

Exhibit No.: 207

Issues: Class Cost-of-Service
Rate Design

Witness: James C. Watkins

Sponsoring Party: MO PSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2008-0318

Date Testimony Prepared: September 11, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

JAMES C. WATKINS

UNION ELECTRIC COMPANY

d/b/a

AMERENUE

CASE NO. ER-2008-0318

**Jefferson City, Missouri
September 2008**

Staff Exhibit No. 207
Case No(s) ER-2008-0318
Date 12-01-08 Rptr KF

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

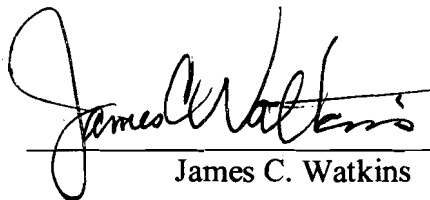
In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

Case No. ER-2008-0318

AFFIDAVIT OF JAMES C. WATKINS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 5 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

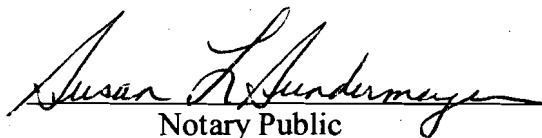


James C. Watkins

Subscribed and sworn to before me this 10th day of September, 2008.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public

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OF

JAMES C. WATKINS

UNION ELECTRIC COMPANY d/b/a/ AMERENUE

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DIRECT TESTIMONY
OF
JAMES C. WATKINS
UNION ELECTRIC COMPANY d/b/a/ AMERENUE
CASE NO. ER-2008-0318

Q. Please state your name and business address.

A. My name is James C. Watkins and my business address is Missouri Public Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Who is your employer and what is your present position?

A. I am employed by the Missouri Public Service Commission (Commission) and my title is Manager, Economic Analysis, Energy Department, Operations Division.

Q. What is your educational background and work experience?

A. I have a Bachelor of Arts Degree in Economics from William Jewell College, a year of graduate study at the University of California at Los Angeles in the Masters Degree Program, and have completed all requirements except my dissertation for a Ph.D. in Economics from the University of Missouri-Columbia. My previous work experience has been as an Instructor of Economics at Columbia College, the University of Missouri-Rolla, and William Jewell College. I have been on the Staff of the Missouri Public Service Commission (Staff) since August 1, 1982. A list of the major cases in which I have filed testimony before the Commission is shown on Schedule 1.

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

Direct Testimony of
James C. Watkins

1 A. The purpose of this testimony is to sponsor the Staff's recommendations in its
2 Class Cost-of-Service & Rate Design Report filed September 11, 2008, regarding shifts in
3 class revenue responsibility, rate design changes, the related changes to the rate components
4 of each AmerenUE rate schedule, and AmerenUE's VGP.

5 Q. What are the Staff's recommendations?

6 A. Based on the Class Cost-of-Service Study results, the Staff proposes no
7 revenue shifts among classes, so that the current revenue relationships among the classes are
8 maintained. Because there are no known flaws in AmerenUE's rate design, any Commission-
9 ordered overall revenue increase should be implemented as an equal percentage increase to
10 each rate component of each existing rate schedule, i.e., no rate design changes. The Staff
11 also recommends that, unless AmerenUE provides evidence of the effectiveness of its VGP, it
12 should be terminated.

13 **CLASS COST-OF-SERVICE**

14 Q. What are the results of the Staff's Class Cost-of-Service Study?

15 A. The results of the Staff's Class Cost-of-Service (CCOS) study for AmerenUE
16 are summarized in the table below. The table shows the increases (and decreases) necessary
17 to equate each class' current rate revenues to the cost of serving that class (assuming equal
18 rates of return) at the overall level determined by the Staff's Cost Of Service (revenue
19 requirement) Study filed on August 28, 2008.

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	Residential	Small General Service	Large General/Small Primary Service	Large Primary Service	Large Transmission Service	System Average
Revenue Deficiency Required	\$50,989,472	-\$1,458,449	-\$16,379,564	\$8,715,910	\$9,595,063	\$51,462,432
% Increase	5.62%	-0.60%	-2.63%	5.36%	7.34%	2.46%
Required % Increase	3.16%	-3.06%	-5.09%	2.90%	4.88%	0.00%

1 The last row in the table shows the revenue-neutral shifts that would need to be made
2 to equalize class rates of return at AmerenUE's current level of revenues prior to increasing
3 all rates by an equal percentage, if the Commission orders a different change in AmerenUE's
4 revenues.

5 **RATE DESIGN**

6 Q. What Rate Design changes do you recommend?

7 A. At this time, I am reluctant to make any recommendation for disproportionate
8 changes to the permanent rates of any of the classes. It is my opinion that the revenue shifts
9 indicated by the class cost-of-service study, given the quality of the input data, may not rise to
10 such a level of significance that disproportionate adjustments to the rates are required at this
11 time.

12 Because there are no known flaws in the structure of AmerenUE's rate design, I do not
13 recommend any changes in this case.

14 **VOLUNTARY GREEN POWER PROGRAM**

15 Q. What is the Voluntary Green Power program ("VGP" or "program")?

16 A. It is a program where AmerenUE customer's can choose to pay AmerenUE to
17 purchase Renewable Energy Credits (RECs). AmerenUE markets the VGP as the Pure Power
18 Program.

