE**
17 **MONTH OF SEPTEMBER?**

18 A Mr. Cooper's graph shows that September averaged 87% of the annual system peak
19 over this 11-year period.

1 **Q DOES THE MONTH OF SEPTEMBER CONSISTENTLY RISE TO A DOMINANT**
2 **LEVEL?**

3 A No. Loads in September are frequently less than 85% of the annual peak. This was
4 the case in 1995 when it was 81%, 1996 when it was 82%, 2003 when it was 75%,
5 2004 when it was 79%, and 2006 when it was 71%. Loads in the month of
6 September have exceeded 90% of the annual peak in only two years during the 11
7 years reviewed by Mr. Cooper. The most recent time this occurred was in the year
8 2000, when the summer was relatively cool and AmerenUE's annual peak was about
9 600 MW lower than during the previous year. In that year, the month of September
10 was relatively high as a percent of the annual peak, not because it was high in
11 magnitude, but because the annual peak was substantially lower than in the previous
12 year because of the relatively cool summer.

13 **Q BASED ON MR. COOPER'S ANALYSIS, DO YOU CONTINUE TO BELIEVE THAT**
14 **THE JUNE, JULY AND AUGUST PEAKS SHOULD BE THE ONLY PEAKS USED**
15 **IN THE A&E ALLOCATION METHODOLOGY?**

16 A Yes. I believe that the analysis Mr. Cooper has offered establishes that it would not
17 be appropriate to include September in the calculation of the A&E allocation factor.

1 Q PLEASE CONTINUE WITH YOUR RESPONSE TO MR. HANSER.

2 A If Mr. Hanser's rebuttal testimony is meant to imply that capping, at percentage
3 increases substantially below the system average increase, classes that are below
4 cost of service is a widely accepted practice in the industry, he is incorrect. His error
5 perhaps stems from the fact that he has never previously testified in a retail rate case
6 concerning class cost of service, revenue allocation or rate design (see response to
7 MIEC Data Request No. 2-3/Noranda 003).

8 The reasonableness of his capping proposal is also directly contradicted by
9 AmerenUE rebuttal witness Professor John Mayo. In discussing pricing concepts,
10 Professor Mayo says as follows at page 5 of his rebuttal testimony:

11 "That is, the economic role of prices is to send signals to consumers
12 regarding the costs that their consumption imposes on society. When
13 prices appropriately reflect changes in the cost of providing service,
14 consumers receive the correct market signals. Price reductions (which
15 reflect the relative abundance of low cost inputs) encourage
16 consumption, while higher prices (which reflect scarcity and higher
17 cost inputs) discourage consumption. While consumers will always
18 prefer lower than higher prices, regulatory mechanisms that mask the
19 beneficial cost signaling nature of prices simply distort economic
20 consumption and production decisions and harm economic efficiency."

21 **OTHER ISSUES**

22 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF AMERENUE WITNESS
23 WARNER BAXTER?

24 A Yes.

1 Q AT PAGES 5-7 OF HIS REBUTTAL TESTIMONY, MR. BAXTER COMMENTS ON
2 YOUR TESTIMONY WHICH SUGGESTED THAT THE RATE COMPARISONS
3 THAT AMERENUE HAD OFFERED WERE NOT HELPFUL IN DETERMINING THE
4 AMOUNT OF REVENUE DEFICIENCY THAT AMERENUE IS EXPERIENCING. IS
5 THERE REALLY AN ISSUE BETWEEN YOU AND MR. BAXTER IN THIS
6 REGARD?

7 A Hopefully not. At page 7 of his rebuttal testimony, Mr. Baxter states:

8 "Our case is not premised on the rates data and trends I have
9 discussed in my direct and rebuttal testimonies. Rather, our case is
10 premised on compelling evidence that reflects the true costs,
11 investments and related returns we need to recover in order to deliver
12 safe and reliable service to our customers."

14 Had Mr. Baxter ended his response there, I believe we would be in agreement with
15 respect to the relevant factors to be considered, although we would have a difference
16 of opinion with respect to what the facts are.

17 However, Mr. Baxter continues on for another page and a half to talk about
18 relative rate levels and increases being experienced by other utilities. It is therefore
19 not clear to me exactly what Mr. Baxter's position is, but hopefully he wants the
20 Commission to focus upon the revenue requirements of AmerenUE in light of its
21 current factual circumstances, and not on what is happening elsewhere, or on past
22 rate level changes.

23 Q THERE IS A SUGGESTION AT PAGE 5 OF MR. BAXTER'S REBUTTAL
24 TESTIMONY THAT YOU "STRESS" THAT AMERENUE'S RATES TODAY ARE
25 35% HIGHER THAN THEY WERE IN 1980. WHY DID YOU MENTION THIS?

26 A I mentioned it only because Mr. Baxter placed great emphasis on reductions in rates
27 that have occurred over the last 20 years. I thought it only fair to point out that

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1 immediately prior to the rate decreases he referenced, AmerenUE's rates for
2 residential customers had increased by 60% and its rates for industrial customers had
3 increased by almost 90% – just prior to the time the decreases began to be
4 experienced. These decreases were experienced as a result of, among other things:
5 the completion of the Callaway nuclear unit phase-in plan, correction of an error in
6 calculating carrying charges on the Callaway phase-in, reductions in income tax
7 rates, the subsequent reduction in revenue requirements as a result of the rate base
8 declines attributable to the accumulation of the depreciation reserve on Callaway, and
9 the working-off of excess capacity which allowed the Company to add load without
10 incurring new generation capacity costs.

11 The result of all of this is that rates today are about 35% above where they
12 were when this process started, a point with which Mr. Baxter apparently agrees
13 (Baxter rebuttal testimony at page 6, line 21).

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

15 **A** Yes, it does.

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