

Exhibit No.:
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Witness: Richard J. Kovach
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Sponsoring Party: Union Electric Company
Case No.: EM-96-149

MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. EM-96-149

SURREBUTTAL TESTIMONY

OF

RICHARD J. KOVACH

St. Louis, Missouri
June 3, 1996

1 UNION ELECTRIC COMPANY

2 CASE NO. EM-96-149

3 SURREBUTTAL TESTIMONY OF RICHARD J. KOVACH

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

5 A. My name is Richard J. Kovach, and my business address is P. O.
6 Box 149, St. Louis, Missouri 63166.

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

8 A. I am the Manager of the Rate Engineering Department at Union
9 Electric Company.

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

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

13 **Q. To what portion of this case is your surrebuttal testimony
14 being directed?**

15 A. My testimony will address several comments made by
16 Mr. Scott Spiewak regarding Union Electric's Rider E. These comments
17 generally appear on pages 5-9 of his rebuttal testimony filed with this
18 Commission in May 1996.

19 **Q. Before addressing some of the specifics of Mr. Spiewak's
20 testimony, please comment on whether his testimony is actually related to
21 the proposed Union Electric/Central Illinois Public Service Company
22 merger.**

23 A. Despite Mr. Spiewak's attempts to link his testimony to the merger,
24 no such linkage actually exists. His allegations regarding market and
25 competitive abuses, with which Union Electric disagrees, could have been
26 pursued, or are being pursued, in other regulatory forums. Trigen could easily
27 have pursued its complaint without the merger as an additional forum for its

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1 unfounded allegations. As the Commission is well aware, Trigen has filed a
2 separate complaint against Rider E (EC-96-164), and the same or similar
3 complaint in this case is a totally unnecessary redundancy and a waste of both
4 the Commission's and the Company's resources.

5 **Q. On page 5 of his testimony, Mr. Spiewak states that Union**
6 **Electric has never developed sufficient cost data for Rider E and that,**
7 **therefore, Rider E's rates are neither just nor reasonable. Please comment.**

8 A. Rider E was approved by the Missouri Public Service Commission,
9 as being in compliance with its adoption of the Public Utility Regulatory Policies
10 Act (PURPA) standards, in October 1982. The rates charged under Rider E
11 have been modified several times since that time, whenever the Commission has
12 approved revisions to the Company's overall retail rate schedules. As such,
13 Rider E's charges have been reviewed by the Commission several times in the
14 last 14 years and, based upon the Commission's original and numerous
15 subsequent approvals, must be considered as just and reasonable.

16 **Q. Was Rider E also adopted in the Company's other retail**
17 **regulatory jurisdictions?**

18 A. Yes. The Company's Rider E was also deemed to satisfy PURPA's
19 requirements for supplemental, maintenance and backup power by the Illinois
20 Commerce Commission and the Iowa Utilities Board, in addition to the Missouri
21 Public Service Commission, after their respective adoptions, of the PURPA
22 standards. Considering that the Rider E tariff was approved by all three of these
23 regulatory agencies then responsible for the Company's retail operations,
24 Rider E must be presumed to be not only just and reasonable but cost based,
25 non-discriminatory and in the public interest.

26 **Q. Is Union Electric's Rider E inconsistent with 4 CSR 240-20.060**
27 **of the Commission's rules related to Cogeneration, as Mr. Spiewak**

1 **contends?**

2 A. No. Rider E is consistent with these rules. Rather, some of
3 Mr. Spiewak's comments are inconsistent with the actual provisions of these
4 same rules, which he references at the bottom of page 5 of his testimony. For
5 example, on page 6 of his testimony, he states that supplementary, standby and
6 backup service to cogenerators must be available on a firm and interruptible
7 basis. However, paragraph (6)(B)1. of the Commission's rule, cited below,
8 indicates that interruptible power is simply another service to be provided when
9 requested by a Qualifying Facility (QF).

10

11 (6)(B)1. Upon request of a qualifying facility, each electric utility
12 shall provide supplementary power, back-up power, maintenance
13 power and interruptible power.

