

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Class Cost of Service/

Rate Design

Kind/Direct

Public Counsel

ER-2008-0318

DIRECT TESTIMONY

OF

RYAN KIND

Submitted on Behalf of
the Office of the Public Counsel

UNION ELECTRIC COMPANY D/B/A AMERENUE

Case No. ER-2008-0318

September 12, 2008

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Ryan Kind

1 determining how rates (e.g., customer charges) should be designed to collect revenues
2 from customers within a class, depending on customer usage levels and patterns.

3 **Q. PLEASE OUTLINE THE BASIC ELEMENTS OF THE CLASS COS STUDY THAT YOU**
4 **PERFORMED FOR THIS CASE.**

5 A. The three primary steps that must be taken in order to perform a class COS Study are the
6 functionalization, classification, and allocation of costs.

7 Functionalization of costs involves categorizing accounts by the type of function with
8 which an account is associated. Accounts are categorized as being related to Production,
9 Transmission, Distribution, Customer Accounts, Administrative and General, etc.,
10 depending on the electric utility functions of which they are a part.

11 Once costs have been functionalized, they are classified as being customer (related to the
12 number of customers), demand (related to the portion of peak usage), commodity (related
13 to annual energy consumption), or "other" costs, depending on the function with which
14 they are associated. For example, customer records and collection expense, meter plant,
15 and meter reading expense are considered customer-related, since company expenditures
16 in these areas are related to the number of customers that it serves. These expenses,
17 although dependent to some extent on a customer's size, will be incurred for each
18 customer whether or not the customer uses any electricity so it would not be reasonable
19 to classify them as being commodity-related.

20 Finally, after costs have been classified, the analyst chooses allocation factors that will
21 allocate a reasonable share of jurisdictional costs to each customer class. Allocation
22 factors are based on ratios that represent the proportion of total units (total number of
23 customers, total annual energy consumption, etc.) attributable to a certain customer class.

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1 These ratios are then used to calculate the proportions of various cost categories for
2 which a class is responsible.

3 **Q. WHICH CUSTOMER CLASSES HAVE YOU USED IN YOUR CLASS COS STUDY?**

4 A. I have used the Residential (Res), Small General Service (SGS), Large General Service
5 (LGS), Small Primary Service (SPS), Large Primary Service (LPS) and Large
6 Transmission Service (LTS) classes. The LGS and SPS classes were combined into one
7 class for this CCOS study but that combination should not be interpreted as an OPC
8 endorsement of combining these two separate rate classes.

9 **Q. ON WHAT DATA IS YOUR CLASS COS STUDY BASED?**

10 A. It is based on information that the Union Electric Company (UE or Company) and the
11 Commission Staff (Staff) supplied. I used financial information from Staff for the test
12 year in this case. My use of this information should not be seen as an endorsement of
13 Staff's or UE's methods for calculating accounting costs or billing determinants.

14 **Q. NEXT, PLEASE DISCUSS THE METHODS THAT YOU USED TO ALLOCATE**
15 **FUNCTIONALIZED COSTS.**

16 A. Public Counsel witness Barbara Meisenheimer calculated the Production allocators used
17 in the class COS Study. Ms. Meisenheimer's Direct Testimony in this case describes
18 how her allocators were developed.

19 **Q. DID YOU FOLLOW THE COMMONLY ACCEPTED PRACTICE IN CCOS STUDIES OF**
20 **HAVING EXPENSES FOLLOW PLANT?**

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1 A. Yes.

2 **Q. WHAT DO YOU MEAN BY "EXPENSES FOLLOW PLANT"?**

3 A. I simply mean that operation and maintenance costs associated with a particular type of
4 plant were allocated in the same way as the corresponding plant.

5 **Q. HOW DID YOU ALLOCATE GENERAL PLANT?**

6 A. I developed a composite allocator based on previously allocated gross non-general plant
7 and applied this to General Plant.

8 **Q. HOW DID YOU ALLOCATE POWER PRODUCTION EXPENSES?**

9 A. I started the allocation process by using the breakdown of fuel and other fuel-related costs
10 that was part of the accounting information provided by Staff. I applied the Company's
11 calculation of kWhs at generation by class to allocate the energy-related production and
12 purchased power expenses.

