

Exhibit No.: 406
Issues: Revenue Requirement and Class
Cost of Service Issues
Witness: Maurice Brubaker
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2011-0028
Date Testimony Prepared: April 15, 2011

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

FILED
June 1, 2011
Data Center
Missouri Public
Service Commission

**In the Matter of Union Electric
Company, d/b/a Ameren Missouri's
Tariff to Increase Its Annual
Revenues for Electric Service**

Case No. ER-2011-0028
Tariff No. YE-2011-0116

Surrebuttal Testimony and Schedules of

Maurice Brubaker

**on Revenue Requirement and
Class Cost of Service Issues**

On behalf of

Missouri Industrial Energy Consumers

April 15, 2011



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9371

~~Downey~~ Exhibit No. 406
Date 5/5/11 Reporter ~~NA~~
File No. ER-2011-0028

**BEFORE THE PUBLIC SERVICE COMMISSION
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STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS

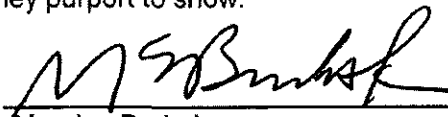
Affidavit of Maurice Brubaker

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 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

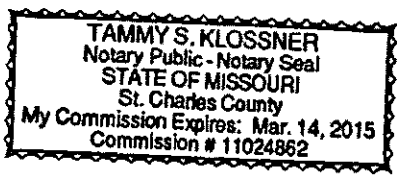
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2011-0028.

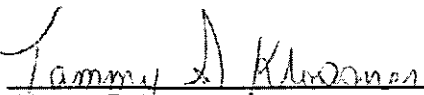
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.



 Maurice Brubaker

Subscribed and sworn to before me this 14th day of April, 2011.





 Notary Public

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

In the Matter of Union Electric)
Company, d/b/a Ameren Missouri's)
Tariff to Increase Its Annual)
Revenues for Electric Service)
_____)

Case No. ER-2011-0028
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**Maurice Brubaker
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OF THE STATE OF MISSOURI**

_____)
In the Matter of Union Electric)
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_____)

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Tariff No. YE-2011-0116

Surrebuttal Testimony of Maurice Brubaker

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

2 A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

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 and rebuttal testimonies on revenue requirement,
7 cost of service, revenue allocation and rate design 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.

12 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

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

Maurice Brubaker
Page 1

1 Q WHAT IS THE SCOPE OF YOUR SURREBUTTAL TESTIMONY?

2 A In my surrebuttal testimony, I will address the appropriate allocation method for
3 production fixed cost (raised by Staff witness Scheperle); the appropriate
4 classification of production system operation and maintenance expense ("O&M")
5 (raised by Staff witness Scheperle and Ameren Missouri witness Warwick); certain
6 demand-side management ("DSM") cost recovery issues (raised by Ameren Missouri
7 witness Davis and Missouri Department of Natural Resources ("MDNR") witness
8 Wolfe); and will briefly address "rate impact" considerations mentioned in passing by
9 Ameren Missouri witness Cooper.

10 **Allocation of Production System Fixed Costs**

11 Q DOES MR. SCHEPERLE DISAGREE WITH THE AVERAGE AND EXCESS
12 ("A&E") METHOD USED BY YOU AND BY AMEREN MISSOURI?

13 A Yes. At pages 3 and 4 of his testimony, he expresses two concerns. The first is that
14 the A&E method does not give appropriate weight to the contributions to system
15 peaks, and second he criticizes the application of the A&E method on the basis that
16 Ameren Missouri and I both included one non-coincident peak that occurred outside
17 of the four months in which the Ameren Missouri system experienced its peak.

1 **Q** **PLEASE ADDRESS MR. SCHEPERLE'S CRITICISM CONCERNING THE**
2 **INSUFFICIENT EMPHASIS ON COINCIDENT PEAKS WHEN USING THE A&E**
3 **METHOD AND HIS CRITICISM CONCERNING THE INCLUSION OF**
4 **NON-COINCIDENT LOADS OCCURRING DURING MONTHS OTHER THAN**
5 **THOSE WHICH CONTAIN THE FOUR HIGHEST SYSTEM PEAKS ON THE**
6 **AMEREN MISSOURI SYSTEM.**

7 **A** Please refer to Schedule MEB-SR-1. Column 1 shows the allocation factors for fixed
8 production costs that are used by Ameren Missouri and by me. Columns 2 through 4
9 show different versions of the A&E allocation method wherein class maximum
10 demands from just the four summer peak months are used (Column 2), where
11 demands from the four peak months (three summer and one winter) are used, and a
12 3NCP version using demands only from the months of June through August. Note
13 that the allocation factors for all of the classes are approximately the same regardless
14 of which set of class peaks is used in the allocation.

