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Infrastructure Inspection,
FERC 7-Factor Test
Witness: Daniel I. Beck
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Case No.: ER-2008-0318
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

DANIEL I. BECK

**UNION ELECTRIC COMPANY
d/b/a AmerenUE**

CASE NO. ER-2008-0318

**Jefferson City, Missouri
October 2008**

Staff
Exhibit No. 217
Case No(s) ER-2008-0318
Date 12-2-08 Rptr pl

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Daniel I. Beck

1 “determination confirming the Company’s application of the 7-Factor Test
2 to its energy delivery facilities. The Company is making this request
3 solely to comply with a requirement in the Agreement of Transmission
4 Facilities Owners to Organize the Midwest Independent Transmission
5 System Operator, Inc., a Delaware Non-Stock Corporation (the “TO
6 Agreement”), to which the Company is a party by virtue of its
7 participation in the Midwest Independent Transmission System Operator,
8 Inc. (“Midwest ISO”). Specifically, the TO Agreement requires the
9 Company, as a “Transmission Owner” within the Midwest ISO, to request
10 this determination from its state regulatory commission.” (Pfeiffer Direct,
11 page 2, lines 7-14)

12
13 The FERC 7-factor test is not a new concept since it was set out in FERC Order
14 888 that dates back to 1996. In response to a Staff Data Request No. 270, the Company
15 directed the Staff to Sheet No. 125 of Appendix C of the TO Agreement, which is
16 attached as Schedule 2 to this testimony. Although this tariff sheet carries an effective
17 date of April 1, 2006, the tariff language in II.2. has not been changed since the original
18 sheet No. 125 went into effect on February 1, 2002. This language includes a
19 requirement that the Company use its best efforts to cause these determinations to be
20 made prior to the end of the four (4) year transition period, which would have been
21 February 1, 2006. In response to Staff’s Data Request No. 270, the Company stated
22 “UE did not ask for a ruling earlier due to an oversight on its part.”

23 Q. Does the FERC tariff require the approval of the Missouri Public Service
24 Commission (PSC)?

25 A. No. It requires that the Company request a determination and that the
26 Company use its best efforts to cause the determination to be made, but it does not
27 require that the PSC approve the application of the 7-factor test to the Company’s
28 facilities. Therefore, the Company’s application has met the requirements of the FERC

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1 tariffs although the request is approximately 2 years after the end of the 4 year
2 transition period.

3 Q. Has the FERC 7-factor test been discussed in a previous AmerenUE case?

4 A. No. Not to my knowledge. However, in Case No. EO-2003-0271,
5 Application of Union Electric Company for Authority to participate in the Midwest ISO
6 through a contractual relationship With GridAmerica, AmerenUE witness Daniel J.
7 Godar's Direct Testimony includes a list of transmission facilities on pages 33-41 of
8 Schedule 1. The list provided in that case was clearly in error since the only lines it
9 lists for AmerenUE are 138 kV lines and it lists two sets of 345 kV lines for
10 AmerenCIPS. After reviewing the list and comparing it to the list provided by Mr.
11 Pfeiffer, I believe that Mr. Godar's page 37 of Schedule I should have been labeled
12 AmerenUE facilities. These two lists are very similar but do have differences. The list
13 provided by Mr. Pfeiffer in the current case appears to be reasonable but I have not
14 reviewed the list and the application of the FERC 7-factor test on a line-by-line basis.

15 Q. If the Commission were to approve the determination requested by
16 AmerenUE, in what context should this determination be viewed?

17 A. The Staff is not seeking to make a contested issue of AmerenUE's request
18 regarding application of the FERC 7-factor test, but should the Commission accept
19 AmerenUE's request, it should do so in the context of 4 CSR 240-20.030(4), the
20 Commission's jurisdiction regarding transmission and Midwest ISO participation, and
21 AmerenUE's commitment to seek approval of any fundamental change in its
22 membership, participation, or membership status in the Midwest ISO.

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1 First, the Staff notes the following language in 4 CSR 240-20.030(4) Uniform
2 System of Accounts – Electrical Corporations, regarding the Commission’s adoption of
3 the Uniform System of Accounts for Electrical Corporations for recordkeeping
4 purposes:

5 In prescribing this system of accounts, the commission does not commit
6 itself to the approval or acceptance of any item set out in any account for
7 the purpose of fixing rates or in determining other matters before the
8 commission. . . .
9

10 Second, the Staff notes that the PSC maintains that it has jurisdiction over the
11 transmission component of the rates set for Bundled Retail Load and the right to rescind
12 its approval of AmerenUE’s participation in the Midwest ISO and to require AmerenUE
13 to withdraw from participation in the Midwest ISO on certain bases. Third, AmerenUE
14 has agreed that if it decided to seek any fundamental change in its membership,
15 participation, or membership status in the Midwest ISO, it would seek prior approval
16 from the PSC.

