

Exhibit No.:
Issues: Rate Design
Witness: James C. Watkins
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: EC-2002-1
Date Testimony Prepared: March 1, 2002

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

JAMES C. WATKINS

FILED³

MAR 01 2002

**Missouri Public
Service Commission**

UNION ELECTRIC COMPANY d/b/a

AMERENUE

CASE NO. EC-2002-1

Jefferson City, Missouri
March 1, 2002

Direct Testimony of
James C. Watkins

1 Q. Are you the same James C. Watkins who previously filed direct testimony
2 on the issue of rate design in this case on July 2, 2001?

3 A. Yes, I am.

4 Q. Does this testimony contain any corrections or additions to your previously
5 filed direct testimony?

6 A. Other than some minor grammatical improvements, I have made no
7 changes from my previously filed testimony. I have added a question and answer (on
8 page 5) to address the effect of the Commission's approval of the Unanimous Stipulation
9 And Agreement in Case No. EC-2002-152 on the rate design in this case.

10 Q. What is the Staff's recommendation regarding the rate design that should
11 be implemented in this case for the Union Electric Company, d/b/a AmerenUE ("UE" or
12 "Company")?

13 A. Given the Staff's estimate of UE's excess earnings, the Staff reviewed
14 UE's rate design, and the Stipulation And Agreement in the rate design
15 Case No. EO-96-15 that was established as a result of the Case No. ER-95-411
16 Stipulation And Agreement respecting the first experimental alternative regulation plan
17 (EARP) applicable to UE. The Stipulation and Agreement in Case No. EO-96-15
18 determined the distribution of the revenue reduction and rate design changes that would
19 be made following the end of the third year of the first EARP. One of the cornerstones of
20 the Case No. EO-96-15 Stipulation And Agreement was that in effectuating the rate
21 reduction, no class's revenue requirement would be increased. This restriction caused the

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James C. Watkins

1 implementation of the revenue reduction to result in an inability to fully achieve the
2 following two rate design goals established in that agreement:

- 3 1. Moving class revenue requirements closer to class cost of service
4 by applying the first \$25,000,000 of the rate reduction to only the
5 non-residential, non-lighting classes.
6
- 7 2. Setting the rate differential between the Large General Service rate
8 and the Small Primary Service rate at the cost-of-service
9 differential.
10

11 The Staff recommends that, with the rate reduction proposed in this instant case,
12 the Commission now seek to fulfill these rate design goals that it was not able to
13 implement in Case No. EO-96-15. Specifically, the following rate design changes should
14 be made:

- 15 1. The remainder of the rate reduction associated with the first
16 \$25,000,000 of the rate reduction contemplated in the rate design
17 case should be distributed to the non-residential, non-lighting
18 customer classes by an equal percentage of weather-normalized
19 current rate revenues.
20
- 21 2. The resulting rate reduction to the Large General Service/Small
22 Primary Service Class should first be applied to the Large General
23 Service Rate Schedule, to the extent possible, to adjust its demand
24 charges to be \$0.20 higher than the corresponding Small Primary
25 Service Rate Schedule demand charges and its energy charges to be
26 1.01% higher than the corresponding Small Primary Service Rate
27 Schedule energy charges.
28
- 29 3. The remainder of the rate reduction should be applied as an equal
30 percentage reduction to each rate component, except the customer
31 charges, of each rate schedule.
32

33 Q. Why is the Staff not recommending any reduction in customer charges for
34 any class of service?

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1 A. The customer charges that are currently in effect are below the costs for
2 billing, meter reading and electric plant that is customer specific (e.g., meters and service
3 lines). With a lower rate of return, those costs have decreased, but not to the point where
4 a decrease in customer charges would be justified.

5 Q. Has the Staff developed an example of the specific rates that would result
6 from adopting the Staff's rate design recommendation?

7 A. Yes. For the purpose of demonstrating the implementation of the Staff's
8 rate design proposal, Staff witness Janice Pyatte presents the specific rates that would
9 result if the Commission orders a \$250 million rate reduction. Ms. Pyatte developed the
10 weather-normalized current rate revenues and billing units required to implement the
11 Staff's rate design recommendation.

12 Q. Is the Staff's rate design recommendation consistent with the cost of
13 serving each customer class?

14 A. The summary of the results of the Staff's customer class cost-of-service
15 study filed on March 19, 1999 in Case No. EO-96-15 is attached to this testimony as
16 Schedule 2. The rate design goals set out in the Case No. EO-96-15 Stipulation And
17 Agreement continue to be consistent with the cost of serving UE's various customer
18 classes while at the same time remedying any major discontinuities in the existing rate
19 designs between classes.

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1 Q. Does the Commission's approval of the Unanimous Stipulation and
2 Agreement filed on February 5, 2002, resolving all issues in Case No. EC-2002-152¹
3 affect the revenue requirement or rate design in this case?

4 A. It will not affect the revenue requirement, but it will have an effect on the
5 rate design. The Commission's approval of the Unanimous Stipulation and Agreement
6 shifts the responsibility for interest charges on the unpaid balances of deferred payment
7 agreements from the specific customers with the unpaid balances, the revenues from
8 which are included in "other revenues," to customers at large, and the revenues will be
9 included in "rate revenues." Thus, rates for the sale of electricity² must be designed to
10 recover UE's required change in revenues plus the interest charges on the unpaid balances
11 of deferred payment agreements, and rules and regulations tariff sheets must be designed
12 to reduce "other revenues" by the interest charges on the unpaid balances of deferred
13 payment agreements.

