

Exhibit No.:

Issues: Policy
Test Year
Rate Design
Fair Value Rate Base

Witness: Richard J. Kovach

Type of Exhibit: Direct Testimony

Sponsoring Party: Union Electric Company
d/b/a AmerenUE

Case No.: GR-2000-512

FILED³

APR 03 2000

Missouri Public
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2000-512

DIRECT TESTIMONY

OF

RICHARD J. KOVACH

St. Louis, Missouri
April 3, 2000

MISSOURI PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
AmerenUE for Authority to File Tariffs Increasing) Case No. GR-2000-512
Rates for Gas Service Provided to Customers in the)
Company's Missouri Service Area.)

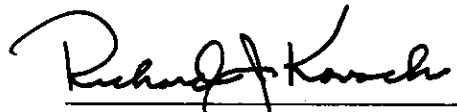
AFFIDAVIT OF RICHARD J. KOVACH

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)


FILED³
APR 03 2000
Missouri Public
Service Commission

Richard J. Kovach, being first duly sworn on his oath, states:

1. My name is Richard J. Kovach. I work in the City of St. Louis, Missouri, and I am the Manager of the Rate Engineering Department of Ameren Services Company.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 9, including Schedule 1, all of which testimony has been prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2000-512 on behalf of Union Electric Company.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Richard J. Kovach

Subscribed and sworn to before me this 27 day of March, 2000.


Notary Public

CAROL A. HEAD
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Sept. 23, 2002

DIRECT TESTIMONY
OF
RICHARD J. KOVACH

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DIRECT TESTIMONY

OF

RICHARD J. KOVACH

UNION ELECTRIC COMPANY

d/b/a AmerenUE

CASE NO. GR-2000-512

Q. Please state your name and business address.

A. My name is Richard J. Kovach, and my business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Please state your occupation and by whom you are employed.

A. I am the Manager of the Rate Engineering Department at Ameren Services Company.

Q. Please describe Ameren Services Company.

A. Ameren Services is a subsidiary of Ameren Corporation which provides various administrative and technical support services for its parent and other subsidiaries including Union Electric Company, doing business as AmerenUE.

Q. Please describe your educational background, work experience, current duties, responsibilities and professional affiliations.

A. This information is summarized in Schedule 1 of my testimony.

PURPOSE OF TESTIMONY

Q. What was your responsibility in the preparation of this case, and what is the extent and purpose of this testimony?

Direct Testimony of
Richard J. Kovach

1 A. My responsibility includes the overall coordination of the preparation and
2 filing of this case. As a part of this responsibility, my testimony will a) introduce the
3 areas of this case to be covered by the various company witnesses, b) describe
4 AmerenUE's natural gas operations in Missouri, c) discuss the factors which led to the
5 filing of this case, d) describe the basis for the test year used in the development of this
6 case, e) provide comments on one of the rate design changes being proposed in this
7 case, and f) develop the fair value rate base for AmerenUE's Missouri natural gas
8 property.

9 **Q. Who are the other Company witnesses, and what are their areas of**
10 **responsibility in this case?**

11 A. The Company's other witnesses in this case and their areas of
12 responsibility are as follows:

13 K. McShane Fair Rate of Return on Common Equity

14 L. Nickloy Overall Fair Rate of Return

15 G. Weiss Jurisdictional Gas Cost of Service

16 R. Kenney Depreciation and Current Value Gas Plant Studies

17 J. Pozzo Weather Adjustment Analysis

18 P. Difani Allocated Class Cost of Service Study

19 W. Warwick Revenue Adjustments, Rate Design and Miscellaneous Tariffs

20 S. Glaeser Gas Transportation Balancing and Gas Supply Incentive Plan

21 All of these individuals are employees of Ameren Services Company with the
22 exception of Ms. McShane, who is employed by the Maryland firm of Foster
23 Associates, Inc.

AMERENUE - MISSOURI GAS OPERATIONS

Q. Please describe AmerenUE's Missouri natural gas operations.

A. AmerenUE provides natural gas sales and transportation service to approximately 85 communities and surrounding areas within the central and eastern portions of the State. The larger communities served include Cape Girardeau, Columbia, Jefferson City, Mexico and Wentzville. The Company provides both natural gas and electric service in most of these communities, with a major exception being the City of Columbia, which operates a municipal electric system. The Company provides natural gas delivery services to approximately 106,500 customers in these areas, which includes approximately 94,700 residential customers, 11,700 general service rate customers, and 20 interruptible sales rate and 80 transportation rate customers.

Q. Please describe the elements of the gas transportation service provided by AmerenUE, and the nature of the customers receiving such service.