17 **VEGETATION MANAGEMENT**

18 Q. The Company requested that Vegetation Management be funded at a level
19 of \$50,000,000, that accounting authorization to defer recognition of costs from
20 January 1, 2008 to the date that the rates are set in this proceeding take effect and that a
21 tracker be established for vegetation management. What is the Staff’s position in
22 regard to these requests?

23 A. The Staff recommends that the test year level of vegetation management,
24 updated to reflect the true-up period levels of funding when that information is
25 available, be used for the level of ongoing expense. (The Staff would note that the

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1 terms vegetation management and tree trimming are used interchangeably by the
2 Company but are referring to the same activities.)

3 Q. Company witness Richard J. Mark states that "AmerenUE spent more than
4 \$50 million on vegetation management in the last year" (Mark Direct, page 10, lines
5 18-19). Do you agree with this statement?

6 A. Yes, with clarifications. It is my understanding that the expenditures that
7 Mr. Mark is referring to include both regular vegetation management activities and
8 emergency response vegetation activities. While the regular vegetation management is
9 scheduled and performed based on that schedule, the emergency response vegetation
10 management activities, most commonly due to storms, cannot be scheduled. In
11 addition, Company witness Gary S. Weiss' Supplemental Direct Testimony states that
12 "the test year tree trimming expenses were \$45,663,000" (Weiss Supplemental Direct,
13 page 20, lines 8-9.)

14 Q. Since the Commission recently promulgated a Vegetation Management
15 rule, 4 CSR 240-23.030, shouldn't vegetation management costs be higher than test
16 year levels?

17 A. Not necessarily. While the new rule requires some additional effort by the
18 Company, there are several factors which are included in the test year level of
19 vegetation management that also could have the opposite effect. First, the Company is
20 in the last year of a 4-year commitment to catch up on its vegetation management using
21 the schedule agreed to in Case No. EW-2004-0583, In the matter of an investigation
22 into the tree trimming policies of Union Electric Company, d/b/a AmerenUE.
23 Assuming that the Company meets its agreed to deadline of December 31, 2008 to

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1 complete this catch up effort, I would expect that resources used by the Company to
2 "catch up" will become available to respond to the rule requirements. In addition, on
3 page 11 of Mr. Mark's testimony, the Company discusses how AmerenUE is already
4 trimming vertical clearance on the backbone section of circuits and is promoting off-
5 easement trimming and tree removal. The Staff expects the cost of these additional
6 efforts to be captured in the trued-up test year expense level.

7 Q. Witness Mark states that the three year Project Power On includes a \$150
8 million vegetation management program. [Mark Direct, page 6, line 23] Is that
9 consistent with your understanding of Project Power On?

10 A. No. The Company's press release dated July 12, 2007 included the
11 following statements:

12 Project Power On involves four components designed to address the
13 region's current and future energy and environmental needs. These
14 include:

- 15 * * * *
- 16 •\$135 million over three years (\$45 million annually) for tree-
17 trimming -- Nearly twice the budget of a few years ago, AmerenUE
18 is pursuing a more aggressive tree removal and trimming plan that
19 will include trimming on private property with the property owner's
20 consent. This program targets electric lines built to serve new
21 developments over the past four decades; many new trees planted
22 during that time now jeopardize the system in severe weather. The
23 company will continue to work with local governments on ways to
24 handle tree issues both on public lands and private property.

25 * * * *

26
27 Although I understand that the Company is requesting \$50,000,000 for vegetation
28 management in this case, I am not aware of any modifications to the level of funding
29 for this aspect of Project Power On.

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1 Q. Is the Staff opposed to the Company's proposal for accounting
2 authorization to defer recognition of vegetation management costs from January 1,
3 2008 to the date that the rates are set in this proceeding?

