

Exhibit No.: **701 NP**
Issues: Cost Allocation,
Rate Design
Witness: Richard Baudino
Sponsoring Party: The Commercial
Group
Type of Exhibit: Rebuttal
Testimony
Case No.: ER-2008-0318
Date Testimony Prepared: October 14, 2008

**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 :**

Docket No. ER-2008-0318

**REBUTTAL TESTIMONY
OF
RICHARD A. BAUDINO**

**ON BEHALF OF
THE COMMERCIAL GROUP
J. KENNEDY AND ASSOCIATES, INC.**

OCTOBER 2008

Commercial
Group Exhibit No. 701 NP
Case No(s). ER-2008-0318
Date 12-04-08 Rptr. KF

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OF THE STATE OF MISSOURI**

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REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

1 **Q. Please state your name and business address.**

2 A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates,
3 Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5
6 **Q. Did you submit Direct Testimony in this proceeding?**

7 A. Yes. I submitted Direct Testimony on behalf of The Commercial Group.
8

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my Rebuttal Testimony is to address the Direct Testimony of Mr. James
11 Watkins, witness for the Missouri Public Service Commission ("MPSC") Staff and the
12 Direct Testimonies of Mr. Ryan Kind and Ms. Barbara Meisenheimer, witnesses for the
13 Office of Public Counsel ("OPC"). My testimony will cover the areas of class cost of
14 service allocations and revenue allocations to customer classes.

15

1 *Response to MPSC Staff*

2

3 **Q. Please summarize the cost of service testimony submitted by Mr. Watkins.**

4 A. Mr. Watkins presented the results of the MPSC Staff's class cost of service ("CCOS")
5 study, the details of which are contained in the document entitled "Staff Report: Class
6 Cost of Service & Rate Design" dated September 11, 2008.

7

8 With respect to cost allocation, the Staff's study differed from the Company's approach
9 to the allocation of production demand costs. The Staff's study used an average and
10 peak ("A&P") approach. The average portion of the Staff's A&P allocation factor was
11 based on average demand and was weighted by the system load factor, which was the
12 same approach used by the Company. However, the excess demand portion was based
13 on each class' contribution to the system's twelve coincident peaks. This resulted in a
14 larger allocation of production demand costs to the Large General Service/Small
15 Primary Service class and a smaller allocation to the Residential class.

16

17 The Staff's CCOS study results are summarized on page 4 of the Staff's Report. At the
18 Staff's recommended revenue requirement increase, Table 1 presents the increases
19 required to bring each customer class to paying its full cost of service.

20

Residentia	5.62%
Small General Service	-0.60%
Large General Service/Small Primary	-2.63%
Large Primary Service	5.36%
Large Transmission Service	7.34%
System Average Increase	2.46%

1

2

3 According to the results of the Staff's CCOS study, Large General Service/Small
4 Primary Service customers should receive a rate *decrease* of 2.63%, compared to the
5 Staff's recommended overall increase of 2.46%.

6

7 Based on the results of the Staff's CCOS study, Mr. Watkins recommended "no revenue
8 shifts among classes, so that the current revenue relationships among the classes are
9 maintained." Mr. Watkins further proposed an equal percentage increase to each rate
10 component of each rate schedule equal to the overall system average increase. Thus, my
11 understanding of Staff's proposal is that an across-the-board ("ATB") increase to all rate
12 classes should be implemented.

13

1 **Q. Do the results of Staff's CCOS study support an across-the-board increase to**
2 **Ameren's rate classes?**

3 A. No. The results of Staff's study show that the Large General Service/Small Primary
4 Service class is currently paying rates that recover significantly more than the cost to
5 serve that class. If the Commission were to adopt Staff's CCOS study then, at the very
6 least, this class should receive no increase at all. Basing rates on the cost to serve,
7 however, LGS/SPS should receive a rate decrease rather than an increase.

8

9 An across-the-board increase to LGS/SPS is not justified by Staff's own CCOS study
10 and would simply perpetuate the significant subsidy that this class is currently paying to
11 other classes. Thus, I recommend that the Commission reject an ATB increase.

12

13 **Q. Do you agree with Staff's A&P method of allocating production related costs?**

14 A. No. Staff's approach allocates far too much cost responsibility on usage and demands
15 throughout the year. I recommend that the Commission reject Staff's A&P production
16 allocation factor for the following reasons.

17

18 Peak demand is the primary driver of a utility's decision to invest in generating plant to
19 serve its customers. The electric utility must have resources in place to serve its peak
20 loads and to meet its service responsibility to its customers. Staff's A&P production
21 allocator fails to reflect this important relationship between peak demand and the
22 investment in production/generation costs by the utility company. This is because 53%
23 of the A&P factor is based on energy usage and 47% is based on class contribution to

1 the twelve monthly coincident peaks ("12 CPs"). The peak portion of Staff's A&P
2 allocator is based on 12CP, which utilizes each class' contribution to each monthly peak
3 throughout the year. Since the average portion of Staff's allocator is already based on
4 average loads throughout the year, Staff's A&P allocator fails to give adequate weight
5 to the system peak. This approach also penalizes higher load factor customers who use
6 the Company's facilities more uniformly throughout the year and have higher load
7 factors. Finally, Staff's use of Ameren's system load factor is essentially arbitrary in
8 terms of weighting the average demand and 12 CP demand portions of the A&P factor.
9