A. The Company's gas transportation service consists basically of receiving customer owned gas from a gas transmission pipeline, and transporting (distributing) such gas through the Company's network of natural gas mains, pipes and other equipment (the distribution system) to the customer's premises. The Large Volume gas transportation rate customers currently served by AmerenUE include many of the largest non-residential gas customers connected to the Company's distribution system. Transportation customers arrange for their own natural gas supply and transmission pipeline delivery to the Company's distribution system. By moving such non-Company supplied gas through its distribution system, as it does for all of the Company-supplied gas for its non-transportation sales customers, the Company then completes the delivery

1 of the customer-owned gas to each transportation customer's premises.

2 **Q. How does the natural gas service the Company provides to its gas sales**
3 **customers contrast with that provided to transportation service customers?**

4 A. AmerenUE makes direct arrangements for the natural gas supply, pipeline
5 transmission, storage and transportation (delivery) service for the more than 99 percent
6 of its customers that purchase all such services directly from the Company. This
7 totalized service from the natural gas wellhead to the customer's premises is often
8 referred to as bundled gas service, or gas sales service, when provided by AmerenUE.
9 The Company's role in procuring a gas supply for bundled service customers is
10 described in more detail in the testimony of Mr. Glaeser in this case.

11 **Q. Based upon these descriptions of gas transportation service and gas**
12 **sales service, do both services rely equally upon the Company's distribution system**
13 **to receive natural gas?**

14 A. Yes, the delivery service provided by AmerenUE is the same for both
15 types of customers. The Company's distribution system provides the same function of
16 delivering natural gas from the city gate, which is near or connected to the transmission
17 pipeline, to the customer's premises regardless of the source or ownership of the gas
18 being delivered or distributed.

19 **Q. What is the approximate size of the Company's gas distribution**
20 **system currently installed and used in supplying natural gas service?**

21 A. The Company currently owns and operates approximately 4,275 miles of
22 gas distribution mains and service pipe in providing service to approximately 106,500
23 natural gas customers in Missouri.

BASIS FOR THE FILING OF THIS CASE

1
2 **Q. What annual increase in natural gas revenues is the Company**
3 **requesting in this case?**

4 A. The revised tariffs filed by the Company are designed to produce an
5 increase in the Company's annual natural gas operating revenues of approximately
6 \$12.1 million, exclusive of gross receipts taxes, an increase of 14.3 percent.

7 **Q. Mr. Kovach, what factors led to the need for AmerenUE to file this**
8 **request for an increase in its natural gas rates?**

9 A. Internal jurisdictional rate of return studies, similar to that being sponsored
10 by Mr. Weiss in this case, indicated the Company was not earning an adequate return on
11 the gas portion of its business in Missouri. Since the end of the test year used in the
12 Company's last Missouri gas rate case filing (12 months ending June 30, 1996),
13 AmerenUE's investment in facilities associated with providing natural gas service has
14 increased \$35 million, an increase of 24%. In addition, the Company's annual expenses
15 associated with operating and maintaining the gas distribution system have increased by
16 30 percent, or approximately \$ 4.3 million per year, during that same time period. More
17 than 50 percent of this \$35 million of increased investment can be attributed to a
18 combination of compliance with the Commission's regulations enacted in 1989 for gas
19 pipe replacements, and gas main relocations for state and municipal road widening
20 projects, neither of which are associated with increases in natural gas revenues
21 necessary to support such additional investment. None of these increases is attributable
22 to changes in gas supply costs as such costs are not marked up but recovered dollar for
23 dollar by the application of the Company's Purchased Gas Adjustment (PGA) tariff.

SELECTION OF THE CASE TEST YEAR

Q. What was the test year used by the Company in the filing of this case and how was the test year selected?

A. The test year used by the Company in this case was the 12-month period ending June 30, 1999. This test year was selected by the Company to utilize a single heating season for the filing in order to deal with as near a consistent and consecutive customer base, revenues and billing units as possible, along with the associated accounting data that was required. As the preparation of this case initially began in the Fall of 1999, the selected test year represented the most current complete heating season available at that point in time, and as of the February 18, 2000 filing date of this case.

RATE DESIGN OBJECTIVES & COMMENTS

Q. What were the Company's rate design objectives in this case?

A. A comprehensive fully allocated customer class cost of service study (COS) was conducted and is being sponsored in this case by Mr. Difani. The Company's goal in this case was to establish the annual revenue requirements for each customer class on the basis of the COS study performed by Mr. Difani. As described in his direct testimony, Mr. Warwick utilized the individual class results of Mr. Difani's study in the determination of the customer charge and gas delivery charge values for each of the proposed customer classes. In summary, the Company's generic rate design objectives in this case were to achieve the recovery of the annual class revenue requirements on a basis which equitably tracks the costs of the service being provided to each class of customer.

1 **Q. Is the Company proposing any rate design modifications as a part of**
2 **the rates developed by Mr. Warwick?**

3 A. Yes, it is, and my testimony in this area will be limited to just one of these
4 rate design changes as the majority of these proposals are discussed in Mr. Warwick's
5 testimony. The Company is proposing, as a part of this case, to replace its current one-
6 time electronic metering charge of \$4,800 for gas transportation customers with a
7 monthly electronic metering charge of \$21 for such customers.