4 A. Yes. As explained earlier, AmerenUE has significantly increased their
5 vegetation management efforts for various reasons well before the rule went into effect
6 on June 30, 2008 yet the test year level of vegetation management expenses is nearly
7 the same as the level in current rates, \$45,663,000 vs. \$45 million. Therefore, the Staff
8 maintains that no accounting authorization for vegetation management is needed for the
9 time period of January 1, 2008 to the date that the rates are set in this proceeding.

10 Q. Is the Staff opposed to the tracker that the Company proposes for
11 vegetation management?

12 A. No. However, the Staff maintains that there should be a cap on the level
13 of recovery for the tracker. Given the test year level of \$45,663,000 and the
14 Company's stated Project Power-On commitment, the Staff would propose that a cap of
15 \$50,000,000 annually be used. This would put the cap at 9.5% above test year levels.
16 The tracker would capture the difference between what was actually spent for tree-
17 trimming, up to a maximum of \$50,000,000 annually, and the annual cost of tree-
18 trimming included in this case. The continuation of the tracker and the recovery of the
19 amount accumulated would be determined in the Company's next rate case. In this
20 instance, the Staff believes this is appropriate.

1 **INFRASTRUCTURE INSPECTIONS**

2 Q. Do you also believe that the trued-up test year levels of infrastructure
3 inspection costs reflect the level of funding that will be needed to meet the
4 requirements of the new rule, 4 CSR 240-23.020?

5 A. No. Although it does not seem likely that the test year levels of expense,
6 even after true-up, will be sufficient to meet the requirements of the new rule 4 CSR
7 240-23.020, Electrical Corporation Infrastructure Standards, I cannot recommend a
8 specific level of expense with any degree of accuracy. However, the last few months of
9 experience in the true-up period may be more indicative of the increased cost of
10 infrastructure inspection. Although the Staff has not yet reviewed the data from the
11 true-up period, the first six months of the true-up period were reviewed since this time
12 period is also part of the test year and the level of funds expended in the first 6 months
13 does not appear to be consistent with the requirements of the rule.

14 Q. The Company requested accounting authorization to defer recognition of
15 infrastructure costs from January 1, 2008 to the date that the rates are set in this
16 proceeding take effect and that a tracker be established for infrastructure. What is
17 Staff's position on these requests?

18 A. In general, the Staff supports the concept of both accounting authorization
19 to defer recognition of infrastructure inspection costs and an infrastructure inspection
20 tracker. However, the Staff recommends several changes to the Company's proposals.
21 First, the Staff maintains that the accounting authorization to defer recognition of
22 infrastructure inspection costs should start on June 30, 2008 not January 1, 2008 since
23 June 30, 2008 is the date that the rule went into effect. Second, the Staff maintains that
24 the costs included in the accounting authorization and tracker should be for the

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1 additional inspections required, not for the repairs that are subsequently made. Repairs
2 to AmerenUE's distribution system are made each and every day and are currently
3 included in rates. Many of the repairs that will be made as a result of inspections are
4 repairs that AmerenUE would have made anyway. If these repairs were included in the
5 tracker while rates were set reflecting the on-going levels of these repairs, the result
6 would be that ratepayers would be paying for these repairs twice.

7 Q. Are you literally saying that there are repairs that will be made to the
8 AmerenUE system due to inspections that would have been made anyway?

9 A. Yes. However, I would expect that there will be some repairs that will be
10 performed sooner than they otherwise would have been.

11 Q. Would the Staff consider a tracking mechanism for repair costs related to
12 inspections if the effect that these repairs have on other repair and maintenance costs
13 could be quantified?

14 A. Yes. However, the Company's proposal appears to treat the costs of
15 "infrastructure inspection and related maintenance expenses to meet the new standards
16 set by the Commission" [Weiss, Direct, page 32, lines 7-9] as a cost that is completely
17 separate from its ongoing maintenance costs. In contrast, it appears that the vegetation
18 management tracker would include both current efforts and the additional effort
19 required to comply with the rule.

20 Q. Describe the inspection accounting authorization mechanisms.

21 A. The deferral of costs prior to the effective date of new rates would capture
22 the incremental increase in the inspection cost, as a result of the Commission's new
23 rule, from June 30, 2008 until the effective date of the rates in this case. The tracker

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1 would capture the actual incremental increase in the inspection cost, as a result of the
2 Commission's new rule, in excess of the inspection cost included in the rates
3 established in this case. The continuation of the tracker and the recovery of the
4 amounts accumulated in both the deferral and the tracker would be determined in the
5 Company's next rate case.

6 Q. Does this conclude your Rebuttal Testimony?

7 A. Yes.

Daniel I. Beck, P.E.