14

15 **Q. Between pages 6-7 of his testimony, Mr. Spiewak indicates**
16 **that 4 CSR 240-20.060(6)(A) requires that standby services be based upon**
17 **accurate data and system-wide costing principles, and that the Company's**
18 **Rider E charges do not meet this standard. Do you agree that the**
19 **Company's charges do not meet this standard?**

20 A. No, I do not. This standard is being met by Rider E's charges.
21 Mr. Spiewak is being somewhat selective in his references and interpretations of
22 the paragraph (6)(A) of the Commission's cogeneration rule, which is cited
23 below. In summary, paragraph (6)(A) indicates that rates shall be just and
24 reasonable, in the public interest and non-discriminatory in comparison to the
25 rates charged to other customers. It goes on to say that rates based upon
26 accurate data and consistent system-wide costing principles shall not be
27 considered discriminatory to the extent that those rates apply to other customers
28 with similar load or cost-related characteristics.

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1 (6)(A). Rates for sales shall be just and reasonable and in the
2 public interest and shall not discriminate against any qualifying
3 facility in comparison to rates for sales to other customers served
4 by the electric utility. Rates for sales which are based on accurate
5 data and consistent system-wide costing principles shall not be
6 considered to discriminate against any qualifying facility to the
7 extent that those rates apply to the utility's other customers with
8 similar load or other cost-related characteristics.

9

10 **Q. Referring to paragraph (6)(A) of the Commission's rules, are**
11 **Union Electric's retail and Rider E rates based upon accurate data and**
12 **consistent system-wide costing principles?**

13 A. Yes, they are. Union Electric's rates have been revised several
14 times in its various retail jurisdictions since 1982. The Staffs of the Missouri,
15 Illinois and Iowa regulatory commissions conducted a review of Union Electric's
16 total and jurisdictional costs, billing unit data and resulting rate structures as a
17 part of such cases. To the extent that these regulatory agencies approved the
18 final rates which evolved from these cases as being just and reasonable, such
19 decisions inherently imply that the underlying costing principles utilized in such
20 cases were both accurate and consistent.

21 **Q. On page 7 of his testimony, Mr. Spiewak compares the**
22 **Company's Rider E backup charge with an insurer's premium set at**
23 **100 percent of its potential liability. Please comment.**

24 A. My understanding of the insurance business is that such
25 companies do in fact collect annual premiums which (they hope) will be equal to
26 or greater than 100 percent of their potential annual liabilities. The annual
27 liabilities of insurers are normally less than their total insured liabilities, however,
28 due to the diversity (frequency and mixture) of the claims made by their pool of
29 insured customers. Through such pooling diversity the risks (and associated
30 premiums) for the individuals or entities in the pool, as well as the insurer, can

1 be mitigated.

2 **Q. Are Union Electric's Rider E charges equivalent to a**
3 **100 percent insurance premium?**

4 A. No. Union Electric recovers its Rider E costs, which consist
5 basically of generation, transmission and distribution capacity costs, on an
6 annual charge basis over the depreciable life of such facilities. As capacity in
7 these facilities must be available to backup any outages or failures of Rider E
8 customer generation, whenever they may occur, it is appropriate to charge such
9 customers the minimum demand charge specified in Rider E for only the annual
10 cost of such facilities. This annual charge does not, however, represent
11 100 percent of the total installed cost of such facilities.

12 **Q. Please describe the characteristics of Trigen's request for**
13 **backup service.**

14 A. In the case of Trigen, as compared with the insurance industry, no
15 pool or diversity exists as its generation will either be off or on with Union
16 Electric being requested to provide backup service for such generation at either
17 100 percent or zero percent, respectively, of Trigen's total rated capacity. No
18 current Rider E customers rely entirely upon self-generation for the supply of the
19 electrical requirements on their premises in a manner similar to that apparently
20 proposed by Trigen. Rather, such customers all satisfy their electrical
21 requirements through a combination of self-generation and the purchase of
22 supplementary power from the Company.

23 **Q. Do all of the Company's current Rider E customers receive**
24 **their supplemental, maintenance and backup power through the Rider E**
25 **tariff?**

26 A. Yes, they do.

27 **Q. Have any current or former Rider E customers ever filed**

1 **complaints against Union Electric based on Rider E?**

2 A. To my knowledge, there have never been any complaints filed
3 against Rider E in any of the Company's jurisdictions, other than the one filed by
4 Trigen.