15 Columns 5 and 6, which are the coincident peak allocation factors, are
16 virtually the same for the industrial customers as in the other columns. Note also that
17 the allocation factors for the residential class are higher than with the A&E factors.

18 **Q** **WHAT DO YOU CONCLUDE FROM THIS COMPARISON?**

19 **A** It is obvious from the comparison that making any of the changes suggested by Mr.
20 Scheperle would not have any significant impact on the allocation of costs to the
21 industrial customers.

1 **Production System O&M Expense**

2 **Q WHAT DOES STAFF WITNESS SCHEPERLE SAY ABOUT YOUR**
3 **CLASSIFICATION (BETWEEN FIXED AND VARIABLE COSTS) OF PRODUCTION**
4 **SYSTEM O&M EXPENSE?**

5 A Mr. Scheperle states that he disagrees with my classification of production O&M
6 expense between those which are fixed costs and those which are variable costs, but
7 does not explain his basis for disagreement. Instead, he simply refers to an approach
8 to classification of production O&M expense that appears in the NARUC Manual. He
9 does not explain why he prefers this approach to the approach that I have taken, and
10 provides no support for the selection of his preferred fixed/variable classification.

11 **Q WHAT DOES MR. WARWICK HAVE TO SAY ABOUT THE CLASSIFICATION OF**
12 **PRODUCTION O&M EXPENSE?**

13 A He too disagrees with my classification of O&M expense. He continues to be in favor
14 of a classification that he says Ameren Missouri (and predecessor companies) has
15 previously used for the allocation of costs between Missouri retail customers that are
16 jurisdictional to the Missouri PSC and wholesale for resale customers that are not.
17 He does not attempt to justify his choice of which expenses to treat as fixed and
18 which to treat as variable.

19 **Q PLEASE RESPOND TO MR. WARWICK'S TESTIMONY ON THIS ISSUE.**

20 A As I explained in direct testimony, my classification approach recognizes that the
21 costs incurred to operate and maintain Ameren Missouri's generation fleet is more a
22 function of the existence of the units and the passage of time than it is of the
23 kilowatt-hour output of the units. Only those costs that vary in proportion to the

1 kilowatthour output of generation units should be treated as variable costs. All others
2 are, and should be recognized as, fixed costs and allocated to customer classes
3 using the production system demand allocation factor. Further, I noted that Ameren
4 Missouri's timing for scheduling maintenance on its generation fleet is a function of
5 the passage of time, and not a function of the number of kilowatthours generated by
6 each unit. This clearly establishes the time dependency relationship as opposed to
7 the kilowatthour generated relationship, and demonstrates the reasonableness of
8 treating these costs as fixed costs as opposed to variable costs.

9 **Q IS THE CLASSIFICATION OF PRODUCTION O&M EXPENSE THAT YOU HAVE**
10 **EMPLOYED A METHODOLOGY ACCEPTED IN THE INDUSTRY?**

11 A Yes. In fact, in this case Office of Public Counsel ("OPC") witness Ryan Kind used
12 the same approach that I did for the classification of production O&M expense. In
13 addition, in the currently pending Kansas City Power & Light Company rate case
14 (Case No. ER-2010-0355), the currently pending Kansas City Power & Light
15 Company - Greater Missouri Operations rate case (Case No. ER-2010-0356), and in
16 the currently pending Empire District Electric Company rate case (Case
17 No. ER-2011-0004), the utilities (with *de minimus* exceptions) propose the identical
18 classification of production O&M expense between fixed and variable categories that I
19 have proposed in this case. It is also the method that the Commission Staff
20 employed in the referenced Kansas City Power & Light Company rate case when
21 making allocations between Kansas and Missouri.

1 Q AT PAGE 3 OF HIS TESTIMONY, AMEREN MISSOURI WITNESS WARWICK
2 MAKES AN ANALOGY TO AN AUTOMOBILE, ALLEGING THAT THE
3 AUTOMOBILE WOULD REQUIRE SIGNIFICANTLY LESS MAINTENANCE IF IT
4 WERE TO REMAIN IN A GARAGE VERSUS BEING DRIVEN EVERY DAY. IS
5 THIS AN APPROPRIATE ANALOGY, AND DO YOU AGREE?