Supervisor of the Engineering Analysis Section of the Energy Department
Utility Operations Division

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P.O. Box 360
Jefferson City, MO 65102

I graduated with a Bachelor of Science Degree in Industrial Engineering from the University of Missouri at Columbia. Upon graduation, I was employed by the Navy Plant Representative Office in St. Louis, Missouri as an Industrial Engineer. I began my employment at the Commission in November, 1987, in the Research and Planning Department of the Utility Division (later renamed the Economic Analysis Department of the Policy and Planning Division) where my duties consisted of weather normalization, load forecasting, integrated resource planning, cost-of-service and rate design. In December, 1997, I was transferred to the Tariffs/Rate Design Section of the Commission's Gas Department where my duties include weather normalization, annualization, tariff review, cost-of-service and rate design. Since June 2001, I have been in the Engineering Analysis Section of the Energy Department, which was created by combining the Gas and Electric Departments. I became the Supervisor of the Engineering Analysis Section, Energy Department, Utility Operations Division in November 2005.

I am a Registered Professional Engineer in the State of Missouri. My registration number is E-26953.

**List of Cases in which prepared testimony was presented by:
DANIEL I. BECK**

| <u>Company Name</u> | <u>Case No.</u> |
|--|---------------------------|
| Union Electric Company | EO-87-175 |
| The Empire District Electric Company | EO-91-74 |
| Missouri Public Service | ER-93-37 |
| St. Joseph Power & Light Company | ER-93-41 |
| The Empire District Electric Company | ER-94-174 |
| Union Electric Company | EM-96-149 |
| Laclede Gas Company | GR-96-193 |
| Missouri Gas Energy | GR-96-285 |
| Kansas City Power & Light Company | ET-97-113 |
| Associated Natural Gas Company | GR-97-272 |
| Union Electric Company | GR-97-393 |
| Missouri Gas Energy | GR-98-140 |
| Missouri Gas Energy | GT-98-237 |
| Ozark Natural Gas Company, Inc. | GA-98-227 |
| Laclede Gas Company | GR-98-374 |
| St. Joseph Power & Light Company | GR-99-246 |
| Laclede Gas Company | GR-99-315 |
| Utilicorp United Inc. & St. Joseph Light & Power Co. | EM-2000-292 |
| Union Electric Company d/b/a AmerenUE | GR-2000-512 |
| Missouri Gas Energy | GR-2001-292 |
| Laclede Gas Company | GR-2001-629 |
| Union Electric Company d/b/a AmerenUE | GT-2002-70 |
| Laclede Gas Company | GR-2001-629 |
| Laclede Gas Company | GR-2002-356 |
| Union Electric Company d/b/a AmerenUE | GR-2003-0517 |
| Missouri Gas Energy | GR-2004-0209 |
| Atmos Energy Corporation | GR-2006-0387 |
| Missouri Gas Energy | GR-2006-0422 |
| Union Electric Company d/b/a AmerenUE | GR-2007-0003 |
| The Empire District Electric Company | EO-2007-0029/EE-2007-0030 |
| Laclede Gas Company | GR-2007-0208 |
| The Empire District Electric Company | EO-2008-0043 |
| Missouri Gas Utility, Inc. | GR-2008-0060 |
| The Empire District Electric Company | ER-2008-0093 |

APPENDIX C

2. Prior to the end of the fourth (4th) year of the Transition Period, each Owner shall file a request with the appropriate regulatory authority or authorities (unless a proceeding has already been initiated or completed) for a determination of which of its facilities are transmission facilities or which are distribution in accordance with the seven (7) factor test set forth in FERC Order No. 888, 61 Fed. Reg. 21,540, 21,620 (1996), or any applicable successor test. Each Owner shall use its best effort to cause these determinations to be made before the end of the Transition Period. Owners that are not subject to regulation by a regulatory authority shall apply to the Midwest ISO for such a determination.

3. The ISO Cost Adder mechanism for the Transition Period shall be calculated as set forth in Schedule 10 to the Transmission Tariff submitted as part of the initial filing with the FERC to establish the Midwest ISO.

III. Revenue Distribution.

Notwithstanding any language to the contrary in this Appendix C or the Agreement, the Midwest ISO shall cause the distribution monthly of the Owners' revenues associated with transmission services in accordance with this Appendix C. Any distribution of revenues to and among the Owners shall be consistent with this Appendix C.