

Exhibit No.:
Issues: Class Cost of Service
Witness: Thomas A. Solt
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2007-0003
Date Testimony Prepared: December 29, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

THOMAS A. SOLT

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. GR-2007-0003

**Jefferson City, Missouri
December 2006**

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Q. Please state your name and business address.

A. My name is Thomas A. Solt, and my business address is P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (MoPSC or Commission) as a Regulatory Auditor in the Energy Department of the Utility Operations Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission from May 1992 to present, with the exception of the period from September 20, 1997, through January 13, 1998.

Q. Please describe your education and professional background.

A. I was graduated from the University of Missouri—Columbia in August 1999, earning a Master of Public Administration degree, and from the University of Missouri—St. Louis in May 1987, after completing the requirements for a Bachelor of Science degree in Business Administration with an accounting emphasis. I am a licensed Certified Public Accountant in the state of Missouri, and hold other professional certifications.

Q. What has been the nature of your duties while in the employ of the Commission?

A. I have, under the direction of the Managers of Accounting, Energy, and Telecommunications Departments, assisted with audits and examinations of books and records of utility companies operating within the state of Missouri under the jurisdiction of the Commission, and the review of various tariff filings and applications. I have also been responsible for the tracking and analysis of issues that were pertinent to the ratepayers of Missouri that were before the Federal Communications Commission and the Federal Energy Regulatory Commission.

Q. Have you previously filed testimony before the Commission?

A. Yes, I have. The cases in which I previously have filed testimony are included as Schedule 1 of my Direct Testimony.

Executive Summary

Q. What is the purpose of your Direct Testimony in this case, Case No. GR-2007-0003?

A. The purpose of my Direct Testimony in this case is to present the Commission Staff's (Staff's) position relating to natural gas class cost-of-service (CCOS) for Union Electric Company d/b/a AmerenUE (AmerenUE or Company).

Class Cost-of-Service

Q. What customer classes are used in Staff's CCOS study?

A. Staff used the following customer classes in its CCOS study:

Residential (Res)

General Service (GS)

Interruptible Service (IS)

Transportation Service (TS)

1 Q. Are these the same as the Company's current designations?

2 A. Yes, they are.

3 Q. What is the purpose of Staff's CCOS?

4 A. The purpose of Staff's CCOS is to provide the Commission with a measure of
5 relative class cost responsibility for the overall revenue requirements of AmerenUE. For
6 individual items of cost, class cost responsibility can be either directly assigned or allocated to
7 customer classes using reasonable methods for determining the class responsibility for that
8 item of cost. The results are then summarized so that they can be compared to revenues being
9 collected from each class on current rates. The difference between the class costs
10 responsibility and the class revenues forms the basis for the Staff's recommendation regarding
11 shifts between classes.

12 Q. How were the usage levels and class peak demand levels used in your CCOS
13 study developed?

14 A. The annualized usage levels and customer bill counts for the Res and GS
15 customers were provided by Staff Auditing witness Greg R. Meyer and are addressed in his
16 direct testimony. The annual usage levels and customer bill counts for IS and TS customers
17 were developed by Staff witness Anne Ross of the Energy department and will be addressed
18 in her testimony. The class peak demand levels were developed using the usage levels and
19 bill counts discussed above together with the per customer peak demands developed by Staff
20 witness Daniel I. Beck of the Commission's Energy Department, and discussed in his direct
21 testimony, and the load factors developed by the Company for the large customers.

22 Q. What is the source of accounting information used in your CCOS study?

1 A. The accounting information was developed using costs produced by the
2 Commission's Auditing Department, which is based on a test year ending June 30, 2006,
3 updated for known and measurable changes through September 30, 2006.