5 **Q. Is the billing to all current Rider E customers for such services**
6 **subject to the minimum demand charge, based upon Contract Demand, as**
7 **specified in the Rider E tariff?**

8 A. Yes, it is.

9 **Q. Do these current Rider E customers purchase their**
10 **supplemental and maintenance power under the provisions of one of Union**
11 **Electric's standard primary service rates?**

12 A. Yes, they do.

13 **Q. What do these current Rider E customers pay the Company for**
14 **backup power?**

15 A. Provided that the supplemental, maintenance and backup power
16 purchases from the Company satisfy the Contract Demand minimum charges
17 referenced earlier, no additional charge for backup power is levied under
18 Rider E.

19 **Q. Does this minimum Rider E charge based upon Contract**
20 **Demand have any significant impact upon current Rider E customers?**

21 A. No. It may on rare occasions impact one isolated monthly bill of a
22 given customer, but not with any regularity. Virtually all Rider E customer
23 billings are unaffected by this minimum provision as a result of their
24 supplemental and maintenance power purchases from Union Electric.

25 **Q. What degree of supplemental and maintenance power**
26 **purchases by Rider E customers, from Union Electric, would be required in**
27 **order to satisfy the Rider E billing minimum based upon Contract Demand?**

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1 A. Purchases from Union Electric equivalent to only about a
2 20 percent load factor would meet the Rider E minimums, which is why virtually
3 all Rider E customer billings manage to avoid this requirement.

4 **Q. On page 8 of his testimony, Mr. Spiewak alleges that the Rider**
5 **E tariff rates are discriminatory in various ways. Please comment.**

6 A. First, he states that Rider E is provided at the Company's option.
7 While Rider E states that Supplementary Service will be provided whenever the
8 Company will have capacity available for the supply of such service, Union
9 Electric has never denied such service to any applicable customer and expects
10 to continue supplying such service to all qualified applicants.

11 Second, he states that Rider E does not distinguish between
12 supplementary and standby services. While such services are not explicitly
13 defined and referenced separately in Rider E, the combination of both of these
14 services, as well as maintenance service, have been provided to several Rider E
15 customers by Union Electric for a number of years.

16 Third, he states that Rider E has no relationship to cost-of-service, unlike
17 the Company's other rates. Based upon my earlier comments, as well as the
18 Rider E tariff itself, it should be clear that, other than backup (or standby)
19 service, all other services provided under Rider E are billed under one of the
20 Company's standard primary service rates which have been previously approved
21 by the Commission. Backup service is, however, provided to Rider E customers
22 based upon cost-of-service principles, whereby the Rider E minimum billing
23 provisions for backup service have a zero impact for customers whose annual
24 load factor for supplementary and maintenance service from Union Electric is
25 approximately 20 percent or greater. This load factor level is exceeded by
26 virtually all customers currently on Rider E. Customer billings below this load
27 factor level will begin to pay small amounts for backup service, with such

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1 amounts increasing to the full Rider E tariff minimum bill amount as load factor
2 declines to zero percent. Mr. Spiewak likely knows that the effective unit costs
3 of such things as backup capacity will generally decline with increasing load
4 factor and increase with declining load factor. This same, well recognized,
5 economic principle is inherent in the design and application of the Rider E billing
6 provisions and is appropriate and fully consistent with cost-of-service principles.

7 Fourth, he states that Rider E deprives a QF of its option to purchase
8 power under the Company's Small Primary Service 4(M) Rate. This is incorrect,
9 as a QF may at its option elect to purchase power under either the Small Primary
10 Service Rate 4(M) or the Large Primary Service Rate 11(M). Mr. Spiewak is
11 apparently confused regarding the Company's rate application process. In
12 addition, as indicated earlier, if such primary rate purchases are at an annual
13 load factor level of 20 percent or higher, backup service for the QF generation
14 would be obtained at zero effective cost.

15 Fifth, he states that the billing determinant in Rider E is significantly more
16 onerous than in other Union Electric rates. He goes on to reference a lifetime
17 ratchet as the basis for this claim. Two points need to be made regarding
18 Mr. Spiewak's comments in this area. First, the ratcheted and non-ratcheted
19 billing demands are appropriate as they are applicable to two different services,
20 namely fixed capacity backup and variable supplemental service, respectively.
21 Second, Union Electric does not and never has burdened any Rider E customer
22 with a lifetime contract demand if that customer's operation and installed
23 generating capacity has been revised or modified. In such cases, the Company
24 has always offered to revise the Rider E contract to reflect the new operation.