6 A No.

7 Q PLEASE EXPLAIN THE BASIS FOR YOUR DISAGREEMENT.

8 A There are several facts which undermine Mr. Warwick's analogy. Take tires as an
9 example. An automobile that sits idle in a garage for an extended period of time is
10 subject to degradation of the tires because of cord separation and deterioration of the
11 rubber, and may develop "flat spots." Second, batteries run down and corrode and
12 must be recharged or perhaps even replaced even though they have seen little use.
13 Third, bearings in a sitting automobile may freeze up due to lack of lubrication, fuel
14 may deteriorate causing problems with the fuel pump, and seals may deteriorate from
15 a lack of lubrication. Fourth, an automobile that would sit idle in the garage is subject
16 to decomposition of oil and lubricants, producing such things as "gummy valves" and
17 "crank case sludge," both of which result from non-use as opposed to use. Based on
18 these simple examples, I conclude that Mr. Warwick's analogy to an automobile is not
19 supportive of his position.

1 **Q** **AT PAGE 3 OF HIS TESTIMONY (LINES 12-13), MR. WARWICK STATES, "ONE**
2 **COULD ARGUE THAT IT MAY BE APPROPRIATE TO CLASSIFY THE LABOR**
3 **COMPONENT OF THESE MAINTENANCE COSTS AS FIXED ..." IF THE**
4 **MAINTENANCE LABOR EXPENSE WERE CLASSIFIED AS FIXED, HOW WOULD**
5 **THAT AFFECT THE COST OF SERVICE BY CUSTOMER CLASS AS**
6 **DETERMINED BY AMEREN MISSOURI?**

7 **A** As compared to Ameren Missouri's filed study, this would reduce the costs allocated
8 to LGS/SPS, LPS and LTS. Schedule MEB-SR-2 shows the results of making this
9 one modification to Ameren Missouri's class cost of service study. When this
10 modification is made to Ameren Missouri's class cost of service study, the indicated
11 change in revenues to reach system average rate of return for the LTS class is
12 0.42%, or about \$600 thousand.

13

14 **Q** **PLEASE EXPLAIN SCHEDULE MEB-SR-2.**

15 **A** This schedule expands Mr. Scheperle's schedule MSS-R4 in order to show the result
16 of simply modifying Ameren Missouri's cost of service study to classify the labor
17 component of maintenance cost as fixed, consistent with Mr. Warwick's testimony
18 referenced above. Page 1 of Schedule MEB-SR-2 simply adds this additional study
19 identified as "Company Alt. 1."

20 Page 2 of Schedule MEB-SR-2 portrays all of the studies with the exception of
21 the OPC allocation methodology, which this Commission has rejected on several
22 occasions.

1 **DSM Cost Recovery**

2 **Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF AMEREN MISSOURI**
3 **WITNESS DAVIS WITH RESPECT TO DSM COST RECOVERY?**

4 A Yes, I have. At page 10 he disagrees with my conclusion that the current method of
5 recovery for DSM resource expenditures (over ten years or six years) is superior to
6 that used for supply-side resources.

7 **Q DOES HE DISAGREE WITH YOUR CONTENTION THAT CURRENT DSM COST**
8 **RECOVERY IS SUPERIOR TO THAT FOR SUPPLY-SIDE RESOURCES FROM**
9 **THE PERSPECTIVE OF EARNINGS?**

10 A It is unclear. He begins his response on line 13 of page 10 by acknowledging that
11 earnings protection is provided by virtue of the fact that Ameren Missouri is allowed to
12 continue to accrue carrying charges on DSM expenditures until the time amortization
13 begins in a subsequent rate case, but he then goes on to say that there are
14 differences between demand-side and supply-side resources. However, none of the
15 differences that he points out are of any significance whatsoever with respect to the
16 issue about the superiority of the current DSM cost recovery method over traditional
17 supply-side cost recovery methods.

18 **Q PLEASE ELABORATE ON WHY YOU DISAGREE WITH HIS REASONING.**

19 A His first argument is that development of significant demand-side resources requires
20 continuous spending over a long period of time. He does not explain what he means
21 by this or why it is an important distinction. The flip answer to that contention is "so
22 what?". At a more fundamental level, however, he ignores the fact that DSM
23 expenditures come in small increments and the schedule of spending can be

1 adjusted or modified at any time if circumstances – such as lack of efficacy of the
2 DSM programs, or lack of need for them – occur. Supply-side resources, on the other
3 hand, are generally large and lumpy investments and if stopped in the middle become
4 write-offs, or at best subject to used and useful disallowances. Accordingly, this is not
5 a valid rebuttal.