4 Q. Please describe how you categorized the individual items of cost in the Staff's
5 CCOS study.

6 A. The costs are categorized into functional areas that are to be allocated in the
7 same way. This is referred to as cost functionalization. The rate base and expense accounts
8 are assigned to one of the following functional categories:

9 Production
10 Transmission
11 Storage
12 Liquefied Natural Gas
13 Purchased Gas Related
14 Distribution Mains
15 Distribution Measuring and Regulating
16 Distribution Meters
17 Distribution Regulators
18 Distribution Services
19 Customer Service
20 Billing
21 Meter Reading
22 Assigned Res and GS
23 Assigned LG & IS
24 Revenue Related

25 Those costs, which cannot directly be assigned to any specific functional category, are
26 divided among several functions based upon some relational factor. For example, it is
27 reasonable to assume that property taxes are related to gross plant costs and can therefore be
28 funtionalized in the same manner as gross plant costs.

29 Q. How were Transmission costs allocated?

30 A. Transmission costs were allocated using the Capacity Utilization allocator
31 developed by Staff witness Beck.

1 Q. How were Storage costs allocated?

2 A. Storage is primarily used in winter months; therefore, Storage costs were
3 allocated to all sales customers (excluding transportation customers) using sales volumes from
4 the months of November through March.

5 Q. How were the costs of Production allocated?

6 A. Production plant is used primarily on peak days, so these costs were allocated
7 to firm customers (excluding interruptible and transportation customers) using their
8 contribution to peak day demand.

9 Q. How were Purchased Gas Related costs allocated?

10 A. Even though Purchased Gas Costs are not part of this rate proceeding, there is
11 a certain level of Purchased Gas Costs included as a component of cash working capital.
12 These costs were allocated between the CCOS classes using gas sales volumes.

13 Q. How were the costs of Distribution Mains allocated?

14 A. The allocation factor for Distribution Mains was developed by Staff witness
15 Beck and is described in his direct testimony.

16 Q. How were the costs of Distribution Meters and Distribution Regulators
17 allocated?

18 A. The allocation factors for Distribution Meters and Distribution Regulators were
19 developed by applying the cost estimates supplied to Staff from AmerenUE and sponsored by
20 Staff witness Beck.

21 Q. How were the costs of Distribution Service Lines allocated?

1 A. These costs were developed by applying the cost estimates supplied to Staff
2 from AmerenUE and sponsored by Staff witness Beck. Service line costs were allocated
3 using the same methodology used for the Distribution Meters and Distribution Regulators.

4 Q. How were costs associated with Distribution Measuring and Regulating
5 allocated?

6 A. This type of cost is associated with equipment used to measure and regulate
7 natural gas before it reaches individual customers' service lines, so these costs were allocated
8 using annualized Ccf volumes.

9 Q. How were Customer Service costs allocated?

10 A. These costs are associated with the number of customers being served;
11 therefore, they were allocated using the number of annual bills for each customer class using
12 the same weighting methodology as described above.

13 Q. How were the costs of the Customer Billing function allocated?

14 A. These costs were allocated by the number of annual bills together with the
15 same weighting methodology as described above for each customer class.

16 Q. How were Meter Reading costs allocated?

17 A. These costs were allocated by using the weighted customer numbers. The
18 weighted numbers used reflect Staff's methodology of calculating customer numbers.

19 Q. How were the costs associated with the Res and GS customers allocated?

20 A. Those costs were allocated using the number of test year bills.

21 Q. How were the costs associated with the LGS and IS classes allocated?

22 A. Those costs were allocated using each class' Ccf volumes.

23 Q. How were the Revenue Related costs allocated?

1 A. These costs were allocated using Staff's annualized margin revenues.

2 Q. What are the results of your CCOS study?

3 A. The results for AmerenUE are shown on Schedule 2. The results are presented
4 in terms of class revenue requirements before any increase in the Company's respective
5 revenue requirements.