8 **Q. What is the purpose of this proposed change in rate design for gas**
9 **transportation customers?**

10 A. This change in the recovery of non-standard metering charges is being
11 proposed in order to make gas transportation service available to customers who
12 currently can not economically justify the one-time payment of \$4,800 to obtain gas
13 transportation service from the Company.

14 **Q. Please describe the development of this \$21 monthly charge.**

15 A. The total installed cost of such metering was initially developed by Mr.
16 Warwick. This installed cost was then transformed, by Mr. Warwick, into the proposed
17 \$21 monthly charge through the use of a monthly fixed charge rate developed from data
18 contained in the class cost of service study performed by Mr. Difani.

19 **Q. If the Commission approves this proposed revision in the collection of**
20 **non-standard metering costs, will this charge be applied to any existing gas**
21 **transportation customer that paid the current \$4,800 metering charge?**

22 A. No, if approved, the proposed \$21 monthly metering charge will only be
23 applied prospectively to customers applying for such service after the effective date of

1 any revision in this area that is approved by the Commission. Any new monthly
2 metering charge which evolves from this case will not be applied to any customer who
3 previously paid the currently effective \$4,800 one-time meter charge.

4 **FAIR VALUE RATE BASE**

5 **Q. Please state the fair value rate base of AmerenUE's gas property, and**
6 **explain how it was determined.**

7 A. The fair value rate base of AmerenUE's gas property is \$201,673,000 at
8 June 30, 1999, the end of the test year used by the Company in its development of this
9 case. This value was determined by weighting the Company's \$136,170,000 net
10 original cost gas rate base, developed by Mr. Weiss, at 43.2 percent and the
11 \$251,493,000 current value rate base of AmerenUE's gas property, developed by Mr.
12 Kenney, at 56.8 percent. The percentage weightings are based upon the Company's
13 current capitalization ratios of 43.2 percent fixed dollar capital (long-term debt and
14 preferred stock) and 56.8 percent common equity, which were developed in the
15 testimony of Mr. Nickloy.

16 **Q. Why is it appropriate to use these capitalization ratios in the**
17 **determination of the fair value rate base of AmerenUE's gas property?**

18 A. Since 43.2 percent of the funds used to finance our property is currently
19 represented by fixed dollar securities, this percentage of AmerenUE's gas property
20 should be valued based upon the Company's original cost investment. The remaining
21 56.8 percent of the Company's capitalization is currently represented by common
22 equity, or risk capital, which shares in the gains or losses resulting from changes in
23 price levels. As such, it is appropriate that this percentage of the Company's gas

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1 property should be valued at current costs, which reflect changes in price levels.

2 **Q. What rate of return on the fair value rate base of AmerenUE's gas**
3 **property will result from the rates proposed by the Company in this case?**

4 A. The rates proposed in this case will provide the Company with a
5 6.97 percent return on the fair value rate base of its natural gas property.

6 **Q. Does this conclude your testimony?**

7 A. Yes, it does.

QUALIFICATIONS OF RICHARD J. KOVACH

My name is Richard J. Kovach, and I reside in St. Louis County, Missouri.

I received the degrees of Bachelor of Science in Industrial Engineering in 1962 and Master of Engineering Administration in 1967 from Washington University in St. Louis, Missouri.

I was employed as an Assistant Engineer in the Rate and Statistical Department of Union Electric in January 1963. My work in the Department included assignments relating to the general analysis and administration of various aspects of Union Electric's electric, gas and steam rates. From 1966 to 1970, I held various engineering positions in the Corporate Planning, Transmission and Distribution, Engineering and Construction, and Power Operations functions of the Company. In April 1970, I returned to the Corporate Planning Function and was appointed Supervising Engineer - Rates and Planning in that function in February 1973. In the latter position I was responsible for day-to-day rate and tariff administration, conducting studies relative to utility cost-of-service and participation in Union Electric Company rate case proceedings. I was appointed to my present position of Manager of Rate Engineering in April 1975 and to the same position with Ameren Services in 1998.

I currently have responsibility for the general policies and practices associated with the day-to-day administration and design of Union Electric's electric and gas rate tariffs, riders and rules and regulations tariffs on file with the Missouri Public Service Commission and the Illinois Commerce Commission, and in the participation in various proceedings before these regulatory agencies. In addition, Rate Engineering is responsible for conducting class cost-of-service and rate design studies, and the participation in other projects of a general corporate nature, as requested by the Vice President of Corporate Planning.

I am a registered Professional Engineer in the states of Missouri and Illinois. In addition, I am the Ameren Services representative on the Edison Electric Institute (EEI) Economic Regulation & Competition Committee. The EEI Committee provides its membership with current information applicable to various rate design and regulatory concepts, as well as new and proposed state and federal legislation. Its membership consists of the individuals responsible for rate design and administration from virtually every investor-owned utility in the United States.