6 **Q WHAT IS MR. DAVIS'S SECOND REASON?**

7 **A** The second reason is that the Company can time a rate case filing to mitigate the lag
8 caused by the delay between when a major supply-side project is placed in service
9 and when it would be reflected in rates. He says this would allow the Company to
10 mimic the treatment demand-side resources currently receive. He then goes on to
11 opine that attempting to file rate cases continuously to avoid the same kind of lag with
12 demand-side resources is impractical.

13 These arguments beg the question. The argument on timing rate case filings
14 essentially concedes the point that the current method of DSM cost recovery is
15 superior by virtue of allowing the continuing accrual of carrying charges on the DSM
16 expenditures, and the deferral of the amortization until the time that costs are
17 recognized in a future rate case. With supply-side resources, there will be a loss of
18 cost recovery before investments can be included in rates (absent extraordinary
19 accounting treatment by agreement of the parties). This difference establishes the
20 superiority of the current DSM cost recovery methodology.

21 Finally, the argument about filing continuous rate cases to avoid lags with
22 demand-side resources is without merit because it is not necessary to do so given the
23 favorable treatment accorded to DSM resources under the current DSM cost recovery
24 methodology.

1 Q ON PAGE 11 OF HIS TESTIMONY, MR. DAVIS MAKES AN ANALOGY BETWEEN
2 EXPENDITURES FOR DSM AND "OTHER EXPENSES." IS THIS AN
3 APPROPRIATE COMPARISON?

4 A No. "Other expenses" .. such as O&M expense, are recurring in nature and thus are
5 incurred year after year. In contrast, investments in DSM produce resource value that
6 lasts for a number of years. Accordingly, DSM investments cannot be compared to
7 "other expenses."

8 Q HE GOES ON TO MAKE AN ANALOGY WITH A MAINTENANCE EXPENSE SUCH
9 AS PAINTING A STRUCTURE. IS THIS AN APPLICABLE ANALOGY?

10 A It may be, but not in the way he thinks. Mr. Davis attempts to argue that since
11 painting a structure is an expense and is booked entirely in the period in which it is
12 incurred, my position is undermined. Carrying out his example, if a paint job lasted
13 for ten years, for example, it would be appropriate to recognize one-tenth of this cost
14 in the year incurred. It would not be appropriate to include in rates 100% of the cost
15 of an activity that repeats on a ten-year cycle. This is similar to the traditional
16 treatment of nuclear refueling costs, which occur every 18 months. Typically, in rate
17 cases two-thirds of the cost of a refueling outage is included in rates in recognition of
18 the fact that it does not occur ever year.

1 Q AT PAGES 11 AND 12 OF HIS TESTIMONY, MR. DAVIS COMPARES THE CASH
2 FLOW PATTERN FOR A LARGE SUPPLY-SIDE RESOURCE WITH THE CASH
3 FLOW PATTERN FOR DSM RESOURCES AND CLAIMS THAT THE UTILITY
4 WILL NOT RECOVER THE CASH AS QUICKLY FOR DSM RESOURCES. DO HIS
5 ARGUMENTS HERE ESTABLISH THAT DSM COSTS SHOULD BE EXPENSED IN
6 THE YEAR INCURRED OR AMORTIZED OVER A SHORT PERIOD OF TIME?

7 A No. Mr. Davis compares a **single** supply-side investment with a **series** of
8 demand-side expenditures, which skews the comparison. It would be more
9 appropriate to compare the single supply-side investment with a specific increment of
10 demand-side expenditures – such as the spending between two rate cases.

11 Obviously, supply-side resources have large negative cash flows on the front
12 end during construction, and then begin to create positive cash flows as costs are
13 recovered over a 40- to 60-year period. In contrast, DSM expenditures occur in
14 smaller increments and, under my approach, are recaptured over the first ten years
15 following their implementation and inclusion in rates.

16 By year ten, the utility would have recovered 25% or less of the cost of a
17 supply-side resource, but would have recovered 100% of the cost of a demand-side
18 resource. Recovering the DSM expenditure over ten years recovers that expenditure
19 at least four times faster than the supply-side expenditure would be recovered.
20 Accordingly, this argument presented by Mr. Davis does not provide any basis for
21 recovering DSM expenditures over a period less than ten years.