14 Q. Does this conclude your testimony?

15 A. Yes, it does.

¹ Office of the Public Counsel v. Union Electric Company, d/b/a AmerenUE regarding the practice of assessing late payment charges on the unpaid balances of residential gas and electric customers who have entered into deferred payment agreements with AmerenUE and who have fully complied with their deferred payment agreements.

² The specific rates designed by Ms. Pyatte to demonstrate the implementation of the Staff's rate design proposal are based on the assumption that the interest charges on the unpaid balances of deferred payment agreements are included in the ordered rate reduction, i.e., the rate reduction is equal to the required change in revenues plus the interest charges on the unpaid balances of deferred payment agreements.

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

The Staff of the Missouri Public Service Commission,
Complainant,
vs.
Union Electric Company, d/b/a AmerenUE,
Respondent.

Case No. EC-2002-1

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 foregoing written Direct Testimony in question and answer form, consisting of 5 pages of testimony to be presented in the above case, that the answers in the attached written 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
James C. Watkins

Subscribed and sworn to before me this 28th day of February, 2002.

DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My commission expires Jan 9, 2005

Dawn L. Hake
Notary Public

My commission expires _____

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. EO-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

STAFF CUSTOMER CLASS COST-OF-SERVICE STUDY UNION ELECTRIC COMPANY Case No. EO-96-15								Combined
COSTS BY FUNCTIONAL CATEGORY			RES	SGS	LGS & SPS	LPS	TOTAL	SGS, LGS & SPS
PRODUCTION	CAPACITY		\$257,191	\$71,672	\$226,486	\$66,417	\$621,767	\$298,159
PRODUCTION	ENERGY		\$211,432	\$62,676	\$210,662	\$64,938	\$549,708	\$273,338
TRANSMISSION	CAPACITY		\$22,814	\$6,323	\$19,875	\$5,804	\$54,815	\$26,197
DISTRIBUTION	SUBSTATIONS	DEMAND	\$38,552	\$9,829	\$22,839	\$4,925	\$76,144	\$32,667
								\$0
DISTRIBUTION	POLES AND CONDUCTORS	CUSTOMER	\$40,192	\$4,671	\$324	\$2	\$45,189	\$4,996
DISTRIBUTION	POLES AND CONDUCTORS	PRIMARY DEMAND	\$77,618	\$19,788	\$45,982	\$9,916	\$153,304	\$65,771
DISTRIBUTION	POLES AND CONDUCTORS	SECONDARY DEMAND	\$23,099	\$6,015	\$8,664	\$0	\$37,777	\$14,679
								\$0
DISTRIBUTION	TRANSFORMERS	CUSTOMER	\$16,921	\$1,967	\$126	\$0	\$19,014	\$2,093
DISTRIBUTION	TRANSFORMERS	DEMAND	\$8,146	\$2,121	\$3,055	\$0	\$13,323	\$5,177
								\$0
DISTRIBUTION	INSTALLATIONS		\$0	\$0	\$0	\$3,444	\$3,444	\$0
DISTRIBUTION	SERVICES	CUSTOMER	\$9,980	\$1,160	\$74	\$0	\$11,215	\$1,234
DISTRIBUTION	SERVICES	DEMAND	\$12,782	\$2,569	\$3,073	\$0	\$18,424	\$5,642
DISTRIBUTION	METERS		\$13,867	\$3,392	\$1,152	\$810	\$19,222	\$4,544
								\$0
	METER READING		\$13,948	\$2,418	\$3,450	\$20	\$19,835	\$5,867
	CUSTOMER SERVICE, SALES, COLLECTION, ETC.		\$24,670	\$4,276	\$15,269	\$88	\$44,303	\$19,546
	INTEREST ON CUSTOMER SURETY DEPOSITS		\$13,231	\$758	\$426	\$0	\$14,415	\$1,184
	EPRI		\$1,983	\$586	\$1,894	\$617	\$5,080	\$2,479
	ASSIGNED RESIDENTIAL		\$74	\$0	\$0	\$0	\$74	\$0
	TOTAL COST OF SERVICE		\$786,501	\$200,219	\$563,352	\$156,981	\$1,707,054	\$763,572
	REVENUES							
	FIRM RATE REVENUE		\$742,338	\$214,090	\$563,980	\$148,434	\$1,668,841	\$778,070
	NET LIGHTING RATE REVENUE		\$10,817	\$2,754	\$7,748	\$2,159	\$23,478	\$10,502
	INTERRUPTIBLE CREDITS		(\$1,314)	(\$334)	(\$941)	(\$262)	(\$2,852)	(\$1,276)
	OTHER REVENUE - LIGHTING CLASS		\$212	\$54	\$152	\$42	\$461	\$206
	OTHER REVENUE - STUDIED CLASSES		\$9,412	\$2,661	\$4,335	\$718	\$17,125	\$6,995
	TOTAL REVENUE		\$761,465	\$219,224	\$575,273	\$151,091	\$1,707,054	\$794,497
	REVENUE DEFICIENCY		\$25,036	(\$19,005)	(\$11,921)	\$5,890	(\$0)	(\$30,925)
	% INCREASE (DECREASE) IN RATES REQUIRED TO GENERATE REVENUES EQUAL TO COST OF SERVICE		3.37%	(8.88%)	(2.11%)	3.97%	(0.00%)	(3.97%)