10 **Q. Do you support the use of Ameren's average and excess ("A&E") production**
11 **allocator?**

12 A. Yes. The Company's A&E method better reflects class cost responsibility than either
13 the Staff's or the OPC's A&P methods. I will address the OPC's CCOS study in the
14 next section of my testimony.
15

16 **Response to the Office of Public Counsel**

17
18 **Q. Please summarize the cost of service testimony provided by the Office of Public**
19 **Counsel.**

20 A. Mr. Ryan Kind presented the results of the OPC's CCOS study. Ms. Barbara
21 Meisenheimer presented the OPC's recommended production cost allocation factors.
22

1 Ms. Meisenheimer presented two alternative production cost allocators, one based on an
2 A&P method and another based on Time Of Use ("TOU") demands. Similar to the
3 Staff's A&P method, average demand was weighted by Ameren's load factor and class
4 contributions to the Company's four CPs were weighted by one minus the system load
5 factor. Her TOU demand allocator assigns production costs to each hour of the year in
6 which there is specific production, and then purports to allocate costs based on each
7 class' hourly demands. According to Ms. Meisenheimer, this allocation factor reflects
8 both peak use and average use throughout the year.

9

10 Mr. Kind presented the results of his CCOS study on page 6 of his Direct Testimony.
11 Tables 1 and 2 show the results of using the two production allocators developed by Ms.
12 Meisenheimer. Using the perspective of revenue neutral class shifts, OPC's CCOS
13 studies show that the LGS/SPS classes would receive rate reductions of 2.13% under the
14 TOU Demand study and 2.55% under the A&P study. However, Mr. Kind
15 recommended an ATB revenue increase for all classes.

16

17 **Q. Do the results from OPC's CCOS studies justify an ATB percentage increase for**
18 **all classes?**

19 **A.** No. In fact, both of OPC's studies show that the LGS/SPS classes are paying more than
20 their fair share of costs and should receive an increase less than the system average
21 increase.

22

23 **Q. Do you agree with the production cost allocators proposed by the OPC?**

1 A. No. OPC's A&P method suffers from a similar infirmity as Staff's method in that it
2 places too much reliance on average demands and not enough on the system peak
3 demand. Average demands are also included in the 4CP portion of OPC's A&P factor,
4 unlike Ameren's A&E allocator that properly subtracts out average demands, and then
5 weights the excess demand portion by 1 minus the system load factor. Also, like Staff's
6 A&P method, OPC has arbitrarily weighted energy and peak demands using the system
7 load factor percentages. There is no basis for this weighting. For these reasons, I
8 recommend that the Commission reject OPC's A&P production allocator.

9
10 OPC's TOU Demand allocator is yet another version of A&P, just much more
11 complicated. Essentially, this approach assigns capacity costs to every hour of the year,
12 while ignoring the vital importance of peak demands to system planning and generation
13 expansion. And, like the A&P method, the TOU Demand method penalizes higher load
14 factor customers that use the Company's facilities more efficiently throughout the year.

15
16 The TOU Demand method very nearly treats demand-related production costs as if they
17 were energy costs. The TOU Demand allocation factor for each class is quite close to
18 each class' energy allocation factor. For example, in the OPC's CCOS study the energy
19 allocation factor for the LGS/SPS class is 32.65%, while the TOU Demand allocation
20 factor is 31.74%, a difference of only 0.95%.

21

1 It is both inappropriate and unfair for a production demand allocator to allocate fixed
2 production costs on a basis that approximates energy usage. I recommend that the
3 Commission reject the OPC's TOU Demand allocation factor.

4

5 **Q. Please summarize your recommendations to the Commission.**

6 A. For the reasons stated above, I recommend that the Commission reject the
7 recommendations of the Staff and OPC for ATB rate increases. Instead, I recommend
8 that the Commission base its cost and revenue allocations in this proceeding on
9 Ameren's CCOS study. I also recommend that the Commission reject an ATB increase
10 in this proceeding regardless of the CCOS method it finally approves.

11

12 **Q. Does this complete your testimony?**

13 A. Yes.

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-2008-00318.

AFFIDAVIT OF RICHARD A. BAUDINO

STATE OF NORTH CAROLINA)

COUNTY OF FORSYTH)

Richard A. Baudino, being first duly sworn, deposes and states that:

1. He is a consultant with Kennedy and Associates in Roswell, Georgia;
2. He is the witness sponsoring the accompanying testimony entitled:
Rebuttal Testimony Of Richard A. Baudino;
3. Said testimony was prepared by him and under his direction and supervision;
4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and
5. The aforesaid testimony and testimony and schedules are true and correct to the best of his knowledge, information and belief.

Richard A. Baudino
Richard A. Baudino

Subscriber and sworn to or affirmed before me this 16 day of October, 2008,
by Richard A. Baudino.

Marcia P. Wilson
Notary Public

My Commission No: 20031140041

My Commission Expires: 6/29/2013

(SEAL)