1 **Q AT PAGE 12 OF HIS TESTIMONY, MR. DAVIS ASSERTS THAT THE RECOVERY**
2 **RISK OF DSM EXPENDITURES IS “CONSIDERABLY HIGHER THAN THAT FOR**
3 **A SUPPLY-SIDE INVESTMENT.” DO YOU AGREE?**

4 **A No, I certainly do not. Mr. Davis’s argument assumes that supply-side resources go**
5 **into service as planned, operate as planned, do not incur any unusual operating**
6 **conditions, and do not experience any disallowance of cost recovery. While this is an**
7 **ideal set of circumstances for a utility, reality often plays out differently.**

8 **Q PLEASE EXPLAIN.**

9 **A A generation unit may not perform as expected as a result of poor design, poor**
10 **construction or poor operations, or as a result of the capacity being in excess of what**
11 **is required to provide reliable service.**

12 **Q CAN YOU GIVE ANY EXAMPLES?**

13 **A Yes. One recent example is the catastrophic failure of the Taum Sauk pumped hydro**
14 **facility which resulted in Ameren Missouri having to absorb a significant amount of**
15 **costs. In the not too distant past, Kansas City Power & Light Company’s Hawthorne**
16 **Unit No. 5 experienced an explosion which resulted in an extended outage period**
17 **with KCPL absorbing substantial replacement power costs. Ameren Missouri’s**
18 **Callaway Unit 1 was subject to a prudence disallowance of approximately \$400**
19 **million when it was completed in 1985.**

20 In other states, numerous examples can be cited. For example, Progress
21 Energy Florida’s Crystal River Nuclear Unit No. 3 is out of service for an extended
22 period of time (exceeding one year) because of degradation of the containment
23 vessel structure. Cincinnati Gas and Electric Company’s proposed Zimmer nuclear

1 unit, although construction was nearly completed, was never able to operate as a
2 nuclear unit because of failure to follow appropriate construction documentation and
3 other reasons, and resulted in large disallowances.

4 Consumers Power Company's proposed Midland nuclear unit was found to be
5 built on unstable soil and was sinking into the ground, resulting in a conversion to an
6 entirely different type of generation technology and substantial losses for Consumers.
7 The list could go on and on.

8 The point is that supply-side resources entail large investments which have
9 the potential to produce large losses to the utility. DSM resources, on the other hand,
10 are in much smaller packages and expenditure rates can be adjusted much more
11 easily without incurring losses due to plant abandonment, changes in technology or
12 used and useful challenges.

13 **Q AT THE BOTTOM OF PAGE 12 OF HIS TESTIMONY, MR. DAVIS ARGUES THAT**
14 **EXPENDITURES ON DSM AT THE LEVEL OF THE REALISTIC ACHIEVABLE**
15 **POTENTIAL ("RAP") PORTFOLIO DESCRIBED IN AMEREN MISSOURI'S 2011**
16 **INTEGRATED RESOURCE PLAN ("IRP") WOULD PRODUCE AN UNAMORTIZED**
17 **REGULATORY ASSET OF \$659 MILLION IN 2030. SHOULD THIS BE OF**
18 **CONCERN?**

19 **A** No, it should not. This expenditure is relatively small in comparison to the
20 expenditures that would be incurred to construct a major generation facility. In fact,
21 this level of expenditure is in the ballpark of the costs of the Sioux scrubbers which
22 are being included in rate base in this case. While not insignificant, this level of
23 expenditure is not unmanageable.

1 Q DO YOU HAVE OTHER COMMENTS WITH RESPECT TO MR. DAVIS'S
2 REBUTTAL?

3 A Yes. If Ameren Missouri is to conduct an aggressive DSM program, it must take
4 responsibility for the performance of its demand-side measures, just as it would take
5 responsibility for the performance of its supply-side additions.

6 If Ameren Missouri has confidence in its execution, it should not demand that
7 all expenditures be charged to customers before the efficacy of these programs have
8 been established by measurement and evaluation programs.

9 Q AT PAGES 12 AND 13 OF HIS TESTIMONY, MR. DAVIS ALLEGES THAT THE
10 "POTENTIAL" FOR INCONSISTENT TREATMENT OF THE REGULATORY
11 ASSET HEIGHTENS RECOVERY RISK AND "COULD" LEAD THE FINANCIAL
12 COMMUNITY TO NEGATIVELY ADJUST ITS VIEWS OF THE COMPANY'S
13 EXPECTED FINANCIAL POSITION. HAS MR. DAVIS BROUGHT ANY EVIDENCE
14 TO SUPPORT THIS CONCERN?

15 A No, he has not. This is a mere assertion without any indication that the financial
16 community has, or will, become skeptical of Ameren Missouri's financial performance
17 if the existing favorable treatment of DSM cost recovery, including a ten-year
18 amortization period, continues.

19 Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MDNR WITNESS
20 LAURA WOLFE?

