

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

MIEC Exhibit No. 614  
Case No(s) ER-2008-0318  
Date 12-01-08 Rptr KF



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**Surrebuttal Testimony of David L. Stowe**

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

2    A     David L. Stowe. My business address is 16690 Swingley Ridge Road, Suite 140,  
3        Chesterfield, Missouri 63017.

4    **Q     ARE YOU THE SAME DAVID L. STOWE WHO HAS PREVIOUSLY FILED**  
5        **TESTIMONY IN THIS PROCEEDING?**

6    A     Yes. I have previously filed direct and rebuttal testimony on distribution system  
7        issues.

8    **Q     IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**  
9        **YOUR DIRECT TESTIMONY?**

10   A     Yes. This information is included in Appendix A.

11   **Q     ON WHOSE BEHALF ARE YOU PRESENTING THIS SURREBUTTAL**  
12        **TESTIMONY?**

13   A     This testimony is presented on behalf of the Missouri Industrial Energy Consumers  
14        ("MIEC").

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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

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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.

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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.

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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

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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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