13 I used both the Time-of-Use (TOU) and 4 non-coincident peak (NCP) average and peak
14 (A & P) production plant allocators to allocate the other production expenses. These
15 "other" expenses consist of production expenses that for the most part do not vary
16 directly with the amount of power being generated and include the fixed (capacity)
17 charge portion of Purchased Power (Account 555).

18 **Q. HOW DID YOU USE THE "EXPENSES FOLLOW PLANT" PRINCIPLE TO ALLOCATE**
19 **DISTRIBUTION EXPENSES?**

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1 A. I applied the same allocators to distribution expenses that I had applied to the plant
2 associated with those expenses. For expenses that are not associated with any particular
3 category of distribution plant, such as Supervision and Engineering (Account 580), I used
4 an allocator based on allocated gross distribution plant.

5 **Q. HOW DID YOU ALLOCATE CUSTOMER ACCOUNTS?**

6 A. I allocated Accounts 901 and 905 based on the costs that were allocated to accounts 902,
7 903, and 904.

8 **Q. HOW DID YOU ALLOCATE CUSTOMER SERVICE AND SALES PROMOTION EXPENSES?**

9 A. AmerenUE's meter reading allocator was used as a proxy to allocate customer service
10 expense, and I used my class COS allocator to allocate sales promotion expenses. A
11 class COS allocator allocates selected costs based on the sum of all other costs (except
12 for those selected costs allocated based on class COS) that have been allocated to each
13 customer class.

14 **Q. HOW DID YOU ALLOCATE ADMINISTRATIVE AND GENERAL (A & G) EXPENSES?**

15 A. I divided these expenses into three categories. I allocated Property Insurance expense
16 (Account 924) on the basis of net plant since this expense is linked to the amount of net
17 plant already allocated to each customer class. Injuries and Damages and Employee
18 Pensions and Benefits (Accounts 925 and 926) are both payroll-related expenses so I
19 allocated them on the basis of the amount of payroll expense that I had previously
20 allocated to each class. I believe all of the remaining A & G accounts represent
21 expenditures that support the company's overall operation, so I have allocated them based
22 on each class's share of total cost of service.

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1 **Q. HOW DID YOU ALLOCATE PROPERTY AND PAYROLL TAXES?**

2 A. I allocated property taxes on the basis of allocated total net plant and payroll taxes on the
3 basis of allocated payroll expenses.

4 **Q. HOW DID YOU ALLOCATE STATE AND FEDERAL INCOME TAXES?**

5 A. These taxes were allocated on the basis of rate base since a utility company's income
6 taxes will be a function of the size of its rate base, and thus each class should contribute
7 revenues for income taxes in proportion to the amount of rate base that is necessary to
8 serve it.

9 **Q. PLEASE DESCRIBE THE RESULTS OF PUBLIC COUNSEL'S CLASS COS STUDIES.**

10 A. The results of OPC's class COS studies are summarized below in Tables 1 and 2.

11 **Table 1 - Results of OPC's CCOS Study Using the TOU Production Allocator**

	Res	SGS	LGS/SPS	LPS	LTS	System
Revenue Shift	(\$16,646,575)	(\$23,745,673)	(\$13,220,469)	\$23,534,582	\$30,078,135	\$0
% Revenue Shift	-1.85%	-9.90%	-2.13%	14.47%	23.01%	0.00%

12 **Table 2 - Results of OPC's CCOS Study Using the 4 NCP A & P Production Allocator**

	Res	SGS	LGS/SPS	LPS	LTS	System
Revenue Shift	\$525,455	(\$16,971,621)	(\$15,807,662)	\$17,049,586	\$15,204,241	\$0
% Revenue Shift	0.06%	-7.08%	-2.55%	10.48%	11.63%	0.00%

13 The above tables show the revenue neutral class revenue shifts that OPC's studies
14 indicate would be necessary to equalize class rates of return. I do not believe that these
15 study results show that there is a need to make revenue neutral class shifts in this case.

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1 **Q. ARE YOU MAKING ANY RATE DESIGN RECOMMENDATIONS AT THIS TIME?**

2 A. Yes. I recommend that any overall revenue requirement increase or decrease that results
3 from this case should be made by making equal percentage increases or decreases to all
4 of the class revenue requirements. Any such increases or decreases should generally be
5 made by making equal percentage changes to all rate elements although I recommend
6 that the residential customer charge should not be changed.

7 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON CLASS COST OF SERVICE AND**
8 **RATE DESIGN ISSUES?**

9 A. Yes.