25 **Q. In summary, are Mr. Spiewak's five points without merit?**

26 **A.** Yes they are, considering the way in which Rider E is applied and
27 the way in which Union Electric responds to changing customer situations.

1 Union Electric's Rider E does an appropriate job in meeting the PURPA
2 requirements adopted by the Commission, utilizing retail rates which have also
3 been reviewed periodically and approved by the Commission.

4 **Q. Do you still maintain that a subject of this nature has no**
5 **relationship to, and should not be considered as a part of the Company's**
6 **merger case?**

7 A. Yes.

8 **Q. On what do you base this conclusion?**

9 A. This conclusion is supported by the testimony on this subject
10 contained herein, as well as the existence of two additional dockets previously
11 established by the Commission for any cost-of-service and rate design issues it
12 may wish to investigate and address.

13 **Q. What are these other established dockets?**

14 A. As a part of Docket ER-95-411, Union Electric is currently
15 gathering the data necessary to conduct a full jurisdictional class cost-of-service
16 study that will encompass a review of various cost allocations and resulting rate
17 designs. As Mr. Spiewak has raised several issues related to these areas, with
18 which I do not necessarily agree, Docket ER-95-411 would be a more
19 appropriate forum to cover such issues. In addition, should any costs be
20 reallocated and rates be redesigned within Rider E or any other rate schedules,
21 this rate design case docket would be appropriate as a means to maintain
22 overall revenue neutrality within the Company's Missouri jurisdiction.

23 The other established docket is EC-96-164 wherein Trigen has filed a
24 complaint against Rider E, raising the same issues it has raised in this case.

25 **Q. Why is the point regarding revenue neutrality important?**

26 A. This is because of the potential impact of rate design changes,
27 resulting from revisions in cost allocations, upon individual customer bills. The

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1 Commission has traditionally rejected rate increases to customers outside the
2 context of a docketed rate or rate design case. Such increases could occur if
3 current Rider E customers began being charged a new unbundled rate for
4 backup service, for example.

5 **Q. Did the Commission Staff refer to “related policy implications”**
6 **in its report to the Commission on Rider E in Docket EC-96-164?**

7 A. Yes it did. Staff, however, did not specify what these policy
8 implications were or how they should be addressed. In its response to that
9 report, Union Electric suggested that such policy implications, although not
10 specified, would likely apply to all investor-owned utilities within the state and,
11 therefore suggested that a state-wide generic docket be established for this
12 PURPA compliance investigation.

13 **Q. What is Union Electric’s preference regarding the two other**
14 **established dockets for addressing Mr. Spiewak’s issues?**

15 A. Again, while not conceding the appropriateness of any of
16 Mr. Spiewak’s issues, Union Electric prefers to address any related cost-of-
17 service issues in its rate design case, Docket ER-95-411. In addition, however,
18 as Union Electric has previously stated in its Response to the Staff Report in
19 Case No. EC-96-164 (Trigen Complaint), a state-wide generic proceeding,
20 involving all investor-owned utilities, is also a viable option to address such
21 PURPA related issues. This option may be particularly important in addressing
22 the “related policy implications” mentioned, but not specified or identified in the
23 Staff Report, as such Commission policies should be uniformly applicable to all
24 Missouri electric utilities.

25 **Q. Does this conclude your surrebuttal testimony?**

26 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.

I have responsibility for the Company's 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 which must be filed with the Missouri Public Service Commission, Illinois Commerce Commission and the Federal Energy Regulatory Commission, and in the participation in various proceedings before these regulatory agencies. In addition, Rate Engineering is responsible for the design and operation of a portion of the Company's load research activities, conducting class cost-of-service 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 Union Electric's representative on the Edison Electric Institute (EEI) Rate Research Committee, the Association of Edison Illuminating Companies (AEIC) Load Research Committee and the Missouri Valley Electric Association (MVEA) Rate Practices Committee. The EEI Committee consists of the individuals responsible for rate design and administration for virtually every investor-owned utility in the United States. The scope of the AEIC and MVEA committees is more narrowly focused on the basis of subject matter or geographical representation.