21 A Yes.

1 **Q WHAT DOES MS. WOLFE SAY ABOUT THE CAPITALIZATION AND TEN-YEAR**
2 **AMORTIZATION OF DSM EXPENDITURES?**

3 A Beginning at page 8 of her testimony, she makes convoluted arguments that totally
4 miss the central issue. She tries to make the argument that investments in
5 demand-side resources really are not utility assets and therefore should be
6 expensed. The central problem with her argument is that she does not understand
7 the nature of a regulatory asset and totally misses the point that the entitlement to
8 collect costs in the future for DSM expenditures (or for other costs such as pensions)
9 is conferred by the regulating commission. Hence, the asset is called a "regulatory
10 asset" because it gives the Company a benefit and a right to collect costs in the
11 future. Looking at her definition of "asset" on page 9, line 9, the regulatory asset in
12 the form of capitalized DSM expenditures meets each and every one of the three
13 characteristics that she sets forth as the criteria to be an asset.

14 **Q IS THE ANALOGY WHICH SHE ATTEMPTS TO DRAW TO A PURCHASE POWER**
15 **AGREEMENT ("PPA") ON PAGE 10 OF HER TESTIMONY APPLICABLE?**

16 A No. When a utility enters into a PPA it agrees to pay certain amounts to the provider
17 over a period of years. The agreement to make these payments on an annual basis
18 for services to be received on an annual basis does not constitute an asset to the
19 purchasing utility, and therefore would be an expense, and not an asset to be
20 capitalized. Ms. Wolfe does not explain why she thinks this proves her point, and
21 clearly it does not. However, if the utility prepaid the seller, it would have created an
22 asset that would provide benefits over a number of years and could be capitalized,
23 just like DSM expenditures.

1 Q DO YOU AGREE WITH MDNR'S CONCLUSION ON PAGE 11 OF MS. WOLFE'S
2 TESTIMONY THAT "... ACHIEVING THE GOALS OF INVESTING IN ALL COST
3 EFFECTIVE DSM ..." REQUIRES EXPENSING OF DSM EXPENDITURES?

4 A No, I do not. As I have explained in my direct testimony and previously in this
5 surrebuttal, capitalizing DSM expenditures and recovering them over a ten-year
6 period provides cost recovery at least as beneficial to the utility as the recovery of
7 traditional supply-side resources, and, as previously explained, further acceleration of
8 cost recovery is neither desirable nor necessary.

9 Q ON A RELATED MATTER, MS. WOLFE ARGUES, ON PAGE 15 OF HER
10 TESTIMONY, FOR EXPENSING OF SOLAR REBATES. DO YOU HAVE
11 ANYTHING TO ADD TO THE RECOMMENDATION IN YOUR DIRECT TESTIMONY
12 THAT THE COST OF SOLAR REBATES SHOULD BE AMORTIZED OVER A
13 TEN-YEAR PERIOD OF TIME?

14 A No, I do not have anything to add. For the same reasons as expressed previously at
15 pages 19 and 20 of my direct testimony, the incentives, or subsidies, provided for
16 solar installations should be amortized over ten years.

17 **Other Issues**

18 Q HAVE YOU REVIEWED THE TESTIMONY OF AMEREN MISSOURI WITNESS
19 COOPER AT PAGE 9 WITH RESPECT TO THE IMPACT OF RATE INCREASES
20 ON CUSTOMERS?

21 A Yes. At this point in his testimony, he quantifies, but does not support or recommend,
22 what would happen if 1% of the residential class increase were transferred to other
23 classes.

1 **Q HOW DO YOU RESPOND TO MR. COOPER'S TESTIMONY?**

2 **A**First, I would note that I am pleased to see that he does not recommend that this
3 action be taken. It is not clear why he raises it, or how it is supposed to be viewed,
4 but it obviously is not a recommendation by Ameren Missouri.

5 **Q WOULD SUCH A "SHIFT" IN REVENUES BE CONSISTENT WITH COST OF**
6 **SERVICE EVIDENCE?**

7 **A**No, far from it. The cost of service evidence presented by Ameren Missouri, by
8 Commission Staff and by MIEC, all clearly demonstrate that the LPS and LTS
9 customers are all providing a higher rate of return to the utility than is the residential
10 class. Accordingly, any shift of any part of the rate increase away from the residential
11 customers to customers in any of these other customer classes would be contrary to
12 cost of service evidence and would be in significant conflict with the central regulatory
13 principle that the causer of the cost should pay the cost.

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

15 **A**Yes, it does.