6 Q. How have you compared the CCOS study results to current revenues?

7 A. Revenue requirement is a major component in this case and the Commission
8 must have a recommendation from the Staff about class revenue requirements that it can
9 apply to any increase in revenue requirement that is ultimately decided. In order to make such
10 a recommendation, I have factored the Staff's CCOS to be equal to the revenue level collected
11 from current rates. The same factor was applied to the allocated costs for each class (i.e., each
12 class' costs were decreased by an equal percentage). When subtracting the results from
13 current revenues, a revenue deficiency (-) or revenue surplus (+) for each class is reflected.

14 Q. What is the impact of your CCOS study on the various customer classes?

15 A. The CCOS study shows that revenues should be collected differently than how
16 revenues are collected under current rates. The CCOS study indicates that revenues being
17 collected under current rates for the Res class do not cover the cost of serving that class, while
18 GS, IS and TS classes are contributing more than the cost of serving those classes. I provided
19 these results to Staff witness Ross to use in her calculations.

20 Q. Does this conclude your direct testimony?

21 A. Yes it does.

Schedule 1
COMMISSION PROCEEDING PARTICIPATION
THOMAS A. SOLT

<u>Company</u>	<u>Case Number</u>
St. Joseph Light and Power Company	GR-93-41
St. Joseph Light and Power Company	GR-93-42
Western Resources, Inc.	GR-93-240
The Empire District Electric Company	ER-94-174
AmerenUE	GR-95-33
AmerenUE	GR-98-140
Missouri Universal Service Fund	TO-98-329
Southwestern Bell Telephone Company	TT-2000-258
Southwestern Bell Telephone Company	TO-2000-667
Ozark Telephone Company	TT-2001-117 & TC-2001-402
Relay Missouri Proceeding	TO-2003-0171
Fidelity Telephone Company	IR-2004-0272
Missouri Gas Energy	GR-2006-0422

AMERENUE
CASE NO. GR-2007-0003
TEST YEAR ENDED JUNE 30, 2006, Updated Through September 30, 2006
C-O-S RESULTS

	TOTAL	RESIDENTIAL	GENERAL SERVICE	INTERRUPTIBLE	TRANSPORTATION
RATE BASE	\$201,075,627	\$119,793,083	\$50,435,271	\$3,215,611	\$27,631,662
REQUESTED RETURN	7.44%	7.44%	7.44%	7.44%	7.44%
RETURN ON RATE BASE	\$14,958,016	\$8,911,407	\$3,751,880	\$239,209	\$2,055,519
O & M EXPENSES	\$28,386,182	\$19,824,329	\$5,730,092	\$240,163	\$2,591,598
DEPRECIATION EXPENSE	\$7,433,711	\$4,557,698	\$1,753,173	\$93,347	\$1,029,494
TAXES OTHER THAN INCOME	\$7,123,305	\$4,405,979	\$1,660,088	\$87,342	\$969,896
INCOME TAXES	\$6,165,131	\$3,672,947	\$1,546,384	\$98,593	\$847,208
TOTAL EXPENSES	\$49,108,329	\$32,460,953	\$10,689,737	\$519,445	\$5,438,194
TOTAL C-O-S	\$64,066,345	\$41,372,360	\$14,441,617	\$758,654	\$7,493,714
OTHER REVENUES	\$2,207,866	\$953,459	\$109,067	\$93,847	\$1,051,493
REQUIRED MARGIN REVENUE	\$61,858,479	\$40,418,902	\$14,332,549	\$664,807	\$6,442,221
CURRENT MARGIN REVENUES	\$59,271,850	\$35,370,144	\$15,777,621	\$861,543	\$7,262,542
ZERO REVENUE INCREASE PLUG	\$2,586,629	\$1,690,127	\$599,319	\$27,799	\$269,383
C-O-S MARGIN REVENUES @ 0%	\$59,271,850	\$38,728,775	\$13,733,230	\$637,008	\$6,172,838
Increase/(Decrease) Required To Adjust Class Revenues Assuming No Increase	0	\$3,358,631	-\$2,044,391	-\$224,535	-\$1,089,704
		9.50%	-12.96%	-26.06%	-15.00%