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1 Q. What changes should be made to the VGP?

2 A. Staff is concerned with the efficacy of the VGP in its current form, since much
3 of the money collected pursuant to the program is possibly lost in the cost of administration,
4 and the stimulation of "green" generation due to this program is questionable. Staff
5 recommends that the Commission require AmerenUE to produce an accounting in its rebuttal
6 testimony in this case of how much of its customer's VGP payments actually were paid to
7 "green" electricity producers so that the Commission can determine the appropriateness of
8 continuing the VGP. If the program is continued, Staff recommends that the Commission
9 order AmerenUE to disclose in its tariff the amount of the customer's VGP payment retained
10 by AmerenUE for its administrative costs, and to account for VGP revenues and costs above-
11 the-line. In addition, if the VGP continues, the Commission should require AmerenUE to
12 disclose to all participants the percentage of the payment that actually goes to "green" energy
13 producers.

14 **RELIANCE ON OTHER STAFF**

15 Q. What reliance did you place on other Staff members?

16 A. Experts typically rely on the work of others to determine the appropriate class
17 revenue shifts to more closely align class revenues with the cost of serving each class, and the
18 related changes to the rate components of each tariff. I did so respecting Staff's direct case. I
19 relied on Mr. David Roos and Mr. Michael Ensrud for preparing the Staff's Class Cost-of-
20 Service & Rate Design Report (Report) filed in this case. The Report is based on their work
21 and analysis performed in this case. This work was performed under my general supervision.
22 Based on my experience working with them, my familiarity with the quality of the work
23 products they produce, and my own experience with class cost-of-service and rate design

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1 | issues, the analysis presented in the report is reasonable and reliable for determining the
2 | Staff's rate design recommendations.

3 | Q. Does this conclude your direct testimony?

4 | A. Yes, it does.

Case List

1. The Empire District Electric Company	Case No. ER-83-42
2. Kansas City Power & Light Company	Case No. ER-83-49
3. Union Electric Company	Case No. ER-83-163
4. Arkansas Power & Light Company	Case No. ER-83-206
5. The Empire District Electric Company	Case No. ER-83-364
6. Kansas City Power & Light Company	Case No. EO-84-4
7. Union Electric Company	Case No. EO-85-17
8. Arkansas Power & Light Company	Case No. ER-85-20
9. Arkansas Power & Light Company	Case No. EO-85-146
10. Union Electric Company	Case No. ER-85-160
11. Kansas City Power & Light Company	Case Nos. ER-85-128 & EO-85-185
12. Arkansas Power & Light Company	Case Nos. ER-85-265 & ER-86-4
13. Union Electric Company	Case Nos. EC-87-114 & EC-87-115
14. St. Joseph Light & Power Company	Case No. HR-88-116
15. Union Electric Company	Case No. EO-87-175
16. Missouri Public Service	Case No. ER-90-101
17. The Empire District Electric Company	Case No. ER-90-138
18. Kansas City Power & Light Company	Case No. EM-91-16
19. St. Joseph Light & Power Company	Case No. EO-88-158
20. The Empire District Electric Company	Case No. EO-91-74
21. Missouri Public Service	Case No. EO-91-245
22. Missouri Public Service	Case No. ER-93-37
23. St. Joseph Light & Power Company	Case No. ER-93-41
24. St. Joseph Light & Power Company	Case No. EO-93-351
25. St. Joseph Light & Power Company	Case No. ER-94-163
26. The Empire District Electric Company	Case No. ER-94-117
27. Citizens' Electric Corporation	Case No. ER-97-286
28. The Empire District Electric Company	Case No. ER-97-81
29. The Empire District Electric Company	Case No. ER-97-491
30. Missouri Public Service	Case Nos. ER-97-394 & ET-98-103
31. St. Joseph Light & Power Company	Case Nos. EC-98-573 & ER-99-247
32. Citizens' Electric Corporation	Case No. ET-99-113
33. Union Electric Company	Case No. EO-96-15
34. Union Electric Company	Case No. EO-2000-580
35. The Empire District Electric Company	Case No. ER-2001-299
36. Missouri Public Service	Case No. ER-2001-672 & EC-2002-265
37. Union Electric Company	Case No. EC-2002-1
38. Citizens' Electric Corporation	Case No. ER-2002-217
39. The Empire District Electric Company	Case No. ER-2001-1074 (ER-2001-425)
40. The Empire District Electric Company	Case No. ER-2002-424
41. Aquila, Inc. (MPS & L&P)	Case Nos. ER-2004-0034 & HR-2004-0024
42. The Empire District Electric Company	Case No. ER-2004-0570
43. Union Electric Company	Case No. EA-2005-0180
44. Aquila, Inc. (MPS & L&P)	Case No. EO-2002-384
45. Aquila, Inc. (MPS & L&P)	Case Nos. ER-2005-0436 & HR-2005-0450
46. Union Electric Company	Case No. ER-2007-0002
47. Aquila, Inc. (MPS & L&P)	Case No. ER-2007-0004
48. Kansas City Power & Light	Case No. ER-2007-0291
49. The Empire District Electric Company	Case No. ER-2008-0093