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AMEREN MISSOURI

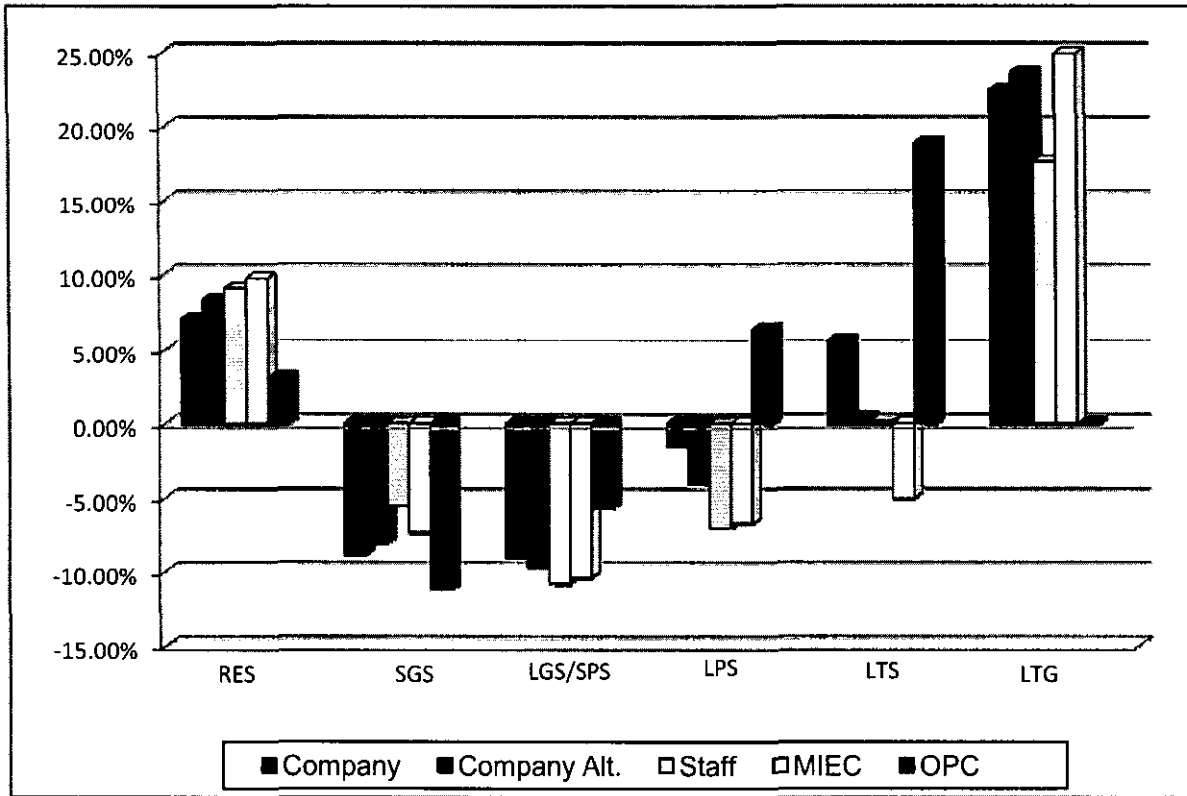
Comparison of Various Production Allocation Methods

<u>Line</u>	<u>Class</u>	<u>AS-FILED</u>	<u>A&E - 4NCP</u>	<u>A&E - 4NCP</u>	<u>A&E - 3NCP</u>	<u>3 CP</u>	<u>4 CP</u>
		<u>A&E - 4NCP</u>	<u>Jun. - Sept.</u>	<u>From 4 Peak</u>	<u>Jun. - Aug.</u>		
		<u>Maximum</u>	<u>Class Demands</u>	<u>Months</u>	<u>Class Demands</u>	<u>(5)</u>	<u>(6)</u>
		<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>		
1	RES	46.68%	45.41%	47.39%	46.41%	49.03%	50.09%
2	SGS	10.91%	11.31%	11.14%	11.13%	10.39%	9.86%
3	LGS/SPS	28.41%	29.19%	27.69%	28.45%	27.05%	26.46%
4	LPS	7.14%	7.25%	6.93%	7.19%	6.72%	6.76%
5	LTS	6.13%	6.11%	6.11%	6.10%	6.55%	6.63%
6	Total Industrial	13.27%	13.36%	13.04%	13.29%	13.27%	13.39%
7	LIGHTING	0.74%	0.73%	0.74%	0.72%	0.27%	0.20%
8	TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

AMEREN MISSOURI

**Comparison of the Class Cost of Service Results
Percent Change in Class Revenues Required to Equalize Rate of Return
(Revenue Neutral)**

LINE NO.	DESCRIPTION	RES	SGS	LGS/SPS	LPS	LTS	LTG
		(1)	(2)	(3)	(4)	(5)	(6)
1	Company	6.95%	-8.77%	-8.94%	-1.42%	5.60%	22.41%
2	Company Alt.1	8.29%	-8.05%	-9.67%	-4.02%	0.42%	23.62%
3	Staff	9.04%	-5.52%	-10.82%	-7.01%	0.17%	17.62%
4	MIEC	9.70%	-7.30%	-10.40%	-6.70%	-5.00%	24.90%
5	OPC	3.12%	-11.20%	-5.69%	6.34%	18.85%	N/A



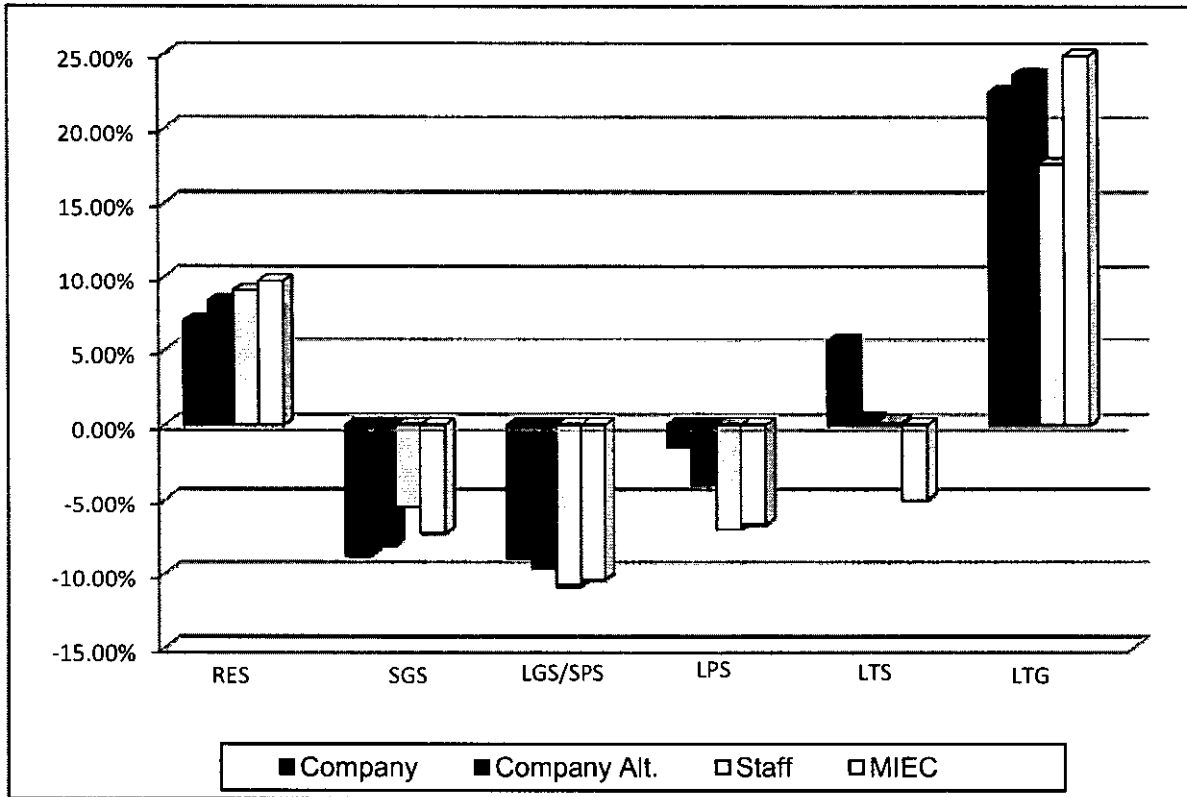
Note:

Company Alt. study is Ameren Missouri's original cost of service study with \$88.4 million in labor related, production maintenance expenses allocated as fixed costs.

AMEREN MISSOURI

Comparison of the Class Cost of Service Results Percent Change in Class Revenues Required to Equalize Rate of Return (Revenue Neutral)

LINE NO.	DESCRIPTION	RES (1)	SGS (2)	LGS/SPS (3)	LPS (4)	LTS (5)	LTG (6)
1	Company	6.95%	-8.77%	-8.94%	-1.42%	5.60%	22.41%
2	Company Alt.1	8.29%	-8.05%	-9.67%	-4.02%	0.42%	23.62%
3	Staff	9.04%	-5.52%	-10.82%	-7.01%	0.17%	17.62%
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Note:

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